KME

2009 Annual Report

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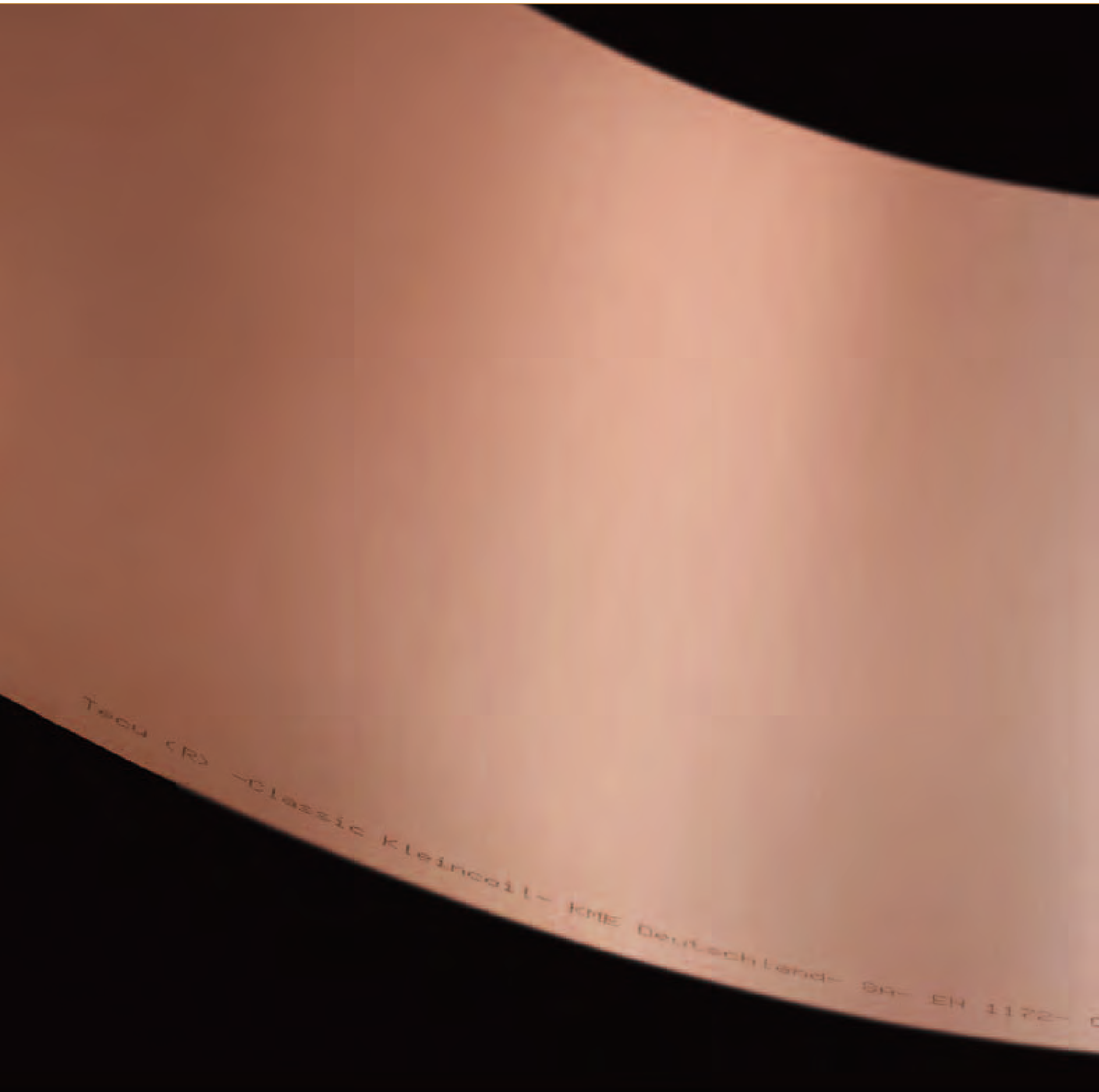

Tecu (R) -Classic Kleincoil- KME Deutschland- SA- EN 1172-

Group profile

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

› International presence:
- **14** production sites, in Europe and China
- **12** trading companies
- widespread global network of sales offices and agencies

› **6,500** employees

› Approximately **7,900** Shareholders and
21,000 business partners (clients and suppliers)

KME: a major European Group

KME 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;

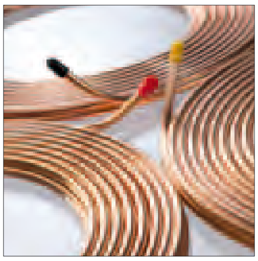
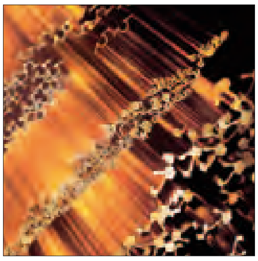
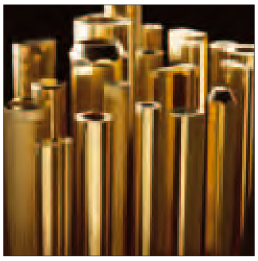
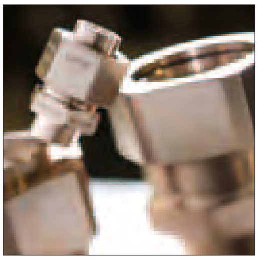
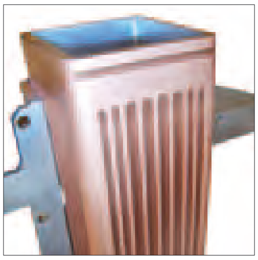
- **social commitment and sustainability:** safety at work, consideration for the communities living in the vicinity of our sites and utmost attention to the environment.

Leadership:

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

Worldwide plants	Country	Workforce	Divisions
Fornaci di Barga	Italy	700	Rolled and special products
Serravalle Scrivia	Italy	470	Tubes and rods
Givet	France	380	Tubes
Boisthorel	France	340	Rods
Niederbruck	France	160	Rolled products
Osnabruck	Germany	2,200	Rolled and special products and tubes
Menden	Germany	345	Tubes
Berlin	Germany	300	Rods
Stolberg	Germany	270	Rolled products
Greven	Germany	70	Rolled products
Barcelona	Spain	60	Tubes
Cordoba	Spain	150	Rolled products
Kirby	UK	250	Tubes
Dalian	China	400	Special products

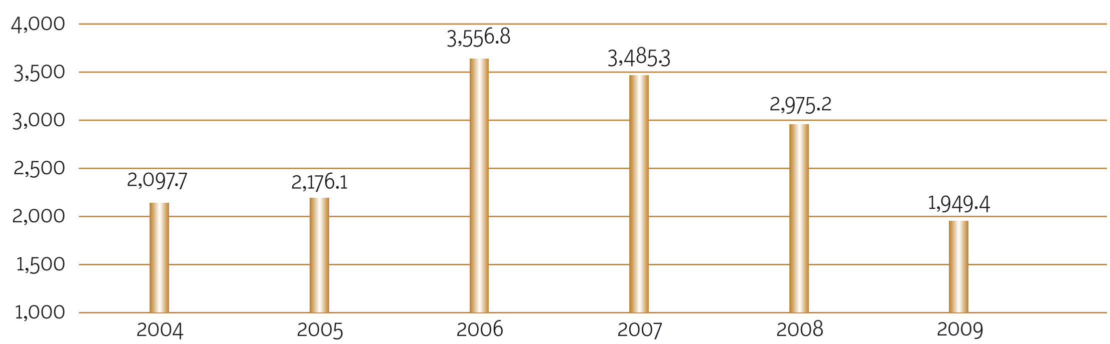
One of the most extensive product portfolios in the world

Divisions	Products	Main uses
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

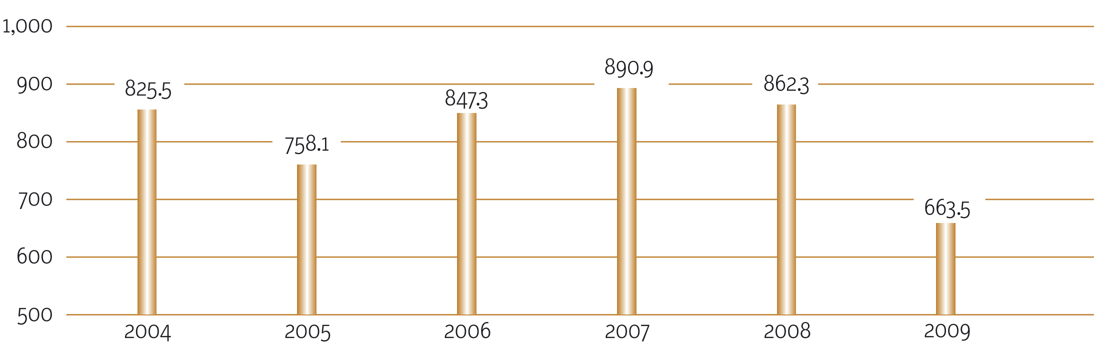
revenue
2 Euro billion

440.000
tonnes of
semi-finished products
manufactured

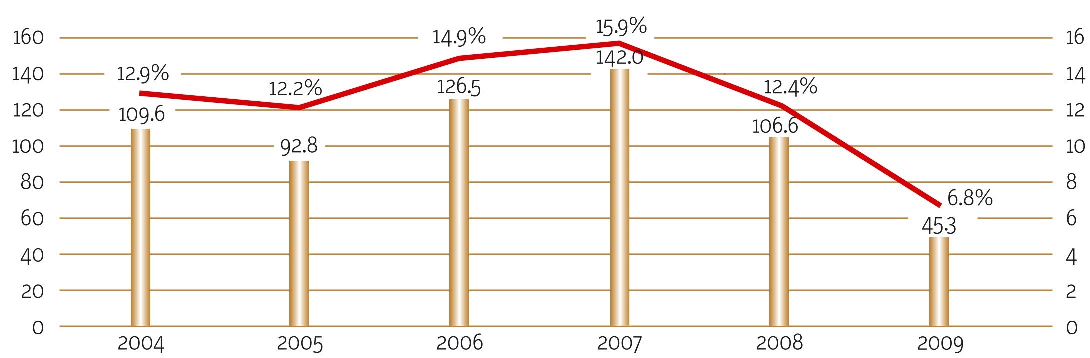
Gross turnover
(Euro/million)



Revenue net
of raw material costs
(Euro/million)



EBITDA*
(axis on the left
in Euro/million)
EBITDA/Net revenue
(axis on the right in %)

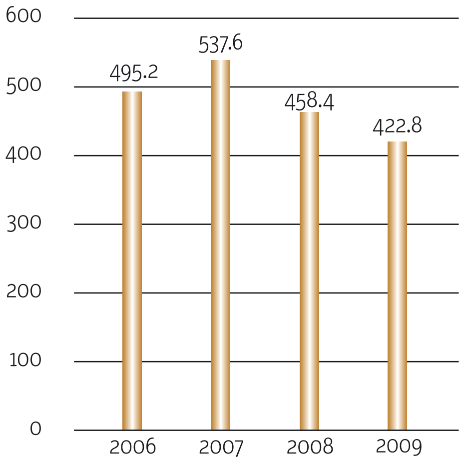


	2004	2005	2006	2007	2008	2009
Employees (at 31.12.2009)	7,269	6,847	6,609	6,806	6,739	6,485
Net revenue/employee (Euro/thousand)	117.3	110.7	128.2	130.9	128.0	102.3
Pre-tax profit (Euro/million)*	6.6	-29.1	4.9	52.3	7.6	-20.0

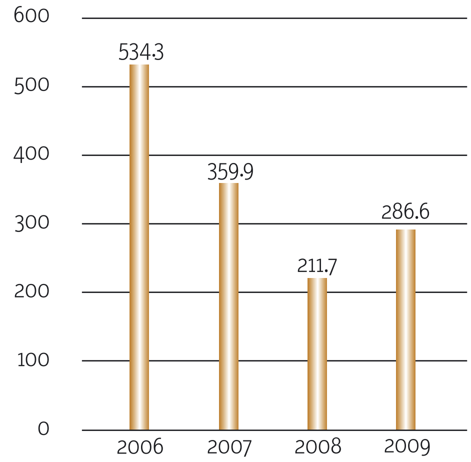
* net of IFRS valuation of inventories and LME contracts

Debt/Equity: Ratio below 70%

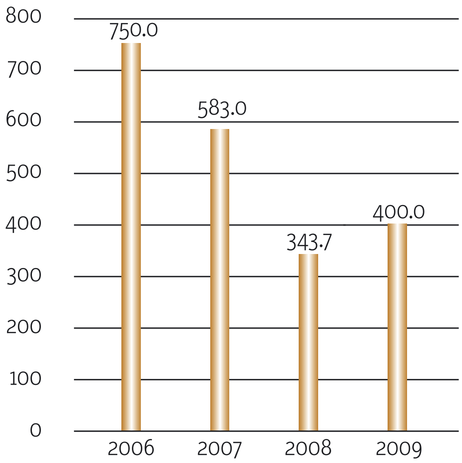
Total Equity*



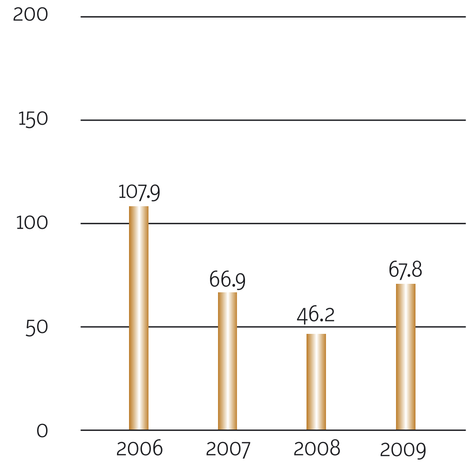
Net financial position*



Net working capital (clients/suppliers stock)*



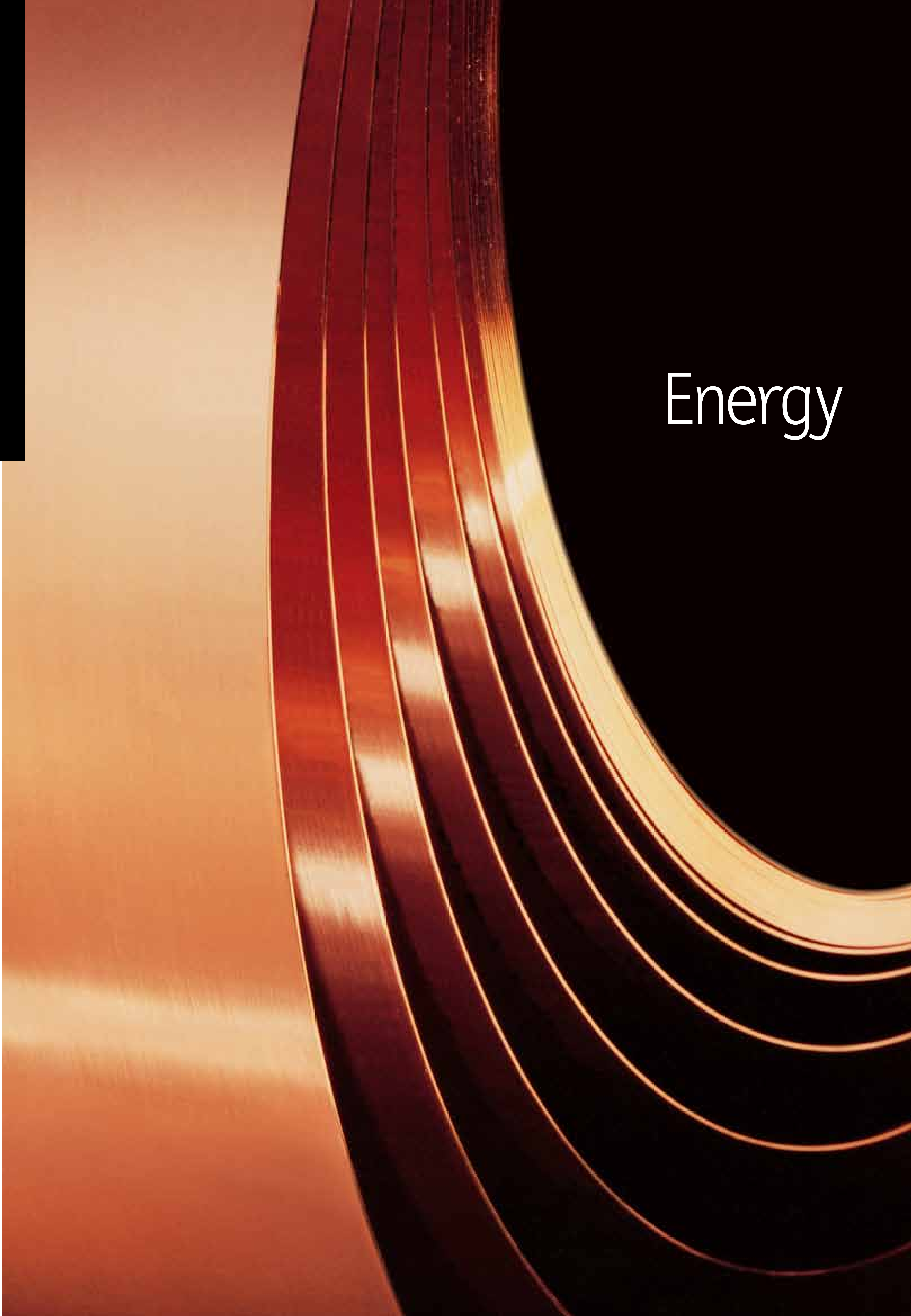
Debt/Equity Ratio (%)



* Euro/million

Annual Report

Energy



KME and Future

"Growth is a challenge: stability, efficiency and accountability.

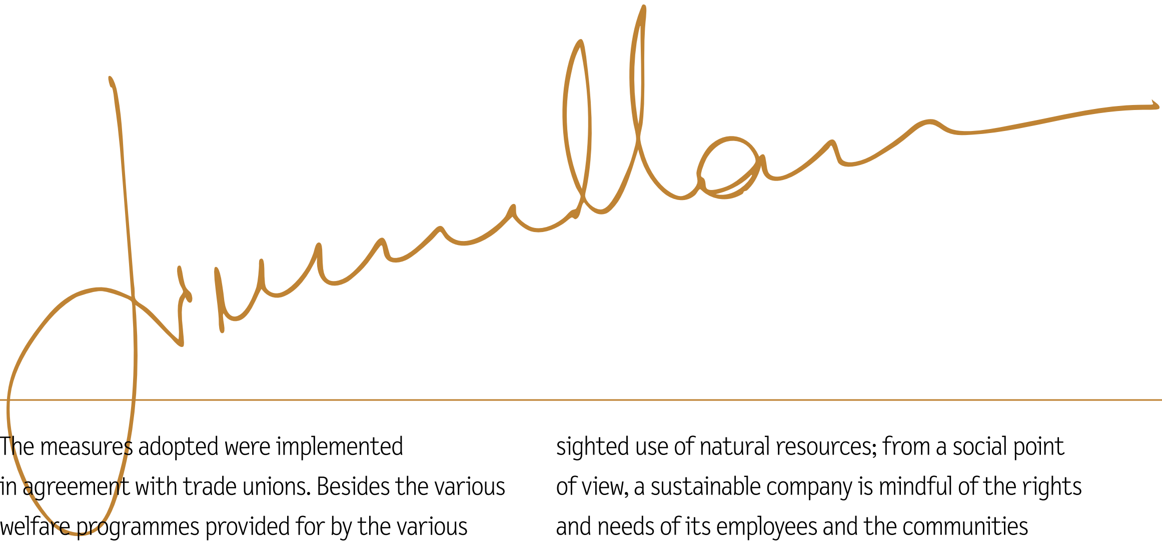
Even in difficult times, vigorous action can lead to value creation"

Vincenzo Manes
Deputy Chairman

Letter to Shareholders

Dear Shareholders,

I could paraphrase the great playwright, Eduardo De Filippo, and tell you that 'the night is over' with reference to the 2009 financial year. But actually we do not really know whether we can say that we have put 'the night' behind us and, leaving all metaphors aside, maybe that the recession is over. However, the crisis is still under way and the signs of recovery are uncertain and at times mixed. Unfortunately, some of the behaviours that contributed to the financial crisis at the end of 2008 have far from disappeared, or even been marginalised. In fact, they are taking centre stage again, as though nothing had happened, thanks in part to the weakness of international regulators.
We have seen this in particular with commodity prices. After the initial fall in prices, following the financial 'tsunami' in the early months of 2009, the economy began to pick up again – though only in part – due to the signs of recovery coming from the economies of the Far East and other emerging countries, but most of all because of a return to financial speculation, which took advantage of the wave of liquidity that has been released, partly as a result of government intervention.
Last year I called for a radical overhaul of the financial sector, with new rules, powers and behaviours but, for the time being, I must admit that this was wishful thinking. The KME Group's results, which we are submitting for your review, show that the recession has also had a significant impact on our accounts, and it could not have been otherwise.
Output of copper and copper-alloy semi-finished products fell by 27% in Europe, which is the main market for our products. Similar drops also took place in the United States and Japan, while China, in contrast, rose by approximately 4%, reflecting a much lower rate of growth than in the past.
For the Group as a whole, this meant a 23% decrease in revenues, after raw material costs, and EBITDA of Euro 45 million, compared with the Euro 107 million of 2008. As the year drew to a close, we noticed faint signs of a recovery, which are also visible in the early months of 2010. However, the 2009 figures also tell another story: KME did not simply satisfy itself with survival, but **reacted with vigour**, reducing costs and cutting debt, on the one hand, and using the crisis as a lever to drive cultural and organisational change.
Borrowings, which were due essentially to working capital, are unchanged with respect to the comparable 2008 amount, as the increase in commodity prices offset the decrease in volumes purchased. This is confirmation of the Group's sound financial structure, which is a necessary condition to meeting the competitive challenge. Meanwhile, the continuation and extension of the excellence programmes started back in 2008 made it possible to achieve a remarkable degree of manufacturing efficiency, with significant results achieved in terms of costs, inventories and debt.
Obviously, we also had to work on our labour costs, with sacrifices made at all levels. This entailed resorting to the unemployment benefits provided for under the laws of the various countries in which we operate, whilst being guided by our sense of responsibility towards our employees and their families.



The measures adopted were implemented in agreement with trade unions. Besides the various welfare programmes provided for by the various European laws, KME Group set up a 'Benevolent Fund', which took action in connection with around ten cases of serious and temporary difficulty experienced by a number of our employees.

I have already said that we were not just content with keeping the ship afloat, but decided to use the crisis as an opportunity to carry out a veritable 'cultural' turnaround within the Group. First of all, the demerger – which was decided on by the boards of directors of iNTEk and the KME Group in August and approved by shareholders at the meetings held in December – transformed the KME Group into a holding company with a portfolio of medium- and long-term investments in industrial companies. In this way, we intend to focus our efforts on building a business capable of renewing its market leadership. While the KME Group's investment portfolio is largely dominated by non-ferrous copper concerns, there are other companies – particularly KME Recycle and ErgyCapital – that are expected to play an increasingly important role in the future development of a totally-sustainable industrial company.
From a financial point of view, sustainable means capable of generating a return for Shareholders and being competitive in international markets; from an environmental point of view, sustainable refers to the ability to provide technologically advanced solutions to improve the quality of life of people, by contributing to a more efficient and far-sighted use of natural resources; from a social point of view, a sustainable company is mindful of the rights and needs of its employees and the communities in which it operates.
In an article published last February in **L'Express, Jacques Attali** mentioned the case of Bhutan, a minuscule state wedged between India and China, where GDP has been replaced by GNH (Gross National Happiness), based on such indices as health, psychological well-being, education, use of time, administrative efficiency, eco-diversity and cultural diversity.
Obviously, it is a paradox, but I am sure that the future of business enterprises also lies in an awareness of their responsibility for some of the above factors.
Within this responsibility context, I am pleased to report the continued growth in 2009 of the Dynamo Camp project – which hosted over 500 children, some of whom from abroad (Germany and Irak) – and the Dynamo Oasis, which is making a growing and innovative contribution to development of the surrounding area.

To conclude, we confirm that in 2010 we shall continue to focus on the commitments we announced last year: project, people, responsibility. It will certainly be a crucial year, which will test our approach, but I am confident that we will be able to meet the challenge successfully.

Basic information

Table showing the Group's main industrial companies after the demerger

Quattroduedue Holding B.V.

31.6%*
KME Group S.p.A.

100% KME A.G.	54% ErgyCapital S.p.A.	100% KME Recycle S.p.A.	90% Drive Rent S.p.A.	40% Culti S.r.l.

Italia	Francia	Germania	Spagna	Regno Unito	Cina
100% KME Italy S.p.A.	**100%** KME France S.a.s.	**100%** KME Germany A.G. & Co. K.G.	**100%** KME Spain S.A.	**100%** KME Yorkshire Ltd.	**70%** D.D. Chrystallizer Co. Ltd.
100% KME Brass Italy S.r.l.	**100%** KME Brass France S.a.s.	**100%** KME Brass Germany GmbH	**100%** KME LOCSA S.A.		**70%** Dalian Surface Machinery Co. Ltd.
		100% KME Architectural Metals GmbH & Co. K.G.	**100%** KME Ibertubos S.A.		**70%** D. Heavy Industry Machinery Co. Ltd.

Listed companies
Percentages of voting shares

* Direct and indirect investment

Company bodies

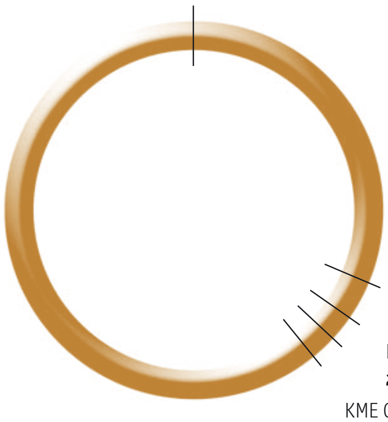
Board of Directors	
Chairman:	Salvatore Orlando
Deputy Chairman:	Vincenzo Manes [B]
Deputy Chairman:	Diva Moriani [B]
General Manager:	Domenico Cova [B]
General Manager:	Italo Romano [B]
	Vincenzo Cannatelli
	Mario d'Urso [A, C,D]
	Marcello Gallo
	Giuseppe Lignana [A, C,D]
Board Secretary:	Gian Carlo Losi
	Alberto Pecci [A, D]
	Alberto Pirelli [A, C]

Board of Statutory Auditors:	
Chairman:	Marco Lombardi
Statutory Auditors:	Pasquale Pace
	Vincenzo Pilla
Alternate Auditors:	Lorenzo Boni
	Angelo Garcea

Manager responsible for the preparation of corporate accounting documentation:	Marco Miniati
Independent Auditors	KPMG S.p.A.
General representative of 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)

Shareholders



Information for investors

KME Group S.p.A. has been listed on the stock exchange since 1897. During the year ended 31 December 2009, KME Group shares registered the following performance*:

- **KME Group's ordinary shares** reached a high of Euro 0.485 in April and a low of Euro 0.286 in December;
- **KME Group's savings shares** reached a high of Euro 0.731 in May and a low of Euro 0.448 in March;
- the 2006-2009 **KME Group warrants** reached a high of Euro 0.052 in January and a low of Euro 0.019 in March.

(Amounts in Euro - 31 December 2009)*	
No. of ordinary shares	353,251,287
No. of savings shares	28,608,165
Share capital	250,021,765.45
No. of 2006-2009 KME Group warrants outstanding	67,895,450

Share prices (end of 2009)*	
KME Group's ordinary shares	0.305
KME Group's savings shares	0.563
KME Group's warrants	0.030

(Amounts in Euro - capitalisation at the end of 2009)*	
Capitalisation of ordinary shares	107,741,643
Capitalisation of savings shares	16,106,397
Capitalisation	**123,848,039**

Shareholders (post-demerger)	
Number of ordinary shareholders	**7,905**
Principal ordinary shareholders[1]	
Quattroduedue Holding B.V. (NL)[2]	31.57%
Baggi Sisini Francesco[3]	3.30%
Dimensional Fund Advisors LP (USA)	2.25%

1. No other shareholder reported an interest greater than 2%.
2. Of which 7.651% held indirectly through the subsidiary, IntekCapital S.p.A..
3. In its capacity as an entity that indirectly controls Arbus S.r.l., KME's direct shareholder.

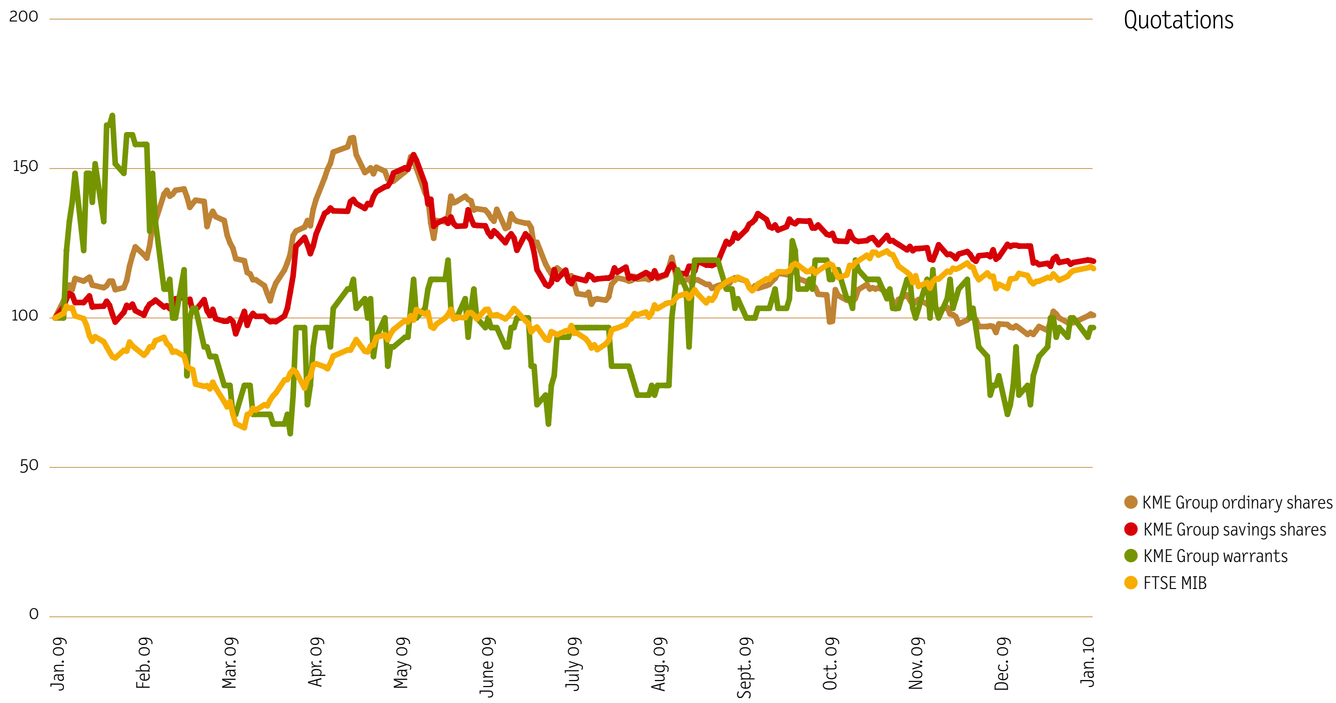
Dividend per share (amounts in Euro)	**2007**	**2008**
Dividend per ordinary share[1]	0.0400	0.0400
Dividend per savings share[1]	0.1086	0.1086

1. Gross dividend per share, calculated on the basis of the number of shares prior to the split.

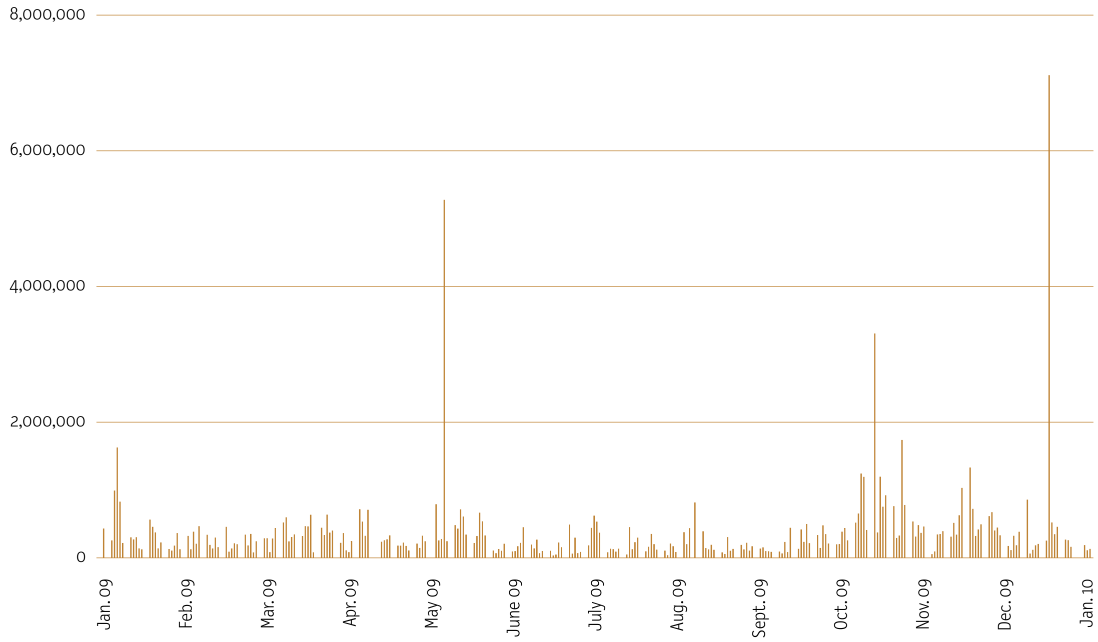
Share performance (amounts in Euro)*	End of 2008	End of 2009	Variation
KME Group's ordinary shares	0.291	0.305	4.7%
KME Group's savings shares	0.479	0.563	17.6%
KME Group's warrants	0.036	0.030	-16.7%
FTSE MIB	19,460	23,248	19.5%

* Number of shares and market prices adjusted after the split of 8 February 2010.

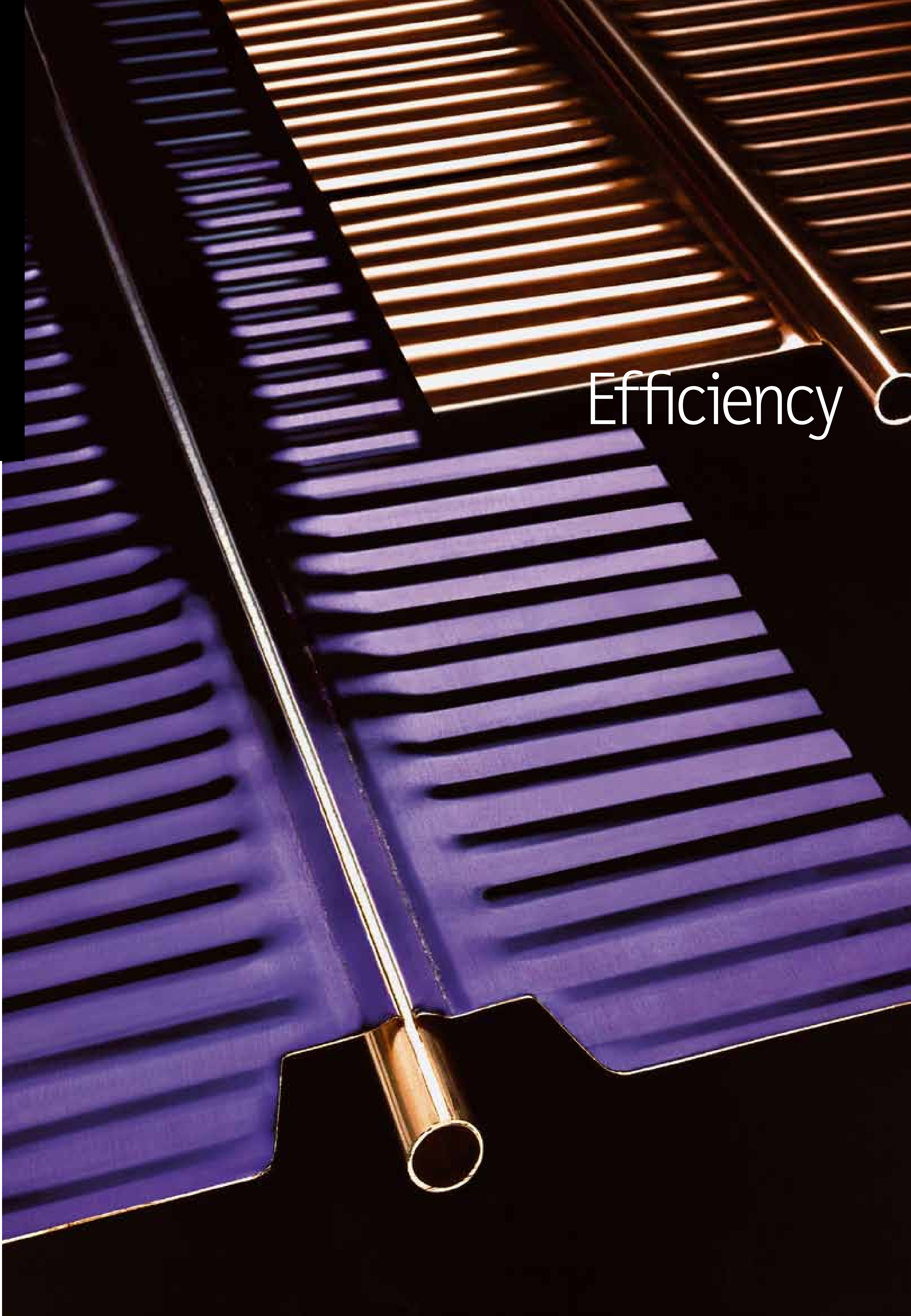
Quotations



Trading volumes KME Group's ordinary shares January 2009 January 2010



Efficiency



KME and Products

"Sustainability and competitiveness:

the aim of continued investment in excellence"

The year just ended was a period of great difficulty and - even though this was largely expected, after the financial crisis that burst on to the scene at the end of 2008 - the effects of a recession, the likes of which have not been seen in over sixty years, have yet to abate. In KME's case, after a significant drop in activity in the first half of 2009, business began to pick up again in the second half of the year and has continued to grow in the early months of 2010.
Copper prices, which had posted a sharp drop at the beginning of 2009, began to rise again at the end of the first half, driven by the economic growth of China and the newly-industrialised countries and, most of all, by the massive return to market of financial speculators, who zeroed in on commodities in general and the red metal in particular. Against such an uncertain background, KME not only stood its ground, but acted with determination on two main fronts:

1. by making costs more flexible, so as to adapt them to the decrease in demand. The results obtained were extremely positive, thanks to the willingness and sense of responsibility shown by all our employees at all levels, and to the best possible use of the various unemployment benefits provided for under the laws of the various countries in which we operate;
2. by continuing the process of vertical diversification, with the aim of turning the Company into a global player in the metal processing market, with an even broader product portfolio and a more efficient and focused range of customer services.

In 2009, we extended to all Company departments the continuous improvement process known as Operational Excellence (OpEx), which involved nearly all employees, at all levels. I wish to stress the enthusiasm and involvement that characterised everybody's efforts, as borne out by the results obtained, both in economic terms and in terms of the quality of the products and services provided. Thus, we were able to offset the impact of the smaller order book, caused by the general crisis, maintaining our overall competitiveness, which is a necessary condition to coming through the recession. In addition, our performance in terms of the environmental safety and sustainability of our plants has definitely improved.
We continued along the road to innovation in many markets for our semi-finished products, providing not only higher quality goods but also real technological solutions. Accordingly, our new operating division, KME Architectural Solutions, aims to provide highly innovative products and services to builders, by offering customers an integrated approach to the external coating of buildings.

TECU® Solar System, developed and certified in 2009, straddles both the construction and renewable energy sectors. KME's system, which has attracted significant interest from designers, features three types of sustainability:
1. it provides benefits in terms of energy savings;
2. it is sustainable in terms of CO2 emissions;
3. it helps in protecting the landscape.

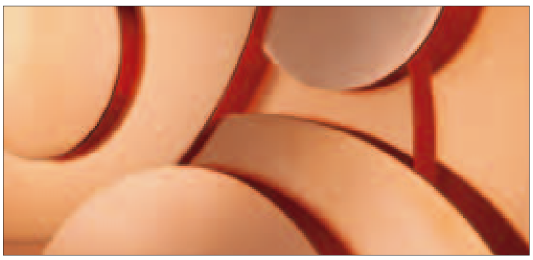
Domenico Cova
General Manager and
Chief Operating Officer

Further progress in the sector of renewable technologies was achieved by developing **'Ribbons'**, special copper ribbons coated with tin, to be used in manufacturing photovoltaic panels and capable of boosting their performance.

KME continued to pursue its strategy of expanding its customer service network, establishing a joint venture in India with an important local company to provide post-sales assistance in the sector of copper components for the iron and steel industries, where KME is the leader. Implementation of this strategy will continue in 2010, with similar initiatives in other areas of the world.

The year under review also saw important progress in the organisation of our product distribution. We established **Metal Center**, a joint venture with Alumeco, a leader in the distribution of metal rolled products in Scandinavia, to manage sales and post-sales services in northern Europe. The same approach guided the development of distribution and service centres in Romania, Poland and Turkey, while in 2010 KME will establish a wholly-owned trading company in India. Further progress was achieved in the alloys sector, with a view to providing increasingly eco-friendly products, with the enlargement of KME's offering of lead free alloy products.

The initiatives illustrated allows us to say that 2009 was not just a year when the Company did the best it could to survive the recession, but was a year when the foundations were laid for a strong turnaround as the recovery takes hold.



1. Council of Europe building in Strasbourg
2. Copper alloy discs for industrial applications

Operational Excellence

Begun a year ago, the OpEx programme has become a solid reality within KME, as it has involved all of the Group's processes.

Based on the Lean Six Sigma approach, **we completed over 40 projects** in our European offices, **involving over 800 people** and creating 'the sensation of need' that underlies change. The change that we are implementing is not only operational, but is also cultural.

During 2009 we began to successfully apply the OpEx programme also to **transactional processes** (unrelated to production), for instance to metal procurement activities or to collection processes.

Thanks to OpEx and in order to support its implementation, the Group also adopted **new management performance, internal communication, networking and cooperation tools** at all levels.

The main factors that make the OpEx programme possible are leadership, teamwork and the ability to solve problems.

Its main resources are instead **people** and KME intends to invest in its workforce to implement OpEx. In this respect, the focus on 'safety first' is one of the pillars of the programme. For the same reason, many people that participate in the internal 'Young Talent' programme are also involved in OpEx, and in future may well be able to take up important roles within the organisation. This marks an important investment for the future.

In 2010 we will continue to expand the scope of implementation and increase the number of employees trained. In addition, we will firm up the improvements and the success obtained in terms of efficiency, performance, standardisation and value creation across the various processes.

Solutions for architecture and construction

Over the past few years KME has expanded its traditional offering of roof and façade coating products under the TECU® brand (available in seven surfaces – with different finishes and colours – to match the different prefabricated systems), by differentiating its portfolio:

- Through the multi-metal products sold under the ARKITA® brand and distributed by KME Architectural Metals, the Group provides a variety of copper, zinc, titanium zinc, coated aluminium (FalZink®) and steel products to cover roofs and facades and for rainwater systems, with a full range of standard and customised gutters, drainpipes and accessories.

1. Covering with TECU® Solar System
2. Complete range of accessories for drainage of rainwater

TECU® Solar System

- ZINKMETAL®, the new and economical titanium and zinc alloy introduced last year, performed well in 2009. Thanks to its particular properties, such as malleability and durability, this alloy combines many key benefits for use in roofs, facades and in rainwater drainage systems.

- The year under review also saw the success of the TECU® Solar System for solar roofs: an architectural solution providing both environmental sustainability and landscape protection. Through a perfectly integrated and totally invisible thermal collector, the copper covering can capture the sun's rays to produce domestic hot water and radiant heating.

- The Company intends to move further down the supply chain, both through the upcoming creation of an 'architecture' division for the development of prefabricated and all-inclusive systems for metal facades, and by operating directly in the roof and façade installation sector, an activity that has already started successfully in Spain.

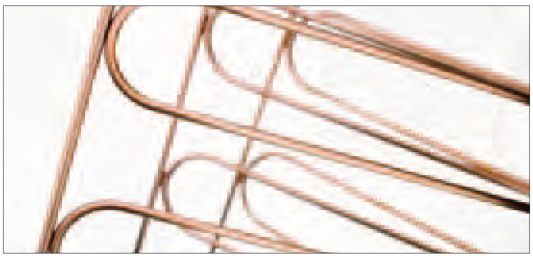
Household water heaters

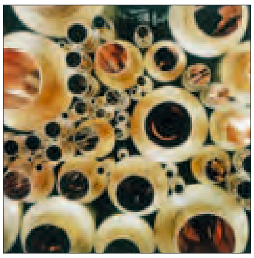
In addition to the traditional use of copper pipes for household water heaters, KME took steps to meet the growing demand for renewable energy solutions, where copper pipes can represent a key component.

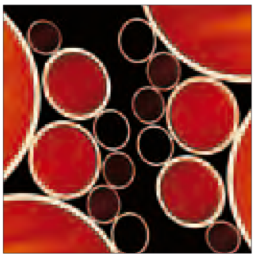
New products include Solar Steel™, an integrated two-pipe corrugated-steel system for solar water heaters. This system is used to connect solar panels and boilers.

The HYPOPLAN® radiant heating system continues to be successful. This consists of pre-assembled modules of various sizes for dry or wet systems.

KME's range of energy efficiency and energy savings products also includes WICU® Solar – an integrated solar energy heating system – and SANCO® Radiant, which is used for low temperature systems in radiant heating and cooling equipment.







1. Radiant heating system
2. Coated tubes for applications in water heating systems
3. Plain copper tubes for drinking water and sanitary applications

Ribbons

Semi-finished products for industrial applications

The offering of level wound coils of up to 600 kg. and tubes with a diameter of up to 42 mm. gives KME a competitive advantage, as these products allow customers to achieve utmost efficiency in their production cycles.

A new copper alloy allows the use of CO2 at very high pressure in the tubes used by the air conditioning and refrigeration industry.
The TECTUBE®_clim line, with light and innergrooved tubes, makes it possible to reduce the copper content, providing the customer with a more competitive product, without affecting in any way its performance.

KME's portfolio of rolled industrial products can be used in numerous sectors, thanks to its extensive range and the high quality of service. The solutions provided can meet the most specific requirements, owing to a comprehensive selection of copper alloys, the availability of different special treatments and coatings and flexible supply and packaging conditions.

Among special high-performance alloys (used in general in the production of connectors and electrical and electronic components), KME has developed TECSTRIP® white, which is intended for use in hospitals, in the medical industry and in the field of hygiene, offering applications to inhibit the growth of bacteria. Another novelty are the Ribbons, that is thin conductors derived from copper strips coated with a tin alloy. These are used to electrically connect photovoltaic cells, making it possible to extract the power generated. Thanks to copper's unique ability to conduct electricity, the Ribbons are a key component in enhancing the performance of photovoltaic panels.

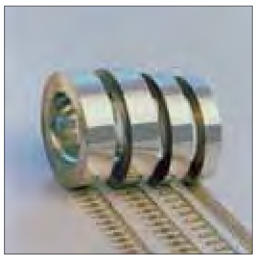
Brass and copper rods

While the production of copper rods, wires and profiles is designed mainly for the electricity industry, extruded and drawn brass products are intended for the construction sector, thanks also to the extensive range of available alloys.

Applications vary from components and precision engineering parts to finished profiles to valves and taps and fittings, ensuring full compliance with European and International standards.

To this end, in 2009 lead free alloys were further developed. These can be used for drinking water, with further attention being given to casting and






1. Inner grooved copper tubes for air conditioning and refrigeration units
2. Capillary tubes for thermostats and refrigeration units
3. Strips for connectors
4 Printed components for electronics

production processes, in order to meet the strictest standards in this area, the USA's AB 1953.

Fusion and casting technologies

KME plays a key role in this area, as it contributed to its development thanks to its material and coating technology, technical and engineering skills, and experience. The constant quest for innovation and quality has allowed KME to specialise in planning casting plants, both for steel and for non-ferrous materials, and in the manufacture of copper moulds, elements of forced cooling or copper crucibles for remelting furnaces.
Thanks to its consulting services, technical assistance and post-sales services, KME is also capable of planning and producing optimal, all-inclusive solutions and specific accessories for any plant, meeting customised specifications, so as to ensure increasingly effective performance and results.

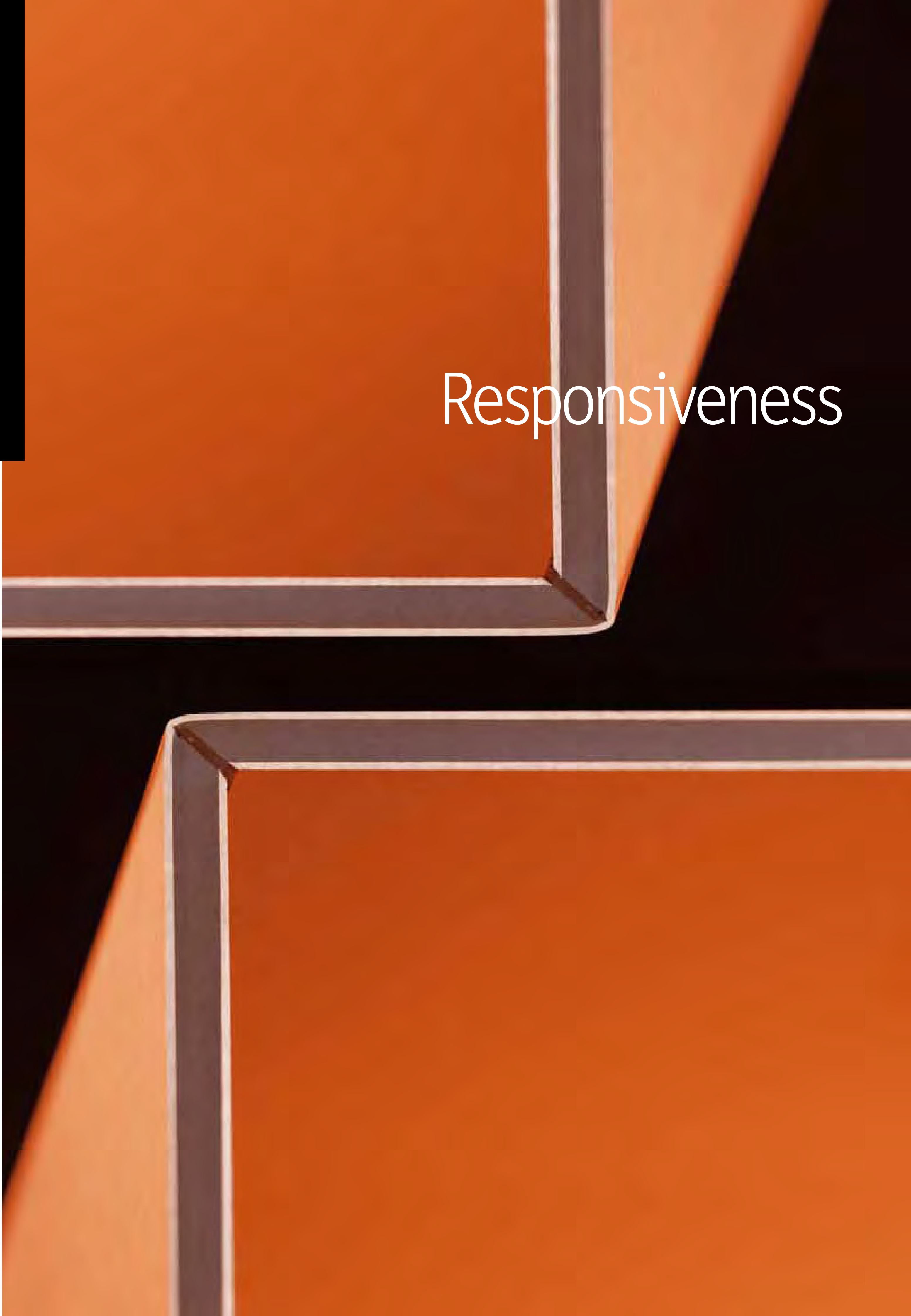
Special products

Technological research and the high quality of its special products allow KME to also target other markets, such as the marine and shipping industry, special applications for the electricity sector and high precision industries.
For instance, KME's pipe systems and fittings produced with the advanced OSNA®-10 and OSNA®-30 copper-nickel alloys provide exceptional resistance to corrosion and excellent ductility and weldability, and comply with international standards. That is why they are successfully used in marine engineering (shipbuilding, offshore platforms and electrical and desalination industries).



1. Brass profiles
2. Copper moulds for steel casting
3. Copper-nickel components for marine engineering

Responsiveness



KME and Performance

"KME adopts management models geared to maximising

performance by favouring innovation as a means to achieving new growth"

Italo Romano
General Manager
and Chief Financial Officer

The macroeconomic context is characterised by significant uncertainty, from exchange rates to interest rates, to commodity prices, to the growing difficulties in accessing credit. A context such as this means that companies must adopt new and more rigorous models to maximise efficiency and flexibility, putting the emphasis on innovation. This makes it possible not only to cope with current difficulties, but contributes to laying the groundwork for the strategic development of the business, and raising profitability to such a level as to ensure an adequate and sustainable return on invested capital.

The KME Group has taken this road by developing solutions capable of anticipating market requirements, paying constant attention to research and technological innovation, and by reorganising and streamlining its existing activities. Management of the Group's finances also has the same objectives and has contributed to maintaining the necessary financial stability and supporting the new business model.

Despite the difficult economic environment, the Group has been able to maintain its ability to generate sufficient cash from operations by adapting production to the changed macroeconomic context, by rationalising procurement and the use of raw materials, and by paying special attention to customer and supplier relationships. This has made it possible to keep working capital requirements under control, and thus the level of consolidated net debt, which amounted to Euro 286.6 million at 31 December 2009. This amount is lower than the amount of working capital, showing a well-balanced financial condition without any structural indebtedness. At 31 December 2001 cash and cash equivalents amounted to Euro 109 million, a sum capable of ensuring adequate financial flexibility. A comparison with the previous year, however, reveals an increase in total borrowings, due solely to the increase in commodity prices, especially in the latter part of the year.

The Group has always paid special attention to liquidity risk, so as to have sufficient cash to meet its financial and trading obligations as they fall due. In the presence of rising and increasingly volatile commodity prices, our prudent approach to managing our finances led us, in 2006, to reorganise our sources of financing by entering into two large agreements with major banks, totalling Euro 1.6 billion and maturing in October 2011. These agreements allowed us, also in this challenging context, to keep a significant level of cash on hand, as well as granting us the option of raising funds through an adequate amount of committed lines of credit.
In keeping with this policy and considering the recent developments in the economy and financial markets, KME Group S.p.A. has embarked on new negotiations with its lenders in order to review, by the end of the year, the terms and conditions of the lines of credit made available. The aim is to optimise the necessary flexibility in using the facilities in relation to borrowing requirements, extending their maturity and adapting the financial covenants to the Group's business plans.

The year under review also saw an important transaction: the partial proportionate reverse demerger of iNTEk S.p.A. into KME Group S.p.A.. From a technical point of view, it was a very complex transaction and the solutions adopted allowed us to complete it in a relatively short period of time. In addition to simplifying the control structure, the demerger will make it possible to focus on business activities and – through the transfer from INTEk to KME Group – will enable the KME Group to diversify its activities by opening up new growth and investment opportunities.
Moreover, plans are afoot for a capital increase of Euro 80 million, which will allow the KME Group to have sufficient financial resources to support the Parent Company's and its subsidiaries' operations, whilst simultaneously strengthening the capital base.

The new year began by showing signs of a progressive upturn in the market, even though further progress and the pace of recovery continue to be hindered by significant uncertainty.
This should prompt us not to look back, mindful that the deep recession of 2009 has caused structural changes in the world's financial and economic scenario, forcing firms to adapt promptly and make tough choices if they do not wish to undermine their chances of survival.

Support

KME and Sustainability

"Corporate giving and environmental protection call for passion: ours"

Environmental sustainability

The theme of environmental sustainability is **paramount in KME's industrial strategy.**

Mindful of the key role we play in the use of recycling to benefit the environment and the economy of resources, KME considers the **use of scrap metals in its manufacturing processes** to be an important aspect of its activity. In fact, scrap constitutes a significant proportion of the raw materials used.

KME's environmental policy, implemented in 2001, is binding for all the Group's industrial sites and is strictly applied.

Environmental certification in accordance with international standards is a primary objective to be reached progressively for all the plants. To date the brass and tube manufacturing plants have already obtained **ISO 14001.**
On the **environmental investment** front, over the past few years the Group's plants that carry out the secondary fusion of copper have been adapted to IPPC (Integrated Pollution Prevention Control) standards, which are considered by the environmental authorities of the various European countries to be in line with best available techniques (BAT).

KME has also played a key role in **VRA (Voluntary Risk Assessment)** procedures, which were proposed as early as 2002, and are based on the opportunity offered by Regulation 93/793/EC, which calls for the establishment of **voluntary risk assessment procedures** in relation to the potential effects of certain chemical substances on people's health and the environment, depending on their final use. These control procedures were again at the centre of the KME Group's activities in 2009.

Thanks to KME's efforts, the European Union entrusted the Italian Higher Healthcare Institute (ISS - *Istituto Superiore di Sanità*) with the role of Review Country for the assessments performed. The conclusions show the **substantial absence of environmental and human risk deriving from exposure to copper**, also because of an increasingly widespread application of filtering and environmental protection systems in each of the Group's plants.

Moreover, through the ECI (European Copper Institute), research and assessment activities have focused on upgrading the VRA, to respond proactively to the obligations arising from the **European regulation, REACH.** The REACH system calls for the registration, assessment and preventive authorization for chemical substances, in excess of one tonne, imported into the European Union. KME has already pre-registered the substances used in its manufacturing processes and stands ready to provide customers and final users with all the necessary information regarding its products, in relation to their environmental characteristics and the measures to be adopted for their proper and safe use. As planned, from November 2010 KME will finally register imported substances.

Dynamo Camp and the Dynamo Oasis

In 2009 **KME Group** was again **the main sponsor of the Dynamo Camp**, a recreational therapy camp designed to provide free accommodation for children from 7 to 17 affected by serious or chronic medical conditions, during treatment or immediately after discharge from hospital.

At the **Open Day** celebration on **26 September**, the **programme for 2009** was presented to the 3,300 people in attendance.
With the weekends for families, the summer sessions and ‘Dynamo per gli altri’ (Dynamo for the others, dedicated to children and families from other associations), approximately **500 children with 34 different diseases** were hosted at the camp. This required the involvement of 330 volunteers, 56 associations and 34 partner hospitals in Italy.

The **Radio Dynamo** project was expanded: created in 2008 inside the Camp, its goal is to enter children’s hospitals throughout the country to spread the spirit and philosophy of the camp, and to act as an entertainment medium in which children both play a role and form the audience.

One of the new developments in 2009 was completion of the new swimming pools, which have allowed us to start the new **Recreational Therapy in the Water** centre. The **Art Factory**, on the other hand, brought the genius of national and international artists into contact with the energy of children, to stimulate their potential by launching creative challenges or working together.

The year under review also saw the opening up of the camp to international guests, with children from Germany and Iraq, in cooperation with Newman’s Own Foundation, Hole in the Wall Camps and the Project Hope association. In autumn the Camp also hosted a total of 90 children from deprived Israeli and Palestinian areas, in cooperation with the Peres Center for Peace and the Al Quds Association for Democracy and Dialogue.

Besides climbing, horseback riding, theatre and archery activities, other activities, such as walking, games and evening camps in the nearby WWF-affiliated nature reserve, the Dynamo Oasis (formerly ‘Il Cesto del Lupo’), were arranged.

Since the opening of the Oasis in 2007, events have benefitted from the increased involvement of local entities and organisations in putting together theme-based visits and environment-related talks. Work is underway on **renovating the rural settlements** located within the oasis, with a view to building new highly energy-efficient houses, powered mainly by renewable energy.
These will be used as tourist accommodation, with the aim of making **the area both environmentally and economically sustainable.** The aim is to thus attract responsible tourism, in keeping with the social values that form the basis of the Dynamo Camp.

Directors' Report

Calling of the Annual General Meeting

(published in Milano Finanza of 27 March 2010)

The Shareholders of KME Group S.p.A. are hereby invited to attend the Annual General Meeting to be held at Via dei Barucci 2, Florence, at 11.00am on

- 28 April 2010, in first call;
- 29 April 2010, in second call;

to resolve on the following items on the:

Agenda

1. the separate financial statements as at and for the year ended 31 December 2009; the Directors' Report; the Report of the Board of Statutory Auditors and related and subsequent resolutions;
2. authorisation to acquire and hold both ordinary and savings treasury shares in accordance with articles 2357 and 2357 *ter* of the Italian Civil Code in conjunction with art. 132 of Legislative Decree 58/1998 and related and subsequent resolutions.

As a result of the ownership structure, it is anticipated that the second call of the General Meeting to be held on 29 April 2010 will meet the required *quorum*.

