2010 Annual Report

Contents

KME is a pan-European industrial group and global leader in the production and distribution of copper and copper alloy products

Founded in **1886** and listed on the stock exchange since 1897

Revenue, **2.7** billion euros

Net worth/debt ratio **< 50%**

Annual production **~520,000** tons

14 production sites in Europa and China

12 trading companies spread across 4 continents

2 state-of-the-art Research Centres

A global network of sales offices and agencies

Service and technical assistance centres worldwide

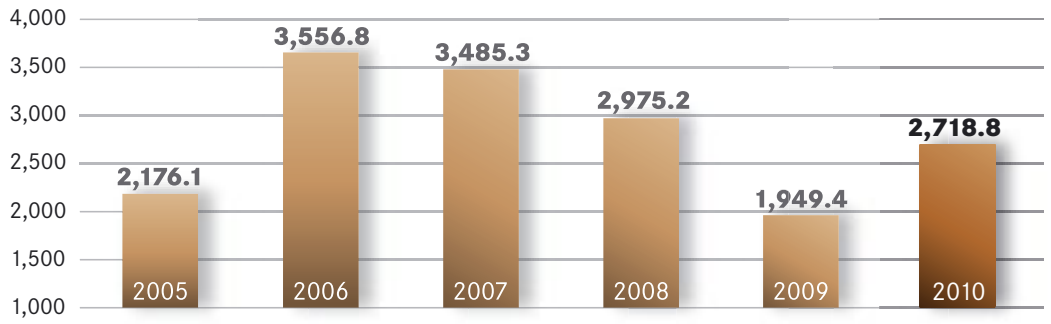
6,500 employees

Headquarters and centre of operations:
Firenze, Italy

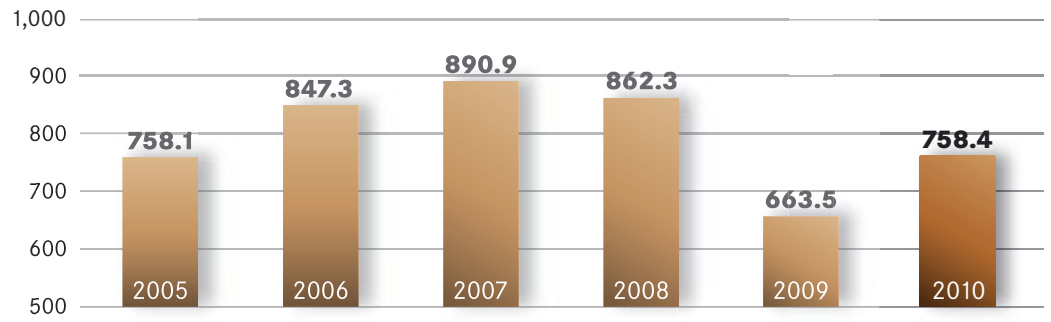
~21,000 business partners (clients e suppliers)

Over **12,000** shareholders

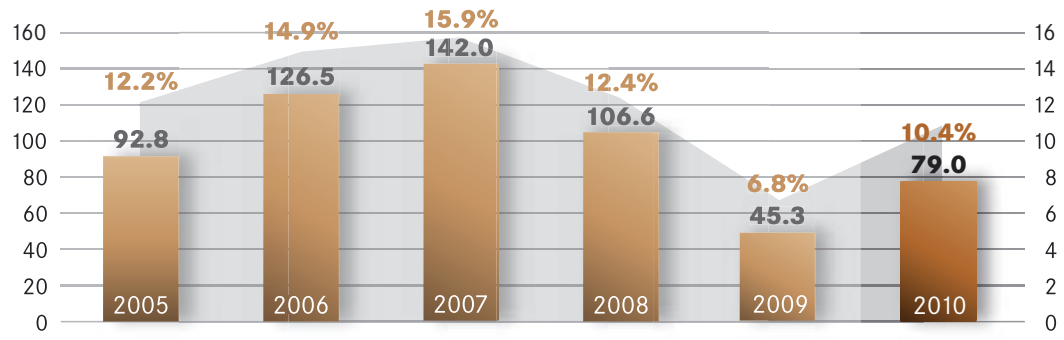
Gross turnover (mn Euro)



Revenue net of raw material costs (mn Euro)



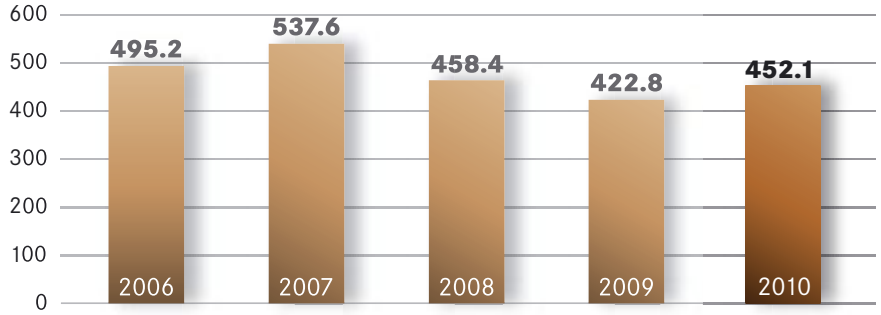
EBITDA * (axis on the left in Euro/million) EBITDA/Net Revenue (axis on the right in %)



