



2007 Annual Report

# 2007 Annual Report

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### Separate financial statements

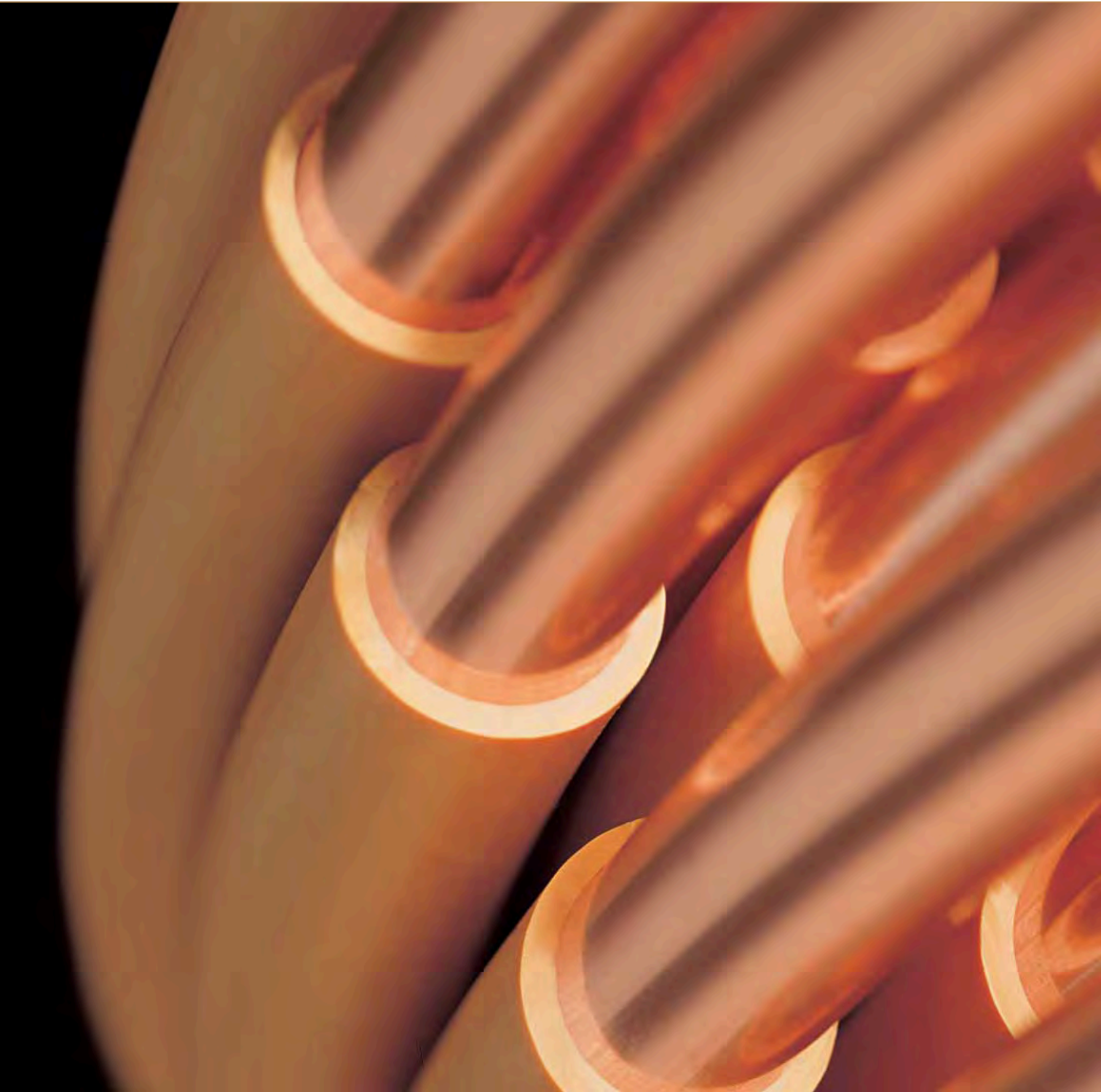
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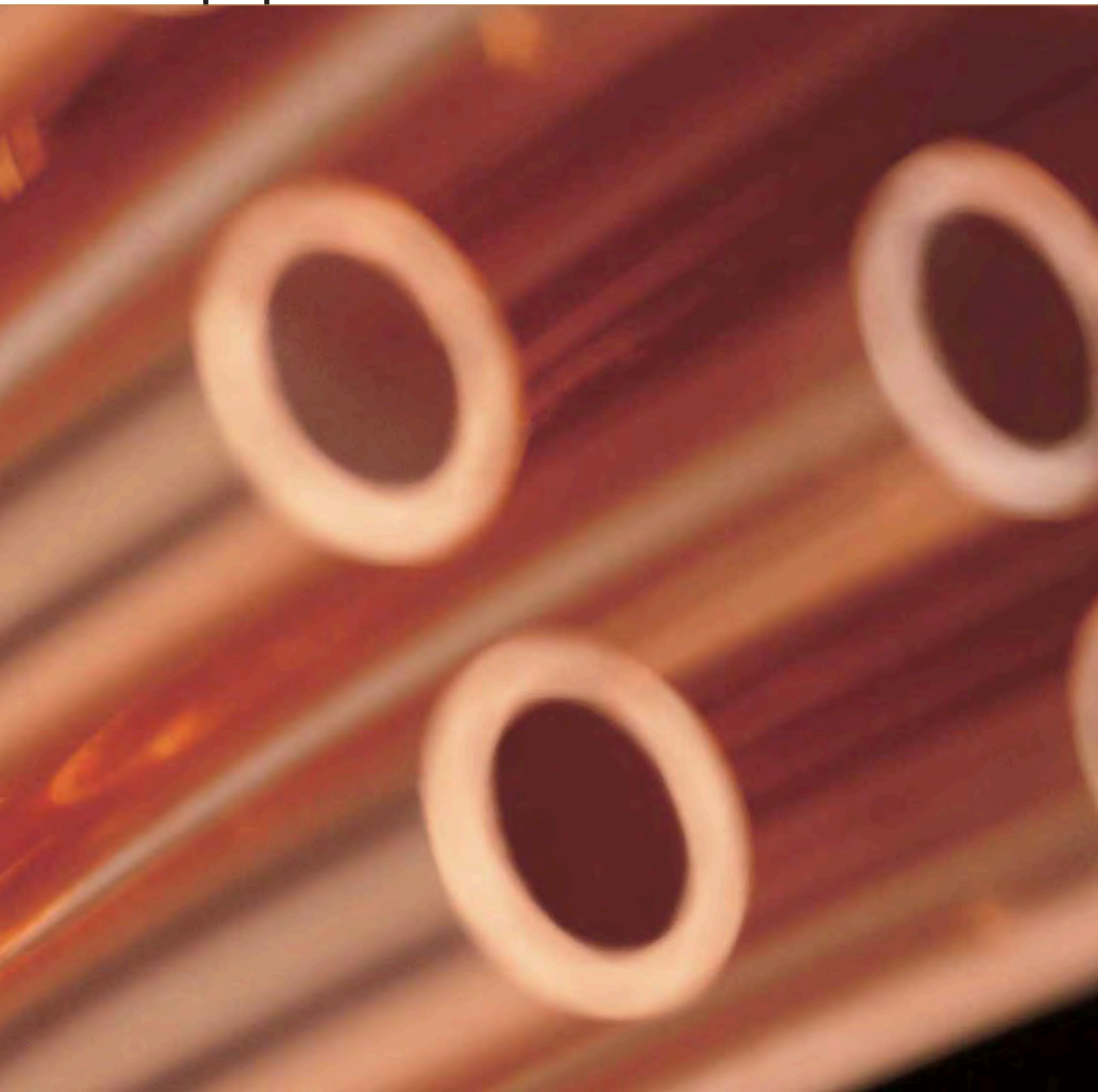
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# Group profile



# KME: a major European Group

**KME Group** is a pan-European industrial group **leading** the global market for the production and distribution of **copper** and copper alloy products.

Our success is based on strong values, which over time have transformed from inspirational principles into solid strategic guidelines and specific business policies:

- **leadership orientation, innovation and internationality:** attention to customer requirements in terms of products and services, quality and innovation throughout the business process and a multicultural basis to our organization acting as a stimulus for constant improvement;
- **economic responsibility:** paying attention to the profitability of our Shareholders' investments through the Group's commitment to responsibility at every level of our organisation;
- **social commitment and sustainability:** safety at work, consideration for the communities living in the vicinity of our sites and utmost attention to the environment.

# KME Group: key facts

› The Group was founded in **1886**  
(listed on the Milan Stock Exchange since 1897)

› **World leader**  
in its industry

› **2** industry-leading  
research centres

› **7%** market share worldwide,  
**30%** market share in Europe

› International presence:  
among the top **15** multinational industrial corporations in Italy

› **14** production sites

› **6,800** employees

› Approximately **10,500** Shareholders and  
**21,000** business partners (clients and suppliers)

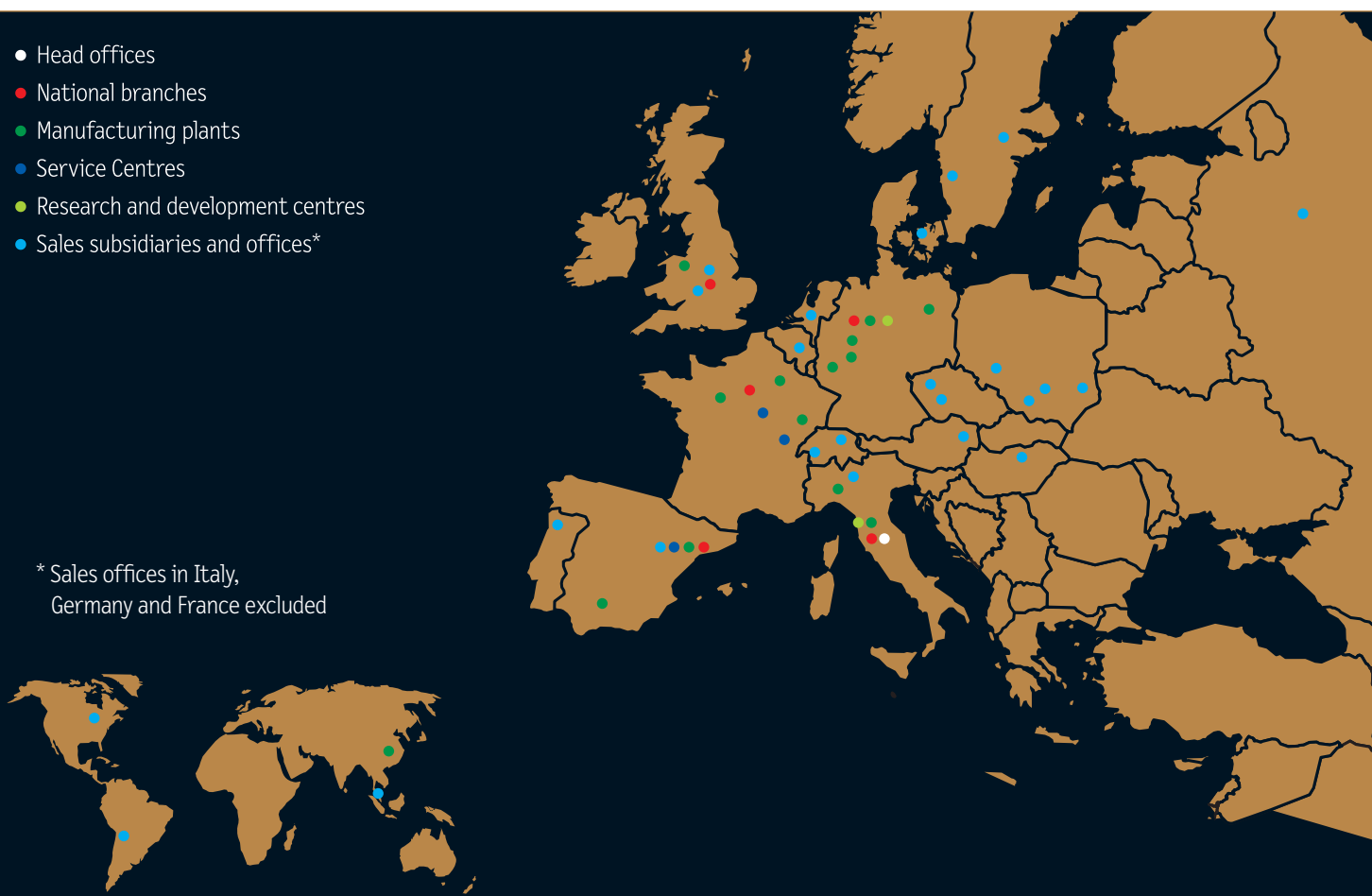


# Leadership:

A major European industrial group which for more than a hundred years has been a leading force in the global copper processing industry

- Head offices
- National branches
- Manufacturing plants
- Service Centres
- Research and development centres
- Sales subsidiaries and offices\*

\* Sales offices in Italy, Germany and France excluded



	1886	1965	1987	1991	2004	2007
Origins		Beginning of national expansion	Beginning of international expansion	Peak of international expansion	Integration and consolidation	Current day
Manufacturing Plants	4	7	19	16	14	
Workforce	3,800	4,800	11,300	7,700	6,800	
Tonnes/Employee	16	36	62	84	92	

# One of the most extensive product portfolios in the world

## Divisions

## Products

## Main applications

### Rolled products



Building and architecture: roof coverings, façades and rainwater draining systems; interior/exterior decorations; electrical and mechanical industry, connectors, boilers, minting, solar collectors, gifts and fancy goods

### Copper tubes



Air conditioning and cooling systems, connectors and pipe fittings, plumbing and heating systems, gas piping, boilers, electrical applications, solar thermal systems, medical industry

### Brass and copper rods



Taps, valves and fittings, precision mechanical parts, car components, electrical and electronic equipment, door locks, profiles for architectural use and for window and door fittings

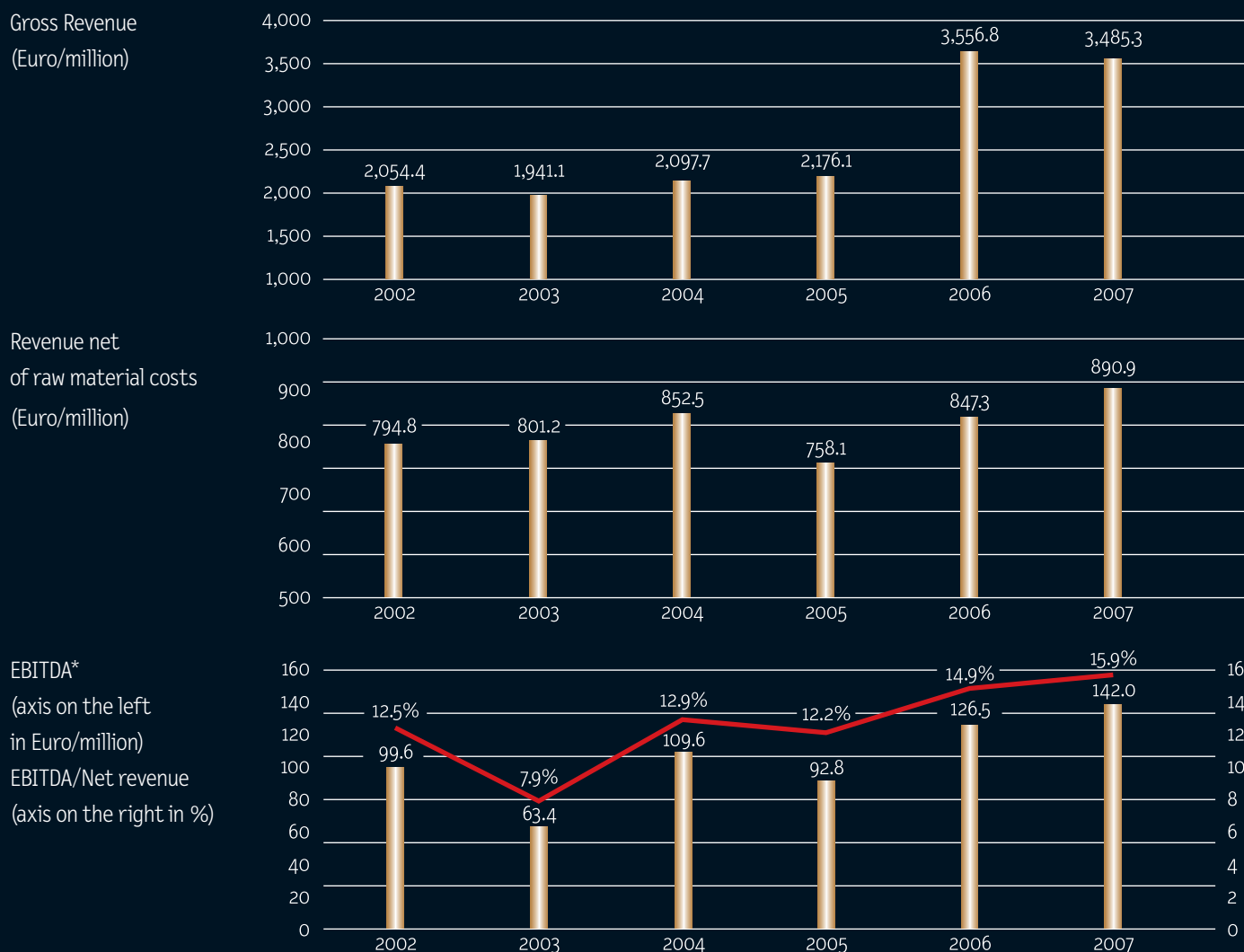
### Special products



Shipbuilding, offshore installations, chemical industry, energy, metallurgy and steel industry

revenue  
**3.5** Euro  
 billion

**625,000**  
 tonnes of  
 semi-finished products  
 manufactured

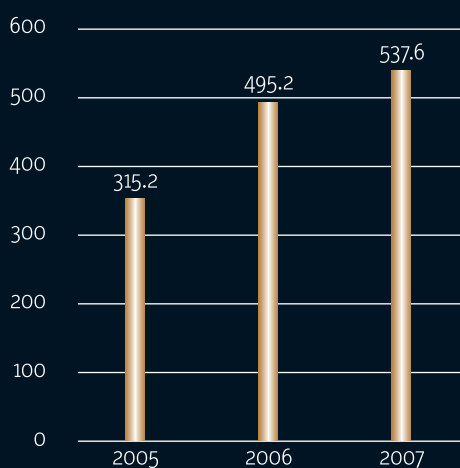


	2002	2003	2004	2005	2006	2007
Employees (at 31.12)	7,657	7,745	7,269	6,847	6,609	6,806
Net revenue/employee (Euro/million)	103.8	103.4	117.3	110.7	128.2	130.9
Pre-tax profit (Euro/million)*	-1.6	-220.9	6.6	-29.1	4.9	52.3

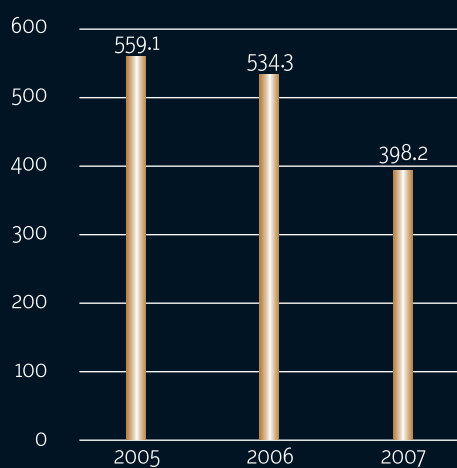
\* net of IFRS valuation of inventories and LME contracts

# Debt/Equity ratio below one

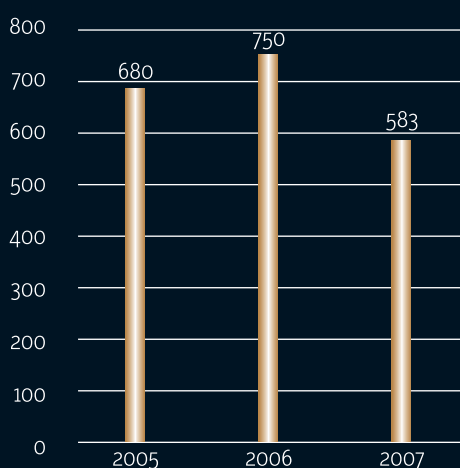
Total Equity (Euro/million)



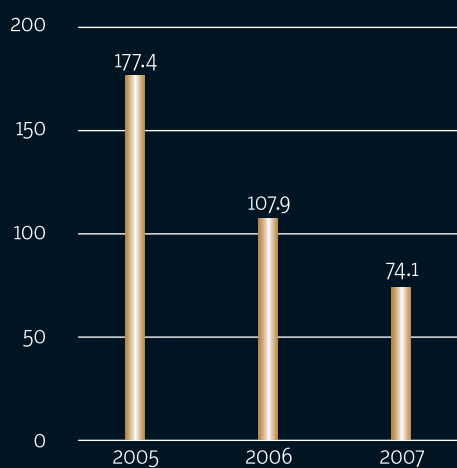
Net financial position (Euro/million)



Net working capital (clients/suppliers stock)



Debt/Equity Ratio (%)



**KME**



# Annual Report



A close-up photograph of a complex metal mesh structure, possibly a turbine or a heat exchanger component. The mesh consists of numerous thin, curved metal strips that form a dense, cylindrical pattern. The lighting is dramatic, with strong highlights and deep shadows, emphasizing the metallic texture and the curvature of the structure. A solid red vertical bar is positioned on the left side of the image, extending from the top to the middle. The word "Change" is written in a white, sans-serif font in the upper right quadrant of the image.

Change

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“2007 was a crucial year ending a three-year period

in which the Group underwent significant change, in terms of organization,  
restructuring and a new common identity under the KME brand”





Vincenzo Manes  
Deputy Chairman

## Letter to the Shareholders

Dear Shareholders,

The year 2007 was indeed a crucial year for our Group, an end to a particularly significant three-year period (2005-2007) which was full of change for KME. The choices made and the activities undertaken over the past three years have in fact enabled the Group to lay a solid foundation for facing the future challenges with fighting spirit and optimism.

The first main change concerns the creation and definition of a precise **corporate identity**, which is now clearly unified under **one single brand**.

All the entities forming the KME world have incorporated the Groups' brand into their name in order to represent their belonging to a single group, with a common vision and a clear strategy.

Not just a superficial restyling but a real strategic re-organization perfectly summarised by the slogan *One Group, One Brand*.

The KME Group is now a major European Group, with a leading position in the global market of semi-finished copper products that, whilst relying on its profound roots in the history and industrial structure of the continent, intends to project itself into the future, being ready to select and take all the opportunities available to further its growth.

Another important change was to have a **unique strategic guidance** throughout the Group, through a process of responsibility re-organisation across the entire Group. Over the last three years all the corporate functions have been centralised in Florence, at the Parent Company's head offices and the improvement process was completed in 2007 with the institution of two separate General

Manager roles strictly focused on operational and strategic activities. Domenico Cova is responsible for managing the entire Group's industrial and commercial activities, and also the Quality, Research and Development and Environmental Responsibility departments, while Italo Romano is responsible for the financial aspects of the business, in ordinary and strategic terms, and for overseeing all the centralised management support activities, such as Controlling and Planning, Purchasing, Human Resources, Legal Affairs, Marketing and IT departments.

The decision to consolidate all the activities pertaining to the planning and management of the Company within KME Group is consistent with our leadership role in the sector, but also enhances the capabilities of the different parts of the Group, by guaranteeing their improved integration and contribution to the overall results. The presence of a motivated and well prepared international managing team enables the strengthening of the common identity for a European Group, in line with the Parent Company's strategic guidelines.

The third important point which I think is worth mentioning is the Group's ability to maintain, despite the particularly difficult times, a **leading position** in the market of semi-finished copper products, not only through commercial means, but also by believing and investing in product and process innovation. With its 14 production sites and a global commercial network, KME is currently a Group which is ever more integrated and able to leverage the competitive advantage provided by a solid and well established company located in a continent where

the availability of scrap copper is significant and where our widespread presence enables us to take full advantage of being geographically close to our customers thus allowing us to collect the material and re-introduce it into the production cycle. Raw material recycling not only helps to significantly reduce costs, thus increasing profitability, but also allows us to be ever more committed to an industrial activity which is technologically advanced and economically profitable whilst being consistent with **environmental and social sustainability**. In this respect, during 2007, the Group launched initiatives such as opening, on its own property, an oasis affiliated with the WWF and establishing Greenergy Capital – a company operating in the renewable resources sector and recently quoted on the Italian Stock Exchange. Moreover, the Group will also start to gradually developing, in collaboration with Greenergy Capital, photovoltaic solar power plants within its production sites, which could also provide for the consumption needs of the Group's plants.

Another change factor which is very important to me, probably less measurable and tangible than the others, but not necessarily less relevant, is the progress achieved by our Group in terms of a **commitment to** and a growing **awareness** of our external environment. Certainly, the Group's strong support to the implementation of an important social project like Dynamo Camp and the opening of an oasis affiliated with the WWF are externally visible signs of such a cultural change, but the impact of such actions are equally as important within the organization, especially in terms of motivation and a sense of belonging to the Group. We definitely want to

continue in this direction. But the most relevant aspect is undoubtedly the **solidity** that the Group has managed to achieve over the past few years following major financial restructuring. The results are clear: the operating margin nearly doubled going from approximately Euro 93 million in 2005 to Euro 142 million in 2007 and the pre-tax profit (and before inventory re-evaluation) going from just under Euro 29 million in 2005 to over Euro 52 million in 2007. Another significant result was the re-adjustment of the debt/equity ratio to acceptable levels consistent with the financial solidity and balance achieved by the Group. The financial leverage value is again below 1, precisely 0.74, a clear indication of the positive effort made over recent years to rationalize the Group's finances, setting the conditions for implementing effective measures in terms of investment and development in the future years. Furthermore, the consistent credit lines negotiated and obtained during 2006 provide us with great operating flexibility.

I believe that, despite the complex situation of today's market, the foregoing overview allows KME Group to look at the **future** with a certain degree of optimism. Our 'ship' is now sound and this has been possible, not only through the implementation of extraordinary measures, but is also due to the hard work of all our employees, whom I personally thank for their constant commitment. KME Group is currently a solid 'boat' which is ready to face the market storm with the ambition of playing a key role in the consolidation process of the sector.

# 2005-2007

**+18%**  
net  
revenue

**+53%**  
EBITDA

## 2005

- **iNTEK** joins the Group as majority Shareholder
- **Start** of the financial and business **Restructuring Plan**
- Increase of share capital and **bank debt restructuring**, with its consolidation on the medium-long term
- Continuation of the **portfolio optimization** policy and disposal of a product line for the electronic industry
- **Rationalization of the industrial activity** in Italy concentrating the manufacture of all rolled products in one single plant
- Completion of the **corporate services centralization project** at the Parent Company's **offices** in Florence
- Launch of **new multi-layered** copper tube Q-tec®

## 2006

- **Change of Company name** from 'SMI-Società Metallurgica Italiana S.p.A.' to '**KME Group S.p.A.**', to underline the strong link between the Parent Company with the European industrial identity and the operating companies
- Important **re-financing contracts** with GE Commercial Finance and a pool of banks headed by Deutsche Bank for a total amount of **Euro 1.65 billion**
- **Completion of the Group's re-capitalization** process which started in 2005; share capital increase of Euro 130 million and rationalization of financial structure
- **Stock-option plan** for Directors and Managers of the Group
- **Further rationalisation in the production** of rolled semis in France
- **Launch of new specific products for solar thermal power** and piping suitable for low-temperature heating systems

Pre-tax profit  
(inventory no IFRS)

-29.1

4.9

Debt/  
Equity Ratio

1.77

1.08

-29%  
debt

-58%  
debt to equity  
(from 1.77 to 0.74)

## 2007

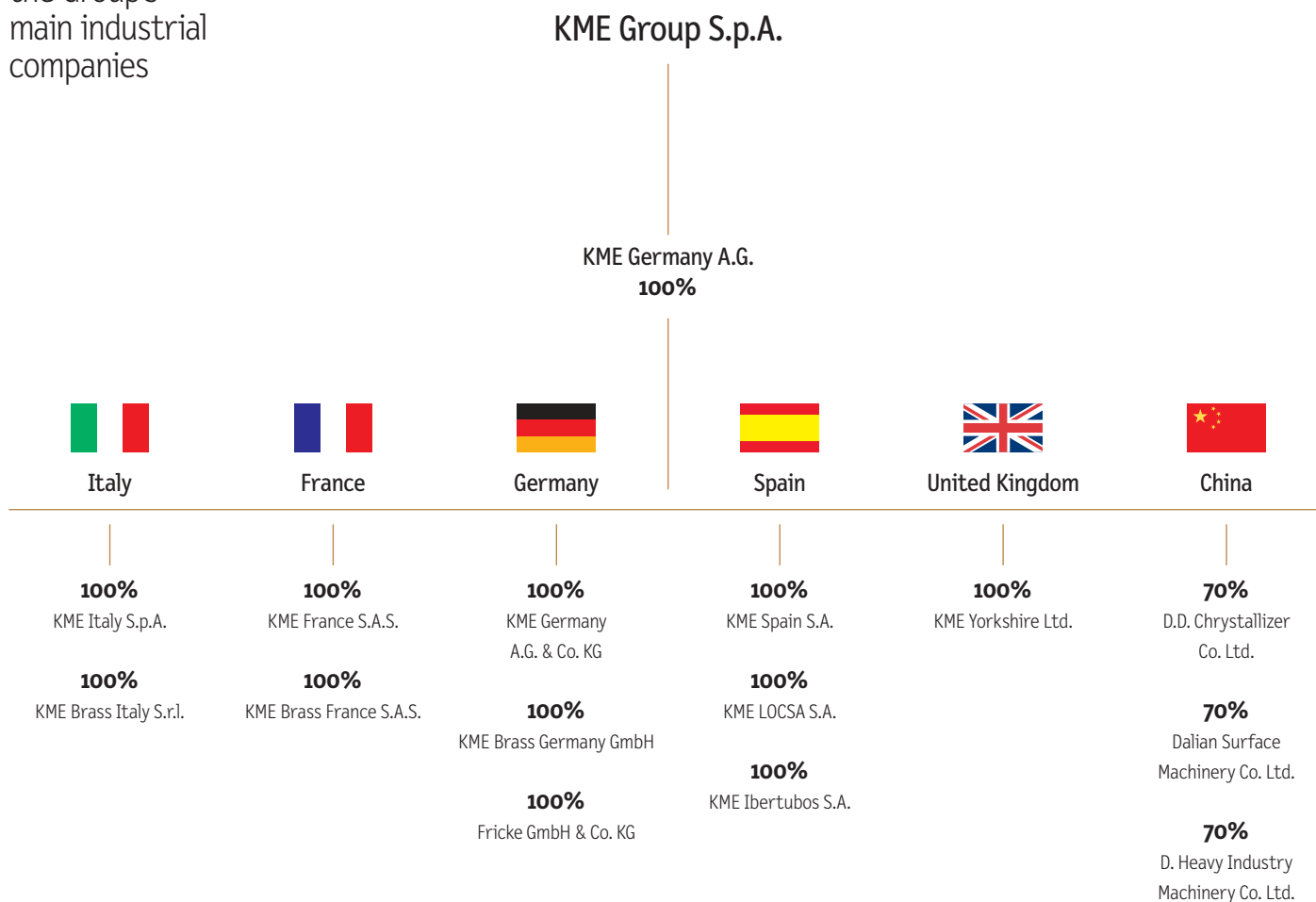
- **Completion of Three-year Business Plan** and consolidation of results
- **The Group's chain of command is shortened** after the merger of G.I.M. into INTEK
- **70% acquisition of the Chinese company DD Heavy Machinery & Co**, active in the manufacture of special products for the iron and steel industry
- **One Group, One Brand**: all the Group's operating companies are re-branded
- Definition of the project for **renewable energies** and **GreenergyCapital** spin-off
- **Further centralization of corporate functions to the Parent Company and creation of two distinct General Manager roles**; one responsible for managing the entire Group's industrial activities from an operational and strategic viewpoint, and the other responsible for the ordinary and strategic financial aspects and for managing and coordinating all the non-industrial senior functions
- New three-dimensional surfaces for the architectural sector and new projects for integrating photovoltaic systems into roof coverings; production of zinc-titanium rolled products starts in a Group's plant in Spain
- Introduction of **new projects aimed at recovering profitability** through the redirectioning of the business, the development of specific high growth market niches and a more intelligent use of raw materials
- **More thorough and transparent external communication policies**, including the launch of a new corporate website
- **Opening of an oasis affiliated with the WWF**
- **Completion of the infrastructure and beginning of activities for Dynamo Camp**

523

0.74

# Basic information

Table showing the Group's main industrial companies



Since 3 August 2007

## Company bodies

**Board of Directors**

Chairman:	Salvatore Orlando
Deputy Chairman:	Vincenzo Manes <sup>B</sup>
Directors and General Managers:	Domenico Cova <sup>B</sup> Italo Romano <sup>B</sup>
Directors:	Vincenzo Cannatelli <sup>1</sup> Mario d'Urso <sup>A, C, D</sup> Marcello Gallo Giuseppe Lignana <sup>A, C, D</sup> Gian Carlo Losi <sup>E</sup> Diva Moriani <sup>B</sup> Alberto Pecci <sup>A, D</sup> Alberto Pirelli <sup>A, C</sup>

**Board of Statutory Auditors**

Chairman:	Marcello Fazzini
Standing Auditors:	Pasquale Pace Alessandro Trotter
Alternate Auditors:	Angelo Garcea Marco Lombardi

**Independent Auditors**KPMG S.p.A. <sup>2</sup>**Manager responsible for the preparation of corporate accounting documentation:**Marco Miniati <sup>3</sup>**General representative for savings Shareholders:**

Romano Bellezza

A. Independent Director

B. Executive Director

C. Member of the Remuneration Committee (Alberto Pirelli, Chairman)

D. Member of the Internal Audit Committee (Mario d'Urso, Chairman)

E. Board Secretary

1. Managing Director until 31 March 2007

2. Office assigned by Shareholders at Ordinary Meeting held on 23 May 2007

3. Appointed by Board of Directors at meeting held on 21 June 2007

## Shareholders



## Information for investors

Data referring to the period prior to the reverse split of shares (16.07.2007) have been normalized in order to compare them with those relating to the post reverse shares split.

KME Group S.p.A. has been quoted on the Milan Stock Exchange since 1897. During the year ended 31 December 2007 KME Group's shares performed as follows:

- KME Group ordinary shares recorded their maximum unit value of Euro 2.283 in May and their minimum unit value of Euro 1.473 in November;
- KME Group savings shares recorded their maximum unit value of Euro 2,324 in May and their minimum unit value of Euro 1.474 in January;
- KME Group 2006-2009 warrants recorded their maximum unit value of Euro 0.443 in May and their minimum unit value of Euro 0.241 in November.

### Amounts are expressed in Euro - Situation post reverse stock split at the end of 2007

No. of ordinary shares	235,480,130
No. of savings shares	19,072,110
Share capital	324,164,741.31
No. of KME Group 2006-2009 warrants outstanding	67,957,638

### Amounts are expressed in Euro - Stock Exchange price at the end of 2007

KME Group ordinary shares	1.499
KME Group savings shares	1.536
KME Group warrants	0.259

### Amounts are expressed in Euro - Capitalization at the end of 2007 with amounts adjusted according to reverse stock split

Capitalization of ordinary shares	352,984,715
Capitalization of savings shares	29,294,761
<b>Capitalization</b>	<b>382,279,476</b>

### Shareholders

<b>No. of ordinary shareholders</b>	<b>10,426</b>
<b>Main shareholders*</b>	
iNTEK	53.58%

\* None of the Shareholders communicated that they have a shareholding greater than 2%

### Amounts are expressed in Euro - Dividend per share before reverse stock split

	2004	2005	2006
Dividend per ordinary share	-	-	-
Dividend per savings share	-	0.023 *	0.1086 **

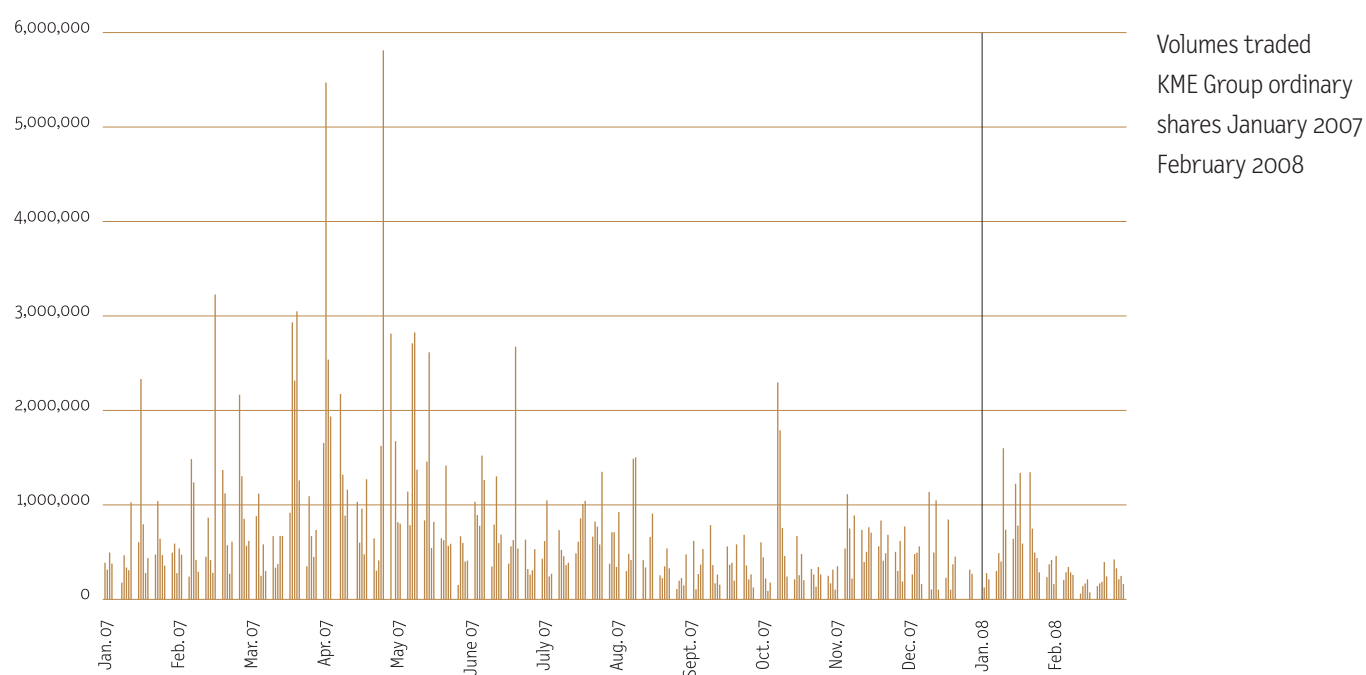
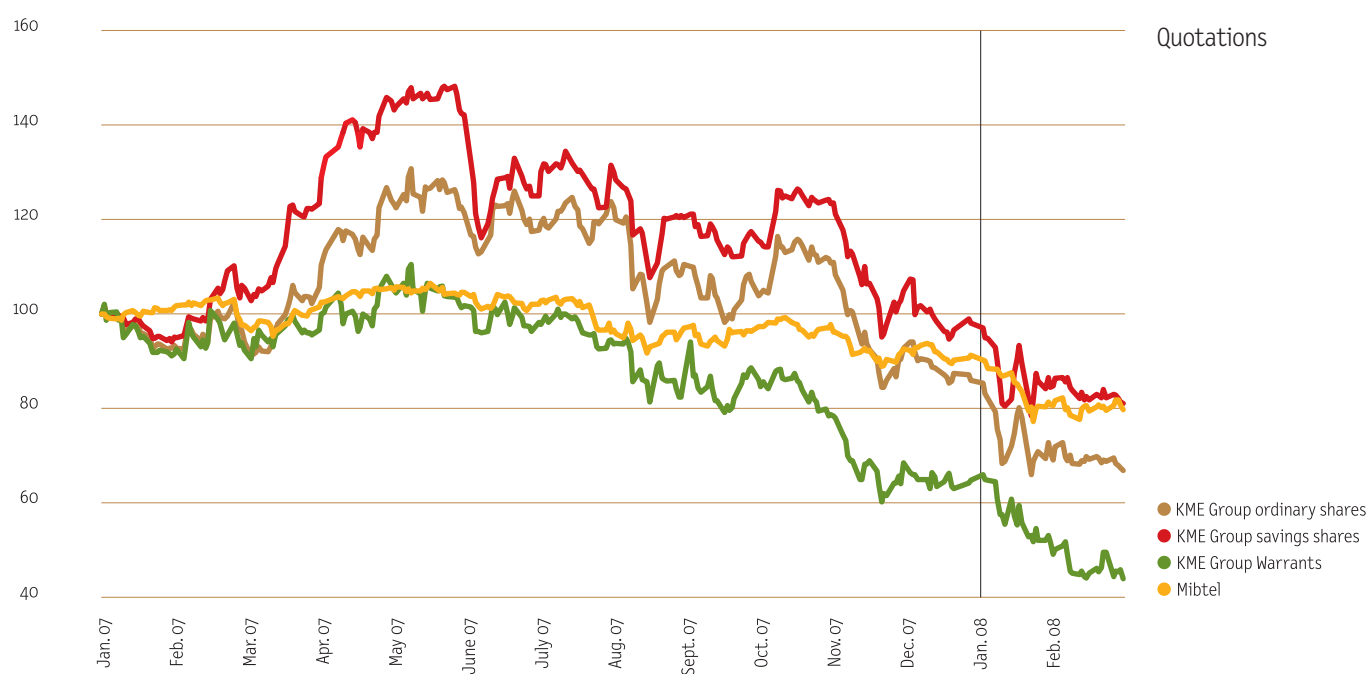
\* Privileged dividend related to 2003

\*\* Gross dividend per unit including privileged dividend related to 2006, at Euro 0.0362 and privileged dividends related to the two previous years, 2005 and 2004

### Amounts are expressed in Euro - Stock Exchange trend

	end of 2006*	end of 2007	Variation
KME Group ordinary shares	1.719	1.499	-12.8%
KME Group savings shares	1.549	1.536	-0.8%
KME Group warrants	0.391	0.259	-33.8%
Mibtel	31,892	29,402	-7.8%

\* Amounts adjusted according to reverse stock split







# Competence and Future

## KME and Copper

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“KME and copper are indissolubly bonded, coupling tradition and innovation:

a material that has always been in use whilst continuing to remain innovative and remarkable,  
a Group with strong roots from the past that looks to the future”

KME:  
**+30%**  
market share  
in Europe

approx.  
**7%**  
market share  
worldwide

### Copper and KME: turning metal into products

Copper is generally associated with activities related to the mining and smelting industries; KME operates one step ahead, in the next link of the copper value chain: that of **turning metal into semi-finished products**.

KME, as a manufacturer of semi-finished products, buys and uses copper and other metals (such as zinc, nickel, tin etc.) as raw materials, processes them and then turns them into semi-finished products which are subsequently sold to other companies further downstream which, in turn, use them as raw material to manufacture their own products.

KME is currently the world leader in the production of copper and copper alloy semi-finished products (excluding copper wires), thanks to one of the largest product portfolios in the world. Specifically, our Group has the capacity to supply semi-finished products of many different shapes and sizes (rolled, tubes, rods, profiles, casting moulds, tube bundles, special products) to almost all production sectors. In fact we supply our products both to the

more traditional sectors such as building, mechanical and consumer goods industries and to the more innovative ones such as electrical, electronics, automotive and renewable energies industries.

### Copper: a metal playing an important role in our lives

For us, semi-finished copper products represent something very obvious and visible – large plants and great quantities of rods, rolled products, pipes – however this whole world may not be so obvious to the end consumer. Perhaps due to its high visibility or wide availability, the important role that copper plays is often underestimated.

We are probably not used to thinking about it, but copper or copper alloy components are all around us, inside objects we use on a daily basis, from the more traditional to the more sophisticated. It may be difficult to find it in coins and gutters, but copper is present with unique and essential features in the piping carrying your water or gas, in electrical connections, desalination units and air conditioning systems.



There is copper, alone or as an alloy, inside a pc, a washing machine, a boiler, even in a button or a simple screw.

Copper is also present in the roofs and façades of modern buildings where it is appreciated not only for its functional features but also for its unquestionable aesthetic qualities.

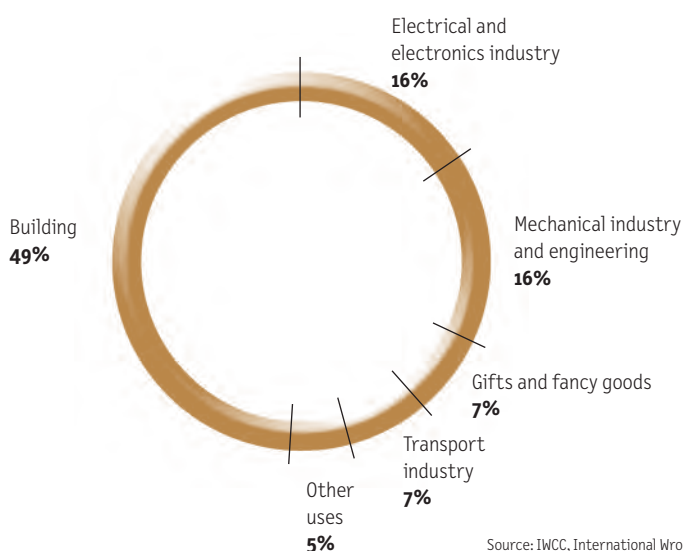
If we focused our attention briefly on what is around us, we would realise that we actually use copper-based components in most of our day-to-day activities: from operating electric windows and driving our cars to using our mobile phones or an electrical appliance, or even when we carry out very simple tasks such as turning on a tap or turning a door handle.

Therefore copper is an essential part of our lives and the progress we live with every day. It is a metal that has always been used whilst being new and innovative, and is still being studied and developed today.

Its chemical and physical characteristics make it an irreplaceable metal for a wide variety of uses and its valuable properties in terms of reliability, resistance, workability and environmental sustainability represent a guarantee not only for the industries employing it but also for people in general.

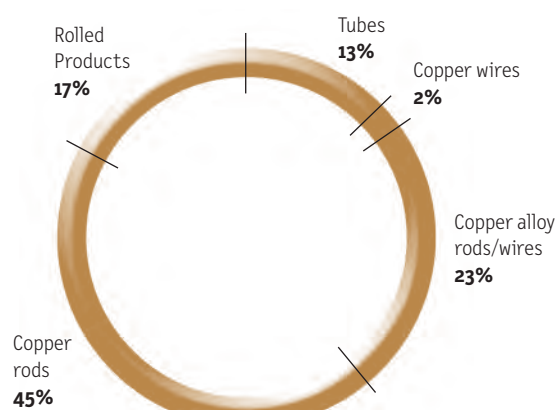
Copper, while being very present in our day-to-day lives in the objects referred to above, is also the material chosen by KME Group, a material we have been investing in for a very long time, capitalising on our experience and competence in this sector.

#### Applications of copper



Source: IWCC, International Wrought Copper Council

#### Semi-finished copper products\*



\* Data referring to production in EU 15

### **Copper, a sustainable material and a renewable resource**

Copper is a natural and **completely recyclable** material: its long lasting durability, or rather indestructibility, allows for its complete recycling at the end of the useful life of the products in which it is contained, without any loss of performance. Once recycled and re-introduced into the production cycle, copper becomes a new resource with significant savings advantages for the world's natural resources.

According to estimates on the subject, 80% of all the copper ever extracted, after being smelted and processed several times, is still in use today, thus providing considerable advantages in terms of intelligent exploitation of the mineral resources potentially available worldwide. Furthermore, the unquestionable economical value of copper, makes this metal the ideal candidate for recovery and recycling and contributes to it being seen as a resource stock, a renewable resource.

The figures below, relating to Europe, help provide a clear picture of the importance of recycling:

- the percentage of **copper recovered** from products at the end of their useful life and then re-introduced into the production cycle **amounts to 70%** of the total potentially available;
- recycled material is used **for around 50% of the production of semi-finished** products (with peaks of 80-90% for certain items e.g. brass rods);
- recycling of materials helps to **reduce the energy requirements needed for the production of primary metals by 85%**.



Copper:  
**100**%  
natural

Copper:  
**100**%  
recyclable

### Copper recycling: an advantage for everyone

In addition to the intrinsic economic benefits involved, there are also other reasons why recycling is fundamental, especially in the European system:

- a **growing social awareness towards environmental issues**: recycling means a more responsible use of natural resources and energy, a smaller impact on the environment and less pressing concerns with regard to the disposal of metal and scrap;
- as far as the procurement of raw materials is concerned, **our continent is almost entirely dependant on the import of primary metals**, despite significant internal availability of scrap metals deriving from the consolidated presence of a strong consumer industry. In this respect, scrap metals (by-products from the processing industry or parts recovered from items that have reached the end of their useful life) are a sort of a 'copper mine' for Europe;
- the **virtuous circuit between the manufacturers of semi-finished products and the companies using such products** in their business establishes, also in connection with the benefits of recycling, a strong synergy between these two links of the process chain, thus guaranteeing improved competitiveness for the whole productive system.

### KME: leader also in recycling

There are some structural reasons, deriving from the Group's history and subsequent strategic decisions, which put KME in the ideal position for playing a crucial role in the recycling activity;

- **market positioning and product range**: the whole processing industry does not benefit equally from the exploitation of scrap metals. Our product portfolio enables us to use recycling in considerable amounts, especially in the manufacture of those products where the high level of purity obtained with primary metals is not a necessary or predominant feature;
- **investments** made over time were also aimed at taking full advantage of this opportunity: today, our production lines are particularly suited to an efficient use of scrap metals and recycled materials;
- the **know-how acquired** during a long history of success in our industry;
- **proximity and widespread network**: the geographical vicinity to the European consumer industry and the growth of the KME's structure make it possible to easily collect the material to be recycled;
- a **procurement system** which is designed to allow for the re-use of raw materials.



A photograph of a modern building with a curved, golden-brown facade. The building has a large glass window at the base. A large tree is in the foreground, and a red vertical bar is on the left side of the image. The sky is blue with some clouds.

Innovation

## KME and Products

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“Focus and innovation represent the starting points through

which KME provides not only products, but also solutions and systems to its customers”





In a year marked by significant change concerning not only the Group's organization and management framework, but also the overall approach towards the market, products and **business development** strategies have played a crucial role in the transformation process of KME.

**Innovation** and **focus** are the key elements driving our new transition from a 'simple' supplier of semi-finished products to the more complex and competitive role of **solutions and systems provider** in the most qualifying segments of our activity. The main objective of this process, in addition to the operational and business targets, remains profitability as the prime condition for ensuring the future growth of the Group.

**Innovation and focus:  
offering 'copper-based solutions'**

From an innovation standpoint, the Group has made the strong choice of concentrating its efforts in those sectors offering more potential for growth and profitability. Some examples of this specific approach are the remarkable results achieved by our Group in terms of offerings of 'copper-based solutions' in key sectors such as:

- electronics industry;
- renewable energies;
- new architectural applications.

**Electronics industry:** KME has been involved for many years in the research and development of special copper alloys targeted towards the electrical and electronics market. The swift and constant

evolution of electronics and their miniaturization have put pressure on component manufacturers to develop products that are able to deliver improved performance levels with reduced sizes. KME has addressed this challenge with success, by co-operating with the industries further downstream (electronics and automotive) and developing special copper alloy materials with high added value, e.g. **STOL® alloys**.

**Renewable energies and energy saving:**

KME is very observant of renewable energies and aware of the role that copper, because of its mechanical properties (especially its high thermal conductivity), can play in the development of new products, promoting sustainable development without damaging the environment. In this respect, our Group is able to offer a wide **variety of products** specifically designed to be used in **solar thermal panels** (Tecstrip®Solar, Tectube®Solar and Wicu®Solar) and **residential geothermal heating applications** (Osnacol®). Furthermore, the Group, being aware of the ever growing need for containing energy consumption, has designed **special tubes** for **low temperature** heating





Domenico Cova  
General Manager and  
Chief Operating Officer

systems which can be combined with alternative energy sources such as solar panels and heat pumps. These are copper tubes (Sanco® Radiant, Cuprotherm® and Hypoplan®) specifically targeted at applications in radiant floor and/or wall heating systems.

**Architectural applications:** the constant development by KME of new surfaces and new systems for roof coverings and façades in architecture, very effectively shows that innovation is not confined only to the more technologically advanced industries, but concerns also those sectors incorrectly defined as ‘traditional’. KME has successfully developed, and continues to develop, rolled products and special systems under the TECU® brand which allow an even more versatile use of copper in the building industry. Specifically, with regard to new surfaces, KME’s **innovation and creativity** have produced outstanding results. Among the latest creations in the TECU® family, I would like to quote the new TECU® perforated three-dimensional surfaces and TECU® Bond, a recent innovation consisting of a compounded copper rolled material.

### Re-thinking KME’s role: from semi-finished products to solutions and systems

This is the natural consequence of the concepts mentioned above: providing a complete range of products to the solar thermal installation industry or offering systems for the architectural sector (roof coverings, façades, accessories) are both part of a transition that is already underway and is transforming the Group into a more complete and versatile supplier, one that can solve issues (e.g. better performance in less space) whilst offering systems and solutions at the same time.

