



2008 Annual Report



# 2008 Annual Report

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## Group profile

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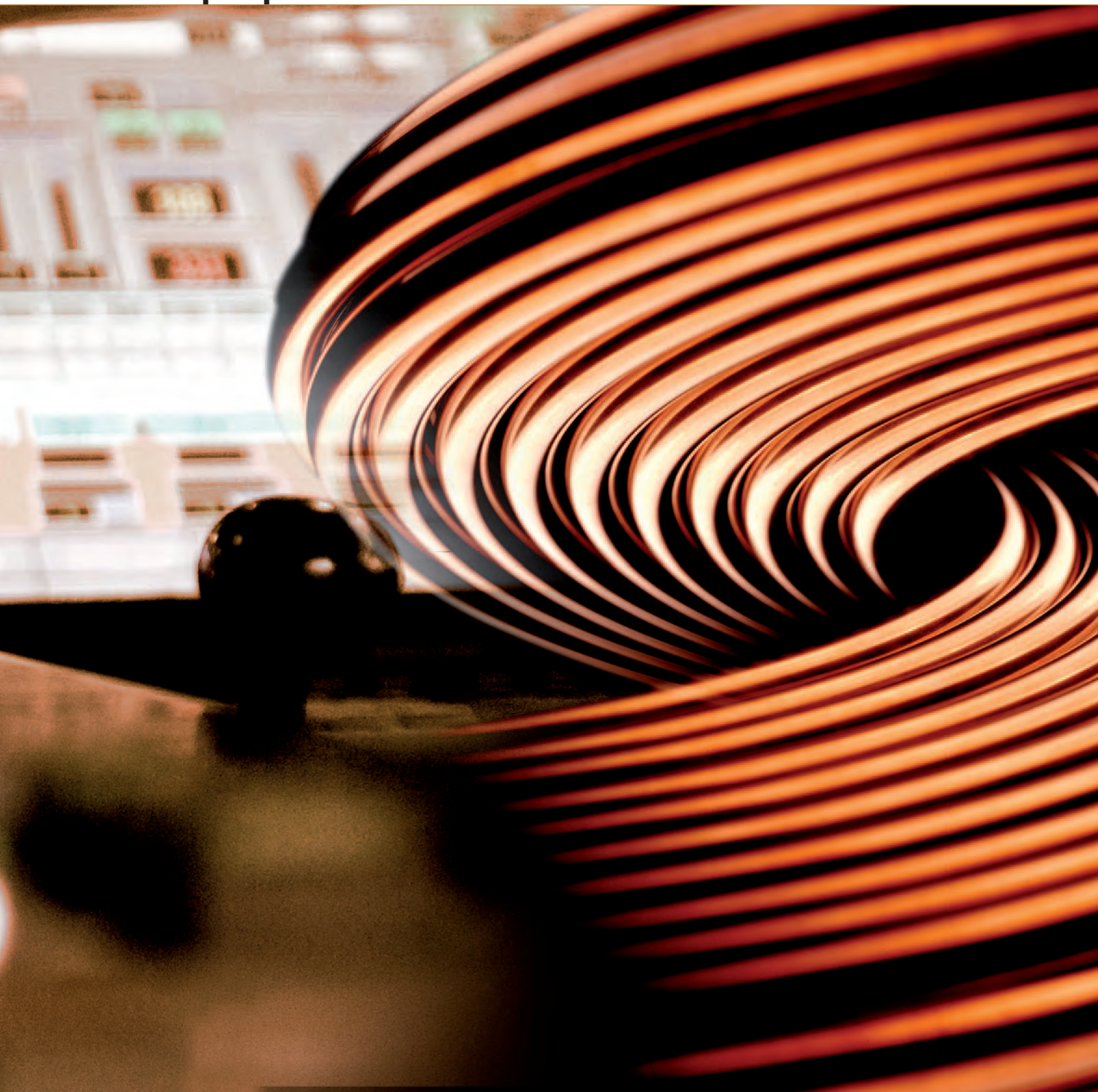
### Resolutions of the Ordinary Shareholders' Meeting

**205**

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# 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

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

› International presence:

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

› **6,700** employees

› Approximately **9,500** Shareholders and  
**21,000** business partners (clients and suppliers)



# KME: a major European Group

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

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

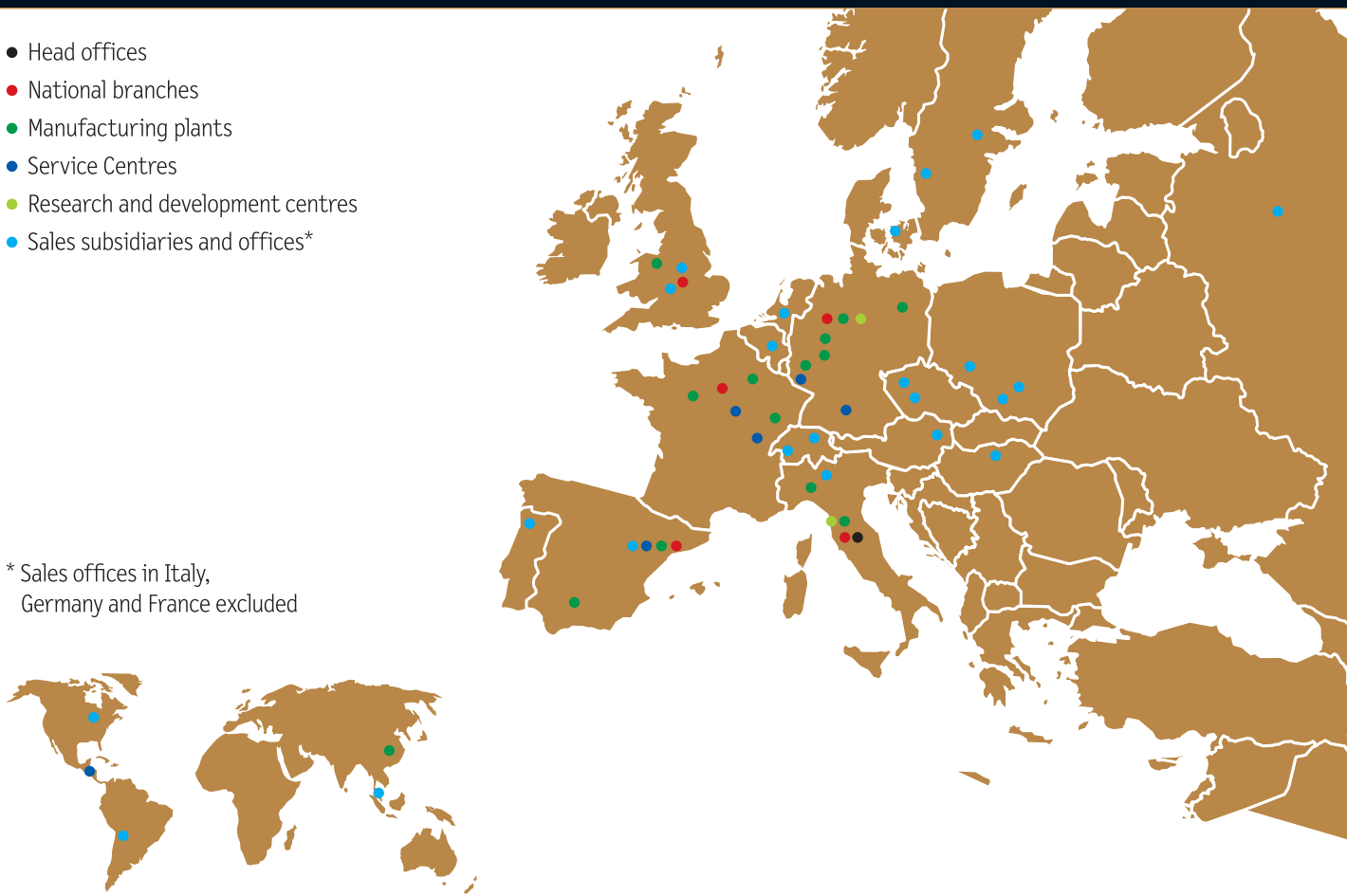
- **leadership orientation, innovation and internationality:** attention to customer requirements in terms of products and services, quality and innovation throughout the business process and a multicultural basis to our organization acting as a stimulus for constant improvement;
- **economic responsibility:**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

# Leadership:

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

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

\* Sales offices in Italy, Germany and France excluded



1886	1965	1987	1991	2004	2008
Origins	Beginning of national expansion	Beginning of international expansion	Peak of international expansion	Integration and consolidation	Current day
Manufacturing Plants	4	7	19	16	14
Workforce	3,800	4,800	11,300	7,700	6,700
Tonnes/Employee	16	36	62	84	85

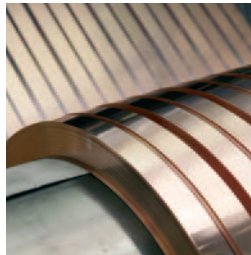
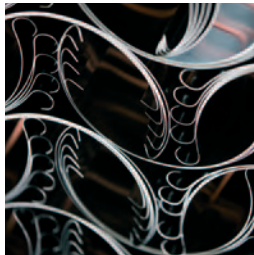
# One of the most extensive product portfolios in the world

## Divisions

## Products

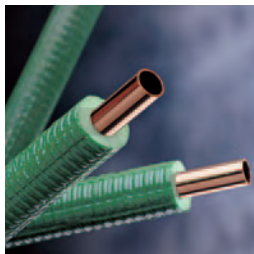
## Main uses

### Rolled products



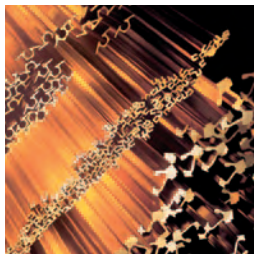
Building and architecture: roof coverings, façades and rainwater draining systems; interior/exterior decorations; electrical and mechanical industry, connectors, boilers, minting, solar collectors, gifts and fancy goods

### Copper tubes



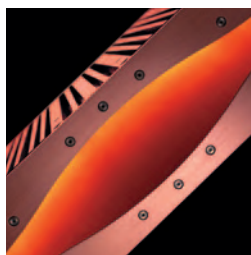
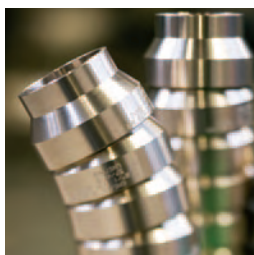
Air conditioning and cooling systems, connectors and pipe fittings, plumbing and heating systems, gas piping, boilers, electrical applications, solar thermal systems, medical industry

### 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

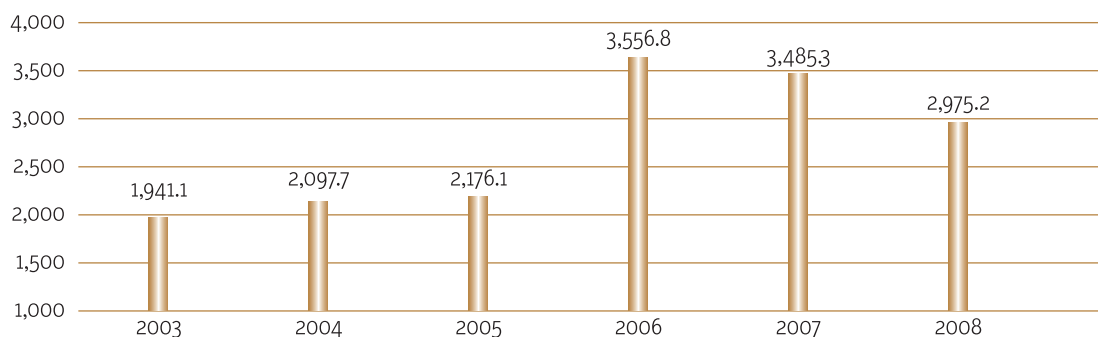
revenue

3 Euro billion

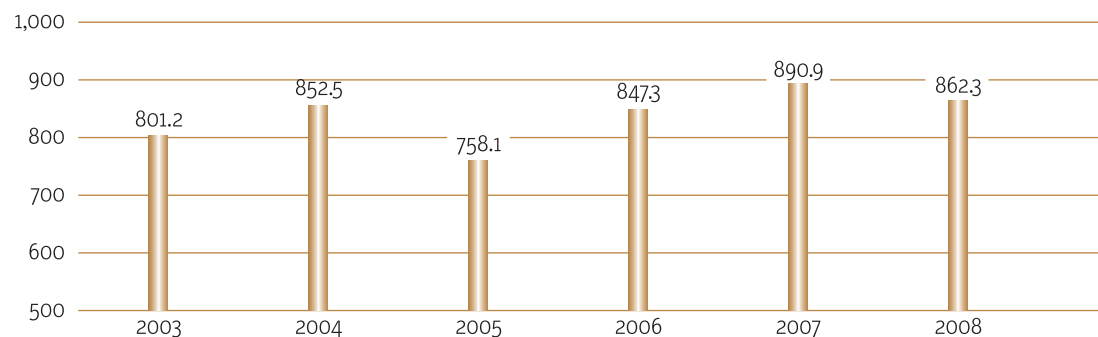
570,000

tonnes of semi-finished products manufactured

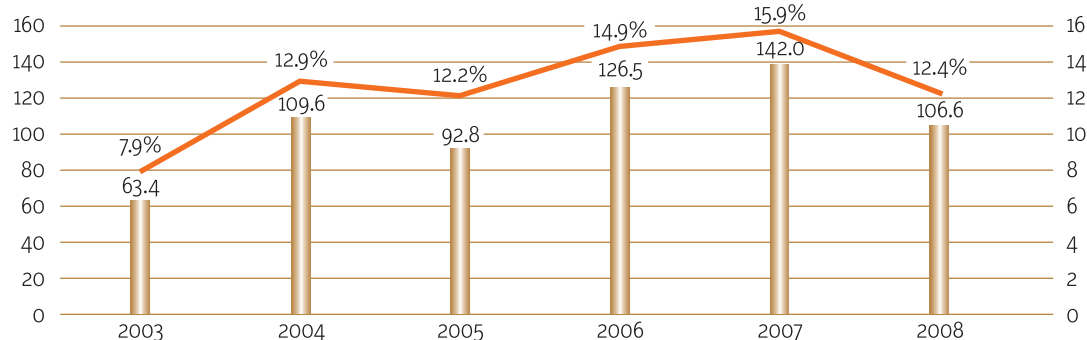
Gross turnover  
(Euro/million)



Revenue net  
of raw material costs  
(Euro/million)



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

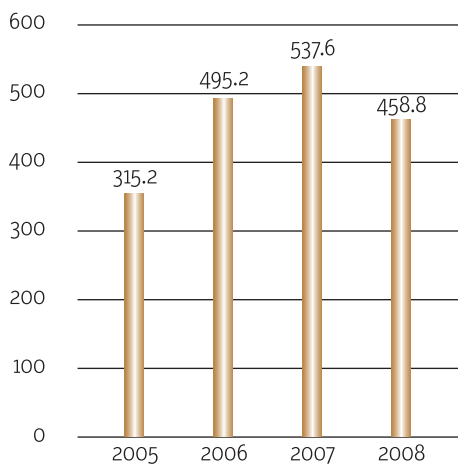


	2003	2004	2005	2006	2007	2008
Employees (at 31.12.2008)	7,745	7,269	6,847	6,609	6,806	6,739
Net revenue/employee (Euro/thousand)	103.4	117.3	110.7	128.2	130.9	128.0
Pre-tax profit (Euro/million)*	-220.9	6.6	-29.1	4.9	52.3	7.6

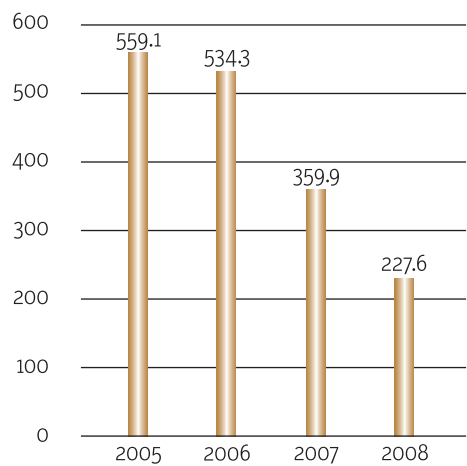
\* net of IFRS valuation of inventories and LME contracts

# Debt/Equity: Ratio below 50%

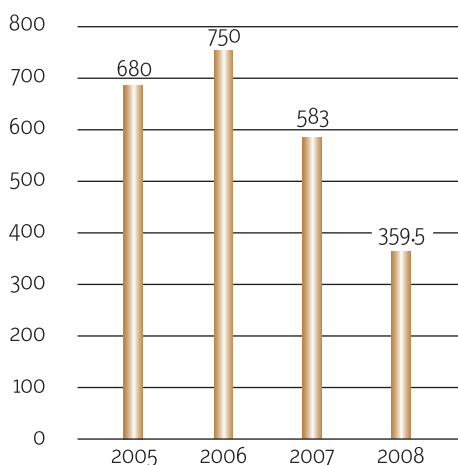
Total Equity (Euro/million)



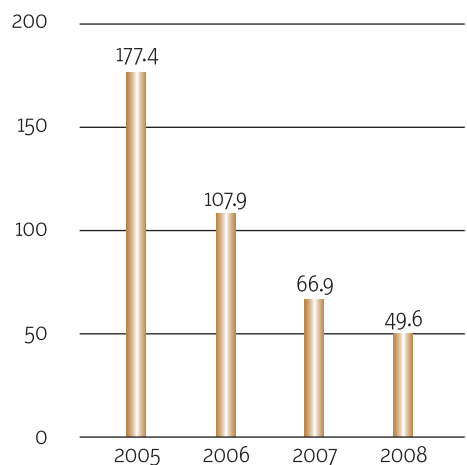
Net financial position (Euro/million)



Net working capital (clients/suppliers stock)



Debt/Equity Ratio (%)



**KME**



# Annual Report



Project



Ansell  
48-101  
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## KME and Future

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“In this difficult year of 2008, project, people and responsibility

are the instruments to maintain and strengthen the Group’s leadership”



Vincenzo Manes  
Deputy Chairman

## Letter to the Shareholders

Dear Shareholders,

feared, evoked, threatened: the 'perfect storm' is finally here, and the paradox is that it took almost all world operators by surprise. After upsetting financial markets, the hurricane hit the production system with all its strength. We are experiencing a period of real recession, whose effects shall last for an indefinite time, certainly not short-term.

The crisis reasons are still under debate: is it a crisis 'within the system' or 'of the system'?

In fact, almost all, or maybe all the mechanisms of world growth were brought into question for being more and more based on a financial world no longer able to discipline itself, almost destroying itself, dragging the whole world economy down. Finance let people believe they were able to create wealth, but it was false wealth, for it was less and less connected to the foundations of the real economy.

The collapse of those sand castles generated widespread distrust, which hit all economic sectors with a domino effect, and with no exceptions.

In future, lots of rules will have to be rewritten.

Undoubtedly governments' roles will be more important, as is already happening. A totally new type of finance is needed, to increase people's confidence: new rules and new behaviours will be necessary, and new powers will have to be established.

For **KME Group**, 2008 was a year with two different stages, and the same thing may be said for many more firms.

Until September, though with a few indefinite signs of worsening conditions in Southern Europe, above all, KME's results were essentially in line with those of 2007, in spite of the already foreseen inflation phenomena highly increasing industrial costs in the first months of 2008.

From September to date (March 2009), the world changed: drastic volume reductions, a copper price collapse, a few markets in some areas almost disappearing off the scene. Of course this scenario affected financial results, and it was extremely difficult to manage the last quarter.

Therefore, on the whole, in 2008 turnover went down by 14.7% (above all because of commodity price decreases) and by 3.2% net of the value of the latter. All industrial margins fell abruptly, including Gross Operating Margin, going from Euro 142 to 107 million. There was an opposing trend for financial indebtedness, which decreased by 37% to Euro 228 million. The improvement mainly depended on two factors: copper depreciation, with the consequent decrease in the value of stock purchases, and volume decreases.

The remarkable decrease in indebtedness shows the very good financial structure of KME, for its indebtedness is essentially outstanding capital, which mirrors the industrial activity trend. Therefore, the Company is actually devoid of financial indebtedness, and this fact makes it extremely flexible and sound, especially in times like these, when 'liquidity' is a significant competitive advantage.

In my opinion, the totally 'abstruse' IFRS accounting system generated the company's book loss of Euro 69 million, mainly due to inventory depreciation and an industrial loss of Euro 3.5 million, after paying taxes amounting to Euro 11 million.

The alleged transparency of IAS is one of the greatest absurdities that ever happened.

Let's look at the KME case, taking into account a final stock recorded in the financial statements as strategic stock which we do not move (such as real estate or industrial plant). However, every three months, following LME copper prices, we must record a loss or a profit, which we did not make, don't want to make, or can't make because it refers to a strategic asset. In any case, we must adjust its value every quarter, as though it were for sale: it is nonsense with respect to our strategic approach and our open conduct.

The first IAS announces predominance of substance over form - it is almost sarcasm. What if it weren't so? What terrible consequences would there be!

The first months of 2009 confirmed the negative scenario: economic situation and outlook were both very bad, leaving no room for immediate improvement conditions. In my opinion, recovery will be real as soon as all the economic operators start believing it is real, and in any case, not before the banking systems of all the main industrialized countries have been totally restructured and fortified.

In spite of the difficulties, KME is ready to face current challenges, which appear very hard today, in particular to further strengthen its leadership in the European market.

To keep this leadership and strengthen it, KME believes it is necessary to focus on three factors: **project, people, responsibility.**

### Project

The aim is to strengthen the Group's international leadership, improving its skillset to supply more and more technologically advanced and effective solutions to its markets of reference, either industrial or building markets.

The intrinsic qualities of copper, the possibility of recycling it in full, its physical, chemical and mechanical properties, its huge versatility, and finally, its peculiar aspect, make it a 'friendly' metal for man. It has been a friendly metal for 4,000 years, and everything lets us believe this will be the same for as many years. Our task is to exploit these characteristics with new products meeting pressing energy sustainability and environmental needs, such as *TECU® Solar Roof*, and by diversifying our business to scrap metal trading, the mines of the future. Exactly for this reason, and to take advantage of synergies with industrial production, **KME Recycle** was born.

The collaboration with ErgyCapital, a KME spin-off, started positively. Today, it is a fully independent company and leader in the photovoltaic market in Italy. The first great result was the photovoltaic installation the roofs of the factory in Serravalle Scrivia, the biggest in Italy to date. It will be followed by further projects linked to our factories.

## People

People make up firms and decide their success or failure. Increasing their value has been (and will be, to a greater and greater extent) a strategic factor for KME.

Their wide-ranging involvement in the processes for optimizing all the stages of Group activities is a crucial aspect to win the competition battle.

Current recession forces us to reorganize a few activities, and as a consequence, to cut jobs temporarily or, sometimes, permanently.

It is not an easy solution for managers, who feel the burden of such actions so deeply affecting people's lives. It is a great responsibility, and for this reason we shall take such decisions only if strictly necessary. However, our choices will involve organizations representing employees, so as to use all available instruments to reduce employees' unease as much as possible. We believe that the most convenient and responsible way is to share the sacrifices necessary for the firm's survival, taking into consideration our potential in terms of employment.

Following this direction, and on the basis of an already existing British model, we decided to establish the '*KME Benevolent Fund*'. It is a fund co-financed by voluntary contributions of executives, employees and, with equal resources, by the firm; the fund is meant to grant loans and guarantees to the people (employees or former employees of the Group with at least 5-year service) facing temporary and serious difficulties, for whom welfare instruments do not exist, or are not enough.

Disbursements will be available in the shape of free grants or medium-term loans with lowest possible rates, pursuant to current regulations.

It is a little thing, perhaps, but very important, since it might be essential for some of 'our' people.

## Responsibility

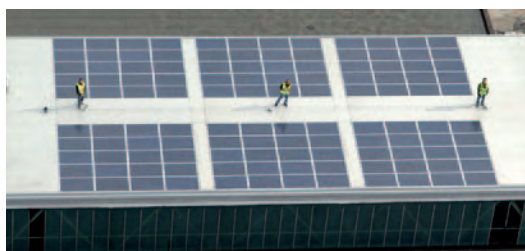
I firmly believe that responsibility is one of the key factors for running business today and in the future. Responsibilities with respect to shareholders, employees, social communities and the land where the business operates should no longer be regarded as obstacles to value creation, but as real growth, development, and thus, opportunities for wealth.

During 2008 the **Dynamo Camp** initiative continued to develop, strongly supported by the Group. It is the holiday camp for sick children, which has become a successful event: 40 employees, 500 children hosted, and 300 volunteers explain the involvement of our people, the people of other important firms, and lots of our stakeholders.

Those experiences will go on growing in 2009, becoming more and more important development factors for the land on which they are hosted:

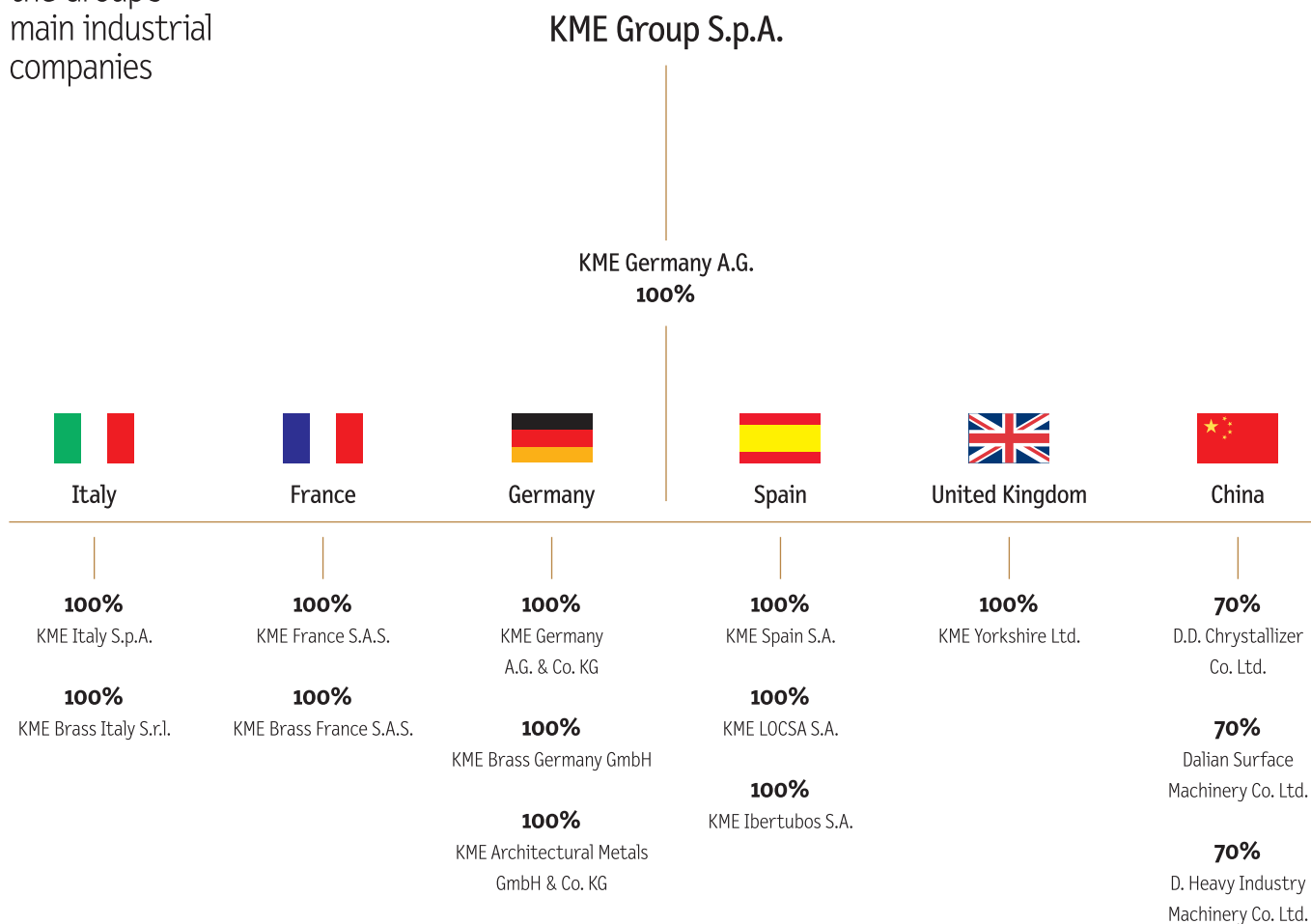
1. During the months not devoted to children, Dynamo Camp will strengthen its role of driving force for meetings meant for developing themes involving social responsibility;
2. The Natural Oasis '**Il Cesto del Lupo**', associated with WWF: 1,300 hectares to safeguard environment, with projects for totally eco-friendly buildings at advanced study stage, in close collaboration with research centres and international institutions.

In conclusion, we are aware that the crisis wind will go on blowing, and maybe it will be a strong wind, but our craft is not a dinghy in the lap of the gods, not at all. On the contrary, it is a well-equipped ship, led by a skilled and motivated crew, capable of taking the helm firmly and with decision.



## Basic information

Table showing the Group's main industrial companies



<b>Board of Directors</b>		<b>Company bodies</b>
Chairman:	Salvatore Orlando	
Deputy Chairman:	Vincenzo Manes <sup>B</sup>	
General Manager:	Domenico Cova <sup>B</sup>	
General Manager:	Italo Romano <sup>B</sup>	
	Vincenzo Cannatelli	
	Mario d'Urso <sup>A, C, D</sup>	
	Marcello Gallo	
	Giuseppe Lignana <sup>A, C, D</sup>	
Board Secretary:	Gian Carlo Losi	
	Diva Moriani <sup>B</sup>	
	Alberto Pecci <sup>A, D</sup>	
	Alberto Pirelli <sup>A, C</sup>	
<b>Board of Statutory Auditors</b>		
Chairman:	Marcello Fazzini	
Standing Auditors:	Pasquale Pace	
	Marco Lombardi <sup>1</sup>	
Alternate Auditors:	Angelo Garcea	
<b>Manager responsible for the preparation of corporate accounting documentation:</b>	Marco Miniati	
<b>Independent Auditors</b>	KPMG S.p.A.	
<b>General representative of savings Shareholders:</b>	Romano Bellezza	

A. Independent Director

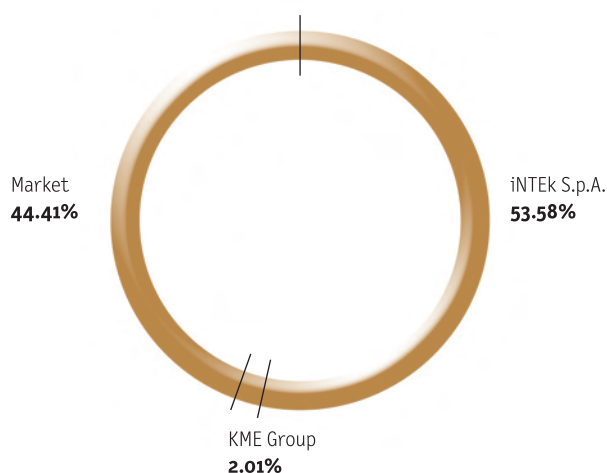
B. Executive Director

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

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

1. Standing Auditor Alessandro Trotter resigned on 30 August 2008; Alternate Auditor Marco Lombardi replaced him at the same date.

## Shareholders



## Information for investors

KME Group S.p.A. has been listed on the Milan Stock Exchange since 1897. During the financial year closed on 31 December 2008, KME Group securities changed as follows:

- KME Group ordinary share highest value: Euro 1.479 in the month of January.  
Lowest value: Euro 0.355 in the month of December;
- KME Group saving share highest value: Euro 1.509 in the month of January.  
Lowest value: Euro 0.718 in the month of December;
- KME Group 2006-2009 warrant highest value: Euro 0.264 in the month of January.  
Lowest value: Euro 0.027 in the month of December.

### (Amounts in Euro - end of 2008)

No. of ordinary shares	235,489,347
No. of saving shares	19,072,110
Share capital	250,009,677.85
No. of KME Group 2006-2009 warrants outstanding	67,929,987

### Stock Exchange price (end of 2008)

KME Group ordinary shares	0.437
KME Group saving shares	0.743
KME Group warrants	0.036

### (Amounts in Euro - capitalisation at the end of 2008)

Capitalisation of ordinary shares	102,908,845
Capitalisation of saving shares	14,170,578
Capitalisation	117,079,422

### Shareholders

<b>No. of ordinary shareholders</b>	<b>9,461</b>
-------------------------------------	--------------

### Main shareholders\*

iNTEK	53,58%
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\* No other shareholder declared to own ordinary shares over 2%

### Dividend per share (amounts in Euro)

	2005	2006	2007
Dividend per ordinary share	-	-	0.040
Dividend per saving share	0.023*	0.109**	0.109

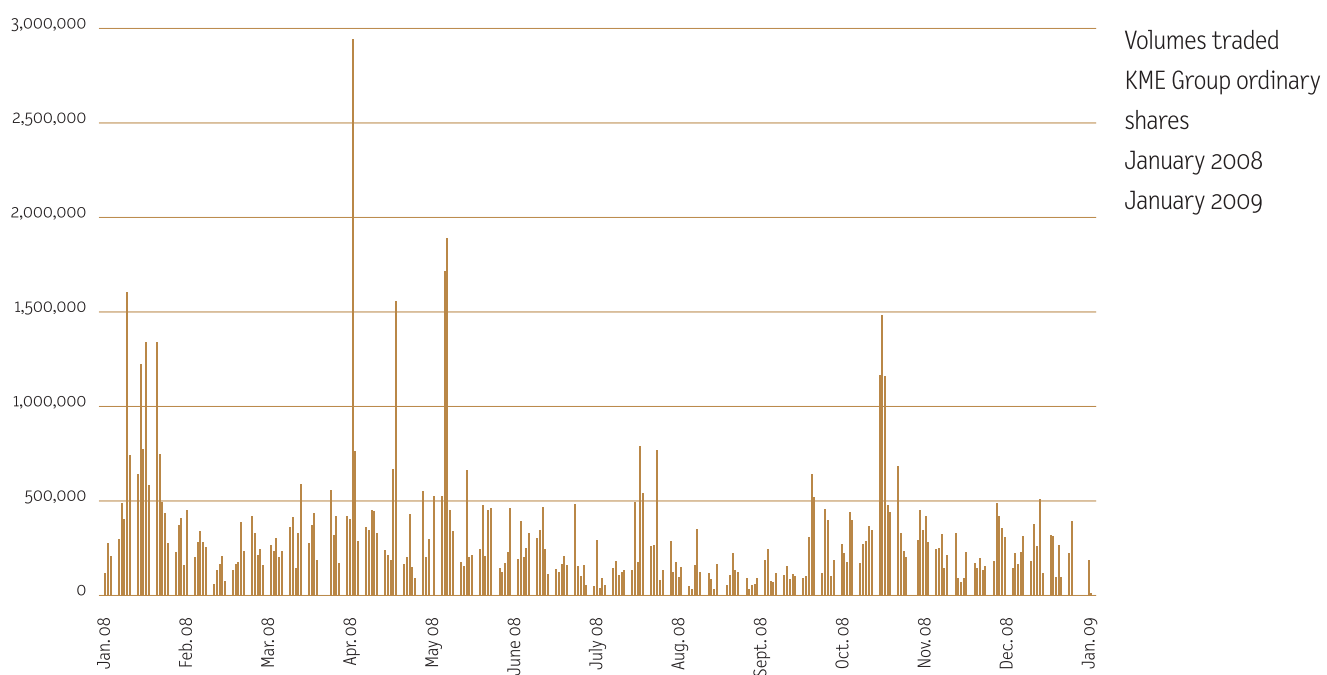
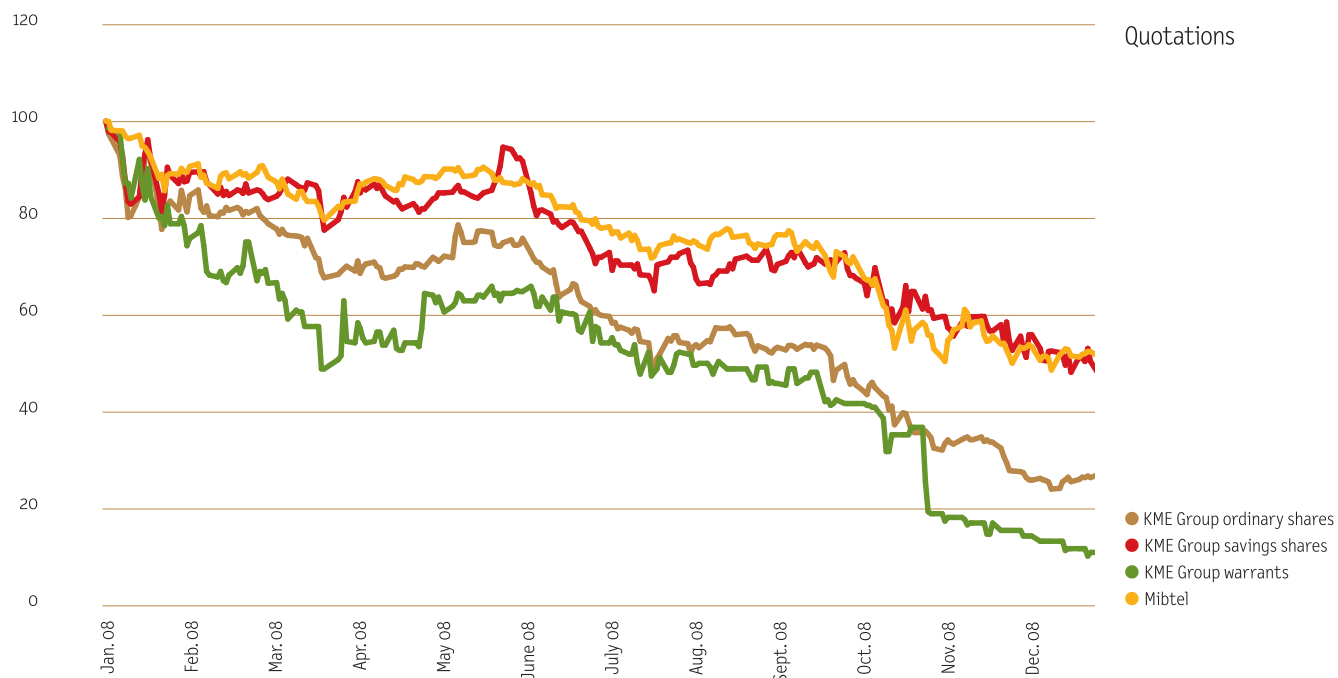
\* Privileged dividend related to 2003

\*\* Gross unit dividend including preference dividend for financial year 2006, amounting to Euro 0.0362, and preference dividends for previous financial years 2005 and 2004

### Stock Exchange trend (amounts in Euro)

	End of 2007	End of 2008	Variation
KME Group ordinary shares	1.499	0.437	-70.8%
KME Group saving shares	1.536	0.743	-51.6%
KME Group warrants	0.259	0.036	-86.1%
Mibtel	29,402	15,096	-48.7%







Excellence

## KME and Products

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“Innovation, flexibility and effectiveness

are the guidelines of KME’s successful strategy”



During the first half of 2008, copper price went on growing uninterruptedly as in the last few years, keeping very high levels and remarkable volatility. In spite of that, KME products were **still competitive** with respect to alternative materials.

In the last part of the year, the global financial crisis affected also copper prices, which went remarkably down, and closer to historical average prices. Therefore, in this perspective, there are even more positive glimmers for the future of our products.

Of course, we cannot forget that the current recession is causing abrupt decrease in demand, for a period whose length is still impossible to be foreseen. Therefore, KME will have to operate with even higher competition, and the challenges to go on being leaders in the global market will be stronger and stronger.

As a consequence, we confirm our strategic choice to go **on investing in the excellence** of our products and services.

In the year 2008, we actually intensified our project efforts for 'continuous improvement' in the name of OpEx (Operational Excellence).

This approach includes all the stages in the life of the firm, to let it carry out deep and constant change, under the cultural point of view, too, in order to foster continuous search for **efficiency** and customer **satisfaction**.

Apart from a wide-ranging training programme meant to learn problem-solving techniques, we focused our action on improving processes. OpEx is meant to eliminate wastes and all process

elements which do not create added value for customers.

Our efforts attained objectively significant results, with inventory decrease by over 25% and consequent reduction of financial charges. In accordance with our action plan for 2009, inventories shall further diminish by 20%.

Great attention was drawn to improving efficiency of production plants: important specific operations were carried out in relation to many of production lines, with highly positive effects on productivity as well as work and environment security.

Moreover, OpEx was able to increase participation of all the staff to a high extent. Our employees appreciate the remarkable progress and have incorporated changes into their daily tasks.

Our final goal is working better and better in terms of quality and safety.

#### 1. Foundry



Domenico Cova  
General Manager and  
Chief Operating Officer



Furthermore, our strategy to supply customers with better semi-finished products as well as solutions and services continued in 2008; in this respect, in the steel sector, I wish to point out the development of new companies specialized in post-sale customer care.

KME has a rooted and acknowledged world leadership relating to the supply of products for steel casting. After the positive experience of KME Mexico, we decided to establish companies specialized in maintenance, repair and recovery of casting equipments in Russia, first, and then in Australia, in order to grant our local customers a fully inclusive service; in the second half of 2009, other expansion actions are scheduled for new developing markets.

Following our strategy to gradually approach customer needs, we established a new company, **KME Architectural Metals**, a leader in the sector of metal applications for roofs and façades in Germany.

KME Architectural Metals, assuming the brand **'ARKITA'**, originates from the acquisition by subsidiary Fricke of the assets of two companies, Terres and Rima; the new company boasts widespread presence in the German market, proposing a full range of solutions for outside building: copper as well as zinc, aluminium and steel. In 2009, we plan to expand this business to Eastern Europe markets, too.

Moreover, the search for new solutions for **sustainable building** went on; an innovation which has already met with enthusiasm was developed: the 'TECU® Solar Roof'.

The fundamental advantage of this solution is changing copper roof into a real solar heating panel, matching more and more pressing energy saving needs with an excellent aesthetic solution, defending environment under the landscape and architectonic point of view, too.

In this respect, our plumbing tube production business unit took action, too; it further improved the range of our products, exploiting their extreme versatility to adapt them to the most modern and concrete needs linked with energy effectiveness, such as panel heating systems.



1. Beam Blank Mould for steel casting
2. Exhibition stand at MADE Expo (Milan Architecture Design Building) where the solar roof was presented

In the field of research geared towards safeguarding the environment, KME also prepared a range of brass alloys following US regulations, the strictest in the world, concerning contact of metals with drinkable water; the new alloys, containing very little lead, will be marketed within summer; they are meant for manufacturing taps and fittings as well as valves, and were conceived to maintain satisfactory workability characteristics during processing.

I am pleased to underline another award given us by a prestigious authority such as US EPA (Environmental Protection Agency): this will have highly positive implications for us. The public institution, following a similar statement already formalized by the World Health Organization, acknowledged how the peculiar bactericidal properties of copper alloys render it the most suitable material for all components subject to regular contact with the human body, and in particular, for places such as hospitals, clinics and outpatients' departments, where the infection risk is higher.

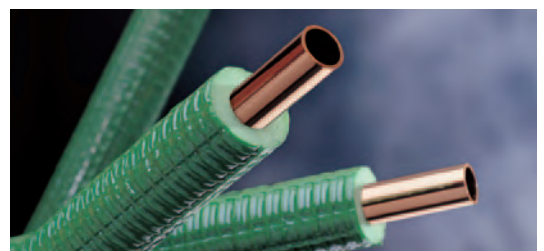
Rationalisation in the use of raw materials has been continued with great commitment: in 2008, too, most investments were made in our foundries, with the aim of increasing the use of scraps available in the European market.

All synergies with the new company, 'KME Recycle', which will operate in the sector of ferrous or non-ferrous metal trading independently, will be exploited in the best way.

**Therefore, innovation, flexibility** and effectiveness remain the guidelines of KME's strategy.

In spite of the current crisis, the global market remains our operating environment and will be the scene of crucial competition challenges for operators; we believe that the expertise, professionalism and commitment heritage of KME will be a fundamental resource to overcome the crisis storm successfully, and we will be the protagonists of recovery.

1. Cupro-nickel components for marine engineering
2. Coated tube for drinkable water heating and distribution systems



## 2009 TECU® Solar Roof

### Operational Excellence

“Excellence in all processes is the foundation for Company’s success in terms of profitable and sustainable results”.

During 2008, to confirm the Group’s commitment to constant research, improvement, and optimization of its processes, KME decided to carry out an **Operational Excellence** programme.

OpEx is a continuous analysis of all the most important processes of the Company, with the aim of reaching an excellent level for each of them, by setting up key indicators and clear and measurable goals, portraying excellence.

Right from the beginning, in creating OpEx, KME also wanted also to take into consideration safety and respect for environmental rules, as two fundamental elements for this analysis.

At the first stage, OpEx involves processes linked with production, but later on, it will also be applied to the other corporate processes, in such a way that operational excellence will become a general rule.

Thanks to the use of a series of special instruments and methods, OpEx relies on reducing both process changeability and any kind of waste as much as possible, from technical processes to organizational and manual work processes.

Even though the primary goal is ‘working better’, not ‘working more’, one of the positive consequences

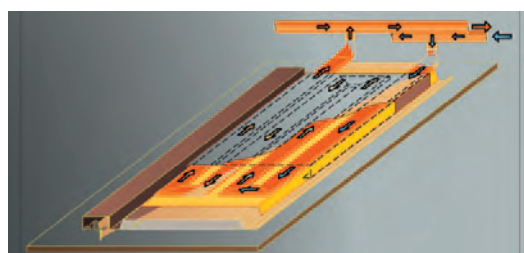
of OpEx adoption for the Group will be productivity increase.

In this process of change, KME wants to respect single local entities, in such a way as to reflect the complex structure of the Group as much as possible, thus optimizing results.

### Architecture and building solutions

**TECU® Solar Roof** enriches the **TECU®** branded copper product range through a new copper cover system capable of picking up solar radiation to produce sanitary hot water, and for radiant panel heating. By integrating the picking up module with the roofing mantle, **TECU® Solar Roof** matches energy saving and biocompatibility needs with sustainability under the architectonic and landscape point of view.

The range of products marketed through the **ARKITA®** brand completes the offer of KME metals for roof and façade covers with a wide range of materials: copper, zinc, titanium zinc, aluminium, and steel.



1. TECU® Solar Roof

# ARKITA®

It is a complete range of gutters, downpipes and related accessories, either standard or on customers' drawings, and a series of systems for roof and façade covering by means of both **TECU®** branded copper surfaces of titanium zinc, coated aluminium (**FalZink®**) and steel.

Furthermore, KME launches **ZINKMETAL®** in the market, a new and inexpensive material made of zinc, copper and titanium alloy, complying with the requirements of European regulations EN 988 on the use of zinc in construction.

## Products for heating and plumbing systems

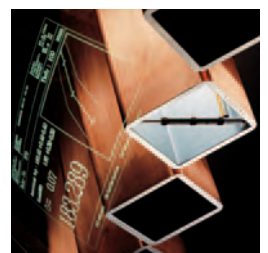
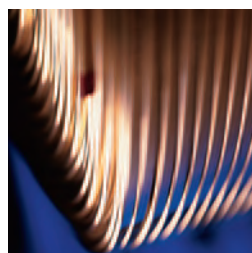
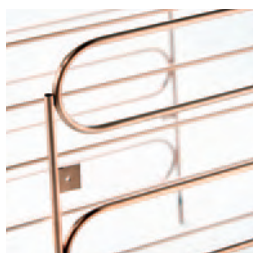
As for copper tubes for heating and plumbing systems, KME is adopting integrated solutions, which include pre-assembled modules such as **HYPOPLAN®**, ranges of specific accessories for some types of products like **Q-tec®**, and project consultation and specialized training service for dealers and installers. For years, the Group has been producing systems based on copper tubes for radiating heating systems at low temperatures, meant for floors or walls, marketed in several countries, with **CUPROTHERM®**,

**HYPOPLAN®**, **CUPRASOL®** and **SANCO®** Radiant brands. Working at low temperatures reduces energy consumption and is suitable for alternative energy sources, ensuring good environmental sustainability and healthy bioclimate.

## Semi-finished products for industrial applications

Thanks to an open dialogue with its customers and to continuous innovation, KME can boast a wide range of top quality copper alloy semi-finished products, used in several industrial sectors. As for industrial tubes, apart from creating top quality products such as copper tubes for solar heating panels (**TECTUBE®\_solar**), as well as innovative products like the new inner grooved tubes and the tubes for high-pressure refrigeration (**TECTUBE®\_cips02**), KME assures unique advantage in the optimization of the production cycles of its customers with the production of **tube coils weighing almost 600 kg.**

1. Copper inside of **HYPOPLAN®** module for radiant heating
2. Copper tube in Level Wound Coils
3. Multi-purpose building Theresienwiese in Munich
4. Technologically advanced mould tube for billet casting





### Copper and brass rods

KME's brass rod production is targeted at both the building sector – taps and fittings, valves and profile elements for finishings – and the industrial sector, precision components and mechanical parts. Brass rods are essential for electric applications, above all, in the field of high and medium voltage. New solutions will increase KME's offer of brass rods: an alloy with low lead residue suitable for drinkable water uses, and complying with the strictest international regulations (US standard AB 1953).

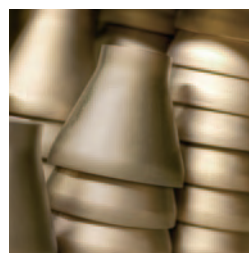
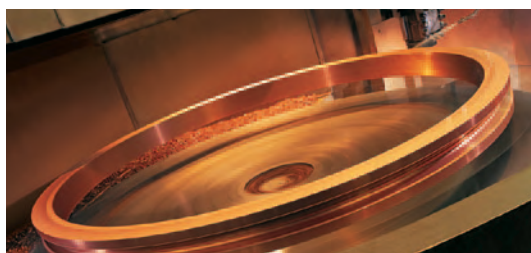
### Casting and melting technologies

Continuous search for optimal technological solutions and high-performing materials placed KME at the core of progress in the casting system design and mould manufacturing, in relation to both steel casting and non-ferrous metal casting. Success in this field depends on the combination of 4 factors: 1. copper technology, 2. coating technology, 3. technical expertise, 4. engineering consulting and system maintenance.

To meet the needs for growing performances and higher and higher efficiency, KME specialized in planning custom-made solutions for every customer, and in assuring high quality levels in mould manufacturing and maintenance, thanks to a network of post-sale assistance companies. In the segment of non-ferrous metal casting, KME developed and optimized **ELBRODUR® G**, **ELBRODUR® GF**, and **CuAg** materials. In particular, casting rolls production is a significant step forward in aluminium continuous casting.

### Special products

Harmonisation of extensive experience and advanced technology research is the foundation of KME's product range for particularly demanding market segments, such as marine applications. The Group covers this sector by manufacturing piping systems of **two alloys**: **OSNA®-10** (CuNi 90/10) and **OSNA®-30** (CuNi 70/30). The chemical composition of these copper-nickel alloys was designed to meet the requirements of all the main international standards, and assures very good ductility and weldability.



1. Casting wheel
2. Brass profiles
3. Copper-nickel components for marine applications



USD

4330.5000
4130.0000
4110.5000
3963.5000
...

## KME and Performance

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“KME’s optimization of financial resources

is one of the fundamental needs for balanced and lasting growth

in a more and more competitive market”



Italo Romano  
General Manager and  
Chief Financial Officer

The performance in financial year 2008 was seriously affected by a remarkable deterioration in the general economic framework, which became evident, above all, during the last quarter. As for perspectives, there are still serious uncertainties caused, on the one hand, by fears of the intensity and length of tensions affecting financial markets, and on the other hand, by the risk that the measures adopted by governments and monetary authorities may not be sufficient to overcome such situation in reasonable times. The Group reacted with **determination**, by starting immediate contingent actions meant to face the effects of reduced activities and price pressures; at the same time, it accelerated the structural actions started long ago and meant to guarantee **efficiency** and **competitiveness** to the production structure. Once the first and inevitable delay in adjusting structures to the sudden fall in sales volumes has been eliminated, by reducing costs we were able to limit the negative economic consequences originating from abrupt demand decrease, to preserve a sufficient cash flow level, and to create the best conditions to resume the growth path of profitability and to grasp all the opportunities which a return to more favourable economic conditions may assure.

In particular, we thank all our employees. Their commitment and constructive dialogue with employees' organizations allowed us to find shared solutions to face new market conditions and to increase flexibility and organizational effectiveness. In the whole financial year 2008, the operating

profitability of the Group decreased with respect to the one in 2007, which was achieved in a clearly more favourable market context. The results of the fourth quarter were particularly unfavourable: the **EBITDA** was slightly higher than one third of the average one for the three previous quarters. The consolidated net result for the whole financial year was essentially break-even. This year, too, in the financial statements report, we had to point out how the adoption of the new IFRS did not help to express the business performance correctly.