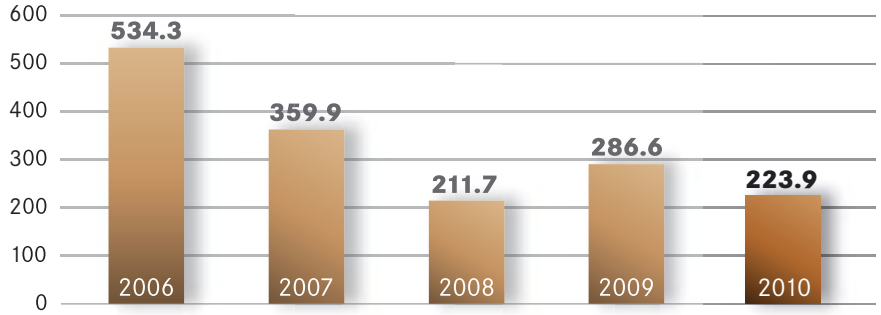
	2005	2006	2007	2008	2009	2010
Employees (at 31.12.2010)	6,847	6,609	6,806	6,739	6,485	6,471
Net revenue/employee (mn Euro)	110.7	128.2	130.9	128.0	102.3	117.2
Pre-tax profit (mn Euro)*	-29.1	4.9	52.3	7.6	-20.0	-7.0

* Net of IFRS valuation of inventories and LME contracts.

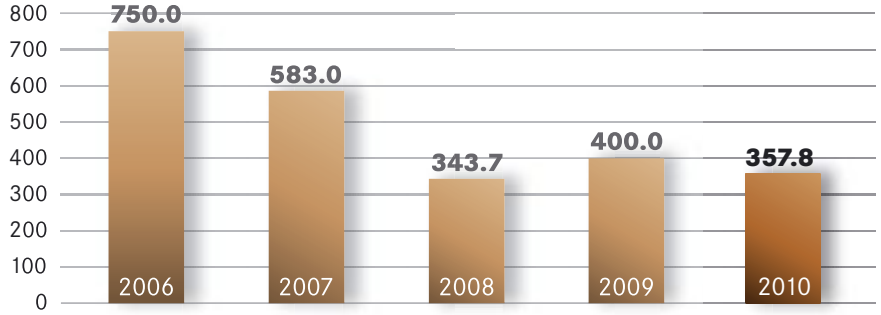
Total equity *



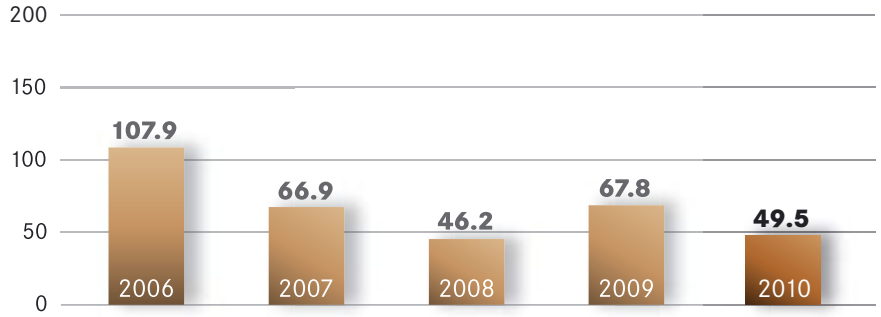
Net financial position *



Net working capital (clients/suppliers' stock) *



Debt/Equity ratio (%)



* Euro/million

KME Group

Letter to the Shareholders

Vincenzo Manes
Deputy Chairman

Dear Shareholders,

The 2010 business year largely confirmed the contradictory and uncertain trend we had formulated last year.
A gradual worldwide economic recovery was indeed underway, although it produced highly uneven results across different areas, and suffered a strong slow-down towards the end of the second quarter.
The rebound was in particular driven by the economies of the emerging countries, while growth rates in the West and in Europe in particular remain sadly low and tied principally to export. In short, we are far away from having overcome the crisis, also because individual countries and international bodies have done little to remove the distortions and vagaries of the markets, especially in the financial markets, which brought on the 2008 financial storm in the first place.
The price dynamics for raw materials are a glaring example of this situation, with all the ensuing geo-political and social imbalances, which have so dramatically been making the headlines in the past several months.
The non-ferrous metals market, in particular the copper market, was perhaps the chief player underscoring the paradoxes of unbridled speculative finance. The apparently unstoppable rise in copper prices at the London Metal Exchange, which topped the record high of $ 10,000 per ton, is only in very small part justified by increased consumption in China and other emerging markets. This is easily confirmed by the bare fact that in 2005, when copper was selling at $ 4,000 per ton, LME stocks amounted to about 100,000 tons. Now they are more than 400,000!
For us at KME, 2010 was the first business year in our new reorganization as an industrial holding company. This was the result of the split we completed at the end of 2009 between Intek's activities and those of Kme Group, so that we could concentrate on the latter both our middle- and long-term investments, optimizing the potential synergies between the different operations. This strategy's opportuneness has been confirmed by the results we here submit for your consideration.
The industrial processing of copper and its alloys remains, even in our new set-up, by far the most significant activity in the Group's portfolio of holdings, which thus confirms its leadership in Europe, as well as globally in certain sectors.