Obviously we are not going to stop here, we will continue studying and designing new forms and solutions: one of the most interesting projects we are currently developing involves the creation of a system that combines the renewable energies sector with that of the architectural applications. It is a sort of solar thermal roof where the solar captation elements are perfectly embedded in a copper roof covering. The project is reaching its final phase and we have already started working on a first prototype.

Another clear example of the direction we are taking from being a supplier of semi-finished products to being a supplier of systems and solutions is evident in the field of copper mould production for continuous steel casting, and more generally, in the manufacture of products for the melting of steel and non-ferrous metals. This is an important sector even from a strictly technological point of view, in which our Group has a leading position worldwide. In this case, our supply **range is extended from ‘products’ to ‘services’**.



Today, in fact, KME provides a complete range of products (flat and tubular ingot moulds, casting wheels, crucibles for refining, elements for cooling) and also an important set of related services: from customer support in the design of new moulds, to detailed engineering, from research of new solutions in terms of treatments and internal coating of moulds (to increase their resistance to use and duration), to their maintenance over time.

In this context, our Group is working to build a global network of its own companies that ensure the necessary post-sales service to customers in the sector, and therefore prevalently to the major global steelworks, in terms of maintenance and surface treatments, for which KME has patented processes throughout the world.

### **Growth for KME: seize the opportunities**

In this stage, our Group, strengthened by its history of expansion and its high capacity for integration, is really open to seize favourable new business opportunities which should present themselves, both in terms of participation in new businesses and business development, therefore real development. In the first instance, for example, we are assessing the potential offered to our business by plans for new offshore regassification plants, which KME could contribute to providing through its unique products from its Marine Applications unit.

Moreover, our Group is trying to develop business with a more market-orientated approach, also from an organisational point of view, through the assessment of potential downstream initiatives or through

satellite companies close to our customers which would allow us to acquire greater agility and flexibility in our market approach.

In summary: our Group is going through a phase of great change and **dynamism**, and the **enthusiasm** with which we are facing it allows us to look to the **future** with **optimism**.

9 STOL® special high performance alloys

+100%  
quantities sold  
between 1997-2007

## Product innovation at KME: recent examples for some key applications

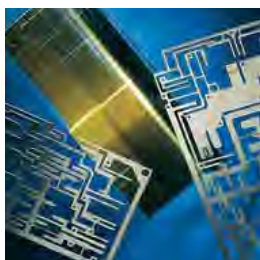
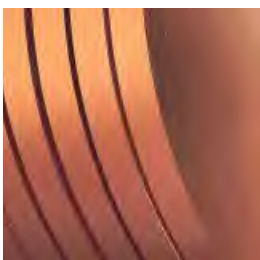
With regard to the **electronics industry**, the strips made of special STOL® alloys developed by KME, by combining apparently conflicting physical properties (conductivity, resistance, workability and relaxation) allow us to create very high performance electronic components.

Specifically, CuNiSi based alloys which undergo an ageing thermal treatment, like our alloys STOL®76 and STOL®92, are set to become the benchmark for the connector industry worldwide. KME commenced the production of strips made of these alloys at the beginning of the nineties, in partnership with Tyco Electronics (previously AMP), the world leader among international connector manufacturers.

However, the constant changes in the demand occurring downstream in the business chain must be matched by the relevant adjustments upstream. As a result, in order to meet the growing demand for miniaturization and high performance from the electronic component manufacturers, KME **developed a new generation of CuNiSi-based special alloys**. In particular, strips made of special STOL®76M and STOL®94 alloys plated with **new surface coatings in tin-silver** STOL® SN 28M, enable car manufacturers to use electromechanical components with a working temperature of up to 160°C, replacing silver-gold plated components.

KME's special alloy strips have been approved by all the main connectors manufactures and are now widely employed in a variety of industries throughout the world.

1. Strips for connectors
- 2, 3, 4. Examples of stamped parts



# Renewable energies and energy saving

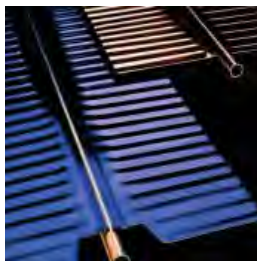
thermal conductivity **Copper** **1,000** times  
as goods as plastic

**90%**  
solar radiation  
reflectivity (higher than  
aluminium and zinc)

Within the sphere of **renewable energies** and **energy saving**, KME developed a specific product range aimed at providing components for solar thermal collectors, residential geothermal heating or low-temperature heating systems (e.g. radiant floor and/or wall systems), which can also be combined with alternative energy sources. The main products in this range are:

- **Tecstrip® Solar**, copper sheets for absorbers that are able to capture and retain radiant energy in solar thermal installations;
- **TECTUBE® Solar**: a copper tube which is able to guarantee high quality connections with the solar absorber strip, thanks to its remarkable surface cleanliness;
- **WICU® Solar**: a solution for connecting collectors and accumulation boilers in solar heating systems, consisting of two copper tubes wrapped in a polythene tape and integrated with an electrical wire;
- **Osnacol®**: copper tube coated by a polythene sheath for geothermal energy systems;
- **Sanco® Radiant**, **HYPOPLAN®** and **CUPROTHERM®**: copper tubes for radiant floor and/or wall heating systems.

1, 2. WICU® Solar and TECTUBE® Solar, two of KME Group's solutions for solar thermal installations



4, 5. Sanco® Radiant, one of KME's tubes for radiant heating



# Architectural solutions

TECU®

7 types of patented surface options

18 special solutions for façade systems

KME's architectural applications stem from the constant development of a wide range of new surfaces for roof coverings and façade applications within the TECU® line, consisting of copper rolled products which undergo a specific patented treatment to obtain special surfaces (patinated, polished, gilded, coloured). The extension of the production range to include integrated systems for façades (such as shingles, cassettes, staves, corrugated or drilled panels) shows that copper, thanks to a combination of design functionality, aesthetic values, and architectural prestige, plays a key role in the architectural industry.

Among the latest creations in this range:

- **TECU® Gold**, a new copper-aluminium alloy for façade cladding providing a warm golden finish;
- **TECU® Brass** created by a special blend of copper and zinc, recently employed in the new training and physiotherapy facility built for the prestigious football team Chelsea FC which was opened last summer;
- **TECU® Bond**, an innovative system consisting of composite copper rolled products: thin layers of copper are applied under high pressure to a polyethylene core. This solution is ideal for

façade applications as it provides an increase in competitiveness compared to products made of alternative materials;

- the **brand new drilled three-dimensional TECU® surfaces**, obtained from our strips through specific processing methods such as hammering, moulding and hydroforming, make it possible to create even livelier and more distinctive façades.

The best way to understand and appreciate the aesthetic value and the versatility of the TECU® product range is through looking at some of the most significant **projects** implemented over the past few years.

Further information on KME Group's production range is available in the new corporate website [www.kme.com](http://www.kme.com)



1. Chelsea FC Academy (Cobham, United Kingdom), TECU® Brass
2. De Young Museum (San Francisco, United States), TECU® Classic
3. University of Sheffield (Sheffield, United Kingdom), TECU® Patina
4. Parque de la Relajación (Torrevieja, Spain), TECU® Oxid
5. FIFA Office (Zurich, Switzerland), TECU® Zinn





Value

## KME and Performance

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“Re-establish profitability and financial stability:

these are the objectives we have been pursuing with determination over the past three years  
and that we reached in 2007”





Italo Romano  
General Manager and  
Chief Financial Officer

The year 2007 was a positive year for the accounts of the Group, both from an economic and financial viewpoint, a perfect finish to the journey commenced in 2005, that was aimed at improving profitability and strengthening the balance sheet.

The increased profitability was the result of improvements achieved by the Group in terms of both revenues and cost savings. With regard to revenues, I would like to point out that, despite the economic slowdown experienced in the second half of the financial year, thanks to its competitive positioning in the market, the Group managed to **increase its consolidated revenue, net of raw material costs**, by 5.1%. This is a particularly remarkable result if we consider that it was achieved despite a drop in quantities sold, which also shows how effective our market positioning strategy has been. In fact, the choice of concentrating our efforts on higher added value, more technologically oriented sectors, supported by our innovative approach, has enabled us to improve our product offering and consequently, prices, thus enabling us to easily compensate for the fall in volumes. Moreover, during 2007, the Group consolidated its presence in the main international markets, strengthening its position in the key markets of Central-Eastern Europe and in emerging economies with high growth potential.

I would also like to highlight how in recent years the Group has been able to effectively take advantage of the challenge/opportunity presented by the high prices of raw materials, namely of copper. The average impact of this factor, in terms of value,

on the final selling price of our products has dramatically increased, reaching three-quarters of the total price. This percentage shows that, on the one hand, external conditioning deriving from volatile and excessive prices of raw materials has an important impact on business operations, whilst on the other that effective management of this situation can also represent an advantage in the value chain of the product.

In addition to the positive trend in our sales, in 2007 the Group also managed to reduce costs, mainly through the implementation of specific measures in terms of re-organization and rationalization of the production process within the scope of the Business Plan. This caused a **significant increase in profitability**. The figures are clear: **gross operating profit (EBITDA)** went from Euro 126.5 million to 142.0 million, recording an increase of 12.3%. Its impact on the Group's revenue, net of raw material costs, went from 14.9% to 15.9%. This amount was around 12% in 2005 and 2004 and below 8% in 2003.

**Net operating profit (EBIT)** nearly doubled, going from Euro 46.3 million in 2006 to Euro 88.8 million in 2007. It should be noted that, in this respect, the improved results were influenced by the fact that there was no extraordinary expense related to the Group's restructuring measures, which had a considerable impact in the previous year.

**Consolidated profit**, before IFRS measurement of inventories and current and deferred taxes, increased from Euro 4.9 million in 2006 to 52.3 million in 2007.

These particularly significant improvements become even more important if considered in relation to the much less positive situation the Group was in during the first few years of this decade, thus enabling us to measure the great success achieved in the restructuring process which we implemented with such determination.

I would also like to point out the exceptional results obtained by KME Group from a financial viewpoint. In fact, the positive performance along with the rationalization of the management of the financial cycle, which has been considerably shortened, led to a **strengthening of the Group's balance sheet**.

In 2007, the **net financial debt** decreased by 25%, an overall reduction of Euro 136 million, going from Euro 534.3 million at the end of 2006 to 398.2 million at 31 December. An amount which is well below the Group's consolidated equity of Euro 537.6 million. This transformation of the debt/equity ratio gives a clear indication of the important efforts made in recent years by the Group in terms of balance sheet strengthening. Thanks to the combined effect of the steady increase of the Group's equity and the constant reduction of its net financial position, the ratio went from 1.77 in 2005 to 1.08 in 2006, down to 0.74 at the end of 2007.

Furthermore, the opening of credit lines through the Group's financing institutions in 2006, have enabled us, thanks to the flexible approach adopted, to promptly address the issues deriving from the ever pressing financial needs and their variability as a result of the increase in the price of raw materials. Finally, I would like to remind you that the positive

results achieved also led to the decision by the Board of Directors to propose the distribution of a unit dividend of Euro 0.04 per ordinary share and of Euro 0.1086 per savings share, for a total amount of Euro 11.5 million, equivalent to 28% of the Group's net consolidated profit. This is a fact of high relevance if we consider that the last time ordinary shares received a dividend was in 2003. **Coming back to a dividend** yield symbolises another important step forward for the Group, and symbolically represents the above-mentioned reconstruction process which started in 2005 and demanded the involvement and commitment of everyone (Shareholders, Managers, White and Blue collar workers) according to their role within the Company.

Today, KME Group is a solid company, with an international presence and a leading position in its industry, managed with a unique strategic guidance. In a few words, the Group is ready to take all the opportunities available in terms of both diversification and internationalization. Our ultimate goal is, of course, to guarantee a profitable growth to our Group and an increase in the investment value to our Shareholders.



Commitment

## KME and Social Awareness

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“The greatness and dynamism of a Group are not only measured by its profitability,

international presence and business leadership.

The social commitment and the awareness of playing a crucial role in society,

not just economic or financial, are essential values for KME”



One of the most surprising aspects of our transformation concerns the Group's **opening** up to themes of social responsibility which are not generally included in the typical business concept. We are convinced that companies, markets and the finance world do not function as isolated entities in relation to the social context in which they operate and that today, in an ever more open and globalized world, opposing economic and social objectives would be a self-defeating practice.

This is exactly why we decided to commit ourselves in the field of social responsibility, once again trying to concentrate our efforts in one direction, choosing one single initiative to be implemented in the quickest way possible, without spreading resources too widely and avoiding fragmenting our commitment into many different projects. So we decided to be the main sponsor for the creation of the **Dynamo Camp**, the first summer camp in Italy specifically designed for children affected by serious and chronic illnesses. The facility is run by highly qualified staff and is free of charge. It was inaugurated in July 2007.

It is a big philanthropic project setup by the Dynamo Foundation within the *Venture Philanthropy* scheme, in partnership with "Hole in the Wall Camps", an internationally renowned non-profit organization. By cooperating in the creation of Dynamo Camp our Group has, not only accomplished something "good" from an ethical point of view, but indirectly, also created value. Our support to this initiative, has enabled us to renovate - and as a consequence increase the value

according to the principles of good management - a real estate heritage that had been completely abandoned.

Dynamo Camp is located in the Pistoia Apennines, within the perimeter of an old industrial site purchased by the Group at the end of the 19th century, and subsequently closed in 1984. In 2006 an impressive renovation project got under way and, in less than a year, old disused industrial warehouses were transformed into modern and functional buildings, the Dynamo Camp was created.

The refurbishment work also concerned the vast surrounding areas consisting of around 1000 hectares of mountain woods and brazing land that the Group bought in 1938 and that today have become an **oasis affiliated with the WWF**. It is one of the largest private oases in Italy which, due to this initiative, can once again be used and appreciated by the local community and the children of the Dynamo Camp who use this area for recreational activities (e.g. hippotherapy, excursions etc.).

This initiative also allows us to achieve other objectives that we consider to be important such as contributing to the support and development of the Pistoia Apennines, which have an historical importance for the Group since this is where some of our most important factories were located for more than a century, as well as initiating positive trends and attitudes within our Group.

In fact, we believe that over time, the choice we made in this respect will have a positive impact on the motivation of our staff, whom we will encourage to take an active role in the Dynamo Camp initiative by setting up appropriate Corporate Volunteering schemes.

“Having a purpose beyond making  
a profit distinguishes our company.  
It helps us to attract and retain phenomenal employees”

Mark Benioff  
(Chairman & CEO, Salesforce.Com)

Finally, the commitment of our Group doesn't end with the inauguration of the camp: KME decided to continue to be the main sponsor of this important project, the eventual aim being to expand this initiative to other European countries, like Germany, France, England and Spain.

We are aware that time and continuous effort are necessary for this new project to become a fully integrated part of our organisation, but we are strongly determined to follow this path with enthusiasm and **commitment**.

#### What is Dynamo Camp?

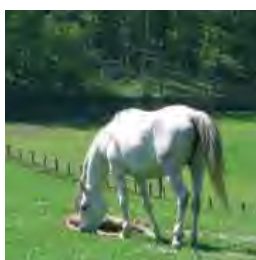
Dynamo Camp is a free summer camp, the first of its kind in Italy, intended for children suffering from serious or chronic illnesses or those whose lives are at risk. Children who come to the camp are currently in therapy or in a post-hospitalisation convalescence. This is the most delicate part of the therapy: after a difficult period in which their future was unsure, this is the moment when the patient starts to be aware of the disease, starts recovering both physically and emotionally, and starts to socially reintegrate. Throughout this process they require strong support. The Camp fully respects the “Hole in the Wall Camps”

standards. “Hole in the Wall Camps” is an association founded by Paul Newman in 1987 which has a total of 11 camps in the United States and Europe.

Dynamo Camp is managed by carefully selected staff on a 1 adult to 2 children relationship basis, with doctors and registered nurses assuring medical assistance available 24 hours a day.

The guest can take advantage of workshops on multimedia, music and photography, climbing equipment, and a riding centre for hippotherapy.

In the summer of 2007 the Dynamo Camp took in sixty children suffering from onco-hematological diseases, who had previously been treated in 16 hospitals all over the country. An ambitious but realistic program aims to include parents into the initiatives of Dynamo Camp and to increase the number of children from 60 to 900 and the total number of people involved from 63 to 300 by 2010, with a 1 to 1 relationship between staff and children.





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**Directors' Report**

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# Calling of the Shareholders' Meeting

(published on Milano Finanza of 28 March 2008)

The Shareholders of KME Group S.p.A. are convened to the Ordinary Shareholders' Meeting in Via dei Barucci no. 2, Florence at 12:30 pm

- first call on 29 April 2008;
- second call on 14 May 2008;

to resolve on the following

## Agenda

1. The separate financial statements at 31 December 2007; the Directors' report; the Report of the Board of Statutory Auditors; relevant and subsequent resolutions.

### Attendance at the Shareholders' Meeting

Pursuant to the law and article 11 (Attendance and representation at the Shareholders' Meeting) of the Articles of Association, in order to attend the Meeting, Shareholders must submit to the registered office in Via dei Barucci no. 2, Florence, at least two days prior to the date of each shareholders' meeting, communications issued by authorised intermediaries confirming possession of the relative shareholding. Without prejudice to legal provisions in regard to the collection of proxies, Shareholders may be represented by a proxy, either a shareholder or non-shareholder, through a simple authorisation that is also written at the bottom of the afore-mentioned communication. If this day should fall on a holiday or on a Saturday, the deadline will be extended to the first weekday. Each share conveys the right to cast one vote.

The Company does not require ownership of a block of shares as a prerequisite for attendance at the Shareholders' Meeting; Shareholders are required to deposit shares, i.e. to give instructions to the intermediary who holds the accounts so that he can file the afore-mentioned communication with the Company within two days prior to the meeting date. This does not involve any impediment to the subsequent withdrawal of shares; in the event of withdrawal, however, the deposit already made ceases to become legally valid at the end of the right of attendance.

### Documentation

The Directors' report on the only matter on the agenda, with the relative resolution proposals and other reports and documentation required by the legislation in force relative to the agenda, will be deposited at the registered office in Via dei Barucci no. 2, Florence and in Borsa Italiana S.p.A. within the prescribed time frame; Shareholders are entitled to obtain a free copy. The afore-mentioned documentation will also be available from the following web site [www.kme.com](http://www.kme.com).

### Voting by correspondence

Votes can also be exercised by correspondence; the voting cards, with the relative exercising methods, will be available at least 15 days before the date set for the Shareholders' Meeting on first call, at the registered office in Via dei Barucci no. 2, Florence, from the Ufficio Affari Societari. The card should be sent to the following address: KME Group S.p.A., Ufficio Affari Societari, Via dei Barucci no. 2, (50127) Florence, and should arrive within 48 hours prior to the Shareholders' Meeting on first call, together with a copy of the communication required by the legislation in force for the purposes of attendance at the Shareholders' Meeting.

Florence, 28 March 2008

KME Group S.p.A.

# Directors' Report on business performance in 2007

Dear Shareholders,

The financial results the Group has attained in 2007\* showed definite improvement over those of the previous year, and are in line with the goals of growth of profitability and financial reinforcement scheduled in the **Business Plan** approved in early 2006.

The measures taken during the last two years to redefine the operating structure of the Group are directed towards:

- **the commercial level:** improving and developing products having greater value added and strengthening the brands; innovative activities for diversifying the range of products offered to customers at competitive terms that could also serve to impede the effects of the rising prices of raw materials on the market; seizing the opportunities that the new markets offer, in particular in the Asian and Central-Eastern European areas.
- **the industrial level:** reorganising and rationalising the production set-up, not only to attain a structure featuring competitive costs, but also to give the industrial grouping a more clear-cut and flexible structure able to react quicker to the changing market conditions.

Consolidated **turnover** in 2007 totalled Euro 3,485.3 million, down 2% from the previous year; net of raw materials, it went up 5.1%, from Euro 847.3 million to Euro 890.9 million. An improved product mix and price recovery compensated the lower sales volumes.

The Group's strengthened competitive positioning achieved through the commercial actions carried out allowed it to cope with a short-term picture that manifested more and more widespread signs of a slow-down during the second half the year, added to the uncertainties caused by recent disturbances on the financial markets.

In spite of these signals, on the whole the world economy's growth continues to demonstrate good stability, even if at a lower pace than the previous high rates. The international repercussions of the American slowdown for the time being are still limited, and the emergent markets are partially playing the role of the driving force of world growth.

In Europe - where the Group is more strongly present - the most recent data signal a gradual weakening of the short-term picture. This is to be in part attributed to the erosion of purchasing power due to the increased prices of energy and raw materials, and to greater prudence in making business and family spending decisions faced with a situation characterised by uncertain prospects.

The Euro's strong appreciation with a low productivity growth rate worsens the price competitiveness of European products, curbs exports and encourages the purchase of imported products. Not only is competition suffering from this, but the purchasing power of families, and therefore consumption, are as well.

The general trend of the short-term picture had widespread repercussions on the demand for semi-finished products in copper and copper alloys, considering the wide range of their uses.

\* The financial results were reclassified to offer a better representation of the actual business performance. Please refer to the chapters that follow for more information about these reclassifications and reconciliations with IFRS results.

Only the positive trend of the emergent countries, and China in particular, has allowed world production of semi-finished products in 2007 to come in just beneath the 2006 figure. With its production estimated as being roughly 2.8 million tonnes, China has for the first time surpassed Western Europe to become the major production area. The other three big industrialised poles (United States, Japan and Europe) have instead recorded distinct drops in business.

Specifically, Western Europe's production has gone back to around the levels seen in 2005 following +5.2% growth in 2006.

Clearly on the decline are the Italian, French and Spanish markets, which contributed to both the sharp fall of demand coming from the new residential building sector and to the slowdown of several industrial segments having high semi-finished products consumption.

The Group reacted by both defending its market shares in traditional countries and broadening them in emergent countries, and by investing in the launch of new products and presenting itself to the market not only as a supplier of products, but also of services, systems and integrated solutions.

To be reported in the segment of rolled products for roof coverings used in the building trade are the purchase of significant supplies of special metal coverings for projects of great architectural prestige in Europe, the Middle East, Singapore and the United States, and the start-up of a study of a project for an integrated sun shade made of copper. This stands to prove that attention is being paid to the renewable energies segment in which several special productions of pipes designed for thermal solar panels and residential geothermal heating find an outlet. In the segment of rolled products and pipes for industrial applications, the Group has compensated the slowdown of demand in Western European countries by turning to the more important Central-Eastern European markets (Czech Republic, Hungary and Poland), to Russia, and to the emergent economies of strong growth potential such as China, the Far East and several Arab countries.

The growth of the world's economy and the presence of a substantial speculative component keep the prices of raw materials high. They include copper, which is the metal most widely used in producing the Group's semi-finished products.

Following the drops of early 2007, strong pressure on copper quotations is again being felt, rising once again to over US\$ 8,000/tonne. It was only at the end of the year that performance recorded greater stability, to then go back to rising in early 2008.

The high levels and high volatility of the prices affect evolution of the demand for semi-finished products because they bring about uncertainty amongst the end users and in any case prompt them to keep their inventory levels at a minimum.

The impact of the value of raw materials on Group sales rose 74%. This percentage is a clear indication of the weight of possible conditioning on customers' spending decisions, which might derive from the trend of raw material prices. On the other hand, it also expresses the potential advantage that can come out of a rational and optimum management of the stages of procuring and using said component in the product value chain. This is an aspect the Group is keeping a close eye on.

Accompanying the positive sales performance in 2007 is the contribution of cost savings resulting from the production reorganisation and rationalisation measures adopted within the sphere of the Business Plan mentioned above. A significant increase of profitability is its result.

**EBITDA\*** moved from Euro 126.5 million to Euro 142.0 million, marking a 12.3% increase. Incidence on turnover, net of raw materials, went up as well from 14.9% to 15.9% (2005: 12.2%).

**EBIT\*** went up from Euro 46.3 million to Euro 88.8 million. The absence of extraordinary expenses associated with the Group's restructuring contributed to this higher growth, as they were present in the year of comparison.

\* Reclassified indicators (see table on page 43).

**Gross consolidated profit\*** totalled Euro 52.3 million in 2007 (2006: Euro 4.9 million). Net consolidated profit is Euro 40.8 million (2006: Euro 51.7 million) after the effects of the measurement of inventories according to the IFRS and current and deferred taxes.

Profit from operating activities and gross profit are stated without the effect on the financial results of the measurement at current values of raw materials inventories, as required by IFRS that, owing to the volatility of the relevant prices, prevent a homogeneous comparison of data referring to different periods, so the actual business performance cannot be represented. With regard to this topic, please go to the detailed description of the reclassification made, found in the later chapter on the “Group’s performance”.

A demonstration of the poor representation of the raw material inventories measurement method based on current prices (weighted average cost on a quarterly basis) instead of measurement with the LIFO method regarding structure inventories\*\* is found in the 2007 income statement. In fact, compared with a clear-cut improvement of operating profitability determined following the IFRS, it shows a 21.3% drop, falling from Euro 51.7 million to Euro 41.2 million. Measurement of raw material inventories in a situation where prices are falling resulted in a reduction of the differential of values at year-end 2007 between the LIFO values and those calculated in conformity with the IFRS. In particular, a positive differential of Euro 79.1 million (Euro 60.2 million after taxes) was recorded at year-end 2006, while this differential dropped by Euro 15.3 million (Euro 7.1 million after taxes) at year-end 2007.

2007 results also highlight a significant financial improvement.

The Group’s **net financial indebtedness**, which at 31 December 2007, fell to Euro 398.2 million, Euro 136.1 million (-25%) less than at 31 December 2006 (Euro 534.3 million) comes in beneath consolidated equity, equal to Euro 537.6 million.

The lower indebtedness is caused by the cash generated by the current operating activities, and in particular by the positive financial results of the year and by the rationalisation of the financial cycle whose lifetime was significantly cut.

The **Parent Company KME Group S.p.A.** ended 2007 with a profit of Euro 12.3 million (Euro 7.2 million in 2006). The Board of Directors proposes that a unit **dividend** of Euro 0.04 be distributed to ordinary shares and of Euro 0.1086 to saving shares. After five years, ordinary shares once again are being remunerated.

The total dividend proposed, Euro 11.5 million, accounts for 28% of the Group’s consolidated profit.

\*\*\*

With regard to the **expected future developments**, during the first few months of the year in progress European markets confirmed – and in some cases increased – signals that demand is slowing down, already noticed during the second half of last year. The Group has launched into actions aimed at effectively coping with this short-term picture.

\* Reclassified indicators (see table on page 43).

\*\* The term structure inventories means the portion of inventories not used for orders of sale to customers.

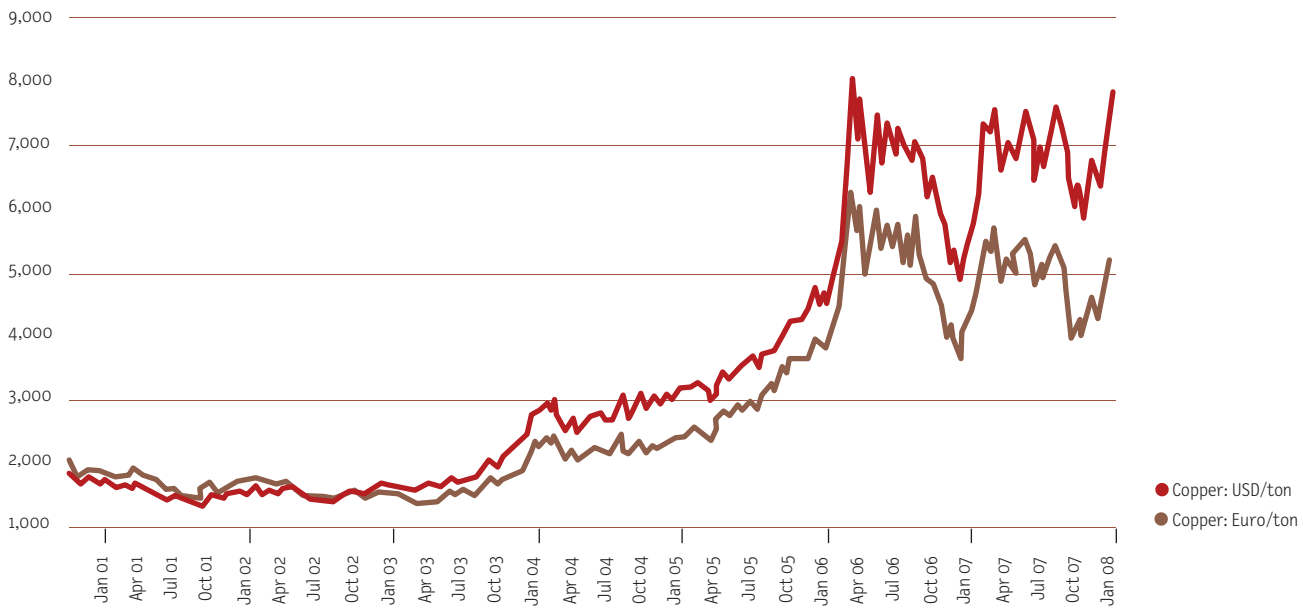
## Market and prices of the raw material copper

In 2007 the average price trend of copper was 5.9% higher in US\$ than in 2006 (going up from US\$ 6,722/tonne to US\$ 7,118/tonne), whereas it dropped 2.8% in Euro (from Euro 5,340/tonne to Euro 5,192/tonne) owing to appreciation of the European currency during the period of reference.

In progressive terms, the average price of the last quarter of 2007 increased 1.7% in US\$ over the same period of 2006 (going up from US\$ 7,068/tonne to US\$ 7,187/tonne) and decreased 9.4% in Euro (from Euro 5,487/tonne to Euro 4,967/tonne).

The trends went back to going up compared to the end of the previous year, arriving at the average value of US\$ 7,887/tonne in February, corresponding to Euro 5,350/tonne, and once again exceeding US\$ 8,500/tonne in early March.

LME copper prices



## Distribution of GreenergyCapital S.p.A. shares

Based on the resolution passed by the Ordinary Shareholders' Meeting on 3 August 2007, on 21 January 2008 the free stock allotment of 254,530,574 ordinary shares of GreenergyCapital S.p.A. was initiated in favour of all Shareholders, according to the ratio of 1 GreenergyCapital S.p.A. share for every 1 ordinary/saving share of KME Group held.

On 28 January 2008, GreenergyCapital carried out a share capital increase upon payment of Euro 48.7 million by issuing ordinary shares. Three warrants valid for the subscription of additional company ordinary shares were matched free to every subscribed share. The option offer concluded on 26 February with total success.

Free distribution—aimed at releasing shares to the general public—and the share capital increase formed the conditions necessary for the shares and warrants to be admitted for listing on the Mercato Telematico Azionario, MTF segment, organised by Borsa Italiana S.p.A..

Listing of the GreenergyCapital shares is scheduled to start on 20 March.

Following the distribution operation and the share capital increase described above, iNTEK S.p.A. holds 48.1% of GreenergyCapital S.p.A. and Aledia S.p.A. holds 20%. KME Group S.p.A. kept a 6.85% equity investment.

KME Group established GreenergyCapital S.p.A. in July 2007 as part of an initiative aimed at starting an activity of investing in enterprises that develop systems for producing energy from renewable sources and in companies that offer products, services and technologies used in the renewable energies and energy savings sector.

One of the planned activities is the purchase from Aledia S.p.A. by GreenergyCapital S.p.A. of the entire share capital of Energetica Invest S.p.A. for Euro 9.3 million. The company is already active in designing and building large-scale systems in the field of renewable energies (the photovoltaic sector in particular), as well as in carrying out architectural projects making it possible to maximize energy savings, and in the design and installation of systems exploiting thermal energy.

GreenergyCapital also signed a letter of intent with KME Group with which it was agreed to explore the technical-commercial and legal possibility of starting a collaboration in the energy field between KME Group subsidiaries and the companies in which GreenergyCapital will invest. Said collaboration is focussed on making new systems for producing electricity from renewable sources to be installed at the sites of the KME subsidiary companies, and to carry out activities that would improve the energy efficiency of the industrial systems of the KME Group.

In conducting its activities, GreenergyCapital avails itself of a management team having experience in the energy, management consulting and private equity sectors, led by the Company Chairman Vincenzo Cannatelli, formerly COO of the ENEL Infrastructures and Networks Division, and the Managing Director Luca D'Agnesi, who was Operations Manager for Italy of Terna S.p.A. until November 2007.

## Group's performance

The tables that follow provide a brief overview of the consolidated results the Group achieved in 2007 compared with those of 2006.

Several items<sup>1</sup> were reclassified within the components contributing to **calculation of EBITDA, EBIT and Gross and Net Consolidated Result** so as to better illustrate the actual performance of the Group's industrial operations and ensure better comparison between the results over time.

Specifically:

- the turnover is also presented net of raw materials in order to eliminate the effect of their price variability;
- the effect due to applying IFRS regarding measurement of the inventory of raw material inventories and the effects caused by the fair value measurement of the relevant hedging operations on the London Metal Exchange market have been incorporated from the gross and net operating results and profit result before and after taxes. The adoption of IFRS changed the method of measuring the metals inventory from the LIFO method, regarding structure inventories\*\*, to a current prices system (weighted average cost on a quarterly basis). Owing to the high volatility of raw material prices, particularly the copper, using this method introduces an economic component that risks giving us an incorrect representation of the financial performance of operations; therefore, the relevant descriptions hereunder refer to EBITDA and EBIT and also profit before and after taxes, based on the LIFO method to measure structure inventories (to be consistent, for both 2007 and 2006), which is on the other hand the one used with respect to the internal management controlling activity. The description of operations performance is obviously also completed with the financial data based on using the method established by IFRS;
- the non recurring components have been shown beneath the line of EBITDA.

1. Description of the reclassifications made and reconciliation with IFRS figures:

### KME Group – Consolidated income statement

(millions of Euro)	FY 2007 IFRS		Reclassifications	FY 2007 RECL	
Gross turnover	3,485.3		-	3,485.3	
Raw material cost	-		<b>(2,594.4)</b>	(2,594.4)	
<b>Turnover, not including raw material cost</b>	<b>3,485.3</b>	<b>100%</b>	-	<b>890.9</b>	<b>100%</b>
Labour cost	(349.3)		-	(349.3)	
Other consumption and costs	(3,011.9)		<b>2,612.3</b>	(399.6)	
<b>EBITDA*</b>	<b>124.1</b>	<b>3.56%</b>	-	<b>142.0</b>	<b>15.94%</b>
Non-recurring (Charges)/Income	-		<b>(2.6)</b>	(2.6)	
Amortisation and depreciation	(50.6)		-	(50.6)	
<b>EBIT</b>	<b>73.5</b>	<b>2.11%</b>	-	<b>88.8</b>	<b>9.97%</b>
Net finance costs	(36.5)		-	(36.5)	
Gains (losses) recognised in equity	-		-	-	
<b>Profit before taxes (inventories no IFRS)</b>	<b>37.0</b>	<b>1.06%</b>	-	<b>52.3</b>	<b>5.87%</b>
Current tax	(30.0)		-	(30.0)	
Deferred tax	34.2		<b>(8.2)</b>	26.0	
<b>Profit (inventories no IFRS)</b>	-		-	<b>48.3</b>	<b>5.43%</b>
Impact of meas.(IFRS) of inventories and LME contracts	-		<b>(15.3)</b>	(15.3)	
Tax on meas.(IFRS) of inventories and LME contracts	-		<b>8.2</b>	8.2	
<b>Consolidated profit</b>	<b>41.2</b>	<b>1.18%</b>	-	<b>41.2</b>	<b>4.62%</b>
Profit attributable to minority interests	0.4		-	0.4	
<b>Profit attributable to Shareholders of the Parent</b>	<b>40.8</b>	<b>1.17%</b>	-	<b>40.8</b>	<b>4.58%</b>

\* EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization) is not envisaged by IFRS. It represents a useful unit of measure for assessing the Group's operating performance. EBITDA is an intermediate economic quantity that derives from EBIT from which depreciation and amortization and non-recurring (charges)/income are left out.

\*\* The term structure stock means the portion of stock not used for orders of sale to customers.



## KME Group – Consolidated income statement

(millions of Euro)	FY 2007 RECL		FY 2006 RECL		Change %
Gross turnover	3,485.3		3,556.8		-2.0%
Raw material cost	(2,594.4)		(2,709.5)		-4.2%
<b>Turnover, not including raw material cost</b>	<b>890.9</b>	<b>100%</b>	<b>847.3</b>	<b>100%</b>	<b>5.1%</b>
Labour cost	(349.3)		(347.4)		0.5%
Other consumption and costs	(399.6)		(373.4)		7.0%
<b>EBITDA</b>	<b>142.0</b>	<b>15.94%</b>	<b>126.5</b>	<b>14.93%</b>	<b>12.3%</b>
Non-recurring (Charges)/Income	(2.6)		(26.5)		insig.
Amortisation and depreciation	(50.6)		(53.7)		-5.8%
<b>EBIT</b>	<b>88.8</b>	<b>9.97%</b>	<b>46.3</b>	<b>5.46%</b>	<b>91.8%</b>
Net finance costs	(36.5)		(41.6)		-12.3%
Gains (losses) recognised in equity	-		0.2		insig.
<b>Profit before taxes (inventories no IFRS)</b>	<b>52.3</b>	<b>5.87%</b>	<b>4.9</b>	<b>0.58%</b>	<b>insig.</b>
Current tax	(30.0)		(4.9)		insig.
Deferred tax	26.0		(8.5)		insig.
<b>Net profit (inventories no IFRS)</b>	<b>48.3</b>	<b>5.43%</b>	<b>(8.5)</b>	<b>-1.00%</b>	<b>insig.</b>

**Turnover** in 2007 was Euro 3,485.3 million, 2% less than that of 2006 when it was Euro 3,556.8 million. Net of raw materials, it increased 5.1%, from Euro 847.3 million to Euro 890.9 million, by virtue of the improved product mix and price recovery. Sales volumes recorded a 8% decrease.

Total **operating costs** went up 3.9% due to the higher production of products having greater value added and the increased unit costs of the production factors, particularly those of energy and transport. Only the labour cost component practically remained unchanged (+0.5%).

**EBITDA**, amounting to Euro 142.0 million, marks a 12.3% increase. It represents 15.9% of turnover after raw materials (it was 14.9% in 2006 and 12.2% in 2005).

**EBIT** is positive for Euro 88.8 million (Euro 46.3 million in 2006). The fact that there were no non-recurring costs tied to the Group's industrial reorganisation, on the other hand, present in the year of comparison, resulted in a greater growth of EBIT.

The **consolidated profit before taxes**, without measurement of the raw material inventories at current prices according to IFRS, is positive for Euro 52.3 million (for Euro 4.9 million in 2006).

The 2007 **consolidated profit**, after deducting both current and deferred taxes (the latter affected positively by reduction of the tax rates in Germany and Italy), amounts to Euro 48.3 million (negative Euro 8.5 million at 31 December 2006).

## Effect of measuring raw material inventories at current prices (IFRS)

The following table illustrates the consolidated 2007 profit before and after taxes compared with those of 2006, determined including the effects of the measurement of raw material inventories and relevant hedging operations on the London Metal Exchange market.

As previously pointed out, these data confirm poor representation of operations. In fact, compared with an improvement of operating profitability, consolidated profit - calculated according IFRS (weighted average cost on a quarterly basis) instead of with the LIFO method regarding structure inventories\*, posts a downturn.

(millions of Euro)	FY 2007 RECL		FY 2006 RECL		Change %
Profit (inventories no IFRS)	48.3	5.43%	(8.5)	-1.00%	insig.
Impact of meas. (IFRS) of inventories and LME contracts	(15.3)		79.1		insig.
Tax on meas. (IFRS) of inventories and LME contracts	8.2		(18.9)		insig.
<b>Consolidated profit</b>	<b>41.2</b>	<b>4.62%</b>	<b>51.7</b>	<b>6.10%</b>	<b>-20.3%</b>
Profit attributable to minority interests	0.4		-		insig.
<b>Profit attributable to Shareholders of the Parent</b>	<b>40.8</b>	<b>4.58%</b>	<b>51.7</b>	<b>6.10%</b>	<b>-21.1%</b>

Measurement of raw material inventories in a situation where prices are falling resulted in a reduction of the differential of values at year-end 2007 between the LIFO values and those calculated in conformity with IFRS. In particular, a positive differential of Euro 79.1 million was recorded at year-end 2006, while this differential dropped by Euro 15.3 million at year-end 2007.

Consequently, the 2007 **consolidated profit** (with IFRS inventories) of Euro 41.2 million (of which Euro 40.8 million pertaining to the year) is obtained after having ascribed the relevant tax burden to the impact of the measurement of raw material inventories, when at year-end 2006, consolidated profit in consistent terms was Euro 51.7 million.

## Information by business segments

The Group's industrial productions are focussed on the following segments.

### Revenue, including raw materials

Business areas (millions of Euro)	Products for construction		Products for industry		Consolid. and misc.		Group Total	
2007	1,278.0	36.7%	1,735.7	49.8%	471.6	13.5%	3,485.3	100.0%
2006	1,420.1	39.9%	1,623.8	45.7%	512.9	14.4%	3,556.8	100.0%
Change %		-10%		6.9%		-8.1%		-2.0%

### Revenue, not including raw materials

Business areas (millions of Euro)	Products for construction		Products for industry		Consolid. and misc.		Group Total	
2007	320.8	36.0%	570.1	64.0%	-	-	890.9	100.0%
2006	314.0	37.1%	533.3	62.9%	-	-	847.3	95.1%
Change %		2.2%		6.9%		insig.		5.1%

\* The term structure inventories means the portion of inventories not used for orders of sale to customers.

2007 revenue, net of raw materials of **products for industry applications** was 64% of total sales, and that of **products for construction** 36%.

**Construction** is an important market for the Group's productions. Rolled copper products are used for roof coverings, accessories and facades; copper pipes are used in plumbing and heating systems; rolled brass products and brass or bronze profiles are used in home interior fittings. Brass rods are widely used in the production of taps and fittings, handles, locks, valves and various accessories.

Consumption of **semi-finished products made for the construction industry** has continued to feel the impact of tensions on the raw material market (high price of copper together with a conspicuous volatility of prices).

The demand for **rolled copper products for roof coverings** slowed down, with drops of quantities in all the major markets of reference (particularly Germany, the United States, Italy and France). In an unfavourable scenario, the Group in any case reacted by both defending its market share on the European level and investing in the launch of new finishes. Proof of the constant attention the Group pays to production innovation, and especially to the specific sector of renewable energies, is given by the Group's current undertaking in studying an integrated copper sunshade project.

More positive performance was instead recorded by the sector of special metal roof coverings for projects of notable architectural prestige. With regard to the TECU® special products, the launch of new products and strengthened promotional activity allowed the Group to acquire several important projects including: Chelsea FC Academy of Manchester (United Kingdom), Beirut Souks in Lebanon, Frederikskaj in Copenhagen (Denmark), the Knolls Hotel in Singapore, the Federal Courthouse in El Paso (USA) and the Neues Museum of Berlin.

Signs of a pronounced slowdown were also recorded in the **pipes for plumbing and heating applications sector**. From the geographic viewpoint, demand proved to be particularly weak in Germany, France, Italy and Spain. On the other hand, results were definitely more positive in one of the leading European markets, the United Kingdom, where investments in the building trade continue to rise, even if at a moderate pace. Furthermore, the Group has been able to increase its presence in Central-Eastern European countries such as Poland, the Czech Republic, Romania and Slovakia by carrying out specific commercial activities on those markets less affected by the consumption slowdown.

After a basically positive first six-month period, **brass rods for the building trade** demand showed gradual signs of falling back over the next several months in the wake of customer overstocking. From the point of view of the individual markets, the slowdown seen in the Mediterranean area (especially in Italy, Spain, France and Turkey) was partially brought back into balance by overall growth of demand in the Northern European countries (in particular Germany, Sweden, the Netherlands and Denmark).

The copper and copper alloy products are widely used in a large variety of **industrial sectors**: from the automotive industry, electrical and electronic component industry, and air conditioning and cooling systems to the gift and fancy goods industry and mechanics in general.

European demand for **products for industry** in 2007 was marked by a trend with steady growth of industrial production in Germany (+5.8%) and a substantial stagnation of production processes in other leading Western European economies such as Italy, France and the United Kingdom.

The constant acceleration of manufacturing in Central-Eastern European countries is to be emphasised. There, production delocalization processes of several user industries have continued, and the KME Group plans on strengthening its presence (in terms of both sales and market share, including Russia) by gradually reinforcing its sales and distribution structure.

From the point of view of individual segments where the products are used, the dynamism of production in Germany is, first and foremost, to be attributed to growth of the electric and automotive segments. As far as the Mediterranean markets are concerned, the cutback in the boilers segment is to be mentioned. In the specific case of Italy and Spain, there were drops in the household appliance industry, the gift and fancy goods industry and the home furnishings industry.

With regard to **pipes for industrial applications**, the good demand coming from the air conditioning and cooling sector was partially tarnished by the fall in consumption in the fittings sector, which in turn is linked to the slowdown of the demand for plumbing and heating pipes. On the whole, the Group has been successful in

defending its market share by adopting targeted measures with regard to high growth potential applications, such as the energy savings and renewable energies (thermal solar collectors and heat pumps) segments, or the electric segment. It should also be stressed that the Group introduced several important innovations in terms of production range developed to meet specific market needs.

In 2007 the **brass rod for industrial use** market stayed on good levels by virtue of the liveliness of demand coming from the automotive and electric industries. From the geographic viewpoint, the most evident progress was seen in several Central-Northern European markets, such as Austria, Finland and the Netherlands.

In 2007 the **copper rods for electrical applications** segment achieved excellent results, in line with sector growth. Substantial increases were recorded in almost all European markets, and especially in Germany, Spain, Scandinavia, the Netherlands and the United Kingdom.

The year 2007 was positive for the **copper mould for steel casting** sector as well. Worthy of mention on the geographic level are the conspicuous increases of Group revenue both in important European markets (Germany, Belgium and the United Kingdom) and in countries undergoing significant development such as China and Russia.

The performance of products for **marine applications and offshore systems** is just as positive.

### Operating profit (EBIT) – (inventory no IFRS)

(millions of Euro)	Products for construction		Products for industry		Consolid. and misc.		Group Total	
2007	44.9	50.6%	47.5	53.5%	(3.6)	-4.1%	88.8	100.0%
2006	34.5	38.9%	13.8	15.5%	(2.0)	-2.3%	46.3	52.1%
Change %	30.1%		insig.		80.0%		91.8%	

### Assets by segment

(millions of Euro)	Products for construction		Products for industry		Consolid. and misc.		Group Total	
2007	543.4	30.1%	972.4	53.9%	288.1	16.0%	1,803.9	100.0%
2006	612.4	30.0%	1,018.6	49.9%	411.5	20.1%	2,042.5	113.2%
Change %	-11.3%		-4.5%		insig.		-11.7%	

### Liabilities by segment

(millions of Euro)	Products for construction		Products for industry		Consolid. and misc.		Group Total	
2007	217.7	17.2%	405.0	32.0%	643.6	50.8%	1,266.3	100.0%
2006	232.2	15.0%	389.9	25.2%	925.1	59.8%	1,547.2	122.2%
Change %	-6.2%		3.9%		-30.4%		-18.2%	

### Amortisation, depreciation and impairment losses

(millions of Euro)	Products for construction		Products for industry		Consolid. and misc.		Group Total	
2007	17.3	34.2%	33.3	65.8%	-	-	50.6	100.0%
2006	17.3	32.2%	36.4	67.8%	-	-	53.7	106.1%
Change %	-		-8.5%		insig.		-5.8%	

## Investments

(millions of Euro)	Products for construction		Products for industry		Consolid. and misc.		Group Total	
2007	21.6	30.5%	34.4	48.6%	14.8	20.9%	70.8	100.0%
2006	17.3	24.4%	28.7	40.5%	4.2	5.9%	50.2	100.0%
Change %	24.9%		19.9%		insig.		41.0%	

## Employees at 31.12.2007

(number of employees)	Products for construction		Products for industry		Consolid. and misc.		Group Total	
31.12.2007	2,094	30.8%	4,709	69.2%	3	0.1%	6,806	100.0%
31.12.2006	2,173	31.9%	4,430	65.1%	6	0.1%	6,609	100.0%
Change %	-3.6%		6.3%		-16.7%		3.0%	

## Investments

Production unit investments in 2007 equalled Euro 55 million (Euro 50 million in 2006).

Investments in 2007 as well were selectively focussed on rationalising the production structure of the Group and on optimising the use of raw materials.

In particular, one medium-size production activity in France was closed, with its concentration in the remaining locations. This was part of a broader process of reorganising the rolled products sector with the aim of improving the efficiency not only of the production facilities, but of the service functions too.

In the foundry activity field, technological innovations regarding refining capacities were introduced in Germany. They are aimed at improving productivity, energy efficiency and environmental impact. Significant investments were also made in the brass rods division foundries.

As previously announced, acquisition of 70% of the Chinese company D. Heavy Industry Machinery Co. Ltd. was completed on 8 June 2007, as well as the concomitant increase of investments in another two companies (D.D. Chrystallizer Co. Ltd. and Dalian Surface Machinery Co. Ltd.), rising from 30% to 70%.

The total value of the transaction was Euro 6.2 million. The 2007 revenue of the acquired companies was approximately Euro 13 million, with an EBITDA 30% higher than turnover, net of raw materials value.

The goal of the acquisitions described above is to strengthen the Group presence in the Chinese market as far as special products are concerned, in line with the goals of the Business Plan which are aimed at reinforcing presence in the emergent markets and, above all, in those products having high technological content.

## Research and Development

The research programmes are coordinated on Group level and implemented at the two “Research and Development Centers” in Osnabrueck (Germany) and Fornaci di Barga (Italy).

The activity, in close contact with the needs of customers and users, is focussed on basic metallurgical research while the activity more closely associated with process technologies and quality control is under the direct responsibility of the production divisions.

The chief research topics regard optimisation of metal yield, recovering metals from foundry by-products, surface treatments, developing new alloys for electrical and electronic use, and special alloys for moulds. The research centres are also engaged in seeking out solutions to better defend the environment and safety at the work place.

The research and development expenditures are charged entirely to the year’s income statement.

## Financial position

Itemization of consolidated equity is provided below:

(millions of Euros)	at 31.12.2007	at 31.12.2006
Share capital	324.2	319.6
Reserves	172.6	123.8
Profit for the year	40.8	51.8
<b>Total equity</b>	<b>537.6</b>	<b>495.2</b>

Group **net financial indebtedness\*** at 31 December 2007 totals Euro 398.2 million, down Euro 136.1 million from year-end 2006.

Itemization of the **consolidated net financial position** is provided below:

(thousands of Euros)	at 31.12.2007	at 31.12.2006
Short-term financial payables	111,714	204,741
Medium and long-term financial payables	393,077	487,353
Financial payables due to Parent Company and non-consolidated subsidiaries	9,073	58,670
<b>Total loans payable</b>	<b>513,864</b>	<b>750,764</b>
Cash and cash equivalents	(93,936)	(162,098)
Short-term financial receivables	(21,203)	(53,425)
Financial receivables due from non-consolidated Group companies	(490)	(915)
<b>Total cash and cash equivalents and financial receivable</b>	<b>(115,629)</b>	<b>(216,438)</b>
<b>Total net financial debt</b>	<b>398,235</b>	<b>534,326</b>

The figures above regarding the financial position do not include the potential outlays for the two European Community sanctions imposed on the Group’s industrial companies for two competition infringements in 2003-2004, amounting to a total of Euro 107 million. These sanctions will generate cash flows only when the entire proceedings come to an end before the EC jurisdictional bodies, with whom appeals have been filed, and only for the amount that will be confirmed.

Up until that time payment is guaranteed by guarantee deposit (totalling Euro 17 million) and bank securities (amounting to Euro 90 million); this extension in any case generates finance charges. From the financial viewpoint, both the total amount of the sanctions and the financial charge of the extension have been entirely provided for.

\* This indicator depicts the financial structure and is calculated as the result of the gross financial payables reduced by entirely provided for cash and cash equivalents and other financial receivables included in “Current financial assets”.

The new credit lines agreed with the Group's financial institutions at the end of September 2006 have made it possible to promptly cope with the changeability and coverage of the growing financial needs of the working capital by virtue of the flexibility of their use, consequent to the increased prices of raw materials.