Share capital and voting

The share capital of KME Group S.p.A. is Euro 273,761,740.66 divided into 418,117,631 shares with no par value, 381,367,530 of which are ordinary shares and 36,750,101 savings shares. Each ordinary share carries the right to one vote at ordinary and extraordinary general meetings of the Company. At the date of this notice, the Company held 8,212,755 of its own ordinary shares, or 2.153% of ordinary share capital, with no voting rights pursuant to art. 2537 *ter* of the Italian Civil Code.

Participation in the Annual General Meeting

Pursuant to the law and art. 11 (Participating in Shareholders' Meetings and proxies) of the Articles of Association, a certificate attesting to ownership of the shares is required to participate in the Meeting, which is to be issued by an authorised intermediary and submitted to the registered office in via dei Barucci 2, Florence at least two days before the date of the relevant meeting.

The Company does not require ownership of a block of shares as a prerequisite for attending a Shareholders' Meeting. Shareholders are required to deposit shares, i.e., instruct intermediaries holding the relevant accounts to notify the Company two days prior to the Meeting. This, however, will not prevent a subsequent withdrawal of the shares. If, however, they are withdrawn the certificate attesting to ownership is invalidated for the purposes of participating in the Meeting. In the event that the deadline falls on a Saturday, Sunday or public holiday, the deadline shall be the next business day.

Owners of shares, which are still in scrip, may only participate in the Meeting by depositing their share certificates with a legally authorised party in sufficient time for input into the scripless system and for the issuance of the certificate pursuant to the preceding paragraph.

Subject to conformity and the restrictions pursuant to law with respect to proxies, Shareholders may appoint proxies, regardless of whether such parties are shareholders or not, to represent them at the Meeting by completing a simple proxy form, which may even be written at the bottom of the above-mentioned certificate. A proxy form conforming with regulatory and legal requirements must be reproduced at the bottom of each copy of the certificate required to be issued by intermediaries on behalf of the Shareholder. Additional proxy form can be downloaded from www.kme.com or obtained from the Company's registered office at Via dei Barucci, 2, Ufficio Affari Societari, Florence.

Shareholders, individually or jointly, representing at least one fortieth of share capital may, within five days of the publication of this notice, request the addition of agenda items for resolution, by indicating in their request the nature of the matters they propose. Any additional agenda items for resolution by the Shareholders at the Meeting must be notified, in the same form required for the publication of the notice of the General Meeting at least ten days prior to the date fixed for the Meeting. Agenda items may not be added with respect to matters for resolution by Shareholders as required by law, proposed by Directors or with reference to a project or report proposed by Directors.

Documentation

Documents relating to all agenda items, including the Directors' Report and the Report of the Board of Statutory Auditors, and other reports and documents required by law and regulations for all agenda items (including the separate and consolidated financial statements and the Report on Corporate Governance and Shareholding Structure, pursuant to art. 123 *bis* of Legislative Decree 58 of 24 February 1998, and on the application of the Code of Conduct) and any proposed resolutions, copies of which are made available to Shareholders, must be lodged at the Company's registered offices at Via dei Barucci 2, Florence and with Borsa Italiana S.p.A. by the prescribed date. These documents may also be obtained from www.kme.com.

Postal votes

Votes may also be sent by mail. Ballots and the procedures for voting will be made available at least 15 days prior to the date fixed for the first call of the Meeting at the Company's registered office at Via dei Barucci, 2, Ufficio Affari Societari, Florence. Ballots must be sent to the following address: KME Group S.p.A., Ufficio Affari Societari, Via dei Barucci 2, 50127 Florence, Italy, and must be received no later than forty-eight hours prior to the first call of the Meeting, together with a copy of the certificate required by law to participate in the Meeting. In the event that the deadline falls on a Saturday, Sunday or public holiday, the deadline shall be the next business day.

Florence, 27 March 2010

The Board of Directors
The Chairman
Salvatore Orlando

Directors' report

Dear Shareholders,

The performance of the KME Group in 2009 was affected by the severe repercussions for the worldwide real economy of the crisis in international financial markets.
The destruction of wealth and the credit crunch that were intensified by widespread consumer and business uncertainty, combined with a general lack of confidence, resulted in the collapse of investment and a fall in consumption.
All of the advanced economies entered into a deep recession and emerging economies suffered severe slowdowns.

It was only in the last few months of the year that the global economy, under the stimulus of extremely expansionist monetary and tax policies and supported by the build-up of inventories, began to show signs of recovery, albeit differentiated by country and region. There was a generally moderate recovery of production in the advanced economies with a few more bright spots in the United States where production grew in a number of sectors, whereas emerging economies accelerated and strengthened.

In Europe, which is the focus of the Group's operations, the recent growth of domestic production was largely attributable to increased exports, which benefited from more lively international trade. This was despite the loss of price competitiveness for European goods, due to the appreciation of the euro, as well as the sharp increase in unit costs over those of competitors, caused by the fall in productivity brought about low growth rates in Europe.

Forecasts of the rate and intensity of the recovery continue to be burdened by the high degree of uncertainty that has resulted from very weak domestic demand.
Consumption slowed due to a decline in households' disposable incomes and, consequently, the likelihood that consumption would return to drive the recovery. Except for increased expenditure on durable goods, in large part supported by "cash for clunkers" programmes, household consumption continued to stagnate.
The other component of domestic demand, investment, continued to be depressed as a result of low capacity utilisation and the credit crunch that resulted in low spending on capital goods, whereas the excess supply of real estate tended to discourage new investment in residential and commercial construction.
The outlook has also been darkened by the risk of an increase in the cost of credit, driven by rising commodity prices and the deterioration of public finances.

The depth of the economic crisis that hit international markets also had wide-ranging repercussions on the production of copper and copper-alloy semi-finished products, which was inevitable due to the wide range of their applications.
After the fall in the production of copper semi-finished products in Europe of the last two years (approximately 8% in both 2007 and 2008), its decline in 2009 (excluding cables) was without precedence (an estimated -27%, annualised) and particularly accentuated in the first three quarters.
There was a severe downturn in demand in all of the important sectors with high consumption of copper semi-finished products, particularly for the manufacture of white goods, boilers, air conditioning and refrigeration. The first signs of a recovery, on the other hand, were seen in other key sectors such as the automotive and electric industries towards year-end. Construction industry demand was particularly hard hit by the recession, above all in certain European economies such as Spain, the UK, Ireland and Scandinavia. Modernisation and redevelopment of real estate, however, have proven to be increasingly resistant to the downturn, largely due to government stimulus packages.
2009 production of semi-finished products in other large industrialised economies was marked by declines of over 25%, including Japan and the United States. The sole bright spot was China, where, despite a decidedly

modest rate of growth compared to recent years of just under 4%, the production of semi-finished products continued to grow and in 2009 exceeded 3 million tonnes per year.
It is interesting to note that Chinese production of semi-finished products exceeded that of western Europe (approximately 1.7 million tonnes) and the United States (approximately 0.8 million tonnes) in 2009.

In March, the price of raw cooper, which is the metal that is used in the vast majority of the Group's semi-finished products, started to show signs of recovery after its fall at the end of 2008 caused by the severe slowdown of the global economy.
Price increases, supported by the recovery of emerging economies as well as speculative trading as a result of deep international liquidity, were accentuated in late 2009 and have continued into this year.

The Group has reacted to the sharp fall in demand by: diversifying its product range; improving services and the ability to offer customers innovative solutions; and, strengthening distribution. These measures mean that the Group can defend and, in some cases, improve its market position.

2009 **consolidated revenue** was Euro 1,949.4 million, down 34.5% on 2008. Revenue less raw material costs fell from Euro 862.3 million in 2008 to Euro 663.5 million for 2009, a decrease of 23.1%. Sales volumes were down 23.5%.
The value of raw materials accounted for about 66% of revenue from sales of semi-finished products (71% on average for 2008).
Revenue, for the fourth quarter of 2009, less raw material costs was Euro 172.9 million compared to Euro 158.2 million for the second quarter and Euro 158.1 million for the third quarter of 2009.

The Group reacted quickly and effectively to the severe contraction in sales to limit its effect on profitability, by accelerating the restructuring and reorganisation of production and distribution in accordance with the business plan. This was accompanied by measures of a more contingent nature for fixed and variable cost savings and to maintain cash flow generation, through the management of working capital and the focus of investment.

There was a net decrease in 2009 Group operating profit from the 2008 levels that were a reflection of a decidedly more favourable market conditions, which had only been marginally affected by the radical change in the economic environment.
The absolute level of fourth quarter 2009 operating profits was substantially in line with the preceding quarters.

EBITDA* for 2009 was Euro 45.3 million compared with Euro 106.6 million for 2008 (return on net sales declined from 12.4% to 6.8%).
Fourth quarter 2009 EBITDA was Euro 10.9 million (Euro 12.1 million in the third quarter and Euro 11.7 million in the second).

2009 **EBIT*** was negative by Euro 5.4 million against positive EBIT of Euro 50 million for 2008.

The **consolidated loss before taxes*** was Euro 29.5 million (loss of Euro 3.5 million for 2008).

Again this year, the above performance indicators were calculated using figures that are not fully consistent with the IFRS on which the consolidated financial statements are based. Specifically, they are calculated ignoring the effect on income of measuring raw material inventories substantially at current value, as required by IFRS, since price volatility introduces an exogenous factor, the variability of which makes it

* Reclassified indicators, a description of which is contained in "Group performance".

impossible to compare homogeneous data for two different periods and to provide an accurate picture of actual results from operations. More detailed information is included in the description of the reclassifications made, which is provided later in this Report under "Group performance".
Unlike 2008, rising prices in 2009 meant that the determination of the cost of raw materials inventories on a first-in, first-out (FIFO) basis as the first step to measurement year-end inventories at the lower of cost and net realisable value, rather than determining cost on a base stock* last-in, first-out (LIFO) basis, resulted in a higher inventory measurement under IFRS than would have otherwise been the case using LIFO. The difference was a Euro 64.6 million decrease at 31 December 2008, whereas it was a Euro 6.1 million increase at 31 December 2009.
The **loss** attributable to owners of the parent for 2009, as determined measuring inventories in compliance with IFRS, was, therefore, Euro 23.4 million, whereas the loss for 2008 was Euro 68.1 million.

The need for working capital finance and, therefore, net debt, was kept under control by adjusting production to the changed economic environment, the rationalisation of purchases and the consumption of raw materials and careful management of relations with customers and suppliers. Group **net debt** at 31 December 2009 was Euro 286.6 million, which was Euro 74.9 million higher than at year-end 2008, due to the increase in raw material prices, particularly towards the end of the year.
Debt was held at a level lower than working capital, providing evidence of the Group's sound financial structure and the lack of structural indebtedness.
Cash of Euro 109 million at 31 December 2009 is sufficient to provide the Group with a significant level of financial flexibility.

* * *

The **Parent, KME Group S.p.A.**, closed the year with a profit of Euro 3.6 million (Euro 21.0 million in 2008). The sharp decrease in profits is due to the fact that dividends were not paid by the Group's manufacturing companies for 2008.

The Board of Directors has proposed dividends of Euro 0.07241 per savings share to be paid from 13 May 2010, with an ex dividend date of 10 May.

* * *

The **outlook** is that the signs of stabilising economic conditions that were seen in the fourth quarter of last year will gradually lead to a more decisive and widespread reversal of market trends.
At the outset of the economic downturn, the Group introduced a series of measures intended, on the one hand, to accelerate the structural rationalisation of production and distribution, the optimisation of capital expenditure and risk reduction, without, however, neglecting opportunities to diversify business as demonstrated by the recent trading in scrap metals. There were also a series of measures of a more contingent nature to reduce costs, both fixed and variable, in line with the lower level of operations.
The Group will continue to strengthen its production and organisational structure in 2010.
The objective is to lay the basis for future competitiveness that, in a more favourable business climate, will improve earnings over the level of last year and, therefore, enable a return to earnings growth at levels sufficient to provide a return on invested capital.

* * *

The data contained in the business plan, as well as the procedures and parameters used for the impairment testing of property, plant and equipment for the interim report as at and for the six months ended 30 June 2009 were analysed. This was to determine whether International Financial Reporting Standards required new

* "Structure stock" means the owned stock portion free from sale orders; thus it is a strategic reserve, essentially stead in time, and guaranteeing production operativeness.

impairment tests to be performed for the financial statements as at and for the year ended 31 December 2009. Due to the fact that there were no events or facts providing evidence of impairment, new impairment tests were not required.

The Directors' check entailed a comparison of actual figures for the second half of 2009 (better than projections) with the business plan and with the outlook for 2010, the assumptions and conclusions of which are described in the relevant section of the Directors' Report. The Directors then analysed the modifications to the original business plan for 2011-2013, approved by the Board of Directors on 6 August 2009, and it was confirmed that they were consistent with a cautious approach to an economic - financial environment and market conditions that have dramatically changed as a result of the crisis. Impairment tests, therefore, were not carried out for 31 December 2009 but will, instead, be conducted at 30 June 2010, as planned.

The Directors also considered the fact that the Company's market capitalisation was considerably below the carrying amount of net assets, duly noting the detailed explanations of this phenomenon already given, in part with respect to the valuations made for the presentation at the General Meeting of 2 December 2009, of the planned Demerger approved at that meeting. It was, in particular, confirmed that the high volatility of financial markets caused by the unprecedented depth of the economic crisis and low market liquidity had severely penalised stock market prices, which no longer necessarily reflect the economic value of the Company.

Additional information on the parameters and procedures used for impairment testing is contained in the notes to the consolidated financial statements.

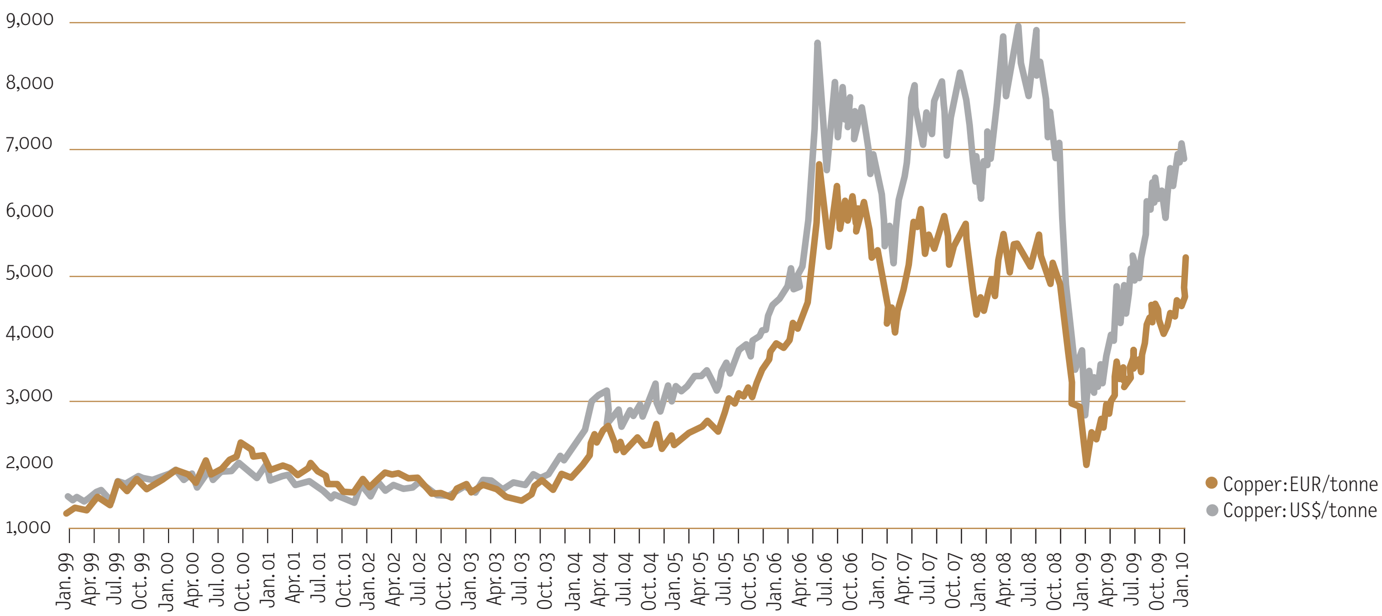
Copper market and prices

The average price of copper in 2009 was lower than last year, decreasing by 25.7% in US dollar terms (from US$6,952 per tonne to US$5,164 per tonne) and by 21.3% in euro terms (from Euro 4,664 per tonne to Euro 3,669 per tonne).

Looking at price trends, copper prices gradually recovered starting in March with the trend continuing into the following months. The average price of copper in the fourth quarter of 2009 was 13.7% above the third quarter in US dollar terms (up from US$5,840 to US$6,643 per tonne) and 10.1% in Euro terms (up from Euro 4,080 to Euro 4,494 per tonne).
Compared to the last quarter of 2008, October - December prices were up 68.6% in US dollar terms (from US$3,940 to US$6,643 per tonne) and 50.4% in Euro terms (from Euro 2,988 to Euro 4,494 per tonne).

Copper prices in February 2010 further increased with the average for the month at US$6,848 per tonne (or Euro 5,005 per tonne).

Copper prices: LME settlement



Scrap metal trading project

At the beginning of 2009, KME Group S.p.A. decided to strategically diversify its operations away from the traditional manufacture of semi-finished copper and copper-alloy products to the recovery and trading of ferrous and non-ferrous scrap metals.
KME Recycle S.p.A., a new wholly owned subsidiary specifically established for the scrap metal trading project, will operate as a holding company providing support for the operations and development of companies in which it holds equity interests. Equity investments will be made with an approach initially entailing the purchase of non-controlling interests in target companies, combined with a call option for an additional stake large enough to obtain control.
This was considered to be the most suitable model to respond to market demand for recycled metals by combining the strengths of the business models of KME Group and the members of its group already engaged in scrap trading, through the creation of the synergies needed to develop the business and achieve the desired results.

The first concrete step in the implementation of the project was made in February 2009 when 30% of Metalbuyer S.p.A. of Naples was acquired. The acquisition was valued at Euro 1.5 million and KME will have a three-year call option on an additional 21% of the company's share capital, in accordance with predetermined terms and conditions. Events and the due diligence having regard to the 30% acquisition of SIGIMET S.p.A., on the other hand, led to the suspension by mutual consent of the relevant parties of plans to work together, as permitted under the terms of the agreement, without prejudice, however, to reviving the joint project at some time in the near future.

In February of this year, the acquisition was concluded of a 10% shareholding in the French company ALUMETALI S.A.S. of Montpelier, known as "VALIKA" which is also a metal trader. The 10% shareholding was valued at Euro 550,000 and was combined with two call options at predetermined terms and conditions which, if exercised, will give KME Recycle S.p.A. a 51% interest in ALUMETALI S.A.S..

The cooperation between KME Group and the companies taking part in the project will, on the one hand, contribute to the growth of the operations of associates, which independently trade on markets while, on the other hand, permit the exploitation of all possible synergies with KME Group.

Partial, proportional reverse demerger of iNTEk S.p.A. into KME Group S.p.A.

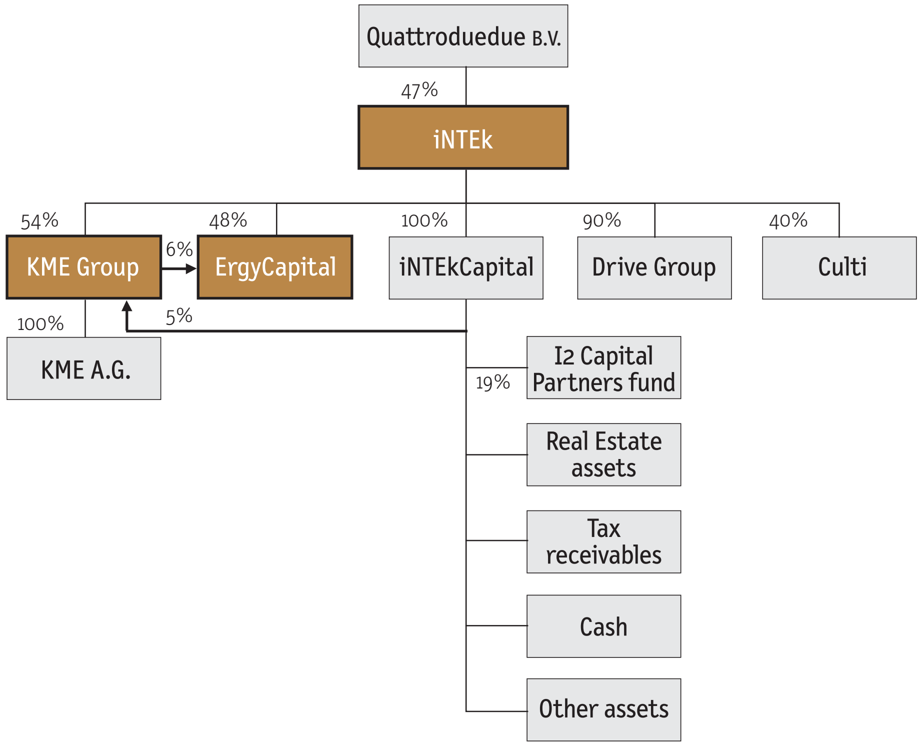
The Boards of Directors of KME Group S.p.A. and the parent iNTEk S.p.A., at a joint meeting held on 7 October 2009, approved the guidelines for a corporate reorganisation announced on 6 August. This entailed the partial proportional reverse demerger of iNTEk into the subsidiary KME Group, to be based on the financial statements of both companies as at and for the six-month period ended 30 June 2009.
The demerger was approved at the Shareholders' Meetings of the two companies on 2 December 2009 with effect from 22 March 2010.

The objective of the demerger is the improved uniformity and focus of the iNTEk Group's operations partially to promote the development of strategic growth over the medium to long-term and, on the other hand, to streamline the Group's structure.
Through the merger into KME Group of iNTEk's demerged assets, iNTEk will be able to focus on its core business in the financial investments sector, in which its wholly owned subsidiary, iNTEkCapital S.p.A., a broker recorded in the special list pursuant to Article 107 of Legislative Decree 385/93, operates. This company works in the special situations field, partially through the fund organised and managed by I2 Capital Partners SGR.
The objective was above all achieved through the transfer to KME Group of iNTEk's shareholding in KME itself. The transaction also involved the transfer to KME Group of additional shareholdings in companies operating in the renewable energy sector (ErgyCapital), corporate fleet management services and long-term car hire (Drive Rent), and in the interior design and home furnishings sector (Culti).
The transfer of the demerged assets from iNTEk to KME Group made it possible for KME to maintain its focus on its core business of the manufacture and trading of semi-finished copper products, while diversifying its operations into new activities that have attractive growth and investment prospects.

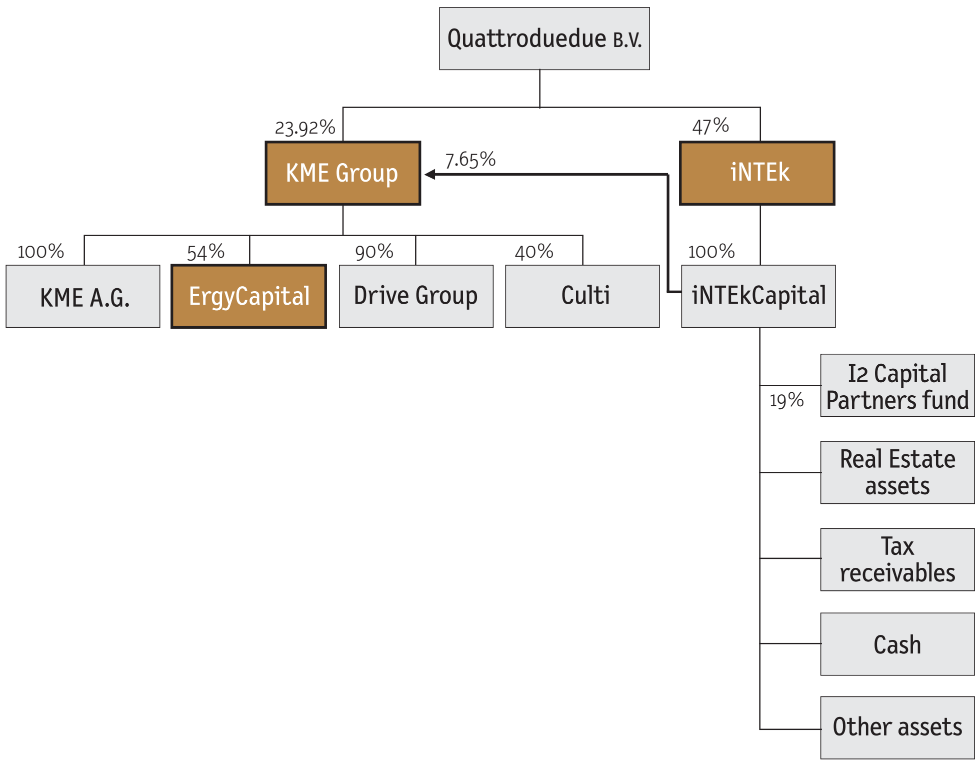
An additional effect of the demerger is the streamlining of the shareholding structures of the companies involved, particularly the shortening of the chain of control relating to the KME Group.
Prior to the demerger, KME Group was a subsidiary of iNTEk, which directly and indirectly held 58.57% of the ordinary share capital and iNTEk, in turn, was controlled by Quattroduedue Holding BV, a Dutch company that holds 47.3% of the voting capital.
Following the demerger, Quattroduedue, which as iNTEk's Shareholder, was the transferee of KME Group shares, holds a direct interest of 23.9% in the latter's ordinary share capital and an indirect interest of 7.65% through its subsidiary, iNTEkCapital.
In this connection, the demerger resulted in the increase of the free float of KME Group ordinary and savings shares, due to the transfer of these shares to iNTEk Shareholders through the share exchange.

The following diagrams show the pre and post-demerger Group structures.

Pre-demerger Group Structure



Post-demerger Group Structure



Notes

Subsidiaries

Percentages relate to voting shares

The legal and accounting implications of the demerger included the transfer to KME Group of iNTEk's assets and liabilities, primarily consisting of investments, including the shareholding in KME Group.
As a result of the demerger, iNTEk cancelled its ordinary shares, savings shares and iNTEk ordinary share warrants 2005-2011 in the ratio of 5 shares for every 8 warrants held, leading to a consequent proportionate reduction of its share capital.
The exchange ratios determined by the respective boards of directors entailed the transfer to iNTEk's Shareholders in exchange for the cancelled shares/warrants, of:

- one ordinary KME Group share for each ordinary iNTEk share cancelled;
- one KME Group savings share for each iNTEk savings share cancelled;
- one new ordinary KME Group ordinary share warrant 2009-2011 for each ordinary iNTEk share warrant 2005-2011 cancelled.

The separate steps of the exchange were:

- the KME Group ordinary and savings share split of three new shares for each two held with an adjustment of the savings Shareholders' claims on the Company's equity consistent with those of iNTEk savings shares;
- the prolongation of the exercise period for KME Group ordinary share warrants 2006-2009;
- the transfer to iNTEk Shareholders of the KME Group ordinary share warrants 2006-2009 originally held by iNTEk;
- the revocation of iNTEk's and KME Group's existing stock option plans.

At the end of the reporting period, KME Group S.p.A.'s share capital is Euro 273,761,740.66, consisting of 418,117,631 shares, 381,367,530 of which are ordinary shares and 36,750,101 savings shares.

The demerger also entails a KME Group capital increase by a maximum of Euro 80 million, to strengthen the Company's capital base, through a rights issue of new ordinary and savings shares at a post-demerger price in the range, for each ordinary share, of between Euro 0.30 and Euro 0.37 and, for each savings share, between Euro 0.50 and Euro 0.57. The increase is expected to be announced sometime during the first six months of 2010.
Finally, a new incentive plan for KME Group management is planned to be established no sooner than 90 days from the date of the legal effectiveness of the demerger.

Detailed information in this connection has been filed at Borsa Italiana S.p.A. and is also available on the internet at www.kme.com.

Group performance

As explained above, by not permitting the LIFO measurement of year-end inventories that is used internally for management purposes, IFRS has introduced an exogenous factor, the variability of which makes it impossible to compare homogeneous data for two different periods that would give an accurate picture of the results of operations.

Some of the following comments on the statement of comprehensive income and cash flows are, consequently, based on accounting methods that are at variance with IFRS, primarily with respect to presentation and measurement. Specifically:

1. in order to eliminate the impact of fluctuations in raw material prices, revenue is also presented **net of raw material costs**;
2. the cost of the base-stock component of **year-end metals inventories** (i.e., inventories that will not be sold) is determined on a last-in, first-out basis. Metals that will be sold, on the other hand, are measured at their contractual selling prices, which are deemed to be their realisable value. Under IFRS, on the other hand, inventories are required to be measured at the lower of purchase costs on a FIFO basis from 2009 and the weighted average cost method used in prior years and net realisable value. Net realisable value is the average of the prices of the corresponding sales commitments for the relevant inventories, whereas base stocks are to be measured at the average official price on the London Metal Exchange over the last month, IFRS require forward sales and purchase contracts as well as hedging contracts traded on the LME to be separately identified and reported in the financial statements at their fair values, as if they were financial instruments;
3. **non-recurring items** shown in the statement of comprehensive income are reported below EBITDA.

The table below shows the effects of the different methods of measurement and presentation for 2009. As explained in greater detail in the notes to the financial statements, the Group altered the way in which the purchase cost of inventories is determined from the weighted average cost method to FIFO. The effect was to increase equity at 31 December 2009 by Euro 27.2 million before taxes and by Euro 18.7 million after taxes.

KME Group - Consolidated income statement

(millions of Euro)	FY 2009 IFRS		reclassifications	adjustments	FY 2009 RECL	
Gross revenue	1,949.4	100.0%			1,949.4	
Raw material costs	-		(1,285.9)		(1,285.9)	
Revenue net of raw material costs	**-**				**663.5**	**100%**
Personnel expense	(301.9)		1.1		(300.8)	
Other consumables and costs	(1,591.3)		1,278.5	(4.5)	(317.4)	
EBITDA*	**56.1**	**2.9%**			**45.3**	**6.8%**
Non-recurring income (expenses)	-		2.9		2.9	
Amortisation and depreciation	(56.7)		3.1		(53.6)	
EBIT	**(0.6)**	**0.0%**			**(5.4)**	**-0.8%**
Net financial costs	(14.9)		0.3		(14.6)	
Loss before taxes (non IFRS inventory measurement)	**(15.5)**	**-0.8%**			**(20.0)**	**-3.0%**
Current taxes	(10.2)		-		(10.2)	
Deferred taxes	2.3		(1.6)		0.7	
Loss after taxes (non IFRS inventory measurement)	**(23.4)**	**-1.2%**			**(29.5)**	**-4.5%**
Impact IFRS measured inventories and forward contracts	-			4.5	4.5	
Taxes under IFRS measured inventories and futures contracts	-		1.6		1.6	
Consolidated loss	**(23.4)**	**-1.2%**			**(23.4)**	**-3.5%**
Profit attributable to non-controlling interests	0.5				0.5	
Loss attributable to owners of the Parent	**(23.9)**	**-1.23%**			**(23.9)**	**-3.61%**

* EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortisation) is not an IFRS line item. It is a useful indicator of the Group's operating performance. EBITDA is an intermediate amount based on EBIT but before depreciation and amortisation.

The above reclassified performance indicators are useful for the analysis of the Group's statement of comprehensive income because they are considered more representative of actual profitability and cash flow. Obviously, the comments on the Group's operating performance are also supplemented by financial statement data with an IFRS compliant valuation of raw material inventories.

A condensed 2009 consolidated income statement for the Group with 2008 comparatives is shown below.

KME Group - Consolidated income statement

(millions of Euro)	FY 2009 RECL		FY 2008 RECL		Change %
Gross revenue	1,949.4		2,975.2		-34.5%
Raw material costs	(1,285.9)		(2,112.9)		-39.1%
Revenue net of raw material costs	**663.5**	**100%**	**862.3**	**100%**	**-23.1%**
Personnel expense	(300.8)		(353.8)		-15.0%
Other consumables and costs	(317.4)		(401.9)		-21.0%
EBITDA	**45.3**	**6.8%**	**106.6**	**12.4%**	**- 57.5%**
Non-recurring income (expenses)	2.9		(3.2)		insig.
Amortisation and depreciation	(53.6)		(53.4)		0.5%
EBIT	**(5.4)**	**-0.8%**	**50.0**	**5.8%**	**insig.**
Net financial expense	(14.6)		(42.4)		-65.5%
Profit (loss) before taxes (non IFRS inventory measurement)	**(20.0)**	**-3.0%**	**7.6**	**0.9%**	**insig.**
Current taxes	(10.2)		(9.9)		2.8%
Deferred taxes	0.7		(1.2)		insig.
Loss after taxes (non IFRS inventory measurement)	**(29.5)**	**-4.5%**	**(3.5)**	**-0.4%**	**insig.**

Revenue for 2009 totalled Euro 1,949.4 million, 34.5% less than the Euro 2,975.2 million for 2008.
The decrease was the result of raw materials price trends. Net of raw material costs, revenue decreased 23.1% from Euro 862.3 million to Euro 663.5 million. Sales volumes were down 23.5%.
Revenue, net of raw material costs for the third quarter of 2009, was Euro 172.9 million.

Total **operating costs** were down 18.2% thus confirming the effect of cost savings made to mitigate the effect on the statement of comprehensive income of the fall in revenue. Personnel expense, alone, decreased by 15%. The Group responded to the extremely adverse economic environment by rigorously cutting all costs, particularly personnel and procurement. An ongoing dialogue with employees' representatives resulted in the development of mutually agreeable solutions, enabling the Group to adjust to changing market conditions and increase its organisational flexibility and efficiency. Management also played their part by accepting a pay cut.

EBITDA of Euro 45.3 million is 57.4% less than the previous year. It is 6.8% of revenue net of raw material costs (12.4% in 2008). The deterioration was the result of reduced volumes, which was only partly offset by the cost savings programme.
EBITDA for the fourth quarter of 2009 was Euro 10.9 million (Euro 12.1 million in the third quarter and Euro 11.7 million in the second).

EBIT was a negative Euro 5.4 million, compared to positive EBIT of Euro 50,0 million in 2008.

The **Consolidated loss**, restated to eliminate the effect of determining the cost of raw materials inventories at current prices, as required by IFRS, was Euro 29.5 million (loss of Euro 3.5 million for 2008). The tax charge relates to taxable profits of certain companies operating outside Italy in addition to current taxes in Italy on personnel expense (IRAP).

Effect of measuring raw materials inventories at current prices (IFRS)

The table below shows the effect on the consolidated loss after tax for the first half of 2009 of determining the cost of base stocks of raw materials and outstanding physical buyer and seller contracts and London Metal Exchange forward contracts, as required by IFRS, and provides a comparison with the corresponding figures for 2008:

(millions of Euro)	FY 2009 RECL		FY 2008 RECL		Change %
Loss after taxes (non IFRS inventory measurement)	**(29.5)**	**-4.5%**	**(3.5)**	**-0.4%**	**insig.**
Impact IFRS measured inventories and forward contracts	4.5		(72.7)		insig.
Taxes under IFRS measured inventories and forward contracts	1.6		8.1		insig.
Consolidated loss	**(23.4)**	**-3.5%**	**(68.1)**	**-7.9%**	**-65.6%**
Profit attributable to non-controlling interests	0.5		0.6		
Loss attributable to owners of the Parent	**(23.9)**	**-3.61%**	**(68.7)**	**-7.97%**	**-65.2%**

As a result of increasing prices, IFRS measured raw materials inventories were a higher amount than the corresponding figure for the LIFO measurement at year end. At year-end 2008, when prices were falling, the LIFO measurement was Euro 64.6 million less than it would have been is measured as required by IFRS whereas at year-end 2009 it was Euro 6.1 million more. At the end of 2007, on the other hand, the LIFO measurement was Euro 7.1 million less. Compliance with IFRS during periods of highly volatile raw material prices introduces an exogenous factor for the determination of profits, the extreme variability of which could distort income reported by the Company.
As a result, the **Consolidated loss** for 2009 (IFRS measured inventories) is Euro 23.4 million (Euro 23.9 million after non-controlling interests), whereas the 2008 loss, on a comparable basis, was Euro 68.1 million (Euro 68.7 million after non-controlling interests).

Segment information

The Group's industrial production is for the following lines of business:

Revenue before raw material costs

Segment (millions of Euro)	Building materials		Industrial products		Consolidation and sundry		Group total	
2009	**680.8**	**34.9%**	**1,029.8**	**52.8%**	**238.8**	**12.2%**	**1,949.4**	**100.0%**
2008	976.4	32.8%	1,682.5	56.6%	316.3	10.6%	2,975.2	100.0%
Change %	**-30.3%**		**-38.8%**		**-24.5%**		**-34.5%**	

Revenue net of raw material costs

Segment (millions of Euro)	Building materials		Industrial products		Consolidation and sundry		Group total	
2009	**236.1**	**35.6%**	**427.4**	**64.4%**	**0.0**	**0.0%**	**663.5**	**100.0%**
2008	293.8	34.1%	561.0	65.1%	7.5	0.9%	862.3	100.0%
Change %	**-19.6%**		**-23.8%**		**insig.**		**-23.1%**	

Industrial products revenue after raw material costs in 2009 was 64.4% of total revenue, whereas the figure for **building products** was 35.6%.

Building materials is an important market for the Group's products.
Rolled copper products are used for roof coverings, accessories and façades; copper tubes and pipes are used in household water heaters; rolled brass and brass or bronze profiles are used to finish residential interiors. Brass rods are frequently used in the production of taps, handles, windows and door fittings, valves and various accessories.

2009 demand for **rolled copper products** was more resistant, despite decidedly weak market conditions. Group sales were at the same level as last year. There was a recovery in sales volumes in major markets, such as Italy and Germany. The new downstream expansion strategy and the opening up to new metals in Germany played an important role: the new company KME Architectural Metal (ARKITA) has won a leading market position in Germany through its widespread sales and service points as well as by offering its customers a vast range of products. Important gains were made by the new ZincKMEtal rolled zinc alloy product line. The market also received the copper TECU® Solar Roof well, which is a new system added to the well-established TECU® line of copper and alloy roofing and façade products that combines the artistic excellence of copper with energy savings.
The crisis in new residential construction brought about by a lack of buyers resulted in a fall of sales of **tubing for water heating systems** primarily in southern and eastern Europe, whereas there was a more modest decline in sales in northern Europe. The market expanded, however, in certain countries, including Turkey and Singapore. Copper tubing, which is one of the main components of heating and renewable energy (solar, geothermal, etc.) systems, benefited from increased sales in the segment.
The contraction of sales of **brass rods for plumbing systems** was particularly marked in the Mediterranean, which, in the second half, was partially offset by increased demand in Anglo-Saxon countries and northern Europe.

There are very many **industrial** uses for copper and copper-alloy products in, for example, the automotive, electric and electronic components, air conditioning and refrigeration as well as the fancy goods industries and mechanical engineering in general.
There was a very sharp fall in demand for **industrial rolled products** of more than 40% which was partially caused by destocking that was only reversed at year end. The Group partially offset the combined effect of falling volumes in Italy accompanied by pressure on prices through strengthening its position on markets in the United States and the emerging economies of Asia and eastern Europe (where the distribution and service network was expanded) and by increasing the number of applications of certain products, for example connectors, which are segments in continual technical evolution.
Weak demand for the air conditioning and refrigeration products of the **industrial tubes** segment could only be partially offset by demand for fittings and tubes for solar panels, boilers and heat pumps.
The demand for **brass rods for the power industry** was stable in the fields of high voltage and renewable energy power generation.
After years of strong growth, there was a sharp decline in demand for **copper steel casting** moulds, particularly in the steel industry, as a result of the global economic crisis.

EBIT (non IFRS inventory measurement)

(millions of Euro)	Building materials		Industrial products		Consolidation and sundry		Group total	
2009	12.5	insig.	(15.3)	insig.	(2.6)	insig.	(5.4)	100.0%
2008	27.5	55.0%	30.3	60.6%	(7.8)	-15.6%	50.0	100.0%
Change %	-54.5%		-150.5%		-66.7%		-110.8%	

Assets by segment

(millions of Euro)	Building materials		Industrial products		Consolidation and sundry		Group total	
2009	464.0	26.2%	829.7	46.9%	475.8	26.9%	1,769.5	100.0%
2008	419.6	25.7%	798.5	48.9%	415.5	25.4%	1,633.6	100.0%
Change %	10.6%		3.9%		14.5%		8.3%	

Liabilities by segment

(millions of Euro)	Building materials		Industrial products		Consolidation and sundry		Group total	
2009	213.9	15.9%	409.3	30.4%	723.5	53.7%	1,346.7	100.0%
2008	190.3	16.2%	381.4	32.5%	603.5	51.4%	1,175.2	100.0%
Change %	12.4%		7.3%		19.9%		14.6%	

Amortisation, depreciation and impairment losses

(millions of Euro)	Building materials		Industrial products		Consolidation and sundry		Group total	
2009	**18.0**	**33.6%**	**35.6**	**66.4%**	**0.0**	**0.0%**	**53.6**	**100.0%**
2008	18.7	35.0%	34.7	65.0%	0.0	0.0%	53.4	100.0%
Change %	**-3.7%**		**2.6%**		**insig.**		**0.4%**	

Investments

(millions of Euro)	Building materials		Industrial products		Consolidation and sundry		Group total	
2009	**11.5**	**30.4%**	**26.2**	**69.4%**	**0.1**	**0.3%**	**37.8**	**100.0%**
2008	20.8	35.2%	36.2	61.2%	2.1	3.6%	59.1	100.0%
Change %	**-44.9%**		**-27.6%**		**insig.**		**-36.1%**	

Employees at 31 December

(number of employees)	Building materials		Industrial products		Consolidation and sundry		Group total	
31 December 2009	**2,036**	**31.4%**	**4,443**	**68.5%**	**5**	**0.1%**	**6,484**	**100.0%**
31 December 2008	2,065	30.6%	4,672	69.3%	2	0.0%	6,739	100.0%
Change %	**-1.4%**		**-4.9%**		**insig.**		**-3.8%**	

Investments

Investments in production units in 2009 were Euro 37 million (Euro 57 million in 2008).

Again in 2009, there was an adequate level of capital expenditure. Projects were selected in accordance with product and technological priorities to rationalise production and optimise the use of raw materials.

Projects included commercial service centres for industrial rolled products in France and Italy; the completion of a new production line for photovoltaic system components; and, the installation of a new information system for the programming and control of sales order execution in the rolled products segment.

Capital expenditure on health and safety in the production units is ongoing, as is capital expenditure on protection of the environment.

Research and innovation

Research is centralised within the Group and is conducted at two Research and Development Centres located in Osnabrueck in Germany and Fornaci di Barga in Italy.

R&D is guided by customer and user requirements and is conducted in cooperation with a number of university research centres. Research at the Centres is focused on base metals whereas the production Divisions are responsible for research into quality control and product development.
The main areas of research are alloys and microstructure, the improvement of metal yields, the recovery of metals from foundry by-products, surface treatment, the development of new alloys for electrical, electronic and mechanical uses and the identification of new technologies in the fields of solar heating systems.

Research in 2009 focused on the development of new alloys for antimicrobial applications, new brasses for mechanical processing and moulds, and new conductors for photovoltaic panels.

The Centres are also engaged in research into improved solutions for the protection of the environment and factory safety.
Research and development expenditure is fully recognised directly in profit or loss for the year.

Financial position

The table below gives a breakdown of **consolidated equity**:

(millions of Euro)	at 31.12.2009	at 31.12.2008
Share capital	250.0	250.0
Reserves	196.7	277.0
Loss for the year	(23.9)	(68.6)
Total equity	**422.8**	**458.4**

Group **net debt** at 31 December 2009 was Euro 286.6 million.

The details of **reclassified consolidated net debt*** are shown below:

(thousands of Euro)	at 31.12.2009	at 31.12.2008
Short-term financial payables	186.700	194.126
Medium to long-term financial payables	363.075	243.689
Financial payables due to Group companies	2.432	2.907
(A) Total loans and borrowings	**552.207**	**440.722**
Cash and cash equivalents	(108.964)	(38.814)
Short-term financial receivables	(64.609)	(57.653)
Financial receivables due from Group companies	(1.283)	(1.071)
(B) Total cash and cash equivalents and financial receivables due from financial institutions	**(174.856)**	**(97.538)**
Fair value of LME and metals forward contracts [1,2]	20.771	(123.273)
Fair value of other financial instruments	351	(4.940)
(C) Financial instruments measured at fair value	**21.122**	**(128.213)**
Consolidated net financial position (A)+(B)+(C)	**398.473**	**214.971**
Non-current financial receivables due from banks [3]	**(111.923)**	**(3.239)**
Consolidated, reclassified net debt	**286.550**	**211.732**

1. The fair value of LME contracts for 2008 includes differentials of Euro 43.0 million (nil at 31 December 2009) already paid or received prior to expiry of the contracts in accordance with their terms and conditions.
2. Euro 15.64 million of the 2008 fair value of LME contracts (nil at 31 December 2009) were reclassified due to the adoption of FIFO inventory measurement as explained in the notes.
3. Euro 107.7 million of these receivables relate to guarantee deposits in connection with two fines imposed by the European Community in 2003-2004 on Group manufacturing companies for violations of anti-trust rules. The definitive payment and related outflow of cash will obviously only be made on conclusion of the hearing of the appeal pending before the EU judicial authorities and only for the amounts ordered to be paid.

* This indicator of financial structure is equal to gross borrowings less total liquid assets (cash and cash equivalents), other financial receivables included in "Current financial assets" and "Non-current financial assets".

A breakdown of reclassified **net invested capital*** is shown below:

(millions of Euro)	at 31.12.2009	at 31.12.2008
Net non-current assets	776.0	788.2
Net working capital	325.6	294.9[1]
Net provisions	(392.2)	(397.3)
Net invested capital*	**709.4**	**685.8**

1. Net working capital for 2008 is shown after the Euro 15.84 million reclassification relating to recent adoption of FIFO for the measurement of inventories.
* Net invested capital is defined as the sum of "Current assets" less "Non-current liabilities" and "Current liabilities", but excluding the amounts already used to compute net debt.

Cash flows are summarised below:

Statement of cash flows

(thousands of Euro)	2009	2008
(A) Cash and cash equivalents at the beginning of the year	**38,814**	**93,936**
Loss before taxes	(15,537)	(65,113)
Depreciation and amortisation	56,273	54,104
Impairment losses on current assets	2,707	2,109
Impairment losses (reversals of impairment losses) on non-current assets other than financial assets	470	225
Impairment losses (reversals of impairment losses) on current and non-current financial assets	290	1,612
Losses (gains) on disposal of non-current assets	(4,355)	413
Change in provisions for pensions, post-employment benefits and stock options	(413)	1,286
Change in provisions for risks and charges	(5,484)	11,437
Decrease (increase) in inventories	(66,658)	225,950
(Increase) decrease in current receivables	(39,188)	46,992
Increase (decrease) in current payables	53,986	(52,514)
Changes from currency translation	(1,238)	(367)
Decrease (increase) in LME and metals forward contracts	144,079	(123,589)
Current taxes paid during year	(7,230)	(9,877)
(B) Cash flows from operating activities	**117,702**	**92,668**
(Increase) in non-current tangible and intangible assets	(37,779)	(59,289)
Decrease in non-current tangible and intangible assets	6,174	1,680
(Increase) decrease in investments	(5,712)	64
(Increase) decrease in available-for-sale financial assets	-	-
Increase/decrease in other non-current assets/liabilities	545	4,862
Dividends received	1,463	2,169
(C) Cash flows from investing activities	**(35,309)**	**(50,514)**
Cash increase in equity	6	(1,854)
(Purchase) sale of treasury shares	(539)	(2,312)
Increase (decrease) in current and non-current financial payables	109,415	(72,407)
(Increase) decrease in current and non-current financial receivables	(109,637)	(9,216)
Dividends paid and profits distributed	(11,488)	(11,487)
(D) Cash flows from financing activities	**(12,243)**	**(97,276)**
(E) Change in cash and cash equivalents (B)+(C)+(D)	**70,151**	**(55,122)**
(F) Change in basis of consolidation	**-**	**-**
(G) Cash and cash equivalents at the end of the year (A)+(E)+(F)	**108,965**	**38,814**

As a result of the use of FIFO to determine costs for the purposes of inventory measurement, the figure for 2008 contains Euro 15.84 million reclassified from "change in inventories" to "LME and metals forward contracts".

* * *

Two loan agreements were concluded by KME Group S.p.A. in October 2006, together with its main manufacturing subsidiaries, to refinance existing debt totalling Euro 1.65 billion. The purpose of the refinancing was to assure that the Group's financial needs in connection with growth and increased working capital requirements, brought about by volatile raw materials prices that had caused trade receivables and inventories to increase in value.

The first loan agreement was for a five-year line of credit of up to Euro 800 million for non-recourse factoring of trade receivables.
The second was for the following two facilities:

- a loan of up to Euro 200 million, with a duration of five years (including three years grace), secured on the non-current assets of the Group's German industrial subsidiaries, to finance the payment of the EU fines following the decision of the appeals that are currently pending;
- a revolving credit of up to Euro 650 million to finance inventories on which the loan is secured.

The revolving credit had an initial duration of three years (i.e., to October 2009) which could be extended for an additional two years.

The Company was notified by a letter dated 12 March 2009, that the majority of the pool lenders had agreed to extend the maturity of approximately Euro 360 million of the revolving credit to October 2011.
Lenders to the Group, then, agreed to the following additional amendments to the October 2006 loan agreement proposed by KME Group:

- amendment at the request of KME Group S.p.A. of the revolving credit to a maximum of Euro 290 million to finance inventories on which the loan is secured;
- waiver throughout 2009 of the minimum consolidated EBITDA test required by financial covenants.
- restatement of the financial covenant regarding the minimum level of consolidated equity in order to allow for the effects of measuring inventories as well as outstanding buyer and seller contracts hedging open positions as required by IFRS.

The waiver of the test for 2009 regarding covenanted minimum consolidated EBITDA also related to the Euro 103 million line of credit extended by Unicredit-Mediocredito Centrale S.p.A. to finance capital expenditure on production by non-Italian subsidiaries on production or acquisitions of non-Italian companies by KME Group.
The Group has always been extremely diligent in managing liquidity risk in order to assure sufficient cash to settle financial and trade obligations as and when they fall due.
Prudent liquidity risk management entails holding sufficient cash and the availability of committed credit lines.
As a result of this policy, the general economic environment and the situation on the financial markets, KME Group S.p.A. began negotiations well in advance with lenders for the restructuring in 2010 of all available lines of credit to assure they are sufficiently flexible for the Group's financing requirements in addition to prolonging maturities and to adjust financial covenants to be more consistent with the Group's business plans.
As a result of forecasts of improved conditions in the Group's businesses and, therefore, the likelihood of higher profits than last year, it is believed that the Group will be in compliance with the financial of highs covenants contained in the agreements for the lines of credit until the end of the current half-year.

Personnel

The number of employees at 31 December 2009 was 6,485 (6,739 at 31 December 2008).

(year average)	2009	2008	Change %
Executives and clerical	1,843	1,824	1.0%
	27.9%	27.0%	
Blue collar and special categories	4,751	4,931	-3.7%
	72.1%	73.0%	
Total employees	**6,594**	**6,755**	**-2.4%**
	100.0%	100.0%	

Investments in employee training and professional development was, again in 2009, a fundamental factor for the growth of management in support of Group operations.
The ongoing dialogue with trade unions and employee representatives, in these very difficult times, at both European and Italian companies was an important factor in the attempt to find mutually acceptable solutions in response to the changed market conditions and to increase flexibility and organisational efficiency.

Related party transactions

Related party and intercompany transactions were neither atypical nor unusual, in that they were part of the Group's day to day business and were all conducted on an arm's length basis.

Transactions between KME Group S.p.A. and its subsidiaries, as well as transactions among subsidiaries that are eliminated on consolidation are disclosed in the notes.

The Parent KME Group S.p.A.

KME Group S.p.A.'s profit for 2009, after taxes, was Euro 3.6 million.

The **income statement** shown below has been reclassified by presenting non-recurring income (expenses) as a separate line item.

(thousands of Euro)	FY 2009	FY 2008
Dividends received from KME Germany A.G.	-	20,939
Service income	2,839	2,839
Operating costs	(4,270)	(6,385)
Stock option costs	(501)	(1,167)
Net financial income	8,617	8,219
Profit from ordinary activities	**6,685**	**24,445**
Non-recurring expenses	(1,345)	(3,300)
Profit before taxes	**5,340**	**21,145**
Taxation	(1,711)	(121)
Profit for the year	**3,629**	**21,024**

Profit from ordinary activities decreased significantly because of the cancellation of dividend payments by the German subsidiary KME Germany A.G. due to the reorganisation of the Group's manufacturing companies in 2008.

Financial income, in addition to income earned on the investment of net cash holdings, includes:

- Euro 6.4 million (2008: Euro 6.9 million) in fee income from subsidiaries for guarantees issued by the Parent to financial institutions on behalf of the subsidiaries to obtain lines of credit;
- Euro 0.2 million (2008: Euro 1.6 million) in gains on listed securities held in portfolio as a result of increased stock market prices at 31 December 2009.

Non-recurring expenses relate to costs during the year (Euro 0.7 million) incurred in connection with the demerger approved at the Shareholders' Meeting of 2 December 2009 and one-off charges in connection with pending litigation (Euro 0.6 million).

The following table shows a summary of the key statement of financial position figures of KME Group S.p.A.:

Assets

(thousands of Euro)	31.12.2009	31.12.2008
Investment property	3,216	3,216
Investment in KME Germany A.G.	307,350	307,096
Investment in KME Italy S.p.A.	-	4,519
Investment in KME Recycle S.p.A.	2,000	2,000
Non-current assets	**312,566**	**314,833**
Investment in ErgyCapital S.p.A.	3,749	3,058
iNTEk S.p.A. savings shares	3,542	4,077
Treasury shares	2,888	2,349
Net assets (liabilities)	(4,788)	59
Current assets	**5,391**	**9,543**
Net funds	**33,356**	**34,102**
Total assets	**351,313**	**358,478**

Equity

(thousands of Euro)	31.12.2009	31.12.2008
Share capital	250,015	250,010
Reserves	97,669	87,444
Profit for the year	3,629	21,024
Total equity	**351,313**	**358,478**

The changes in current assets relate to:
- the measurement of 5,001,932 **ErgyCapital** shares at Euro 0.473 each (Euro 0.38 at 31 December 2008) and 14,291,235 of that company's warrants at Euro 0.097 each (Euro 0.081 at 31 December 2008);
- the measurement of 5,824,990 **iNTEk savings** shares at Euro 0.608 each (Euro 0.70 at 31 December 2008).

There was a decrease in **net current assets** due to the collection of tax receivables of Euro 5.2 million in June.

Reserves increased by approximately Euro 10 million due to the appropriation of undistributed 2008 profits.

At their meeting of 16 September 2008, Shareholders approved a resolution to acquire and hold both ordinary and savings **treasury shares** in accordance with articles 2357 and 2357 *ter* of the Italian Civil Code and art. 132 of the Consolidated Finance Act.
The resolution, which came into effect on 22 September 2008, authorised the acquisition of savings and ordinary shares from time to time by the Company and its subsidiaries subject to a maximum limit of 10% of share capital.
The authorisation to acquire treasury shares was for a maximum period of 18 months from the date of the Shareholders' Meeting and, consequently, expired on 16 March 2010.
Treasury shares had to be purchased on markets regulated by Borsa Italia S.p.A. in accordance with trading rules and operating requirements of the relevant exchange, which preclude direct matching with sell orders, in addition to complying with Regulation (EC) 2273 of 2003.
The purpose of acquiring treasury shares was: (i) for the Company to hold a portfolio of treasury shares to be used in transactions relating to day to day business or projects consistent the strategy KME intended to pursue with respect to trading in equities thus permitting the shares so obtained to be used in connection with convertible bonds and/or warrants; and, (ii) to use the treasury shares so acquired to service any stock

option plans for the Directors and/or Executives of the Company or and/or any of its direct or indirect subsidiaries.
The acquisition of treasury shares, however, was suspended on 26 February 2010. At that date the Company held 5,475,170 of its own ordinary shares (which were split into 8,212,755 ordinary shares on 8 February 2010) or 2.15% of shares of the same class with a carrying amount of Euro 0.509 each (Euro 0.339 ex split) in addition to 90,555 (135,831 savings shares, ex split) of its own savings shares or 0.37% of shares of the same class. Total treasury shares currently held equal 2.0% of total share capital. The investment was Euro 2.9 million.
At their meeting of 16 September 2008, Shareholders also authorised the use of all or part of treasury shares acquired at any time without limit for any purpose and in any manner permitted by law with the ability to determine timing, methods and conditions at the time of using the shares considered to be in the best interest of the Company.

The Parent's reclassified **net financial position** at 31 December 2009 were Euro 33.4 million:

(thousands of Euro)	31.12.2009	31.12.2008
Short-term financial	29,470	29,699
Medium to long-term financial	61,466	47,867
Financial payables due to parent		17
Financial payables due to subsidiaries	24,067	3,882
Payables for indemnities due to subsidiaries	5,588	7,297
Total payables	**120,591**	**88,762**
Cash and cash equivalents	(403)	(661)
Financial receivables due from subsidiaries	(90,896)	(69,901)
Current receivables for indemnities due from subsidiaries	(3,767)	(5,962)
Total cash and cash equivalent and financial receivables	**(95,066)**	**(76,524)**
Total net financial position	**25,525**	**12,238**
Non-current receivables for indemnities due from subsidiaries	(1,821)	(1,335)
Non-current financial receivables due from subsidiaries	(52,814)	(41,766)
Non-current financial receivables due from banks	(4,246)	(3,239)
Total reclassified net financial position	**(33,356)**	**(34,102)**

The reclassification relates to the inclusion in the financial position of the payables and corresponding receivables with respect to indemnities issued on behalf of subsidiaries, and financial payables and receivables relating to the loan from Mediocredito Centrale S.p.A. and with the current and non-current portions having been transfered to manufacturing subsidiaries.

Cash flow for the year are summarized as:

Cash flow statement, indirect method

(thousands of Euro)	FY 2009	FY 2008
(A) Cash and cash equivalents at the beginning of the year	**661**	**1,739**
Profit before taxes	5,340	21,144
Depreciation and amortisation	8	4
Impairment losses (reversals of impairment losses) on current and non-current financial assets	-	8
Losses (gains) on disposal of non-current assets	-	(2)
Change in provisions for pensions, post-employment benefits and stock options	506	1,174
Change in provisions for risks and charges	(4,505)	3,296
(Increase) decrease in current receivables	5,800	(17,320)
Increase (decrease) in current payables	1,942	(61)
Current taxes paid during year	(101)	(368)
(B) Cash flows from operating activities	**8,990**	**7,875**
(Increase) in non-current intangible assets and property, plant and equipment	(69)	(76)
Decrease in non-current intangible assets and property, plant and equipment	-	2
(Increase) decrease in investments	2,521	119
(Increase) decrease in available-for-sale financial assets	-	-
Increase/decrease in other non-current assets/liabilities	266	1,180
Dividends received	633	21,361
(C) Cash flows from investing activities	**3,351**	**22,586**
Cash increase in equity	6	(1,854)
(Purchase) sale of treasury shares	(539)	(2,312)
Increase (decrease) in current and non-current financial payables	30,920	38,326
(Increase) decrease in current and non-current financial receivables	(31,498)	(54,211)
Dividends paid and profits distributed	(11,488)	(11,488)
(D) Cash flows from financing activities	**(12,599)**	**(31,539)**
(E) Change in cash and cash equivalents (B)+(C)+(D)	**(258)**	**(1,078)**
(F) Cash and cash equivalents at the end of the year (A)+(E)	**403**	**661**

Outlook

Fees relating to the issuance of indemnities on behalf of subsidiaries are expected to continue to be accrued in 2010. Information on the outlook for investments is set out above in the section dealing with the outlook for the Group as a whole.
Due to the decision by the German subsidiary, KME Germany A.G., which is the lead Group industrial company, to cancel the distribution of 2009 dividends, the Parent profit before non-recurring items for 2010 will be substantially in line with 2009.