The calculation of the consolidated financial results on the basis of current price valuation of commodity structure stock, as required by the IFRS excludes cost valuation through the LIFO method by introducing an exogenous component in periodical statements. Because of the changeability of that component, the business performance may be portrayed in a totally incorrect way. In a context of significantly and quickly decreasing prices, such valuation generated a negative differential by Euro 64.4 million, while at the end of 2007 such differential was negative by just Euro 7.1 million (on the other hand, at the end of 2006, it had been positive by over Euro 50 million, in a context of growing quotations).

Structure stock is the owned stock portion free from sale orders, and for us it is a strategic reserve, essentially steady in time, guaranteeing production operativeness.

Except for corrections due to lasting value losses, we believe its valuation at historical cost to be the best and more cautious method, since it

neutralizes the distorting effects of commodity price fluctuations, and is actually the one used for in-house management controlling. This is actually a more and more shared method for evaluating long-term investments, for which valuations based on current prices mostly expressed by illiquid or speculative markets in anomalous contexts caused by extraordinary financial crises do not make sense and may generate totally misleading financial statements.

However, today those widely shared remarks are referred just to financial investments and markets, not to commodity investments and markets, whose nature and operational characteristics are essentially the same.

Under the financial point of view, the cash flow originating from current operations (in spite of the modest business performance), the action limiting working capital, and the copper commodity price decrease caused a remarkable **reduction of the Group's net indebtedness**, which went from Euro 359.9 million at the end of 2007 to Euro 227.6 million at the end of 2008. It is about 50% of Shareholders' Equity, and 2.1 times the financial year EBITDA.

**A temporary limit in invested capital allowed the Group** to maintain its operating profitability (expressed by EBIT net of non-recurrent elements) not far from 8%. The Group has always paid the greatest attention to the management of the liquidity risk. Thanks also to their use flexibility, the credit lines obtained in October 2006 allowed the Group to face the growing financial needs of 2007

and the first half of 2008, caused by the continuous growth of copper commodity prices, which achieved unprecedented levels.

Moreover, in the first months of 2008, another long-term credit line amounting to Euro 103 million was obtained from MedioCredito Centrale and SACE; this credit line was meant for possible acquisitions and industrial investments.

Negotiation and management of banking relations, as well as collection of medium or long-term resources, are optimized by means of centralised management. For that purpose, the Group implemented also a centralised system for managing cash flows and payments of subsidiaries.

For our current challenges, we need deep commitment and renewed skills to understand the everyday problems of a complex enterprise like ours and to focus on them. KME Group has the necessary human resources and background to face them adequately, being able to match financial choices with respect of environment and social awareness, with the goal of balanced and lasting growth.

A photograph showing two individuals engaged in a climbing activity on a wooden structure. Both are wearing red helmets and safety harnesses. The person in the foreground is wearing a purple and white striped shirt and blue jeans, while the person in the background is wearing a pink and white striped shirt and light blue pants. They are both holding onto ropes and wooden beams. The background shows a dense green forest. The word "Responsibility" is overlaid in white text on the right side of the image.

Responsibility

## KME and Social Awareness

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“Interacting not only with the corporate world, but with the world around us,  
this is KME’S concrete commitment.

Matching social and economic goals is the truer way to generate value.”



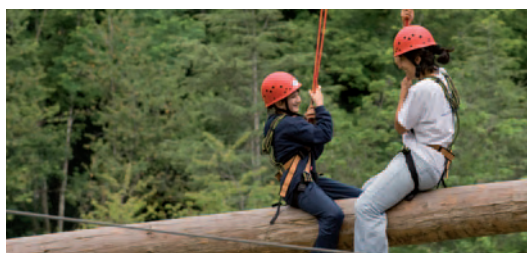
### Dynamo Camp

In 2008, on the whole, Dynamo Camp welcomed 230 children during the four summer sessions, three weekends for families and two non-profit projects taking place at the Camp (Dynamo for Others). In the latter programme category, Dynamo Camp freely hosts pathology associations or parents' associations using areas for their vacation programmes, in accordance with the values, procedures and rules of Dynamo Camp. Within the programme Dynamo for Others, children suffering from cerebral paralysis, spinal muscular atrophy and other rare syndromes were hosted together with their families. Following the principles of recreational therapy, which is the foundation of the Camp, arranged activities are typical of a traditional summer camp, but they are adjusted to make them accessible to all participants, and take place under the supervision and with the management of qualified staff.

The programme was organized by the Staff and included the following activities, for each session: climbing, horse-riding, laboratories, nature, theatre, archery.

On 27 September, we held the Dynamo Camp Open Day, during which, for the second year, Dynamo Camp hosted children, families, collaborators, volunteers and partners, to spend a fun day together, and above all, to let the contributors, as well as institutions and the whole community know the Camp. Within the day, the Camp hosted about 3,000 people, including Vice President of the Senate Emma Bonino, President of Tuscany's Confindustria Antonella Mansi, and all the mayors in the district of the local Authority of the Apennines of Pistoia, as well as several local politicians.

Over 90 KME employees worked as volunteers to welcome guests and to manage the activities open to all children; the day was arranged through in-house communication as well as on-line initiatives through KME Intranet. 27 September 2008 will remain a significant day for Dynamo Camp as well as the other camps of the Association 'The Hole in the Wall Camps': right on that day, actually, everybody was sad because of the news about the death of Paul Newman. In Italy, the dream of Paul Newman will go on thanks to the Dynamo Camp Non-Profit Association, whose commitment to let the project last is going on, thus helping a higher and higher number of children to live more serenely and feel better. 2009 begins with a calendar full of novelties: the first family programmes start in the spring, and during the summer the number of hosted children per session will be higher. Five weeks devoted to participants: two for children from 7 to 13, and two for boys and girls from 14 to 16. Three weekends for families and three periods devoted to the programme Dynamo for Others.







### 'Cesto del Lupo' Oasis

2008 was full of important events for the 'Cesto del Lupo' Oasis, conceived and established by KME in one of its estates: in January, on the basis of the experience gained during 2007, the first official year of opening and promotion of the activities, an association was born; most of all, it was made up of partners already operating in the area, either for research or as qualified environmental excursion guides. Again, the name was chosen after a local toponym, 'La Buca della Luna'; this small valley boasts a particularly beautiful landscape, with meadows, stone terracing and scrubs, and has a remarkable value under the point of view of environmental preservation, owing to the presence of moist meadows and a typical belt of shore vegetation.

The association proposed special interest guided tours from March to November, accompanying excursionists on foot or by mountain bike along the paths of the Oasis, discovering woods, animals and their tracks, spring florescence and mushrooms, as well as August stars, bird songs and wolf howling. Numerous classes went up to 'Le Felci' to participate in teaching activities in the field, through training routes based on play and discovery.

There was also factual collaboration with the Dynamo Camp, and the young guests took full advantage of Oasis environments for trips around the Lake of St. Vito, and for encampment on the 'Poggio del Nappo'. Moreover, fruitful relationships and collaborations with local entities strengthened, in particular, with the local office organizing cultural and athletic

events of Limestre, the Club Alpino Italiano, department of Maresca, the Tourist Information Office, the group of astronomy lovers of the Gavinana observatory, and the Spianessa scouts, enabling us to organize really interesting events.

According to a biennial statistic, attendance is higher in summer months, in particular, from mid July to mid August, when the number of tourists increases in the Pistoia mountain region. Visitors like being guided by expert staff; the same people often turn back to listen to explanations relating to different topics.

The programming of the guided tours organized by 'La Buca della Luna' Association, from March to November, will offer visitors several opportunities to know Oasis environments in 2009, too. Summer dates often coincide with ongoing local events such as feasts, shows and square dinners, increasing proposals for excursionists, with favourable effects on local economy. Agreements with the Tourist Information Office are being reached with the aim of offering visitors package tours at local accommodation facilities.





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**Directors' Report**

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# Calling of the Shareholders' Meeting

(published on Milano Finanza of 28 March 2009)

The Shareholders of KME Group S.p.A. are convened to the Ordinary Shareholders' Meeting in Via dei Barucci no. 2, Florence, at 11:30 am

- first call on 28 April 2009;
- second call on 29 April 2009;

to resolve on the following

## Agenda

- the separate financial statements at 31 December 2008; the Director's Report; the Report of the Board of Auditors; relevant and subsequent resolutions;
- appointment of the Board of Directors for the financial years ending 31 December 2009, 2010 and 2011, once the number of the members has been fixed; fixing of the permanent annual indemnity pursuant to art. 21 (Remuneration) of the Articles of Association;
- appointment of the Board of Auditors and its Chairman for the financial years ending 31 December 2009, 2010 and 2011; fixing of the annual compensation for Standing Auditors and the Chairman for the whole period;
- extension of the auditing assignment pursuant to articles 155 et seq. of Legislative Decree no. 58 of 24 February 1998 of the company KPMG S.p.A., and consequent recalculation of remuneration for this assignment for the financial years ending 31 December 2008, 2009, 2010, 2011, 2012, 2013, 2014 and 2015; related and subsequent resolutions.

## Participation in the Shareholders' Meeting

Pursuant to the law and art. 11 (Shareholders' Meeting Participation and Legal Representation) of the Articles of Association, to take part in the Shareholders' Meeting, the Shareholders shall file the reports made by authorized intermediaries certifying share ownership with the Florence registered office in Via dei Barucci no. 2, at least two days prior to the date of each meeting. Except for the legal requirements governing the collection of proxies, a Shareholder may be represented by an agent, either a shareholder or not, by means of a proxy statement that may be written at the bottom of the aforesaid report. If the fulfilment date expires on a holiday or on Saturdays, the real maturity date will be postponed to the first working day. Each share carries the right to cast one vote.

The Company does not impose share block as a requirement to take part in the Shareholders' Meeting; Shareholders are required to deposit shares, that is, to give instructions to the intermediary in charge of relating accounts, who shall file the aforesaid report with the Company within two days before the meeting date. That shall not hinder the following withdrawal of shares; moreover, in case of withdrawal, the deposit which has already been made shall lose effect in relation to the legal character of the participation.

The Shareholders (jointly, too) representing at least one fortieth of the share capital may require the supplementation of the list of the topics to be dealt with by including further issues they themselves propose in the request, within five days from the publication of this notice. The additional issues in the list of the topics to be dealt with in the Shareholders' Meeting following the aforesaid request, are made known in the same ways fixed for the publication of the meeting notice, at least ten days before the Shareholders' Meeting date. The supplementation is not allowed for the topics on which the Shareholders' Meeting passes resolutions, pursuant to the law, following the proposals of Directors, or on the basis of a project or a report made by them.

## Documentation

The Board of Directors' and of the Board of Auditors' reports on the topics on the agenda, with the relative resolution proposals and any further reports and documents pursuant to the current regulations and still relating to the whole agenda (including the financial report with the financial statements and the consolidated financial statements at 31 December 2008, with the "Report on Company Management, ownership structures and the application of the Code of Conduct"), shall be filed with the registered office in Via dei Barucci no. 2, Florence, and Borsa Italiana S.p.A. within scheduled times; Shareholders may obtain copies of them. The aforesaid documentation shall also be available on the website [www.kme.com](http://www.kme.com).

## Filing slates for Directors appointment and relevant procedure

Pursuant to the applicable provisions (in particular, see CONSOB resolution no. 16779 of 27 January 2009) and the procedures under art. 17 (Appointment and breakdown of the Board of Directors; office duration of its members) of the Articles of Association, Shareholders (either alone or together with others) representing at least 2.5% of the share capital made up of ordinary shares are entitled to submit the slate for appointing the Directors. The texts of art. 4 (Capital), with the updated indication of share capital breakdown, and of art. 17 (Appointment and breakdown of the Board of Directors: office duration of its members) of the Articles of Association are available at the registered office in Via dei Barucci no. 2, Ufficio Affari Societari, Florence, and may also be consulted on the website [www.kme.com](http://www.kme.com), as well as at Borsa Italiana S.p.A..

The slates with the names of the candidates for the office of Director shall be filed at least 15 days before the date of the first call of the Shareholders' Meeting, with the registered office in Via dei Barucci no. 2, Ufficio Affari Societari, Florence, provided with the documents required by the aforesaid art. 17 of the Articles of Associations. In case the fulfilment maturity date expires on a holiday or on Saturdays, the real maturity date is postponed to the following working day.

Only the slates promptly submitted by the Shareholders who filed the required documents within scheduled times shall be regarded as valid; if the Shareholders' Meeting is postponed on second call, the filing shall be regarded as valid.

Slates of candidates must be accompanied by the following information:

1. data relating to the identities of the Shareholders who filed the slates, showing the total percentage of interest held, and certificates attesting share ownership;
2. affidavits by shareholders who are not among those who individually or jointly own controlling or relative majority interests in the Company stating that they are not parties to any of the linkage transactions referred to in the applicable provisions;
3. exhaustive informative report on the personal and professional characteristics of the candidates, as well as statements through which single candidates accept their nomination and certify, under their own responsibility, the absence of reasons for ineligibility and incompatibility, and that they have the requirements stated by the current regulations and the Articles of Association for their relative offices, pointing out that they are qualified as independent pursuant to art. 148, subsection III of Legislative Decree no. 58/1998, and to art. 3 subsection 1 of the "Code of Conduct" of Borsa Italiana S.p.A., which the Company has declared to accept, and which is available on the website [www.borsaitaliana.it](http://www.borsaitaliana.it).

A Shareholder shall not file nor vote more than one slate, though intermediary or trusters. The Shareholders belonging to the same Group and the Shareholders who are parties to a shareholders' agreement based on shares of the Company shall not file nor vote more than one slate, though intermediary or trusters. A candidate may be present in just one slate, or he/she shall become ineligible.

Moreover, candidates are recommended to authorize the publication of their curricula at the website of the Company.

Shareholders are kindly requested to take into consideration the recommendations contained in the CONSOB report no. DEM/9017893 of 26 February 2009, relating to the "Appointment of the members of executive and supervisory bodies"

### Filing slates for Auditors appointment and relevant procedure

Pursuant to applicable provisions (in particular, see CONSOB resolution no. 16779 of 27 January 2009) and the procedures under art. 22 (Board of Auditors) of the Articles of Association, the Shareholders who (either alone or together with others) represent at least 2.5% of the share capital made up of ordinary shares are entitled to submit the slate for appointing Auditors. The texts of art. 4 (Capital), with the updated indication of share capital breakdown, and of art. 22 (Board of Auditors) of the Articles of Association are available at the registered office in Via dei Barucci no. 2, Ufficio Affari Societari, Florence, and may also be consulted on the website [www.kme.com](http://www.kme.com), as well as at Borsa Italiana S.p.A..

The slates with the names of the candidates to the offices of Standing Auditors or Alternate Auditors shall be filed at least 15 days before the date of the first call of the Shareholders' Meeting, with the registered office in Via dei Barucci no. 2, Florence, Ufficio Affari Societari, provided with the documents required by the aforesaid art. 22 of the Articles of Associations. In the slates, candidates shall be marked with progressive numbers. In case the fulfilment maturity date expires on a holiday or on Saturdays, the real maturity date is postponed to the following working day.

At the aforesaid maturity date, in case only one slate has been filed, or just slates filed by Shareholders (who are connected with each other pursuant to the provisions in force, following indications below), slates may be filed until the fifth day after such date; if the maturity date expires on a holiday or on Saturdays, the real maturity date shall be postponed to the first working day. The times for filing those slates are reduced by one half.

Only the slates filed by the Shareholders who promptly filed the documents required within scheduled times shall be regarded as valid; in case the Shareholders' Meeting is postponed on second call, the filing shall be regarded as valid.

Slates of candidates must be accompanied by the following information:

1. data relating to the identities of the Shareholders who filed the slates, showing the total percentage of interest held, and certificates attesting share ownership;
2. affidavits by Shareholders who are not among those who individually or jointly own controlling or relative majority interests in the Company, stating that they are not parties to any of the linkage transactions referred to in the applicable provisions;
3. exhaustive reports on the personal and professional characteristics of the candidates, including the list of the executive and control offices possibly covered by each of them in other companies, as well as statements through which single candidates accept their nomination and certify, under their own responsibility, the absence of reasons for ineligibility and incompatibility, and that they own the requirements stated by the current regulations and the Articles of Association for their relative offices, with data pointing out that they also own the requirements pursuant to art. 10 of the "Code of Conduct" of Borsa Italiana S.p.A., which the Company has declared to accept, and which is available on the website [www.borsaitaliana.it](http://www.borsaitaliana.it).

A Shareholder shall not file nor vote more than one slate, though intermediary or trusters. The Shareholders belonging to the same Group and the Shareholders who are parties to a shareholders' agreement based on shares of the Company shall not file nor vote more than one slate, though intermediary or trusters. A candidate may be present in just one slate, or he/she shall become ineligible.

In case, for any reasons, it is not possible to appoint the Board of Auditors in compliance with the provisions above, the Shareholders' Meeting will operate pursuant to the provisions of the law.

Pursuant to art. 2400, subsection IV, of the Italian Civil Code, at the time of the appointment and before accepting the office, the executive and supervisory assignments taken on by Auditors in other companies shall have to be made known; moreover, in compliance with the provisions of article 148-bis of Legislative Decree 58/1998, the relevant statement has to be made within *curricula vitae*, and has to be updated until the date of the real assembly session. Furthermore, candidates are recommended to authorize the publication of their *curricula* on the site of the Company.

Shareholders are kindly requested to follow the advice included in the CONSOB notice no. DEM/9017893 of 26 February 2009, relating to the “Appointment of the members of the administration and supervisory bodies”:

**Absentee voting**

The voting right may also be exercised by mail; the voting papers, with the relative instructions, shall be made available at least 15 days before the date of the first call of the Meeting at the registered office in Via dei Barucci no. 2 Ufficio Affari Societari, Florence. The paper shall be sent to the following address: KME Group S.p.A., Ufficio Affari Societari, Via dei Barucci no. 2 - 50127 Florence, and must be received within forty-eight hours before the first call of the Meeting, together with a copy of the notice required by the current regulations, in order to take part in the Meeting.

Florence, 25 March 2009

The Board of Directors



# Directors' Report on business performance in 2008

## *Dear Shareholders*

The performance in 2008 was affected by the remarkable deterioration in the general economic framework, which went from a serious slowdown, due to the economic situation, to a real recession in the second half of the year. This trend concerned all the economies of industrialized countries at the same time, from the United States to Japan and Europe.

As for the outlook, there are also serious uncertainties caused, on the one hand, by fears about the intensity and duration of the tensions affecting international financial markets and their consequences on the real economy, and on the other hand, by the risk that the measures adopted by governments and the monetary authorities will not be sufficient to determine the conditions for overcoming such a situation in a sufficiently short time.

Economic estimates for 2009 were repeatedly lowered. Only developing economies, though showing signs of weakening, still retain a good rate of growth, and are supporting the dynamics of international trading.

In Europe, the area in which the Group is mostly present, this weakness affected the main components of demand, both consumption and investments.

Family consumption was affected by a very cautious attitude, due to fears of worsening economic and labour market conditions, causing a remarkable decrease in available income.

Limited enterprise business plans reflect decrease in demand, both the current and perspective demand, and the most severe conditions necessary to access loans, in a context in which profitability went on diminishing and self-financing margins were further reduced.

The weakness phase in the building sector is going on; this is particularly clear in the sector of new housing plans. The refurbishment sector is stronger.

Domestic demand weakness matches with the fall in the demand from abroad, owing to both the serious worsening of the international framework and the persistent appreciation of the euro with respect to the other main currencies.

The gradual worsening of the economic conditions became evident during the last quarter of the last year, above all, and matched with commodity price volatility and the critical aspects of the credit market. Of course, those aspects highly affected the trend of the demand in sectors using the Group's semi-finished products of copper and its alloys.

With reference to Europe, after the moderate growth of 2006, the volumes of copper semi-finished product output (except for conductors) suffered a remarkable slowdown during the last two years (-8.2% in 2007 and -10.6% - temporary estimate - in 2008). During 2008, quantity reductions were caused by both decrease in the demand from the new housing sector, and the retrenchment of some industrial sectors using lots of semi-finished products of copper such as automotive (last quarter), electric household appliances and boilers.

As for the other big industrialized areas of the world, during 2008, the output of semi-finished products further diminished in Japan (the slowdown in the demand for products in the building sector went together with the collapse in the semi-finished products meant for automotive industry and electronic components). On the other hand, as for the United States, the worsening of the economic and building crises generated remarkable decrease in global volumes for the fourth year in a row.

The only positive exception is China, where, though at a remarkably lower rate with respect to previous years, there was a further slight increase (+ 2%) in the output of copper semi-finished products in 2008, which by now reached 3 million tons: a volume slightly lower than the aggregate outputs of Western Europe and the USA.

The prices of copper commodity, which is the most used metal in the production of semi-finished products of the Group, started to decrease as of September; in the following months, the remarkable slowdown in the world

economy caused further price decreases, in a context of marked volatility, and final users were uncertain in making purchase decisions.

The Group had to face continuous pressure on prices and sale volumes, caused by the competition dynamics, which turned out particularly remarkable in a context of demand weakening. Innovation, product diversification, service improvement, solutions for customers, rationalization of the distribution system, and the strengthening of the presence in developing countries allowed the Company to defend its market positions.

**Consolidated turnover** in 2008 was equal to Euro 2,975.2 million, lower than the one in the previous period of 2007 by 14.6%; net of commodity values, it went from Euro 890.9 million to Euro 862.3 million, going down by 3.2%. Thanks to the sectors with the highest added values, the best sale mix mostly compensated volume decreases (which totalled 8.2%). The incidence of the value component of commodities on sales of semi-finished products was about 71%.

The turnover, net of commodity value, was Euro 191.1 million in the fourth quarter of 2008, with respect to Euro 212.5 million in the same quarter of the previous year, and Euro 212.4 million in the third quarter of 2008.

The actions to improve the efficiency of structures (more and more trying to meet customers' needs) and rationalize the production system (made in the last few years, and strengthened in the last few months), as well as the optimization of commodity supply and exploitation, had positive economic consequences, but their compensation for lower sales and increases in unit prices was just partial. In particular, unit price increases were due to energy and transports, as well as to the normal delay in adjusting production structures to the sudden decrease in sale volumes in the fourth quarter of the year.

In 2008, the operating profitability of the Group decreased with respect to 2007, which was achieved in a clearly more favourable market context.

**Gross operating profit (EBITDA)\*** went from Euro 142.0 million in 2007 to Euro 106.6 million in 2008; net of commodity values, turnover incidence went down from 15.9% to 12.4%.

In terms of trend, after three quarters essentially in line with each other, profitability went remarkably down in the fourth quarter of 2008: **EBITDA in the fourth quarter of 2008** was Euro 11.7 million, compared with Euro 33.1 million in the same period of 2007. In the previous three quarters, the average was Euro 31.6 million.

**Net operating profit (EBIT)\*** in 2008 was Euro 50.0 million, with respect to Euro 88.8 million in 2007.

**Consolidated pre-tax profit** equalled Euro 7.6 million. **Consolidated profit net of taxes** was in the red by 3.5 million after the accounting of taxes amounting to Euro 11 million; it had been positive by Euro 48.3 million in 2007.

In this Directors' report, too, the indicators above were drawn up on the basis of presentation and measurement criteria partially different from the IFRS used for drawing up the consolidated financial statements. In particular, with no effect on the economic results of the accounting assessment, they are essentially expressed at the current values of commodity inventories, as required by IFRS; because of the volatility of corresponding prices, they introduce an exogenous economic component, whose variability prevents a homogeneous comparison of data relating to different periods, portraying the real management performance in an incorrect way. For that issue, please see the description of the reclassification carried out, included in the following chapter on the "Economic Performance of the Group", as well as in the details in the explanatory note to the consolidated financial statements.

\* Reclassified indicators, see the chapter on the "Economic performance of the Group".

In a context of significantly decreasing prices, the assessment of commodity inventories based on current prices (the lowest one between the quarterly average price and the sale price at the end of the period) rather than on LIFO assessments relating to structure stock<sup>\*</sup>, caused a decrease in the value differentials, between the LIFO ones and the ones calculated pursuant to IFRS; in particular, at the end of December 2007, the net negative differential was Euro 7.1 million. On the other hand, at the end of December 2008, such differential was negative by Euro 64.6 million.

Therefore, the 2008 **consolidated net profit**, calculated by assessing inventories pursuant to IFRS, was negative by Euro 68.7 million, while it had been positive by Euro 40.8 million in 2007.

Under the financial point of view, the **net indebtedness** of the Group at 31 December 2008 was Euro 227.6 million, going down by Euro 132.2 million (-37%) with respect to 31 December 2007 (Euro 359.9 million). The decrease was due to the results of current management, the action limiting outstanding capital and price decrease in copper commodity.

It is about 50% of the Shareholders' equity, and 2.1 times the financial year's EBITDA.

**Net invested capital**<sup>\*\*</sup> is Euro 686.0 million; its operating profitability (expressed by the EBIT net of non-recurrent components) is 7.8%.

The Parent **KME Group S.p.A.** closed 2008 with a net profit of Euro 21.0 million (Euro 12.3 million in 2007); the profit included the dividend distributed by the German subsidiary managing the industry partnerships of the Group, attributed to the results of 2007.

The Board of Directors proposes the distribution of a **unit dividend** of Euro 0.04 for ordinary shares and Euro 0.1086 for savings shares, which may be paid starting from next 14 May 2009, with detachment of coupon on 11 May 2009. The proposed dividend is the one of the year before, and implies an overall disbursement of Euro 11 million, equalling to 52% of the Parent net profit, and an allocation of Euro 9,5 million to profit reserves added to already existing amounts.

\* \* \*

About the evolution of management, the most recent indicators of the economic situation do not point to any possible improvements of market conditions in the short run; outlook uncertainties and fears that the recession phase may last significantly make it difficult to make reliable estimates.

In this context, the Group is resolved to accelerate the actions currently intended to deal with the effects of reduced business activities, as well as pressures on prices. At the same time, structural actions, started a while back, are still being carried out, they are intended to obtain a more efficient production framework, a more focussed organization and optimize invested capital.

Thanks to the measures adopted, it is possible to limit the negative economic effects of demand weakness, preserve sufficient cash flow, create the best conditions to resume growth in profitability and grasp all the opportunities which a return to more favourable economic conditions may ensure.

\* \* \*

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

\*\* For the meaning of "net invested capital", see the chapter relating to "Financial Information".

For the purposes of drawing up the financial statements at 31 December 2008 and, in particular, in carrying out impairment tests of recorded tangible and intangible assets, as required by the applicable international accounting standards, the Directors took into consideration the performances expected for 2009 and for the subsequent years until 2012, whose expectations and results are consistent with the provisions in the chapter “Expected Management Evolution”. For the following years, they took care to make the necessary changes to the original 2006-2010 plans, in order to take into consideration the economic, financial and market conditions, changed because of the current crisis. On the basis of plan data, thus changed and approved by the Board of Directors, there were no write-down necessities.

## Market and prices of the raw material copper

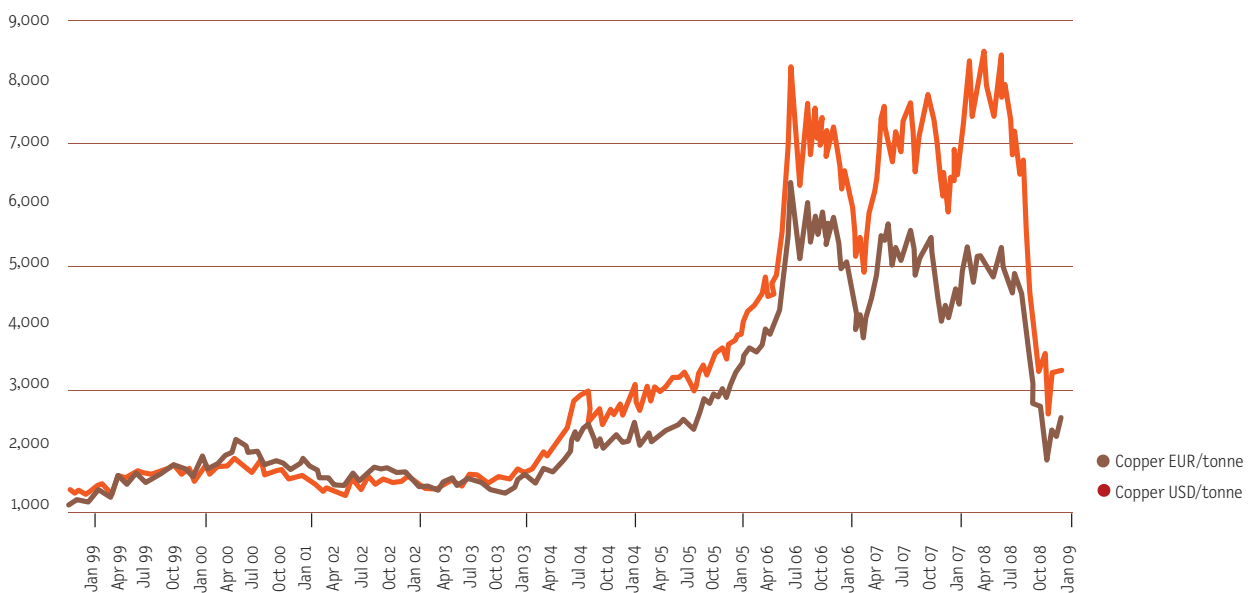
In 2008 the average price of copper was lower than the price of the previous year by 2.3% in US\$ (going from US\$ 7,118 per tonne to US\$ 6,952 per tonne) and by 10.2% in Euro (from Euro 5,192 per tonne to Euro 4,664 per tonne), owing to the appreciation of the European currency in the period of reference.

In terms of trend, the average price in the fourth quarter of 2008, with respect to the same period in 2007, was lower by 45.6% in US\$ (from US\$ 7,239 per tonne to US\$ 3,940 per tonne) and by 38.1% in Euro (from Euro 4,824 per tonne to Euro 2,988 per tonne).

In the latest part of the year, prices went down really abruptly: the price of copper decreased from about US\$ 7,000 per tonne in the second half of September to US\$ 2,770 per tonne on 24 December; the price got in line with the prices in summer 2004.

In January and February 2009, the price of copper was steadier, on the average - February: US\$ 3,315 per tonne (Euro 2,592 per tonne).

Copper quotations LME settlement



## Economic performance of the Group

As described above, IFRS introduced an exogenous economic component, since they do not allow to value final stocks through the LIFO method, which is nevertheless adopted for internal management controlling. The changeability of that component prevents homogeneous comparison of data relating to different periods, and thus, the real management performance could not be represented.

Therefore, economical and financial information based on accounting standards different from IFRS, in terms of measurement and presentation, were mostly used for the following aspects:

- 1 turnover is also presented net of commodity values in order to eliminate the effect of price variability;
- 2 final stocks, for the metal component, are valued through LIFO in relation to the structure stock share, that is, the stock share free from sales orders to customers. On the other hand, the committed stock share is valued in relation to corresponding commitments, regarded as sales values. As for IFRS, the stock is valued at the lower price between the average weighted cost and the net sale value, which is the average price of sale commitments for the committed stock. As for the structure stock, it is the official average price of the London Metal Exchange in December. Still in relation to IFRS, stock purchase and sale commitments, in the same ways as the relevant hedge contracts concluded on LME market, are identified separately and carried in the financial statements at the relevant fair values, as financial instruments;
- 3 non-recurrent components written under the gross operating profit line.

Following such changes and reclassifications, the management information below are not part of the Financial Information pursuant to Audit Standard 001 issued by the “Consiglio Nazionale, Dottori Commercialisti ed esperti contabili (the Italian Accounting Profession)”.

The table below shows the effects of such different measurement and presentation criteria used on the financial year 2008.

### KME Group - Consolidated income statement

(millions of Euro)	FY 2008 IFRS		reclassifications	adjustments	FY 2008 RECL	
Gross turnover	2,975.2	100%	-	-	2,975.2	
Raw material cost	-		(2,112.9)	-	(2,112.9)	
<b>Turnover, not including raw material cost</b>	-		-	-	<b>862.3</b>	<b>100.00%</b>
Labour Cost	(353.8)		-	-	(353.8)	
Other consumption and costs	(2,589.8)		2,115.2	72.7	(401.9)	
<b>EBITDA*</b>	<b>31.6</b>	<b>1.06%</b>	-	-	<b>106.6</b>	<b>12.36%</b>
Non-recurring (charges)/Income	-		(3.2)	-	(3.2)	
Amortisation and depreciation	(54.3)		0.9	-	(53.4)	
<b>EBIT</b>	<b>(22.7)</b>	<b>-0.76%</b>	-	-	<b>50.0</b>	<b>5.80%</b>
Net financial charges	(42.4)		-	-	(42.4)	
Net finance costs	-		-	-	-	
<b>Profit before taxes (inventories no IFRS)</b>	<b>(65.1)</b>	<b>-2.19%</b>	-	-	<b>7.6</b>	<b>0.88%</b>
Current tax	(9.9)		-	-	(9.9)	
Deferred tax	6.9		-	(8.1)	(1.2)	
<b>Profit (inventories no IFRS)</b>	<b>(68.1)</b>	<b>-2.29%</b>	-	-	<b>(3.5)</b>	<b>-0.40%</b>
Inventories, real commitments and LME (IFRS) assessment impact	-		-	(72.7)	(72.7)	
Inventories, real commitments and LME (IFRS) assessment taxes	-		-	8.1	8.1	
<b>Consolidated profit</b>	<b>(68.1)</b>	<b>-2.29%</b>	-	-	<b>(68.1)</b>	<b>-7.90%</b>
Profit attributable to minority interest	0.6		-	-	0.6	
<b>Profit attributable to Shareholders of the Parent</b>	<b>(68.7)</b>	<b>-2.31%</b>	-	-	<b>(68.7)</b>	<b>-7.97%</b>

\* EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization) is not envisaged by IFRS. It represents a useful unit of measure for assessing the Group's operating performance. EBITDA is an intermediate economic value equalling EBIT without tangible and intangible assets depreciation and amortization.

As a commentary to the economic performance of the Group, the indicators reclassified as above are used: they are regarded as more suitable to portray the real financial and economic performance of the Group. Of course, the description of the management performance is also provided with the financial data based on the IFRS method to assess commodity stocks.

The following table provides a brief overview of the 2008 consolidated results the Group, compared with those of 2007.

### KME Group - Consolidated income statement

(millions of Euro)	FY 2008 RECL		FY 2007 RECL		Change %
Gross turnover	2,975.2		3,485.3		-14.6%
Raw material cost	(2,112.9)		(2,594.4)		-18.6%
<b>Turnover, not including raw material cost</b>	<b>862.3</b>	<b>100.00%</b>	<b>890.9</b>	<b>100.00%</b>	<b>-3.2%</b>
Labour Cost	(353.8)		(349.3)		1.3%
Other consumption and costs	(401.9)		(399.6)		0.6%
<b>EBITDA</b>	<b>106.6</b>	<b>12.36%</b>	<b>142.0</b>	<b>15.94%</b>	<b>-25.0%</b>
Non-recurring (charges)/Income	(3.2)		(2.6)		insig.
Amortization and depreciation	(53.4)		(50.6)		5.5%
<b>EBIT</b>	<b>50.0</b>	<b>5.80%</b>	<b>88.8</b>	<b>9.97%</b>	<b>-43.7%</b>
Net finance costs	(42.4)		(36.5)		16.2%
Gains/(losses) recognised in equity	-		-		0.0%
<b>Profit before taxes (inventories no IFRS)</b>	<b>7.6</b>	<b>0.88%</b>	<b>52.3</b>	<b>5.87%</b>	<b>-85.5%</b>
Current tax	(9.9)		(30.0)		-67.0%
Deferred tax	(1.2)		26.0		-104.6%
<b>Profit (inventories no IFRS)</b>	<b>(3.5)</b>	<b>-0.41%</b>	<b>48.3</b>	<b>5.61%</b>	<b>-107.2%</b>

**Turnover** in 2008 was Euro 2,975.2 million, 14.6% lower than 2007 (Euro 3,485.3 million).

Such reduction was influenced by the trend of commodity prices. Net of the latest, the turnover went actually down by 3.2%, going from Euro 890.9 million to Euro 862.3 million. The mix improvement had a positive influence; it mostly compensated the 8.2% decrease in sales volumes.

Total **operating costs** increased by 0.9%, in spite of the decrease in sales volumes for the higher production of products with higher added value, and the increase in unit costs of production factors, above all, due to energy and transport, as well as inevitable delay in adjusting production structures to the sudden decrease in sale volumes in the fourth quarter of the year.

The labour cost component, alone, increased by 1.3%.

**EBITDA** amounted to Euro 106.6 million, going down by 25%. It was 12.4% of turnover net of commodity (15.9% in 2007).

**EBIT** was positive by Euro 50 million (Euro 88.8 million in 2007).

The non-recurring components made a negative net contribution of Euro 3.2 million (in the red by Euro 2.6 million in 2007). That amount was the balance between the financial income originating from the structural reduction of owned stock (Euro 25.3 million; the reduction was possible due to management optimization of the commodity exploitation flows) and the charges relating to provisions for costs connected with the reorganization of the industrial units of the Group (Euro 17.1 million), expected expenses relating to lawsuits in progress and other provisions (Euro 11.2 million).

The **consolidated profit before taxes**, without assessment of commodity inventories at current prices pursuant to IFRS, was positive by Euro 7.6 million (Euro 52.3 million in 2007).

The higher value of financial charges, in spite of indebtedness reduction, originated from the recording of accounting losses (Euro 7 million) from exchange rate financial positions (essentially in US\$ and pound sterling) covering usual trading currency transactions; the corresponding positive flows found or shall find balancing entries (in relation to open positions) in operating costs and revenues, as soon as transactions are over.

The **consolidated profit** was negative by Euro 3.5 million, while it was positive by Euro 48.3 million in 2007.

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

The following table illustrates the consolidated profit of the year, compared with those of 2007, calculated by including the effects of IFRS assessment of the structure commodity inventories and purchase or sale commitments, either real or concluded through the London Metal Exchange.

(millions of Euro)	FY 2008 RECL	FY 2007 RECL	Change %
<b>Profit (inventories no IFRS)</b>	<b>(3.5)</b>	<b>48.3</b>	<b>-107.2%</b>
Inventories, real commitments and LME (IFRS) assessment impact	(72.7)	(15.3)	375.2%
Inventories, real commitments and LME (IFRS) assessment taxes	8.1	8.2	-0.8%
Consolidated profit	(68.1)	41.2	-265.3%
Profit attributable to minority interests	0.6	0.4	50.0%
<b>Profit attributable to Shareholders of the Parent</b>	<b>(68.7)</b>	<b>40.8</b>	<b>-268.4%</b>

In a context of remarkable price decrease, at the end of 2008, the measurement of commodity inventories showed a reduction of value differentials, between LIFO and the ones originating from IFRS. In particular, at the end of 2007, there was a negative differential of Euro 7.1 million, while such differential went up to Euro 64.6 million at the end of 2008.

As a consequence, the **consolidated profit** (IFRS stock) in 2008 was negative by Euro 68.7 million, while at the end of 2007, in consistent terms, it was positive by Euro 40.8 million.



## Information by business segments

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

### Revenue, including raw materials

Business areas (millions of Euro)	Products for construction		Products for industry		Consolid. and misc.		Group total	
2008	976.4	32.8%	1,682.5	56.6%	316.3	10.6%	2,975.2	100.0%
2007	1,278.0	36.7%	1,735.7	49.8%	471.6	13.5%	3,485.3	100.0%
Change %	-23.6%		-3.1%		-32.9%		-14.6%	

### Revenue, not including raw materials

Business areas (millions of Euro)	Products for construction		Products for industry		Consolid. and misc.		Group total	
2008	293.8	34.1%	561.0	65.1%	7.5	0.9%	862.3	100.0%
2007	320.8	36.0%	570.1	64.0%	-	-	890.9	100.0%
Change %	-8.4%		-1.6%		insig.		-3.2%	

In 2008, revenue of **products for industry**, net of commodity values, was 65% of total sales, while that of **products for construction** was 34%.

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

After a modest growth in 2007 (+2.3%), the European market of construction decreased in 2008 (-3.6%) because of remarkable slowdown of investments in new residential buildings (-13.4%). Under the geographic point of view, though in different ways by intensity and except for Germany (+2.8%), activities diminished in all the most important markets of reference. In detail, the building sector collapsed in Spain (-17.0%), while decreases in Italy (-4.6%), the United Kingdom (-2.4%) and France (-2.3%) were lower.

As for the **semi-finished products of copper and copper alloys meant for the construction industry**, during the first nine months of the year, consumption was still affected by turmoil in the commodity market (high prices together with remarkable price volatility). Later on, copper price started decreasing in October, and the consumption of semi-finished products was diminishing because of decrease in the demand (seasonal demand and demand linked to building activities).

Decrease in demand of **rolled copper products for roof** was actually general, with particularly clear decreases in Italy (first European market for its dimensions). In a clearly unfavourable context, the Group reacted by recovering volumes in a key market like Germany, and by strengthening its positions in the Benelux area and in developing markets such as Russia and Ukraine. Furthermore, in Germany, the Group started an integration strategy at the end of the line, opening up to multi-metal, which generated the acquisition, by subsidiary Fricke GmbH & Co. KG, of the assets of another two German companies, also producing and distributing cover accessories and rainwater disposal systems. The new company, born from this transaction (KME Architectural Metals GmbH & Co. KG), manages to cover the whole German market, under the geographic point of view, too. As for product innovation, KME is currently developing new systems meant to match the architectural qualities of copper with the needs of energy saving; one example of this is the copper integrated solar covering ("TECU® Solar Roof").

As for TECU® special products meant for buildings with high architectural value, the completions of a few

important projects, such as the following, have to be pointed out: the Maryam Mosque in Chicago, the Qatar Central Bank, the Heathrow Ramada Hotel, Kirchturm in Eggikofen (Germany), and the new Central Public Library in Cardiff.

The building crisis certainly heavily affected also the sales of **pipes used for plumbing and heating systems**, causing volume decreases in all the five main markets of Western Europe, where the Group operates. Much more positive results, on the other hand, were achieved in Central Eastern Europe countries, as well as some important developing markets such as Arab Emirates, Algeria and Hong Kong.

As for **brass rods for sanitary taps and fittings**, after the first moderately positive half-year thanks to unchanged purchases in Central Northern Europe, demand gave clear signs of decrease in the following months. As for single markets, volume decreases were particularly clear in the Mediterranean area, but were partially compensated by higher exports to Anglo-Saxon markets (the USA and Australia).

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

In 2008, the European demand of **semi-finished products for industry** was characterized by actually unchanged volumes during the first nine months, and an abrupt fall during the latest quarter. From the geographic point of view, in the first three quarters, the trend of demand was different: significant activity weakness in the Mediterranean economies, and actually unchanged volumes in Eastern and Central Northern Europe. On the other hand, in the latest quarter, collapse was general, involving all the areas of the Old Continent.

As for single segment, except for the latest quarter, in which the economic crisis did not spare any segment, the most comfortable signs came from the electric sector and the solar heating sector (sharply recovering after last year's setback in Germany and Austria, the first and third markets by collectors installed in Europe, respectively). The situations in sectors such as automotive, electric household appliances and heat exchange (air conditioning and boilers in the Mediterranean area) are much more difficult.

As for the main products/markets, in detail, the sales of **rolled products meant for industry** went down after the first half-year, in which they were actually unchanged. But sales gradually diminished in the following months. From the geographic point of view, the Group partially compensated the volume decrease in progress in domestic markets by relying on strengthening its positions in the developing markets of Central Eastern Europe and the Middle East (Arab Emirates and Turkey), as well as in some important non-European markets such as India.

Much better results were achieved in the sale of **pipes for industrial applications**: in this segment, a weak demand in the sector of air conditioning was counterbalanced by unchanged volumes in the sector of joints, and by the positive performance in the sector of renewable energies (solar heating and heat pumps). Under the geographical point of view, lower activities in Italy were compensated by increases in other domestic markets of the Group (Germany, France and United Kingdom) and in some of the most important economies in Central Eastern Europe, such as Poland and Slovakia.

During 2008, the market of **brass rods for industrial applications** was actually unchanged in the first part of the year (thanks to steady demand in the electric sector, above all, in Central Northern countries), while it gradually worsened in the second half-year. From the geographical point of view, the Group strengthened its presence in some important non-European markets such as India.

2008 was actually a very positive year for the sector of **copper rods for electric applications**. On a geographical level, revenue increases in some of the main economies in the Mediterranean area have to be pointed out: Italy and Spain, first of all, followed by some important minor markets of Central Northern Europe (Belgium and Ireland) and countries with remarkable development rates, such as China and Russia.

In the wake of global economic crisis, after years of continuous growth, the sector of **copper ingot moulds for steel casting** gradually shrank towards the end of the year. From the geographical point of view, the Group went on increasing its revenue in some important developing markets such as Brazil, India, Malaysia and Ukraine.

The world leadership of KME in the supply of products meant for steel casting is acknowledged. Initiatives linked to maintenance, repair and recovery of casting equipment were carried out in Mexico, Russia and Australia, to grant customers an even more complete service.

In 2008, the sector of **special cables** confirmed the positive results of the previous year, thanks to constant demand for energy cables and telephone wires. Under the geographic point of view, the Group increased its presence, above all, in Italy and in the United Kingdom.

Products for **marine applications and off-shore plants**, too, deserve a special mention: they made another positive performance in the year, with increases in the volumes of most of the markets of reference.

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

(millions of Euro)	Products for construction		Products for industry		Consolid. and misc.		Group total	
2008	27.5	55.0%	30.3	60.6%	(7.8)	-15.6%	50.0	100.0%
2007	44.9	89.8%	47.5	95.0%	(3.6)	-7.2%	88.8	177.6%
Change %	-38.8%		-36.2%		116.7%		-43.7%	

### Assets by segment

(millions of Euro)	Products for construction		Products for industry		Consolid. and misc.		Group total	
2008	419.6	25.7%	798.5	48.9%	415.5	25.4%	1,633.6	100.0%
2007	543.4	30.1%	972.4	53.9%	288.1	16.0%	1,803.9	110.4%
Change %	-22.8%		-17.9%		44.2%		-9.4%	

### Liabilities by segment

(millions of Euro)	Products for construction		Products for industry		Consolid. and misc.		Group total	
2008	190.3	16.2%	381.4	32.5%	603.5	51.4%	1,175.2	100.0%
2007	217.7	17.2%	405.0	32.0%	643.6	50.8%	1,266.3	100.0%
Change %	-12.6%		-5.8%		-6.2%		-7.2%	

### Amortisation, depreciation and impairment losses

(millions of Euro)	Products for construction		Products for industry		Consolid. and misc.		Group total	
2008	18.7	35.1%	34.7	64.9%	-	-	53.4	100.0%
2007	17.3	34.2%	33.3	65.8%	-	-	50.6	100.0%
Change %	8.3%		4.2%		insig.		5.6%	

## Investments

(millions of Euro)	Products for construction		Products for industry		Consolid. and misc.		Group total	
2008	20.8	35.2%	36.2	61.2%	2.1	3.6%	59.1	100.0%
2007	21.6	36.5%	34.4	58.2%	14.8	25.0%	70.8	100.0%
Change %	-3.6%		5.2%		insig.		-16.5%	

## Employees at 31.12.2008

(number of employees)	Products for construction		Products for industry		Consolid. and misc.		Group total	
31.12.2008	2,065	30.6%	4,672	69.3%	2	-	6,739	100.0%
31.12.2007	2,094	31.1%	4,709	69.9%	3	-	6,806	100.0%
Change %	-1.4%		-0.8%		-33.3%		-1.0%	

## Investments

Production unit investments in 2008 equalled Euro 57 million (Euro 55 million in 2007).

Investments in 2008 as well were selectively focussed on rationalising the production structure of the Group and on optimising the use of raw materials.

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

Some operations to improve efficiency of production structures as well as service operations were made in the rolling and extrusion processing, in the rolled product and pipe departments.

Investments strengthening and rationalizing productive capacity were made in the sector of special products. The price of Euro 6.5 million was paid for extending the rooms of the registered office in Florence, which included posts previously located elsewhere.

## Research and development

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

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

The main subjects of research concern optimization of metal yield, recovery of metals from foundry by-products, surface treatments, development of new alloys for electrical or electronic uses, or mechanical processing, and the identification of technologies in the field of solar energy for heating.

The research centres are also engaged in seeking out solutions to better protect the environment and ensure safety at the work place.

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

## Financial position

Itemization of **consolidated equity** is provided below:

(millions of Euro)	at 31.12.2008	at 31.12.2007
Share capital	250.0	324.2
Reserves	277.0	172.6
Profit/(loss) for the year	(68.6)	40.8
<b>Total equity</b>	<b>458.4</b>	<b>537.6</b>

As for voluntary **Share Capital** decrease, with the establishment of an available Asset Reserve with the same amount, decided by the extraordinary Shareholders' Meeting of the Company on 14 March 2008, please see the information in the chapter about the Parent Company.

Group **net financial indebtedness** at 31 December 2008 totalled Euro 227.6 million, going down Euro 132.3 million from year-end 2007.

Itemization of the **consolidated net financial position**<sup>1</sup>:

(thousands of Euro)	at 31.12.2008	at 31.12.2007
Short-term financial payables	298,508	111,898
Medium and long-term financial payables	139,306	393,077
Financial payables to companies of the Group	2,907	9,073
<b>(A) Total payables to financial institutions</b>	<b>440,721</b>	<b>514,048</b>
Cash and cash equivalents	(38,814)	(93,936)
Short-term financial receivables <sup>2</sup>	(100,692)	(59,509)
Financial receivables from companies of the Group	(1,071)	(490)
<b>(B) Total cash and cash equivalents and receivables from financial institutions</b>	<b>(140,577)</b>	<b>(153,935)</b>
Metal commitment/LME agreement <sup>2</sup> fair values	(64,391)	316
Other financial instrument fair values	(4,939)	(500)
<b>(C) Financial instrument fair values</b>	<b>(69,330)</b>	<b>(184)</b>
<b>Total consolidated net financial position (A) + (B) + (C)</b>	<b>230,814</b>	<b>359,929</b>
Non-current financial receivables from banks	(3,239)	-
<b>Total reclassified consolidated net financial position</b>	<b>227,575</b>	<b>359,929</b>

1. “Short-Term Financial Receivables” include amounts deposited at factoring companies, equalling to 10% of the aggregate trade receivables periodically assigned. That deposit, previously included in the item “Other Receivables and Current Assets”, amounted to Euro 38.3 million at 31 December 2007 and Euro 30.9 million at 31 December 2008.

2. The 2008 “LME agreement fair value” includes already paid or collected differentials, in advance with respect to the natural maturity date of agreements, equalling to Euro 43 million, pursuant to the contractual terms and conditions fixed.

\* This indicator of the financial structure depends on the result of gross financial payables minus cash and cash equivalents, other financial receivables included in the “Current Financial Assets”, as well as “non-current financial receivables from banks” (Euro 3.2 million at 31 December 2008) relating to the fixed-term deposit granting drawdown of a credit line given by Mediocredito Centrale S.p.A. (MCC).

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

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

At the beginning of October 2006, KME Group, together with the main industrial subsidiaries, signed two refinancing agreements of the Group's positions for the overall value of Euro 1.6 billion.

The first agreement is about a maximum credit line of Euro 800 million, which may be used as advance without recourse of trade receivables, lasting five years.

The second agreement includes the opening of two credit lines as follows:

- maximum loan of Euro 200 million, lasting five years (three of which for preliminary amortisation), guaranteed by the intangible assets of the German industrial companies of the Group; such loan shall also be used for any disbursements following the results of the appeals in relation to community sanctions;
- a revolving credit line amounting to maximum Euro 650 million, for covering needs linked with the financing of inventories, and granted by the inventories themselves.

The latest credit line lasted three years initially (until October 2009); pursuant to agreement, it is possible to extend it for another two years.

The Company started negotiations with financing Institutions in time, with the aim of obtaining such extension; since it was not possible to obtain it within 31 December 2008, at that date, the relating exposure was reclassified as "short-term payables", since it would expire within the following 12 months.

Through the letter of 12 March last, the Company received the confirmation of such extension from the majority of the banks in the pool, for the overall amount of about Euro 360 million, until the maturity date on October 2011.

The Group has always focussed on the liquidity risk management, in order to rely on the necessary financial resources to face the financial and trade obligations in the terms and within fixed maturity dates.

Cautious management implies the keeping of an adequate level of cash and cash equivalents, as well as the availability of funds which may be obtained through a proper amount of committed credit lines. In this respect, in 2007 and in the first half of 2008, the credit lines obtained in October 2006, also owing to their flexibility were used to face the growing financial needs caused by the continuous growth of commodity copper price, which achieved unprecedented levels.

Moreover, with the aim of optimizing the management of financial resources, the Group implemented a centralised system for managing cash flows and payments of subsidiaries. Negotiations and management of banking relationships, as well as collection of medium and long term resources, were also optimised through centralised management.