The cash flows for the year are as follows:

### Consolidated cash flow statement, indirect method

(thousands of Euro)	2007	2006
<b>(A) Cash and cash equivalents at beginning of the year</b>	<b>162,098</b>	<b>151,992</b>
Profit before taxes	36,956	84,133
Amortisation and depreciation	50,272	53,421
Impairment losses on current assets	4,132	1,439
Impairment losses/(reversals of impairment losses) on non-current assets other than fin. assets	375	(2,027)
Impairment losses/(reversals of impairment losses) on current/non-current financial assets	-	1,149
Net interest accrued	30,092	33,452
Losses (gains) on non-current assets	256	(789)
Share of loss of equity-accounted associates	-	(216)
Change in pension funds and post-employment benefits	(4,270)	681
Change in provisions for risks and charges	(15,991)	14,653
Inventory decreases (increases)	53,632	(238,887)
Current receivables (increases) decreases	84,278	108,694
Current payables increases (decreases)	21,181	55,512
Changes from currency translation	(300)	96
Net interest pay during the year	(29,996)	(33,366)
Current taxes paid and reimbursed during the year	(30,260)	(5,004)
<b>(B) Cash Flows from Operating Activities</b>	<b>200,357</b>	<b>72,941</b>
(Increases) in non-current intangible assets and property, plant and equipment	(70,818)	(50,242)
Decreases in non-current intangible assets and property, plant and equipment	7,730	3,512
(Increases) decreases in investments	(424)	(479)
(Increases) decreases in available-for-sale financial assets	(3,448)	-
Increases/decreases in other non-current assets/liabilities	1,381	16
Dividends received	1,531	1,750
<b>(C) Cash Flows from Investing Activities</b>	<b>(64,048)</b>	<b>(45,443)</b>
Share capital increase	4,522	128,835
Increases (decreases) in current and non-current financial payables	(244,128)	(84,036)
Increases (decreases) in current and non-current financial receivables	41,277	(60,877)
Dividends paid	(6,570)	(1,314)
<b>(D) Cash Flows from financing activities</b>	<b>(204,899)</b>	<b>(17,392)</b>
<b>(E) Change in cash or cash equivalents (B) + (C) + (D)</b>	<b>(68,590)</b>	<b>10,106</b>
<b>(F) Effect of change in scope of consolidation</b>	<b>428</b>	<b>-</b>
<b>(G) Cash and cash equivalents at year-end (A) + (E) + (F)</b>	<b>93,936</b>	<b>162,098</b>

The lower indebtedness is caused by the cash generated by the current operating activities, and in particular by the positive results of the year and by the rationalisation of the financial cycle whose lifetime was significantly cut. A summary of the reclassified net invested capital follows:

(millions of Euro)	at 31.12.2007	at 31.12.2006
Net capital assets	793.9	778.2
Net working capital	539.2	706.9
Own funds	(397.2)	(455.7)
<b>Net invested capital*</b>	<b>935.9</b>	<b>1,029.4</b>

\* Net invested capital is defined as the sum of "Non-current assets", "Current assets" net of "Non-current liabilities" and "Current liabilities", except for the items previously considered in the definition of net financial indebtedness.

## Personnel

There were 6,806 employees at 31 December 2007 (6,609 at 31 December 2006). On a like-for-like basis homogeneous terms, i.e. not considering employees of the companies recently acquired in China (358 units), a 2.4% decrease is recorded.

(year averages)	2007	2006	Change %
Managers and office employees	1,798	1,782	0.9%
	26.0%	26.7%	
Blue collars and special categories	5,115	4,896	4.5%
	74.0%	73.3%	
<b>Total employees</b>	<b>6,913</b>	<b>6,678</b>	<b>3.5%</b>
	100.0%	100.0%	

The investment in training and the professional development of people was a fundamental factor for management's growth supporting the Group's activities in 2007 as well.

Ongoing communication was carried on with the trade unions and worker representatives during the year, both on the European coordination level and on the domestic/company level, with the aim of looking for shared solutions in order to meet the market's needs, and increase flexibility and organisational efficiency.

## Related party transactions

Transactions with related parties, including intercompany transactions, cannot be qualified as either atypical or unusual. Instead, fall within the ordinary course of business of the Group companies.

The effects deriving from relations between KME Group S.p.A. and its subsidiaries are pointed out in the accounting figures of the Parent Company and in the notes to the financial statements and, like those regarding relations between subsidiaries, are eliminated for the purpose of drawing up the consolidated financial statements.



## The Parent

In 2007, KME Group S.p.A. recorded a profit after taxes of Euro 12.3 million.

The following **income statement** was reclassified highlighting the non-recurring income (expense) on a separate line.

### Income statement

(thousands of Euro)	FY 2007	FY 2006
Dividends from KME Germany A.G.	-	-
Rendering of services	2,856	2,913
Overheads	(6,057)	(4,713)
Stock option cost	(121)	(473)
Net finance income (expense)	8,669	(1,584)
<b>Profit from ordinary activities</b>	<b>5,347</b>	<b>(3,857)</b>
Non-recurring income (expense)	-	498
<b>Profit before taxes</b>	<b>5,347</b>	<b>(3,359)</b>
Taxes	6,968	10,565
<b>Profit for the year</b>	<b>12,315</b>	<b>7,206</b>

**Profit from ordinary activities** improves owing to the higher net finance income including:

- Euro 6.7 million of commissions from subsidiaries for the guarantees given by the Parent to banks and a behalf of the aforesaid companies when obtaining available credit lines;
- Euro 1.3 million in dividends received regarding the iNTEK saving shares in portfolio.

The positive balance of the finance components is also rising because the Parent subordinate loan of Euro 130 million was repaid in full with the share capital increase operation carried out in mid-2006.

**Taxes** show a positive balance both for the year's benefits (equal to Euro 3.5 million) coming from the use by Italian subsidiaries of tax losses of the Parent within the so-called "national consolidated tax system" and the crediting of deferred tax assets (equal to Euro 3.5 million) – mostly ascribable to the charges calculated on the taxable income of the Company estimated for the next two years – that might be covered in the Parent Company's past tax losses.

The chief reclassified figures of the KME Group S.p.A.'s **balance sheet** are provided in the following table:

## Assets

(thousands of Euro)	31.12.2007	31.12.2006
Investment Property	3,216	10,535
Investment in KME Germany A.G.	305,256	303,156
Investment in KME Italy S.p.A.	4,519	-
<b>Non-current assets</b>	<b>312,991</b>	<b>313,691</b>
Investment in GreenergyCapital S.p.A.	3,448	-
INTEK S.p.A. saving shares	5,242	5,242
Net other receivables	6,839	9,684
<b>Total Assets</b>	<b>328,520</b>	<b>328,617</b>

## Liabilities

(thousands of Euro)	31.12.2007	31.12.2006
Share capital	324,165	319,643
Reserves	11,335	7,920
Equity	335,500	327,563
Net financial position	(19,295)	(6,152)
Profit for the year	12,315	7,206
<b>Total Liabilities</b>	<b>328,520</b>	<b>328,617</b>

**Share capital** increased consequent to exercising warrants and stock options during the year.

The **reclassified net financial position**\* is positive for Euro 19,3 million.

(thousands of Euro)	31.12.2007	31.12.2006
Short-term financial payables	24,810	377
Medium and long-term financial payables	5,659	582
Financial payables to Parent	6,414	56,016
Financial guarantees to subsidiaries	13,553	= =
<b>Total financial payables</b>	<b>50,435</b>	<b>56,975</b>
Cash and cash equivalents	(1,739)	(376)
Financial receivables from subsidiaries	(54,439)	(62,476)
Current receivables for financial guarantees to subsidiaries	(6,561)	= =
<b>Total cash and cash equivalents and financial receivables</b>	<b>(62,739)</b>	<b>(62,852)</b>
<b>Total net financial position</b>	<b>(12,303)</b>	<b>(5,877)</b>
Non-current receivables for financial guarantees to subsidiaries	(6,992)	= =
<b>Total reclassified net financial position</b>	<b>(19,295)</b>	<b>(5,877)</b>

\* See not on page 49.

Reclassification concerns the recognition of Payables and corresponding Receivables for financial guarantees to subsidiaries under the current and non-current caption. Please refer to the notes to the financial statements for further details.

Examination of the year's cash flows illustrates the reasons for the change:

### Cash flow statement

(thousands of Euro)	FY 2007	FY 2006
<b>(A) Cash and cash equivalent at beginning of year</b>	<b>377</b>	<b>9,379</b>
Profit before taxes	5,347	(3,359)
Amortisation and depreciation	2	-
Net interest accrued	(744)	3,186
Loss (gain) on non-current assets	-	(43)
Accruals to pension funds and similar	(82)	446
Accruals to other provisions	58	(934)
Current receivables (increases) decreases	4,894	(7,337)
Current payables increases (decreases)	690	463
Net interest pay during the year	840	(3,100)
Current tax (paid) and reimbursed during the year	3,237	10,532
<b>(B) Cash flows from Operating Activities</b>	<b>14,242</b>	<b>(146)</b>
(Increases) decreases in non-current intangible assets and property, plant and equipment	2,768	(1,507)
Increases/decreases in other non-current assets/liabilities	-	(8)
(Increases) decreases in investments	(3,448)	-
Dividends received	1,265	415
<b>(C) Cash flows from Investing Activities</b>	<b>585</b>	<b>(1,100)</b>
Share capital increase	4,522	128,835
Increases (decreases) in current and non-current financial payables	(6,265)	(89,655)
Increases (decreases) in current and non-current financial receivables	(5,515)	(45,622)
Dividends paid	(6,207)	(1,314)
<b>(D) Cash Flows from financing activities</b>	<b>(13,465)</b>	<b>(7,756)</b>
<b>(E) Profit/(loss) on cash and cash equivalents (B+C+D)</b>	<b>1,362</b>	<b>(9,002)</b>
<b>(F) Cash and cash equivalents at end of year (A+E)</b>	<b>1,739</b>	<b>377</b>

## Expected future developments

Fees regarding commissions on financial guarantees given in the interest of subsidiaries are expected to accrue also during the current year.

As far as the performance of investments is concerned, please refer to the forecasts stated on the foregoing pages regarding the Group's development overall.

On 6 March 2008, the German subsidiary (wholly owned) KME Germany A.G., which the Group's industrial combine falls under, approved a total gross dividend of Euro 20.9 million out of the profit for 2007.

## Relations with subsidiaries and the Parent

KME Group S.p.A. provided assistance to Group's companies in its role of Parent. These activities generated income and expense, broken down as follows by company:

(thousands of Euro)	2007		2006	
	Income	Expense	Income	Expense
G.I.M.	-	-	-	(5,198)
iNTEK S.p.A.*	1	(398)	75	-
KME Italy S.p.A.	2,710	(107)	2,172	(95)
KME Brass Italy S.r.l.	30	-	-	-
KME Germany A.G.	7,750	-	258	-
KME Brass Germany A.G.	30	-	-	-
KME France S.A.S.	651	-	516	-
KME Brass France S.A.S.	52	-	-	-
KME Yorkshire Ltd.	25	-	-	-
KME Locsa	12	-	-	-
Immobiliare Agricola Limestone S.r.l.	364	-	-	-
<b>Total</b>	<b>11,625</b>	<b>(505)</b>	<b>3,021</b>	<b>(5,293)</b>

\* On 31 March 2007 G.I.M. - Generale Industrie Metallurgiche S.p.A. merged into iNTEK S.p.A..

Receivables due from subsidiaries at 31 December 2007 are the following:

(thousands of Euro)	31.12.2007	31.12.2006	change	Change %
<b>Financial receivables</b>				
KME Italy S.p.A.	27,636	6,034	21,602	358%
KME Germany A.G.	19,867	54,191	(34,324)	-63%
KME France S.A.S.	5,534	817	4,717	577%
Immob. Agricola Limestone S.r.l.	1,402	1,434	(32)	-2%
<b>Total</b>	<b>54,439</b>	<b>62,476</b>	<b>(8,037)</b>	<b>-13%</b>

(thousands of Euro)	31.12.2007	31.12.2006	change	Change %
<b>Trade receivables</b>				
iNTEK S.p.A.	-	-	-	insig.
KME Italy S.p.A.	-	3,862	(3,862)	insig.
KME Brass Italy S.r.l.	-	6,675	(6,675)	insig.
KME Germany A.G.	-	-	-	insig.
KME Brass Germany A.G.	-	-	-	insig.
KME France S.A.S.	-	-	-	insig.
KME Brass France S.A.S.	-	-	-	insig.
KME Yorkshire Ltd.	10	-	10	insig.
KME LOCSA S.A.	14	-	14	insig.

The current account held with the Parent iNTEK S.p.A. generated net interest payable totalling Euro 0.4 million.

\* \* \*

For further details and analyses of the consolidated figures and those of the Parent Company, please refer to the notes of their respective financial statements.

## Ongoing disputes

With regard to the details reported in the half-year report at 30 June 2007 concerning two community procedures, on 27 February 2008 the oral hearing was carried out before the Court of First Instance of the European Communities for proceedings regarding industrial piping; judgement is expected within one year. For proceedings regarding sanitary piping, the hearing date is still to be set.

With regard to the class action pending in the United States, for information and the relative judgements, refer to the details shown in the separate financial statements at 31 December 2006. As key elements in updates on the proceedings communicated to the companies in our Group, it should be noted that both the appeal proceedings commenced in May 2007 by the other parties regarding sanitary piping and the subsequent action launched regarding industrial piping in 2007 are both still pending before the Tennessee Court of Appeal, intended to challenge the respective judgements of the Federal Court of Tennessee, which has excluded jurisdiction concerning the claims, dismissing the relative class actions. Action pending before the California State Court is suspended.

With regard to two environmental disputes relative to the industrial area housing the Brescia plant, disputes which involve the Company and its subsidiary KME Italy S.p.A. separately, there were no new development for KME Italy S.p.A., whose next hearing is set for 22 May 2008.

On the other hand, regarding the Company, a process is underway to review and subsequently evaluate the documentation submitted by the other party whose content has formed the subject of legal and technical disputes; in addition we would like to acknowledge that the other party has stated that it wishes to make a second request for damages without however indicating the amount; the next hearing is set for 15 May 2008.

It is not possible to predict the expected outcomes of both disputes.

For disputes pending before the Court of Hannover relative to squeeze out and merger transactions, an investigatory evaluation is in progress.

There are no updates regarding the action filed against former Company President, Luigi Orlando, whose next hearing is set for 12 June 2009.

The hearing concerning the appeal in the dispute in Greece relative to the recovery of receivables has been set for 4 April 2008; it should be noted that in the first instance the Company's grounds have been accepted.

## Subsequent events

There are no events to be reported.

As for the project of listing GreenergyCapital S.p.A., please refer to that stated earlier on.

## Profit for the year and proposed resolutions

2007 ends with a **profit** of Euro 12,314,967.

Having acknowledged the Reports of the Board of Statutory Auditors and of the Independent auditors, we invite you to approve the following resolution:

The Shareholders' Meeting of KME Group S.p.A., having met in ordinary session at the registered office in Florence, via dei Barucci no. 2, having acknowledged the Reports of the Board of Statutory Auditors and the Independent auditors

resolves

a) to approve the Directors' report at 31 December 2007 and the financial statements as a whole and in the individual captions and records with the allocations and utilisations proposed, which show a net profit of Euro 12,314,967;

b) to allocate the profit for the year of Euro 12,314,967 as follows:

• 5% to the Legal Reserve	Euro	615,749
• 2% to the Board of Directors (deducting the fixed fee)*	Euro	81,711
• to the saving shares** to the extent of one dividend*** of Euro 0.1086 per share, for a total of	Euro	2,068,878
• to the ordinary shares to the extent of one dividend*** of Euro 0.04 per share, for a total of	Euro	9,419,205
• and to carry forward the remaining amount of	Euro	129,424

\* The Board of Directors has decided to allocate the fee to charity.

\*\* Net of the 21,666 saving shares the Company currently holds or of the different number of shares held by the Company at the time the dividend is paid, withdrawing the necessary amount from the remaining retained earnings.

\*\*\* The date of payment of the dividend shall be 5 June 2008, with coupon no. 2 detached both for the ordinary shares and the saving shares on 2 June 2008.

Florence, 14 March 2008

The Board of Directors

# Report on Corporate Governance and application of the “Code of Conduct”

Dear Shareholders,

Art. 124-*bis* of the Italian *Testo Unico della Finanza* (Finance Consolidation Act, hereinafter “TUF”) states corporate governance provisions and requires that listed companies supply information on their compliance with codes of conduct promoted by management companies of regulated markets or by trade associations every year, according to the terms and conditions established by CONSOB.

In following with the provisions dictated under subsequent art. 124-*ter* of the TUF, CONSOB has stated in art. 89-*bis* of Regulation no. 11971 of 14 May 1999 (hereinafter the “Issuers’ Regulations”) that the Report must be drawn up according to the criteria established by the Code’s promoter and that it must specifically:

- state it complies with every rule of the Code;
- justify any non-compliance with the rules;
- point out any behaviours non-compliant with those prescribed;
- be published in a special section of the Company’s web site;
- be filed with the registered office of the company no later than 15 days prior to the Shareholders’ Meeting called to approved the financial statements.

CONSOB has also ordered that the Report be printed in full in the Directors’ Report or in one of its annexes, and that it must state it has been filed with CONSOB at Borsa Italiana S.p.A. and with the market.

We also remind you that the “Code of Conduct”, drawn up by the corporate governance committee of Borsa Italiana S.p.A. (hereinafter the “Code of Conduct” or the “Code”) was revised in 2006 and that during its meeting of 10 November 2006, the Board of Directors stated it wanted to adopt it and to proceed with the gradual introduction of its policies in its structures, acknowledging the activity carried out for attaining said goal in the “Report on Corporate Governance” prepared for the 2006 financial statements. This document, for whoever wants to read it, is included in the financial statements file of last year and is also available in the relevant web site section [www.kme.com](http://www.kme.com).

This document, called “Report on Corporate Governance”, therefore forms an integral part of the Directors’ Report on the financial statements at 31 December 2007 (art. 89-*bis*, subsection 5, of the Issuers’ Regulations) and was drawn up in conformity with the instructions contained in the Code of Conduct. It is intended to illustrate the level of compliance of the Company’s structures with its provisions attained during 2007, highlighting and justifying any situations that are different and describing the steps already taken and those that may be scheduled for its application.

As required by art. 149, subsection 1, letter *c-bis*, the Board of Statutory Auditors in turn supervises the methods of actual implementation of the corporate governance rules provided by the Code.

The company has provided information about its corporate governance every year since the financial statements at 30 June 2000, continuously increasing the quality and quantity of information. The individual Reports contained in the financial statements of the respective years are available on the website [www.kme.com](http://www.kme.com). Starting with the report concerning 2006, the Reports are instead also available in a special section.

In its preparation, the instructions given by ASSONIME in its circular no. 5 of 12 February 2007 and also the previous “Guidelines” drawn up by Borsa Italiana S.p.A. and in the “Guide for Preparing the Report on Corporate Governance”, also prepared by ASSONIME in collaboration with Emittenti Titoli S.p.A. (2004 edition), were taken into account.

The quantity and quality of the information made available were compared and evaluated against the results of the “Analysis of the State of Implementation of the Code of Conduct of Listed Companies”, drawn up by ASSONIME and by Emittenti Titoli S.p.A. in November 2007.

The final tables were updated according to the modifications introduced.

The Report also takes into account what is set forth in the “Experimental Format for the Report on Corporate Governance” that Borsa Italiana S.p.A. distributed to issuing companies in February 2008. As also hoped for by Borsa Italiana S.p.A. itself, this document was used “to verify the type and content of information to be included in the report on corporate governance regarding 2007 and/or for the checks performed by the Board of Statutory Auditors”. In this regard, according to the specific instructions of Borsa Italiana S.p.A., this format is not mandatory “not including the ‘criteria’ of drawing up the report on corporate governance referred to by art. 89-*bis* of the Issuers’ Regulations”.

The Report also contains all detailed information required by art. 123-*bis* of the TUF on the subject of ownership interests and by articles 37 et seq. of CONSOB Regulation no. 16191 of 29 October 2007 (the so-called “Markets’ Regulations”) concerning management and coordination for the purpose of facilitating its availability in a single document and to allow for a unitary and consistent examination of information basically corresponding to each other, preventing duplications from being shown. The aforesaid information is gathered in the two paragraphs of the chapter “Share capital” and is also available on the website [www.kme.com](http://www.kme.com) after this Report is made available in the specific website section.

As another preliminary note, we remind you that the so-called “Savings Law”, which was enacted in January 2006 and then revised in December 2006, introduced many modifications to the provisions of the Italian Civil Code and the TUF on the subject of corporate governance. In many cases, these modifications entailed CONSOB intervening on Regulations in force and also the issue of new ones, compelling the listed companies to significantly revise their Bylaws. As far as it is concerned, the Company adopted the proper resolutions during the Extraordinary Shareholders’ Meeting held on 21 June 2007.

Because of the many references and cross-references to its provisions, the text of the corporate Bylaws - available on the web site [www.kme.com](http://www.kme.com) - is provided at the end of the Report.

There have been no changes in the Company’s corporate governance structure after year-end 2007, even if the activity of checking the efficiency and updating the provisions and corporate procedures is practically never-ending.

Lastly, we report that in February and March 2008 there were several changes in the make-up of the KME Germany A.G. Supervisory Board and that especially as far as the Company Directors are concerned, Vincenzo Manes became Deputy Chairman in place of Salvatore Orlando, who in any case continues to be a member of said body.

\* \* \*

This **Report on Corporate Governance** is divided into two sections:

- a) the first dedicated to describing the corporate governance system adopted;
- b) the second, more analytical, dedicated to comparing the system adopted with the provisions of the Code of Conduct.



## General section

The Company has a traditional corporate governance structure, with a Shareholders' Meeting, a Board of Directors and a Board of Statutory Auditors.

The Remuneration Committee and Internal Control Committee have also been established, and both are made up of independent, non-executive directors only.

### Share capital and Shareholders

The detailed information required by art. 123-*bis* of the TUF on the subject of ownership interests is provided in the next two paragraphs, also by precise cross-references with other Report chapters.

#### Share capital

Since the shares forming the share capital in the ratio of 1 new share for every 3 old shares held of the same category were grouped last year, the share capital, with reference to the date of 31 January 2008 (date of last exercise of warrants and options of the Stock Option Plan before the suspension consequent to calling the Shareholders' Meeting), is Euro 324,164,741.31 and is made up of a total of 254,552,240 shares, of which 235,480,130 are ordinary shares and 19,072,110 are saving shares, all without nominal value being indicated. The above-mentioned share capital has however not increased above that resulting at 31 December 2007. Its last change occurred on 31 October 2007.

The 235,480,130 ordinary shares represent 92.507% of the share capital and do not grant rights different or additional to those provided for by applicable legal provisions and by the Bylaws.

Each share gives the right to one vote and restrictions to the right to vote are not provided, except for what legal provisions contemplate.

Similarly, the 19,072,110 saving shares in turn represent 7.493% of the share capital and do not grant rights different or additional to those provided for by applicable legal provisions and by the Bylaws.

Securities granting special controlling rights have not been issued, and neither has an employee shareholding system been set up.

There are no agreements between the Company and the Directors that envisage indemnities in the event of resignations or termination without just cause, or if the relationship ceases following a public purchase offer.

We remind you that on 31 January 2008 the Board of Directors resolved to call the Extraordinary Shareholders' Meeting for 13-14 March 2008 in order to examine the proposal to reduce the share capital as part of the procedure pursuant to art. 2445 of the Italian Civil Code, by Euro 74,164,741.31. It would therefore be brought to Euro 250,000,000.00. The corresponding amount would be allocated to the "Available Reserve", under the Company's "Equity". Said proposal meets the need to improve the configuration of the Company's equity structure, and to that end the reduction would bring about the creation of an available reserve of the same amount. The Shareholders' Meeting of 14 March 2008 approved the proposal.

Again with reference to the date stated above, a total of 67,957,638 warrants are also outstanding. They were issued in enactment of the resolution of the Extraordinary Shareholders' Meeting of 19 May 2006, and their exercise, if any (currently in the ratio of 1 new ordinary share for every 3 warrants held at the unit price of Euro 1.05 per share), by the final deadline of 11 December 2009 may lead to the issue of the maximum number of 22,652,546 ordinary shares without nominal value indicated, with a consequent share capital increase of maximum

Euro 23,785,173.30. The rights and obligations regarding the warrants are stated in their Regulations, a copy of which is available in a special section of the website.

Authorisations pursuant to art. 2443 of the Italian Civil Code were not given to the Board of Directors, neither for issuing financial equity instruments nor for purchasing treasury shares. There are two proxies given to the Directors to increase the share capital for exercising the stock options granted to Executive Directors and Managers; these proxies are already used in application of the resolutions passed by the Board of Directors in its meetings of 31 July 2006 and 18 July 2007 (articles 2 and 7 of the Bylaws).

The Bylaws do not provide for restrictions for transferring either shares or warrants.

The existence of Shareholders' agreements provided for by art. 122 of the TUF has not been notified to the Company.

The rules applicable to the appointment and replacement of the members of the Board of Directors are those provided by applicable legal provisions integrated with those contained in the Bylaws, similar to those relating to the procedure for altering its provisions.

In July 2006, a "KME Group S.p.A. Stock Option Plan" for Executive Directors of the Company and Group Managers was implemented. The Plan's numeric terms were changed with a resolution passed by the Extraordinary Shareholders' Meeting of 21 June 2007, again due to the share grouping operation. The relevant information that goes into greater detail, also with regard to their total fees, is reported in the next chapter, "Fees of Directors and Top Group Management":

An employee shareholding system is not envisaged.

Any exercise of the warrants and options awarded by the Stock Option Plan may cause the share capital to change on a monthly basis. The updated composition of the share capital is communicated to the market by a Stock Market notification (for details about the "NIS" system, please see the next paragraph, "Relations with Shareholders and the Market") and is then published on the website [www.kme.com](http://www.kme.com).

## Shareholders

iNTEK S.p.A., a company in turn controlled by Quattrodue Holding BV, is the Shareholder that controls the Company as it holds 126,167,569 ordinary shares, equal to 53.58% of the shares issued of the same category. iNTEK S.p.A. also holds 896,905 saving shares, equivalent to 4.70% of the shares issued of the same category. On the whole, iNTEK S.p.A. therefore holds 49.92% of the entire share capital.

The ordinary Shareholders of the Company, updated based on the results that emerged at the time the shares are grouped (July 2007), consists of 10,426 Shareholders.

The Company and its subsidiaries have not signed significant agreements that take on effectiveness, are modified or that terminate should Company control change.

Although it is controlled by iNTEK S.p.A., as explained above, the Company does not consider itself subject to management and coordination activities as set forth in articles 2497 et seq. of the Italian Civil Code and art. 37 of the Markets' Regulations since:

- a. it has an autonomous negotiating capacity in customer and supplier relations;
- b. no centralised treasury exists with iNTEK S.p.A. or other companies;
- c. the number of independent Directors (4 out of 12) is such as to ensure that their judgement has significant weight in taking board decisions.

Taking into account the reduction to beneath the minimum shareholding threshold carried out and communicated by JP Morgan Asset Management (UK) Limited in November 2007 (it reported it held 2.0465% in the previous month of June), other than the majority Shareholder no other has declared it holds a percentage of ordinary capital greater than 2%. With reference to the above, and based on available knowledge, it is therefore deemed possible to state that in 2007 there were no significant changes in the make-up of Shareholders.

Lastly, please refer to the information made available in another part of the Document that includes the Directors' Report regarding the performance of the securities issued by the Company and their capitalisation on the Stock Exchange during the year. In this regard, an area dedicated to these topics is available on the website.

### **Shareholders' Meeting**

The Shareholders' Meeting consists of Shareholders holding ordinary shares and its authorities and powers are those provided for by the Italian Civil Code and the TUF.

The Bylaws (articles 2 and 14) allow the Board of Directors to resolve on determining the locations of the registered office and the secondary office, the merger and split of subsidiaries, and also reduction of the share capital in case a shareholder withdraws and to adapt it to new legal provisions.

Bearing in mind the recent modification that allows the Shareholders' Meeting to be called in a daily newspaper ("Il Sole 24 Ore" - "Milano Finanza" - "Italia Oggi") as an alternative to the Official Journal, we point out that the provisions governing the Shareholders' Meeting and voting are those applicable pursuant to articles 2368 et seq. of the Italian Civil Code and art. 126 of the TUF.

Except for what applicable legal provisions and the Bylaws provide for, no restrictions to the right to vote are envisaged; every share gives the right to one vote (art. 11 of the Bylaws).

The conditions for taking part in the Shareholders' Meeting are contained in articles 10 (Calling the Shareholders' Meeting) and 11 (Speaking and representation at the Shareholders' Meeting) of the Bylaws. The new conditions connected with the recent provisions protecting minority interests with the appointment of Directors and Statutory Auditors are particularly specified. Specifically, art. 11 of the Bylaws (Speaking and representation at the Shareholders' Meeting) requires that the prescribed communication for taking part in the Shareholders' Meeting, issued by the authorised intermediaries, be filed at the Company within the two days before the date of the individual Shareholders' Meeting, with the warning that if the aforesaid deadline expires on a holiday, Sunday or Saturday, the actual expiration is extended until the subsequent first business day. The same article of the Bylaws contains the provisions for exercising the vote by correspondence.

It is understood that the shares for which communication for taking part in the Shareholders' Meeting was requested remain unavailable until the meeting is held, however without prejudice to the Shareholder's right to withdraw them if the Shareholders' Meeting does not take place on first call. In that case, the Shareholder must make another request for the communication, to reach the Company within the same term of two days prior to the date of second call of the Shareholders' Meeting.

One element departing from the Code is that the Company has deemed it does not have autonomous "Shareholders' Meeting Regulations" in so far as the relevant provisions are contained in Heading III of the Bylaws.

To this regard, please remember in particular art. 12 of the Bylaws which explicitly requires the Chairman of the Shareholders' Meeting to guarantee correct performance of works by conducting and governing the discussion and by intervening on the duration of the individual remarks.

Holders of saving shares cannot take part in the Shareholders' Meeting of holders of ordinary shares. Their rights are set forth under articles 5, 8 and 28 of the Bylaws. Their Common Representative, who on the other hand can take part with right to speak and whose rights are set forth under art. 26 of the Bylaws, is Romano Bellezza, appointed for the years 2006-2008 by the Special Shareholders' Meeting of Holders of Saving Shares held on 5 May 2006.

Three Shareholders' Meeting were called in 2007. Two (23 May and 3 August) were held only in ordinary session, and one (21 June) was held also in extraordinary session. No Special Shareholders' Meeting of Holders of Saving Shares was held.

## **The Board of Directors**

The Board of Directors has the widest set of powers for the organization, administration and ordinary and extraordinary management of the company with regard to the implementation of the business object (article 14 of the Bylaws). The Board determines the strategic approach to be followed by the company and takes actions to ensure it is implemented, ensures continuity of administration and powers to the Executive Directors (articles 15 and 16 of the Bylaws). The Board is also responsible for assessing and approving the Group's strategic, business and financial plans, the corporate governance system and the Group's overall structure.

With regard to financial reports, the Board of Directors oversees the preparation of the following:

- the Group's annual and consolidated financial statements at 31 December;
- the half-year report at 30 June;
- the interim report at 31 March and 30 September.

The current Board of Directors was appointed by the Shareholders' Meeting on 19 May 2006 for a term covering the years 2006, 2007 and 2008, expiring at the general meeting which will be held to approve the financial statements as at and for the year ending 31 December 2008.

The Board may consist of a varying number of Directors, from a minimum of nine to a maximum of twelve. The schedule of the Board of Directors' meetings is normally communicated by January each year.

The Shareholders' General Meeting held on 19 May 2006 set the number of directors at nine, compared to ten directors previously. This number was then increased to 12 for 2007 and 2008 with resolutions approved by the General Meeting on 3 August 2007.

With regard to the new provisions regarding the appointment of Directors (effected on 3 May 2007), the proposal for appointing the 3 above-mentioned new Directors, who are not "independent", was presented in a timely manner by the majority shareholder iNTEK S.p.A. pursuant to article 17 of the Bylaws; as a result, no Director was appointed through the presentation of a voting list by minority shareholders. Further information on the applicable provisions in this respect is available in the paragraph called "Directors" contained in the following Special Section of this Report.

The names of the Board members, together with an indication of their respective functions, including those on Committees, are always stated at the beginning of the booklet issued at Shareholders' Meetings and on the publication of the annual financial statements and half-year reports.

The Board of Directors meets at least four times a year (article 18 of the Company's Bylaws). Meetings may also be held by teleconference or videoconference (article 19 of the Company's Bylaws) and are called at reasonable notice with notification of the agenda to be discussed (article 18 of the Bylaws). The relevant documentation is

distributed, keeping in mind the need to ensure the confidential nature of certain matters.

Resolutions of the Board are passed with the attendance of the majority of Directors holding office and by an absolute majority of those attending. In the event of a tie, the Chairman has the casting vote (article 19 of the Company's Bylaws).

The Board of Directors, in its capacity of establishing Committees, determining their powers, responsibilities and authority (article 14 of the Company's Bylaws), has provided for the establishment of the following Committees, whose members, pursuant to the Code of Conduct's prescriptions, should not hold operational positions:

- The Internal Control Committee;
- The Remuneration Committee;

their members and duties are detailed in later sections of this Report.

The Board of Directors decided not to establish an Executive Committee, preferring to assign the General Manager position to two Directors with specific and distinct responsibilities, and reserving for the Deputy Chairman the function of coordinating their respective activities and that of the other Executive Director as explained in a later section of the Report. In addition, a Nominations Committee was also not established since the company has a controlling Shareholder.

On 31 March 2007 Managing Director Vincenzo Cannatelli left his position while maintaining the position of Director.

The Board of Directors met ten times this year, compared to nine times the previous year. There are four scheduled meetings for the current financial year, as indicated below:

- 14 March (discussion of draft financial statements);
- 14 May (discussion of interim report at 31 March);
- 7 August (discussion of the half-year report at 30 June);
- 12 November (discussion of the interim report at 30 September).

The Board of Directors also met on 31 January 2008 to discuss the proposal for reducing the Company's share capital and to call the consequent Extraordinary Shareholders' Meeting to be held on 13/14 March 2008 (for further details refer to the previous paragraph on "Share Capital").

The individual attendance records at each meeting are shown in a table at the end of this Report. Participation at the meetings by Directors and Statutory Auditors averaged 91% and 70%, respectively. All absences were justified.

In the Special Section of this Report, the CVs of each of the Directors are available. These can also be found in the appropriate section of the website [www.kme.com](http://www.kme.com).

### **The Board of Statutory Auditors**

The Board of Statutory Auditors governs the observance of laws and Bylaws, ensures that the principles of company administration are adhered to, especially regarding the organizational, administrative and accounting structures of the Company, and oversees its operation.

The current Board of Statutory Auditors was appointed by G.I.M. - Generale Industrie Metallurgiche S.p.A. (the Company's majority shareholder holding an investment in its share capital of 50.00004% and subsequently merged with iNTEK S.p.A. at 31 March 2007) at the General Meeting held on 19 May 2006 for the years 2006, 2007

and 2008 and therefore its term of office will expire with the general meeting held to approve the financial statements at 31 December 2008.

In noting that the current provisions regulating the election of the Board of Statutory Auditors came into effect after its nomination by the Shareholders' Meeting, we highlight the fact that no Statutory Auditors were elected through a voting list presented by minority Shareholders. Article 22 of the Company's Bylaws sets the threshold for said minority at the highest percentage applicable as per articles 147 (iii) section I of TUF and 144 (iv) of the Issuers' Regulations, which CONSOB, with a resolution of 29 January 2008 no. 16319, has currently set at 2.5%.

The Board consists of three Standing Auditors and two Alternate Auditors and, as in the case for Directors, their names are stated in the periodic documents made available by the company. The following paragraphs give a brief *curriculum vitae* for each member, all of which are also available in the appropriate section of the website [www.kme.com](http://www.kme.com).

#### **Marcello Fazzini (Chairman)**

Mr Marcello Fazzini, was born in 1932, holds a degree in Social and Political Sciences from the University of Florence, and is registered with the Italian Board of Certified Public Accountants and the Register of Independent Auditors. He works in Florence. He has held and holds management positions in the board of directors and Statutory Auditors of many important companies and was the Managing Director of Banca Toscana S.p.A. from 1986 to 1996. He is involved at a high level in significant Florentine cultural institutions such as the Gabinetto Scientifico Letterario G.P. Viesseux (as Chairman), and is a co-founder/member of the International University of Art.

#### **Alessandro Trotter (Standing Auditor)**

Mr Alessandro Trotter, was born in 1940, he holds a degree in Business and Economics and is registered with the Italian Board of Certified Public Accountants and the Register of Independent Auditors. He works in Milan. He holds positions in the Boards of Directors and Statutory Auditors of many important companies.

#### **Pasquale Pace (Standing Auditor)**

Mr Pasquale Pace, was born in 1938, he obtained a degree in Business Administration and is registered with the Italian Board of Certified Public Accountants and the Register of Independent Auditors. He works in Bari. He is a member of other Boards of Statutory Auditors, has served as a court appointed representative and is an expert court assessor regarding legal administration and criminal issues.

#### **Marco Lombardi (Alternate Auditor)**

Mr Marco Lombardi, was born in 1959, he holds a degree in Political Science, specializing in Administration, and is registered with the Italian Board of Certified Public Accountants and the Register of Independent Auditors. He works in Florence. He holds positions in other Boards of Statutory Auditors and serves as a court-appointed representative. He has written various publications on tax law.

#### **Angelo Garcea (Alternate Auditor)**

Mr Angelo Garcea, was born in 1969, he holds a degree in Business and Economics and is registered with the Italian Board of Certified Public Accountants and the Register of Independent Auditors. He works in Florence and is the author of many publications on tax law.

Article 22 of the Bylaws is entirely dedicated to the Board of Statutory Auditors and, in addition to providing the requirements that must be met by members of the Board and the procedures by which they are appointed, it requires that each candidate submits his curriculum vitae and voting list for nomination at least fifteen days prior to the Shareholders' Meeting. Moreover, this article provides that Auditors cannot hold more than five similar positions in other listed companies, as set out in articles 148 (ii) of TUF and 144 (xiii) of the applicable

Regulations, in any case, this provision was already in force prior to the introduction of the prescriptions referred to above. Further information on the statutory provisions regarding the appointment of the Board of Statutory Auditors is available in the appropriate section of the website of [www.kme.com](http://www.kme.com).

The members of the Board declared on appointment that they possess the characteristics of professionalism and honour required by the prevailing legislation and the Company's current Bylaws, and stated that none of the impediments referred to in article 148 of TUF shall compromise their holding office. In this respect they also undertake to notify the company of any changes in their situation within a period of thirty days from the date at which the change occurred. Following their appointments, the Board periodically checks that each of its members possesses the requirements of independence based on the criteria included in the combined provisions in articles 10.C.2. and 3.C.1. of the Code.

In this regard, the Board verified that Mr Alessandro Trotter was appointed standing Auditor of the Company for the first time at the Shareholders' General Meeting held on 14 November 1997, for the years ended on 30 June 1998, 1999 and 2000, and therefore has held his position without interruption for over nine calendar and 11 financial years, including the year ended 31 December 2007.

The Board, in accordance with the discretionary provisions provided by the Code in evaluating the independence of its members, believes, in confirmation of the decisions previously made, that the standing Auditor Alessandro Trotter may be considered "independent" according to a substantial evaluation of the report that considered both the personality of the subject and the economic and professional "significance" of the function he performs in the service of the Company. Please note that Mr Trotter's position will expire upon the approval of the financial statements as at and for the year ending 31 December 2008.

Similarly, the Board's inquiry also involved the position of the Board's Chairman, Mr Marcello Fazzini, which largely displayed the same situation in reference to the year ended 31 December 2007, his ninth consecutive year as Statutory Auditor. He was first appointed at the Shareholders' Meeting held on 28 October 1999 for the year ended 30 June 2000, but had previously been an Alternate Auditor replacing a standing auditor on 8 June 1999, therefore starting his role in the year ended 30 June 1999.

Beyond the formal reference to the calendar year instead of the financial year as per article 3.C.1. letter e), the Board believes, for the same reasons indicated above, that Mr Marcello Fazzini also possesses the necessary requirements of independence, thus also confirming the decisions previously made.

As a result, the Board gave notice that they had adhered to the provisions of article 149, paragraph I, letter c-ii of the TUF, which requires them to oversee the regulations of the implementation of the Code of Conduct.

The administration and supervisory positions held by the Statutory Auditors in other companies are shown below, and were made available at the Shareholders' Meeting in which they were appointed.

The Board of Statutory Auditors performs its activities on a regular basis, attends meetings of the Board of Directors and of the committees established by the Board and maintains continuous contact with the company's offices, which it addresses directly and in full autonomy. Relations with the Independent Auditors are distinguished by collaboration and by the exchange of data and information.

The fees received by the members of the Board are shown in the table below, in accordance with CONSOB provisions:

Name (in Euro)	Position	Term of office	Expiry of position	Fees on for position	Non- monetary benefits	Bonuses and other incentives	Other fees
Marcello Fazzini	Chairman	01.01.06 - 31.12.07	31.12.08	31,711	-	-	27,812*
Pasquale Pace	Standing Auditor	01.01.06 - 31.12.07	31.12.08	21,672	-	-	-
Alessandro Trotter	Standing Auditor	01.01.06 - 31.12.07	31.12.08	21,258	-	-	-

\* Fees received for positions held in subsidiaries.

The Board met seven times during the year, as in the previous year. There was 100% attendance by members at these meetings.



## Offices held by Statutory Auditors

The following table sets out, for each Statutory Auditor, the positions held at 31 December 2007 as either Director or Statutory Auditor in companies limited by shares, partnerships and limited liability companies.

Name	Company	Position
<b>Marcello Fazzini</b>	HDI Assicurazioni S.p.A.	Chairman of the Board of Statutory Auditors
	HDI Finanziaria S.p.A.	Chairman of the Board of Statutory Auditors
	FINOA S.p.A.	Chairman of the Board of Statutory Auditors
	KME Italy S.p.A. <sup>1</sup>	Chairman of the Board of Statutory Auditors
	Lanificio Roberto Drighi S.p.A.	Chairman of the Board of Statutory Auditors
	F.lli Reali S.p.A.	Chairman of the Board of Statutory Auditors
	InChiaro Assicurazioni S.p.A.	Standing Auditor
<b>Pasquale Pace</b>	ASECO S.p.A.	Chairman of the Board of Statutory Auditors
	Edil Vacanze S.p.A.	Chairman of the Board of Statutory Auditors
	CE.DI. APULIA Soc. cons. a r.l. in liquidaz.	Chairman of the Board of Statutory Auditors
	Baia San Giorgio - Villaggio turistico sportivo San Giorgio S.r.l.	Chairman of the Board of Statutory Auditors
	Fidanzia Sistemi S.r.l.	Standing Auditor
	Marzocca S.r.l.	Standing Auditor
	Primiceri S.p.A.	Standing Auditor
	Supercar S.p.A.	Standing Auditor
<b>Alessandro Trotter</b>	Equitalia Esatri S.p.A.	Member of the Board of Directors
	Immobiliare Lombarda S.p.A. <sup>2</sup>	Member of the Board of Directors
	Mediobanca S.p.A. <sup>2</sup>	Member of the Executive Committee
	Autostrade per l'Italia S.p.A.	Chairman of the Board of Statutory Auditors
	Adriaoil S.p.A.	Chairman of the Board of Statutory Auditors
	Faro S.p.A.	Chairman of the Board of Statutory Auditors
	Petraco S.p.A.	Chairman of the Board of Statutory Auditors
	Radiall Elettronica S.r.l.	Chairman of the Board of Statutory Auditors
	Rebosio S.p.A.	Chairman of the Board of Statutory Auditors
	Rotolito Lombarda S.p.A.	Chairman of the Board of Statutory Auditors
	Sitech in liquidazione	Chairman of the Board of Statutory Auditors
	TLX S.p.A.	Chairman of the Board of Statutory Auditors
	UNICREDIT Banca S.p.A. <sup>2</sup>	Chairman of the Board of Statutory Auditors
	Autostrade Sud America S.r.l.	Standing Auditor
	Atlantia S.p.A. <sup>2</sup>	Standing Auditor
	Schemaventotto S.p.A.	Standing Auditor
	Siena Mortgages 00-1 S.p.A.	Standing Auditor
	Sistemi Tecnologici Holding S.p.A.	Standing Auditor
	T.A.F. Abrasivi S.p.A.	Standing Auditor
	UBM S.p.A.	Standing Auditor
Ulisse S.p.A.	Standing Auditor	
UNICREDIT Clarima Banca S.p.A.	Standing Auditor	
GreenenergyCapital S.p.A. <sup>1,2</sup>	Standing Auditor	
<b>Marco Lombardi</b>	RECS S.r.l.	Sole Director
	Brandini S.p.A.	Chairman of the Board of Statutory Auditors
	C.PF. Costruzioni S.p.A.	Chairman of the Board of Statutory Auditors
	D&D La Certosa Firenze S.p.A.	Chairman of the Board of Statutory Auditors
	Daliana Andrea & C. S.p.A.	Chairman of the Board of Statutory Auditors
	Fattoria dei Barbi S.r.l.	Chairman of the Board of Statutory Auditors
	Jaguar Firenze S.p.A.	Chairman of the Board of Statutory Auditors
	Villa Donoratico S.r.l.	Chairman of the Board of Statutory Auditors
	Centro Leasing Rete S.p.A.	Standing Auditor
	Firenze Industria Finance S.p.A.	Standing Auditor
	KME Italy S.p.A. <sup>1</sup>	Standing Auditor
	Grifoni & Masini S.p.A.	Standing Auditor
	SAIF Servizi Ass.ni Industriali Firenze S.r.l.	Standing Auditor
<b>Angelo Garcea</b>	None	

1. Group's company controlled by iNTEK S.p.A..

2. Company listed in a regulated market.

## The Independent Auditors

KPMG S.p.A. is the company appointed, pursuant to articles 155 and following of the TUF, to perform an audit on the annual separate and consolidated financial statements, as well as to perform a review of the half-year financial statements of KME Group S.p.A., including that prepared on a consolidated basis. KPMG S.p.A. has the role of “Principal Auditor” as its auditing activities will cover 74.31% of the Group’s consolidated assets and 72.95% of the Group’s consolidated revenue (data referring to the Group’s structure at 30 June 2006).

The current assignment was approved by Shareholders in the meeting held on 23 May 2007, in agreement with the Board of Statutory Auditors, and shall end with the financial statements as at and for the year ending 31 December 2015. As a result, these financial statements are the first to be audited by KPMG S.p.A..

The director of audit is Mr Riccardo Cecchi, who holds this office with reference to the report issued on 25 October 2007 with regard to the half-year report at 30 June 2007.

The Audit fee amounts to Euro 60,000, subject to inflation-linked adjustments on an annual basis to the ISTAT (National Statistics Institute) retail price index. Total fees at Group level amounted to Euro 837,000 during the year. For the relative information refer to the annexes to the notes to the financial statements.

During the year, the Independent Auditors received additional engagements, which were assigned under the supervision and control of the Board of Statutory Auditors that has to guarantee the suitability of the independent role of said Auditors.

## Special section

### Directors

The Directors hold office for a period of three financial years and can be re-elected (article 17 of the Company’s Bylaws). Once the proposal for the appointment of a new director is presented, the Shareholders’ Meeting receives information about the new candidate including *curriculum vitae* and administrative and management posts held in other Companies.

The names and positions of the current directors are listed below along with a brief introduction on their career. More information is available in the appropriate section of the website [www.kme.com](http://www.kme.com).

#### Salvatore Orlando (*Chairman*)

Mr Salvatore Orlando was born in 1957. After obtaining a degree in Political Science, he joined the Group as a manager in 1984. Subsequently, he joined the Board of Directors of several of the Group’s main industrial companies and became Deputy Chairman of the Supervisory Committee of KME Germany A.G. in January 2003. He has been a director of the Company since 1991 and of iNTEk S.p.A. since 2007.

#### Vincenzo Manes (*Deputy Chairman*)

Mr Vincenzo Manes was born in 1960. Holding a degree in Business and Economics, he is Chairman of iNTEk S.p.A., the company holding the majority investment in KME Group S.p.A.. He is Director of GreenergyCapital S.p.A.. He joined KME Group’s Board of Directors in February 2005.

**Domenico Cova (Director and Chief Executive Officer)**

Mr Domenico Cova was born in 1949. After obtaining a degree in Electronic Engineering, he joined the Group following the acquisition of Trafilerie e Laminatoi di Metalli S.p.A. (TLM), a company belonging to the French Group Pechiney. In 1977 he became Production Manager of the Rods sector at the Serravalle Scrivia plant, and subsequently took up the position of Director in 1983. He continued his career in the French subsidiary Trèfimètaux S.A. (now KME France S.A.S.), of which he became Chairman in 2000. Since 1995 he has been a member of the Vorstand of KME Germany A.G.. In 2007 he was appointed CCO (Chief Operating Officer) of KME Group S.p.A.. He was appointed Director by resolution of the Shareholders' Meeting on 3 August 2007.

**Italo Romano (Director and Chief Executive Officer)**

Mr Italo Romano was born in 1958, after obtaining a degree in Business and Economics, he joined the Group in 1988, covering various roles in the Company's administrative and management control departments. In 2001 he was appointed Corporate Group Controller with the specific task of managing the overall restructuring of the Group's entire IT and administrative divisions. In 2004 he was appointed General Manager "Administration, Control & Corporate Plan". In 2005 he joined the Board of Directors of KME Italy S.p.A. of which he became an Executive Vice President. During the same year he became a member of the Vorstand of KME Germany A.G. and was named CFO (Chief Financial Officer) of KME Group Italy S.p.A.. During 2007, he was confirmed as Executive Vice President of KME Italy S.p.A. as well as a member of the Vorstand of KME Germany A.G.. He was appointed Director by resolution of the Shareholders' Meeting on 3 August 2007.

**Vincenzo Cannatelli**

Mr Vincenzo Cannatelli, was born in 1952 and obtained a degree in Mechanical Engineering. He has gained a significant amount of experience from working both in Italy and abroad. He started his professional career in the Stet and Elsig Bayley groups and then joined ENEL where he held senior positions within operational companies including the role of COO of both the Infrastructure and Network Division and Marketing Division. He was appointed Board Member by resolution of the Board of Directors on 11 April 2006 and subsequently the Shareholders' Meeting held on 19 May 2006 reconfirmed his office for three consecutive years: 2006, 2007 and 2008. On the same date he was appointed Managing Director by the Board of Directors, a position he held until 31 March 2007; since then he has maintained only the post of Director. He is currently Chairman of GreenenergyCapital S.p.A..

**Mario d'Urso (independent director)**

Mr Mario d'Urso, was born in Naples in 1940 and holds a degree in Law. He has held various positions in financial and governmental sectors; he also served as Senator of the Italian Republic and as Under-Secretary in one of the past national Governments. He joined the KME Group's Board of Directors on 14 February 2005.

**Marcello Gallo**

Mr Marcello Gallo, was born in Siracusa in 1958 and holds a degree in Political Economics, he is currently Director of I2 Capital S.p.A., a subsidiary of iNTEK S.p.A., of which he is Deputy Chairman. There he also served as General Manager from 1998 to 2003. He is also a member of the Subsidiary Board of iNTEK S.p.A.. He joined KME Group's Board of Directors in February 2005.

**Giuseppe Lignana (independent director)**

Mr Giuseppe Lignana, was born in 1937 and holds a degree in Electronic Engineering. He has held the position of Managing Director in CEAT Cavi S.p.A. and that of Director in both Banca Commerciale Italiana S.p.A. and SIRTI S.p.A.. In 1984 he joined Cartiere Burgo S.p.A. where he served as General Manager, Managing Director and finally Chairman, an office he held until 2004. He is currently Honorary Chairman of the Company. He joined KME Group's Board of Directors in January 2005.

### **Gian Carlo Losi**

Mr Gian Carlo Losi, was born in 1947 and holds a degree in Business and Economics. He joined the Group in 1973 after working as university assistant to the Business and Economics Chair at the University of Florence. Since 1977 he has held various managerial positions in the Group among which the most important was Finance and Control Manager. In 1990 he was appointed General Manager of G.I.M. - Generale Industrie Metallurgiche S.p.A.. After serving as director and statutory auditor for a number of the Group's Italian and foreign companies, he is currently holding the office of Secretary of the Company's Committee and of "Corporate Affairs & Internal Audit" Manager. He was appointed Director by resolution of the Shareholders' Meeting on 3 August 2007.

### **Diva Moriani**

Ms Diva Moriani holds a degree in Business and Economics and joined iNTEK S.p.A. in 1999. She became a member of iNTEK's Board of Directors in 2002 of which she became Deputy Chairman in 2007. She is a Director in I2 Capital S.p.A., I2 Capital Partners SGR S.p.A. and GreenergyCapital S.p.A.. She joined KME Group's Board of Directors on 27 April 2005.

### **Alberto Pecci (*independent director*)**

Mr Alberto Pecci, was born in 1943 and holds a degree in Political Science. He has been a member of the Boards of Directors of several of the Group's various companies for several years. He is currently Chairman of the Board of Directors of the Companies belonging to Gruppo Industriale Pecci, operating in the textile industry, as well as member of the Board of Directors of EIE S.p.A. and Alleanza Assicurazioni S.p.A.. He has been Chairman of Fondiaria S.p.A. and a Director of Assicurazioni Generali S.p.A., Mediobanca S.p.A. and Banca Intesa S.p.A.. He joined KME Group's Board of Directors in June 1996.

### **Alberto Pirelli (*independent director*)**

Mr Alberto Pirelli, was born in 1954 and holds a degree in the USA in Ichthyology and Aquaculture, he has held senior positions in the Pirelli Group and is currently Deputy Chairman of Pirelli & C. S.p.A. and a Board Member in both Camfin S.p.A. and Olimpia S.p.A.. He is also Deputy Chairman of Gruppo Partecipazioni Industriali S.p.A.. He joined KME Group's Board of Directors in October 2000.

The Board of Directors currently in office was not elected according to the procedure introduced in 2007 with article 17 of the Bylaws. This procedure prescribes that all appointment proposals along with the voting lists should be submitted in advance, thus enabling the minority obtaining the highest number of votes to appoint a Director. The specific criteria for determining the significant minority threshold in this respect are indicated by CONSOB (Italian Stock Exchange Regulatory Commission), in compliance with article 147 (iii), section I, and as previously specified in the subsection regarding the Board of Statutory Auditors, is currently set at 2.5%.