Intercompany accounts: Parent and subsidiaries

As part of its function as Parent, KME Group S.p.A. provides assistance to Group companies. The following table shows the related income and expenses by company:

(thousands of Euro)	31.12.2009		31.12.2008	
	Income	Expenses	Income	Expenses
iNTEk S.p.A.	-	-	-	(139)
KME Italy S.p.A.	3,024	(107)	4,134	(105)
KME Brass Italy S.r.l.	135	(16)	201	(34)
Immobiliare Agricola Limestre S.r.l.	25	-	65	-
EM Moulds S.r.l.	-	(77)	-	(129)
KME Recycle S.p.A.	14	(42)	-	-
KME Germany A.G.	335	-	756	-
KME Germany A.G. & Co. K.G.	7,811	(239)	8,697	(49)
KME Brass Germany Gmbh	255		142	-
KME France S.A.S.	1,234	(22)	1,092	(8)
KME Brass France S.A.S.	830	-	327	-
KME Yorkshire Ltd.	198	-	128	-
KME Locsa	163	(4)	101	-
Total	**14,024**	**(507)**	**15,643**	**(464)**

Accounts receivable and payable from subsidiaries at 31 December 2009 were:

(thousands of Euro)	31.12.2009	31.12.2008	change	change %
Financial (payables) receivables				
iNTEk S.p.A.	-	(17)	17	insig.
KME Italy S.p.A.	(21,041)	17,849	(38,890)	insig.
KME Brass Italy S.r.l.	(423)	9,231	(9,654)	insig.
Immobiliare Agricola Limestre S.r.l.	777	621	156	25.12%
EM Moulds S.r.l.	(2,602)	(3,881)	1,279	-32.96%
KME Recycle S.p.A.	1,516	-	1,516	insig.
KME Germany A.G.	51,280	8,640	42,640	insig.
KME Germany A.G. & Co. K.G.	37,951	31,469	6,482	20.60%
KME Brass Germany Gmbh	4,493	2,623	1,870	71.29%
KME France S.A.S.	19,796	20,691	(895)	-4.33%
KME Brass France S.A.S.	21,769	15,562	6,207	39.89%
KME Yorkshire Ltd.	2,868	2,551	317	12.43%
KME Locsa	3,258	2,429	829	34.13%
Total	**119,642**	**107,768**	**11,874**	**11.02%**

(thousands of Euro)	31.12.2009	31.12.2008	change	change %
Trade receivables and other				
iNTEk S.p.A.	-	-	-	-
KME Italy S.p.A.	-	7	(7)	insig.
KME Brass Italy S.r.l.	-	-	-	-
Immobiliare Agricola Limestre S.r.l.	-	-	-	-
EM Moulds S.r.l.	-	-	-	-
KME Recycle S.p.A.	-	-	-	-
KME Germany A.G.	-	-	-	-
KME Germany A.G. & Co. K.G.	-	-	-	-
KME Brass Germany Gmbh	-	-	-	-
KME France S.A.S.	-	-	-	-
KME Brass France S.A.S.	-		-	-
KME Yorkshire Ltd.	76	-	76	insig.
KME Locsa	13	-	13	insig.
Total	**89**	**7**	**82**	**insig.**

(thousands of Euro)	31.12.2009	31.12.2008	change	change %
Trade payables and other				
iNTEk S.p.A.	-	-	-	-
KME Italy S.p.A.	73	73	0	insig.
KME Brass Italy S.r.l.	-	-	-	-
Immobiliare Agricola Limestre S.r.l.	-	-	-	-
EM Moulds S.r.l.	-	-	-	-
KME Recycle S.p.A.	-	6	(6)	insig.
KME Germany A.G.	-	-	-	-
KME Germany A.G. & Co. K.G.	-	49	(49)	insig.
KME Brass Germany Gmbh	-	-	-	-
KME France S.A.S.	-	8	(8)	insig.
KME Brass France S.A.S.	-	-	-	-
KME Yorkshire Ltd.	-	-	-	-
KME Locsa	-	-	-	-
Total	**73**	**136**	**(63)**	**-46.32%**

The net interest payable on the current account with the Parent, iNTEk S.p.A., was Euro 156.

* * *

Detailed information and analyses of consolidated figures and those of the Parent are contained in the notes.

Pending litigation

Update of information on pending litigation given in the interim report as at and for the six months ended 30 June 2009:

- a settlement was reached between the parties on 23 December 2009 with respect to the environmental dispute concerning the Brescia plant entailing the payment by the Company of a total of Euro 5.1 million in two tranches. The full amount was paid by the date of the financial statements and the reciprocal complaints brought be the litigants were withdrawn;

- there is no news to report with respect to the cases pending before the Court of Hannover relating to the merger and squeeze-outs regarding German subsidiaries in 2001/2002.

With respect to material litigation brought, on the other hand, against the Group's industrial companies, please be advised that:

- the written phase of the appeal pending before the European Court of Justice was concluded on 3 November 2009. The appeal challenged the ruling of the Court of First Instance of the European Communities with respect to alleged infringements of EU anti-trust legislation in the industrial tubes sector (6 May 2009). The ruling by the Court of First Instance of the European Communities on the case on drinking water pipes, however, is still pending;

- all proceedings before the Courts of Tennessee with respect to the class action suits in the United States, again with respect to anti-trust violations, were dismissed in 2008/2009. Both of the two most recent class action suits brought, respectively, before the State and Federal Courts of California could be dismissed in coming weeks if the decision of the Federal Court handed down in February 2010 is not appealed;

- in February 2010, Toshiba Carrier UK Ltd. and another fifteen companies of the same group petitioned the Chancery Division of the English High Court of Justice for the payment of damages by KME Yorkshire Ltd., KME Germany A.G., KME France S.A.S., KME Italy S.p.A. and another five producers of LWC. The petitioners claim to have purchased LWC or goods incorporating leather wound coils between 1998 and 2001, the period for which the European Commission had imposed fines on certain of the defendant companies for the violation of anti-trust legislation, which are currently being appealed before the European Court of Justice. The petitioners claim to have paid higher prices and to have probably lost profits because of the resultant fall in sales and maintain that the defendants are jointly liable. Total estimated losses and damages claimed by the petitioners on all defendants are £20.5 million. Based on currently available information, the Directors believe any material impact on the results of operations to be unlikely.

- the Court has dismissed a civil case brought by Caffaro S.r.l. against KME Italy S.p.A. last February relating to environmental matters in connection with the former site of the Brescia facilities, a ruling which was favourable to the Company, and there have been no further developments.

Principal risks and uncertainties to which KME Group S.p.A. and the Group are exposed

Risks relating to the general economic environment

The Group's financial position, results of operations and cash flows are obviously affected by general developments in the economy and, in particular, the economies of Europe where the Group's operations are concentrated.

The gradual deterioration of the economy, which was first seen in the last quarter of 2008, combined with the volatility of raw material prices and the credit crunch obviously had major and widespread repercussions on demand in the sectors using copper and copper alloy semi-finished products.

It was only in the last few months of 2009 that signs of a recovery were seen, albeit differentiated between countries, as a result of extremely expansionist monetary and tax policies.

Uncertainty and the marked weakness of internal factors influencing demand and investment continued to weigh on forecasts of the evolution and magnitude of the recovery. The risk of increased borrowing costs in combination with increasing raw materials prices and growing government debt also adversely affected business.

Against this background, the Group was determined to bring forward a number of contingent measures designed to counter the effect of lower volumes and price pressures. Restructuring, designed to assure more efficient production, a more focused organisational structure and the optimal use of capital invested, which have been ongoing for some time, also continued.

In the event of prolonged general economic uncertainty and weakness, there could be an adverse effect on the Group's operations, strategies and outlook with a consequent deterioration of Group financial position, results of operations and cash flows.

This is particularly so because of the concentration of the KME Group's business in the metallurgical sector, specifically the production and processing of copper and copper alloy products, which have historically been subject to excess production capacity and cyclicality.

It is always difficult to predict the extent and duration of the business cycle. The cyclical nature of the sectors in which the Group operates tends to be a reflection of general economic trends, the effects of which are sometimes amplified by the cycle. Each economic phenomenon such as the collapse of principal markets, financial market volatility and the consequent deterioration of capital markets, increased energy prices, fluctuating prices of commodities and other raw materials, adverse movements in interest and exchange rates and tightening of government policy (including environmental regulations) could lead to a deterioration in the Group's outlook, operations, financial position, results of operations.

Competitive and commodity price risks

The Group's industry is highly competitive even in product segments other than metallurgy where there is significant overcapacity. The risk of product substitutions, production cost levels, cost control and the continuing search for efficiencies, product innovation and the ability to offer customers services and solutions are all factors that can have a considerable effect on results.

The copper and copper-alloy semi-finished goods sector is also influenced by raw materials prices. Persistent high volatility of raw material prices and, in particular, the price of copper, which is approximately 85% of the raw materials used, creates market uncertainty so that customers defer purchases thus making it difficult to predict demand.

Changes in raw materials prices do not have a direct effect on Group companies' operating results since prices charged to customers are hedged on receipt of an order. Under the new IFRS, however, price movements have an effect on the measurement of the Group's raw materials stocks (see the section on Operating Performance of the Group).

Raw materials price increases also have an effect on financial position in that they lead to an increase in the working capital of industrial companies that must be financed.

Details on the mitigation of the risk of raw materials price movements are contained in the note on risk management in the consolidated financial statements.

Liquidity risk

The development of the Group's financial position, results of operations and cash flows depends on the achievement of targets as well as the general trends of the economy, financial markets and the sectors in which the Group operates.

The Group intends to meet its cash requirements for the repayment of borrowings and capital expenditure through cash from operating activities, cash on hand and fresh bank borrowings or the roll-over of existing bank credit. Given the current environment, the Group intends to maintain sufficient operating cash flow generation capacity through measures designed to control the level of working capital, in particular, cash needs arising from raw materials inventories. Any significant and sudden reduction in sales volumes could have an adverse effect on operating cash flow generation. The current financial crisis means that it is not possible to ignore the possibility that circumstances on the banking and money markets could lead to difficult and costly negotiations with lenders.

Details of the Group's financial position and, in particular, the risks of two pending court cases regarding anti-trust violations are contained in the Directors' Report.

Foreign exchange and interest rate risks

The Group is exposed to foreign exchange risk. There is an impact on operating margins by movements in exchange rates between the euro and other foreign currencies, primarily the US dollar and the pound sterling, as a result of the effect of such movements on selling and raw materials prices. The Group continuously hedges foreign exchange risk by netting purchase against sales orders and receivables against payables denominated in the same foreign currency.

Any movements in interest rates could also result in significant increases or reductions of borrowing costs. The Group's policy is to evaluate the ability to hedge the significant movements in interest rates normally associated with loans with terms of 18 months or more.

Details of the impact of movements in interest rates are contained in the notes to the consolidated financial statements.

* * *

As Parent, KME Group S.p.A. is substantially exposed to the risks described above to which the Group is exposed.

It should, however, be borne in mind that as a result of KME Group S.p.A. operating as a holding company, its results are a function of dividends distributed by subsidiaries and, therefore, ultimately reflect their business and dividend policies.

Subsequent events

There were no noteworthy events that occurred subsequent to 31 December 2009.
Information on the implementation of the Shareholders' resolution of 2 December 2009 regarding the partial, proportional reverse demerger of iNTEk S.p.A. into the KME Group are contained in the relevant section of the financial statements.

Results for the year and proposed Shareholders' resolutions

2009 closed with profit of Euro 3,629,375.
Having noted the reports of the Board of Statutory Auditors and the Independent Auditors, we submit the following resolutions for your approval:

At their Ordinary General Meeting held at the Company's registered offices at Via dei Barucci, 2, Florence, KME Group S.p.A.'s Shareholders, having noted the reports of the Board of Statutory Auditors and the Independent Auditors,

hereby resolves

a) to approve the Directors Report on the financial statements as at and for the year ended 31 December 2009 and the financial statements as a whole, in addition to each accounting policy and entry with the proposed provisions and uses, showing a profit of Euro 3,629,375;

b) to allocate profit for the year of Euro 3,629,375 as follows:

• 5% to the Legal Reserve	Euro	182,000
• 2% to the Board of Directors (in excess of the fixed component of compensation of Euro 195,000)	Euro	0
• to savings shares* in the amount of a dividend of Euro 0.07241 per share totalling	Euro	2,651,240
• the remainder to retained earnings	Euro	796,135

Ordinary dividends shall be paid on 13 May 2009 and savings share dividends on 10 May 2010.

Florence, 25 March 2010

The Board of Directors

* excluding 135,831 savings shares currently held by the Company or any other number of shares held by the Company on the dividend payment date, with any differences to be withdrawn or appropriated to/from retained earnings.

Report on Corporate Governance and shareholding structure pursuant to art. 123 *bis* of Legislative Decree 58 of 24 February 1998 and on the Code of Conduct

Dear Shareholders,

the purpose of this report (the "Report"), which has been prepared in compliance with art. 123 *bis* of the Consolidated Law on Finance (the Testo Unico della Finanza or "TUF") as amended by Legislative Decree 173 of 2 November 2008 that transposed Directive 2006/49 into Italian law, is to provide the information required by the TUF regarding the structure, organisation and functioning of the Company with respect to the requirements of art. 89 *bis* of Consob Regulation approved by Resolution 11971 of 14 May 1999 (the "Issuers Regulation") and the Market Regulation of the markets organised and managed by Borsa Italiana S.p.A..
The Report, which is an integral part of the Directors' report at 31 December 2009, has been subdivided into three parts, six sections and three tables, for the ease of reading and comparison. The Report provides the information required by art. 123 *bis* of the TUF and has, moreover, been prepared in compliance with the March 2006 version of the Code of Conduct model of Borsa Italiana S.p.A. (the "Code of Conduct" or the "Code") which the Company has adopted. The purpose of the Report is to describe the extent of the Company's compliance with the Code during the year ended 31 December 2009 by giving the reasons for any departures from the Code and describing the action already taken and action planned to assure conformity.

The Company has continually improved the quality and quantity of the information it has provided on its corporate governance every year ever since the presentation of the financial statements at 30 June 2000. The individual reports and sections of the financial statements starting with those for the year ended 31 December 2006 can be viewed at **www.kme.com**. There is also a special webpage for these Reports.

1. Regulatory environment

Legislators have introduced a number of changes to corporate governance over the years which, in 2008, was in a transitional phase. The most recent legislation in that respect came into full force on 31 December 2009.

That notwithstanding, last year's Report was prepared in compliance with the new rules and already contained information on the adoption of the corporate governance code recommended by companies managing regulated markets and sector associations in accordance with the timing and methods required by CONSOB.

CONSOB, in turn, also amended art. 89 *bis* of its Regulation 11971 (the "Issuers Regulation") in 2009 in conjunction with art. 123 *bis* of the TUF by requiring listed companies to publish information every year on corporate governance, ownership structure and the adoption, where applicable, of a Corporate Governance Code.

CONSOB also required that this information either be an integral part of the Directors' Report or in the form of a stand-alone report and be made available on the internet. This Report has, therefore, also been made available on the page "Report on Corporate Governance" at **www.kme.com** as well as on Borsa Italiana S.p.A.'s website (**www.borsaitaliana.it**) in its capacity as the manager of the market.

The Report has also been prepared in compliance with ASSONIME requirements contained in Borsa Italiana S.p.A.'s guidelines and the Handbook on Corporate Governance Reports published by ASSONIME and Emittenti Titoli S.p.A.. The quantity and quality of information provided was compared with the findings of an analysis on the state of listed companies' implementation of the Code of Conduct published by ASSONIME and Emittenti Titoli S.p.A. in February 2010.

The tables at the end of the report are based on current information.

As in 2008, the Report based on the experimental format for corporate governance reports published by Borsa Italiana S.p.A. last February for issuers for the second year in row, which, as explained by Borsa Italiana S.p.A., is not intended to be mandatory but rather a tool to assist 1) issuers to assure the report complies with art. 123 *bis* of the TUF and 2) statutory auditors in their examinations.

2. Company profile

KME Group S.p.A. is the Parent of a pan-European group of industrial companies that is the world leader in the manufacture and sale of copper and copper alloy semi-finished products.

The Company has a traditional structure of corporate governance with a Shareholders' Meeting, Board of Directors and Board of Statutory Auditors. The Remuneration and Internal Control Committees were also established both of which consist of only independent and non-executive directors.

The corporate governance structure of other group companies, however, is different with Germany's largest industrial company having a structure which is fully in line with German practice that entails a two tier management structure consisting of a Supervisory Board (Aufsichtsrat) and a Management Board (Vorstand).

On 2 December 2009, the Shareholders' Meeting approved resolutions for:

- the prolongation of the exercise period for KME Group ordinary share warrants 2006-2009 to 30 December 2011;
- an ordinary and savings share split by exchanging three ordinary shares for each two held and three savings shares for each two held thus necessitating a change in the number of shares issued for the exercise KME Group S.p.A. ordinary share warrants 2006/2009;
- the partial, proportionate reverse demerger of iNTEk into KME;
- a cash capital increase of Euro 80 million;
- the authorisation of Directors pursuant to art. 2443 of the Italian Civil Code to increase share capital by an additional Euro 15 million to service the stock option plan approved at the same meeting.

The first three items were all completed by the date of the approval of the Report - the demerger became effective on 22 March 2010 - and, therefore, their effects on the relevant Company bodies are described. Moreover, the Report also contains information on the two items that will be executed in the next few months.

The Directors' Report also contains information on these items.

3. First part: shareholding structure

3.1 Structure of share capital

Share capital at 31 December 2009, which was the last date on which KME Group S.p.A. ordinary share warrants 2006/2011 were exercised before the suspension of the warrants following the Shareholders' Meeting called to approve the financial statements as at and for the year ended 31 December 2009, was Euro 250,021,765.45 consisting of 254,572,969 shares, 235,500,859 of which were ordinary shares and 19,072,110 savings shares, all of which with no nominal value.

Share capital increased by Euro 12,087.69 in 2009 as a result of the exercise of 34,536 KME Group S.p.A. ordinary share warrants 2006/2011 that entailed the issue of 11,512 ordinary shares.

Subsequent to the share split of 8 February 2010 and the demerger of 22 March 2010, share capital at the date of this Report, amounted to Euro 273,761,740.66 consisting of a total of 418,117,631 shares, 381,367,530 of which were ordinary shares and 36,750,101 savings shares, all of which with no nominal value.

The 381,367,530 ordinary shares are 91.21% of share capital and do not entail rights different or additional to the rights pursuant to legislation and the Company Articles of Association.

Each share carries unrestricted voting rights unless otherwise provided by law. Votes may be cast by mail in accordance with the procedure pursuant to article 11 of the Articles of Association.

Similarly, the 36,750,101 savings shares are 8.79% of share capital and do not entail rights different or additional to the rights pursuant to legislation and the Company Articles of Association.

The rights of Savings Shareholders are set out in articles 145 et seq. of the TUF and articles 5, 8 and 28 of the Company Articles of Association. Their Joint Representative, who has a right to actively participate in meetings of ordinary Shareholders as set out in article 26 of the Articles of Association, is Dr. Romano Bellezza who was appointed for 2009/2011 at the Special Meeting of Savings Shareholders held on 24 April 2009.

Savings shares entail the following preferential rights:
- the right to a preferred dividend of a maximum of Euro 0.07241 per share per annum subject to the right to other dividends of Euro 0.020722 per share more than savings share dividends. This, however, is without prejudice to the prorated increase in the preferred dividend in each of the two years following the payment of a preferred dividend of less than Euro 0.07241 per share;
- in the event the Company is wound up, savings Shareholders have a preferred right to the liquidation proceeds of Euro 1.001 per share.

There was also a total of 67,895,451 KME Group S.p.A. ordinary share warrants 2006/2009 outstanding at 31 December 2009 that had been issued under the authorisation given at the Extraordinary Shareholders' Meeting of 19 May 2006.

The Shareholders approved the following resolutions in that connection at the Extraordinary Meeting of 2 December 2009:
- the prolongation of the term of the warrants from 11 December 2009 to 30 December 2011;
- the change of their terms and conditions of exercise from the previous one new ordinary share for each three warrants held at an exercise price of Euro 1.05 per share to the current one new ordinary share for each two warrants held at the exercise price of Euro 0.70 per share.

Due to the fact that the share split had necessitated the cancellation of one warrant to render the split arithmetically possible, there were 67,895,450 KME Group S.p.A. ordinary share warrants 2006/2009 outstanding at the date of this Report, which, if exercised, would result in the issue of a maximum of 33,947,725 ordinary shares of no nominal value with a consequent maximum capital increase of Euro 23,763,407.50.

At that same Extraordinary Meeting of 2 December 2009, Shareholders also approved a resolution in connection with the demerger for the issuance of an additional 73,330,660 KME Group S.p.A. ordinary share warrants 2009/2011 in exchange for iNTEk S.p.A. ordinary share warrants 2005/2011. The exercise of the KME Group S.p.A. ordinary share warrants 2009/2011 entails the issuance of one ordinary share for each warrant held at an exercise price of Euro 0.90 per share, including a premium of Euro 0.64. An exercise of the warrants would result in a maximum nominal capital increase of Euro 19,065,971.60 through the issuance of a maximum of 73,330,660 ordinary shares with no nominal value.

The warrants were issued to eligible parties on 22 March 2010 following the effectiveness of the share split of even date.

The rights and obligations entailed by both warrants are contained in their respective terms and conditions, copies of which are available on the relevant web page of the internet site.

All of these instruments are listed in the Standard (Class 1) segment of the Market regulated and managed by Borsa Italiana S.p.A..

Any exercise of the warrants and options as may be granted under the Stock Option Plan described below could entail a change in share capital in the month of exercise. Any change in the composition of share capital is advised to the market by Stock Exchange Notice (see the section below on the processing of company information for details of the NIS system) and also made available on a special page of **www.kme.com**.

A resolution was also approved at the Extraordinary Shareholders' Meeting of 2 December 2009 for the cash increase in share capital in one or more tranches for a total maximum, including any share premium, of Euro 80 million through the issuance of a maximum of 229,000,000 ordinary and a maximum of 22,500,000 savings shares to be offered to existing Shareholders through a rights issue in accordance with art. 2441, paragraph 1 of the Italian Civil Code. On that occasion, Shareholders authorised the Board of Directors to fix the issue price within a range of:

- for ordinary shares - Euro 0.30 and Euro 0.37 each;
- for savings shares - Euro 0.50 and Euro 0.57 each.

The rights issue is planned for the first six months of 2010.

A resolution was also approved by Shareholders at the same Extraordinary Meeting of 2 December 2009 to authorise the Board of Directors in accordance with art. 2443 of the Italian Civil Code to implement a second cash capital increase in one or more tranches for a maximum amount of Euro 15 million including any premium through the issuance of 31,000,000 ordinary shares reserved for beneficiaries of the Stock Option Plan (Executive Directors and Group Executives of Group companies) as approved in the ordinary session of the same meeting in accordance with the second sentence of art. 2441, para. IV of the Italian Civil Code.

The Shareholders approved a resolution to determine the issue price as the arithmetic mean of the official closing prices for the ordinary share on the Mercato Telematico Azionario organised and managed by Borsa Italiana S.p.A. (the "MTA") during the period between the grant date of the options and the same date of the preceding calendar month with all powers by the Directors to determine, from time to time, the exact number of ordinary shares to be issued to service the Plan, the exact issue price including any premium in addition to the method and timing of any capital increase.

The Stock Option Plan is described in greater detail in the section on the remuneration of Directors and Group Executives.

As explained in the Directors Report approved by the Shareholders, the second capital increase may not be implemented by the Board of Directors any earlier than 90 days following the effectiveness of the demerger.

Another section of the Directors Report shows the performance of the Companies shares and market capitalisation during the year. Information in that connection is also available in a dedicated section of **www.kme.com**.

Key data regarding financial instruments issued by the Company is set out in the table below:

Table 1: Information on Shareholding Structure

Structure of Share Capital

	ISIN	number of shares	% of total share capital	Listing
Ordinary shares	IT0004552359	381,367,530	91.211	standard 1
Bearer savings shares	IT0004552367	36,750,101	8.789	standard 1
Registered savings shares	IT 0004552375			

Other financial instruments granting rights to subscribe to fresh issues

	ISIN	in issue	Class of shares issued on exercise	Number of shares issued on exercise	Listing
2006-11 warrants	IT0004077167	67,895,450	Ordinary shares	33,947,725	standard 1
2009-11 warrants	IT0004552383	73,330,660	Ordinary shares	73,330,660	standard 1

3.2 Transferability

The Company Articles of Association impose no restrictions on the transferability of shares or warrants.

3.3 Significant shareholdings in the Company

At 31 December 2009, i.e., before the share split and demerger, iNTEk S.p.A., which is 47.256% held by Quattroduedue Holding B.V., held 126,167,569 ordinary shares or 53.574% of shares in issue of the same class. iNTEk S.p.A. also held 896,906 savings shares or 4.703% of shares in issue of the same class.
iNTEk S.p.A.'s total shareholding was, therefore, 49.92% of share capital.

Subsequent to the share split, demerger and the acquisition of a shareholding in the *Associazione Cassa Nazionale di Previdenza ed Assistenza a favore dei Ragionieri e dei Periti Commerciali* on 15 March 2010 by Quattroduedue Holding B.V., which consequently became a direct Shareholder of the Company, holds 91,220,020 ordinary shares in the Company equal to 23.919% of the shares in issue of the same class.

The Shareholders of Quattroduedue Holding B.V. are Vincenzo Manes, through Mapa S.r.l. (Milan) with a shareholding of 35.12%, Ruggero Magnoni, through Likipi Holding S.A. (Luxembourg) with a shareholding of 32.44% and Hanseatic Europe S.a.r.l. (Luxembourg) with a shareholding of 32.44%. None of the Shareholders, all of whom are parties to a Shareholders' agreement, controls the Company pursuant to art. 93 of the TUF.

Furthermore, iNTEkCapital S.p.A., a subsidiary of iNTEk S.p.A., had a portfolio investment in the Company at the date this Report of 29,177,432 KME ordinary shares or 7.650%.
As a result, Quattroduedue Holding B.V.'s post demerger interest in KME's ordinary share capital is 31.569%. Quattroduedue's interest in the total share capital, on the other hand, is 29.795%, whilst its direct interest is 21.816%[1].

The Company had 7,905 ordinary Shareholders after the share split of February 2010, which, however, has not yet been completed.

Finally, the Company holds 8,212,755 (5,475,170 *pre* split) of its own ordinary shares and 135,831 savings shares (90,555 *pre* split), respectively 2.324% (2.153% *post* demerger) and 0.477% (0.369 *post* demerger) of the shares of the same class.

3.4 Securities conferring special rights

No securities have been issued conferring special rights of control.

3.5 Employee investment, voting rights

There is no system of employee investment.

3.6 Restrictions on voting rights

Apart from statutory requirements and the provisions of the Company Articles of Association, there are no restrictions imposed on voting rights. Each share carries one voting right (art. 11 of the Articles of Association).

In that connection, at their Meeting of 19 May 2006, the Shareholders resolved to vary art. 4 of the Company Articles of Association to permit the Shareholders to authorise a capital increase of up to 10% of existing share capital without rights to existing Shareholders for the intents and purposes of the second sentence of art. 2441, paragraph IV of the Italian Civil Code.

Furthermore, art. 27 of the Company Articles of Association provides that a resolution to extend the duration of the Company (currently 31 December 2050) gives no right of rescission pursuant to art. 2437 of the Italian Civil Code.

3.7 Shareholders' agreements

The Company has not been notified of the existence of a Shareholders' agreement pursuant to art. 122 of the TUF.

3.8 Change of control clause

Neither the Company nor its subsidiaries has entered into arrangements the effectiveness, variation or termination of which are conditional to a change in the control of the Company.

3.9 Authorisations to increase capital and acquire treasury shares

The Board of Directors has not been authorised pursuant to art. 2443 of the Italian Civil Code to issue equity instruments, with the sole exception of the authorisation of the Directors at the Extraordinary Shareholders' Meeting of 2 December 2009 to increase share capital within five years of the date of the Meeting by a total of Euro 15 million to service a Stock Option Plan for Executive Directors and Executives

1. Dimensional Fund Advisors L.P. notified its holding of 2.25% of ordinary share capital on 30 March 2010.

of the Company and the Group as approved in the ordinary session of the same Meeting, which has, as yet, not been used.

The authorised capital increase entails the issue of a maximum of 31,000,000 ordinary shares without rights to existing Shareholders in accordance with the second sentence of art. 2441, para. IV of the Italian Civil Code.

Further information is contained in the report prepared in compliance with art. 72 of the Issuers Regulation which is available on the relevant page of **www.kme.com** as well as in section 6 of this Report on the remuneration of the Board of Directors.

Further to the authorisation by the Shareholders at their Meeting of 16 September 2008 to acquire the Company's own ordinary and savings shares which lapsed in March 2010, the holdings of such shares by the Company at the date of this Report, following the suspension on 26 February 2009 of the plans to purchase treasury shares, were respectively 5,475,170 (*post* split: 8,212,755) ordinary shares (2.324% of that class) and 90,555 (*post* split: 135,831) savings shares (0.47% of that class). Total treasury shares were equal to 2.186% of total share capital (*post* demerger: respectively 2.153% and 0.369% and in total 1.996% of total share capital respectively 1.964% and 0.324%).

Following the distribution of free reserves through the free-of-charge conferment of KME Group S.p.A.. Ordinary Share Warrants 2006/2011 approved by iNTEk S.p.A. on 2 December 2009 and executed on 15 February 2010, the Company received a total of 815,493 warrants in connection with the 5,824,990 iNTEk savings shares held by KME at that date which were disposed of prior to the date of effectiveness of the demerger.

One of the agenda items for the Shareholders' Meeting convened to approve the financial statements as at and for the year ended 31 December 2009 will be the approval of a new authorisation of the Board of Directors to acquire treasury shares.

3.10 Management and coordination

Although the Company was originally controlled by iNTEk S.p.A. and is now, as explained above, controlled by Quattroduedue Holding B.V., the Company does not consider that it is subject to management and coordination pursuant to articles 2497 *et seq.* of the Italian Civil Code and article 37 of the Market Regulations due to the fact that:

a. it has the autonomous powers of negotiation with respect to contractual arrangements with customers and suppliers;
b. the Company does not participate in any centralised treasury arrangements operated either by iNTEk S.p.A. or Quattroduedue Holding B.V. or any other company under the control of iNTEk S.p.A., Quattroduedue Holding B.V. and KME Group S.p.A.;
c. the number of independent Directors (4 out of 12) is such as to ensure that their opinions have a material influence on board decisions.

4. Second part: information on corporate governance

4.1 Compliance

It was announced at the Board of Directors' Meeting of 10 November 2006 that the Company had adopted the Code of Conduct of Borsa Italiana S.p.A.'s Corporate Governance Committee and that its relevant principles would be gradually introduced throughout the Company.

The text of the Code of Conduct is available from Borsa Italiana S.p.A. and can also be viewed at http://www.borsaitaliana.it/borsaitaliana/regolamenti/corporategovernance/corporategovernance.en.htm.

As required by art. 149, subsection 1, letter c *bis* of the TUF, the Board of Statutory Auditors monitors the actual implementation of the Rules of Corporate Governance contained in the Code.

Due to the number of references made to the Company Articles of Association, a copy has been attached to the end of the Report in addition to which they are also available from **www.kme.com**.

4.2 Board of Directors

4.2.1 Appointment and replacement

The requirements for the appointment and replacement of members of the Board of Directors are those pursuant to law as amended and supplemented by the Company Articles of Association (art. 17) as are the procedures for their amendment.

Directors' terms may not be longer than three years but they may be re-elected (art. 17 of the Articles of Association). On nomination of a candidate for the position of Director, Shareholders are provided with the candidate's *curriculum vitae* and a list of the positions held by the candidate at other companies as board director or statutory auditor.

The current Board of Directors was appointed by the Shareholders at their Meeting of 29 April 2009 for 2009, 2010 and 2011 with their appointment terminating on the date of the Shareholders' Meeting held to approve the financial statements as at and for the year ending 31 December 2011.

The number of Directors may vary between a minimum of nine and a maximum of twelve.

The Shareholders at their above-mentioned Meeting of 29 April 2009 fixed the number at twelve which was unchanged from the previous Board. The section entitled "Composition of the Board of Directors" contains more detailed information.

A list of nominations for Directorships was presented on time by the then majority shareholder, iNTEk S.p.A. (53.82% Shareholder of ordinary capital) in compliance with the procedure required by art. 17 of the Company Articles of Association. The Shareholders unanimously elected iNTEk's nominees with 57.691% of voting shares in attendance.

No Director was, consequently, selected from a non-controlling Shareholder list for appointment.

The procedure pursuant to art. 17 of the Articles of Association requires:
- the submission of lists of candidates to Shareholders at least 15 days prior to the first convocation;
- the shareholding percentage required for the submission of lists be equal to the highest percentage required by regulation which is currently 2.5% of ordinary capital;
- when counting votes, the lists which have not obtained a percentage of votes equal to one half of the percentage required to submit a list, to be ignored;
- one Director to be appointed from the non-controlling Shareholder list that received the highest number of votes;
- the list to indicate the candidates for appointment as "Independent Directors" and art. 17 of the Articles of Association requires that their number be at least equal to the statutory minimum number of independent Directors and that they be in possession of the attributes required by law;
- the attributes needed for designation as independent to be those set out in art. 148, subsection 3 of the TUF in addition to any other relevant requirements having regard to integrity and professionalism such as those set out in art. 113 of Legislative Decree 385 of 1 September 1993 commonly known as the Consolidated Banking Law (the "Banking Law") and the Code of Conduct.

The procedure pursuant to art. 17 of the Articles of Association is also available on the relevant page of **www.kme.com**.

4.2.2 Composition of the Board of Directors

The names of the members of the Board of Directors are given below together with a description of their responsibilities including those of constituent Committees and a brief curriculum vitae. This information is also available from the relevant page of **www.kme.com**.

Their names normally appear at the beginning of the documents prepared for Shareholders' Meetings and in the annual and interim financial statements.

Salvatore Orlando (Chairman)

Salvatore Orlando was born in 1957 and holds a degree in Political Sciences. He joined the Group as an executive in 1984. He was subsequently appointed to the Boards of Directors of the largest industrial companies of the Group. He has been a Director of the Company since 24 April 1991 and of iNTEk S.p.A. since 2007.

Vincenzo Manes (Deputy Chairman)

Vincenzo Manes was born in 1960 and holds a degree in Economics and Business. He is Chairman and Chief Executive Officer of iNTEk S.p.A. and is a Shareholder of Quattroduedue Holding B.V. in addition to being a Director of ErgyCapital S.p.A..

He was appointed to the Board of Directors of KME Group S.p.A. on 14 February 2005.

Diva Moriani (Deputy Chairwoman)

Diva Moriani holds a degree in Economics and Business. She joined iNTEk S.p.A. in 1999 and was appointed to the Board of Directors of iNTEk in 2002 and became its Deputy Chairman in 2007. She is Chairman of iNTEkCapital S.p.A., Chief Executive Officer of I2 Capital Partners SGR S.p.A. and Deputy Chairman of ErgyCapital S.p.A.. She was appointed to the Board of Directors of KME Group S.p.A. on 27 April 2005. The Board of Directors resolved to appoint Diva Moriani as Deputy Chairwoman on 25 March 2010 granting full ordinary and extraordinary powers.

Domenico Cova (Director and General Manager)

Domenico Cova was born in 1949 and holds a degree in Electronic Engineering. He joined the Group following the acquisition of Trafilerie e Laminatoi di Metalli S.p.A. (TLM) a member of the French Pechiney Group. He was appointed head of rod production at the Serravalle Scrivia plant in 1977 and its Manager in 1983. He was then transferred to the French subsidiary KME France S.A.S. becoming its Chairman in 2000. He became a member of the KME Germany A.G. Management Board in 1995. He was appointed Chief Operating Officer of KME Germany A.G. in 2007 and subsequently Chief Executive Officer in 2010. He was appointed Director by Shareholders' resolution of 3 August 2007.

Italo Romano (Director and General Manager))

Italo Romano was born in 1958 and holds a degree in Economics and Business. He joined the Group in 1988 with responsibilities in the administrative area and controlling. He was appointed Corporate Group Controller in 2001 in-charge of studying the restructuring of the entire IT and administrative sector of the Group. He was appointed General Manager of Administration, Control & Corporate Planning in 2004. He became a member of the Board of Directors of KME Italy S.p.A. in 2005, later becoming Executive Deputy Chairman. He also joined the Management Board of KME Germany A.G. and was appointed Chief Financial Officer of KME Group S.p.A. in the same year. He was appointed Director by Shareholders' resolution of 3 August 2007.

Vincenzo Cannatelli

Vincenzo Cannatelli was born in 1952 and holds a degree in Mechanical Engineering. He also has important international experience and began his carreer in the Stet and Elsag Bayle Groups to then move to ENEL where he held important positions in the operating companies as Chief Operating Officer in the Infrastructure & Networks as well as the Market Divisions.

He was coopted as Director by resolution of the Board of Directors on 11 April 2006 and confirmed by the Shareholders at their Meeting of 19 May 2006 for the next three years. He was also appointed by the

Board of Directors on the same date to the position of Chief Executive Officer, which he held until 31 March 2007, after which he continued to hold the position of Director. He is Chairman of ErgyCapital S.p.A..

Mario d'Urso (independent)

Mario d'Urso was born in Naples in 1940 and holds a degree in Law. He has held positions in the finance sector and government and was Senator of the Republic and an under-secretary in one of the past governments.

He was appointed to the Board of Directors of KME Group S.p.A. on 14 February 2005.

Marcello Gallo

Marcello Gallo was born in Siracusa in 1958 and holds a degree in Political Economics. He is Chief Executive Officer of iNTekCapital S.p.A., which is a subsidiary of iNTEk S.p.A. where he is currently Deputy Chairman after having served as General Manager from 1998 to 2003. He is a member of the Boards of Directors of companies controlled by iNTEk S.p.A..

He was appointed to the Board of Directors of KME Group S.p.A. on 14 February 2005.

Giuseppe Lignana (independent)

Giuseppe Lignana was born in 1937 and holds a degree in Electronic Engineering. He was Chief Executive Officer of CEAT Cavi S.p.A. and Director at Banca Commerciale Italiana S.p.A. and SIRTI S.p.A.. He joined Cartiere Burgo S.p.A. in 1984 where he served as General Manager, Chief Executive Officer and finally Chairman in 2004 and is currently Honorary Chairman.

He was appointed to the Board of Directors on 12 January 2005.

Gian Carlo Losi

Gian Carlo Losi was born in 1947 and holds a degree in Economics and Business. He joined the Group in 1973 after having been a university assistant in the Faculty of Business Administration at the University of Florence. He became an Executive in 1977 and was then made Head of Group Finance and Controlling. He was appointed General Manager of G.I.M - Generale Industrie Metallurgiche S.p.A. in 1990. After having served as director and statutory auditor in Italian and international companies of the Group, he is currently secretary of the Company's Board of Directors responsible for Corporate Affairs & Internal Control and was appointed Director by Shareholders' resolution of 3 August 2007.

Alberto Pecci (independent)

Alberto Pecci was born in 1943 and holds a degree in Political Sciences. He has been a member of the Boards of Directors of the Company and the Group for many years. He was Chairman of the Boards of Directors of Pecci Industrial Group Companies, which operates in the textile sector, and is a member of the Boards of Directors of El.En. S.p.A. and Alleanza Assicurazioni S.p.A.. He served as Chairman of Fondiaria S.p.A. and as Director at Assicurazioni Generali S.p.A., Mediobanca S.p.A. and Banca Intesa S.p.A..

He joined the Board of Directors on 28 June 1996.

Alberto Pirelli (independent)

Alberto Pirelli was born in 1954 and obtained a degree in Ichthyology and Aquaculture in the United States. He has held operating positions in the Pirelli Group and is currently Deputy Chairman of Pirelli & C. S.p.A. and is a Director of Camfin S.p.A. and Olimpia S.p.A.. He is Deputy Chairman of Gruppo Partecipazioni Industriali S.p.A..

He joined the Board of Directors on 27 October 2000.

Set out below is a table showing positions as director or statutory auditor held by each Director at 31 December 2009 in joint-stock companies, limited partnerships and private limited companies.

Name	Company	Position
Salvatore Orlando	KME Italy S.p.A.[1]	Chairman of the Board of Directors
	KME Germany A.G.[1]	Member of the Supervisory Board
	iNTEk S.p.A.[3]	Member of the Board of Directors
Vincenzo Manes	iNTEk S.p.A.[3]	Chairman/Chief Executive Officer
	iNTEkCapital S.p.A.[2]	Member of the Board of Directors
	Fondazione Dynamo	Chairman of the Board of Directors
	I2 Capital Partners SGR S.p.A.[2]	Deputy Chairman of the Board of Directors
	ErgyCapital S.p.A.[1,3]	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	Chairman
	Fondazione Umana Mente	Member of the Steering Committee
	Società italiana di Filantropia	Deputy Chairman
	Progetto 10Decimi	Member of the Advisory Committee
	Quattroduedue Holding B.V.	Member of the Supervisory Board
	KME Germany A.G.[1]	Member of the Supervisory Board
Domenico Cova	KME Germany A.G.[1]	Member of the Supervisory Board
	KME Italy S.p.A.[1]	Member of the Board of Directors
Italo Romano	KME Italy S.p.A.[1]	Executive Deputy Chairman of the Board of Directors
	KME Germany A.G.[1]	Member of the Supervisory Board
	Editoriale Fiorentina S.r.l.	Director
	Istituto Italiano del Rame S.r.l.	Chairman
Vincenzo Cannatelli	Aledia S.p.A.	Chairman of the Board of Directors
	ErgyCapital S.p.A.[1,3]	Chairman of the Board of Directors
	Ntv S.p.A.	Executive Deputy Chairman of the Board of Directors
Mario d'Urso	Fondi Gabelli (Gruppo Gamco)	Member of the Board of Directors
Marcello Gallo	iNTEk S.p.A.[3]	Deputy Chairman of the Board of Directors
	iNTEkCapital S.p.A.[2]	Chief Executive Officer
	I2 Capital Partners SGR S.p.A.[2]	Chief Executive Officer
	Fondazione Dynamo	Member of the Board of Directors
	ISNO 3[2]	Sole Director
	ISNO 4	Sole Director
	FEI S.r.l.	Sole Director
	FEB S.p.A.	Chairman and Chief Executive Officer
Giuseppe Lignana	Museo Nazionale del Risorgimento Italiano	Member of the Board of Directors
Gian Carlo Losi	none	
Diva Moriani	iNTEk S.p.A.[3]	Deputy Chairwoman
	iNTEkCapital S.p.A.[2]	Chairwoman of the Board of Directors
	I2 Capital Partners SGR S.p.A.[1]	Chief Executive Officer
	ErgyCapital S.p.A.[1,3]	Deputy Chairwoman of the Board of Directors
	Fondazione Dynamo	Member of the Board of Directors
	Associazione Dynamo	Member of the Board of Directors
	I2 Capital Portfolio[2]	Chairwoman of the Board of Directors
	Franco Vago S.p.A.	Member of the Board of Directors
	KME Germany A.G.[1]	Member of the Supervisory Board
Alberto Pecci	Gruppo Industriale Pecci	Chairman of the Board of Directors
	El.En. S.p.A.[3]	Member of the Board of Directors
Alberto Pirelli	Pirelli & C. S.p.A.[3]	Deputy Chairman of the Board of Directors
	Gruppo Partecipazioni Industriali S.p.A.	Deputy Chairman of the Board of Directors
	Camfin S.p.A.[2]	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 Directors

1. company controlled by KME.
2. company controlled by iNTEk.
3. company listed in a regulated market.

As far as the Company is aware, none of the members of the Board of Directors or Group Executives have, in the past five years, been found guilty of fraud nor, in the performance of their duties, been associated with bankruptcy, composition or liquidation proceedings nor, finally, have been formally indicted or sanctioned by public or regulatory authorities (including professional associations) nor prohibited by a court from membership of a board of directors, management board or supervisory board or engaging in the management of any issuer.

The Board of Directors does not limit the number of positions any of its members may hold in other companies with respect to:
- the personal attributes and professional qualifications of its members;
- the number and importance of the above-listed positions;
- the high number of Board of Directors meetings attended by its members.

4.2.3 Role of the Board of Directors

The Board of Directors has all of the broadest powers for the organisation and management as well as the ordinary and extraordinary administration of the Company for the achievement of its objects (art. 14 of the Company Articles of Association). It determines strategic guidelines and monitors implementation, assures management continuity and determines the powers of executive Directors (arts. 15 and 16 of the Company Articles of Association). The examination and approval of the Company's and the Group's strategic, business and financial planning, the Company's corporate governance and the Group structure are responsibilities reserved solely for the Board of Directors.

The Board of Directors financial reporting responsibilities are to present:
- the separate and consolidated financial statements at 31 December;
- the interim financial statements at 30 June;
- interim reports on operations at 31 March and 30 September.

4.2.4 Delegations

The Board of Directors has appointed a Chairman and two Deputy Chairpersons and has appointed two Directors to also act as General Managers with non-conflicting specific responsibilities. This functional and operational policy avoids the concentration of responsibilities in one person and is in compliance with the Code of Conduct.

Pursuant to art. 20 of the Company Articles of Association, the Chairman is the legal representative of the Company and has full powers to represent the Company in dealings with third parties and in legal proceedings.

Art. 16 of the Articles of Association provides that the Deputy Chairpersons have the same powers as the Chairman in order to deal with urgent matters or to substitute the Chairman in the event of his absence and/or other impediment.
The Board of Directors has, furthermore, delegated, solely to Deputy Chairman Vincenzo Manes, the powers of:
- coordination and guidance of the activities of other executive directors;
- guidance, coordination and control of external communications including communications with Shareholders;
- in particular, including, but not limited to, and consistent with instructions and guidelines decided by the Board of Directors, all matters regarding the management of the Company's administrative, financial, control, legal, tax, insurance and information technology affairs in addition to industrial and commercial matters. It has the powers to guide and coordinate all such activities by Group companies through the relevant operational designees and always within the limits of the Board of Directors strategic policies.

In exercising such powers, the Deputy Chairman may determine rules for the various internal departments, responsibilities and single or joint signing authorities in addition to issuing orders and requirements for the organisation and functioning of the Company. Such powers may be delegated with respect to amounts between Euro 5 million and Euro 30 million.

The General Managers have single signing authority powers with respect to the following responsibilities:
- Director Domenico Cova: management of the Company's and the Group's industrial and commercial operations within the limits established by the Board of Directors and the Deputy Chairpersons;
- Director Italo Romano: management of the Company's and the Group's administration, finances, planning, control and legal affairs in addition to procurement, marketing and information technology within the limits established by the Board of Directors and the Deputy Chairpersons.

Limits are applied to the authorities of both Directors, when acting in their capacity as General Manager, ranging from Euro 1 million to Euro 10 million per transaction depending on its nature.

Due to the nature of their powers, the Deputy Chairpersons and the Directors Domenico Cova, Italo Romano and, because of the duties described below, Diva Moriani are considered Executive Directors.

Due to the fact that the two Executive Directors, who also hold the position of General Manager, are also members of the Management Board of KME Germany A.G., which is a controlled intermediate holding company of the industrial Group manufacturing semi-finished products in copper and copper alloy, they are under an obligation to provide quarterly reports to the Boards of Directors and Statutory Auditors on the operations, outlook and significant transactions of the Company and its subsidiaries.

The Board of Directors is satisfied that its composition, both with respect to the number of its members and their professional attributes, is adequate for the size of the Company and is in compliance with the provisions of art. 147 *ter*, subsection 4 of the TUF due to the presence of four independent Directors (1/3 of its members) and is thus able to adequately handle the problems it confronts. The same reasoning is also applicable to its constituent Committees. Directors are required to provide prompt notice in the event that they no longer meet the requirement for integrity pursuant to art. 147 *quinquies* of the TUF.

The Board of Directors is also satisfied that the organisational, administrative and accounting structure of the Company and its strategically important subsidiaries are adequate particularly as a result of system of internal control and the manner in which conflicts of interest are handled.

The presence of executive Directors with specific, thorough, multidisciplinary professional experience in financial, industrial and administrative matters means that all of the most important aspects of the Company's affairs are satisfactorily covered.

Non-executive Directors, in turn, make an important contribution to the Board of Directors and the Committees to which they belong in terms of their professionalism and experience.

4.2.5 Other executive Board Directors

Operational responsibility was given to the Director Diva Moriani having regard to the financial restructuring of the Company and the Group which included powers to conclude transactions of a non-routine nature relating to the acquisition and disposal of companies and the negotiation and conclusion of agreements of strategic importance to the Company and the Group.
The Board of Directors resolved to appoint Diva Moriani as Deputy Chairwoman on 25 March 2010 granting full ordinary and extraordinary powers.

4.2.6 Independent Directors

In compliance with the requirements of art. 3.C.1. of the Code of Conduct, arts. 147 *ter*, subsection 4 and 148, subsection 3 of the TUF and CONSOB communication DEM/9017893 of 26 February 2009, the Directors Mario d'Urso, Giuseppe Lignana, Alberto Pecci and Alberto Pirelli each confirmed that they continue to qualify as Independent Directors and both the Boards of Directors and Statutory Auditors are in agreement. Although the meetings pursuant to art. 3.C.6. of the Code are not held, they have been appointed to two Committees that consist solely of non-executive and independent Directors and hold separate meetings during the year.

With respect to the independence of Alberto Pecci, it should be noted that he was appointed Director by resolution of the Shareholders at their Meeting of 28 June 1996 for the years ending 31 December 1996 and 1997 and has, therefore, held the position continuously for over nine years in apparent contradiction with the criterion for independence pursuant to art. 3.C.1. letter e) of the Code of Conduct. Similarly, there is an apparent conflict of interest in violation of the same letters b) and a) of the same article with respect to Alberto Pirelli, who was a non-executive Director of the former Parent G.I.M. - Generale Industrie Metallurgiche S.p.A. until its merger with iNTEk S.p.A. and the Deputy Chairman of Pirelli & C. S.p.A. which is a member of the shareholding syndicate in G.I.M. - Generale Industrie Metallurgiche S.p.A. and KME Group S.p.A.. Alberto Pecci could also be considered to have a conflict of interest because he too is, personally, a member of the same GIM - Generale Industrie Metallurgiche S.p.A. Syndicate.

As a result of the same reasoning applied to two members of the Board of Statutory Auditors, the Board of Directors, in agreement with the Board of Statutory Auditors, do not believe that the independence of the of Alberto Pecci and Alberto Pirelli is diminished by their membership, even in varying capacities, of the Shareholding Syndicate first because of their long-term service as Director of the Company and, secondly, because they were also directors of the former parent thereby indicating their full autonomy of reasoning and decision making.

4.2.7 Lead Independent Director

The Board of Directors is satisfied that it is not necessary to appoint a "lead independent director" for the coordination of requests and contributions made by non-executive and, particularly, independent Directors because of the division of corporate responsibilities among four executive Directors and the existence of the two Committees that consist solely of independent Directors.

4.2.8 Internal procedures of the Board of Directors

The Board of Directors holds at least four meetings a year (art. 18 of the Company Articles of Association) which made also be held in the form of teleconferences or video conferences (art. 19 of the Company Articles of Association) and which are convened with sufficient advance notice of the agenda for the meeting (art. 18 of the Articles of Association). The relevant documentation is forwarded with due regard to the confidentiality of each of the agenda items.
Resolutions are validly approved when a majority of serving Directors are in attendance and there is an absolute majority of votes in favour cast by the attendees. In the event of a tie, the Chairman casts the deciding vote (art. 19 of the Company Articles of Association).

In the exercise of its powers to establish Committees and to determine their responsibilities and powers (art. 14 of the Company Articles of Association), the Board of Directors has created the following Committees which, pursuant to the Code of Conduct, must consist of non-executive Board Directors:

- Internal Control Committee;
- Remuneration Committee,

their composition and functioning are described below.

The Board of Directors, on the other hand, is satisfied that it is not necessary to establish an Executive Committee because it gave preference to the appointing two Directors as General Managers with specific and separate responsibilities with a Deputy Chairman coordinating their activities as well as the activities of the other executive Director.
An Appointments Committee was not created due to the presence of the controlling Shareholder on the Board of Directors.

The Board of Directors held six meetings in 2009 compared to the five of 2008. Four meetings are planned for 2010, as shown below:

- 25 March (examination of draft financial statements);
- 12 May (examination of the 31 March interim directors' report);
- 5 August (examination of the interim financial statements at 30 June);
- 11 November (examination of the 30 September directors' report).

Meetings scheduled for the year are advised in January of each year and published on the Company's website.

Although the number of meetings attended by each Director are analysed in the table at the end of this Report, you are advised that attendance record for Directors and Statutory Auditors was 93% and 90%, respectively; all absences were excused.

4.2.8.1 Processing of company information

In order to demonstrate that markets must be promptly, fully, adequately and not selectively notified of corporate actions, the Company adopted the "Code of Conduct regarding Information on Important Corporate Actions" in 2002 as recommended by the Code of Conduct and in compliance with the principles of Borsa Italiana's guidelines for market information.

The subsequent amendments introduced by legislation in connection with the TUF and by CONSOB and, therefore, Borsa Italiana S.p.A. rules led to its revision in March and November 2006 and again in November 2007. As a result of the reworded art. 114 of the TUF and in compliance with the art. 115 *bis* of the TUF, the so-called "relevant persons" identified with access to so-called "privileged information" are recorded in an electronic register created on 1 April 2006.

The procedure requires first and foremost that Directors and Statutory Auditors observe the confidentiality of privileged information which is also required of other persons with access to such information and ensuring that such information is only processed by persons aware of the nature and need for compliance and who have knowledge of the procedures required by CONSOB and Borsa Italiana S.p.A..

The role of an investor relations manager is performed by the individual company units for their respective areas. This decision takes account of the actual internal resources and structures of the Company and ensures that information is provided as and when required.

4.2.8.2 Related party transactions

Directors holding delegated powers notify transactions entailing potential conflicts of interest to the Board of Directors and the Board of Statutory Auditors as required by art. 14 of the Company Articles of Association.

The Internal Rules adopted in March 2003 and first revised in November of the same year and then again in September 2005 and November 2006 implement statutory requirements regarding the criteria for the identification of related parties and related party transactions.

The procedures entail audits and quarterly meetings attended by the Head of Internal Control with respect to specific matters as recommended by the Code of Conduct with the Board of Statutory Auditors also being invited to attend.

The definition of related parties contained in IAS 24, as provisionally in force, has been fully adopted.

The list of related parties is revised on 31 December and 30 June of each year.

The Rules require Directors and Statutory Auditors must fully and promptly disclose any transactions in which they could potentially have an interest to the Board of Directors, which may avail itself of the services of independent professionals in deciding how to proceed.

The Shareholders have not approved any waiver to the prohibition of competition pursuant to art. 2390 of the Italian Civil Code.

Members of the Management Board (the equivalent of a Board of Directors) of the subsidiary KME Germany A.G. that include the Directors Domenico Cova and Italo Romano are required to ensure that information on intercompany and related party transactions by Group companies are reported to the Company's senior management.

The Board of Directors are satisfied that the procedures required by the Rules, which may be viewed on the relevant page of **www.kme.com** are sufficient to safeguard against conflicts of interest.

4.2.9 Composition and functioning of Board of Directors constituent Committees

4.2.9.1 Remuneration Committee

The members of the Remuneration Committee are Alberto Pirelli (Chairman), Mario d'Urso and Giuseppe Lignana, all of whom are non-executive, independent Directors. Due to the fact that Directors' remuneration is determined by the Shareholders on their appointment (see section on the remuneration of Directors and Group Executives), no specific formal procedure is required with respect to decisions made by the Remuneration Committee having regard to any additional compensation payable.

The Committee submits proposals to the Board of Directors for the remuneration of the Chairman, the Deputy Chairpersons, Chief Executive Officers and Directors with specific responsibilities and then monitors the application and relevant decisions.

It also assesses the criteria used for the determination of pay of executives with key responsibilities and makes general recommendations thereon to the Board of Directors and then monitors application.

Its meetings, which are minuted, are attended by the regular members of the Board of Statutory Auditors thus assuring the coordination required by art. 21 of the Company Articles of Association. Although the Committee has the requisite powers, it has not deemed it necessary to obtain information in addition to that brought to its attention with respect to specific decisions.

Two meetings were held in 2009, which is one more than 2008, that were attended by all members. The recommendations for the remuneration of the Chairman, Deputy Chairwoman and the Director, Diva Moriani, for the three-year period 2009-2011 were formulated at these meetings in addition to the variable component of the Deputy Chairwoman's remuneration.

The Committee also considered the criteria used to determine the remuneration of the senior Group Executives based on information provided by the Deputy Chairwoman.

4.2.9.2 Internal Control Committee

The Internal Control Committee is appointed by the Board of Directors and is responsible for the system of internal control. The members of the Committee are the Directors Mario d'Urso (Chairman), Giuseppe Lignana and Alberto Pecci.

All three members are non-executive, independent Directors with professional experience including accounting and finance deemed by the Board of Directors to be appropriate.

Further information regarding the Committee's activities is contained in the section entitled "Proceedings of the Internal Control Committee".

4.3 Board of Statutory Auditors

The Board of Statutory Auditors oversees compliance with the law and the Company Articles of Association with respect to the propriety of administration and, particularly, the adequacy of the organisational, administration and accounting structure of the Company as it actually functions.

4.3.1 Composition of the Board of Statutory Auditors

The current Board of Statutory Auditors were nominated by iNTEk S.p.A. (the then majority shareholder of the Company with 53.58% of voting capital) and appointed by the Shareholders at their Meeting on 29 April 2009 for 2009, 2010 and 2011 meaning that their term of office will expire on 31 December 2011.
Shareholders resolved to unanimously elect the nominees with 55.42% of voting capital in attendance.

None of the Statutory Auditors, therefore, were appointed from a list submitted by a non-controlling Shareholder, which, pursuant to art. 22 of the Articles of Association, would be the highest non-controlling shareholding in accordance with arts. 147 *ter* and 144 *quater* of the Issuers Regulation, currently 2.5%.

The Board is comprised of three Standing Auditors and two Alternates. As with the Directors, their names are included in the documentation provided by the Company. A brief *curriculum vitae* follows for each of Statutory Auditors which is also available at **www.kme.com**:

Marco Lombardi (Chairman)
Marco Lombardi was born in 1959 and holds a degree in Political Sciences and is a registered Dottore Commercialista and Auditor with a professional practice in Florence. He also holds positions on other Boards of Statutory Auditors and acts at times on behalf of the courts and has also published several papers on taxation.
He joined the Board of Statutory Auditors on 1 September 2008.

Pasquale Pace (Standing Auditor)
Pasquale Pace was born in 1938 and holds a degree in Business Administration and is a registered Dottore Commercialista and Auditor with a professional practice in Bari. He also holds positions on other Boards of Statutory Auditors and, moreover, acts on behalf of the courts. He is a registered court technical expert with respect to administrative and criminal law.
He joined the Board of Statutory Auditors on 19 May 2006.

Vincenzo Pilla (Standing Auditor)

Vincenzo Pilla was born in 1961 and holds a degree in Economics and Business and is a registered Auditor with a professional practice in Florence. He is the author of publications and papers on company and tax matters. He also holds positions on other Boards of Statutory Auditors, including Group companies and acts on behalf of the courts.

He joined the Board of Statutory Auditors on 29 April 2009.

Lorenzo Boni (Alternate Auditor)

Lorenzo Boni was born in 1968 and holds a degree in Economics and Business and is a registered auditor with a professional practice in Florence. He is the author of publications and papers on company and tax matters and also engaged in activities at the University of Florence.

He was appointed for the first time as Alternate Auditor on 29 April 2009.

Angelo Garcea (Alternate Auditor)

Angelo Garcea was born in 1969 and holds a degree in Economics and Business and is a registered Dottore Commercialista and Auditor with a professional practice in Florence. He is the author of numerous papers on taxation.

He was appointed for the first time as Alternate Auditor on 28 October 1999.

As far as the Company is aware, none of the members of the Board of Statutory Auditors has, in the past five years, been found guilty of fraud nor, in the performance of their duties, has been associated with bankruptcy, composition or liquidation proceedings nor, finally, has been formally indicted or sanctioned by public or regulatory authorities (including professional associations) nor has been prohibited by a court from membership of a board of directors, management board or supervisory board or engaging in the management of any issuer.

For completeness sake, we mention that Marcello Fazzini was the Chairman of the Board of Statutory Auditors until the Shareholders' Meeting of 29 April 2009, when the Board of Statutory Auditors was appointed for the three year period 2009/2011. At that Meeting, Fazzini, who had been a member of the Board of Statutory Auditors since 1999, expressed a desire withdraw his candidacy for a new term of office because of his desire to reduce his professional commitments.

Art. 22 of the Company Articles of Association, which is entirely dedicated to the Board of Statutory Auditors, sets out the requirements in addition to the procedure for their appointment which includes:

- the submission of a list for the appointment and the *curriculum vitae* of each candidate at least fifteen days prior to the Shareholders' resolution;
- the addition to the list of one alternate auditor designated by non-controlling Shareholders as a substitute, if required, for the standing auditor also selected from a non-controlling Shareholder list;
- in the event of a tie in the votes for two or more lists, the auditors in the list submitted by the Shareholder with the largest shareholding or, if this is not possible, the highest number of Shareholders, shall be deemed elected.

In accordance with arts. 144 *bis* of the TUF and 144 *terdecies* of the Rules, Statutory Auditors may not hold more than five positions as Statutory Auditor in issuers.

The requirements of the Company Articles of Association with respect to the appointment of Statutory Auditors are available at **www.kme.com**.

On appointment to the Board of Statutory Auditors, each member represents to be in possession of the prerequisites of professionalism and integrity required by regulation and the Company Articles of Association and to not be subject to any of the impediments listed in art. 148 of the TUF and undertakes to notify the Company within thirty days of any changes. The Board of Statutory Auditors periodically verifies that each of its members still qualifies as independent in accordance with law and arts. 10.C.2. and 3.C.1., letter c) of the Code.

This verification was of particular relevance to the Chairman of the Board of Statutory Auditors, Marco Lombardi, and the Standing Auditor, Vincenzo Pilla due to the fact that they are members of other boards of Statutory Auditors.