The cash flows for the year are as follows:

### Consolidated cash flow statement indirect method

(thousands of Euro)	December 2008	December 2007
<b>(A) Cash and cash equivalents at beginning of the year</b>	<b>93,936</b>	<b>162,098</b>
Profit before taxes	(65,113)	36,956
Amortisation and depreciation	54,104	50,272
Impairment losses on current assets	2,109	4,132
Impairment losses on non-current assets other than financial assets	225	375
Impairment losses on current/non-current financial assets	1,612	-
Losses on non-current assets	413	256
Change in pension funds, post-employment benefits and stock options	1,286	(4,270)
Change in provisions for risks and charges	11,437	(15,991)
Inventory decreases	210,106	53,632
Decreases in current receivables	46,992	84,278
Current payables increases (decreases)	(52,514)	21,277
Changes from currency translation	(367)	(300)
Decreases (increases) in LME agreements and metal commitments	(107,745)	9,932
Current taxes of the year	(9,877)	(30,260)
<b>(B) Cash flows from Operating Activities</b>	<b>92,668</b>	<b>210,289</b>
(Increases) in non-current intangible assets and property, plant and equipment	(59,289)	(70,818)
Decreases in non-current intangible assets and property, plant and equipment	1,680	7,730
(Increases) decreases in investments	64	(424)
(Increases) decreases in available-for-sale financial assets	-	(3,448)
Increases/decreases in other non-current assets/liabilities	4,862	1,381
Dividends received	2,169	1,531
<b>(C) Cash flows from Investing Activities</b>	<b>(50,514)</b>	<b>(64,048)</b>
Share capital increase	(1,854)	4,522
(Buyback) sale of treasury shares	(2,312)	-
Increases (decreases) in current and non-current financial payables	(72,407)	(244,128)
Increases (decreases) in current and non-current financial receivables	(9,216)	31,345
Dividends paid	(11,487)	(6,570)
<b>(D) Cash flows from financing activities</b>	<b>(97,276)</b>	<b>(214,831)</b>
<b>(E) Change in cash and cash equivalents (B) + (C) + (D)</b>	<b>(55,122)</b>	<b>(68,590)</b>
<b>(F) Effect of the change in the consolidation scope</b>	<b>-</b>	<b>428</b>
<b>(G) Cash and cash equivalents at the end of the year (A) + (E) + (F)</b>	<b>38,814</b>	<b>93,936</b>

### Summary of reclassified net invested capital:

(millions of Euro)	at 31.12.2008	at 31.12.2007
Net capital assets	788.2	793.9
Net working capital	294.9	500.9
Own funds	(397.3)	(397.2)
<b>Net invested capital*</b>	<b>685.8</b>	<b>897.6</b>

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

## Personnel

There were 6,739 employees at 31 December 2008 (6,806 at 31 December 2007). On a like-for-like basis, i.e. not considering employees of the companies recently acquired in China (358 units at the end of 2007 and 397 units at the end of 2008), there was a 1.7% decrease.

(year averages)	2008	2007	Change %
Managers and office employees	1,824	1,798	1.4%
	27.0%	26.0%	
Blue collars and special categories	4,931	5,115	-3.6%
	73.0%	74.0%	
<b>Total employees</b>	<b>6,755</b>	<b>6,913</b>	<b>-2.3%</b>
	100.0%	100.0%	

The investment in training and the professional development of people was a fundamental factor for management's growth supporting the Group's activities in 2008 as well.

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

## Related party transactions

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

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



## The Parent KME Group S.p.A.

In 2008, KME Group S.p.A. recorded a profit after taxes of Euro 21.0 million.

The following **income statement** was reclassified by devoting a separate line to non-recurring income (expense).

### Income statement

(thousands of Euro)	FY 2008	FY 2007
Dividends from KME Germany A.G.	20,939	-
Rendering of services	2,839	2,856
Overheads	(6,385)	(6,057)
Stock option cost	(1,167)	(121)
Net finance income	8,219	8,669
<b>Profit from ordinary activities</b>	<b>24,445</b>	<b>5,347</b>
Non-recurring income (expense)	(3,300)	-
<b>Profit before taxes</b>	<b>21,145</b>	<b>5,347</b>
Taxes	(121)	6,968
<b>Profit for the year</b>	<b>21,024</b>	<b>12,315</b>

**Profit from ordinary activities** was remarkably higher owing to the collection of Euro 20.9 million dividends decided by German subsidiary KME Germany A.G.(managing the industrial grouping of the Group), following the economic results of financial year 2007.

**Finance income (expense)**, apart from the benefits originating from the use of available net cash flow, included:

- Euro 6.9 million (Euro 6.7 million in 2007) of commission income from subsidiaries for the guarantees given by the Parent to financial institutions and on behalf of the aforesaid companies when obtaining available credit lines;
- Euro 1.6 million capital loss originating from the assessment of listed shares in its portfolio at Stock Exchange prices at the end of December 2008.

**Non-recurrent expenses** are provisions for estimated expenses originating from lawsuits in progress.

The following table illustrates the main figures of KME Group S.p.A.'s **balance sheet**:

### Assets

(thousands of Euro)	31.12.2008	31.12.2007
Investment property	3,216	3,216
Investment in KME Germany A.G.	307,096	305,256
Investment in KME Italy S.p.A.	4,519	4,519
<b>Non-current assets</b>	<b>314,831</b>	<b>312,991</b>
Investment in ErgyCapital S.p.A.	3,058	3,448
iNTEK S.p.A. saving shares	4,077	5,242
Treasury	2,349	-
Net other assets	61	6,839
<b>Current assets</b>	<b>9,545</b>	<b>15,529</b>
<b>Assets financial position</b>	<b>34,102</b>	<b>19,295</b>
<b>Total assets</b>	<b>358,478</b>	<b>347,815</b>

### Liabilities

(thousands of Euro)	31.12.2008	31.12.2007
Share capital	250,010	324,165
Reserves	87,444	11,335
Profit for the year	21,024	12,315
<b>Total net Equity</b>	<b>358,478</b>	<b>347,815</b>

On 14 March 2008, the extraordinary Shareholders' Meeting of the Company approved voluntary reduction of the **share capital** for Euro 74,164,741.31, thus going from Euro 324,164,741.31 to Euro 250,000,000.00. The reduction was meant for an available reserve of the same amount.

After ninety days from the date in which the assembly resolution was recorded in the Register of Companies pursuant to art. 2445, subsection 3, of the Italian Civil Code, on 26 June such reduction was carried out. Therefore, the new share capital of the Company equalled to Euro 250,000,000.00, still made up of 254,552,240 shares, 235,480,130 of which ordinary shares and 19,072,110 saving shares; as a consequence, equity reserves increased by Euro 74,164,741.31.

Furthermore, the ordinary Shareholders' Meeting of 16 September last approved the **authorization to purchase and dispose of treasury shares**, either ordinary or saving shares, pursuant to articles 2357 and 2357 ter of the Italian Civil Code, as well as art. 132 of the Consolidated Finance Act.

The programme, being carried out as of 22 September last, refers to purchase until a maximum amount: taking into consideration the shares from time to time in the portfolios of the Company or its subsidiaries, the number of ordinary or saving treasury shares, on the whole, shall not exceed the limit of 10% of the share capital.

The authorization to purchase shall last no longer than 18 months from the date of the Shareholders' Meeting, and thus, until 16 March 2010.

Purchase operations are carried out through purchases on the market regulated by Borsa Italiana S.p.A., in compliance with the operating procedures fixed by the management and organization regulations of the markets themselves, which shall prevent direct matching of selling negotiation proposals, pursuant to the provisions of (EC) Regulations no. 2273 of 2003.

The plan is mainly meant for: (i) allowing the Company to purchase treasury shares in order to rely on an available portfolio for operations connected with current management, or with projects consistent with the strategic lines which KME intends to pursue, meant to grasp opportunities of share exchanges, including the allocation of those shares for any accounting and/or warrant bond issues; (ii) allocating the treasury shares

purchased for any stock option plans, reserved for Directors and/or Executives of the Company and/or its direct or indirect subsidiaries.

Last 26 February, the programme for buying treasury shares was temporarily suspended. At that date, the Company held 5,475,170 ordinary treasury shares, equalling to 2.33% of the shares of the same class, with a unit accounting value of Euro 0.509, as well as 90,555 saving treasury shares, equalling to 0.47% of the shares of the same class. The aggregate amount of treasury shares owned today equals to 2.19% of the whole share capital. The investment was Euro 2.9 million.

The Shareholders' Meeting of last 16 September authorized also the disposal of treasury shares purchased at any time, either in full or in part, with no time limits, following legal procedures, and through any provisions by the law, with the possibility to fix the terms, procedures and conditions of the assigning act, thought to be the most convenient in the interest of the Company.

The **Reserves** include the reduction by Euro 1,781,714 carried out on 21 January 2008, before the free assignment to the Shareholders of the Company of 254,530,574 ordinary shares of GreenergyCapital S.p.A. (ErgyCapital S.p.A. today).

On 28 January 2008, ErgyCapital S.p.A. carried out a share capital increase upon payment of Euro 48.7 million by issuing ordinary shares. Every subscribed share was matched with three free warrants, valid for the subscription of further ordinary shares of the Company. The option offer concluded on 26 February 2008 with full success.

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

ErgyCapital share listing started on 20 March 2008.

Following the aforesaid distribution and subscription operations for the share capital increase, Parent company iNTEK S.p.A. holds 48.1% of ErgyCapital S.p.A. and Aledia S.p.A. holds 20%. KME Group was left with a 6.82% investment, corresponding to the aggregate value of Euro 3.1 million on 31 December.

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

ErgyCapital S.p.A. signed a letter of intent with KME Group, through which it was agreed upon to explore opportunities for collaboration in the energy field, between KME Group subsidiaries and the companies in which ErgyCapital S.p.A. invests. The first step of that collaboration was made by building a plant for producing electric energy by means of photovoltaic panels on the roofs of the factory in Serravalle Scrivia (Alessandria); the plant started to operate at the end of 2008; its aggregate power is 4.7 MWp. It is the biggest photovoltaic plant in Italy. 90% of the energy produced shall be sold to the factory, and its use shall avoid atmosphere emissions equalling to approximately 2,500 tons of carbon dioxide a year.

The reclassified net financial position of the Parent is positive by Euro 34.1 million:

(thousands of Euro)	31.12.2008	31.12.2007
Short-term financial payables	29,699	24,810
Medium and long-term financial payables	47,867	5,659
Financial payables to parent	17	6,414
Financial payables to subsidiaries	3,882	0
Financial guarantees to subsidiaries	7,297	13,553
<b>Total financial payables</b>	<b>88,762</b>	<b>50,435</b>
Cash and cash equivalents	(661)	(1,739)
Financial receivables from subsidiaries	(69,901)	(54,439)
Current receivables for financial guarantees to subsidiaries	(5,962)	(6,561)
<b>Total cash and cash equivalents and financial receivables</b>	<b>(76,524)</b>	<b>(62,739)</b>
<b>Total net financial position</b>	<b>12,238</b>	<b>(12,303)</b>
Non-current receivables for financial guarantees to subsidiaries	(1,335)	(6,992)
Non-current financial receivables from subsidiaries	(41,766)	0
Non-current financial receivables from banks	(3,239)	0
<b>Total reclassified net financial position</b>	<b>(34,102)</b>	<b>(19,295)</b>

Reclassification concerns the recognition of Payables and relating Receivables for financial guarantees to subsidiaries, as well as Financial Receivables and Payables relating to the Loan disbursed by Mediocredito Centrale S.p.A. and assigned to the industrial subsidiaries - both current and non-current items. For further details, see the notes to the Financial Statements.

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

### Cash flow statement

(thousands of Euro)	FY 2008	FY 2007
<b>(A) Cash and cash equivalents at the beginning of the year</b>	<b>1,739</b>	<b>377</b>
Profit before taxes	21,144	5,347
Reversal of received dividends	(21,361)	(1,266)
Amortisation and depreciation	4	2
Net interest accrued	(2,554)	(744)
Loss (gain) on non-current assets	6	-
Accruals to pension funds and similar	1,174	(82)
Accruals to other provisions	3,296	58
Current receivables decreases	4,041	6,160
Current payables increases (decreases)	(61)	690
Net interest pay during the year	2,554	840
Current tax (paid) and reimbursed during the year	(368)	3,237
<b>(B) Cash flows from Operating Activities</b>	<b>7,875</b>	<b>14,242</b>
(Increases) decreases in non-current intangible assets and property, plant and equipment	(74)	2,768
Increases/decreases in other non-current assets/liabilities	1,180	-
Decreases in investments	119	(3,448)
Dividends received	21,361	1,265
<b>(C) Cash flows from Investing Activities</b>	<b>22,586</b>	<b>585</b>
Share capital increase	(1,854)	4,522
(Buyback) sale of treasury shares	(2,312)	-
Increases (decreases) in current and non-current financial payables	38,326	(6,265)
Decreases in current and non-current financial receivables	(54,211)	(5,515)
Dividends paid	(11,488)	(6,207)
<b>(D) Cash flows from Financing Activities</b>	<b>(31,539)</b>	<b>(13,465)</b>
<b>(E) Profit/(loss) on cash and cash equivalents (B+C+D)</b>	<b>(1,078)</b>	<b>1,362</b>
<b>(F) Cash and cash equivalents at the end of the year (A+E)</b>	<b>661</b>	<b>1,739</b>

## Expected future developments

Fees regarding commissions on financial guarantees given in the interest of subsidiaries are expected to accrue also during the current year. As far as the performance of investments is concerned, please refer to the forecasts stated on the foregoing pages regarding the Group's development overall.

Considering the decision of German subsidiary KME Germany A.G. (on which the industrial section of the Group depends) not to distribute dividends for 2008, the 2009 ordinary operating profit of the Parent Company is expected to be lower than in the previous year.

## Relations with subsidiaries and the Parent

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

(thousands of Euro)	2008		2007	
	Income	Expense	Income	Expense
iNTEK S.p.A.	-	(139)	1	(398)
KME Italy S.p.A.	4,134	(105)	2,710	(107)
KME Brass Italy S.r.l.	201	(34)	30	-
Immobiliare Agricola Limestone S.r.l.	65	-	364	-
EM Moulds S.r.l.	-	(129)	-	-
KME Recycle S.r.l.	-	-	-	-
KME Germany A.G.	756	-	7,750	-
KME Germany A.G. & Co. K.G.	8,697	(49)	-	-
KME Brass Germany GmbH	142	-	30	-
KME France S.a.s.	1,092	(8)	651	-
KME Brass France S.a.s.	327	-	52	-
KME Yorkshire Ltd.	128	-	25	-
KME Locsa S.A.	101	-	12	-
<b>Total</b>	<b>15,643</b>	<b>(464)</b>	<b>11,625</b>	<b>(505)</b>

Receivables due from subsidiaries at 31.12.08 are the following:

(thousands of Euro)	31.12.2008	31.12.2007	change	change%
<b>Financial receivables (payables)</b>				
iNTEK S.p.A.	(17)	(6,414)	6,397	insig.
KME Italy S.p.A.	17,849	27,636	(9,787)	-35.4%
KME Brass Italy S.r.l.	9,231	-	9,231	insig.
Immob. Agricola Limestone S.r.l.	621	1,402	(781)	-55.7%
EM Moulds S.r.l.	(3,881)	-	(3,881)	insig.
KME Recycle S.r.l.	-	-	-	insig.
KME Germany A.G.	8,640	19,867	(11,227)	-56.5%
KME Germany A.G. & Co. K.G.	31,469	-	31,469	insig.
KME Brass Germany GmbH	2,623	-	2,623	insig.
KME France S.a.s.	20,691	5,534	15,157	insig.
KME Brass France S.a.s.	15,562	-	15,562	insig.
KME Yorkshire Ltd.	2,551	-	2,551	insig.
KME Locsa S.A.	2,429	-	2,429	insig.
<b>Total</b>	<b>107,768</b>	<b>48,025</b>	<b>59,743</b>	<b>124%</b>

(thousands of Euro)	31.12.2008	31.12.2007	change	change%
<b>Trade receivables and others</b>				
iNTEK S.p.A.	-	-	-	insig.
KME Italy S.p.A.	7	-	7	insig.
KME Brass Italy S.r.l.	-	-	-	insig.
Immob. Agricola Limestre S.r.l.	-	-	-	insig.
EM Moulds S.r.l.	-	-	-	insig.
KME Recycle S.r.l.	-	-	-	insig.
KME Germany A.G.	-	-	-	insig.
KME Germany A.G. & Co. K.G.	-	-	-	insig.
KME Brass Germany GmbH	-	-	-	insig.
KME France S.a.s.	-	-	-	insig.
KME Brass France S.a.s.	-	-	-	insig.
KME Yorkshire Ltd.	-	10	(10)	-100%
KME LOCSA S.A.	-	14	(14)	-100%

(thousands of Euro)	31.12.2008	31.12.2007	change	change%
<b>Trade receivables and others</b>				
iNTEK S.p.A.	-	1	(1)	insig.
KME Italy S.p.A.	73	-	73	insig.
KME Brass Italy S.r.l.	-	-	-	insig.
Immob. Agricola Limestre S.r.l.	-	-	-	insig.
EM Moulds S.r.l.	-	-	-	insig.
KME Recycle S.r.l.	6	-	6	insig.
KME Germany A.G.	-	-	-	insig.
KME Germany A.G. & Co. K.G.	49	-	49	insig.
KME Brass Germany GmbH	-	-	-	insig.
KME France S.a.s.	8	-	8	insig.
KME Brass France S.a.s.	-	-	-	insig.
KME Yorkshire Ltd.	-	-	-	insig.
KME LOCSA S.A.	-	-	-	insig.

The current account held with the parent iNTEK S.p.A. generated net interest payable totalling Euro 0.1 million.

\*\*\*

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

## Ongoing disputes

To update the regular notes to the annual financial statements and the half-year report, we hereby inform you on the trend of the lawsuits directly concerning the Company:

- as for the environmental lawsuit concerning the former area of the Brescia factory, the Company, as past merging company of industrial subsidiaries, though denying any charge, has got in touch with its counterpart for settlement; moreover, contacts were influenced by the change in the controlling Shareholder of the latest. The next hearing is set for 2 July 2009;
- nothing new in relation to the two pending lawsuits before the Court of Hanover, concerning merger and squeeze-out operations relating to German subsidiaries in 2001 and 2002;
- the action proposed against former President Luigi Orlando was settled by the heirs of Mr Orlando and the counterpart. The solution was accepted by the Company, with no expenses to be charged to the Company.

We also hereby inform you on the trend of the main lawsuits concerning industrial subsidiaries:

- as for the two community proceedings concerning infringements of competition regulations, after the hearing on 27 February 2008, the sentence relating to the industrial pipe hearing is still expected; as for the one concerning sanitary pipes, the hearing before the European Community Lower Court took place on 6 November 2008;
- as for the class actions pending in the United States, still referring to infringements of competition laws, the main update element is the decision of the Court of Appeal of Tennessee, following motion by the parties, to dismiss the two appeal cases started in 2007 and concerning sanitary pipes and industrial pipes, respectively;
- as for the environmental controversy still concerning the former area of the Brescia factory assumed by KME Italy S.p.A., on 24 February 2009 the Court declared the involvement of both KME Italy S.p.A. itself and the other parties inadmissible. With respect to them, except for appeal from the initial defendant (Caffaro S.r.l.), the proceeding is abated.

## Main risks and uncertainties which KME Group S.p.A. and the Group may face

### **Risks connected with the general conditions of economy**

The balance sheet and financial position of the Group, of course, are influenced by the evolution of economies in the different countries in which the Group operates.

The gradual worsening of the economic conditions became evident during the last quarter of last year, above all, and matched with commodity price volatility and the critical aspects of the credit market; of course, those aspects highly affected the trend of demand in sectors using the Group's semi-finished products of copper and its alloys.

The latest indicators show that there are no signs of market condition improvements in the short run; perspective uncertainties and fears that the recession stage may last in a significant way make it difficult to make reliable estimates.

In this context, the Group is resolutely accelerating contingent actions meant to face the effects of reduced activities and price pressure. At the same time, the structural actions started long ago are going on: they are meant to reorganize production in a more efficient way, to make organization more focused on specific targets and to optimise invested capital.

If strong weakness and uncertainties in the general economic framework lasted in a significant way, the activities, the strategies and the perspectives of the Group might be affected, with following negative impact on the balance sheet and financial position of the Group.

### **Risks originating from competition and commodity price trends**

The industrial sector in which the Group operates is marked by strong competition even in goods sectors other than the metallurgic one, in which remarkable additional production capacities are nevertheless present. Therefore, the risk of product replacing, production cost levels, their control, the continuous search for any possible efficient characteristics, product innovation, and the skills to offer services and solutions to customers, are factors which may significantly affect results.

The trend of the sector of semi-finished products made of copper and its alloys is also affected by the evolution of commodity prices. The lasting volatility of the latest and, in particular, of copper commodity (which is about 85% of the commodities used), causes market turmoil, inducing customers to delay expense commitments and, thus, it is difficult to foresee demand evolution.

Under the economic point of view, the commodity is invoiced to the customer at the same price of its coverage cost, at the time of order acquisition; therefore, price changes do not directly affect the operating economic results of the companies of the Group. However, they cause changes in the assessment of the owned commodity stock in compliance with the new IFRS (in this respect, see remarks in the chapter relating to the economic performance of the Group).

Under the financial point of view, commodity price increase produces increase in the value of outstanding capital owned by the industrial companies, and thus, a higher financial coverage needs.

For further information on the hedging techniques relating to commodity price trends, please see the paragraph on the policy to manage financial risks, included in the notes to the consolidated financial statements.

### **Risks linked to financial means needs**

The evolution of the balance sheet and financial position of the Group depends on reaching scheduled goals, as well as on the general trends of economy, financial markets and the sectors in which the Group operates.

The Group estimates to face the needs originating from expiring financial payables and scheduled investments through operating management flows, available cash and cash equivalents, renewal or financing of bank loans. In spite of the current context, the Group believes its skills to generate financial resources by means of operating management will be unchanged, also through actions meant to limit operating capital and, in particular, to limit the needs originating from commodity stock. However, further significant and sudden reductions of sales volumes might affect the Group's skills to generate cash through operating management.



Taking into consideration the current financial crisis, bank and monetary markets may face situations that make it more difficult and expensive to negotiate with financing institutions.

As for details on the financial position of the Group and, in particular, on the risks connected with two competition proceedings, please see the relevant chapter in the Management Report.

#### **Risks linked to exchange rate and interest rate fluctuations**

The Group is exposed to exchange rate fluctuation risks. Operating margins and revenues are affected by the impact of exchange rate fluctuations between the euro and foreign currencies, mainly US dollar and pound sterling, owing to consequences for both sale prices and commodity prices. The Group carries out exchange rate hedging operations through continuous hedging based on sale and purchase order netting as well as on netting of receivables/payables of the Group in foreign currency.

Any interest rate changes might also have significant effects on increases or decreases in loan costs. The Group's policy is to weigh the opportunity to cover the risk of significant interest rate changes, usually in relation to agreements lasting over 18 months.

As for the impact of rate or exchange rate changes, please see the notes to the consolidated financial statements.

\* \* \*

As Parent Company, KME Group S.p.A. is actually exposed to the aforesaid risks and uncertainties with reference to the Group itself.

However, since it is a holding, the economic results of KME Group S.p.A. largely depend on the dividends distributed by subsidiaries, and thus, they ultimately reflect the economic performance and the dividend distribution policies of the latest.

## Subsequent events

On 26 February 2009, KME Group S.p.A. signed a preliminary agreement for purchasing 30% of the company METALBUYER S.p.A., Naples.

The overall value of the operation is about Euro 1.5 million; the amount shall be paid to the counterpart at the same time with the assignment of the investment, which may be formalized following approval by single competent National Antitrust Authorities (Italy and Austria).

The appraisal of the acquisition was carried out with the help of PricewaterhouseCoopers S.p.A..

There is a call option for the purchase, within three years, of a further share amount of 21% of the company, on scheduled conditions and following the right procedure.

METALBUYER S.p.A. trades in ferrous and non-ferrous metals, in the shape of both raw material and scrap (mainly the latter), and supplies the Group for a minority share. The company operates in the Italian market as well as abroad; its annual turnover exceeds Euro 100 million.

The scheduled operation is the first real carrying-out of the KME Group plan to diversify its activities with respect to its traditional business of producing copper and copper-alloy semi-finished products, matching its management and organizational skills with the specific professionalism and dynamism of the entrepreneurs operating in the scrap world.

On the one hand, mutual collaboration will foster trade development and profitability of the partner company, which will actually go on operating in the market in an absolutely independent way; on the other hand, mutual collaboration will stimulate synergies with the industrial activities of KME Group.

At the same date, the Company decided to suspend the programme for buying back treasury shares, started on 22 September 2008; as shown by the aforesaid initiative, at present, the Company is considering new investments and alternative uses of its cash flows.

## Profit for the year and proposed resolutions

2008 ends with a **profit** of Euro 21,024,298.

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

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

resolves

a) to approve the Directors' Report at 31 December 2008 and the financial statements as a whole and in the individual captions and records with the allocations and utilisations proposed, which show a profit of Euro 21,024,298;

b) to allocate the profit for the year of Euro 21,024,298 as follows:

• 5% to Legal Reserve	Euro	1,051,215
• 2% to Board of Directors (deducting the fixed fee)*	Euro	226,962
• to saving shares** to the extent of one dividend of Euro 0.1086 per share, for a total of	Euro	2,061,397
• to ordinary shares(**) to the extent of one dividend of Euro 0.04 per share, for a total of	Euro	9,200,567
• and to carry forward the remaining amount of	Euro	8,484,157

The date of payment of the dividend shall be 14 May 2009, with coupon no. 3 detached for both ordinary and saving shares on 11 May 2009.

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

\*\*Net of the 90,555 saving shares the Company currently holds, and of the 5,475,170 ordinary shares currently held by the Company, or of the different number of shares held by the Company at the time the dividend is paid, withdrawing (or appropriating) the necessary amount from (to) the remaining retained earnings.

Florence, 25 March 2009

The Board of Directors

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

*Dear Shareholders,*

corporate governance legislation is subject to continuous change, as confirmed by further and recent changes to art. 123-*bis* of the Consolidated Finance Act (hereinafter referred to as “TUF”).

Though such provisions apply to the documents to be drawn up for 2009, this report, still following temporary provisions, complies with those provisions and includes information on the adoption of the codes of conduct promoted by management companies operating in regulated markets or by trade associations, in compliance with the terms and conditions stated by CONSOB.

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

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

Moreover, CONSOB stated that such document should be included, in full, in the Management Report (it is actually included in the Financial Report and is also available in the special section named “Corporate Governance Reports” on the website [www.kme.com](http://www.kme.com)), and its filing should be made known to CONSOB, Borsa Italiana S.p.A. and the market.

Furthermore, the Company (during the meeting of the Board of Directors on 10 November 2006) declared to adopt the Code of Conduct drawn up by the Corporate Governance Committee of Borsa Italiana S.p.A. (hereinafter referred to as the “Code of Conduct”, or the “Code”, in the March 2006 edition), and to gradually introduce relating standards in its structures.

The text of the Code of Conduct is available at Borsa Italiana S.p.A. and its website [www.borsaitaliana.it](http://www.borsaitaliana.it) (Regulations/Corporate Governance section).

Therefore, following temporary provisions, this document is an integral part of the Report on the Business Performance at 31 December 2008 (art. 89-*bis*, subsection 5, of the Issuers’ Regulations) and was drawn up in compliance with the provisions of the Code of Conduct. It is intended to illustrate the level of compliance of the Company’s structures with its provisions attained during 2007, highlighting and justifying any situations that are different and describing the steps already taken and those that may be scheduled for its application.

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

The Company has provided information about its corporate governance every year since the financial statements at 30 June 2000, continuously increasing the quality and quantity of information. The individual Reports contained in the financial statements of the respective years are available on the website

[www.kme.com](http://www.kme.com). Starting with the report concerning 2006, the Reports are instead also available in a special section.

In its drawing up, they took into consideration the remarks supplied by ASSONIME, as well as the guidelines made by Borsa Italiana S.p.A. and the "Guidelines for drawing up the Corporate Governance Report" still made by ASSONIME, in collaboration with Emittenti Titoli S.p.A.. The quantity and quality of available information were valued and compared with the results of the "Analysis of the implementation state of the Code of Conduct of listed companies", a document drawn up by ASSONIME and Emittenti Titoli S.p.A. in February 2009.

The final tables were updated according to the modifications introduced from time to time.

As already mentioned in the document drawn up for 2008, the Report takes also into account what is set forth in the "Experimental Format for the Report on Corporate Governance" that Borsa Italiana S.p.A. distributed to issuing companies in February 2008. As also hoped for by Borsa Italiana S.p.A. itself, this document was used "to verify the type and content of information to be included in the report on corporate governance and/or for the checks performed by the Board of Statutory Auditors". In this regard, please remember that according to the specific instructions of Borsa Italiana S.p.A. (recently confirmed by the same), this format is not mandatory, since "it does not include 'criteria' for drawing up the report on corporate governance referred to by art. 89-*bis* of the Issuers' Regulations".

With the aim of facilitating its availability in one document, and to enable readers to examine pieces of information essentially corresponding with each other in a consistent and unitary way, avoiding description duplications, the Report includes also all the details required by art. 123-*bis* of the TUF in relation to ownership structures, and by articles 37 *et seq.* of the CONSOB Regulations no. 16191 of 29 October 2007 (the "Market Regulations") concerning management and coordination. The aforesaid information is gathered in the two paragraphs of the chapter named "Share Capital and Shareholders", and is also available on the website [www.kme.com](http://www.kme.com) once this Report is made available at the specific website section.

Because of the many references and cross-references to its provisions, the text of the company Articles of association - available on the website [www.kme.com](http://www.kme.com) - is provided at the end of the Report.

There have been no changes in the Company's corporate governance structure after year-end 2008, even if the activity of checking the efficiency and updating the provisions and corporate procedures is practically never-ending.

\* \* \*

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

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

## General section

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

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

### Share capital and shareholders

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

#### Share capital

With reference to 31 October 2008, the date in which the warrants and the options of the Stock Option Plan were used for the last time before the suspension following the summoning of the Shareholders' Meeting for the approval of the 2008 financial statements, the share capital is Euro 250,009,677.85, made up of a total of 254,561,457 shares: 235,489,347 ordinary shares and 19,072,110 saving shares, all of them with no nominal values. Therefore, the aforesaid capital was not different from the one at 31 December 2008.

The aforesaid financial instruments are listed in the Standard segment of the Regulated Market managed by Borsa Italiana S.p.A..

On 14 March 2008, the extraordinary Shareholders' Meeting resolved to reduce the share capital on a voluntary basis, following the procedure under art. 2445 of the Italian Civil Code, by Euro 74,164,741.31; therefore, the new capital was Euro 250,000,000.00. The whole amount was allocated to the establishment of an "Available Reserve" within the "Shareholders' Equity" of the Company, which thus did not change.

The 235,489,347 ordinary shares represent 92.51% of the share capital and do not grant rights different or additional to those provided for by applicable legal provisions and by the Bylaws.

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

Similarly, the 19,072,110 saving shares in turn represent 7.49% of the share capital and do not grant rights different or additional to those provided for by applicable legal provisions and by the Bylaws.

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

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

With reference to 31 October 2008, a total of 67,929,987 warrants are also outstanding. They were issued in enactment of the resolution of the Extraordinary Shareholders' Meeting of 19 May 2006, and their exercise, if any (currently in the ratio of 1 new ordinary share for every 3 warrants held at the unit price of Euro 1.05 per share), by the final deadline of 11 December 2009 may lead to the issue of the maximum number of 22,643,329 ordinary shares without nominal value, with a consequent share capital increase of maximum Euro 23,775,495.45. The rights and obligations regarding the warrants are stated in their Regulations, a copy of which is available in a special section of the website.

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

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

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

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

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

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

### Shareholders

iNTEK S.p.A., a company in turn controlled by Quattrodue Holding BV through 43.18%, is the Shareholder controlling the Company by owning 126,167,569 ordinary shares, equalling 53.58% of the issued shares of the same class. iNTEK S.p.A. also holds 896,906 saving shares, equalling to 4.70% of the issued shares of the same class. Therefore, on the whole, iNTEK S.p.A. owns 49.92% of the entire share capital.

Within the proxy assigned by the Shareholders' Meeting on 16 September 2008 for the purchase of treasury (ordinary and saving) shares, at 31 December 2008 the Company owned 4,480,449 ordinary shares (1.90% of the whole shares of this class) and (gross of the 21,666 saving shares previously owned) 78,138 saving shares (0.41% of the whole shares of the class).

At the date of this Report, and taking into consideration that the purchase programme was interrupted on 26 February 2009, the numbers of owned shares went up to 5,475,170 ordinary shares (2.33% of the total of the class) and 90,555 saving shares (0.47% of the total of the class). On the whole, treasury shares are 2.19% of the entire share capital.

The ordinary shareholders of the Company, updated with the results of share reverse splitting (July 2007), consist of 9,461 Shareholders.

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

The Company, though controlled by iNTEK S.p.A., as shown above, believes not to be subject to coordination and management activities, pursuant to articles 2497 *et seq.* of the Italian Civil Code, and to art. 37 of Market Regulations, since:

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

Apart from the Controlling Shareholder, no-one else declared to own an ordinary share capital percentage exceeding 2%. With reference to the above, and based on available knowledge, it is therefore deemed possible to state that in 2008 there were no significant changes in the make-up of Shareholders.

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

### **Shareholders' Meeting**

The Shareholders' Meeting consists of Shareholders holding ordinary shares and its authorities and powers are those provided for by the Italian Civil Code and the TUF. Furthermore, following provisions in Directive 2007/36/EC, the Company ensures equal treatment to all the Shareholders finding themselves in the same position in relation to Meeting participation and exercise of voting right.

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

The calling of the Shareholders' Meeting is carried out by publishing a notice in a daily newspaper (in this case: "Il Sole 24 Ore" - "Milano Finanza" - "Italia Oggi"), apart from publication in the Official Journal. The provisions on the convening of the Shareholders' Meeting and voting comply with articles 2368 and following of the Italian Civil Code and art. 126 of TUF.

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

The Company does not impose share block as a requirement to take part in the Shareholders' Meeting; Shareholders are required to file shares, that is, to give the intermediaries managing their accounts instructions to issue the aforesaid notice to the company within two days before the meeting date.

Further Shareholder's Meeting participation procedures are included in articles 10 (Shareholders' Meeting Call) and 11 (Shareholders' Meeting Speaking and Representation) of the Bylaws; in particular, the provisions defending minorities in relation to Director and Auditor appointments are pointed out. Specifically, art. 11 of the Bylaws (Shareholders' Meeting Speaking and Representation) requires that the prescribed communication for taking part in the Shareholders' Meeting, issued by the authorised intermediaries, shall be filed at the Company within two days before each Shareholders' Meeting session, with the warning that if the aforesaid deadline expires on a holiday or on Saturdays, the real expiration shall be extended until the following first working day. The same article of the Bylaws contains the provisions for exercising the vote by proxy.



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

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

In this respect, in particular, please remember art. 12 of the Articles of association, which explicitly requires the Chairman of the Shareholders' Meeting to guarantee correct performance of works by conducting and governing the debate, and by regulating lengths of single speeches.

Holders of saving shares cannot take part in the Shareholders' Meeting of holders of ordinary shares. Their rights are set forth under articles 5, 8 and 28 of the Bylaws. On the other hand, their Common Representative, Mr Romano Bellezza, may take part in it with speaking right; his rights are pointed out in art. 26 of the Bylaws; he was appointed by the Special Saving Shareholders' Meeting of 5 May 2006 for the years from 2006 to 2008. In this respect, we inform you that the Special Saving Shareholders' Meeting was called on 22, 23 and 24 April 2009 to appoint their Common Representative for the three years from 2009 to 2011.

Three Shareholders' Meetings were called in 2008, two of them (14 May and 16 September) in ordinary session only, and one (14 March) in extraordinary session. No Special Saving Shareholders' Meeting was held.

## **The Board of Directors**

The Board of Directors has all the general powers of organization and ordinary as well as extraordinary management of the Company for implementing the corporate purpose (art. 14 of Bylaws); it fixes the strategic lines of the Company and pursues them; it guarantees management continuity and assigns proxies to Executive Directors (articles 15 and 16 of Bylaws). It is solely competent for the analysis and approval of strategic, industrial and financial plans of the Group, the corporate governance system of the Company and the structure of the Group.

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

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

The current Board of Directors was appointed by the Shareholders' Meeting on 19 May 2006 for the years 2006, 2007 and 2008, and shall thus expire on the occasion of the Meeting for approving these financial statements at 31 December 2008.

The number of Directors goes from a minimum of nine to a maximum of twelve. The Board of Directors' meeting schedule is made known within January of each year.

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

With reference to the provisions relating to Director appointment, the proposal for the nomination of the three Directors appointed by the Shareholders' Meeting on 3 August 2007 without the “independence” requirement was promptly submitted by Majority Shareholder iNTEK S.p.A. (owning 53.82% of the ordinary share capital) following the procedure under art. 17 of the Bylaws; no Director was thus designated by filing a minority voting list. The following paragraph of the Special Section of this Report, named “The Directors”, includes further information required by applicable provisions.

The names of Board members, together with indications of their positions, including those within established Committees, are always stated at the beginning of the booklets issued for Shareholders' Meetings and for publishing annual financial statements and half-year reports.

The Board of Directors meets at least four times a year (article 18 of the Company's Bylaws). Meetings may also be held by teleconference or videoconference (article 19 of the Corporate Bylaws) and are called at reasonable notice with notification of the agenda to be discussed (article 18 of Corporate Bylaws). The relevant documentation is distributed, keeping in mind the need to ensure the confidential nature of single issues. Resolutions of the Board are passed with the attendance of the majority of Directors holding office and by an absolute majority of those attending. In the event of a tie, the Chairman has the casting vote (article 19 of the Company's Bylaws).

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

- the Internal Control Committee;
- the Remuneration Committee;

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

On the other hand, the Board of Directors did not form an Executive Committee; it assigned the position of General Manager to two Directors with specific and distinct tasks. Coordination of their activities and duties of the other Executive Director was reserved for the Deputy Chairman, as described below. Neither the Appointment Proposal Committee was formed, since it was thought there was no need of it owing to the presence of a Control Shareholder.

As for the financial year in question, the Board of Directors met five times with respect to ten times in the previous year. As for the current financial year, four meetings are planned as follows:

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

The individual attendance records at each meeting are shown in a table at the end of this Report. Participation at the meetings by Directors and Statutory Auditors averaged 90% and 67%, respectively. All absences were justified.

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

## The Board of Statutory Auditors

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

The current Board of Statutory Auditors was appointed by G.I.M. - Generale Industrie Metallurgiche S.p.A. (the Company's majority shareholder of the time, holding an investment in its voting capital of 50.00004%, and subsequently merged with INTEK S.p.A. at 31 March 2007) - at the Shareholders' Meeting for financial years 2006, 2007 and 2008 of 19 May 2006. Therefore, its term of office shall expire with the Meeting for approving the financial statements at 31 December 2008.

The current provisions for the appointment of the Board of Statutory Auditors came into force after its appointment by the Shareholders' Meeting; no Statutory Auditor was designated through a voting list filed by Minority Shareholders. Art. 22 of the Bylaws states that the minority is a percentage equalling to the highest one fixed pursuant to articles 147-ter, subsection I, of TUF, and 144-quater of the Issuers' Regulations. Through resolution no. 16779 of 27 January 2009, CONSOB stated the current minority to be 2.5%.

It is made up of three Standing Auditors and two Alternate Auditors. As happens with Directors, their names are pointed out in the already mentioned documents made available by the Company. Their short personal records are hereby described. They are also available in the special section of the website [www.kme.com](http://www.kme.com).

During 2008, Standing Auditor Alessandro Trotter resigned by saying his decision depended on the CONSOB regulation relating to task cumulation. He was replaced by Alternate Auditor Marco Lombardi pursuant to art. 2399 of the Italian Civil Code.

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

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

Mr Marcello Fazzini, born in 1932, with a degree in Political and Social Sciences from the University of Florence, registered in the Order of Chartered Accountants and in the Register of Auditors, carries out his profession in Florence. He has covered top offices in the management and supervisory bodies of several and important companies; he was managing director of Banca Toscana S.p.A. for ten years, from 1986 to 1996. Still on top level, he has taken part in remarkable cultural institutions of Florence, including the G.P. Viesseux Literature and Scientific Cabinet (chairman); he was co-founder/exponent of the International University of Art.

### **Alessandro Trotter (Standing Auditor until 30 August 2008)**

Mr Alessandro Trotter, born in 1940, with a degree in Business and Economics, registered in the Order of Chartered Accountants and in the Register of Auditors, carries out his profession in Milan. He holds offices in management and supervisory bodies of primary importance.

### **Marco Lombardi (Standing Auditor from 1 September 2008)**

Mr Marco Lombardi, born in 1959, with a degree in Political Sciences, administrative course of studies, registered in the Order of Chartered Accountants and in the Register of Auditors, carries out his profession in Florence. He is present in other Board of Statutory Auditors and holds judicial offices; he is the author of works in the tax field.

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

Mr Pasquale Pace, born in 1938, with a degree in Corporate Economics, registered in the Order of Chartered Accountants and in the Register of Auditors, carries out his profession in Bari. He is present in other Boards of Statutory Auditors. He held other judicial offices and is registered as technical expert of the Court for criminal and administrative issues.

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

Mr Angelo Garcea, born in 1969, with a degree in Business and Economics, registered in the Order of Chartered Accountants and in the Register of Auditors, carries out his profession in Florence. He is the author of a large number of works in the tax field.

Art. 22 of the Bylaws is entirely devoted to the Board of Statutory Auditors; apart from fixing the requirements which have to be owned by its members as well as the appointment procedure, the filing of the voting list and of the personal records of every candidate shall occur fifteen days before the assembly resolution. In particular, the Auditors cannot hold more than five similar offices in issuing companies, as required by articles 148-*bis* of TUF and 144-*terdecies* of the Regulations. This provision was already in force before the coming into force of the aforesaid provisions. The statutory provisions concerning the appointment of the Board of Statutory Auditors are available on the special section of the website [www.kme.com](http://www.kme.com).

During their appointment, single members of the Board of Statutory Auditors declared to own professionalism and honourableness requirements pursuant to the article of Bylaws and current provisions; they also declared not to find themselves in any of the impedimental conditions under art. 148 of TUF. Moreover, they pledged to communicate any possible changes to the Company within 30 days from occurrence. Furthermore, for every member, the Board of Statutory Auditors shall check the existence of the independence requirement periodically, on the basis of the legal criteria of the joint provision of articles 10 (subsection 2) and 3 (subsection 1) of the Code.

In this respect, such check concerned the position of the Chairman of the Board of Statutory Auditors, Marcello Fazzini, whose situation had to be taken into consideration in time, because his office lasted more than nine financial years in a row. His first office was assigned by the Shareholders' Meeting on 28 October 1999 for the financial year ended 30 June 2000. However, he had previously replaced another Standing Auditor as Alternate Auditor, on 8 June 1999, starting his activities with reference to the financial year ended 30 June 1999.

Apart from the formal reference to the year instead of the financial year in art. 3, subsection 1, letter e), and taking into consideration that Mr Fazzini (as chairman) and Mr Lombardi (as Standing Auditor) are members of the Board of Statutory Auditors of the subsidiary KME Italy S.p.A., the Board of Statutory Auditors confirms its previous remarks in relations to the chairman, with a view to the rights to choose given it by the Code for evaluating the independence of its members; moreover, the Board of Directors acknowledges the requirement of "independence" to new Standing Auditor Lombardi. These essential judgements originate from the personalities of the people in question and from the economic and professional importance of the tasks they fulfil in the interest of the Company and the Group.

For the same reasons, the Board of Statutory Auditors confirmed its previous and similar judgements in relation to Standing Auditor Alessandro Trotter, too, who resigned during the financial year, as already mentioned above.

Mr Alessandro Trotter had actually been appointed Standing Auditor of the Company, for the first time, by the Shareholders' Meeting on 14 November 1997, for the financial years ended 30 June 1998, 1999 and 2000; therefore, he has carried out his duties uninterruptedly for over ten years, with reference to 12 financial years, including the one ended 31 December 2008.

As a result, the Board of Statutory Auditors made known that it accepted the provisions of article 149, subsection I, letter *c-bis* of the TUF, requiring it to oversee the procedures for the real implementation of the Code of Conduct.

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

The Board of Auditors carries out its activities regularly, attends the meetings of the Board of Directors and of other Committees, and keeps in constant touch with the offices of the Company, which it may address directly and with full independence. Its relations with the Auditing Company are based on collaboration and exchange of figures and information.

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

Name (in Euro)	Position	Term of office	Expiry of position	Fees for position	Non- monetary benefits	Bonuses and other incentives	Other fees
Marcello Fazzini	Chairman	01.01.06 - 31.12.08	31.12.08	32,657	-	-	29,058 <sup>1</sup>
Marco Lombardi <sup>2</sup>	Standing Auditor	30.08.08 - 31.12.08	31.12.08	7,345	-	-	19,723 <sup>1</sup>
Pasquale Pace	Standing Auditor	01.01.06 - 31.12.08	31.12.08	22,733	-	-	-
Alessandro Trotter <sup>2</sup>	Standing Auditor	01.01.06 - 30.08.08	30.08.08	14,140	-	-	-

<sup>1</sup> Fees received for positions held in subsidiaries

<sup>2</sup> On 30 August 2008, Mr Trotter resigned and was replaced by Mr Marco Lombardi

The Board of Statutory Auditors met seven times during the year, as in the previous year. There was 95% attendance by members at these meetings.

## Offices held by Statutory Auditors

The following table sets out, for each Statutory Auditor, the positions held at 31 December 2008 as either Director or Statutory Auditor in companies limited by shares, partnerships and limited liability companies.

Name	Company	Position
<b>Marcello Fazzini</b>	HDI Assicurazioni S.p.A.	Chairman of the Board of Statutory Auditors
	HDI Finanziaria S.p.A.	Chairman of the Board of Statutory Auditors
	InChiaro Assicurazioni S.p.A.	Standing Auditor
	FINOA S.p.A.	Chairman of the Board of Statutory Auditors
	KME Italy S.p.A. <sup>1</sup>	Chairman of the Board of Statutory Auditors
	Lanificio Roberto Drighi S.p.A.	Chairman of the Board of Statutory Auditors
	F.lli Reali S.p.A.	Chairman of the Board of Statutory Auditors
<b>Pasquale Pace</b>	ASECO S.p.A.	Chairman of the Board of Statutory Auditors
	Edil Vacanze S.p.A.	Chairman of the Board of Statutory Auditors
	Baia San Giorgio - Villaggio turistico sportivo San Giorgio S.r.l.	Chairman of the Board of Statutory Auditors
	Fidanzia Sistemi S.r.l.	Chairman of the Board of Statutory Auditors
	Primiceri S.p.A.	Chairman of the Board of Statutory Auditors
	Marzocca S.r.l.	Standing Auditor
	<b>Alessandro Trotter</b>	Atlantia S.p.A. <sup>2</sup>
	Autostrade per l'Italia S.p.A.	Chairman of the Board of Statutory Auditors
	Equitalia Esatri S.p.A.	Member of the Board of Directors
	Impregilo S.p.A.	Standing Auditor
	Petraco S.p.A.	Chairman of the Board of Statutory Auditors
	Radiall Elettronica S.r.l.	Chairman of the Board of Statutory Auditors
	Rotolito Lombarda S.p.A.	Chairman of the Board of Statutory Auditors
	Schemaventotto S.p.A.	Standing Auditor
	Siena Mortgages 00-1 S.p.A.	Standing Auditor
	Sitech in liquidazione	Chairman of the Board of Statutory Auditors
	TLX S.p.A.	Chairman of the Board of Statutory Auditors
	Ulisse S.p.A.	Standing Auditor
	Unicredit Banca S.p.A. <sup>2</sup>	Chairman of the Board of Statutory Auditors
	Unicredit Consumer Financing Bank S.p.A.	Standing Auditor
<b>Marco Lombardi</b>	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
	Jaguar Firenze S.p.A.	Chairman of the Board of Statutory Auditors
	Centro Leasing Rete S.p.A.	Standing Auditor
	Firenze Industria Finance S.p.A.	Standing Auditor
	KME Italy S.p.A. <sup>1</sup>	Standing Auditor
	Grifoni & Masini S.p.A.	Standing Auditor
	SAIF Servizi Ass.ni Industriali Firenze S.r.l.	Standing Auditor
	B. e C. Speakers S.p.A.	Alternate Auditor
	Cabel Ass. Fin. Co. Leasing S.p.A.	Alternate Auditor
	Centro Leasing Banca S.p.A.	Alternate Auditor
	Editoriale Firenze S.p.A.	Alternate Auditor
	Tarducci S.p.A.	Alternate Auditor
	Vianse S.p.A.	Alternate Auditor
Fondazione Strozzi	Alternate Auditor	
Associazione Partners Palazzo Strozzi	Standing Auditor	
<b>Angelo Garcea</b>	Travertino Toscano S.p.A.	Chairman of the Board of Statutory Auditors
	Polimoda S.r.l.	Chairman of the Board of Statutory Auditors
	Immobiliare S. Gemignano S.p.A.	Standing Auditor
	Cooperativa Borgo Pinti 80 S.c.a.r.l.	Standing Auditor

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

2. Company listed in a regulated market

## The Independent Auditors

KPMG S.p.A. is the company appointed, pursuant to articles 155 et seq. of the TUF, to perform an audit of the separate and consolidated financial statements, as well as to perform a review of the half-year financial statements (consolidated, too) of KME Group S.p.A..

The current position was resolved by the Shareholders' Meeting on 23 May 2007, following motivated proposal by the Board of Statutory Auditors, and shall end with the financial statements as at and for the year ending 31 December 2015.

The director of audit is Mr Riccardo Cecchi, who covers the role with reference to the report issued on 25 October 2007, in relation to the half-year report at 30 June 2007.

The total fees paid by the Company equalled to Euro 172,000. On the Group level, total fees were Euro 1,269,000. For further details, please see annexes to the explanatory note to the financial statements.

During the financial year, further assignments were not given to the Independent Auditors, except for what has been otherwise included in the statement under art. 149-*duodecies* of the Issuers' Regulations. The Board of Statutory Auditors, within its supervisory activities on the independence of the Independent Auditors, will carry out relevant audits.

## Special section

### Directors

Directors hold office for a period not exceeding three financial years, and can be re-elected (art. 17 of the Bylaws). Once the proposal for the appointment of a new director is presented, the Shareholders' Meeting receives information about the new candidate including CV and administrative and management posts held in other Companies.

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

#### Salvatore Orlando (*Chairman*)

Mr Salvatore Orlando, born in 1957 and graduated in Political Sciences, joined the Group as executive in 1984. Later on, he was a member of the Boards of Directors of the most important industrial companies of the Group. He has been Director of the Company since 1991, and of iNTEK S.p.A. since 2007.

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

Mr Vincenzo Manes was born in 1960 and graduated in Business and Economics; Chairman and CEO of iNTEK S.p.A., the company holding the majority investment in KME Group S.p.A.. He is Director of ErgyCapital S.p.A.. He joined KME Group's Board of Directors in February 2005.

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

Mr Domenico Cova was born in 1949 and graduated in Electronic Engineering; he joined the Group following the acquisition of Trafileries e Laminatoi di Metalli S.p.A. (TLM), a company of the French Group Pechiney. In 1977, he became production manager of the Rod sector at the factory of Serravalle Scrivia, and then its Manager in 1983, continuing his activities at the French subsidiary KME France S.A.S., becoming its Chairman in 2000. He has been member of the management board (Vorstand) of KME Germany A.G. since 1995. He became Chief Operative Officer of KME Group S.p.A. in 2007. He was appointed Director through resolution by the Shareholders' Meeting on 3 August 2007.

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

Mr Italo Romano, was born in 1958 and graduated in Business and Economics. He joined the Group in 1988 covering various roles in the Company's administrative and management control departments. In 2001, he was appointed Corporate Group Controller with the specific task of managing the overall restructuring of the Group's entire IT and administrative divisions. In 2004, he was appointed General Manager "Administration, Control & Corporate Plan". In 2005, he joined the Board of Directors of KME Italy S.p.A., of which he became Deputy Executive Chairman. In the same year, he joined the Vorstand of KME Germany A.G., holding the position of Chief Financial Officer of KME Group S.p.A.. He was appointed Director through resolution by the Shareholders' Meeting on 3 August 2007.

**Vincenzo Cannatelli**

Mr Vincenzo Cannatelli was born in 1952 and graduated in Mechanical Engineering; he has gained a significant amount of experience from working both in Italy and abroad. He started his professional career in Stet and Eltag Bayley groups and then joined ENEL where he held senior positions within operational companies including COO of both the Infrastructure and Network Division and Marketing Division.

He was coopted Director by resolution of the Board of Directors on 11 April 2006 and subsequently the Shareholders' Meeting of 19 May 2006 reconfirmed his office for three consecutive years: 2006, 2007 and 2008. On the same date, he was appointed CEO by the Board of Directors, a position he held until 31 March 2007; since then, he has maintained the post of Director only. At present, he is Chairman of ErgyCapital S.p.A..