For further information on this procedure visit: [www.kme.com](http://www.kme.com)

The Board of Directors appointed a Chairman and a Deputy Chairman, and during 2007 assigned the General Manager post to two Directors, thus ensuring that there is no conflicts of interest between the single specific areas of authority. This choice, both functional and operational, helps to avoid a concentration of social responsibilities on a single person whilst ensuring the Code of Conduct requirements are met. It is worth remembering that on 31 March 2007 the Managing Director Vincenzo Cannatelli left his position while maintaining the position of Director.

The Chairman, pursuant to article 20 of the Bylaws, serves as the legal representative of the Company and has the authority to represent it before third parties and in legal proceedings.

The Chairman also has the power, in agreement with the Deputy Chairman, to draw up strategies concerning the general conduct of the business and the overall development policies of the Group, ensuring he submits them for the approval of the Board of Directors which will make the final decision.

The Chairman is also responsible for the ordinary administration of the company, in particular concerning the

following tasks:

- defining, in agreement with the Deputy Chairman, any extraordinary actions to submit for the approval of the Board of Directors;
- identifying, in agreement with the Deputy Chairman, the candidacies for the positions of Managing Director, members of the Executive Committee (or other Committees) and, in agreement with the Deputy Chairman (and the Managing Director if nominated) for the positions of General Manager in the Company. This also applies to the same roles, other than the Director roles, for all the other Companies in the Group, including any due remuneration, to be submitted to the relevant corporate bodies which have authority over such candidacies.

The Board of Directors also reserves the right for the Chairman to be consulted prior to any actions requiring a significant change to the industrial and financial structure of the Company and the Group.

Pursuant to article 16 of the Bylaws, the Deputy Chairman is vested with the same powers as the Chairman which he can exercise, in cases of urgency and in the event that the latter is absent or incapacitated.

The Board of Directors has also granted to the Deputy Chairman the following powers:

- the power to guide, coordinate and control external communications, including with the Shareholders, in agreement with the Chairman, keeping him informed at all times;
- the powers of ordinary and extraordinary management, consistent with the directives and strategic decisions of the Board of Directors, of the company's administrative, financial, monitoring, legal, fiscal, insurance and IT activities as well as in the area of industrial and commercial activities; for these functions the Deputy Chairman has the power to guide and coordinate operations for all the other companies of the Group;
- the power of ordinary and extraordinary management of restructuring operations of the industrial and financial framework of the company and the group, keeping the Board of Directors informed at all times;
- the power to lead, coordinate and supervise the activities of the other Executive Directors in compliance with the powers and strategies decided by the Board of Directors.

Specific value ceilings have been set for carrying out the powers specified above. These limits vary according to the type of transaction being performed and range from Euro 5 million to Euro 30 million per single transaction.

General Managers transaction have been authorised to exercise the following powers:

- the Director Domenico Nava is responsible for the management of the industrial and commercial activities of the Company and Group, within limits and according to the guidelines provided by the Board of Directors and the Deputy Chairman;
- the Director Italo Romano is responsible for the management of the administrative, financial, planning, monitoring, legal, personal, purchasing, marketing and IT activities, within limits and in accordance with the guidelines provided by the Board of Directors and the Deputy Chairman.

For both the abovementioned Directors, in their role as General Manager, specific value ceilings have been set for carrying out the powers specified above. These limits vary according to the type of transaction being performed and range from Euro 1 million to Euro 10 million per single transaction.

Diva Moriani is responsible for leading and coordinating strategies concerning the financial restructuring of the Company and the Group. Her mandate also provides for the execution of extraordinary activities for the acquisition or sale of companies as well as the negotiations and signing of agreements of strategic importance for the Company and the Group.

Considering the types of powers they have been granted, the Deputy Chairman and the Directors Domenico Cova, Italo Romano and Diva Moriani are considered as Executive Directors.

Considering that the two Directors fulfilling the General Manager roles are also members of the *Vorstand* of KME Germany A.G., it is important to note that the Executive Directors are obliged to inform, on a quarterly basis, the Board of Directors and the Board of Statutory Auditors on general management progress and any related foreseeable developments including any major transactions carried out by the Company or any of its subsidiaries.

In consideration of the provisions set out in article 147 (iii) section IV of the TUF, the Board of Directors believes that its composition, both in terms of numbers and competencies and considering the presence of four Independent Directors (a third of its members), is adequate for the size of the Company and the issues to be addressed; the same also applies to the other established Committees. The Directors are also requested to report in a timely manner any violations of the integrity requirements referred to in article 147 (v) of the TUF.

The organizational, administrative and accounting structure of the Company and any subsidiaries of strategic importance are also deemed adequate by the Board of Directors, with particular reference to the internal control system and the management of the conflicts of interest.

The presence of Executive Directors with specific professional experience in the financial, administrative and industrial fields enables the Board to appropriately “cover” the vast majority of business activity.

Non-executive directors, in turn, offer their valuable contribution in terms of professionalism and competence to the Board of Directors and to the other Committees of which they are members.

Pursuant to the “application criteria” proposed in article 3.C.1. of the Code of Conduct and to article 147 (iii), section IV of the TUF, the Board of Directors confirms the Directors Mario d’Urso, Giuseppe Lignana, Alberto Pecci and Alberto Pirelli in their roles as independent directors, a decision also supported by the Board of Statutory Auditors. Pursuant to article 3.C.6., a specific meeting of the two committees in this respect is not necessary, but it should be noted that they are both exclusively composed of independent and non-executive Directors and that they meet several times during the financial year.

With regard to the possible confirmation of the independent role for Director Alberto Pecci, it is noted that his appointment was decided by resolutions of the Shareholders’ Meeting on 28 June 1996 for the ended years on 31 December 1996 and 1997, and that he has been holding this office off and on for a total of 9 years, apparently contravening the related principle referred to in article 3.C.1. letter e) of the Code of Conduct. In this respect, the Board of Directors, based on similar considerations of a substantial and personal nature made for other members of the Board of Statutory Auditors, has confirmed its previous decision according to which such a role cannot be denied to Director Alberto Pecci merely on the grounds of his long-standing membership of the Board of Directors.

The Board of Directors did not appoint a Lead Independent Director, who would coordinate the possible requests and contributions of the non-executive Directors, specifically those of the independent directors. This is mainly because the position is subdivided amongst four different Executive Directors and due to the fact the meetings are held by two committees that are formed exclusively by Independent Directors.

## Positions held by Directors

The following table sets out, for each Director, the positions held at 31 December 2007 as either Director or Statutory Auditor in companies limited by shares, partnerships and limited liability companies of significant size (i.e. having a turnover of more than Euro 500 million). As for members of the Board of Statutory Auditors, all Directors that held such positions during 2007 are included in the following list.

Name	Company	Position
<b>Salvatore Orlando</b>	KME Italy S.p.A. <sup>1</sup>	Chairman of the Board of Directors
	iNTEK S.p.A. <sup>1,2</sup>	Member of the Board of Directors
	KME Germany A.G. <sup>1</sup>	Deputy Chairman of the Supervisory Council
<b>Vincenzo Manes</b>	iNTEK S.p.A. <sup>1,2</sup>	Chairman/Managing Director
	I2 Capital S.p.A. <sup>1</sup>	Chairman of the Board of Directors
	Fondazione Dynamo	Chairman of the Board of Directors
	I2 Capital Partners SGR S.p.A. <sup>1</sup>	Deputy Chairman
	GreeneryCapital S.p.A. <sup>1,2</sup>	Member of the Board of Directors
	Fondazione Laureus Sport for Good Italia	Member of the Board of Directors
	Fondazione W.W.F. Italia	Member of the Board of Directors
	Fondazione Vita	Member of the Board of Directors
	Fondazione Umana Mente	Member of the Board of Directors
<b>Domenico Cova</b>	422 Holding B.V.	Member of the Supervisory Council
	KME Germany A.G.	Member of the Supervisory Council
<b>Italo Romano</b>	KME Germany A.G. <sup>1</sup>	Member of the Management Committee
	KME Italy S.p.A. <sup>1</sup>	Executive Deputy Chairman of the Board of Directors
<b>Vincenzo Cannatelli</b>	KME Germany A.G. <sup>1</sup>	Member of the Management Committee
	Aledia S.p.A.	Chairman of the Board of Directors
	GreeneryCapital S.p.A. <sup>1,2</sup>	Chairman of the Board of Directors
<b>Mario d'Urso</b>	Ferretti S.p.A. <sup>2</sup>	Managing Director
	no position	
<b>Marcello Gallo</b>	ISMO 2 S.p.A. <sup>1</sup>	Chairman of the Board of Directors
	Drive Rent S.p.A. <sup>1</sup>	Chairman of the Board of Directors
	iNTEK S.p.A. <sup>1,2</sup>	Deputy Chairman of the Board of Directors
	I2 Capital S.p.A. <sup>1</sup>	Managing Director and General Manager
	I2 Capital Partners SGR S.p.A. <sup>1</sup>	Managing Director
	Drive Service S.p.A. <sup>1,2</sup>	Member of the Board of Directors
	Fondazione Dynamo	Member of the Board of Directors
<b>Giuseppe Lignana</b>	no position	
<b>Gian Carlo Losi</b>	no position	
<b>Diva Moriani</b>	iNTEK S.p.A. <sup>1,2</sup>	Deputy Chairman
	GreeneryCapital S.p.A. <sup>1,2</sup>	Deputy Chairman of the Board of Directors
	I2 Capital S.p.A. <sup>1</sup>	Member of the Board of Directors
	I2 Capital Partners SGR S.p.A. <sup>1</sup>	Member of the Board of Directors
<b>Alberto Pecci</b>	Fondazione Dynamo	Member of the Board of Directors
	Gruppo Industriale Pecci	Chairman of the Board of Directors
	El.En. S.p.A. <sup>2</sup>	Member of the Board of Directors
<b>Alberto Pirelli</b>	Alleanza Assicurazioni S.p.A. <sup>2</sup>	Member of the Board of Directors
	Pirelli & C. S.p.A. <sup>2</sup>	Deputy Chairman of the Board of Directors
	Gruppo Partecipazioni Industriali S.p.A.	Deputy Chairman of the Board of Directors
	Camfin S.p.A. <sup>2</sup>	Member of the Board of Directors
	Pirelli Tyre S.p.A.	Member of the Board of Directors
	FIN.AP di Alberto Pirelli & C. S.a.p.a.	Chairman of the Board of General Partners

1. Group's company controlled by iNTEK S.p.A..

2. Company listed in a regulated market.

The Board of Directors, considering the following:

- the personal and professional qualifications of its members;
- the number and importance of the above-mentioned positions;
- and the high level of attendance by its members at Board of Directors' meetings;

does not believe that it is appropriate to limit the number of positions that each Director may hold.

### **Regulations on Transactions with related parties**

The Directors exercising the duties involving the above shall refer to the Board of Directors and Statutory Auditors regarding transactions that are potentially in conflict of interest, an obligation pursuant to article 14 of the Bylaws.

This internal regulation, adopted in March 2003 and reviewed first in November 2003 and subsequently in both September 2005 and November 2006, gives weight to the Company Bylaws by setting out the criteria by which related parties are identified, and the related operating procedures, which include quarterly audits and meetings to be held with the Head of Internal Control, following the guidelines indicated in the Code of Conduct which refer to this point specifically. The Board of Statutory Auditors is invited to participate in these meetings.

The definition of related parties contained in the version of IAS 24 that was in force at the time was fully adopted.

A review of the listings of the related parties is carried out on a yearly basis on 31 December and 30 June.

The regulation reminds the Company's Directors and Statutory Auditors who have potential or indirect interests in a transaction that they must fully and promptly inform the Board of Directors about this potential conflict. The Board may avail itself of the services of independent experts in making its decision.

The Shareholders did not make recourse to the weivers in the anti-competitiveness regulations pursuant to article 2390 of the Italian Civil Code.

Furthermore, the members of the Vorstand of KME Germany A.G., the company management board which the Directors Domenico Cova and Italo Romano are also part of, have to ensure that the information on intra-company transactions and other possible large transactions with related parties made by Group Companies are reported to Company executives.

The Board of Directors believes that the procedures contained in the Regulations, available in the appropriate section of the website [www.kme.com](http://www.kme.com), are adequate for managing conflicts of interest.



## Remuneration for Directors and senior management

Article 8 of the Company Bylaws states that Directors have the right to 2% of profits after that which is allocated for legal reserves; the subsequent article 21 allows the Shareholders' Meeting to allocate a fixed fee to them, while, for those having certain powers, the Board of Directors may set specific remuneration after having consulted the Board of Statutory Auditors.

The fixed annual fee for the Directors, to be allocated equally between them but with a 50% increase for those sitting on the two established Committees, has been set at Euro 172,500.00 pursuant to the resolution of the Shareholders' Meeting of 3 August 2008, which modifies the previous resolution issued on 19 May 2006. Regarding the payment of remuneration pursuant to article 8 of the Company Bylaws, the amounts received as fixed fees are considered as advances of the remuneration.

The Chairman and Deputy Chairman are entitled to variable remuneration based on their management performance during their period in office.

A breakdown of Directors' remuneration received in 2007, including that which was received from subsidiaries, is provided in the following table in accordance with CONSOB guidelines:

Name (in Euro)	Position	Term of office	Expiry of position	Remuneration for position	Non-monetary benefits	Bonuses and other incentives	Other compensation
Salvatore Orlando	Chairman	01.01.06-31.12.07	31.12.08	779,972	2,172		150,330 <sup>1</sup>
Vincenzo Manes	Deputy Chairman	01.01.06-31.12.07	31.12.08	1,126,500			25,104 <sup>1</sup>
Domenico Cova	Dir./Man.Dir.	03.08.07-31.12.07	31.12.08	4,758			779,342 <sup>1</sup>
Italo Romano	Dir./Man.Dir.	03.08.07-31.12.07	31.12.08	4,758			676,245 <sup>1</sup>
Vincenzo Cannatelli <sup>2</sup>	Director	19.05.06-31.12.07	31.12.08	175,200	1,303		
Mario d'Urso	Director	01.01.06-31.12.07	31.12.08	23,600			
Marcello Gallo	Director	01.01.06-31.12.07	31.12.08	17,210			
Giuseppe Lignana	Director	01.01.06-31.12.07	31.12.08	23,290			
Gian Carlo Losi	Director	03.08.07-31.12.07	31.12.08	38,327			272,132 <sup>1</sup>
Diva Moriani	Director	01.01.06-31.12.07	31.12.08	13,300	2,713		244,506 <sup>4</sup>
Alberto Pecci	Director	01.01.06-31.12.07	31.12.08	17,250			
Alberto Pirelli <sup>3</sup>	Director	01.01.06-31.12.07	31.12.08	17,250			

1. Remuneration received for positions held in subsidiaries during 2007

2. Managing Director until 31 March 2007

3. Remuneration for Mr Alberto Pirelli was made to Pirelli & C. S.p.A.

4. Remuneration as an employee from 1 January to 31 July 2007

In July 2006 the "KME Group S.p.A. 2006-2011 stock option plan" for executive Directors and Group Managers was put into effect. Following a series of resignations and new appointments of Directors and Managers within the Group and due to the reverse splits constituting the share capital, during 2007 the plan underwent a few modifications which did not affect its original overall structure.

Specifically, the Shareholders, in the meeting held on 21 June 2007, decided to reallocate 12,827,988 expired options, that were previously granted to two Beneficiaries (Managing Director, Vincenzo Cannatelli, who remained Director, and a *line* manager who left the Group), to the other Beneficiaries in amounts directly proportional to the respective assignments that were initially decided in July 2006. Said allocation did not alter the overall number of options initially granted or the relevant share capital increase. For further details see the table attached.

The options give each beneficiary the right to subscribe to 1 ordinary share per each group of 3 shares owned at the price of Euro 1.029 (the initial unit price of Euro 0.343 was calculated based on the official average share price recorded on the Stock Exchange in July 2006) through the terms and conditions established by the Plan's Regulations. The deadline for exercising the options is 28 February 2011.

The granted options (excluding the 3,784,585 which expired during the past financial year and were not

re-granted) may be exercised as follows, 10,301,253 at 1 September 2007, 14,822,958 at 1 September 2008, and 14,822,955 at 1 September 2009.

Regarding the aforesaid variations which occurred in 2007:

- a total of 21,453,318 options, equivalent to 7,151,106 shares valued at Euro 7.3 million were granted to 5 Directors;
- a total of 18,493,848 options, equivalent to 6,164,616 shares valued at Euro 6.3 million were granted to 15 Group Managers;

By 31 January 2008, the date at which, pursuant to the applicable regulation, the exercise of the options was suspended due to the calling of the Shareholders' Meeting, a total of 6,802,713 options were exercised.

The Directors have exercised a total of 2,137,998 options, equivalent to 712,666 shares (valued at Euro 733,333.314) while the Managers have exercised a total of 4,664,715, equivalent to 1,554,905 shares (valued at Euro 1,599,997.245).

Overall 2,267,571 ordinary shares have been issued, with a share capital increase of Euro 2.3 million.

Amongst the aforesaid 15 Managers are Albert Scherger (who left the Group in June 2007 losing a total of 3,784,585 options) and Roelf Evert Reins, who held, in different periods during 2007, the position of Chairman of Vorstand of KME Germany A.G.. They are both considered as relevant persons pursuant to art 152 (vi), section I, letter c.3 of the Issuer Regulation.

The breakdown of the granting of these options (drawn up according to CONSOB guidelines), for each of the 5 Directors and 2 Senior Managers with strategic responsibilities and aggregated for the 13 Senior Managers, is shown in the table below:

### Annex 3C – Table 2 of Issuer Regulations no. 11971 of 14.05.1999

#### Stock Options granted to Directors, Managing Directors and Directors with strategic responsibilities

Name	Position	Options held at start of year <sup>4</sup>			Options assigned during year <sup>4</sup>			Options exercised during year			Option expired during year		Options held at end of year <sup>4</sup>	
		No. options	Average exercise price <sup>5</sup>	Average expiry <sup>6</sup>	No. options	Average exercise price <sup>5</sup>	Average expiry <sup>6</sup>	No. options	Average exercise price <sup>5</sup>	Average market exercise price	No. options	No. options	Average exercise price <sup>5</sup>	Average expiry <sup>6</sup>
Vincenzo Manes	Senior Managers	7,580,172	1.029	28.02.2011	3,146,487	1.029	28.02.2011	-	1.029			10,726,659	1.029	28.02.2011
Diva Moriani	Deputy Chairman	1,166,180	1.029	28.02.2011	484,075	1.029	28.02.2011	-	1.029			1,650,255	1.029	28.02.2011
Domenico Cova	Dir.Chief Exc.Officer: <sup>1</sup>	2,915,452	1.029	28.02.2011	1,210,187	1.029	28.02.2011	971,817	1.029	1.922		3,153,822	1.029	28.02.2011
Italo Romano	Dir.Chief Exc.Officer: <sup>1</sup>	2,915,452	1.029	28.02.2011	1,210,187	1.029	28.02.2011	971,817	1.029	1.945		3,153,822	1.029	28.02.2011
Gian Carlo Losi	Director <sup>1</sup>	583,089	1.029	28.02.2011	242,037	1.029	28.02.2011	194,364	1.029	1.867		630,762	1.029	28.02.2011
Albert Scherger	Exec. with strat.resp. <sup>3</sup>	3,498,541	1.029	28.02.2011	1,452,255	1.029	28.02.2011	1,166,181	1.029	1.993	3,784,585	-	1.029	28.02.2011
Roelf-Evert Reins	Exec. with strat.resp. <sup>3</sup>	583,089	1.029	28.02.2011	242,037	1.029	28.02.2011	-	1.029			825,126	1.029	28.02.2011
13 Senior Managers		11,661,794	1.029	28.02.2011	4,840,747	1.029	28.02.2011	3,498,534	1.029	1.864		13,004,007	1.029	28.02.2011
<b>Total</b>		<b>30,903,769</b>			<b>12,827,982</b>			<b>6,802,713</b>				<b>3,784,585</b>	<b>33,144,453</b>	
Vincenzo Cannatelli (former Managing Director) + n. 1 Manager <sup>7</sup>		12,827,988	1.029	28.02.2011	-	-	-	-	-	-	-	12,827,988	-	-

1. appointed on 3 August 2007;

2. resigned on 22 June 2007;

3. appointed member of the Vorstand of KME Germany A.G. on 22 June 2007;

4. 12,827,982 options reassigned, pursuant to resolutions made at Shareholders' Meeting held on 21 June 2007, to the other Beneficiaries in amounts directly proportional to those initially held. The new amount does not include adjustments provided by article 9 of the Regulations;

5. price after reversed stock split of 16 July 2007, with new exercise ratio of 1 new share for every 3 options held at a price of EUR 1.029 per share;

6. date indicating the deadline for exercising the options;

7. This line shows Options held at the start of the year and those that expired in 2007, subject to the re-allocation, based on the resolution of the shareholders meeting of 21 June 2007.

A results-based incentive plan for senior management has also been introduced by the Group.

\* In 2007, total remuneration of Euro 4,049,364 was paid to two Executives, considered significant parties, of which Euro 1,398,625 for end of term indemnities and Euro 1,715,040 for non-competition indemnities in the June 2007 – June 2009 period.

## **Remuneration Committee**

The Remuneration Committee is comprised of the Directors Alberto Pirelli (Chairman), Mario D'Urso and Giuseppe Lignana, all of whom are non-executive and independent Directors. Since their remuneration was set during the Shareholders' Meeting at the moment of their appointment (see paragraph "Remuneration for Directors and senior management") no specific procedures have been issued as yet on decisions relating to the assignment of possible extra remuneration to the members of the Committee.

The Committee presents proposals to the Board of Directors for the remuneration of the Chairman, the Deputy Chairman, the Managing Directors and the Directors who carry out certain functions, monitoring that their decisions are correctly applied.

The Committee also evaluates the criteria adopted for the remuneration of managers with strategic responsibilities, and draws up related general recommendations for the Board of Directors, monitoring the development of the systems adopted.

The standing members of the Board of Statutory Auditors attend the Committee's meetings, ensuring that the requirements of article 21 of the Company Bylaws are followed. The Committee, notwithstanding the powers it has been granted in this respect, has decided not to demand access to more information or to business functions as it considers the details submitted in relation to the single decisions to be sufficient and exhaustive.

The Committee met only once during the year (in the previous year they met three times). All of the members of the Committee participated in the meeting. In this meeting the Committee discussed the proposals for the remuneration of the Chairman and Deputy Chairman, as well as the determination of the variable remuneration of the Chairman, Deputy Chairman and Managing Director (who resigned on 31 March 2007). The Committee, based on the information provided by the Deputy Chairman and the Managing Director, also reviewed the criteria adopted for the remuneration of the Group's senior management.

## **Internal Control, Internal Control Committee and Manager responsible for the preparation of corporate accounting documentation**

The Internal Control Committee is appointed by the Board of Directors, which has to ensure that the system works efficiently, and is composed of the Directors Mario D'Urso (Chairman), Giuseppe Lignana and Alberto Pecci.

Its members are all non-executive and independent Directors and have been selected for this role on the basis of their professional experience.

The responsibilities of the Committee are as follows:

- to assist the Board of Directors in settling the criteria for directing and monitoring the internal control system in order to identify and manage the main business risks;
- to assess the activities carried out by the internal control officers;
- to assess the suitability of the accounting policies used and their consistency in the preparation of the consolidated financial statements;
- to assess the proposals made by the Independent Auditors and assess their activities.

The committee has access to all of the company information deemed necessary for the performance of its functions and reports to the Board of Directors at least on a half-yearly basis.

The Chairman, Deputy Chairman, Director/General Manager (the last two in their capacity as Directors responsible for control) and the Chairman of the Board of Statutory Auditors (or other standing auditor appointed by the

Chairman) are invited to attend the meetings of the Committee.

In 2007, the Committee met twice, as they did in the previous year. All of its members participated in both meetings as did the Chairman of the Board of Statutory Auditors.

The Internal Control manager is appointed by the Deputy Chairman, by mandate of the Board of Directors. He reports to the Deputy Chairman on a continuous basis rather than at preset time intervals. In terms of the corporate hierarchy, he is independent from all heads of operating areas, and in turn he is not responsible for any of them. Moreover, he reports to the Internal Control Committee and to the Board of Statutory Auditors. His activity can be identified with internal audit.

The Head has direct access to all the necessary information to adequately carry out his role. His objective is to examine and assess the adequacy and effectiveness of the Company's internal control system, as well as ensuring that the activities carried out by the various business functions adhere to procedures, company policies, the law and any other regulations, paying special attention to the reliability and completeness of the information being processed, the safeguarding of the Company's assets, the suitability of the accounting policies used and their consistency in the preparation of the Group's consolidated financial statements. His work is carried out in conjunction with the manager responsible for the preparation of corporate accounting documentation.

The Company has adopted an "Organization and Management Model" pursuant to Leg. Dec. no. 231/01, which is updated according to the changes made to the regulations over time. A special body composed of various departments of the Company and the Group has been created. This entity, not only ensures that the Model is kept up to date, but also monitors its effectiveness through specific checks and controls focused on the most critical sectors of the Company.

Pursuant to article 8 of the Code, the Board of Directors considers the Company's system of internal controls suitable to protect it against the typical risks of the main activities performed by the Company, and capable of ensuring the safeguarding of its assets, the effectiveness and efficiency of company operations, the reliability of financial reporting and that laws and regulations will be respected.

In application of the procedures provided by article 17 of the Company Bylaws and after verifying that the relevant professional and personal requirements are met, the Board of Directors, in the meeting held on 21 June 2007 and in agreement with the Board of Statutory Auditors, has appointed Mr Marco Miniati as manager responsible for the preparation of the corporate accounting documentation. Mr Miniati has been assigned all the powers and responsibilities necessary to carry out his role.

Mr Miniati, was born in 1960 and has been a Manager in the Group since 1997, he has operated primarily in the management control area, also working for the French and German companies. In 2005 he was appointed General Manager Administration Controlling & Planning.

The term of is the same as that of the Board of Directors, i.e. until the approval of the financial statements as at and for the year ending 31 December 2008.

The first statement pursuant to article 154 (ii), section II of the TUF, has been made with regard to the Quarterly Report at 30 September 2007, while the first statement pursuant to section V of the same article will be that which refers to the separate financial statements at 31 December 2007.

## **Corporate information**

In order to ensure that communications of “corporate events” to the market are timely, complete, adequate and not selective, in 2002 the Company introduced a “Code of Conduct regarding Company information on important events”; thus responding to the requirements in the Code of Conduct and thereby formalising the principles contained in the “Market Information Guide”:

Subsequent innovations introduced into the legislation regarding company information, as a result of amendments made to the TUF, and those by CONSOB, regarding company regulations, and then by Borsa Italiana S.p.A., led to it being revised in March and November 2006 and subsequently in November 2007. Specifically, we remind you of the new wording of article 114 of the TUF and, with reference to article 115 (ii), the consequent identification of “relevant persons” who have access to “sensitive information” and the establishment of an electronic register to record the names of these individuals, effective from 1 April 2006.

The procedure reminds the Directors and Statutory Auditors to respect the confidentiality of sensitive information. This principle is extended to others in the company who, owing to their roles, may have access to information of this nature, requesting them to limit the handling of these data to those persons who are aware of CONSOB and Borsa Italiana S.p.A. requirements on this matter.

The position of investor relations manager is fulfilled by the individual company managers regarding their respective areas of expertise. This choice takes into account the Company’s current internal resources and structures, and allows it to ensure an adequate level of service to meet its various requirements.

## **Internal dealing Code of Conduct**

As of 1 April 2006, and following the introduction of regulations regarding internal dealing introduced through Law no. 62 of 18 April 2005 and subsequent amendments contained in CONSOB Issuers Regulations with resolution no. 15232 of 29 November 2006, the Board of Directors of the Company, in its meetings held on 15 March and 10 November 2006, considered it appropriate to make amendments to the initial procedure, thus keeping it up-to-date and efficient with the purpose of:

- ensuring that the new regulations are widely communicated, and making it as simple as possible for “relevant persons” to become aware of them;
- keeping the procedure efficient and up-to-date.

As a particularly unusual matter, the bans for the “relevant persons” regarding transactions on the Company’s financial instruments, the so called black out periods, have been confirmed.

Investments in the Company and its subsidiaries held by the Directors and Statutory Auditors are indicated in the following table:

Name and Surname	Investment in	No. of shares held at the end of FY 2006	No. of shares purchased in 2007	No. of shares sold in 2007	No. of shares held at the end of FY 2007
Vincenzo Cannatelli	Kme Group S.p.A.	= = warrants 104,218	n. 292,990 ord. sh. <sup>7</sup>	= = = =	n. 97,663 ord. sh. <sup>8</sup> n. 104,218 warrants
Alberto Pecci	Kme Group S.p.A.	n. 21,500 ord. sh. <sup>1</sup> n. 195,951 ord. sh. <sup>2</sup> n. 4,197 warrants <sup>3</sup> n. 44,176 warrants <sup>2</sup>	= =	n. 20,000 warrants <sup>2</sup>	n. 7,166 ord. sh. <sup>1,8</sup> n. 65,317 ord. sh. <sup>2,8</sup> n. 1,399 ord. sh. <sup>1,6</sup> n. 24,176 warrants <sup>2</sup>
Domenico Cova	Kme Group S.p.A.	= =	n. 323,939 ord. sh. <sup>5</sup>	n. 248,939 ord. sh.	n. 75,000 ord. sh.
Italo Romano	Kme Group S.p.A.	= =	n. 323,939 ord. sh. <sup>5</sup>	n. 248,939 ord. sh.	n. 75,000 ord. sh.
Gian Carlo Losi	Kme Group S.p.A.	= =	n. 64,788 ord. sh. <sup>5</sup>	= =	n. 64,788 ord. sh.
Alessandro Trotter	Kme Group S.p.A.	n. 50,000 ord. sh. <sup>7</sup>	= =	= =	n. 16,666 ord. sh. <sup>8</sup>

1. directly owned

2. indirectly owned but fully held through a subsidiary

3. indirectly owned but fully held through a spouse

4. from subscription of share capital increase

5. shares obtained through exercise of stock options

6. shares obtained through exercise of warrants

7. before reverse stock split

8. after reverse stock split

The full text of the procedure is available in the relevant section of the website [www.kme.com](http://www.kme.com) as are the individual transactions involved.

## Market and Shareholders relations

Whilst underlining the fact that the Shareholders' Meeting is the best way for the Board of Directors to inform Shareholders of the Company's performance and outlook, the Company, in order to facilitate a more informed participation in the corporate Meetings, sends to the Shareholders who took part in the last three meetings (or who requested it) in addition to the files as prescribed by the current provisions, an information folder containing the relevant documentation at least one week prior to the date of the meeting. Furthermore, as a general practice, a folder containing a copy of the current Company Bylaws plus relevant documentation is made available to anyone participating in the meetings.

A timely and quality communication with external parties, as a way to guarantee the best level of information to the Shareholders and the market, is also achieved through the use and development of the Company website [www.kme.com](http://www.kme.com). During January 2008, the company decided to concentrate all information regarding the activities and products of the Group's Industrial Companies in this website, which until then was only available on a separate website though an appropriate link. The website can be accessed freely without any restrictions, all topics can be easily retrieved and all the latest news is well highlighted.

The Company website is updated almost simultaneously with the issue of publications through the Network Information System (NIS) managed by Borsa Italiana S.p.A. This system allows for the publication of press releases issued by the company by sending them to the press agencies linked to the system, to Borsa Italiana S.p.A., which issues its own notice, and to CONSOB.

The website includes not only news of a historical, documentary or accounting and financial nature (financial statements, half-year and quarterly reports, schedules flow charts on share performance) and on company events (yearly agenda, corporate governance report, exercise of rights, calling and participation procedures of Shareholders' Meetings, appointment procedures for the Board of Directors and Statutory Auditors), but also news regarding the Company's product range, their applications and other information of interest to suppliers and customers.

A significant part of the website is dedicated to corporate governance documents (company bodies, Bylaws, Warrant Regulations, Internal Code of Conduct and Regulations, minutes of the Meetings), with specific areas dedicated to any extraordinary transactions underway. Furthermore, as of 2005, an “Annual Information Document” is available pursuant to article 54 of the Issuers Regulations.

Some of this information, particularly press releases, financial statements and half-year reports, is already available in English too.

During 2007, the website [www.kme.com](http://www.kme.com) had approximately 177,483 hits and over 511,793 pages of various types were consulted, compared to 113,000 hits and 350,000 pages in 2006. Moreover, a continuous communication service of press releases and documents issued by the Company was carried out through its *mailing list* (1,097 subscribers compared to 1,084 in 2006). It is also possible to send the company requests by email.

The Board of Directors believes the current operational structure of the Company can ensure a service which is able to meet all the information requests from the Shareholders and the market and that, compared to 2006, this has been possible due to the company’s new website.

### **Company Bylaws, Minority Shareholders and Shareholders’ Meetings**

The Company Bylaws, unless otherwise prescribed by the applicable legislative provisions and by the Bylaws regulations, may be modified only subject to resolution issued by the Shareholders’ Meeting according to the procedures and majorities prescribed by the existing legislative provisions.

The Bylaws contain regulations to protect the rights of minority Shareholders in the calling of the Meetings (article 10) and in the appointment of the Board of Directors and the Board of Statutory Auditors (article 22), regarding the possibility of collecting proxies and exercising the right of postal voting (article 11) and obtaining information from the Board of Statutory Auditors (article 14 and 18) and the Representative of the Savings Shareholders (article 24).

Specifically, articles 17 (Election and composition of the Board of Directors and term of office of its members) and 22 (Board of Statutory Auditors) of the Company Bylaws, have been modified during 2007, and the voting list method in favour of the minority Shareholders has been introduced.

The criteria to determine the minority threshold are established by CONSOB pursuant to articles 147 (iii) and (vi) of the TUF.

Those provisions of the Bylaws that govern the calling, the constitution and the proceedings of Shareholders’ Meetings and the participation and representation of the Shareholders at these meetings (articles 10, 11, 12, and 13). As a result, it has been considered unnecessary to adopt specific Regulations for Shareholders’ Meetings. Specifically, article 10 includes provisions on the amendments of the Shareholders’ Meeting agenda pursuant to article 126 of the TUF.

**Table 1 - Structure of Board of Directors and Established Committees**

Position	Name	Board of Directors				Internal control committee		Remuneration committee <sup>*</sup>		
		Executive	Non-Executive	Independent	****	No. of other positions**	***	****	***	****
Chairman	Salvatore Orlando				90	2				
Deputy Chairman	Vincenzo Manes	x			100	8				
Director/Manging Director	Domenico Cova	x			100	1				
Director/Manging Director	Italo Romano	x			100	2				
Director	Vincenzo Cannatelli				100	3				
Director	Mario d'Urso		x	x	100	--	x	100	x	100
Director	Marcello Gallo		x		90	7				
Director	Giuseppe Lignana		x	x	100	--	x	100	x	100
Director	Gian Carlo Losi		x		100	--				
Director	Diva Moriani	x			90	5				
Director	Alberto Pecci		x	x	80	3	x	100		
Director	Alberto Pirelli		x	x	50	5			x	100

• Summary of the grounds for possible absences of the Internal Control Committee or composition other than that recommended by the Code:

=

\* Summary of the grounds for possible absences of the Remuneration Committee or composition other than that recommended by the Code:

=

Summary of the grounds for absences of the Executive Committee:

The Committee was not established due to the appointment of a Deputy Chairman with executive functions and two Directors as General Managers.

Summary of the grounds for absences the Appointment Committee:

The Committee was not established due to one Shareholder having control of the Company's voting capital.

Number of meetings held during the year: Board of Directors: ten Internal Control Committee: two Remuneration Committee: one

#### NOTES

\* The asterisks indicate the Directors that were appointed by lists presented by minority Shareholders.

\*\* This column indicates the number of Director or Statutory Auditor positions held by individuals in other Companies listed in regulated markets, foreign or domestic, in financial services companies, banks, insurance companies or companies of significant size.

\*\*\* This column indicates ("X") which Committee the member of the Board of Directors participates in.

\*\*\*\* This column indicates the attendance percentages of Directors in Board of Directors' or Committees' meetings.

**Table 2 - Board of Statutory Auditors**

Position	Name	Attendance percentages at meeting of the board of statutory auditors	No. of other positions**
Chairman	Fazzini Marcello	100	--
Standing Auditor	Pace Pasquale	100	--
Standing Auditor	Trotter Alessandro	100	5
Alternate Auditor	Garcea Angelo	///	--
Alternate Auditor	Lombardi Marco	///	--

Number of meetings held during the calendar year: seven

Quorum required for the presentation of minority Shareholders lists for the election of one or more standing members (pursuant to article 148 OF THE TUF) : 2,5%.

#### NOTES

\* The asterisks indicate the Statutory Auditors that were appointed by lists presented by minority Shareholders.

\*\* This column indicates the number of Director or Statutory Auditor positions held by individuals in other Companies listed in regulated markets, foreign or domestic, in financial services companies, banks, insurance companies or companies of significant size.



**Table 3 - Other Code of Conduct provisions**

	Yes	No	Summary of the grounds for any discrepancy with recommendations in the Code
<b>Proxy system and related party transactions</b>			
Has the Board of Directors defined the following:			
a) limits		x	
b) means of execution		x	
c) frequency of reporting?		x	
Has the Board reserved the power to examine and approve transactions having an impact on the company's financial position or results (including related party transactions)?		x	
Has the Board defined guidelines and criteria which can be used to identify "significant" transactions?		x	
Are these guidelines and criteria described in the Report?		x	
Has the Board established appropriate procedures to examine and approve related party transactions?		x	
Are the procedures for the approval of related party transactions described in the Report?		x	Available in full on the Company website
<b>Procedures followed for the most recent appointments of Directors or Statutory Auditors</b>			
Were the proposal details of the candidate for directorship filed at least fifteen days in advance?		x	
Did the proposal of the candidate for directorship include all of the appropriate documents?		x	
Did the proposal of the candidate for directorship include a statement by the candidate of his or her suitability as an independent director?		x	
Were the proposal details of the Statutory Auditor candidate filed at least fifteen days in advance?		x	Article 22 of the Bylaws in force in 2006 set a two-day period, raised to 15 days in 2007
Did the proposal for the Statutory Auditor candidate include all of the appropriate documents?		x	
<b>Shareholders' Meetings</b>			
Has the Company approved regulations governing Shareholders' Meetings?		x	Refer to Title III of the Bylaws, available in full on the website
Are the regulations attached to the report (or is there a description as to where these may be obtained or downloaded)?		x	Refer to Title III of the Bylaws, available in full on the website
<b>Internal control</b>			
Has the Company appointed an internal control officer/s?		x	
Is/are the officer/s hierarchically independent from the heads of the operating areas?		x	
Organizational unit in charge of internal control (pursuant to article 9.3 of the Code)		x	Internal Control Manager
<b>Investor relations</b>			
Has the Company appointed a head of investor relations?		x	The typical activities of this role are performed with the support of the various heads of business departments
Organizational Unit and contact details of head of investor relations (address/telephone no./fax no./email)		x	Please see the Directors' Report and the website

**Legislation on Protection of Personal Data**

Pursuant to article 26 Attachment B—Technical regulations regarding minimum security levels—of Legislative Decree no. 196 of 30 June 2003 (the "Personal Data Protection Code") the required "Data Protection Document" has been adopted through a dated, certified document. The officer responsible for this function is Mr Lorenzo Cantini.

# Company Bylaws updated to 31 October 2007

KME Group S.p.A.

Registered office in Via dei Barucci n. 2, Florence

Registration no. in the Company Register of Florence and Fiscal Code 00931330583

## **Bylaws**

### **Title I**

#### **Article 1 Name**

A corporation is hereby established with the following name: KME Group S.p.A..

#### **Article 2 Registered Office**

The Company's registered office is in Florence.

The Board of Directors may transfer the Company's registered office anywhere in Italy and may establish and subsequently close offices, branches and agencies in Italy and abroad.

#### **Article 3 Purpose**

The Company's purpose is to acquire investments in other companies and institutions, both in Italy and abroad; to provide financing and technical and financial coordination to the companies and institutions in which it has an investment; and to buy, hold, manage and place publicly traded and privately held securities.

In pursuit of its purpose, the Company may also: issue and receive sureties and other guarantees; execute commercial transactions that are complementary or related to the operations of companies or institutions in which it holds equity investments; buy, sell and manage residential and industrial buildings; and, in general, execute any transaction that may be relevant to its purpose or conducive to or useful for its achievement.

### **Title II**

#### **Article 4 Share Capital**

The Company's share capital amounts to Euro 324,164,741.31 (three hundred and twenty four million one hundred and sixty-four thousand seven hundred and forty-one and thirty-one), represented by 254,552,240 (two hundred and fifty-four million five hundred and fifty-two thousand two hundred and forty) shares without nominal value, which include 235,480,130 (two hundred and thirty-five million four hundred and eighty thousand one hundred and thirty) ordinary shares and 19,072,110 (nineteen million seventy-two thousand one and hundred ten) savings shares.

A resolution to increase the Company's share capital that is adopted with the majorities required by Articles 2368 and 2369 of the Italian Civil Code can suspend the pre-emptive rights of Shareholders with respect to a number of shares equal to and not more than 10% of the pre-existing share capital, provided the issue price of the shares is consistent with the market price of the shares and that such conclusion is supported by a special report issued by the independent auditors.

Pursuant to a resolution approved by the Shareholders' Meeting held on 19 May 2006, the Company issued a total of 74,209,605 (seventy-four million two hundred and nine thousand six hundred and five) warrants, thereby increasing the share capital by up to Euro 25,973,361.75 (twenty-five million nine hundred and seventy-three thousand three hundred and sixty-one and seventy-five) in nominal value, which will be carried out through the issuance, in one or more instalments, of up to 74,209,605 (seventy-four million two hundred and nine thousand six hundred and five) ordinary shares without nominal value, regular ranking for dividends, reserved exclusively and irrevocably for the exercise of the above-mentioned warrants at a price of Euro 0.35 (zero point thirty-five), which is equal to the issue price per share of the shares without nominal value issued by the above-mentioned Shareholders' Meeting on the basis of 1 (one) share for 1 (one) warrant held, exercisable from 1 January 2007 until 11 December 2009, in accordance with the Warrant Regulations approved at the same Shareholders' Meeting.

On 28 June 2006, acting pursuant to the powers it was awarded by the Shareholders' Meeting on 19 May 2006, the Board of Directors set at Euro 25,973,640.00 (twenty-five million nine hundred and seventy-three thousand six hundred and forty) the maximum amount of the share capital increase reserved for the exercise of any issued warrants, setting in advance the number of such warrants at 74,210,400 (seventy-four million two hundred and ten thousand four hundred).

As a result of the above-mentioned transaction and a subsequent reverse split of the ordinary and savings shares,

carried out on the basis of 1 (one) new share for each group of 3 (three) shares of the same class held, and of subsequent resolutions approved by the Extraordinary Shareholders' Meeting on 21 June 2007, a total of 73,899,627 (seventy-three million eight hundred and ninety-nine thousand six hundred and twenty-seven) warrants were outstanding at 16 July 2007. The exercise of these warrants will result in the issuance of up to 24,633,209 (twenty-four million six hundred and thirty-three thousand two hundred and nine) KME Group S.p.A. ordinary shares without nominal value, causing the Company's share capital to increase by up to Euro 25,864,869.45 (twenty-five million eight hundred and sixty-four thousand eight hundred and sixty-nine and forty-five).

At 31 October 2007, a total of 6,251,965 (six million two hundred and fifty-one thousand nine hundred and sixty-five) warrants had been exercised, causing the issuance of 2,290,639 (two million two hundred and ninety thousand six hundred thirty-nine) ordinary shares, leaving outstanding 67,957,638 (sixty-seven million nine hundred and fifty-seven thousand six hundred and thirty-eight) warrants exercisable on the basis of 1 new share for every 3 warrants held at a price of Euro 1.05 (one point zero five).

On 31 July 2006, acting pursuant to the powers it was awarded by the Shareholders' Meeting on 19 May 2006, as referred to in Article 7, Sections I and II, below, and based on the resolutions approved by the Shareholders' Meeting on 21 June 2007, the Board of Directors agreed to increase the share capital by up to Euro 7,999,999.60 (seven million nine hundred and ninety-nine thousand nine hundred and ninety-nine and sixty cents) through the issuance of up to 7,774,538 (seven million seven hundred and seventy-four thousand five hundred and thirty-eight) ordinary shares, regular ranking for dividends, at a price of Euro 1.029 (one point zero two nine) each, reserved exclusively for the Stock Option Plan available to managers of the Company, its subsidiaries and their subsidiaries in Italy and abroad.

On 21 June 2007, the Extraordinary Shareholders' Meeting amended the powers awarded to the Board of Directors by the above-mentioned Extraordinary Shareholders' Meeting of 19 May 2006, as referred to in Article 7, Section IV, of these Bylaws.

At meetings held on 31 July 2006 and 18 July 2007, acting pursuant to the powers it was awarded by the Extraordinary Shareholders' Meeting on 19 May 2006, as referred to in Article 7, Sections VI and VII, of these Bylaws and consistent with the resolutions approved by the Extraordinary Shareholders' Meeting on 21 June 2007, the Board of Directors agreed to increase the share capital by up to Euro 4,245,282.53 (four million two hundred and forty-five thousand two hundred and eighty two and fifty-three) through the issuance of up to 4,125,639 ordinary shares, regular ranking for dividends, at a price of Euro 1.029 (one point zero two nine) each, reserved exclusively for the Stock Option Plan available to Directors of the Company, its subsidiaries and their subsidiaries in Italy and abroad, who serve in an executive capacity or perform operational functions.

On 21 June 2007, the Extraordinary Shareholders' Meeting amended the powers granted to the Board of Directors by the Extraordinary Shareholders' Meeting of 19 May 2006, as referred to in Article 7, Section IX, of these Bylaws.

On 18 July 2007, in implementation of the powers awarded to the Board of Directors by the Extraordinary Shareholders' Meeting on 21 June 2007, as referred to in Article 7, Sections IV and V of these Bylaws, and consistent with the resolutions approved by the above-mentioned Shareholders' Meeting of 21 June 2007, the Company's Board of Directors approved a resolution increasing the Company's share capital by up to Euro 2,754,714.29 (two million seven hundred and fifty-four thousand seven hundred and fourteen and twenty-nine) through the issuance of up to 2,677,079 (two million six hundred and seventy-seven thousand seventy-nine) ordinary shares, regular ranking for dividends, at a price of Euro 1.029 (one point zero two nine) each, reserved exclusively for the Stock Option Plan available to executives of the Company, its subsidiaries and their subsidiaries in Italy and abroad.

At 31 October 2007, a total of 6,802,713 (six million eight hundred and two thousand seven hundred and thirteen) options had been exercised, causing the issuance of 2,267,571 (two million two hundred and sixty-seven thousand five hundred and seventy-one) ordinary shares.

The amount of the share capital and the breakdown between ordinary and savings shares referred to in this article could change as a result of the transactions discussed in Article 7 below and the exercise of conversion rights held by the holders of convertible bonds and of any issued warrants.

#### **Article 5 Classes of Shares**

As allowed by current laws and these Bylaws, the shares may be issued either in registered or bearer form. In the latter case, they may be converted into registered form at the request and cost of the holder.

The Shareholders' Meeting may resolve to issue preferred shares, with or without voting rights, and determine the

characteristics of and the rights conveyed by such shares. However, savings shares shall have the characteristics and convey the rights that the law and these Bylaws require.

Resolutions authorizing the issuance of new savings shares with the same characteristics as those already outstanding need not be approved by a Special Shareholders' Meeting. Their holders will not be entitled to attend meetings of holders of other classes of shares nor to request that such meetings be convened.

A reduction of the Company's share capital due to losses shall have no impact on the savings shares, except for the portion of the loss that exceeds the portion of the Company's share capital represented by the other classes of shares.

If the Company's ordinary or savings shares were to be permanently and definitively excluded from trading on regulated markets, the holders of savings shares would have the right to convert their shares into ordinary shares on a one-for-one basis or, alternatively, into preferred shares, the terms of issuance and characteristics of which will be determined by the Shareholders. Within three months of the event that caused such a situation to occur, the Board of Directors shall call an Extraordinary Shareholders' Meeting that will adopt resolutions concerning this issue.

Without prejudice to any other right that the Company may have or to the special procedures that the law provides to act against delinquent shareholders, the failure to pay-in subscribed share capital within the agreed deadlines will automatically trigger the accrual of interest, computed in accordance with Article 5 of Legislative Decree No. 231 of 9 October 2002, without the Company being required to give notice or sue.

Shareholders who fail to collect dividends within five years will lose their right to those dividends, which will then revert to the Company.

#### **Article 6 Bonds and Other Non-Equity Financial Instruments**

The Company, acting within the confines of the applicable statutes, may issue convertible and non-convertible bonds.

#### **Article 7 Delegation of Powers to the Directors**

By a resolution approved by the Extraordinary Shareholders' Meeting held on 19 May 2006, the Board of Directors was authorized to carry out, in one or more instalments over a period of up to five years from the date of the above-mentioned resolution, a divisible increase of the Company's share capital of up to Euro 8,000,000.00 (eight million//00) through the issuance of ordinary shares without nominal value, regular ranking for dividends, to be offered for consideration through subscription to executives of the Company, its subsidiaries and their subsidiaries, in Italy and abroad, suspending the pre-emptive rights of other shareholders, as allowed under Article 2441, Section VIII, of the Italian Civil Code.

The Board of Directors was granted all of the powers required to execute the above-mentioned transactions, including those to set the issue price and dividend ranking of the shares, and the timing, methods, characteristics and terms of the offer made to Group executives.

At a meeting held on 31 July 2006, the Board of Directors exercised the above-mentioned powers in the manner described in Article 4 of these Bylaws.

As a result of the resolutions approved by the Extraordinary Shareholders' Meeting on 21 June 2007, which amended a previous resolution approved by the Extraordinary Shareholders' Meeting on 19 May 2006, the Board of Directors was authorized to carry out, in one or more instalments up to the deadline of 19 May 2011, an increase of the Company's share capital of up to Euro 2,754,714.29 (two million seven hundred and fifty-four thousand seven hundred and fourteen and twenty-nine) through the issuance of up to 2,677,079 (two million six hundred and seventy-seven thousand seventy-nine) KME Group S.p.A. ordinary shares without nominal value, regular ranking for dividends, available for purchase through subscription, at a price of Euro 1.029 (one point zero two nine) each, to executives of the Company, its subsidiaries and their subsidiaries in Italy and abroad, the pre-emptive rights of other Shareholders being suspended pursuant to Article 2441, Section VIII, of the Italian Civil Code.

At a meeting held on 18 July 2007, the Board of Directors exercised the above-mentioned powers in the manner described in Article 4 of these Bylaws.

By a resolution approved by the above-mentioned Extraordinary Shareholders' Meeting on 19 May 2006, as amended by a subsequent resolution approved by the Extraordinary Shareholders' Meeting on 21 June 2007, and consistent with a resolution approved by the Board of Directors on 18 July 2007, the Board of Directors was authorized to carry out, in one or more instalments over a period of up to five years from the date of the

above-mentioned resolution, a further increase of the Company's share capital of up to Euro 4,245,282.53 (four million two hundred and forty-five thousand two hundred and eighty-two and fifty-three) through the issuance of ordinary shares without nominal value, regular ranking for dividends, to be offered for consideration through subscription to Directors of the Company, its subsidiaries and their subsidiaries in Italy and abroad, who serve in an executive capacity or perform operational functions, suspending the pre-emptive rights of other Shareholders, as allowed under Article 2441, Section IV, Sentence II, of the Italian Civil Code.

The Board of Directors was granted all of the powers required to execute the above-mentioned transactions, including those to set the issue price and the timing, methods, characteristics and terms of the offer made to Directors, it being understood that the issue price will be determined by the Board of Directors based on the arithmetic mean of the stock market prices of the KME Group S.p.A. shares on the market operated by Borsa Italiana S.p.A. during the period between the options award date and the same day of the previous calendar month. At meetings held on 31 July 2006 and 18 July 2007, the Board of Directors exercised the above-mentioned powers in the manner described in Article 4 of these Bylaws.

As a result of the resolutions approved by the Extraordinary Shareholders' Meeting on 21 June 2007, the above-mentioned Extraordinary Shareholders' Meeting amended accordingly the resolutions approved by the Extraordinary Shareholders' Meeting on 19 May 2006 and, acting pursuant to Article 2443 of the Italian Civil Code, restricted the previously granted authorization to increase the Company's share capital in one or more instalments up to the deadline of 19 May 2011, reducing it from up to Euro 6,999,999.57 (six million nine hundred and ninety-nine thousand nine hundred and ninety-nine and fifty-seven) to up to Euro 4,245,282.53 (four million two hundred and forty-five thousand two hundred and eighty-two and fifty-three), carried out through the issuance of up to 4,125,639 (four million one hundred and twenty-five thousand six hundred and thirty-nine) ordinary shares without nominal value, regular ranking for dividends, available for purchase through subscription, at a price of Euro 1.029 (one point zero two nine) each, to Directors of KME Group S.p.A., its subsidiaries and their subsidiaries in Italy and abroad, who serve in an executive capacity or perform operational functions, suspending the pre-emptive rights of other Shareholders, as allowed under Article 2441, Section IV, Sentence II, of the Italian Civil Code.