The Board of Statutory Auditors, with the abstention of the interested parties, was of the opinion that their situation did not limit their independence because of their personal attributes and due to the fact that the memberships were not material seen within the overall context of their professional activities.

The Board of Statutory Auditors consequently announced the findings of the verification that was also conducted for the purposes of art. 149, subsection 1, letter c *bis* of the TUF requiring verification of the actual implementation of the Code of Conduct.

Other positions as board directors and statutory auditors held by the Company's Statutory Auditors held at other companies or in the Group are shown below and were provided to Shareholders when the Statutory Auditors were appointed.

The Board of Statutory Auditors conducts its activities as required, attends meetings of the Board of Directors and other constituent Committees and maintains an ongoing, fully independent direct relationship with all units of the Company.

Its relationship with the independent auditors is collaborative and entails the exchange of information.

In that connection, furthermore, the Board of Statutory Auditors oversees the independence of the independent auditors and confirmed in its Reports on the separate and consolidated Financial Statements that no other mandates had been concluded with the independent auditors either by the Company or the Group with the exception of the "Expert opinion on the exchange ratio" pursuant to arts. 2501 *sexies* and 2506 *ter* of the Italian Civil Code with respect to the demerger of iNTEk into KME.

The remuneration of the Board of Statutory Auditors is disclosed in the following table as required by CONSOB:

Name (in Euro)	Position	Term of office	Expiry of the position	Emoluments	Non-monetary benefits	Bonuses and other incentives	Other compensation[1]
Marcello Fazzini[2]	Chairman	01.01.09 - 29.04.09	29.04.09	10,528	-	-	25,104
Marco Lombardi[3]	Chairman	01.01.09 - 31.12.09	31.12.11	29,270	-	-	17,209
Pasquale Pace	Standing auditor	01.01.09 - 31.12.09	31.12.11	25,187	-	-	-
Vincenzo Pilla[4]	Standing auditor	29.04.09 - 31.12.09	31.12.11	15,592	-	-	22,956

1. emoluments paid by subsidiaries.
2. term expired on 29 April 2009.
3. previously a standing auditor, was appointed Chairman on 29 April 2009.
4. appointment as standing auditor on 29 April 2009.

The Board of Statutory Auditors met seven times during the year as it did in 2008. Its members' rate of attendance was 93%.

Set out below is a table showing the positions held by each Statutory Auditor as director or statutory auditor at 31 December 2009 in joint-stock companies, limited partnerships and private limited companies.

Name	Company	Position
Marcello Fazzini	KME Italy S.p.A.[1]	Chairman of the Board of Statutory Auditors
	InChiaro Assicurazioni S.p.A.	Regular auditor
Marco Lombardi	RECS S.r.l.	Sole Director
	Brandini 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
	Fattoria dei Barbi S.r.l.	Chairman of the Board of Statutory Auditors
	KME Italy S.p.A.[1]	Standing auditor
	Grifoni & Masini S.p.A.	Standing auditor
	SAIF Servizi Ass.ni Industriali Firenze S.r.l.	Standing auditor
	B. e C. Speakers S.p.A.	Alternate auditor
	Cabel Ass. Fin. Co. Leasing S.p.A.	Alternate auditor
	Vianse S.p.A.	Alternate auditor
	Fondazione Cinelli Colombini	Internal auditor
	Associazione Partners Palazzo Strozzi	Internal auditor
Pasquale Pace	Baia San Giorgio - Villaggio turistico sportivo San Giorgio S.r.l.	Chairman of the Board of Statutory Auditors
	Primiceri S.p.A.	Chairman of the Board of Statutory Auditors
	Fidanzia Sistemi S.r.l.	Standing auditor
	Marzocca S.r.l.	Standing auditor
Vincenzo Pilla	KME Recycle S.p.A.[1]	Chairman of the Board of Statutory Auditors
	EL.EN. S.p.A.[2]	Chairman of the Board of Statutory Auditors
	Deka Mela S.r.l.	Chairman of the Board of Statutory Auditors
	Lasit S.p.A.	Chairman of the Board of Statutory Auditors
	Affitto Firenze S.p.A.	Chairman of the Board of Statutory Auditors
	Cut Lite Penta S.r.l.	Standing auditor
	Geikos S.p.A.	Standing auditor
	KME Italy S.p.A.[1]	Standing auditor
Lorenzo Boni	no other positions held	
Angelo Garcea	no other positions held	

1. company controlled by KME.
2. company listed in a regulated market.

4.4 Shareholders' Meetings: powers, procedures and rights other than those provided by law

The Shareholders' Meeting is attended by all ordinary Shareholders and its powers and responsibilities are those set out in the Italian Civil Code and the TUF. Moreover, as required by Directive 2007/36/EC, no distinction is made between Shareholders of equal status with respect participating and voting in Shareholders' Meetings.

The Company Articles of Association (arts. 2 and 14) empower the Board of Directors to determine the registered and any secondary offices, to approve mergers and demergers of subsidiaries, to reduce share capital in the event of a withdrawal by a Shareholder and to adjust share capital as a result of any changes in law.

Shareholders' Meetings are convened by the publication of an announcement in a newspaper (currently: "Il Sole 24 Ore" - "Milano Finanza" - "Italia Oggi") in addition to the announcement appearing in the Official Gazette. The constitution of and voting at Shareholders' Meetings are regulated by arts. 2368 *et seq.* of the Italian Civil Code and art. 126 of the TUF.

The Company does not require ownership of a block of shares as a prerequisite for attending a Shareholders' Meeting. Shareholders are required to deposit shares, i.e., instruct intermediaries holding the relevant accounts to notify the Company two days prior to the Meeting.

The other methods of participating in Shareholders' Meetings are contained in arts. 10 (Calling of Shareholders' Meetings) and 11 (Participating in Shareholders' Meetings and proxies) of the Company Articles of Association, particularly with reference to the protection of non-controlling Shareholders with respect to the appointment of Directors and Statutory Auditors. In particular, art. 11 (Participating in Shareholders' Meetings and proxies) of the Articles of Association requires advance notice for participating in the Meeting, which is to be issued by an authorised intermediary, to be received at least two days before the date of the relevant meeting. This deadline will be prolonged to the next business day in the event the original deadline falls on a Saturday, Sunday or public holiday. The same article sets out the provisions for voting by mail.

No transactions in the shares held by the party notifying participation in the Shareholders' Meeting may be made until the Meeting is held without, prejudice however, to the Shareholder's ability to transact in the shares in the event the Meeting is not held on the Meeting's first calling date. In such cases, however, the Shareholder is required to provide a second notice to be received by the Company no later than two days prior to the date of the second calling of the Meeting.
In a departure from the Code, the Company has decided to dispense with Shareholder Meeting Rules and Regulations due to the existence of the provisions of Chapter III of the Company Articles of Association.
In that connection, art. 12 of the Articles of Association expressly requires the Chairman of the Shareholders' Meeting to assure the propriety of the proceedings by directing and regulating deliberations and limiting the length of individual contributions.

Savings Shareholders are not permitted to participate in meetings of ordinary Shareholders.

Each share carries unrestricted voting rights unless otherwise provided by law. Votes may be cast by mail in accordance with the procedure pursuant to article 11 of the Articles of Association.

Two ordinary sessions of Shareholders' Meetings (29 April and 2 December) and one Extraordinary session (2 December) were held in 2009 and, as previously mentioned, a Special Savings Shareholders' Meeting was held on 24 April 2009.

4.4.1 Company Articles of Association and protection of non-controlling Shareholders
Unless otherwise provided by law or the Articles of Association, the Company Articles of Association may not be amended unless approved by Shareholders' resolution in the manner and with the majority prescribed by legislation.

The Company Articles of Association contain provisions for the protection of non-controlling Shareholders with respect to the calling of Shareholders' Meetings, inclusion of agenda items (art. 10) and appointment of the Boards of Directors and Statutory Auditors (art. 22) the appointment of proxies, voting by mail (art. 11), the Board of Statutory Auditors reporting requirements (arts. 14 and 18) and the Joint Representative of Savings Shareholders (art. 24).

In particular, arts. 17 (Appointment and Composition of the Board of Directors, term of office of members) and 22 (Board of Statutory Auditors) of the Company Articles of Association were amended in 2007 through the introduction of non-controlling Shareholders' voting lists.

The requirements for the non-controlling Shareholders' lists are contained in arts. 147 *ter et seq.* of the TUF.

4.5 System of Internal Controls

4.5.1 Proceedings of the Internal Control Committee

The Internal Control Committee is responsible for fixing the guidelines and areas of internal controls for the identification and management of the principal risks to which the Company is exposed. It consequently:

- assists the Board of Directors in the execution of its duties with respect to internal control;
- assesses, together with the Manager Responsible for Financial Reporting and the internal auditors, the correct application of accounting policies and their consistency for the purposes of presenting financial statements;
- opines, at the request of the executive Director responsible for the system of internal control, on specific aspects of the identification of the principal risks to which the Company is exposed in addition to planning, implementing and managing the system of internal control;
- examines the internal audit plans and the periodic reports prepared by the internal control officers;
- assesses the independent audit plan and the findings reported and any letters of recommendations;
- oversees the effectiveness of the process of auditing the accounts.

The Committee has access to the information required for its work and reports on its activities to the Board of Directors at least once every six months.

The Chairman, Deputy Chairmen and Director - General Manager Italo Romano (the last two with respect to their specific responsibilities for internal control) and the Chairman of the Board of Statutory Auditors (or any other standing auditor designated by that Chairman) are invited to attend the Committee's meetings.

The Committee held two meetings in 2009 as it did in 2008. The acting Chairman of the Board of Statutory Auditors attended both meetings which were minuted.

The Board of Directors is satisfied that the Company's system of internal control is, as required by art. 8 of the Code, adequate for the types of risks typical of the Company's business and is sufficient to safeguard the Company's assets, the efficiency and effectiveness of its operations, the reliability of financial information and compliance with laws and regulations.

4.5.2 Executive director responsible for the system of internal control

The Deputy Chairman, Vincenzo Manes, is responsible for overseeing the system of internal control.

4.5.3 Head of Internal Control

The appointment of the Head of Internal Control has been delegated by the Board of Directors to the Deputy Chairman to whom the Head reports. Organisationally, the Head of Internal Control is independent of all operational units and, in turn, has no operational responsibilities. The Head of Internal Control also reports to the Internal Control Committee and is responsible for the conduct of all internal audits.

The Head of Internal Control has direct access to all information required for the performance of his duties which are the verification and assessment of the adequacy and effectiveness of the Company's system of internal control and the compliance of the operations of the various units of the Company with procedures, corporate policy, statute and regulations as may be in force from time to time, particularly with respect to the reliability and integrity of information processed, the safeguard of the Company's assets and, together with the Manager Responsible for Financial Reporting, the adequacy and consistency of accounting policies for the purposes of presenting financial statements.

4.5.4 Internal Control

The Head of Internal Control is responsible for internal controls as well as internal audit.

4.5.5 Role of the Board of Directors with respect to the system of internal control

As required under criterion 8.C.1 of the Code, the Board of Directors defines the guidelines for the system of internal control in such a manner as to assure the principal risks to which the Company is exposed are correctly identified and monitored in accordance with sound management practices.

4.5.6 Manager Responsible for Financial Reporting

At its meeting of 29 April 2009 and in accordance with the procedure required under art. 17 of the Company Articles of Association and after having ascertained the possession of the necessary professional and personal attributes and the individual's integrity, the Board of Directors, with the agreement of the Board of Statutory Auditors, re-appointed Marco Miniati as the Manager Responsible for Financial Reporting who was originally appointed on 21 June 2007. Mr. Miniati was made responsible for the performance of the relevant duties and was given all necessary powers for which he is separately remunerated.

Marco Miniati was born in 1960 and has been a Group Executive since 1997. His activities have been focused on the control of operations of the French and German companies. He became the General Manager Administration, Controlling & Planning in 2005.

The term of the appointment is the same as that for the Board of Directors, in other words to the date of the approval of the financial statements as at and for the year ending 31 December 2011.

The first declaration pursuant to art. 154 *bis*, subsection 2 of the TUF was made by the then Manager Responsible with respect to the quarterly Review of Operations of 30 September 2007, with the first declaration pursuant to subsection 5 of the same article having been made with respect to the financial statements as at and for the year ended 31 December 2007.

The Manager Responsible provides periodic reports to the Internal Control Committee and the Board of Statutory Auditors on his work and has an ongoing relationship with the independent auditors.

4.5.7 Risk management system with respect to financial reporting

To assure compliance with art. 123 *bis*, subsection 2, letter b) regarding the reliability of separate and consolidated financial statements, the Company had the internal control department undertake a project under the supervision of the Internal Control Committee and with the assistance of Ernst & Young to verify the system of internal control for the Group's financial reporting in order to assure consistence with international financial reporting standards and compliance with the requirements of the "Law on investment" 262/05. The project was fully completed and implementation verified for the 2008 financial statements.
KME's risk management system should not be seen in isolation from the System of Internal Control since both are components of the same system.
The purpose of the system is to assure the reliability, accuracy and timeliness of financial reporting.
The Company's guidelines for the development, implementation, monitoring and updating of the system over time are based on recognised international best practice (Committee of Sponsoring Organisations of the Treadway Commission - COSO Report) that defines Systems of Internal Control as the combination of rules and procedures, techniques and tools used to manage the company to assure the achievement of its objectives.
The principles followed in accordance with the COSO Report are those to assure: a) the efficiency and effectiveness of operations; b) accuracy of financial reporting; and, c) compliance with laws and regulations.

The COSO Report also sets out the essential components of an effective System of Internal Control:

- *control environment*: the basis of the System of Internal Control characterised by the sensitivity of the Company's senior management to procedures and structure (formalisation of job descriptions, responsibilities, internal communication systems and the timeliness of information) consistent with corporate strategies and objectives;
- *risk assessment*: management's identification and analysis of risks inherent in the achievement of predefined objectives as well as the determination of risk management methods;
- *control activities*: the methods, procedures and practices used to define and implement the organisation's controls for the purposes of mitigating risks and assuring the achievement of targets set by management;
- *information and communication*: the provision of support for all other aspects of control by communicating control responsibilities to personnel and by providing information in the form and at the time required for individuals to continue their work;
- *monitoring*: the activity performed by various parties in the company for the ongoing control of the propriety of the System of Internal Control in order to overcome critical contingencies and to prepare for the maintenance, updating and improvement of the System.

4.5.7.1 Description of the key aspects of the existing risk management and internal control systems in connection with financial reporting

a) Steps of the existing risk management and internal control systems in connection with financial reporting

- *Identification of financial reporting risks*: KME Group S.p.A. has determined the units and processes at risk in terms of the potential impact on financial reporting in addition to the consequent risk of not achieving control objectives (e.g., the assertions of financial statements and other objectives of financial reporting). These risks relate to unintentional or fraudulent errors that are likely to have a significant impact on financial reporting.
- *Prioritisation of financial reporting risks*: KME has identified the key criteria to be used for the assessment of the previously identified risks inherent in financial reporting.
- *Identification of controls addressing risks identified*: this entails KME marshalling data on the internal control system over financial reporting as actually implemented and the key characteristics of the controls identified mitigating financial reporting risks.
- *Assessment of controls addressing the risks identified*: in this step, KME evaluates the key characteristics of its monitoring process or the manner in which controls over risks identified are periodically prioritised (both in terms of purpose as well as effectiveness).

In order to assure that the financial reporting System of Internal Control is highly reliable, the Company:

- implements and continually updates the combined administrative and accounting procedures (accounting policies, rules regarding the presentation of Consolidated Financial Statements and interim reports, etc.) by which the Parent ensures that information is efficiently exchanged with subsidiaries under its direct coordination. Subsidiaries, moreover, are given detailed operational instructions with respect to the Parent's guidelines;
- evaluates, monitors and continually revises the System of Internal Control over financial reporting risks taking a top-down risk-based approach consistent with the COSO Framework that focuses attention on the key risks of unintentional or fraudulent errors in the financial statements and notes;
- classifies controls used in the Group into two principal categories in accordance with best international practice:
  - *entity level controls* at group or individual subsidiary level (assignment of responsibilities, inherent and delegated powers, separation of duties and assignment of privileges and rights of access to IT applications);

- *process level controls,* (authorisations, reconciliations, verifications of consistency, etc.), with respect to operational processes, closing the books and so-called "transversal" processes relating to the Groups IT services.

  The controls can be either preventive or detective in nature depending on whether they are intended to prevent or detect unintentional or fraudulent irregularities in the financial statements; and either manual or automatic such as the validations run by software on the business systems;
- has the effectiveness of the design and implementation of controls verified by internal audit or dedicated units at subsidiary-level using random sampling techniques in accordance with best international practice;
- identifies any backup controls, remedial action or planned improvements in the monitoring of controls.

The findings are periodically examined by the Manager Responsible for Financial Reporting and notified to senior management and the Internal Control Committee, which in turn reports them to the Parent's Boards of Directors and Statutory Auditors.

b) Related roles and company units

KME clearly identifies roles and the units involved in the design, implementation, monitoring and revision of the System of Internal Control particularly with respect to the staff (Manager Responsible, Head of Internal Control, Process Owner, Control Owner, Testers).

4.5.8 Independent auditors

KPMG S.p.A. has been appointed to perform the audit, pursuant to arts. 155 *et seq.* of the TUF, of the separate and consolidated financial statements for the year and for the half-yearly separate and consolidated financial statements of KME Group S.p.A.. KPMG S.p.A. is the "principal auditor".

The current mandate was approved by Shareholders on 23 May 2007 on the recommendation of and for the reasons cited by the Board of Statutory Auditors and will terminate with the presentation of the financial statements as at and for the year ending 31 December 2015.

Riccardo Cecchi has headed the audit for KPMG since 25 October 2007 for the interim financial statements as at and for the six months ended 30 June 2007.

Total fees paid to KPMG were Euro 371,000. Total fees paid by the Group were Euro 1,655,000. The relevant details have been annexed to the notes of the separate financial statements.

The only additional services KPMG was engaged to provide during the year have been included in the schedule pursuant of art. 149 *duodecies* of the Issuers Regulation shown below:
- presentation of the "Expert opinion on the exchange ratio" pursuant to arts. 2501 *sexies* and 2506 *ter* of the Italian Civil Code with respect to the demerger of iNTEk into KME;
- verification of the financial ratios relating to the medium to long-term loan agreement;
- other services in connection with administrative and tax returns.

As part of its duties, the Board of Statutory Auditors is also responsible for monitoring the independence of Auditors.

4.5.9 The Oversight Body and "Model 231"

The Company has adopted the organisational and management model pursuant to Legislative Decree 231/01 which has been revised in accordance with the amendments to the Decree. An Oversight Body comprising multiple Company and Group units which, in addition to assuring that the model is continually up to date, monitors its effectiveness through specific verifications of those corporate segments considered to be the most sensitive. The Chairman of the Board of Statutory Auditors participates in its meetings.

4.6 Investor relations

To underline the importance of Shareholders' Meetings as the best method for the Board of Directors to provide information to Shareholders on the Company's performance and outlook, a set of relevant documents, in addition to those required by law and regulation, is sent to Shareholders who have attended the last three Shareholders' Meetings or who have so requested at least one week prior to the Meeting. A set of the relevant documents together with a copy of the Company Articles of Association are also provided to attendees of Shareholders' Meetings.

The quality and timeliness of public announcements, which are fundamental for the provision of information to Shareholders and the market, have been assured through the development and use of the website **www.kme.com** which has, since 2008, contained all information on the industrial companies of the Group which was previously available from a separate site through links. There is unrestricted access to the site and all information can be easily found with the most recent being highlighted.

The site is updated as and when information is released though the electronic NIS (Network Information System) managed by Borsa Italiana S.p.A.. NIS was developed for the dissemination to the public of Companies' press releases to media companies tied into the system, to Borsa Italiana S.p.A., which replicates them as stock market notifications, and to CONSOB.

The site not only contains archived documentation, accounting and financial documents (annual, half-year and quarterly financial statements, share performance with graphs) and information on corporate actions (annual schedule, corporate governance reports, exercise of rights, callings of Shareholders' Meetings and methods of participating, procedures for the appointment of the Board of Directors and the Board of Statutory Auditors), but also information and data on the range of products, their application and information of interest to suppliers and customers.

An ample section of the site is dedicated to corporate governance (bodies, Company Articles of Association, Warrant Terms and Conditions, Procedures and Internal Codes, minutes), with special pages dedicated to any pending, non-routine matters. The site also contains the annual information documents from 2005 required by art. 54 of the Issuers Regulation.

A considerable amount of the information is now also available in English particularly press releases, financial statements and interim reports.

The various language versions of **www.kme.com** were accessed over a million times in 2009 by 420 thousand visitors. In particular, the interactive version of the 2008 financial statements had over 20,000 visits both in Italian (60%) and in English (40%).

4,000 pdf files of the financial statements alone were downloaded in 2009. The presentation of the Group, which is updated whenever quarterly figures are published, was downloaded, primarily in English, over 1,700 times in 2009.

There is also a continual dispatch service of announcements and documents issued by the Company to persons on a mailing list. Over 34,000 items were sent during the year (1,221 names on the mailing list compared to 1,170 for 2008). It is also possible to e-mail requests to the Company for such literature.

The Board of Directors is satisfied that the website has improved and incremented the quality and quantity of information available on the Company, the Group, their industrial operations and that it is increasingly facilitating the timely dissemination of information to Shareholders and financial and other markets.

4.7 Other Corporate Governance issues

4.7.1 Internal Dealing Code

As of 1 April 2006 following the entry into force of the requirements in connection with internal dealing introduced by Law 62 of 18 April 2005 and the consequent amendments to CONSOB's Issuers Regulation by Resolution 15232 of 29 November 2005, the Board of Directors decided at its meetings of November 2006 and then in November 2007 to amend and subsequently maintain up to date the initial procedure regarding internal dealing for the purposes of:

- assuring the dissemination to and facilitating the awareness of "relevant persons" with respect to the amended requirements;
- maintaining the procedure's efficiency and currency.

As an aside, the black-out periods with respect to trading in the Company's financial instruments by "relevant persons" has been maintained.

Investments in the Company and its subsidiaries held by Directors and Statutory Auditors are set out below (NB.: figures are pre-split to facilitate comparison):

First and last names	Investee company	Number held at the end of 2008	Number acquired in 2009	Number sold in 2009	Number held at the end of 2009
Vincenzo Cannatelli	Kme Group S.p.A.	97,663 ords. 104,218 warrants	= = = =	= = = =	97,663 ords. 104,218 warrants
Alberto Pecci	Kme Group S.p.A.	7,166 sav. shares[1] 65,317 sav. shares[2] 1,399 ords.[1] 24,176 warrants[2]	= =	= =	7,166 sav. shares[1] 65,317 sav. shares[2] 1,399 ords.[1] 24,176 warrants[2]
Domenico Cova	Kme Group S.p.A.	75,000 ords.[3]	= =	= =	75,000 ords.
Italo Romano	Kme Group S.p.A.	75,000 ords.[3]	= =	= =	75,000 ords.
Gian Carlo Losi	Kme Group S.p.A.	64,788 ords.[3]	= =	= =	64,788 ords.

1. direct holdings.
2. 100% indirect holdings through subsidiaries.
3. shares obtained through the exercise of stock options.

A description of the procedure is available in a separate section of www.kme.com which also includes a list of transactions by name that are subject to reporting.

4.7.2 Protection of personal data

A Data Security Planning Document has been adopted for the protection of personal data in accordance with art. 26 of Annex B - Minimum Specifications for Data Security of Legislative Decree 196 of 30 June 2003 (the Personal Data Protection Code). The relevant unit is headed by Lorenzo Cantini.

4.8 Changes after the end of the reporting period

Subsequent to the end of the reporting period, certain non-routine transactions approved at the Extraordinary Shareholders' Meeting of 2 December 2009 were executed as explained in the relevant sections of the Report.

The capital increases of Euro 80 million and Euro 15 million, on the other hand, had not yet been implemented; the timing of the capital increases is given in the Report.

Whereas the reviews of the efficiency and current status of Company rules and procedures are ongoing, the changes in the requirements for statutory audits and the participation of Shareholders in the Company's day to day business will necessitate certain amendments to the structure of the Company's corporate governance.

In particular, the transposition into Italian law of Directive 2006/43/EC concerning the statutory audit of accounts will result in the addition of a new"Internal Control and Audit" to be identified with the Board of Statutory Auditors to oversee:

- financial reporting;
- the effectiveness of systems of internal control, internal audit and risk management;
- the statutory audit of annual and consolidated accounts;
- the independence of Auditors.

Amendments arising in connection with Directive 2007/36/EC (the "Shareholders' Rights Directive"), on the other hand, will substantially affect the participation of Shareholders in Meetings and will first be applied to the Shareholders' Meeting call notice which will be published after 31 October 2010.
Finally, CONSOB adopted a new rule in March 2010 with respect to related party transactions which will become effective during the year.

5. Third part: remuneration of Directors and other Group senior management

5.1 Involvement of the Shareholders' Meeting and the Boards of Directors and Statutory Auditors in the remuneration system

Art. 8 of the Company Articles of Association requires the distribution of 2% of earnings after allocation to the Legal Reserve to the Directors. Art. 21 empowers the Shareholders' Meeting to determine a fixed payment to Directors whereas an additional payment to those Directors with additional specific powers may be authorised by the Board of Statutory Auditors.

The annual fixed payment to Directors, to be divided equally among the Directors subject to a 50% increase payable to Directors who are members of the Board of Directors' constituent committees was set at Euro 195,000.00 by the Shareholders' Meeting of 29 April 2009. The fixed payment, however, shall be treated as payment on account of the amount pursuant to art. 8 of the Articles of Association.

A variable payment is made to the Deputy Chairman, as determined by the Board of Directors, which is computed with reference to the achievement of targets.

The responsibilities of the Remuneration Committee were described in the previous section.

5.2 Directors' remuneration

A schedule of total remuneration paid to Directors in 2009, as required by CONSOB and including directors of subsidiaries, is shown below. The remuneration paid to Roelf-Evert Reins, who is a member of the Management Board of the German subsidiary, KME Germany S.A., was with respect to his services as a "key Executive". All amounts are stated in Euros.

Directors

Name	2009 Position	Term of office	Expiry of the position	Emoluments	Non-monetary benefits	Bonuses and other incentives	Other compensation[1]
Salvatore Orlando	Chairman	01.01.09-31.12.09	31.12.2011	353,000	4,867		125,104
Vincenzo Manes	Deputy Chairman	01.01.09-31.12.09	31.12.2011	738,000	9,958		80,104
Domenico Cova	Director/Gen. Man.	01.01.09-31.12.09	31.12.2011	13,000			606,648
Italo Romano	Director/Gen. Man.	01.01.09-31.12.09	31.12.2011	13,000			603,449
Vincenzo Cannatelli	Director	01.01.09-31.12.09	31.12.2011	14,800			
Mario d'Urso	Director	01.01.09-31.12.09	31.12.2011	26,600			
Marcello Gallo	Director	01.01.09-31.12.09	31.12.2011	15,400			25,052
Giuseppe Lignana	Director	01.01.09-31.12.09	31.12.2011	27,800			
Gian Carlo Losi	Director	01.01.09-31.12.09	31.12.2011	47,170			283,291
Diva Moriani	Director	01.01.09-31.12.09	31.12.2011	113,000	4,034		25,052
Alberto Pecci	Director	01.01.09-31.12.09	31.12.2011	20,100			
Alberto Pirelli (2)	Director	01.01.09-31.12.09	31.12.2011	19,500			

Key Executive

Roelf-Evert Reins							494,504

1. Emoluments paid by subsidiaries in 2009.
2. Alberto Pirelli is paid by Pirelli & C. S.p.A..

5.3 Directors post-employment benefits and termination benefits paid on resignation, dismissal or separation following a take-over bid (pursuant to art. 123 *bis*, subsection 1, letter i) of the TUF)

At their Meeting of 14 March 2008, the Board of Directors resolved to pay Directors' post-employment benefits to the Deputy Chairman, Vincenzo Manes, on vacating his position, of an amount equal to total average remuneration for each three year period of his service. This marked the finalisation of the Deputy Chairman's total remuneration package that in 2007 was treated as the first phase of the restructuring of the Group that entailed the implementation of the most urgent of the measures to reinstate the Group's financial soundness following the severe downturn of 2004.

The Directors' service contracts with the Company do not provide for payments in the event of resignation or dismissal without cause or in the event of separation following a takeover bid.

5.4 Stock option plan

The "KME Group S.p.A. Stock Option Plan 2006-2011", which was established in July 2006 for executive Directors of the Company and Group Executives and amended in 2007 (following resignations and new appointments of Directors and Executives and the regrouping of share capital, which, however, was not tantamount to a restructuring of capital), was revoked by resolutions of the Board of Directors of 7 October 2009 and by the Shareholders' Meeting of 2 December 2009.
The options gave the right to the Beneficiary to subscribe to shares at a price of Euro 1.029 each (the price prior to the regrouping of share capital was Euro 0.343 each, which was the average official market price for the month of July 2006) in accordance with the terms and conditions of the Plan in the ratio of 1 ordinary share for each 3 options held. The option period was to have expired on 28 February 2011.

10,301,253 of the options originally granted (39,947,166 less 3,784,585 that expired last year and were not renewed) would have been eligible for exercise from 1 September 2007, 14,822,958 from 1 September 2008 and 14,822,955 from 1 September 2009.

As a result of the above-mentioned changes in 2007 (additional grants and expiries)[1]:

- a total of 21,453,318 options, corresponding to 7,151,106 shares valued at Euro 7.3 million, were granted to 5 Directors;
- a total of 17,327,667 options, corresponding to 5,775,889 shares valued at Euro 6.3 million, were granted to 14 Group Executives.

Due to the fact that no stock options were exercised in 2008 or 2009, 6,802,713 options were exercised before the revocation (leaving a remainder of 33,144,453 unexercised options).

Directors have, therefore, exercised 2,137,998 options resulting in the issue of 712,666 shares valued at Euro 733,333.31, whereas Executives have exercised 4,664,715 options corresponding to 1,554,905 shares valued at Euro 1,599,997.25.
In total, therefore, 2,267,571 ordinary shares were issued resulting in a capital increase of Euro 2.3 million.

One of the 14 Executives was Roelf Evert Reins, who, in 2008, had been the Chairman of the Management Board of KME Germany A.G. and, consequently, deemed a relevant person pursuant to art. 152 *sexies*, para. 1, letter c.3 of the Issuers Regulation.

A detailed analysis of the Plan in the format required by CONSOB for the 5 Directors and 1 Key Executive plus combined figures for 13 Executives are shown below:

Annex 3C - Issuers Regulation 11971 of 14 May 1999

Stock options granted to members of the Board of Directors, General Managers and Key Executives

First and last names	Position	Number of options held at beginning of year			Options granted during year			Options exercised during year			Options expired during year[4]	Options held at end of year		
		Number of options	Average exercise price[2]	Average expiry date[3]	Number of options	Average exercise price[3]	Average expiry date[4]	Number of options	Average exercise price	Market price on exercise date	Number of options	Number of options	Average exercise price	Average expiry date
Vincenzo Manes	Deputy Chairman	10,726,659	1.029	28.02.2011	-	-	-	-	-	-	10,726,659	-	-	-
Diva Moriani	Director	1,650,255	1.029	28.02.2011	-	-	-	-	-	-	1,650,255	-	-	-
Domenico Cova	Director & CEO	3,153,822	1.029	28.02.2011	-	-	-	-	-	-	3,153,822	-	-	-
Italo Romano	Director & CEO	3,153,822	1.029	28.02.2011	-	-	-	-	-	-	3,153,822	-	-	-
Gian Carlo Losi	Director	630,762	1.029	28.02.2011	-	-	-	-	-	-	630,762	-	-	-
Roelf-Evert Reins	Key Exec.[1]	825,126	1.029	28.02.2011	-	-	-	-	-	-	825,126	-	-	-
13 Executives		13,004,007	1.029	28.02.2011	-	-	-	-	-	-	13,004,007	-	-	-
Total		**33,144,453**			**-**			**-**			**33,144,453**	**-**		

1. Appointed to KME Germany A.G. Management Board on 22 June 2007.
2. Post regrouping price of 16 July 2007 with a new exercise ratio of 1 share for each 3 options at Euro 1.029 per share.
3. Final date for the exercise of options.

4. **The Company's Shareholders' Meeting of 2 December 2009 approved the definitive revocation of the Stock Option Plan 2006-2011 with the consent of the beneficiaries.**

1. Computation of the total number in the preceding paragraph, it was necessary to include the exercise of 1,166,181 options excersied by Executive Albert Scherger corresponding to 388.727 shares whereas his residual holdings of 3,784,585 options were lost.

The new incentive and loyalty plan was approved at the Shareholders' Meeting of 2 December 2009 and is exclusively for the executives and managers of KME and its direct and indirect subsidiaries.
The new plan is for the grant of options to subscribe or acquire, as the case may be:

- ordinary KME shares out of a capital increase by the Board of Directors as authorised pursuant to art. 2443 of the Italian Civil Code without rights pursuant to the second sentence of art. 2441, para. 4 of the Italian Civil Code; or
- ordinary shares held in portfolio by the Company.

The information document on the Plan required by art. 84 *bis* of the Issuers Regulation has been made available to the public in accordance with the timing and in the manner required by law and is also available on the relevant web page of **www.kme.com**.

The role of the Remuneration Committee with respect to the implementation of the Plan is to propose and advise in accordance with the Code of Conduct of Borsa Italiana S.p.A..

The purpose of the new stock option plan is to incentivate the senior management of the Company and its subsidiaries in conjunction with the reorganisation of the Group. It entails the grant of options to its beneficiaries only after ninety days from the date of effectiveness of the iNTEk/KME demerger.

The Plan entails the free grant of options to each of the beneficiaries to subscribe to or acquire, as the case may be, ordinary shares on the exercise of options in the ratio of 1 share for each option exercised at a price equal to the arithmetic mean of the official MTA closing prices of ordinary KME shares during the period between the grant and the same date of the preceding calendar month.

The total maximum number of KME ordinary shares to be granted to the beneficiaries under the Plan may be no more than 31,000,000 out of, at the Board of Directors sole discretion, either a fresh issue or shares held in portfolio by the Company or partly out of a fresh issue and partly out of shares held in portfolio in the proportion as may be established from time to time by the Board of Directors in the best interests of the Company.

It was approved at the extraordinary session of the Shareholders' Meeting held on 2 December 2009 to authorise the Board of Directors, pursuant to art. 2443 of the Italian Civil Code, to increase capital for payment by a maximum, including any premium, of Euro 15 million, without rights pursuant to the second sentence of art. 2441, para. 4 of the Italian Civil Code through a fresh issue of a maximum of 31,000,000 ordinary KME shares without nominal value solely for subscription by Plan beneficiaries at a subscription price equal to the arithmetic mean of the official MTA closing prices of ordinary KME shares during the period between the grant to the same date of the preceding calendar month. More information on the proposed increase in capital to service the Plan is contained in the Report presented in accordance with art. 72 of the Issuers Regulation made available to the public in accordance with the timing and in the manner required by the law.

At the date of this Report, the Company held 8,212,755 ordinary ex-split shares (equal to 5,475,170 pre-split shares), or 2.325% of ordinary share capital, acquired under the share buy-back scheme approved at the Shareholders' Meeting of 16 September 2008 for the purposes, among other things, to service any stock option plans for the directors and/or executives of the Company and/or its direct and indirect subsidiaries.
The Plan is intended for parties who, at the grant date, were:
(i) executives under permanent employment by the Company or its Subsidiaries;
(ii) executive directors of the Company.
At the grant date, the Board of Directors will select the beneficiaries from the above groups and determine the number of options to grant to each beneficiary with the professional expertise and responsibilities of each within the organisational structure of the Group.

The Plan specifically provides that in the event of a separation from the Company by bad leavers all options granted to such persons will be cancelled and will be without effect and validity. Bad leavers are persons who separate from the Company in the following circumstances:

(i) dismissal, revocation of appointment as director and/or of the beneficiary's powers, non-renewal of the appointment as director and/or the beneficiary's powers each for cause;

(ii) resignation of the beneficiary for reasons other than those of a good leaver.

In the event of a separation of a good leaver, the beneficiary or their heirs shall maintain the right to exercise the options granted subject to the obligations, methods and timing of Plan.

The options may be exercised, in one or more tranches, at any time between the first date and last date (31 December 2015) of the exercise period as shown below:

"First date" means:

(a) for the number of options equal to 1/3 of the options granted, the first business day following the first year from the grant date;

(b) for the number of options equal to 1/3 of the options granted, the first business day following the second year from the grant date;

(c) for the number of options equal to 1/3 of the options granted, the first business day following the third year from the grant date.

Any shares obtained through the exercise of options prior to the first date as defined herein are subject to a twenty-four month lock-up period from the subscription date (for fresh issues) or the acquisition date (for shares held in portfolio by the Company).

"Lock-up" means the requirement that the Beneficiary be restricted from transferring shares obtained from the Company under the Plan to incentivate and promote loyalty through subscription or acquisition on exercise of the Options pursuant to the previous point. "Transfer" means any transaction in the shares, including gratuitous transactions, (including but not limited to the sale, donation, contango, exchange, contribution to companies, disposal, forced sale and any other form of total or partial disposal) resulting in the direct or indirect passing of title, including the provisional or at a forward date passing of title (e.g., swaps and repurchase agreements) or the possession in whole or in part of the shares subject to the lock-up to a third party.

Shares subscribed or acquired on the exercise of an option pursuant to (ii), above, and consequently subject to lock-up will remain in the custody of the Company (or other entity acting for the Company) at the Company's expense for the entire duration of the lock-up period.

The Plan requires the suspension of the exercise of the options by beneficiaries every year for the period between the date of the meeting of the Board of Directors convening the Shareholders' Meeting for the approval of the annual financial statements and the date of the Meeting itself (both dates inclusive) or the relevant ex-dividend date, without, however, prejudice to the Board of Directors' right to suspend, at certain times of the year in the interests of the Company or if apparently needed for the protection of the market, the beneficiaries' exercise of options.

It is, however, possible for beneficiaries to exercise options prior to the above exercise period in the event of a change in control, or:

1) the occurrence of any transaction or event entailing the acquisition of a shareholding in KME exceeding the thirty per cent threshold pursuant to art. 106 of the TUF (a) by one party, or (b) by persons acting in concert as defined in art. 101 *bis* of the TUF;
2) the promotion of a takeover bid or exchange tender offering pursuant to art. 102 *et seq.* of the TUF to the extent that the Board of Directors has received the notification pursuant to art. 102 of the TUF from the offerer.

Any lock-up obligations are cancelled in the event of a change in control and may not be enforced by the Company and the beneficiary may transfer shares without restriction from that date.

Options are granted to and may only be exercised by the named beneficiary except in the event of the decease of the beneficiary. Options granted may not be transferred for any reason except mortis causa or subject to any encumbrance or other security interest and/or pledged by the beneficiary or by deed inter vivos or through the operation of law.

Any restrictions on the transfer of ordinary KME shares shall be subject to the same provisions as those in connection with lock-ups as described above.

Performance-related incentives have also been introduced at Group level for senior management.

Table 1 - Structure of the Board of Directors and its constituent Committees

		Board of Directors					Internal Control Committee•		Remuneration Committee••	
Position	Member	Executive	Non-executive	Independent	****	Number of other positions**	***	****	***	****
Chairman	Salvatore Orlando				100	1				
Deputy Chairman	Vincenzo Manes	X			100	2				
Director Gen. Man.	Domenico Cova	X			80	--				
Director Gen. Man.	Italo Romano	X			100	--				
Director	Vincenzo Cannatelli				100	1				
Director	Mario d'Urso		X	X	100	--	X	100	X	100
Director	Marcello Gallo		X		100	1				
Director	Giuseppe Lignana		X	X	100	--	X	100	X	100
Director	Gian Carlo Losi		X		100	--				
Director	Diva Moriani	X			100	2				
Director	Alberto Pecci		X	X	60	1	X	50		
Director	Alberto Pirelli		X	X	80	1			X	100
Chairman of the Board of Statutory Auditors	Marco Lombardi				80	--				
	Marcello Fazzini				100	--				
Standing auditor	Pasquale Pace				80	--				
Standing auditor	Vincenzo Pilla				100	1				

• Reasons for the lack of an Internal Control Committee or composition other than that recommended by the Code:
=

••Reasons for the lack of a Remuneration Committee or composition other than that recommended by the Code:
=

Reasons for the lack of an Executive Committee:
The Committee was not formed due to the appointment of an executive Deputy Chairman and two Directors acting as General Managers.
Reasons for the lack of an Appointments Committee:
The Committee was not formed due to the fact that one Shareholder holds the majority of the Company's voting shares.
Number of meetings held during the year **Board of Directors: six** **Internal Control Committee: two** **Remuneration Committee: two**

LEGEND
* Director nominated by non-controlling Shareholder list.
** Number of positions as Director or Statutory Auditor held in other finance, banking, insurance or other companies of considerable size listed in regulated markets in Italy or abroad.
*** "x" indicates membership of the Board Director of the Committee.
**** Percentage of Board of Directors and Committee meetings attended by the Director.

Table 2 - Board of Statutory Auditors

Position	Member	Percentage of meetings of the board of statutory auditors attended	Number of other positions**
Chairman/Standing Auditor[1]	Marco Lombardi	86	--
Standing auditor	Pasquale Pace	86	--
Standing auditor	Vincenzo Pilla	100	3
Chairman[2]	Marcello Fazzini	100	--
Number of meetings held during calendar year: seven			
Quorum for the presentation of lists by non-controlling Shareholders for the election of one or more standing auditors (art. 148, TUF): 2.5%			

LEGEND
* Statutory auditor nominated by non-controlling Shareholder list.
** Number of positions as Director or Statutory Auditor held in other finance, banking, insurance or other companies of considerable size listed in regulated markets in Italy or abroad.

1. The Board of Statutory Auditors mandate ceased with the Shareholders' Meeting of 29 April 2009. Marco Lombardi held the position of standing auditor in 2009.
2. The Board of Statutory Auditors mandate ceased with the Shareholders' Meeting of 29 April 2009. Marcello Fazzini held the position of Chairman in 2009.

Table 3 - Other requirements of the Code of Conduct

	Yes	No	Reasons for any non-compliance with the Code's recommendations
Powers and related party transactions			
Has the Board of Directors delegated powers stipulating:			
a) limits?	x		
b) methods of exercise?	x		
c) frequency of reporting?	x		
Has the Board of Directors has retained the power to examine and approve transactions of significant relevance for financial position and results of operations (including related party transactions)?	x		
Has the Board of Directors given guidelines and criteria for the identification of "significant" transactions?	x		
Have the above guidelines and criteria been described in the Report?	x		
Has the Board of Directors established specific procedures for the examination and approval of related party transactions?	x		
Have the procedures for the approval of related party transactions been described in the Report?	x		They are fully available on the internet
Procedure of the most recent appointments as Directors and Statutory Auditors			
Were nominations for the position of Director submitted at least fifteen days in advance?	x		
Were nominations for the position of director accompanied by exhaustive information?	x		
Were nominations for the position of director accompanied by a statement of the eligibility of the nominee as an independent?	x		
Were nominations for the position of Statutory Auditor submitted at least fifteen days in advance?	x		
Were nominations for the position of Statutory Auditor accompanied by exhaustive information?	x		
Shareholders' Meetings			
Has the Company approved a set of Shareholder Meeting Rules and Regulations?	x		See Chapter III of the Company Articles of Association a full copy of which is available on the internet
Have the Rules and Regulations been annexed to the Report (or is there information as to where it is available or can be downloaded)?	x		See Chapter III of the Company Articles of Association a full copy of which is available on the internet
Internal Control			
Has the Company appointed internal control officers?	x		
Are the internal control officers organisationally independent of operational department heads?	x		
Organisational unit in charge of internal control (art, 9-3 of the Code)	x		Head of Internal Control
Investor relations			
Has the Company appointed a head of investor relations?		x	Day to day activities supported by the relevant corporate units
Organisational unit and contacts (address/telephone/fax/e-mail) for the head of investor relations	x		All contact details are in the Directors' Report and on the internet

Updated Version 22 March 2010 of the Company Articles of Association (most recent amendments)

KME Group S.p.A.
Registered office: Via dei Barucci, 2, Florence, Italy
Florence Register of Companies No. and Tax Code 00931330583

Company Articles of Association

Chapter I

Art. 1. Name

A public limited company bearing the name KME Group S.p.A. has been incorporated.

Art. 2. Registered Office

The Company's registered office is in Florence.
The Board of Directors may change the location of the registered office to any other location in Italy and may open, change the location of and close offices, branches and agencies in Italy and abroad.

Art. 3. Object

The object of the Company is investments in other companies or entities both in Italy and abroad, the financing and the technical and financial coordination of its investee companies and entities, the purchase, sale, holding, management and placement of public and private securities.
The Company's object includes: the issuance and acceptance of guarantees and other warranties; engaging in transactions of a complementary nature or in connection with the operations of its investee companies and entities; the acquisition and disposal of industrial and non-industrial buildings; as well as, in general, any other transaction required to achieve its object or assistance or beneficial to its achievement.

Chapter II

Art. 4. Share capital

The share capital of the Company is € 273,761,740.66 (two hundred seventy-three million, seven hundred and sixty-one thousand, and seven hundred and forty euro and sixty-six cent) divided into 418,117,631 (four hundred and eighteen million one hundred and seventeen thousand six hundred and thirty-one) shares with no nominal value, 381,367,530 (three hundred and eighty-one million, three hundred and sixty-seven thousand, five hundred and thirty) of which are ordinary shares and 36,750,101 (thirty-six thousand, seven hundred and fifty one thousand, one and hundred and one) savings shares.
Resolutions to increase share capital approved by the majority pursuant to arts. 2368 and 2369 of the Italian Civil Code may be without rights to existing Shareholders subject to a maximum of 10% of share capital before the increase provided that the issue price is equal to the market price of the shares as confirmed in a specific report to be issued by the mandated independent auditors.
In execution of the resolution of the Shareholders at their Meeting of 19 May 2006, the Company also issued a total of 74,209,605 (seventy-four thousand, two hundred and nine, six hundred and five) warrants, consequently increasing share capital against payment by a further maximum of € 25,973,361.75 (twenty-five million, nine hundred and seventy-three thousand, three hundred and sixty one euro and seventy-five cent) through the issuance in one or more tranches of a maximum of 74,209,605 (seventy-four million, two hundred and nine thousand, six hundred and five) ordinary shares with no nominal value for the exclusive and irrevocable service of the above warrants at a price of € 0.35 each (zero euro and thirty-five cent) equal to the issue price of shares with no nominal value authorised to be issued by the Shareholders at their above-mentioned

Directors' Report

Meeting in the ratio of 1 (one) share for each 1 (one) warrant held. Warrants may be exercised between 1 January 2007 and 11 December 2009, since extended to 30 December 2011, in accordance with Shareholders' resolution of 2 December 2009 as required by the rules and regulations, with the consequent latest date for the capital increase now 13 January 2012.
In execution of the authorisation approved at the Shareholders' Meeting of 19 May 2006, the Board of Directors, at its meeting of 28 June 2006, fixed the maximum increase in share capital to service warrants of 74,210,400 (seventy-four thousand, two hundred and ten, four hundred) in issue as € 25,973,640.00 (twenty-five million, nine hundred and seventy-three thousand, six hundred and forty euro).
In execution of the capital increase subsequent to the regrouping of ordinary and savings share capital by the ratio of 1 (one) new share for each 3 (three) shares held of the same class and to the additional consequent resolutions passed at the Extraordinary Shareholders' Meeting of 21 June 2007, there was a total of 73,899,627 (seventy-three million, eight hundred and ninety-nine thousand, six hundred and twenty-seven) warrants in issue on 16 July 2007 the exercise of which would result in the issue of a maximum of 24,633,209 (twenty-four million, six hundred and thirty-three, two hundred and nine) KME Group S.p.A. ordinary shares with no nominal value consequently increasing capital by a maximum of € 25,864,869.45 (twenty-five million, eight hundred and sixty-four thousand, eight hundred and sixty-nine euro and forty-five cent).
A total of 6,314,152 (six million, three hundred and fourteen thousand, one hundred and fifty-two) warrants were exercised on 31 December 2009 resulting in the issuance of 2,311,368 (two million, three hundred and eleven thousand, three hundred and sixty-eight) ordinary shares with leaving a residual of 67,895,451 (sixty-seven million, eight hundred and ninety-five thousand, four hundred and fifty-one) warrants that can be exercised at the ratio of 1 (one) new ordinary share for each 3 (three) warrants held as a total price of € 1.05 (one euro and five cent) each.
At their Extraordinary Meeting of 2 December 2009, the shareholders approved the split of KME Group S.p.A. ordinary and savings shares to replace shares in issue in the following ratio: (i) three ordinary shares for each two ordinary shares held; (ii) 3 savings shares for each 2 savings shares held.
As a result of the KME Group S.p.A. ordinary and savings share split approved at the Extraordinary Shareholders' Meeting of 2 December 2009, the residual 67,895,451 (sixty-seven million, eight hundred and ninety-five thousand, four hundred and fifty-one) warrants (after the cancellation of 1 warrant to make the split arithmetically possible) in issue give the right to subscribe to 1 (one) KME Group S.p.A. ordinary share without nominal value for each 2 (two) shares held at a price of € 0.70 (zero euro and seventy cent) each in accordance with the Rules and Regulations.
The maximum capital increase to services warrants in issue is, therefore, € 23,763,407.50 (twenty-three million, seven hundred and sixty-three thousand, four hundred and seven euro and fifty cent) divided into a maximum of 33,947,725 (thirty-three million, nine hundred and forty-seven thousand, seven hundred and twenty-five) KME Group S.p.A. ordinary shares with no nominal value with the last date for execution being determined as 13 January 2012.
In execution of the resolution approved at the Extraordinary Shareholders' Meeting of 2 December 2009, the Company issued a total of 73,330,660 (seventy-three million, three hundred and thirty thousand, six hundred and sixty) warrants (the KME Group S.p.A. Ordinary Share Warrants 2009/2011) giving holders the right by applying prior to 30 December 2011 to subscribe to 1 (one) ordinary share for each warrant held at a price of € 0.90 (zero euro and ninety cent) per share € 0.64 (zero euro and sixty-four cent) of which as a share premium) with the consequent increase in share capital of a maximum of € 19,065,971.60 (nineteen million, sixty-five thousand, nine hundred and seventy-one euro and sixty cent) through the issue of a maximum of 73,330,660 (seventy-three million, three hundred and thirty thousand, six hundred and sixty) ordinary shares with no nominal value for the exercise of 73,330,660 (seventy-three million, three hundred and thirty thousand, six hundred and sixty) warrants.
The amount of share capital and its constituent classes of ordinary and savings shares pursuant to this article are liable to change from time to time as a consequence of capital increases pursuant to art- 7 below and the right of conversion of holders of any convertible bonds and warrants in issue.

Art. 5. Classes of shares

As permitted by law and these Articles of Association, all shares are either registered or bearer shares and convertible from one to the other at the request and expense of the holder.

Shareholders may authorise the issuance of voting and non-voting preference shares and determine their characteristics and rights. Savings shares, however, have the characteristics and rights fixed by law and these Articles of Association.

Authorisations to issue new savings shares with the same characteristics as those in issue do not require a special Meeting. The holders of savings shares may not participate in the Meetings of Shareholders of other classes of shares nor may they request the convocation of a meeting.

Reductions of share capital due to losses are without effect on savings shares unless such losses exceed the amount of other classes of shares in issue.

In the event of a permanent and definitive delisting of the Company's ordinary and savings shares from regulated markets, Shareholders shall have the right to convert their ordinary shares at one to one or, alternatively, into preference shares the terms of issue and characteristics of which shall be determined at the Shareholders' Meeting. The Board of Directors shall, within three months of the occurrence of the event that resulted in the delisting, convene an Extraordinary Shareholders' Meeting for deliberations.

Without prejudice to all other rights of the Company and the specific procedures required by law against defaulting Shareholders, non-payment of capital calls shall entitle the Company to claim penalty interest computed in accordance with art. 5 of Legislative Decree 231 of 9 October 2002 without first proving default or petitioning the courts.

The Company shall be entitled to any dividends that remain unclaimed for a period of five years.

Art. 6. Bonds and non-equity financial instruments

The Company may issue convertible and non-convertible bearer or registered bonds in accordance with law as may be in effect from time to time.

Art. 7. Directors' powers

Shareholders at Extraordinary Meetings may authorise Directors, pursuant to art. 2443 of the Italian Civil Code, to increase share capital one or more times to a maximum amount as determined for a maximum period of five years from the date of the resolution.

Art. 8. Profit for the year

Profits for the year after accruals to the legal reserve and the distribution of 2% of the residual to the Board of Directors shall be allocated as follows:

- a maximum of € 0.07241 (zero point zero seven two four one) per year to savings Shareholders. In the event that in any one year dividends distributed to savings Shareholders is less than € 0.07241 (zero point zero seven two four one) per share, the difference shall be added to the preference dividend for the next two years;
- the allocation of the remaining profit shall be the prerogative of the Shareholders in accordance with law, subject, however, to the requirement that dividends distributed with respect to all shares exceed savings share dividends by € 0.020722 (zero point zero two zero seven two two) per year and per share.

In the event of a distribution of reserves, the entitlement of savings shares shall be the same as other classes of shares.

In the event of a share regrouping or split (as is the case for other equity actions making it necessary to leave the rights of Savings Shareholders unaltered as if they had a nominal value) the amounts fixed in the preceding paragraphs shall be accordingly modified.

Art. 9. Interim dividends

The Board of Directors may declare interim dividends in accordance with the timing and conditions fixed by law.

Chapter III

Art. 10. Calling of Shareholders' Meetings

Shareholders' Meetings shall be deemed ordinary or extraordinary in accordance with law and shall be called by the Board of Directors. They may be also be held in a location other than the registered office provided that the location is in Italy or another European Union member state.

The notice of the meeting may also contain the date and time of second and third call Meetings and shall be published in the Official Gazette of the Republic or, alternatively, in at least one of the following newspapers: "Il Sole 24 Ore" or "Milano Finanza" or "Italia Oggi".

Announcements of Shareholders' Meetings must contain a notice that votes may be sent by mail and the relevant procedure in addition to the identity of the party from whom ballots may be obtained for voting by mail and the address to which the completed ballots should be sent.

Shareholders representing, individually or jointly, at least one fortieth of share capital may, within five days of the publication of the calling of the Shareholders' Meeting, request the addition of agenda items for resolution by indicating in their request the nature of the matters they propose. Any additional agenda items for resolution at the Shareholders' Meeting shall be notified in the same form required for the publication of the announcement of the calling at least ten days prior to the date fixed for the Meeting. Agenda items may not be added with respect to matters for resolution by Shareholders as required by law, proposed by Directors or with reference to a project or report proposed by Directors.

Unless otherwise provided by law, the Board of Directors shall call Shareholders' Meetings within thirty days of the receipt of a request in that regard if submitted by Shareholders representing at least 10% of ordinary share capital. Such requests shall be sent to the Chairman of the Board of Directors by registered mail and shall contain a list of the items to be added to the agenda and a detailed list of the Shareholders supporting the request in addition to attaching a copy of suitable certification/advise issued by authorised intermediaries attesting the ownership and number of shares.

Art. 11. Participating in Shareholders' Meetings and proxies

Those parties may participate in Shareholders' Meetings for whom the Company has received the prescribed notification from authorised intermediaries in accordance with current law and regulation at least two days preceding the date of the relevant meeting. In the event that the deadline falls on a Saturday, Sunday or public holiday, the deadline shall be moved to the next business day.

Each share shall have the right to one vote.

Votes may also be cast by mail in accordance with the timing and procedures set out in the notice and using the ballot for mail votes in conformity with law as may be in force from time to time.

Mail ballots, together with a copy of the notification required by law for the purposes of participating in Shareholders' Meetings, must be received at the address indicated in the notice within forty-eight hours of the first calling of the Shareholders' Meeting. In the event that the deadline falls on a Saturday, Sunday or public holiday, the deadline shall be moved to the next business day.

Without prejudice to statutory requirements with respect to proxies, Shareholders may appoint a representative, regardless of whether they are a Shareholder or not, by a written authorisation even on the bottom of the notice provided in accordance with law.

Art. 12. Chairman of the Shareholders' Meetings

Shareholders' Meetings shall be chaired by the Chairman of the Board of Directors or, in his absence, the

most senior Deputy Chairperson present or the Chief Executive Officer or the most senior of the Directors present.
It is the responsibility of Chairman of the Meeting to verify the regularity of the constitution of ordinary and extraordinary meetings, to ascertain the identity and legitimacy of attendees, assure correct parliamentary procedures, to direct and regulate deliberations with the powers to determine the length of the deliberations of each Shareholder, to determine the order and method of voting, to ascertain the number of votes cast and proclaim the results and assure that they are recorded in the minutes.
The Chairman may authorise the participation in the meeting of Group executives and employees.
Attendees with voting rights, joint representatives of savings Shareholders, bondholders and holders of financial instruments may request the floor with respect to matters under resolution to provide their observations and information and to make proposals. Such requests may be made until such time as the Chairman declares the deliberations on the relevant agenda item closed.
The Chairman may adjourn the meeting as and when he sees fit.
The Chairman shall be assisted by a secretary of his designation. In the event that the meeting minutes are kept by a notary, that notary shall be designated as the secretary.

Art. 13. Meeting minutes

Resolutions passed by Shareholders must be recorded in the minutes and signed by the Chairman and the secretary or notary and be recorded in accordance with statutory requirements.
The deliberations of each Shareholder with relevance to the agenda shall be briefly recorded in the meeting minutes. In the event it is requested to record deliberations in full, the Shareholder provides the secretary or notary with the text for insertion in the minutes.
The secretary or notary shall be assisted by persons of their choice and may only use recording equipment for their own personal use in recording the minutes.
The conformity of copies of and extracts from the minutes that are not notarised shall be certified by the Chairman of the Board of Directors or his representative.

Chapter IV

Art. 14. Management of the Company

The Board of Directors shall have the widest powers with respect to the routine and non-routine organisation, management and administration of the Company for the attainment of its objectives with the sole exception of instruments reserved by law for the Shareholders' Meeting.
The Board of Directors may approve all resolutions having regard to mergers and demergers in compliance with articles 2505, 2505 *bis* and 2506 *ter* of the Italian Civil Code, reduce share capital in the event of the withdrawal of a Shareholder and amend these Articles of Association as required by statute.
The Board of Directors may, within the limits established by law, create constituent committees and determine their responsibilities, powers and internal regulations and may delegate powers to individual members determining the limits and manner of exercising such powers and may reserve for itself transactions otherwise covered by such delegated powers.
Directors holding powers that have been conferred or delegated in addition to those participating in any constituent Committees shall be under an obligation to provide quarterly reports to the Board of Directors and Board of Statutory Auditors on the general trends of business and its outlook as well as on transactions, entered into by the Company or its subsidiaries, of significant importance for its financial position and results of operations due to their size or nature. Quarterly reports shall also be submitted with respect to transactions in which the Directors have an interest either for themselves or other parties or which are under the influence of the party exercising management and coordination.
When so required by specific circumstances, the reports may also be in writing.

The Board of Directors may, in general, also confer general powers or powers specific to a transaction on employees and third parties.

Art. 15. Executive Committee

The Board of Directors may, with the exception of powers expressly reserved to itself, delegate its power to an Executive Committee consisting of three to five directors, including the Chairman, and determine its powers and procedures.

The Executive Committee may meet informally and pass resolutions other than at meetings by telephone or telegraph voting confirmed by letter or teleprinter which shall be kept in the Company's files.

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

Art. 16. Comapny positions

The Board of Directors shall elect its Chairman from among its members who shall be the Company's legal representative as required by art. 20.

It may also appoint one or two Deputy Chairmen and Chief Executive Officers determining their powers in addition to conferring specific powers on individual Directors.

The Deputy Chairmen shall substitute the Chairman in the event of his absence or other impediment.

In the event of the absence or other impediment of the Chairman or Deputy Chairmen, the Board of Directors shall be chaired by another Director designated by the Board of Directors.

The Board of Directors shall appoint a secretary every year who is not required to be a member of the Board of Directors.

The Board of Directors shall, subject to consultation with the Board of Statutory Auditors, appoint and dismiss the Manager Responsible for Financial Reporting and shall determine his remuneration. The Manager Responsible for Financial Reporting shall have interdisciplinary experience in business administration, finance and control and must also have the moral standing required for Directors.

The activities, functions and responsibilities of the Manager Responsible for Financial Reporting shall be those required by laws and regulations.

The Board of Directors shall determine the term of the appointment of the Manager and shall confer powers and means sufficient for the exercise of his duties.

Art. 17. Appointment and composition of the Board of Directors, term of office of members

The Board of Directors shall be composed of nine to twelve Directors appointed at the Shareholders' Meeting after having determined the number of members that will be binding unless otherwise resolved.

Directors' terms may not be longer than three years but they may be re-elected.

The Board of Directors must also have the minimum number of independent Directors required by law. Any independent Director no longer qualifying as independent subsequent to appointment shall provide immediate notice to the Board of Directors and the appointment shall be cancelled.

If for any reason one or more Directors vacate their positions during the year, they shall be replaced as required by law.