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

Mr Mario d'Urso was born in Naples in 1940 and graduated in Law; he held various positions in financial and governmental sectors; he also served as Senator of the Italian Republic and as under-secretary in one of the past Italian governments.

He joined the KME Group's Board of Directors on 14 February 2005.

**Marcello Gallo**

Mr Marcello Gallo was born in Siracusa in 1958 and graduated in Political Economics; at present, he is CEO of Intek Capital S.p.A., a subsidiary of iNTEK S.p.A., of which he is Deputy Chairman. There, he also served as General Manager from 1998 to 2003. He also takes part in the Boards of Directors of the subsidiaries of iNTEK S.p.A..

He joined the KME Group's Board of Directors in February 2005.

**Giuseppe Lignana (independent director)**

Mr Giuseppe Lignana was born in 1937 and graduated in Electronic Engineering; he was CEO of CEAT Cavi S.p.A. and Director in Banca Commerciale Italiana S.p.A. and SIRT I S.p.A.. He joined Cartiere Burgo S.p.A. in 1984, becoming its General Manager, CEO and, then, Chairman until 2004; at present, he is Honorary Chairman.

He joined the KME Group's Board of Directors in January 2005.

**Gian Carlo Losi**

Mr Gian Carlo Losi, was born in 1947 and graduated in Business and Economics. He joined the Group in 1973, after working as university assistant to the Business and Economics Chair at the University of Florence. Executive since 1977, then Finance and Auditing Manager of the Group. In 1990, he was appointed CEO of G.I.M. - Generale Industrie Metallurgiche S.p.A.. After serving as Director and Statutory Auditor for a number of the Group's Italian and foreign companies, he is currently holding the office of Secretary of the Company's Committee and of "Corporate Affairs & Internal Audit" Manager. He was appointed Director by resolution of the Shareholders' Meeting on 3 August 2007.



**Diva Moriani**

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

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

Mr Alberto Pecci was born in 1943 and graduated in Political Science; he has been a member of the Boards of Directors of the Group's various companies for several years. He is Chairman of the Boards of Directors of the companies of Pecci Industrial Group, operating in the textile sector, and member of the Boards of Directors of El.En. S.p.A. and Alleanza Assicurazioni S.p.A.. He was chairman of Fondiaria S.p.A. and Director in Assicurazioni Generali S.p.A., Mediobanca S.p.A., and Banca Intesa S.p.A.. He joined the KME Group's Board of Directors in June 1996.

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

Mr Alberto Pirelli was born in 1954 and graduated in the USA in Ichthyology and Aquaculture; he also held operating positions in Pirelli Group and, at present, he is Deputy Chairman of Pirelli & C. S.p.A. and Director in Camfin S.p.A. and Olimpia S.p.A.; he is Deputy Chairman of Gruppo Partecipazioni Industriali S.p.A.. He joined the KME Group's Board of Directors in October 2000.

On recalling the previous paragraph "The Board of Directors", as for the occurred integration of the number of Directors in August 2007, we acknowledge that the Board of Directors currently in office was not appointed according to the procedure introduced in 2007 through art. 17 of the Bylaws, providing for voting by list, and according to which appointment proposals have to be filed in advance; a Director may be appointed by the minority obtaining the highest number of votes. Specific criteria to identify the minimum minority threshold in this respect have been fixed by CONSOB, under art. 147-ter, subsection I. As pointed out above, in the paragraph devoted to the Board of Statutory Auditors, the limit is now 2.5%.

The procedure of art. 17 of the Bylaws is also available in the special section of the website [www.kme.com](http://www.kme.com).

The Board of Directors appointed a Chairman and a Deputy Chairman, and during 2007 assigned the CEO post to two Directors, ensuring that there is no conflict of interests between the single specific areas of authority. This choice, both functional and operational, helps to avoid a concentration of social responsibilities on a single person whilst ensuring that the Code of Conduct requirements are met.

Pursuant to art. 20 of the Bylaws, the Chairman is the legal representative of the Company and has the authority to represent it before third parties and in legal proceedings.

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

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

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

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

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

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

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

General Managers have been authorised to exercise the following powers:

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

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

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

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

Considering that the two Directors with General Manager tasks are also members of the Vorstand of KME Germany A.G. (company entirely controlled, on which the industrial segment of the Group depends), every three months, Executive Directors have to inform the Board of Directors and the Board of Statutory Auditors on the general business performance, and on any related foreseeable developments, including any major transactions carried out by the Company or any of its subsidiaries.

Pursuant to art. 147-ter, subsection IV of the TUF, the Board of Directors believes that its composition is suitable for the size of the Company and the issues to be faced, in terms of number and expertise, and considering the presence of four Independent Directors (one third of its members); the same may also be said for the other established Committees. Directors are required to promptly make known the loss of the honourableness requirement under art. 147-quinquies of TUF.

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

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

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

In compliance with the “application criteria” included in art. 3, subsection 1, of the Code of Conduct, and taking into consideration articles 147-ter, subsection IV, and 148, subsection III, of TUF, as well as CONSOB report no. DEM/9017893 of 26 February 2009, Directors Mario d’Urso, Giuseppe Lignana, Alberto Pecci and Alberto Pirelli confirm they hold their qualifications as “Independent Directors”; the confirmation was shared by the Board of Directors and by the Board of Statutory Auditors. Their specific meeting is not planned, pursuant to art. 3, subsection 6, of the Code; however, both the two appointed Committees are solely made up of non-executive and independent Directors, who meet during the financial year.

With regard to the possible confirmation of the independent role for the Director Alberto Pecci, his appointment was decided by resolutions of the Shareholders’ Meeting on 28 June 1996 for the years ended 31 December 1996 and 1997, and that he has been holding this office uninterruptedly for over nine years, apparently contravening the relevant principle referred to in article 3, subsection 1, letter e) of the Code of Conduct. In the same way, the condition of Mr Pirelli, as non-executive Director of the previous auditing company, G.I.M. – Generale Industrie Metallurgiche S.p.A. until its merger into iNTEk S.p.A. and exponent of Pirelli & C. S.p.A., company participating in the Shareholders Syndicates of G.I.M. Itself – Generale Industrie Metallurgiche S.p.A. and KME Group S.p.A., is apparently in contrast with the criterion under the same article at letters b) and a), respectively. The condition of Mr Pecci is similar, since, as natural person, he was also part of the Syndicate of G.I.M. – Generale Industrie Metallurgiche S.p.A..

With a view to similar remarks of essential and personal character, made for three members of the Board of Statutory Auditors, the Board of Directors, in agreement with the Board of Statutory Auditors, confirms its belief that such characteristic cannot be excluded for both the aforesaid Directors, Alberto Pecci and Alberto Pirelli, for being members (though with different offices) of the above-mentioned Shareholders’ Syndicates; the first one was Director of the Company for such a long time, and the second one, was a member of the same body of the previous Independent Auditors. They were actually acknowledged full independence of judgement.

The Board of Directors did not appoint the Lead Independent Director, who would coordinate any requests and contributions from non-executive Directors, and in particular, from the independent ones, owing to subdivision of corporate positions, held by four Executive Directors, and to the activities of the two Committees, which are composed of Independent Directors only.

## Positions held by Directors

The following table sets out, for each Director, the positions held at 31 December 2008 as either Director or Statutory Auditor in public limited companies, limited partnerships with share capital and limited liability companies.

Name	Company	Position
<b>Salvatore Orlando</b>	KME Italy S.p.A. <sup>1</sup>	Chairman of the Board of Directors
	KME Germany A.G. <sup>1</sup>	Member of the Supervisory Council
	iNTEK S.p.A. <sup>1,2</sup>	Member of the Board of Directors
<b>Vincenzo Manes</b>	iNTEK S.p.A. <sup>1,2</sup>	Chairman/Managing Director
	iNTEKCapital S.p.A.	Member of the Board of Directors
	Fondazione Dynamo	Chairman of the Board of Directors
	I2 Capital Partners SGR S.p.A. <sup>1</sup>	Deputy Chairman of the Board of Directors
	ErgyCapital S.p.A. <sup>1,2</sup>	Member of the Board of Directors
	Fondazione Laureus Sport for Good Italia	Member of the Board of Directors
	Fondazione W.W.F. Italia	Member of the Board of Directors
	Fondazione Vita	Member of the Board of Directors
	422 Holding B.V.	Member of the Supervisory Council
	KME Germany A.G.	Deputy Chairman of the Supervisory Council
<b>Domenico Cova</b>	KME Germany A.G. <sup>1</sup>	Member of the Management Committee
<b>Italo Romano</b>	KME Italy S.p.A. <sup>1</sup>	Executive Deputy Chairman of the Board of Directors
	KME Germany A.G. <sup>1</sup>	Member of the Management Committee
<b>Vincenzo Cannatelli</b>	Aledia S.p.A.	Chairman of the Board of Directors
	ErgyCapital S.p.A. <sup>1,2</sup>	Chairman of the Board of Directors
	Ferretti S.p.A. <sup>2</sup>	Member of the Board of Directors
<b>Mario d'Urso</b>	Fondi Gabelli (Gruppo Gamco)	Member of the Board of Directors
<b>Marcello Gallo</b>	iNTEK S.p.A. <sup>1,2</sup>	Deputy Chairman of the Board of Directors
	IntekCapital S.p.A.	Managing Director
	I2 Capital Partners SGR S.p.A. <sup>1</sup>	Managing Director
	Fondazione Dynamo	Member of the Board of Directors
	ISNO 3 <sup>1</sup>	Sole Director
	ISNO 4	Sole Director
	KME Germany A.G.	Member of the Supervisory Council
<b>Giuseppe Lignana</b>	No position	
<b>Gian Carlo Losi</b>	No position	
<b>Diva Moriani</b>	iNTEK S.p.A. <sup>1,2</sup>	Deputy Chairwoman
	IntekCapital S.p.A.	Chairwoman of the Board of Directors
	I2 Capital Partners SGR S.p.A. <sup>1</sup>	Managing Director
	ErgyCapital S.p.A. <sup>1,2</sup>	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	Chairwoman of the Board of Directors
	123 S.p.A.	Chairwoman of the Board of Directors
	Franco Vago ILH	Member of the Board of Directors
	Franco Vago S.p.A.	Member of the Board of Directors
	KME Germany A.G.	Member of the Supervisory Council
<b>Alberto Pecci</b>	Gruppo Industriale Pecci	Chairman of the Board of Directors
	El.En. S.p.A. <sup>2</sup>	Member of the Board of Directors
	Alleanza Assicurazioni S.p.A. <sup>2</sup>	Member of the Board of Directors
<b>Alberto Pirelli</b>	Pirelli & C. S.p.A. <sup>2</sup>	Deputy Chairman of the Board of Directors
	Gruppo Partecipazioni Industriali S.p.A.	Deputy Chairman of the Board of Directors
	Camfin S.p.A. <sup>2</sup>	Member of the Board of Directors
	Pirelli Tyre S.p.A.	Member of the Board of Directors
	FIN.AP di Alberto Pirelli & C. S.a.p.a.	Chairman of the Board of General Partners

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

2. Company listed in a regulated market

The Board of Directors, considering the following:

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

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

### **Regulations on transactions with related parties**

Directors with proxies shall report to the Board of Directors and the Board of Statutory Auditors regarding transactions that are potentially in conflict of interest, pursuant to article 14 of the Bylaws.

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

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

A review of the listings of the related parties is carried out on 31 December and 30 June every year.

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

The Shareholders' Meeting did not make any exceptions to the competition ban pursuant to article 2390 of the Italian Civil Code.

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

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

### **Remuneration for Directors and senior management**

Art. 8 of the Bylaws admits Director profit-sharing to the extent of 2% of what is left after allocation to legal reserve; the following art. 21 enables the Shareholders' Meeting to assign them a possible fixed benefit; as for Directors with special powers, the Board of Directors may fix a specific fee based on the opinion of the Board of Statutory Auditors.

The fixed annual fee for the Directors, to be allocated equally but with a 50% increase for those sitting on the two established Committees, has been set at Euro 172,500 pursuant to the resolution of the Shareholders'

Meeting of 3 August 2008, which modifies the previous resolution issued on 19 May 2006. Regarding the payment of remuneration pursuant to article 8 of the Bylaws, the amounts received as fixed benefits shall be regarded as advance of the aforesaid remuneration.

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

Director fee details for 2008 and for subsidiaries, are included in the following table, drawn up by following CONSOB instructions; there is also the fee of Mr Roelf-Evert Reins, member of the Vorstand of the German subsidiary KME Germany S.A., considered "Executive with strategic responsibilities". Amounts in Euro.

### **Fees paid to Directors, Auditors, General Managers and Executives with strategic responsibilities (CONSOB Regulations art. 78 no. 11971/99)**

Directors							
Name	Position	Term of office	Expiry of position	Fees for position	Non-monetary benefits	Bonuses and other incentives	Other fees <sup>1</sup>
Salvatore Orlando	Chairman	01.01.06-31.12.08	31.12.08	649,000	5,084		135,074
Vincenzo Manes	Deputy Chairman	01.01.06-31.12.08	31.12.08	871,501	1,545		70,388
Domenico Cova	Dir./Man.Dir.	03.08.07-31.12.08	31.12.08	11,500			759,096
Italo Romano	Dir./Man.Dir.	03.08.07-31.12.08	31.12.08	11,500			755,405
Vincenzo Cannatelli	Director	19.05.06-31.12.08	31.12.08	12,100			
Mario d'Urso	Director	01.01.06-31.12.08	31.12.08	23,600			
Marcello Gallo	Director	01.01.06-31.12.08	31.12.08	13,300			7,172
Giuseppe Lignana	Director	01.01.06-31.12.08	31.12.08	23,600			
Gian Carlo Losi	Director	03.08.07-31.12.08	31.12.08	45,070			274,992
Diva Moriani	Director	01.01.06-31.12.08	31.12.08	106,167	3,031		7,172
Alberto Pecci	Director	01.01.06-31.12.08	31.12.08	17,250			
Alberto Pirelli <sup>2</sup>	Director	01.01.06-31.12.07	31.12.08	17,250			

### **Executives with strategic responsibilities**

Roelf-Evert Reins							572,142
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1. Emoluments for positions in subsidiaries for the whole 2008

2. Fees for Mr Alberto Pirelli disbursed to Pirelli & C. S.p.A.

The Board of Directors of 14 March 2008 resolved to assign the Deputy Chairman, Vincenzo Manes, a mandate termination benefit to be disbursed at the time in which he will leave his executive position, amounting to an average annuity for every three-year term of office. In this way, the aggregate fee of the Deputy Chairman shall be complete, at the time in which the first stage of Group reorganization may be regarded as concluded. The reorganization stage was meant to implement the most urgent industrial actions to recover financial and asset equilibrium after the serious crisis in 2004.

In July 2006, a KME Group S.p.A. Stock Option Plan 2006-2011 was put into effect for the Executive Directors of the Company and the Executives of the Group. The Plan was changed during 2007 following a series of resignations and new appointments of Directors and Executives within the Group, and due to the reverse splitting constituting the share capital. However, the changes did not affect its original overall structure.

In particular, the Shareholders' Meeting of 21 June 2007 decided to reassign 12,827,988 expired options for two Beneficiaries (CEO Vincenzo Cannatelli, who remained Director, and a line manager who left the Group) in favour of the other Beneficiaries, in terms directly proportional to the respective assignments originally decided in July 2006. Therefore, such reassignment did not cause an increase in the overall number of

options previously assigned, and did not determine the amount of the share capital increase.

The options give each Beneficiary the right to subscribe one ordinary share per each block of three shares owned at the unit price of Euro 1.029 (the initial unit price of Euro 0.343 before reverse splitting was calculated based on the official average share price recorded on the Stock Exchange in July 2006) through the terms and conditions established by Plan Regulations. The deadline for exercising the options is 28 February 2011.

The originally assigned options (no. 39,947,166, net of no. 3,784,585 expired during last financial year and not reassigned) may be exercised: no. 10,301,253 starting from 1 September 2007, no. 14,822,958 at 1 September 2008, and no. 14,822,955 at 1 September 2009.

Taking into consideration the changes above (reassignment and expirations) happened during 2007<sup>1</sup>:

- five Directors were given 21,453,318 options on the whole, corresponding to 7,151,106 shares, and to the subscription countervalue of Euro 7.3 million;
- 14 Group Executives were given 17,327,667 options on the whole, corresponding to 5,775,889 shares and to the subscription countervalue of Euro 6.3 million.

During 2008, no stock option was exercised. On 25 March 2009, the date in which the exercise of options was nevertheless suspended, following their Regulations, owing to the calling of the Shareholders' Meeting, 6,802,713 options were exercised on the whole (therefore, 33,144,453 options may still be exercised).

Directors exercised 2,137,998 options through the following issue of 712,666 shares (countervalue of Euro 733,333.314), while Executives exercised 4,664,715 options on the whole, corresponding to 1,554,905 shares (countervalue of Euro 1,599,997.245).

Therefore, on the whole, 2,267,571 ordinary shares were issued, with a Euro 2.3 million share capital increase.

The 14 Executives include Roelf Evert Reins: during 2008, he held the position of Chairman of the Vorstand of KME Germany A.G., and thus, he is regarded as significant person pursuant to art. 152-*sexies*, subsection I, letter c.3 of the Issuers' Regulations.

1. To define the overall number under previous paragraph, it is necessary to take into account that Executive Albert Scherger exercised no. 1,166,181 options, corresponding to 388,727 shares, while he lost his remaining 3,784,585 options.

The details of the Plan, drawn up analytically for the five Directors and one Executive with strategic responsibilities, and in aggregate form for 13 Executives (in compliance with the pattern required by CONSOB provisions) are as follows:

### Annex 3C - Table 2 to Issuers' Regulations no. 11971 of 14.05.1999

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

Name	Position	Options held at start of year			Options assigned during year			Options exercised during year			Options expired during year		Options held at end of year	
		Option number	Average exercise price <sup>3</sup>	Average expiry <sup>4</sup>	Option number	Average exercise price <sup>3</sup>	Average expiry <sup>4</sup>	Option number	Average exercise price <sup>3</sup>	Average market price exercise	Option number	Option number	Average market price exercise <sup>3</sup>	Average expiry <sup>4</sup>
Vincenzo Manes	Deputy Chairman	10,726,659	1.029	28.02.2011	-	1.029	28.02.2011	-	1.029	-	-	10,726,659	1.029	28.02.2011
Diva Moriani	Director	1,650,255	1.029	28.02.2011	-	1.029	28.02.2011	-	1.029	-	-	1,650,255	1.029	28.02.2011
Domenico Cova	Dir. - Gen. Man. <sup>1</sup>	3,153,822	1.029	28.02.2011	-	1.029	28.02.2011	-	1.029	-	-	3,153,822	1.029	28.02.2011
Italo Romano	Dir. - Gen. Man. <sup>1</sup>	3,153,822	1.029	28.02.2011	-	1.029	28.02.2011	-	1.029	-	-	3,153,822	1.029	28.02.2011
Gian Carlo Losi	Director <sup>1</sup>	630,762	1.029	28.02.2011	-	1.029	28.02.2011	-	1.029	-	-	630,762	1.029	28.02.2011
Roelf-Evert Reins	Exec. w/strat. resp. <sup>2</sup>	825,126	1.029	28.02.2011	-	1.029	28.02.2011	-	1.029	-	-	825,126	1.029	28.02.2011
n. 13 Executives		13,004,007	1.029	28.02.2011	-	1.029	28.02.2011	-	1.029	-	-	13,004,007	1.029	28.02.2011
<b>Total</b>		<b>33,144,453</b>			<b>-</b>			<b>-</b>			<b>-</b>	<b>33,144,453</b>		

1. Appointed Directors on 3 August 2007

2. Appoint. member of Vorstand of KME Germany A.G. on 22 June 2007

3. Post-reverse splitting price of 16 July 2007, with following new exercise ratio: one share every three options at the unit price of Euro 1.029 per share

4. This date is the deadline within which options may be exercised

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

#### Remuneration Committee

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

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

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

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

The Committee met only once during the year, as in the previous year. All of the members of the Committee participated in the meeting. In this meeting, the Committee discussed the proposals for the remuneration of the Chairman, the Deputy Chairman and Director Diva Moriani for 2008. It also checked the variable



remunerations of the Chairman and Deputy Chairman for 2007. On the basis of the information provided by the Deputy Chairman, the Committee dealt also with the criteria adopted for the remuneration of the Group's senior management.

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

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

Its members are all non-executive and independent Directors whose professional experience, in the financial and accounting fields, too, has been regarded as adequate by the Board of Directors.

The responsibilities of the Committee are as follows:

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

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

The Chairman, Deputy Chairman, Director/General Manager Italo Romano (the last two in their capacity as Directors responsible for auditing) and the Chairman of the Board of Statutory Auditors (or other standing auditor appointed by the Chairman) are invited to attend the meetings of the Committee.

The Committee met twice, as in the previous year. The Chairman of the Board of Statutory Auditors was regularly present in both recorded meetings.

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

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

The Company adopted a "Model of organization and management pursuant to Legislative Decree no. 231/01"; the model is updated in relation to the changes introduced by the regulations of reference from time to time. A special body composed of various functions of the Company and the Group has been created. This entity, not

only ensures that the Model is kept up to date, but also monitors its effectiveness through specific checks and controls focused on the most critical sectors of the Company. The chairman of the Board of Statutory Auditors takes part in its meetings.

Pursuant to art. 8 of the Code, the Board of Directors believes that the Company's system of internal controls is suitable to protect it against the typical risks of the main activities performed by the Company, and capable of ensuring the safeguarding of its assets, the effectiveness and efficiency of corporate operations, the reliability of financial reporting and the respect of laws and regulations.

Pursuant to art. 123-*bis*, subsection II, letter b), under the point of view of financial information (consolidated information, too) reliability, in December 2006, the Company started an internal audit project under the supervision of the Internal Control Committee, with the assistance of Ernst & Young, meant to check the internal control system on the financial reporting of the Group, in order to align it with international standards, and with the aim of compliance with the "Saving Law" no. 262/05. The whole adjustment was completed with financial statements 2008; controls for real implementations were carried out.

Pursuant to the procedure under art. 17 of the Bylaws, and after verifying that the relevant professional and personal requirements are met, the Board of Directors, in the meeting held on 21 June 2007 and in agreement with the Board of Statutory Auditors, has appointed Mr Marco Miniati as Manager responsible for the preparation of the corporate accounting documentation. Mr Miniati was assigned all the powers and responsibilities necessary to perform his tasks, as well as specific remuneration.

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

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

The first statement pursuant to art. 154-*bis*, subsection II of TUF, has been made with regard to the Quarterly Report at 30 September 2007, while the first statement pursuant to subsection V of the same article was the one relating to the separate financial statements at 31 December 2007.

Periodically, the Executive in charge informs the Internal Control Committee and the Board of Statutory Auditors on the activities carried out, and continuously collaborates with the Independent Auditors.

### **Corporate information**

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

The following innovations introduced in the legislation, concerning TUF corporate information, as well as the innovations introduced by CONSOB, on regulation level, and thus, by Borsa Italiana S.p.A., led to its review in March and November 2006, and then, in November 2007. In particular, we point out the new structure of art. 114 of TUF and, pursuant to art. 115-*bis*, the consequent identification of the "significant persons", who may access the "inside information", with setting up of the relevant Register as of 1 April 2006, structured in electronic format.

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

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

### Internal dealing Code of Conduct

As of 1 April 2006, and following the coming into force of the internal dealing provisions introduced in the legal system by Law no. 62 of 18 April 2005 and by the following modifications included in the Issuers' Regulations of CONSOB through its resolution no. 15232 of 29 November 2005, the Board of Directors of the Company, in its meetings on March and November 2006, and then, in November 2007, decided to change the initial procedure, keeping it updated and efficient, with the aim of:

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

A particularly unusual matter, it is still forbidden to carry out transactions with the financial instruments of the Company: the "blackout periods" affecting "significant persons".

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

Name and Surname	Investment in	No. of shares held at the end of FY 2007	No. of shares purchased in 2008	No. of shares sold in 2008	No. of shares held at the end of FY 2008
Vincenzo Cannatelli	Kme Group S.p.A.	97,663 ordin. shares 104,218 warrants	== ==	== ==	97,663 ord. shares 104,218 warrants
Alberto Pecci	Kme Group S.p.A.	7,166 sav. shares <sup>1</sup> 65,317 sav. shares <sup>2</sup> 1,399 ord. shares <sup>1</sup> 24,176 warrants <sup>2</sup>	==	==	7,166 sav. shares <sup>1</sup> 65,317 sav. shares <sup>2</sup> 1,399 ord. shares <sup>1</sup> 24,176 warrants <sup>2</sup>
Domenico Cova	Kme Group S.p.A.	75,000 ord. shares <sup>3</sup>	==	==	75,000 ord. shares
Italo Romano	Kme Group S.p.A.	75,000 ord. shares <sup>3</sup>	==	==	75,000 ord. shares
Gian Carlo Losi	Kme Group S.p.A.	64,788 ord. shares <sup>3</sup>	==	==	64,788 ord. shares
Alessandro Trotter	Kme Group S.p.A.	16,666 ord. shares	==	==	16,666 ord. shares

1. directly owned

2. indirectly owned but fully held through a subsidiary

3. shares from stock option exercise

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

## Market and shareholders relations

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

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

Its update takes place at the same time with the issue of notices through the electronic circuit of NIS (Network Information System), managed by Borsa Italiana S.p.A.. Such system enables the public to receive the notices issued by the Company by sending them to the press agencies connected with the system itself, to Borsa Italiana S.p.A., in turn including them in its notice, and to CONSOB.

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

A significant part of the website is dedicated to corporate governance documents (company bodies, Bylaws Warrant Regulations, Internal Code of Conduct and Regulations, minutes of the meetings), with specific areas dedicated to possible extraordinary transactions underway. Moreover, the "Annual Information Document" pursuant to art. 54 of the Issuers' Regulations is available as of 2005.

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

During 2008, the website [www.kme.com](http://www.kme.com) was visited by over one million people, consulting almost four million pages of various kind. In particular, the interactive version of the 2007 financial statements, made available for the first time, was visited over 15,000 times; over 6,000 documents in PDF format were downloaded. 2/3 of the aforesaid visits concerned English documents.

Comparison with 2007 figures shows a remarkable increase in visits; this definitely depended on the choice to join information of corporate and financial character in just one site. Moreover, a continuous communication service of press releases and documents issued by the Company is carried out through its mailing list, with 1,170 members with respect to 1,097 in 2007. Furthermore, it is possible to send e-mail requests to the Company.

The Board of Directors believes that the new structure of the website improved the quality and increased the quantity of information on the Group and its industrial activities, as well as on the Company. It also meets market (not only the financial one) and Shareholders' needs in a better way.

## Company Bylaws, Minority Shareholders and Shareholders' Meetings

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

The Bylaws include provisions defending minority Shareholders for the summoning of the Shareholders' Meeting, integration of its agenda (art. 10), and appointment of the Board of Directors and of the Board of Statutory Auditors (art. 22), in relation to the faculties to collect vote proxies and to exercise absentee voting (art. 11), and in compliance with information obligations with respect to the Board of Auditors (articles 14 and 18) and the Common Representative of the Saving Shareholders (article 24).

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

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

We also remind you of those provisions of the Bylaws that govern the calling, the constitution and the proceedings of Shareholders' Meetings and the participation and representation of the Shareholders at these meetings (articles 10, 11, 12, and 13). As a result, it has been considered unnecessary to adopt specific Regulations for Shareholders' Meetings.

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

Position	Name	Board of Directors				Remuneration committee•		Remuneration committee•		
		Executive	Non-Executive	Independent	****	No. of other positions**	***	****	***	****
Chairman	Salvatore Orlando				100	2				
Deputy Chairman	Vincenzo Manes	x			100	3				
Director/Managing Director	Domenico Cova	x			100	2				
Director/Managing Director	Italo Romano	x			100	2				
Director	Vincenzo Cannatelli				100	2				
Director	Mario d'Urso		x	x	80	1	x	100	x	100
Director	Marcello Gallo		x		60	1				
Director	Giuseppe Lignana		x	x	80	--	x	100	x	100
Director	Gian Carlo Losi		x		100	--				
Director	Diva Moriani	x			100	2				
Director	Alberto Pecci		x	x	60	3	x	50		
Director	Alberto Pirelli		x	x	100	2			x	100

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

=

•Summary of the grounds for possible absence of the Remuneration Committee or composition other than that recommended by the Code:

=

Summary of the grounds for absences of the Executive Committee:

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

Summary of the grounds for absences of the Appointment Committee:

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

Number of meetings held during the year      Board of Directors: five      Internal Auditing Committee: two      Remuneration Committee: one

### NOTES

\* The asterisk (\*) indicates the Directors that were appointed by lists presented by minority shareholders.

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

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

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

**Table 2 - Board of Statutory Auditors**

Position	Name	Attendance percentages at meeting of the board of statutory auditors	No. of other positions**
Chairman	Fazzini Marcello	100	--
Standing Auditor	Pace Pasquale	86	--
Standing Auditor	Trotter Alessandro	57	3
Standing Auditor	Lombardi Marco	100	--
Alternate Auditor	Garcea Angelo	///	--
Number of meetings held during the calendar year: seven			
Quorum required for the presentation of lists by minorities for the election of one or more standing members (pursuant to article 148 TUF): 2.5%.			

NOTES

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

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

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

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

## **Legislation on Protection of Personal Data**

Pursuant to art. 26 of Annex B - Technical regulations on minimum security measures - of Legislative Decree no. 196 of 30 June 2003 (the “Personal Data Protection Code”), the scheduled “Data Protection Document” has been adopted by means of a document with certain date; in this respect, the Manager is Mr Lorenzo Cantini.

Florence, 25 March 2009

The Board of Directors

# Company Bylaws updated to 31 October 2008 (latest modification)

KME Group S.p.A.

Registered office in Via dei Barucci no. 2, Florence

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

## **Bylaws**

### **Title I**

#### **Article 1 Name**

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

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

The Company's registered office is in Florence.

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

#### **Article 3 Purpose**

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

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

### **Title II**

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

The share capital is € 250,009,677.85 (two hundred fifty million nine thousand six hundred and seventy-seven point eight five), that is, 254,561,457 (two hundred fifty four million five hundred sixty-one thousand four hundred and fifty-seven) shares with no indication of nominal value, 235,489,347 (two hundred thirty-five million four hundred eighty-nine thousand three hundred and forty-seven) of which are ordinary shares, and 19,072,110 (nineteen million seventy-two thousand one hundred and ten) saving shares.

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

Furthermore, following the Shareholders' Meeting resolution of 19 May 2006, the Company issued a total of 74,209,605 (seventy four million two hundred nine thousand six hundred and five) warrants; as a consequence, the share capital was increased against payment for further nominal value of € 25,973,361.75 (twenty five million nine hundred seventy-three thousand three hundred and sixty-one point seventy-five) through several issues of a maximum of 74,209,605 (seventy-four million two hundred nine thousand six hundred and five) ordinary shares without nominal value, with regular profit participation, to be solely and irrevocably reserved for the exercise of the aforesaid warrants, at the unit price of € 0.35 (zero point thirty-five) corresponding to the issue price of shares with no nominal value issued by the aforesaid extraordinary Shareholders' Meeting, with the ratio of 1 (one) share every 1 (one) warrant owned, as of 1 January 2007 until 11 December 2009, following the Regulations approved at the same time.



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

To carry out the operation, and following reverse splitting of ordinary shares and saving shares with the ratio of 1 (one) new share every block of 3 (three) shares of the same class owned, and in relation to the following further resolutions made by the extraordinary Shareholders' Meeting on 21 June 2007 and 16 July 2007, a total of 73,899,627 (seventy-three million eight hundred ninety-nine thousand six hundred and twenty-seven) warrants were outstanding; their exercise shall determine the issue of a maximum of 24,633,209 (twenty-four million six hundred thirty-three thousand two hundred and nine) ordinary shares of KME Group S.p.A., without nominal value, with the following share capital increase for a maximum of € 25,864,869.45 (twenty-five million eight hundred sixty-four thousand eight hundred and sixty-nine point four five).

On 31 October 2008, a total of 6,279,616 (six million two hundred seventy-nine thousand six hundred and sixteen) warrants were exercised, with the following issue of 2,299,856 (two million two hundred ninety-nine thousand eight hundred and fifty-six) ordinary shares; the 67,929,987 (sixty-seven million nine hundred twenty-nine thousand nine hundred and eighty-seven) warrants left may be exercised with the ratio of one new share every three warrants owned, at the aggregate price of € 1.05 (one point zero five).

Pursuant to the powers it was awarded by the Shareholders' Meeting on 19 May 2006, as referred to in article 7, subsections I and II of these Bylaws, and based on the resolutions approved by the Shareholders' Meeting on 21 June 2007, through resolutions of the Board of Directors on 31 July 2006, the Company agreed to increase the share capital by a maximum of Euro 7,999,999.60 (seven million nine hundred ninety-nine thousand nine hundred and ninety-nine point six zero) by issuing up to 7,774,538 (seven million seven hundred seventy-four thousand five hundred and thirty-eight) ordinary shares, regular ranking for dividends, at the price of Euro 1.029 (one point zero two nine) each, solely reserved for the Stock Option Plan available to Executives of the Company, its subsidiaries, and the subsidiaries of the latest, in Italy and abroad.

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

Following delegation given to Directors by the Extraordinary Shareholders' Meeting on 19 May 2006, pursuant to the following article 7, subsections VI and VII of these Bylaws, in its meetings on 31 July 2006 and 18 July 2007, and taking into consideration the resolutions of the same Extraordinary Shareholders' Meeting on 21 June 2007, the Board of Directors resolved to increase the share capital by up to Euro 4,245,282.53 (four million two hundred forty-five thousand two hundred and eighty-two point five three) by issuing up to 4,125,639 ordinary shares, regular ranking for dividends, at the price of Euro 1.029 (one point zero two nine) each, solely reserved for the Stock Option Plan available to the Directors with executive or operating offices, of the Company, its subsidiaries and the subsidiaries of the latest, in Italy and abroad.

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

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

At 31 October 2007, a total of 6,802,713 (six million eight hundred and two thousand seven hundred and

thirteen) options had been exercised, causing the issuance of 2,267,571 (two million two hundred and sixty-seven thousand five hundred and seventy-one) ordinary shares.

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

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

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

The Shareholders' Meeting may resolve to issue preferred shares, with or without voting rights, and determine the characteristics and the rights conveyed by such shares. However, savings shares shall have the characteristics and convey the rights that the law and these Bylaws require.

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

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

In case of permanent and definitive exclusion from negotiations on the regulated markets of the ordinary and saving shares of the Company, Saving Shareholders shall have the right to convert their securities into ordinary shares at par or, alternatively, into preference shares, whose characteristics and issue conditions shall be fixed by the Shareholders' Meeting. Within two months from the occurrence of the event determining the situation, the Board of Directors shall summon an extraordinary Shareholders' Meeting to resolve in that respect.

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

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

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

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

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

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

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

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

As a result of the resolutions approved by the Extraordinary Shareholders' Meeting on 21 June 2007, which

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

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

By a resolution approved by the above-mentioned Extraordinary Shareholders' Meeting on 19 May 2006, as amended by a subsequent resolution approved by the Extraordinary Shareholders' Meeting on 21 June 2007, and consistent with a resolution approved by the Board of Directors on 18 July 2007, the Board of Directors was authorized to carry out, in one or more instalments over a period of up to five years from the date of the above-mentioned resolution, a further increase of the Company's share capital of up to Euro 4,245,282.53 (four million two hundred and forty-five thousand two hundred and eighty-two and fifty-three) through the issuance of ordinary shares without nominal value, regular ranking for dividends, to be offered for consideration through subscription to Directors of the Company, its subsidiaries and their subsidiaries, in Italy and abroad, who serve in an executive capacity or perform operational functions, suspending the pre-emptive rights of other Shareholders, as allowed under Article 2441, Section IV, Sentence II, of the Italian Civil Code.

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

At meetings held on 31 July 2006 and 18 July 2007, the Board of Directors exercised the above-mentioned powers in the manner described in Article 4 of these Bylaws.

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

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

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

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

- to savings shares, an amount that shall not exceed 7.24% (seven point two four percent) of Euro 1.50 (one point five zero) per share, which is equal to Euro 0.1086 (zero point one zero eight six) per share. If in a given year the savings shares receive an annual dividend smaller than 7.24% (seven point two four percent) of Euro 1.50 (one point five zero) per share, which is equal to Euro 0.1086 (zero point one zero eight six) per share, the balance will be added to the preferred dividend over the following two years;
- the allocation of the remaining profit will be determined by the Shareholders' Meeting pursuant to law, it being understood that the distribution of a dividend to all of the shares shall be carried out in such a way that the savings shares receive a total dividend that is greater than the dividend paid to the ordinary shares by an amount equal to 2.07% (two point zero seven percent) per year of Euro 1.50 (one point five zero) per share, which is equal to Euro 0.03105 (zero point zero three one zero five) per share.

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

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

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

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

### **Title III**

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

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

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

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

Within five days from the publication of the Shareholders' Meeting call notice, the Shareholders who (jointly, too) represent at least one fortieth of the share capital may ask for supplementation of the topics to be dealt with; in the request, they shall point out the topics they also want to propose. The supplement of the list which the Shareholders' Meeting shall deal with following the aforesaid requests shall be made known in the same way as the publication of the call notice, at least ten days before the date of the Shareholders' Meeting. Supplement is not allowed for topics resolved by the Shareholders' Meeting pursuant to the law, by proposal of Directors or on the basis of a project or report drawn up by them.

Unless otherwise stated by the law, the Board of Directors shall summon the Shareholders' Meeting within 30 days from reception of such request, if filed by a number of Shareholders representing at least 10% of the share capital in ordinary shares. The request shall be sent to the Chairman of the Board of Directors through registered letter, and shall include detailed topics for the agenda, as well as an accurate list of requiring Shareholders, attaching copy of proper certification/communication made by authorized intermediaries, certifying the ownership and the number of their shares.

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

The Shareholders for whom the Company received the necessary notice by authorized intermediaries, pursuant to current provisions, and within two days before the date of single meetings, may take part in the Shareholders' Meeting. If the fulfilment term expires on a holiday or on Saturdays, the real deadline shall be postponed to the following first working day.

Each share conveys the right to cast one vote.

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

The absentee voting paper, together with a copy of the notice pursuant to the current legislation for participating in the Shareholders' Meeting, shall have to be received within forty-eight hours before the Shareholders' Meeting on first call, at the address pointed out in the call notice. If the fulfilment term expires on a holiday or on Saturdays, the real deadline shall be postponed to the following first working day.

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

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

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

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

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

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

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

The Chairman is assisted by a secretary appointed by himself. If a notary draws up the minutes of the Shareholders' Meeting, the notary himself shall be designated secretary.

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

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

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

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

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

### **Title IV**

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

The Board of Directors has the widest set of powers with respect to organizing and managing the Company and is responsible for the administration of regular and extraordinary transactions carried out by the Company in pursuit of its purpose, the sole exceptions being actions that are reserved, by law, for the Shareholders' Meeting.

The Board of Directors may adopt resolutions concerning mergers and demergers, in accordance with the provisions of Articles 2505, 2505 (ii) and 2505 (iii) of the Italian Civil Code; may reduce the Company's share capital if a shareholder exercises the right to request redemption of his or her shares; and may amend the Bylaws to comply with provisions of the law.

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

The Directors who are assigned powers or proxies, as well as the Directors participating in possibly formed Committees, shall quarterly inform the Board of Directors and the Board of Statutory Auditors on the general business management, on its outlook and on the major economic, financial and asset transactions carried out by the Company and its subsidiaries, in relation to their dimensions or characteristics. Every three months, they shall also report the transactions in which they are interested, for themselves or on behalf of third parties, or which are influenced by the person carrying out management and supervisory activities.

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

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

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

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

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

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

#### **Article 16 Company positions**

The Board of Directors elects one of its members to serve as Chairman. The Chairman shall represent the Company in the manner described in art. 20 below.

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

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

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

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

The Board of Directors, with prior consent of the Board of Statutory Auditors, shall appoint and remove the Manager in charge of drawing up corporate accounting documentation, and shall fix his/her remuneration. The Manager in charge of drawing up accounting documentation shall have interdisciplinary experience in the sectors of administration, finance and control; moreover, the Manager shall own the honourableness requirements necessary for Directors.

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

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

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

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

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

The Board of Directors shall include a minimum number of independent Directors, with legal requirements. The independent Director losing his/her independence requirements after his/her appointment shall immediately inform the Board of Directors about that; in any case, such Director shall be removed.

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

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

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

a) at least 15 (fifteen) days before the date of first call of the Shareholders' Meeting which shall resolve in this respect, the slates with the names of the candidates to the position of Director shall be filed at the address pointed out in the call notice of the Shareholders' Meeting itself. If the fulfilment term expires on a holiday or on Saturdays, the real deadline shall be postponed to the following first working day.

Slates of candidates must be accompanied by the following information:

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

b) a Shareholder shall not file, nor vote more than one slate, though by intermediary or trust companies. The Shareholders belonging to the same group and the Shareholders who are parties to a shareholders' agreement based on shares of the Company shall not file, nor vote more than one slate, though by intermediary or trust companies. A candidate may be present in just one slate, otherwise he/she shall not be elected;

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

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

Only the slates filed by the Shareholders who promptly filed the required documents within the term pursuant to subsection a) of this article shall be regarded as valid. In case of postponement of the Shareholders' Meeting to second or third call, slate filing shall be regarded as valid;

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

will not be taken into account;

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

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

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

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

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

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

The calling shall include the agenda, the time and the place of the meeting. Meetings may also take place outside the registered office, but shall be held in Italy or in another country within the European Union.

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

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

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

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

Meetings of the Board of Directors may be held by teleconference or videoconference, provided that all participants can be identified and are able to follow the debate and participate in the discussion of the items on the agenda in real time. In the presence of such requirements, the meeting shall be regarded as taking place in the place in which the Chairman and the Secretary find themselves.

Resolutions shall be written down in the book of meeting minutes of the Board, and shall be signed by the Chairman and the Secretary. The names of the Directors present in the meeting shall be written down in the minutes of the Board's meetings.

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

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

The Chairman of the Board of Directors (or his or her substitute) represents the Company before third parties and in judicial proceedings without need for joint signatories and, without the need to secure the prior approval of the Board of Directors, is empowered to file or respond to legal actions of any level or type of jurisdiction, both in Italy and abroad, including the Constitutional Court; to file or respond to requests for statutory and private arbitration proceedings; to file complaints, criminal charges and lawsuits; to file appeals; to request regular and extraordinary encumbrances; to file petitions asking for urgent relief or protective measures, including to waive the right to court proceedings; to accept waivers; to settle lawsuits and disputes, both in and out of court, granting for this purpose the necessary power of attorney; and to appoint legal counsel and agents and representatives in general and determine the scope of their powers.

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

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



## Article 21 Remuneration

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

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

## Title V

### Article 22 Board of Statutory Auditors

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

As required by current laws and regulations, the members of the Board of Statutory Auditors must meet the integrity and professionalism requirements set forth in the relevant provisions. In this field, the metallurgical industry on the whole is regarded as sector and matter closely linked with the Company. Accordingly, the Statutory Auditors will be required to be thoroughly familiar with this field.

The Statutory Auditors shall serve for a term of three years and may be re-elected, if the law does not prevent it. The Shareholders' Meeting shall determine the annual fee payable to the Statutory Auditors for the full length of their term of office at the time the Board of Statutory Auditors is elected.

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

a) at least 15 (fifteen) days before the date of the first calling of the Shareholders' Meeting which shall resolve in this respect, the slates for appointing Standing Auditors and Alternate Auditors in which candidates are marked by progressive numbers shall be filed at the address pointed out in the notice of the calling of the Shareholders' Meeting itself. If the fulfilment term expires on a holiday or on Saturdays, the real deadline shall be postponed to the following first working day.

Slates of candidates must be accompanied by the following information:

1. data identifying the shareholders who are filing slates showing the total percentage interest held and a certification attesting that they own the corresponding shares;
  2. an affidavit by shareholders who are not among those who individually or jointly own a controlling or relative majority interest in the Company stating that they are not parties to any of the linkage transactions referred to in the applicable provisions of the relevant statutes;
  3. detailed information about the personal and professional backgrounds of the candidates, including a listing of management and control posts held by each candidate at other companies, and an affidavit by the candidates accepting their nomination and attesting, under their responsibility, that there are no issues that would make them unelectable or incompatible, that they meet the requirements of the relevant provisions of current statutes and the Bylaws for election to the offices they seek.
- b) if, within the deadline set forth in subsection a) above, only one slate is filed, or if only slates submitted by shareholders who (in accordance with the provisions of subsection a) no. 2 above) are linked with each other pursuant to the laws currently in force are filed, slates may be filed until the fifth day following the above-mentioned date, it being understood that if the deadline for compliance with this requirement falls on a holiday or Saturday, it shall be extended to the next first working day. In the case referred to in this subsection b), the thresholds set forth in subsection d) below shall be reduced by a half.
- c) a Shareholder shall not file, nor vote more than one slate, though by intermediary or trust companies. The Shareholders belonging to the same group and the Shareholders who are parties to a shareholders' agreement based on shares of the Company shall not file, nor vote more than one slate, though by intermediary or trust

companies. A candidate may be present in just one slate, otherwise he/she shall not be elected.

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

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

Only the slates filed by the Shareholders who promptly filed the required documents within the term pursuant to previous subsections a) and b) shall be regarded as valid. In case of postponement of the Shareholders' Meeting to second or third call, slate filing shall be regarded as valid.

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

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

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

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

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

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

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

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

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

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

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

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

**Article 24 Audit**

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

As required by law, the Shareholders' Meeting, acting upon a detailed proposal by the Board of Statutory Auditors, shall select the independent auditors to audit the Company's accounts and shall determine their remuneration.

The audit engagement shall be for a length of time consistent with relevant regulatory provisions and may be renewed, as allowed by said provisions.

**Title VI****Article 25 Financial Year**

Every year, the Company's financial year shall end on 31 December.

The Company approves the financial statements and publishes the annual financial report within one hundred and twenty days from the closing of the financial year.

**Title VII****Article 26 Rights of Common Representatives**

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

**Title VIII****Article 27 Duration of the Company**

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

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

**Title IX****Article 28 Liquidation of the Company**

The Company will be liquidated pursuant to law.

At Company dissolution, savings shares shall be repaid first until Euro 1.50 (one point five zero) per share. In case of share splitting or reverse splitting (as in the case with capital transactions - if necessary in order not to alter Saving Shareholders' rights relating to any shares with nominal value), such fixed amount per share shall be consequently adjusted.



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# Consolidated financial statements at 31 December 2008

## Consolidated balance sheet

(thousands of Euro)	notes reference	as at 31.12.2008	of which with related parties	as at 31.12.2007	of which with related parties
Property, plant and equipment	4.1	616,087	-	619,160	-
Investment property	4.2	22,612	-	20,516	-
Goodwill and consolidation differences	4.3	114,892	-	114,582	-
Other intangible assets	4.4	2,908	-	2,654	-
Investments in subsidiaries and associates	4.5	5,077	5,077	5,279	5,279
Investments in other companies	4.5	258	258	3,693	3,693
Investments in equity - accounted investees	4.5	-	-	-	-
Other non-current assets	4.6	26,342	-	28,019	-
Non-current financial assets	4.7	3,239	-	-	-
Deferred tax assets	4.20	45,014	-	36,513	-
<b>Non-current assets</b>		<b>836,429</b>	-	<b>830,416</b>	-
Inventories	4.8	418,127	-	628,233	-
Trade receivables	4.9	89,058	3,372	127,843	3,389
Other receivables and current assets	4.10	42,962	-	51,169	-
Current financial assets	4.11	208,216	8,207	72,354	5,733
Cash and cash equivalents	4.12	38,814	-	93,936	-
<b>Current assets</b>		<b>797,177</b>	-	<b>973,535</b>	-
<b>Total assets</b>		<b>1,633,606</b>	-	<b>1,803,951</b>	-
Share capital		250,009	-	324,165	-
Other reserves		172,276	-	96,133	-
Treasury shares		(2,349)	-	(37)	-
Retained earnings		5,910	-	5,917	-
Technical consolidation reserves *		98,500	-	68,787	-
Reserve for deferred taxes		131	-	194	-
Profit/(loss) for the year		(68,651)	-	40,774	-
<b>Equity attributable to shareholders of the Parent</b>	<b>2.11</b>	<b>455,826</b>	-	<b>535,933</b>	-
Equity attributable to minority interests		2,529	-	1,690	-
<b>Total Equity</b>	<b>2.11</b>	<b>458,355</b>	-	<b>537,623</b>	-
Employee benefits	4.14	152,377	-	158,510	-
Deferred tax liabilities	4.20	121,272	-	118,290	-
Financial payables and liabilities	4.15	139,307	-	393,077	-
Other non-current liabilities	4.16	11,185	1,180	8,000	-
Provision for risks and charges	4.17	140,491	-	130,065	-
<b>Non-current liabilities</b>		<b>564,632</b>	-	<b>807,942</b>	-
Financial payables and liabilities	4.18	331,402	2,907	127,899	9,073
Trade payables	4.19	147,669	688	172,592	1,391
Other current liabilities	4.19	103,429	580	131,020	752
Provision for risks and charges	4.17	28,119	-	26,875	-
<b>Current liabilities</b>		<b>610,619</b>	-	<b>458,386</b>	-
<b>Total liabilities and Equity</b>		<b>1,633,606</b>	-	<b>1,803,951</b>	-

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

## Consolidated income statement

(thousands of Euro)	notes reference	FY 2008	of which with related parties	FY 2007	of which with related parties
Revenue from sales	5.1	2,975,231	18,878	3,485,318	28,453
Variation in finished and semi-finished products		6,260	-	(3,860)	-
Capitalised internal work		2,618	-	1,918	-
Other operating income	5.2	20,892	1,205	26,809	110
Purchase and change in raw materials		(2,306,532)	(37)	(2,727,694)	(40)
Personnel expense	5.3	(353,785)	(3,007)	(349,288)	(2,221)
Amortisation/depreciation and impairment losses	5.4	(54,334)	-	(50,647)	-
Other operating costs	5.5	(313,020)	(6,598)	(309,139)	(7,295)
<b>Operating Profit (Loss)</b>		<b>(22,670)</b>	<b>-</b>	<b>73,417</b>	
Financial income	5.6	11,668	2,169	7,837	1,547
Financial expense	5.6	(54,111)	(268)	(44,298)	(498)
Share of profit of equity - accounted associates		-	-	-	-
<b>Profit before taxes</b>		<b>(65,113)</b>	<b>-</b>	<b>36,956</b>	<b>-</b>
Current taxes	5.7	(9,877)	-	(30,026)	-
Deferred taxes	5.7	6,909	-	34,228	-
<b>Total income taxes</b>		<b>(2,968)</b>	<b>-</b>	<b>4,202</b>	<b>-</b>
<b>Profit from continuing operations</b>		<b>(68,081)</b>	<b>-</b>	<b>41,158</b>	<b>-</b>
Profit/(loss) from discontinued operations		-	-	-	-
<b>Total Net Profit for the year</b>		<b>(68,081)</b>	<b>-</b>	<b>41,158</b>	<b>-</b>
Profit attributable to minority interests		570	-	384	-
<b>Profit attributable to shareholders of the Parent</b>		<b>(68,651)</b>	<b>-</b>	<b>40,774</b>	<b>-</b>

Earnings per share (figures in Euro):	2008	2007
basic earnings per share	(0.3003)	0.1668
diluted earnings per share	(0.2627)	0.1457

### 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	Parent Company result from previous years	Consolidation reserves	Reserve for deferred taxes	Profit for the year	Total equity
Equity at 31.12.2005 IFRS	189,775	93,658	(37)	5,165	22,292	-	4,343	315,196
Equity at 31.12.2006 IFRS	319,643	93,654	(37)	5,176	25,044	-	51,785	495,265
Equity at 31.12.2007 IFRS	324,165	96,133	(37)	5,917	68,787	194	40,774	535,933
Allocation of Parent Company profit	-	12,185	-	130	-	-	(12,315)	-
Allocation of subsidiaries' profit	-	-	-	-	28,459	-	(28,459)	-
Dividends and allocation to the B.o.D.	-	(11,569)	-	-	-	-	-	(11,569)
Distribution of ErgyCapital S.p.A. shares	-	(1,645)	-	(137)	-	-	-	(1,782)
Creation of available reserve	(74,165)	74,165	-	-	-	-	-	-
Issue of new shares (warrants exercised)	9	-	-	-	-	-	-	9
(Purchase) sale of treasury shares	-	-	(2,312)	-	-	-	-	(2,312)
Vesting of stock options	-	3,007	-	-	-	-	-	3,007
Recognised in equity with no impact on the income statement	-	-	-	-	-	(63)	-	(63)
Change in technical consolidation reserves	-	-	-	-	1,254	-	-	1,254
<b>Total income/expense recognised directly in Equity</b>	-	-	-	-	<b>1,254</b>	<b>(63)</b>	-	<b>1,191</b>
Profit for the year	-	-	-	-	-	-	(68,651)	(68,651)
<b>Total recognised income and expense</b>	-	-	-	-	<b>1,254</b>	<b>(63)</b>	<b>(68,651)</b>	<b>(67,460)</b>
<b>Equity at 31.12.2008 IFRS</b>	<b>250,009</b>	<b>172,276</b>	<b>(2,349)</b>	<b>5,910</b>	<b>98,500</b>	<b>131</b>	<b>(68,651)</b>	<b>455,826</b>
Reclassification of treasury shares	(2,349)	-	2,349	-	-	-	-	-
<b>Equity at 31.12.2008 IFRS</b>	<b>247,660</b>	<b>172,276</b>	<b>-</b>	<b>5,910</b>	<b>98,500</b>	<b>131</b>	<b>(68,651)</b>	<b>455,826</b>

At 31 December 2008, the Parent Company held 78,138 savings shares and 4,480,449 ordinary shares without nominal value. These were therefore reclassified in their entirety as a decrease in share capital.