The Board of Directors and specifically, its Chairman and its provisional Deputy Chairman, have been granted the power, which may be exercised separately, to amend Articles 4 and 7 of the Bylaws in the event that the powers granted above are exercised in whole or in part, and to file the attestations required pursuant to law and the amended text of the Bylaws.

#### **Article 8 Profit for the year**

After accruals to the reserves and allocating 2% (two percent) of the balance to the Board of Directors, the Company's profit will be allocated as follows:

- to the savings shares an amount that shall not exceed 7.24% (seven point two four percent) of Euro 1.50 (one point five zero) per share, which is equal to Euro 0.1086 (zero point one zero eight six) per share. If in a given year the savings shares receive an annual dividend smaller than 7.24% (seven point two four percent) of Euro 1.50 (one point five zero) per share, which is equal to Euro 0.1086 (zero point one zero eight six) per share, the balance will be added to the preferred dividend over the following two years;
- the allocation of the remaining profit will be determined by the Shareholders' Meeting pursuant to law, it being understood that the distribution of a dividend to all of the shares shall be carried out in such a way that the savings shares receive a total dividend that is greater than the dividend paid to the ordinary shares by an amount equal to 2.07% (two point zero seven percent) of Euro 1.50 (one point five zero) per share, which is equal to Euro 0.3105 (zero point three one zero five) per share.

If reserves are distributed, the savings shares shall have the same rights as the other shares.

With regard to the savings shares, in the event of stock splits or reverse stock splits (as in other transactions involving the share capital that would require action to avoid altering the rights of holders of savings shares as if the shares had a nominal value), the fixed amounts per share listed above will be modified appropriately.

#### **Article 9 Interim Dividends**

The Board of Directors may declare interim dividends, provided it acts in compliance with the terms and conditions of the relevant statutes.

### **Title III**

#### **Article 10 Calling of Shareholders' Meetings**

The Shareholders' Meeting may be called in ordinary or extraordinary session, as the law requires. It is called by the Board of Directors and may be held away from the Company's registered office, provided it is called somewhere in Italy or in another country within the European Union.

The Notice of the Meeting, which may contain an indication of the date and time of the Meeting's second or third calling, shall be published in the Official Journal of the Italian Republic or, alternatively, in one of the following newspapers: *Il Sole 24 Ore*, *Milano Finanza* or *Italia Oggi*.

The Notice shall also indicate that the vote may be exercised by post and describe how this may be accomplished, and shall list the parties from whom a postal ballot may be requested and the address to which the ballots should be sent.

Acting within five days from the publication of the Notice of Shareholders' Meeting, Shareholders who individually or jointly represent at least one fortieth of the share capital may demand that the Meeting's Agenda be amended to include the additional topics listed on their petition. Notice of any amendments made to the Meeting's Agenda as a result of such petitions must be given at least 10 days in advance of the date of the Shareholders' Meeting in the same manner required for the Notice of the Meeting. Items on the Agenda that are submitted for approval to the Shareholders' Meeting by the Board of Directors pursuant to law or in connection with a project or report prepared by the Board of Directors may not be amended.

Unless the law requires otherwise, the Board of Directors shall call a Shareholders' Meeting within 30 days of the receipt of a request to that effect, provided such a request is filed by Shareholders representing at least 10% of the Company's ordinary share capital. Such requests, which must be sent to the Chairman of the Board of Directors by registered letter, shall list in detail the items on the Agenda and each shareholder requesting the Meeting. The relevant certifications/communications issued by authorized intermediaries attesting share ownership and the number of shares owned must be attached to the above-mentioned requests.

#### **Article 11 Attendance and Representation at Shareholders' Meetings**

Only Shareholders for whom the Company has received, from authorized intermediaries, the communication required pursuant to current law at least two days prior to the date of each Shareholders' Meeting may attend the Meeting. If the deadline for compliance with this requirement falls on a holiday, a Saturday or a Sunday, it shall be extended to the next business day.

Each share conveys the right to cast one vote.

Votes may also be cast by post, in accordance with the terms and conditions set forth in the Notice of the Meeting, on the ballot provided in accordance with the laws currently in force.

Postal ballots, to which shareholders are required to attach copies of the communication required under current laws to participate in the Meeting, must arrive at the address listed in the Notice of the Meeting at least 48 hours before the date of the Meeting's first calling. If the deadline for compliance with this requirement falls on a holiday, a Saturday or a Sunday, it shall be extended to the next business day.

Without prejudice to the statutory provisions that govern the collection of proxies, shareholders may be represented by an agent, who need not be a shareholder, by means of a proxy statement that may be written at the bottom of the communication required under current laws.

#### **Article 12 Chairmanship of Shareholders' Meetings**

Shareholders' Meetings are chaired by the Chairman of the Board of Directors or, if the Chairman is not available, by the eldest of the Deputy Chairmen or by the Managing Director or by the eldest of the Directors attending the Meeting.

The Chairman of the Meeting shall be responsible for determining whether the Meeting has been properly called, whether in ordinary or extraordinary session; ascertaining the identity of the attendees and their right to attend the Meeting; ensuring that the Meeting is carried out properly; managing and overseeing the discussion, with the right to determine beforehand the length of floor time allotted to each shareholder; setting the sequence and method of voting; verifying the results of each ballot, announcing the result of each ballot and recording it in the minutes.

The Chairman may also allow Group executives and employees to attend the Meeting.

The persons authorized to exercise the right to vote and the Common Representatives of the holders of savings

shares, bonds and other financial instruments may ask to speak about the items on the Agenda to offer remarks and information and put forth motions. In such cases, motions may be put forth until the Chairman rules that the discussion about the item that is the subject of the motion has been closed. Should he or she deem it necessary, the Chairman may adjourn the Meeting.

The Chairman shall rely on the assistance of a Secretary selected by the Chairman.

In those instances in which the minutes of the Meeting must be drawn up by a Notary, the Notary serves as Secretary.

#### **Article 13 Minutes of the Shareholders' Meeting**

The resolutions adopted by the Shareholders' Meeting shall be recorded in the minutes, which are signed by the Chairman and the Secretary (or the Notary) and prepared in accordance with the laws currently in force.

The minutes of the Meeting shall also summarize the remarks made by each shareholder with regard to the items on the Agenda. If a request is made that the remarks by a shareholder be recorded verbatim, the shareholder in question shall provide at the meeting a document prepared for that purpose, which will be inserted in the minutes.

The Secretary or the Notary may rely on the help of trusted assistants and use recording devices exclusively as personal aids for the purpose of drafting the minutes.

Copies and abstracts of minutes that are not prepared consistent with Notary documentation shall be certified as truthful by the Chairman of the Board of Directors or his or her substitute.

### **Title IV**

#### **Article 14 Management of the Company**

The Board of Directors has the widest set of powers with respect to organizing and managing the Company and is responsible for the administration of regular and extraordinary transactions carried out by the Company in pursuit of its purpose, the sole exceptions being actions that are reserved, by law, for the Shareholders' Meeting. The Board of Directors may adopt resolutions concerning mergers and demergers, in accordance with the provisions of Articles 2505, 2505 (ii) and 2505 (iii) of the Italian Civil Code; may reduce the Company's share capital if a shareholder exercises the right to request redemption of his or her shares; and may amend the Bylaws to comply with provisions of the law.

Acting within the confines of the law, the Board of Directors may establish internal Committees, some of which may have executive authority, and determine their jurisdiction and internal rules. The Board may also delegate its powers to individual Directors, determining the limits and manner in which such delegated powers may be exercised while retaining the right to decide on any transactions covered by the above-mentioned delegation of powers.

Directors to whom powers and authority have been delegated and those who are members of any Committee that may have been established are required to inform the Board of Directors and the Board of Statutory Auditors, on a quarterly basis, of the Company's overall performance and outlook, and of transactions, whether executed by the Company or its subsidiaries, that could have a major impact on the Company's financial performance or results due to their size or characteristics. The above-mentioned Directors shall also provide quarterly reports regarding transactions in which they may have an interest, either directly or on behalf of third parties, or which could be influenced by an individual who exercises a management and coordination function.

When special circumstances require it, the reports referred to above may have to be provided in writing.

The Board of Directors may delegate powers and authority to Company employees and third parties in connection with the execution of specific transactions.

#### **Article 15 Executive Committee**

With the exception of those powers that are reserved for its jurisdiction pursuant to law, the Board of Directors may delegate its powers to an Executive Committee, which shall comprise between three and five Directors, including the Chairman. The Board of Directors shall determine its powers, authority and modus operandi.

The Executive Committee may meet informally and adopt resolutions without a meeting, its members casting their votes by telephone or telegram, confirmed with a letter or telex that will be stored in the Company's records.

The permanent members of the Board of Statutory Auditors shall attend the meetings of the Executive Committee.

## Article 16 Company Positions

The Board of Directors elects one of its members to serve as Chairman. The Chairman will be responsible for representing the Company in the manner described in Article 20 below.

The Board may also appoint one or more Deputy Chairmen and Managing Directors and set their powers and authority, and may also grant special powers and authority to individual Directors.

The Deputy Chairmen replace the Chairman when he or she is absent or unavailable.

If the Chairman and the Deputy Chairmen are absent or unavailable, another Director designated by the Board shall act Chairman.

Each year, the Board of Directors shall appoint a Secretary, who need not be a Director.

The Board of Directors, taking into account the input of the Board of Statutory Auditors, appoints and dismisses the Manager responsible for the preparation of corporate accounting documentation and determines his or her compensation. The aforesaid Manager must have across-the-board expertise in the areas of accounting, finance and control and must meet the integrity requirements applicable to Directors.

The activities, functions and duties of the Manager responsible for the preparation of corporate accounting documentation shall be those set forth in the relevant provisions of current statutes.

The Board of Directors determines the length of the term of office of the Manager and provides him or her with the authority and resources needed to perform the assigned tasks.

## Article 17 Election and Composition of the Board of Directors and Term of Office of Its Members

The Board of Directors shall comprise between nine and twelve Directors elected by the Shareholders' Meeting. Prior to electing the Directors, the Shareholders' Meeting shall determine how many Directors will sit on the Board, and this number shall be binding until the Shareholders' Meeting decides otherwise.

The term of office for Directors may not exceed three years, and Directors may be re-elected.

The Board of Directors must include the minimum number of independent Directors required by law and these independent Directors must meet the relevant statutory requirements. Any independent Director who ceases to qualify as independent subsequent to his or her election shall immediately notify the Board of Directors and shall automatically be removed from office.

If during the year one or more Directors should cease to serve on the Board for any reason whatsoever, they shall be replaced pursuant to law.

If the majority of the Directors should cease to serve on the Board, the term of office of the entire Board of Directors shall be deemed to have expired and a Shareholders' Meeting shall be called promptly to elect a new Board of Directors.

The Shareholders' Meeting shall elect the Board of Directors in accordance with the following procedure:

a) slates listing the names of candidates to the office of Director shall be filed at the address provided in the Notice of the Shareholders' Meeting at least 15 (fifteen) days prior to the first calling of the Shareholders' Meeting. If the deadline for compliance with this requirement falls on a holiday, a Saturday or a Sunday, it shall be extended to the next business day.

Slates of candidates must be accompanied by the following information:

1. data identifying the shareholders who are filing slates showing the total percentage interest held and a certification attesting that they own the corresponding shares;
2. an affidavit by shareholders who are not among those who individually or jointly own a controlling or relative majority interest in the Company stating that they are not parties to any of the linkage transactions referred to in the applicable provisions of the relevant statutes;
3. detailed information about the personal and professional background of the candidates and an affidavit by the candidates accepting their nomination and attesting, under their responsibility, that there are no issues that would make them unelectable or incompatible, that they meet the requirements of the relevant provisions of current statutes and the Bylaw for election to the offices they seek and stating whether they qualify as independent Directors in accordance with Article 148, Section III, of Legislative Decree No. 158/1998;

b) a Shareholder may not file or vote for more than one slate either directly or through a representative or a nominee. Shareholders belonging to the same group and the Shareholders who are parties to a Shareholders' agreement involving the Company's shares may not file or vote for more than one slate either directly or through a representative or a nominee. A candidate's name may appear only on one slate, under penalty of becoming unelectable;



c) Shareholders who alone or together with others account for a percentage interest in the Company's share capital (stated in terms of ordinary shares that convey the right to vote on resolutions of the Shareholders' Meeting that concern the election of members of corporate governance bodies) equal to the highest percentage required to comply with the provisions of the regulations, issued by CONSOB (Italian National Corporation and Stock Market Commission) on this subject, have a right to file a slate of candidates.

The minimum percentage interest in the Company's share capital required to file slates of candidates shall be set forth in the Notice of the Shareholders' Meeting.

Only slates submitted by shareholders who filed the required documentation within the deadline set forth in Section a) of this Article shall be valid. If the Shareholders' Meeting is postponed to a second or third calling, properly filed slates shall still be valid;

d) the candidates listed on the slate that received the highest number of votes, except for the last candidate in numerical order on that slate, and the first candidate of the minority slate that received the highest number of votes, and is not linked in any way (even indirectly) with shareholders who have filed or voted for the slate that received the highest number of votes in absolute, shall be elected to the Board of Directors, it being understood that, in the process of allocating the seats on the Board of Directors, slates that failed to receive a percentage of votes equal to at least half the percentage of votes required to file slates, as set forth above, will not be taken into account;

e) in the event of a tie between two or more slates, the candidates listed on the slate filed by the shareholders who own the largest percentage interest in the Company's share capital or, alternatively, the largest number of shareholders shall be elected to the Board of Directors;

f) if only one slate is filed, the candidates listed on the said slate shall be elected to the Board of Directors in the order in which they are listed on the slate;

g) if no slate is filed, the Shareholders' Meeting shall approve resolutions in accordance with statutory majorities, without following the procedure outlined above.

#### **Article 18 Meetings of the Board of Directors**

The Board of Directors shall meet whenever the Chairman or the Executive Committee (if one has been appointed) deem it necessary, but not less than four times a year.

A notice of the Meeting must be sent by letter or telex to the Directors' domiciles at least five days prior to the meeting. In extremely urgent cases, the notice of the Meeting may be sent just two days in advance.

The notice of the Meeting must include the meeting's Agenda and the time and place of the meeting. Meetings may be held away from the Company's registered office, provided they are convened somewhere in Italy or in another country within the European Union.

The permanent members of the Board of Statutory Auditors shall attend the meetings of the Board of Directors.

#### **Article 19 Validity of Meetings of the Board of Directors**

Resolutions of the Board of Directors are validly adopted when a majority of the Directors in office are present at the meeting and an absolute majority of the attendees cast a favourable vote.

In the event of a tie, the action supported by the Chairman shall be taken forward.

Board meetings may be held by teleconference or videoconference, provided that all participants can be identified and are able to follow the discussion and participate in real time in the discussion of the items on the Agenda. If these conditions are met, the meeting is deemed to have been held at the place where the Chairman and Secretary are located.

Resolutions adopted by the Board of Directors are recorded in the appropriate minutes book and are signed by the Chairman and the Secretary. The minutes of the meeting must also contain a listing of the Directors who attended the meeting.

Copies and abstracts of minutes that are not prepared consistent with Notary documentation shall be certified as truthful by the Chairman of the Board of Directors or his or her substitute.

#### **Article 20 Representation of the Company**

The Chairman of the Board of Directors (or his or her substitute) represents the Company before third parties and in judicial proceedings without need for joint signatories and, without the need to secure the prior approval of the Board of Directors, is empowered to file or respond to legal actions of any level or type of jurisdiction, both in Italy and abroad, including the Constitutional Court; to file or respond to requests for statutory and private arbitration proceedings; to file complaints, criminal charges and lawsuits; to file appeals; to request regular and extraordinary

encumbrances; to file petitions asking for urgent relief or protective measures, including to waive the right to court proceedings; to accept waivers; to settle lawsuits and disputes, both in and out of court, granting for this purpose the necessary power of attorney; and to appoint legal counsel and agents and representatives in general and determine the scope of their powers.

Other Directors shall be entitled to represent the Company within the scope of the powers they may have been granted.

If the Chairman, the Deputy Chairmen, the Managing Directors or Directors should be absent or unavailable, corporate resolutions may be validly signed by two Directors.

#### **Article 21 Remuneration**

The Board of Directors is entitled to a share in the Company's profit in the manner described in Article 8 above. The Shareholders' Meeting may also award the Directors a fixed annual fee.

The Board of Directors, having heard the opinion of the Board of Statutory Auditors shall determine the remuneration owed to Directors who perform special functions.

### **Title V**

#### **Article 22 Board of Statutory Auditors**

The Board of Statutory Auditors oversees compliance with the applicable laws and these Bylaws, adherence to the principle of sound management and, specifically, the implementation of an adequate corporate management system, insofar as it applies to the effectiveness of the system of internal control and the administrative and accounting system and the ability of this system to present fairly the results from operations. It also oversees the effective implementation of the rules of corporate governance and the effectiveness of the guidance provided to subsidiaries. The Board of Statutory Auditors shall comprise three Statutory Auditors and two Alternates.

As required by current laws and regulations, the members of the Board of Statutory Auditors must meet the integrity and professionalism requirements set forth in the relevant statutes. With regard to the issue of qualifications, it should be noted that the Company is actively involved in the metallurgical industry. Accordingly, the Statutory Auditors will be required to be thoroughly familiar with this field.

The Statutory Auditors shall serve for a term of three years and may be re-elected, if the law does not prevent it.

The Shareholders' Meeting shall determine the annual fee payable to the Statutory Auditors for the full length of their term of office at the time the Board of Statutory Auditors is elected.

The Shareholders' Meeting shall adopt the following procedure to elect the Board of Statutory Auditors:

a) at least 15 (fifteen) days prior to the date of the first calling of the Shareholders' Meeting called to elect the Board of Statutory Auditors, slates listing in numerical order the candidates to the posts of Statutory Auditors and Alternate Auditors must be filed at the address listed in the notice of the Meeting. If the deadline for compliance with this requirement falls on a holiday, a Saturday or a Sunday, it shall be extended to the next business day.

Slates of candidates must be accompanied by the following information:

1. data identifying the shareholders who are filing slates showing the total percentage interest held and a certification attesting that they own the corresponding shares;
  2. an affidavit by shareholders who are not among those who individually or jointly own a controlling or relative majority interest in the Company stating that they are not parties to any of the linkage transactions referred to in the applicable provisions of the relevant statutes;
  3. detailed information about the personal and professional backgrounds of the candidates, including a listing of management and control posts held by each candidate at other companies, and an affidavit by the candidates accepting their nomination and attesting, under their responsibility, that there are no issues that would make them unelectable or incompatible, that they meet the requirements of the relevant provisions of current statutes and the Bylaws for election to the offices they seek;
- b) if, within the deadline set forth in Section a) above, only one slate is filed or if only slates submitted by shareholders who, in accordance with the provisions of Section a) No. 2, above, are linked with each other pursuant to the laws currently in force are filed, slates may be filed until the fifth day following the above-mentioned date, it being understood that if the deadline for compliance with this requirement falls on a holiday, a Saturday or a Sunday, it shall be extended to the next business day. In the cases referred to in this Section b), the threshold set forth in Section d) below shall be reduced by half;

c) a Shareholder may not file or vote for more than one slate either directly or through a representative or a nominee. Shareholders belonging to the same group and the shareholders who are parties to a shareholders' agreement involving the Company's shares may not file or vote for more than one slate either directly or through a representative or a nominee. A candidate's name may appear only on one slate, under penalty of becoming unelectable;

d) Shareholders who alone or together with others account for a percentage interest in the Company's share capital (stated in terms of ordinary shares that convey the right to vote on resolutions of the Shareholders' Meeting that concern the election of members of company bodies) equal to the highest percentage set forth in Article 147 (iii), Section I, of Legislative Decree No. 58/1998 and required to comply with the provisions of the regulations, issued by the CONSOB (Italian National Corporation and Stock Market Commission) on this subject, have a right to file a slate of candidates.

The minimum percentage interest in the Company's share capital required to file slates of candidates shall be set forth in the Notice of the Shareholders' Meeting.

Only slates filed by shareholders who deposited the documents required in a timely manner pursuant to Sections a) and b) above will be deemed to have been validly filed. If the Shareholders' Meeting is postponed to a second or third calling, properly filed slates shall still be valid;

e) the first two candidates on the slate that received the highest number of votes and the first candidate on the slate that received the highest number of votes among the slates filed and voted by shareholders who are not linked with any major shareholders, as defined in Article 148, Section II, of Legislative Decree No. 58/1998, will be elected to the post of Statutory Auditor.

The first candidate listed on the slate that received the highest number of votes and the first candidate on the slate among the slates filed and voted by shareholders who are not linked with and major shareholders, as defined in Article 148, Section II, of Legislative Decree No. 58/1998, will be elected to the post of Alternate Auditor.

In the event of a tie between two or more slates, the candidates listed on the slate filed by the shareholders who own the largest percentage interest in the Company's share capital or, alternatively, the largest number of shareholders shall be elected to the post of Statutory Auditor;

f) the first candidate on the slate filed by minority shareholders that received the highest number of votes will serve as Chairman of the Board of Statutory Auditors. If two or more slates receive the same number of votes, the procedure explained in the preceding Section shall be applied;

g) if only one slate is filed, the first 3 (three) candidates and the next two (2) candidates, in the order they are listed on the slate, will be elected Statutory Auditors and Alternates, respectively. The first candidate listed on the slate will be elected Chairman.

The members of the Board of Statutory Auditors are required to comply with the limits set forth in the applicable provisions on the number of corporate governance posts that may be held.

If a Statutory Auditor were to die, resign or be dismissed, the first Alternate elected from the same slate will replace him or her. If the Chairman of the Board of Statutory Auditors were to die, resign or be dismissed, the Alternate Auditor who replaced the outgoing auditor in the slate filed by the minority shareholders shall become Chairman of the Board of Statutory Auditors.

The foregoing provisions concerning the election of Statutory Auditors shall also apply to Shareholders' Meetings called to elect Statutory Auditors and/or Alternate Auditors and the Chairman of the Board of Statutory Auditors, when such elections are necessary to fill vacancies on the Board of Statutory Auditors.

If for any reason it becomes impossible to elect a Board of Statutory Auditors or elect and/or replace a portion of its members in the manner described above, the Shareholders' Meeting shall proceed in accordance with the applicable laws.

### **Article 23 Meetings of the Board of Statutory Auditors**

The Board of Statutory Auditors shall meet at least once every ninety days. Meetings of the Board of Statutory Auditors may be held by teleconference or videoconference, provided all participants can be identified and are able to follow the discussion and participate in real time in the discussion of the items on the Agenda.

Meetings of the Board of Statutory Auditors shall be deemed to have been validly called when a majority of the Statutory Auditors is present and its resolutions are adopted with the favourable vote of an absolute majority of the attendees.

## **Article 24 Audit**

The Company's accounts shall be audited by independent auditors who are listed in a special register established pursuant to law.

As required by law, the Shareholders' Meeting, acting upon a detailed proposal by the Board of Statutory Auditors, shall select the independent auditors to audit the Company's accounts and shall determine their remuneration. The audit engagement shall be for a length of time consistent with relevant regulatory provisions and may be renewed, as allowed by said provisions.

## **Title VI**

### **Article 25 Financial Year**

The Company's financial year ends on 31 December.

A Shareholders' Meeting must be called to approve the annual report within one hundred and twenty days of the end of the financial year.

If necessary, due to special needs related to the Company's structure or purpose, the Shareholders' Meeting called to approve the financial statements may be held within one hundred and eighty days of the end of the financial year.

## **Title VII**

### **Article 26 Rights of Common Representatives**

The Board of Directors shall use written communications and/or special meetings held by some of the Directors at the Company's offices to provide adequate information to the Common Representatives of the holders of savings shares, bonds and other financial instruments who have no involvement in transactions that could have an impact on the market price of the above-mentioned savings shares, bonds and other financial instruments issued by the Company.

## **Title VIII**

### **Article 27 Duration of the Company**

The duration of the Company is up to 31 December 2050 and may be extended on one or more occasions by a resolution of the Shareholders' Meeting.

A resolution extending the Company's duration shall not entitle shareholders to request redemption of their shares, as allowed under Article 2437 of the Italian Civil Code.

## **Title IX**

### **Article 28 Liquidation of the Company**

The Company will be liquidated pursuant to law.

Upon the Company's liquidation, the savings shares shall take precedence in the principal reimbursement, up to the amount of Euro 1.50 (one point five zero) per share. In the event of stock splits or reverse stock splits (as in other transactions involving the share capital that would require action to avoid altering the rights of holders of savings shares as if the shares had a par value), the fixed amounts per share listed above will be modified appropriately.



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# Consolidated financial statements at 31 December 2007

## Consolidated balance sheet

Distinction of items between current/non-current (thousands of Euro)	notes reference	as at 31.12.2007	as at 31.12.2006
Plant, property and equipment	4.1	619,160	619,923
Investment property	4.2	20,516	10,591
Goodwill and consolidation differences	4.3	114,582	109,840
Other intangible assets	4.4	2,654	955
Investments in subsidiaries and associates	4.5	5,279	4,906
Investments in other companies	4.5	3,693	245
Investments in equity - accounted investees	4.5	-	2,634
Other non-current assets	4.6	28,019	29,143
Deferred tax assets	4.19	36,513	44,710
<b>Non-current assets</b>		<b>830,416</b>	<b>822,947</b>
Inventories	4.7	628,233	683,627
Trade receivables	4.8	127,843	230,693
Other receivables and current assets	4.9	89,475	67,791
Current financial assets	4.10	34,048	75,347
Cash and cash equivalents	4.11	93,936	162,098
<b>Current assets</b>		<b>973,535</b>	<b>1,219,556</b>
<b>Total assets</b>		<b>1,803,951</b>	<b>2,042,503</b>
Share capital		324,165	319,643
Other reserves		96,133	93,654
Treasury shares	2.10	(37)	(37)
Retained earnings		5,917	5,176
Technical consolidation reserves*		68,787	25,044
Reserve for deferred taxes	2.10	194	-
Profits for the year		40,774	51,785
<b>Equity attributable to shareholders of the parent</b>		<b>535,933</b>	<b>495,265</b>
Equity attributable to minority interests		1,690	-
<b>Total Equity</b>		<b>537,623</b>	<b>495,265</b>
Employee benefits	4.13	158,510	166,904
Deferred tax liabilities	4.19	118,290	160,289
Financial payables and liabilities	4.14	393,077	487,353
Other non-current liabilities	4.15	8,000	7,721
Provision for risks and charges	4.16	130,065	143,137
<b>Non-current liabilities</b>		<b>807,942</b>	<b>965,404</b>
Financial payables and liabilities	4.17	127,899	279,175
Trade payables	4.18	172,592	164,575
Other current liabilities	4.18	131,020	108,080
Provision for risks and charges	4.16	26,875	30,004
<b>Current liabilities</b>		<b>458,386</b>	<b>581,834</b>
<b>Total liabilities and equity</b>		<b>1,803,951</b>	<b>2,042,503</b>

\* The item "technical consolidation reserve" is made up of retained earnings or losses carried forward, the consolidation reserve and the translation reserves.

The balance sheet, income statement and cash flow statement do not distinctly show the amounts relating to positions or transactions with related parties as they were not considered to contribute significantly to understanding the financial position and results of the Group.

## Consolidated income statement

Classification of costs by nature (thousands of Euro)	notes reference	FY 2007	FY 2006
Revenue from sales	5.1	3,485,318	3,556,833
Variation in stocks of finished and semi-finished products		(3,860)	10,883
Capitalised internal work		1,918	2,601
Other operating revenue		26,809	16,027
Purchase and change in raw materials		(2,727,694)	(2,751,587)
Personnel expense	5.2	(349,288)	(347,350)
Amortisation/depreciation and impairment losses	5.3	(50,647)	(51,394)
Other operating costs	5.4	(309,139)	(307,440)
<b>Operating profit (EBIT)</b>		<b>73,417</b>	<b>128,573</b>
Financial income	5.5	7,837	6,081
Financial expense	5.5	(44,298)	(50,738)
Share of profit of equity - accounted associates		-	216
Pre-tax profit		36,956	84,132
Current taxes	5.6	(30,026)	(4,938)
Deferred taxes	5.6	34,228	(27,409)
<b>Total Income taxes</b>		<b>4,202</b>	<b>(32,347)</b>
<b>Profit from continuing operations</b>		<b>41,158</b>	<b>51,785</b>
Profit/(loss) from discontinued operations		-	-
<b>Total profit</b>		<b>41,158</b>	<b>51,785</b>
Profit attributable to minority interests		384	-
<b>Profit attributable to shareholders of the parent</b>		<b>40,774</b>	<b>51,785</b>

earnings per share (figures in Euro):	2007	2006
basic earnings per share	0.1668	0.2751*
diluted earnings per share	0.1457	0.2259*

\* The "earnings per share" indicated at the foot of the income statement takes into account, pursuant to IAS 33 par. 64, the grouping (at a ratio of 1 ordinary and savings share for each 3 of the same type) decided upon by the Shareholders' Meeting of 21 June 2007 that was executed on 16 July 2007.

As a consequence of this, the indices at 31 December 2006 were modified according to the new number of shares.

The balance sheet, income statement and cash flow statement do not distinctly show the amounts relating to positions or transactions with related parties as they were not considered to contribute significantly to understanding the financial position and results of the Group.



## Statement of changes in consolidated Equity of KME Group S.p.A. at 31 December 2007

(thousands of Euro)	Share capital	Other reserves	Treasury shares	Parent Company results from previous years	Consolidation reserves	Reserve for deferred taxes	Profit for the year	Total equity
<b>Equity at 31.12.2005 IFRS</b>	<b>189,775</b>	<b>93,658</b>	<b>(37)</b>	<b>5,165</b>	<b>22,292</b>	-	<b>4,343</b>	<b>315,196</b>
<b>Equity at 31.12.2006 IFRS</b>	<b>319,643</b>	<b>93,654</b>	<b>(37)</b>	<b>5,176</b>	<b>25,044</b>	-	<b>51,785</b>	<b>495,265</b>
Allocation of Parent Company profit	-	258	-	6,948	-	-	(7,206)	-
Allocation of subsidiaries' profit	-	-	-	-	44,579	-	(44,579)	-
Distribution of dividends	-	-	-	(6,207)	-	-	-	(6,207)
Share capital increase net of charges	4,522	-	-	-	-	-	-	4,522
Granting of stock options	-	2,221	-	-	-	-	-	2,221
Recognised in equity with no impact on the income statement	-	-	-	-	-	194	-	194
Change in technical consolidation reserves	-	-	-	-	(836)	-	-	(836)
<i>Total income/expense recognised directly in Equity</i>	-	-	-	-	<i>(836)</i>	<i>194</i>	-	<i>(642)</i>
Profit for the year	-	-	-	-	-	-	40,774	40,774
<i>Total recognised income and expense</i>	-	-	-	-	<i>(836)</i>	<i>194</i>	<i>40,774</i>	<i>40,132</i>
<b>Equity at 31.12.2007 IFRS</b>	<b>324,165</b>	<b>96,133</b>	<b>(37)</b>	<b>5,917</b>	<b>68,787</b>	<b>194</b>	<b>40,774</b>	<b>535,933</b>
Reclassification of treasury shares	(37)	-	37	-	-	-	-	-
<b>Equity at 31.12.2007 IAS/IFRS</b>	<b>324,128</b>	<b>96,133</b>	<b>-</b>	<b>5,917</b>	<b>68,787</b>	<b>194</b>	<b>40,774</b>	<b>535,933</b>

At 31 December 2007, the Parent Company held 21,666 saving shares, with no nominal value. These were reclassified as a whole as a decrease in the share capital.

The change in the “technical consolidation reserves” is mainly attributable to the first consolidation of the Chinese companies and to a lesser extent to the translation of the financial statement items into Euro, as they were expressed in a currency other than the presentation currency of these financial statements.

## Consolidated cash flow statement of KME Group S.p.A. 31 December 2007

(thousands of Euro)	2007	2006
<b>(A) Cash and cash equivalents at the beginning of the year</b>	<b>162,098</b>	<b>151,992</b>
Pre-tax profit	36,956	84,133
Amortisation/depreciation	50,272	53,421
Impairment losses on current assets	4,132	1,439
Impairment losses (reversals of impairment losses on) non-current assets other than financial assets	375	(2,027)
Impairment losses (reversals of impairment losses) on current and non-current financial assets	-	1,149
Net interest accrued	30,092	33,452
Gains (losses) on non-current assets	256	(789)
Share of (loss of) equity - accounted associates	-	(216)
Change in pension funds, post-employment benefits and stock options	(4,270)	681
Change in provision for risks and charges	(15,991)	14,653
Decreases (increases) in inventories	53,632	(238,887)
Decreases (increases) in current receivables	84,278	108,694
Decreases (increases) in current payables	21,181	55,512
Changes from currency translations	(300)	96
Net interest paid in the year	(29,996)	(33,366)
Current taxes paid and reimbursed in the year	(30,260)	(5,004)
<b>(B) Cash flows from Operating Activities</b>	<b>200,357</b>	<b>72,941</b>
(Increases) in non-current intangible assets and property, plant and equipment and investment property	(70,818)	(50,242)
(Decreases) in non-current and intangible assets and property, plant and equipment and investment property	7,730	3,512
Decreases (increases) in investments	(424)	(479)
Decreases (increases) in available for sale financial assets	(3,448)	-
Decreases (increases) in other non-current assets/liabilities	1,381	16
Dividends received	1,531	1,750
<b>(C) Cash flows from Investing Activities</b>	<b>(64,048)</b>	<b>(45,443)</b>
Share capital increase	4,522	128,835
Decreases (increases) in current and non-current financial payables	(244,128)	(84,036)
Decreases (increases) in current and non-current financial receivables	41,277	(60,877)
Dividends paid	(6,570)	(1,314)
<b>(D) Cash flows from financing Activities</b>	<b>(204,899)</b>	<b>(17,392)</b>
<b>(E) Change in cash and cash equivalents (B) + (C) + (D)</b>	<b>(68,590)</b>	<b>10,106</b>
<b>(F) Effect of the change in the consolidation scope</b>	<b>428</b>	<b>-</b>
<b>(G) Cash and cash equivalents at the end of the year (A) + (E) + (F)</b>	<b>93,936</b>	<b>162,098</b>

The balance sheet, income statement and cash flow statement do not distinctly show the amounts relating to positions or transactions with related parties as they were not considered to contribute significantly to understanding the financial position and results of the Group.

# Accounting policies and notes to the consolidated financial statements

## 1. General information

KME Group S.p.A. (“KME GR”) and its industrial subsidiaries (which together constitute the “Group”) operate in the semi-finished copper and copper alloys sector.

The Group owns manufacturing plants in various European countries and China and markets its products in all the main countries of the world.

KME Group S.p.A. is a Joint-Stock Company registered in Italy in the Florence Companies Register, no. 00931330583, and its shares are listed on the electronic equity market organised and managed by Borsa Italiana S.p.A. (Italian Stock Exchange).

The financial statements at 31 December 2007 were approved by the Board of Directors on 14 March 2008 and will be published according to legal requirements.

The three Chinese companies (Dalian Dashan Crystallizer Co. Ltd., Dalian Heavy Industry Machinery Co. Ltd. and Dalian Surface Machinery Co. Ltd.), control of which was acquired during the year, were consolidated for the first time in these financial statements. The comparative consolidated data presented, which is relative to the preceding year has not been adjusted as the effects produced from the scope of the consolidation are not significant.

## 2. Accounting policies

### 2.1 Preparation criteria

The annual financial statements at 31 December 2007 were prepared according to recommendations by CONSOB (Italian Stock Exchange Regulatory Commission) in the Issuers’ Regulations and in compliance with IFRS.

The consolidated financial statements were prepared in compliance with measurement and recognition policies established by the **International Financial Reporting Standards (IFRS)** issued by the **International Accounting Standards Board (IASB)** and adopted by the European Commission according to the procedure referred to in article 6 of Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002. In preparing these financial statements, the Directors took into consideration the accruals principle, the going concern assumption, understandability, relevance, materiality, reliability, neutrality, prudence and comparability.

The Group has still not applied those standards which, although issued by the IASB, are effective following the date of these financial statements. In particular, IFRS 8, IAS 23, IFRIC 12, IFRIC 13 and IFRIC 14.

The future adoption of these standards is not however, expected to have a significant impact on the Group's financial position and result of operations.

Company events and operations are recorded and represented according to their economic substance and situation and not just their legal form.

These financial statements contain notes illustrating the content and significance of the alternative performance indicators which are not required by IFRS, in line with recommendation 178b of the CESR 05, published on 3 November 2005.

### 2.2 Basis of Consolidation

#### (a) Subsidiaries

The subsidiaries are all companies over which KME GR exercises control, insofar as financial and operational policies, which is generally accompanied by the possibility of exercising more than 50% of the voting rights within the corporate bodies.

The assets and liabilities, income and expenses of the subsidiaries consolidated on a line by line basis have been included in the consolidated financial statements in their entirety as from the time control was acquired; the value of the investments has been offset against the portion of equity of the investees by attributing to the individual elements of the balance sheet assets and liabilities their current value on the date control was acquired. Any residual difference, if positive, is recorded under “amortisation and consolidation differences” and in

profit or loss if negative. The portion of equity and profit attributable to minority interests is recognised under the relevant items. After initial recognition, “Goodwill” is measured at cost less accumulated impairment losses according to IAS 36 “*Impairment of Assets*”.

There were no changes in the scope of the consolidation, from which non significant subsidiaries and companies, the consolidation of which does not produce material effect, were excluded. These are generally companies that carry out sales activities. The effects of this exclusion are not material and therefore their omission does not influence the decisions of the financial statements users.

The profit deriving from intercompany transactions with third parties that have not yet been realised are derecognised if they are significant. Receivables, payables, income, expenses, guarantees, commitments and risks between consolidated companies are also eliminated. Intercompany losses are not derecognised as they are considered to be representative of a lower actual value than the carrying amount of the asset that has been disposed of. All financial statements of subsidiaries have been adjusted in order to achieve uniformity in the principles and valuation criteria adopted at the Group level.

The financial year of all the subsidiaries included in the scope of the consolidation coincides with the calendar year.

Following are the subsidiaries which are consolidated on a line by line basis.

### Summary of companies consolidated according to the line-by-line method

Name	Registered office	Currency	Share/quota capital	Business object	% owned	
					directly	indirectly
KME Group S.p.A.	Italy	Euro	324,164,704	Financial	Parent Company	
KME Germany A.G.***	Germany	Euro	142,743,879	Copper products and its alloys	100.00%	
KME Italy S.p.A.***	Italy	Euro	103,839,000	Copper products and its alloys	3.7%	96.30%
KME France S.A.S.***	France	Euro	15,000,000	Copper products and its alloys		100.00%
KME Spain S.A.***	Spain	Euro	1,943,980	Commercial		100.00%
KME LOCSA S.A.***	Spain	Euro	10,040,000	Copper products and its alloys		100.00%
KME Verwaltungs und Dienst. mit beschr.	Germany	Euro	10,225,838	non-operating		100.00%
Fricke GmbH	Germany	Euro	25,564	Holding		100.00%
Kabelmetal Messing Beteiligungsges GmbH Berlin	Germany	Euro	4,514,200	Property		100.00%
Fricke GmbH & Co. KG	Germany	Euro	1,329,359	Copper products and its alloys		100.00%
Cuprum S.A.	Spain	Euro	60,910	Commercial		100.00%
Bertram GmbH	Germany	Euro	300,000	Services		100.00%
KME Ibertubos S.A.	Spain	Euro	332,100	Copper products and its alloys		100.00%
KME Yorkshire Ltd.	UK	GBP	10,014,603	Copper products and its alloys		100.00%
Yorkshire Copper Tube	UK	GBP	3,261,000	non-operating		100.00%
Yorkshire Copper Tube (Exports) Ltd.	UK	GBP	100	non-operating		100.00%
KME Brass Germany GmbH***	Germany	Euro	50,000	Copper products and its alloys		100.00%
KME Brass France S.A.S.***	France	Euro	7,800,000	Copper products and its alloys		100.00%
Immobiliare agricola Limestre S.r.l.	Italy	Euro	3,216,000	Property	100.00%	
Dalian Dashan ChrySTALLizer Co. Ltd.*	China	RMB	10,000,000	Copper products and its alloys		70.00%
Dalian Surface Machinery Ltd.*	China	RMB	5,500,000	Copper products and its alloys		70.00%
Dalian Heavy Industry Machinery Co. Ltd.*	China	RMB	10,000,000	Copper products and its alloys		70.00%
KME Brass Italy S.r.l.***	Italy	Euro	15,025,000	Copper products and its alloys		100.00%
EM Moulds S.r.l.**	Italy	Euro	115,000	Commercial		100.00%

\* At 31 December 2007, upon finalisation of their acquisition, the three Chinese companies were included in the scope of the consolidation. Dalian Dashan ChrySTALLizer Co. Ltd. and Dalian Surface Machinery Ltd. had previously been consolidated using the equity method. Further details on these acquisitions are provided in other parts of this document.

\*\* During 2007, EM Moulds S.r.l. was established so as to exploit the commercial part of the “ingot mould” sector. The activity of EM Moulds S.r.l. consists of running the division in charge of marketing ingot moulds that had previously been among the activities of KME Italy S.p.A..

\*\*\* Beginning 1 May 2007, all the indicated companies assumed a new company name that is distinguished by the brand KME, so as to strengthen visibility and recognition on the international market.

On 19 November 2007, with accounting and tax effects starting from 1 December 2007, the partial split of subsidiary Immobiliare Agricola Limestone S.r.l. took place through the transferral of a part of the real estate assets belonging to subsidiary KME Italy S.p.A. Upon conclusion of this transaction, KME Group S.p.A. made a direct investment in the share capital of KMW Italy S.p.A. of approximately 3.7%.

#### **(b) Associates**

Associates are all the companies in which KME GR exercises considerable influence but over which it does not have control. Significant influence exists when KME GR holds, directly or indirectly through subsidiaries, 20% or more of the voting rights in the investee. Investments in associates are consolidated using the equity method.

With the equity method, the investment is initially recognised at cost and then adjusted in order to show the portion of profits or losses that after the acquisition date pertaining due to the parent. Dividends reduce the carrying amount of the investment.

There were no associates consolidated using the equity method at the balance sheet date.

### **2.3 Transactions in a foreign currency**

#### **(a) Functional and presentation currency**

All amounts are expressed in Euro which is also the Parent's functional currency.

#### **(b) Translation of the financial statements originally in currencies other than the Euro**

The financial statements prepared in a foreign currency were translated into Euro by applying to each item of the income statement the average exchange rates for the year and to the balance sheet items the exchange rate ruling at the balance sheet date.

The exchange rates used for translation of foreign currencies were:

1 Euro	Equal to 0.6716 GBP	31.12.2006
1 Euro	Equal to 0.7334 GBP	31.12.2007 used for the translation of the balance sheet
1 Euro	Equal to 0.6842 GBP	average for 2007 used for the translation of the income statement
1 Euro	Equal to 10.2793 RMB	31.12.2006
1 Euro	Equal to 10.7524 RMB	31.12.2007 used for the translation of the balance sheet
1 Euro	Equal to 10.4347 RMB	average for 2007 used for the translation of the income statement

The difference between the profit for the year as this results from the translation using the average rates for the year and that which results from the translation using the rates at the end of December, flowed into the technical consolidation reserves and equity attributable to shareholders of the parent and minority interests. These differences, in the event of disposal, will be taken to the income statement as part of the gains or losses relating to the disposal of these investments.

### **2.4 Property, plant and equipment**

They are recorded at acquisition or production cost, including additional charges that are directly recognised.

They are valued at cost, net of depreciation and accumulated impairment losses, with the exception of land which is not depreciated and is valued at cost net accumulated impairment losses.

Depreciation is accounted for starting from the month that the asset was available for use, or when it is in a position to provide the economic benefits associated with it. Depreciation is charged on a monthly basis on a straight line basis until the end of their useful lives or, in the event of disposal, up to the last month of use.

The depreciation rates take into account the useful life of the various manufacturing plants according to the calculations of the America Appraisal firm. The new useful lives have been applied starting from 1 January 2004 to

the property, plant and equipment for which fair value as a deemed cost has been adopted on the date of transition to the IFRS and for other assets new useful life started from 1 January 2005.

The depreciation is calculated according to the following useful lives:

Buildings	from 25 to 50 years
Plant and machinery	from 10 to 30 years
Other equipment	from 5 to 15 years

Financial charges relating to the purchase of non-current assets are recognised in the income statement unless they are directly attributable to the acquisition, construction or production of an asset which justifies its capitalisation.

Replacement parts with a significant value are capitalised and depreciated based on the useful life of the asset to which they refer; others are charged to the income statement when the expense occurs.

Assets acquired through finance leases are recognised as items of property, plant and equipment with a balancing entry under payables. The cost of the lease is separated into the following components; financial charges, recognised in the income statement and capital repayment, recorded by reducing the financial debt. Assets under finance lease held are recognised at cost or at the present value of minimum lease payments due at the start date of the contract, whichever is the lower.

In the presence of specific impairment indicators, property, plant and equipment are subject to impairment testing. The test involves estimating the recoverable amount of the asset, defined as the higher between the fair value less costs to sell and the value in use, and in comparison with the relative carrying amount. If the recoverable amount is less than the carrying amount, the latter is reduced to the recoverable amount; this reduction is charged to the income statement, i.e. to the fair value reserve which was set up previously during revaluation of the asset concerned. Any subsequent revaluations follow the opposite path.

## 2.5 Intangible assets

### (a) Goodwill

Goodwill is the difference between the acquisition cost of investments and the present value of the subsidiaries' assets, liabilities and contingent liabilities on the acquisition date. Goodwill and other intangible assets which have an indefinite useful life, the latter not currently presented in the financial statements, are not amortised; the recoverability of their initially recognized carrying amount is confirmed each year or whenever events occur that could indicate an impairment loss. Impairment losses are not reversed.

### (b) Other intangible assets with definite useful lives

The intangible assets refer to assets without identifiable physical consistency, controlled by the Company and capable of producing future economic benefits.

Intangible assets can be acquired by the Company through:

- purchases from third parties;
- business combinations;
- internally generated production.

In the first two cases, intangible assets are measured initially at cost and at fair value respectively, including charges that are directly recognised. They are then systematically amortised based on their residual useful life given by the expected period in which the assets are used by the company, generally between 3 and 5 years. In addition, these assets are expressed net of any impairment losses by adopting the same criteria used for property, plant and equipment. Their residual value at the end of their useful life is assumed to be zero.

Internally generated assets are capitalised only if the conditions dictated by IAS 38, paragraph 57 exist.

## 2.6 Investments property

These are land and buildings owned for the obtainment of lease payments or for the appreciation of invested capital or both. These assets are measured at fair value and are thus not amortised. As at the date of transition to IFRS the aforementioned assets were measured at fair value and this value was used as deemed cost. The subsequent variations in fair value were recognised directly in the income statement.

In the event of a change of use from investment property to one involving property, plant and equipment, the fair value on the date of the change of use is considered as a deemed cost in the subsequent accounting.

## 2.7 Financial assets

In the individual financial statements of the subsidiaries, all investments in subsidiaries, associates and joint ventures are measured at cost.

Pursuant to the reasons set forth in paragraph 2.2, the investments in subsidiaries that are not part of the scope of consolidation are measured at cost and adjusted for accumulated impairment losses.

The other investments are measured at fair value with the effects recognised in equity. When the fair value cannot be reliably determined, the investments are measured at cost that is adjusted for accumulated impairment losses.

Non-derivative financial assets with fixed or set payments or payments which have a specific maturity, that the company intends to hold until maturity, are designated as "assets held to maturity". The assets which belong to this category are measured using the amortised cost method based on the effective interest method as it is defined in IAS 39.

Financial assets acquired or held mainly for the purpose of sale or repurchase in the short term and derivative financial instruments not designated as hedging instruments are classified in the category "financial assets recognised at fair value through profit or loss" with separate indication of those that are designated in this category at the moment of their initial recognition (fair value option). These assets are measured at fair value with the effects recognised in the income statement.

Non-derivative financial instruments, with the exception of equity instruments, with fixed or determinable payments, not listed on an active market which do not belong to the preceding categories, are classified as "loans and receivables" and are measured at amortised cost using the effective interest method. For current loans and receivables and for all trade payables and receivables in general and in the short term those for which the time component has little relevance, it is presumed that the amortised cost corresponds with the carrying amount.

All remaining non derivative financial assets which are not classified among the previous three categories are classified as "*available for sale financial assets*" and measured at fair value with the effects charged directly to equity except for impairment losses.

Treasury shares are measured at historical purchase cost and recorded by reducing consolidated equity. In the event of sale, re-issue or cancellation, the subsequent profits and losses are recorded in equity.

### Accounting for hedging activities

The Group uses derivative financial instruments for hedging financial risks that are connected to changes in the prices of raw materials, interest rates and exchange rates. The use of derivative financial instruments, mainly LME (London Metal Exchange) contracts, Interest Rate Swaps (IRS) and forward currency contracts is governed by explicit strategic risk management policies that have been approved by the Board of Directors. The Group does not use derivative financial instruments for speculation. In any case, the Group does not account for the aforementioned financial instruments according to hedge accounting rules as these transactions do not fulfil the official requirements set forth in IAS 39.

Standard purchases and sales of the aforementioned financial instruments are accounted for at the trading date.

### Calculation of impairment losses

All financial assets through profit or loss, with the exception of “financial assets and liabilities at fair value through profit or loss”, are subject to impairment testing pursuant to IAS 39, paragraphs 58-70.

A financial asset is said to have become impaired when there is objective evidence that one or more events have had a negative impact on the expected estimated cash flows expected from that asset.

An impairment loss on a financial asset measured at amortised cost corresponds to the difference between the carrying amount and the present value of expected estimated cash flows discounted at the original effective interest rate. An impairment loss on available for sale financial asset is calculated according to the fair value of said asset.

All impairment losses are recorded in the income statement. Any accumulated impairment loss on a financial asset available for sale previously recognised in equity is transferred to the income statement upon realisation.

Impairment losses are reversed if the subsequent value increase can be objectively linked to an event which took place after the impairment loss. In the case of assets measured at amortised cost and assets available for sale corresponding to debt securities, the reversal is recorded in the income statement. In the case of available for sale financial assets in the form of equities, the reversal is recorded directly in equity.

### Measurement of fair value

The fair value of financial assets and liabilities recognised in the income statement at fair value and of those available for sale at the time of initial recognition is determined on the basis of the transaction price and is therefore equal to the amount paid or received.

Subsequently and at each balance sheet date, the fair value of financial instruments listed on an active market is based on market prices. The market prices used for derivatives are the bid prices, whereas ask prices are used for financial liabilities. The fair value of instruments that are not listed on an active market is determined using valuation techniques, based on a series of methods and assumptions linked to market conditions at the balance sheet date. The fair value of interest rate swaps is calculated based on the present value of expected future cash flows. The fair value of forward currency contracts is determined using the forward exchange rate at the balance sheet date.

*Derivatives not classified as hedging instruments.* Fair value adjustments of derivative instruments not classified as hedging instruments are recognised directly in the income statement.

The fair value of non-derivative financial instruments is determined by discounting future cash flows based on the market interest rate at the balance sheet date. For finance leases, interest rates are used which refer to similar contracts.



## 2.8 Factoring of receivables

The KME Group transfers a significant portion of its trade receivables through factoring transactions. These transactions can take place with or without recourse. Factoring of receivables without recourse by the Group takes place according to the requirements set forth in IAS 39 for derecognition of assets, since essentially all risks and benefits have been transferred. For transactions that do not fulfil the requirements set forth in IAS 39, the receivables remain in the Group's balance sheet even though they have been lawfully transferred, while they are offset by a liability of an equal amount in the consolidated financial statements.

## 2.9 Inventories

Inventories are measured at the lower of purchase or production cost and estimated realisable value.

The value of metals and the cost of production are handled in specific ways:

- Metal (including the metal container in work in progress and in finished products) is measured at the average weighted cost each quarter. This value can be reduced at the end of the year in order to align it with the official average price, with any charges added, for December as listed by the LME, or the official price in January, if lower.
- The cost of production of work in progress and finished goods includes direct charges and the portion of the indirect expenses that can reasonably be assigned to the product, not including administrative expenses, selling expenses and financial charges.

Work in progress is measured, insofar as the services rendered, according to the consideration agreed less marketing costs.

Supplies and consumables are measured at the average cost.

## 2.10 Cash and cash equivalents

This includes cash, demand deposits and high liquidity short term financial investments that are readily convertible to cash and which are subject to risk regardless of the change in value (IAS 7 paragraph 45).

## 2.11 Equity

Share capital is comprised of ordinary shares and savings shares, with no nominal value, fully subscribed and paid up at the balance sheet date, reduced by any share capital proceeds to be received. Also, the value of treasury shares repurchased, according to IAS 32, is shown in reduction of the share capital issued, whilst the premium or the discount with respect to the nominal value adjusts the other components of Equity. This representation however, is shown solely in the notes, whilst in the schedules the historical cost of treasury shares held is shown separately with a minus sign, reducing Equity.

The reserve for treasury shares is no longer recorded due to the differing presentation introduced by the IFRS. The balance of the already existing reserve has therefore been reclassified to the specific reserves which had already been used to create it.

Costs for Equity transactions have been charged directly against equity-related reserves by preferably using the share premium reserve. These charges were subsequently covered during the year through a reduction in available reserves, as resolved by the Shareholders' Meeting of 23 May 2007.