KME turnover rose 39.5% from 2009; similarly, gross operational profit touched the 79 million euro mark, up 74.4% from last year.

This data shows how our decisive and timely actions enabled the Group to make the best of the opportunities offered by the recovery. Indeed, let me point out how these actions affected all sectors of KME activities, in a general overhaul which I defined a "cultural turnaround" in last year's Letter to the Shareholders.

A renewed and re-organized management according to criteria of efficiency and competence has operated at a wide angle indeed, reinforcing KME's corporate strategy in the activities both coming before our core business, and those following after it. The actions aimed at creating a European network in the sales and scrap recycling sectors have gone on, albeit in the midst of quite some difficulty, due to the complexities arising from a bumpy market. Planning and setting up new service centres is also an ongoing task, with special attention given to distribution and to the requirements of end-use clients.

Geographically, too, our Group formulated expansion strategies across industrial areas and sectors which are currently developing very quickly, and this fact is likely to give interesting results throughout 2011.

All of the foregoing has been governed by our policy of tightly controlling cost, especially as concerns the floating capital, which underwent enormous stress due to the price trends for raw materials which I mentioned earlier.

You are well aware of how crucial I consider the human factor to be in the success of any entrepreneurial venture. Sharing a strategy is indeed key to ensuring its success. Today I wish to pay a tribute to all those KME employees who have, throughout these troubled months full of mounting challenges, consistently shown competence, motivation and a common commitment also in shouldering the necessary sacrifices which however helped us to weather the storm.

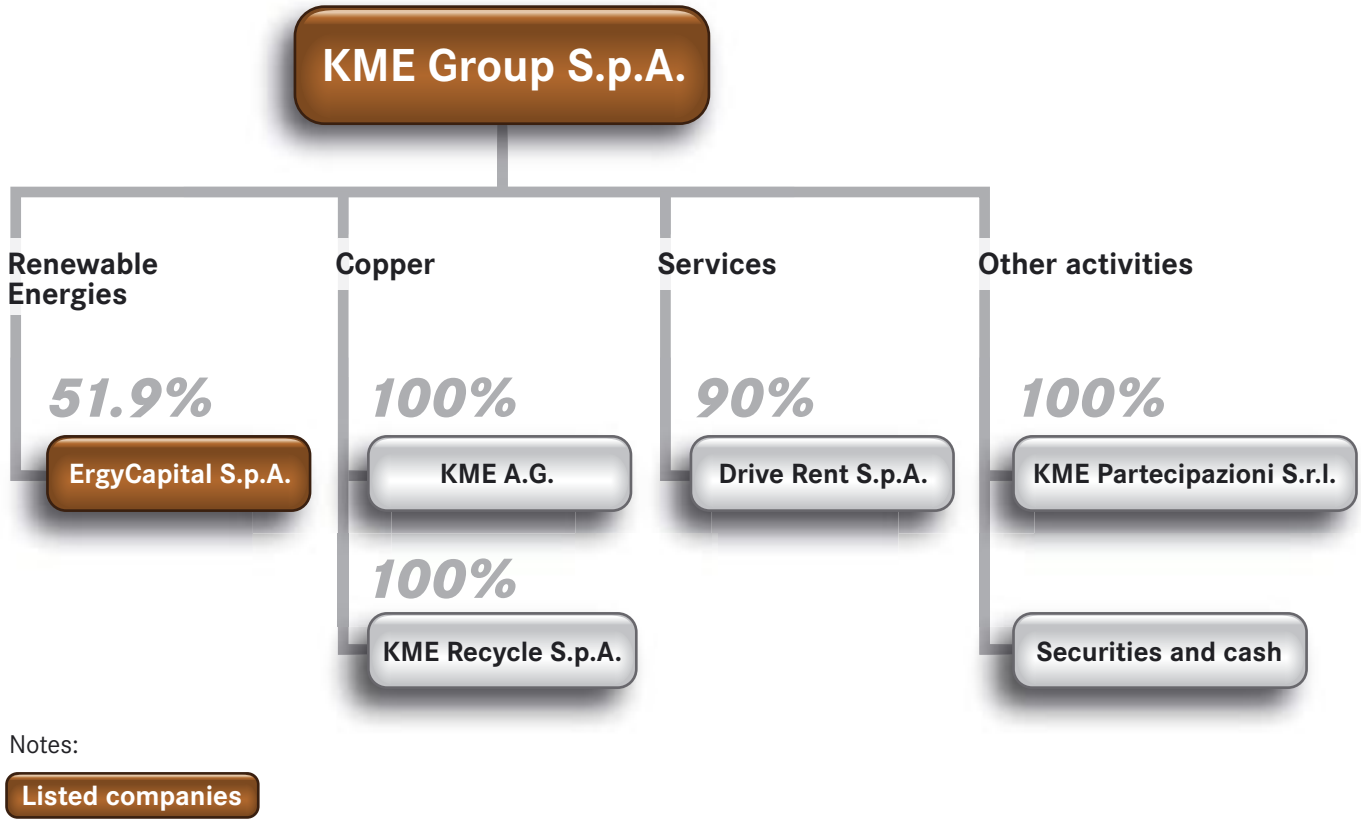
From this point of view, too, our corporate culture progressed in the direction of forging a "sustainable industry". I can say with some pride that KME products today are at the forefront in meeting the requirements of a market which presses increasingly for energy efficiency and solutions that are environmentally sustainable. Our production plants have taken decisive steps in reducing emissions and in taking on the crucial question of safety. We also continued to foster transparency in our dealings with all stakeholders, from the labour unions to the government authorities.