The change in technical consolidation reserves is essentially due to the effect of translation into Euro of balance sheet items expressed in a currency other than the currency used in these financial statements.

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

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

At 31 December 2007 the Parent Company held 21,666 savings shares without nominal value. These were reclassified in their entirety as a decrease in share capital.

The change in technical consolidation reserves is essentially due to the first consolidation of the Chinese companies, and to a lesser extent to the effect of translation into Euro of balance sheet items expressed in a currency other than the currency used in these financial statements.



## Consolidated cash flow statement of KME Group S.p.A. for the year ended 31 December 2008

(thousands of Euro)	2008	2007
<b>(A) Cash and cash equivalents at the beginning of the year</b>	<b>93,936</b>	<b>162,098</b>
Pre-tax profit	(65,113)	36,956
Amortisation and depreciation	54,104	50,272
Impairment losses on current assets	2,109	4,132
Impairment losses (reversals of imp. losses) on non-current assets other than fin. assets	225	375
Impairment losses/(reversals of imp. losses) on current/non-current financial assets	1,612	-
Losses (gains) on non-current assets	413	256
Change in pension funds, post-employment benefits and stock options	1,286	(4,270)
Change in provisions for risks and charges	11,437	(15,991)
Decreases (increases) in inventories	210,106	53,632
Decreases (increases) in current receivables	46,992	84,278
Current payables increases (decreases)	(52,514)	21,277
Changes from currency translation	(367)	(300)
Decreases (increases) in LME contracts and metal commitments	(107,745)	9,932
Current taxes during the year	(9,877)	(30,260)
<b>(B) Cash flows from Operating Activities</b>	<b>92,668</b>	<b>210,289</b>
(Increases) in non-current intangible assets and property, plant and equipment	(59,289)	(70,818)
(Decreases) in non-current intangible assets and property, plant and equipment	1,680	7,730
(Increases) decreases in investments	64	(424)
(Increases) decreases in available-for-sale financial assets	-	(3,448)
Increases (decreases) in other non-current assets/liabilities	4,862	1,381
Dividends received	2,169	1,531
<b>(C) Cash flows from Investing Activities</b>	<b>(50,514)</b>	<b>(64,048)</b>
Share capital increase	(1,854)	4,522
(Purchase) sale of treasury shares	(2,312)	-
Increases (decreases) in current and non-current financial payables	(72,407)	(244,128)
Increases (decreases) in current and non-current financial receivables	(9,216)	31,345
Dividends paid	(11,487)	(6,570)
<b>(D) Cash flows from Financing Activities</b>	<b>(97,276)</b>	<b>(214,831)</b>
<b>(E) Change in cash and cash equivalents (B) + (C) + (D)</b>	<b>(55,122)</b>	<b>(68,590)</b>
<b>(F) Effect of the change in the consolidation scope</b>	<b>-</b>	<b>428</b>
<b>(G) Cash and cash equivalents at the end of the year (A) + (E) + (F)</b>	<b>38,814</b>	<b>93,936</b>

The cash flow statement does not show amounts relating to positions or transactions with related parties separately as these were not significant.

# 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”) are manufacturers of semi-finished products in copper and its alloys.

The Group owns industrial plants in various European countries and markets its products in all the major countries worldwide.

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

The financial statements at 31 December 2008 were approved by the Board of Directors on 25 March 2009. Although it is a subsidiary of iNTEK S.p.A., as explained above, the company does not consider itself to be subject to direction and coordination as described in Articles 2497 *et seq.* of the Italian Civil Code and Art. 37 of the Stock Market Regulations since:

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

The income statement for the year ended 31 December 2007 has been amended to take into account the reclassification of receivables from the factoring company for Euro 38,306 thousand, previously recorded under “other current receivables and assets”; and now recorded under “current financial assets”. These are sums deposited with the factoring company which represent 10% of the trade receivables sold at the balance sheet date.

The cash flow statement for 2007 has been amended to reclassify the changes in LME contracts for a total of Euro 9,932 thousand, previously recorded as financial assets rather than operating assets.

## 2. Accounting policies

### 2.1 Preparation criteria

The consolidated financial statements at 31 December 2008 were prepared in accordance with Article 154ter of Legislative decree No 58/1998.

The consolidated financial statements were prepared in accordance with the recognition and measurement principles established by the *International Financial Reporting Standards* (IFRS) issued by the *International Accounting Standards Board* (IASB) and adopted by the European Commission according to the procedure indicated in Article 6 of Regulation (EC) No 1606/2002 of the European Parliament and Council of 19 July 2002, and the provisions introduced to implement Article 9 of Legislative Decree No 38/2005.

In preparing these financial statements, the Directors took into consideration the accruals principle, the going concern assumption, understandability, relevance, materiality, reliability, neutrality, prudence and comparability, and applied the same principles adopted in preparing the consolidated financial statements at 31 December 2007.

These financial statements have been prepared in Euro (€), the Parent Company's functional currency.

The Group has still not applied the standards issued by the IASB which become effective after the date of these financial statements.

Company events and operations are recognised and represented according to their economic substance and actual status and not just their legal form.

The notes to the consolidated financial statements illustrate the content and significance of alternative performance indicators not required by IFRS, in line with CESR 05 recommendation 178b published on 3 November 2005.

## 2.2 Basis of consolidation

### (a) Subsidiaries

The subsidiaries are all companies over which KME exercises direction and control over financial and operational policies, generally accompanied by more than 50% of voting rights in the corporate bodies.

The assets and liabilities, income and expenses of the subsidiaries consolidated on a line-by-line basis have been included in the consolidated financial statements in their entirety; the value of investments has been offset against the investee's portion of equity, by attributing their current value on the date control was acquired to the individual elements of the balance sheet assets and liabilities. Any residual difference is recorded under assets in "goodwill on consolidation differences" if positive, and in the income statement if negative. The portion of equity and profit attributable to minority interests is recognised under the relevant items. After initial recognition, goodwill is measured at cost less accumulated impairment losses according to IAS 36 "Impairment of Assets".

The first time IFRS was applied, KME Group S.p.A. opted not to apply IFRS 3 (business combinations) retrospectively, in accordance with the terms of IFRS 1.

On the date of transition to IFRS, there were no changes in the scope of consolidation, and insignificant subsidiaries and companies, the consolidation of which does not produce material effects, have been excluded. These are normally companies carrying out commercial business. The effects of this exclusion are not material, and therefore their omission does not influence the decisions of users of these financial statements. Profit from inter-company transactions with third parties that have not yet been realised are derecognised if they are significant. Receivables, payables, income, expenses, guarantees, commitments and risks between consolidated companies are also derecognised. Intercompany losses are not derecognised as they are considered to be representative of a lower actual value than the carrying amount of the asset that has been disposed of. All financial statements of subsidiaries have been adjusted to ensure that uniform principles and valuation criteria are used by the Group.

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

The following is a list of subsidiaries, which are consolidated on a line-by-line basis.

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

Name	Registered office	Currency	Share/quota capital	Business object	% owned directly	% owned indirectly
KME Group S.p.A.	Italy	Euro	250,009,678	Financial	Capogruppo	
KME Germany A.G.*	Germany	Euro	142,743,879	Holding	100.00%	
KME Germany A.G. & Co. K.G.*	Germany	Euro	200,003,000	Copper & alloy proc.		100.00%
KME Italy S.p.A.	Italy	Euro	103,839,000	Copper & alloy proc.	3.7%	96.30%
KME France S.A.S.	France	Euro	15,000,000	Copper & alloy proc.		100.00%
KME Spain S.A.	Spain	Euro	1,943,980	Commercial		100.00%
KME LOCSA S.A.	Spain	Euro	10,040,000	Copper & alloy proc.		100.00%
KME Verwaltungs und Dienst. mit beschr.	Germany	Euro	10,225,838	Copper & alloy proc.		100.00%
KME Architectural Metals GmbH**	Germany	Euro	25,564	Holding		100.00%
Kabelmetal Messing Beteiligungsges mbH Berlin	Germany	Euro	4,514,200	Property		100.00%
KME Architectural Metals GmbH & CO K.G.**	Germany	Euro	1,329,359	Copper & alloy proc.		100.00%
Cuprum S.A.	Spain	Euro	60,910	Commercial		100.00%
Bertram GmbH	Germany	Euro	300,000	Services		100.00%
KME Ibertubos S.A.	Spain	Euro	332,100	Copper & alloy proc.		100.00%
KME Yorkshire Ltd.	UK	GBP	10,014,603	Copper & alloy proc.		100.00%
Yorkshire Copper Tube	UK	GBP	3,261,000	non-operating		100.00%
Yorkshire Copper Tube (Exports) Ltd.	UK	GBP	100	non-operating		100.00%
KME Brass Germany GmbH	Germany	Euro	50,000	Copper & alloy proc.		100.00%
KME Brass France S.A.S.	France	Euro	7,800,000	Copper & alloy proc.		100.00%
Immobiliare agricola Limestone S.r.l.	Italy	Euro	3,216,000	Property	100.00%	
Dalian Dashan Chrystallizer Co. Ltd.	China	RMB	10,000,000	Copper & alloy proc.		70.00%
Dalian Surface Machinery Ltd.	China	RMB	5,500,000	Copper & alloy proc.		70.00%
Dalian Heavy Industry Machinery Co. Ltd.	China	RMB	10,000,000	Copper & alloy proc.		70.00%
KME Brass Italy S.r.l.	Italy	Euro	15,025,000	Copper & alloy proc.		100.00%
EM Moulds S.r.l.	Italy	Euro	115,000	Commercial		100.00%
KME Recycle S.r.l.	Italy	Euro	10,000	non-operating		100.00%

\* Transfer of all the operating activities of the subsidiary KME Germany A.G. and KME Germany A.G. & Co. K.G. took effect at the beginning of 2008. The operation did not have any effect on the consolidated financial statements, as it was a reorganisation in accordance with the terms of IFRS 3 paragraph 2(C) (combination of entities under common control).

\*\* New company name of the subsidiaries Fricke GmbH and Fricke GmbH & Co KG respectively.

There were no changes in the scope of consolidation during 2008, with the exception of the acquisition of the subsidiary KME Recycle S.r.l. for Euro 10 thousand. At the balance sheet date the company is essentially non-operational, and therefore the effects on the consolidated financial statements are negligible.

Pursuant to a legal provision in Germany, we confirm that the subsidiary KME Architectural Metals GmbH & Co. KG is included within the scope of consolidation of these financial statements and exempted from the audit of these financial statements, in accordance with German provisions “§ 264a HGB. Article 264a Handelsgesetzbuch”.

#### (b) Associates

Associates are all the companies in which KME exercises considerable influence but over which it does not have control. Significant influence exists 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. With the equity method, the investment is initially recognised at cost, and then adjusted in order to show the portion of profits or losses accrued by the parent after the acquisition date. Dividends reduce the carrying amount of the investment.

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

### (c) Joint venture

A joint venture is an agreement by which two or more parties undertake an economic activity subject to joint control. Joint control means the sharing of control over a business, established by a contractual arrangement. Joint ventures are consolidated using the proportionate consolidation method as defined in IAS 31, paragraphs 30-37.

At the balance sheet date, the Group does not have jointly controlled activities as defined by IAS 31.

## 2.3 Transactions in a foreign currency

### (a) Functional and presentation currency

All amounts are expressed in Euro, which is also the parent's functional currency.

### (b) Translation of the financial statements originally in currencies other than Euro

Financial statements prepared in a foreign currency were translated into Euro by applying the average exchange rates for the year to each item of the income statement, and the exchange rate ruling at the balance sheet date to balance sheet items.

The exchange rates used to translate the foreign currency are those established by the Central European Bank at the balance sheet date and are as follows:

Euro 1	Equal to GBP 0.7334	31.12.2007
Euro 1	Equal to GBP 0.9525	31.12.2008 used for the translation of the balance sheet
Euro 1	Equal to GBP 0.7964	average for 2008 used for the translation of the income statement
Euro 1	Equal to 10.7524 RMB	31.12.2007
Euro 1	Equal to 9.4956 RMB	31.12.2008 used for the translation of the balance sheet
Euro 1	Equal to 10.2480 RMB	average for 2008 used for the translation of the income statement

The difference between the profit for the year as this results from the translation using the average rates for the year and that which results from the translation using the rates at the end of December, flowed into the technical consolidation reserves and equity attributable to shareholders of the Parent and minority interests. In the event of disposal, these differences will be recorded in the income statement as part of the gains or losses relating to the disposal of these investments.

## 2.4 Property, plant and equipment

These are recorded at acquisition or production cost, including additional charges that are directly recognised. If an element of property, plant and equipment is made up of various components with different useful lives, they are recorded separately.

They are measured at cost, net of depreciation and accumulated impairment losses, with the exception of land, which is not depreciated and is measured at cost net of accumulated impairment losses.

Depreciation is calculated starting from the month the asset is available for use, or when it is potentially able to provide the economic benefits associated with it. It is recognised on a monthly straight-line basis until the end of its useful life, or, if sold, up to the last month of use.

Depreciation rates take into account the useful life of the various plants in accordance with the results of the study carried out by the firm American Appraisal. The new useful lives have been applied since 1 January 2004 to property, plant and equipment for which fair value was adopted in place of cost on the date of transition to IFRS and for other assets the new useful life was applied from 1 January 2005.

Depreciation is calculated according to the following useful lives:

Buildings	25 to 50 years
Plant and machinery	10 to 30 years
Other equipment	5 to 15 years

Financial charges relating to the purchase of property, plant and equipment are recognised in the income statement, unless they are directly attributable to the acquisition, construction or production of an asset which justifies their capitalisation.

Spare parts with a significant value are capitalised and depreciated based on the useful life of the asset to which they refer; others are charged to the income statement when the expense is incurred.

The cost of an asset produced on a time and materials basis includes the costs of materials used and direct labour, as well as other directly attributable costs incurred for taking the asset to the place of use in the conditions necessary for use as understood by the company management.

Assets acquired with finance leases are recognised as items of property, plant and equipment with a balancing entry under payables. The cost of the lease is separated into the following components: financial charges, recognised in the income statement and capital repayment recorded by reducing financial debt. Assets under finance leases are recognised at cost or at the present value of minimum lease payments due at the start date of the contract, whichever is the lower. Leased assets are depreciated over the shorter of the lease and their useful life, unless it is reasonably certain that the company will become the owner of the asset before the contract term.

Where specific impairment indicators exist, property, plant and equipment are subject to impairment testing. The test involves estimating the recoverable amount of the asset, defined as the higher between the fair value less costs to sell and the value in use, and in comparison with the relative carrying amount. The recoverable amount is the higher of the fair value less costs to sell and the value in use. To determine the value in use, cash flows are actualised using a discount rate before tax which reflects current market valuations of the time value of money and the specific risks of the activity. If the recoverable amount is less than the carrying amount, the latter is reduced to the recoverable amount; this reduction is charged to the income statement, i.e. to the fair value reserve which was set up previously during revaluation of the asset concerned. The process is reversed for any subsequent revaluations. For information about the impairment testing carried out when preparing these financial statements, see the following paragraph (Intangible assets).

## **2.5 Intangible assets**

### **(a) Goodwill**

Goodwill is the difference between the acquisition cost of investments and the present value of the subsidiary's assets, liabilities and contingent liabilities on the acquisition date. Goodwill and other intangible assets which have an indefinite useful life are not amortised; the recoverability of their initially recognized carrying amount is confirmed each year or whenever events occur that could indicate an impairment loss. Impairment losses are not reversed.

The 2008 results and reduction in assets planned for the Group in 2009 are an indicator of impairment. Given this fact, for the purposes of preparing the financial statements at 31 December 2008 and carrying out impairment testing, the directors took into account the results forecast for 2009 and the subsequent years of the plan, and made the necessary amendments to the respective original 2006-2010 plans. They took a prudent approach based on the economic and financial context and the situation of the markets after the profound changes brought about by the current crisis. No writedowns were necessary after the above amendments were made to the figures in the plan and approved by the Board of Directors. Valuations carried out are based on a gross cash flow discount rate of 10.8% and a growth rate of 0.5% for the plan years and the final value.

### **(b) Other intangible assets with definite useful lives**

These are assets without physical consistency, which are identifiable, controlled by the company and capable of producing future economic benefits.

Intangible assets can be acquired by the company through:

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

In the first two cases, intangible assets are measured initially at cost and at fair value respectively, including charges that are directly recognised. They are then systematically amortised over their residual useful lives, which is the time during which the assets are used by the company, generally between 3 and 5 years. In addition, these assets are expressed net of any impairment losses by adopting the same criteria used for “property, plant and equipment”. Their residual value at the end of their useful life is assumed to be zero. Internally generated assets are capitalised only if the conditions dictated by IAS 38, paragraph 57 exist.

## **2.6 Investments property**

This is a complex comprising land and property held for the purpose of receiving rent, as a capital investment, or for both purposes, which is not held for sale in the ordinary course of business. This property is not used in the production or supply of goods or services relating to the Company's core business. The assets are measured at fair value, with any changes recorded on the income statement, and therefore not subject to systematic depreciation.

The fair value of investments property is determined on the basis of a survey carried out by an independent surveyor with recognised relevant professional qualifications and recent experience in the type and location of the investment property being valued.

## **2.7 Financial assets and liabilities**

In the separate financial statements of the subsidiaries, all investments in subsidiaries, associates and joint ventures are measured at cost.

For the reasons set out in paragraph 2.2, investments in subsidiaries that are not part of the scope of consolidation are measured at cost and adjusted for impairment losses.

The other investments are measured at fair value with the effects recognised in equity. When fair value cannot be reliably determined, investments are measured at cost adjusted for impairment losses.

Non-derivative financial assets, with fixed or determinable payments with a specific maturity date that the company intends to hold until maturity, are designated as “assets held to maturity”. Assets that belong to this category are measured using the amortised cost method based on the effective interest method as defined in IAS 39.

Financial assets acquired or held mainly for the purpose of trading in the short term and derivative financial instruments not designated as hedging instruments are designated as “financial assets recognised at fair value through profit or loss”, with separate indication of those that are designated at inception at fair value (fair value option). These assets are measured at fair value with the effects recognised in the income statement. This category includes LME contracts and all metal put and call contracts for managing the risk of changes in the price of the raw material, except for those used to estimate the value of the expected realisable inventory value.

Non-derivative financial assets and liabilities, with the exception of equity instruments, with fixed or determinable payments, not listed on an active market and not belonging to the preceding categories, are classified as “loans and receivables” and are measured at their amortised cost using the effective interest method. For current loans and receivables and for all short-term trade payables and receivables in general, for which the time component has little relevance, it is presumed that the amortised cost corresponds with the carrying amount.

All remaining non-derivative financial assets not classified among the previous three categories are designated “available-for-sale financial assets” and measured at fair value with the effects charged directly to equity, except for impairment losses.

Treasury shares are measured at their historical purchase cost and recorded as a reduction in consolidated equity. In the event of sale, re-issue or cancellation, the subsequent profits and losses are recorded in equity.

#### **Calculation of impairment losses**

All financial assets, with the exception of “financial assets and liabilities recognised at fair value through profit or loss”, are subject to impairment testing according to the terms of IAS 39, paragraphs 58-70.

A financial asset is said to be impaired when there is objective evidence that one or more events have had a negative impact on the estimated cash flows expected from that asset.

An impairment loss on a financial asset measured at amortised cost corresponds to the difference between the carrying amount and the present value of expected estimated cash flows discounted at the original effective interest rate. An impairment loss on an available-for-sale financial asset is calculated on the basis of its fair value.

All impairment losses are recorded in the income statement. Any accumulated impairment loss on available-for-sale financial assets previously recognised in equity is transferred to the income statement upon realisation.

Impairment losses are reversed if the subsequent value increase can be objectively linked to an event which took place after the impairment loss. In the case of assets measured at amortised cost and available-for-sale assets corresponding to debt securities, the reversal is recorded in the income statement.

#### **Measurement of fair value**

The fair value of financial assets and liabilities recognised in the income statement at fair value and of those available for sale at the time of initial recognition is determined on the basis of the transaction price and is therefore equal to the amount paid or received.

Subsequently and at each balance sheet date, the fair value of financial instruments listed on an active market is based on market prices. The market prices used for derivatives are the bid prices, whereas ask prices are used for financial liabilities. The fair value of instruments that are not listed on an active market is determined using valuation techniques based on a series of methods and assumptions linked to market conditions at the balance sheet date. Calculation of the fair value of interest rate swaps is based on the present value of expected future cash flows. The fair value of forward currency contracts is determined using the forward exchange rate at the balance sheet date.

Fair value adjustments of derivative instruments not classified as hedging instruments are recognised directly in the income statement.

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



The fair value of fixed-price contracts to sell or purchase copper is determined based on the market price of the metal component of the contract compared to the agreed price on the balance sheet date. Fair value also takes into account counterparty risk and the effect of time discounting, where significant.

## **2.8 Factoring of receivables**

The KME Group sells a significant portion of its trade receivables through factoring transactions. These transactions can take place with or without recourse. Factoring of receivables without recourse by the Group complies with the requirements of IAS 39 for the derecognition of assets, since all risks and benefits have essentially been transferred. Remuneration due for factoring without recourse is shown under other operating costs. For transactions that do not fulfil the requirements of IAS 39, such as factoring with recourse, the receivables remain in the Group's balance sheet even though they have been lawfully transferred, and are offset by a liability of an equal amount in the consolidated financial statements. Remuneration due for factoring with recourse is shown under financial charges.

## **2.9 Inventories**

Inventories are measured at purchase or production cost and estimated realisable value, whichever is the lower. In general the cost of inventories includes the costs incurred for bringing inventories to their present location and condition.

The value of metals and the production cost are dealt with differently.

Metal (including the metal content in work in progress and in finished products) is measured at the average quarterly weighted cost. The value may be reduced at the end of the year to adjust it to the estimated realisable value.

The estimated realisable value is the estimated price in the ordinary course of business, and is based on the most reliable knowledge available at the moment at which the amount expected to be made from inventories is estimated. The estimate also takes into account the purpose for which the inventories are held. Therefore, the part of inventories held to meet the realisable value once sales are completed is calculated based on the average price of fixed sales agreed with clients. The net realisable value of the part of inventories not held for sales but kept in the company as a strategic metal reserve is based on present sales prices. The Group considers that the best estimate of the present sales price is represented by the average official price, plus additional costs registered on the LME market in December, or the average official price in January, if lower.

The cost of production of work in progress and finished goods, calculated as the average quarterly weighted cost, includes accessory and direct charges and the portion of indirect expenses that can reasonably be assigned to the product, not including administration costs, sales expenses and financial charges. The portion of general costs included in the cost of production is calculated based on ordinary production capacity.

The part of contract work in progress concerning services rendered is measured according to the agreed consideration less marketing costs.

Supplies and consumables are measured at the average weighted cost.

## **2.10 Cash and cash equivalents**

This includes cash, demand deposits and high liquidity short term financial investments that are readily convertible to cash and which are subject to a negligible risk of a change in value (IAS 7 paragraph 45).

## 2.11 Equity

Share capital is comprised of ordinary shares and savings shares, with no nominal value, fully subscribed and paid up at the balance sheet date, reduced by any share capital proceeds to be received. Also, in accordance with IAS 32, the value of treasury shares repurchased is shown as a reduction in share capital issued, whilst the premium or discount with respect to the nominal value adjusts the other components of equity. However, this representation is shown solely in the notes, whilst in the schedules the historical cost of treasury shares held is shown separately as a reduction in Equity.

The reserve for treasury shares is no longer recorded, due to the different presentation method introduced by IFRS. The balance of the existing reserve has therefore been reclassified to the specific reserves which had already been used to create it.

Costs for equity transactions have been charged directly against equity-related reserves by preferably using the share premium reserve.

## 2.12 Receivables and payables

Receivables and payables are recognised at amortised cost. When the effect of the discount is not significant, as in short term trade receivables and payables, they are recorded at their nominal value.

## 2.13 Current and deferred taxes

The tax charge for the year includes both current and deferred taxes. Income taxes are recognised in the income statement, with the exception of those related to transactions recognised directly in equity, which are recorded in equity.

Current taxes represent estimated income tax calculated on the taxable income for the year, determined by applying tax rates which are current or essentially approved at the balance sheet date. Deferred taxes are set aside using the balance sheet liability method, calculating the temporary difference between the carrying amounts of the assets and liabilities recognised and the corresponding amounts recognised for tax purposes. Deferred taxes are not set aside for the following temporary differences: initial recognition of assets or liabilities in a transaction other than a business combination which does not affect the accounting profit (or loss) or taxable income (or tax loss) and differences relating to investments in subsidiaries or joint-ventures, provided that it is probable that the temporary difference will not reverse in the foreseeable future. In addition, the Group does not recognise deferred tax liabilities deriving from initial recognition of goodwill. Deferred tax assets and liabilities are measured using the tax rates it is estimated will be applicable in the year in which the relevant asset is realised or liability settled, based on the tax rates established by current or essentially approved rules at the balance sheet date. Deferred tax assets and liabilities are offset when there is a legally exercisable right to offset current tax assets against current tax liabilities, and when deferred tax assets and liabilities relate to income tax applied by the same tax authority to the same taxpayer or different taxpayers wishing to settle their current tax assets and liabilities on a net basis, or realise their assets and settle their liabilities at the same time.

Deferred tax assets are recognised to the extent in which it is probable that future taxable income will be available against which such assets may be used. Deferred tax assets are reviewed at each balance sheet date and reduced to the extent to which it is no longer probable that the tax benefit will be realised.

## 2.14 Employee benefits

Post-employment benefits are defined on the basis of plans which, according to their characteristics, are divided into “defined contribution” and “defined benefit” plans. With defined contribution plans the company's obligation, limited to the payment of contributions to a separate legal entity (this may also be the government or a fund), is composed of contributions due at the balance sheet date. Liabilities relating to defined benefit plans, such as post-employment benefits as defined by Article 2120 of the Civil Code, net of any plan assets, are determined on the basis of actuarial assumptions and recorded on an accruals basis consistent with the length of service required to obtain the benefits. Actuarial gains and losses relating to defined benefit plans deriving from changes in the actuarial assumptions or from modifications to the terms of the plans are recorded proportionately in the income statement using the “corridor approach”, i.e. recorded only when the net value of actuarial gains and losses not recorded at the end of the previous year exceeds the greater of 10% of the present value of the obligation and 10% of the fair value of any plan asset. Law No. 296 of 27 December 2006 and subsequent decrees and regulations issued in 2007 introduced significant changes to the allocation of accruing sums in the post-employment benefits as part of the reform of the social security system. Workers now have the right to redirect post-employment benefits supplementary pension funds, or to keep them in the company (companies with fewer than 50 employees) or transfer accrued to INPS (companies with more than 50 employees). Based on the generally accepted interpretation of the new regulations, the Group has decided that:

- post-employment benefits at 31 December 2006 (and not yet paid at the balance sheet date), are a defined benefit plan, to be measured under actuarial rules but not including the component relating to future salary increases;
- for subsequent post-employment benefits, whether under the supplementary pension option or the option of payment to the INPS, their type is similar to the defined construction except, when calculating the relevant cost of actuarial estimate components.

Defined benefit plans were measured by independent actuaries.

## 2.15 Provisions for risks and charges

Provisions for risks and charges are liabilities without a fixed amount or due date. Provisions have been recorded only when:

1. the Group has a current (legal or implicit) obligation owing to a past event;
2. it is probable that resources able to produce economic benefits will be needed to meet the obligation;
3. it is possible to make a reliable estimate of the amount of the obligation.

The amounts set aside are therefore the best estimates of the expenses needed to redeem the obligation or transfer it to third parties at the balance sheet date. If the effect of the present value of money is significant, the provision is represented by the present value of the charges that will be needed to settle the obligation.

Provisions for restructuring costs are recognised only if the Group has a formal detailed plan which shows at least: the activity and main operating units concerned, the costs to be incurred, the approximate number of employees involved and when interested third parties have a valid expectation that the entity will implement said restructuring because it has already begun implementation or has communicated it publicly.

## **2.16 Recognition of revenue**

Revenue from the sale of goods and services is measured at the fair value of the consideration received or due, taking into account any returns, rebates, sales discounts or volume discounts. Revenue is recognised when the significant risks and rewards connected to ownership of the goods have been transferred to the buyer; it is likely that the consideration will be recovered and the relative costs or any returns of goods can be reliably estimated.

Transfer of the risks and rewards varies according to the terms and conditions of each contract, but normally takes place when the goods are physically delivered. Revenue from the provision of services, such as processing on behalf of third parties, is recognised according to the status of the service at the balance sheet date. The status is measured according to the extent of work carried out.

## **2.17 Leases**

Leases are contracts in which the lessor transfers to the lessee the right to use an asset for an agreed period of time in exchange for payment, or a series of payments. Contracts that essentially transfer all the risks and rewards deriving from ownership of the asset are defined as finance leases, even when ownership is not transferred at the end of the contract. Finance leases have been recognised according to the terms of IAS 17, paragraphs 20-32.

Operating leases are defined by exclusion, as those that are not considered to be finance leases.

## **2.18 Financial income and expense**

Financial income includes interest income from cash investments, gains on exchange, dividends, commissions on guarantees given, gains on disposal of available-for-sale financial assets, and increases in the fair value of assets held for trading and derivatives, except for increases in the fair value of LME contracts and metal sale and purchase commitments as these are included under "other operating costs". Dividends are recorded only when the shareholders' right to receive payment has been established.

Financial expense includes interest expense on financing transactions, losses on exchange, dividends, commissions on guarantees given, losses on disposal of available-for-sale financial assets, remuneration for factoring of trade receivables with recourse, and decreases in the fair value of assets held for trading and derivatives, except for decreases in the fair value of LME contracts and metal sale and purchase commitments as these are included under "other operating costs".

## **2.19 Stock options**

As shown in the financial statements at 31 December 2006, personnel expense includes the expense relating to stock options granted to executive members of the KME Group S.p.A. Board of Directors and some Group Executives, in line with the remuneration they receive. The fair value of stock options has been determined by the option value at the grant date by applying the Black & Scholes model, which takes into consideration the conditions for the exercising of the right, current share value, strike price, duration of the option, dividends, expected volatility and the risk-free interest rate. The relative cost of the stock options, distributed over the entire vesting period, is recorded with a contra-item in Equity under the "reserve for stock options" item.

## 2.20 Earnings per share

The following criteria have been used for the calculation of the basic and diluted earnings per ordinary share:

- 1) for the numerator, the profit attributable to shareholders of the Parent, adjusted by the result that is to be attributed for the current year to outstanding savings shares minus treasury shares held directly or through subsidiaries;
- 2) for the denominator of the “basic earnings per share” indicator, the weighted average of the ordinary shares outstanding during the year minus any ordinary treasury shares;
- 3) for the denominator of the “diluted earnings per share” indicator, the weighted average of the ordinary shares was adjusted by including the issue of new ordinary shares following:
  - conversion of all outstanding warrants;
  - exercise of all stock options assigned.

For this calculation, it was assumed that conversion of the warrants and exercise of the stock options took place at the beginning of the year, and that these events did not produce any additional income or lower charges.

Calculation of the basic earnings per share at 31 December 2008 took into account the Group's loss of Euro 68.7 million, net of the share due to savings shares, due to holders of outstanding ordinary shares (Euro 40.8 million in 2007) and the average weighted number of outstanding ordinary shares of 235,483,822 (231,989,955 in 2007). Calculation of diluted earnings per share takes into account the potential conversion of 67,929,987 warrants and 33,144,453 stock options, at a ratio of three to one ordinary shares.

## 2.21 Use of estimates

The preparation of these consolidated financial statements and notes thereto under IFRS required the Directors to make estimates and assumptions which affected the reported amounts of assets and liabilities. Estimates were mainly used to measure: the fair value of investments property, LME contracts and contracts for fixing the price of metals with clients and suppliers recorded under financial instruments, the useful lives of non-current assets, provisions for bad debt, impairment losses, employee benefit costs, estimated current and deferred taxes, restructuring provisions, intangible assets with an indefinite life, and other accruals and provisions. These estimates and assumptions are periodically reviewed and any effects are recorded immediately in the income statement. The Directors consider that, at the balance sheet date, the estimates and assumptions used reflected the best possible assessment given the information available. In addition, the Directors consider that the estimates and assumptions adopted do not involve any material adjustments to the carrying amounts of assets and liabilities.

## 2.22 Accounting standards which have not yet been applied

At 31 December 2008, new standards, amendments to standards and interpretations applicable to the company are not yet in force, and have not been used in preparing these consolidated financial statements:

1. IAS 23 Borrowing costs (revised version) abolishes the possibility of recognising borrowing costs in the income statement and requires them to be directly attributed to the cost of acquisition, construction or production of an asset eligible for capitalisation. The revised version of IAS 23 will be applicable to financial years from 1 January 2009, and will represent a change in the Company's accounting principles. In accordance with the transitory provisions, the Group will apply the revised version of IAS 23 to assets capitalised from the

date the new requirement comes into force, or subsequently. Therefore, this will have no impact on the information relating to the previous years included in the Group's consolidated financial statements for 2009.

2. IAS 1 revised Presentation of financial statements (2007) introduces the term "total comprehensive income", which represents changes in equity other than those arising from transactions with equity holders acting in their capacity as equity holders. Companies may present a statement of comprehensive income, which effectively brings together the income statement and all changes in equity not arising from transactions with equity holders acting in their capacity as equity holders in a single schedule. Alternatively, they may prepare an income statement with a separate schedule including the profit or loss for the period and the other components of the statement of comprehensive income. The revised IAS 1, which will be mandatory for the Group starting from the consolidated financial statements for 2009, will not have a significant impact on presentation of the consolidated financial statements.

3. Amendments to IAS 32 Financial instruments: presentation in the financial statements and to IAS 1 Presentation of financial statements – puttable financial instruments and instruments with obligations arising on settlement require the above instruments, and others that impose an obligation on the entity to deliver a proportional share of the entity's net assets to another party only on settlement, to be classified as equity instruments when they meet certain conditions. The above amendments, which will be mandatory for the Group starting from the consolidated financial statements for 2009, with retrospective effect, will not have any impact on the consolidated financial statements.

4. IFRS 3 revised Business combinations (2008) introduces the following changes which are expected to impact on the Group's assets:

- the definition of "company business" has been extended. Therefore, a larger number of acquisitions will be considered business combinations;
- the potential proceeds will be measured at fair value, and subsequent changes in the fair value will be recognised in the income statement;
- transaction costs other than those for issuing shares and debt securities will be recognised in the income statement, when incurred;
- in the event that a company acquires control of a company in which it previously held a minority interest, the fair value of the previously held investment must be measured and the effects of the adjustment recognised carried in the income statement;
- minority interests will be measured case-by-case, at fair value or as a proportion of the share of identifiable assets and liabilities held in the company. Adoption of the revised IFRS 3 will be mandatory for the Group from its 2009 consolidated financial statements and will be applied prospectively.

5. Amended IAS 27 Consolidated and separate financial statements (2008) involves recording changes to the shareholding structure of a subsidiary not involving loss of control under equity. In the event that control is lost, but an interest retained, this interest must be measured at fair value on the date in which control was lost, and the relative income or expense recorded in the income statement. The amendments to IAS 27, which will be mandatory for the Group starting from the consolidated financial statements for 2010, will not have any impact on the consolidated financial statements.

6. Amendments to IFRS 2 Share-based payment: Cancellation and settlement terms clarify the definition of settlement terms, introduce the concept of terms that are not considered settlement terms, require said terms to be reflected in the fair value at grant date and define the accounting treatment of these terms and related cancellations. The amendments to IFRS 2 will be mandatory for the Group starting from the consolidated financial statements for 2009, with retrospective effect. The Group does not consider that these amendments will have a significant impact on the consolidated financial statements.

7. IFRS 8 Operating segments introduces the management approach to segment reporting. IFRS 8 will be applicable to financial years from 1 January 2009, and requires a change to the presentation and segment information based on internal reporting regularly seen by the highest decision-making level for assessing the results of individual sectors and allocating resources accordingly.

### 3. Financial risk management policy

In carrying on its business, the Group is subject to a variety of operating and financial risks. The Group's policy is therefore to eliminate or at least to minimise such risks through hedging strategies. The Group therefore has in place formal procedures for the definition of objectives and procedures for hedging risks involving: credit, liquidity, currency, interest rates and above all fluctuations in the price of raw materials.

#### Types of risk:

- a) credit risk: there are no significant geographic concentrations of credit risk. The guidelines in place are able to ensure appropriate assessment of customers' creditworthiness. This is achieved by developing customers' portfolios on the basis of historical experience, equity and/or financial information, lines of credit given, insurance and factoring without recourse of most of the trade receivables;
- b) liquidity risk: this may arise due to difficulties in obtaining financing for working capital at the appropriate time. The inflows and outflows and the liquidity of Group companies are monitored and coordinated centrally by the Group's Treasury;
- c) currency risk: the Group operates internationally and its transactions are conducted in various currencies and at various interest rates. Exposure to currency risk essentially derives from the geographical distribution of the markets for its products. The Group's policy is to cover all the aforementioned risks using derivative financial instruments such as cross currency swaps and forward contracts;
- d) interest rate risk: the interest rate risk to which the Group is exposed mainly derives from long-term loans. Variable rate loans expose the Group to a cash flow risk, while fixed rate loans involve taking on the risk that fair value will change. The Group manages part of the interest rate risk through IRSs (interest rate swaps), which transform the variable interest rates into fixed ones;
- e) the risk of fluctuations in the prices of raw materials (particularly copper) is the most significant and strategic risk. For this purpose, the Group uses hedges with physical transactions or forward contracts on the LME (London Metal Exchange), in order to hedge the entire risk. Specifically, all fixing of metal prices, whether in sales or purchases, are offset against each other on a daily basis, and the resulting net change is hedged overall by LME contracts, in order to cancel the risk for the company relating to changes in the price of metals at the end of each day. LME fixed prices have a 'paper' function (i.e. end with settlement of the difference), while the physical transactions are actually performed (i.e. end with delivery of the raw material, product or semi-finished product). In actual fact both are physical transactions which can also be settled with cash payment of the differences, the issue of another financial instrument or the exchange of financial instruments. This also applies to commitments (fixed prices) in sales or purchases with customers or suppliers, which are normally settled by physical performance, although they may also be settled in advance by payment of the amounts owed, and may also be used to exploit market opportunities which it would otherwise not be possible to exploit, but without actual delivery of the goods. The concept of similarity or neutrality of LME and physical transactions is further supported by the fact:
  - of having the same possibility of performance (physical or through the settlement of differences);
  - of sharing the same reference price (LME listing);
  - of being managed through a single risk management position, the dynamic of which is tied to operational factors, and a single administration/accounting system;
  - that their fair value can be reliably determined.



The fact that both the LME contracts and commitments made with customers and suppliers may be settled by the difference based on market prices means that, under the terms of IAS 39, paragraph 6b, fixed prices for purchasing and selling metals should also be recorded in the same way as financial instruments, at fair value, with any changes in fair value recorded under “other operating costs” in the income statement.

The derivative financial instruments used by the Group are not designated as hedging instruments pursuant to IAS 39, despite the fact that they have been put in place to manage the aforementioned risks (see paragraph 2.7).

## 4. Notes to the consolidated financial statements

### 4.1 Property, plant and equipment

(thousands of Euro)	Land	Buildings	Plant and equipment	Other assets	Assets under construction	Total
<b>At 31 December 2006</b>						
Historical closing cost	57,970	187,882	882,553	151,567	29,757	1,309,729
Accumulated depreciation and impairment losses	80	94,392	482,459	112,875	-	689,806
<b>Net closing carrying amount</b>	<b>57,890</b>	<b>93,490</b>	<b>400,094</b>	<b>38,692</b>	<b>29,757</b>	<b>619,923</b>
<b>At 31 December 2007</b>						
Historical closing cost	56,506	190,999	912,046	158,279	27,104	1,344,934
Accumulated depreciation and impairment losses	117	99,465	510,260	115,932	-	725,774
<b>Net closing carrying amount</b>	<b>56,389</b>	<b>91,534</b>	<b>401,786</b>	<b>42,347</b>	<b>27,104</b>	<b>619,160</b>
<b>At 31 December 2008</b>						
Historical opening cost	56,506	190,999	912,046	158,279	27,104	1,344,934
Exchange differences	(776)	(542)	(14,990)	(427)	(88)	(16,823)
Change in scope of consolidation	-	-	-	-	-	-
Increases	-	495	10,827	3,733	40,518	55,573
Reclassifications	1,905	9,307	27,567	2,444	(41,224)	(1)
Decreases	(729)	(3,438)	(10,223)	(9,235)	-	(23,625)
<b>Historical closing cost</b>	<b>56,906</b>	<b>196,821</b>	<b>925,227</b>	<b>154,794</b>	<b>26,310</b>	<b>1,360,058</b>
<b>At 31 December 2008</b>						
Accumulated depreciation and impairment losses	117	99,465	510,260	115,932	-	725,774
Exchange differences	5	(18)	(13,119)	(418)	-	(13,550)
Change in scope of consolidation	-	-	-	-	-	-
Depreciation	9	6,326	39,782	6,968	-	53,085
Losses/releases of impairment losses	-	-	-	225	-	225
Decreases	(1)	(3,197)	(9,396)	(8,969)	-	(21,563)
<b>Accumulated depreciation and impairment losses</b>	<b>130</b>	<b>102,576</b>	<b>527,752</b>	<b>113,513</b>	<b>-</b>	<b>743,971</b>
<b>At 31 December 2008</b>						
Historical closing 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
<b>Net closing carrying amount</b>	<b>56,776</b>	<b>94,245</b>	<b>397,475</b>	<b>41,281</b>	<b>26,310</b>	<b>616,087</b>
of which under finance leases:	1,300	3,652	-	119	-	5,071

The following table shows a breakdown by geographical area of property, plant and equipment:

Breakdown by geographical area (millions of Euro)	FY 2008	%	FY 2007	%
Germany	287.9	46.7	293.9	47.5
Italy	237.3	38.5	230.3	37.2
France	53.4	8.7	54.0	8.7
UK	12.6	2.0	16.4	2.6
Spain	20.4	3.3	21.1	3.4
China	4.4	0.7	3.5	0.6
<b>Total</b>	<b>616.0</b>	<b>100.0</b>	<b>619.2</b>	<b>100.0</b>

Part of the aforementioned assets, worth a net value of Euro 278.1 million, were given as a guarantee for the refinancing agreement signed in 2006.

The most significant investments of the year are listed in the report accompanying these financial statements. Assets held with finance leases are the Firenze Novoli building housing the Group's management headquarters (Euro 5.0 million) and some equipment and telephone systems (Euro 0.1 million) belonging to subsidiary KME Germany AG & Co. K.G.. The building lease contract has two purchase options on 30 September 2009 and 30 September 2016.

A breakdown of the future minimum payments owed for finance leases at the balance sheet date and their present value is as follows:

(thousands of Euro)	Within 1 year	Between 1 and 5 years	After 5 years	Total 31.12.2008
Minimum lease payments	508	1,621	3,099	5,228
Interest	10	231	1,007	1,248
Present value	498	1,390	2,092	3,980

previous year:

(thousands of Euro)	Within 1 year	Between 1 and 5 years	After 5 years	Total 31.12.2007
Minimum lease payments	508	1,731	3,498	5,737
Interest	10	241	1,221	1,472
Present value	498	1,490	2,277	4,265

## 4.2 Investments property

(thousands of Euro)	Investments property measured at fair value
Carrying amount at 01.01.2008	20,516
Increases due to acquisitions	-
Increases due to capitalised expenses	2,098
Increases due to business combinations	-
Disposals	(2)
Changes in fair value	-
Changes in use	-
Other changes	-
Carrying amount at 31.12.2008	22,612

The item “Investment property” comprises investments in land and buildings that belong to Immobiliare Agricola Limestone S.r.l. and KME Italy S.p.A.. These investments property are held for the purpose of receiving rent, as a capital investment, or both, and are recognised at fair value. The Euro 2,098 thousand increases are mainly due to capitalised costs relating to restructuring of the buildings. The decreases of Euro 2 thousand during the period are due to the sale of a small parcel of land.

In the course of the year, the following have been recognised in the income statement:

- Euro 0.4 million in rental income;
- Euro 1.0 million in direct operating costs relating to the above investments property.

## 4.3 Goodwill and consolidation differences

Goodwill, worth Euro 310 thousand, is related to the acquisition by the German subsidiary KME Architectural Metals GmbH & Co. K.G. of two company divisions comprising plant, trade receivables and inventories in the course of the year.

The following table shows a detailed breakdown of consolidation differences:

(thousands of Euro)	Total
Opening net balance	114,582
Change in the scope of consolidation and reclassification	-
Changes in the year	-
Changes due to impairment losses	-
Closing net balance	114,582

During 2008, the value of consolidation differences did not change. When preparing the annual report, the value of “goodwill and consolidation differences” is compared (impairment) with the recoverable value determined by estimating value in use.

Although the Company is mainly involved in manufacturing products for industry and construction, these areas should not be classified as business segments according to the terms of IAS 14; this is based on the fact that the nature of the products, production processes, assets used in these production processes and methods of distribution are essentially the same. Therefore, goodwill was allocated to the only segment in which the company operates, which essentially coincides with the scope of consolidation of the subsidiary KME Germany A.G..

The recoverable amount of this area is determined annually at year end based on calculation of the value in use.

#### 4.4 Other intangible assets

(thousands of Euro)	Other assets	Assets under development	Total
<b>At 31 December 2006</b>			
Historical opening cost	14,976	11	14,987
Accumulated amortisation	14,032	-	14,032
<b>Closing net carrying amount</b>	<b>944</b>	<b>11</b>	<b>955</b>
<b>At 31 December 2007</b>			
Historical closing cost	15,966	176	16,142
Closing accumulated amortisation	13,488	-	13,488
<b>Closing net carrying amount</b>	<b>2,478</b>	<b>176</b>	<b>2,654</b>
<b>At 31 December 2008</b>			
Historical opening cost	15,966	176	16,142
Exchange differences	2	-	2
Change in scope of consolidation	-	-	-
Increases	623	680	1,303
Reclassifications	797	(797)	-
Decreases	(6,621)	-	(6,621)
<b>Historical closing cost</b>	<b>10,767</b>	<b>59</b>	<b>10,826</b>
<b>At 31 December 2008</b>			
Opening accumulated amortisation	13,488	-	13,488
Exchange differences	2	-	2
Change in scope of consolidation	-	-	-
Amortisation	1,019	-	1,019
Reclassifications	-	-	-
Decreases	(6,591)	-	(6,591)
<b>Closing amortisation fund</b>	<b>7,918</b>	<b>-</b>	<b>7,918</b>
<b>At 31 December 2008</b>			
Historical closing cost	10,767	59	10,826
Closing accumulated amortisation	7,918	-	7,918
<b>Closing net carrying amount</b>	<b>2,849</b>	<b>59</b>	<b>2,908</b>

Research and development costs are recognised directly in the income statement. During the year, research and development costs amounted to Euro 1.9 million.

## 4.5 Investments in subsidiaries, associates and other investments

Following is a list of the Group's investments:

Name	Registered office	Activity	% owned by KME		Dec. 08 thousands of Euro	Dec. 07 thousands of Euro
			directly	indirectly		
<b>Subsidiaries measured at cost</b>						
Accumold AG	Switzerland	In liquidation	100.00%		-	-
KME Beteiligungsgesellschaft mbH	Germany	Non-operating	100.00%		-	-
Europa Metalli Trèfimetaux UK Ltd.	UK	Non-operating	100.00%		420	545
Evidal Schmole Verwaltungsges mbH	Germany	Non-operating	50.00%		-	-
KME Austria Vertriebsgesellschaft mbH	Austria	Commercial	100.00%		169	168
KM - Hungaria Szinesfem Kft.	Hungary	Commercial	100.00%		8	8
KME metal GmbH	Germany	Non-operating	100.00%		511	511
KM Polska Sp. Zo.o.	Poland	Commercial	100.00%		64	64
KME (Suisse) S.A.	Switzerland	Commercial	100.00%		1,000	1,000
KME America Inc.	United States	Commercial	100.00%		7	7
KME Asia Pte Ltd.	Singapore	Commercial	100.00%		99	99
KME Chile Lda	Chile	Commercial	100.00%		18	18
KME China Limited	China	Commercial	100.00%		657	657
KME Czech Republic	Czech Republic	Commercial	100.00%		3	3
KME Danmark A/S	Denmark	Commercial	100.00%		134	134
KME Messing Beteiligungs GmbH Norib.	Germany	Non-operating	100.00%		511	511
Irish Metal Industrial Ltd.	Ireland	Commercial	100.00%		-	-
YIM Scandinavia A.B.	Sweden	Commercial	100.00%		-	-
KME Moulds Mexico S.A. de CV	Mexico	Commercial	100.00%		528	528
Luebke GmbH	Germany	Liquidated	100.00%		-	102
N.V. KME Benelux S.A.	Belgium	Commercial	100.00%		883	884
Societe Haillane de Participations	France	Non-operating	99.99%		40	40
XT Limited	UK	Non-operating	100.00%		-	-
KME Metals (Dongguan) Ltd.	China	Commercial	100.00%		-	-
KME Metals (Shanghai) Trading Ltd.	China	Commercial	100.00%		16	-
KME Service Russland Ltd.	Russia	Commercial	100.00%		4	-
KME Mould Service Australia Pty Ltd.	Australia	Commercial	100.00%		5	-
<b>Total</b>					<b>5,077</b>	<b>5,279</b>
<b>Other investments measured at cost</b>						
ErgyCapital S.p.A.	Italy	Industrial	6.85%		-	3,448
Editoriale Fiorentina S.r.l.	Italy	Publishing		7.13%	142	-
Consorzio Italmun	Italy	Liquidated	50.00%		-	129
Other KME France S.A.S. equity investments	France	Various	n.a.	n.a.	116	116
<b>Total</b>					<b>258</b>	<b>3,693</b>

The total year-on-year decrease of Euro 202 thousand in investments in subsidiaries and associates consists of:

- an increase of Euro 16 thousand following establishment of the Chinese company KME Metals (Shanghai) Trading Ltd.;
- an increase of Euro 4 thousand following establishment of the company KME Service Russland Ltd based in Russia;
- an increase of Euro 5 thousand following establishment of the company KME Mould Service Australia Pty Ltd based in Australia;
- the Euro 102 thousand decrease is due to conclusion of the liquidation procedures regarding the subsidiary Luebke GmbH;
- the effect of the exchange rate on the value of the investment in Europa Metalli Trèfimetaux UK Ltd. (a decrease of Euro 125 thousand).

The item “other investments in KME France SAS” includes small investments (generally less than 1%) in companies that operate in the construction sector. This is due to the fact that French companies have to pay a certain percentage of personnel expense as contributions, loans or investments in order to assist their staff in purchasing real estate. A minority share was acquired in Editoriale Fiorentina S.r.l. through the subsidiary KME Italy S.p.A. in the course of the year. This publishing company publishes the Corriere Fiorentino, distributed in Tuscany as a supplement to the national daily Il Corriere della Sera.

The investment in ErgyCapital S.p.A., implementing the resolution of the Shareholders' Meeting on 3 August 2007, was allocated to the Parent Company Shareholders in the form of a distribution of reserves in January 2008. Following this operation and after the grouping operation carried out on 26 May 2008, KME Group S.p.A. had in portfolio 5,001,932 ordinary shares worth approximately 6.82% of the share capital and 14,291,235 warrants classified as financial assets held for trading.

Furthermore, the Group no longer has investments in associates measured using the equity method, because these have been fully consolidated following acquisition of control last year, according to the terms of IAS 27 paragraph 13.

The Euro 129 thousand decrease is due to conclusion of the liquidation procedures regarding the subsidiary Consorzio Italmun.

#### **4.6 Other non-current assets**

This essentially consists of guarantee deposits by KME Italy (Euro 0.2 million), KME France (Euro 0.4 million) and KME Germany AG & Co. K.G., amounts due from insurance companies to KME Germany AG & Co. K.G. (Euro 2.3 million), loans to employees, mainly paid by French subsidiaries in compliance with a law that guarantees employees the possibility of receiving loans from their employer to buy property (Euro 2.8 million) and amounts paid to a bank totalling Euro 16.5 million, as a guarantee deposit to cover part of the payment of penalties levied by the European Commission for breach of Article 81 of the EC Treaty. This deposit can subsequently be offset by the amount of the penalty that will eventually be fixed at the end of the ongoing court procedure. The unpaid difference is covered through the release of bank guarantees.