The balance of the adjustments due to transition to IFRS is recorded in a special equity reserve named "IFRS first-time adoption".

## 2.12 Payables

Payables are recognised at amortised cost. When the effect of the discount is not significant, as in short term trade payables, they are recorded at their nominal value.

## 2.13 Current and deferred taxes

Current income taxes are calculated based on the estimated taxable income, taking into consideration the rates and the tax legislation in force or essentially approved at the balance sheet date.

Deferred tax assets and liabilities are measured on the temporary differences between the carrying amount of the assets and liabilities recognised in the financial statements and the corresponding amounts recognised for tax purposes according to the so-called “balance sheet liability method”. Deferred tax assets are recognised only when their recovery is probable. The carrying amount of deferred tax assets is reviewed at each balance sheet date in order to confirm maintenance or occurrence of the probability of future use condition.

Deferred taxes are not discounted and recognised in non-current assets and liabilities. Deferred tax assets and liabilities are paid to each individual subsidiary when the conditions in accordance with IAS 12 exist.

## 2.14 Employee benefits

Post employment benefits are defined on the basis of plans which, according to their characteristics are distinguished as defined contribution and defined benefit plans. With defined contribution plans the obligation of the Company, limited to the payment of contributions to a separate legal entity (this may also be the State or a fund), is composed of contributions due at the balance sheet date. Liabilities relating to defined benefit plans, such as post-employment benefits defined by article 2120 of Italian Civil Code, net of any plan assets, is determined on the basis of actuarial assumptions and recorded on an accruals basis consistent with the length of service required to obtain the benefits. Actuarial profits and losses relating to defined benefit plans deriving from changes in the actuarial assumptions or from modifications to the conditions of the plans are recorded proportionately in the income statement using the so-called “corridor method”, i.e. recorded only when the net value of actuarial profits and losses not recorded at the end of the previous financial year exceeds the greater of 10% of the present value of the obligation and 10% of the fair value of any plan asset.

The measurement of defined benefits plans have been carried out by independent actuaries.

## 2.15 Provisions

Provisions are liabilities with uncertain maturities or amounts. Provisions have been recorded only when:

1. the Group has a current (legal or implicit) obligation owing to a past event;
2. it is probable that resources will be needed to produce economic benefits to meet the obligation;
3. it is possible to make a reliable estimate of the amount of the obligation.

The amounts provided for are therefore the best estimates of the expenses needed to settle the obligation or transfer it to third parties at the balance sheet date. If the effect of the present value of money is significant, the provision is represented by the present value of the expenses that will be needed to settle the obligation.

Provisions for restructuring costs are recognised only if the Group has a formal detailed plan which at least shows: the activity and main operating units concerned, the costs to be incurred, the approximate number of employees involved and when interested third parties have a valid expectation that the entity will implement said restructuring because it has already begun implementation or has communicated it publicly.

## **2.16 Recognition of revenue**

Revenue from the sale of goods are measured at the fair value of the consideration received or expected, taken into account any returns, rebates, sales discounts or volume discounts. Revenue is recognised when the significant risks and rewards connected to the ownership of the goods have been transferred to the buyer, when the recoverability of the consideration is probable and the relative costs or any returns of goods can be reliably estimated.

The transfer of risks and rewards vary according to the conditions of each sales agreement.

## **2.17 Leases**

Leases are contracts in which the lessor transfers to the lessee, in exchange for payment or a series of payments, the right to use an asset for an agreed period of time. Contracts that essentially transfer all risks and rewards deriving from ownership of the asset are defined as “finance leases” even when ownership is not transferred at the end of the contract. Finance leases are recognised according to the terms of IAS 17, paragraphs 20-32.

Operating leases are defined by exclusion, as those that are not considered to be finance leases.

## **2.18 Financial income and expense**

Financial income includes interest income from investments, gains on exchange, dividends, commissions on guarantees given, gains on disposal of available for sale financial assets, positive changes in the fair value of assets held for trading and derivatives except for positive changes in the fair value of LME contracts as these are included in the “other operating costs” item. Dividends are recorded only when the Shareholders’ right to receive payment has been established.

Financial expense include interest expense on financing transactions, losses on exchange, dividends, commissions or guarantees given, losses on disposal of available for sale financial assets, negative changes in the fair value of assets held for trading and derivatives except for negative changes in the fair value of LME contracts as these are included in the “other operating costs” item.

## **2.19 Stock options**

As shown in the financial statements at 31 December 2006, personnel expense includes the expense relative to stock options granted to executive members of the KME Group S.p.A. Board of Directors and some Group Executives, in line with the remuneration they receive. The fair value of stock options has been determined by the option value at the grant date by applying the Black & Scholes model which takes into consideration the conditions relating to the exercising of the right, the current share value, and the exercise price, duration of the option, dividends, the expected volatility and the risk-free interest rate. The relative cost of the stock options, distributed over the entire vesting period, is recorded as a contra-item in Equity under the item “Reserve for stock options”. The fair value of rights assigned to executives of KME Group S.p.A. subsidiaries is charged to companies in which the executives are on the permanent staff, by applying IFRIC interpretation 11 in advance as allowed by paragraph 12 of the same interpretation.

## 2.20 Earnings per share

The following criteria are applied to the calculation of the basic and diluted earnings per ordinary share:

1. for the numerator, the profit attributable to shareholders of the Parent, adjusted by the result that is to be attributed, for the current year, to the outstanding savings shares minus the treasury shares held directly or through subsidiaries;
2. for the denominator of the “basic earnings per share” indicator, the weighted average of the ordinary shares outstanding during the year minus any ordinary treasury shares;
3. for the denominator of the “diluted earnings per share” indicator, the weighted average of the ordinary shares was adjusted by including the issue of new ordinary shares following:
  - the conversion of all outstanding warrants;
  - the exercise of all stock options assigned.

For this calculation, it was assumed that the conversions of the warrants and the exercise of the stock options took place at the beginning of the year and that no additional income or lower expenses ensued from these events. The information provided at the foot of the income statement takes into account, pursuant to IAS 33, par. 64, the grouping (of 1 ordinary share and saving share for three of the same type), decided upon by the extraordinary Shareholders’ Meeting of 21 June 2007 which was carried out on 16 July 2007.

The calculation at 31 December 2007 of the basic earnings per share was carried out considering the Group’s Profit, minus the portion for the savings shares, which is attributable to the holders of outstanding ordinary shares, amounting to Euro 40.8 million (Euro 49.7 million in 2006) and the average weighted number of outstanding ordinary shares which are 231,989,955 (161,589,732 in 2006, considering the grouping that took place in the current year). The calculation of the diluted earnings per share takes into account the potential conversion, at a ratio of 3 to 1 ordinary shares, of 67,957,638 warrants and 33,144,471 stock options.

## 2.21 Use of estimates

The preparation of these consolidated financial statements and the notes thereto under IFRS required the Directors to make estimates and assumptions which affected the reported amounts of balance sheet assets and liabilities.

The estimates were mainly used to determine the useful lives of non-current assets, provisions for bad debts, the measurement of impairment losses, employee benefits, taxes, restructuring provisions, intangible assets with an indefinite life and other accruals and provisions.

These estimates and assumptions are periodically reviewed and any effects are reflected immediately in the income statement. At the balance sheet date, the Directors deemed that the estimates and assumptions used reflected the best assessment possible given the information available. In addition, the Directors deemed that the estimates and assumptions adopted did not involve any material adjustments to the carrying amounts of assets and liabilities before the subsequent year.

### 3. Financial risk management policy

In carrying out its activities, the Group is subject to a variety of operating and financial risks. The Group's policy is to eliminate or at least minimize such risks through established hedging strategies that have been approved by the Board of Directors. The Group therefore has in place formal procedures for the definition of objectives and procedures for hedging risks involving: credit, liquidity, currency, interest rates and above all fluctuations in the price of raw materials.

#### Types of risks:

- a) credit risk: the Group does not have significant geographic concentrations for this type of risk. The applicable guidelines focus on ensuring appropriate assessment of customers' creditworthiness. This is achieved by developing customers' portfolios on the basis of historical experience, equity and/or financial information, the lines of credit given, insurance and factoring without recourse of most of the trade receivables;
- b) liquidity risk: this could arise due to difficulty in obtaining financing for working capital at the appropriate time. The inflows and outflows and the liquidity of Group companies are monitored and coordinated centrally by the Group's Treasury;
- c) currency risk: the Group operates internationally and its transactions are conducted in various currencies and at various rates of interest. The exposure to currency risk derives mainly from the geographic placement of the various productive activities and the geographic distribution of the markets in which the Group sells its products. The policy of the Group is to cover all the aforementioned risks using derivative financial instruments such as crisis currency swaps and forward contracts;
- d) interest rate risk: the interest rate risk to which the Group is exposed ensues mainly from long-term loans. Variable rate loans expose the Group to a cash flow risk, while fixed rate loans imply assumption of a risk that fair value will change. The Group manages part of the interest rate risk through IRSs (interest rate swaps) which transform the variable interest rates into fixed ones;
- e) the risk of fluctuations in the prices of raw materials (particularly copper) is the most significant and strategic risk. To this end, the Group uses hedges with physical transactions or forward contracts on the LME (London Metal Exchange), in order to hedge the entire risk. Forward purchases or sales are therefore agreed with top level counterparties.

All derivative financial instruments used by the Group are not designated as hedging instruments pursuant to IAS 39, though they have been set up in order to manage the aforementioned risks.

## 4. Notes to the consolidated financial statements

### 4.1 Property, plant and equipment

(thousands of Euro)	Land	Buildings	Plant and equipment	Other assets	Assets under construction	Total
<b>At 31 December 2005</b>						
Historical cost	56,934	181,076	871,083	149,205	27,008	1,285,306
Accumulated depreciation and impairment losses	80	89,223	465,620	106,078	-	661,001
<b>Net carrying amount</b>	<b>56,854</b>	<b>91,853</b>	<b>405,463</b>	<b>43,127</b>	<b>27,008</b>	<b>624,305</b>
<b>At 31 December 2006</b>						
Historical closing cost	57,970	187,882	882,553	151,567	29,757	1,309,729
Accumulated depreciation and impairment losses	80	94,392	482,459	112,875	-	689,806
<b>Net closing carrying amount</b>	<b>57,890</b>	<b>93,490</b>	<b>400,094</b>	<b>38,692</b>	<b>29,757</b>	<b>619,923</b>
<b>At 31 December 2007</b>						
Historical opening cost	57,970	187,882	882,553	151,567	29,757	1,309,729
Exchange differences	(377)	(391)	(6,092)	(203)	(32)	(7,095)
Change in scope of consolidation	438	2,025	1,871	402	204	4,940
Increases	78	1,600	14,835	8,739	29,226	54,478
Reclassifications	305	2,518	27,043	2,185	(32,051)	-
Decreases	(1,908)	(2,635)	(8,164)	(4,411)	-	(17,118)
<b>Historical closing cost</b>	<b>56,506</b>	<b>190,999</b>	<b>912,046</b>	<b>158,279</b>	<b>27,104</b>	<b>1,344,934</b>
<b>At 31 December 2007</b>						
Accumulated depreciation and impairment losses	80	94,392	482,459	112,875	-	689,806
Exchange differences	(1)	(35)	(5,215)	(190)	-	(5,441)
Change in scope of consolidation	30	309	863	252	-	1,454
Depreciation	8	4,850	37,427	7,032	-	49,317
Losses/releases of impairment losses	-	-	375	-	-	375
Decreases	-	(51)	(5,649)	(4,037)	-	(9,737)
<b>Accumulated depreciation and impairment losses</b>	<b>117</b>	<b>99,465</b>	<b>510,260</b>	<b>115,932</b>	<b>-</b>	<b>725,774</b>
<b>At 31 December 2007</b>						
Historical closing cost	56,506	190,999	912,046	158,279	27,104	1,344,934
Accumulated depreciation and impairment losses	117	99,465	510,260	115,932	-	725,774
<b>Net closing carrying amount</b>	<b>56,389</b>	<b>91,534</b>	<b>401,786</b>	<b>42,347</b>	<b>27,104</b>	<b>619,160</b>
of which under finance leases:	1,300	3,762	-	214	-	5,276

Part of the aforementioned assets, amounting to Euro 279.2 million, were granted as a guarantee for the refinancing agreement signed last year.

The most significant investments of the year are set forth in the report accompanying these financial statements. The assets held under finance leases involve the "Firenze Novoli" building which houses the Group's headquarters (Euro 5.1 million) and some equipment and telephone installations (Euro 0.2 million) of the subsidiary KME Germany A.G.. The lease for this building contains two purchase options on 30 September 2009 and 30 September 2016. At the balance sheet date, there were Euro 29.7 million in commitments to purchase property, plant and equipment. These commitments expire within the upcoming year.

A break down of the minimum future payments due for finance leases on the date on which these notes were drafted and the present value thereof is as follows:

(thousands of Euro)	within 1 year	between 1 and 5 years	due after 5 years	Total 31.12.2007
Minimum lease payments	508	1,731	3,498	5,737
Interest	10	241	1,221	1,472
Present value	498	1,490	2,277	4,265

previous year:

(thousands of Euro)	within 1 year	between 1 and 5 years	due after 5 years	Total 31.12.2007
Minimum lease payments	508	1,841	3,896	6,245
Interest	10	256	1,443	1,709
Present value	498	1,585	2,453	4,536

#### 4.2 Investment property

(thousands of Euro)	Investment property measured at fair value
Carrying amount at 1 January 2007	10,591
Increases due to acquisitions	-
Increases due to capitalised expenses	11,340
Increases due to business combinations	-
Disposals	(2,800)
Changes in fair value	-
Change in use	1,385
Other changes	-
Carrying amount at 31 December 2007	20,516

The “investment property” item consists of investments in land and buildings that belong to Immobiliare Agricola Limestone S.r.l. and KME Italy S.p.A.. This investment property is held for the obtainment of lease payments or for the appreciation of invested capital and is measured at fair value. During the year, no income from lease payments or operating costs directly related to the aforementioned investment property were recognised in profit and loss.

The increases recognised during the year of Euro 11.3 million are due to the appreciation of the fair value and the improvements made to a significant portion of the investment properties. During the last quarter of the year, there was a partial split of the property owned by Immobiliare Agricola Limestone S.r.l. to KME Italy S.p.A., both companies being under common control, which also resulted in a change in the use for part of the assets involved in the transaction. As part of the split, the fair value of the investment property was also appraised by an independent appraiser with experience in the area and type of investment property being appraised, who confirmed the carrying amount and therefore the fair value.

The “disposals” refer to the sale of a building that belonged to the Parent.

#### 4.3 Goodwill and consolidation differences

(thousands of Euro)	KME Germany A.G.	DD Chystall.	DD Surface	DD H. Machinery	Total
Opening net balance	109,840	-	-	-	109,840
Change in the scope of consolidation and reclassification	-	82	404	-	486
Changes in the year	-	2,659	274	1,323	4,256
Changes due to impairment losses	-	-	-	-	-
Closing net balance	109,840	2,741	678	1,323	114,582

During 2007, consolidation differences underwent changes following the conclusion of the acquisition of the Chinese companies, the details of which are set out in detail in the “Directors’ Report”. The “changes in the scope of consolidation and reclass.” column shows goodwill recognized at the time the 30% portion was acquired in 2004.

Though the company is mainly active in products for industry and construction, these areas are not to be considered business segments according to the description set forth in IAS 14; this is based on the fact that the nature of the products, the productive processes, the assets used in these productive processes and the methods of distribution are essentially consistent. Therefore, goodwill was allocated to the only segment on which the

company operates and which is essentially in line with the scope of consolidation of the subsidiary KME Germany A.G..

The recoverable amount of this segment was determined by calculating the value in use.

The value in use was calculated using the future cash flows from the continued use of the unit, on the basis of the following assumptions:

- the cash flows were projected on the actual operating profit/(loss) and over an explicit period of five years, which is the same number of years remaining in the five year strategic plan 2006/2010 that has been approved by the Board of Directors, to which the estimates for subsequent years have been added. A constant growth rate of 0.5% was applied to the cash flows for the past year, which does not exceed the average growth rate for the sector in the long term. Furthermore, the actual profit for 2006 and 2007, the first two years of the strategic plan, were significantly higher than originally forecasted;
- the recoverable amount was calculated by applying a discount rate net of taxes of 7.51%. The discount rate was estimated on the basis of the average cost of capital for the sector based on a possible percentage of borrowings of 51.6%, which is equal to the current borrowings of the KME Germany A.G. Group and a market interest rate of 4.24% (risk free).

The amounts attributed to the main assumptions of the strategic plan represent an appraisal of future performances and are based on external as well as internal (historic data) sources.

An increase of 0.5% in the discount rate that was applied would not have significant consequences.

#### 4.4 Other intangible assets

(thousands of Euro)	Other assets	Assets under development	Total
<b>At 31 December 2005</b>			
Historical opening cost	14,539	13	14,552
Accumulated amortisation	12,921	-	12,921
<b>Closing net carrying amount</b>	<b>1,618</b>	<b>13</b>	<b>1,631</b>
<b>At 31 December 2006</b>			
Historical closing cost	14,976	11	14,987
Closing accumulated amortisation	14,032	-	14,032
<b>Closing net carrying amount</b>	<b>944</b>	<b>11</b>	<b>955</b>
<b>At 31 December 2007</b>			
Historical opening cost	14,976	11	14,987
Exchange differences	-	-	-
Change in scope of consolidation	1,373	-	1,373
Increases	583	972	1,555
Reclassifications	807	(807)	-
Decreases	(1,773)	-	(1,773)
<b>Historical closing cost</b>	<b>15,966</b>	<b>176</b>	<b>16,142</b>
<b>At 31 December 2007</b>			
Opening accumulated amortisation	14,032	-	14,032
Exchange differences	-	-	-
Change in scope of consolidation	275	-	275
Amortisation	954	-	954
Reclassifications	-	-	-
Decreases	(1,773)	-	(1,773)
<b>Closing amortisation fund</b>	<b>13,488</b>	<b>-</b>	<b>13,488</b>
<b>At 31 December 2007</b>			
Historical closing cost	15,966	176	16,142
Closing accumulated amortisation	13,488	-	13,488
<b>Closing net carrying amount</b>	<b>2,478</b>	<b>176</b>	<b>2,654</b>

The increase for the year is mainly due to the signing of a contract with a competitor for the exclusive use of the "SANCO" brand.



The research and development costs are recognised directly in profit or loss. During the year, research and development costs amounted to Euro 1.7 million.

#### 4.5 Investments in subsidiaries, associates and other investments

Following is a list of the Group's investments:

Name	Registered office	Activity	% owned by KME		Dec. 07 thousands of Euro	Dec. 06 thousands of Euro
			directly	indirectly		
<b>Subsidiaries measured at cost</b>						
Accumold AG	Switzerland	In liquidation	100.00%		-	-
E. Metalli Trèfimetàux Deutschland GmbH*	Germany	non-operating	100.00%		-	-
Europa Metalli Trèfimetàux UK Ltd.	UK	non-operating	100.00%		545	595
Evidal Schmole Verwaltungsges mbH	Germany	non-operating	50.00%		-	-
KME Austria Vertriebsgesellschaft mbH	Austria	Commercial	100.00%		168	168
KM - Hungaria Szinesfem Kft.	Hungary	Commercial	100.00%		8	8
KME metal GmbH	Germany	non-operating	100.00%		511	511
KM Polska Sp. Zo.o.	Poland	Commercial	100.00%		64	64
KME (Suisse) S.A.	Switzerland	Commercial	100.00%		1,000	1,000
KME America Inc.	United States	Commercial	100.00%		7	7
KME Asia Pte Ltd.	Singapore	Commercial	100.00%		99	99
KME Chile Lda	Chile	Commercial	100.00%		18	18
KME China Limited	China	Commercial	100.00%		657	657
KME Czech Republic	Czech Republic	Commercial	100.00%		3	3
KME Danmark A/S	Denmark	Commercial	100.00%		134	134
KME Messing Beteiligungs GmbH Norib	Germany	non-operating	100.00%		511	511
KME Portugal Metais Lda	Portugal	Commercial	100.00%		-	-
Irish Metal Industrial Ltd.	Ireland	Commercial	100.00%		-	-
YIM Scandinavia A.B.	Sweden	Commercial	100.00%		-	-
KME Moulds Mexico SA de CV	Mexico	Commercial	100.00%		528	6
Luebke GmbH	Germany	In liquidation	100.00%		102	102
N.V. KME Benelux SA	Belgium	Commercial	100.00%		884	885
Societe Haillane de Participations	France	non-operating	99.99%		40	40
TMX Components S.A.S.	France	Financial	100.00%		-	99
XT Limited	UK	non-operating	100.00%		-	-
KME Metals (Dongguan) Ltd.	China	Commercial	100.00%		-	-
<b>Total</b>					<b>5,279</b>	<b>4,907</b>
<b>Other investments measured at cost</b>						
GreenenergyCapital S.p.A.	Italy	Industrial	80,00%		3,448	-
Consorzio Italmun	Italy	In liquidation	50,00%		129	129
Altre partecipazioni di KME France S.A.S.	France	various	n.a.	n.a.	116	116
<b>Total</b>					<b>3,693</b>	<b>245</b>
<b>Associates measured using the equity method</b>						
Dalian Dashan Chrystallizer Co. Ltd.	China	Industrial	70.00%		-	1,813
Dalian Surface Machinery Ltd.	China	Industrial	70.00%		-	822
<b>Total</b>					<b>-</b>	<b>2,635</b>

\* On 24 October 2007 the company changed its name to KME Beteiligungsgesellschaft mbH.

The total change of Euro 373 million compared to the preceding year in the "Investments in subsidiaries and associates" item consists of:

- A Euro 522 thousand increase due to a grant related to assets, through the conversion of a loan from KME Germany A.G. to KME Moulds Mexico S.A.;
- the merger of the subsidiary TMX Components S.A.S. into KME France S.A.S. on 1 August 2007;
- the conclusion of the liquidation of the Spanish subsidiary Informatica y Organizacion;

- the effect of the change in value of the investment in Europa Metalli Trèfimétaux UK Ltd. (a decrease of Euro 50 thousand).

The item “other investments in KME France S.A.S.” includes small investments (generally less than 1%) in companies that operate in the construction sector. Indeed, the French companies must pay a certain percentage of the personnel expense as contributions, loans or investments in order to assist their staff in purchasing real estate.

The investment in GreenergyCapital S.p.A. implementing the Shareholders’ Meeting resolution of 3 August 2007, was attributed to Shareholders of the Parent Company in the form of the distribution of reserves in January 2008. At the end of this transaction, KME Group S.p.A. had 23,818,726 ordinary shares in portfolio which are equal to approximately 6.85% of the share capital. For more information on the above mentioned transaction, please also see the “Directors’ report on business performance”.

Furthermore, the Group no longer holds investments in “associates accounted for using the equity method” because they have been consolidated following acquisition of control this year, as per IAS 27 par. 13.

#### 4.6 Other non-current assets

This item is mainly composed of guarantee deposits by KME Italy (Euro 0.2 million) and KME France (Euro 0.6 million), receivables from insurance companies due to KME Germany A.G. (Euro 2.3 million), loans to employees, mainly extended by the French subsidiaries in implementation of a provision of the law that allows employees to obtain loans from the company that employs them in order to purchase real estate (Euro 2.3 million) and the amounts paid to a bank, including total interest that matured to 31 December 2007, which amounted to Euro 18.1 million, as an interest bearing guarantee deposit partially covering the payment that will eventually be demanded by the European Commission as penalties for contravening art. 81 of the EU Treaty. This deposit can subsequently be offset with the amount of the penalty that will eventually be set at the end of the currently ongoing court procedure. The unpaid difference was covered through the release of bank guarantees.

None of the above-mentioned amounts is due within one year.

#### 4.7 Inventories

(thousands of Euro)	Initial amounts	Changes in the year	Closing amounts
1) Raw materials, consumables and supplies	605,349	(51,570)	553,779
2) Work in progress and semi-finished products	34,609	(1,550)	33,059
3) Contract work in progress	699	(699)	-
4) Finished products and goods	42,970	(1,575)	41,395
<b>Total</b>	<b>683,627</b>	<b>(55,394)</b>	<b>628,233</b>

The inventories were measured at the lower of cost and realisable value.

At the end of last year, a write-down of Euro 82.3 million was recognised in the income statement in order to account for the lower realisable value compared to the cost determined according to the weighted average cost criterion each quarter.

At end of the year, the write-down totalled Euro 98.7 million.

The decrease in the raw material inventories is essentially attributable to the change in the purchase prices that occurred during the year. The decrease in the quantity affected the depreciation in the value of the inventories by Euro 8.0 million.

## Comparative table of quantities

Inventories owned (amounts in thousands)	31.12.2006	31.12.2007	Var. %
Total tonnes	123.8	121.6	-1.8%

An amount of 114.9 thousand tons of owned inventories consisting mainly of copper was given as a guarantee for the credit lines granted to the Group.

### 4.8 Trade receivables

(thousands of Euro)	Balance at 31.12.2006	Changes in the year	Balance at 31.12.2007
1) due from customers	232,345	(100,858)	131,487
(Bad debt provision)	(7,666)	633	(7,033)
<b>Net total</b>	<b>224,679</b>	<b>-</b>	<b>124,454</b>
2) Due from subsidiaries	5,953	(2,593)	3,360
3) Due from associates	37	(14)	23
4) Due from parents	24	(18)	6
<b>Total</b>	<b>230,693</b>	<b>(102,850)</b>	<b>127,843</b>

The Directors consider that the carrying amount of trade receivables approximates their fair value.

### 4.9 Other receivables and current assets

(thousands of Euro)	Balance at 31.12.2006	Changes in the year	Balance at 31.12.2007
1) Tax assets	14,061	6,532	20,593
2) Advances to suppliers	16,087	(869)	15,218
3) Prepayments and accrued income	2,244	(218)	2,026
4) Receivables due from factoring companies	22,371	15,935	38,306
5) Other receivables	13,028	304	13,332
<b>Total other current assets</b>	<b>67,791</b>	<b>21,684</b>	<b>89,475</b>

The carrying amount of other receivables approximates their fair value. The receivables due from the factoring company concern the amount given as a guarantee for the credit lines granted.

### 4.10 Current financial assets

(thousands of Euro)	Balance at 31.12.2006	Changes in the year	Balance at 31.12.2007
Financial assets held for trading	5,243	-	5,243
LME contracts	15,332	(9,570)	5,762
Interest rate swaps (IRS)/forward exchange contracts	432	917	1,349
Receivables due from factoring companies	53,425	(32,469)	20,956
Other current financial assets	-	248	248
Financial receivables due from subsidiaries	915	(425)	490
<b>Total</b>	<b>75,347</b>	<b>(41,299)</b>	<b>34,048</b>

Financial assets held for trading consist of 5,824,990 savings shares of iNTEk S.p.A. which are held by the Parent. The savings shares were recorded at a unit value of Euro 0.90. The unit price of Euro 0.90 represents the exercise price of the call option granted to the banks which provided the previous banking agreement signed in February 2005 which is no longer in existence. This option will expire in 2012.

The “LME contracts” item refers to the counter value of the potential income from the fair value measurement of the relations that continue to exist at the date this report was drafted.

The receivables due from factoring companies mainly consist of the amounts factored which have not yet been collected at the balance sheet date.

#### 4.11 Cash and cash equivalents

(thousands of Euro)	Balance at 31.12.2006	Changes in the year	Balance at 31.12.2007
Bank and postal accounts	159,458	(65,635)	93,823
Cash on hand	2,640	(2,527)	113
<b>Total</b>	<b>162,098</b>	<b>(68,162)</b>	<b>93,936</b>

The “cash and cash equivalents” item consists of bank and postal accounts and cash on hand.

The decrease in “cash and cash equivalents” is mainly due to the repayment of the financial payables to Parent iNTEK S.p.A. of approximately Euro 50 million (see note 4.17).

#### 4.12 Equity

Please see the “statement of changes in equity” for a breakdown of these changes.

#### 4.13 Employee benefits

(thousands of Euro)	Balance at 31.12.2006	Increases	Decreases	Balance at 31.12.2007
Defined benefit plans	145,386	6,023	(11,799)	139,610
Post-employment benefits	21,518	(84)	(2,534)	18,900
<b>Total</b>	<b>166,904</b>	<b>5,939</b>	<b>(14,333)</b>	<b>158,510</b>

“Defined benefits plans” are net of any plan assets. The defined benefit plans relate to the German subsidiaries for Euro 119.8 million and KME Yorkshire Ltd. for Euro 19.8 million.

The decrease is due to the effect of the implementation in Italy of the social security reform that produced a change in the methodological approach with a reduction in the liability, with direct recognition in profit or loss, due to non-recurring events (e.g. curtailment).

General criteria adopted:

	31.12.2007	31.12.2006
Discount rate	4.8% - 5.8%	4.5% - 5.3%
Rate of return on assets	6.6%	6.9%
Rate of increase in future salaries	2.5% - 3.2%	2.3% - 3.0%
Future increase in services	2.0% - 3.2 %	1.75% - 3.0 %
Average remaining working life	14 anni	14 anni

Net value of liabilities:

	31.12.2007	31.12.2006
Present value of partially or fully funded obligations	67,916	75,289
Fair value of defined benefit plan assets	(63,403)	(65,499)
<b>Deficit</b>	<b>4,513</b>	<b>9,790</b>
Present value of non-financed obligations	149,515	162,966
Actuarial gains (losses) not yet recognised	4,482	(5,852)
Cost of past services not yet recognised	-	-
Amount not recognised as assets pursuant to IAS 19 par. 58 (b)	-	-
<b>Net liabilities shown in the balance sheet</b>	<b>158,510</b>	<b>166,904</b>

The rate of return on assets of 6.6% is based on historical data and the entire portfolio rather than on the sum of the return of each asset category.

Income statement changes (thousands of Euro)	FY 2007	FY 2006
Current service cost	4,096	6,583
Interest expense	10,622	10,323
Expected return on plan assets	(4,169)	(3,570)
Actuarial gains (losses) recognised	19	455
Past service cost	-	22
Effect of any curtailment or settlement	(4,629)	56
Total cost recognised in the income statement	5,939	13,869

All the amounts recognised in profit or loss are included in the "Personnel expense" item.

Other information:

Present value of the obligation (thousands of Euro)	2007	2006
Opening balance of the obligation	238,255	238,127
Current service cost	4,096	6,583
Interest on the obligation	10,622	10,323
Participants' contributions to the plan	363	290
Actuarial gains (losses)	(13,141)	(5,861)
Settled liabilities or liability reductions	-	-
Exchange differences on foreign plans	(6,263)	1,533
Benefits provided and paid	(11,872)	(12,762)
Effect of any curtailment or settlement	(4,629)	-
Past service cost	-	22
<b>Closing balance of the obligation</b>	<b>217,431</b>	<b>238,255</b>

Fair value of plan assets (thousands of Euro)	2007	2006
Opening balance of fair value of plan assets	65,499	59,010
Expected return on plan assets	4,169	3,570
Actuarial gains (losses)	(1,422)	1,234
Exchange differences on plans not in Euro	(5,400)	1,175
Employer contributions	1,752	1,861
Participants' contributions to the plan	363	290
Settlements	-	-
Benefits provided and paid	(1,558)	(1,641)
<b>Closing balance of fair value of plan assets</b>	<b>63,403</b>	<b>65,499</b>

The plan assets are composed of equities (64%) and fixed-income securities (36%).

Present value of defined benefit plans and experience adjustments (thousands of Euro)	2007	2006
Present value of defined benefit obligation	217,431	238,255
Plan assets	(63,403)	(65,499)
<b>Surplus (deficit)</b>	<b>154,028</b>	<b>172,756</b>
Experience adjustments on plan liabilities	4,931	2,714
Experience adjustments on plan assets	(1,422)	70

#### 4.14 Non-current financial payables and liabilities

(thousands of Euro)	Balance at 31.12.2006	Changes in the year	Balance at 31.12.2007
1) Due to banks	482,056	(94,549)	387,507
2) Due to Parent Company	-	-	-
3) Due to lease companies	4,207	(281)	3,926
4) Due to others	1,090	554	1,644
<b>Total</b>	<b>487,353</b>	<b>(94,276)</b>	<b>393,077</b>

During the previous year, KME Group S.p.A. signed two new refinancing contracts for a total value of Euro 1.65 billion. These agreements involve GE Commercial Finance (GE Corporate Finance Bank SA) and Deutsche Bank, each for its own facility.

The first agreement, signed with GE Commercial Finance, consists of a credit line of up to Euro 800 million, usable as factoring without recourse of trade receivables, for a duration of five years. At the balance sheet date, the aforementioned transactions amounted to Euro 369 million.

The second agreement with Deutsche Bank as the Initial Mandated Lead Arranger, Agent and Coordinating bank and with another seven important Mandated Lead Arrangers (BNL, UniCredit, Capitalia, Mediobanca, Commerzbank, Dresdner Bank and HSH Nordbank) consists of two loans:

- one revolving credit line of for up to Euro 650 million for an initial duration of 3 years which can be extended for a further 2 years, for the coverage of the financing requirements of inventories which are guaranteed by this credit line;
- a loan of Euro 200 million to cover other financial needs, of a five year duration (of which 3 years are the grace period and the next two years are repaid on a straight-line basis), guaranteed by the non-current assets of the Group's German industrial firms.

The following were agreed in order to guarantee the repayment of the above mentioned credit lines:

- the shares of the subsidiaries KME Italy S.p.A., KME Brass Italy S.p.A., KME France S.A.S. and KME France Brass S.A.S. will be pledged, with voting rights withheld;
- a first-level mortgage on the real estate and other non-current assets of KME Germany A.G.;
- the inventories of the industrial companies, except for the Spanish subsidiaries, will be pledged;
- lien on the factoring and insurance contracts;
- lien on the accounts held at Deutsche Bank AG, where the revenue from the factored receivables are deposited. These accounts have a daily balance of zero as the amounts factored are used immediately in order to support the Group's operations.

In addition, the agreements require compliance with economic-financial covenants, which refer to equity, debt and consolidated EBITDA, as well as the relationship between EBITDA and net consolidated financial charges.

The credit lines were negotiated at a variable market rate, with a spread on the Euribor rate. The amount in the financial statements is measured at amortised cost using the effective interest method. The calculation includes commission and margins paid that are an integral part of the interest and transaction costs.

At the date of these financial statements all agreed-upon covenants were observed.

The amounts due to lease companies mainly involve recognition, as per IAS 17, of the finance lease for the Florence property in which the Group has its headquarters.

All the non-current payables and liabilities have maturities that exceed 12 months but are less than 5 years except for Euro 3 million due to the lease companies which are due after 5 years.

#### 4.15 Other non-current liabilities

These mainly involve amounts due to the personnel of the German subsidiaries (Euro 8 million).

#### 4.16 Provisions for risks and charges

The summary of the movements relating to the provisions for risks and charges is as follows:

(thousands of Euro)	Balance at 31.12.2006	Exchange effect	Increases	Decreases and releases	Current component	Balance at 31.12.2007
Provision for restructuring	25,399	(12)	839	(17,079)	(8,667)	480
EU sanctions	113,583	-	3,220	-	-	116,803
Other provisions for risks and charges	30,058	(36)	11,269	(14,299)	(18,208)	8,784
Parent Company provisions	4,101	-	1,027	(1,130)	-	3,998
<b>Total</b>	<b>173,141</b>	<b>(48)</b>	<b>16,355</b>	<b>(32,508)</b>	<b>(26,875)</b>	<b>130,065</b>

The “current component” item and the balance as at 31 December 2006, take account of the movement of the summarized current liability component in the “Provisions for risks and charges” item.

The restructuring provision involves interventions aimed at reducing activities in France.

The increase in the “EU Sanction Provision” involves interest expense on the nominal amount of the sanctions levied by the European Commission.

The movements of the “Parent Company provisions” are illustrated in the notes to the separate financial statements included herein.

As concerns what was communicated on the occasion of the half year report at 30 June 2007 on the two community suits, hearing was held on 27 February 2008 before the Court of First Instance of the European Communities for the suit on the industrial tubes and the relative decision is expected within the year. We are still waiting for a hearing date to be set for the suit that refers to the sanitary tubes.

Insofar as the class actions suits pending in the United States, please see the relative assessments of the situation that were set forth in the financial statements at 31 December 2006. The main elements on which there is further information insofar as the actions served to the companies of our Group, are the appeal by counterparties on about the sanitary tubes brought in May 2007 and the subsequent suit concerning the industrial tubes brought about in August 2007, contesting the respective sentences of the Federal Court of Tennessee, which excluded its jurisdiction on the merits of the petitions, thereby rejecting the class action suits in their entirety, are still. The action before the State Court of California is also pending.

With regard to two environmental disputes relative to the industrial area housing the Brescia plant, disputes which involve the Company and its subsidiary KME Italy S.p.A. separately, there were no new developments of interest to KME Italy S.p.A., whose next hearing is set for 22 May 2008.

On the other hand, regarding the Company, a process is underway to review and subsequently evaluate the documentation submitted by the other party whose content has formed the subject of legal and technical disputes; in addition, the other party has stated that it wishes to make a second request for damages without, however, indicating the entity; the next hearing is set for 15 May 2008.

It is not possible to predict the expected outcome of both disputes.

For disputes pending before the Court of Hannover relative to squeeze out and merger operations, an investigatory evaluation is in progress.

There are no updates regarding the action filed against former Company Chairman, Luigi Orlando, whose next hearing is set for 12 June 2009.

The hearing concerning the appeal in the dispute in Greece relative to the recovery of receivables has been set for 4 April 2008; it should be noted that in the first instance the Company's grounds have been accepted.

As of today, the aforementioned disputes are not expected to have any significant impact.

During the year, tax assessment procedures up to the year 2006 were begun by the competent authorities for the subsidiaries KME Italy S.p.A., KME Germany A.G. and some of the Spanish subsidiaries.

The assessments concerning the subsidiary KME Italy S.p.A., have already been concluded with the serving of the preliminary assessment Reports. In relation to these reports, the subsidiary is certain that its actions were correct and are corroborated by the opinions of its tax consultants. For this reason, no provisions were made, except for legal expenses.

The assessment concerning the German subsidiary KME Germany A.G. has practically been concluded with applicable taxes that had previously not been recognised and which resulted in increased taxes of approximately Euro 2.7 million, entirely covered by risk provisions that had already been made and used in this year for the excess portion.

The tax assessment on the Spanish subsidiaries (KME Spain, Ibertubos and Cupruim) concerned the years 2000 to 2003 and was concluded in this year. The assessment was concluded with higher of taxes payable that produced a reduction in the available tax losses but essentially without any further sanctions applied. As of today, the aforementioned disputes are not expected to have any significant impact.

At the date of publication of these financial statements, there were no other significant contingent liabilities or information which could have a major bearing on the provisions set aside.



#### 4.17 Current financial payables and liabilities

(thousands of Euro)	Balance at 31.12.2006	Changes in the year	Balance at 31.12.2007
1) Due to banks	162,506	(89,789)	72,717
2) Due to Parent Company	56,016	(49,602)	6,414
3) Due to subsidiaries	2,654	5	2,659
4) Due to lease companies	265	15	280
5) Due to factoring companies	29,293	2,836	32,129
6) Interest rate swaps (IRS)/forward currency contracts	707	142	849
7) LME contracts	5,716	362	6,078
8) Due to others	22,018	(15,245)	6,773
<b>Total</b>	<b>279,175</b>	<b>(151,276)</b>	<b>127,899</b>

The “LME contracts” item refers to the counter value of the potential charges from the fair value measurement of the relations outstanding at the date these financial statements were drafted.

Interest rate swaps were agreed to hedge interest rate risk on the part of the existing bank exposure, through the purchase of fixed rate against the sale of variable rate linked to 6 month Euribor.

The decrease in the amounts due to banks is mainly due to the fact that the amount at the end of last year contained a portion, amounting to Euro 143 million, of the revolving credit line of Euro 650 million of a minimum duration of 3 years that the directors had prudentially classified among current liabilities. Indeed, this amount, based on the information available at the balance sheet date, could have become due within the year following the contractual provisions that take into account the list prices of the raw materials.

After the date of publication of the financial statements at 31 December 2006 the aforementioned reclassification was recorded although not necessary.

The amounts “due to factoring companies” represent the amount of the receivables factored sold with recourse at the balance sheet date.

The net financial position with the details of its main components pursuant to CONSOB Communication no. 6064293 and the CESR recommendation of 10 February 2005 “Recommendations for the consistent implementation of the European Commission regulation on information memoranda” is indicated in the “Directors’ report” rather than in these notes.

The amounts “due to others” consist mainly of the amounts received from customers that were transferred and that are the sole property of the factoring company.

#### 4.18 Trade payables and other current liabilities

(thousands of Euro)	Balance at 31.12.2006	Changes in the year	Balance at 31.12.2007
1) Due to suppliers	162,948	8,253	171,201
2) Due to subsidiaries	1,627	(236)	1,391
2) Due to Parent Company	-	-	-
<b>Total trade payables</b>	<b>164,575</b>	<b>8,017</b>	<b>172,592</b>

The carrying amount of trade payables approximates their fair value.

(thousands of Euro)	Balance at 31.12.2006	Changes in the year	Balance at 31.12.2007
1) Due to employees	42,189	531	42,720
2) Due to Parent Company	-	-	-
3) Due to social security institutions	12,324	1,005	13,329
4) Tax payables	21,480	24,041	45,521
5) Accrued expenses and deferred income	759	303	1,062
6) Other payables	31,328	(2,940)	28,388
<b>Total other current liabilities</b>	<b>108,080</b>	<b>22,940</b>	<b>131,020</b>

The amounts due to employees include the obligations that have matured but have not been paid at the balance sheet date.

The tax payables concern Euro 26.8 million in direct taxes on the company's income.

The other payables include Euro 24.2 million to customers for advances and credit notes issued.

#### 4.19 Deferred tax assets and liabilities

(thousands of Euro)	Balance at 31.12.2006	Changes in the year	Balance at 31.12.2007
1) Deferred tax assets	44,710	(8,197)	36,513
2) Deferred tax liabilities	(160,289)	41,999	(118,290)
<b>Difference</b>	<b>(115,579)</b>	<b>33,802</b>	<b>(81,777)</b>

Deferred tax assets and liabilities are measured on the temporary difference between the carrying amounts of the assets and liabilities recognised and the corresponding amounts recognised for tax purposes.

Deferred tax assets are recognised only when their recovery is highly probable.

The Parent Company has not recognised any deferred tax on the temporary difference relative to the financial investment in the subsidiary KME Germany A.G. according to the terms of paragraph 39 of IAS 12.

Deferred taxes are recognised in non-current assets and liabilities and offset for each individual subsidiary when the conditions in accordance with IAS 12 exist.

At the date of these present financial statements, the Group did not recognise deferred tax assets on previous tax losses, equal to Euro 120.0 million. A part of the aforementioned losses, totalling Euro 25.3 million, will expire at the end of the next year.

The details at 31 December 2007 of tax losses on which deferred tax assets are shown below, were and were not recognised broken down by company:

(thousands of Euro)	31.12.2007
<b>a) previous tax losses recognised</b>	
KME Group S.p.A.	7,807
KME Verwaltungs- u. Dienstleistungs-GmbH	3,764
Fricke GmbH & Co. KG	347
KME Italy S.p.A.	20,096
KME Locsa S.A.	4,073
KME Yorkshire Ltd.	3,661
<b>Total (1)</b>	<b>39,748</b>
<b>b) previous tax losses unrecognised</b>	
KME Group S.p.A.	26,787
KME France S.A.	56,094
KME Spain S.A.	12,162
KME Locsa S.A.	24,915
Other companies	84
<b>Total (2)</b>	<b>120,042</b>
<b>Total (1) + (2)</b>	<b>159,790</b>

Below are the details of deferred tax assets and liabilities broken down by balance sheet item.

(thousands of Euro)	Deferred tax assets		Deferred tax liabilities	
	31.12.2007	31.12.2006	31.12.2007	31.12.2006
Property, plant and equipment	-	222	67,434	86,964
Intangible assets	-	653	118	-
Investment property	-	-	-	-
Other non-current assets	-	2	1,042	1,190
Inventories	-	2,707	44,582	61,778
Trade receivables	671	389	156	985
Other receivables and current assets	429	-	89	97
Current financial assets	86	2,374	1,802	4,460
Employee benefits	10,498	14,729	821	599
Non-current financial liabilities	1,248	1,544	136	248
Other non-current liabilities	1,788	1,750	-	-
Provisions for risks and charges	6,622	6,510	1,876	2,470
Current financial liabilities	2,100	1,651	232	1,449
Trade payables	489	38	-	49
Other current liabilities	1,191	956	-	-
Deferred taxes on Equity components	196	-	2	-
Deferred taxes on previous tax losses	11,195	11,185	-	-
<b>Total</b>	<b>36,513</b>	<b>44,710</b>	<b>118,290</b>	<b>160,289</b>

Deferred tax assets allocated to Equity refer mainly to charges due to the increase in share capital incurred by the Parent Company during the past year.

#### 4.20 Information on transactions with related parties

During the year, the Group engaged in commercial transactions with related parties not included in the scope of consolidation which resulted in insignificant amounts.

These transactions, however, were carried out at market prices and values. Given the insignificance, details on their impact on the Group's financial position and result of operations have been omitted according to the terms of CONSOB (National Commission for Companies and the Stock Exchange) Communication no. 6064293.

With the completion of the merger of the former parent G.I.M. S.p.A. into iNTEK S.p.A., and as a result of the

termination of the “G.I.M. S.p.A. Shareholders’ Agreement”; former G.I.M. shareholders like RAS S.p.A. and Mediobanca S.p.A. now iNTEk shareholders, lost their qualification as related parties and, therefore, transactions with these parties (insurance policies and loans) are no longer among those being monitored.

Aggregate information regarding the salaries of managers with strategic responsibilities is shown below:

(thousands of Euro)						FY 2007			FY 2006		
Short-term benefits	Post-employment benefits	Other long-term benefits	Termination benefits	Share-based payments	Year total	Short-term benefits	Post-employment benefits	Other long-term benefits	Termination benefits	Share-based payments	Year total
7,081	28	944	1,827	1,690	11,570	7,058	30	282	-	739	8,109

Other information referred to in article 78 of Regulation 11971 of 1999, the so-called “Issuers’ Regulation”, is contained in the “Directors’ report” in the section relative to corporate governance in application of the “Code of conduct”.

## 5. Income statement

According to CONSOB Communication no. 6064293/06 it should be noted that the Group did not carry out any atypical and/or unusual transactions in 2007. For a description of significant non-recurring events and transactions please refer to the “Directors’ report”.

### 5.1 Revenue from sales

The breakdown of revenue from sales by geographical area is shown below:

Breakdown by geographical area (millions of Euro)	FY 2007	%	FY 2006	%
Germany	849	24.4	875	24.6
Italy	713	20.5	715	20.1
France	360	10.3	368	10.3
UK	348	10.0	358	10.1
Spain	171	4.9	184	5.2
Other European countries	758	21.8	790	22.2
<b>European total</b>	<b>3,199</b>	<b>91.8</b>	<b>3,290</b>	<b>92.5</b>
Rest of world	285	8.2	267	7.5
<b>Total</b>	<b>3,484</b>	<b>100.0</b>	<b>3,557</b>	<b>100.0</b>

Revenue from sales, net of the effect of the increase in the cost of raw materials, increased by Euro 43.6 million, from Euro 847.3 million (2006) to Euro 890.9 million (2007).

## 5.2 Personnel expense

(thousands of Euro)	FY 2007	FY 2006	Change %
Wages and salaries	270,447	259,084	4.39%
Social security charges	68,468	69,294	-1.19%
Charges for stock options	2,221	959	insig.
Other personnel expense	8,152	18,013	-54.74%
<b>Total</b>	<b>349,288</b>	<b>347,350</b>	<b>0.56%</b>

Other personnel expense includes provisions for defined benefit pension funds and post-employment benefits.

Charges for stock options concern the launch of an incentive plan, reserved for executive members of the Board of Directors and Group managers who hold positions which are more directly responsible for the operating results, which involves the free granting of rights on KME Group S.p.A. shares, in a ratio of 1:3 as of 1 September 2007, and to be exercised by 28 February 2011. The strike price has been set at Euro 1.029 per share calculated on the basis of the average official Stock Exchange prices recorded in the month preceding the grant date (31 July 2006), and taking into consideration the grouping of ordinary and savings shares that took place on 16 July 2007. The charge in the year and, therefore, the fair value of services received, was determined indirectly by referring to the fair value of granted equities.

The fair value of the stock options (equal to Euro 0.1 for the first granting and Euro 0.38 for the options re-granted in the year) was calculated by an independent actuary at the moment of granting by applying the Black & Scholes model, which takes into consideration the conditions relating to the exercising of the right, the current share value, the expected volatility (estimated according to the historical trend at one year of the underlying), the risk-free interest rate in the Euro area, the expected rate of dividends and the probability that those with the rights are, at the end of the so-called vesting period, in a position to exercise the aforementioned right.

The evolution of the stock option plan existing at 31 December 2007 is as follows:

Situation at	31.12.2006 number of options	31.12.2007 number of options
Existing rights 1 January	zero	43,731,776
New rights granted	43,731,776	-
Rights re-granted	-	12,827,982
Rights exercised in the year	zero	6,802,713
Rights expired in the year	zero	16,612,592
<b>Rights existing at the end of the year</b>	<b>43,731,776</b>	<b>33,144,453</b>
of which exercisable:	zero	3,498,540

The first tranche of granted rights was exercisable from 1 September 2007.

Regarding information in accordance with Appendix 3C Schedule 2 in Issuers' Regulation no. 11971 of 14.05.1999 and subsequent modifications, please refer to the "Directors' report" included in this issue.

## 5.3 Amortisation/Depreciation and impairment losses

(thousands of Euro)	FY 2007	FY 2006	Change %
Depreciation	49,317	52,281	-5.67%
Amortisation	954	1,140	-16.32%
Impairment losses	376	(2,027)	insig.
<b>Total</b>	<b>50,647</b>	<b>51,394</b>	<b>-1.45%</b>

During the year, the Directors recorded impairment losses totalling Euro 376 thousand relative to assets in France.

## 5.4 Other operating costs

(thousands of Euro)	FY 2007	FY 2006	Change %
Energy requirements	65,024	65,481	-0.70%
Maintenance and repairs	38,057	32,817	15.97%
Insurance premiums	14,113	14,659	-3.72%
Rentals and operating leases	9,644	7,050	36.79%
Difference on LME transactions	(49,731)	(2,731)	insig.
Fair value on LME contracts	9,932	(16,001)	insig.
Outsourcing	29,482	22,487	31.11%
Logistics and transport on sales	60,384	46,843	28.91%
Commision	21,307	18,060	17.98%
Funding fees on factoring	20,090	8,058	insig.
Other operating costs	90,837	110,717	-17.96%
<b>Total</b>	<b>309,139</b>	<b>307,440</b>	<b>0.55%</b>

The item “differential on LME transactions” includes the difference between the notional value of sales and purchases carried out in the year. The aforementioned amount, following the transactions described in paragraph 3 has a balancing item in “purchase and change in raw materials”.

In other operating costs, the following have been included:

1. provisions, net of any releases, to “Provisions for risks and expenses” totalling Euro 6.8 million;
2. banking services totalling Euro 1.9 million;
3. losses on disposals for Euro 2.7 million;
4. provisions for bad debts amounting to Euro 2.2 million;
5. legal and administrative consultancy and remuneration for corporate officers totalling Euro 12.9 million.

## 5.5 Financial income and expense

(thousands of Euro)	FY 2007	FY 2006	Change %
Interest income	2,877	1,819	58.16%
Dividends	1,531	1,750	-12.51%
Other financial income	533	2,512	-78.78%
<b>Total financial income</b>	<b>4,941</b>	<b>6,081</b>	<b>-18.75%</b>
Interest expense	(33,064)	(35,221)	-6.12%
Exchange gains (losses)	1,461	(1,797)	-181.30%
Other financial expense	(9,799)	(13,720)	-28.58%
<b>Total financial expense</b>	<b>(41,402)</b>	<b>(50,738)</b>	<b>-18.40%</b>
<b>Total net financial expense</b>	<b>(36,461)</b>	<b>(44,657)</b>	<b>-18.35%</b>

The item interest expense includes Euro 0.4 million in interest to the parent iNTEK S.p.A. and Euro 2.1 million in interest on with recourse factoring.

The reduction in net financial expense was due to lower debt, which fell from Euro 534.3 million on 31 December 2006 to Euro 398.2 million at the date of these financial statements. The lower debt derived from the cash inflows generated by current operations, in particular from positive results and rationalisation of management of the financial cycle whose duration was substantially reduced.

## 5.6 Current and deferred taxes

(thousands of Euro)	FY 2007	FY 2006	Change
Current taxes	(30,026)	(4,938)	insig.
Deferred taxes	34,228	(27,409)	insig.
<b>Total</b>	<b>4,202</b>	<b>(32,347)</b>	<b>insig.</b>

As of this year KME Group S.p.A. and its Italian subsidiaries have exercised the option of the “national consolidated tax” regime, calculating IRES on a taxable basis corresponding to the algebraic sum of positive and negative taxable incomes of each individual company. Financial relations, as well as responsibilities and reciprocal obligations, are set out in the agreement and regulation relative to the option of national consolidated tax according to which the Parent and/or subsidiaries with negative taxable income receive a payment equal to the relative tax savings realised by the Parent and/or subsidiaries with positive taxable income.