Throughout 2010, we also strengthened our support of Dynamo Camp, with KMEforDynamo giving a renewed push and getting all of the Group's personnel involved in this philanthropic initiative, which incidentally is now more and more making its mark internationally. The response was enthusiastic: new volunteers came forward for the Open Day in September, and also for the two extra days of maintenance work done at the Camp. Finally, a Christmas market was set up by staff from KME Florence headquarters, the Milan offices, and from the Fornaci di Barga and Serravalle Scrivia production plants.

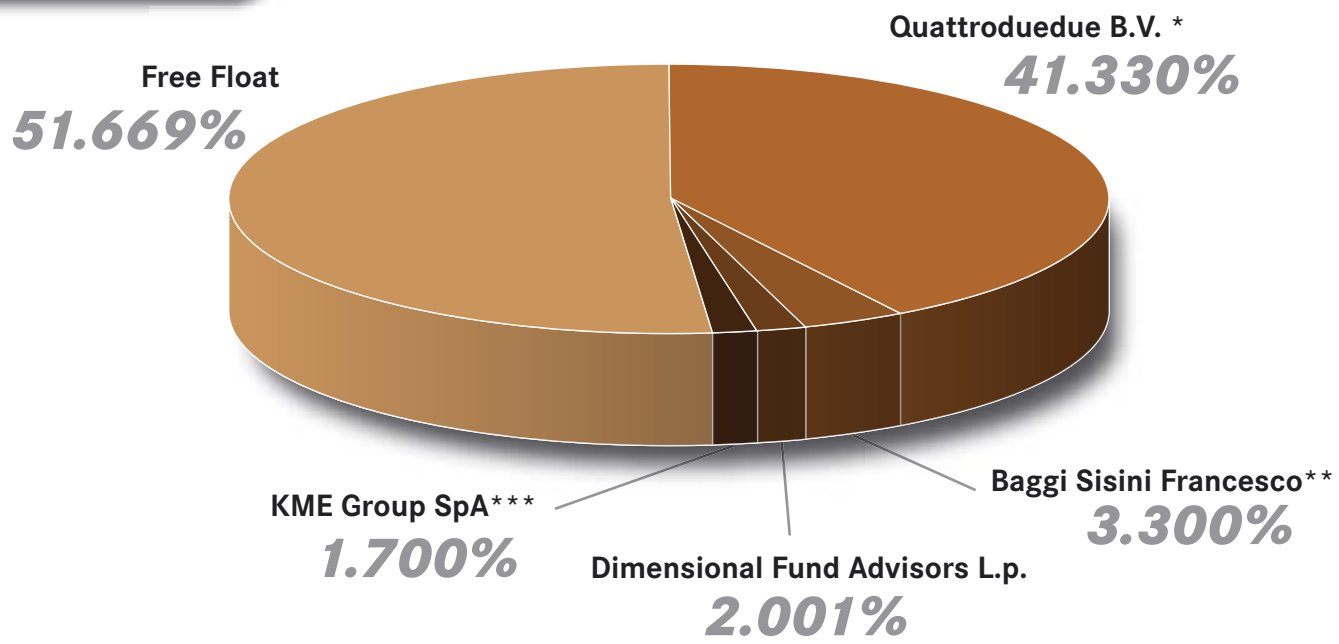
The outlook for the current business year seems quite similar to what we saw in 2010.

The strong turbulence which continues to affect the global economy does not allow us to venture long-term predictions. We are on the contrary compelled to continue moving forward inch by inch; yet we are also conscious that the solutions we have adopted till now and those we are currently working on, make our group a financially and economically sound one. Thus, if the market situation improves, we will certainly make the very best of it; but we will also and in any case be strong enough to take on the old and the new challenges.

Overview of the Group's corporate structure



Shareholders



* Indirectly owned through the two subsidiaries, Quattroduedue S.p.A. (29,66%) and IntekCapital S.p.A. (11,67%)

** In its capacity of body indirectly controlling Arbus S.r.l., KME Group's direct shareholder

*** Own shares

Administration and Control Bodies

Board of Directors

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

A. Indipendent Director
B. Executive Director
C. Member of the Remuneration Committee (Alberto Pirelli, Chairman)
D. Member of the Internal Audit Committee(Mario d'Urso, Chairman)
E. Coopted 22 March, 2011, to replace outgoing General Manager Domenico Cova

Board of Statutory Auditors

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

Manager responsible for the preparation of corporate accounting documentation

Marco Miniati

Independent Auditors

KPMG S.p.A.