None of the above-mentioned amounts is due within one year.

#### **4.7 Non-current financial assets**

This is the sum of Euro 3.2 million deposited with Unicredit Banca d'Impresa S.p.A. committed to Mediocredito Centrale S.p.A. (MCC). The credit balance of this account must always be equal to 1/16 (one sixteenth) of the loan existing at the time, as well as the accrued six-month's interest due at the next instalment payment. Any excess amounts deposited will be released and immediately available. For more details about the amount and type of loan see paragraph 4.15.

## 4.8 Inventories

(thousands of Euro)	Initial amounts	Changes in the year	Closing amounts
1) Raw materials, consumables and supplies	553,779	(215,991)	337,788
2) Work in progress and semi-finished products	33,059	5,142	38,201
3) Finished products and goods	41,395	743	42,138
<b>Total</b>	<b>628,233</b>	<b>(210,106)</b>	<b>418,127</b>

Inventories were measured at the lower of cost and realisable value.

At the end of last year, a write-down of Euro 98.7 million was recognised in the income statement in order to account for the lower realisable value compared to the cost determined according to the weighted average cost principle on a quarterly basis. At the end of 2008, the metal value resulting from the weighted average cost was again higher than the market value determined according to the procedure described in note 2.9. The lower value was Euro 105 million and, as a result, an increase of Euro 6.3 million was recorded in the provision for bad debt in the income statement.

The decrease in raw material inventories due to the decrease in quantities stored is approximately Euro 58 million.

### Comparative table of quantities

Inventories owned (amounts in thousands)	31.12.2007	31.12.2008	Change %
Total tonnes	121,581	100,588	-17.3%

A quantity totalling 94.6 thousand tons of owned inventories, consisting mainly of copper, was given as a guarantee for the credit lines granted to the Group.

## 4.9 Trade receivables

(thousands of Euro)	Balance at 31.12.2007	Changes in the year	Balance at 31.12.2008
1) due from customers	131,487	(37,750)	93,737
(Bad debt provision)	(7,033)	(663)	(7,696)
<b>Net total</b>	<b>124,454</b>		<b>86,041</b>
2) Due from subsidiaries	3,360	(386)	2,974
3) Due from associates	23	20	43
4) Due from parents	6	(6)	0
<b>Total</b>	<b>127,843</b>	<b>(38,785)</b>	<b>89,058</b>

The item "receivables from customers" includes receivables factored with recourse for Euro 23.9 million. The Directors consider that the carrying amount of trade receivables approximates their fair value.

#### 4.10 Other receivables and current assets

(thousands of Euro)	Balance at 31.12.2007	Changes in the year	Balance at 31.12.2008
1) Tax assets	20,593	(2,625)	17,968
2) Advances to suppliers	15,218	(913)	14,305
3) Prepayments and accrued income	2,026	(277)	1,749
4) Receivables due from factoring companies	-	-	-
5) Other receivables	13,332	(4,392)	8,940
<b>Total other current assets</b>	<b>51,169</b>	<b>(8,207)</b>	<b>42,962</b>

The carrying amount of other receivables is considered to approximate their fair value. "Receivables from the factoring company" at the end of 2007 for Euro 38,306 thousand have been reclassified among current financial assets.

#### 4.11 Current financial assets

(thousands of Euro)	Balance at 31.12.2007	Changes in the year	Balance at 31.12.2008
Financial assets held for trading	5,243	1,893	7,136
LME contracts and contracts to buy/sell metal	5,762	129,885	135,647
Interest rate swap (IRS)/forward exchange contracts	1,349	5,360	6,709
Receivables due from factoring companies	59,262	(1,728)	57,534
Other current financial assets	248	(129)	119
Financial receivables due from subsidiaries	490	581	1,071
<b>Total</b>	<b>72,354</b>	<b>135,862</b>	<b>208,216</b>

Financial assets held for trading by the Parent comprise:

- 5,824,990 iNTEk S.p.A. savings shares. Savings shares are carried at a unit value of Euro 0.70, their official list price at the balance sheet date. The unit price of Euro 0.90 also represents the strike price of the call option granted to the banks that provided the previous banking agreement signed in February 2005 and no longer in existence. This option will expire in 2012.
- 5,001,932 ErgyCapital S.p.A. ordinary shares, with no nominal value, measured according to their official list price at the balance sheet date (Euro 0.38 per share).
- The 14,291,235 ErgyCapital S.p.A. warrants are valued at Euro 0.08 each. This corresponds to their list price at the balance sheet date.

The item "LME contracts and contracts to buy/sell metal" refers to the fair value of contracts in existence at the balance sheet date. At the end of 2008, the amount relating to contracts to buy/sell metal was Euro 129.5 million.

Receivables due from factoring companies include the receivables sold and not yet collected at the balance sheet date for Euro 26.7 million and the amount necessary for forming a deposit to guarantee the lines of credit granted for Euro 30.9 million, reclassified under this item (in 2007 this deposit was Euro 38.3 million).



## 4.12 Cash and cash equivalents

(thousands of Euro)	Balance at 31.12.2007	Changes in the year	Balance at 31.12.2008
Bank and postal deposits	93,823	(55,133)	38,690
Cash on hand	113	11	124
<b>Total</b>	<b>93,936</b>	<b>(55,122)</b>	<b>38,814</b>

Cash and cash equivalents consists of bank and postal accounts and cash on hand.

## 4.13 Equity

Please see the “statement of changes in equity” for a breakdown of these changes.

## 4.14 Employee benefits

(thousands of Euro)	Balance at 31.12.2007	Increases	Decreases	Balance at 31.12.2008
Defined benefit plans	139,610	9,371	(14,286)	134,695
Post-employment benefits	18,900	711	(1,929)	17,682
<b>Total</b>	<b>158,510</b>	<b>10,082</b>	<b>(16,215)</b>	<b>152,377</b>

Defined benefit plans are shown net of any plan assets. Defined benefit plans refer to the German subsidiaries for Euro 120.2 million and KME Yorkshire Ltd. for Euro 14.5 million.

General criteria adopted:

	31.12.2007	31.12.2008
Discount rate	4.8% - 5.8%	4.6% - 6.5%
Rate of return on assets	6.6%	6.1%
Rate of increase in future salaries	2.5% - 3.2%	1.0% - 2.7%
Future increase in services	2.0% - 3.2%	2.0% - 3.9%
Average remaining working life	14 years	14 years

Net value of liabilities:

(thousands of Euro)	31.12.2007	31.12.2008
Present value of partially or fully funded obligations	67,916	42,495
Fair value of defined benefit plan assets	(63,403)	(37,656)
Deficit	4,513	4,839
Present value of non-financed obligations	149,515	144,291
Actuarial gains (losses) not yet recognised	4,482	3,247
Cost of past services not yet recognised	-	-
Amount not recognised as assets pursuant to IAS 19 par. 58 (b)	-	-
<b>Net liabilities recorded in the balance sheet</b>	<b>158,510</b>	<b>152,377</b>

Income statement changes (thousands of Euro)	FY 2007	FY 2008
Current service cost	4,096	2,874
Interest expense	10,622	10,715
Expected return on plan assets	(4,169)	(3,247)
Actuarial gains (losses) recognised	19	(461)
Past service cost	-	-
Effect of any curtailment or settlement	(4,629)	-
<b>Total cost recognised in the income statement</b>	<b>5,939</b>	<b>9,881</b>

All the amounts recognised in the income statement are included under “Personnel expenses”.

Other information:

Present value of the obligation (thousands of Euro)	2007	2008
Opening balance of the obligation	238,255	217,431
Current service cost	4,096	2,874
Interest on the obligation	10,622	10,715
Participants' contributions to the plan	363	348
Actuarial gains (losses)	(13,141)	(17,769)
Settled liabilities or liability reductions	-	-
Exchange differences on foreign plans	(6,263)	(15,419)
Benefits provided and paid	(11,872)	(11,394)
Effect of any curtailment or settlement	(4,629)	-
Past service cost	-	-
<b>Closing balance of the obligation</b>	<b>217,431</b>	<b>186,786</b>

Fair value of plan assets (thousands of Euro)	2007	2008
Opening balance of fair value of plan assets	65,499	63,403
Expected return on plan assets	4,169	3,247
Actuarial gains (losses)	(1,422)	(15,166)
Exchange differences on plans not in Euro	(5,400)	(14,251)
Employer contributions	1,752	1,377
Participants' contributions to the plan	363	348
Settlements	-	-
Benefits provided and paid	(1,558)	(1,302)
<b>Closing balance of fair value of plan assets</b>	<b>63,403</b>	<b>37,656</b>

At year end, the plan assets are composed of equities (60%) and fixed-income securities (40%).

Present value of defined benefit plans and experience adjustments (thousands of Euro)	2007	2008
Present value of defined benefit obligation	217,431	186,786
Plan assets	(63,403)	(37,656)
<b>Surplus (deficit)</b>	<b>154,028</b>	<b>149,130</b>
Experience adjustments on plan liabilities	4,931	(756)
Experience adjustments on plan assets	(1,422)	235

#### 4.15 Non-current financial payables and liabilities

(thousands of Euro)	Balance at 31.12.2007	Changes in the year	Balance at 31.12.2008
1) Due to banks	387,507	(253,317)	134,190
2) Due to Parent Company	-	-	-
3) Due to lease companies	3,926	(295)	3,631
4) Due to others	1,644	(158)	1,486
<b>Total</b>	<b>393,077</b>	<b>(253,770)</b>	<b>139,307</b>

At the end of 2006, KME Group S.p.A. signed two new refinancing contracts for a total value of Euro 1.65 billion. These facility agreements involve GE Commercial Finance (GE Corporate Finance Bank SA) and Deutsche Bank, respectively.

The first agreement, signed with GE Commercial Finance, consists of a credit line up to a maximum of Euro 800 million, usable as factoring without recourse of trade receivables, for a duration of five years. At the balance sheet date, the aforementioned transactions amounted to Euro 319 million.

The second agreement with Deutsche Bank as the Initial Mandated Lead Arranger, Agent and Coordinating bank and with another seven important Mandated Lead Arrangers (BNL, UniCredit, Capitalia, Mediobanca, Commerzbank, Dresdner Bank and HSH Nordbank) consists of two loans:

- a revolving credit line (instalment A) for up to a maximum of Euro 650 million for an initial duration of three years (up to October 2009) which can be extended for a further two years, to cover the financing requirements of inventories guaranteed by this credit line;
- a loan of Euro 200 million (instalment B) to cover other financial needs for a five year duration (of which three years are the grace period and the next two years are repaid on a straight-line basis), guaranteed by the non-current assets of the Group's German industrial companies.

The Group has started negotiations in time with the banks to extend the instalment A loan. It was not possible to agree the extension before 31 December 2008, and the relative exposure has been reclassified under "short-term loans" as it expires within the next 12 months.

In a letter dated 12 March 2009, the Group received confirmation of the extension from the majority of the banks in the pool, for a total of Euro 360 million to the loan's expiry on October 2011.

The following have been agreed as guarantees for the repayment obligations (instalment A):

- the shares of the subsidiaries KME Italy S.p.A., KME Brass Italy S.p.A., KME France S.A.S. and KME France Brass S.A.S. will be pledged, with voting rights withheld;
- the inventories of the industrial companies, except for the Spanish subsidiaries, will be pledged;
- a lien on the factoring and insurance contracts;
- a lien on the accounts held at Deutsche Bank AG, where revenue from the factored receivables are deposited. These accounts have a daily balance of zero as the amounts factored are used immediately in order to support the Group's operations.

The following have been agreed as guarantees for the repayment obligations (instalment B):

- a first level mortgage on the property and other non-current assets belonging to KME Germany K.G..

In the first half of 2008, a new loan was agreed with Mediocredito Centrale S.p.A. (MCC) for a maximum of Euro 103,000,000.00 (one hundred and three million), to finance the costs of the industrial investments made and/or to be made by the individual non-Italian subsidiaries or acquisitions of foreign companies by

KME Group S.p.A. The loan is being disbursed in three instalments between June 2008 and March 2010. Each instalment has a life of eight years from the date on which it is effectively used. The agreement involves SACE S.p.A. (SACE) issuing a demand guarantee to MCC and granting a negative pledge on the assets included under the Group's consolidated assets for up to Euro 200 million, excluding goodwill and cash, for the term of the loan.

All the above credit lines and loans require compliance with financial covenants linked to consolidated equity, debt and EBITDA, calculated on the basis of consolidated management data, as well as the ratio between EBITDA and net consolidated financial charges. At the balance sheet date, all agreed-upon covenants were observed.

All the credit lines and loans were negotiated at a variable market rate, with a spread on the Euribor rate. The amount in the financial statements is measured at amortised cost using the effective interest method. The calculation includes commission and margins paid that are an integral part of the interest and transaction costs.

The amounts due to lease companies mainly involve recognition, according to IAS 17, of the finance lease for the Florence property in which the Group has its management headquarters.

All the non-current payables and liabilities have maturities that exceed 12 months but are less than five years, except for Euro 3 million due to the lease companies and Euro 6.2 million due to MCC that are due after five years.

#### 4.16 Other non-current liabilities

These are essentially payables to employees of the German subsidiaries (Euro 9,5 million) and post-employment benefit for a Director in the Parent (Euro 1.2 million).

#### 4.17 Provisions for risks and charges

The table below summarises the movements relating to the provisions for risks and charges:

(thousands of Euro)	Balance at 31.12.2007	Exchange effect	Increases	Decreases and releases	Current component	Balance at 31.12.2008
Provision for restructuring	9,147	(12)	13,604	(6,724)	(10,466)	5,549
EU sanctions	116,803	-	3,230	-	-	120,033
Other provisions for risks and charges	30,990	(52)	7,566	(5,942)	(17,653)	14,909
<b>Total</b>	<b>156,940</b>	<b>(64)</b>	<b>24,400</b>	<b>(12,666)</b>	<b>(28,119)</b>	<b>140,491</b>

The "current component" item and the balance at 31 December 2007 take into account the transfer of the summarized current liability component to the provisions for risks and charges.

The restructuring provision covers actions to cut back on activities in France.

The increase in the "EU sanctions" is due to accrued interest expense on the nominal amount of the sanctions levied by the European Commission.

With reference to that stated in the 2007 annual report regarding the two EU lawsuits, the hearing for the case involving industrial piping was held on 27 February 2008 before the Court of First Instance of the European Communities. The Group is waiting for the judgement. We are still waiting for a hearing date for the lawsuit involving sanitary piping.

As far as the pending class actions in the United States are concerned, details and assessments are provided in the 2007 annual report. The main development has been the decision by the Appeal Court of Tennessee to dismiss the two appeals begun in 2007 on sanitary piping and industrial piping, respectively, at the request of the parties.

The following developments have taken place concerning the environmental disputes regarding the former industrial factory site in Brescia, which affect the Parent and its subsidiary KME Italy S.p.A., individually:

- for the lawsuit concerning the Parent see the paragraph entitled “ongoing disputes”;
- for the lawsuit concerning the subsidiary KME Italy S.p.A. on 24 February 2009 the judge has declared the summons of all the parties involved inadmissible.

For disputes pending before the Court of Hannover relative to squeeze out and merger transactions, a preliminary investigation is in progress.

The 2007 tax inspections at the subsidiary KME Italy S.p.A. have been completed, with issue of the preliminary assessment reports. In relation to these, the subsidiary is certain it has acted correctly and this opinion is corroborated by the opinions of its tax consultants and the first degree judgement of the competent tax committee. For this reason, no provisions have been made, except for legal expenses.

The aforementioned disputes and inspections are not currently expected to have any significant impact.

At the balance sheet date, there are no other significant contingent liabilities.

#### 4.18 Current financial payables and liabilities

(thousands of Euro)	Balance at 31.12.2007	Changes in the year	Balance at 31.12.2008
1) Due to banks	72,717	185,794	258,511
2) Due to Parent	6,414	(6,397)	17
3) Due to subsidiaries	2,659	231	2,890
4) Due to lease companies	280	67	347
5) Due to factoring companies	32,129	(8,267)	23,862
6) Interest rate swaps (IRS)/forward currency contracts	849	920	1,769
7) LME contracts and contracts to buy/sell metal	6,078	22,140	28,218
8) Due to others	6,773	9,015	15,788
<b>Total</b>	<b>127,899</b>	<b>203,503</b>	<b>331,402</b>

The item “LME contracts and contracts to buy/sell metal” refers at the fair value of the contracts still existing on the balance sheet date. At the end of 2008, the amount relating to contracts to buy/sell metal was Euro 6.2 million.

Interest rate swaps were agreed to hedge interest rate risk on part of the existing bank exposure, through the purchase of fixed rates against the sale of variable rates based on the six month Euribor.

The amounts “due to factoring companies” represent receivables factored with recourse at the balance sheet date.

The net financial position with details of its main components pursuant to CONSOB communication No. 6064293 and the CESR “Recommendations for the consistent implementation of the European Commission regulation on information memoranda” of 10 February 2005 is indicated in the Directors’ Report rather than in these notes.

The increase in payables due to others is essentially due to sales and repurchases of available stock. At the balance sheet date, there are Euro 6 million in receipts from customers which have been sold and are the exclusive property of the factoring company.

#### 4.19 Trade payables and other current liabilities

(thousands of Euro)	Balance at 31.12.2007	Changes in the year	Balance at 31.12.2008
1) Due to suppliers	171,201	(24,217)	146,984
2) Due to subsidiaries	1,391	(706)	685
2) Due to Parent	-	-	-
<b>Total trade payables</b>	<b>172,592</b>	<b>(24,923)</b>	<b>147,669</b>

The carrying amount of trade payables approximates their fair value.

(thousands of Euro)	Balance at 31.12.2007	Changes in the year	Balance at 31.12.2008
1) Due to employees	42,720	(1,751)	40,969
2) Due to Parent	-	-	-
3) Due to social security institutions	13,329	(1,017)	12,312
4) Tax payables	45,521	(29,027)	16,494
5) Accrued expenses and deferred income	1,062	1,907	2,969
6) Other payables	28,388	2,297	30,685
<b>Total other current liabilities</b>	<b>131,020</b>	<b>(27,591)</b>	<b>103,429</b>

Amounts due to employees include obligations that have matured but have not been paid at the balance sheet date.

Tax payables include Euro 3.7 million in direct corporate income tax.

Other payables include Euro 24.5 million to customers for advances and credit notes issued.

## 4.20 Deferred tax assets and liabilities

(thousands of Euro)	Balance at 31.12.2007	Changes in the year	Balance at 31.12.2008
1) Deferred tax assets	36,513	8,501	45,014
2) Deferred tax liabilities	(118,290)	(2,982)	(121,272)
<b>Difference</b>	<b>(81,777)</b>	<b>5,519</b>	<b>(76,258)</b>

Deferred tax assets and liabilities are measured on the temporary differences between the carrying amounts of the assets and liabilities recognised and the corresponding amounts recognised for tax purposes.

Deferred tax assets are only recorded when it is likely that they will be recovered, i.e. when it is estimated that future taxable income will be sufficient to recover them.

The Parent Company has not recognised any deferred tax on the temporary differences relating to the financial investment in the subsidiary KME Germany AG according to the terms of IAS 12 paragraph 39.

Deferred taxes are recognised in non-current assets and liabilities and offset for each individual subsidiary when the conditions pursuant to IAS 12 exist.

At the date of these financial statements, the Group did not recognise deferred tax assets on previous tax losses of Euro 169.8 million.

The table below shows details of tax losses on which deferred tax assets broken down by company were recognised or not at 31 December 2008:

(thousands of Euro)	31.12.2008	31.12.2007
<b>a) tax losses recognised</b>		
KME Group S.p.A.	3,519	7,807
KME Verwaltungs- u. Dienstleistungs-GmbH	3,127	3,764
KME Architectural Metals GmbH & Co. KG	1,812	347
KME Italy S.p.A.	13,571	20,096
KME Locsa S.A.	4,073	4,073
KME Yorkshire Ltd.	-	3,661
<b>Total (1)</b>	<b>26,102</b>	<b>39,748</b>
<b>b) previous tax losses unrecognised</b>		
KME Group S.p.A.	11,507	26,787
KME France S.A.	81,071	56,094
KME Brass France S.A.S.	9,234	-
KME Spain S.A.	27,158	12,162
KME Italy S.p.A.	14,754	-
KME Yorkshire Ltd.	7,862	-
KME Locsa S.A.	17,745	24,915
Other companies	516	84
<b>Total (2)</b>	<b>169,847</b>	<b>120,042</b>
<b>Total (1) + (2)</b>	<b>195,949</b>	<b>159,790</b>

The following table shows details of deferred tax assets and liabilities broken down by balance sheet item.

(thousands of Euro)	Deferred tax assets		Deferred tax liabilities	
	31.12.2007	31.12.2008	31.12.2007	31.12.2008
Property, plant and equipment	-	187	67,434	65,809
Intangible assets	-	141	118	134
Investment property	-	-	-	-
Other non-current assets	-	1	1,042	-
Inventories	-	-	44,582	24,488
Trade receivables	671	707	156	102
Other receivables and current assets	429	44	89	295
Current financial assets	86	1,519	1,802	29,611
Employee benefits	10,498	8,814	821	803
Non-current financial liabilities	1,248	74	136	28
Other non-current liabilities	1,788	1,998	-	-
Provisions for risks and charges	6,622	5,881	1,876	-
Current financial liabilities	2,100	17,288	232	2
Trade payables	489	92	-	-
Other current liabilities	1,191	507	-	-
Deferred taxes on Equity components	196	131	2	-
Deferred taxes on previous tax losses	11,195	7,630	-	-
<b>Total</b>	<b>36,513</b>	<b>45,014</b>	<b>118,290</b>	<b>121,272</b>

Deferred tax assets allocated to equity refer to charges relating to the increase in share capital incurred by the Parent Company.

#### 4.21 Information on transactions with related parties

During the year, the Group engaged in commercial transactions with related parties not included in the scope of consolidation which resulted in small amounts as shown in the financial schedules.

All of these transactions were carried out at market prices and values.

Information regarding the salaries of Managers and Directors with strategic responsibilities is shown below:

(thousands of Euro)					FY 2007			FY 2008			
Short-term benefits	Post-employment benefits	Other long-term benefits	Termination benefits	Share-based payments	Year total	Short-term benefits	Post-employment benefits	Other long-term benefits	Termination benefits	Share-based payments	Year total
7,081	28	944	1,827	1,690	11,570	6,565	26	396	1,273	1,863	10,123

For the information in Annex 3C, regarding remuneration of members of Corporate Governance and CEOs under CONSOB Regulation No. 11971/98 and subsequent amendments see the Directors' Report.



## 5. Income statement

Pursuant to CONSOB Communication No 6064293/06, the Group has not carried out atypical and/or unusual transactions during 2008.

### 5.1 Revenue from sales

The breakdown of revenue from sales by geographical area is shown below:

Breakdown by geographical area (millions of Euro)	FY 2008	%	FY 2007	%
Germany	717	24.1	849	24.4
Italy	580	19.5	713	20.5
France	323	10.9	360	10.3
UK	271	9.1	348	10.0
Spain	140	4.7	171	4.9
Other European countries	665	22.4	758	21.8
<b>European total</b>	<b>2,696</b>	<b>90.6</b>	<b>3,199</b>	<b>91.8</b>
Rest of world	279	9.4	286	8.2
<b>Total</b>	<b>2,975</b>	<b>100.0</b>	<b>3,485</b>	<b>100.0</b>

Revenue from sales, net of the influence of the cost of raw materials, decreased by Euro 28.6 million, from Euro 890.9 million (2007) to Euro 862.3 million (2008).

### 5.2 Other operating income

(thousands of Euro)	FY 2008	FY 2007	Change %
Use of provisions	1,859	8,016	-76.81%
Government grants	1,474	1,591	-7.35%
Capital gains on the sale of non-current	1,297	2,457	-47.21%
Rental income	1,048	809	29.54%
Canteen service income	634	687	-7.71%
Insurance payments	528	1,130	-53.27%
Other	14,052	12,119	15.95%
<b>Total</b>	<b>20,892</b>	<b>26,809</b>	<b>-22.07%</b>

Government grants include Euro 1.2 million relating to the early retirement agreement entered into by the German subsidiary.

### 5.3 Personnel expense

(thousands of Euro)	FY 2008	FY 2007	Change %
Wages and salaries	268,885	270,447	-0.58%
Social security charges	69,254	68,468	1.15%
Charges for stock option	3,007	2,221	35.39%
Other personnel expense	12,639	8,152	55.04%
<b>Total</b>	<b>353,785</b>	<b>349,288</b>	<b>1.29%</b>

Other personnel expense includes provisions for defined benefit pension funds and post-employment benefits for Euro 10.01 million.

Stock options charges concern the launch of an incentive plan reserved for executive members of the Board of Directors and Group managers who hold positions which are more directly responsible for the operating results. The plan involves the free granting of rights over KME Group S.p.A. shares in a ratio of 1:3 as of 1 September 2007, to be exercised by 28 February 2011. The strike price has been set at Euro 1.029 per share calculated on the basis of the average official Stock Exchange prices recorded in the month preceding the grant date (31 July 2006), and taking into consideration the grouping of ordinary and savings shares that took place on 16 July 2007. The charge in the year and, therefore, the fair value of services received, was determined indirectly by referring to the fair value of granted equities.

The fair value of the stock options (Euro 0.1 on first allocation and Euro 0.38 for options re-allocated during 2007) was calculated by an independent actuary at the moment of granting by applying the Black & Scholes model, which takes into consideration the conditions relating to exercising of the right, current share value, expected volatility (estimated according to the historical trend at one year of the underlying asset), risk-free interest rate in the Euro area, expected rate of dividends and probability that those with the rights are in a position to exercise the aforementioned right at the end of the vesting period.

The status of the stock option plan existing at 31 December 2008 is as follows:

Situation at	31.12.2006 no. of options	31.12.2007 no. of options	31.12.2008 no. of options
<b>Existing rights 1 January</b>	zero	43,731,776	33,144,453
New rights granted	43,731,776	-	-
Rights re-granted	-	12,827,982	-
Rights exercised in the year	-	6,802,713	-
Rights expired in the year	-	16,612,592	-
<b>Rights existing at the end of the year</b>	<b>43,731,776</b>	<b>33,144,453</b>	<b>33,144,453</b>
of which exercisable:	zero	3,498,540	18,321,498

From 1 September 2009, it will be possible to exercise the third instalment of rights granted, equal to 14,855,955 options.

#### 5.4 Amortisation/Depreciation and impairment losses

(thousands of Euro)	FY 2008	FY 2007	Change %
Depreciation	53,085	49,317	7.64%
Amortisation	1,024	954	7.34%
Release of impairment losses from previous years	(600)	-	insig.
Impairment losses	825	376	insig.
<b>Total</b>	<b>54,334</b>	<b>50,647</b>	<b>7.28%</b>

During the year, the Directors recorded "impairment losses" totalling Euro 825 thousand relative to assets in France and in Italy.

## 5.5 Other operating costs

(thousands of Euro)	FY 2008	FY 2007	Change %
Energy requirements	79,250	65,024	21.88%
Maintenance and repairs	38,846	38,057	2.07%
Insurance premiums	11,184	14,113	-20.75%
Rentals and operating leases	9,953	9,644	3.20%
Difference on LME transactions	5,735	(49,731)	insig.
Fair value on LME contracts and contracts to buy/sell metal	(64,809)	9,932	insig.
Outsourcing	28,732	29,482	-2.54%
Logistics and transport on sales	60,057	60,384	-0.54%
Commision	19,946	21,307	-6.39%
Funding fees on factoring	20,619	20,090	2.63%
Other operating costs	103,507	90,837	13.95%
<b>Total</b>	<b>313,020</b>	<b>309,139</b>	<b>1.26%</b>

The item “difference on LME transactions” includes the difference between the notional value of sales and purchases carried out in the year.

Funding fees on factoring includes the fees for factoring without recourse of trade receivables due to the transferee company.

In other operating costs, the following have been included:

1. provisions, net of any releases, to the “provisions for risks and charges” of Euro 26 million. Part of the above provisions, totalling Euro 22 million, of which Euro 13.6 million linked to the reorganisation of the Group's industrial units, Euro 3.6 million in interest accrued on the EU penalties on competition and Euro 4.8 million on estimated costs relating to the ongoing legal and environmental disputes, has been classified as “non-recurring expenses” in the “reclassified income statement” presented in the Directors' Report;
2. banking services totalling Euro 1.5 million;
3. capital losses on disposals for Euro 1.7 million;
4. provisions for bad debts amounting to Euro 2.0 million;
5. legal and administrative consultancy and remuneration for corporate officers totalling Euro 15.5 million. Part of these costs, Euro 4.2 million, linked to the reorganisation of the Groups' industrial units, has been shown as “non-recurring expenses” in the “reclassified income statement” presented in the Directors' Report.

## 5.6 Financial income and expenses

(thousands of Euro)	FY 2008	FY 2007	Change %
Interest income	1,903	2,877	-33.85%
Exchange gains	7,421	2,898	insig.
Dividends	2,169	1,531	41.67%
Other financial income	175	531	-67.04%
<b>Total financial income</b>	<b>11,668</b>	<b>7,837</b>	<b>48.88%</b>
Interest expense	(28,017)	(33,064)	-15.26%
Exchange losses	(16,175)	(1,435)	insig.
Other financial expense	(9,919)	(9,799)	1.22%
<b>Total financial expense</b>	<b>(54,111)</b>	<b>(44,298)</b>	<b>22.15%</b>
<b>Total net financial expense</b>	<b>(42,443)</b>	<b>(36,461)</b>	<b>16.41%</b>

Interest expense includes Euro 1.8 million in interest on factoring transaction with recourse.

The reduction in interest expense is due to a reduction in rates (Euribor) and interest-bearing debt, therefore net of fair value, on financial instruments, which fell from Euro 153.9 million at 31 December 2007 to Euro 140.6 million at the balance sheet date (see table of debt in the Directors' Report on operations).

## 5.7 Current and deferred taxes

(thousands of Euro)	FY 2008	FY 2007	Change
Current taxes	(9,877)	(30,026)	insig.
Deferred taxes	6,909	34,228	insig.
<b>Total</b>	<b>(2,968)</b>	<b>4,202</b>	<b>insig.</b>

As of last year, KME Group S.p.A. and its Italian subsidiaries have chosen the "national consolidated tax regime" option, calculating IRES on a taxable basis corresponding to the algebraic sum of the positive and negative taxable amounts of each individual company. Financial relations, as well as responsibilities and reciprocal obligations, are set out in the agreement and regulation relative to the national consolidated tax option, according to which parent and/or subsidiaries with negative taxable income receive a payment equal to the relative tax savings realised by the parent and/or subsidiaries with positive taxable income.

Tax benefits of Euro 1.7 million were recognised in the course of the year, due to the transfer of tax losses and negative taxable income of KME Italy, used to reduce current tax charges.

Deferred tax assets and liabilities were calculated on the temporary differences between the carrying amounts of assets and liabilities recognised and the corresponding tax amounts. Temporary differences originated from consolidation adjustments which changed the carrying amounts in the consolidated financial statements with respect to the tax amounts.

Below is a summary table which shows the ratio between the tax charges for the year and the effect on the financial result and the tax rate applicable according to the terms of IAS 12 paragraph 81.

### Correlation between tax charges and the financial result

(thousands of Euro)	31.12.2008	31.12.2007
Pre-tax result	(65,113)	36,956
Theoretical tax charge (tax rate used: 31.4 %)	(20,445)	13,766
<b>Reconciliation:</b>		
Effect due to different tax rates	(920)	(27,039)
<b>Other effects:</b>		
Non-deductible and not taxable charges (income)	(2,153)	(13,010)
Tax losses for the year not recognised as deferred tax assets	19,472	6,056
Release of tax losses recognised after inspection by the tax authorities	-	8,692
Income tax offset by unrecognised previous tax losses	6,868	10,799
Recognition of deferred taxes pursuant to IAS 12 paragraph 37	-	(3,468)
Other	146	2
<b>Taxes recognised in the income statement</b>	<b>2,968</b>	<b>(4,202)</b>

1. The rate used for calculation at 31 December 2007 was 37.25%

## Disclosure of fees for services provided by the independent auditors

According to the terms of the Issuers' Regulations Article 149 *doudecies*, for indication of the fees for services provided to Group companies by the independent auditors during the year, see the information provided in the Parent separate financial statements.

## 5.8 Other information

### Financial instruments by category

(thousands of Euro)	2007	2008	Change
Financial assets recognised at fair value through profit or loss	12,354	149,492	137,138
Held to maturity assets	-	-	-
Loans and receivables	360,967	230,482	(130,485)
Financial assets available for sale	8,972	-	(8,972)
Financial liabilities recognised at fair value through profit or loss	6,927	29,987	23,060
Financial liabilities at amortised cost	686,461	588,391	(98,070)

### Financial instruments by balance sheet item

Financial instruments and reconciliation with balance sheet items at 31 December 2008:

Balance sheet item (thousands of Euro)	Total	Measured at amortised cost	Measured at fair value	Outside the scope of IFRS 7
<b>Financial assets:</b>				
Investments in subsidiaries and associates	5,077	-	-	5,077
Investments in other companies	258	-	-	258
Investments in Equity	-	-	-	-
Non-current financial assets	3,239	3,239	-	-
Other non-current assets	26,342	26,342	-	-
Trade receivables	89,058	89,058	-	-
Other receivables and current assets				
Tax receivables	17,968	-	-	17,968
Receivables due from suppliers	14,305	14,305	-	-
Other non-financial assets	10,689	-	-	10,689
	<b>42,962</b>			
Cash and cash equivalents	38,814	38,814	-	-
Current financial assets				
Factoring	57,534	57,534	-	-
Receivables	1,190	1,190	-	-
Derivative instruments	142,356	-	142,356	-
Other financial instruments	7,136	-	7,136	-
	<b>280,216</b>			
		<b>230,482</b>	<b>149,492</b>	<b>33,992</b>

Balance sheet item (thousands of Euro)	Total	Measured at amortised cost	Measured at fair value	Outside the scope of IFRS 7
<b>Financial liabilities:</b>				
Non-current and current financial liabilities				
Payables due to social security institutions	392,701	392,701	-	-
With recourse factoring	23,862	23,862	-	-
Payables due to lease companies	3,978	3,978	-	-
Other financial liabilities	20,181	20,181	-	-
Derivative instruments	29,987	-	29,987	-
	<b>470,709</b>	<b>440,722</b>	<b>29,987</b>	-
Trade payables	147,669	147,669	-	-
	<b>618,378</b>	<b>588,391</b>	<b>29,987</b>	-

### Notional amount of derivative financial instruments

A table summarising the notional amounts and maturity dates of derivative financial instruments existing at the balance sheet date is shown below:

Description (thousands of Euro)	Expiry between			Total at	
	within 1 year	1 and 5 years	after 5 years	31.12.2008	31.12.2007
LME contracts on commodities and contracts to buy/sell metal	682,311	2,081	-	684,392	161,028
Forward exchange contracts	131,260	-	-	131,260	126,820
Cross-currency swaps	856	-	-	856	1,688
Interest rate swaps (IRS)	45,000	-	-	45,000	45,000
<b>Total</b>	<b>859,427</b>	<b>2,081</b>	<b>-</b>	<b>861,508</b>	<b>334,536</b>

The net change in the fair value of LME transactions recognised in the income statement during the year was Euro 58.5 thousand. In the previous year the figure was negative, totalling Euro 9.9 thousand.

The notional amount of LME contracts on commodities and contracts to buy/sell metal indicates all the buying and selling transactions.

Part of the commitments to sell, worth Euro 187.3 million, has been used to determine the average realisable price as described in point 2.9.

## Exposure to credit risk and impairment losses

The carrying amount of financial assets represents the Group's maximum exposure to credit risk.

The age of trade receivables at the balance sheet date was as follows:

Description (thousands of Euro)	Gross carrying amount	Write-downs 31.12.2008	Net carrying amount
not yet due	54,804	1,220	53,584
overdue by zero to 60 days	22,956	336	22,620
overdue by 61 to 120 days	7,209	885	6,324
overdue by 121 days to 1 year	3,049	445	2,604
over due by more than 1 year	5,719	4,810	909
<b>Total</b>	<b>93,737</b>	<b>7,696</b>	<b>86,041</b>

Movements in the bad debt provision in the year are shown below:

(thousands of Euro)	
<b>31.12.2007</b>	<b>7,033</b>
Currency exchange difference	62
Scope of consolidation	-
Impairment losses of the year	2,037
Usage	948
Release	488
<b>31.12.2008</b>	<b>7,696</b>

## Foreign exchange exposure

The following table shows the Group's exposure to exchange rate risk according to the notional amount in the individual currencies:

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	-
<b>Gross balance sheet exposure</b>	<b>(1,575)</b>	<b>951</b>	<b>4,174</b>	<b>18,547</b>	<b>838</b>
Estimated sales forecast	62,963	11,293	8,485	27,030	262
Estimated purchases forecast	34,767	135	2,852	189	459
<b>Gross exposure</b>	<b>26,621</b>	<b>12,109</b>	<b>9,807</b>	<b>45,388</b>	<b>641</b>
Forward exchange contracts	40,766	18,231	13,491	57,981	(9,343)
<b>Net exposure</b>	<b>(14,145)</b>	<b>(6,122)</b>	<b>(3,684)</b>	<b>(12,593)</b>	<b>9,984</b>

### Analysis of sensitivity

Appreciation of the Euro by 10% (or depreciation by the same percentage) against the currencies shown above would have led to an increase (decrease) in equity and profit for the year of Euro 4.9 million at 31 December 2008. The analysis above was carried out on the assumption that all other variables remained constant, in particular, interest rates. The same analysis for 2007 would have produced an increase of Euro 0.8 million in profit for the year and equity.

Previous year amounts:

31.12.2007	USD	GBP	CHF	SEK	EUR
Non-current financial assets	-	-	-	-	-
Other non-current assets	-	-	-	-	-
Trade receivables	6,851	9,050	2,539	47,260	5,632
Other receivables and current assets	2,720	774	505	339	-
Current financial assets	3,303	2,519	5,122	1,791	-
Cash and cash equivalents	3,729	3,476	163	6,522	291
Financial liabilities	-	21	21	-	-
Trade payables	8,127	188	116	173	10,640
Other current liabilities	-	-	-	2,078	-
<b>Gross balance sheet exposure</b>	<b>8,476</b>	<b>15,610</b>	<b>8,192</b>	<b>53,661</b>	<b>(4,717)</b>
Estimated sales forecast	37,752	10,501	17,665	18,397	1,297
Estimated purchases forecast	68,254	-	-	-	417
<b>Gross exposure</b>	<b>(22,026)</b>	<b>26,111</b>	<b>25,857</b>	<b>72,058</b>	<b>(3,837)</b>
Forward exchange contracts	(31,875)	15,230	23,950	45,000	-
<b>Net exposure</b>	<b>9,849</b>	<b>10,881</b>	<b>1,907</b>	<b>27,058</b>	<b>(3,837)</b>

### Interest rate exposure

The interest rate profile applied to the interest-bearing financial instruments of the Group at the balance sheet date was as follows:

(thousands of Euro)	Carrying amount	
	31.12.2007	31.12.2008
<b>Fixed rate instruments:</b>		
Financial assets	3,671	6,205
Financial liabilities	55,134	38,419
<b>Total</b>	<b>(51,463)</b>	<b>(32,214)</b>
<b>Variable-rate instruments:</b>		
Financial assets	97,720	24,223
Financial liabilities	450,955	386,404
<b>Total</b>	<b>(353,235)</b>	<b>(362,181)</b>

### Analysis of the sensitivity of the fair value of fixed rate instruments and LME contracts and commitments to buy and sell raw materials

The Group did not recognise any fixed rate financial asset or liability at fair value through profit or loss and did not designate derivatives (interest rate swaps) as fair value hedges. As a result, any changes in the interest rates at the balance sheet date would not have any effect on the income statement.

The Group uses LME contracts (forward contracts on commodities on the London Metal Exchange) to cover fluctuations in the price of raw materials, copper in particular. These instruments are measured at fair



value through profit or loss. A Euro 100 per tonne increase in the price of copper at the balance sheet date would result in a decrease in profit and equity of Euro 0.52 million. The same change to financial statements figures at 31 December 2007 would have produced an increase of Euro 3.2 million.

#### *Analysis of the sensitivity of the cash flows of variable rate financial instruments*

An increase (or decrease) of 50 basis points (BPS) in interest rates at the balance sheet date would produce a decrease (increase) in equity and profit for the year of roughly Euro 1.7 million (Euro 1.8 million in 2007). The analysis was based on the assumption that the other variables remained constant, particularly exchange rates, and it was carried out for 2007 using the same assumptions.

#### **Exposure to liquidity risk**

Liquidity risk may arise from difficulties in obtaining loans within the right timescale to support operating activities. Inflows and outflows and the liquidity of Group companies are monitored and coordinated by the Group Treasury. The flexibility of existing credit lines has allowed the Group to resolve problems relating to sourcing the necessary resources to cover temporary cash flow requirements brought about by the increase in the price of raw materials.

#### **Fair value and carrying amount**

According to the terms of IFRS 7, paragraph 25, we declare that the fair value of financial assets and liabilities recognised in the balance sheet is equal to their carrying amount.

#### **Other financial commitments**

The following table summarises minimum payments for operating leases that cannot be cancelled at the balance sheet date:

(thousands of Euro)	31.12.2007	31.12.2008
Within 1 year	4,919	6,098
Between 1 and 5 years	8,959	9,572
Beyond 5 years	184	283
	<b>14,062</b>	<b>15,953</b>

At the balance sheet date, there is Euro 9.9 million in commitments to purchase property, plant and equipment. These purchase commitments will expire 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 result at 31 December 2008

(thousands of Euro)

Profit of KME Group S.p.A. separate financial statements	21,024
Profit of subsidiaries (1) (2)	(67,601)
Consolidation adjustments (3)	(22,074)
<b>Consolidated profit attributable to shareholders of the Parent</b>	<b>(68,651)</b>
<b>Profit of subsidiaries 01.01.2008 - 31.12.2008</b>	
(1) KME Germany A.G. consolidated profit	(67,431)
(2) Immobiliare Agricola Limestre S.r.l. profit	(165)
(2) KME Recycle S.r.l. profit	(5)
(3) Netting of intra-group dividends	(20,939)
(3) Other consolidation adjustments	(1,135)
<b>Total</b>	<b>(89,675)</b>

## Reconciliation table between the profit of KME Group S.p.A. and consolidated Equity at 31 December 2008

(thousands of Euro)

Parent's Equity including profit	356,128
Consolidation reserves*	189,373
Difference between consolidated profit and Parent's profit	(89,675)
<b>Group's Equity including profit</b>	<b>455,826</b>

\* Breakdown of consolidation reserves

1) Netting of investments	58,611
2) Netting of intra-group dividends	20,939
3) KME Germany A.G. consolidation difference	109,840
4) Other changes	(17)
	<u>189,373</u>



# Statement about the consolidated financial statements

*KME Group S.p.A.*



## **Statement about the consolidated financial statements pursuant to art. 81-ter of CONSOB Regulation no. 11971 of 14 May 1999 and following modifications and integrations**

1. The undersigned Vincenzo Manes, as Deputy Chairman, and Marco Miniati, as Manager in charge of drawing up the corporate accounting documents of KME Group S.p.A., certify the following aspects, which are also in compliance with art. 154-*bis*, subsections 3 and 4 of Legislative Decree no. 58 of 24 February 1998:
  - the adequacy in relation to the characteristics of the company, and
  - the real application  
of the administrative and accounting procedures in the drawing up of the consolidated financial statements during financial year 2008.
2. The adequacy of the administrative and accounting procedures for drawing up the consolidated financial statements at 31 December 2008 was evaluated on the basis of the methods usually acknowledged on international level (Committee of Sponsoring Organizations of the Treadway Commission – COSO Report).
3. Furthermore, it is hereby certified that:
  - 3.1 The consolidated financial statements:
    - a) are drawn up in compliance with the applicable IFRS endorsed by the European Community, pursuant to EC Regulations no. 1606/2002 of the European parliament and of the Council of 19 July 2002, and to the measures issued following art. 9 of Legislative Decree no. 38/2005;
    - b) correspond with the books and accounting records;
    - c) are suitable to portray the financial position and result of operations of the issuer, and of all the companies included in the consolidation scope, in a true and fair way.
  - 3.2 The Directors' Report includes a reliable analysis of the performance and results of both the management and position of the issuer, as well as all the companies included in the consolidation scope, together with the description of the main risks and uncertainties they are exposed to.

Florence, 25 March 2009

The Deputy Chairman  
(Vincenzo Manes)

Manager  
(Marco Miniati)

KME Group S.p.A.  
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Partita IVA 00944061001

Società iscritta al n. 18156 nell'elenco degli intermediari finanziari, ex art. 113, D.Lgs. 1 settembre 1993, n. 385.

# Board of Statutory Auditors' Report

## **Board of Statutory Auditors' Report on the Consolidated Financial Statements at 31 December 2008 - Shareholders' Meeting called on 28/29 April 2009**

The Board of Statutory Auditors presents a short report on the consolidated financial statements at 31 December 2008, as part of its duties to monitor compliance with the law and the memorandum of association, and in accordance with the long-held principle, for which subjects and documents submitted by Directors to the Shareholders' Meeting are subject to review by the Board of Statutory Auditors who report to the same Shareholders' Meeting.

The Board of Directors, in accordance with Legislative Decree no. 127/1991, has prepared the consolidated financial statements at 31.12.08, which is the end of the financial year for both the Parent and the subsidiaries. The consolidated financial statements were drawn up in compliance with the IFRS.

Consolidation principles were applied to subsidiaries, i.e. those companies over which the Group exercises the power to guide or govern financial and operating policies, generally combined with the possibility to exercise more than 50% of the voting rights within company bodies. Associates are all the companies in which the Group exercises considerable influence but over which it does not have control.

As for the consolidation area, see the Notes to the consolidated financial statements. In short, the Notes point out that partnerships in subsidiaries are consolidated through the global integration method; those in associates (in which KME Group S.p.A. exercises remarkable influence, but not control) are consolidated through the net equity method. Other companies, outside the sphere of "considerable influence" that carry out modest and heterogeneous activities compared to the main companies in the Group, have been excluded from the consolidation scope without any significant impact on the overall procedure, as expressly underlined in the text.

As one can see in the reconciliation statement in the financial statements' annexes, the consolidated profit of the financial year is in the red by Euro 68.7 million on the whole, owing to a whole series of negative factors depending on the remarkable slowdown, still in progress, in production and trading activities, as well as on the effects of the highly penalizing techniques for measuring inventories.

The information contained in the section of the Report reserved for consolidated financial statements (accounting standards applied, notes, annexes) is exhaustive; there is also the Statement about the consolidated financial statements at 31 December 2008 pursuant to art. 81-ter of CONSOB Regulations no. 11971 of 14 May 1999 and following integrations and modifications; the Statement dated 25 March 2009 was signed by the Deputy Chairman V. Manes and Manager in Charge M. Miniati.

Balance sheet items can be combined according to their type (amounts in thousands of Euro):

	2008	2007
<b>Assets</b>		
- Intangible, financial assets and property, plant and equipment and investment property	836	830
- Inventories	418	628
- Trade receivables	89	128
- Cash and cash equivalents	39	94
- Other assets	251	124
<b>Total Assets</b>	<b>1,633</b>	<b>1,804</b>
<b>Liabilities</b>		
- Share capital and reserves	527	497
- Profit (loss) for the year	(69)	41
- Employee benefits	152	158
- Medium/long-term financial payables and liabilities	139	393
- Provisions for risks and charges	170	157
- Other non-current liabilities	132	126
- Short-term financial payables and liabilities	331	128
- Short-term liabilities and payables to suppliers and others	251	304
<b>Total Liabilities</b>	<b>1,633</b>	<b>1,804</b>

The Independent Auditors with whom the Board of Statutory Auditors had been regularly in touch declared in advance the regularity and correspondence of the consolidated balance sheet and income statement with the accounting results of the Company, and with the information transmitted by the subsidiaries included in the consolidation scope; moreover, the Independent Auditors declared in advance the correlation between the contents of the consolidated financial statements and the information and explanations obtainable from the notes to the consolidated financial statements and the management report.

In particular, the following criteria were applied; as for details, see the comprehensive description of standards and relevant tasks in the Report and in the Notes to the consolidated financial statements:

- **intangible assets** with fixed useful lives, except for the ones originating from in-house productions, initially measured cost or at fair value, are systematically amortized by degree of use, usually in a period from 3 to 5 years;
- **property, plant and equipment and investment property** recognised at acquisition or production cost are measured net of depreciations and lasting value losses;
- **post-employment benefit and pension funds** of foreign subsidiaries - on an actuarial basis, too, pursuant to in-house regulations - are recognised in accordance with the fees accrued at 31 December 2008, with adjustment based on increase expectations after the closing of the financial year, in compliance with international accounting standards. Personnel expense include the stock options assigned to the executive members of the Board of Directors of KME Group S.p.A. and to some Executives of the Group, depending on the essential remuneration nature attributable to such assignments. On this point, the notes to the consolidated financial statements clearly illustrate the criteria adopted to determine stock option fair values;
- **EU sanctions** - already charged in the past for the whole ascertained or ascertainable amounts - were then determined on the basis of the amounts definitely notified by EU Authorities, and are now included in the financial statements for Euro 120.0 million, including interest expense accrued at 31 December 2008 on nominal sanction amounts.

The Shareholder's Meeting shall take the consolidated financial statements and its appendices into consideration only for information purposes, since it is not subject to approval.

Florence, 31 March 2009

The Board of Statutory Auditors





# Independent Auditors' Report



**KPMG S.p.A.**  
**Revisione e organizzazione contabile**  
Piazza Vittorio Veneto, 1  
50123 FIRENZE FI

Telefono 055 213391  
Telefax 055 215824  
e-mail it-fmauditaly@kpmg.it

(Translation from the Italian original which remains the definitive version)

## Report of the auditors in accordance with article 156 of Legislative decree no. 58 of 24 February 1998

To the shareholders of  
KME Group S.p.A.

1 We have audited the consolidated financial statements of the KME Group as at and for the year ended 31 December 2008, comprising the balance sheet, income statement, statement of changes in equity, cash flow statement and notes thereto. The parent 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 consolidated financial statements are free of material misstatement and are, as a whole, reliable. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by directors. We believe that our audit provides a reasonable basis for our opinion.

Reference should be made to the report dated 10 April 2008 for our opinion on the prior year consolidated financial statements, which included the corresponding figures presented for comparative purposes.

3 In our opinion, the consolidated financial statements of the KME Group as at and for the year ended 31 December 2008 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 the KME Group as at 31 December 2008, the results of its operations, changes in its equity 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 with the financial statements to which it refers, as required by article 156.4-bis.d of Legislative decree no. 58/98. 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 is consistent with the consolidated financial statements of the KME Group as at and for the year ended 31 December 2008.

Florence, 9 April 2009

KPMG S.p.A.

(signed on the original)

Riccardo Cecchi  
Director of Audit

KPMG S.p.A., an Italian limited liability share capital company and a member firm of the KPMG network of independent member firms affiliated with KPMG International, a Swiss cooperative.