During the year tax benefits totalling Euro 3.8 million were recorded in the Parent’s separate financial statements, deriving from the use of KME Group S.p.A. tax losses, previously not recognised as deferred tax assets, and used to reduce the current tax charge.

Deferred taxes were calculated on the temporary differences between the carrying amounts of assets and liabilities recognised and the corresponding tax amounts. Temporary differences originated from consolidation adjustments which changed the carrying amounts in the consolidated financial statements with respect to the tax amounts.

Below is a summary table which shows the relationship between the fiscal charges in the year and effect on the financial result and the tax rate applicable according to the terms of IAS 12 paragraph 81.

### Correlation between tax charges and the financial result

(thousands of Euro)	31.12.2007	31.12.2006
Pre-tax result	36,956	84,132
Theoretical tax charge	13,766	31,339
(tax rate used 37.25%)	-	-
<b>Reconciliation:</b>		
Effect of different tax rates	(27,039)	223
<b>Other effects:</b>		
Non-deductible charges	22,215	18,226
Non-taxable income	(35,225)	(3,793)
Tax losses in the year not recognised as deferred tax assets	6,056	-
Release of tax losses recognised after inspection by the tax authorities	8,692	-
Taxable income offset with previous unrecognised tax losses	10,799	(13,659)
Recognition of deferred tax according to the terms of IAS 12 paragraph 37	(3,468)	-
Other	2	11
<b>Taxes recognised in the income statement</b>	<b>(4,202)</b>	<b>32,347</b>

The significant amount shown in the item “Effect of different tax rates” is essentially due to the effect of deferred taxes already set aside following the reduction in tax rates in Germany and in Italy.

At the date of this report the Parent, according to the terms of IAS 12 paragraph 37, recognised net deferred tax assets totalling Euro 3.4 million, previously not recognised following the forecast that future taxable income will allow them to be recovered.

## 5.7 Other information

### Financial instruments by category

(thousands of Euro)	2007	2006	Change
Financial assets recognised at fair value through profit or loss	12,354	21,006	(8,652)
Held to maturity assets	-	-	-
Loans and receivables	360,967	565,072	(204,105)
Investments in subsidiaries and other companies	8,972	5,151	3,821
Financial liabilities recognised at fair value through profit or loss	6,927	6,423	504
Financial liabilities at amortised cost	686,461	931,103	(244,642)

### Financial instruments by balance sheet item

Financial instruments and reconciliation with balance sheet items at 31 December 2007:

Balance sheet item (thousands of Euro)	Total	Measured at amortised cost	Measured at fair value	Outside the scope of IFRS 7
<b>Financial assets</b>				
Investments in subsidiaries and associates	5,279	-	-	5,279
Investments in other companies	3,693	-	-	3,693
Investments in Equity	-	-	-	-
Non-current financial assets	-	-	-	-
Other non-current assets	28,019	28,019	-	-
Trade receivables	127,843	127,843	-	-
Other receivables and current assets				
Factoring	38,306	38,306	-	-
Bank and postal accounts	1,422	1,422	-	-
Receivables due from suppliers	15,218	15,218	-	-
Other non-financial assets	34,529	34,529	-	-
	<b>89,475</b>	-	-	-
<b>Cash and cash equivalents</b>	<b>93,936</b>	<b>93,936</b>	-	-
Current financial assets				
Factoring	20,956	20,956	-	-
Receivables	738	738	-	-
Derivative instruments	7,112	-	7,112	-
Other financial instruments	5,242	-	5,242	-
	<b>34,048</b>	-	-	-
		<b>360,967</b>	<b>12,354</b>	<b>8,972</b>

Balance sheet item (thousands of Euro)	Total	Measured at amortised cost	Measured at fair value	Outside the scope of IFRS 7
<b>Financial liabilities</b>				
Current and non-current financial liabilities				
Payables due to social security institutions	460,224	460,224	-	-
With recourse factoring	32,129	32,129	-	-
Payables due to lease companies	4,206	4,206	-	-
Other financial liabilities	17,490	17,490	-	-
Derivative instruments	6,927	-	6,927	-
	<b>520,976</b>	<b>514,049</b>	<b>6,927</b>	-
Trade payables	172,592	172,592	-	-
	<b>693,568</b>	<b>686,641</b>	<b>6,927</b>	-



## Notional amount of derivative financial instruments

A summary table of the notional amounts and the expiry of derivative financial instruments existing at the date of these financial statements is shown below:

Description (thousands of Euro)	within 1 year	Expiry between 1 and 5 years	beyond 5 years	Total at	
				31.12.2007	31.12.2006
LME commodity contracts	160,799	229	-	161,028	150,581
Forward exchange contracts	126,820	-	-	126,820	140,891
Cross-currency swaps	-	1,688	-	1,688	2,548
Interest rate swaps (IRS)	-	45,000	-	45,000	45,000
<b>Total</b>	<b>287,619</b>	<b>46,917</b>	<b>-</b>	<b>334,536</b>	<b>339,020</b>

The net change in the fair value of LME transactions recognised in the income statement during the year totalled Euro -9,932 thousand. In the previous year, the figure was positive, totalling Euro 16,002 thousand.

## Exposure to credit risk and impairment losses

The carrying amount of financial assets represents the Group's maximum exposure to credit risk.

The age of trade receivables at the balance sheet date was as follows:

Description (thousands of Euro)	Gross carrying amount	Write-down 31.12.2007	Net carrying amount
not yet due	107,477	1,202	106,275
overdue by zero to 60 days	15,621	8	15,613
overdue by 61 to 120 days	2,520	-	2,520
overdue by 121 days to 1 year	2,171	194	1,977
overdue by more than 1 year	7,087	5,629	1,458
<b>Total</b>	<b>134,876</b>	<b>7,033</b>	<b>127,843</b>

Movements in the bad debt provision in the year are shown below:

(thousands of Euro)	
<b>31.12.2006</b>	<b>7,666</b>
Currency exchange difference	(25)
Scope of consolidation	631
Impairment losses of the year	2,152
Usage	(2,825)
Release	(566)
<b>31.12.2007</b>	<b>7,033</b>

## Foreign exchange exposure

The following table shows the Group's exposure to exchange rate risk according to the notional amount:

31.12.2007	USD	GBP	CHF	SEK	EUR
Non-current financial assets	-	-	-	-	-
Other non-current assets	-	-	-	-	-
Trade receivables	6,851	9,050	2,539	47,260	5,632
Other receivables and current assets	2,720	774	505	339	-
Current financial assets	3,303	2,519	5,122	1,791	-
Cash and cash equivalents	3,729	3,476	163	6,522	291
Financial liabilities	-	21	21	-	-
Trade payables	8,127	188	116	173	10,640
Other current liabilities	-	-	-	2,078	-
<b>Gross balance sheet exposure</b>	<b>8,476</b>	<b>15,610</b>	<b>8,192</b>	<b>53,661</b>	<b>(4,717)</b>
Estimated sales forecast	37,752	10,501	17,665	18,397	1,297
Estimated purchases forecast	68,254	-	-	-	417
<b>Gross exposure</b>	<b>(22,026)</b>	<b>26,111</b>	<b>25,857</b>	<b>72,058</b>	<b>(3,837)</b>
Forward exchange contracts	(31,875)	15,230	23,950	45,000	-
<b>Net exposure</b>	<b>9,849</b>	<b>10,881</b>	<b>1,907</b>	<b>27,058</b>	<b>(3,837)</b>

### Analysis of sensitivity

An appreciation of the Euro by 10% (or a depreciation of the same percentage) against the currencies mentioned above would have led to an increase (decrease), at 31 December 2007, in Equity and the profit for the year totalling Euro 0.8 million. The aforementioned analysis was carried out in the assumption that all other variables remained constant, in particular, interest rates. The same analysis for 2006 would have produced an increase of Euro 1.9 million in the profit for the year and Equity.

## Interest rate exposure

The interest rate profile applied to the interest-bearing financial instruments of the Group at the balance sheet date was as follows:

(thousands of Euro)	Carrying amount	
	31.12.2007	31.12.2006
<b>Fixed rate instruments:</b>		
Financial assets	3,671	4,250
Financial liabilities	55,134	63,064
<b>Total</b>	<b>(51,463)</b>	<b>(58,814)</b>
<b>Variable rate instruments:</b>		
Financial assets	97,720	174,673
Financial liabilities	450,955	682,319
<b>Total</b>	<b>(353,235)</b>	<b>(507,646)</b>

### Analysis of the sensitivity of the fair value of fixed rate instruments and LME contracts

The Group did not account for any fixed rate financial asset or liability recorded at fair value through profit or loss and did not designate derivatives (interest rate swaps) as fair value hedges. As a result, any changes in the interest rates at the balance sheet date would not have any effect on the income statement.

The Group uses LME contracts (forward contracts on commodities on the London Metal Exchange) to cover fluctuations in the price of raw materials, copper in particular. These instruments are measured at fair value through profit or loss. An increase in the price of copper by Euro 100 per tonne at the balance sheet date would result in an increase in profit for the year and Equity of Euro 3.2 million. The same effect on financial statements figures at 31 December 2006 would produce a variation of Euro 0.4 million.

#### *Analysis of the sensitivity of the cash flows of variable rate financial instruments*

An increase (or decrease) of 50 basis points (BPS) in interest rates at the balance sheet date would produce a decrease (increase) in Equity and profit for the year of roughly Euro 1.8 million (Euro 2.6 million in 2006). The analysis has been made in the assumption that other variables, particularly exchange rates, remained constant and it was carried out for 2006 using the same conditions.

#### **Exposure to liquidity risk**

The risk of liquidity can arise from the difficulty in obtaining loans within the right timescale to support operating activities. Inflows and outflows and the liquidity of Group companies are monitored and coordinated under the control of the Group Treasury. The flexibility of credit lines in place allowed the Group to resolve problems relating to the raising of the resources necessary to temporarily cover the cash requirements due to the increase in the price of raw materials.

#### **Fair value and carrying amount**

According to the terms of IFRS 7 paragraph 25, it is declared that the fair value of financial assets and liabilities recognised in the balance sheet is equal to their carrying amount.

#### **Other financial commitments**

Below is a summary table showing the minimum payments that cannot be cancelled, due for operating leases at the date of these financial statements:

(thousands of Euro)	31.12.2007	31.12.2006
Within 1 year	4,919	3,787
Between 1 and 5 years	8,959	6,897
Beyond 5 years	184	312
	<b>14,062</b>	<b>10,996</b>

At the date of these financial statements, there are Euro 29.7 million in purchase commitments on property, plant and equipment. These purchase commitments will expire next year.

## Appendix to the Notes

### Reconciliation table between the profit of the Parent KME Group S.p.A. and the consolidated result as at 31 December 2007

(thousands of Euro)

Profit of KME Group S.p.A. separate financial statements	12,315
Profit of subsidiaries (1) (2)	28,843
Consolidation adjustments (3)	-
<b>Consolidated profit attributable to shareholders of the Parent</b>	<b>41,158</b>
<b>Profit of subsidiaries 1.1.2007 - 31.12.2007</b>	
(1) Consolidated profit of KME Germany A.G. Group	29,441
(2) Immobiliare Agricola Limestone S.r.l.	(598)
(3) Loss of consolidation adjustments	-
<b>Total</b>	<b>28,843</b>



**KME Group S.p.A.**



**Statement about the consolidated financial statements according to the terms of Article 81-ter of CONSOB Regulation no. 11971 of 14 May 1999 and subsequent additions and amendments.**

1. The undersigned Vincenzo Manes, acting as Deputy Chairman and Marco Miniati, as the Manager responsible for preparing the company accounts of KME Group S.p.A., having considered the requirements of article 154 *bis*, paragraphs 3 and 4, of Legislative Decree no. 58 of 24 February 1998, certify:

- the adequacy in relation to company characteristics and
- the effective application of administrative and accounting procedures for preparation of the consolidated financial statements, in the course of 2007.

2. Assessment of the adequacy of the administrative and accounting procedures for preparation of the consolidated financial statements at 31 December 2007 was carried out based on methodologies generally accepted at international level (*Committee of Sponsoring Organisations of the Treadway Commission – COSO Report*). In this context, the rationalisation of procedures and the implementation of checks have been established which, under the guidance of the Manager responsible for preparing the company's accounting and involving the Internal Audit function, represents a reference model for the permanent monitoring of said assessment.

3. In addition, it is stated that, the consolidated financial statements at 31 December 2007:

- a) correspond with the books and accounting records;
- b) were prepared in accordance with *International Financial Reporting Standards* endorsed by the European Union as well as provisions issued pursuant to article 9 of Legislative Decree 38/2005, and give a true and fair view of the financial position and results of operations of the issuer and of the companies included in the consolidation scope.

Florence, 14 March 2008

The Deputy Chairman  
(Vincenzo Manes)

Manager responsible  
(Marco Miniati)

KME Group S.p.A.  
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Cap. Soc. 324.164.741,31 int. vers.  
Cod. Fiscale e Reg. Imprese  
di Firenze n° 00931330583  
Partita IVA 00944061001

Società iscritta al n. 18158 nell'elenco degli intermediari finanziari, ex art. 113, D.Lgs. 1 settembre 1993, n. 385

# Board of Statutory Auditors' Report

## **Board of Statutory Auditors' Report on the Consolidated Financial Statements at 31 December 2007 - Shareholders' Meeting called on 29 April - 14 May 2008**

The Board of Statutory Auditors presents a short report on the consolidated financial statements at 31 December 2007, as part of its duties to monitor compliance with the law and the memorandum of association, and in accordance with the long-held principle, for which issues and documents submitted by Directors to the Shareholders' Meeting are subject to review by the Board of Statutory Auditors who report to the same Shareholders' Meeting.

The Board of Directors, in accordance with Legislative Decree no. 127/1991, has prepared the consolidated financial statements at 31 December 2007, which is the end of the financial year for both the Parent and the subsidiaries.

The consolidated financial statements have been prepared according to IFRS/IASB valuation and measurement criteria; furthermore, accounting policies issued by the IASB effective after the reporting date of these financial statements were not applied.

Consolidation principles were applied to subsidiaries, i.e. those companies over which the Group exercises the power to guide or govern financial and operating policies, generally combined with the possibility to exercise more than 50% of the voting rights within company bodies. With these financial statements, the three Chinese companies (which are referred to in detail in the Report) were fully consolidated, whose control was acquired during the year. Associates are all the companies in which the Group exercises considerable influence but over which it does not have control.

With regard to the consolidation scope, please refer to the notes to the financial statements, which show in summary, that investments in subsidiaries are consolidated using the line-by-line method; those in associates (over which KME Group exercises considerable influence but over which it does not have control) are consolidated using the equity method. Other companies, outside the sphere of "considerable influence" that carry out modest and heterogeneous activities compared to the main companies in the Group, have been excluded from the consolidation scope without any significant impact on the overall procedure, as expressly underlined in the text.

As also shown in the reconciliation table reproduced in the appendices to the financial statements, the net consolidated profit in 2007 amounted to Euro 41.1 million, Euro 12.3 million of which was due to the profit of KME Group S.p.A., with the remaining amount of Euro 28.8 million owing to subsidiaries; i.e. almost exclusively to companies under the control of KM Germany A.G., after deduction of the loss of Euro 0.6 million of the real estate company I.A.L. S.r.l..

The information contained in the section of the Report reserved for the consolidated financial statements (accounting policies applied, notes, appendices) is extensive and exhaustive; also reproduced is the Statement about the consolidated financial statements at 31 December 2007 according to the terms of article 81-ter of CONSOB Regulation no. 11971 of 14 May 1999 and subsequent additions and amendments, the Statement dated 14 March 2008 and signed by the Deputy Chairman V. Manes and by the Manager responsible M. Miniati.

Balance sheet items can be aggregated according to their type (amounts in thousands of Euro):

	<b>2007</b>	<b>2006</b>
<b>Assets</b>		
- Intangible, financial assets and property, plant and equipment and investment property, non-current	830	823
- Inventories	628	684
- Trade receivables	128	231
- Cash and cash equivalents	94	162
- Other assets	124	142
<b>Total Assets</b>	<b>1,804</b>	<b>2,042</b>
<b>Liabilities</b>		
- Total Equity	537	495
- Post-employment benefits and other employee benefits	159	167
- Medium/long-term financial payables and liabilities	393	487
- Provisions for risks and charges	157	173
- Other non-current liabilities	126	168
- Short-term financial payables and liabilities	128	279
- Other current liabilities	304	273
<b>Total Liabilities</b>	<b>1,804</b>	<b>2,042</b>

The independent auditors, with whom the Board of Statutory Auditors had the necessary contacts, disclosed its assessment of the regularity and correspondence of the consolidated balance sheet and income statement with the results shown in the Company's books and with the information communicated by subsidiaries included in this consolidation scope; as well as full correlation between the content of the consolidated financial statements and the information and clarifications shown in the notes to the financial statements and the Directors' Report. Amongst other things, the following criteria were applied, referring specifically to the analytical description of principles and of the relative duties contained in the report and in the notes to the financial statements:

- **intangible assets** with an indefinite useful life are currently not present in the balance sheet. Intangible assets with a finite useful life, excluding those generated internally, measured initially at cost or at fair value, are systematically amortised according to the level of use, in general over a period of between 3 and 5 years;
- **Property, plant and equipment and investment property** recorded at cost of acquisition or production are measured at cost, net of depreciation and impairment losses, with the exception of land which is not depreciated;
- **post-employment benefits and the pension fund** and the pension fund of foreign subsidiaries, even on an actuarial basis according to internal regulations, are recognised based on dues accrued at 31 December 2007 with an adjustment based on the increases forecast after the end of year, in compliance with IFRS. Personnel expense includes stock options granted to executive members of the KME Group Board of Directors and some Group Managers, in consideration of the nature of the substantial remuneration attributable to these grants. With regard to this point, the notes to the financial statements show clearly the criteria adopted in the measurement of the fair value of stock options;
- **inventories** are measured at the lower of cost determined using the weighted average cost method on a quarterly basis and the net realisable value;
- **community sanctions**, already recognised in the 2003 income statement for the entire assessed or assessable amount of Euro 119.8 million, were then determined based on sums finally communicated by the Community Authorities and now shown in the financial statements totalling Euro 116.8 million, a figure which includes interest payable at 31 December 2007 on the nominal sanction amount.

The Shareholder's Meeting shall take the consolidated financial statements and its appendices into consideration only for information purposes, since it not subject to approval.

Florence, 31 March 2008

THE BOARD OF STATUTORY AUDITORS







**KPMG S.p.A.**  
**Revisione e organizzazione contabile**  
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(Translation from the Italian original which remains the definitive version)

## Report of the auditors in accordance with article 156 of legislative decree no. 58 of 24 February 1998

To the shareholders of  
KME Group S.p.A.

- 1 We have audited the consolidated financial statements of the KME Group as at and for the year ended 31 December 2007, comprising the balance sheet, income statement, statement of changes in equity, cash flow statement and notes thereto. These financial statements are the responsibility of the parent's directors. Our responsibility is to express an opinion on these financial statements based on our audit.
- 2 We conducted our audit in accordance with the auditing standards recommended by Consob, the Italian Commission for Listed Companies and the Stock Exchange. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement and are, as a whole, reliable. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by directors. We believe that our audit provides a reasonable basis for our opinion.

Reference should be made to the report of other auditors dated 11 April 2007 for their opinion on the prior year consolidated financial statements, which included the prior year figures presented for comparative purposes.

- 3 In our opinion, the consolidated financial statements of the KME Group as at and for the year ended 31 December 2007 comply with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 9 of Legislative decree no. 38 of 28 February 2005. Therefore, they are clearly stated and give a true and fair view of the financial position of the KME Group as at 31 December 2007, the results of its operations, changes in its equity and its cash flows for the year then ended.

Florence, 10 April 2008

KPMG S.p.A.

(Signed on the original)

Riccardo Cecchi  
Director of Audit



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**Separate financial statements**

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## Separate financial statements at 31 December 2007

### Balance sheet

(in Euro)	notes reference	As at 31.12.2007	of which related parties	As at 31.12.2006	of which related parties
Property, plant and equipment	4.1	29,671	-	-	-
Investment property	4.2	-	-	2,800,000	-
Investments in subsidiaries	4.3	312,991,149	312,991,149	310,890,540	310,890,540
Other equity investments	4.3	3,577,559	3,448,445	129,114	-
Other financial assets	4.4	6,992,026	6,992,026	22,180	-
Deferred tax assets	4.5	3,748,000	-	-	-
<b>Non-current assets</b>		<b>327,338,405</b>	<b>323,431,620</b>	<b>313,841,834</b>	<b>310,890,540</b>
Trade receivables	4.6	23,496	23,496	10,539,502	10,537,000
Other receivables and current assets	4.7	10,176,116	2,192,504	5,821,521	-
Current financial assets	4.8	66,241,884	66,241,884	67,718,529	67,718,529
Cash and cash equivalents	4.9	1,739,163	-	376,938	-
<b>Current assets</b>		<b>78,180,660</b>	<b>68,457,885</b>	<b>84,456,490</b>	<b>78,255,529</b>
<b>Total assets</b>		<b>405,519,065</b>	<b>391,889,505</b>	<b>398,298,324</b>	<b>389,146,069</b>
Share capital	4.10	324,164,741	-	319,643,223	-
Other reserves	4.10	628,715	-	(963,499)	-
Treasury	4.10	(37,161)	-	(37,161)	-
Retained earnings	4.10	5,918,502	-	5,178,100	-
IFRS first time adoption reserve	4.10	1,644,616	-	2,784,099	-
Stock Option reserve	4.10	3,180,428	-	958,537	-
Profit for the year	4.10	12,314,967	-	7,205,770	-
<b>Equity</b>		<b>347,814,808</b>	<b>-</b>	<b>334,769,069</b>	<b>-</b>
Employee benefits	4.11	143,900	-	347,436	-
Deferred tax liabilities	4.12	59,000	-	-	-
Financial payables and liabilities	4.13	12,651,323	6,992,026	581,551	-
Other payables	4.14	-	-	-	-
Provision for risks and charges	4.15	3,997,613	-	4,101,180	-
<b>Non-current liabilities</b>		<b>16,851,837</b>	<b>6,992,026</b>	<b>5,030,167</b>	<b>-</b>
Financial payables and liabilities	4.16	37,784,008	12,974,295	56,119,342	56,016,333
Trade payables	4.17	328,834	1,240	436,819	65,090
Other current liabilities	4.18	2,739,578	1,707,855	1,942,927	1,208,913
<b>Current liabilities</b>		<b>40,852,420</b>	<b>14,683,389</b>	<b>58,499,088</b>	<b>57,290,336</b>
<b>Total liabilities and equity</b>		<b>405,519,065</b>	<b>21,675,416</b>	<b>398,298,324</b>	<b>57,290,336</b>

## Income statement

(in Euro)	notes reference	FY 2007	of which related parties	FY 006	of which related parties
Revenue from sales and services	6.1	2,855,947	2,839,000	2,913,550	2,913,550
Other revenue	6.2	198,965	1,025	1,842,496	88,473
Personnel expense	6.3	(1,114,855)	(553,057)	(1,348,410)	(805,761)
Amortisation, depreciation and impairment losses	6.4	(2,011)	-	-	-
Other operating costs	6.5	(5,259,502)	(3,136,502)	(5,182,183)	(3,271,275)
<b>Operating loss</b>		<b>(3,321,457)</b>	<b>-</b>	<b>(1,774,547)</b>	<b>-</b>
Financial income	6.6	10,149,283	10,049,539	3,727,194	2,419,160
Financial expense	6.6	(1,480,656)	(399,678)	(5,311,966)	(5,198,154)
<b>Pre-tax profit/(loss)</b>		<b>5,347,170</b>	<b>-</b>	<b>(3,359,319)</b>	<b>-</b>
Current taxes	6.7	3,472,797	3,796,080	10,598,233	10,598,233
Deferred taxes	6.8	3,495,000	-	(33,144)	-
<b>Total income taxes</b>		<b>6,967,797</b>	<b>-</b>	<b>10,565,089</b>	<b>-</b>
<b>Profit for the year</b>		<b>12,314,967</b>	<b>-</b>	<b>7,205,770</b>	<b>-</b>

## Statement of changes in Equity

(in Euro)	Share capital	Other reserves	Treasury	Prior year profit	IFRS first-time adoption	Stock Option reserve	Profit for the year	Total Equity
<b>Balance as at 31.12.2005</b>	<b>189,775,023</b>	<b>-</b>	<b>(37,161)</b>	<b>5,167,157</b>	<b>2,784,099</b>	<b>-</b>	<b>1,395,184</b>	<b>199,084,302</b>
Allocation of profit for the year	-	-	-	-	-	-	-	-
Shareholders' Meeting resolution of 19.5.2006:	-	-	-	-	-	-	-	-
- Legal Reserve	-	69,760	-	-	-	-	(69,760)	-
- 2005 profit carried forward	-	-	-	10,943	-	-	(10,943)	-
- dividends distributed	-	-	-	-	-	-	(1,314,481)	(1,314,481)
Share capital increase	129,868,200	-	-	-	-	-	-	129,868,200
Charges from share capital increase	-	(1,037,925)	-	-	-	-	-	(1,037,925)
Revenues from unopted rights	-	4,666	-	-	-	-	-	4,666
Provision for Stock Options	-	-	-	-	-	958,537	-	958,537
- Profit for the 2006 period	-	-	-	-	-	-	7,205,770	7,205,770
<b>Balance as at 31.12.2006</b>	<b>319,643,223</b>	<b>(963,499)</b>	<b>(37,161)</b>	<b>5,178,100</b>	<b>2,784,099</b>	<b>958,537</b>	<b>7,205,770</b>	<b>334,769,069</b>
Shareholders' Meeting resolution of 23.5.2007:	-	-	-	-	-	-	-	-
- Legal Reserve	-	360,289	-	-	-	-	(360,289)	-
- carried forward	-	-	-	638,844	-	-	(638,844)	-
- dividends distributed	-	-	-	-	-	-	(6,206,637)	(6,206,637)
Use of IFRS first-time adoption reserve	-	1,037,925	-	101,558	(1,139,483)	-	-	-
Share capital increase	4,521,518	-	-	-	-	-	-	4,521,518
Provision for Stock Options	-	-	-	-	-	2,221,891	-	2,221,891
Deferred taxes charged to the income statement	-	194,000	-	-	-	-	-	194,000
- Profit at 31.12.2007	-	-	-	-	-	-	12,314,967	12,314,967
<b>Balance as at 31.12.2007</b>	<b>324,164,741</b>	<b>628,715</b>	<b>(37,161)</b>	<b>5,918,502</b>	<b>1,644,616</b>	<b>3,180,428</b>	<b>12,314,967</b>	<b>347,814,808</b>
IFRS reclassification of treasury shares	(37)	-	37	-	-	-	-	-
<b>Balance as at 31.12.2007</b>	<b>324,164,704</b>	<b>628,715</b>	<b>(37,124)</b>	<b>5,918,502</b>	<b>1,644,616</b>	<b>3,180,428</b>	<b>12,314,967</b>	<b>347,814,808</b>

## Separate cash flow statement

(thousands of Euro)	FY 2007	FY 2006
<b>(A) Cash and cash equivalents at the beginning of the year</b>	<b>377</b>	<b>9,379</b>
Pre-tax profit/(loss)	5,347	(3,359)
Amortisation/depreciation	2	-
Net interest accrued	(744)	3,186
Gains (losses) on non-current assets	-	(43)
Provisions for pensions funds and similar	(82)	446
Accruals to other provisions	58	(934)
(Increases) decreases in current receivables	4,894	(7,337)
(Increases) decreases in current payables	690	463
Net interest paid during the year	840	(3,100)
Current taxes paid (reimbursed) during the year	3,237	10,532
<b>(B) Cash Flows from operating activities</b>	<b>14,242</b>	<b>(146)</b>
(Increases) decreases in non-current intangible assets and property, plant and equipment and investment property	2,768	(1,507)
(Increases) decreases in other non-current assets/liabilities	-	(8)
(Increases) decreases in investments	(3,448)	-
Dividends received	1,265	415
<b>(C) Cash flows from investing activities</b>	<b>585</b>	<b>(1,100)</b>
Share capital increase	4,522	128,835
Increases (decreases) in current and non-current financial payables	(6,265)	(89,655)
Increases (decreases) in current and non-current financial receivables	(5,515)	(45,622)
Dividends paid	(6,207)	(1,314)
<b>(D) Cash flows from financing activities</b>	<b>(13,465)</b>	<b>(7,756)</b>
<b>(E) Profit/(loss) from cash and cash equivalents (B+C+D)</b>	<b>1,362</b>	<b>(9,002)</b>
<b>(F) Cash and cash equivalents at the end of the year (A+E)</b>	<b>1,739</b>	<b>377</b>



# Accounting policies and notes to the separate financial statements

## 2. General information

KME Group S.p.A. (hereinafter KME) and its industrial subsidiaries (that together make up the “Group”) operate in the sector of semi-processed copper products and its alloys.

The Group owns industrial plants in various European countries and markets its products in all the main countries throughout the world.

KME Group is a Joint-Stock Company registered in Italy in the Florence Companies Register, no. 00931330583, and its shares are listed on the electronic equity market organised and managed by Borsa Italiana S.p.A. (Italian Stock Exchange).

The separate financial statements at 31 December 2007 were approved by the Board of Directors on 14 March 2008 and will be published according to legal requirements.

### 2.1 Preparation criteria

The financial statements at 31 December 2007 were prepared according to recommendations by CONSOB (Italian Stock Exchange Regulatory Commission) in the Issuers’ Regulations and in compliance with IFRS.

The separate financial statements were prepared in compliance with measurement and recognition policies established by the *International Financial Reporting Standards (IFRS)* issued by the *International Accounting Standards Board (IASB)* and adopted by the European Commission according to the procedure referred to in article 6 of Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002. In preparing these financial statements, the Directors took into consideration the accruals principle, the going concern assumption, understandability, relevance, materiality, reliability, neutrality, prudence and comparability. KME has still not applied these standards which, issued by the IASB, are effective following the date of these financial statements. In particular, IFRS 8, IAS 23, IFRIC 12, IFRIC 13 and IFRIC 14.

The future adoption of these standards is not however, expected to have a significant impact on the Company's financial position and result of operations.

Company events and transactions are recorded and represented according to their economic substance and situation and not just their legal form.

### 2.2 Property, plant and equipment

They are recorded at acquisition or production cost, including additional charges that are directly recognised.

They are measured at cost, net of depreciation and accumulated impairment losses, with the exception of land which is not depreciated and is measured at cost net of accumulated impairment losses.

Depreciation is calculated from the month the asset is available for use, or when it is potentially able to provide the economic benefits associated with it; they are recognised on a monthly straight-line basis until the end of their useful life, or, if sold, up to the last month of use.

Financial charges relating to the purchase of fixed assets are recognised in the income statement unless they are directly attributable to the acquisition, construction or production of an asset which justifies its capitalisation.

Spare parts with a significant value are capitalised and depreciated based on the useful life of the asset to which they refer; others are charged to the income statement when the expense occurs.

Assets acquired through financial leases are recognised as property, plant and equipment to offset the relative payable. The cost of the lease is separated into the following components; financial charges, recognised to the income statement and capital repayment, recorded by reducing the financial payable. Financial lease assets held are recognised at cost or at the present value of minimum lease payments due at the start of the contract, whichever is the lower.

In the presence of specific impairment indicators, property, plant and equipment are subject to impairment testing. The test involves estimating the recoverable amount of the asset, defined as the higher between the fair value less costs to sell price and the value in use, and in comparison with the relative carrying amount. If the recoverable amount is less than the carrying amount, the latter is reduced to the recoverable amount; this reduction is charged to the income statement, i.e. to the fair value reserve which was set up previously during revaluation of the asset concerned. Any subsequent revaluations follow the opposite path.

### 2.3 Intangible Assets

The intangible assets refer to assets without identifiable physical consistency, controlled by the Company and capable of producing future economic benefits.

Intangible assets can be acquired by the Company through:

- purchases from third parties;
- business combinations;
- internally generated production.

In the first two cases, intangible assets are measured initially at cost and at fair value respectively, including charges that are directly recognised. They are then systematically amortised based on their residual useful life given by the expected period in which the assets are used by the Company, generally between 3 and 5 years. In addition, these assets are expressed net of any impairment losses by adopting the same criteria used for property, plant and equipment. Their residual value at the end of their useful life is assumed to be zero.

Internally generated assets are capitalised only if the conditions dictated by IAS 38, paragraph 57 exist.

### 2.4 Investments property

These are land and buildings owned for the obtainment of lease payments or for the appreciation of invested capital or both. These assets are measured at fair value and are thus not amortised. As at the date of transition to IFRS the aforementioned assets were measured at fair value and this value was used as deemed cost. The subsequent variations in fair value were recognised directly in the income statement.

In the event of a change of use from investment property to one involving property, plant and equipment, the fair value on the date of the change of use is considered as a deemed cost in the subsequent accounting.

### 2.5 Financial assets

All investments in subsidiaries, associated companies and joint ventures are measured at cost.

Financial assets acquired or held mainly for the purpose of sale repurchase in the short term and derivative financial instruments not designated as hedging instruments are classified in the category “*financial assets recognised at fair value through profit or loss*” with separate indication of those that are designated in this category at the moment of their initial recognition (fair value option). These assets are measured at fair value with the effects recognised in the income statement. Financial guarantees issued to subsidiaries are measured according to the terms of IAS 39.

Non-derivative financial instruments, with the exception of equity instruments representing capital, with fixed or determinable payments, not listed on an active market which do not belong to the preceding categories, are classified as “*loans and receivables*” and are measured at amortised cost using the effective interest method. For current loans and receivables and for all trade payables and receivables in general and in the short term those for which the time component has little relevance, it is presumed that the amortised cost corresponds with the carrying amount.

Treasury shares are measured at historical purchase cost and recorded by reducing Equity. In the event of sale, re-issue or cancellation, the subsequent profits and losses are recorded in Equity.

#### **Calculation of impairment losses**

All financial assets and liabilities, with the exception of “financial assets and liabilities at fair value through profit or loss”, are subject to impairment testing according to the terms of IAS 39, paragraphs 58-70.

A financial asset is said to have suffered an impairment loss when there is objective evidence that one or more events have had a negative impact on the expected estimated cash flows from that asset.

An impairment loss on a financial asset measured at amortised cost corresponds to the difference between the carrying amount and the present value of expected estimated cash flows discounted at the original effective interest rate. The impairment loss on a financial asset available for sale is calculated according to the fair value of said asset.

All impairment losses are recorded in the income statement. Any accumulated impairment loss on a financial asset available for sale previously recorded in Equity is transferred to the income statement upon realisation. Impairment are reversed if the subsequent value increase can be objectively linked to an event which took place after the impairment loss. In the case of asset measured at amortised cost and assets available for sale corresponding to debt securities, the reversal is recorded in the income statement. In the case of financial assets available for sale represented by equities, the reversal is recorded directly in Equity.

#### **Measurement of fair value**

The fair value of financial assets and liabilities recognised to the income statement at fair value and of those available for sale at the moment of initial recognition is determined according to the transaction price, therefore equal to the amount paid or received.

Subsequently and at each balance sheet date, the fair value of financial instruments listed on an active market is based on market prices. The market prices used for derivatives are the bid prices, whereas ask prices are used for financial liabilities. The fair value of instruments that are not listed on an active market is determined using valuation techniques, based on a series of methods and assumptions linked to market conditions at the balance sheet date. The fair value of interest rate swaps is calculated based on the present value of expected future cash flows. The fair value of forward currency contracts is determined using the forward exchange rate at the balance sheet date.

*Derivatives not classified as hedging instruments.* Fair value adjustments of derivative instruments not classified as hedging instruments are reflected immediately in the income statement.

The fair value of non-derivative financial instruments is determined by discounting future cash flows based on the market interest rate at the balance sheet date. For finance leases, the interest rates used make reference to similar contracts.

## **2.6 Cash and cash equivalents**

This includes cash, demand deposits and high liquidity short term financial investments that are readily convertible to cash and which are subject to risk regardless of the change in value (IAS 7 paragraph 45).

## 2.7 Equity

Share capital is comprised of ordinary shares and savings shares, with no nominal value, fully subscribed and paid up at the balance sheet date reduced by share capital proceeds to be received. Also, the value of treasury shares repurchased, according to IAS 32, is shown in reduction of the share capital issued, whilst the premium or the discount with respect to the nominal value adjusts the other components of Equity. This representation however, is shown solely in the Notes, whilst in the schedules the historical cost of treasury shares held is shown separately with a minus sign, reducing Equity.

The balance of existing reserves has therefore been reclassified to the specific reserves which had already been used to compose it.

Costs for Equity transactions have been charged directly against equity-related by preferably using the share premium reserve. These charges were subsequently covered during the year through a reduction in available reserves, as resolved by the shareholders' meeting of 23 May 2007.

The balance of the adjustments due to transition to IFRS is recorded in a special equity reserve called the "IFRS first-time adoption".

## 2.8 Payables

Payables are recognised at amortised cost. When the effect of the discount is not significant, as in short term trade payables, they are recorded at their nominal value.

## 2.9 Current and deferred taxes

Current income taxes are calculated based on the estimated taxable income, taking into consideration the rates and the tax legislation in force or essentially approved at the balance sheet date.

Deferred tax assets and liabilities are measured on the temporary differences between the carrying amount of the assets and liabilities recognised in the financial statements and the corresponding amounts recognised for tax purposes according to the so-called "balance sheet liability method". Deferred tax assets are recognised only when their recovery is probable. The carrying amount of tax assets is reviewed at each balance sheet date in order to check the maintaining or the occurrence of the condition of probability of future use.

Deferred taxes are not discounted and recognised in non-current assets and liabilities. Deferred tax assets and liabilities are paid to each individual subsidiary when the conditions in accordance with IAS 12 exist.

## 2.10 Employee benefits

Benefits after the working relationship are defined on the basis of plans which, according to their characteristics are distinguished as "defined contribution" and "defined benefit" plans. With defined contribution plans the obligation of the Company, limited to the payment of contributions to a legally separate entity (this may also be the State or a property), is composed of contributions due at the balance sheet date. Liabilities relating to defined benefit plans, such as post-employment benefits defined by article 2120 of Italian Civil Code, net of any plan assets, is determined on the basis of actuarial assumptions and recorded on an accruals basis consistent with the length of service required to obtain the benefits. Actuarial profits and losses relating to defined benefit plans deriving from changes in the actuarial assumptions or from modifications to the conditions of the plans are recorded proportionately in the income statement using the so-called "corridor method"; i.e. recorded only when the net value of actuarial profits and losses not recorded at the end of the previous financial year exceeds the greater of 10% of the present value of the obligation and 10% of the fair value of any plan asset. The measurement of "Post-employment benefits" was carried out by an independent actuary.

## **2.11 Provisions**

Provisions are liabilities with uncertain maturity or amount. Provisions have been recorded only when:

1. the Company has a current (legal or implicit) obligation owing to a past event;
2. it is probable that resources will be needed to produce economic benefits to meet the obligation;
3. it is possible to make a reliable estimate of the amount of the obligation.

The amounts provided for are therefore the best estimates of the expenses needed to settle the obligation or transfer it to third parties at the date of the financial statements. If the effect of the present value of money is significant, the provision is represented by the present value of the expenses that will be needed to settle the obligation.

Provisions for restructuring costs are recognised only if the Group has a formal detailed plan which at least shows: the activity and main operating units concerned, the costs to be incurred, the approximate number of employees involved and when interested third parties have a valid expectation that the entity will implement said restructuring because it has already begun implementation or has communicated it publicly.

## **2.12 Recognition of revenue**

Revenue from sales and services are recognised in the event of effective transfer of the risks and rewards resulting from ownership or from provision of the service.

## **2.13 Leases**

Leases are contracts in which the lessor transfers to the lessee, in exchange for payment or a series of payments, the right to use an asset for an agreed period of time. Contracts that essentially transfer all risks and rewards deriving from ownership of the asset are defined as “finance leases” even when ownership is not transferred at the end of the contract. Finance leases are recognised according to the terms of IAS 17, paragraphs 20-32. Operating leases are defined by exclusion, as those that are not considered to be finance leases.

## **2.14 Dividends**

Dividends to be paid are recognised as liabilities only in the period in which they were approved by the Shareholders' Meeting. Dividends to be received are recorded only when the Shareholders' right to receive payment has been established.

## **2.15 Stock option**

As shown in the financial statements at 31 December 2006, personnel expense includes the expense relative to stock options granted to executive members of the KME Group S.p.A. Board of Directors and some Group Executives, in line with the remuneration they receive. The fair value of stock options has been determined by the option value at the grant date by applying the Black & Scholes model which takes into consideration the conditions relating to the exercising of the right, the current share value, the exercise price, duration of the option, dividends, the expected volatility and the risk-free interest rate. The relative cost of the stock options, distributed over the entire vesting period, is recorded as a contra-item in Equity under the item “Reserve for stock options”. The fair value of rights assigned to executives of KME Group S.p.A. subsidiaries is charged to companies in which the executives are on the permanent staff, by applying IFRIC interpretation 11 in advance as allowed by paragraph 12 of the same interpretation.

## 2.16 Earnings per share

For a calculation of the basic earnings per share and diluted earnings per share, refer to the Notes to the consolidated financial statements included in this report. According to the terms of IAS 33 paragraph 4, this information must only be presented on the basis of consolidated data.

## 2.17 Use of estimates

The preparation of this financial statements and the Notes there to under IFRS required the Directors to make estimates and assumptions which affected the report amount of balance sheet assets and liabilities.

The estimates were mainly used to determine the useful lives of non-current, provisions for bad debts, the measurement of impairment, employee benefits, taxes, restructuring provisions, intangible assets with an indefinite life and other accruals and provisions.

These estimates and assumptions are periodically reviewed and any effects are reflected immediately in the income statement. At the balance sheet date, the Directors deemed that the estimates and assumptions used reflected the best assessment possible given the information available. In addition, the Directors deemed that the estimates and assumptions adopted did not involve any material adjustments to the carrying amounts of assets and liabilities before the subsequent year.

## 3. Financial risk management policy

For this information refer to the Notes to the consolidated financial statements.

## 4. Information on the balance sheet

### 4.1 Property, plant and equipment

(in Euro)	Plant and machinery	Other assets	Total
<b>At 31 December 2006</b>			
Historical cost	185,510	688,632	874,142
Accumulated depreciation and impairment losses	185,510	688,632	874,142
<b>Net carrying amount</b>	-	-	-
<b>At 31 December 2007</b>			
Historical opening cost	185,510	688,632	874,142
Increases	1,700	29,982	31,682
Reclassifications	-	-	-
Decreases	(16,751)	(66,587)	(83,338)
<b>Historical closing cost</b>	<b>170,459</b>	<b>652,027</b>	<b>822,486</b>
<b>At 31 December 2007</b>			
Accumulated depreciation and impairment losses	185,510	688,632	874,142
Depreciation	212	1,799	2,011
Reclassifications	-	-	-
Decreases	(16,751)	(66,587)	(83,338)
<b>Accumulated depreciation and impairment losses</b>	<b>168,971</b>	<b>623,844</b>	<b>792,815</b>
<b>At 31 December 2007</b>			
Historical closing cost	170,459	652,027	822,486
Accumulated depreciation and impairment losses	168,971	623,844	792,815
<b>Net closing carrying amount</b>	<b>1,488</b>	<b>28,183</b>	<b>29,671</b>

During the year, furniture and motor vehicles were sold resulting in gains of Euro 16,500, in that they were completely depreciated, and office furniture was purchased.

The depreciation charge relative to the new increases was recorded.

### 4.2 Investment property

(in Euro)	Measured at fair value
<b>Carrying amount at 01.01.2007</b>	<b>2,800,000</b>
Increases for acquisitions	-
Increases for capitalised expenses	-
Increases for business combinations	-
Disposals	(2,800,000)
Changes in fair value	-
Changes of use	-
Other changes	-
<b>Carrying amount at 31.12.07</b>	<b>-</b>

On 15 January 2007, residential property located in Borgo San Jacopo no. 26, Florence, was sold, referred to in the financial statements at 31 December 2006. The adjustment to the sale price was made in the previous year.

### 4.3 Investments

Below is a list of investments in subsidiaries recorded under current financial assets.

Company name (in Euro)	Registered office	Share/ quota capital	Equity at 31.12.2007 <sup>1</sup>	Profit/(loss) for 2007	Investment held	Carrying amount
<b>Subsidiaries</b>						
KME Germany A.G.	Osnabrueck	142,743,879	128,101,000	27,150,000	100.00%	305,256,149
			361,616,000 <sup>2</sup>	29,120,000 <sup>2</sup>		
Immobiliare Agricola Limestone S.r.l.	Pistoia	3,216,000	2,821,000	(598,000)	100.00%	3,216,000
KME Italy S.p.A.	Florence	103,839,000	123,309,000	587,000	3.70%	4,519,000
						<b>312,991,149</b>

1. Net of profit/(loss) for the year

2. Equity and IFRS consolidated profit for 2007.

Equity includes minority interests equal to Euro 5.9 million.

Investments break down as follows:

(in Euro)	Investments in subsidiaries	Other equity investments	Total
Historical cost	531,068,378	129,114	531,197,492
Revaluations	-	-	-
Impairment losses	(220,177,838)	-	(220,177,838)
<b>Previous year amounts</b>	<b>310,890,540</b>	<b>129,114</b>	<b>311,019,654</b>
Increases	6,619,609	3,448,445	10,068,054
Decreases	(4,519,000)	-	(4,519,000)
Revaluations	-	-	-
Impairment losses	-	-	-
<b>Changes during the year</b>	<b>2,100,609</b>	<b>3,448,445</b>	<b>5,549,054</b>
Historical cost	533,168,987	3,577,559	536,746,546
Revaluations	-	-	-
Impairment losses	(220,177,838)	-	(220,177,838)
<b>Final amounts</b>	<b>312,991,149</b>	<b>3,577,559</b>	<b>316,568,708</b>

The item “investments in subsidiaries” includes the wholly-owned investments in KME Germany A.G. (Euro 305,256,149) and in Immobiliare Agricola Limestone S.r.l. (Euro 3,216,000), as well as a 3.7% direct investment in KME Italy S.p.A. (Euro 4,519,000). The aforementioned investment was acquired on 1 December 2007 as a result of the partial split (and the contribution of equity to KME Italy S.p.A.) of Immobiliare Agricola Limestone S.r.l.. The investment in the split company was correspondingly reduced.

The net increase in the item investments in subsidiaries, equal to Euro 2.1 million, is due to the measurement in the year of inventories as part of the 2006-2011 Plan in favour of Executives of the subsidiaries, recognised directly in Equity.

The item “other investments” refers to:

- the 50% investment in “Consorzio Italmun 25 in liquidation” (Euro 129 thousand), resulting from the merger of Europa Metalli SE.DI S.p.A.;
- the 80% investment in Greenergy Capital S.p.A. (Euro 3.4 million) established on 3 July 2007. For more information please refer to the relevant section in the “Directors’ report”.



#### 4.4 Other non-current financial assets

(in Euro)	31.12.2007	of which related parties	31.12.2006	of which related parties	Change
Guarantee deposits	-	-	6,900	-	(6,900)
Post-employment benefits paid in advance tax as per Law 622/96	-	-	15,280	-	(15,280)
Commissions on guarantee contracts	6,992,026	6,992,026	-	-	6,992,026
<b>Total</b>	<b>6,992,026</b>	<b>6,992,026</b>	<b>22,180</b>	<b>-</b>	<b>6,969,846</b>

Receivables for commission on guarantee contracts represent the present value of commissions to be received in future years, referring to those due after 12 months, for guarantees given by the Company for loans obtained by Group companies in September 2006, in favour of Banks and in the interest of the aforementioned companies. The carrying amount, determined according to the aforementioned methods, expresses the fair value.

#### 4.5 Deferred tax assets

(in Euro)	31.12.2007	31.12.2006	Change
Deferred tax assets:			
on previous losses	2,123,000	-	2,123,000
on temporary differences between trade receivables and other receivables	301,150	-	301,150
on temporary differences post-employment benefits as per IAS 19	4,400	-	4,400
on temporary differences in provisions for risks and charges	1,099,450	-	1,099,450
on tax losses for 2007	24,000	-	24,000
on charges for share capital increase recognised in Equity	196,000	-	196,000
<b>Total</b>	<b>3,748,000</b>	<b>-</b>	<b>3,748,000</b>

Pursuant to paragraph 37 of IAS 12, at the date of these financial statements, a new measurement of deferred tax assets previously not recorded was carried out.

Following this measurement, deferred tax assets on a part of previous tax losses available were recorded, totalling Euro 2.1 million, estimated on the basis of the taxable amounts in the next two years; in addition, deferred tax assets totalling Euro 1.6 million were recognised, resulting from temporary differences existing at 31 December 2007.

At the date of these financial statements, the Company did not record deferred tax assets on previous tax losses, equal to Euro 26.8 million. A part of the aforementioned losses, totalling Euro 19.5 million, will expire at the end of the next year.

The details at 31 December 2007 of tax losses on which deferred tax assets were recognised and not recognised are shown below:

(thousands of Euro)	31.12.2007
<b>a) tax losses recognised</b>	
KME Group S.p.A.	7,807
Total (1)	7,807
<b>b) previous tax losses unrecognised</b>	
KME Group S.p.A.	26,787
Total (2)	26,787
<b>Total (1) + (2)</b>	<b>34,594</b>

#### 4.6 Trade receivables

(in Euro)	31.12.2007	of which related parties	31.12.2006	of which related parties	Change
Trade receivables	933,169	-	935,671	-	(2,502)
Provisions for credit risks	(933,169)	-	(933,169)	-	-
Total trade receivables	-	-	2,502	-	(2,502)
Due from subsidiaries	23,496	23,496	10,537,000	10,537,000	(10,513,504)
<b>Total</b>	<b>23,496</b>	<b>23,496</b>	<b>10,539,502</b>	<b>10,537,000</b>	<b>(10,516,006)</b>

Trade receivables remained essentially unchanged. With regard to the dispute with a Greek customer, for the collection of a receivable totalling Euro 933 thousand, written of, please refer to the chapter “ongoing disputes”.

The change in receivables due from subsidiaries concerns the payment of Euro 10.5 relating to 2006, made on 18 July 2007.

#### 4.7 Other receivables and current assets

(in Euro)	31.12.2007	of which related parties	31.12.2006	of which related parties	Change
Tax receivables	7,842,839	-	5,810,667	-	2,032,172
Prepayments and accrued income	140,060	-	8,392	-	131,668
Due from others	713	-	2,462	-	(1,749)
Due from subsidiaries	2,192,504	2,192,504	-	-	2,192,504
<b>Total</b>	<b>10,176,116</b>	<b>2,192,504</b>	<b>5,821,521</b>	<b>-</b>	<b>4,354,595</b>

Tax receivables refer mainly to receivables due from the Tax Authorities for direct taxes for which reimbursement has been requested (Euro 5.7 million) and for the advance payment of consolidated IRES (corporate income tax) of the Group (Euro 2.1 million).

Receivables due from subsidiaries (Euro 2.2 million) essentially refer to the benefit deriving from the use of the Parent Company's tax loss by Italian subsidiaries that exercised the right under the “national consolidated tax” regime.

“Trade receivables” and “other receivables” according to maturity are broken down as follows:

(in Euro)	Due within the 12 months	Due within 5 years	Due after 5 years	Total
Trade receivables	-	-	-	-
Due from subsidiaries	2,216,000	-	-	2,216,000
Tax receivables	7,842,839	-	-	7,842,839
Prepayments and accrued income	140,060	-	-	140,060
Sundry receivables	713	-	-	713
<b>Total</b>	<b>10,199,612</b>	<b>-</b>	<b>-</b>	<b>10,199,612</b>

#### 4.8 Current financial assets

(in Euro)	31.12.2007	of which related parties	31.12.2006	of which related parties	Change
Financial assets held for trading:					
- iNTEK S.p.A. savings shares ( 5,824,990)	5,242,497	5,242,497	5,242,497	5,242,497	-
Financial receivables due from subsidiaries	54,438,871	54,438,871	62,476,032	62,476,032	(8,037,161)
Receivables for commissions on guarantee contracts	6,560,516	6,560,516	-	-	6,560,516
<b>Total</b>	<b>66,241,884</b>	<b>66,241,884</b>	<b>67,718,529</b>	<b>67,718,529</b>	<b>(1,476,645)</b>

Following the merger of G.I.M. - Generali Industrie Metallurgiche S.p.A. into iNTEK S.p.A., completed on 31 March 2007, and in carrying out share exchange transactions, 5,242,497 G.I.M. - Generale Industrie Metallurgiche S.p.A. savings shares were converted to 5,824,990 iNTEK S.p.A. savings shares, equal to 38.37% of the shares in this category. The savings shares were recorded at a unit value of Euro 0.90. The latter represents the exercise price of the call option granted to banks, expiring in 2012, provided by of the previous bank agreement of in February 2005 and no longer in existence.

The amount recorded in financial receivables due from subsidiaries represents the balance of the current accounts the Parent holds with subsidiaries KME Germany A.G., KME Italy S.p.A., KME France S.A.S. and Immobiliare Agricola Limestone S.r.l..

Receivables for commission on guarantee contracts represent the present value of commissions to be received within the next 12 months for guarantees given by KME, for loans obtained by Group companies, in favour of Banks and in the interest of the aforementioned companies.