In the event that the majority of Directors vacate their positions, the entire Board of Directors shall be considered dismissed and a Shareholders' Meeting called without delay for the appointment of a new Board of Directors.

The procedure to be adopted by the Shareholders' Meeting for the appointment of a Board of Directors shall be the following:

a) lists containing the names of the nominees for the position of Director shall be submitted to the address shown on the notice of the Shareholders' Meeting for the appointment of Board of Directors at least 15 (fifteen) days prior to the Meeting. In the event that the deadline falls on a Saturday, Sunday or public holiday, the deadline shall be moved to the next business day.

Lists must be accompanied by:

1. information pertaining to the identity of the Shareholders submitting lists, showing the total percentage shareholding accompanied by a certificate attesting ownership of the shares;
2. a declaration by Shareholders other than those holding, individually or jointly, a controlling or majority shareholding attesting the absence of a relationship with the majority or controlling Shareholders in accordance with relevant law;
3. exhaustive information on the personal and professional attributes of nominees in addition to a declaration by each nominee that he or she accepts the nomination and attests, under personal liability, to the lack of any reason that could cause the nominee to be ineligible or incompatible for election, the possession of the attributes required by law and these Articles of Association indicating any facts that could result in classification as an independent Director pursuant to art. 148, subsection III of Legislative Decree 58/1998;

b) Shareholders may not submit or vote for more than one list either directly or indirectly through an intermediary or trustee. Shareholders belonging to the same Group and Shareholders who have entered into a Shareholders' agreement with respect to the Company's shares may not submit or vote for more than one list either directly or indirectly through an intermediary or trustee. Nominees appearing on more than one list shall be declared ineligible;

c) those Shareholders may submit lists who, individually or jointly, hold a sufficient number of ordinary shares to vote at Shareholders' Meetings for the appointment of members of the Board of Directors - equal to the highest percentage pursuant to CONSOB, Commissione Nazionale per le Società, and Stock Exchange Rules.

The percentage shareholding of parties submitting lists shall be included in the convocation.

Only those lists shall be valid to the extent submitted by Shareholders who presented the documentation required by the deadline pursuant to point a) of this article. In the event a Shareholders' Meeting is postponed to the second or third calling, the submission of lists shall be deemed valid;

d) all those nominee Directors shall be appointed who appear on the list that obtained the highest number of votes with the exception of the last nominee in numerical order. The nominee on any non-controlling Shareholders' lists, who is first in numerical order and is not related to Shareholders who submitted or voted for the first list, shall also be appointed. The preceding, however, shall be subject to the elimination of all lists which have not obtained one half of the percentage of votes required for the submission of lists as provided above;

e) in the event of a tie in the votes for two or more lists, the Directors in the list submitted by the Shareholder with the highest percentage shareholding or, if this is not possible, the largest number of shareholders shall be deemed elected;

f) in the event that only one list is submitted those nominees shall be elected in the order they are listed;

g) in the event that no lists are submitted, Shareholders shall appoint Directors in application of the majorities required by law.

Art. 18. Meetings of the Board of Directors

The Board of Directors shall meet as and when deemed necessary by the Chairman or, if appointed, the Executive Committee, subject to a minimum of four meetings a year.

Directors shall be notified by letter sent to their home address at least five days prior to the meeting. In the event of extreme urgency, the notice may be sent only two days in advance.

Notices must contain the agenda and the time and place of the meeting. Meetings may be also be held in a location other than the registered office provided that the location is in Italy or another European Union member state.

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

Art. 19. Validity of Board of Directors Meetings

Only those resolutions shall be valid that were approved by the majority of serving Directors subject to achieving an absolute majority.

In the event of a tie, the Chairman shall cast the deciding vote.

Meetings may be held using teleconference and video conference techniques provided that it is possible for all participants to be identified and it is possible for them to follow deliberations and participate in them in real time. To the extent that these conditions are met, the meeting shall be deemed to have been held at the place where the Chairman and the secretary are located.

Resolutions shall be minuted and signed by the Chairman. The minutes shall show the Directors present at the meeting.

The conformity of copies of and extracts from the minutes that are not notarised shall be certified by the Chairman of the Board of Directors or his representative.

Art. 20. Representation of the Company

The legal representative of the company in dealings with third parties and the courts shall be the Chairman of the Board of Directors, who shall have single signing authority, or his representative. The Chairman shall have the powers to bring and contest legal actions, without prior approval of the Board of Directors, of any nature and in any jurisdiction whether in Italy or abroad, including the Constitutional Court, to bring arbitrations and contest applications for arbitrations based on hearing in accordance with law, to present evidence, criminal and civil actions, petition appeals, encumber assets and petition the courts for summary hearings and preventive orders as well as 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 represent the Company to the extent permitted by the powers conferred on them.

In the event of the absence of other impediment of the Chairman, Deputy Chairmen or Directors, corporate deeds may be validly signed by two Directors.

Art. 21. Remuneration

The Board of Directors shall be entitled to a share in the Company's profit as set out in art. 8 and may, furthermore, determine a fixed annual fee for Directors.

The Board of Directors shall, after consultation with the Board of Statutory Auditors, determine the compensation of Directors with specific responsibilities.

Chapter V

Art. 22. Board of Statutory Auditors

The Board of Statutory Auditors oversees compliance with the law and these Articles of Association having regard to the propriety of administration and, in particular, the suitability of the Company's organisational structure for the systems of internal control, administration and accounting in addition to the reliability of accounting records to correctly represent transactions and to the actual implementation of the rules of corporate governance and the adequacy of instructions given to subsidiaries. The Board of Statutory Auditors shall consist of three regular members and two alternates.

Current laws and regulations require its members to demonstrate integrity and professionalism. Due to the fact that the Company is closely related to all aspects of the metallurgical industry, Statutory Auditors shall have proven expertise in that field.

Statutory Auditors shall be appointed for a term of three years and may be re-elected. The Shareholders shall determine its annual remuneration for its entire term on its appointment.

The procedure to be adopted by the Shareholders for the appointment of a Board of Statutory Auditors shall be the following:

a) lists containing the names of the nominees for the position of Standing and Alternate Auditor shall be submitted to the address shown on the notice of the Shareholders' Meeting for the appointment of Board of Statutory Auditors at least 15 (fifteen) days prior to the Meeting. In the event that the deadline falls on a Saturday, Sunday or public holiday, the deadline shall be the next business day.

Lists must be accompanied by:

1. information pertaining to the identity of the Shareholders submitting lists, showing the total percentage shareholding accompanied by a certificate attesting ownership of the shares;
2. a declaration by Shareholders other than those holding, individually or jointly, a controlling or majority shareholding attesting to the absence of a relationship with the majority or controlling Shareholders in accordance with relevant law;
3. exhaustive information on the personal and professional attributes of nominees in addition to a declaration by each nominee that he or she accepts the nomination and attests, under personal liability, to the lack of any reason that could cause the nominee to be ineligible or incompatible for election and the possession of the attributes required these Articles of Association;

b) in the event that by the deadline pursuant to para. a), only one list has been submitted or only lists were submitted by Shareholders which, in accordance with para. a) 2, are related parties within the meaning of current legislation, it shall be permitted for other lists to be submitted up to five days subsequent to that dates. In the event that date falls on a Saturday, Sunday or public holiday, the deadline shall be the next business day. In those instances provided by para. b), the percentage pursuant to para. d) shall be reduced by one half;

c) Shareholders may not submit or vote for more than one list either directly or indirectly through an intermediary or trustee. Shareholders belonging to the same Group and Shareholders who have entered into a Shareholders' agreement with respect to the Company's shares may not submit or vote for more than one list either directly or indirectly through an intermediary or trustee. Nominees appearing on more than one list shall be declared ineligible;

c) those Shareholders may submit lists who, individually or jointly, hold a sufficient number of ordinary shares to vote at Shareholders' Meetings for the appointment of members of the Board of Statutory Auditors- equal to the highest percentage pursuant to art. 147 *ter*, subsection 1 of Legislative Decree 58/1998 in compliance with CONSOB, Commissione Nazionale per le Società, and Stock Exchange Rules.

The percentage shareholding of parties submitting lists shall be included in the notice.

Only those lists shall be valid to the extent submitted by Shareholders who presented the documentation required by the deadline pursuant to points a) and b) of this article. In the event a Shareholders' Meeting is postponed to the second or third calling, the submission of lists shall be deemed valid;

e) the Standing Auditors deemed elected shall be the first two nominees of the list that obtained the highest number of votes in addition to the nominee holding first place of the lists submitted by Shareholders other than the majority Shareholder within the meaning of subsection II of Legislative Decree 58/1998.

The Alternate Auditors deemed elected shall be the first nominee of the list that obtained the highest number of votes of the lists submitted by Shareholders other than the majority Shareholder within the meaning of subsection II of Legislative Decree 58/1998.

In the event of a tie in the votes for two or more lists, the nominees in the list submitted by the Shareholder with the highest percentage shareholding or, if this is not possible, the largest number of Shareholders, shall be deemed elected;

f) the first nominee that obtained the highest number of votes on the list submitted by non-controlling shareholders shall be the Chairman of the Board of Statutory Auditors. The preceding paragraph shall apply in the event of a tie;

g) in the event that only one list is submitted, the first three nominees shall be deemed elected Standing

Auditors and the next two Alternate Auditors. Nominees shall deemed be elected in the order they are listed. The first nominee on the list shall be the Chairman.
The members of the Board of Statutory Auditors are required to comply with the cumulative number of other positions as provided by relevant laws and regulations.
In the event of a decease, withdrawal or expiry of the term of appointment of a Statutory Auditor, the vacating Statutory auditor shall be replaced by the first Alternate taken from the same list as the vacating Statutory Auditor. In the event that the Statutory Auditor requiring replacement is the Chairman, the Board of Statutory Auditors shall be chaired by the Alternate Auditor replacing the vacating Chairman until the next Shareholders' Meeting.
The preceding provisions with respect to the election of Statutory Auditors shall also be applicable to the Shareholders' Meeting that is required to appoint Standing and Alternate Statutory Auditors and the Chairman of the Board of Statutory Auditors to assure that the Board is complete following the replacement of a member.
In the event that it is not possible to appoint a Board of Statutory Auditors or make other appointments and/or additions to keep the Board whole in accordance with the above, the Shareholders' Meeting shall proceed in accordance with law.

Art. 23. Meetings of the Board of Statutory Auditors

The Board of Statutory Auditors shall meet every ninety days. Meetings may be held using teleconference and video conference techniques provided that it is possible for all participants to be identified and it is possible for them to follow deliberations and participate in them in real time.
The Board of Statutory Auditors shall be regularly constituted if attended by the majority of auditors. Resolutions shall be passed by absolute majority.

Art. 24. Audit of the accounts

The Company's accounts shall be audited by independent auditors entered in the specific register as required by law.
The independent auditors mandated to conduct the audit of the accounts shall be appointed, on the reasoned proposal of the Board of Statutory Auditors, at the Shareholders' Meeting where the Board of Statutory Auditors' remuneration shall also be determined.
The term of the appointment shall be determined by the relevant provisions and may be renewed.

Chapter VI

Art. 25. Financial year

The Company's financial year shall end on 31 December of every year.
The Company shall approve the financial statements and publish the annual financial statements within one hundred twenty days of the year end.

Chapter VII

Art. 26. Rights of Joint Representatives

Based on written communications and/or special meetings with directors at the Company's offices, the Board of Directors keep the Joint Representatives of Savings Shareholders, bondholders and holders of other non-participating financial instruments sufficiently informed with respect to the Company's operations that can influence the prices of the various classes of shares, bonds and other financial instruments in issue.

Chapter VIII

Art. 27. Duration of the Company

The duration of the Company shall be to 31 December 2050 and may be extended one or two times by Shareholders' resolution.

A prolongation does not give risk to grounds for rescission pursuant to art. 2437 of the Italian Civil Code.

Chapter IX

Art. 28. Liquidation of the Company

The Company shall be liquidated in accordance with law.

On liquidation, preference shall be given to savings shares with respect to the distribution of capital to the amount of € 1.001 (one euro and zero zero one cent) per share. In the event of a share regrouping or split (as is the case for other equity actions making it necessary to leave the rights of Savings Shareholders unaltered as if they had a nominal value) the amounts fixed shall be accordingly modified.

Consolidated financial statements

Consolidated financial statements at 31 December 2009

Consolidated statement of financial position

(thousands of Euro)	note	as at 31.12.2009	of which with related parties	as at 31.12.2008	of which with related parties
Property, plant and equipment	4.1	594,217		616,087	
Investment property	4.2	23,728		22,612	
Goodwill and consolidation differences	4.3	114,897		114,892	
Other intangible assets	4.4	3,528		2,908	
Investments in subsidiaries and associates	4.5	6,526	6,526	5,077	5,077
Investments in other companies	4.5	258	258	258	258
Investments in equity - accounted investees	4.5	3,958	3,958	-	
Other non-current assets	4.6	28,878		26,342	
Non-current financial assets	4.7	111,923		3,239	
Deferred tax assets	4.20	34,867		45,014	
Non-current assets		**922,780**		**836,429**	
Inventories	4.8	469,512		402,283	
Trade receivables	4.9	140,129	21,802	89,058	3,372
Other current receivables and assets	4.10	27,186	5	42,962	
Current financial assets	4.11	100,912	1,283	224,060	8,207
Cash and cash equivalents	4.12	108,964		38,814	
Current assets		**846,703**		**797,177**	
Total assets		**1,769,483**		**1,633,606**	
Share capital		250,015		250,009	
Other reserves		174,082		172,276	
Treasury shares		(2,888)		(2,349)	
Retained earnings		14,395		5,910	
Technical consolidation reserves		8,135		98,500	
Reserve for deferred taxes		65		131	
Loss for the year		(23,929)		(68,651)	
Equity attributable to owners of the Parent	**2.11**	**419,875**		**455,826**	
Equity attributable to non-controlling interests		2,928		2,529	
Total equity	**2.11**	**422,803**		**458,355**	
Employee benefits	4.14	152,382		152,377	
Deferred tax liabilities	4.20	111,550		121,272	
Financial payables and liabilities	4.15	363,075		139,307	
Other non-current liabilities	4.16	14,266	1,446	11,185	1,180
Provisions for risks and charges	4.17	136,113		140,491	
Non-current liabilities		**777,386**		**564,632**	
Financial payables and liabilities	4.18	237,980	2,432	331,402	2,907
Trade payables	4.19	209,657	14,064	147,669	688
Other current liabilities	4.19	94,714	160	103,429	580
Provisions for risks and charges	4.17	26,943		28,119	
Current liabilities		**569,294**		**610,619**	
Total liabilities and equity		**1,769,483**		**1,633,606**	

Consolidated statement of comprehensive income

(thousands of Euro)	note	FY 2009	of which with related parties	FY 2008	of which with related parties
Revenue from sales	5.1	1,949,367	32,208	2,975,231	18,878
Change in inventories of finished goods and semi-finished products		(23,085)		6,260	
Capitalised internal work		1,823		2,618	
Other operating income	5.2	21,482	1,428	20,892	1,205
Purchases and change in raw materials		(1,214,754)	(42,718)	(2,322,376)	(37)
Personnel expense	5.3	(301,914)	(784)	(353,785)	(3,007)
Amortisation, depreciation and impairment losses	5.4	(56,743)		(54,334)	
Other operating costs	5.5	(376,788)	(2,837)	(297,176)	(6,598)
Operating profit (loss)		**(612)**		**(22,670)**	
Financial income	5.6	14,211	1,203	11,668	2,169
Financial expense	5.6	(29,136)	(94)	(54,111)	(268)
Share of profit of equity-accounted associates		-		-	
Profit before taxes		**(15,537)**		**(65,113)**	
Current taxes	5.7	(10,179)		(9,877)	
Deferred taxes	5.7	2,288		6,909	
Total income taxes		**(7,891)**		**(2,968)**	
Loss from continuing operations		**(23,428)**		**(68,081)**	
Profit/(loss) from discontinued operations		-		-	
Loss for the year		**(23,428)**		**(68,081)**	
Other components of total comprehensive income:					
Gains/(losses) on translation of foreign currency financial statements	2.3	(625)		1,587	
Taxes on other components of total comprehensive income		-		-	
Other components of total comprehensive income after taxes		**(625)**		**1,587**	
Total comprehensive income for the year		**(24,053)**		**(66,494)**	
Profit/(loss) for the period attributable to:					
non-controlling interests		501		570	
owners of the Parent		(23,929)		(68,651)	
Loss for the year		**(23,428)**		**(68,081)**	
Total comprehensive income attributable to:					
non-controlling interests		(102)		269	
owners of the Parent		(23,951)		(66,763)	
Total comprehensive income for the year		**(24,053)**		**(66,494)**	

Earnings per share (Euro):	2009	2008
basic earnings/(losses) per share	(0.0765)	(0.2031)
diluted earnings/(losses) per share	(0.0765)	(0.2031)

Statement of changes in consolidated Equity of KME Group S.p.A. at 31 December 2009

(thousands of Euro)	Share capital	Other reserves	Treasury shares	Retained earnings	Consolid. reserves	Reserve for deferred taxes	Profit/(loss) for the year	Total Equity	Non-controlling interests	Total Equity attributable to owners of the Parent
Equity at 31 December 2007	**324,165**	**96,133**	**(37)**	**5,917**	**68,787**	**194**	**40,775**	**535,934**	**1,689**	**537,623**
Equity at 31 December 2008	**250,009**	**172,276**	**(2,349)**	**5,910**	**98,500**	**131**	**(68,651)**	**455,826**	**2,529**	**458,355**
Allocation of Parent's profit/(loss)	-	12,539	-	8,485	-	-	(21,024)	-	-	-
Allocation of subsidiaries' profits	-	-	-	-	(89,675)	-	89,675	-	-	-
Dividends and allocations to the Board of Directors	-	(11,488)	-	-	-	-	-	(11,488)	-	(11,488)
Issue of new shares (exercise of warrants)	6	-	-	-	-	-	-	6	-	6
(Purchase) sale of treasury shares	-	-	(539)	-	-	-	-	(539)	-	(539)
Deferred taxes recognised in Equity	-	-	-	-	-	(66)	-	(66)	-	(66)
Expiry of stock options	-	755	-	-	-	-	-	755	-	755
Other changes	-	-	-	-	(167)	-	-	(167)	-	(167)
Other components of total comprehensive income	**-**	**-**	**-**	**-**	**(523)**	**-**	**-**	**(523)**	**(102)**	**(625)**
Total losses/income recognised in Equity	**-**	**-**	**-**	**-**	**(523)**	**-**	**-**	**(523)**	**(102)**	**(625)**
Profit/(loss) for the year	-	-	-	-	-		(23,929)	(23,929)	501	(23,428)
Total comprehensive income (loss)	**-**	**-**	**-**	**-**	**(523)**	**-**	**(23,929)**	**(24,452)**	**399**	**(24,053)**
Equity at 31 December 2009	**250,015**	**174,082**	**(2,888)**	**14,395**	**8,135**	**65**	**(23,929)**	**419,875**	**2,928**	**422,803**
Reclassification of treasury shares	(2,888)	-	2,888	-	-	-	-	-	-	-
Equity at 31 December 2009	**247,127**	**174,082**	**-**	**14,395**	**8,135**	**65**	**(23,929)**	**419,875**	**2,928**	**422,803**

At 31 December 2009 the Parent directly held 90,555 savings shares and 5,475,170 no nominal value ordinary shares. The shares were subsequently reclassified and set off against share capital.

Statement of changes in consolidated Equity of KME Group S.p.A. at 31 December 2008

(thousands of Euro)	Share capital	Other reserves	Treasury shares	Retained earnings	Consolid. reserves	Reserve for deferred taxes	Profit/(loss) for the year	Total Equity	Non-controlling interests	Total Equity attributable to owners of the Parent
Equity at 31 December 2007	**324,165**	**96,133**	**(37)**	**5,917**	**68,787**	**194**	**40,775**	**535,934**	**1,690**	**537,624**
Allocation of Parent's profit/(loss)	-	12,185	-	130	-	-	(12,315)	-	-	-
Allocation of subsidiaries' profits	-	-	-	-	28,460	-	(28,460)	-	-	-
Dividends and allocations to the Board of Directors	-	(11,569)	-	-	-	-	-	(11,569)	-	(11,569)
Distribution of ErgyCapital S.p.A. shares	-	(1,645)	-	(137)	-	-	-	(1,782)	-	(1,782)
Available reserves	(74,165)	74,165	-	-	-	-	-	-	-	-
Issue of new shares (exercise of warrants)	9	-	-	-	-	-	-	9	-	9
(Purchase) sale of treasury shares	-	-	(2,312)	-	-	-	-	(2,312)	-	(2,312)
Deferred taxes recognised in Equity	-	-	-	-	-	(63)	-	(63)	-	(63)
Expiry of stock options	-	3,007	-	-	-	-	-	3,007	-	3,007
Other components of total comprehensive income	**-**	**-**	**-**	**-**	**1,253**	**-**	**-**	**1,253**	**269**	**1,522**
Total losses/income recognised in Equity	**-**	**-**	**-**	**-**	**1,253**	**-**	**-**	**1,253**	**269**	**1,522**
Profit/(loss) for the year	-	-	-	-	-	-	(68,651)	(68,651)	570	(68,081)
Total comprehensive income (loss)	**-**	**-**	**-**	**-**	**1,253**	**-**	**(68,651)**	**(67,398)**	**839**	**(66,559)**
Equity at 31 December 2008	**250,009**	**172,276**	**(2,349)**	**5,910**	**98,500**	**131**	**(68,651)**	**455,826**	**2,529**	**458,355**
Reclassification of treasury shares	(2,349)	-	2,349	-	-	-	-	-	-	-
Equity at 31 December 2008	**247,660**	**172,276**	**-**	**5,910**	**98,500**	**131**	**(68,651)**	**455,826**	**2,529**	**458,355**

At 31 December 2008 the Parent directly held 78,138 savings shares and 4,480,449 no nominal value ordinary shares. The shares were subsequently reclassified and offset against share capital.

Consolidated statement of cash flows, indirect method

(thousands of Euro)	2009	2008
(A) Cash and cash equivalents at the beginning of the year	38,814	93,936
Loss before taxes	(15,537)	(65,113)
Depreciation and amortisation	56,273	54,104
Impairment losses on current assets	2,707	2,109
Impairment losses (reversals of impairment losses) on non-current assets other than financial assets	470	225
Impairment losses (reversals of impairment losses) on current and non-current financial assets	290	1,612
Losses (gains) on disposal of non-current assets	(4,355)	413
Change in provisions for pensions, post-employment benefits and stock options	(413)	1,286
Change in provisions for risks and charges	(5,484)	11,437
Decrease (increase) in inventories	(66,658)	225,950
(Increase) decrease in current receivables	(39,188)	46,992
Increase (decrease) in current payables	53,986	(52,514)
Changes from currency translation	(1,238)	(367)
Decrease (increase) in LME and metals forward contracts	144,079	(123,589)
Current taxes paid during year	(7,230)	(9,877)
(B) Cash flows from operating activities	117,702	92,668
(Increase) in non-current intangible assets and property, plant and equipment	(37,779)	(59,289)
Decrease in non-current intangible assets and property, plant and equipment	6,174	1,680
(Increase) decrease in investments	(5,712)	64
(Increase) decrease in available-for-sale financial assets	-	-
Increase/decrease in other non-current assets/liabilities	545	4,862
Dividends received	1,463	2,169
(C) Cash flows from investing activities	(35,309)	(50,514)
Cash increase in Equity	6	(1,854)
(Purchase) sale of treasury shares	(539)	(2,312)
Increase (decrease) in current and non-current financial payables	109,415	(72,407)
(Increase) decrease in current and non-current financial receivables	(109,637)	(9,216)
Dividends paid and profits distributed	(11,488)	(11,487)
(D) Cash flows from financing activities	(12,243)	(97,276)
(E) Change in cash and cash equivalents (B)+(C)+(D)	70,151	(55,122)
(F) Change in basis of consolidation	-	-
(G) Cash and cash equivalents at the end of the year (A)+(E)+(F)	108,965	38,814

The statement of cash flows does not separately disclose related party account balances or transactions due to their immateriality.

Accounting policies and notes to the consolidated financial statements

1. General information

KME Group S.p.A. ("KME") and its industrial subsidiaries (that together make up the "Group") operate in the semi-finished copper products and copper alloys sector.
The Group owns industrial plants in various European countries and sells its products in all the major countries of the world.
KME Group is a joint stock Company registered in Italy at the Florence Companies Register, no. 00931330583, and its shares are listed on the Mercato Azionario Telematico (Borsa Italiana's electronic market) organised and operated by Borsa Italiana S.p.A..
The consolidated financial statements as at and for the year ended 31 December 2009 were approved by the Board of Directors on 25 March 2010.
Although it is controlled by iNTEk S.p.A., the Company does not consider that its operations are managed and coordinated by iNTEk pursuant to articles 2497 *et seq.* of the Italian Civil Code and article 37 of the Market Regulations due to the fact that:

a. it has autonomous powers of negotiation with respect to contractual arrangements with customers and suppliers;
b. the Company does not participate in any centralised treasury arrangements operated by iNTEk S.p.A. or another company under iNTEk's control;
c. the number of independent Directors (4 out of 12) is such as to ensure that their opinions have a material influence on board decisions.

2. Accounting policies

2.1 Basis of presentation

The consolidated financial statements as at and for the year ended 31 December 2009 have been prepared pursuant to article 154 *ter* of Legislative Decree 58/1998.
The consolidated financial statements were prepared in compliance with the requirements for measurement and recognition under International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and endorsed by the European Commission in accordance with the procedure set forth in article 6 of Regulation (EC) 1606/2002 of the European Parliament and Council of 19 July 2002 and with requirements in implementation of article 9 of Legislative Decree 38/2005.
In preparing the financial statements, the Directors have applied the concepts of accruals, going concern, clarity, significance, materiality, reliability, neutrality, prudence and comparability and applied accounting policies consistent with those used for the consolidated financial statements as at and for the year ended 31 December 2008 with exception of inventory measurement. Specifically, the Group has changed the method in which the cost of raw materials is determined from the weighted average cost method to FIFO. The reason for the change to determining cost on a FIFO basis is that since FIFO entails the use of cost data at or near the end of the reporting period which is a better representation of current cost and, consequently, improves the financial statements representation of the effects on carrying amounts of the Group's hedging metals price risk through entering into buyer and seller forward and LME contracts (as described in paragraph 3) all of which are recognised at fair value at the end of the reporting period.
Because of the change in accounting policy, the results for the year and equity were both Euro 27.2 million before taxes and Euro 18.7 million after taxes higher than they would have been if the accounting policy had not been changed. The following information is also provided as required by IAS 8:

- if the Group had applied FIFO in 2007, there would have been no effect on the carrying amounts reported in the statement of financial position at 31 December 2007 and consequently comparatives at 1 January 2008 are not presented;

- if the Group had also applied FIFO in 2008, the total value of inventories at 31 December 2008 would have been Euro 15.8 million lower, whereas the overall value of forward seller contracts recognised as Current assets would have been Euro 15.8 million higher due to the method of accounting for financial assets described in note 2.7. As a result the 31 December 2008 statement of financial position comparatives, and the statements of comprehensive income and cash flows 2008 comparatives have been restated in order to retrospectively adjust for determining inventory costs on a first-in, first-out basis. The effect of the restatements were, respectively:
  - "Inventories" in the statement of financial position at 31 December 2008 reduced by Euro 15.8 million combined with an increase of Euro 15.8 million in "Financial assets";
  - "Change in inventories of finished goods and semi-finished products" in the 2008 statement of comprehensive income reduced by Euro 15.8 million with a corresponding reduction of Euro 15.8 million of "Other operating costs";
  - in the 2008 statement of cash flows, a Euro 15.8 million increase in "(Decrease) increase of inventories" and a Euro 15.8 million decrease in "Decrease (increase) in LME and metals forward contracts".

In addition the following standards, amendments and interpretations, some of which were revised as part of the 2008 annual improvements conducted by the IASB, which became effective on or after 1 January 2009, have been applied for the first time:

IAS 1 revised - Presentation of Financial Statements

The revision of the standard introduced the term "total comprehensive income" which encompasses non-owner changes in equity during the period. It is permitted either to present a "statement of comprehensive income", which combines the income statement and all non-owner changes in equity into one statement, or an income statement and a separate statement showing the profit or loss of the year plus other components of comprehensive income.

The Group adopted revised IAS 1 on 1 January 2009 and elected to present all non-owner changes in equity in one single statement for the year entitled "Consolidated Statement of Comprehensive Income". The Group has consequently varied the presentation of the Statement of changes in equity.

As part of IASB's Annual Improvements for 2008, moreover, an amendment to IAS 1 Revised was issued requiring all assets and liabilities, relating to derivative financial instruments designated as hedging instruments, to be classified in the Statement of Financial Position distinguishing between current and non-current assets and liabilities. Distinguishing between current and non-current derivatives assets and liabilities in accordance with the amendment to IAS 1, however, has not varied the Group's presentation of these items.

IAS 23 Revised - Borrowing Costs

The revision of IAS 23 entailed the withdrawal of the optional accounting treatment of immediately recognising borrowing costs in profit or loss, which, consequently must now always be capitalised as part of the purchase, construction or production costs of the relevant asset. In accordance with the transitional arrangements for the revised standard, the Group has applied the revisions prospectively from 1 January 2009 by capitalising borrowing costs directly attributable to the purchase, construction or production of qualifying assets for which the initial investment was made or for which the preparation of the asset for its specific use or sale commenced on or after 1 January 2009. Application of the revisions, however, did not result in a material variation of the 2009 financial statements.

IFRS 8 - Operating segments

IFRS 8 has introduced the concept of "management approach" with respect to segment reporting and requires a change in segment presentation and disclosure in line with information that is provided internally to senior Group management for the assessment of the performance of the segment for the purposes of resource allocation. A full description of the application of IFRS 8 is contained in note 2.20..

Amendment to IFRS 2 - Vesting conditions and cancellations

The amendment to IFRS 2 - Vesting Conditions and Cancellations has clarified the term "vesting conditions". Any features, other than performance and service conditions, of share-based payments are not to be treated as vesting conditions and, consequently, should be included in the grant date fair value of share-based payments. The accounting treatment of cancellations was also addressed by the amendment.

The amendments were applied retrospectively by the Group from 1 January 2009 which had no effect on financial statements due to the facts that the current stock option plan's vesting conditions only consist of performance and service conditions as defined in the amendment.

Improvement to IAS 19 - Employee benefits

The improvement to IAS 19 - Employee Benefits clarifies the definition of past service cost/benefits and requires that, in the event of any reduction of the plan, amounts immediately recognised in profit or loss may only include the reduction in benefits relating to future periods whereas any reductions relating to past service must be treated as a negative past service cost. The amendment also restated the definitions of short and long-term employee benefits in addition to changing the definition of return on plan assets by requiring this amount be reported net of any administration costs that are not included in the liability.
The amendment is required to be applied prospectively to variations in plans occurring on or after 1 January 2009. There was no material effect on the half-year report for the period ended 31 December 2009 caused by application of the amendment.

Improvement to IAS 28 - investments in associates

The improvement to IAS 28 - Investments in Associates does not permit impairment losses relating to investments accounted for under the equity method to be allocated against individual assets (particularly goodwill) that make up the carrying amount of the investment, but rather against the total value of the investment. Any future reversal of the impairment loss should, consequently, be for the full amount of the recovery of the investment's value.
The Group has elected to apply the amendment prospectively to recoveries from 1 January 2009. Application of the amendment to the standard, however, has had no change on accounting for the first half of 2009 due to the fact that the Group did not recognise any reversals of impairment losses on the goodwill components of the carrying amounts of investments.

Amendment of IFRS 7 - Financial instruments: disclosures

The amendment to IFRS 7, that was applied from 1 January 2009, requires disclosure of the determination of the fair value of financial instruments by hierarchical level. The adoption of the standard only affected the disclosures in the notes.

The Group has not yet applied those standards listed in note 2.23, which, although issued by the IASB, will only become effective subsequent to the end of the reporting period.

Events and transactions affecting the Group are recognised and presented with respect to their substance rather than legal form.

Specific notes contained in the Directors' Report disclose the formulae and significance of the alternative performance indicators, where applicable, which although not required by IFRS, are in compliance with recommendation CESR 05 - 178b published on 3 November 2005.

These financial statements are presented in Euro (€), the functional currency of the Parent.

2.2 Basis of Consolidation

(a) Subsidiaries

Subsidiaries are all those companies over which KME exercises control of financial and operating policies, which is generally accompanied by exercising more than 50% of the voting rights in 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 with the investee's equity being reduced by the net carrying amount of the investee's assets and liabilities on the date that control was acquired. Any difference, if positive, is recognised as "goodwill and consolidation differences" and in profit or loss, if negative. The portion of equity and profit attributable to non-controlling interests is recognised under the relevant items. After initial recognition, goodwill is measured at cost less accumulated impairment losses as required by IAS 36 - Impairment of Assets.
On initial adoption of IFRS, KME Group S.p.A. elected not to retrospectively apply IFRS 3 - Business combinations as permitted under IFRS 1.
At the IFRS transition date, there were no changes in the basis of consolidation, except for insignificant subsidiaries and companies, the consolidation of which has no material effect. These are generally companies with operations consisting entirely of sales. Ignoring such companies has no material effect on the Group's financial statements and will have no influence on the business decisions of the financial statements' users.
Unrealised profits on intercompany trading, if material, are eliminated. Receivables, payables, income, expenses, guarantees, commitments and contingencies in connection with transactions between and among consolidated companies are also eliminated. Intercompany losses are not eliminated as they are deemed to represent an impairment loss on the asset sold. All financial statements of subsidiaries have been adjusted to assure consistency of accounting policies with those of the Group.
The financial year of all consolidated subsidiaries is the calendar year.

The following table lists all subsidiaries consolidated on a line-by-line basis.

Summary of line-by-line consolidated companies

Name	Reg. office	Currency	Quota/Share capital	Operations	% owned direct	% owned indirect
KME Group S.p.A.	Italy	Euro	250,009,678	Finance company	Parent Co.	
KME Germany A.G.	Germany	Euro	142,743,879	Holding company	100.00%	
KME Germany A.G. & Co. K.G.	Germany	Euro	200,003,000	Copper and copper-alloy prod.		100.00%
KME Italy S.p.A.*	Italy	Euro	103,839,000	Copper and copper-alloy prod.		100.00%
KME France S.A.S.	France	Euro	15,000,000	Copper and copper-alloy prod.		100.00%
KME Spain S.A.	Spain	Euro	1,943,980	Trading		100.00%
KME LOCSA S.A.	Spain	Euro	10,040,000	Copper and copper-alloy prod.		100.00%
KME Verwaltungs und Dienst. mit beschr.	Germany	Euro	10,225,838	Copper and copper-alloy prod.		100.00%
KME Architectural Metals GmbH	Germany	Euro	25,564	Holding		100.00%
Kabelmetal Messing Beteiligungsges mbH Berlin	Germany	Euro	4,514,200	Property company		100.00%
KME Architectural Metals GmbH & CO. K.G.	Germany	Euro	1,329,359	Copper and copper-alloy prod.		100.00%
Cuprum S.A.	Spain	Euro	60,910	Trading		100.00%
Bertram GmbH	Germany	Euro	300,000	Service company		100.00%
KME Ibertubos S.A.	Spain	Euro	332,100	Copper and copper-alloy prod.		100.00%
KME Yorkshire Ltd.	UK	GBP	10,014,603	Copper and copper-alloy prod.		100.00%
Yorkshire Copper Tube	UK	GBP	3,261,000	dormant		100.00%
Yorkshire Copper Tube (Exports) Ltd.	UK	GBP	100	dormant		100.00%
KME Brass Germany Gmbh	Germany	Euro	50,000	Copper and copper-alloy prod.		100.00%
KME Brass France S.A.S.	France	Euro	7,800,000	Copper and copper-alloy prod.		100.00%
Immobiliare agricola Limestre S.r.l.	Italy	Euro	110,000	Property company	100.00%	
Dalian Dashan Chrystallizer Co. Ltd.	China	RMB	10,000,000	Copper and copper-alloy prod.		70.00%
Dalian Surface Machinery Ltd.	China	RMB	5,500,000	Copper and copper-alloy prod.		70.00%
Dalian Heavy Industry Machinery Co. Ltd.	China	RMB	10,000,000	Copper and copper-alloy prod.		70.00%
KME Brass Italy S.r.l.	Italy	Euro	15,025,000	Copper and copper-alloy prod.		100.00%
KME Service S.r.l.	Italy	Euro	115,000	dormant		100.00%
EM Moulds S.r.l.	Italy	Euro	115,000	Trading		100.00%
KME Recycle S.p.A.	Italy	Euro	2,000,000	Finance company	100.00%	

* On 11 September 2009, the Parent, KME Group S.p.A., transferred 3,839,000 par value Euro 1 shares in KME Italy S.p.A., representing 3.697% of its share capital, to the subsidiary KME Germany A.G..

The scope of consolidation did not vary in 2009.

For German statutory purposes, it is certified that:

- the subsidiary, KME Architectural Metals GmbH & Co. K.G. of Greven-Reckenfeld (Germany), has been included in the scope of consolidation for these financial statements and is, therefore, exempt from the audit requirement for its financial statements, pursuant to "Section 264b of the German Civil Code (Handelsgesetzbuch)";
- the subsidiary, KME Brass Germany GmbH, Osnabrück (Germany), has elected not to present its own financial statements, as permitted under Section 264 (3) of the German Civil Code.

(b) Associates

Associates are companies in which KME exercises significant influence but not control. Significant influence is deemed to exist when KME 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.

Under the equity method, the investment is initially recognised at cost and then adjusted to recognise the percentage of post acquisition profits or losses attributable to the Group. Dividends received are deducted from the carrying amount of the investment.

The subsidiary KME Recycle S.p.A. acquired 30% of the company Metalbuyer S.p.A. on 30 June 2009 and 30% of the company Sigimet S.p.A. on 30 September 2009. At the end of the reporting period, the above mentioned investments were recognised at the provisional cost of Euro 3.9 million. The contractual terms and conditions provide that the purchase price of Metalbuyer will be definitively determined during the next six months. Events and the due diligence having regard to Sigimet S.p.A., on the other hand, led to the suspension by mutual consent of the relevant parties of plans to work together, as permitted under the terms of the agreement, without prejudice, however, to reviving the joint project at some time in the near future.

(c) Joint ventures

A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control. Joint control is the contractually agreed sharing of control over an economic activity. Joint ventures are equity accounted as required by IAS 31, paragraphs 38-41.

At the end of the reporting period, the Group was not engaged in any commercial activities under joint control pursuant to IAS 31.

2.3 Foreign currency transactions

(a) Functional and presentation currency

All amounts are expressed in euros which is also the Parent functional currency.

(b) Translation of the financial statements of foreign operations

Financial statements in currencies other than the euro are translated using the average exchange rates for the period for statements of comprehensive income and the relevant closing rate of exchange for statements of financial position.

The exchange rates used for the translation of foreign currencies are those set by the European Central Bank at the end of the reporting period, as follows:

Euro 1	equal to	GBP 0.9525	31 December 2008
Euro 1	equal to	GBP 0.8881	31 December 2009 used for statement of financial position translation
Euro 1	equal to	GBP 0.8917	31 December 2009 used for statement of comprehensive income translation
Euro 1	equal to	RMB 9.4956	31 December 2008
Euro 1	equal to	RMB 9.8350	31 December 2009 used for statement of financial position translation
Euro 1	equal to	RMB 9.5403	31 December 2009 used for statement of comprehensive income translation

The difference between the profit for the year resulting from translation using the average rates for the year and that which results from the translation using the rates at 31 December 2009, were recognised in the consolidation reserves and in equity attributable to non-controlling interests. These differences, in the event of disposal, will be recognised in profit or loss together with any other gains or losses relating to the disposal of the relevant investment.

2.4 Property, plant and equipment

Property, plant and equipment are recognised at purchase or production cost and include directly attributable incidental expenses. Any item of property, plant and equipment consisting of two or more components with varying useful lives, is separately accounted for.

Property, plant and equipment are carried at cost, net of accumulated depreciation and impairment losses, with the exception of land which is not depreciated and is carried at cost net of accumulated impairment losses.

Depreciation is accounted for from the month the asset becomes available for use, or when it is potentially able to provide the economic benefits associated with it. Depreciation is charged monthly on a straight line basis until the end of the useful life of the relevant asset or, in the event of disposal, until the last month of use. Depreciation rates are based on the useful life of the relevant class of assets as determined by the firm American Appraisal. Useful lives were varied with effect from 1 January 2004 and applied to property, plant and equipment for which cost was restated to fair value on the date of transition to IFRS; the useful lives of assets were varied with effect from 1 January 2005.

Depreciation is charged based on 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

Borrowing costs relating to the purchase of property, plant and equipment have been capitalised in compliance with IAS 23.
Replacement parts of significant value are capitalised and depreciated based on the useful life of the asset to which they refer; low value replacement parts are charged to the statement of comprehensive income when the expense is incurred.
The cost of internally produced assets includes material costs and direct labour plus any other directly attributable costs incurred in bringing the asset to its intended location and preparing it for its intended use.
Assets acquired under finance leases are recognised as property, plant and equipment with a contra entry under payables. The cost of the lease is separated into two components: financial expense, recognised in profit or loss and repayment of principal, recognised as a reduction of borrowings. Assets held under finance leases are recognised at the lower of cost and the present value of minimum lease payments at the inception of the lease. Assets held under finance leases are depreciated over the shorter of the lease term and their useful lives unless there is reasonable certainty that the Group will obtain title to the asset at the end of the lease.
Property, plant and equipment are tested for impairment whenever there is specific objective evidence of impairment. The test involves estimating the recoverable amount of the asset, defined as the higher of fair value less costs to sell and value in use, and comparison of the appropriate value with carrying amount. The recoverable amount is the greater of value in use and fair value less selling costs. Value in use is determined by discounting projected cash flows at a pre-tax discount rate that reflects current market estimates of the time value of money and the risks associated with the relevant asset. To the extent that the recoverable amount is less than the carrying amount, the carrying amount is reduced to the recoverable amount with the difference either being recognised in profit or loss or in a revaluation reserve created on the revaluation of the asset. Subsequent revaluations are treated analogously. Information regarding impairment tests with respect to the preparation of these financial statements are contained in the following note on intangible assets.

2.5 Intangible assets

(a) Goodwill

Goodwill is the difference between the acquisition cost of investments and the fair value of the subsidiaries' assets, liabilities and contingent liabilities on the acquisition date. Goodwill and other intangible assets with indefinite useful lives are not normally amortised. Recoverability of their carrying amounts is, however, tested annually and whenever there is objective evidence of impairment. Any impairment losses recognised are not subsequently reversed.
The severe crisis that hit the real economy and its effects on the Company's business in 2009 are evidence of impairment. Against that backdrop and for the purposes of the financial statements as at and for the

year ended 31 December 2009, specifically whether accounting standards required new impairment tests, the data contained in the business plan as well as the procedures and parameters used for the impairment testing for the interim report as at and for the six months ended 30 June 2009 were analysed to determine whether any new events or facts had since come to light providing evidence of impairment.
The Directors' analysis entailed a comparison of actual figures for the second half of 2009 (better than projections) with the business plan and the outlook for 2010, the assumptions and conclusions of which are described in the relevant section of the Directors' Report. The Directors then analysed the modifications to the original business plan for 2011-2013, approved by the Board of Directors on 6 August 2009, and it was confirmed that they were consistent with a cautious approach to an economic - financial environment and market conditions that have dramatically changed as a result of the crisis. Impairment tests, therefore, were not carried out at 31 December 2009 but will, instead, be conducted at 30 June 2010, as originally planned.
The Directors also considered the fact that the Company's market capitalisation was considerably below the carrying amount of equity, duly noting the detailed explanations of this phenomenon already given, in part with respect to the valuations made for the presentation to the General Meeting of 2 December 2009, of the planned Demerger approved at that meeting. It was, in particular, confirmed that the high volatility of financial markets caused by the unprecedented depth of the economic crisis and low market liquidity had severely penalised stock market prices, which no longer necessarily reflect the economic value of the Company.

Even though the Group's business primarily relates to products for industry and construction, these areas are not considered operating segments pursuant to IFRS 8, due to the fact that the nature of the products, production processes, the assets used for the production processes and the methods of distribution are substantially the same. As a result, goodwill has been allocated to the Company's only operating segment, which is substantially in line with the scope of consolidation of the subsidiary KME Germany A.G..
The impairment test entailed the determination of the value in use of assets tested and then the computation of the present value of projected operating cash flows for two periods of time: the first using the same time horizon as the business plans prepared by the Directors, with the second corresponding to the terminal value determined by an internal rate of return with a perpetual growth rate of 2%.
The resultant cash flows were discounted by the before tax WACC (weighted average cost of capital) of 13.6%. WACC consists of a risk free rate of 4%, a market risk premium of 6% and an additional premium of 2% to reflect the degree of uncertainty with respect to the depth of the current economic downturn.
The use of the high discount rate and the additional premium is a further demonstration of the conservative nature of the approach.

(b) Other intangible assets with indefinite lives

An intangible asset is an identifiable asset without physical substance that is controlled by an entity and is capable of producing future economic benefits.
Intangible assets are acquired by the Company:

- from third parties;
- through business combinations;
- internally generated production.

In the first two instances, intangible assets are recognised initially at cost or fair value, including directly attributable expenses. They are then systematically amortised based on their residual useful life, which is the period over which the assets will be used by the Company, generally between 3 and 5 years. In addition, these assets are carried net of any impairment losses, in line with the accounting treatment for property, plant and equipment. The residual value of intangible assets at the end of their useful life is assumed to be zero.
Internally produced assets are capitalised only to the extent they satisfy the conditions under IAS 38, paragraph 57.

2.6 Investment property

Investment property is land and buildings held to generate rental income, capital appreciation or both rather than being held for sale in the normal course of the Company's business. Such property is not held for the production or supply of the goods and services relating to the company's core business. These assets are initially recognised at fair value with any subsequent changes recognised in profit or loss and are, consequently, not systematically depreciated.
The fair value of investment property was appraised by recognised and suitably qualified professionals.

2.7 Financial assets and liabilities

For the reasons explained in note 2.2, investments in unconsolidated subsidiaries are carried at cost less accumulated impairment losses.
Other investments are recognised at fair value through equity. When fair value cannot be reliably determined, the investments are measured at cost adjusted for accumulated impairment losses.
Non-derivative financial assets with fixed or determinable payments or payable on a certain date, that the company intends and has the ability to hold until maturity, are designated as "Assets held to maturity". The assets included in this category are measured under the amortised cost method based using the effective interest method pursuant to IAS 39.
Financial assets and liabilities acquired or held primarily to be sold or repurchased in the short term and derivative financial instruments not designated as hedging instruments are classified as "Financial assets recognised at fair value through profit or loss" separately indicating those that were classified as such on initial recognition (fair value option). These assets are measured at fair value through profit or loss. This category also includes LME contracts and all metal forward buyer and seller contracts used to hedge raw material price risk less any contracts entered into for the purposes of estimating the realisable value of inventories.

Non-derivative financial assets and liabilities, except for equity instruments, with fixed or determinable payments, not listed on an active market and not included in any of the above categories, are classified as "Loans and receivables" and are carried at amortised cost using the effective interest method. The amortised cost of current loans and receivables and all trade and current payables and receivables, for which the passage of time has little effect, is deemed to correspond to their fair value.
All other non-derivative financial assets which are not classified in one of the three categories above are classified as "Available-for-sale financial assets" and measured at fair value directly in equity with the exception of any impairment losses.
Treasury shares are measured at historical cost and recognised as a reduction of consolidated equity. In the event of sale, reissue or cancellation, the consequent gains and losses are recognised directly in equity.

Determination of impairment losses

All financial assets and liabilities, with the exception of "Financial assets and liabilities through profit or loss at fair value", are tested for impairment in accordance with IAS 39, paragraphs 58-70.
A financial asset is impaired when there is objective evidence that one or more events have had an adverse effect on estimated future cash flows generated by that asset.

An impairment loss on a financial asset carried at amortised cost is the difference between the carrying amount and the present value of projected future cash flows discounted at the original effective interest rate. An impairment loss on an available-for-sale financial asset is determined with reference to the fair value of the asset.

All impairment losses are recognised in profit or loss. Any accumulated impairment losses relating to available-for-sale financial assets previously recognised through equity, if considered material and permanent, are transferred to the statement of comprehensive income even if the financial asset has not been written off.

Impairment losses are reversed to the extent that the fair value of an asset increases and the increase can be objectively related to an event occurring after recognition of the impairment loss in profit or loss. Reversals of impairment losses on assets carried at amortised cost and available-for-sale assets, which are debt instruments, are recognised in profit or loss.

Measurement at fair value

The fair value of financial assets and liabilities at fair value through profit or loss and available-for-sale assets on initial recognition is determined on the basis of the transaction price and is, therefore, equal to the amount paid or received.

Subsequent to and at the end of each reporting period, 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 measurement techniques, based on a series of methods and assumptions relating to market conditions at the end of the reporting period. The fair value of interest rate swaps is calculated with reference to the present value of expected future cash flows. The fair value of forward currency contracts is determined with reference to the forward exchange rate at the end of the reporting period.

Fair value adjustments of derivative instruments not classified as hedging instruments are immediately recognised in profit or loss.

The fair value of non-derivative financial instruments is determined by discounting future cash flows based on the market interest rate at the end of the reporting period.

The fair value of price fixing copper buyer and seller contracts is determined with reference to the market price at the end of the reporting period of the contract's metal component compared to the contract price. Fair value also reflects counterparty risk and the time value of money through discounting.

2.8 Factoring of receivables

KME Group sells a significant portion of its trade receivables to factors. These assignments can be either with or without recourse. Non-recourse assignments of receivables by the Group are made as required by IAS 39 for the derecognition of assets, since essentially all risks and rewards have been transferred. Factorage on non-recourse assignments of receivables is reported under "Other operating costs". In the event that transactions do not fulfil the requirements of IAS 39, for example receivables assigned with recourse, the receivables remain on the face of the Group's statement of financial position even though title has legally passed, and a contra liability of equal amount is recognised in the consolidated statement of financial position. Factorage for receivables assigned with recourse is reported under financial expenses.

2.9 Inventories

Goods for resale are measured at the lower of purchase or production cost, including incidental expenses, and estimated realisable value. The cost of inventories generally includes costs incurred to bring the inventories to their current place and condition.

The value of metals and production costs are treated differently:

- Metal (including the metal content of work in progress and finished goods) is measured at cost on a first-in, first-out basis. Prior to 2009, the Group measured cost on the basis of average weighted cost for each quarter. The effect of the change in accounting policy is described in the notes. That amount is written down at the end of the year to realisable value.

Realisable value is the estimated price in the normal course of business of the asset and is based on the most reliable information to hand when estimations of realisable value are made. Estimations take the reason inventories are held into account. Inventories, consequently, held for resale are determined with reference to resale prices agreed with customers. The realisable value of inventories that, on the other hand, are not held for resale but are permanently held in inventories as strategic metal reserves is estimated with reference to current selling prices. The Group is of the opinion that the best estimate of current selling price is the LME official average price plus incidentals for December or, if lower, the official average price for January.

- The cost of production of work in progress and finished goods includes direct costs plus the amount of indirect costs that can reasonably be allocated to the product, excluding administrative expenses, selling expenses and financial charges. The absorption of general expenses in production costs is based on normal production capacity.

The services content of contract work in progress is measured with respect to the agreed sales price less selling costs.

Supplies and consumables are measured at weighted average cost.

2.10 Cash and cash equivalents

Cash and cash equivalents include cash, demand deposits and highly liquid short-term financial investments that are readily convertible into cash and which are subject to an insignificant risk of changes in value (IAS 7 paragraph 45).

2.11 Equity

Share capital consists of ordinary and savings shares of no nominal amount, fully subscribed and paid up at the end of the reporting period, reduced by any unpaid calls on capital. As required by IAS 32, the value of treasury shares is reported as a reduction of subscribed share capital, whilst any premium or discount to nominal value is recognised as an adjustment to other components of equity. Such adjustments are reported in the notes, whilst the historical cost of treasury shares is reported on the face of the statement of financial position as a reduction of equity.
The reserve for treasury shares is no longer used due to the change in presentation introduced by IFRS. The balance on the reserve was, consequently, reclassified to the relevant, specific reserves that had been used to create it.
Costs of equity transactions have been charged directly to equity reserves with preference given to the share premium reserve.

2.12 Receivables and payables

Receivables and payables are recognised at amortised cost. When the difference between present and nominal value is insignificant such as for current trade receivables and payables, they are recognised at their nominal value.

2.13 Current and deferred taxes

Tax expense for the year includes both current and deferred taxation. Income taxes are recognised in profit or loss unless relating to transactions recognised directly in equity in which case the relevant tax is also recognised directly in equity.
Current taxes are the estimated tax payable computed on taxable income for the year as determined with reference to current tax rates and those substantially in effect at the end of the reporting period. Deferred taxes are provisioned on temporary differences between the carrying amounts of the assets and liabilities and the corresponding amounts recognised for tax purposes. Deferred taxes are not provided for the following temporary differences: initial recognition of assets and liabilities for transactions other than business combinations that have no effect on either on accounting profit or loss or tax profit or loss; differences relating to investments in subsidiaries and joint ventures to the extent that the difference is not likely to reverse in the foreseeable future. The Group also does not recognise deferred tax liabilities arising on the initial recognition of goodwill. Deferred tax assets and liabilities are measured with reference to tax rates that it is believed will be in effect in the period in which the underlying asset will be recovered or liability paid based on tax rates in effect or substantially in effect at the end of the reporting period. There is an offset of deferred tax assets and liabilities whenever there is a legal right to offset current tax assets and liabilities and if the deferred tax asset or liability relates to income taxes assessed by the same tax authority on the same taxpaying entity or differing taxpaying entities intending to settle the current tax asset or liability on a net basis or to simultaneously recover the asset and pay the liability.
Deferred tax assets are recognised to the extent that it is likely that there will be sufficient future taxable income to use the related tax credit. The carrying amounts of deferred tax assets are tested at the end of each reporting period and are reduced to the extent that the underlying tax credit is not likely to be recoverable.

2.14 Employee benefits

Post-employment benefits are payable under plans which, depending on their terms and conditions are classified either as "defined contribution" or "defined benefit plans". The Company's liability under defined contribution plans is limited to the payment of contributions to a separate legal entity (including the Government or a fund), and consists of contributions due at the end of the reporting period. Liabilities under defined benefit plans, such as post-employment benefits, pursuant to article 2120 of the Italian Civil Code, less any plan assets, are determined on the basis of actuarial assumptions and accrued with reference to the length of service required for benefits to become vested. Actuarial gains and losses relating to defined benefit plans deriving from changes in actuarial assumptions or plan terms and conditions are prorated to profit or loss using the corridor method, which entails recognition of the net amount of actuarial gains and losses not recorded at the end of the previous reporting period exceeding the greater of 10% of the present value of the obligation and 10% of the fair value of any plan assets.
Law 296 of 27 December 2006 and subsequent decrees and orders promulgated in 2007 to reform the pension system introduced significant changes to the identity of institutions holding post-employment benefit plan assets prior to the payment of benefits. Employees may now elect either for contributions to be paid to supplementary pension plans or to be held in the company (companies with less than 50 employees) or transferred to INPS (companies with more than 50 employees). Based on the generally held interpretation of these rules, the Group believes that:

- post-employment benefits vested at 31 December 2006 but not yet paid at the end of the reporting period are to be classified as defined benefit plans and measured by actuarial methods without, however, including the component relating to future pay increases;

- contributions payable both to supplementary pension schemes and INPS for post-employment benefits vesting subsequent to that date are to be classified as defined contribution plans excluding, however, for the purposes of accruing the liability, the actuarial component.

The measurement of defined benefits plans was carried out by independent actuaries.

2.15 Provisions for risks and charges

Provisions for risks and charges are liabilities, the amount or timing of which are uncertain. Such provisions are only recognised to the extent that:

1. the Group has a current (legal or constructive) obligation as a result of 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 are, therefore, the best estimates of the expenses needed to settle the obligation or transfer it to third parties at the end of the reporting period. Where the difference between the present and future value of the provision is significant, the provision is stated at the present value of the payment required to settle the obligation.
Provisions for restructuring costs are recognised only if the Group has a formal detailed plan showing at a minimum: the operations and main operating units concerned, the costs to be incurred, the approximate number of employees involved and to the extent that interested third parties reasonably expect that the entity will restructure because it has already commenced or because a public announcement in that regard has been made.

2.16 Revenue recognition

Revenue from the sale of goods and services is recognised at the fair value of the consideration received or receivable, adjusting for any returns, rebates and sales or volume discounts. Revenue is recognised when the significant risks and rewards of ownership of the goods have been transferred to the buyer, when the recoverability of the consideration is probable and the relevant costs or any returned goods can be reliably estimated.
Although transfer of the risks and rewards of ownership vary depending on conditions of contract, it normally occurs on the physical delivery of the goods. Service revenue, such as work performed for customers, is recognised on the basis of the stage of completion of such work at the end of the reporting period, which is then measured with respect to the amount of work performed.

2.17 Leases

Leases are arrangements by which the lessor transfers the right to use an asset for an agreed period of time to the lessee in exchange for payment or a series of payments. Lease arrangements that essentially transfer all risks and rewards deriving from ownership of the asset are defined as "finance leases" even if title does not pass at the end of the lease. Finance leases are recognised as required by IAS 17, paragraphs 20-32.
Operating leases are defined as any arrangement for the lease of assets that is not a finance lease.

2.18 Financial income and expense

Financial income includes interest income from cash invested, exchange rate gains, dividends, guarantee fees received, gains on disposal of available-for-sale financial assets, increases in the fair value of assets held for trading and derivatives except for increases in the fair value of LME contracts and metals forwards which are reported under "Other operating costs". Dividends are recognised only when the Shareholders' right to receive payment has been established.

Financial expense includes loan interest expense, exchange rate losses, guarantee fees expense, losses on the disposal of available-for-sale financial assets, factorage paid with respect to factoring of receivables with recourse, decreases in the fair value of assets held for trading and derivatives except for the decreases in fair value of LME contracts and metals forwards which are reported under "Other operating costs".

2.19 Stock options

Personnel expense includes stock options awarded to executive members of KME Group S.p.A.'s board directors and certain other group executives, consistent with the nature of compensation paid. The fair value of stock options has been determined by the option value at the award date by applying the Black & Scholes model which includes variables relating to the conditions of exercise, current share value, exercise price, duration of the option, dividends and expected volatility and the risk-free interest rate. The cost of stock options is recognised together with a contra entry in equity under "Reserve for stock options".

2.20 Segment information

KME Group only operates in one segment. The Group, however, provides information by line of business (construction and industrial materials) which does not conform with IFRS 8 operating segments. This is the reason this note is not entitled "operating segments".
The Group's lines of business can be aggregated by:
a) the nature of products and services;
b) the nature of the production processes;
c) type or class of customers for the Group's products and services;
d) the methods used to distribute products;
d) the nature of the regulatory environment
and are, therefore, one operating segment within the meaning of IFRS 8.
The Directors of the Company believe that the similarity of its products and the facts listed above, including the nature of the Company's products (semi-finished products for industry and construction), a significant proportion of production (foundry, extrusion and rolling), the market and distribution methods are all common to the segment in which the KME Group operates.

2.21 Earnings/(loss) per share

Basic and diluted earnings/(loss) per ordinary share are calculated in the following manner:

1) the numerator is equal to profit attributable to owners of the Parent, adjusted by the profit or loss that is to be set aside, for the current year, for savings shares in issue less any treasury shares held directly or through subsidiaries;
2) the denominator of "basic earnings per share" is the weighted average of the ordinary shares in issue during the year less ordinary treasury shares;
3) the denominator of "diluted earnings per share" is the weighted average of the ordinary shares adjusted by adding the maximum number of any new shares that could be issued through:
   - conversion of all outstanding warrants;
   - exercise of all stock options outstanding.

For this calculation, it was assumed that warrants were converted and stock options exercised at the beginning of the year and that the conversion and exercise did not result in increased income or decreased expenses.

Basic loss per share at 31 December 2009 was calculated by taking the loss of the Group of Euro 23.9 million (Euro 68.6 million for 2008) less any amounts owing to savings shareholders, attributable to ordinary shareholders and the weighted average of ordinary shares outstanding of 353,236,543 (353,225,733 for 2008) as calculated in accordance with IAS 33, paragraph 64, following the stock split of 8 February 2010. Diluted loss per share was calculated as required by IAS 33, paras. 36 *et seq.*

2.22 Use of estimates

The preparation of the financial statements and notes in accordance with IFRS required the Directors to make estimates and assumptions which influenced the amounts reported under assets and liabilities.
Estimates are primarily made to determine the fair value of investment property, LME contracts and price fixing metal buyer and seller contracts recognised as financial instruments, the useful lives of non-current assets, allowance for impairment losses, impairment losses, the cost of employee benefits, the estimated current and deferred tax charges, estimated restructuring provisions, the indefinite useful lives of intangible assets and other provisions and allowances.
These estimates and assumptions are periodically checked and any variations are immediately recognised in profit or loss. At the end of the reporting period, the Directors were of the opinion that the estimates and assumptions used were the best indicators of the actual amounts given the information to hand. In addition, the Directors believed that the estimates and assumptions adopted did not imply any material adjustments to carrying amounts of assets and liabilities.