Milano Ancona Aosta Bari  
Bergamo Bologna Bolzano Brescia  
Catania Como Firenze Genova  
Lecce Napoli Novara Padova  
Palermo Parma Perugia Pescara  
Roma Torino Treviso Trieste Udine  
Varese Verona

Società per azioni  
Capitale sociale  
Euro 7470.300,00 i.v.  
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Codice Fiscale N. 00709600159  
R.E.A. Milano N. 512867  
Part. IVA 00709600159  
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**Separate financial statements**

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## Separate financial statements at 31 December 2008

### Balance sheet

(in Euro)	notes reference	as at 31.12.2008	of which related parties	as at 31.12.2007	of which related parties
Property, plant and equipment	4.1	101,699	-	29,671	-
Investments in subsidiaries	4.2	314,833,235	314,833,235	312,991,149	312,991,149
Other equity investments	4.3	-	-	3,577,559	3,448,445
Other financial assets	4.3	46,339,600	43,100,414	6,992,026	6,992,026
Deferred tax assets	4.4	3,874,243	-	3,748,000	-
<b>Non-current assets</b>		<b>365,148,777</b>		<b>327,338,405</b>	
Trade receivables	4.5	7,452	7,452	23,496	23,496
Other receivables and current assets	4.6	7,707,785	-	10,176,116	2,192,504
Current financial assets	4.7	82,998,807	82,998,807	66,241,884	66,241,884
Cash and cash equivalents	4.8	661,460	-	1,739,163	-
<b>Current assets</b>		<b>91,375,504</b>		<b>78,180,660</b>	
<b>Total assets</b>		<b>456,524,281</b>		<b>405,519,065</b>	
Share capital	4.9	250,009,678	-	324,164,741	-
Other reserves	4.9	75,345,871	-	628,715	-
Treasury shares	4.9	(2,349,231)	-	(37,161)	-
Retained earnings	4.9	5,910,828	-	5,918,502	-
IFRS first time adoption reserve	4.9	-	-	1,644,616	-
Stock option reserve	4.9	6,187,401	-	3,180,428	-
Profit for the year	4.9	21,024,298	-	12,314,967	-
<b>Equity</b>		<b>356,128,845</b>	-	<b>347,814,808</b>	-
Employee benefits	4.10	150,638	-	143,900	-
Deferred tax liabilities	4.4	-	-	59,000	-
Financial payables and liabilities	4.11	49,202,199	1,334,800	12,651,323	6,992,026
Other payables	4.12	1,180,411	1,180,411	-	-
Provision for risks and charges	4.13	7,294,288	-	3,997,613	-
<b>Non-current liabilities</b>		<b>57,827,536</b>		<b>16,851,837</b>	
Financial payables and liabilities	4.14	39,559,514	9,859,801	37,784,008	12,974,295
Trade payables	4.15	752,329	130,098	328,834	1,240
Other current liabilities	4.16	2,256,057	586,991	2,739,578	1,707,855
<b>Current liabilities</b>		<b>42,567,900</b>		<b>40,852,420</b>	
<b>Total liabilities and equity</b>		<b>456,524,281</b>		<b>405,519,065</b>	

## Income statement

(in Euro)	notes reference	FY 2008	of which related parties	FY 2007	of which related parties
Revenue from sales and services	6.1	2,839,000	2,839,000	2,855,947	2,839,000
Other revenue	6.2	20,056	2,198	198,965	1,025
Personnel expense	6.3	(1,360,683)	(1,166,847)	(1,114,855)	(553,057)
Amortisation, depreciation and impairment losses	6.4	(4,023)	-	(2,011)	-
Other operating costs	6.5	(9,507,147)	(3,507,609)	(5,259,502)	(2,539,319)
<b>Operating loss</b>		<b>(8,012,797)</b>	<b>-</b>	<b>(3,321,457)</b>	<b>-</b>
Financial income	6.6	35,494,011	34,165,913	10,149,283	10,049,539
Financial expense	6.6	(6,336,298)	(1,486,340)	(1,480,656)	(399,678)
<b>Pre-tax profit</b>		<b>21,144,916</b>	<b>-</b>	<b>5,347,170</b>	<b>-</b>
Current taxes	6.7	(369,195)	-	3,472,797	3,796,080
Deferred taxes	6.7	248,577	-	3,495,000	-
Total income taxes		(120,618)	-	6,967,797	-
<b>Profit for the year</b>		<b>21,024,298</b>	<b>-</b>	<b>12,314,967</b>	<b>-</b>

## Statement of changes in Equity

(in Euro)	Share capital	Other reserves	Treasury shares	Prior year profit	IFRS first-time adoption	Stock Option reserve	Profit for the year	Total equity
<b>Equity at 31.12.2006</b>	<b>319,643,223</b>	<b>(963,499)</b>	<b>(37,161)</b>	<b>5,178,100</b>	<b>2,784,099</b>	<b>958,537</b>	<b>7,205,770</b>	<b>334,769,069</b>
Allocation of profit for the year								
- Legal reserves		360,289	-	-	-	-	(360,289)	-
- carried forward	-	-	-	638,844	-	-	(638,844)	-
- dividends paid							(6,206,637)	(6,206,637)
Use of IFRS first-time adoption reserve	-	1,037,925	-	101,558	(1,139,483)	-	-	-
Share capital increase	4,521,518	-	-	-	-	-	-	4,521,518
Provision for Stock Options						2,221,891	-	2,221,891
Deferred taxes charged to the income statement	-	194,000	-	-	-	-	-	194,000
- Profit for 2007							12,314,967	12,314,967
<b>Equity at 31.12.2007</b>	<b>324,164,741</b>	<b>628,715</b>	<b>(37,161)</b>	<b>5,918,502</b>	<b>1,644,616</b>	<b>3,180,428</b>	<b>12,314,967</b>	<b>347,814,808</b>
Distribution of reserves	-	-	-	(137,098)	(1,644,616)	-	-	(1,781,714)
Allocation of profit for the year:								
- Legal reserves	-	615,749	-	-	-	-	(615,749)	-
- carried forward	-	-	-	129,424	-	-	(129,424)	-
- dividends paid	-	-	-	-	-	-	(11,488,083)	(11,488,083)
- allocation to members of the B.o.D. <sup>1</sup>	-	-	-	-	-	-	(81,711)	(81,711)
Creation of available reserve	(74,164,741)	74,164,741	-	-	-	-	-	-
Share capital increase	9,678	-	-	-	-	-	-	9,678
Subscription of treasury shares	-	-	(2,312,070)	-	-	-	-	(2,312,070)
Release of deferred taxes	-	(63,334)	-	-	-	-	-	(63,334)
Granting of Stock Options	-	-	-	-	-	3,006,973	-	3,006,973
Profit for the year	-	-	-	-	-	-	21,024,298	21,024,298
<b>Equity at 31.12.2008</b>	<b>250,009,678</b>	<b>75,345,871</b>	<b>(2,349,231)</b>	<b>5,910,828</b>	<b>-</b>	<b>6,187,401</b>	<b>21,024,298</b>	<b>356,128,845</b>
IFRS reclassification of treasury shares	(2,349,231)		2,349,231					-
<b>Equity at 31.12.2008</b>	<b>247,660,447</b>	<b>75,345,871</b>	<b>-</b>	<b>5,910,828</b>	<b>-</b>	<b>6,187,401</b>	<b>21,024,298</b>	<b>356,128,845</b>

1. The members of the Board of Directors donated their share of the profit for the year to charity.

## Separate cash flow statement

(thousands of Euro)	2008	2007
<b>(A) Cash and cash equivalents at the beginning of the year</b>	<b>1,739</b>	<b>377</b>
Pre-tax profit/(loss)	21,144	5,347
Reversal of dividends received	(21,361)	(1,266)
Amortisation and depreciation	4	2
Net interest accrued	(2,554)	(744)
Gains (losses) on non-current assets	6	-
Provisions for pensions funds and similar	1,174	(82)
Accruals to other provisions	3,296	58
(Increases) decreases in current receivables	4,041	6,160
Increases (decreases) in current payables	(61)	690
Net interest paid during the year	2,554	840
Current tax (paid) and reimbursed during the year	(368)	3,237
<b>(B) Cash flows from operating activities</b>	<b>7,875</b>	<b>14,242</b>
(Increases) decreases in non-current intangible assets and property, plant and equipment	(74)	2,768
Increases/decreases in other non-current assets/liabilities	1,180	-
(Increases) decreases in investments	119	(3,448)
Dividends received	21,361	1,265
<b>(C) Cash flows from investing activities</b>	<b>22,586</b>	<b>585</b>
Share capital increase	(1,854)	4,522
(Purchase) sale of treasury shares	(2,312)	-
Increases (decreases) in current and non-current financial payables	38,326	(6,265)
Increases (decreases) in current and non-current financial receivables	(54,211)	(5,515)
Dividends paid	(11,488)	(6,207)
<b>(D) Cash flows from financing activities</b>	<b>(31,539)</b>	<b>(13,465)</b>
<b>(E) Profit/(loss) from cash and cash equivalents (B+C+D)</b>	<b>(1,078)</b>	<b>1,362</b>
<b>(F) Cash and cash equivalents at the end of the year (A+E)</b>	<b>661</b>	<b>1,739</b>

# Accounting policies and notes to the separate financial statements

## 2. General information

KME Group S.p.A. (hereinafter also KME) and its industrial subsidiaries (that together make up the “Group”) are manufacturers of semi-finished products in copper and its alloys.

The Group owns industrial plants in various European countries and markets its products in all the major countries worldwide.

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

The separate financial statements at 31 December 2008 were approved by the Board of Directors on 25 March 2009 and will be published in accordance with legal requirements.

Although it is a subsidiary of iNTEK S.p.A., as explained above, the Company does not consider itself to be subject to direction and coordination as described in Articles 2497 *et seq.* of the Italian Civil Code and Art. 37 of the Stock Market Regulations since:

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

These financial statements have been prepared in Euro (€), the Company's functional currency.

### 2.1 Preparation criteria

The separate financial statements at 31 December 2008 were prepared in accordance with the recognition and measurement principles established by the *International Financial Reporting Standards* (IFRS) issued by the *International Accounting Standards Board* (IASB) and adopted by the European Commission according to the procedure indicated in Article 6 of Regulation (EC) No 1606/2002 of the European Parliament and Council of 19 July 2002.

In preparing these financial statements, the Directors took into consideration the accruals principle, the going concern assumption, understandability, relevance, materiality, reliability, neutrality, prudence and comparability, applying the same principles adopted in preparing the separate financial statements at 31 December 2007.

KME has not yet applied the standards issued by the IASB which become effective after the date of these financial statements. These are IAS 1, IAS 23 and IFRS 2, 3 and 13.

However, future adoption of these standards is not expected to have a significant impact on the Company's financial position and results of operations.

Company events and transactions are recognised and represented according to their economic substance and actual status and not just their legal form.

### 2.2 Property, plant and equipment

These are recorded at acquisition or production cost, including additional charges that are directly recognised. They are measured at cost, net of depreciation and accumulated impairment losses, with the exception of land, which is not depreciated and is measured at cost net of accumulated impairment losses.

Depreciation is calculated from the month the asset is available for use, or when it is potentially able to provide the economic benefits associated with it; it is recognised on a monthly straight-line basis until the end of its useful life, or, if sold, up to the last month of use.



Financial charges relating to the purchase of property, plant and equipment are recognised in the income statement, unless they are directly attributable to the acquisition, construction or production of an asset which justifies their capitalisation.

Spare parts with a significant value are capitalised and depreciated based on the useful life of the asset to which they refer; others are charged to the income statement when the expense is incurred.

Assets acquired through finance leases are recognised as items of property, plant and equipment with a contra-entry under liabilities. The cost of the lease is separated into the following components: financial charges recognised in the income statement, and capital repayment recorded by reducing financial debt. Assets acquired through finance leases are recognised at cost or at the present value of minimum lease payments due at the start date of the contract, whichever is the lower.

Where specific impairment indicators exist, property, plant and equipment are subject to impairment testing. The test involves estimating the recoverable amount of the asset, defined as the higher between the fair value less costs to sell and the value in use, and in comparison with the relative carrying amount. If the recoverable amount is less than the carrying amount, the latter is reduced to the recoverable amount; this reduction is charged to the income statement, i.e. to the fair value reserve which was set up previously during revaluation of the asset concerned. The process is reversed for any subsequent revaluations.

### 2.3 Intangible Assets

Intangible assets refer to assets without identifiable physical consistency under the control of the Company and capable of producing future economic benefits.

Intangible assets can be acquired by the Company through:

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

In the first two cases, intangible assets are measured initially at cost and at fair value respectively, including directly attributable charges. They are then systematically amortised over their estimated useful lives, which is the time during which the assets are used by the Company, generally between 3 and 5 years. In addition, these assets are reported net of any impairment losses by adopting the same criteria applied to property, plant and equipment. Their residual value at the end of their useful life is assumed to be zero.

Internally generated assets are capitalised only if the conditions dictated by IAS 38, paragraph 57 exist.

### 2.4 Financial assets and liabilities

All investments in subsidiaries, associates and joint ventures are measured at cost.

Financial assets acquired or held mainly for the purpose of trading 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, with separate indication of those that are designated at recognition at fair value through profit or loss (fair value option). These assets are carried and measured at fair value with the effects recognised through profit or loss. Financial guarantees provided for subsidiaries are measured in accordance with IAS 39. The values reported in the financial statements represent the actual value of commission to be received in future financial years. The balance sheet value, determined according to the aforementioned methods, expresses the fair value.

Non-derivative financial instruments, with the exception of equity instruments, with fixed or determinable payments, not listed on an active market and not belonging to the preceding categories, are classified as loans and receivables, and are measured at their amortised cost using the effective interest method. For current

loans and receivables and for all trade and short-term payables and receivables in general for which the time component has little relevance, it is presumed that the amortised cost corresponds with the carrying amount.

Treasury shares are valued at their historical purchase cost and recorded as a reduction in equity. In the event of sale, re-issue or cancellation, the subsequent profits and losses are recorded in Equity.

#### **Calculation of impairment losses**

All financial assets and liabilities, with the exception of financial assets and liabilities recognised at fair value through profit or loss, are subject to impairment testing according to the terms of IAS 39, paragraphs 58-70.

A financial asset is said to be impaired when there is objective evidence that one or more events have had a negative impact on the estimated cash flows expected from that asset.

An impairment loss on a financial asset measured at amortised cost corresponds to the difference between the carrying amount and the present value of estimated expected cash flows discounted at the original effective interest rate. An impairment loss on an available-for-sale financial asset is calculated on the basis of its fair value.

All impairment losses are recorded in the income statement. Any accumulated impairment loss on available-for-sale financial assets previously recognised in equity is transferred to the income statement upon realisation.

Impairment losses are reversed if the subsequent value increase can be objectively linked to an event which took place after the impairment loss. In the case of assets measured at amortised cost and available-for-sale assets corresponding to debt securities, the reversal is recorded in the income statement.

The 2008 results and reduction in assets planned for the Group in 2009 are an indicator of impairment. Given this fact, for the purposes of preparing the financial statements at 31 December 2008 and carrying out impairment testing on the equity investments recorded, the directors took into account the results forecast for 2009 and the subsequent years of the plan and made the necessary amendments to the respective original 2006-2010 plans. They took a prudent approach based on the economic and financial context and the situation of the markets after the profound changes brought about by the current crisis. No impairment losses were necessary after the above amendments were made to the figures in the plan and approved by the Board of Directors.

#### **Measurement of fair value**

The fair value of financial assets and liabilities recognised in the income statement at fair value and of those available for sale at the time of initial recognition is determined on the basis of the transaction price and is therefore equal to the amount paid or received.

Subsequently and at each balance sheet date, the fair value of financial instruments listed on an active market is based on market prices. The market prices used for derivatives are the bid prices, whereas ask prices are used for financial liabilities. The fair value of instruments that are not listed on an active market is determined using valuation techniques based on a series of methods and assumptions linked to market conditions at the balance sheet date. Calculation of the fair value of interest rate swaps is based on the present value of expected future cash flows. The fair value of forward currency contracts is determined using the forward exchange rate at the balance sheet date.

Fair value adjustments of derivative instruments not classified as hedging instruments are recognised directly in the income statement.

The fair value of non-derivative financial instruments is determined by discounting future cash flows based on the market interest rate at the balance sheet date. For finance leases, interest rates referring to similar contracts are used.

## 2.5 Cash and cash equivalents

This includes cash, demand deposits and high liquidity short term financial investments that are readily convertible to cash and which are subject to a negligible risk of a change in value (IAS 7 paragraph 45).

## 2.6 Equity

Share capital is comprised of ordinary shares and savings shares, with no nominal value, fully subscribed and paid up at the balance sheet date, less any share capital proceeds to be received. Also, in accordance with IAS 32, the value of treasury shares repurchased is shown as a reduction in the share capital issued, whilst the premium or discount with respect to the nominal value adjusts the other components of equity. However, this representation is shown solely in the notes, whilst in the schedules the historical cost of treasury shares held is shown separately as a reduction in Equity.

The balance of the existing reserve has therefore been reclassified to the specific reserves which had already been used to create it.

Costs for equity transactions have been charged directly against equity-related reserves, preferably using the share premium reserve. These charges were subsequently covered during the year through a reduction in available reserves, as resolved by the Shareholders' Meeting of 23 May 2007.

## 2.7 Payables

Payables are recognised at amortised cost. When the effect of the discount is not significant, as in short term trade payables, they are recorded at their nominal value.

## 2.8 Current and deferred taxes

Current income taxes are calculated based on the estimated taxable income, taking into consideration the rates and the tax legislation in force or essentially approved at the balance sheet date.

Deferred tax assets and liabilities are measured on the temporary differences between the carrying amounts of recognised assets and liabilities and the corresponding amounts recognised for tax purposes according to the balance sheet method. Deferred tax assets are only recognised when it is probable that they will be recovered, i.e. when it is estimated that future taxable income will be sufficient to recover them. The carrying amount of deferred tax assets is reviewed at each balance sheet date in order to confirm that the probability of future use still remains or has arisen.

The tax charge for the year includes both current and deferred taxes. Income taxes are recognised in the income statement, with the exception of those related to transactions recognised directly in equity, which are recorded under the same.

Current taxes represent estimated income tax calculated on the taxable income for the year, determined by applying tax rates which are current or essentially approved at the balance sheet date, and any amendments of the amount for previous years.

Deferred taxes are set aside using the balance sheet liability method, calculating the temporary differences between the carrying amounts of the assets and liabilities recognised and the corresponding amounts recognised for tax purposes. Deferred taxes are not set aside for the following temporary differences: initial recognition of assets or liabilities in a transaction other than a business combination which does not affect the accounting profit (or loss) or taxable income (or tax loss) and differences relating to investments in subsidiaries or joint-ventures, provided that it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets and liabilities are measured using the tax rates it

is estimated will be applicable in the year in which the relevant asset is realised or liability settled, based on the tax rates established by current or essentially approved rules at the balance sheet date. Deferred tax assets and liabilities are offset when there is a legally exercisable right to offset current tax assets against current tax liabilities, and when deferred tax assets and liabilities relate to income tax applied by the same tax authority to the same taxpayer or different taxpayers wishing to settle their current tax assets and liabilities on a net basis, or realise their assets and settle their liabilities at the same time.

Deferred tax assets are recognised to the extent in which it is probable that future taxable income will be available against which such assets may be used. Deferred tax assets are reviewed at each balance sheet date and reduced to the extent to which it is no longer probable that the tax benefit will be realised.

## **2.9 Employee benefits**

Post-employment benefits are defined on the basis of plans which, according to their characteristics, are divided into defined contribution and defined benefit plans. With defined contribution plans, the Company's obligation, limited to the payment of contributions to a separate legal entity (this may also be the government or a fund), is composed of contributions due at the balance sheet date. Liabilities relating to defined benefit plans, such as post-employment benefits as defined by Article 2120 of the Civil Code, net of any assets, are determined on the basis of actuarial assumptions and recorded on an accruals basis consistent with the length of service required to obtain the benefits. Actuarial gains and losses relating to defined benefit plans deriving from changes in the actuarial assumptions or from modifications to the terms of the plans are recorded proportionately in the income statement using the corridor method, i.e. recorded only when the net value of actuarial gains and losses not recorded at the end of the previous year exceeds the greater of 10% of the present value of the obligation and 10% of the fair value of any plan asset. "Post-employment benefits" were measured by an independent actuary.

## **2.10 Provisions for risks and charges**

Provisions for risks and charges are liabilities without a fixed amount or due date. Provisions have been recorded only when:

1. the Company has a current (legal or implicit) obligation owing to a past event;
2. it is probable that resources able to produce economic benefits will be needed to meet the obligation;
3. it is possible to make a reliable estimate of the amount of the obligation.

The amounts set aside are therefore the best estimates of the expenses needed to redeem the obligation or transfer it to third parties at the balance sheet date. If the effect of the present value of money is significant, the provision is represented by the present value of the charges it is estimated will be needed to settle the obligation.

Provisions for restructuring costs are only recognised if the Group has a formal detailed plan which shows at least: the activity and main operating units concerned, the costs to be incurred, the approximate number of employees involved and when interested third parties have a valid expectation that the entity will implement said restructuring because it has already begun implementation or has communicated it publicly.

## 2.11 Recognition of revenue

Revenue from the sale of goods and services is measured at the fair value of the consideration received or due, taking into account any returns, rebates, sales discounts or volume discounts. Revenue is recognised when the significant risks and rewards connected to ownership of the goods have been transferred to the buyer; it is likely that the consideration will be recovered and the relative costs or any returns of goods can be reliably estimated.

Transfer of the risks and rewards varies according to the terms and conditions of each contract, but normally takes place when the goods are physically delivered.

Revenue from the provision of services, such as processing on behalf of third parties, is recognised according to the status of the service at the balance sheet date. The status is measured according to the extent of work carried out.

## 2.12 Leases

Leases are contracts in which the lessor transfers to the lessee the right to use an asset for an agreed period of time in exchange for payment or a series of payments. Contracts that essentially transfer all the risks and rewards deriving from ownership of the asset are defined as finance leases, even when ownership is not transferred at the end of the contract. Finance leases have been recognised in accordance with IAS 17, paragraphs 20-32. Assets purchased under finance leases have been recorded under fixed assets, and a financial debt recorded of the market value of the asset acquired or the current value of future lease payments, whichever is the lower.

Operating leases are those that are not considered finance leases.

## 2.13 Dividends

Dividends to be paid are recognised as liabilities only in the period in which they were approved by the Shareholders' Meeting. Dividends to be received are recorded only when the Shareholders' right to receive payment has been established.

## 2.14 Stock options

As shown in the financial statements at 31 December 2006, personnel expense includes the cost relating to stock options granted to executive members of the KME Group S.p.A. Board of Directors and some Group Executives, in line with the remuneration they receive. The fair value of stock options has been determined by the option value at the grant date by applying the Black & Scholes model, which takes into consideration the conditions for exercising the right, current share value, strike price, duration of the option, dividends, expected volatility and risk-free interest rate. The relative cost of the stock options, distributed over the entire vesting period, is recorded with a contra-entry in Equity under the "Reserve for stock options" item. The fair value of rights granted to Directors of the subsidiaries of KME Group S.p.A. is recorded as an increase in equity investments, with a contra-entry in the reserve for stock options.

## 2.15 Earnings per share

For a calculation of the basic earnings per share and diluted earnings per share, refer to the notes to the consolidated financial statements. In accordance with IAS 33, paragraph 4, this information must only be presented based on consolidated figures.

## 2.16 Accounting standards which have not yet been applied

At 31 December 2008, new standards, amendments to standards and interpretations applicable to the company are not yet in force, and have not been used in preparing these separate financial statements:

1. IAS 23 Borrowing costs (revised version): abolishes the possibility of recognising borrowing costs in the income statement and requires them to be directly attributed to the cost of acquisition, construction or production of an asset eligible for capitalisation. The revised version of IAS 23 will be applicable to financial years from 1 January 2009, and will represent a change in the Company's accounting principles. In accordance with the transitory provisions, the Company will apply the revised version of IAS 23 to assets capitalised from the date the new requirement comes into force, or subsequently. Therefore, this will have no impact on the information relating to the previous years included in the company's separate financial statements for 2009.

2. IAS 1 revised Presentation of financial statements (2007): introduces the term total comprehensive income, which represents changes in equity other than those arising from transactions with equity holders acting in their capacity as equity holders. Companies may present a statement of comprehensive income, which effectively brings together the income statement and all changes in equity not arising from transactions with equity holders acting in their capacity as equity holders in a single schedule. Alternatively, they may prepare an income statement with a separate schedule including the profit or loss for the period and the other components of the statement of comprehensive income. The revised IAS 1, which will be mandatory for the Company starting from the separate financial statements for 2009, will not have a significant impact on the presentation of the separate financial statements.

3. Amendments to IAS 32 Financial instruments: presentation in the financial statements and to IAS 1 Presentation of financial statements - puttable financial instruments and instruments with obligations arising on settlement require the above instruments, and others that impose an obligation on the entity to deliver a proportional share of the entity's net assets to another party only on settlement, to be classified as equity instruments when they meet certain conditions. The above amendments, which will be mandatory for the Company starting from the separate financial statements for 2009, with retrospective effect, will not have any impact on the separate financial statements.

4. IFRS 3 revised Business combinations (2008): introduces the following changes which are expected to impact on the company's assets:

- the definition of company business has been extended. Therefore, a larger number of acquisitions will be considered business combinations;
- the potential proceeds will be measured at fair value, and subsequent changes in the fair value will be recognised in the income statement;
- transaction costs other than those for issuing shares and debt securities will be recognised in the income statement, when incurred;
- in the event that a company acquires control of a company in which it previously held a minority interest, the fair value of the previously held investment must be measured and the effects of the adjustment recognised carried in the income statement;

- minority interests will be measured case-by-case, at fair value or as a proportion of the share of identifiable assets and liabilities held in the Company. Adoption of the revised IFRS 3 will be mandatory for the Company from its 2010 financial statements. It will be applied from then on and therefore will not affect the previous years included in the separate financial statements for 2010.

5. Amended IAS 27 Consolidated and separate financial statements (2008): this involves recording changes to the shareholding structure of a subsidiary not involving loss of control under equity. In the event that control is lost, but an interest retained, this interest must be measured at fair value on the date in which control was lost, and the relative income or expense recorded in the income statement. The amendments to IAS 27, which will be mandatory for the Company starting from the separate financial statements for 2010, will not have any impact on the separate financial statements.

6. Amendments to IFRS 2 Share-based payment: cancellation and settlement terms clarify the definition of settlement terms, introduce the concept of terms that are not considered settlement terms, require said terms to be reflected in the fair value at grant date and define the accounting treatment of these terms and related cancellations. The amendments to IFRS 2 will be mandatory for the Company starting from the financial statements for 2009, with retrospective effect. The Company has not yet determined the potential effect of this change.

## **2.17 Use of estimates**

The preparation of these separate financial statements and notes thereto under IFRS required the Directors to make estimates and assumptions which affected the reported amounts of balance sheet assets and liabilities.

Estimates were mainly used: to measure the fair value of investment property, LME contracts and contracts for setting metals prices with clients and suppliers recorded under financial instruments; to estimate losses on receivables; to determine impairment losses and to estimate costs relating to employee benefits, current and deferred tax costs and allocations to restructuring funds and other provisions and funds.

These estimates and assumptions are periodically reviewed and any effects are recorded immediately in the income statement. The Directors consider that at the balance sheet date the estimates and assumptions used reflected the best possible assessment given the available information. In addition, the Directors consider that the estimates and assumptions adopted will not involve any material adjustments to the carrying amounts of assets and liabilities before the end of the next financial year.

### 3. Financial risk management policy

For this information see the notes to the consolidated financial statements.

### 4. Notes to the separate financial statements

#### 4.1 Property, plant and equipment

(in Euro)	Plant and machinery	Other assets	Total
<b>At 31 December 2007</b>			
Historical cost	170,459	652,027	822,486
Accumulated depreciation and impairment losses	168,971	623,844	792,815
<b>Net carrying amount</b>	<b>1,488</b>	<b>28,183</b>	<b>29,671</b>
<b>At 31 December 2008</b>			
Historical opening cost	170,459	652,027	822,486
Increases	-	76,050	76,050
Reclassifications	-	-	-
Decreases	-	-	-
<b>Historical closing cost</b>	<b>170,459</b>	<b>728,077</b>	<b>898,536</b>
<b>At 31 December 2008</b>			
Accumulated depreciation and impairment losses	168,971	623,844	792,815
Depreciation	425	3,597	4,022
Reclassifications	-	-	-
Decreases	-	-	-
<b>Accumulated depreciation and impairment losses</b>	<b>169,396</b>	<b>627,441</b>	<b>796,837</b>
<b>At 31 December 2008</b>			
Historical closing cost	170,459	728,077	898,536
Accumulated depreciation and impairment losses	169,396	627,441	796,837
<b>Net closing carrying amount</b>	<b>1,063</b>	<b>100,636</b>	<b>101,699</b>

Assets are essentially furnishings and the increase is due to purchases made during the year.

The annual depreciation rates applied are: 12% for office furniture and furnishings, 25% for the security system.



## 4.2 Investments

A list of investments in subsidiaries recorded under current financial assets is shown below:

Company name (in Euro)	Registered office	Share/quota capital	Equity at 31.12.2008 <sup>1</sup>	Profit/(loss) for 2008	Investment held	Carrying amount
<b>Subsidiaries</b>						
KME Germany A.G.	Osnabrueck	142,743,879	378,069,000 <sup>1</sup>	(4,599,000)	100.00%	307,096,275
			299,592,000 <sup>2</sup>	(67,432,000)		
Immobiliare Agricola Limestre S.r.l.	Pistoia	3,216,000	2,058,000	(165,475)	100.00%	3,216,000
KME Italy S.p.A.	Florence	103,839,000	87,709,000	(36,715,000)	3.70%	4,519,000
KME Recycle S.r.l.	Florence	10,000	1,960	(5,164)	100.00%	1,960
						<b>314,833,235</b>

1. Including profit/(loss) for the year

2. Equity and consolidated profit for 2008

Investments information:

(in Euro)	Investments in subsidiaries	Other investments	Total
Historical cost	533,168,987	3,577,559	536,746,546
Revaluations	-	-	-
Impairment losses	(220,177,838)	-	(220,177,838)
<b>Previous year amounts</b>	<b>312,991,149</b>	<b>3,577,559</b>	<b>316,568,708</b>
Increases	1,850,126	-	1,850,126
Decreases	-	(3,577,559)	(3,577,559)
Revaluations	-	-	-
Impairment losses	(8,040)	-	-
<b>Changes during the year</b>	<b>1,842,086</b>	<b>(3,577,559)</b>	<b>(1,727,433)</b>
Historical cost	535,019,113	-	535,019,113
Revaluations	-	-	-
Impairment losses	(220,185,878)	-	(220,185,878)
<b>Final amounts</b>	<b>314,833,235</b>	<b>-</b>	<b>314,833,235</b>

The item “investments in subsidiaries” includes the wholly-owned investments in KME Germany A.G. (Euro 307,096,275), Immobiliare Agricola Limestre S.r.l. (Euro 3,216,000) and KME Recycle S.r.l. (Euro 1,960), and a 3.7% direct investment in KME Italy S.p.A. (Euro 4,519,000).

The Euro 1.8 million increase in investments in subsidiaries is due to the measurement for the year of subsidiary company directors' stock options under the 2006-2011 plan, taken to equity, and the acquisition of 100% of KME Recycle S.r.l., for Euro 10,000.

The Euro 3.5 million decrease in the item “other investments” is due to the allocation of ErgyCapital S.p.A. shares to KME Shareholders under the distribution of available reserves during the year, for a total of Euro 3.4 million (for a description of this transaction, see the Directors' Report). On 17 December 2008, Consorzio Italmun 25 was wound up and the Euro 129 thousand investment sold, for a gain of Euro 1,965. The Euro 8,040 impairment loss refers to the investment in KME Recycle S.r.l., and represents its adjustment to the value of equity at current values. Based on the impairment indicators identified in 2008 (trend for the year and planned reduction in Group's business), the Company carried out impairment testing on the investments recognised for a value of Euro 314.8 million at 31 December 2008, using the assets' estimated value in use as its basis. The Directors took into consideration the forecast trend for 2009 and the

subsequent years until 2012, making the necessary adjustments to the respective plans to take into account the profound changes brought about in the economic and financial scenario and the market by the current crisis, applying the principle of prudence and using a specific forecast for 2009-2012. The valuations carried out are based on a gross discount rate of 9.6% and a growth rate of 0.5% for the plan years and the final value.

#### 4.3 Other non-current financial assets

(in Euro)	31.12.2007	of which related parties	Change	31.12.2008	of which related parties
Receivables from Group companies for MCC loan	-	-	41,765,614	41,765,614	41,765,614
Receivables from Unicredit restricted account	-	-	3,239,186	3,239,186	-
Commissions on guarantee contracts	6,992,026	6,992,026	(5,657,226)	1,334,800	1,334,800
<b>Total</b>	<b>6,992,026</b>	<b>6,992,026</b>	<b>39,347,574</b>	<b>46,339,600</b>	<b>43,100,414</b>

At the beginning of the financial year an agreement was signed with Mediocredito Centrale S.p.A. (MCC) for a loan for a maximum of Euro 103 million, to finance the costs of the industrial investments made and/or to be made by disbursed the individual non-Italian subsidiaries or acquisitions of foreign companies by KME Group S.p.A.. The loan will be disbursed in three instalments between June 2008 and March 2010. Each instalment has a life of eight years from the date on which it is effectively used.

The agreement involves SACE S.p.A. (SACE) issuing a demand guarantee to MCC and granting a negative pledge on the assets included under the Group's consolidated assets for up to Euro 200 million, excluding goodwill and cash, for the term of the loan.

On 31 December 2008, MCC paid KME Group S.p.A. the first instalment of Euro 33 million and the second instalment of Euro 19 million.

The amount "receivables from Group companies" of Euro 41.7 million represents the non-current share of the loan with Mediocredito Centrale S.p.A. paid to KME Group S.p.A., as described in paragraph 4.11, and transferred to the subsidiaries.

Receivables from Unicredit restricted account for Euro 3.2 million refer to the sum deposited on KME Group S.p.A.'s current account at Unicredit Banca d'Impresa S.p.A. and tied as collateral for Mediocredito Centrale. The credit balance of this account is always equal to 1/16 (one sixteenth) of the loan existing at the time, as well as the accrued six-month interest due at the next instalment payment. Any excess amounts deposited are released and immediately available.

Receivables for commission on guarantee contracts represent the present value of commission to be received in future years and referring to periods beyond 12 months, for guarantees given to banks by the Company for loans obtained by Group companies. The carrying amount, determined according to the above methods, is an expression of the fair value.

#### 4.4 Deferred tax assets and liabilities

(in Euro)	31.12.2007	Change	31.12.2008
1) Deferred tax assets	3,748,000	126,243	3,874,243
2) Deferred tax liabilities	(59,000)	59,000	-
<b>Difference</b>	<b>3,689,000</b>	<b>185,243</b>	<b>3,874,243</b>

The details of deferred tax assets and liabilities broken down by item are shown below.

(thousands of Euro)	Deferred tax assets		Deferred tax liabilities	
	31.12.2008	31.12.2007	31.12.2008	31.12.2007
Property, plant and equipment	-	-	-	-
Intangible assets	-	-	-	-
Investment property	-	-	-	-
Other non-current assets	-	-	-	-
Inventories	-	-	-	-
Trade receivables	257	257	-	-
Other receivables and current assets	44	44	-	-
Current financial assets	-	-	-	57
Employee benefits	4	5	-	-
Non-current financial liabilities	-	-	-	-
Other non-current liabilities	325	-	-	-
Provisions for risks and charges	2,006	1,099	-	-
Current financial liabilities	-	-	-	-
Trade payables	-	-	-	-
Other current liabilities	139	-	-	-
Deferred taxes on equity components	131	196	-	2
Deferred taxes on previous tax losses	968	2,147	-	-
<b>Total</b>	<b>3,874</b>	<b>3,748</b>	<b>-</b>	<b>59</b>

Deferred tax assets and liabilities are measured on the temporary differences between the carrying amounts of the recognised assets and liabilities and the corresponding amounts recognised for tax purposes.

Deferred tax assets are only recognised when it is highly probable that they will be recovered.

At the balance sheet date, the company did not recognise deferred tax assets on previous tax losses of Euro 11.5 million. The above losses, which can only be used by the Company, and for the Italian tax consolidation procedure, will expire at the end of 2011.

The details at 31 December 2008 of tax losses on which deferred tax assets were recognised or unrecognised are shown below:

(thousands of Euro)	31.12.2008	31.12.2007
<b>a) tax losses recognised</b>		
KME Group S.p.A.	3,519	7,807
<b>Total (1)</b>	<b>3,519</b>	<b>7,807</b>
<b>b) previous tax losses unrecognised</b>		
KME Group S.p.A.	11,507	26,787
<b>Total (2)</b>	<b>11,507</b>	<b>26,787</b>
<b>Total (1) + (2)</b>	<b>15,026</b>	<b>34,594</b>

Total tax losses are reduced by Euro 5.8 million, after being used to cover the taxable amount calculated for the current year, and by Euro 13 million due to expiry of the period during which they could be recovered.

#### 4.5 Trade receivables

(in Euro)	31.12.2007	of which related parties	Change	31.12.2008	of which related parties
Trade receivables	933,169	-	-	933,169	-
Provisions for credit risks	(933,169)	-	-	(933,169)	-
Total receivables	-	-	-	-	-
Due from subsidiaries	23,496	23,496	(16,044)	7,452	7,452
<b>Total</b>	<b>23,496</b>	<b>23,496</b>	<b>(16,044)</b>	<b>7,452</b>	<b>7,452</b>

The carrying amount of trade receivables is considered to reflect their fair value.

#### 4.6 Other receivables and current assets

(in Euro)	31.12.2007	of which related parties	Change	31.12.2008	of which related parties
Tax receivables	7,842,839	-	(1,059,272)	6,783,567	-
Prepayments and accrued income	140,060	-	569,998	710,058	-
Due from others	713	-	213,447	214,160	-
Due from subsidiaries	2,192,504	2,192,504	(2,192,504)	-	-
<b>Total</b>	<b>10,176,116</b>	<b>2,192,504</b>	<b>(2,468,331)</b>	<b>7,707,785</b>	<b>-</b>

Tax receivables refer mainly to receivables due from the Tax Authorities for direct taxes for which reimbursement has been requested (Euro 5.7 million), prepayments of consolidated IRES net of uses during the year (Euro 0.6 million), prepayments of IRAP (Euro 0.3 million) and VAT credit for 2008 (Euro 0.1 million).

Prepayments include transaction costs relating to the loan from Mediocredito Centrale which will be distributed over the loan period.

The breakdown by maturity is as follows:

(in Euro)	Due within 12 months	Due within 5 years	Due after 5 years	Total
Trade receivables	-	-	-	-
Tax receivables	6,783,567	-	-	6,783,567
Prepayments and accrued income	160,523	413,133	136,402	710,058
Sundry receivables	214,160	-	-	214,160
<b>Total</b>	<b>7,158,250</b>	<b>413,133</b>	<b>136,402</b>	<b>7,707,785</b>

#### 4.7 Current financial assets

(in Euro)	31.12.2007	of which related parties	Change	31.12.2008	of which related parties
Financial assets held for trading:					
- iNTEK S.p.A. saving shares n. 5.824.990	5,242,497	5,242,497	(1,165,004)	4,077,493	4,077,493
- ErgyCapital S.p.A. shares n. 5.002.089	-	-	1,900,734	1,900,734	1,900,734
- ErgyCapital S.p.A. warrants n. 14.291.235	-	-	1,157,590	1,157,590	1,157,590
Financial receivables due from subsidiaries	54,438,871	54,438,871	15,462,122	69,900,993	69,900,993
Receivables for commissions on guarantee contracts	6,560,516	6,560,516	(598,519)	5,961,997	5,961,997
<b>Total</b>	<b>66,241,884</b>	<b>66,241,884</b>	<b>16,756,923</b>	<b>82,998,807</b>	<b>82,998,807</b>

Financial assets held for trading include:

- iNTEK S.p.A. savings shares, with a nominal value of Euro 0.26, were recorded at the unit value of Euro 0.70, their official price at the balance sheet date. The banks which issued the previous bank agreement in February 2005 (no longer in existence) have a call option on these shares. The option expires in 2012 and can be exercised at a price of Euro 0.90;
- ErgyCapital S.p.A. ordinary shares, with no nominal value, were valued according to their official rate at the balance sheet date (Euro 0.38 per share);
- ErgyCapital S.p.A. warrants were valued according to their official rate at the balance sheet date (Euro 0.08 per warrant).

Receivables from subsidiaries are the balance of the current accounts fully held by the Parent with the subsidiaries KME Germany A.G., KME Germany A.G. & Co. K.G., KME Italy S.p.A., KME Brass Italy S.r.l., KME France S.A.S., KME Brass France S.A.S., Locsa S.A., KME Yorkshire Ltd. and Immobiliare Agricola Limestone S.r.l.. These payments are routine uses of Parent Company cash.

Receivables for commission on guarantee contracts represent the present value of commissions to be received within the next 12 months for guarantees given to banks by KME Group S.p.A. for loans obtained by Group companies.

Including receivables for commission on guarantee contracts due after 12 months, commented on above, the overall amount of such receivables amounts to Euro 7.3 million.

#### 4.8 Cash and cash equivalents

(in Euro)	31.12.2007	of which related parties	Change	31.12.2008	of which related parties
Bank and postal accounts	1,736,825	-	(1,079,415)	657,410	-
Cash on hand	2,338	-	1,712	4,050	-
<b>Total</b>	<b>1,739,163</b>	<b>-</b>	<b>(1,077,703)</b>	<b>661,460</b>	<b>-</b>

## 4.9 Equity

Share capital is composed of the following number of shares:

	Ordinary shares		Savings shares	
	2008	2007	2008	2007
<b>Issued at 1 January</b>	<b>235,480,130</b>	<b>693,385,714</b>	<b>19,072,110</b>	<b>57,216,332</b>
Issued through cash contributions	-	309,976	-	-
Grouping carried out on 16.07.07	-	(462,463,794)	-	(38,144,222)
Issued through cash contributions	9,217	4,248,234	-	-
<b>Shares issued at 31 December</b>	<b>235,489,347</b>	<b>235,480,130</b>	<b>19,072,110</b>	<b>19,072,110</b>

27,651 warrants were used in the course of the financial year, which resulted in the issue of 9,217 KME Group S.p.A. ordinary shares worth Euro 9,677.85.

Share capital at 31 December 2008 totalled Euro 250,009,677.85, divided into 235,489,347 ordinary shares and 19,072,110 savings shares, with no indication of nominal value.

At the date of these financial statements, the following were in outstanding:

- 67,929,987 KME Group 2006-2009 ordinary share warrants, convertible in a ratio of 1 ordinary share for every group of 3 warrants, at the exercise price per unit of Euro 1.05;
- and 33,144,453 options convertible into shares in a ratio of 1 ordinary share for every group of 3 options, at the exercise price per unit of Euro 1.029.

Equity underwent the following changes:

(in Euro)	Share capital	Other reserves	Treasury shares	Prior year profit/(loss)	IFRS first-time adoption	Stock Option reserve	Profit for the year	Total equity
<b>Equity at 31.12.2007</b>	<b>324,164,741</b>	<b>628,715</b>	<b>(37,161)</b>	<b>5,918,502</b>	<b>1,644,616</b>	<b>3,180,428</b>	<b>12,314,967</b>	<b>347,814,808</b>
Distribution of reserves	-	-	-	(137,098)	(1,644,616)	-	-	(1,781,714)
Allocation of profit for the year:								
- legal reserves	-	615,749	-	-	-	-	(615,749)	-
- carried forward	-	-	-	129,424	-	-	(129,424)	-
- dividends paid	-	-	-	-	-	-	(11,488,083)	(11,488,083)
- allocation to members of the B.o.D. <sup>1</sup>	-	-	-	-	-	-	(81,711)	(81,711)
Creation of available reserve	(74,164,741)	74,164,741	-	-	-	-	-	-
Share capital increase	9,678	-	-	-	-	-	-	9,678
Subscription of treasury shares	-	-	(2,312,070)	-	-	-	-	(2,312,070)
Release of deferred taxes	-	(63,334)	-	-	-	-	-	(63,334)
Assignment of Stock Options	-	-	-	-	-	3,006,973	-	3,006,973
Profit for the year	-	-	-	-	-	-	21,024,298	21,024,298
<b>Equity at 31.12.2008</b>	<b>250,009,678</b>	<b>75,345,871</b>	<b>(2,349,231)</b>	<b>5,910,828</b>	<b>-</b>	<b>6,187,401</b>	<b>21,024,298</b>	<b>356,128,845</b>
IFRS reclassification of treasury shares	(2,349,231)	-	2,349,231	-	-	-	-	-
<b>Equity at 31.12.2008</b>	<b>247,660,447</b>	<b>75,345,871</b>	<b>-</b>	<b>5,910,828</b>	<b>-</b>	<b>6,187,401</b>	<b>21,024,298</b>	<b>356,128,845</b>

1. The members of the Board of Directors donated their share of the profit for the year to charity.

The distribution of reserves has to take into account the bonus issue to Company Shareholders of 254,530,574 ordinary shares in ErgyCapital S.p.A., with a unit value of Euro 0.007, decided in a resolution at the Shareholders' Meeting on 3 August 2007 and carried out on 21 January 2008.

On 28 January 2008, ErgyCapital S.p.A. launched a rights issue of ordinary shares. Each share subscribed to was given 3 free warrants for subscribing to further ordinary shares in the Company.

Free distribution - aimed at releasing shares to the general public - and the rights increase were the required conditions for the shares and warrants to be admitted for listing on the Mercato Telematico

Azionario, MTF segment, operated by Borsa Italiana S.p.A.. After the operation and the rights issue were concluded, KME Group S.p.A.'s equity investment was 6.82%.

Pursuant to the resolutions at the shareholders' meeting, a gross unit dividend of Euro 0.04 for ordinary shares and Euro 0.1086 for savings shares was paid out on 5 June 2008.

Treasury shares include 78,138 savings shares recorded at their purchase cost of Euro 87,567, and 4,480,449 ordinary shares recorded at their purchase cost of Euro 2,261,664.

The item "other reserves" includes:

• legal reserve	Euro	1,045,798
• deferred tax assets recorded in Equity	Euro	130,666
• share premium reserve (sale of unopted rights)	Euro	4,666
• available reserve	Euro	74,164,741
	<b>Euro</b>	<b>75,345,871</b>

As far as the creation of the available reserve is concerned, the extraordinary Shareholders' Meeting on 14 March 2008 passed a resolution to reduce share capital by Euro 74,164,741.31 and, therefore, from Euro 324,164,741.31 to Euro 250,000,000.00, in order to allocate this amount to the above available reserve. The resolution was implemented on 26 June 2008.

The available reserve is available for use, with the exception of the sums used as hedges for:

- an offset reserve of 5,824,990 parent company iNTEK S.p.A. saving shares in the portfolio worth Euro 4,077,493, pursuant to Article 2359 *bis* of the Civil Code;
- an offset reserve of 78,138 own saving shares and 4,480,449 ordinary treasury shares in the portfolio worth Euro 2,349,231, pursuant to Article 2357 *ter* of the Civil Code. This amount increased to Euro 2,887,603 following further purchases of treasury shares after 31 December 2008, offset by 90,555 savings shares and 5,475,170 ordinary shares.

The legal reserves can be used to cover losses. The share premium reserve is available but cannot be distributed to shareholders until the legal reserves reach a fifth of the share capital, pursuant to Article 2431 of the Civil Code.

The item "Stock Option reserve" (2006 share of Euro 958,537, Euro 2,221,891 in 2007 and Euro 3,006,973 for 2008) derives from measurement of the stock options granted to the Company's Executive Directors (Euro 1,761,007) and to Group Directors (Euro 4,426,394).

#### 4.10 Employee benefits

This is calculated on the basis of accrued amounts for all employees due at the end of the year, in accordance with legal requirements, employment contracts and accounting standard IAS 19.

(in Euro)	31.12.2007	increases	decreases	31.12.2008
Post-employment benefits	128,398	4,866	-	133,264
Discounting and recognition as per IAS 19	15,502	1,872	-	17,374
<b>Total</b>	<b>143,900</b>	<b>6,738</b>	<b>-</b>	<b>150,638</b>

#### 4.11 Non-current financial payables and liabilities

(in Euro)	31.12.2007	of which related parties	Change	31.12.2008	of which related parties
Loans as per Law 46/1982	474,416	-	(111,538)	362,878	-
Mediocredito Centrale Loan	-	-	43,615,860	43,615,860	-
BNP Paribas Loan	5,184,881	-	(1,296,220)	3,888,661	-
Payables for financial guarantees issued	6,992,026	6,992,026	(5,657,226)	1,334,800	1,334,800
<b>Total</b>	<b>12,651,323</b>	<b>6,992,026</b>	<b>36,550,876</b>	<b>49,202,199</b>	<b>1,334,800</b>

The amounts of the loan as per law 46/1982, deriving from the merger of Europa Metalli SE.DI. S.p.A., and the BNP Paribas loan refer to the portion due after 12 months.

The Mediocredito Centrale loan of Euro 44 million represents the non-current value of the first and second instalments paid to the Parent Company; see paragraph 4.3.

The above loan also requires compliance with economic and financial covenants linked to consolidated equity, debt and EBITDA, as well as the ratio between EBITDA and net consolidated financial charges. At the balance sheet date, all agreed-upon covenants have been observed.

The item "Payables for financial guarantees issued" is the balancing entry of the item recorded as non-current financial assets with the same origin, and represents the fair value of contract liabilities, after potential risk situations and consequently contingent liabilities have been assessed, according to the terms of accounting standard IAS 37. Since the item refers entirely to guarantees provided for loans obtained by subsidiaries, the present value of commissions to be received, recorded under current and non-current financial assets, is considered to represent the best estimate of the fair value of contingent liabilities arising from guarantees given.

#### 4.12 Other payables

The item includes the accrued amount of the executive Deputy chairman term-of-office remuneration decided by the Board of Directors in its resolution on 14 March 2008, which consists of an average annual remuneration for each three-year period in which the office was held (or proportionally for shorter periods), to be paid on leaving the executive position held.

(in Euro)	31.12.2007	of which related parties	Change	31.12.2008	of which related parties
Post-employment benefits - Directors	-	-	1,180,411	1,180,411	1,180,411
<b>Total</b>	<b>-</b>	<b>-</b>	<b>1,180,411</b>	<b>1,180,411</b>	<b>1,180,411</b>



#### 4.13 Provisions for risks and charges

(in Euro)	31.12.2007	of which related parties	Change	31.12.2008	of which related parties
Provisions for product warranties	2,702,049	-	-	2,702,049	-
Provisions for legal and tax risks	1,295,564	-	3,296,675	4,592,239	-
<b>Total</b>	<b>3,997,613</b>	<b>-</b>	<b>3,296,675</b>	<b>7,294,288</b>	<b>-</b>

The provision for product warranties was recognised following the merger of the subsidiary Europa Metall SE.DI. S.p.A. to cover product warranties previously sold to the Defence Administration by the latter.

The net change to the increase in the provision for legal risks is due to the provision for estimated costs, considered to be non-recurring costs in the income statement presented in the Directors' Report, for ongoing litigation for Euro 3.3 million, and the release of Euro 3 thousand for costs received.

With regard to the environmental legal dispute concerning the former factory in Brescia, in its capacity as past founder of industrial subsidiaries and while rejecting any liability for costs, the company has been in contact to reach an agreement with the counterparty, thanks also to a change in the latter's majority shareholder.

There is no news regarding the two lawsuits pending before the Court of Hannover relating to squeeze out and merger transactions involving the German subsidiaries in 2001-2002.

The lawsuit previously made against former Chairman Luigi Orlando has been settled out of court with the heirs of Mr Orlando and the counterparty, with the agreement of the company, which was not liable for any costs.

To date, the above lawsuits are not expected to have any significant impact, beyond the existing provisions. At the balance sheet date, there were no other significant contingent liabilities or information which could have a major bearing on the provisions set aside.

#### 4.14 Current financial payables and liabilities

These are broken down as follows:

(in Euro)	31.12.2007	of which related parties	Change	31.12.2008	of which related parties
Payables due to banks	24,809,713	-	4,890,000	29,699,713	-
Payables due to Parent	6,413,779	6,413,779	(6,396,883)	16,896	16,896
Payables due to subsidiaries	-	-	3,880,908	3,880,908	3,880,908
Payables for financial guarantees issued	6,560,516	6,560,516	(598,519)	5,961,997	5,961,997
<b>Total</b>	<b>37,784,008</b>	<b>12,974,295</b>	<b>1,775,506</b>	<b>39,559,514</b>	<b>9,859,801</b>

Payables due to Banks are recorded as use of the available credit lines. It includes current amounts of the Mediocredito Centrale loan for Euro 6.1 million (see paragraph 4.3), the BNP Paribas loan for Euro 1.3 million and the Europa Metall SE.DI loan pursuant to Law No. 46 for Euro 0.1 million.

Payables due to the Parent have decreased due to the repayment of a large part of the loan granted.

Payables for financial guarantees issued represent the balancing entry of the item with the same origin recorded under current financial assets (see paragraph 4.7).

#### 4.15 Trade payables

(in Euro)	31.12.2007	of which related parties	Change	31.12.2008	of which related parties
Suppliers	327,594	-	294,637	622,231	-
Suppliers - Parent	1,240	1,240	(1,240)	-	-
Suppliers - subsidiaries	-	-	130,098	130,098	130,098
<b>Total</b>	<b>328,834</b>	<b>1,240</b>	<b>423,495</b>	<b>752,329</b>	<b>130,098</b>

The carrying amount of trade payables is considered to represent their fair value.

#### 4.16 Other current liabilities

(in Euro)	31.12.2007	of which related parties	Change	31.12.2008	of which related parties
Other current liabilities	2,739,578	1,707,855	483,521	2,256,057	586,991
<b>Total</b>	<b>2,739,578</b>	<b>1,707,855</b>	<b>483,521</b>	<b>2,256,057</b>	<b>586,991</b>

This item essentially refers to amounts payable to company officers (Euro 580 thousand) for remuneration accrued but not yet paid, amounts due to tax, national insurance and employees (Euro 735 thousand), accruals on interest due to banks (Euro 929 thousand) which has matured but is not yet due, and due to subsidiaries for accruals payable by them (Euro 6 thousand).

## 5. Guarantees and commitments

Under the banking agreements signed in September 2006, KME Group S.p.A. is committed, jointly with its industrial subsidiaries, for a maximum amount of Euro 650 million for a period of three years (instalment A) and Euro 200 million for a period of five years (instalment B), to repay in monthly instalments from the beginning of the fourth year.