Also taking into consideration receivables for commission on guarantee contracts due beyond 12 months, previously commented on, the overall amount of these receivables amounts to Euro 13.6 million.

#### 4.9 Cash and cash equivalents

(in Euro)	31.12.2007	of which related parties	31.12.2006	of which related parties	Change
Bank and postal accounts	1,736,825	-	373,663	-	1,363,162
Cash on hand	2,338	-	3,275	-	(937)
<b>Total</b>	<b>1,739,163</b>	<b>-</b>	<b>376,938</b>	<b>-</b>	<b>1,362,225</b>

#### 4.10 Equity

Share capital is composed of the following number of shares:

	Ordinary shares with no nominal value		Savings shares with no nominal value	
	2007	2006	2007	2006
Issued at 1 January	693,385,714	322,333,714	57,216,332	57,216,332
Issued through cash contributions	309,976	371,052,000	-	-
Grouping carried out on 16.07.2007	(462,463,794)	-	(38,144,222)	-
Issued through cash contributions	4,248,234	-	-	-
<b>Issued as at 31 December</b>	<b>235,480,130</b>	<b>693,385,714</b>	<b>19,072,110</b>	<b>57,216,332</b>

In implementing the Shareholders' Meeting resolution dated 21 June 2007 on 16 July 2007, the grouping of KME Group S.p.A. ordinary and savings shares took place, in a ratio of 1 new share for every 3 existing shares in the same category.

Effective as of 16 July 2007, the number of warrants needed for the subscription of 1 ordinary company share was changed from 1 to 3; as a result, the subscription price of the aforementioned ordinary share was changed from Euro 0.35 to Euro 1.05.

Bearing this in mind, share capital at 31 December 2007 totalled Euro 324,164,741.31, divided into 235,480,130 ordinary shares and 19,072,110 savings shares, with no indication of nominal value.

It should be pointed out that at the date these financial statements the following were outstanding:

- 67,957,638 KME Group 2006/2009 ordinary share warrants, convertible in a ratio of 1 ordinary share for every group of 3 warrants, at the exercise price per unit of Euro 1.05;
- and 33,144,453 options convertible into shares in a ratio of 1 ordinary share for every group of 3 options, at the exercise price per unit of Euro 1.029.

Equity underwent the following changes:

(in Euro)	Share capital	Other reserves	Treasury shares	Prior year profit/(loss)	IFRS first-time adoption	Stock Options reserve	Profit for the year	Total Equity
<b>Balance as at 31.12.2005</b>	<b>189,775,023</b>	-	<b>(37,161)</b>	<b>5,167,157</b>	<b>2,784,099</b>	-	<b>1,395,184</b>	<b>199,084,302</b>
Allocation of profit for the year	-	-	-	-	-	-	-	-
Shareholders' Meeting resolution from 19.5.2006								
- Legal Reserves	-	69,760	-	-	-	-	(69,760)	-
- 2005 profits carried forward	-	-	-	10,943	-	-	(10,943)	-
- dividends paid	-	-	-	-	-	-	(1,314,481)	(1,314,481)
Share capital increase	129,868,200	-	-	-	-	-	-	129,868,200
Charges from share capital increase	-	(1,037,925)	-	-	-	-	-	(1,037,925)
Revenues from unopted rights	-	4,666	-	-	-	-	-	4,666
Provision for Stock Option	-	-	-	-	-	958,537	-	958,537
- Profit for the 2006	-	-	-	-	-	-	7,205,770	7,205,770
<b>Balance as at 31.12.2006</b>	<b>319,643,223</b>	<b>(963,499)</b>	<b>(37,161)</b>	<b>5,178,100</b>	<b>2,784,099</b>	<b>958,537</b>	<b>7,205,770</b>	<b>334,769,069</b>
Shareholders' Meeting resolution from 23.5.2007								
- Legal Reserves	-	360,289	-	-	-	-	(360,289)	-
- carried forward	-	-	-	638,844	-	-	(638,844)	-
- dividends paid	-	-	-	-	-	-	(6,206,637)	(6,206,637)
Use of IFRS first-time adoption reserve	-	1,037,925	-	101,558	(1,139,483)	-	-	-
Share capital increase	4,521,518	-	-	-	-	-	-	4,521,518
Provision for Stock Options	-	-	-	-	-	2,221,891	-	2,221,891
Deferred taxes charged to the income statement	-	194,000	-	-	-	-	-	194,000
- Profit for the 2007	-	-	-	-	-	-	12,314,967	12,314,967
<b>Balance as at 31.12.2007</b>	<b>324,164,741</b>	<b>628,715</b>	<b>(37,161)</b>	<b>5,918,502</b>	<b>1,644,616</b>	<b>3,180,428</b>	<b>12,314,967</b>	<b>347,814,808</b>
IFRS reclassification of treasury shares	(37)	-	37	-	-	-	-	-
<b>Balance as at 31.12.2007</b>	<b>324,164,704</b>	<b>628,715</b>	<b>(37,124)</b>	<b>5,918,502</b>	<b>1,644,616</b>	<b>3,180,428</b>	<b>12,314,967</b>	<b>347,814,808</b>

During the year under examination, share capital increased by Euro 4,521,518.31 following the exercising of 6,251,965 warrants with the issue of 2,290,639 ordinary shares and in execution of the "2006-2011 Stock option plan", resolved by the Extraordinary Shareholders' Meeting of 19 May 2006 and modified on 21 June 2007. During the year, 6,802,713 options granted to Company and Group Directors and Executives were exercised, with the subsequent issue of 2,267,571 new ordinary shares with no indication of nominal value.

Treasury shares refer to 21,666 savings shares, recorded at purchase cost, totalling Euro 37,161.

The item "other reserves" includes:

- |  |             |                |
|--|-------------|----------------|
| • legal reserves totalling                       | Euro        | 430,049        |
| • deferred tax assets recorded in Equity         | Euro        | 194,000        |
| • share premium reserve (sale of unopted rights) | Euro        | 4,666          |
|  | <b>Euro</b> | <b>628,715</b> |

The reserves “prior year profit/(loss)” and “IFRS first-time adoption”, the latter deriving from the transition to IFRS in 2004, were both available with the exception of amounts allocated to cover:

- a contra entry reserve of 5,824,990 savings shares of Parent Company iNTEK S.p.A. in the portfolio for an amount of Euro 5,242,497, pursuant to article 2359 *bis*, Italian Civil Code;
- a contra entry reserve of 21,666 own savings shares owned for an amount of Euro 37,161, pursuant to article 2357, *ter* Italian Civil Code.

The item “Stock Option reserve” (in 2006 share of Euro 958,537 and Euro 2,221,891 in 2007) deriving from the measurement of stock options granted to the Company’s Executive Directors (amounting to Euro 594,160) and to Group Executives (totalling Euro 2,586,267).

#### 4.11 Employee benefits

This amount is determined based on dues accrued at the end of the year for all employees, in compliance with law, employment contracts and accounting standard IAS 19.

(in Euro)	31.12.2007	31.12.2006	reclassification	increases	decreases
Post-employment benefits	128,398	336,622	3,671	20,171	(232,066)
Discounting and recognition as per IAS 19	15,502	10,814	(3,671)	8,359	-
<b>Total</b>	<b>143,900</b>	<b>347,436</b>	<b>-</b>	<b>28,530</b>	<b>(232,066)</b>

Uses were due to employees who left the Company during the year (2 Executives, Employee, 1 Worker).

#### 4.12 Deferred tax liabilities

(in Euro)	31.12.2007	31.12.2006	Change
Deferred tax liabilities:			
on the difference of the tax amount of assets held for trading	57,000	-	57,000
on the difference of the tax amount of treasury shares	2,000	-	2,000
<b>Total</b>	<b>59,000</b>	<b>-</b>	<b>59,000</b>

Deferred tax liabilities were calculated on the difference between the carrying amount and the tax amount of iNTEK savings shares and treasury shares.

#### 4.13 Non-current financial payables and liabilities

(in Euro)	31.12.2007	of which related parties	31.12.2006	of which related parties	Change
Loans as per Law 46/1982	474,416	-	581,551	-	(107,135)
Loans from Banks	5,184,881	-	-	-	5,184,881
Payables for financial guarantees issued	6,992,026	6,992,026	-	-	6,992,026
<b>Total</b>	<b>12,651,323</b>	<b>6,992,026</b>	<b>581,551</b>	<b>-</b>	<b>12,069,772</b>

The amount of the loan as per law 46/1982, deriving from the merger of Europa Metall SE.DI S.p.A., refers to the portion due after 12 months.

The item “Payables for financial guarantees issued” is the balancing entry of the item recorded in non-current financial assets with the same origin and represents the fair value of liabilities incurred relating to guarantees issued, having assessed any risk situations and consequently contingent liabilities, according to the terms of IAS 37. Since the item refers totally to guarantees issued due to the loans obtained by subsidiaries the present

value of commissions to be received, recorded under current and non-current financial assets, represents the best estimate of the fair value of costing liabilities in relation to the guarantees issued.

#### 4.14 Other payables

No other payables were recognised.

#### 4.15 Provisions for risks and charges

(in Euro)	31.12.2007	of which related parties	31.12.2006	of which related parties	Change
Provisions for product warranties	2,702,049	-	2,707,049	-	(5,000)
Company reorganisation provision	-	-	780,645	-	(780,645)
Provisions for legal and tax risks	1,295,564	-	613,486	-	682,078
<b>Total</b>	<b>3,997,613</b>	<b>-</b>	<b>4,101,180</b>	<b>-</b>	<b>(103,567)</b>

The "Provision for product warranties" was recognised following the merger of the subsidiary Europa Metalli SE.DI S.p.A. to cover product warranties sold by the latter to the Defence Administration. The decrease in the "Company reorganisation provision" was due to its use totalling Euro 343 thousand and simultaneous release for Euro 438 thousand.

The increase in the "Provision for legal risks" was due to the accrual for ongoing disputes.

With regard to two environmental disputes relative to the industrial area housing the Brescia plant, disputes which involve the Company and its subsidiary KME Italy S.p.A. separately, there were no new developments of interest to KME Italy S.p.A., whose next hearing is set for 22 May 2008.

On the other hand, regarding the Company, a process is underway to review and subsequently evaluate the documentation submitted by the other party whose content has formed the subject of legal and technical disputes; in addition, the other party has stated that it wishes to make a second request for damages without, however, indicating the amount. The next hearing is set for 15 May 2008.

It is not possible to predict the expected outcome of both disputes.

For disputes pending before the Court of Hannover relative to squeeze out and merger operations, an investigatory evaluation is in progress.

There are no updates regarding the action filed against former Company President, Luigi Orlando, whose next hearing is set for 12 June 2009.

The hearing concerning the appeal in the dispute in Greece relative to the recovery of receivables has been set for 4 April 2008; it should be noted that in the first instance, the Company's grounds have been accepted.

As of today, the aforementioned disputes are not expected to have any significant impact. At the date of these financial statements, there were no other significant contingent liabilities or information which could have a major bearing on the provisions set aside.

#### 4.16 Current financial payables and liabilities

They are broken down as follows:

(in Euro)	31.12.2007	of which related parties	31.12.2006	of which related parties	Change
Payables due to banks	24,809,713	-	103,009	-	24,706,704
Payables due to Parent	6,413,779	6,413,779	56,016,333	56,016,333	(49,602,554)
Payables for financial guarantees issued	6,560,516	6,560,516	-	-	6,560,516
<b>Total</b>	<b>37,784,008</b>	<b>12,974,295</b>	<b>56,119,342</b>	<b>56,016,333</b>	<b>(18,335,334)</b>

Payables due to Banks relate to the use of the available credit lines.

Payables due to the Parent decreased due to the repayment of a large part of the loan received.

“Payables for financial guarantees issued” represents the contra entry of the item with the same origin recognised in current financial assets; see comments in paragraph 4.8.

#### 4.17 Trade payables

(in Euro)	31.12.2007	of which related parties	31.12.2006	of which related parties	Change
Suppliers	327,594	-	371,729	-	(44,135)
Suppliers - Parent	1,240	1,240	3,717	3,717	(2,477)
Suppliers - subsidiaries	-	-	61,373	61,373	(61,373)
<b>Total</b>	<b>328,834</b>	<b>1,240</b>	<b>436,819</b>	<b>65,090</b>	<b>(107,985)</b>

The carrying amount of trade payables approximates their fair value.

#### 4.18 Other current liabilities

(in Euro)	31.12.2007	of which related parties	31.12.2006	of which related parties	Change
Other current liabilities	2,739,578	1,707,855	1,942,927	1,208,913	796,651
<b>Total</b>	<b>2,739,578</b>	<b>1,707,855</b>	<b>1,942,927</b>	<b>1,208,913</b>	<b>796,651</b>

This item refers mainly to amounts due to members of company bodies (Euro 752,000), for dues accrued but still not settled, tax payables, amounts due to social security institutions and employees (Euro 896,000) and amounts due to subsidiaries (Euro 759,000) for taxes paid in advance.

## 5. Guarantees and commitments

Under the banking agreements signed in September 2006, KME Group S.p.A. is committed, jointly with its industrial subsidiaries, up to a maximum amount of Euro 650 million with a duration of 3 years (Tranche A) and Euro 200 million with duration of 5 years (Tranche B), to repay in monthly instalments from the beginning of the fourth year.

At the end of the year the uses totalled:

- Euro 361.6 million for tranche A
- Euro 181.6 million for tranche B

Tranche B also covers the loan from the European Investment Bank, for Euro 42 million, and guarantees given to the European Community, for Euro 99.7 million.

In addition, KME Group S.p.A. has issued other guarantees in favour of its subsidiaries for a nominal amount of roughly Euro 65.6 million.

In addition, the agreements require compliance with financial covenants, which refer to Equity, debt and consolidated EBITDA, as well as the relationship between EBITDA and net consolidated financial charges. At the date of these financial statements all agreed-upon covenants were observed.

KME Group S.p.A. maintained its obligation to make, available to Banks participating in the banking agreement signed in February 2005, which is no longer in existence, a sale option on 5,704,444 G.I.M. savings shares available to participating Banks, exercisable at the unit price of Euro 1; at the end of 2006, following the exercising of this option by a Bank, the number of shares fell to 5,242,497.

Following the merger of G.I.M. - Generale Industrie Metallurgiche S.p.A. into iNTEK S.p.A., which took place last March, this amount increased to 5,824,990 shares, considering the merger ratio which involved the allocation of 10 iNTEK shares for every 9 G.I.M. savings shares owned. Consequently, the unit value fell from Euro 1 to Euro 0.9.

## 6. Information on the income statement

### 6.1 Revenue from sales and services

(in Euro)	FY 2007	of which related parties	FY 2006	of which related parties	% Change
Revenue from sales and services	2,855,947	2,839,000	2,913,550	2,913,550	-2.0%
<b>Total</b>	<b>2,855,947</b>	<b>2,839,000</b>	<b>2,913,550</b>	<b>2,913,550</b>	<b>-2.0%</b>

The item "Revenue from sales and services" includes amounts invoiced to Group Companies for financial, insurance, tax and administrative support services.

### 6.2 Other revenue

(in Euro)	FY 2007	of which related parties	FY 2006	of which related parties	% Change
Investment property	-	-	33,739	28,734	-100%
Recovery of expenses incurred also in the interest of Group companies	24,896	-	59,739	59,739	-58%
Sundry income	157,569	1,025	156,329	-	1%
Gains on the sale of non-current assets	16,500	-	42,689	-	-61%
Changes in fair value of investment property	-	-	1,550,000	-	-100%
<b>Total</b>	<b>198,965</b>	<b>1,025</b>	<b>1,842,496</b>	<b>88,473</b>	<b>-89%</b>



Gains on the sale of non-current assets regard the sale of written-off furniture and motor vehicles.

### 6.3 Personnel expense

(in Euro)	FY 2007	of which related parties	FY 2006	of which related parties	% Change
Wages and salaries	670,797	347,173	616,503	247,224	8.8%
Social security charges	294,246	84,602	215,409	85,659	36.6%
Stock option costs	121,282	121,282	472,878	472,878	-74.4%
Post-employment benefits	28,530	-	43,620	-	-34.6%
<b>Total</b>	<b>1,114,855</b>	<b>553,057</b>	<b>1,348,410</b>	<b>805,761</b>	<b>-17.3%</b>

Stock option costs concern the launch of an incentive plan, reserved for Executives on the Board of Directors which involves the free granting of rights on KME Group S.p.A shares, in a ratio of 1:3 as of 1 September 2007 and to be exercised by 28 February 2011. The strike price has been set at Euro 1.029 per share calculated on the basis of the average official Stock Exchange prices recorded in the month preceding the grant date (31 July 2006) and taking into consideration the grouping of ordinary and savings shares that took place on 16 July 2007. The charge of the year and therefore the fair value of services received, was determined indirectly by referring to the fair value of granted equities.

The fair value of the stock options (equal to Euro 0.1 for the first granting and Euro 0.38 for the options re-granted in the year) was calculated by an independent actuary at the moment of granting by applying the Black & Scholes model which takes into consideration the conditions relating to the exercising of the right, the current share value, the expected volatility (estimated according to the historical trend at one year of the underlying), the risk-free interest rate in the Euro area, the expected rate of dividends and the probability that those with the rights are, at the end of the so-called vesting period, in a position to exercise the aforementioned right.

### 6.4 Amortisation, depreciation and impairment losses

(in Euro)	FY 2007	FY 2006	% Change
Furniture	1,799	-	insig..
Plant, machinery and equipment	212	-	insig.
Automobiles	-	-	insig.
<b>Total</b>	<b>2,011</b>	<b>-</b>	<b>insig.</b>

Depreciation of office furniture and plants purchased during the year was recognised.

## 6.5 Other operating costs

The item is broken down as follows:

(in Euro)	FY 2007	of which related parties	reclass.	FY 2006	of which related parties	% Change
Directors' and Statutory Auditors' fees	2,095,352	2,095,352		2,911,117	2,911,117	-28%
Employee services	864,774	38,828		1,431,051	37,642	-40%
Travel expenses	627,474	597,183		214,603	182,221	192%
Fees owed to subsidiaries/parents for services	4,532	4,532		4,132	4,132	10%
Legal and corporate announcements and advertising	144,997	-		57,592	-	152%
Electricity, heating, postage and telephone fees	31,861	-		54,432	-	-41%
Sundry insurance	50,334	-		71,615	-	-30%
Sundry maintenance	5,363	-		483	-	1010%
External services and listing of shares	110,560	-		43,531	-	154%
Training and seminars	27,394	-		-	-	insig.
Lease payments - real-estate	169,015	62,248		66,352	60,926	155%
Condominium charges	84,981	59,500		51,848	51,848	64%
Lease and rental payments	69,315	52,234		57,191	23,389	21%
Sundry tax charges	19,269	-		7,645	-	152%
Undeductable VAT	184,038	-		137,837	-	34%
Membership fees	18,521	-		17,292	-	7%
Sundry costs	110,786	1,625		55,461	-	100%
Charity	225,000	225,000		-	-	insig.
Bank service fees	10,641	-	9,448	-	-	insig.
Release of provisions	(621,171)	-		-	-	insig.
Accruals to provisions for risks and charges	1,026,466	-		-	-	insig.
<b>Total</b>	<b>5,259,502</b>	<b>3,136,502</b>	<b>9,448</b>	<b>5,182,183</b>	<b>3,271,275</b>	<b>1%</b>

## 6.6 Financial income and expense

(in Euro)	FY 2007	of which related parties	reclass.	FY 2006	of which related parties	% Change
Financial income	10,149,283	10,049,539		3,727,194	2,419,160	172%
Financial expense	(1,480,656)	(399,678)	9,448	(5,311,966)	(5,198,154)	-72.1%
<b>Total</b>	<b>8,668,627</b>	<b>9,649,861</b>	<b>9,448</b>	<b>(1,584,772)</b>	<b>(2,778,994)</b>	<b>-647.0%</b>

Financial income is made up of: interest on intercompany current accounts at market rates totalling Euro 2.1 million, Euro 1.2 million from dividends gained due to ownership of INTEK S.p.A. savings shares and Euro 6.7 million from commissions due from Group companies for guarantees given, already commented on.

Financial expense is made up of: Euro 0.4 million in interest due to Group companies on intercompany current accounts at market rates; Euro 0.5 million from interest due to Credit institutions for short-term loans.

## 6.7 Current taxes

(in Euro)	FY 2007	of which related parties	FY 2006	of which related parties	% Change
Current tax liabilities	(323,283)	-	-	-	insig.
Income from consolidated tax	3,796,080	3,796,080	10,598,233	10,598,233	-64%
<b>Total</b>	<b>3,472,797</b>	<b>3,796,080</b>	<b>10,598,233</b>	<b>10,598,233</b>	<b>-67%</b>

Current taxes refer to IRAP (regional income tax); income from consolidated tax relates to amounts paid by Italian subsidiaries for the use of the Parent Company's tax losses, under the "National Consolidated Tax" regime.

## 6.8 Deferred taxes

(in Euro)	FY 2007	FY 2006	% Change
<b>Deferred tax liabilities:</b>			
release of deferred taxes for IRS termination	-	(33,144)	insig.
on the difference of the tax amount of assets held for trading	(57,000)	-	insig.
<b>Deferred tax assets:</b>			<b>insig.</b>
on previous losses	2,123,000	-	insig.
on temporary differences between trade receivables and other receivables	301,150	-	insig.
on temporary differences in post-employment benefits as per IAS 19	4,400	-	insig.
on temporary differences in provisions for risks and charges	1,099,450	-	insig.
on tax losses for 2007	24,000	-	insig.
<b>Total</b>	<b>3,495,000</b>	<b>(33,144)</b>	<b>insig.</b>

At the date of this report, KME Group S.p.A., according to the terms of IAS 12 paragraph 37, recognised net deferred tax assets totalling Euro 3.4 million, previously not recorded following the forecast that future taxable income will allow them to be recovered.

Below is a summary table which shows the relationship between the fiscal charges in the year and effect on the financial result and the tax rate applicable according to the terms of IAS 12 paragraph 81.

## Correlation between tax charges and the accounting result

(thousands of Euro)	31.12.2007
Profit before tax	5,347
Theoretical tax charge	1,992
(tax rate used: 37.25%)	-
<b>Reconciliation:</b>	
Effect due to different tax rates	-
<b>Other effects:</b>	
Undeductible charges	3,734
Untaxable income	(19,966)
Tax losses for the year not recognised as deferred tax assets	-
Income taxable offset by unrecognised previous tax losses	10,798
Recognition of deferred taxes pursuant to IAS 12 par. 37	(3,528)
Other	2
<b>Taxes recognised in the income statement</b>	<b>(6,968)</b>

## 7. Other information

### Average number of employees

	FY 2007	FY 2006	% Change
Executives	3	3	-
Office workers	1	2	-50.0%
Factory workers	1	1	-
<b>Total</b>	<b>5</b>	<b>6</b>	<b>-16.7%</b>

### Financial instruments by category

(thousands of Euro)	31.12.2007	31.12.2006	Change
Fin. assets at fair value through profit or loss	18,794	5,242	13,552
Assets held to maturity	-	-	-
Loans and receivables	66,377	79,235	(12,858)
Investments in subsidiaries and other companies	316,568	311,019	5,549
Fin. liabilities at fair value through profit or loss	13,552	-	13,552
Fin. liabilities at amortised cost	37,211	57,137	(19,926)

### Financial instruments by item

Financial instruments and reconciliation with balance sheet items at 31 December 2007:

(thousands of Euro)	Total	Measured at amortised cost	Measured at fair value	Outside the scope of IFRS 7
<b>Financial assets:</b>				
Investments in subsidiaries and associates	312,991	-	-	312,991
Investments in other companies	3,577	-	-	3,577
Investments in Equity	-	-	-	-
Non-current financial assets	6,992	-	6,992	-
Other non-current assets	-	-	-	-
Trade receivables	23	23	-	-
Other receivables and current assets				
Tax receivables	7,843	7,843	-	-
Bank and postal accounts	-	-	-	-
Receivables due from subsidiaries	2,192	2,192	-	-
Other non-financial assets	141	141	-	-
	<b>10,176</b>	-	-	-
Cash and cash equivalents	1,739	1,739	-	-
Current financial assets				
Guarantees issued	6,560	-	6,560	-
Loans	54,439	54,439	-	-
Other financial instruments	5,242	-	5,242	-
	<b>66,241</b>	-	-	-
		<b>66,377</b>	<b>18,794</b>	<b>316,568</b>

(thousands of Euro)	Total	Measured at amortised cost	Measured at fair value	Outside the scope of IFRS 7
<b>Financial liabilities:</b>				
Non current and current financial liabilities				
Due from banks	30,469	30,469	-	-
Guarantees issued	13,552	-	13,552	-
Due from lease companies	-	-	-	-
Other financial liabilities	6,414	6,414	-	-
Derivative financial instruments	-	-	-	-
	<b>50,435</b>	<b>36,883</b>	<b>13,552</b>	-
Trade payables	328	328	-	-
	<b>50,763</b>	<b>37,211</b>	<b>13,552</b>	-

## Notional amount of derivative financial instruments

At the date of these financial statements, KME Group S.p.A. had no derivative financial instruments.

## Exposure to credit risk and impairment losses

The carrying amount of financial assets represents the maximum exposure to credit risk of KME Group S.p.A.

The age of trade receivables at the balance sheet date was as follows:

(thousands of Euro)	Gross carrying amount	Write-downs 31.12.2007	Net carrying amount
not yet due	21	-	21
overdue by zero to 60 days	-	-	-
overdue by 61 to 120 days	-	-	-
overdue by 121 days to 1 year	2	-	2
overdue by more than 1 year	933	933	-
<b>Total</b>	<b>956</b>	<b>933</b>	<b>23</b>

Movements in the bad debt provision in the year are shown below:

<b>31.12.2006</b>	<b>933</b>
Currency exchange difference	-
Impairment losses of the year	-
Usage	-
Release	-
<b>31.12.2007</b>	<b>933</b>

## Foreign exchange exposure

At the date of these financial statements KME Group S.p.A. had no balance sheet items or sale or purchase commitments estimated in foreign currency.

## Interest rate exposure

The interest rate profile applied to the interest-bearing financial instruments of the Group at the balance sheet date was as follows:

(thousands of Euro)	31.12.2007	31.12.2006
<b>Fixed rate instruments:</b>		
Financial assets	-	-
Financial liabilities	581	684
<b>Total</b>	<b>(581)</b>	<b>(684)</b>
<b>Variable rate instruments:</b>		
Financial assets	69,731	62,852
Financial liabilities	49,854	56,288
<b>Total</b>	<b>19,877</b>	<b>6,564</b>

### *Analysis of the sensitivity of the fair value of fixed rate instruments*

KME Group S.p.A. did not account for any fixed rate financial asset or liability recorded at fair value in the income statement.

### *Analysis of the sensitivity of the cash flows of variable rate instruments*

An increase (or decrease) of 50 basis points (BPS) in interest rates at the balance sheet date would produce an insignificant decrease (increase) in Equity and in the profit for the year of roughly Euro 0.1 million. The analysis has been made in the assumption that other variables, particularly exchange rates, remained constant and it was carried out for 2006 using the same conditions.

### **Fair value and carrying amount**

According to the terms of IFRS 7 paragraph 25, it is declared that the fair value of financial assets and liabilities recognised in the balance sheet is equal to their carrying amount.

### **Other financial commitments**

Below is a summary table showing the minimum payments that cannot be cancelled, due for rentals and operating leases at the date of these financial statements:

(thousands of Euro)	31.12.2007	31.12.2006
Due within 1 year	173	116
Between 1 and 5 years	309	18
Beyond 5 years	-	-
<b>Total</b>	<b>482</b>	<b>134</b>

### **Disclosure of amounts of services provided by the Independent Auditor**

According to the terms of article 149 duodecies of the "Issuers' Regulation", below is a summary table showing the amounts for the year regarding services provided to the Company and to subsidiaries by the Independent Auditor:

(thousands of Euro)	Total	KME Group S.p.A.	Subsidiaries
a) audit services	832	62	770
b) services other than auditing	5	-	5
	<b>837</b>	<b>62</b>	<b>775</b>

## Appendix to the Notes

### List of investments at 31.12.2007 and changes that took place compared with 31.12.2006 (also according to the terms of article 126 of CONSOB regulation no. 11971/99)

Investments (in Euro)	Nominal value		Existing at 31.12.2006		Changes in the year (+/-)		Value adjustments		Existing at 31.12.2007			Stock Exchange value		Differences
	Euro	Quantity	Value	Quantity	Value	Quantity	%	Average carrying amount	Carrying amount value	Unit value	Counter value			
<b>Subsidiaries and other investments (recognised in non-current financial assets)</b>														
KME Germany A.G.	without nominal value	27,918,276	303,155,540		2,100,609		27,918,276	100.00		305,256,149				
Immobiliare Agricola Limestone S.r.l.			7,735,000		(4,519,000) <sup>1</sup>			100.00		3,216,000				
KME Italy S.p.A.	1	-	-	3,839,000	4,519,000 <sup>1</sup>		3,839,000	3.697		4,519,000				
GreenenergyCapital S.p.A.	without nominal value	-	-	278,349,300	3,448,445		278,349,300	80.001		3,448,445				
Consorzio Italmun		1	129,114				1	50.00	129,114	129,114				
<b>Total</b>			<b>311,019,654</b>		<b>5,549,054</b>					<b>316,568,708</b>				
<b>Parent companies (recognised in current assets)</b>														
iNTEK S.p.A. saving shares	0.26	5,242,497	5,242,497		-		5,824,990 <sup>2</sup>	38.37	0.90	5,242,497	1.01	5,900,715	658,218	
<b>Total</b>			<b>5,242,497</b>		<b>-</b>					<b>5,242,497</b>			<b>658,218</b>	
<b>Treasury shares (recognised to reduce Equity)</b>														
KME Group S.p.A. saving shares	without nominal value	65,000	37,161				21,666 <sup>3</sup>		1.72	37,161	1.54	33,365	(3,796)	
<b>Total</b>			<b>37,161</b>		<b>-</b>					<b>37,161</b>			<b>(3,796)</b>	
<b>Total</b>			<b>316,299,312</b>		<b>5,549,054</b>					<b>321,848,366</b>			<b>654,422</b>	

1. Effect of the partial split of Immobiliare Agricola Limestone S.r.l. and contribution of equity to KME Italy S.p.A. on 01.12.2007.

2. Swap operation on 05.04.2007.

3. Share grouping operation on 16.07.2007.

**List of investments in subsidiaries controlled indirectly (also according to the terms of articles 125 and 126 of CONSOB regulation no. 11971/99)**

	Registered office	Activity	Share/quota Currency	capital Amount		Direct investments at 31.12.2007 %	Company	% Total direct and indirect
KME Italy S.p.A.	Italy	Production of copper and alloys	Euro	103,839,000	96.303		KME Germany A.G.	100.00
Kabelmetal Messing Bet. GmbH, Berlin	Germany	Property	Euro	4,514,200	100.00		KME Germany A.G.	100.00
Kabelmetal Messing Bet. GmbH, Nbg.	Germany	Non-operating	DM	511,291	100.00		KME Germany A.G.	100.00
KME Metal GmbH	Germany	Non-operating	Euro	511,292	100.00		KME Germany A.G.	100.00
KME Verwaltungs- und Dienstleistungsgesellschaft mit beschränkter Haftung	Germany	Production of copper and alloys	Euro	10,225,838	100.00		KME Germany A.G.	100.00
Evidal Schmoele Verwaltungsgesellschaft	Germany	Non-operating	Euro	30,000	50.00		KME Germany A.G.	50.00
Fricke GmbH	Germany	Holding	Euro	25,564	100.00		KME Germany A.G.	100.00
Fricke GmbH & Co. K.G.	Germany	Non-ferrous production	Euro	1,329,359	100.00		KME Germany A.G.	100.00
KME Asia Pte. Ltd.	Singapore	Commercial	SGD	300,000	100.00		KME Germany A.G.	100.00
KME Danmark A/S	Denmark	Commercial	DKK	1,000,000	100.00		KME Germany A.G.	100.00
KME Metals (Dongguan) Ltd.	China	Commercial	RMB	41,391,200	100.00		KME China Ltd.	100.00
KME America Inc.	United States	Commercial	USD	5,000	100.00		KME Germany A.G.	100.00
KME Austria Vertriebsgesellschaft mbH	Austria	Commercial	Euro	72,673	100.00		KME Germany A.G.	100.00
KM – Hungaria Szinesfem Kft.	Hungary	Commercial	HUF	3,000,000	100.00		KME Germany A.G.	100.00
KME (Suisse) S.A.	Switzerland	Commercial	CHF	250,000	100.00		KME Germany A.G.	100.00
KM Polska Sp.zo.o.	Poland	Commercial	PLN	250,000	100.00		KME Germany A.G.	100.00
KME Yorkshire Ltd.	UK	Commercial	GBP	10,014,603	100.00		KME Germany A.G.	100.00
Yorkshire Copper Tube	UK	Industrial	GBP	3,261,000	100.00		KME Yorkshire Ltd.	100.00
EMT UK Ltd.	UK	Non-operating	GBP	500,000	100.00		KME Yorkshire Ltd.	100.00
Irish Metal Industries Ltd.	Ireland	Commercial	Euro	127	100.00		KME Yorkshire Ltd.	100.00
Yorkshire Copper Tube (Exports) Ltd.	UK	Commercial	GBP	100	100.00		Yorkshire Copper Tube	100.00
YIM Scandinavia A.B.	Sweden	Commercial	SEK	100,000	100.00		KME Danmark A/S	100.00
N.V. KME Benelux	Belgium	Commercial	Euro	62,000	84.70		KME Germany A.G.	100.00
					15.30		KME France S.A.S	
KME China Ltd.	China	Commercial	CNY	27,095,000	100.00		KME Germany A.G.	100.00
KME Chile Lda.	Chile	Commercial	USD	9,000,000	99.00		KME Germany A.G.	100.00
					1.00		KME metal GmbH	
KME Moulds Mexico S.A. de C.V.	Mexico	Commercial	MXN	50,000	99.00		KME Germany A.G.	100.00
					1.00		Kabelmetal Messing Bet. GmbH, Berlin	
KME Czech Republic S.r.o.	Czech Republic	Commercial	CZK	100,000	100.00		KME Germany A.G.	100.00
Accumold A.G.	Switzerland	Non-operating	CHF	200,000	100.00		KME Germany A.G.	100.00
Bertram's GmbH	Germany	Services	Euro	300,000	100.00		KME Germany A.G.	100.00
Luebke GmbH	Germany	In liquidation	Euro	102,258	100.00		KME Germany A.G.	100.00
KME Ibertubos S.A.	Spain	Production of copper and alloys	Euro	332,100	100.00		KME Spain S.A.	100.00
KME Spain S.A.	Spain	Commercial	Euro	1,943,980	99.86		Kabelmetal Messing Bet. GmbH, Berlin	99.86
Cuprum S.A.	Spain	Commercial	Euro	60,910	100.00		KME Spain S.A.	100.00
KME LOCSA S.A.	Spain	Production of copper and alloys	Euro	10,040,000	100.00		KME Spain S.A.	100.00
KME Beteiligungsgesellschaft mbH <sup>1</sup>	Germany	Holding	Euro	1,043,035	100.00		KME Germany A.G.	100.00
KME France S.A.S.	France	Production of copper and alloys	Euro	15,000,000	100.00		KME Germany A.G.	100.00
XT Ltd.	UK	Non-operating	GBP	430,000	100.00		KME Yorkshire Ltd.	100.00
KME Brass France S.A.S.	France	Production of copper and alloys	Euro	7,800,000	100.00		KME France S.A.S.	100.00
Société Haillane de Participations S.A.	France	Non-operating	Euro	40,000	99.76		KME France S.A.S.	99.76
Dalian Dashan Chrystallizer Co. Ltd.	China	Production of copper and alloys	RMB	10,000,000	70.00		KME Germany A.G.	70.00
Dalian Surface Machinery Co. Ltd.	China	Production of copper and alloys	RMB	5,500,000	70.00		KME Germany A.G.	70.00
Dalian Heavy Industry Machinery Co. Ltd	China	Production of copper and alloys	RMB	10,000,000	70.00		KME Germany A.G.	70.00
KME Brass Germany GmbH	Germany	Production of copper and alloys	Euro	50,000	100.00		KME Germany A.G.	100.00
KME Brass Italy S.r.l.	Italy	Production of copper and alloys	Euro	15,025,000	100.00		KME Italy S.p.A.	100.00
EM Moulds S.r.l.	Italy	Commercial	Euro	115,000	100.00		KME Italy S.p.A.	100.00
KME Germany AG & Co. K.G.	Germany	Non-operating holding	Euro	3,000	66.70		KME Germany A.G.	100.00
					33.30		KME Beteiligungs GmbH	

1. Change in company name former Europa Metalli Trefmetaux Deutschland GmbH.





# Statement about the separate financial statements

**KME Group S.p.A.**



## **Statement about separate financial statements according to the terms of Article 81-ter of CONSOB Regulation no. 11971 of 14 May 1999 and subsequent additions and amendments.**

1. The undersigned Vincenzo Manes, acting as Deputy Chairman and Marco Miniati, as the Manager responsible for preparing the company accounts of KME Group S.p.A., having considered the requirements of article 154 *bis*, paragraphs 3 and 4, of Legislative Decree no. 58 of 24 February 1998, certify:

- the adequacy in relation to company characteristics and
- the effective application of administrative and accounting procedures for preparation of the Parent Company financial statements, in the course of 2007.

2. Assessment of the adequacy of the administrative and accounting procedures for preparation of the Parent Company financial statements at 31 December 2007 was carried out based on methodologies generally accepted at international level (*Committee of Sponsoring Organisations of the Treadway Commission – COSO Report*). In this context, the rationalisation of procedures and the implementation of checks have been established which, under the guidance of the Manager responsible for preparing the company's accounting and involving the Internal Audit function, represents a reference model for the permanent monitoring of said assessment.

3. In addition, it is stated, the Parent Company financial statements as at 31 December 2007:

- a) correspond with the books and accounting records;
- b) were prepared in accordance with *International Financial Reporting Standards* adopted by the European Union as well as provisions issued pursuant to article 9 of Legislative Decree 38/2005, and give a true and fair view of the financial position and results of operations of the issuer.

Florence, 14 March 2008

The Deputy Chairman  
(Vincenzo Manes)

Manager responsible  
(Marco Miniati)

KME Group S.p.A.  
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Cap. Soc. 324.164.741,31 int. vers.  
Cod. Fiscale e Reg. Imprese  
di Firenze n° 00931330583  
Partita IVA 00944061001

Società iscritta al n. 18158 nell'elenco degli intermediari finanziari, ex art. 113, D.Lgs. 1 settembre 1993, n. 385

# Board of Statutory Auditors' Report

## **Board of Statutory Auditors' Report to the Shareholders' Meeting called to resolve on the Separate Financial Statements at 31 December 2007**

Dear Shareholders,

the Directors have called You to this Meeting for 29 April - 14 May 2008 to resolve on the financial statements at 31 December 2007 (article 2364 of Italian Civil Code), and the Board of Statutory Auditors is responsible for reporting to You in accordance with article 153 of Legislative Decree no. 58 of 24 February 1998, in compliance with the other special provisions in force.

### **Monitoring carried out and information obtained by the Board of Statutory Auditors**

During the year ended at 31 December 2007, members of the Board of Statutory Auditors, as well as having attended Shareholders' Meetings and meetings of the Board of Directors (ten), in accordance with the terms of article 149, paragraph 2 of Legislative Decree no. 58 of 24 February 1998, also held seven meetings of the Board of Statutory Auditors according to the terms of article 2404 of Italian Civil Code. The Auditors were in contact with both the independent auditors and continuously with the company structure in general. For the breakdown, regulations and operation of company bodies, please refer to the broad description in the report that accompanies the financial statements; it should be noted, amongst other things, that taking into consideration the criteria proposed by the Code of Conduct, on whose application the Board of Statutory Auditors forms a judgement of compliance, four members of the Board of Directors are considered to be independent. In general, relations between company top management and the Board of Statutory Auditors, even informal ones, have been permanent, and contact mainly of an informative and/or consultative nature between management and Auditors has been on a continuous basis. Properly kept mandatory company books contain what is required by law in every necessary detail.

In fulfilment of its duties and during the meetings and frequent contact referred to above, the Board of Statutory Auditors:

- a) confirmed that during the year, the provisions of laws and Bylaws were complied with, in the document adapted for the new regulations on the protection and the rights of minority interest;
- b) confirmed that Company management has been set up according to the correct principles, with the Board of Statutory Auditors being informed regularly and promptly by the Directors on the activities carried out during the year, transactions and on significant events, with regard to KME Group S.p.A. and its subsidiaries;
- c) has monitored the adequacy of the Company's internal control and of the administration and accounting structure which, even with the small-sized administration structure are reliable, also with reference to problems relating to the administrative responsibility pursuant to Legislative Decree 231/2001. According to the terms of this regulation, the Company, with a resolution passed by the Board, adopted an Organisation and Management Model, communicated to the Auditors in the updated version of the document (March 2008). The Board of Statutory Auditors acknowledges the activities carried out and the regular meetings held by the Internal Control Body—comprised of members of the administrative and technical department to face problems and put into being organisational aids so that the obligations required by the regulations in force can be met. It also acknowledges the activities of the Internal Control Body and the Remuneration Committee, appointed by the Board of Directors, each comprised of 3 non-executive and independent Directors, whose meetings have always been attended by members of the Board of Statutory Auditors. In addition, the Board of Statutory Auditors have been quick to focus on the control procedures, which have been adjusted further in line with company and Group requirements, and on accounting standards. The auditors did not need to make use of the work of its employees or support staff (article 151, paragraph 3, Legislative Decree no. 58 of 24 February 1998);

- d) confirmed that during the course of the year, companies, even those controlled indirectly, regularly and promptly provided KME Group S.p.A., through the subsidiary KME Germany A.G., with the necessary information to fulfil the communication obligations required by law (article 114, paragraph 2; article 149, letter d) of paragraph 1; article 150, paragraph 1 of Legislative Decree no. 58 of 24 February 1998);
- e) received information and updates from executive management on a continuous basis regarding ongoing disputes, a detailed description of which - avoiding unnecessary overlapping – is found in the Director’s report which reserves due space for it; however, highlighting the particular focus that the Control body, at an early stage, places on the two community procedures for infractions regarding competition, the class actions pending in the United States, the action filed in due course against former Company Chairman Luigi Orlando and two environmental disputes relative to the industrial area housing the Brescia plant;
- f) completed activities and collaborated through the exchange of information with KPMG S.p.A., the company responsible, under the terms of articles 155 and later of TUF (Consolidated Finance Act), for the audit of the financial statements of the year and the consolidated financial statements, as well as the KME Group half-year report. The Shareholders’ Meeting of 23 May 2007, upon the proposal of the Board of Statutory Auditors, resolved the granting to KPMG S.p.A. of the appointment until 2015, and so in taking over the duties previously carried out by Deloitte & Touche S.p.A., holds the position of “principal auditor” in that its activities concern the main part of assets and consolidated revenue of Group companies. During the year, no tasks other than those institutionally assigned, were entrusted to the independent auditors, nor to the firm appointed previously;
- g) took part, in a monitoring capacity, in the process of the Company’s application of the Borsa Italiana S.p.A. Code of Conduct, in its edition adopted in 2006, in line with a system of compliance which according to the terms of "TUF" (article 124 *bis*) must be the subject of information to shareholders and to the market; of which the Auditors acknowledge, not just from having assisted you, but also on the basis of the description of it in the Directors’ report;
- h) place emphasis on the extensive section in the Directors report about Corporate Governance, in which, aside from analytical information on company bodies and their members, the necessary space is also given to the Regulation of transactions with related parties; to the remuneration of Directors and top management with particular reference to the Stock Option Plan implemented in 2006; to the Remuneration Committee; to the Internal Audit Committee; as well as acknowledgements of other subjects such as the Internal Dealing Code of Conduct. On the whole, the information, even with regard to this point, is exhaustive;
- i) kept track of and monitored the set up (by KME Group S.p.A. in July 2007) of GreenergyCapital S.p.A. under the framework of an initiative with other entrepreneurial entities geared towards investments in companies for the development of plants for energy production from renewable sources, and in companies for the offering of products, services and technologies used in this sector. At the Shareholders’ Meeting of 3 August 2007, KME Group S.p.A. resolved the free allocation to all Company shareholders of roughly 250 million ordinary shares of the newco, in January 2008. Immediately after this, GreenergyCapital S.p.A. carried out a share capital increase upon payment of Euro 48.7 million, already concluded successfully. The new company obtained listing of its shares on the MTF (Electronic Share Market) – organised by Borsa Italiana S.p.A.. Timely and extensive information regarding the transactions was given to the Institutions and to the Market; and the Directors’ Report focuses on this exhaustively.

#### Considerations relative to the separate financial statements

The financial statements at 31 December 2007 show a profit of Euro 12,314,967 (2006: profit of Euro 7,205,770). The reasons for the improvement in the Parent profit are indicated in the report with reference to the higher commission received for services provided to Group companies and to the positive balance of financial components (which increased from Euro -1.6 million in 2006 to Euro +8.7 million in 2007) determined also by the elimination of charges tied to subordinated loans of Euro 130 million granted by the Parent, fully repaid by the share capital increase in 2006; and finally to the recognition as a positive component in the income statement, of the item “Taxes” totalling Euro 7.0 million (as shown in the report and in the notes) resulting from

the use of previous total losses of the parent to meet tax charges of Italian subsidiaries that exercised the option of the “national consolidated tax” regime.

The same report, however, in an extensive overview of Group operations in 2007, shows the reasons for consolidated profit (which decreased compared with the previous year) of Euro 40.8 million (2006: Euro 51.8 million); information ranging from the strong variability in copper prices, to the analysis of production and commercial trends for individual segments, to the conditions resulting from financial turbulence which has already manifested itself during the year. In addition to the financial result, influenced by many factors, even those of an accounting nature, the Directors highlight the strengthening of the Group's competitive positioning, in of picture characterised, especially in the second half of the year, by more widespread signs of a slowdown, among the uncertainties caused by recent turbulence in financial markets. The net financial debt of the Group at the end of 2007 fell to Euro 398.2 million (it totalled Euro 534.5 million at the end of 2006). The improvement is due to the cash generated by current operations and in particular from the rationalisation of management of the financial cycle whose duration was significantly reduced.

With regard to the textual reference shown in optional form by article 153 paragraph 2 of Legislative Decree 58/98, the Board of Statutory Auditors does not have any proposals to present with regard to the financial statements under review; it only deems it necessary - in order to facilitate their examination - to limit itself to the considerations shown here in regard to the balance sheet, to some measurement criteria and to the report of the independent auditors, with whom the Board of Statutory Auditors - it reiterates - has been periodically in contact with during the year and during the examination of the draft financial statements presented by the Directors.

The balance sheet items, aggregated according to their type, are shown in summary below (amounts shown in thousands of Euro):

	<b>2007</b>	<b>2006</b>
<b>Assets</b>		
- Investment property and similar	30	2,800
- Investments in subsidiaries and other companies	316,569	311,020
- Other non-current financial assets	6,992	22
- Deferred tax assets	3,748	-
- Trade receivables and other current assets	10,199	16,361
- Current financial assets	66,242	67,718
- Cash and cash equivalents	1,739	377
<b>Total Assets</b>	<b>405,519</b>	<b>398,298</b>
<b>Liabilities</b>		
- Share capital and reserves	335,500	327,563
- Non-current liabilities	16,852	5,030
- Current liabilities	40,852	58,499
- Profit for the year	12,315	7,206
<b>Total liabilities and equity</b>	<b>405,519</b>	<b>398,298</b>

In addition to talks with company executives, the Board of Statutory Auditors received the necessary information from the independent auditors regarding the measurement criteria applied to the various items in assets and liabilities as well as to measuring the components in the income statement; the choices made have been carried out in line with the correct reasons. At the date of this the independent auditors have still not issued their report on the financial statements and on the overall information system at the end of the year; however, it should be underlined that as a result of contacts and talks which took place, it is expected that no events and/or circumstances have emerged that could inhibit the auditors from expressing an unqualified professional opinion.

It is also acknowledged that the Statutory Auditors have examined the statements about the financial statements according to the terms of article 81-ter of CONSOB Regulation no. 11971 of 14 May 1999 and subsequent additions and amendments, drawn up on 14 May 1998 and signed by the Deputy Chairman V. Manes and by the Officer responsible, M. Miniati.

In addition, the Board of Statutory Auditors would like to point out the following:

- the accounting policies applied were those established by IFRS issued by IASB, and are shown clearly according to individual category of asset and liability items. For the purposes of representation and consistency of comparison with the reference data from different years, the consolidated operating profit and gross profit were determined without applying the IFRS in the measurement of the present values of inventories of raw materials, due to reasons put forward in the report and in particular in the notes to the financial statements, summarised - as indicated - by the need for consistency which in this case would be hindered by the high volatility of the relative prices;
- the deferred tax calculation principles and methods are duly indicated and do not raise any observations;
- the completeness of information which the Directors have analytically reported with regard to intercompany transactions, were neither unusual nor atypical, all classified among a Holding company's ordinary activities. In particular, with regard to loan transactions paid to current accounts and support and consultancy relationships for determined operational areas, all were disciplined on a normal contractual basis;
- the proposal that concludes the 2007 directors' report, containing the invitation to shareholders to approve the same report just like the annual financial statements in all its parts which shows a profit of Euro 12,314,967; as well as the invitation to resolve on the allocation of profit for the year: Euro 615,749 (5%) to the Legal Reserve, Euro 81,711 to the Board of Directors -2%- (after deducting the fixed portion of remuneration), Euro 2,068,878 to savings shares for an overall dividend of Euro 0.01086 per share, and Euro 9,419,205 to ordinary shares for a dividend of Euro 0.04 per share; with the final retained profit of a residual amount of Euro 129,424.

With regard to the information above and the considerations made by the Auditors in the report on the consolidated financial statements, the Board of Statutory Auditors expresses a favourable opinion as to the approval of the financial statements at 31 December 2007 and the allocation of profit totalling Euro 12,314,967 as indicated above.

Florence, 31 March 2008

THE BOARD OF STATUTORY AUDITORS





**KPMG S.p.A.**  
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(Italian original which remains the definitive version)

## Report of the auditors in accordance with article 156 of Legislative decree no. 58 of 24 February 1998

To the shareholders of  
KME Group S.p.A.

- 1 We have audited the separate financial statements of KME Group S.p.A. as at and for the year ended 31 December 2007, comprising the balance sheet, income statement, statement of changes in equity, cash flow statement and notes thereto. These financial statements are the responsibility of the company's directors. Our responsibility is to express an opinion on these financial statements based on our audit.
- 2 We conducted our audit in accordance with the auditing standards recommended by Consob, the Italian Commission for Listed Companies and the Stock Exchange. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the separate financial statements are free of material misstatement and are, as a whole, reliable. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by directors. We believe that our audit provides a reasonable basis for our opinion.

Reference should be made to the report of other auditors dated 11 April 2007 for their opinion on the prior year separate financial statements, which included the prior year figures presented for comparative purposes.

- 3 In our opinion, the separate financial statements of KME Group S.p.A. as at and for the year ended 31 December 2007 comply with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 9 of Legislative decree no. 38 of 28 February 2005. Therefore, they are clearly stated and give a true and fair view of the financial position of KME Group S.p.A. as at 31 December 2007, the results of its operations, changes in its equity and its cash flows for the year then ended.

Florence, 10 April 2008

KPMG S.p.A.

(Signed on the original)

Riccardo Cecchi  
Director of Audit

KPMG S.p.A., an Italian limited liability share capital company and a member firm of the KPMG network of independent member firms affiliated with KPMG International, a Swiss cooperative

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Bergamo Bologna Bolzano Brescia  
Catania Como Firenze Genova  
Lecce Napoli Novara Padova  
Palermo Parma Perugia Pescara  
Roma Torino Treviso Trieste Udine  
Varese Verona

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Capitale sociale  
Euro 6.728.450,00 i.v.  
Registro Imprese Milano e  
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20124 Milano MI





# Resolutions of the Shareholders' Ordinary Meeting

## Resolutions of the Shareholders' General Meeting held on 14 May 2008

The Shareholders' Meeting of KME Group S.p.A., having met in ordinary session at the registered office in Florence,

resolved

- a) to approve the Management Report on operations for the financial period ended on 31 December 2007 and the financial statements in their entirety and insofar as the individual entries and registrations with the allocations and uses proposed, which show a net profit of Euro 12,314,967;
- b) to allocate the profit for the period of Euro 12,314,967, following allocation of 5% or Euro 615,749 to the legal reserve and 2% or Euro 81,711 to the Board of Directors (after deducting the fixed portion of the remuneration), to the distribution of a dividend to savings shares of Euro 0.1086 per share amounting to Euro 2,068,878 and a dividend to ordinary shares of Euro 0.04 totalling Euro 9,419,205. The remaining profit of Euro 129,424 will be allocated to retained earnings.

Florence, 14 May 2008

The Board of Directors



## KME Group S.p.A.

### **Headquarters**

Via dei Barucci, 2  
50127 Florence

### **Share capital**

Euro 324,164,741.31 fully paid up  
Florence Companies' Register  
and Tax Code no. 00931330583

[www.kme.com](http://www.kme.com)

### **Consulting services and coordination**

Ergon Comunicazione

### **Graphic design**

AchilliGhizzardiAssociati

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