2.23 Accounting standards not yet applied

Certain new standards, revisions to standards and interpretations in issue at 31 December 2009 that are relevant to the Group had not yet become effective and were not used to prepare these consolidated financial statements.

The most important included:

1. **IFRS 3 Business combinations (revised 2008)** has introduced the following changes which are expected to be relevant to the Group:
- the definition of "business" has been widened so that an increased number of acquisitions will be required to be treated as business combinations;
- it will be required to recognise contingent consideration at fair value and subsequent changes in fair value in profit or loss;
- unlike the cost of issuing shares or debt certificates, acquisition-related costs for business combinations will be required to be recognised in profit or loss when incurred;
- in the event that control of a company is acquired in which a non-controlling interest was previously held, it will be required to re-measure the previously-held equity interest in the acquiree at acquisition date fair value and recognise any resulting gain or loss in profit or loss;
- any non-controlling interests held will be required to be recognised, depending on the nature of the equity interest, either at fair value or proportionate to the identifiable assets and liabilities acquired. IFRS 3 (revised), which will become mandatory for the group from 1 January 2013, will be applied prospectively.

2. **IAS 27 Consolidated and separate financial statements (revised 2008)** requires changes in a parent's ownership interests in a subsidiary that do not result in a loss of control to be accounted for in equity. In the event control is lost but an equity interest in the company is maintained, the remaining equity interest must be recognised at fair value from the date control is lost and any gain or loss must be recognised in profit or

loss. It is not anticipated that the revision to IAS 27, which will become mandatory for the Group from the consolidated financial statements as at and for the year ending 31 December 2010, will have a material effect on the Group's consolidated financial statements.

3. As part of IASB's Annual Improvements for 2008, **IFRS 5 - Non-current assets held for sale and discontinued operations** was modified to require companies with committed plans to dispose of equity interests, which will result in the loss of control of an investee, to reclassify all of the subsidiary's assets and liabilities as available-for-sale notwithstanding the fact that the company will still have a non-controlling equity interest in the subsidiary subsequent to the planned disposal. The modification will be applied prospectively from 1 January 2010.

4. On 27 November 2008, the IFRIC issued interpretation **IFRIC 17 - Distributions of non-cash assets to owners** in order to assure the uniformity of the accounting treatment of non-cash distributions to Shareholders. The interpretation clarifies that a dividend payable should be recognised when the dividend is appropriately authorised and should be measured at the fair value of the assets to be distributed. In addition, an entity should recognise the difference between the dividend paid and the carrying amount of the net assets distributed in profit or loss. The interpretation is required to be applied prospectively from 1 January 2010. At the date of presentation of these financial statements, the relevant bodies of the European Union had not yet completed the procedures required for the endorsement of the interpretation.

5. **IFRS 2 - Share-based payments (improvement)**: the amendment which must be applied from 1 January 2010 (earlier adoption is permitted) clarified that as a result of the change to the definition of business combinations under IFRS 3, contributions of a business on formation of a joint venture and common control transactions are not within the scope of IFRS 2.

6. **IFRS 5 - Non-current Assets Held for Sale and Discontinued Operations (improvement)**: the amendment, which is required to be applied prospectively from 1 January 2010 clarified that IFRS 5 and other IFRS specifically referring to non-current assets (or disposal groups) classified as available-for-sale or discontinued operations should contain all of the disclosures required for these types of assets and transactions.

7. **IAS 7 - Statement of cash flows**: the amendment, which is required to be applied from 1 January 2010, requires that expenditure resulting in a recognised asset can be classified as cash flow from investing activities, whereas expenditure not resulting in a recognised asset (as could be the case for advertising and personnel training expenditure) must be classified cash flow from operating activities.

8. **IAS 17 - Leases**: as a result of a revision to IAS 17, leasehold landed property will also be subject to the test under IAS 17 for the purposes of classifying the lease either as an operating or a finance lease regardless of whether title passes on the expiry of the lease. Prior to these changes, the standard required that if the land title to leasehold property did not pass on expiry of the lease, the lease would be classified as an operating lease with an indefinite useful life. The amendment is required to be applied from 1 January 2010. All existing land held under leases which have not expired at the date of adoption are required to be separately measured with any retrospective recognition of a new lease accounted for as if the lease was a finance lease.

9. **IAS 36 - Impairment of assets**: the amendment, which is required to be applied prospectively from 1 January 2010, requires that all operating segments or combinations of operating units to which goodwill is attributed for the purposes of impairment testing may not be larger than an operating segment as defined by paragraph 5 of IFRS 8 before the combination permitted under paragraph 12 of IFRS 8 for segments engaging in similar business activities or having other similarities.

10. **IAS 38 - Intangible assets**: the 2008 revisions to IFRS 3 require, subject to the availability of sufficient information, the measurement, at fair value, of an intangible asset that was acquired in a business combination to the extent that the intangible asset is separately identifiable or was derived from rights under contract or law. IAS 38 was consequently amended to reflect the revision of IFRS 3. The amendment also clarified the description of measurement techniques commonly used by entities when measuring the fair value of intangible assets acquired in a business combination that are not traded in active markets. Specifically, the measurement techniques can either include the net present value of projected cash flows generated by the asset, estimated avoided costs through possession of the asset which is not required to be used under licence or the costs required to recreate or replace the asset (similar to the cost method). The amendment is required to be applied prospectively from 1 January 2010. If, however, IFRS 3 revised is applied at an earlier date, application of this amendment should also be brought forward.

11. **IAS 39 - Financial instruments**: recognition and measurement: this amendment clarifies the standard's definition of an underlying that is hedged in certain circumstances. The amendment is required to be applied prospectively from 1 January 2010.

12. **Amendment to IAS 24 - Related party disclosures**: the amendment simplifies the disclosure requirements for government-related entities and clarifies the definition of "related party". The amendment was issued in November 2009 and is applicable for annual periods commencing on or after 1 January 2011.

13. **IFRS 9 - Financial instruments**: the new standard establishes the criteria for the classification of financial assets through a single approach based on the methods of managing financial instruments and the nature of contractual cash flows generated by those financial instruments for their measurement in replacement of the rules set out in IAS 39. The new standard also provides for a single method to measure impairments losses on financial assets. Application of IFRS 9 will be mandatory from 2013.

At the date of these consolidated financial statements, the relevant European Union bodies had not yet concluded the endorsement process required for the application of these improvements.

The other standards and interpretations (IFRIC 12 "Service concession arrangements, IFRC 13 "Customer loyalty programmes", IFRIC 14 "The limit on a defined benefit asset, minimum funding requirements and their interaction", IFRIC 15 "Agreements for the construction of real estate", IFRIC 16 "Hedges of a net investment in a foreign operation", IFRIC 18 "Transfers of assets from customers", IFRIC 19 "Extinguishing financial liabilities with equity instruments", IAS 32 "Financial instruments - presentation: classifications of rights issues") that have been either issued or amended are not applicable to the Group or relate to items or relate to accounting policies not used by the Group.

3. Financial risk management

The Group is subject to a number of operating and financial risks in the normal course of its business. Group policy is to eliminate or at least minimise such risks through hedging strategies. The Group, therefore, has formal procedures for the setting of objectives and procedures for hedging credit, liquidity, currency, interest rate and above all raw materials price risks.

Types of risk:

a) credit risk: there are no significant geographical concentrations in connection with this risk. Existing guidelines require adequate assessment of customers' creditworthiness. This is achieved by selecting customers on the basis of historical experience, capitalisation and/or financial information, lines of credit in existence, insurance and the factoring of the greatest part of receivables without recourse;

b) liquidity risk: liquidity risk can arise from the inability to raise working capital financing as and when required. All inflows and outflows and cash balances of Group companies are centrally monitored and managed by Group Treasury. The Group intends to meet its cash requirements for the repayment of borrowings and capital expenditure through cash from operating activities, cash on hand and fresh bank borrowings or the roll-over of existing bank credit. Given the current environment, the Group intends to maintain sufficient operating cash flow generation capacity through measures designed to control the level of working capital, in particular, cash needs arising from raw materials inventories. Any significant and sudden reduction in sales volumes could have an adverse effect on operating cash flow generation. The current financial crisis means that it is not possible to ignore the possibility that circumstances in the banking and money markets could lead to difficult and costly negotiations with lenders;

c) currency risk: the Group operates internationally and it engages in transactions in a number of currencies and interest rates. The exposure to currency risk arises primarily from the geographic location of the markets on which the Group sells its products. It is Group policy to hedge all of the above risks through derivative financial instruments such as cross currency swaps and forward contracts;

d) interest rate risk: interest rate risk, to which the Group is exposed, arises primarily in connection with long-term loans. Variable rate loans expose the Group to a cash flow risk, while fixed rate loans entail assumption of the risk of a change in fair value. The Group currently has no IRS (interest rate swaps) on the books which convert variable into fixed interest rates;

e) commodity price risk (particularly copper): this is the most significant and strategic of the risks to which the Group is exposed. The objective is to fully hedge this risk through trading in physical goods or forward contracts on the London Metal Exchange (LME). Specifically, all metal price fixing buyer and seller contracts are netted daily and the change in the net open position is generally hedged by LME contracts so that the company is not exposed to overnight price risk. LME contracts are normally paper deals (i.e., settled through the payment of differentials), whereas trading in physical goods may require delivery of the actual commodity, finished goods or semi-finished products. In reality, both transactions are physical in nature which, however, can also be settled through: cash payment of differentials, writing another contract or trading in financial instruments. This is also the case for price fixing seller and buyer contracts with customers and suppliers which, although normally settled by physical delivery, may also be settled prior to the delivery date by squaring positions and can also be used to take advantage of opportunities on the market which would otherwise have to be ignored without, however, making physical delivery of the commodity. The concept of similarity and neutrality for LME and physical goods trading is supported by:
- having analogous methods of execution (physical or payment of differentials);
- they both have the same reference price (LME quotation);

- the fact that they are managed through only one risk management position, changes in which are linked to operational factors, and only one administrative and accounting system;
- reliably determining fair value.

The fact that both LME contracts and customer and supplier contracts may both be settled through payment of differential market prices means that, in accordance with paragraph 6b of IAS 39, metals buyer and seller contracts can, similarly to financial instruments, be accounted for at fair value with changes in fair value recognised in profit or loss under "Other operating costs".

All derivative financial instruments used by the Group are designated as hedging instruments within the meaning of IAS 39, even though they were acquired to manage the aforementioned risks (please refer to paragraph 2.7).

In any case, the Group does not trade in financial derivatives for speculative purposes, even though it does not account for the financial instruments in accordance with hedge accounting rules, as these transactions do not meet the conditions set out in IAS 39.

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
31 December 2008						
Closing historical cost	56,906	196,821	925,227	154,794	26,310	1,360,058
Accumulated depreciation and impairment losses	130	102,576	527,752	113,513	-	743,971
Closing net carrying amount	**56,776**	**94,245**	**397,475**	**41,281**	**26,310**	**616,087**
31 December 2009						
Opening historical cost	**56,906**	**196,821**	**925,227**	**154,794**	**26,310**	**1,360,058**
Translation differences	156	132	3,610	98	(43)	3,953
Change in scope of consolidation	-	-	-	-	-	-
Increases	1,058	1,530	5,709	2,636	23,936	34,869
Reclassifications	345	5,300	23,058	2,691	(31,394)	-
Decreases	(50)	(794)	(6,220)	(4,490)	(4)	(11,558)
Closing historical cost	**58,415**	**202,989**	**951,384**	**155,729**	**18,805**	**1,387,322**
31 December 2009						
Accumulated depreciation and impairment losses	**130**	**102,576**	**527,752**	**113,513**	**-**	**743,971**
Translation differences	(2)	5	3,198	97	-	3,298
Change in basis of consolidation	-	-	-	-	-	-
Depreciation	18	6,240	41,817	7,088	-	55,163
Impairment losses/(reversals of impairment losses)	-	(38)	834	(211)	-	585
Decreases	-	(537)	(5,543)	(3,832)	-	(9,912)
Reclassifications	-	24	-	(24)	-	-
Accumulated depreciation and impairment losses	**146**	**108,270**	**568,058**	**116,631**	**-**	**793,105**
31 December 2009						
Historical closing cost	58,415	202,989	951,384	155,729	18,805	1,387,322
Accumulated depreciation and impairment losses	146	108,270	568,058	116,631	-	793,105
Closing net carrying amount	**58,269**	**94,719**	**383,326**	**39,098**	**18,805**	**594,217**
of which finance leases:	**1,300**	**3,542**	**-**	**-**	**-**	**4,842**

Property, plant and equipment by geographical segment:

Geographical segment (millions of Euro)	FY 2009	%	FY 2008	%
Germany	277.25	46.7%	287.9	46.7%
Italy	228.00	38.4%	237.3	38.5%
France	49.45	8.3%	53.4	8.7%
United Kingdom	12.65	2.1%	12.6	2.0%
Spain	19.33	3.3%	20.4	3.3%
China	7.53	1.3%	4.4	0.7%
Total	**594.2**	**100%**	**616.1**	**100%**

Property, plant and equipment with a net carrying amount of Euro 267.5 million (Euro 278.1 million at 31 December 2008), were given as security under the terms of a loan agreement signed in 2006.
The most significant investments during the year are detailed in the Directors' Report.
Assets under finance leases primarily relate to the "Firenze Novoli" building which houses the Group's headquarters. The lease for this building contains two purchase options exercisable on 30 September 2009 and 30 September 2016. The option expired on 30 September 2009 without having been exercised.

Future minimum payments under finance leases at the end of the reporting period and the relevant present value are shown below:

(thousands of Euro)	Within 1 year	Between 1 and 5 years	Due after 5 years	Total
Minimum lease payments	398	1,594	2,701	4,693
of which interest	8	230	805	1,043
Present value	390	1,364	1,896	3,650

previous year:

(thousands of Euro)	Within 1 year	Between 1 and 5 years	Over 5 years	Total
Minimum lease payments	508	1,621	3,099	5,228
of which interest	10	231	1,007	1,248
Present value	498	1,390	2,092	3,980

4.2 Investment property

(thousands of Euro)	Land	Buildings	Total
Carrying amount at 31 December 2008	**228**	**22,384**	**22,612**
Aquisitions	-	-	-
Capitalised expenditure	-	1,033	1,033
Business combinations	-	-	-
Disposals	-	(32)	(32)
Changes in fair value	669	(554)	115
Changes of use	-	-	-
Other changes and reclassifications	3,919	(3,919)	-
Carrying amount at 31 December 2009	**4,816**	**18,912**	**23,728**

Investment property consists of land and buildings belonging to Immobiliare Agricola Limestre S.r.l. and KME Italy S.p.A.. The properties are held either to earn rental income or for capital appreciation and are carried at fair value. The additions relate to the capitalisation of non-routine building maintenance. The change in the fair value of investment property recognised during the year relates to the revaluation of the land and buildings as appraised by recognised and suitably qualified professionals with recent experience in the location and with the type of investment property being appraised.

The following amounts were recognised in profit or loss during the year:
- rental income of Euro 510 thousand;
- operating costs directly relating to the properties of Euro 1,065 thousand.

4.3 Goodwill and consolidation differences

This amount consists of:
- goodwill of Euro 315 thousand that arose on the acquisition by the German subsidiary KME Architectural Metals GmbH & Co. K.G. of two divisions made up of plant and equipment, trade receivables and inventories during the previous year;
- consolidation differences of Euro 114,582 thousand.

2009 consolidation differences are unchanged. Goodwill and consolidation differences are tested for impairment based on the recoverable amount determined by estimating value in use.
Even though the Group's business primarily relates to products for industry and construction, these areas are not considered operating segments undes IFRS 8 due to the fact that the nature of the products, production processes, the assets used for the production processes and the methods of distribution are substantially the same. As a result, goodwill has been allocated to the Company's only operating segment which is substantially in line with the scope of consolidation of the subsidiary KME Germany A.G..

Information on impairment testing at 31 December 2009 is contained in note 2.5.

4.4 Other intangible assets

(thousands of Euro)	Other assets	Assets under development	Total
31 December 2008			
Closing historical cost	10,767	59	10,826
Accumulated amortisation and impairment losses	7,918	-	7,918
Closing net carrying amount	**2,849**	**59**	**2,908**
31 December 2009			
Opening historical cost	**10,767**	**59**	**10,826**
Translation differences	-	-	-
Change in scope of consolidation	-	-	-
Increases	1,499	379	1,878
Reclassifications	80	(80)	-
Decreases	(317)	(18)	(335)
Closing historical cost	**12,029**	**340**	**12,369**
31 December 2009			
Accumulated amortisation and impairment losses	**7,918**	**-**	**7,918**
Translation differences	-	-	-
Change in scope of consolidation	-	-	-
Amortisation	1,115	-	1,115
Reclassifications	-	-	-
Decreases	(192)	-	(192)
Accumulated amortisation and impairment losses	**8,841**	**-**	**8,841**
31 December 2009			
Closing historical cost	12,029	340	12,369
Accumulated amortisation and impairment losses	8,841	-	8,841
Closing net carrying amount	**3,188**	**340**	**3,528**

The intangible assets shown above primarily relate to software and have finite useful lives.

Research and development expenditure is recognised directly in profit or loss. Research expenditure for the year amounted to Euro 1.3 million (Euro 1.9 million for the previous year).

4.5 Investments in subsidiaries, associates and other companies

The Group's investments are listed below:

Name	Registered office	Business	% owned by KME direct	indirect	Dec. 09 thousands of Euro	Dec. 08
Subsidiaries and associates measured at cost						
Accumold A.G.	Switzerland	In liquidation		100.00%	-	-
AMT - Advanced Mould Technology India Private Ltd.	India	Trading		99.62%	1,500	-
Europa Metalli Trèfimétaux UK Ltd.	UK	Non-operating		100.00%	450	420
Evidal Schmole Verwaltungsges mbH	Germany	Non-operating		50.00%	-	-
Irish Metal Industrial Ltd.	Ireland	Trading		100.00%	-	-
KM - Hungaria Szinesfem Kft.	Hungary	Trading		100.00%	8	8
KM Polska Sp. Zo.o.	Poland	Trading		100.00%	64	64
KME (Suisse) S.A.	Switzerland	Trading		100.00%	1,000	1,000
KME America Inc.	USA	Trading		100.00%	7	7
KME Asia Pte Ltd.	Singapore	Trading		100.00%	99	99
KME Austria Vertriebgesellschaft mbH	Austria	Trading		100.00%	168	169
KME Beteiligungsgesellschaft mbH	Germany	Non-operating		100.00%	-	-
KME Chile Lda	Chile	Trading		100.00%	18	18
KME China Limited	China	Trading		100.00%	367	657
KME Czech Republic	Czech Rep.	Trading		100.00%	3	3
KME Danmark A/S	Denmark	Trading		0.00%	-	134
KME Messing Beteiligungs GmbH Norib.	Germany	Non-operating		100.00%	-	511
KME metal GmbH	Germany	Non-operating		100.00%	511	511
KME Metals (Shanghai) Trading Ltd.	China	Trading		100.00%	16	16
KME Mould Service Australia Pty Ltd.	Australia	Trading		100.00%	676	5
KME Moulds Mexico SA de CV	Mexico	Trading		100.00%	528	528
KME Service Russland Ltd.	Russia	Trading		60.00%	54	4
Metal Center Danmark A/S	Denmark	Trading		30.00%	134	-
N.V. KME Benelux S.A.	Belgium	Trading		100.00%	883	883
Societe Haillane de Partecipations	France	Non-operating		99.99%	40	40
XT Limited	UK	Non-operating		100.00%	-	-
KME Service S.r.l.	Italy	Non-operating		100.00%	-	-
Total					**6,526**	**5,077**
Investments measured at cost						
Editoriale Fiorentina S.r.l.	Italy	Publishing		7.13%	142	142
Other investments of KME France S.A.S.	France	various	n.a.	n.a.	116	116
Total					**258**	**258**
Equity accounted investees						
Metalbuyer S.p.A.	Italy	Trading		30%	1,958	-
Sigimet S.p.A.	Italy	Trading		30%	2,000	-
Total					**3,958**	**-**

The increase of Euro 1,449 thousand compared to the previous year in Investments in Subsidiaries and Associates is the net of:

- an increase of Euro 134 thousand due to the acquisition of 30% of the Danish Metalcenter Danmark contributed by the subsidiary KME Danmark A/S, which, consequently, decreased by Euro 134 thousand;
- a decrease of Euro 511 thousand recognised on the conclusion of the liquidation of Kabelmetal Messing Beteiligungsgesellschaft mbh of Nuremberg;
- the Euro 671 thousand increase in capital of the subsidiary KME Mould Service Australia Pty Ltd.;
- a Euro 290 thousand impairment loss on the investment in the subsidiary KME China Limited;
- translation differences relating to the investment in Europa Metalli Trèfimétaux UK Ltd. (a Euro 30 thousand increase);

- a Euro 1,500 thousand increase following the acquisition of 99.62% of the Indian company, AMT - Advanced Mould Technology India Private Ltd.;
- a Euro 49 thousand increase relating to KME Service Russland Ltd..

Other investments of KME France S.A.S. include small investments (generally less than 1%) in companies operating in the construction sector. French companies are, in fact, required to pay a certain percentage of the personnel expense as contributions, loans or investments to assist their staff in purchasing real estate.

The increase in "Equity-accounted investees" of Euro 3,958 thousand is due to the acquisition of 30% shareholding in Metalbuyer S.p.A. by the subsidiary KME Recycle S.p.A. for Euro 2 million as well as KME Recycle's acquisition of a 30% shareholding in the company, Sigimet S.p.A..

4.6 Other non-current assets

Other non-current assets predominantly consist of guarantee deposits of KME Italy (Euro 0.3 million) and KME France (Euro 0.3 million), receivables from insurance companies of KME Germany A.G. & Co. K.G., insurance claims payable to KME Germany A.G. & Co. K.G. (Euro 2.3 million), loans to employees, mainly extended by French subsidiaries as required by French law to promote the purchase of property by employees (Euro 2.8 million) and guarantee deposits at banks of Euro 16.5 million (Euro 8.6 million of which relates to KME Germany A.G. & Co., Euro 4.8 million to KME France and Euro 3.1 million to KME Italy) partially securing the payment of fines that could be imposed by the European Commission for contravening article 81 of the EU Treaty. These deposits may subsequently be used in payment of any fines imposed following the court proceedings currently underway. The amount of the fines not covered by the deposits are covered by a bank guarantee.
None of the above mentioned amounts are payable within twelve months.

4.7 Non-current financial assets

The Euro 107.7 million relates to pledged deposits at the following credit institutions in connection with unpaid EU fines:
- La Caixa: Euro 34.2 million;
- Banca Nazionale del Lavoro: Euro 17.9 million;
- Deutsche Bank: Euro 55.6 million.

It became necessary to pledge the deposits following the cash disbursement under Tranche B of a Euro 200 million loan, the purposes of which, under the 2006 loan agreement, included the financing of any payments in connection with the ruling of the appeals against EU fines. It was initially believed that the fines would be paid in 2009. The drawn out nature of the hearings, however, made it necessary to pledge the deposits. The above banks have issued guarantees in favour of the European Commission of equal amount.

Non-current financial assets total Euro 4.2 million and related to a deposit at Unicredit Banca d'Impresa S.p.A. that has been pledged to Mediocredito Centrale S.p.A. (MCC). The balance on this account must always be equal to 1/16 (one sixteenth) of loan outstandings at the same point in time in addition to accrued six month interest due and payable on the next interest payment date. Any amounts on the account in excess of that amount are immediately available. For further details regarding the amount and the nature of the loan please refer to paragraph 4.15.

4.8 Inventories

(thousands of Euro)	Opening balances	Changes for the year	Closing balances
Raw materials, consumables and supplies	321,944	90,252	412,196
Work in progress and semi-finished products	38,201	(13,383)	24,818
Finished goods	42,138	(9,640)	32,498
Total	**402,283**	**67,229**	**469,512**

Following the adoption of determining costs on a first-in, first-out basis for inventory measurement, a Euro 15.8 million reclassification was made to the 2008 figures from inventories to "LME and forward metal buyer/seller contracts".

Inventories are measured at the lower of cost and realisable value.
The cost of metals, as determined on a FIFO basis at the end of 2009, was less than the realisable value determined as explained in note 2.3.

Information on the effect of translation differences on costs determined on the basis of weighted average cost and FIFO is contained in note 2.1.

Comparative inventory levels

Inventories owned by the Group	31.12.2008	31.12.2009	Change %
Total in tonnes	100,588	88,267	-12.2%

The decrease in raw material inventory levels was due to improvements in production, distribution and logistics.

Of the above amount 85.9 thousand tonnes (94.6 thousand tonnes for the previous year), consisting mainly of copper, have been pledged as collateral for credit lines extended to the Group.

4.9 Trade receivables

(thousands of Euro)	Balance at 31.12.2008	Changes for the year	Balance at 31.12.2009
Due from customers	93,737	34,630	128,367
(Allowance for impairment)	(7,696)	(1,534)	(9,230)
Net trade receivables due from customers	**86,041**	**33,096**	**119,137**
Due from subsidiaries	2,974	(539)	2,435
Due from associates	43	18,484	18,527
Due from parents	-	30	30
Total	**89,058**	**51,071**	**140,129**

"Trade receivables due from customers" include Euro 33.4 million (Euro 23.9 million at 31 December 2008) that have been factored with recourse.

The Directors are of the opinion that the carrying amount of trade receivables approximates their fair value.

Trade receivables due from equity-accounted associates relate to balances outstanding at the end of the reporting period. Those amounts were included in "Receivables due from customers" in 2008, due to the fact that the relevant shareholdings were only acquired in 2009.

4.10 Other current receivables and assets

(thousands of Euro)	Balance at 31.12.2008	Changes for the year	Balance at 31.12.2009
Tax credits	17,968	(9,249)	8,719
Advance payments to suppliers	14,305	(8,003)	6,302
Prepayments and accrued income	1,749	848	2,597
Other receivables	8,940	628	9,568
Total	**42,962**	**(15,776)**	**27,186**

The carrying amount of other receivables is believed to approximate fair value.

4.11 Current financial assets

(thousands of Euro)	Balance at 31.12.2008	Changes for the year	Balance at 31.12.2009
Financial assets held for trading	7,136	158	7,294
LME and metal buyer/seller contracts	151,491	(124,442)	27,049
Interest rate swaps (IRS)/forward foreign exchange contracts	6,709	(6,032)	677
Receivables due from factoring companies	57,533	4,205	61,738
Other current financial assets	120	2,751	2,871
Financial receivables due from subsidiaries	1,071	212	1,283
Total	**224,060**	**(123,148)**	**100,912**

Following the adoption of determining costs on a first-in, first-out basis for inventory measurement, a Euro 15.8 million reclassification was made to the 2008 figures from inventories to "LME and metal buyer/seller contracts".

Financial assets held for trading by the Parent, are:

- 5,824,990 iNTEk S.p.A. savings shares. The savings shares are recognised at Euro 0.608 each, which was their official price at the end of the reporting period. The Parent gave warrants on these shares, valued at Euro 0.90 each, to banks that extended a loan in February 2005 which is no longer outstanding. The warrants will expire in 2012.
- 5,001,932 ErgyCapital S.p.A. no par value ordinary shares, which are carried at their official price at the end of the reporting period (Euro 0.473 per share);
- 14,291,235 ErgyCapital S.p.A. warrants carried at Euro 0.097 each. The carrying amount corresponds to the stock market price at the end of the reporting period.

"LME and metal buyer/seller contracts" are carried at the fair value of contracts outstanding at the end of the reporting period.

Receivables due from factoring companies of Euro 30.9 million are carried at the amounts of receivables assigned but not yet collected at the end of the reporting period plus the amount of the pledged deposit securing credit lines of Euro 30.8 million.

4.12 Cash and cash equivalents

(thousands of Euro)	Balance at 31.12.2008	Changes for the year	Balance at 31.12.2009
Bank and post office accounts	38,690	70,160	108,850
Cash on hand	124	(10)	114
Total	**38,814**	**70,150**	**108,964**

"Cash and cash equivalents" consist of bank and post office accounts and cash on hand.

4.13 Equity

Please see the "Statement of changes in equity" for an analysis of changes in equity.

4.14 Employee benefits

(thousands of Euro)	Balance at 31.12.2008	Increases	Decreases	Balance at 31.12.2009
Defined benefit plans	134,695	9,828	(8,850)	135,673
Post-employment benefits	17,682	818	(1,791)	16,709
Total	**152,377**	**10,646**	**(10,641)**	**152,382**

Defined benefits plans are carried net of any plan assets. Euro 120.8 of defined benefit plans relate to the German subsidiaries and Euro 14.9 million relate to KME Yorkshire Ltd..

Actuarial assumptions:

	31.12.2008	31.12.2009
Discount rate	4.6% - 6.5%	3.8% - 5.8%
Rate of return on plan assets	6.1%	6.7%
Rate of increase in future salaries	1.0% - 2.7%	2.0% - 3.0%
Future increase in services	2.0% - 3.9%	2.0% - 3.0%
Average remaining working life	14 years	14 years

Net carrying amount of liabilities:

(thousands of Euro)	31.12.2008	31.12.2009
Present value of partially or fully funded obligations	42,495	58,668
Fair value of defined benefit plan assets	(37,656)	(48,397)
Deficit	**4,839**	**10,271**
Present value of unfunded obligations	144,291	154,279
Actuarial gains (losses) net yet recognised	3,247	(12,168)
Past service cost not yet recognised	-	-
Amount not recognised as assets pursuant to IAS 19, para. 58 (b)	-	-
Net liability reported in statement of financial position	**152,377**	**152,382**

Statement of comprehensive income changes (thousands of Euro)	FY 2008	FY 2009
Current service cost	2,874	2,371
Interest expense	10,715	10,995
Expected return on plan assets	(3,247)	(2,420)
Recognised actuarial gains (losses)	(461)	(300)
Past service cost	-	-
Effect of any curtailment or settlement	-	-
Total cost reported in statement of comprehensive income	9,881	10,646

The amounts recognised in profit or loss are reported under "Personnel expense".

Other information:

Present value of obligation (thousands of Euro)	2008	2009
Opening balance of obligation	217,431	186,661
Current service cost	2,873	2,371
Interest on obligation	10,715	10,930
Plan participants' contributions	348	437
Actuarial gains (losses)	(17,769)	20,730
Settlements and curtailments	-	-
Translation differences on foreign plans	(15,419)	3,026
Benefits provided and paid	(11,394)	(11,205)
Effect of any curtailment or settlement	-	(3)
Past service cost	-	-
Closing balance of obligation	**186,785**	**212,947**

Fair value of plan assets (thousands of Euro)	2008	2009
Opening balance of fair value of plan assets	63,403	37,656
Expected return on plan assets	3,247	2,420
Actuarial gains (losses)	(15,166)	4,995
Translation differences on non-euro plan assets	(14,251)	2,637
Employer contributions	1,377	1,725
Plan participants' contributions	348	437
Settlements	-	-
Benefits provided and paid	(1,302)	(1,473)
Closing balance of fair value of plan assets	**37,656**	**48,397**

At 31 December 2009, 62% of plan assets were equity instruments and 38% were fixed rate securities.

Present value of plans and adjustments based on past experience (thousands of Euro)	2008	2009
Present value of defined benefit obligation	186,785	212,947
Plan assets	(37,656)	(48,397)
Surplus (deficit)	**149,129**	**164,550**
Adjustments to plan liabilities based on past experience	(756)	(8,329)
Adjustments to plan assets based on past experience	235	(9)

4.15 Non-current financial payables and liabilities

(thousands of Euro)	Balance at 31.12.2008	Changes for the year	Balance at 31.12.2009
Due to banks	134,190	224,225	358,415
Due to lease companies	3,631	(228)	3,403
Due to others	1,486	-	1,257
Total	**139,307**	**223,997**	**363,075**

KME Group S.p.A. signed two loan agreements in 2006 together with its major industrial subsidiaries for loans totalling Euro 1.65 billion. These agreements were with GE Commercial Finance (GE Corporate Finance Bank SA) and Deutsche Bank, each of which committed a facility.
The first agreement, signed with GE Commercial Finance, consists of a five year credit line of up to Euro 800 million, for the non-recourse factoring of trade receivables.
The second agreement with Deutsche Bank as the Initial Mandated Lead Arranger, Agent and Coordinating Bank and another seven major Mandated Lead Arrangers (BNL, UniCredit, Capitalia, Mediobanca, Commerzbank, Dresdner Bank and HSH Nordbank) is for two loans:

- a revolving credit for up to Euro 650 million, originally for three years but which has been rolled-over in accordance with the loan agreement for an additional two years, to finance the inventories which collateralise the revolving credit (Tranche A);
- a loan of Euro 200 million for other purposes with a term of five years (three years grace plus two years straight-line amortisation), collateralised by the non-current assets of the Group's German industrial companies (Tranche B).

Collateral for these two loans consists of:

- a pledge, without voting rights, of the shares in the subsidiaries of KME Germany A.G., KME Italy S.p.A., KME Brass Italy S.r.l., KME France S.A. and KME Brass France S.A.S.;
- a first, preferred mortgage of its properties and other non-current assets by KME Germany A.G.;
- pledge of inventories of the manufacturing companies, except for the Spanish subsidiaries;
- a lien on factoring and insurance contracts.

In addition, the agreements require compliance with financial covenants relating to consolidated equity, debt and EBITDA, as well as the ratio of EBITDA to net consolidated financial expense. KME Group was in compliance with these financial covenants at 31 December 2009.

The lines of credit and loans are floating rate and priced at Euribor plus a spread. The loans are carried at amortised cost using the effective interest method. Effective interest includes commissions and margins that are additional to the interest rate and transaction costs.

The Euro 224.0 million increase in non-current bank debt was substantially caused by the reclassification of the current portion of long-term debt for the 31 December 2008 financial statements because Tranche A's scheduled maturity was October 2009 and had not been officially prolonged by 31 December 2008 so that outstanding amount at 31 December 2008, therefore, were classified as short-term debt. The increase was also caused by drawings under Tranche B to fund the deposits described in note 4.7.

The Company was notified by a letter dated 12 March 2009, that the majority of the pool lenders had agreed to extend the maturity of approximately Euro 360 million of the revolving credit to October 2011.
Lenders to the Group, then, agreed to the following additional amendments to the October 2006 loan agreement proposed by KME Group:

- amendment at the request of KME Group S.p.A. of the revolving credit to a maximum of Euro 290 million to finance inventories on which the loan is secured;

- waiver throughout 2009 of the minimum consolidated EBITDA test required by financial covenants.
- restatement of the financial covenant regarding the minimum level of consolidated equity in order to allow for the effects of measuring inventories as well as outstanding buyer and seller contracts hedging open positions as required by IFRS.

The waiver of the test for 2009 regarding covenanted minimum consolidated EBITDA also related to the Euro 103 million line of credit extended by Unicredit-Mediocredito Centrale S.p.A. to finance capital expenditure on production by non-Italian subsidiaries on production or acquisitions of non-Italian companies by KME Group.

The Group has always been extremely diligent in managing liquidity risk in order to assure sufficient cash to settle financial and trade obligations as and when they fall due.

Prudent liquidity risk management entails holding sufficient cash and the availability of committed credit lines.

As a result of this policy, the general economic environment and the situation on the financial markets, KME Group S.p.A. began negotiations well in advance with lenders for the restructuring in 2010 of all available lines of credit to assure they are sufficiently flexible for the Group's financing requirements in addition to prolonging maturities and to adjust financial covenants to be more consistent with the Group's business plans.

As a result of forecasts of improved conditions in the Group's businesses and, therefore, the likelihood of higher profits than last year, it is believed that the Group will be in compliance with the financial covenants contained in the agreements for the lines of credit until the end of the current half-year.

Amounts due to lease companies primarily relate to the recognition, under IAS 17, of the finance lease for the Group's headquarters in Florence.

All non-current payables and liabilities have maturities of between twelve months and five years except for a Euro 3.6 million bank loan and payables to lease companies of Euro 2.4 million.

4.16 Other non-current liabilities

Other non-current liabilities primarily relate to payables to employees of German subsidiaries (Euro 12.8 million) and post-employment benefits of a Director of the Parent (Euro 1.4 million).

4.17 Provisions for risks and charges

A summary of the movements relating to the provisions for risks and charges is as follows:

(thousands of Euro)	Balance at 31.12.2008	Translation differences	Increases	Decreases and reversals	Current portion	Balance at 31.12.2009
Provision for restructuring	16,015	-	7,635	(14,302)	(7,675)	1,673
EU fines	120,033	-	3,220	-	-	123,253
Other provisions for risks and charges	32,562	(71)	7,768	(9,804)	(19,268)	11,187
Total	**168,610**	**(71)**	**18,623**	**(24,106)**	**(26,943)**	**136,113**

The "Current portion" and the balance at 31 December 2008, show movements in the current portion of provisions for risks and charges reported under "Current liabilities" in the statement of financial position.

The provision for restructuring, most of which was used in 2009, relates to the cost of downsizing operations in Italy, France and Germany.

The increase in the "EU fines provision" relates to interest expense on the nominal amount of the fines levied by the European Commission.
The EU fines relate to alleged infringements of anti-trust legislation by certain KME group industrial companies and the written phase, in that connection, of the appeal challenging the 6 May 2009 ruling of the Court of First Instance of the European Communities that is currently pending before the European Court of Justice was concluded on 3 November 2009. The 6 May 2009 ruling had, in fact, upheld the fines of Euro 39.81 million imposed by the European Commission on 16 December 2003 on certain KME Group companies.
The ruling of the Court of First Instance of the European Communities regarding drinking water pipes, on the other hand, is expected to be handed down at the hearing scheduled for 19 May 2010. The fine imposed by the Commission on 3 September 2004 was Euro 67.08 million.

"Other provisions for risks and charges" include, but are not limited to, contingent liabilities of Euro 8.6 million with respect to environmental damage, Euro 0.5 million for storm damage, Euro 3.6 million for legal and tax contingencies and Euro 5.5 million for product warranties.

In the United States, on the other hand, the dismissal by the Tennessee Court of Appeals of two rulings appealed to that court resulted in the withdrawal of all class action suits brought by direct buyers and notified to KME Group companies.

A settlement was reached between the parties on 23 December 2009 with respect to the environmental action concerning the Brescia plant entailing the payment by the Company of a total of Euro 5.1 million in two tranches. The full amount had been paid by the end of the reporting period and the reciprocal complaints brought be the litigants were withdrawn.

There have been no new developments with respect to the disputes pending before the Court of Hannover relating to squeeze outs and mergers. Details of the case are contained in the Directors' Report.

Two proposed settlements were signed on 21 July 2009 with respect to the tax audit of the subsidiary KME Italy S.p.A. for 2003 and 2004 which, in fact, uphold the legitimacy of the company's actions with the exception of errors in the computation of IRAP for absolutely immaterial amounts.
It is expected that a satisfactory settlement can also soon be reached for 2005, 2006 and 2007 due to the similarity of the facts of these cases and the case already settled by the tax authorities.

An action was brought before the Chancery Division of the English High Court of Justice in February 2010 against the Group's principal industrial companies and other producers. The petitioners claim to have purchased products between 1998 and 2001, the period for which the European Commission had imposed fines on certain defendant companies for the violation of anti-trust legislation, which are currently being appealed before the European Court of Justice. Based on information currently to hand, the Directors are of the opinion that it is unlikely that there will be any serious economic consequences for the Group.

At the publication date of these financial statements, there were no other significant contingent liabilities.

4.18 Current financial payables and liabilities

(thousands of Euro)	Balance at 31.12.2008	Changes for the year	Balance at 31.12.2009
Due to banks	258,511	(110,370)	148,141
Due to Parents	17	(17)	-
Due from subsidiaries	2,890	(458)	2,432
Due from associates	-	-	-
Due to lease companies	347	(66)	281
Due to factors	23,862	9,563	33,425
Interest rate swap (IRS) forward foreign exchange contracts	1,769	(742)	1,027
LME and metal buyer/seller contracts	28,218	19,602	47,820
Due to others	15,788	(10,934)	4,854
Total	**331,402**	**(93,422)**	**237,980**

The increase in "Financial payables due to banks" is explained in note 4.15.
"LME and metal buyer/seller contracts" are carried at the fair value of contracts outstanding at the end of the reporting period.
Interest rate swaps were concluded to hedge the interest rate risk on certain outstanding bank borrowings through swapping Euribor for fixed rate.

Euro 33.4 million of the payables to factors relate to factoring with recourse of receivables outstanding at the end of the reporting period and Euro 4.0 million, included in "Due to others", awaiting transfer to factors for payments received from customers for receivables that had been legally transfered.

The net financial position with the details of its main components pursuant to Consob Ruling 6064293 and the CESR Recommendation of 10 February 2005 "Recommendations for the consistent implementation of the European Commission regulation on information memoranda" is presented in the "Directors' Report" rather than in the notes.

4.19 Trade payables and other current liabilities

(thousands of Euro)	Balance at 31.12.2008	Changes for the year	Balance at 31.12.2009
Due to suppliers	146,984	48,654	195,638
Due from associates	-	13,370	13,370
Due to subsidiaries	685	(36)	649
Due to Parent	-	-	-
Total	**147,669**	**61,988**	**209,657**

The carrying amount of trade payables approximates their fair value.

(thousands of Euro)	Balance at 31.12.2008	Changes for the year	Balance at 31.12.2009
Due to employees	40,969	(8,011)	32,958
Due to social security institutions	12,312	(1,748)	10,564
Tax payables	16,494	1,735	18,229
Accrued expenses and deferred income	2,969	745	3,714
Other payables	30,685	(1,436)	29,249
Total	**103,429**	**(8,715)**	**94,714**

The amount due to employees include accrued obligations that were unpaid at the end of the reporting period.

Tax payables primarily relate to value added tax payable and Euro 13,0 million in direct taxes.

Other payables include a Euro 22.0 million liability to customers for advance payments received and credit notes issued.

4.20 Deferred tax assets and liabilities

(thousands of Euro)	Balance at 31.12.2008	Changes for the year	Balance at 31.12.2009
Deferred tax assets	45,014	(10,147)	34,867
Deferred tax liabilities	(121,272)	9,722	(111,550)
Total	**(76,258)**	**(425)**	**(76,683)**

Deferred tax assets and liabilities are computed on temporary differences between carrying amounts of assets and liabilities recognised in the financial statements and the corresponding amounts recognised for tax purposes.
The Parent has not recognised deferred tax on the temporary difference relating to the financial investment in the subsidiary KME Germany A.G. in compliance with paragraph 39 of IAS 12.

At the end of the reporting period, the Group did not recognise deferred tax assets on tax losses of Euro 139.0 million carried forward.

The details at 31 December 2009, of recognised and unrecognised deferred taxes on tax losses carried forward by Company, are shown below:

(thousands of Euro)	31.12.2008	31.12.2009
a) recognised tax losses carried forward		
KME Group S.p.A.	3,519	-
KME Germany A.G.	-	135
KME Verwaltungs- u. Dienstleistungs-GmbH	3,127	2,586
KME Architectural Metals GmbH & Co. K.G.	1,812	1,704
KME Italy S.p.A.	13,571	16,000
KME Locsa S.A.	4,073	930
KME Yorkshire Ltd.	-	4,222
Total (1)	**26,102**	**25,577**
b) unrecognised tax losses carried forward		
KME Group S.p.A.	11,507	4,297
KME France S.A.	81,071	69,629
KME Brass France S.A.S.	9,234	1,156
KME Spain S.A.	27,158	24,377
KME Italy S.p.A.	14,754	17,725
KME Yorkshire Ltd.	7,862	-
KME Locsa S.A.	17,745	20,888
Other companies	516	927
Total (2)	**169,847**	**138,999**
Total (1) + (2)	**195,949**	**164,576**

Deferred tax assets and liabilities by financial statements item are shown below:

(thousands of Euro)	Deferred tax assets		Deferred tax liabilities	
	31.12.2008	31.12.2009	31.12.2008	31.12.2009
Property, plant and equipment	187	216	65,809	64,481
Intangible assets	141	132	134	8
Investment property	-	324	-	-
Other non-current assets	1	-	-	-
Inventories	-	139	24,488	42,360
Trade receivables	707	934	102	287
Other receivables and current assets	44	13	295	10
Current financial assets	1,519	941	29,611	2,874
Employee benefits	8,814	9,186	803	648
Non-current financial liabilities	74	1,140	28	-
Other non-current liabilities	1,998	2,472	-	-
Provisions for risks and charges	5,881	4,800	-	-
Current financial liabilities	17,288	6,174	2	881
Trade payables	92	823	-	1
Other current liabilities	507	871	-	-
Deferred taxes on equity items	131	65	-	-
Deferred taxes on tax loss carry forwards	7,630	6,637	-	-
Total	**45,014**	**34,867**	**121,272**	**111,550**

Deferred tax assets recognised in equity primarily refer to costs associated with the capital increase incurred by the Parent.

4.21 Related party transactions

During the year, the Group traded with unconsolidated related parties. The related amounts were insignificant, as explained in the notes.
All such transactions, however, were at arm's length.

Information regarding the remuneration of key Executives and Directors is shown below:

(thousands of Euro)					FY 2009						FY 2008
Short-term benefits	Post-employment benefits	Other long-term benefits	Termination benefits	Share-based payments	Total for the year	Short-term benefits	Post-employment benefits	Other long-term benefits	Termination benefits	Share-based payments	Total for the year
5,072	26	428	353	557	6,436	6,565	26	396	1,273	1,863	10,123

5. Statement of comprehensive income

The Group did not engage in "atypical and/or unusual transactions" pursuant to CONSOB Ruling 6064293/06, in 2009.

5.1 Revenue

An analysis of revenue by geographical segment is shown below:

Geographical segment (millions of Euro)	FY 2008	FY 2009
Germany	717	489
Italy	580	369
France	323	206
United Kingdom	271	211
Spain	140	74
Other European countries	665	390
Total Europe	**2,697**	**1,740**
Rest of the world	279	210
Total	**2,975**	**1,949**

Revenue, net of raw material costs, as shown in the Directors' Report decreased by Euro 198.8 million from Euro 862.3 million for 2008 to Euro 663.5 million for 2009.
No single customer accounted for more than 10% of Group revenue (IFRS 8, para. 34).

5.2 Other operating income

(thousands of Euro)	FY 2008	FY 2009	Change %
Use of provisions	1,859	-	-100.00%
Gains on sale of non-current assets	1,297	4,949	281.57%
Rental income	1,048	1,385	32.16%
Cafeteria	634	517	-18.45%
Insurance claims	528	387	-26.70%
Other	15,526	14,244	-8.26%
Total	**20,892**	**21,482**	**2.82%**

Euro 4.5 million of the gains on the sale of non-current assets are included in "Non-recurring income (expenses)" in the "Reclassified income statement" shown in the Directors' Report.

5.3 Personnel expense

(thousands of Euro)	FY 2008	FY 2009	Change %
Wages and salaries	268,885	223,632	-16.83%
Social security charges	69,254	62,001	-10.47%
Cost of stock options	3,007	784	-73.93%
Other personnel expenses	12,639	15,497	22.61%
Total	**353,785**	**301,914**	**-14.66%**

"Other personnel expenses" include provisions for defined benefit pension funds and post-employment benefits of Euro 10.6 million.

Euro 1.1 million of other personnel expenses relating to the cost of reducing hours worked (special redundancy fund, solidarity agreements and similar arrangements) has been reported under "Non-recurring income (expenses)" in the Reclassified Income Statement shown in the Directors' Report.

Average number of employees:

year average	FY 2008	FY 2009	Change %
Executives and clerical	1,824	1,843	1.0%
	27.0%	27.9%	
Blue collar and special categories	4,931	4,751	-3.7%
	73.0%	72.1%	
Total employees	**6,755**	**6,594**	**-2.4%**
	100.0%	**100.0%**	

The cost of stock options relates to the establishment of an incentive plan for executive members of the Board of Directors and key Group managers. The plan involves the free-of-charge award of options on KME Group S.p.A. shares, in a ratio of 1:3, from 1 September 2007 for exercise by 28 February 2011. The strike price has been fixed at Euro 1.029 per share calculated on the average of official stock market prices during the month preceding the option award (31 July 2006) incorporating the effects of share capital reorganisation of 16 July 2007. The fair value of services received for the year was, consequently, determined indirectly through the fair value of the equity instruments awarded.
The fair value of stock options (Euro 0.1 for the initial award and Euro 0.38 for the 2007 awards) has been determined by independent actuary on the award date by application of the Black & Scholes model which includes variables regarding the conditions of exercise, current share value, expected volatility (estimated through projection of actual volatility for the past year), the risk free interest rate for the Euro zone, expected dividend yield, and the probability that option holders will meet the requirements to exercise their rights at the end of the vesting period.

The evolution of the stock option plan at 31 December 2009 is as follows:

Situation at	31.12.2006 no. of options	31.12.2007 no. of options	31.12.2008 no. of options	31.12.2009 no. of options
Options outstanding at 1 January	**zero**	**43,731,776**	**33,144,453**	**33,144,453**
New options awarded	43,731,776	-	-	-
Options re-awarded	-	12,827,982	-	-
Options exercised during year	-	6,802,713	-	-
Options expired during year	-	16,612,592	-	33,144,453
Options outstanding at end of year	**43,731,776**	**33,144,453**	**33,144,453**	**zero**
of which eligible for exercise:	zero	3,498,540	18,321,498	zero

All options were cancelled during the year on resolution by the Shareholders of the Parent. Detailed information is contained in paragraph 5.1 of the Directors' Report.

5.4 Amortisation, depreciation and impairment losses

(thousands of Euro)	FY 2008	FY 2009	Change %
Depreciation	53,085	55,163	3.91%
Amortisation	1,024	1,110	8.40%
Reversals of prior year impairment losses	(600)	(834)	39.00%
Impairment losses	825	1,304	58.06%
Total	**54,334**	**56,743**	**4.43%**

Euro 3.1 million of the "Depreciation" and "Impairment losses" relating primarily to the closure of production facilities in France were reported under "non-recurring income (expenses)" in the Reclassified Income Statement shown in the Directors' Report.

5.5 Other operating costs

(thousands of Euro)	FY 2008	FY 2009	Change %
Energy	79,250	65,407	-17.47%
Maintenance and repairs	38,846	24,823	-36.10%
Insurance premiums	11,184	11,280	0.86%
Rent paid and operating leases	9,953	10,594	6.44%
(Gains)/losses on LME trading	5,735	4,779	-16.67%
Fair value on LME and metal buyer/seller contracts	(80,653)	101,040	insig.
Outsourced production	28,732	19,704	-31.42%
Sales logistics and transport	60,057	45,148	-24.82%
Commissions	19,946	16,336	-18.10%
Factoring funding fees	20,619	4,418	-78.57%
Other operating costs	103,507	73,259	-29.22%
Total	**297,176**	**376,788**	**26.79%**

"(Gains)/losses on LME trading" is the difference between the notional value of sales and purchases and expiring during the year.

"Factoring funding fees" are the fees on the factoring without recourse of trade receivables.

"Other operating costs" include:

1. provisions for risks and charges less releases totalling Euro 5.3 million. Euro 3.2 million of these provisions relating to accrued interest on EU anti-trust fines and Euro 3.6 million relating to the estimated cost of pending legal and environmental litigation have been reported under "Non-recurring income (expenses)" in the Reclassified Income Statement shown in the Directors' Report;
2. bank fees of Euro 1.2 million;
3. losses on disposal of Euro 0.6 million;
4. allowance for impairment of Euro 2.7 million;
5. Advertising and other business expenses of Euro 5.2 million;
6. External staff expenses of Euro 1.8 million;
7. legal consultancy and administrative costs plus compensation for corporate officers of Euro 12.5 million.

5.6 Financial income and expense

(thousands of Euro)	FY 2008	FY 2009	Change %
Interest income	1,903	937	-50.76%
Exchange rate gains	6,263	10,494	67.56%
Dividends	2,169	1,463	-32.55%
Other financial income	1,333	1,317	-1.20%
Total financial income	**11,668**	**14,211**	**21.79%**
Interest expense	(28,017)	(13,955)	-50.19%
Exchange rate losses	(13,409)	(6,512)	-51.44%
Other financial expense	(12,685)	(8,669)	-31.66%
Total financial expense	**(54,111)**	**(29,136)**	**-46.16%**
Net financial expense	**(42,443)**	**(14,925)**	**-64.84%**

"Interest expense" includes Euro 1.1 million relating to interest on the factoring of receivables with recourse.

The reduction of interest expense is due to the fall in interest rates (Euribor) which was greater than the increase in interest brought about by higher interest bearing debt that, by excluding "financial instruments at fair value", increased from Euro 343.2 million at 31 December 2008 to Euro 377.4 million at the end of the reporting period.

5.7 Current and deferred taxes

(thousands of Euro)	FY 2008	FY 2009	Change %
Current taxes	(9,877)	(10,179)	3.06%
Deferred taxes	6,909	2,288	-66.88%
Total	**(2,968)**	**(7,891)**	**165.87%**

In December 2007, KME Group S.p.A. and its Italian subsidiaries elected to be assessed under a tax consolidation arrangement, so that IRES is computed on assessable income equal to the net taxable profit/tax loss of each company participating in the arrangement. Financial relationships, responsibilities and reciprocal obligations are set out in the agreement and terms and conditions regarding the national consolidated tax scheme by which the Parent and/or subsidiaries with tax losses receive a payment equal to the relevant tax savings realised by the Parent and/or subsidiaries with taxable income.
During the year tax benefits arising in connection with pooled tax losses and the tax loss of KME Italy S.p.A. that were used to reduce the current tax charge amounted to Euro 2.2 million.

Deferred tax assets and liabilities are computed on temporary differences between carrying amounts of the assets and liabilities under accounting standards and the corresponding tax amounts. Temporary differences partially also arose in connection with consolidation adjustments that caused a difference between consolidated carrying amounts and tax amounts.

Reconciliation between tax charge at theoretical rate and the efective charge

(thousands of Euro)	31.12.2009	31.12.2008
Loss before tax	(15,537)	(65,113)
Tax charge at theoretical rate	4,879	20,445
(tax rate used: 31.4%)		
Reconciliation:		
Use of different tax rates:	1,302	920
Other items:		
Non-deductible (expenses) and non-taxable income	(17,591)	2,153
Use of tax losses	6,555	(19,472)
Set off of unrecognised tax losses carried forward against taxable income	(1,982)	(6,868)
Current taxes for previous years	(1,100)	-
Tax losses for the year not recognised as deferred tax assets	73	(146)
Other	(27)	-
Total tax expense recognised in the statement of comprehensive income	**(7,891)**	**(2,968)**

5.8 Other information

Financial instruments by category

(thousands of Euro)	31.12.2008	31.12.2009	Change
Financial assets recognised at fair value through profit or loss	149,492	34,378	(115,114)
Held-to-maturity assets	-	-	-
Loans and receivables	230,482	318,586	88,104
Available-for-sale financial assets	-	-	-
Financial liabilities carried at fair value through profit or loss	29,987	48,401	18,414
Financial liabilities carried at amortised cost	588,391	762,311	173,920

Financial instruments by financial statements presentation

Financial instruments and reconciliation with financial statements items at 31 December 2009:

(thousands of Euro)	Total	Carried at amortised cost	Carried at fair value	Outside scope of IFRS 7
Financial assets:				
Investments in subsidiaries and associates	6,526			6,526
Investments in other companies	258			258
Investments in equity accounted investees	3,958			3,958
Non-current financial assets	111,923	111,923		
Other non-current assets	28,878	28,878		
Trade receivables	140,129	140,129		
Other receivables and current assets				
Tax	8,719			8,719
Suppliers	6,302	6,302		
Other non-financial assets	12,165			12,165
	27,186			
Cash and cash equivalents	108,964	108,964		
Current financial assets				
Factoring	61,738	61,738		
Receivables	1,283	1,283		
Financial instruments	27,049		27,049	
Other instruments	10,842		10,842	
	100,912			
		459,217	**37,816**	**31,626**

(thousands of Euro)	Total	Carried at amortised cost	Carried at fair value	Outside scope of IFRS 7
Financial liabilities:				
Current and non-current financial liabilities				
Due to banks	506,556	506,556		
With recourse factoring	33,425	33,425		
Without recourse factoring	3,977			
Payable to lease companies	3,684	3,684		
Other financial liabilities	4,566	4,566		
Financial instruments	48,847		48,847	
	601,055	548,231	48,847	
Trade payables	209,657	209,657		
	810,712	**757,888**	**48,847**	

Notional value of financial instruments and derivatives

The following table shows a summary of notional values and terms of derivative financial instruments outstanding at the end of the reporting period:

Description (thousands of Euro)	Term			Total at	
	1 year or less	from 1 to 5 years	over 5 years	31.12.2009	31.12.2008
LME commodity contracts metal buyer/seller contracts	489,537	-	-	489,537	684,392
Foreign exchange forward contracts	101,987	-	-	101,987	131,260
Cross-currency swaps	-	-	-	-	856
Interest rate swaps (IRS)	-	-	-	-	45,000
Total	**591,524**	**-**	**-**	**591,524**	**861,508**

The net change in 2009 of fair value through income statement of operations LME contracts and buying and selling metal was negative for Euro 101.1 million. This effect take into account restatements of 2008's income statement due to the change in method of valuation of raw materials weighted average cost to FIFO that has led to an increase of Euro 15.8 million.

The notional value of LME commodities and metals buyer/seller contracts is the aggregate of sales and purchases.

Exposure to credit risk and impairment losses

The carrying amount of financial assets is the Group's maximum exposure to credit risk.

The ageing of trade receivables due from non-Group companies at the end of the reporting period was as follows:

Description (thousands of Euro)	Gross carrying amount	Impairment losses 31.12.2009	Net carrying amount
current	70,555	922	69,633
less than 61 days past due	34,878	878	34,000
61 to 120 days past due	5,149	321	4,828
121 days to 1 year past due	8,235	737	7,498
over 1 year past due	9,550	6,372	3,178
Total	**128,367**	**9,230**	**119,137**

Movements in the allowance for impairment during the year are shown below:

(thousands of Euro)	
31.12.2008	**7,696**
Translation differences	(35)
Change in scope of consolidation	-
Impairment losses of the year	2,440
Uses	401
Releases	470
31.12.2009	**9,230**

Foreign exchange exposure

The following table shows the Group's exposure to foreign exchange risk by notional amount for the relevant currency:

31.12.2009	USD	GBP	CHF	SEK	EUR
Non-current financial assets	-	-	-	-	-
Other non-current assets	-	-	-	-	-
Trade receivables	11,187	(646)	326	28,974	(59)
Other receivables and current assets	21	37	6	-	-
Current financial assets	6,248	530	1,979	2,075	708
Cash and cash equivalents	6,341	1,767	987	11,240	182
Financial liabilities	253	62	106	-	236
Trade payables	50,947	121	52	1,488	53
Other current liabilities	(12)	1	-	5,963	-
Gross statement of financial position exposure	**(27,391)**	**1,504**	**3,140**	**34,838**	**542**
Projected sales	37,180	5,559	5,242	21,675	116
Projected purchases	48,485	197	317	2,450	709
Gross exposure	**(38,696)**	**6,866**	**8,065**	**54,063**	**(51)**
Forward foreign exchange contracts	(35,572)	7,560	7,491	50,029	(8,208)
Net exposure	**(3,124)**	**(694)**	**574**	**4,034**	**8,157**

Sensitivity analysis

A 10% appreciation (depreciation) of the Euro against the currencies in the above table would have caused an increase (decrease), at 31 December 2009, in equity and an improvement (deterioration) of the results for the year of Euro 0.2 million. The analysis was made assuming that all other variables remained constant, in particular, interest rates. The same analysis for 31 December 2008 would have increased (decreased) results and equity by Euro 4.9 million.

Foreign exchange risk exposure for the previous financial year:

31.12.2008	USD	GBP	CHF	SEK	EUR
Non-current financial assets	-	-	-	-	-
Other non-current assets	-	-	-	-	-
Trade receivables	4,857	519	607	26,157	322
Other receivables and current assets	-	40	1	-	-
Current financial assets	3,260	810	1,390	1,556	668
Cash and cash equivalents	(956)	865	496	(363)	175
Financial liabilities	(4,169)	(252)	(1,957)	1,186	221
Trade payables	12,863	179	277	2,473	106
Other current liabilities	42	1,356	-	5,144	-
Gross statement of financial position exposure	**(1,575)**	**951**	**4,174**	**18,547**	**838**
Projected sales	62,963	11,293	8,485	27,030	262
Projected purchases	34,767	135	2,852	189	459
Gross exposure	**26,621**	**12,109**	**9,807**	**45,388**	**641**
Forward foreign exchange contracts	40,766	18,231	13,491	57,981	(9,343)
Net exposure	**(14,145)**	**(6,122)**	**(3,684)**	**(12,593)**	**9,984**

Interest rate exposure

The Group's interest rate structure of interest-bearing financial instruments at 31 December 2009 was as follows:

(thousands of Euro)	Carrying amount 31.12.2008	Carrying amount 31.12.2009
Fixed rate instruments:		
Financial assets	6,205	40,950
Financial liabilities	38,419	7,196
Total	**(32,214)**	**33,754**
Variable rate instruments:		
Financial assets	24,223	177,244
Financial liabilities	386,404	539,756
Total	**(362,181)**	**(362,512)**

Sensitivity analysis of the fair value of fixed rate instruments and of LME contracts

The Group had no fixed rate financial assets or liabilities carried at fair value through profit or loss or any derivatives (interest rate swaps) designated as fair value hedges. As a result, any changes in the interest rates at the end of the reporting period would not have had an effect on the statement of comprehensive income.