General Representative of savings shareholders

Romano Bellezza

Information for investors

Share Performance

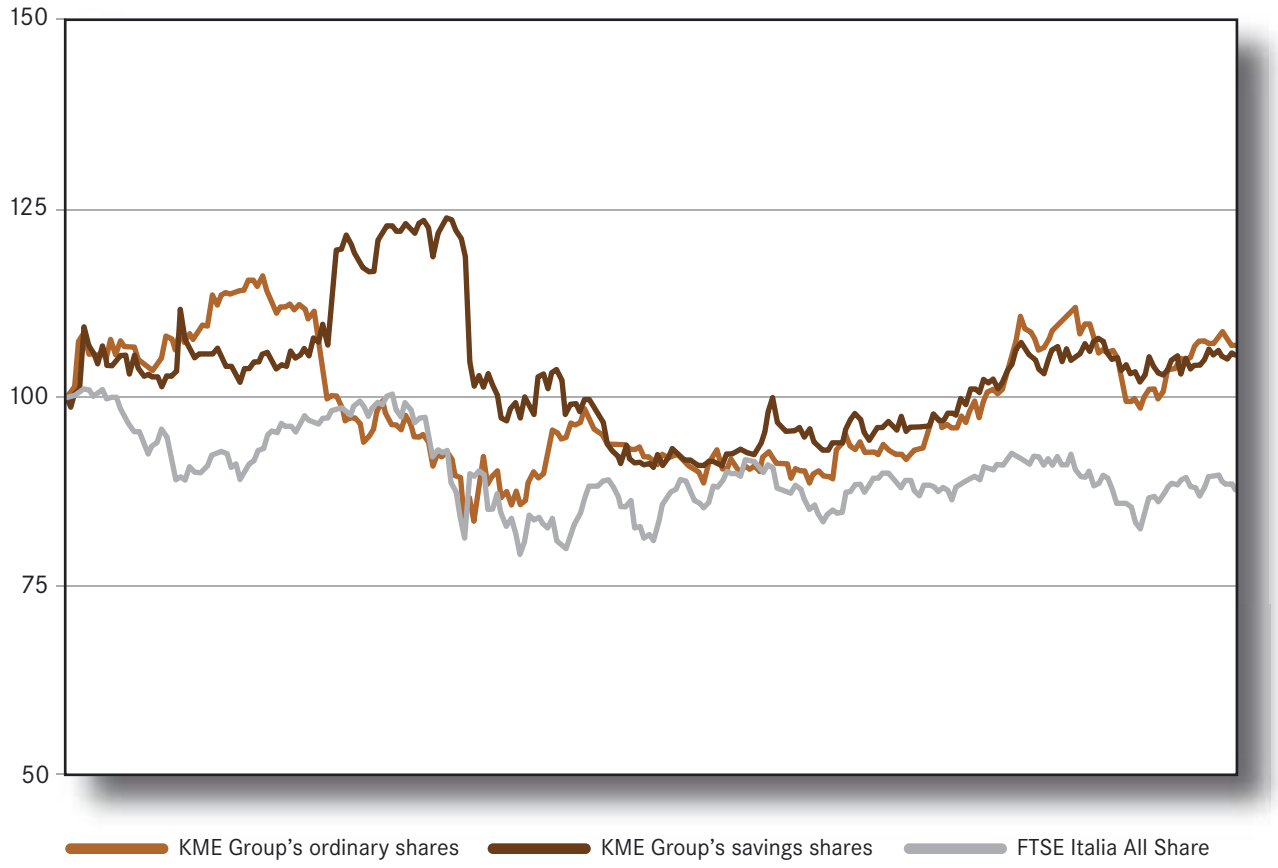
Amounts in Euro	End of 2009	End of 2010	Variation	Low	High
KME Group's ordinary shares	0.305	0.334	9.5%	**0.261** (may)	**0.363** (march)
KME Group's savings shares	0.547	0.581	6.2%	**0.500** (luly)	**0.682** (may)
KME Group warrant 2006-2011	0.030	0.018	-40.0%	**0.010** (september)	**0.040** (january)
KME Group warrant 2009-2011 (1)	0.025	0.014	-44.0%	**0.008** (september)	**0.026** (april)
FTSE Italia All Share	23.653	20.936	-11.5%		

(1) Security officially quoted starting 22 March, 2010

Share Capital - *31 December, 2010*

No. of ordinary shares	447,278,603
No. of savings shares	43,699,416
Share Capital	€ 297,013,585.26
No. of 2006-2011 KME Group warrants outstanding	67,876,124
No. of 2009-2011 KME Group warrants outstanding	73,330,660

Markets rates 2010



Capitalisation *Capitalisation at end 2010*

Capitalisation of ordinary shares	€ 149,391,053
Capitalisation of savings shares	€ 25,389,361
Capitalization	**€ 174,780,414**

Shareholders

Number of ordinary shareholders	12,721

Principal ordinary shareholders (1)

Quattroduedue B.V. (2)	41.33%
Baggi Sisini Francesco (3)	3.30%
Dimensional Fund Advisor L.p. (USA)	2.00%