At 31 December 2008, usage had been:

- Euro 202.1 million of instalment A;
- Euro 199.5 million of instalment B.

Instalment B also covers the loan from the European Investment Bank of Euro 32.9 million and guarantees for Euro 103.5 million given to the European Community against penalties imposed on some Group businesses.

In addition, the agreements require compliance with economic and financial covenants linked to consolidated equity, debt and consolidated EBITDA, as well as the ratio between EBITDA and net consolidated financial charges. At the balance sheet date, all agreed-upon covenants have been observed.

According to the bank agreement of February 2005 (no longer in existence), KME Group S.p.A. has retained its obligation to maintain a put option on 5,704,444 G.I.M. savings shares for the banks with which the agreement was made. The option can be exercised at a unit price of Euro 1; after one of the banks exercised its option at the end of December 2006, the number of shares stands at 5,242,497.

Following the merger of G.I.M. - Generale Industrie Metallurgiche S.p.A. into iNTEK S.p.A. in March 2007, this amount increased to 5,824,990 shares, as a result of the merger ratio, which allocated 10 iNTEK shares for every 9 G.I.M. savings shares owned. Consequently, the unit value fell from Euro 1 to Euro 0.9.

For compliance with the economic and financial covenants relating to the credit facility granted by Mediocredito Centrale, see paragraph 4.11.

## 6. Information on the income statement

### 6.1 Revenue from sales and services

(in Euro)	FY 2007	of which related parties	FY 2008	of which related parties	% Change
Revenue from sales and services	2,855,947	2,839,000	2,839,000	2,839,000	-0.6%
<b>Total</b>	<b>2,855,947</b>	<b>2,839,000</b>	<b>2,839,000</b>	<b>2,839,000</b>	<b>-0.6%</b>

Revenue from sales and services includes amounts invoiced to Group companies for financial, insurance, tax and administrative support services.

## 6.2 Other revenue

(in Euro)	FY 2007	of which related parties	FY 2008	of which related parties	% Change
Recovery of expenses incurred also in the interest of Group companies	24,896	-	-	-	-100.0%
Sundry income	157,569	1,025	20,056	2,198	-87.3%
Gains on the sale of non-current assets	16,500	-	-	-	-100.0%
<b>Total</b>	<b>198,965</b>	<b>1,025</b>	<b>20,056</b>	<b>2,198</b>	<b>-89.9%</b>

## 6.3 Personnel expense

(in Euro)	FY 2007	of which related parties	FY 2008	of which related parties	% Change
Wages and salaries	670,797	347,173	135,996	-	-79.7%
Social security charges	294,246	84,602	50,674	-	-82.8%
Stock option costs	121,282	121,282	1,166,847	1,166,847	insig.
Post-employment benefits	28,530	-	7,166	-	-74.9%
<b>Total</b>	<b>1,114,855</b>	<b>553,057</b>	<b>1,360,683</b>	<b>1,166,847</b>	<b>22.1%</b>

Stock option costs refer to the accrual amount; the fair value of services received was determined indirectly, based on the fair value of the equity instruments allocated.

For the criteria used in the calculation, see the description in the Annual report for the year ended 31 December 2007.

The fall in wages and salaries is due to the departure of two Directors in the course of the second half of 2007.

## 6.4 Amortisation, depreciation and impairment losses

(in Euro)	FY 2007	FY 2008	% Change
Furniture	1,799	3,598	100.0%
Plant, machinery and equipment	212	425	100.5%
<b>Total</b>	<b>2,011</b>	<b>4,023</b>	<b>100.1%</b>

## 6.5 Other operating costs

The item is broken down as follows:

(in Euro)	FY 2007	of which related parties	FY 2008	of which related parties	% Change
Directors' and Statutory Auditors' Fees	2,095,352	2,095,352	2,105,232	2,105,232	0.5%
Employee services	864,774	38,828	1,228,250	69,811	42.0%
Travel expenses	627,474	-	780,508	-	24.4%
Fees to subsidiaries/parents for services	4,532	4,532	4,132	4,132	-8.8%
Legal and corporate announcements and advertising	144,997	-	41,334	-	-71.5%
Electricity, heating, postage and telephone fees	31,861	-	34,520	-	8.3%
Sundry insurance	50,334	-	49,289	-	-2.1%
Sundry maintenance	5,363	-	2,095	-	-60.9%
External services and listing of shares	110,560	-	61,806	-	-44.1%
Training and seminars	27,394	-	14,360	-	-47.6%
Lease payments real-estate	169,015	62,248	153,134	40,386	-9.4%
Condominium charges	84,981	59,500	130,924	60,000	54.1%
Lease and rental payments	69,315	52,234	87,063	47,637	25.6%
Sundry tax charges	19,269	-	6,708	-	-65.2%
Undeductable VAT	184,038	-	162,794	-	-11.5%
Membership fees	18,521	-	24,575	-	32.7%
Sundry costs	110,786	1,625	93,602	-	-15.5%
Charity	225,000	225,000	39,000	-	-82.7%
Bank service fees	10,641	-	10,735	-	0.9%
Release of provisions	(621,171)	-	(3,325)	-	-99.5%
Accruals to provisions for risks and charges	1,026,466	-	3,300,000	-	insig.
Accruals to post-emp. benefits for Directors	-	-	1,180,411	1,180,411	insig.
<b>Total</b>	<b>5,259,502</b>	<b>2,539,319</b>	<b>9,507,147</b>	<b>3,507,609</b>	<b>80.8%</b>

The provision for risks and charges relates to the estimated costs of ongoing lawsuits.

In the income statement included in the Directors' Report, the Euro 3.3 million amount has been reclassified under non-recurrent charges. For the provision for Directors' end-of mandate remuneration see point 4.2.

## 6.6 Financial income and expense

(in Euro)	FY 2007	of which related parties	FY 2008	of which related parties	% Change
Financial income:					
Interest income from Group companies	2,083,652	2,083,652	5,885,327	5,885,327	insig.
Dividends received	1,265,362	1,265,362	21,360,494	21,360,494	insig.
Other financial income	6,800,269	6,700,525	8,248,190	6,920,092	21.3%
Financial expense:					
Interest expense due to Group companies	(922,506)	(399,678)	(313,296)	(313,296)	-66.0%
Interest expense on loans	(517,743)	-	(3,177,219)	-	insig.
Other financial expense	(40,407)	-	(2,845,783)	(1,173,044)	insig.
<b>Total</b>	<b>8,668,627</b>	<b>9,649,861</b>	<b>29,157,713</b>	<b>32,679,573</b>	<b>insig.</b>

Financial income is composed of: Euro 5.9 million from interest calculated on intra-company current accounts at market rates and on the Mediocredito Centrale loan transferred to the subsidiaries; Euro 421 thousand from dividends relating to the iNTEK S.p.A. savings shares; Euro 20.9 million from dividends paid by the subsidiary KME Germany A.G.; Euro 1.2 million for adjustment of the value of 14,291,235 ErgyCapital S.p.A. warrants and

Euro 6.9 million from commissions from Group companies for guarantees provided, already mentioned in the notes.

Financial expense is composed of: Euro 0.3 million of interest due to Group companies calculated on intra-company current accounts at market rates; Euro 3.2 million of interest due to banks for short and medium-term loans; Euro 1.6 million for adjustment of the carrying value of 5,001,932 ErgyCapital S.p.A. shares and Euro 1.2 for adjustment of the carrying value of 5,824,990 iNTEK S.p.A. shares.

## 6.7 Current and deferred taxes

(in Euro)	FY 2007	of which related parties	FY 2008	of which related parties	% Change
Current tax liabilities	(323,283)	-	(369,195)	-	14.2%
Income (expense) from consolidated tax	3,796,080	3,796,080	-	-	-100.0%
Deferred taxes	3,495,000	-	248,577	-	-92.9%
<b>Total</b>	<b>6,967,797</b>	<b>3,796,080</b>	<b>(120,618)</b>	<b>-</b>	<b>-101.7%</b>

Current taxes refer to IRAP calculated at the balance sheet date.

The following table shows the relationship between the tax charges for the year and the product of the financial result and the applicable tax rate according to the terms of IAS 12, paragraph 81.

## Correlation between tax charges and the accounting result

(thousands of Euro)	31.12.2008		31.12.2007	
Profit before tax	21,145	-	5,347	-
Taxes calculated at the theoretical tax rate	5,815	27.5%	1,765	33.0%
- dividends recognised in the income statement	(5,470)	-25.9%	(397)	-7.4%
- impairment losses on investments and securities	60	0.3%	-	0.0%
- provisions	908	4.3%	339	6.3%
- undeductible costs and charges	509	2.4%	893	16.7%
- other	(201)	-1.0%	(728)	-13.6%
- charges reducing deferred taxes	(57)	-0.3%	(69)	-1.3%
- share of impairment losses on investments for the year	-	0.0%	(5,395)	-100.9%
- taxable income offset against previous unrecognised tax losses	(1,563)	-7.4%	-	0.0%
- taxable income transferred under the consolidated tax regime	-	0.0%	3,592	67.2%
Income from consolidated tax regime	-	-	(3,796)	-
IRAP (regional income tax)	369	-	323	-
Deferred taxes	(248)	-	(3,495)	-
<b>Total taxes recognised in the income statement</b>	<b>121</b>	<b>0.0%</b>	<b>(6,968)</b>	<b>0.0%</b>

## Taxes recognised directly under equity

(in Euro)	FY 2007	Change	FY 2008	% Change
on charges for share capital increase	(196,000)	65,334	(130,666)	-33.3%
on the difference of the tax value of treasury shares	2,000	(2,000)	-	-100.0%
<b>Total</b>	<b>(194,000)</b>	<b>63,334</b>	<b>(130,666)</b>	<b>-32.6%</b>

## 7. Other information

### Average number of employees

	FY 2007	FY 2008	% Change
Executives	3	1	-66.7%
Office workers	1	1	0.0%
Factory workers	1	-	-100.0%
<b>Total</b>	<b>5</b>	<b>2</b>	<b>-60.0%</b>

### Financial instruments by category

(thousands of Euro)	31.12.2007	31.12.2008	Change
Fin. assets at fair value through profit or loss	18,794	14,433	(4,361)
Assets held to maturity	-	-	-
Loans and receivables	66,377	123,282	56,905
Investments in subsidiaries and other companies	316,568	314,833	(1,735)
Fin. liabilities at fair value through profit or loss	13,552	7,297	(6,255)
Fin. liabilities at amortised cost	37,211	82,217	45,006

### Financial instruments by balance sheet item

Financial instruments and reconciliation with balance sheet items at 31 December 2008:

Balance sheet item (thousands of Euro)	Total	Measured at amortised cost	Measured at fair value	Outside the scope of IFRS 7
<b>Financial assets:</b>				
Investments in subsidiaries and associates	314,833	-	-	314,833
Investments in other companies	-	-	-	-
Investments in Equity	-	-	-	-
Non-current financial assets	46,340	45,005	1,335	-
Other non-current assets	-	-	-	-
Trade receivables	7	7	-	-
Other receivables and current assets:				
Tax receivables	6,784	6,784	-	-
Bank and postal accounts	-	-	-	-
Receivables due from subsidiaries	-	-	-	-
Other non-financial assets	924	924	-	-
	<b>7,708</b>	-	-	-
Cash and cash equivalents	661	661	-	-
Current financial assets:				
Guarantees issued	5,962	-	5,962	-
Loans	69,901	69,901	-	-
ErgyCapital S.p.A. shares	1,901	-	1,901	-
ErgyCapital S.p.A. warrants	1,158	-	1,158	-
iNTEK S.p.A. savings shares	4,077	-	4,077	-
	<b>82,999</b>	-	-	-
	<b>452,548</b>	<b>123,282</b>	<b>14,433</b>	<b>314,833</b>

Balance sheet item (thousands of Euro)	Total	Measured at amortised cost	Measured at fair value	Outside the scope of IFRS 7
<b>Financial liabilities:</b>				
Non current and current financial liabilities				
Due from banks	77,567	77,567	-	-
Guarantees issued	7,297	-	7,297	-
Due from lease companies	-	-	-	-
Other financial liabilities	3,898	3,898	-	-
Derivative financial instruments	-	-	-	-
	<b>88,762</b>	<b>81,465</b>	<b>7,297</b>	-
Trade payables	752	752	-	-
	<b>89,514</b>	<b>82,217</b>	<b>7,297</b>	-

### Notional amount of derivative financial instruments

At the balance sheet date, 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 for KME Group S.p.A..

The age of trade receivables at the balance sheet date was as follows:

Description (thousands of Euro)	Gross carrying amount	Write-downs 31.12.2008	Net carrying amount
not yet due	7	-	7
overdue by zero to 60 days	-	-	-
overdue by 61 to 120 days	-	-	-
overdue by 121 days to 1 year	-	-	-
overdue by more than 1 year	933	933	-
<b>Total</b>	<b>940</b>	<b>933</b>	<b>7</b>

The following table shows movements in the provision for impairment losses on trade receivables during the financial year:

(thousands of Euro)	
<b>31.12.2007</b>	<b>933</b>
Currency exchange difference	-
Impairment losses of the year	-
Usage	-
Release	-
<b>31.12.2008</b>	<b>933</b>

### Foreign exchange exposure

At the balance sheet date, KME Group S.p.A. had no balance sheet items or sale or purchase commitments estimated in foreign currency.

### Interest rate exposure

The interest rate profile applied to the interest-bearing financial instruments of the Group at the balance sheet date was as follows:



(thousands of Euro)	Carrying amount	
	31.12.2007	31.12.2008
<b>Fixed rate instruments:</b>		
Financial assets	-	-
Financial liabilities	581	475
<b>Total</b>	<b>(581)</b>	<b>(475)</b>
<b>Variable rate instruments:</b>		
Financial assets	69,731	122,864
Financial liabilities	49,854	88,286
<b>Total</b>	<b>19,877</b>	<b>34,578</b>

#### *Analysis of the sensitivity of the fair value of fixed rate instruments*

KME Group S.p.A. did not recognise any fixed rate financial asset or liability recognised at fair value through profit or loss.

#### *Analysis of the sensitivity of the cash flows of variable rate instruments*

An increase (or decrease) of 50 basis points (BPS) in interest rates payable or receivable at the balance sheet date would not result in a significant increase (decrease) in equity.

#### **Fair value and carrying amount**

According to the terms of IFRS 7, paragraph 25, it is declared that the fair value of financial assets and liabilities recognised in the balance sheet is equal to their carrying amount.

#### **Other financial commitments**

The following table shows the minimum payments that cannot be cancelled, due for rentals and operating leases at the balance sheet date:

(thousands of Euro)	31.12.2007	31.12.2008
Due within 1 year	173	220
Between 1 and 5 years	309	249
Beyond 5 years	-	-
<b>Total</b>	<b>482</b>	<b>469</b>

#### **Disclosure of amounts of services provided by the Independent Auditors**

According to the terms of article 149 duodecies of the Issuers' Regulations, the following table shows the accrued fees of services provided by the Independent Auditors and to subsidiaries by the Independent Auditors:

(thousands of Euro)	Total	KME Group S.p.A.	Subsidiaries
a) audit services	1,210	119	1,091
b) services other than auditing	59	53	6
	<b>1,269</b>	<b>172</b>	<b>1,097</b>

## Annexes to the notes to the separate financial statements

### List of investments at 31.12.2008 and changes as compared to 31.12.2007 (also pursuant to art. 126 of CONSOB regulation no. 11971/99)

Investments (in Euro)	Nominal value		Existing at 31.12.2007		Changes in the year (+/-)		Value adjustments		Existing at 31.12.2008			Stock exchange value		Difference
	Euro	Quantity	Quantity	Value	Quantity	Value	Quantity	%	Average carrying amount	Carrying amount	Unit value	Counter value		
<b>Subsidiaries and other investments (recognised in non-current financial assets)</b>														
KME Germany A.G.	without nominal value	27,918,276	305,256,149		1,840,126		27,918,276	100.00		307,096,275				
Immobiliare Agricola Limestone S.r.l.			3,216,000					100.00		3,216,000				
KME Italy S.p.A.	1	3,839,000	4,519,000				3,839,000	3.697		4,519,000				
Consorzio Italmun			1	129,114	(1)	(129,114) <sup>1</sup>	-	-		-				
KME Recycle S.r.l.	1	-	-		1	10,000 <sup>2</sup>	(8,040)	1	100.00	1,960				
<b>Total</b>			<b>313,120,263</b>		<b>1,721,012</b>	<b>(8,040)</b>				<b>314,833,235</b>				
<b>Parent Companies and other investments (recognised in current assets)</b>														
iNTEK S.p.A. - saving shares	0.26	5,824,990	5,242,497		-	-	(1,165,004)	5,824,990	38.37	0.70	4,077,493	0.700	4,077,493	-
ErgyCapital S.p.A. <sup>5</sup>	without nominal value	278,349,300	3,448,445	(273,347,368) <sup>3</sup>	52,908	(1,600,619)	5,001,932	6.817	0.38	1,900,734	0.380	1,900,734	-	
	Warrants			14,291,235 <sup>4</sup>	0	1,157,590	14,291,235		0.08	1,157,590	0.081	1,157,590	-	
<b>Total</b>			<b>8,690,942</b>		<b>52,908</b>	<b>(1,608,033)</b>				<b>7,135,817</b>				
<b>Treasury shares (recognised to reduce Equity)</b>														
KME Group S.p.A. saving shares	without nominal value	21,666	37,161	56,472	50,406		78,138		1.12	87,567	0.743	58,057	(29,511)	
KME Group S.p.A. ordinary shares	without nominal value			4,480,449	2,261,664		4,480,449		0.50	2,261,664	0.437	1,957,956	(303,708)	
<b>Total</b>			<b>37,161</b>		<b>2,312,070</b>	<b>-</b>				<b>2,349,231</b>			<b>(333,219)</b>	
<b>Total</b>			<b>321,484,366</b>		<b>4,085,990</b>	<b>(1,616,073)</b>				<b>324,318,284</b>			<b>(333,219)</b>	

1. The winding up of Consorzio Italmun concluded on 17.12.2008, with the consequent disposal of the investment.

2. The investment in KME Recycle Srl was acquired on 10.12.2008.

3. Based on the Shareholders' Meeting resolution dated 3.8.2007, on 21.01.2008 KME Group S.p.A. initiated the free stock allotment of 254,530,574 ordinary shares of GreenergyCapital S.p.A. in favour of all shareholders, according to the ratio of 1 GreenergyCapital S.p.A. (subsequently ErgyCapital S.p.A.) share for every 1 ordinary/savings share held. Subsequently, on 26.02.08, 476,374,520 shares were subscribed for the share capital increase, and thus, on 26.05.2008 the company grouped the shares according to a ratio of 1 to 100.

4. On 26.02.2008, on the occasion of the share capital increase, 1,429,123,560 warrants were issued based on a ratio of 3 warrants for each share subscribed and thus, following the group according to the ratio of 1 to 100, there are a total of 14,291,235 warrants.

5. Ergy Capital S.p.A. is the new company name of GreenergyCapital S.p.A..

## List of investments in indirect subsidiaries (also pursuant to articles 125 and 126 of CONSOB regulation no. 11971/99)

	Registered office	Activity	Share/quota capital Currency	Amount	Direct investments at 31.12.2008 %	Company name	% Total investments
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	Property	Euro	4,514,200	100.00	KME Germany A.G.	100.00
Kabelmetal Messing Bet. GmbH, Nbg.	Germany	In liquidation	Euro	511,291	100.00	KME Germany A.G.	100.00
KME Metal GmbH	Germany	non-operating	Euro	511,292	100.00	KME Germany A.G.	100.00
KME Verwaltungs- und Dienstleistungsgesellschaft mit beschaenker 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 <sup>1</sup>	Germany	Holding	Euro	25,564	100.00	KME Germany A.G.	100.00
KME Architectural Metals GmbH & Co. K.G. <sup>2</sup>	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	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	96.303	KME Germany A.G.	100.00
KME Moulds Mexico S.A. de C.V.	Mexico	Commercial	MXN	7,642,226	99.00	KME Germany A.G.	100.00
					1.00	Kabelmetal Messing Bet. GmbH, Berlin	
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	SHK	27,095,000	100.00	KME Germany A.G.	100.00
KME Metals (Shanghai) Trading Ltd.	China	Commercial	USD	100,000	100.00	KME Germany A.G.	100.00
KME Service Russland Ltd.	Russia	Commercial	RUB	10,000	60.00	KME Germany A.G.	60.00
Bertram's GmbH	Germany	Servizi	Euro	300,000	100.00	KME Germany A.G. & Co. K.G.	100.00
KME Czech Republic S.ro.	Czech Republic	Commercial	CZK	100,000	100.00	KME Germany A.G. & Co. K.G.	100.00
KME Moulds Service Australia PTY Ltd.	Australia	Commercial	AUD	100	65.00	KME Germany A.G. & Co. K.G.	65.00
KME Chile Lda.	Chile	Sale of metals	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	Commercial	SGD	200,000	100.00	KME Germany A.G. & Co. K.G.	100.00
KME Danmark A/S	Denmark	Commercial	DKK	1,000,000	100.00	KME Germany A.G. & Co. K.G.	100.00
KME America Inc.	United States	Commercial	USD	5,000	100.00	KME Germany A.G. & Co. K.G.	100.00
KME Austria Vertriebsgesellschaft mbH	Austria	Commercial	Euro	72,673	100.00	KME Germany A.G. & Co. K.G.	100.00
KM – Hungary Szinesfem Kft.	Hungary	Commercial	HUF	3,000,000	100.00	KME Germany A.G. & Co. K.G.	100.00
KME (Suisse) S.A.	Switzerland	Commercial	FS	250,000	100.00	KME Germany A.G. & Co. K.G.	100.00
KM Polska Sp.zo.o.	Poland	Commercial	PLZ	250,000	100.00	KME Germany A.G. & Co. K.G.	100.00
N.V. KME Benelux	Belgium	Commercial	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	Commercial	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	Commercial	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 - Tréfinétaux 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	Commercial	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
YIM Scandinavia A.B.	Sweden	Commercial	SEK	100,000	100.00	KME Danmark A/S	100.00
KME Metals (Dongguan) Ltd.	China	Commercial	USD	1,989,039	100.00	KME China Ltd.	100.00

1. KME Architectural Metals GmbH new company name of Fricke GmbH

2. KME Architectural Metals GmbH & Co. K.G. new company name of Fricke GmbH & Co. K.G.



# Statement about the separate financial statements

*KME Group S.p.A.*



## **Statement about the separate financial statements pursuant to art. 81-ter of CONSOB Regulation no. 11971 of 14 May 1999 and following modifications and integrations**

1. The undersigned Vincenzo Manes, as Deputy Chairman, and Marco Miniati, as Manager in charge of drawing up the corporate accounting documents of KME Group S.p.A., certify the following aspects, which are also in compliance with art. 154-*bis*, subsections 3 and 4, of Legislative Decree no. 58 of 24 February 1998:
  - the adequacy in relation to the characteristics of the company, and
  - the real application of the administrative and accounting procedures in the drawing up of the separate financial statements during financial year 2008.
2. The adequacy of the administrative and accounting procedures for drawing up the separate financial statements at 31 December 2008 was evaluated on the basis of the methods usually acknowledged on international level (Committee of Sponsoring Organizations of the Treadway Commission – COSO Report).
3. Furthermore, it is hereby certified that:
  - 3.1 The separate financial statements:
    - a) are drawn up in compliance with the applicable IFRS endorsed by the European Community, pursuant to EC Regulations no. 1606/2002 of the European parliament and of the Council of 19 July 2002, and to the measures issued following art. 9 of Legislative Decree no. 38/2005;
    - b) correspond with the books and accounting records;
    - c) are suitable to portray the financial position and results of operations of the issuer in a true and fair way.
  - 3.2 The Directors' Report includes a reliable analysis of the performance and results of both the management and position of the issuer, as well as all the companies included in the consolidation scope, together with the description of the main risks and uncertainties they are exposed to.

Florence, 25 March 2009

The Deputy Chairman  
(Vincenzo Manes)

Manager responsible  
(Marco Miniati)

KME Group S.p.A.  
Sede Legale e  
Uffici Amministrativi  
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di Firenze n° 00931330583  
Partita IVA 00944061001

Società iscritta al n. 18158 nell'elenco degli intermediari finanziari, ex art. 113, D.Lgs. 1 settembre 1993, n. 385.

# Board of Statutory Auditors' Report

## **Board of Statutory Auditors' Report to the Shareholders' Meeting called to resolve on the separate financial statements at 31 December 2008**

### ***Dear Shareholders,***

the Directors have called you to the Shareholders' Meeting on 28/29 April 2009 to resolve on the financial statements at 31 December 2008, and the Board of Statutory Auditors is responsible for reporting to you in accordance with art. 153 of Legislative Decree no. 58 of 24 February 1998, in compliance with the other special provisions in force.

### **Monitoring carried out and information obtained by the Board of Statutory Auditors**

During the year ended at 31 December 2008, apart from attending the Shareholders' Meetings of the year as well as the meetings of the Board of Directors (five), the Board of Statutory Auditors met seven times pursuant to art. 2404 of the Italian Civil Code. The Auditors were in contact with both the independent auditors and continuously with the company structure in general. For the breakdown, regulations and operation of company bodies, please refer to the broad description in the report attached to the financial statements; moreover, taking into consideration the provisions of the Code of Conduct, four members of the Board of Directors are considered independent. Relations between company top management and the Board of Statutory Auditors, even the informal ones, were continuous, in the same way as the informative and/or consultative contacts between managers and Auditors. Properly kept mandatory company books contain what is required by law in every necessary detail.

In fulfilment of its supervisory duties and during the meetings and frequent contact referred to above, the Board of Statutory Auditors:

- a) confirmed that during the year, the provisions of laws and Bylaws were complied with, following the current regulations, in particular, in relation to the protection and the rights of minority interests;
- b) confirmed that the company management was set up according to the correct principles, with the Board of Statutory Auditors being informed regularly and promptly by the Directors on the activities carried out during the year, transaction and significant events, with regards to KME Group S.p.A. and its subsidiaries;
- c) monitored the adequacy of the Company's internal control and the administration and accounting structure, which turned out reliable, with reference also to problems relating to the administrative responsibility pursuant to Legislative Decree 231/2001. According to the terms of this regulation, with a resolution passed by the Board, the Company adopted an Organisation and Management Model, communicated to the Auditors in the updated version of the original document. The Board of Statutory Auditors acknowledges the activities carried out during the year (as in the previous year) and the frequent meetings held by the Internal Control Body with participation by members of the Board of Statutory Auditors, too. In relation to the aforesaid decree no. 231/2001, the Internal Control Body includes members of the administrative and technical structure, facing problems and set up organisational elements meant to fulfil obligations originating from the regulations in force. The Board of Statutory Auditors acknowledges also the activities of the Internal Control Body and the Remuneration Committee, appointed by the Board of Directors, each comprised of 3 non-executive and independent Directors, whose meetings have always been attended at least by the Chairman of the Board of Statutory Auditors. In addition, the Board of Statutory Auditors focussed on both control procedures, further adjusted to company and Group requirements, and accounting standards. The auditors did not need to make use of the work of its employees or support staff (article 151, paragraph 3, Legislative Decree no. 58 of 24 February 1998);

- d) confirmed that during the course of the year, companies, even those controlled indirectly, regularly and promptly provided KME Group S.p.A., through the subsidiary KME Germany A.G., with the necessary information to fulfil the communication obligations required by law (article 114, paragraph 2; article 149, letter d) of paragraph 1; article 150, paragraph 1 of Legislative Decree no. 58 of 24 February 1998);
- e) received information and updates from executive management on a continuous basis regarding ongoing lawsuits, a detailed description of which - avoiding unnecessary overlapping - is found in the Director's Report, which reserves due space for it; the Board of Statutory Auditors underlined the particular focus that the Control body, at an early stage, placed on the two community proceedings for competition infractions, and on the two environmental lawsuits relative to the discontinued industrial area housing the Brescia plant; as for the Class Actions pending in the United States, still referring to competition rule infringements, the judging Court decided to dismiss, by motion of the parties, the two lawsuits begun in 2007 relating to sanitary pipes and industrial pipes, while the lawsuit against the former Chairman of the Company, Mr Luigi Orlando, was settled by the parties with no charges for the Company;
- f) followed the activities of KPMG S.p.A. and collaborated for information exchange with the same; KPMG S.p.A. is the company entrusted by the Shareholders' Meeting of 23 May 2007 with the audit of the separate and consolidated financial statements, pursuant to articles 155 and following of TUF. It was also entrusted with the audit of the half-year report of KME Group S.p.A.. This auditing company plays the role of "main auditor"; since its activities concern the main portion of the assets and consolidated revenue of Group's companies. During the year, apart from assigned tasks, it was entrusted with a task different from usual audit (costing Euro 59,000 on the whole), as results from the specific table included in the annexes to the consolidated financial statements;
- g) took part, in a monitoring capacity, in the process of the Company's application of the Borsa Italiana S.p.A. Code of conduct, in its edition adopted in 2006, in line with a system of compliance which according to the terms of "TUF" (article 123 *bis*) must be the subject of information to shareholders and to the market; of which the Auditors acknowledge, not just from having assisted you, but also on the basis of the description of it in the Directors' Report;
- h) placed emphasis on the extensive section in the Directors' Report about Corporate Governance, in which, aside from analytical information on Company bodies and their members, the necessary space is also given to the Regulation of transactions with related parties for which the Board of Statutory Auditors has regularly received and taken into account detailed quarterly information; to the remuneration of Directors and top management with particular reference to the Stock Option Plan, as well as acknowledgements of other subjects such as the Code of Conduct on Internal Dealing. On the whole, the information, even with regard to this point, is exhaustive;
- i) kept track of and monitored the establishment (by KME Group S.p.A. in July 2007) of GreenergyCapital S.p.A. (recently changed into Ergycapital S.p.A.) in the framework of an initiative with other business entities geared towards investments in companies for the development of plants for energy production from renewable sources, and in companies for the offering of products, services and technologies used in this sector. In January 2008, ErgyCapital resolved on a share capital increase against payment, Euro 48.7 million, by issuing ordinary shares, with warrants; the transaction was followed by the issue of shares and warrants to be listed on the Mercato Telematico Azionario (electronic Stock Exchange) organized by Borsa Italiana S.p.A. - negotiations starting on 20 March 2008. Owing to the share capital increase and the consequent subscription, iNTEK S.p.A. owns 48.1% of ErgyCapital S.p.A. and KME Group S.p.A. through a 6.8% stake (combined value at 31 December equalling Euro 3.1 million). With the same company, KME Group S.p.A. launched a collaboration programme in the energy field whereby a plant producing electric energy has already been carried out, through photovoltaic panels installed on the factory in Serravalle Scrivia (Alessandria), owned by subsidiary KME Italy S.p.A.. Moreover, as for new company initiatives, the Board of Statutory Auditors followed the subscription of an agreement for acquiring 30% of METALBUYER S.p.A., which trades in ferrous and non-ferrous metals, in the shape of scraps, too, owing to the existence of the ascertained assumption of interesting technical and trading synergies between the two companies, illustrated in the Directors' Report in detail;

- j) in relation to art. 22 of the Bylaws, the Board of Statutory Auditors made the periodical check on the existence of the “independence” requirement for each of its members, in compliance with the provisions of articles 10, subsection 2 and 3, subsection 1, of the Code of Conduct. During 2008, Standing Auditor A. Trotter resigned, justifying his decision in relation to CONSOB regulations on task cumulation. Mr Trotter was replaced by Alternate Auditor M. Lombardi pursuant to art. 2399 of the Italian Civil Code. As for checking the existence of the “independence” requirement, the Board of Statutory Auditors considered the task of the Chairman of the Board of Statutory Auditors and noticed that, for M. Fazzini, the year ended 31 December 2008 was the tenth consecutive year in office. Therefore, considering also that Auditor Fazzini is the Chairman and Auditor Lombardi is the Standing Auditor of the Board of Statutory Auditors of the subsidiary KME Italy S.p.A., and taking into account the long-term office of the third Auditor P. Pace, the Board of KME Group S.p.A. believes that the requirement of “independence” of its members essentially exists; parameters of judgement - expressed with the abstention of each person in question - were the objective overall evaluation of the relationship developing in previous years, as well as the personality and the deontological rigour of the persons, exhibited in the tasks they fulfilled in the interest of the Company and the Group; the same check was conducted on the existence, again on the basis of the provisions of the Code of Conduct, of the “independence” requirement for the four members of the Board of Directors considered provided with such requirement, present also in the Internal Control Committee and in the Remuneration Committee;
- k) during the past year, too, contacts and mutual consultation relationships developed continuously with the Independent Auditors (art. 150 of TUF), and in particular, with Mr Riccardo Cecchi, Directors of audit for KPMG S.p.A.; those consultations and relationships intensified during the audit activities of auditors and the specific supervisory activities of Statutory Auditors, carried out during the drawing up of the half-year report in mid financial year 2008, and of the financial statements. The Board of Statutory Auditors found elements acknowledging the character of “independence”, as well as competence, of the members of KPMG S.p.A. from those facts, as well as other circumstances;
- l) the Directors drew attention to pointing out impairment losses, as described in the accounting policies applied and in the notes to the financial statements. With some exceptions, the financial assets and liabilities were subject to monitoring for any impairment loss, in compliance with specific IFRS. Its definitions, application procedures, losses recognised in the income statement, as well as the conditions for the possible reversal (if there are the right and legitimate circumstances justifying reversal) are illustrated.

#### **Considerations relative to the separate financial statements**

The financial statements at 31 December 2008 show a profit of Euro 21,024,298 (2007: profit of Euro 12,314,967).

As for the most meaningful aspects of 2008 for the Parent, the management report begins by pointing out that the already ongoing remarkable slowdown in the economic situation, involving production and trade, was followed by a further heavy slump, as of September, which operators and observers clearly named recession, involving the economies of the industrialized countries of all continents, except for a few developing countries which are still growing, though with difficulties. To avoid repetitions, please consult the whole text of the Directors' Report, which is complete and consistent with the values and quantity data included in the “accounting tables” of the financial statements.



The balance sheet items of the Parent, aggregated according to their nature, are synthesized below (amounts in thousands of Euro):

	2008	2007
<b>Assets</b>		
- Investments property and similar	102	30
- Investments in subsidiaries	314,833	316,569
- Other non-current financial assets	46,340	6,992
- Deferred tax assets	3,874	3,748
- Trade receivables and other current assets	7,715	10,199
- Current financial assets	82,999	66,242
- Cash and cash equivalents	661	1,739
<b>Total Assets</b>	<b>456,524</b>	<b>405,519</b>
<b>Liabilities</b>		
- Share capital and reserves	335,104	335,500
- Non-current liabilities	57,828	16,852
- Current liabilities	42,568	40,852
- Profit for the year	21,024	12,315
<b>Total liabilities and equity</b>	<b>456,524</b>	<b>405,519</b>

In addition to talks with company executives, the Board of Statutory Auditors received the necessary information from the independent auditors regarding the measurement criteria applied to the various items in assets and liabilities, as well as to measuring the components in the income statement; the choices made have been carried out in line with the correct reasons. At the date of this report, the independent auditors have still not issued their report on the financial statements and on the overall information system at the end of the year; however, as a result of contacts and talks which took place, it is expected that no events and/or circumstances have emerged that could inhibit the auditors from expressing an unqualified professional opinion.

The executive Deputy Chairman of the Company, Vincenzo Manes, and Manager Marco Miniati, in charge of drawing up the corporate accounting documents of KME Group S.p.A., delivered a written statement to Directors and Statutory Auditors on 25 March 2009; through it, they certify the adequacy of the characteristics of the company taking into account also art. 154-*bis* of Legislative Decree no. 58/1998, as well as the real application of the administrative and accounting policies for drawing up the financial statements during 2008. They point out that the certified adequacy was evaluated on the basis of methods generally acknowledged on international level. The signers also certify that the Financial Statements of the Company at 31 December 2008 were drawn up in compliance with IFRS and relevant EU regulations, and with the relevant national legislation (expressly mentioned in detail in the signed text of the statement); they certify that the Financial Statements correspond with books and accounting records, and are suitable for portraying the financial position and results of operations of the Company in a true and fair way; finally, they certify that the Directors' Report includes a reliable analysis of the management results and performance.

In addition, the Board of Statutory Auditors would like to point out the following:

- for the purposes of representation and consistent comparison between data referring to different years, consolidated financial results were initially determined without applying IFRS in the measurement of the present values of commodity inventories. It was done for the reasons stated in the report, and in particular, in the Notes to the financial statements. In short, there was the need - felt by Directors - to avoid the risk of distorting effects in determining the economic result originating from the high volatility of relevant prices, taking place for some time; of course, consolidated financial statements, in both the income statement and the balance sheet, include the negative result due to the application of IFRS to inventory measurement;

- the deferred tax calculation principles and methods are duly indicated and do not raise any observations;
- Directors reported intercompany transactions supplying exhaustive information; intercompany transactions were neither unusual nor atypical, all classified among a holding company's ordinary activities. In particular, with regard to loan transactions under current accounts and support and consultancy relationships for certain operational areas, they were all carried out on a normal contractual basis.

The Directors' Report for 2008 concluded with the invitation to the shareholders to approve the same report as well as the financial statements and all its parts, showing a net profit of Euro 21,024,298; shareholders were also invited to resolve on the allocation of the profit for the year: Euro 1,051,215 (5%) to the Legal Reserve, Euro 226,962 to the Board of Directors (2% - after deducting the fixed portion of remuneration), Euro 2,061,397 to savings shares for an overall dividend of Euro 0.1086 per share, and Euro 9,200,567 to ordinary shares for a dividend of Euro 0.04 per share, with the final retained residual amount of Euro 8,484,157. The Board of Directors decided to give its profit share to charity.

With regard to the information above and the considerations made by the Statutory Auditors in the report on their consolidated financial statements, the Board of Statutory Auditors expresses a favourable opinion as to the approval of the financial statements at 31 December 2008 and the allocation of profit totalling Euro 21,024,298 as indicated above.

The term of office of the members of the Board of Statutory Auditors, assigned for three years from 2006 to 2008, expires with the financial statements at 31 December 2008 and the relevant fulfilments. In thanking you for being trusted by the Shareholders, the Statutory Auditors acknowledge that the Agenda of the next Shareholders' Meeting will also include office renewal for the Standing and Alternate Statutory Auditors of the Board of Statutory Auditors for the next three years.

Florence, 31 March 2009

The Board of Statutory Auditors

**List of positions held by standing members of the Board of Statutory Auditors prepared in accordance with Article 144-quinquiesdecies of CONSOB Regulation no. 11871/99.**

Mr Marcello Fazzini Number of offices held in issuing companies: 1 Number of offices held on the whole: 5

Company name	Type of Office	Term of Office
HDI Assicurazioni S.p.A.	Chairman of the Board of Statutory Auditors	31 December 2008
HDI Finanziaria S.p.A.	Chairman of the Board of Statutory Auditors	31 December 2008
KME Italy S.p.A.	Chairman of the Board of Statutory Auditors	31 December 2009
Flli Reali S.p.A.	Chairman of the Board of Statutory Auditors	31 December 2008
InChiaro Assicurazioni S.p.A.	Standing Auditor	31 December 2009

Mr Marco Lombardi Number of offices held in issuing companies: 1 Number of offices held on the whole: 16

Company name	Type of Office	Term of Office
RECS S.r.l.	Sole Director	Indefinite
Brandini S.p.A.	Chairman of the Board of Statutory Auditors	31 December 2010
D&D La Certosa Firenze S.p.A.	Chairman of the Board of Statutory Auditors	31 December 2010
Fattoria dei Barbi S.r.l.	Chairman of the Board of Statutory Auditors	31 December 2008
Jaguar Firenze S.p.A.	Chairman of the Board of Statutory Auditors	31 December 2008
Centro Leasing Rete S.p.A.	Standing Auditor	31 December 2009
Firenze Industria Finance S.p.A.	Standing Auditor	31 December 2010
KME Italy S.p.A.	Standing Auditor	18 April 2010
Grifoni & Masini S.p.A.	Standing Auditor	31 December 2010
SAIF Servizi Ass.ni Industriali Firenze S.r.l.	Standing Auditor	31 December 2010
B. e C. Speakers S.p.A.	Alternate Auditor	31 December 2011
Cabel Ass. Fin. Co. Leasing S.p.A.	Alternate Auditor	31 December 2010
Centro Leasing Banca S.p.A.	Alternate Auditor	31 December 2008
Editoriale Firenze S.p.A.	Alternate Auditor	Over
Tarducci S.p.A.	Alternate Auditor	Over
Vianse S.p.A.	Alternate Auditor	30 September 2011

Mr Pasquale Pace Number of offices held in issuing companies: 1 Number of offices held on the whole: 6

Company name	Type of Office	Term of Office
ASECO S.p.A.	Chairman of the Board of Statutory Auditors	19 May 2009
Edil Vacanze S.p.A.	Chairman of the Board of Statutory Auditors	31 December 2009
Baia San Giorgio - Villaggio turistico sportivo San Giorgio S.r.l.	Chairman of the Board of Statutory Auditors	31 December 2009
Fidanzia Sistemi S.r.l.	Chairman of the Board of Statutory Auditors	31 December 2008
Primiceri S.p.A.	Chairman of the Board of Statutory Auditors	31 December 2008
Marzocca S.r.l.	Standing Auditor	31 December 2008

Marcello Fazzini  
Marco Lombardi  
Pasquale Pace

# Independent Auditors' Report



KPMG S.p.A.  
Revisione e organizzazione contabile  
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50123 FIRENZE FI

Telefono 055 213391  
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(Translation from the Italian original which remains the definitive version)

## Report of the auditors in accordance with article 156 of Legislative decree no. 58 of 24 February 1998

To the shareholders of  
KME Group S.p.A.

- 1 We have audited the separate financial statements of KME Group S.p.A. as at and for the year ended 31 December 2008, comprising the balance sheet, income statement, statement of changes in equity, cash flow statement 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.  
  
Reference should be made to the report dated 10 April 2008 for our opinion on the prior year separate financial statements, which included the corresponding figures presented for comparative purposes.
- 3 In our opinion, the separate financial statements of KME Group S.p.A. as at and for the year ended 31 December 2008 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 2008, the results of its operations, changes in its equity 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 with the financial statements to which it refers, as required by article 156.4-bis.d of Legislative decree no. 58/98. 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 is consistent with the separate financial statements of KME Group S.p.A. as at and for the year ended 31 December 2008.

Florence, 9 April 2009

KPMG S.p.A.

(signed on the original)

Riccardo Cecchi  
Director of Audit

KPMG S.p.A., an Italian limited liability share capital company and a member firm of the KPMG network of independent member firms affiliated with KPMG International, a Swiss cooperative.

Milano Ancona Aosta Bari  
Bergamo Bologna Bolzano Brescia  
Catania Como Firenze Genova  
Lecce Napoli Novara Padova  
Palermo Parma Perugia Pescara  
Roma Torino Treviso Trieste Udine  
Varese Verona

Società per azioni  
Capitale sociale  
Euro 7470.300,00 i.v.  
Registro Imprese Milano e  
Codice Fiscale N. 00709600159  
R.E.A. Milano N. 512867  
Part. IVA 00709600159  
Sede legale: Via Vitor Pisani, 25  
20124 Milano MI



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**Items 2, 3 and 4 on the agenda of the Shareholders' Meeting of 28 - 29 April 2009**

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## Item 2 on the agenda

**Appointment of the Board of Directors for the years ending 31 December 2009, 2010 and 2011, once the number of its members has been fixed; determination of the fixed annual remuneration pursuant to art. 21 (Fee) of the Bylaws.**

***Dear Shareholders,***

as happens with the Board of Statutory Auditors, the term of office assigned to Directors by the Shareholders' Meeting on 19 May 2006 for the years ended at 31 December of 2006, 2007 and 2008 shall expire with the Shareholders' Meeting examining the proposal for approving the financial statements at 31 December 2008.

Therefore, you are kindly requested to fix the number of Directors - nine is the minimum number pursuant to art. 17 of the Bylaws, and twelve the highest - and then appoint them for the years ending 31 December of 2009, 2010 and 2011.

Please determine also their fixed annual remuneration pursuant to art. 21 of the Bylaws.

The procedure for appointing the Board of Directors is described under art. 17 (Appointment and Breakdown of the Board of Directors, terms of office of their members) of the Bylaws and in the text of the notice of call of the Shareholders' Meeting on 28/29 April 2009.

Florence, 25 March 2009

The Board of Directors

## Item 3 on the agenda

**Appointment of the Board of Statutory Auditors and its Chairman for the years ending 31 December of 2009, 2010 and 2011; determination of the annual remuneration of the Standing Auditors and the Chairman for the whole period.**

*Dear Shareholders,*

as happens with the Board of Directors, the term of office assigned to Board of Statutory Auditors by the Shareholders' Meeting on 19 May 2006 for three financial years shall expire with the Shareholders' Meeting examining the proposal for approving the financial statements at 31 December 2008.

In compliance with the Bylaws' procedures, you are thus kindly requested to appoint Standing Auditors, Alternate Auditors, and the Chairman of the Board of Statutory Auditors for the years ending 31 December 2009, 2010 and 2011, and to fix their annual remuneration for the whole period.

The procedure for appointing the Board of Statutory Auditors is described under art. 22 (Board of Statutory Auditors) of the Bylaws and in the text of the notice call of the Shareholders' Meeting on 28/29 April 2009.

Florence, 25 March 2009

The Board of Directors

## Item 4 on the agenda

### **Report and Justified Proposal by the Board of Statutory Auditors for the Shareholders' Meeting of 28/29 April 2009 in relation to audit activities.**

#### ***Dear Shareholders,***

you were called to the ordinary Shareholders' Meeting also to examine and approve the proposal of supplementing the audit engagement, assigned to KPMG S.p.A. by the ordinary Shareholders' Meeting of your Company of 23 May 2007, pursuant to articles 155 and following of Legislative Decree no. 58/98 (hereinafter referred to as "TUF"; in brief).

The proposal for supplementing the engagement follows the provisions of art. 156, subsection IV-bis, letter d) of TUF (text modified by Legislative Decree no. 32/07), whereby the Independent Auditors express "an opinion on the consistency of the Directors' Report with the financial statements" in their Report; this implies that the audit activities of the separate and consolidated financial statements from 2008 to 2015 shall be extended.

To complete the information, in accordance with the very recent resolution no. 16801 adopted by CONSOB on 24 February 2009 in this respect, auditing companies should adopt a specific accounting standard in carrying out their activities.

In compliance with the provisions above, and pursuant to art. 159 of TUF, the Board of Statutory Auditors thus intends to propose a supplement of the current audit with the following redetermination of their fees, as of the year ended last 31 December 2008.

In detail, KPMG S.p.A. formulated a proposal on 18 March 2009 including, on an annual basis, the following modifications with respect to what was initially stated for the audit of the separate and consolidated financial statements:

- increase in the overall number of hours, going from 510 hours to 541 hours, on the whole;
- higher participation in the activities by the most qualified staff under the professional point of view (Shareholder and Manager);
- the following increase in the fees, going from Euro 46,000.00 to EUR 55,750.00.

As for the aforesaid aggregate amount, Euro 1,748.00 of it includes a 3.8% revaluation of the initial fees depending on the actual ISTAT index increase (as of 1 July 2007); as a consequence, its "net" increase for the new activities is actually Euro 8,002.00.

Apart from the fee, the proposal (a letter of six pages) includes:

- the approach to the engagement, including that for carrying out the checks specified by the relevant provisions and the applicable auditing standards, respecting the provisions of the law and CONSOB;
- engagement team and its breakdown.

We acknowledge that the Board of Directors examined this proposal as well as the offer of the Independent Auditors during its meeting on 25 March 2009.

The fee for KPMG S.p.A. for the review of the half-year Report is unchanged: Euro 14,000.00.



Therefore, if you agree, we propose you the adoption of the following resolution:

“The ordinary Shareholders' Meeting of KME Group S.p.A. of 28/29 April 2009, meeting at 2, Via dei Barucci, Florence,

- taking into account the proposal justified by the Board of Statutory Auditors in relation to the supplement of the audit engagement assigned to KPMG S.p.A. pursuant to articles 155 and following of Legislative Decree no. 58/98 by the Shareholders' Meeting through resolution on 23 May 2007;
- taking into account the relevant offer formulated by KPMG S.p.A. itself;
- and taking into consideration (within its scope) the Directors' Report;

PASSES THE FOLLOWING RESOLUTION

1. supplement the annual fee for KPMG S.p.A. in relation to the audit of the separate and consolidated financial statements, following an offer drawn up pursuant to the provisions stated by CONSOB (Italian Securities and Exchange Commission) through its notice DAC/RM/96003556 of 18 April 1996, in compliance with art. 155 and following Legislative Decree no. 58 of 24 February 1998, for the years ending at 31 December 2008, 2009, 2010, 2011, 2012, 2013, 2014 and 2015: Euro 3,760.00 for the separate financial statements, and Euro 5,990.00 for the consolidated financial statements, that is, Euro 9,750.00 on the whole;
2. on the whole, the aforesaid annual fee is Euro 23,760.00 for the separate financial statements, and Euro 31,990.00 for the consolidated financial statements, both amounts net of future ISTAT revaluations;
3. the previous resolutions passed by the Shareholders' Meeting of 23 May 2007 in relation to the assignment of the audit engagement to KPMG S.p.A. are confirmed, and extended, if necessary, to the resolutions under previous items 1 and 2”

Florence, 25 March 2009

The Board of Statutory Auditors

**Board of Directors' Report on the Report and Justified Proposal of the Board of Statutory Auditors for the Shareholders' Meeting of 28/29 April 2009 in relation to auditing activities.**

***Dear Shareholders,***

in compliance with current regulations, the Board of Statutory Auditors suggested a supplement to the audit engagement assigned to KPMG S.p.A. following an extension of its activities. KPMG S.p.A. is now required to express an opinion on the consistency of the directors report with the financial statements, pursuant to art. 156, subsection IV-bis of Legislative Decree no. 58/98, as of the financial statements at 31 December 2008.

In this respect, we examined the proposal submitted by KPMG S.p.A., and we express our full agreement with the “justified proposal” formulated by the Board of Statutory Auditors; in particular, we agree on the resolutions proposed to you, and we advise you to pass them.

Florence, 25 March 2009

The Board of Directors

# Resolutions of the Ordinary Shareholders' Meeting

## Resolutions of the Ordinary Shareholders' Meeting of 29 April 2009.

The Ordinary Shareholders' Meeting of KME Group S.p.A. of 29 April 2009, meeting at the registered office of Florence,

resolved

- a) to approve the Directors' Report at 31.12.08 and the financial statements as a whole and in the individual captions and records with the allocations and utilisations proposed, which show a profit of Euro 21,024,298;
- b) to allocate the financial year's net profit of Euro 21,024,298 - after a 5% provision for the Legal Reserve equalling Euro 1,051,215 and a 2% provision for the Board of Directors (minus the fixed share of the fee) equalling Euro 226,962 - to the distribution of dividend to savings shares (Euro 0.1086 per share, that is, Euro 2,061,397 on the whole) and ordinary shares (Euro 0.04 per share, that is, Euro 9,200,567 on the whole), retaining the residual amount of Euro 8,484,157;
- c) to appoint the members of the Board of Directors for 2009, 2010 and 2011: Vincenzo Cannatelli, Domenico Cova, Mario d'Urso, Marcello Gallo, Giuseppe Lignana, Gian Carlo Losi, Vincenzo Manes, Diva Moriani, Alberto Pecci, Alberto Pirelli, Salvatore Orlando, and Italo Romano;
- d) to appoint the members of the Board of Statutory Auditors for the financial years closing at 31 December 2009, 2010 and 2011: Marco Lombardi (Chairman), Pasquale Pace and Vincenzo Pilla (Standing Auditors), Lorenzo Boni and Angelo Garcea (Alternate Auditors);
- e) to supplement the fee of KPMG S.p.A., company entrusted with audit pursuant to articles 155 and the following of Legislative Decree no. 58/1998, raising it to Euro 23,760.00 for the financial statements, and Euro 31,990.00 for the consolidated financial statements, for the financial years closing at 31 December 2008, 2009, 2010, 2011, 2012, 2013, 2014 and 2015.

At the same date, the Board of Directors appointed:

- Salvatore Orlando – **Chairman**;
- Vincenzo Manes – **Deputy Chairman**;
- Domenico Cova – **General Manager**;
- Italo Romano – **General Manager**.

and established the following Committees:

- the **Remuneration Committee**, made up of Alberto Pirelli (Chairman), Mario d'Urso and Giuseppe Lignana;
- the **Internal Control Committee**, made up of Mario d'Urso (Chairman), Giuseppe Lignana and Alberto Pecci.

Florence, 29 April 2009



## KME Group S.p.A.

### **Headquarters**

Via dei Barucci, 2  
50127 Florence

### Share capital

Euro 250,009,677.85 fully paid up  
Florence Companies' Register  
and Tax Code no. 00931330583

[www.kme.com](http://www.kme.com)

### **Consulting services and coordination**

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