The Group uses LME contracts (commodities forwards traded on the London Metal Exchange) to hedge fluctuations in the price of raw materials, particularly copper. These instruments are measured at fair value through profit or loss. A Euro 100 per tonne increase in the price of copper at the end of the reporting period would have resulted in a decrease in equity and a deterioration of results for the year of Euro 4.6 million. The same effect on financial statements figures at 31 December 2008 would have produced an increase of Euro 2.0 million.

Sensitivity analysis of the cash flows of variable rate financial instruments

An increase (or decrease) of 50 interest rate basis points (bps) at the end of the reporting period would produce a decrease (increase) in equity and profit of approximately Euro 2.0 million (Euro 2.0 million in the first half of 2008). The analysis was carried out assuming that the other variables, in particular exchange rates, remained constant and was carried out using the same assumptions for 2009.

Exposure to liquidity risk

Liquidity risk can arise from the inability to raise working capital financing as and when required. The inflows and outflows and the liquidity of Group companies are monitored and coordinated by Group Treasury. The flexibility of existing credit lines meant that the Group was able resolve problems relating to covering the temporary cash shortfalls caused by increased raw materials prices.

Fair value and carrying amounts

Pursuant to IFRS 7 paragraph 25, financial assets and liabilities must be carried in the statements of financial position at fair value.

Fair value hierarchy

IFRS 7, para. 27A requires financial instruments recognised at fair value in the statement of financial position to be classified with reference to a hierarchy of levels, based on the significance of the input used to determine fair value.

The standard stipulates three levels:
Level 1 - quoted prices for the asset or liability to be measured;
Level 2 - directly observable market inputs other than Level 1 inputs;
Level 3 - inputs not based on observable market data.

Financial instruments recognised in the statement of financial position at fair value (see reconciliation) are all classified as Level 2 of the hierarchy, due to the fact that they all relate to either physical transactions with customers and suppliers, or forward contracts concluded at prices quoted on the London Metal Exchange (LME) for the purposes of hedging fluctuating commodity prices.
There were no transfers in 2009 between Levels 1 and 2.
The Group does not use derivative financial instruments that would be classified as Level 3.

Other financial commitments

Below is a summary showing the minimum irrevocable payment commitments under operating leases at the end of the reporting period:

(thousands of Euro)	31.12.2008	31.12.2009
Within 1 year	6,098	5,213
1 to 5 years	9,572	6,873
After 5 years	283	166
	15,953	**12,252**

Purchase commitments relating to property, plant and equipment at the end of the reporting period amounted to Euro 7.6 million. These purchase commitments will lapse next year.

Annexes to the notes to the consolidated financial statements

Reconciliation table between the profit of the Parent KME Group S.p.A. and the consolidated loss for the year ended 31 December 2009

(thousands of Euro)		
Profit of KME Group S.p.A. separate financial statements		**3,629**
Loss of subsidiaries (1) (2)		(28,875)
Consolidation adjustments (3)		1,317
Consolidated loss attributable to owners of the Parent	**(23,929)**	
Profit of subsidiaries 1.1.2009 - 31.12.2009		
(1) KME Germany A.G. consolidated loss		(28,476)
(2) Immobiliare Agricola Limestre S.r.l. loss		(131)
(2) KME Recycle S.r.l. loss		(268)
(3) Netting of intra-group dividends		-
(3) Other consolidation adjustments		1,317
Total		**(27,558)**

Reconciliation table between the equity of KME Group S.p.A. and consolidated Equity at 31 December 2009

(thousands of Euro)	
Parent's Equity including profit	**348,425**
Consolidation reserves*	99,009
Difference between consolidated profit and Parent's loss	(27,558)
Group's Equity including loss	**419,876**

* Breakdown of consolidation reserves	
1) Netting of investments	(10,168)
2) Netting of intercompany dividends	-
3) KME Germany A.G. consolidation difference	109,840
4) Other changes	(663)
	99,009

Statement about the consolidated financial statements

KME Group S.p.A.

Statement about the consolidated financial statements pursuant to art. 154 *bis*, paragraph 5 of Legislative Decree 58/98, as subsequently amended

1. Having regard to the requirements of article 154 *bis*, paragraphs 3 and 4, of Legislative Decree 58 of 24 February 1998, the undersigned Vincenzo Manes, Deputy Chairman, and Marco Miniati, the Manager Responsible for Financial Reporting at KME Group S.p.A., hereby certify:
   • the adequacy with respect to the characteristics of the Group and
   • the actual application,
   of administrative and accounting procedures in the preparation of the consolidated financial statements as at and for the year ended 31 December 2009.

2. No material findings were made in this regard.

3. It is also certified that:

3.1. the consolidated financial statements:
   a. were prepared in compliance with International Financial Reporting Standards as endorsed by the European Community pursuant to Regulation (EC) 1606/2002 of the European Parliament and of the Council of 19 July 2002;
   b. correspond to the underlying accounting records;
   c. are suitable to provide a true and fair view of the issuer's financial position and results of operations and that of its consolidated companies;

3.2 the Directors' Report contains a reliable analysis of the operating performance and results and the situation of the issuer and its consolidated companies, together with a description of the principle risks and uncertainties to which they are exposed.

Florence, 25 March 2010

The Deputy Chairman	Manager Responsible for Financial Reporting
signed Vincenzo Manes	signed Marco Miniati

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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

Report of the Board of Statutory Auditors on the consolidated financial statements as at and for the year ended 31 December 2009

The Board of Statutory Auditors hereby presents its brief report on the consolidated financial statements as at and for the year ended 31 December 2009, pursuant to its obligation to oversee compliance with the law and the memorandum of association in general and the obligation, which has consistently been observed, to report to the Shareholders on the examination of matters and documents submitted to the Shareholders' Meeting by Directors.
In order to avoid unnecessary duplication, this report is complementary to the report on the separate financial statements as at and for the year ended 31 December 2009.

The Board of Directors, in compliance with Legislative Decree 127/1991, has presented consolidated financial statements as at and for the year ended 31 December 2009, which is the end of the reporting period of the parent and its subsidiaries.
The consolidated financial statements have been prepared in compliance with IFRS requirements for recognition and measurement. The executive Deputy Chairman of the Company, Vincenzo Manes, and the Director, Marco Miniati, the Manager Responsible for Financial Reporting of KME Group S.p.A., provided the Directors and Statutory Auditors with a provided on 25 March 2010, in part for the purposes of art. 154 *bis* of Legislative Decree 58/1998, certifying the adequacy for a company of this type of the management and accounting procedures for the preparation of separate and consolidated financial statements, and their conformity with international financial reporting standards.
All subsidiaries, being those companies over which the Group exercises control of financial and operational policies, which is generally accompanied by exercising more than 50% of the voting rights, have been consolidated. Associates are companies over which the Group exercises significant influence but not control.
Information on the basis of consolidation is contained in the notes which, in brief, explain that subsidiaries are consolidated on a line-by-line basis and associates (companies over which KME Group S.p.A. exercises significant influence but not control) are consolidated using the equity method.
Companies over which significant influence is not exercised, which are small in size and with operations significantly different from those of the Group's principal companies, have not been consolidated and the effect of their exclusion is immaterial, as expressly stated in the text.
Information on the most important events, related party and/or intercompany transactions in 2009, reports and representations made by shareholders and third parties and, in general, oversight and examinations, is contained in the Report of the Board of Statutory Auditors on the separate financial statements for the year.
There was a net consolidated loss for the year of Euro 23.9 million, primarily due to the sharp fall in sales volumes.
Exhaustive information has been provided in the consolidated financial statements (accounting policies, notes and annexes).

The independent auditors, KPMG, with whom the Board of Statutory Auditors has met as required, issued its unqualified audit opinion on 12 April 2010.
The reports of the independent auditors and the Board of Statutory Auditors on the financial statements both address the change in the method of determining the cost of inventories for the Group from average weighted cost per quarter to FIFO, the effects of which are shown in detail in the notes to the consolidated financial statements.

In conclusion, the Board of Statutory Auditors is of the opinion that the consolidated financial statements and accompanying documents adequately reflect the Group's financial position and results of operations as at and for the year ended 31 December 2009.

The consolidated financial statements and accompanying documents have only been provided to Shareholders for information purposes and do not require approval.

Florence, 12 April 2010

THE BOARD OF STATUTORY AUDITORS
Chairman of the Board of Statutory Auditors
(Marco Lombardi)

Standing auditor
(Vincenzo Pilla)

Standing auditor
(Pasquale Pace)

KPMG S.p.A.
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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 (now article 14 of Legislative decree no. 39 of 27 January 2010)

To the shareholders of
KME Group S.p.A.

1 We have audited the consolidated financial statements of KME Group as at and for the year ended 31 December 2009, comprising the statement of financial position, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes thereto. The parent's directors are responsible for the preparation of these financial statements in accordance with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 9 of Legislative decree no. 38/05. 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.

We carried out our audit of the consolidated financial statements as at and for the year ended 31 December 2009 in compliance with legislation ruling during the year.

The consolidated financial statements present the prior year corresponding figures for comparative purposes. As disclosed in the notes, the parent's directors restated some of the corresponding figures included in the prior year consolidated financial statements. We audited such consolidated financial statements and issued our report thereon on 9 April 2009. We have examined the methods used to restate the prior year corresponding figures and related disclosures for the purposes of expressing an opinion on the consolidated financial statements at 31 December 2009.

3 In our opinion, the consolidated financial statements of KME Group as at and for the year ended 31 December 2009 comply with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 9 of Legislative decree no. 38/05. Therefore, they are clearly stated and give a true and fair view of the financial position of KME Group as at 31 December 2009, the results of its operations and its cash flows for the year then ended.

4 The group has modified the measurement method of raw material inventories from the weighted average cost to the FIFO method. The reasons for this change in accounting policy and its effects on the consolidated financial statements are disclosed in the notes to the consolidated financial statements.

5 The directors of KME Group S.p.A. are responsible for the preparation of a directors' report on the financial statements in accordance with the applicable laws and regulations. Our responsibility is to express an opinion on the consistency of the directors' report and its specific section on corporate governance and shareholding structure, to the extent of the information required by article 123-bis.1.c/d/f/l/m and article 123-bis.2.b of Legislative decree no. 58/98, with the financial statements to which they refer, as required by the law. For this purpose, we have performed the procedures required by the Italian Standard on Auditing 001 issued by the Italian Accounting Profession and recommended by Consob. In our opinion, the directors' report and the information required by article 123-bis.1.c/d/f/l/m and article 123-bis.2.b of Legislative decree no. 58/98 disclosed in the specific section of such report are consistent with the consolidated financial statements of KME Group as at and for the year ended 31 December 2009.

Florence, 12 April 2010

KPMG S.p.A.

(signed on the original)

Riccardo Cecchi
Director of Audit

Separate financial statements

Separate financial statements as at and for the year ended 31 December 2009

Statement of financial position

(in Euro)	Note	31 December 2009	of which with related parties	31 December 2008	of which with related parties
Property, plant and equipment	4.1	162,727	-	101,699	-
Investments in subsidiaries	4.2	312,566,288	312,566,288	314,833,235	314,833,235
Other financial assets	4.3	58,880,541	54,634,915	46,339,600	43,100,414
Deferred tax assets	4.4	2,197,484	-	3,874,243	-
Non-current assets		**373,807,040**	**-**	**365,148,777**	**-**
Trade receivables	4.5	89,064	89,064	7,452	7,452
Other current receivables and assets	4.6	1,192,590	-	7,707,785	-
Current financial assets	4.7	101,957,331	101,957,331	82,998,807	82,998,807
Cash and cash equivalents	4.8	402,887	-	661,460	-
Current assets		**103,641,872**	**-**	**91,375,504**	**-**
Total assets		**477,448,912**	**-**	**456,524,281**	**-**
Share capital	4.9	250,014,923	-	250,009,678	-
Other reserves	4.9	76,331,753	-	75,345,871	-
Treasury shares	4.9	(2,887,603)	-	(2,349,231)	-
Retained earnings	4.9	14,394,985	-	5,910,828	-
Stock option reserve	4.9	6,941,919	-	6,187,401	-
Profit for the year	4.9	3,629,375	-	21,024,298	-
Equity		**348,425,352**	**-**	**356,128,845**	**-**
Employee benefits	4.10	156,230	-	150,638	-
Financial payables and liabilities	4.11	63,287,197	1,821,411	49,202,199	1,334,800
Other payables	4.12	1,446,454	1,446,454	1,180,411	1,180,411
Provisions for risks and charges	4.13	2,789,368	-	7,294,288	-
Non-current liabilities		**67,679,249**	**-**	**57,827,536**	**-**
Financial payables and liabilities	4.14	57,303,062	27,833,645	39,559,514	9,859,801
Trade payables	4.15	701,807	73,476	752,329	130,098
Other current liabilities	4.16	3,339,442	152,429	2,256,057	586,991
Current liabilities		**61,344,311**	**-**	**42,567,900**	**-**
Total equity and liabilities		**477,448,912**	**-**	**456,524,281**	**-**

Statement of comprehensive income

(in Euro)	Note	FY 2009	of which with related parties	FY 2008	of which with related parties
Revenue from sales and services	6.1	2,839,000	2,839,000	2,839,000	2,839,000
Other income	6.2	16,506	860	20,056	2,198
Personnel expense	6.3	(726,399)	(500,504)	(1,360,683)	(1,166,847)
Amortisation, depreciation and impairment losses	6.4	(8,032)	-	(4,023)	-
Other operating costs	6.5	(5,395,192)	(2,189,147)	(9,507,147)	(3,507,609)
Operating profit (loss)		**(3,274,117)**	**-**	**(8,012,797)**	**-**
Financial income	6.6	13,122,909	11,820,082	35,494,011	34,165,913
Financial expense	6.6	(4,508,662)	(321,400)	(6,336,298)	(1,486,340)
Profit before taxes		**5,340,130**	**-**	**21,144,916**	**-**
Current taxes	6.7	(3,049,862)		(369,195)	-
Deferred taxes	6.7	1,339,107	-	248,577	-
Total income taxes		**(1,710,755)**	**-**	**(120,618)**	**-**
Profit for the year		**3,629,375**	**-**	**21,024,298**	**-**
Other components of total comprehensive income:					
Taxes on other components of total comprehensive income		-	-	-	-
Other components of total comprehensive income after taxes		**-**	**-**	**-**	**-**
Total comprehensive income for the year		**3,629,375**	**-**	**21,024,298**	**-**

Separate financial statements

Statement of changes in equity

(thousands of Euro)	Share capital	Other reserves	Treasury shares	Retained earnings	Stock Option Reserve	(Profit) loss for the year	Total equity
Equity at 31 December 2008	250,010	75,347	(2,349)	5,910	6,187	21,024	356,129
Allocation of profit for the year		1,051		8,485		(9,536)	-
Dividends and allocations to the Board of Directors						(11,488)	(11,488)
Capital increase	5						5
Creation of loss coverage reserve							-
(Purchase) sale of treasury shares			(539)				(539)
Deferred taxes recognised in equity		(66)					(66)
Vesting of stock options					755		755
Profit/(loss) for the year						3,629	3,629
Equity at 31 December 2009	250,015	76,332	(2,888)	14,395	6,942	3,629	348,425
Reclassification of treasury shares	(2,888)		2,888				-
Equity at 31 December 2009	**247,127**	**76,332**	**-**	**14,395**	**6,942**	**3,629**	**348,425**

(thousands of Euro)	Share capital	Other reserves	Treasury shares	Retained earnings	IFRS first-time adoption	Stock Option Reserve	(Profit) loss for the year	Total equity
Equity at 31 December 2007	324,165	629	(37)	5,918	1,645	3,180	12,315	347,815
Allocation of profit for the year		616		129			(745)	-
Dividends and allocations to the Board of Directors							(11,570)	(11,570)
Distribution of ErgyCapital S.p.A. shares								-
Creation of free reserves	(74,165)	74,165						-
Distribution of reserves				(137)	(1,645)			(1,782)
Capital increase	10							10
(Purchase) sale of treasury shares			(2,312)					(2,312)
Deferred taxes recognised in equity		(63)						(63)
Vesting of stock options						3,007		3,007
Profit/(loss) for the year							21,024	21,024
Equity at 31 December 2008	250,010	75,347	(2,349)	5,910	-	6,187	21,024	356,129
Reclassification of treasury shares	(2,349)		2,349					-
Equity at 31 December 2008	**247,661**	**75,347**	**-**	**5,910**	**-**	**6,187**	**21,024**	**356,129**

Statement of cash flows, indirect method

(thousands of Euro)	2009	2008
(A) Cash and cash equivalents at the beginning of the year	**661**	**1,739**
Profit before taxes	5,340	21,144
Depreciation and amortisation	8	4
Impairment losses (reversals of impairment losses) on current and non-current financial assets	-	8
Losses (gains) on non-current assets	-	(2)
Change in provisions for pensions, post-employment benefits and stock options	506	1,174
Change in provisions for risks and charges	(4,505)	3,296
(Increase) decrease in current receivables	5,800	(17,320)
Increase (decrease) in current payables	1,942	(61)
Current taxes paid during year	(101)	(368)
(B) Cash flows from operating activities	**8,990**	**7,875**
(Increase) in non-current intangible assets and property, plant and equipment	(69)	(76)
Decrease in non-current intangible assets and property, plant and equipment	-	2
(Increase) decrease in investments	2,521	119
(Increase) decrease in available-for-sale financial assets	-	-
Increase/decrease in other non-current assets/liabilities	266	1,180
Dividends received	633	21,361
(C) Cash flows from investing activities	**3,351**	**22,586**
Cash increase in equity	6	(1,854)
(Purchase) sale of treasury shares	(539)	(2,312)
Increase (decrease) in current and non-current financial payables	30,920	38,326
(Increase) decrease in current and non-current financial receivables	(31,498)	(54,211)
Dividends paid and profits distributed	(11,488)	(11,488)
(D) Cash flows from financing activities	**(12,599)**	**(31,539)**
(E) Change in cash and cash equivalents (B)+(C)+(D)	**(258)**	**(1,078)**
(F) Cash and cash equivalents at the end of the year (A)+(E)	**403**	**661**

Accounting policies and notes

1. General information

KME Group S.p.A. ("KME") and its industrial subsidiaries (collectively, the "Group") operate in the semi-finished copper and copper alloy sector.
The Group owns industrial plants in various European countries and sells its products in all the major countries of the world.
KME is a joint stock Company registered in Italy at the Florence Companies Register under number 00931330583 and its shares are listed on the Mercato Azionario Telematico (Borsa Italiana's electronic market) organised and operated by Borsa Italiana S.p.A..
Although it was controlled by iNTEk S.p.A. in 2009, the Company does not consider that its operations are managed and coordinated by iNTEk pursuant to articles 2497 *et seq.* of the Italian Civil Code and article 37 of the Market Regulations due to the fact that:

a. it has the autonomous powers of negotiation with respect to contractual arrangements with customers and suppliers;
b. the Company does not participate in any centralised treasury arrangements operated by iNTEk S.p.A. or any other company under iNTEk's control;
c. the number of independent Directors (4 out of 12) is such as to ensure that their opinions have a material influence on board decisions.

These separate financial statements are presented in Euro (€), the Company's functional currency.
The separate financial statements at 31 December 2009 were approved by the Board of Directors on 25 March 2010 and will be published in accordance with legal requirements.

The statement of financial position as at 31 December 2008 has been amended to reflect the reclassification of accrued interest payable on loans of Euro 909 thousand made to the Company by banks that were previously included in "Other current liabilities" but which are now recognised as "Financial payables and liabilities".
The income statement and the statement of changes in equity at 31 December 2008 have been reclassified in compliance with the revised IAS 1 - Presentation of Financial Statements, by including components of total comprehensive income.

2. Accounting policies

2.1 Basis of presentation

The separate financial statements as at and for the year ended 31 December 2009 were prepared in compliance with the requirements for measurement and recognition under the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and endorsed by the European Commission in accordance with the procedure set forth in article 6 of Regulation (EC) 1606/2002 of the European Parliament and Council of 19 July 2002. The financial statements also specifically comply with the requirements issued in implementation of article 9 of Legislative Decree 38/2005.
In preparing the financial statements, the Directors have applied the concepts of accruals, going concern, clarity, significance, materiality, reliability, neutrality, prudence and comparability. The accounting policies for the year are consistent with those used for the separate financial statements as at and for the year ended 31 December 2008 except that the Company has adopted the revisions and amendments to standards that became effective on 1 January 2009. Namely:

IAS 1 revised - Presentation of financial statements

The revision of the standard introduced the term "total comprehensive income" which encompasses non-owner changes in equity during the period. It is permitted either to present a "statement of comprehensive income", which combines the income statement and all non-owner changes in equity into one statement, or an income statement and a separate statement showing the profit or loss of the year plus other components of comprehensive income.

The Company adopted revised IAS 1 on 1 January 2009 and elected to present all non-owner changes in equity in one single statement for the year entitled "Statement of Comprehensive Income". The Company has consequently varied the presentation of the Statement of changes in equity.

As part of IASB's Annual Improvements for 2008, moreover, an amendment to IAS 1 Revised was issued requiring all assets and liabilities, relating to derivative financial instruments designated as hedging instruments, to be classified in the Statement of financial position distinguishing between current and non-current assets and liabilities, which, however, has not varied the Company's presentation of these items due to the manner, permitted by IAS 1, that the company presents current and non-current assets.

IAS 23 Revised - Borrowing costs

The revision of IAS 23 entailed the withdrawal of the optional accounting treatment of immediately recognising borrowing costs in profit or loss, which, consequently must now always be capitalised as part of the purchase, construction or production costs of the relevant asset. In accordance with the transitional arrangements for the revised standard, the Company has applied the revisions prospectively from 1 January 2009 by capitalising borrowing costs directly attributable to the purchase, construction or production of qualifying assets for which the initial investment was made or for which the preparation of the asset for its specific use or sale commenced on or after 1 January 2009. Application of the revisions, however, did not result in a variation of the 2009 financial statements.

IFRS 8 - Operating segments

IFRS 8 has introduced the "management approach" to segment reporting and requires a change in segment presentation and disclosure in line with information that is provided internally to senior company management for the assessment of the performance of the segment for the purposes of resource allocation. Information on the adoption of IFRS 8 paragraph 4 is set out in note 2.20 of the consolidated financial statements.

Amendment to IFRS 2 - Vesting conditions and cancellations

The amendment to IFRS 2 - Vesting conditions and cancellations has clarified the term "vesting conditions". Any features, other than performance and service conditions, of share-based payments are not to be treated as vesting conditions and, consequently, should be included in the grant date fair value of share-based payments. The accounting treatment of cancellations was also addressed by the amendment. The amendments were applied retrospectively by the Company from 1 January 2009 which had no effect on financial statements due to the facts that the current stock option plan's vesting conditions only consist of performance and service conditions as defined in the amendment in addition to which there were no cancellations during the relevant periods.

Improvement to IAS 19 - Employee benefits

The improvement to IAS 19 - Employee benefits clarifies the definition of past service cost/benefits and requires that, in the event of any reduction of the plan, amounts immediately recognised in profit or loss may only include the reduction in benefits relating to future periods whereas any reductions relating to past service must be treated as a negative past service cost. The amendment also restated the definitions of short and long-term employee benefits in addition to changing the definition of return on plan assets by requiring this amount be reported net of any administration costs that are not included in the liability. The amendment is required to be applied prospectively to variations in plans occurring on or after 1 January 2009. There was no material effect on the financial statements for the period ended 31 December 2009 caused by application of the amendment.

Improvement to IAS 28 - investments in associates

The improvement to IAS 28 - investments in associates does not permit impairment losses relating to investments accounted for under the equity method to be allocated against individual assets (particularly goodwill) that make up the carrying amount of the investment, but rather against the total value of the investment. Any future reversal of the impairment loss should, consequently, be for the full amount of the recovery of the investment's value.

The Company has elected to apply the amendment prospectively to recoveries from 1 January 2009. Application of the standards amendment, however, has had no change on accounting for 2009 due to the fact that the Company did not recognise any reversals of impairment losses on the goodwill components of the carrying amounts of investments.

The Company has not yet applied those standards listed in note 2.18, which, although issued by the IASB, will only become effective subsequent to the end of the reporting period.

Events and transactions affecting the Company are recognised and presented with respect to their substance rather than legal form.

Specific notes contained in the Directors' Report disclose the formulae and significance of the alternative performance measures, where applicable, which although not required by IFRS, are in compliance with recommendation CESR 05 - 178b published on 3 November 2005.

These financial statements are presented in Euro, the Company's functional currency.

2.2 Property, plant and equipment

Property, plant and equipment are recognised at purchase or production cost and include directly attributable incidental expenses.

Property, plant and equipment are carried at cost, net of accumulated depreciation and impairment losses, with the exception of land which is not depreciated and is carried at cost net of accumulated impairment losses.

Depreciation is provided from the month the asset becomes available for use, or when it is potentially able to provide the economic benefits associated with it. Depreciation is charged monthly on a straight line basis until the end of the useful life of the relevant asset or, in the event of disposal, until the last month of use.

Borrowing costs relating to the purchase of property, plant and equipment have been capitalised in compliance with IAS 23.

Replacement parts of significant value are capitalised and depreciated based on the useful life of the asset to which they refer; low value replacement parts are charged to the statement of comprehensive income when the expense is incurred.

The cost of internally produced assets includes material costs and direct labour plus any other directly attributable costs incurred in bringing the asset to its intended location and preparing it for its intended use.

Assets acquired under finance leases are recognised as property, plant and equipment together with the corresponding liability. The cost of the lease is separated into two components: financial expense, recognised in profit or loss, and repayment of principal, recognised as a reduction of borrowings. Assets held under finance leases are recognised at the lower of cost or the present value of minimum lease payments due at the inception of the lease and are depreciated over the shorter of the lease term and their useful lives unless there is reasonable certainty that the Company will obtain title to the asset at the end of the lease.

Property, plant and equipment are tested for impairment whenever there is specific objective evidence thereof. The test involves estimating the recoverable amount of the asset, defined as the higher of fair value less costs to sell and value in use, and comparison of the appropriate value with the carrying amount. The recoverable amount is the greater of value in use and fair value less selling costs. Value in use is determined by discounting projected cash flows at a pre-tax discount rate that reflects current market estimates of the time value of money and the risks associated with the relevant asset. To the extent that the recoverable amount is less than the carrying amount, the carrying amount is reduced to the recoverable amount with the difference either being recognised in profit or loss or in a revaluation reserve created on the revaluation of the asset. Subsequent revaluations are treated analogously. Information regarding impairment tests with respect to the preparation of these financial statements are contained in the following note on intangible assets.

2.3 Intangible assets

An intangible asset is an identifiable asset without physical substance that is controlled by an entity and is capable of producing future economic benefits.
Intangible assets are either:

- purchased from third parties;
- acquired through business combinations; or
- internally generated.

In the first two instances, intangible assets, including directly attributable expenses, are recognised initially at cost or fair value. They are then systematically amortised based on their residual useful life, which is the period over which the assets will be used by the Company, generally between 3 and 5 years. In addition, they are carried net of any impairment losses, in line with the accounting treatment for property, plant and equipment. The residual value of intangible assets at the end of their useful life is assumed to be zero.
Internally produced assets are capitalised only to the extent they meet the requirements of IAS 38, paragraph 57.

2.4 Financial assets and liabilities

All investments in subsidiaries, associates and joint ventures are measured at cost less any impairment losses.
Non-derivative financial assets with fixed or determinable payments or payments which have a specific due date, that the company intends and has the ability to hold until maturity, are designated as "Assets held to maturity".
The assets included in this category are measured under the amortised cost method using the effective interest method pursuant to IAS 39.
Financial assets and liabilities acquired or held primarily to be sold or repurchased in the short term and derivative financial instruments not designated as hedging instruments are classified as "Financial assets recognised at fair value through profit or loss" separately indicating those that were classified as such on initial recognition (fair value option). These assets are measured at fair value through profit or loss.
Non-derivative financial assets and liabilities, except for equity instruments, with fixed or determinable payments, not listed on an active market and not included in any of the above categories, are classified as "Loans and receivables" and are carried at amortised cost using the effective interest method. The amortised cost of current loans and receivables and all current trade payables and receivables, for which the passage of time has little effect, is deemed to correspond to their fair value.

All other non-derivative financial assets which are not classified in one of the three categories above are classified as "Available-for-sale financial assets" and measured at fair value directly in equity with the exception of any impairment losses.

Treasury shares are measured at historical purchase cost and recognised as a reduction in equity. In the event of sale, re-issue or cancellation, the subsequent profits and losses are recognised in equity.

Determination of impairment losses

All financial assets and liabilities, with the exception of "Financial assets and liabilities through profit or loss at fair value", are tested for impairment in accordance with IAS 39, paragraphs 58-70.

A financial asset is impaired when there is objective evidence that one or more events have had an adverse effect on estimated future cash flows generated by that asset.

An impairment loss on a financial asset carried at amortised cost is the difference between the carrying amount and the present value of projected future cash flows discounted at the original effective interest rate. An impairment loss on an available-for-sale financial asset is determined with reference to the fair value of the asset.

All impairment losses are recognised in profit or loss. Any accumulated impairment losses relating to an available-for-sale financial asset previously recognised through equity, if considered material and permanent, are transferred to the statement of comprehensive income even if the financial asset has not been derecognised.

Impairment losses are reversed to the extent that the fair value of an asset increases and the increase can be objectively related to an event occurring after recognition of the impairment loss. Reversals of impairment losses on assets carried at amortised cost and available-for-sale assets, which are debt instruments, are recognised in profit or loss.

The severe crisis that hit the real economy and its effects on the Company's business in 2009 are evidence of the impairment loss on investments carried at Euro 312.6 million at 31 December 2009. Against that backdrop and specifically for determining whether accounting standards required impairment tests be performed for the 2009 financial statements, the data contained in the business plan as well as the procedures and parameters used for the impairment test of property, plant and equipment at 30 June 2009 interim report were analysed to determine whether any new events or facts had since come to light providing further evidence of impairment.
The Directors' check entailed a comparison of second half-year 2009 actual figures (better than projected) with the business plan and the outlook for 2010, the assumptions and conclusions of which are described in the relevant section of the Directors' Report. The Directors then analysed the modifications of the original business plan for 2011-2013, approved by the Board of Directors on 6 August 2009, and confirmed that they were consistent with a cautious approach to an economic - financial environment and market conditions that have dramatically changed as a result of the crisis. Impairment tests, therefore, were not made for 31 December 2009 but will, instead, be conducted at 30 June 2010, as originally planned.
The Directors also considered the fact that the Company's market capitalisation was considerably below the carrying amount of equity duly noting the detailed explanations of this phenomenon already given in part with respect to the valuations made for the presentation at the Shareholders' Meeting of 2 December 2009 of the planned demerger approved at that meeting. It was, in particular, confirmed that the high volatility of financial markets caused by the unprecedented depth of the economic crisis and low market liquidity had severely penalised stock market prices so that they no longer necessarily reflect the economic value of the Company.
Even though the Group's business primarily relates to products for industry and construction, these areas

are not considered operating segments pursuant to IFRS 8 due to the fact that the nature of the products, production processes, assets used for the production processes and the methods of distribution are substantially the same. As a result, goodwill has been allocated to the Company's only operating segment which substantially coincides with the basis of consolidation of the sub-group held by the subsidiary KME Germany A.G..
The impairment test entailed the determination of the value in use of investments tested and then the computation of the present value of projected operating cash flows for two periods of time: the first using the same time horizon as the business plans prepared by the Directors with the second corresponding to the terminal value determined by an internal rate of return with a perpetual growth rate of 2%.
The resultant cash flows were discounted at the before tax WACC (weighted average cost of capital) of 13.6%. WACC is the risk free rate of 4% plus a market risk premium of 6% and an additional premium of 2% to reflect the degree of uncertainty with respect to the depth of the current economic down turn.
The use of the high discount rate and the additional premium is a further demonstration of the conservative nature of the approach.

Measurement at fair value

The fair value of financial assets and liabilities at fair value through profit or loss and available-for-sale assets, on initial recognition, is determined on the basis of the transaction price and is, therefore, equal to the amount paid or received.
Subsequent to and at the end of each reporting period, 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 measurement techniques based on a series of methods and assumptions relating to market conditions at the end of the reporting period. The fair value of interest rate swaps is calculated with reference to the present value of expected future cash flows. The fair value of forward currency contracts is determined with reference to the forward exchange rate at the end of the reporting period.
Fair value adjustments of derivative instruments not classified as hedging instruments are immediately recognised in profit or loss.
The fair value of non-derivative financial instruments is determined by discounting future cash flows at the market interest rate for the end of the reporting period. For finance leases, interest rates are used which refer to similar contracts.

2.5 Cash and cash equivalents

Cash and cash equivalents include cash, demand deposits and highly liquid short-term financial investments that are readily convertible into cash and which are subject to an insignificant risk of changes in value (IAS 7 paragraph 45).

2.6 Equity

Share capital consists of no nominal value ordinary and savings shares, fully subscribed and paid up at the end of the reporting period, reduced by any unpaid calls on capital. The value of treasury shares is reported in accordance with IAS 32 as a reduction of subscribed share capital. Such adjustments are reported in the notes, whilst the historical cost of treasury shares is reported on the face of the statement of financial position as a reduction of equity.
The reserve for treasury shares is no longer used due to the change in presentation introduced by IFRS. The existing balance of the reserve was, consequently, reclassified to the relevant, specific reserves that had been used to create it. Information regarding compliance with articles 2357 *ter* and 2359 *bis* of the Italian Civil

Code is, nevertheless, contained in the notes.
Costs of equity transactions have been charged directly to equity reserves with preference given to the share premium reserve. These charges were subsequently covered during the year through a reduction in available reserves, as resolved at the Shareholders' Meeting of 23 May 2007.

2.7 Payables

Payables are recognised at amortised cost. When the effect of the discounting is not significant, as in short-term trade payables, they are recognised at their nominal value.

2.8 Current and deferred taxes

Tax expense for the year includes both current and deferred taxation. Income taxes are recognised in profit or loss unless relating to transactions recognised directly in equity in which case the relevant tax is also recognised directly in equity.
Current taxes are an estimation of the tax payable computed on taxable income for the year as determined with reference to current tax rates and those substantially in effect at the end of the reporting period and any prior-year adjustments.
Deferred taxes are provisioned on temporary differences between the accounting carrying amounts of the assets and liabilities and the corresponding amounts recognised for tax purposes. Deferred taxes are not provided for the following temporary differences: initial recognition of assets and liabilities for transactions other than business combinations that have no effect on either accounting profit or loss or tax profit or loss; differences relating to investments in subsidiaries and joint ventures to the extent that the difference is not likely to reverse in the foreseeable future. Deferred tax assets and liabilities are measured with reference to tax rates that it is believed will be in effect in the period in which the underlying asset will be recovered or liability paid based on tax rates in effect or substantially in effect at the end of the reporting period. There is an offset of deferred tax assets and liabilities whenever there is a legal right to offset current tax assets and liabilities and if the deferred tax asset or liability relates to income taxes assessed by the same tax authority on the same taxpaying entity or differing taxpaying entities intending to settle the current tax asset or liability on a net basis or to simultaneously recover the asset and pay the liability.
Deferred tax assets are recognised to the extent that it is likely that there will be sufficient future taxable income to absorb the related tax credit. The carrying amounts of deferred tax assets are tested at the end of each reporting period and are reduced to the extent that the underlying tax credit is not likely to be recoverable.

2.9 Employee benefits

Post-employment benefits are payable under plans which, depending on their terms and conditions, are classified either as "defined contribution" or "defined benefit plans". The Company's liability under defined contribution plans is limited to the payment of contributions to a separate legal entity (including the Government or a fund), and consists of contributions due at the end of the reporting period. Liabilities under defined benefit plans, such as post-employment benefits, pursuant to article 2120 of the Italian Civil Code, less any plan assets, are determined on the basis of actuarial assumptions and accrued with reference to the length of service required for the vesting of benefits. Actuarial gains and losses relating to defined benefit plans deriving from changes in actuarial assumptions or plan terms and conditions are prorated to profit or loss using the corridor method, which entails recognition of the net amount of actuarial gains and losses not recorded at the end of the previous period exceeding the greater of 10% of the present value of the obligation and 10% of the fair value reporting of any plan assets.

Law 296 of 27 December 2006 and subsequent decrees and orders promulgated in 2007 to reform the pension system introduced significant changes to the investment of post-employment benefit plan assets prior to the payment of benefits. Employees may now elect either for contributions to be paid to supplementary pension plans or to be held in the company (companies with less than 50 employees) or transferred to INPS (companies with more than 50 employees). Based on the generally held interpretation of these rules, the Group believes that:

- post-employment benefits vested at 31 December 2006 but not yet paid at the end of the reporting period are to be classified as defined benefit plans and measured by actuarial methods without, however, including the component relating to future pay increases;
- contributions payable both to supplementary pension schemes and INPS for post-employment benefits vesting subsequent to the end of the reporting period are to be classified as defined contribution plans excluding, however, for the purposes of accruing the liability, the actuarial component.

The measurement of "Post-employment benefits" was carried out by an independent actuary.

2.10 Provisions for risks and charges

Provisions for risks and charges are liabilities, the amount or timing of which are uncertain. Such provisions are only recognised to the extent that:
1. the Company has a present (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 are, therefore, the best estimates of the expenses needed to settle the obligation or transfer it to third parties at the end of the reporting period. Where the difference between the present and future value of the provision is significant, the provision is stated at the present value of the payment required to settle the obligation.
Provisions for restructuring costs are recognised only if the Group has a formal detailed plan showing at a minimum: the operations and main operating units concerned, the costs to be incurred, the approximate number of employees involved and to the extent that interested third parties reasonably expect that the entity will restructure because it has already commenced or because a public announcement in that regard has been made.

2.11 Revenue recognition

Revenue from the sale of goods and services is recognised at the fair value of the consideration received or receivable, adjusting for any returns, rebates and sales or volume discounts. Revenue is recognised when the significant risks and rewards of ownership of the goods have been transferred to the buyer, when the recoverability of the consideration is probable and the relevant costs or any returned goods can be reliably estimated.
Although transfer of the risks and rewards of ownership vary depending on conditions of contract, it normally occurs on the physical delivery of the goods.
Service revenue, such as work performed for customers, is recognised on the basis of the stage of completion of such work at the end of the reporting period, which is then measured with respect to the amount of work performed.

2.12 Leases

Leases are arrangements by which the lessor transfers the right to use an asset for an agreed period of time to the lessee in exchange for payment or a series of payments. Lease arrangements that essentially transfer all risks and rewards deriving from ownership of the asset are defined as "finance leases" even if title does not pass at the end of the lease. Finance leases are recognised as required by IAS 17, paragraphs 20-32.

Operating leases are defined as any arrangement for the lease of assets that is not a finance lease.

2.13 Dividends

Dividends to be paid are recognised as liabilities only in the period in which they were approved by the Shareholders. Dividends to be received are recorded only when the Shareholders' right to receive payment has been established.

2.14 Financial income and expense

Financial income includes interest income from cash invested, exchange rate gains, dividends, guarantee fees received, gains on disposal of available-for-sale financial assets, increases in the fair value of assets held for trading and derivatives.
Financial expense includes loan interest expense, exchange rate losses, guarantee fees expense, losses on the disposal of available-for-sale financial assets, decreases of the fair value of assets held for trading and derivatives.

2.15 Stock options

Commencing with the financial statements as at and for the year ended 31 December 2006, personnel expense includes the cost associated with stock options granted to executive members of KME Group S.p.A.'s board directors and certain other group executives, consistent with the nature of compensation paid. The fair value of stock options has been determined by the option's value as determined by the Black & Scholes model which takes into consideration the conditions relating to the exercising of the option, the current share value, the exercise price, duration of the option, dividends, expected volatility and the risk-free interest rate. The cost of stock options, distributed over the entire vesting period, is recognised together with a contra-entry in equity under "Reserve for stock options". The fair value of options granted to Executives of KME Group S.p.A.'s subsidiaries is recognised as an increase in the carrying amount of "investments" with the contra-entry posted to "Reserve for stock options".

2.16 Earnings per share

Information on the computation of basic and diluted earnings per share is contained in the notes to the consolidated financial statements. In compliance with IAS 33, paragraph 4, this information is only provided with respect to consolidated figures.

2.17 Use of estimates

The preparation of the financial statements and notes in accordance with IFRS required the Directors to make estimates and assumptions which influenced the amounts reported under assets and liabilities.
Estimates are primarily made to determine the useful lives of non-current assets, allowance for impairment, to determine any impairment losses, the cost of employee benefits, the estimated current and deferred

tax charges, the indefinite useful lives of intangible assets and other provisions and allowances.
These estimates and assumptions are periodically checked and any variations are immediately recognised in profit or loss. At the end of the reporting period, the Directors were of the opinion that the estimates and assumptions used were the best indicators of the actual amounts given the information to hand. In addition, the Directors believed that the estimates and assumptions adopted did not imply any material adjustments to carrying amounts of assets and liabilities.

2.18 Accounting standards not yet applied

Certain new standards, revisions to standards and interpretations in issue at 31 December 2009 that are relevant to the Group had not yet become effective and were not used to prepare these financial statements.

The most important included:

1. **IAS 27 Consolidated and separate financial statements (revised 2008)** requires changes in a parent's ownership interests in a subsidiary that do not result in a loss of control to be accounted for in equity.
In the event control is lost but an equity interest in the company is maintained, the remaining equity interest must be recognised at fair value from the date control is lost and any gain or loss must be recognised in profit or loss. It is not anticipated that the revision to IAS 27, which will become mandatory for the Company from the financial statements as at and for the year ending 31 December 2010, will have a material effect on the financial statements.

2. **IFRS 7 Financial instruments: disclosures** - the IASB issued an amendment to IFRS 7 in March 2009 to improve the disclosure of fair value measurements and liquidity risk. At the date of presenting these financial statements, the European Union had not yet endorsed the amendment.

3. As part of IASB's Annual Improvements for 2008, **IFRS 5 - Non-current assets held for sale and discontinued operations** was modified to require companies with committed plans to dispose of equity interests, which will result in the loss of control of an investee, to reclassify all of the subsidiary's assets and liabilities as available-for-sale notwithstanding the fact that the company will still have a non-controlling equity interest in the subsidiary subsequent to the planned disposal. The modification will be applied prospectively from 1 January 2010.

4. On 27 November 2008, the IFRIC issued interpretation **IFRIC 17 - Distributions of non-cash assets to owners** in order to assure the uniformity of the accounting treatment of non-cash distributions to Shareholders.
The interpretation clarifies that a dividend payable should be recognised when the dividend is appropriately authorised and should be measured at the fair value of the assets to be distributed. In addition, an entity should recognise the difference between the dividend paid and the carrying amount of the net assets distributed in profit or loss. The interpretation is required to be applied prospectively from 1 January 2010. At the date of presentation of these financial statements, the relevant bodies of the European Union had not yet completed the procedures required for the endorsement of the interpretation.

5. **IFRS 2 - Share-based payments (improvement)**: the amendment which must be applied from 1 January 2010 (earlier adoption is permitted), clarified that as a result of the change to the definition of business combinations under IFRS 3, contributions of a business on formation of a joint venture and common control transactions are not within the scope of IFRS 2.

6. **IFRS 5 - Non-current assets held for sale and discontinued operations (improvement)**: the amendment, which is required to be applied prospectively from 1 January 2010, clarified that IFRS 5 and other IFRS specifically referring to non-current assets (or disposal groups) classified as available-for-sale or

discontinued operations should contain all of the disclosures required for these types of assets and transactions.

7. **IAS 7 - Statement of cash flows**: the amendment, which is required to be applied from 1 January 2010, requires that expenditure resulting in a recognised asset can be classified as cash flow from investing activities, whereas expenditure not resulting in a recognised asset (as could be the case for advertising and personnel training expenditure) must be classified cash flow from operating activities.

8. **IAS 17 - Leases**: as a result of a revision to IAS 17, leasehold landed property will also be tested in accordance with IAS 17 to determine whether the lease should be classified as an operating or a finance lease regardless of whether title passes on the expiry of the lease. Prior to these changes, the standard required that if the land title to leasehold property did not pass on expiry of the lease, the lease would be classified as an operating lease with an indefinite useful life. The amendment is required to be applied from 1 January 2010. All existing land held under leases which have not expired at the date of adoption are required to be separately measured with any retrospective recognition of a new lease accounted for as if the lease was a finance lease.

9. **IAS 36 - Impairment of assets**: the amendment, which is required to be applied prospectively from 1 January 2010, requires that all operating segments or combinations of operating units to which goodwill is attributed for the purposes of impairment testing may not be larger than an operating segment as defined by paragraph 5 of IFRS 8 before the combination permitted under paragraph 12 of IFRS 8 for segments engaging in similar business activities or having other similarities.

10. **IAS 38 - Intangible assets**: the 2008 revisions to IFRS 3 require, subject to the availability of sufficient information, the measurement, at fair value, of an intangible asset that was acquired in a business combination to the extent that the intangible asset is separately identifiable or was derived from rights under contract or law. IAS 38 was consequently amended to reflect the revision of IFRS 3. The amendment also clarified the description of measurement techniques commonly used by entities when measuring the fair value of intangible assets acquired in a business combination that are not traded in active markets. Specifically, the measurement techniques can either include the net present value of projected cash flows generated by the asset, estimated avoided costs through possession of the asset which is not required to be used under licence or the costs required to recreate or replace the asset (similar to the cost method). The amendment is required to be applied prospectively from 1 January 2010. If, however, IFRS 3 revised is applied at an earlier date, application of this amendment should also be brought forward.

11. **IAS 39 - Financial instruments: recognition and measurement**: this amendment clarifies the standard's definition of an underlying that is hedged in certain circumstances. The amendment is required to be applied prospectively from 1 January 2010. At the date of these financial statements, the relevant European Union bodies had not yet concluded the endorsement process required for the application of this improvement.

The other standards and interpretations (IFRIC 9, "Reassessment of embedded derivatives", IFRIC 18 "Transfers of assets from customers", IFRIC 13 "Customer loyalty programmes", IFRIC 15 "Agreements for the construction of real estate", IFRIC 16 "Hedges of a net investment in a foreign operation") which have been issued or amended are either not applicable to the Company or relate to matters that were irrelevant at the date of presentation of these financial statements.

At the date of these financial statements, the relevant European Union bodies had not yet concluded the endorsement process required for the application of this improvement.

3. Financial risk management

Information on financial risk management is contained in the notes to the consolidated financial statements.

4. Notes to the separate financial statements

4.1 Property, plant and equipment

(thousands of Euro)	Plant and equipment	Other assets	Total
31 December 2008			
Historical closing cost	170	728	898
Accumulated depreciation and impairment losses	169	627	796
Closing net carrying amount	**1**	**101**	**102**
31 December 2009			
Opening historical cost	170	728	898
Increases	-	69	69
Reclassifications	-	-	-
Decreases	-	-	-
Historical closing cost	**170**	**797**	**967**
31 December 2009			
Accumulated depreciation and impairment losses	169	627	796
Depreciation	-	8	8
Reclassifications	-	-	-
Decreases	-	-	-
Accumulated depreciation and impairment losses	**169**	**635**	**804**
31 December 2009			
Historical closing cost	170	797	967
Accumulated depreciation and impairment losses	169	635	804
Closing net carrying amount	**1**	**162**	**163**

Property, plant and equipment primarily relate to fixtures and furnishings. The increase was a result of purchases made during the year.
Rates of depreciation for the year were: 12% on office fixtures and furnishings, 25% on security system.

4.2 Investments in subsidiaries

Schedule of investments in subsidiaries carried as non-current financial assets.

Name (thousands of Euro)	Registered office	Share capital	Equity at 31.12.2009[1]	Profit/(loss) at 31.12.2009	Percentage interest	Carrying amount (investments)
Subsidiaries						
KME Germany A.G.	Osnabrück	142,744	338,169[1]	(39,900)	100%	307,350
			269,199[2]	(28,475)		
Immobiliare Agricola Limestre S.r.l.	Pistoia	110[3]	1,926	(132)	100%	3,216
KME Recycle S.p.A.	Florence	2,000	1,732	(268)	100%	2,000
						312,566

1. Including profit (loss) for the year.
2. Equity and consolidated profit (loss) at 31 December 2009.
3. Reduction in share capital from Euro 3,216,000.00 to Euro 110,000.00 recorded in Companies' Register on 7 July 2009.

Investments information:

(thousands of Euro)	Investments in subsidiaries	Total
Historical cost	535,019	535,019
Reversals of impairment losses	-	-
Impairment losses	(220,186)	(220,186)
Brought forward	**314,833**	**314,833**
Increases	2,252	2,252
Decreases	(4,519)	(4,519)
Reversals of impairment losses	-	-
Impairment losses	-	-
Change for year	**(2,267)**	**(2,267)**
Historical cost	537,271	537,271
Decreases	(4,519)	(4,519)
Reversals of impairment losses	-	-
Impairment losses	(220,186)	(220,186)
Carried forward	**312,566**	**312,566**

"Investments in subsidiaries" is comprised of the 100% shareholdings in KME Germany A.G. (Euro 307,350,289), Immobiliare Agricola Limestre S.r.l. (Euro 3,216,000) and KME Recycle S.p.A. (Euro 2,000,000). The Euro 2.3 million increase in the carrying amount of investments in subsidiaries was a result of the allocation of Euro 254 thousand in 2006-2011 stock option plan costs for the year (with the contra-entry to equity) granted to Executives of subsidiaries and KME Recycle S.p.A.'s increase in share capital to Euro 2,000,000.
The Euro 4.5 million decrease was due to the transfer, at the carrying amount, of a 3.7% shareholding in KME Italy S.p.A. to the subsidiary KME Germany A.G..

4.3 Other non-current financial assets

(thousands of Euro)	31.12.2008	of which with related parties	Change	31.12.2009	of which with related parties
MCC loan receivable from Group companies	41,766	41,766	11,048	52,814	52,814
Receivable from Unicredito (pledged deposit)	3,239		1,007	4,246	
Guarantee fees receivable	1,335	1,335	486	1,821	1,821
Total	**46,340**	**43,101**	**12,541**	**58,881**	**54,635**

A loan agreement with Mediocredito Centrale S.p.A. (MCC) was signed in April 2008 for up to Euro 103 million to finance capital expenditure that has been or will be incurred by non-Italian subsidiaries or acquisitions of non-Italian companies by KME Group. The loan consists of three tranches which can be drawn between June 2008 and March 2010. The term to maturity of each tranche is eight years from drawdown.

The agreement requires 1) Sace S.p.A. (SACE) to issue a first call guarantee in favour of MCC and 2) a negative pledge on the Group's consolidated assets of a maximum of Euro 200 million, excluding goodwill and cash and cash equivalents, throughout the term of the loan.

On 31 December 2009, MCC disbursed Euro 33 million under the first tranche, Euro 30.2 million under the second tranche and Euro 11.9 million of the third tranche (total Euro 75.1 million) to KME Group S.p.A..

"MCC loan receivable from Group companies" of Euro 52.8 million is the non-current portion of the loan disbursed by Mediocredito Centrale S.p.A. to KME Group S.p.A. and transferred to subsidiaries.

"Receivable from Unicredito (pledged deposit)" of Euro 4.2 million refers to a bank deposit in the name of KME Group S.p.A. at Unicredit Banca d'Impresa S.p.A. and pledged to Mediocredito Centrale. The balance on this account must always be equal to 1/16 (one sixteenth) of loan outstanding amount at any one point in time in addition to accrued six month interest due and payable on the next interest payment date. Any amounts on the account in excess of that amount are immediately available.

"Guarantee fees receivable" are the present value of guarantee fees receivable in more than 12 months, for guarantees issued by the Company to banks on behalf of the Group companies to which the loans were extended. The carrying amount determined in that manner is believed to approximate fair value.

4.4 Deferred tax assets and liabilities

(thousands of Euro)	31.12.2008	Change	31.12.2009
1) Deferred tax assets	3,874	(1,677)	2,197
2) Deferred tax liabilities	-	-	-
Net	**3,874**	**(1,677)**	**2,197**

Deferred tax assets and liabilities by financial statements item are shown below:

(thousands of Euro)	Deferred tax assets 31.12.2009	Deferred tax assets 31.12.2008	Deferred tax liabilities 31.12.2009	Deferred tax liabilities 31.12.2008
Property, plant and equipment	-	-	-	-
Intangible assets	-	-	-	-
Investment property	-	-	-	-
Other non-current assets	-	-	-	-
Inventories	-	-	-	-
Trade receivables	257	257	-	-
Other current receivables and assets	5	44	-	-
Current financial assets	-	-	-	-
Employee benefits	4	4	-	-
Non-current financial liabilities	-	-	-	-
Other non-current liabilities	398	325	-	-
Provisions for risks and charges	768	2,006	-	-
Current financial liabilities	-	-	-	-
Trade payables	-	-	-	-
Other current liabilities	700	139	-	-
Deferred tax assets on equity items	65	131	-	-
Deferred tax assets on tax loss carry forwards	-	968	-	-
Total	**2,197**	**3,874**	**-**	**-**

Deferred tax liabilities are computed on temporary differences between carrying amounts of assets and liabilities recognised in the financial statements and the corresponding amounts recognised for tax purposes.

"Deferred tax assets on tax loss carry forwards" are recognised only when their recovery is highly probable. At the end of the reporting period, the Company did not recognise deferred tax assets on tax losses of Euro 4.3 million carried forward.

The details at 31 December 2009, of recognised and unrecognised deferred tax assets on tax loss carry forwards by the Company, are shown below:

(thousands of Euro)	31.12.2008	31.12.2009
a) recognised tax losses carried forward		
KME Group S.p.A.	3,519	-
Total (1)	3,519	-
b) unrecognised tax losses carried forward		
KME Group S.p.A.	11,507	4,297
Total (2)	11,507	4,297
Total (1) + (2)	**15,026**	**4,297**

Tax losses carried forwards of Euro 10,729 thousand were used during the year to reduce taxable income, Euro 7,210 thousand of which had not been recognised as a deferred tax asset in the previous year.

4.5 Trade receivables

(thousands of Euro)	31.12.2008	of which with related parties	Change for the year	31.12.2009	of which with related parties
1) Due from customers	933			933	
Allowance for impairment	(933)			(933)	
Net trade receivables due from customers	-			-	
2) Due from subsidiaries	7	7	82	89	89
3) Due from associates	-			-	
4) Due from parents	-			-	
Total	**7**	**7**	**82**	**89**	**89**

The carrying amount of trade receivables approximates their fair value.

4.6 Other current receivables and assets

(thousands of Euro)	31.12.2008	of which with related parties	Change for the year	31.12.2009	of which with related parties
1) Tax credits	6,784		(6,206)	578	
2) Prepayments and accrued income	710		(97)	613	
3) Other receivables	214		(212)	2	-
Total	**7,708**	**-**	**(6,515)**	**1,193**	**-**

There was a decrease in tax credits due to the refund by the Tax Authorities of Euro 5.6 million. A consolidated IRES tax credit of Euro 0.6 million relating to 2008 was transferred to the Company by the Group and an IRAP tax credit of Euro 0.3 million was used for the payment of 2008 taxes. A VAT credit of Euro 56 thousand was recognised as well as an advance payment of 2009 IRAP of Euro 366 thousand.

Prepayments of Euro 301 thousand relate to transaction costs in connection with the loan extended by Mediocredito Centrale which will be charged to income over the term of the loan; Euro 286 thousand relates to other prepayments for services that will be obtained sometime in the future.

Maturity bands are shown below:

(thousands of Euro)	Due dates			
	Within the next 12 months	Within 5 years	Over 5 years	Total
Tax	578	-	-	578
Prepayments and accrued income	362	195	56	613
Other	2		-	2
Total	**942**	**195**	**56**	**1,193**

4.7 Current financial assets

(thousands of Euro)	31.12.2008	of which with related parties	Change	31.12.2009	of which with related parties
Financial assets held for trading:					
- 5,824,990 Intec S.p.A. savings shares[1]	4,077	4,077	(536)	3,541	3,541
- 5,001,932 ErgyCapital S.p.A. shares	1,901	1,901	465	2,366	2,366
- 14,291,235 ErgyCapital S.p.A. warrants	1,158	1,158	229	1,387	1,387
Financial receivables due from subsidiaries	69,901	69,901	20,995	90,896	90,896
Guarantee fees receivable	5,962	5,962	(2,195)	3,767	3,767
Total	**82,999**	**82,999**	**18,958**	**101,957**	**101,957**

1. Five shares were cancelled in connection with the demerger in order to make the demerger arithmetically possible.

"Financial assets held for trading" consist of:

- iNTEk S.p.A. savings shares, of a nominal value of Euro 0.608, recognised at their official listed price at the end of the reporting period. A call option on 5,824,985 iNTEk savings shares was given to lenders of the above mentioned bank loan obtained in February 2005 and which is no longer outstanding. The exercise price of the options, which will expire in 2012, is Euro 0.90.
  5,824,985 iNTEk savings shares were transferred on 19 March 2010 in accordance with a share sale and purchase agreement that provided, *inter alia*, the granting by the acquirer of a call option on 2,184,369 iNTEk savings shares and 3,640,615 KME savings shares that arose on the proportionate partial reverse demerger of iNTEk S.p.A. into KME Group S.p.A. of 22 March 2010 described above.
- ErgyCapital S.p.A. ordinary shares, which are carried at their official price at the end of the reporting period (Euro 0.473 per share);
- ErgyCapital S.p.A. warrants, at the end of the reporting period (Euro 0.097 per warrant).

"Financial receivables due from subsidiaries" amounting to Euro 82.5 million are the current account balances in the Parent's books with KME Germany A.G., KME Germany A.G. & Co K.G., KME France S.A.S., KME Brass France S.A.S., KME Yorkshire Ltd., KME Locsa S.A., KME Recycle S.p.A. and Immobiliare Agricola Limestre S.r.l.. The balances arose during the normal course of business and relate to the investment of the Parent's cash holdings. The remaining Euro 8.4 million is the current portion maturing in the next 12 months of the Mediocredito Centrale loan.
"Guarantee fees receivable" are the present value of guarantee fees that are receivable within 12 months, for guarantees issued by the KME Group S.p.A. to banks on behalf of the Group companies to which loans were extended.
The total amount of guarantee fees receivable within and beyond twelve months determined in the manner described in note 4.3 was Euro 5.6 million which approximated their fair value at 31 December 2009.

4.8 Cash and cash equivalents

(thousands of Euro)	Balance at 31.12.2008	Changes for the year	Balance at 31.12.2009
Bank and post office accounts	657	(258)	399
Cash on hand	4	-	4
Total	**661**	**(258)**	**403**

4.9 Equity

The number of subscribed shares is as follows:

	Ordinary shares 2009	2008	Savings shares 2009	2008
In issue on 1 January	**235,489,347**	**235,480,130**	**19,072,110**	**19,072,110**
Issued for cash	4,995	9,217		
In issue at end of reporting period	235,494,342	235,489,347	19,072,110	19,072,110

Subscribed share capital at 31 December 2009 totalling 250,014,922.60 Euro subdivided into 235,494,342 ordinary shares and 19,072,110 savings shares with no nominal value.
At the date of presenting these financial statements, subsequent to the execution of the shareholders' resolution of 2 December 2009 approving the partial, proportionate reverse demerger of iNTEk S.p.A. into KME Group S.p.A. described above, and which became effective on 22 March 2010, the total amount of KME Group S.p.A.'s share capital is Euro 273,761,740.66, consisting of 418,117,631 shares, of which 381,367,530 are ordinary and 36,750,101 are savings shares.

Also in issue on the date of presenting these financial statements were:

- 67,895,451 "2006/2011 warrants on KME Group S.p.A. ordinary shares", which, if exercised, in the ratio that has been determined of one ordinary share for two warrants at an exercise price of Euro 0.70, would result in a maximum increase in share capital of Euro 23,763,407.50 through the issuance of a maximum of 33,947,725 ordinary shares;

- 73,330,660 "2009/2011 warrants on KME Group S.p.A. ordinary shares", which, if exercised, at the exercise price of Euro 0.90, including a premium of Euro 0.64, would result in a maximum increase in share capital of Euro 19,065,971.60 through the issuance of a maximum of 73,330,660 ordinary shares.

The following changes in equity were recorded in 2009:

(thousands of Euro)	Share capital	Other reserves	Treasury shares	Retained earnings	Stock Option reserve	(Profit) loss for the year	Total equity
Equity at 31 December 2008	**250,010**	**75,347**	**(2,349)**	**5,910**	**6,187**	**21,024**	**356,129**
Allocation of profit for the year		1,051		8,485		(9,536)	-
Allocation of subsidiaries' profits						-	-
Dividends and allocations to the Board of Directors		-		-		(11,488)	(11,488)
Capital increase	5						5
Creation of loss coverage reserve							-
(Purchase) sale of treasury shares			(539)				(539)
Deferred taxes recognised in equity		(66)					(66)
Vesting of stock options		-			755		755
Profit/(loss) for the year						3,629	3,629
Equity at 31 December 2009	**250,015**	**76,332**	**(2,888)**	**14,395**	**6,942**	**3,629**	**348,425**
Reclassification of treasury shares	(2,888)		2,888				-
Equity at 31 December 2009	**247,127**	**76,332**	**-**	**14,395**	**6,942**	**3,629**	**348,425**

In execution of the Shareholders' resolution of 14 May 2009 gross dividends of Euro 0.04 per ordinary share and Euro 0.1086 per savings share were paid.