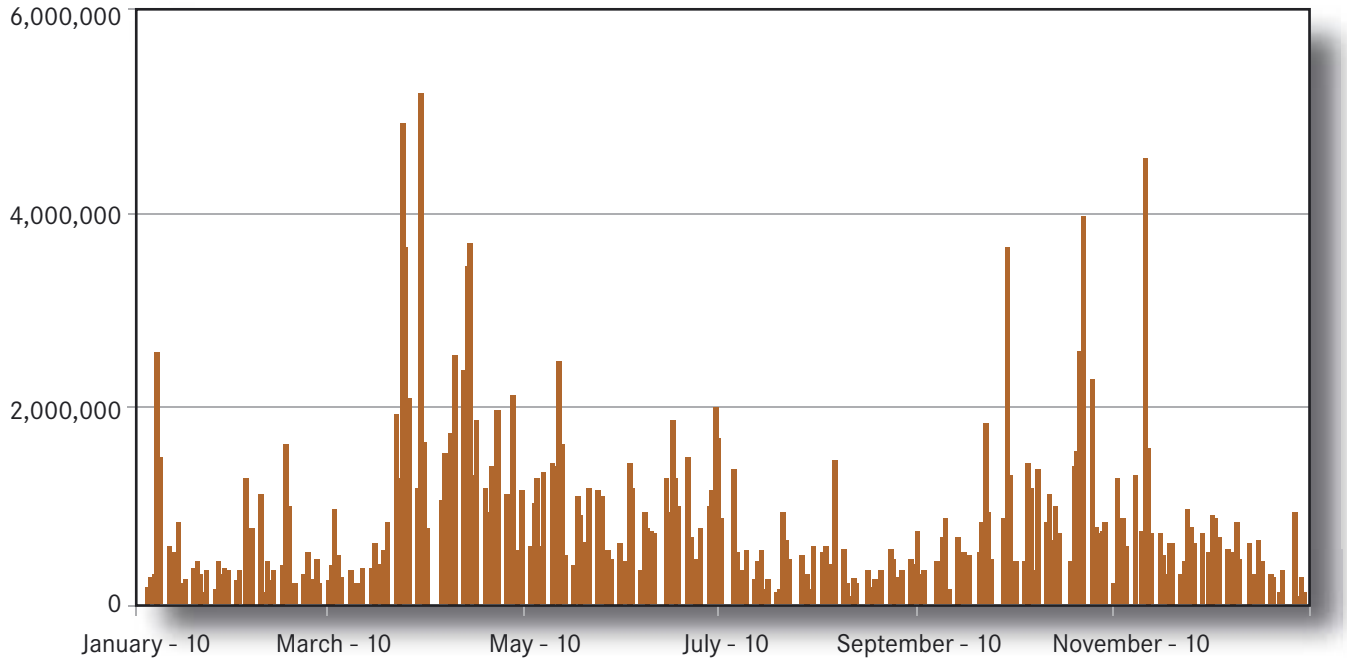
(1) – No other shareholder reported owning ordinary shares with an interest greater than 2%.
(2) – Of which 29,66% is held indirectly by Quattroduedue S.p.A. and 11,67% by IntekCapital S.p.A.
(3) – In its capacity as a body that indirectly controls Arbus S.r.l., KME's direct shareholder.

Dividends

	2008	2009
Dividend per ordinary share	€ 0.0400 (1)	-
Dividend per savings share	€ 0.1086 (1)	€ 0.07241

(1) - Gross dividend per share, calculated on the basis of the number of shares prior to 2010 demerger.

Quantity of KME Group ordinary shares transacted in 2010



KME worldwide

- Head Office
- National branch offices
- Manufacturing plants
- Service centres
- Research and Development centres
- Sales subsidiaries and offices*

*Sales offices in Italy, Germany and France excluded

KME

THE EVOLUTION OF COPPER

KME production sites worldwide	Country	Divisions
Fornaci di Barga	Italy	Rolled Products and Special Products
Serravalle Scrivia	Italy	Tubes and rods
Givet	France	Tubes
Boisthorel	France	Rods
Niederbruck	France	Rolled Products
Osnabruck	Germany	Rolled Products, Tubes & Special Products
Menden	Germany	Tubes
Berlino	Germany	Rods
Stolberg	Germany	Rolled Products
Greven	Germany	Rolled Products
Barcellona	Spain	Tubes
Cordoba	Spain	Rolled products
Kirby	U. K.	Tubes
Dalian	China	Special Products

Business

Riccardo Garrè
Chief Executive Officer

In the business year 2010, KME A.G., witnessed fresh demand for all its products, and in general across all markets, albeit with varying intensity. Thus is 2010 the Group's financial viability was strengthened.
All sectors, from KME industrial products to its materials for the building industry, were thus getting into motion again. Our Group made the best of this opportunity with its clear strategy and a motivated and tightly-knit team, which gave strong impetus to sales, thanks also to our Group's re-organization, aimed increasingly at business and profitability.

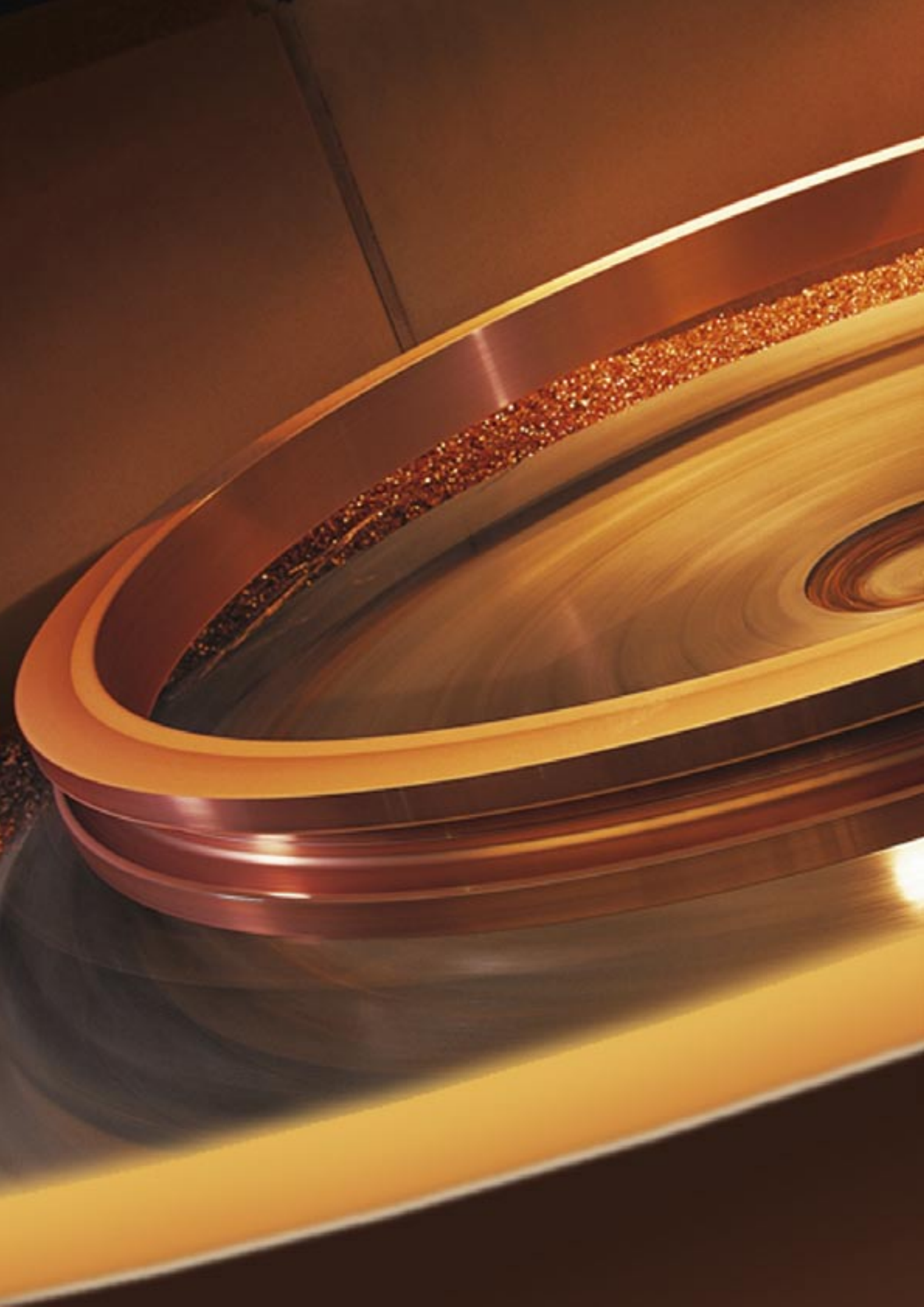
Turnover in KME's copper sector was up 39.5% from 2009, and the same holds true for the gross operational profit, which rose 74.4%, reaching the 79 million Euro mark.

These results were attained thanks to a strategy which concentrated on relaunching and consolidating KME's core business, as well as optimizing costs at all levels. Concomitantly, the process of continued in-house improvement is by now a legacy common to all areas of the Group's activity, producing positive consequences for our performance at all operational levels.

We devoted special attention to optimizing the supply chain and promoting our client services, putting into the pipeline projects aimed at reaching operational excellence in this respect. The results up to now are highly encouraging and prompt us to go on in the same direction with increasingly focussed actions.

The price of copper continued its dizzying rise until it touched a high never reached before in recorded history, a fact due also to strong speculative manipulation which is not determined by demand pure and simple. In spite of this, Kme reacted swiftly, managing and controlling its operational working capital in the best manner possible. Careful control of copper stocks and their rotation enabled us to attain a high level of efficiency and thus to contain the quantity of raw materials required for KME production activities. This brought considerable benefit to the Group.

2010 was also a crucial year for us to consolidate the foundations for the future diversification of our business activities.
This process continued to develop both upstream in the scrap metal sales and recycling sector, and downstream in activities increasingly focussed on distribution, and thus very close to end users.
We backed up this strategy with a communication campaign at the end of 2010, which was featured in the daily newspapers, periodicals and internet sites of Europe's major countries. The campaign, gave excellent results in terms of increasing awareness of our brand, and was followed up by a travelling show to highlight our products for the building industry. KME Road Show is still on the way, and set to visit different European countries in the coming months.
Kme Architectural Solutions is serving increasingly as a promoter of integrated and innovative solutions for the building industry. In January 2011, KME started a joint venture in this same sector with Zahner, an international leader in innovative building solutions. KME and Zahner will work jointly with architects of international repute.
Our Group also continued to research and develop added-value products with a lower quantity of raw material as compared to the range of traditional products. Let me mention here, amongst others, the Bluewave trademark. Bluewave brass bars are virtually lead-free and comply with the strictest requirements currently in place for products in contact with drinking water. These and other important KME initiatives will be further illustrated in the following pages.
Analysis of diversification also led to research into a projected geographical expansion of our operations to countries with a high development rate and to businesses which are strategically of the utmost importance to the KME portfolio. Our Group stands in readiness to get these operations underway as early as 2011, macroeconomic and market conditions permitting.