Treasury shares at 31 December 2009 consist of 5,475,170 ordinary shares recognised at their purchase cost of Euro 2,790,544 and 90,555 savings shares, recognised at their purchase cost of Euro 97,059.

"Other reserves" includes:

• legal reserve	Euro	2,097,013
• deferred taxes recognised in equity	Euro	65,333
• share premium reserve (sale of unexercised rights)	Euro	4,666
• free reserves	Euro	74,164,741
	Euro	**76,331,753**

"Free reserves" were created by resolution made at the extraordinary Shareholders' Meeting of 14 March 2008, which approved the voluntary reduction of share capital by Euro 74,164,741.31 (from Euro 324,164,741.31 to Euro 250,000,000.00) and the creation of free reserves of equal amount. The resolution was executed on 26 June 2008.

The use of "Free reserves" is unrestricted except for the following amounts:

- a savings share reserve with respect to 5,824,990 savings shares of the Parent iNTEk S.p.A. amounting to Euro 3,541,594, pursuant to article 2359 *bis* of the Italian Civil Code;
- a share reserve with respect to 5,475,170 ordinary shares and 90,555 treasury savings shares totalling Euro 2,887,603, pursuant to article 2357 *ter* of the Italian Civil Code.

The "Legal Reserve" may be used to absorb losses.
The "Share premium reserve" may, pursuant to art. 2431 of the Italian Civil Code, be distributed to Shareholders subject to a minimum balance on the Legal Reserve of one fifth of share capital.
The "Stock option reserve" (Euro 958,537 arising in 2006, Euro 2,221,891 arising in 2007, Euro 3,006,973 arising in 2008 and Euro 754,518 arising in 2009) that arose on the recognition of stock options granted to the Company's Executive Directors (totalling Euro 2,261,511) and to Group Executives (totalling Euro 4,680,408). This reserve is distributable as a result of the definitive revocation, with the beneficiaries' consent, of the 2006/2011 stock option plan as approved by the Shareholders at their meeting of 2 December 2009.

4.10 Employee benefits

This amount is determined based on the vested interests of all employees at the end of the reporting period, in compliance with law, employment contracts and IAS 19.

(thousands of Euro)	Balance at 31.12.2008	Increases	Decreases	Balance at 31.12.2009
Post-employment benefits	151	5	-	156
Total	**151**	**5**	**-**	**156**

4.11 Non-current financial payables and liabilities

(thousands of Euro)	Balance at 31.12.2008	of which with related parties	Changes for the year	Balance at 31.12.2009	of which with related parties
Law 46/1982 loan	362		(116)	246	
Mediocredito Centrale loan	43,616		15,011	58,627	
BNP Paribas loan	3,889		(1,296)	2,593	
Guarantees issued liability	1,335	1,335	486	1,821	1,821
Total	**49,202**	**1,335**	**14,085**	**63,287**	**1,821**

The amounts of the Law 46/1982 loan that arose on the merger of Europa Metalli SE.DI. S.p.A. and the BNP Paribas loan refer to the portion due after 12 months.

The amount of the loan from Mediocredito Centrale, totalling Euro 58.6 million, is the non-current portion of the first, second and third tranches disbursed to the Parent; see note 4.3 for details.

"Guarantees issued liability" is the entry of a non-current asset relating to the same guarantees and is the fair value of liabilities under guarantees issued, having assessed the degree of risk and hence the remoteness of the contingency in accordance with IAS 37. Since all guarantees were issued in connection with loans extended to subsidiaries, the present value of guarantee fees receivable, recognised as current and non-current financial assets, represents the best estimate of the fair value of contingent liabilities relating to guarantees issued.

4.12 Other payables

Other payables consists of the post-employment benefits approved by the Board of Directors on 14 March 2008 amounting to the prorated average of one year's average pay for each three years of service and payable to the Executive Deputy Chairman on resignation.

(thousands of Euro)	Balance at 31.12.2008	of which with related parties	Changes for the year	Balance at 31.12.2009	of which with related parties
Directors' post-employment benefits	1,180	1,180	266	1,446	1,446
Total	**1,180**	**1,180**	**266**	**1,446**	**1,446**

4.13 Provisions for risks and charges

(thousands of Euro)	Balance at 31.12.2008	Increases	Decreases and releases	Balance at 31.12.2009
Products warranty provision	2,702	-	-	2,702
Legal risks provisions	4,592	-	(4,505)	87
Total	**7,294**	**-**	**(4,505)**	**2,789**

The "Products warranty provision" was recognised on the merger with the subsidiary Europa Metalli SE.DI. S.p.A. with respect to the warranties on products that had been sold by the subsidiary to the Ministry of Defence.

The decrease in the "Legal risks provisions" was required with respect to the liability under the settlement of 23 December 2009 in connection with the court case brought by Basileus S.r.l. relating to environmental damage.
More information in this regard is contained in the section on pending litigation in the Directors' Report.

4.14 Current financial payables and liabilities

Current financial payables and liabilities consist of:

(thousands of Euro)	Balance at 31.12.2008	of which with related parties	Reclass-ifications	Change	Balance at 31.12.2009	of which with related parties
Due to banks	29,700	-	909	(1,140)	29,469	-
Due to Parent	17	17		(17)	-	-
Due to subsidiaries	3,881	3,881		20,186	24,067	24,067
Guarantees issued liability	5,962	5,962		(2,195)	3,767	3,767
Total	**39,560**	**9,860**	**909**	**16,834**	**57,303**	**27,834**

"Due to banks" relates to outstanding amounts of Euro 19.1 million under a committed line of credit, the current portion amounting to Euro 8.6 million of the Mediocredito Centrale loan (see note 4.3), the Euro 1.3 million BNP Paribas loans the Law 46 loan of Euro 0.1 million extended to the former Europa Metalli SE.DI. The Euro 909 thousand reclassification relates to accrued interest payable at the end of the previous reporting period on the above loans which had previously been recognised as "Other current liabilities".
"Guarantees issued liability" is the entry of a non-current asset relating to the same guarantees; see note 4.7.

4.15 Trade payables

(thousands of Euro)	Balance at 31.12.2008	of which with related parties	Change	Balance at 31.12.2009	of which with related parties
Suppliers	622	-	7	629	-
Suppliers - Parent	-	-	-	-	-
Suppliers - subsidiaries	130	130	(57)	73	73
Total	**752**	**130**	**(50)**	**702**	**73**

The carrying amount of trade payables approximates their fair value.

4.16 Other current liabilities

(thousands of Euro)	Balance at 31.12.2008	of which with related parties	Reclass-ifications	Change	Balance at 31.12.2009	of which with related parties
Other current liabilities	2,256	587	(909)	1,992	3,339	152
Total	**2,256**	**587**	**(909)**	**1,992**	**3,339**	**152**

This item primarily relates to amounts payable to members of corporate bodies (Euro 152 thousand) for remuneration accrued but not yet paid, tax, social security and employee payables (Euro 342 thousand), amounts due to banks (Euro 45 thousand) and payables to third parties (Euro 2,780 thousand).
The Euro 909 thousand reclassification is explained in note 4.14.

5. Guarantees and commitments

Pursuant to the banking agreements of September 2006, KME Group S.p.A. has joint and several obligation together with its industrial subsidiaries of a maximum of Euro 650 million for a three year term (tranche A) and of Euro 200 million with a five year term (tranche B), to be repaid in monthly instalments from the beginning of the fourth year. The final maturity of tranche A was renegotiated on its original expiry in September 2009 and Euro 290 million was extended for a further two years at the same terms and conditions. A revised repayment schedule was determined for tranche B under which Euro 25 million will be repaid at the end of 2009 to be followed by three Euro 50 million quarterly instalments with the residual repaid in September 2011.

Outstanding amount at 31 December 2009 were:

- Euro 218.2 million for tranche A;
- Euro 17.6 million also for tranche A for letters of credit issued;
- Euro 175.0 million for tranche B.

The outstanding amounts under tranche B at 31 December 2009 related to cash advances. As previously explained, tranche B was for guarantees issued in connection with a loan extended by the European Investment Bank and guarantees issued to the European Community in connection with fines imposed on certain of the Group's Industrial Companies. The European Investment Bank loan was repaid by the end of the reporting period and the obligation guaranteed by to the European Community was secured on assets.

KME Group S.p.A. still has an obligation under a call option with an exercise price of Euro 1 per share on 5,704,444 G.I.M. savings shares given to banks participating in the banking agreement of February 2005. The number of shares subject to the option reduced to 5,242,497 following the exercise of one banks option.
Following the merger of G.I.M. - Generale Industrie Metallurgiche S.p.A. into iNTEk S.p.A. at the end of March 2007, the number of shares subject to the option increased to 5,824,990 shares as a result of the share exchange ratio for the merger of 10 iNTEk shares for every 9 G.I.M. savings shares held. The exercise price consequently decreased from Euro 1 to Euro 0.9. See note 4.7.

KME Group S.p.A. has joint and several obligation together with its industrial subsidiaries with respect to a Unicredit Mediocredito Centrale S.p.A./SACE line of Euro 103 million repayable over eight years. Drawings under the line are for the acquisition by the Parent of companies outside Italy and capital expenditure made by non-Italian industrial subsidiaries. Outstanding amounts under the line at the end of December 2009 were Euro 67.2 million. The remainder of the line was drawn in early 2010.

6. Notes to the statement of comprehensive income

6.1 Revenue from sales and services

(thousands of Euro)	FY 2008	of which with related parties	FY 2009	of which with related parties	% Change
Revenue from sales and services	2,839	2,839	2,839	2,839	insig.
Total	**2,839**	**2,839**	**2,839**	**2,839**	**insig.**

"Revenue from sales and services" includes amounts invoiced to Group companies for financial, insurance, tax and administrative support services.

6.2 Other income

(thousands of Euro)	FY 2008	of which with related parties	FY 2009	of which with related parties	% Change
Other income	20	2	16	1	-20.0%
Total	**20**	**2**	**16**	**1**	**-20.0%**

6.3 Personnel expense

(thousands of Euro)	FY 2008	of which with related parties	FY 2009	of which with related parties	% Change
Wages and salaries	136	-	156	-	14.7%
Social security charges	51	-	63	-	23.5%
Cost of stock options	1,167	1,167	501	501	-57.1%
Post-employment benefits	7	-	6	-	-14.3%
Total	**1,361**	**1,167**	**726**	**501**	**-46.7%**

The cost of the stock options for the year was determined indirectly with reference to the fair value of the equity instruments granted.

6.4 Amortisation, depreciation and impairment losses

(thousands of Euro)	FY 2008	FY 2009	% Change
Fixtures and furnishings	4	8	100.0%
Plant, machinery and equipment	-	-	-
Total	**4**	**8**	**100.0%**

6.5 Other operating costs

This item consists of the following amounts:

(thousands of Euro)	FY 2008	of which with related parties	FY 2009	of which with related parties	% Change
Directors' and Statutory Auditors' fees	2,105	2,105	1,504	1,504	-28.6%
Professional services	1,228	70	1,632	81	32.9%
Directors' and employees' travel and subsistence	781	-	618	-	-20.9%
Service fees to subsidiaries/parent	4	4	4	4	-
Legal and company reporting	41	-	45	-	9.8%
Light, heat, postage, telephones	35	-	26	-	-25.7%
Various insurances	49	-	65	-	32.7%
Various maintenance	2	-	-	-	insig.
Third party services and listings	62	-	65	-	4.8%
Training and seminars	14	-	11	-	-21.4%
Real estate leases	153	40	199	152	30.1%
Incidental property expenses	131	60	104	104	-20.6%
Leases and rentals	87	48	100	62	14.9%
Various tax charges	7	-	5	-	-28.6%
Undeductible VAT	163	-	85	-	-47.9%
Trade association contributions	25	-	23	-	-8.0%
Other costs	93	-	5,242	16	insig.
Donations	39	-	38	-	-2.6%
Bank fees	11	-	9	-	-18.2%
Provisions releases	(3)	-	(4,646)	-	insig.
Provisioning	3,300	-	-	-	insig.
Directors' post-employment benefits provisions	1,180	1,180	266	266	-77.5%
Total	**9,507**	**3,507**	**5,395**	**2,189**	**-43.3%**

"Other costs" includes the non-recurring expense of Euro 5.1 million in connection with the settlement of the Basileus case described in the section on pending litigation, Euro 4.5 million of which was provided in the past which was released in 2009.

"Professional services" includes Euro 745 thousand relating to the demerger described above.

The provision for directors' post-employment benefits is explained in note 4.12.

6.6 Financial income (expense)

(thousands of Euro)	FY 2008	of which with related parties	FY 2009	of which with related parties	% Change
Interest received from Group companies	5,885	5,885	4,693	4,693	-20.3%
Dividends	21,361	21,361	633	633	-97.0%
Other financial income	8,248	6,920	7,796	6,494	-5.5%
Interest paid to Group companies	(313)	(313)	(321)	(321)	2.6%
Loan interest paid	(3,177)	-	(3,504)	-	10.3%
Other financial expense	(2,846)	(1,173)	(683)	-	-76.0%
Total	**29,158**	**32,680**	**8,614**	**11,499**	**-70.5%**

"Financial income" consists of: Euro 4.7 million interest charged on intercompany accounts at market rates and on the Mediocredito Centrale loan transferred to subsidiaries; Euro 633 thousand in dividends on iNTEk S.p.A. savings shares; Euro 0.2 million for adjustment of the value of 14,291,235 ErgyCapital S.p.A. warrants; Euro 0.5 million for adjustment of the value of 5,001,932 ErgyCapital shares; and, Euro 6.5 million in fees charged to Group companies for guarantees issued as described above.

"Financial expense" consists of: Euro 321 thousand interest expense at market rates to Group companies on intercompany current accounts; Euro 3.5 million interest expense to banks for short and long/medium term loans; Euro 536 thousand as an impairment loss on the carrying amount of 5,824,990 iNTEk S.p.A. shares.

6.7 Current and deferred taxes

(thousands of Euro)	FY 2008	of which with related parties	FY 2009	of which with related parties	% Change
Current taxes	(369)	-	(3,050)	-	insig.
Deferred taxes	248	-	1,339	-	insig.
Total	**(121)**	**-**	**(1,711)**	**-**	**insig.**

Current taxes relate to IRAP of Euro 100 thousand and IRES of Euro 2,950 thousand computed to the end of the reporting period.
Following the revocation of the stock option plan explained in note 4.9, the amount of the grant not yet exercised was assessed to taxation which increased the tax charge by Euro 1.4 million.

The Company has not made payments of income tax as a result of using the tax losses carried forwards from previous years. The only payment made was Euro 100 thousand for IRAP.

A reconciliation of theoretical tax charge for the year and the effective tax charge pursuant to IAS 12 paragraph 81 is shown below.

Reconciliation of tax charge at theoretical rate and the effective charge

(thousands of Euro)	FY 2009	FY 2008
Profit before taxes	**5,340**	**21,145**
Tax charge at theoretical rate	(1,469)	(5,815)
- dividends	-	5,470
- investments and securities impairment losses	-	60
- other		149
- deferred tax deductions	(2,124)	
- set off of unrecognised tax losses carried forward against taxable income	1,982	384
- IRAP	(100)	(369)
Total effective tax charge	**(1,711)**	**(121)**

Deferred taxes recognised in equity

(thousands of Euro)	FY 2008	change	FY 2009	% Change
Capital increase-related expenses	(131)	66	(65)	-50.4%
Total	**(131)**	**66**	**(65)**	**-50.4%**

7. Other information

Average number of employees

	FY 2008	FY 2009	% Change
Executives	1	1	insig.
Clerical	1	3	insig.
Total	**2**	**4**	**100.0%**

Financial instruments by category

(thousands of Euro)	31.12.2008	31.12.2009
Fin. assets recognised at fair value through profit or loss	14,433	12,882
Held-to-maturity assets	-	-
Loans and receivables	123,282	149,642
Investments in subsidiaries and other companies	314,833	312,566
Fin. liabilities carried at fair value through profit or loss	7,297	5,588
Fin. liabilities carried at amortised cost	82,217	115,705

Financial instruments by financial statements presentation

Financial instruments and reconciliation with financial statements items at 31 December 2009:

(thousands of Euro)	Total	Carried at amortised cost	Carried at fair value	Outside the scope of IFRS 7
Financial asset:				
Investments in subsidiaries and associates	312,566			312,566
Investments in other companies	-			-
Investments in equity accounted investees	-			-
Non-current financial assets	58,881	57,060	1,821	
Other non-current assets	-		-	
Trade receivables	89	89	-	
Other current receivables and assets:				
Tax credits	578	578	-	
Bank and post office accounts	-		-	
Due to subsidiaries	-		-	
Other non-financial assets	615	615	-	
	1,193			
Cash and cash equivalents	403	403	-	
Current financial assets:				
Guarantees issued	3,767		3,767	
Receivables	90,896	90,896	-	
ErgyCapital S.p.A. shares	2,366		2,366	
ErgyCapital S.p.A. warrants	1,387		1,387	
iNTEk S.p.A. savings shares	3,541		3,541	
	101,957			
	475,089	**149,641**	**12,882**	**312,566**

(thousands of Euro)	Total	Carried at amortised cost	Carried at fair value	Outside the scope of IFRS 7
Financial liabilities:				
Current and non-current financial liabilities				
Due to banks	90,936	90,936		
Guarantees issued	5,588	-	5,588	
Payable to lease companies	-	-		
Other financial Liabilities	24,066	24,066	-	
Derivatives	-	-	-	
	120,590	**115,002**	**5,588**	**-**
Trade payables	702	702	-	
	121,292	**115,704**	**5,588**	**-**

Notional value of derivative 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 ageing of trade receivables at the end of the reporting period was as follows:

Description (thousands of Euro)	Gross carrying amount	Impairment loss 31.12.2009	Net carrying amount
current	-	-	-
less than 60 days past due	32	-	32
61 to 120 days past due	57	-	57
121 days to 1 year past due	-	-	-
over 1 year past due	933	933	-
Total	**1,022**	**933**	**89**

Changes during the year in the allowance for impairment are shown below:

(thousands of Euro)	
31.12.2008	**933**
Impairment losses of the year	-
Uses	-
Releases	-
31.12.2009	**933**

Foreign exchange exposure

KME Group S.p.A. had no financial statements items or sale or purchase commitments denominated in foreign currencies at the end of the reporting period.

Interest rate exposure

The Group's interest rate structure of interest-bearing financial instruments at the end of the reporting period was as follows:

(thousands of Euro)	Carrying amount 31.12.2008	Carrying amount 31.12.2009
Fixed rate instruments:		
Financial assets	-	-
Financial liabilities	475	363
Total	**(475)**	**(363)**
Variable rate instruments:		
Financial assets	122,864	148,355
Financial liabilities	88,286	115,003
Total	**34,578**	**33,352**

Sensitivity analysis of the cash flows of variable rate financial instruments

A 50 basis point increase (decrease) in interest rate receivable or payable at the end of the reporting period would have led to an insignificant decrease (increase) in equity.

Fair value and carrying amounts

Pursuant to IFRS 7 paragraph 25, the carrying amount of financial assets and liabilities approximates fair value.

Fair value hierarchy

IFRS 7, paragraph 27A requires financial instruments to be recognised at fair value in the Statement of Financial Position be classified with reference to a hierarchy of levels based on the significance of the input used to determine fair value.

The standard stipulates three levels:
a) Level 1 - quoted prices for the asset or liability to be measured;
b) Level 2 - directly observable market inputs other than Level 1 inputs;
c) Level 3 - inputs not based on observable market data.

Financial instruments recognised in the statement of financial position at fair value, as shown in the above detailed statement are, with the exception of financial assets and liabilities in the form of guarantees issued, all classified as Level 1 of the hierarchy since they are all securities listed on regulated markets.
There were no transfers in 2009 between Levels 1 and 2.
Guarantees issued are classified as Level 3. Their fair value is determined by the use of a discount rate that is believed to reflect their risk. Given the nature of the transactions to which the guarantees relate, no gains or losses were recognised for the year either in profit or loss or in equity.

Other financial commitments

Below is a summary showing the minimum irrevocable payment commitments under rental agreements and operating leases at the end of the reporting period:

(thousands of Euro)	31.12.2008	31.12.2009
Within 1 year	220	214
1 to 5 years	249	850
After 5 years	-	-
Total	**469**	**1,064**

Disclosure of payments for services rendered by the Independent Auditors

In accordance with article 149 *duodecies* of the "Issuers Regulation", the following table shows the payments made during the year for services provided by the Independent Auditors, KPMG S.p.A. and its subsidiaries:

(thousands of Euro)	Total	KME Group S.p.A.	Subsidiaries
a) audit fees	1,205	74	1,131
b) fees other than audit:			
- certifications relating to financial covenants, exchange ratios, demerger	295	295	-
- other fees	41	2	39
c) fees charged by associated firms	114	-	114
Total	**1,655**	**371**	**1,284**

Annexes to the notes to the separate financial statements

List of investments at 31 December 2009 and changes since 31 December 2008 (includes disclosures pursuant to article 126 of CONSOB Regulation 11971/2008)

Investment (in Euro)	Nominal value	Existing at 31.12.2008		Increase/(decrease) for year		Adjustments	Existing at 31.12.2009				Stock market price 31.12.2009		Difference
	Euro	Quantity	Value	Quantity	Value		Quantity	%	Average carrying amount	Closing balance	Value per share	Total	
Subsidiaries and other investments (carried as non-current financial assets)													
KME Germany A.G.	no nominal value	27,918,276	307,096,275		254,014		27,918,276	100.00		307,350,289			
Immobiliare Agricola Limestre S.r.l.		1	3,216,000				1	100.00		3,216,000			
KME Italy S.p.A.[1]	1	3,839,000	4,519,000	(3,839,000)	(4,519,000)		-	-		-			
KME Recycle S.p.A.[2]	1	1	1,960	2,000,000	1,998,040	-	2,000,000	100.00		2,000,000			
Total			**314,833,235**		**(2,266,946)**	**-**				**312,566,289**			**-**
Parents and other investments (carried as current assets)													
iNTEk S.p.A. - savings shares	0.26	5,824,990	4,077,493	-	-	(535,899)	5,824,990	38.37	0.608	3,541,594	0.608	3,541,594	-
ErgyCapital S.p.A.	no nominal value	5,001,932	1,900,734	-	-	465,180	5,001,932	6.817	0.473	2,365,914	0.473	2,365,914	-
	warrant	14,291,235	1,157,590	-	-	228,660	14,291,235		0.097	1,386,250	0.097	1,386,250	-
Total			**7,135,817**		**-**	**157,941**				**7,293,758**		**-**	
Treasury shares (deducted from equity)													
KME Group S.p.A. savings shares	no nominal value	78,138	87,567	12,417	9,492		90,555		1.07	97,059	0.844	76,428	(20,631)
KME Group S.p.A. ordinary shares	no nominal value	4,480,449	2,261,664	994,721	528,880		5,475,170		0.51	2,790,544	0.458	2,507,628	(282,916)
Total			**2,349,231**		**538,372**	**-**				**2,887,603**			**(303,547)**
Total			**324,318,283**		**(1,728,574)**	**157,941**				**322,747,649**			**(303,547)**

1. The investment in KME Italy S.p.A. was sold to the subsidiary KME Germany A.G. on 11 September 2009.
2. KME Recycle was converted into a joint-stock company on 30 January 2009.

List of indirect shareholdings (includes disclosures pursuant to articles 125 and 126 of CONSOB regulation no. 11971/99)

	Registered office	Operations	Share capital Currency	Amount	%	Direct interests at 31.12.2009 Name	% Total investment
KME Germany A.G. & Co. K.G.	Germany	Industrial	Euro	200,003,000	99.99 0.01	KME Germany A.G. KME Beteiligungs mbH	100.00
Kabelmetal Messing Bet. GmbH, Berlin	Germany	Real Estate	Euro	4,514,200	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 beschraenkter Haftung	Germany	non-operating	Euro	10,225,838	100.00	KME Germany A.G.	100.00
Evidal Schmoele Verwaltungsgesellschaft mbH	Germany	non-operating	Euro	30,000	50.00	KME Germany A.G.	50.00
KME Architectural Metals Gmbh	Germany	Holding company	Euro	25,564	100.00	KME Germany A.G.	100.00
KME Architectural Metals Gmbh & Co. K.G.	Germany	Industrial	Euro	1,329,359	100.00	KME Germany A.G.	100.00
KME Brass Germany GmbH	Germany	Industrial	Euro	50,000	100.00	KME Germany A.G.	100.00
KME Beteiligungsgesellschaft mbh	Germany	Holding company	Euro	1,043,035	100.00	KME Germany A.G.	100.00
KME France S.A.S.	France	Industrial	Euro	15,000,000	100.00	KME Germany A.G.	100.00
Accumold A.G.	Switzerland	In liquidation	FS	200,000	100.00	KME Germany A.G.	100.00
KME Yorkshire Ltd.	United Kingdom	Industrial	LST	10,014,603	100.00	KME Germany A.G.	100.00
KME Italy S.p.A.	Italy	Industrial	Euro	103,839,000	100.00	KME Germany A.G.	100.00
KME Moulds Mexico S.A. de C.V.	Mexico	Trading	MXN	7,642,226	99.00 1.00	KME Germany A.G. Kabelmetal Messing Bet. GmbH, Berlin	100
Dalian Dashan Chrystallizer Co. Ltd.	China	Industrial	RMB	10,000,000	70.00	KME Germany A.G.	70.00
Dalian ETDZ Surface Machinery Co. Ltd.	China	Industrial	RMB	5,500,000	70.00	KME Germany A.G.	70.00
Dalian Dashan Heavy Machinery Co. Ltd.	China	Industrial	RMB	10,000,000	70.00	KME Germany A.G.	70.00
KME China Ltd.	China	Holding company	$HK	27,095,000	100.00	KME Germany A.G.	100.00
KME Metals (Shanghai) Trading Ltd.	China	Trading	USD	100,000	100.00	KME Germany A.G.	100.00
KME Service S.r.l.[4]	Italy	Finance	Euro	115,000	100.00	KME Germany A.G.	100.00
KME Service Russland Ltd.	Russia	Industrial	RUB	10,000	60.00	KME Germany A.G. & Co. K.G.	60.00
Bertram's GmbH	Germany	Services	Euro	300,000	100.00	KME Germany A.G. & Co. K.G.	100.00
KME Czech Republic S.r.o.	Czech Republic	Trading	CZK	100,000	100.00	KME Germany A.G. & Co. K.G.	100.00
KME Moulds Service Australia PTY Ltd.	Australia	Industrial	AUD	100	65.00	KME Germany A.G. & Co. K.G.	65.00
KME Chile Lda.	Chile	Metal trading	PSC	9,000,000	99.00 1.00	KME Germany A.G. & Co. K.G. KME Metal GmbH	100.00
KME Asia Pte. Ltd.	Singapore	Trading	$GD	200,000	100.00	KME Germany A.G. & Co. K.G.	100.00
KME America Inc.	United States	Trading	$US	5,000	100.00	KME Germany A.G. & Co. K.G.	100.00
KME Austria Vertriebsgesellschaft mbH	Austria	Trading	Euro	72,673	100.00	KME Germany A.G. & Co. K.G.	100.00
KME Hungaria Szinesfem Kft.	Hungary	Trading	HUF	3,000,000	100.00	KME Germany A.G. & Co. K.G.	100.00
KME (Suisse) S.A.	Switzerland	Trading	FS	250,000	100.00	KME Germany A.G. & Co. K.G.	100.00
KME Polska Sp.z.o.o.	Poland	Trading	PLZ	250,000	100.00	KME Germany A.G. & Co. K.G.	100.00
Metalcenter Danmark A/S[1]	Denmark	Holding company	DKK	1,524,880	30.00	KME Germany A.G. & Co. K.G.	30.00
AMT - Advanced Mould Technology India Private Ltd.[5]	India	Industrial	INR	104,265,000	99.62	KME Germany A.G. & Co. K.G.	99.62
N.V. KME Benelux	Belgium	Trading	Euro	62,000	84.70 15.30	KME Germany A.G. & Co. K.G. KME France S.A.S.	100.00
KME Brass France S.A.S.	France	Industrial	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
KME Brass Italy S.r.l.	Italy	Industrial	Euro	15,025,000	100.00	KME Italy S.p.A.	100.00
EM Moulds S.r.l.	Italy	Trading	Euro	115,000	100.00	KME Italy S.p.A.	100.00
Editoriale Fiorentina S.r.l.	Italy	Publishing	Euro	1,000,000	7.13	KME Italy S.p.A.	7.13
KME Spain S.A.	Spain	Trading	Euro	1,943,980	99.86	Kabelmetal Messing Bet. GmbH, Berlin	99.86
KME Ibertubos S.A.	Spain	Industrial	Euro	332,100	100.00	KME Spain S.A.	100.00
Cuprum S.A.	Spain	Services	Euro	60,910	100.00	KME Spain S.A.	100.00
KME LOCSA S.A.	Spain	Industrial	Euro	10,040,000	100.00	KME Spain S.A.	100.00
Yorkshire Copper Tube	United Kingdom	non-operating	LST	3,261,000	100.00	KME Yorkshire Ltd.	100.00
Europa Metalli - Tréfimétaux U.K. Ltd.	United Kingdom	non-operating	LST	500,000	100.00	KME Yorkshire Ltd.	100.00
XT Ltd.	United Kingdom	non-operating	LST	430,000	100.00	KME Yorkshire Ltd.	100.00
Irish Metal Industries Ltd.	Ireland	Trading	Euro	127	100.00	KME Yorkshire Ltd.	100.00
Yorkshire Copper Tube (Exports) Ltd.	United Kingdom	non-operating	LST	100	100.00	Yorkshire Copper Tube	100.00
Metalbuyer S.p.A.[2]	Italy	Metal trading	Euro	2,195,224	30.00	KME Recycle S.p.A.	30.00
Sigimet S.p.A.[3]	Italy	Metal trading	Euro	560,000	30.00	KME Recycle S.p.A.	30.00

1. Metalcenter Danmark A/S acquired on 19 June 2009.
2. Metalbuyer S.p.A. acquired on 30 June 2009.
3. Sigimet S.p.A. acquired on 30 September 2009.
4. KME Service S.r.l. incorporated on 11 December 2009.
5. ATM-Advanced Mould Technology India Private Ltd. acquired on 29 December 2009.

The liquidation of KME Metals (Dongguan) Ltd. was completed on 30 April 2009 and the company was removed from the Register of Companies;
KME Danmark A/S, of Denmark, sold on 19 June 2009 following investment in YIM Scandinavian AB of Sweden;
The liquidation of Kabelmetal Messing Bet. GmbH of Nuremberg, Germany was completed on 30 June 2009 and the company was removed from the Register of Companies.

Statement about the separate financial statements

KME Group S.p.A.

Statement about the separate financial statements pursuant to art. 154 *bis*, paragraph 5 of Legislative Decree 58/98, as subsequently amended and added to

1. Having regard to the requirements of article 154 *bis*, paragraphs 3 and 4, of Legislative Decree 58 of 24 February 1998, the undersigned Vincenzo Manes, Deputy Chairman, and Marco Miniati, the Manager Responsible for Financial Reporting at KME Group S.p.A., hereby certify:
   • the adequacy with respect to the characteristics of the Company and
   • the actual application,
   of administrative and accounting procedures in the preparation of the separate financial statements as at and for the year ended 31 December 2009.

2. No material findings were made in this regard.

3. It is also certified that:

3.1. the separate financial statements:
   a. were prepared in compliance with International Financial Reporting Standards as endorsed by the European Community pursuant to Regulation (EC) 1606/2002 of the European Parliament and of the Council of 19 July 2002;
   b. correspond to the underlying accounting records;
   c. are suitable to provide a true and fair view of the issuer's financial position and results of operations;

3.2 the Directors' Report contains a reliable analysis of the operating performance and results and the situation of the issuer, together with a description of the principle risks and uncertainties to which it is exposed.

Florence, 25 March 2010

The Deputy Chairman
signed Vincenzo Manes

Manager Responsible for Financial Reporting
signed Marco Miniati

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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

Report of the Board of Statutory Auditors of KME Group S.p.A. on the separate financial statements as at and for the year ended 31 December 2009

Dear Shareholders,

the Directors have called the Annual General Meeting for 28/29 April to resolve on the Parent's separate financial statements as at and for the year ended 31 December 2009, in addition to other agenda items. The Board of Statutory Auditors, hereby, reports on matters for which it is competent as required by art. 153 of Legislative Decree no. 58 of 24 February 1998, having due regard to other specific laws and regulations currently in force.
The report has been subdivided into sections in accordance with CONSOB reporting requirements.

Significant events in 2009

The most significant event during the year was the proportionate reverse demerger of the parent, iNTEk S.p.A. into KME Group S.p.A. as approved at the relevant Shareholders' Meetings of 2 December 2009 with the date of effectiveness of the relevant demerger deed being 22 March 2010.
Although all relevant documents required by law were presented and published at the time the resolution was resolved, a description is set out below of the manner in which the demerger transferred the investments in ErgyCapital (renewable energy), Drive Rent (long-term car hire), Culti (furnishings) previously held by iNTEk S.p.A. to KME Group S.p.A..
In addition, a maximum € 80,000,000 capital increase is planned to raise cash to strengthen the Company's financial position. The issue price of the shares will be in the range of € 0.30/0.37 per ordinary share and € 0.50/0.57 per savings share.
The authorisation required by the Board of Directors, which was approved on 2 December 2009 and expires on 30 June 2011, has not yet been executed. An incentive scheme reserved for management was also approved at the Shareholders' Meeting of 2 December 2009, which will be implemented through a capital increase of a maximum of € 15,000,000 which the Board of Directors is authorised to carry out pursuant to art. 2443 of the Italian Civil Code.
The authorisation is conditional upon the lapse of 90 days from 22 March 2010, which was the effective demerger date. In addition, the first increase in capital is required to have been effected beforehand.
The increase in capital has been explained in detail and was deliberated at the Shareholders' Meeting. Full information is contained in the documents submitted and published for that purpose.
The other significant event relating to investee companies, for the purposes of improving the Group's structure and mitigating the impact of the changes in copper prices, was the change in the method used by the Group to determine the cost of year-end inventories from "weighted average cost per quarter" to FIFO. The effects of this change have been thoroughly described in the notes to the separate financial statements.
Another significant event we are required to report is the waives by KME Germany A.G. on 18 December 2009 of € 38,900,000 of the debt owed to it by KME Italy S.p.A., consequently increasing KME Italy's equity by the same amount in order to cover 2009 losses.

Atypical and unusual transactions including intercompany and related party transactions

There were no atypical or unusual transactions during the year.
Comments on day to day transactions are provided in the notes to the financial statements.
These transactions essentially related to the sale of goods and services in addition to financial and organisational transactions that were all conducted on an arm's length basis.

Observations and requests for information by the independent auditors/reports by Shareholders pursuant to art. 2408 of the Italian Civil Code/representations

The audit conducted by KPMG did not result in any findings, but only a emphasis of matter paragraph with respect to the change in the method of measuring year-end inventories by the Group's operating companies. No reports or representations have made by shareholders pursuant to art. 2408 of the Italian Civil Code.

Auditors' engagements

In addition to the audit mandate entailing the payment of fees of € 74,000 for the Parent and € 1,250,000 for the consolidated financial statements, KPMG was appointed to provide services to the Parent with respect to the exchange ratio for the demerger, entailing fees of € 295,000, and to financial covenants for a fee of € 2,000 for the parent and € 41,000 for the Group. The auditors also provided various services for the Group, in addition to various professional services costing € 114,000, as disclosed by the Directors in the notes to the financial statements.
The Board of Statutory Auditors is of the opinion that none of these additional services has compromised the independence of KPMG.

Opinions required by law issued by KPMG

KPMG issued its opinion on the exchange ratio used for the demerger approved on 2 December 2009, in accordance with arts. 2501 *sexies* and 2506 *ter* of the Italian Civil Code.

Oversight and information acquired by the Board of Statutory Auditors

During the year ended 31 December 2009, members of the Board of Statutory Auditors attended the Shareholders' Meetings held during the year on 29 April 2009 and 2 December 2009, and the Board of Directors' Meetings held on 25 March, 29 April, 13 May, 6 August, 7 October and 12 November 2009.
The Board of Statutory Auditors, itself, held seven meetings in 2009 as required by art. 2404 of the Italian Civil Code on 28 January, 3 and 25 March, 29 April, 18 June, 16 September and 10 December.
The Statutory Auditors also met with the independent auditors and were continually in contact with the Company's management.
The Board of Statutory Auditors also attended a number of meetings of the company's Internal Control Committee to obtain certain relevant information.
Exhaustive information on the various corporate bodies of the company is contained in the corporate governance report accompanying the financial statements.
In the performance of its oversight responsibilities, at meetings and in frequent discussions, the Board of Statutory Auditors confirmed:

a) compliance with the requirements of the law and the Articles of Association during the year;
b) compliance with the principles of proper management, the existence of a satisfactory management structure and an adequate system of internal control;
c) that no information of particular note emerged at meetings with KPMG and the Directors, including information pursuant to art. 150 of Legislative Decree 58/1998;
d) that subsidiaries provided all the information required by law and art. 114, subsection 2 of Legislative Decree 58/1998;
e) that the Company has published a report on Corporate Governance in accordance with regulatory requirements, which the Board of Statutory Auditors found adequate for its purposes. No instances of non-compliance came to the attention of the Board of Statutory Auditors in the performance of its oversight;
f) the Board of Statutory Auditors attended the meetings of the Remuneration Committee held on 25 March and 29 April 2009. It was specifically confirmed that the remuneration of Directors and "key

managers" was approved by the Board of Directors, with the support of the Board of Statutory Auditors, at the specific request of the Remuneration Committee, expressed in a meeting in which the Chairman of the Board of Statutory Auditors had participated. The remuneration consists of a fixed component and a variable component, based on the attainment of certain consolidated EBITDA and Net Debt targets. The variable component was not paid due to the fact that the targets for 2009 were not achieved;

g) the Board of Statutory Auditors participated in the meetings held by the Internal Control Committee on 25 March and 6 August 2009;
h) the Board of Statutory Auditors also participated in the meetings held by the Supervisory Board, pursuant to Law 231/01 on 7 July and 26 November;
i) the Board requested, and continually received, information and updates on pending litigation, detailed information of which is not repeated here since it is contained in the Directors' Report. It was, in particular, reported that on 3 November 2009 the appeal before the European Court of Justice, against the unfavourable ruling for the Company of 6 May 2009 by the court of first instance, with respect to pipes for drinking water, had ended.
   The ruling of the Court of First Instance relating to drinking water pipes is still pending.
   Specific provisions were made in the past with respect to this complaint.

The Board of Statutory Auditors has periodically verified each of its members' independence and professionalism, in addition to the independence of members of the Board of Directors and, generally, the lack of any obstacles to their ability to hold the positions to which they were appointed, and compliance with the rule on the total number of positions held.
Members of the Board of Statutory Auditors have summarised the positions held in other listed and unlisted Group and non-Group companies, as required by art. 144 *quinquiesdecies* of the Issuers Regulation and annex 5 *bis* of schedule 4 of the same Regulation.

Analysis of the 2009 separate financial statements

The separate financial statements as at and for the year ended 31 December 2009 report a profit for the Parent of € 3.6 million and a consolidated loss for the Group of € 23.9 million.
The Parent's profit is considerably below that of 2008, due to the lack of dividend payments by its German subsidiary.
The consolidated loss was primarily due to a significant reduction in sales volumes, which was only partially offset by the reduction of the group's fixed and variable costs, as reported in the financial statements and notes, and in the Directors' Report, both of which contain all of the information required by existing laws and regulations.
It is noteworthy that the Company continues to disclose the differences arising on the measurement of inventories in accordance with IFRS, compared to the Company's management accounts combined with a reconciliation of the results for the year.
Specifically, in 2009 the consolidated loss for the year reported in the financial statements is € 6.1 million higher than those reported in the management accounts, with the difference considerably less than in 2008, when the consolidated loss for the year was € 64.6 million greater than the loss reported in the management accounts.
The difference arose as a result of the effect of extremely volatile prices on the measurement of inventories and related financial instruments under IFRS, which has introduced a variable that that can distort results.
The adoption of FIFO in 2009 led to a significant reduction in the distortion for the year.
Information on key indicators of financial and non-financial performance can be extracted from the tables contained in the notes to the financial statements.
The minimum consolidated EBITDA covenants, contained in the loan agreements relating to credit lines made available to the Group by banks, were waived for 2009 by the financial institutions, whereas the financial statements for 2009 were in compliance with all other covenants.

At the date the financial statements were prepared, the Company held 8,212,755 of its own ordinary shares and 135,831 of its own savings shares, which is equal to 2% of share capital or € 2.9 million.
The Independent Auditors issued an unqualified opinion on the financial statements and accounting systems for the year on 12 April 2010.
The Executive Deputy Chairman of the Company, Vincenzo Manes, and the Director, Marco Miniati, the Manager Responsible for Financial Reporting of KME Group S.p.A., provided the Directors and Statutory Auditors with a statement on 25 March 2010, in part for the purposes of art. 154 *bis* of Legislative Decree 58/1998, certifying the adequacy, for a company of this type, of the management and accounting procedures for the preparation of separate and consolidated financial statements, and the conformity of the financial statements with international financial reporting standards.

Proposal to Shareholders

The Board of Statutory Auditors is in agreement with the proposed approval of the separate financial statements as at and for the year ended 31 December 2009 and the appropriation of profit for the year of € 3,629,375, as follows:

- € 182,000 to the legal reserve;
- a dividend of € 0.07241 per share to be paid to savings shareholders;
- € 796,135 to retained earnings.

Florence, 12 April 2010

THE BOARD OF STATUTORY AUDITORS
Chairman of the Board of Statutory Auditors
(Marco Lombardi)

Standing auditor
(Vincenzo Pilla)

Standing auditor
(Pasquale Pace)

A list of the positions as board directors and statutory auditors held in other companies by members of the Board of Statutory Auditors (art. 144 *quinquiesdecies* of the Issuers Regulation) is set out below, with the year in which the relevant appointment terminates shown in brackets:

Marco Lombardi - Chairman of the Board of Statutory Auditors:

- 1 position as statutory auditor in a listed company, 6 positions as statutory auditor in unlisted companies, 1 position as board director in an unlisted company as follows:
  RECS, sole director (until further notice);
  Brandini S.p.A., Chairman of the Board of Statutory Auditors (2010);
  D e D La Certosa S.p.A., Chairman of the Board of Statutory Auditors (2010);
  Fattoria dei Barbi S.r.l., Chairman of the Board of Statutory Auditors (2011);
  KME Italy S.p.A., standing auditor (2010);
  SAIF S.r.l., standing auditor (2010).

Vincenzo Pilla - standing auditor:

- 2 positions as statutory auditor in listed companies, 7 positions as statutory auditor in unlisted companies as follows:
  KME Recycle S.p.A., Chairman of the Board of Statutory Auditors (2011);
  EL.EN S.p.A., Chairman of the Board of Statutory Auditors (2009);
  DeKaMela S.r.l., Chairman of the Board of Statutory Auditors (2009);
  Lasit S.p.A., Chairman of the Board of Statutory Auditors (2009);
  Affitto Firenze S.p.A., Chairman of the Board of Statutory Auditors (2011);
  Cut lite Penta S.r.l., standing auditor (2009);
  Geikos S.p.A., standing auditor (2010);
  KME Italy S.p.A., standing auditor (2009).

Pasquale Pace - standing auditor:

- 1 position as statutory auditor in a listed company, 4 positions as statutory auditor in unlisted companies as follows:
  Primiceri S.p.A., Chairman of the Board of Statutory Auditors (2011);
  Baia san Giorgio villaggio turistico sportivo san Giorgio S.r.l., Chairman of the Board of Statutory Auditors (2009);
  Marzocca S.r.l., standing auditor (2011);
  Fidanzia Sistemi S.r.l., standing auditor (2011).

Information regarding identities required by schedule 1 of annex 5 *bis* is shown in the relevant CONSOB communication.

Independent Auditors' Report

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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 (now article 14 of Legislative decree no. 39 of 27 January 2010)

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 2009, comprising the statement of financial position, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes thereto. The company's directors are responsible for the preparation of these financial statements in accordance with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 9 of Legislative decree no. 38/05. 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.

We carried out our audit of the separate financial statements as at and for the year ended 31 December 2009 in compliance with legislation ruling during the year.

Reference should be made to the report dated 9 April 2009 for our opinion on the prior year separate financial statements, which included the corresponding figures presented for comparative purposes that have been restated to reflect the changes in the presentation of financial statements introduced by IAS 1.

3 In our opinion, the separate financial statements of KME Group S.p.A. as at and for the year ended 31 December 2009 comply with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 9 of Legislative decree no. 38/05. 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 2009, the results of its operations and its cash flows for the year then ended.

4 The directors of KME Group S.p.A. are responsible for the preparation of a directors' report on the financial statements in accordance with the applicable laws and regulations. Our responsibility is to express an opinion on the consistency of the directors' report and its specific section on corporate governance and shareholding structure, to the extent of the information required by article 123-bis.1.c/d/f/l/m and article 123-bis.2.b of Legislative decree no. 58/98, with the financial statements to which they refer, as required by the law. For this purpose, we have performed the procedures required by the Italian Standard on Auditing 001 issued by the Italian Accounting Profession and recommended by Consob. In our opinion, the directors' report and the information required by article 123-bis.1.c/d/f/l/m and article 123-bis.2.b of Legislative decree no. 58/98 disclosed in the specific section of such report are consistent with the separate financial statements of KME Group S.p.A. as at and for the year ended 31 December 2009.

Florence, 12 April 2010

KPMG S.p.A.

(signed on the original)

Riccardo Cecchi
Director of Audit

Item 2 on the agenda of the Shareholders' Meeting of 28 - 29 April 2010

Item 2 on the agenda

Authorisation to acquire and hold own ordinary and savings shares in accordance with articles 2357 and 2357 *ter* of the Italian Civil Code, in conjunction with art. 132 of Legislative Decree 58/1998, and related implementing provisions; related and consequent matters.

Dear Shareholders,

the agenda for the Ordinary General Meeting includes the deliberation and approval of an authorisation to acquire and hold both the ordinary and savings shares of KME Group S.p.A. ("KME" or the "Company") in accordance with arts. 2357 and 2357 *ter* of the Italian Civil Code and art. 132 of Legislative Decree 58/1998 (the Consolidated Law on Finance - Testo Unico Finanziario or "TUF") and related implementing provisions.

1. Reasons for the authorisation to acquire and hold own shares

The reason the authorisation to acquire and hold own shares has been proposed to the Ordinary General Meeting is to enable the Board of Directors (a) to use the own shares for the purposes included in the accepted market practices for the buyback of own shares to create so-called "treasury shares", as defined by CONSOB, pursuant to art. 180, paragraph 1, letter c) of the TUF, in Resolution 16839 of 19 March 2009, and, therefore, (i) to use such treasury shares as consideration in any corporate actions, including share exchanges with other parties in the best interests of the Company, for securities lending and to service any bonds with attached warrants or any unattached warrants; or (ii) the gratuitous grant or sale, for good consideration, of share options or the underlying shares, themselves, to directors, employees and other persons working in the Company or its subsidiaries or, finally, the issuance of bonus shares to existing shareholders; or (b) to acquire own shares for the purposes of their subsequent cancellation, in accordance with the terms and conditions to be established at an Extraordinary Shareholders' Meeting pursuant to the law.

2. Maximum number, class and par value of shares to which the authorisation relates

The authorisation is needed to acquire a number of ordinary and savings shares in one or more tranches, which, when combined with any treasury shares already held in portfolio or KME shares held by subsidiaries, does not exceed the regulatory maximum as may be in force from time to time, which, at the date of this Report was 20% of the share capital pursuant to art. 2357 paragraph 3 of the Italian Civil Code.

It is, therefore, proposed to authorise the Board of Directors to determine the number of shares to acquire for each of the purposes listed in section 1, above, prior to the commencement of each share buyback programme subject, however, to the above maximum.

At the date of this Report, KME had share capital of Euro 273,761,740.66 consisting of 418,117,631 shares, 381,367,530 of which (or 91.21% of total share capital) were ordinary shares and 36,750,101 savings shares (or 8.79% of total share capital), all of which with no par value.

At the same date, KME held 8,212,755 ordinary treasury shares, or 2.153% of ordinary share capital and 1.964% of total share capital and 135,831 savings shares or 0.369% of that class of shares and 0.324% of total share capital. Total treasury shares held at that date were 1.996% of total share capital. KME's subsidiaries do not hold treasury shares.

The following were also in issue at the date of this Report: (i) 67,895,450 "KME Group ordinary share warrants 2006-2011", giving the right to subscribe, by 30 December 2011, to 1 new KME ordinary share at a price of Euro 0.70 per share for each 2 warrants held, amounting to a total of 33,947,725 new KME ordinary shares for total consideration of Euro 23,763,407.50; and (ii) 73,330,660 "KME Group S.p.A. ordinary share warrants 2009-2011", giving the right to subscribe, by 30 December 2011, to 1 new KME ordinary share at a price of Euro 0.90 per share (including a premium of Euro 0.64) for each warrant held, amounting to a total, therefore, of 73,330,660 new KME ordinary shares for total consideration of Euro 19,065,971.60.
For the sake of completeness, the Board of Directors reserves the right to consider, at all times in the best interests of the Company, the purchase and sale of financial instruments for investment purposes, and/or for use in connection with transactions relating to the Company's operations, or for the purposes of their subsequent cancellation, in the manner permitted by the relevant regulations and laws. Such financial instruments may include those listed in regulated markets other than those in which KME's ordinary and savings shares, which are the subject of this Report, are traded. Specifically, the Board of Directors will be able to consider trading in "KME S.p.A. ordinary share warrants 2006-2011" and/or "KME S.p.A. ordinary share warrants 2009-2011", in accordance with the trading rules of the relevant regulated market, without, however, the ability to exercise any warrants held by the Company in portfolio.

3. Information regarding due diligence with respect to compliance with art. 2357, paragraph 3, of the Italian Civil Code

As explained in section 2, above, the maximum number of ordinary and savings treasury shares held by KME, at any one time, plus any KME shares held by subsidiaries, may not exceed the regulatory maximum as may be in force from time to time, which, at the date of this Report, was 20% of share capital pursuant to art. 2357 paragraph 3 of the Italian Civil Code. For the purposes of compliance with regulatory maxima, procedures are being prepared for the prompt and full reporting of KME shares held by subsidiaries.

Any purchases will also be subject to maximum distributable earnings and free reserves as reported in the most recent, approved annual or interim financial statements on the date of the purchase. The accounting treatment of any purchase or sale of treasury shares will comply with statutory requirements and applicable financial reporting standards.

4. Period for which the authorisation is required

The authorisation to purchase treasury shares is requested for eighteen months from the date of the relevant Shareholders' Resolution. The Board of Directors will be able to engage in either one or a series of authorised transactions at any time, as and when they so determine, in accordance with the applicable laws and regulations, and in such amounts as are in the best interests of the Company. The authorisation to use treasury shares is without time limit.

5. Minimum and maximum prices

The Board of Directors proposes that purchases of own ordinary and savings shares be made in accordance with the trading method established in accepted market practices for the buyback of own shares to create so-called "treasury shares", as defined by CONSOB, pursuant to art. 180, paragraph 1, letter c) of the TUF, in Resolution 16839 of 19 March 2009, and the EC Regulation 2273 of 22 December 2003, where applicable, and therefore (i) for purchases made on regulated markets, at a price no greater than the higher of the most recent arm's length transaction and the highest current arm's length price paid in the trading session on the day on which the treasury shares are purchased, subject, however, to a price per share of no more than 15% below the minimum and no more than 15% above the maximum official market price for the relevant class of shares on the last trading day preceding each purchase; (ii) for treasury shares acquired through a public tender or exchange offer by providing Shareholders with put options prorated to their shareholdings at a price per share of no more than 15% below the minimum and no more than 15% above the maximum official market price, for the relevant class of shares, over the last ten trading days preceding the date of the announcement to the public.

6. Manner in which purchases and sales are carried out

The Board of Directors proposes that purchases be made in accordance with one of the following procedures, as determined from time to time in accordance with art. 144 *bis*, paragraph 1, letters a), b), c) and d) of CONSOB Regulation 11971/1999, as amended, (the "**Issuers Regulation**") and any other statutory and regulatory requirements, so as to guarantee the equal treatment of shareholders required by art. 132 of the TUF:

(i) by means of a public tender or exchange offer;
(ii) on regulated markets, in accordance with trading methods laid down in the market rules, that do not permit the direct matching of buy orders with predetermined sell orders;
(iii) by means of the purchase and sale of derivative instruments traded on regulated markets that provide for the delivery of the underlying shares, provided the market rules lay down methods for the purchase and sale of such instruments satisfying the conditions of letter c) of paragraph 1 of article 144 *bis* of the Issuers Regulation;
(iv) by granting Shareholders, in relation to the shares they hold, a put option to be exercised within a period established at the Shareholders' Meeting that authorised the share buyback programme.

The Board of Directors also propose that any or all treasury shares, purchased in accordance with this proposal or any treasury shares held in portfolio by the Company, be used, at any time, in the manner foreseen by art. 2357 *ter* of the Italian Civil Code through stock exchange or over-the-counter sales, or through the assignment of claims on assets or persons (including, by way of example, but not limited to, securities lending), in compliance with statutory and regulatory requirements as may be in force from time to time and for the purposes of this resolution, in accordance with the terms, manner and conditions for the use of such treasury shares deemed to be in the best interests of the Company. Such dispositions shall be subject to (a) uses, other than in the course of day to day business, including the exchange of shares with other parties, at a price or value consistent with the characteristics and nature of the use, taking market conditions into account; and (b) any use of shares for the purposes of the gratuitous grant or sale, for good consideration, of share options or the underlying shares, themselves, to directors, employees and other persons working in the Company or its subsidiaries, or, finally, the issuance of bonus shares to existing shareholders, being at prices determined by the relevant corporate bodies in accordance with market conditions and any regulatory and statutory requirements, including tax rules. All such uses shall be conducted in accordance with the conditions, as well as the trading and other procedures, foreseen by CONSOB Resolution 16839 of 19 March 2009 and EC Regulation 2273/2003, where applicable.

For the avoidance of doubt, the authorisation to use treasury shares, as proposed here, is to also be provided with respect to any treasury shares held by KME at the date of the shareholders' resolution approving this authorisation.

The use of treasury shares held in portfolio shall be in compliance with statutory and regulatory requirements, as may be in force from time to time, with respect to trading in listed securities, and may be carried out at one or more times in accordance with the best interests of the Company.

7. Cancellation of treasury shares acquired

As explained under section 1, above, the authorisation to acquire KME ordinary and savings shares is also required to permit the Company to purchase own shares for their subsequent cancellation, in accordance with the terms and conditions as may be established at the Extraordinary Shareholders' Meetings of the Company pursuant to the law.

* * *

If in agreement, you are requested to approve the following resolution:

"Having seen and approved the Report of the Board of Directors, the Shareholders hereby,

resolve

(A) *to authorise the Board of Directors to acquire and hold both ordinary and savings treasury shares for the purposes included in the accepted market practices for the buyback of own shares to create so-called "treasury shares", as defined by CONSOB, pursuant to art. 180, paragraph 1, letter c) of Legislative Decree 58/1998, in Resolution 16839 of 19 March 2009, i.e. to buy back the Company's own shares for their subsequent cancellation, in accordance with the terms and conditions to be established at an Extraordinary Shareholders' Meeting pursuant to the law, and therefore:*

1. *to authorise, pursuant to art. 2357 of the Italian Civil Code, the acquisition, in one or more tranches, at any time during the eighteen month period following the date of this shareholders' resolution, of own shares, subject to the maximum, including the total number of KME Group S.p.A. shares held from time to time in portfolio by the Company and its subsidiaries, established by the laws and regulations in force from time to time, and in conformity with trading procedures for the above-mentioned market practices and EC Regulation 2273 of 22 December 2003, where applicable. Purchases shall be conducted at a price per share of no less than 15% below the minimum and a price per share of no more than 15% above the maximum of the official market price, for the relevant class of shares on the last trading day preceding each purchase, or, in the event that the shares are acquired through a public tender or exchange offer, by providing shareholders with put options prorated to their shareholdings at a price per share of no less than 15% below the minimum and a price per share of no more than 15% above the maximum of the official market price, for the relevant class of shares, over the last ten trading days preceding the date of the announcement to the public; the Board of Directors shall determine the number of shares to acquire, with respect to each of the purposes cited above, prior to the commencement of each share buyback programme;*
2. *to authorise the Board of Directors and, for the Board of Directors, in turn, to authorise its Chairman and Deputy Chairpersons, as may be appointed from time to time, acting jointly or severally, to purchase shares at the conditions and for the purposes cited above, granting them the broadest executive powers for purchases, in accordance with this resolution in addition to all other formalities in that regard, including the appointment of any legally authorised brokers and the granting of special powers of attorney. The purchases shall be in such amounts as are in the best interests of the Company and in accordance with the laws and regulations as may be in force from time to time, in accordance with any of the procedures provided by art. 144 bis, paragraph 1, letters a), b), c) and d) of CONSOB Regulation 11971/1999, as amended, and, therefore, in compliance with the requirement for the equal treatment of shareholders pursuant to art. 132 of Legislative Decree 58/1998;*

3. *to authorise the Board of Directors and, for the Board of Directors, in turn, to authorise its Chairman and Deputy Chairpersons, as may be appointed from time to time, acting jointly or severally, for the intents and purposes of art. 2357 ter of the Italian Civil Code, to use any and all treasury shares acquired pursuant to this resolution, or any treasury shares held in portfolio by the Company, at any time, in the manner provided by art. 2357 ter of the Italian Civil Code through stock exchange or over-the-counter sales, or through the assignment of claims on assets or persons (including, by way of example, but not limited to, securities lending), in compliance with statutory and regulatory requirements as may be in force from time to time and for the purposes of this resolution, in accordance with the terms, manner and conditions for the use of such treasury shares deemed to be in the best interests of the Company. This shall entail granting the broadest executive powers for uses in accordance with this resolution, in addition to all other formalities in that regard, including the appointment of any legally authorised brokers and the granting of special powers of attorney. Such dispositions shall be subject to (a) uses, other than in the course of day to day business, including the exchange of shares with other parties, at a price or value consistent with the characteristics and nature of the use, taking market conditions into account; and (b) any use of shares, for the purposes of the gratuitous grant or sale, for good consideration, of share options or the underlying shares, themselves, to directors, employees and other persons working in the Company or its subsidiaries, or, finally, the issuance of bonus shares to existing shareholders, being at prices determined by the relevant corporate bodies in accordance with market conditions and any regulatory and statutory requirements, including tax rules. All such uses shall be conducted in accordance with the conditions, as well as the trading and other procedures, provided by CONSOB Resolution 16839 of 19 March 2009 and EC Regulation 2273/2003 of 22 December 2003, where applicable. The authorisation to use treasury shares is without time limit;*

(B) to provide, in accordance with law, that the purchases hereby authorised are within the limits of distributable earnings and free reserves as reported in the most recent, approved annual or interim financial statements on the date of the purchase. The accounting treatment of any purchase or sale of treasury shares will be comply with statutory requirements and applicable financial reporting standards.

Florence, 25 March 2010

The Board of Directors

Resolutions of the Ordinary Meeting

Resolutions of the Shareholders at their Ordinary Meeting held on 29 April 2010.

At their Ordinary Meeting held at the Company's registered offices in Florence on 29 April 2010, the Shareholders of KME Group S.p.A.

has resolved

a) to approve the Directors' Report on the separate financial statements as at and for the year ended 31 December 2009 and the financial statements as a whole, in addition to each accounting policy and entry with the proposed provisions and uses, showing a profit of Euro 3,629,375;

b) to appropriate profit for the year of Euro 3,629,375 as follows:

• 5% to the Legal Reserve	Euro	182,000
• 2% to the Board of Directors (in excess of the fixed component of compensation of Euro 195,000)	Euro	0
• to savings shares in the amount of a dividend of Euro 0.07241 per share totalling	Euro	2,651,240
• the remainder to retained earnings	Euro	796,135

c) to authorise the Board of Directors to acquire and hold both ordinary and savings treasury shares for the purposes included in the accepted market practices for the buyback of own shares to create so-called "treasury shares", as defined by CONSOB, pursuant to art. 180, paragraph 1, letter c) of Legislative Decree 58/1998, in Resolution 16839 of 19 March 2009, i.e. to buy back the Company's own shares for their subsequent cancellation, in accordance with the terms and conditions to be established at an Extraordinary Shareholders' Meeting pursuant to the law.

Florence, 29 April 2010

KME Group S.p.A.

Headquarters
Via dei Barucci, 2
50127 Florence

Share capital
Euro 273,761,740.66 fully paid up
Florence Companies' Register
and Tax Code no. 00931330583

www.kme.com

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