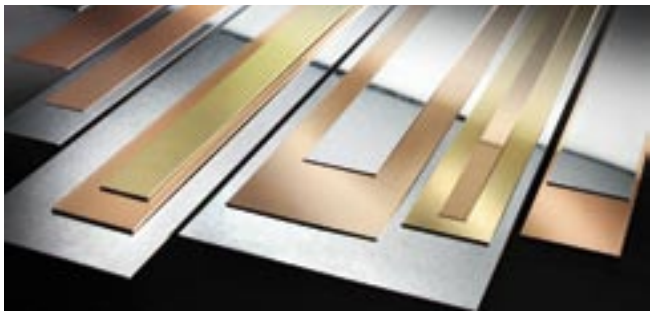
Annual Report

Divisions and Products

With 4 international divisions supplying a complete range of copper and copper alloy semi-finished products, KME is capable of meeting a wealth of different requirements.

ROLLED PRODUCTS

Chief applications:
Architecture and the building industry: roof coverings, façade cladding and rainwater drainage systems; interior and exterior decoration; electrical and mechanical industry, connectors, boilers, coin minting, solar collectors, decorative objects and gifts

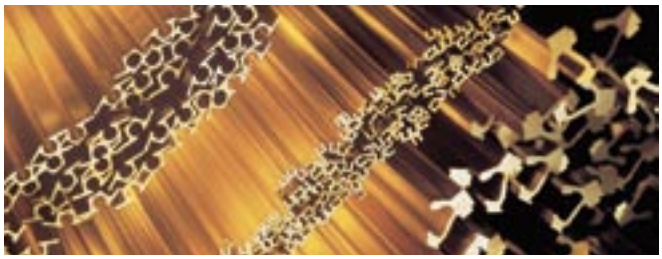


TUBES

Chief applications:
Air conditioning and cooling systems, fittings and connections, plumbing systems (drinking water, heating and gas), boilers, electrical systems, solar heating systems, medical industry

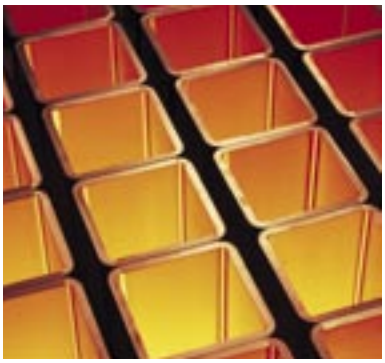
RODS

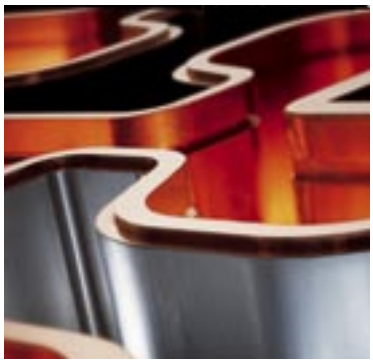
Chief applications:
Air conditioning and cooling systems, fittings and connections, plumbing systems (drinking water, heating and gas), boilers, electrical systems, solar heating systems, medical industry



SPECIAL PRODUCTS

Chief applications:
Shipbuilding, offshore installations, chemical industry, energy, metallurgy and steel industry





BLUEWAVE®, a solution for the US brass bars market.

KME is always committed to protecting the future of the brass supply chain by engineering new alloys and solutions. In 2010 it launched **BLUEWAVE®**, a range of alloys which are designed to meet the toughest international standards for lead content in alloys, in particular those of some US states regulating the materials that are in contact with drinking water. KME **BLUEWAVE®** brass bars are now no longer only in line with the strictest standards prevailing across Europe, but also meet those of California State and Vermont State as well, and are NSF certified in accordance with US regulations as to the materials that are allowed to be contact with drinking water.
This new range of KME alloys enables users to rely on the anti-bacterial properties of copper alloys, which ensure the purity of drinking water by checking the proliferation of germs and water-borne pathogens. But **BLUEWAVE®** is also an eco-friendly solution which combines excellent technical features with total recycling of scrap, since the scrap produced during **BLUEWAVE®** alloy processing does not have to be stored separately from other alloys.

Bluewave®

Architectural Solutions

To make the best of the new options offered by the market in terms of building and architecture, KME adopted a series of diversification strategies to widen its traditional range of roof and facade cladding materials, generating a new business unit which includes an international team of experts specialized in planning complete and customized architectural solutions. KME's traditional supply of **TECU®** materials is now enhanced by a complete project management system, which offers clients its support from the early creative phase on the drawing board to the project's finished execution. Today, **KME Architectural Solutions** is an active, reliable and specialized partner, helping clients to design and execute building envelopes which are at the cutting edge of technology and are equally distinguished for their unquestioned aesthetic quality. Its complete and fully integrated service offers quality, experience, technical consulting and innovation, to foster project creativity and ensure final results guaranteed by KME experience.

KME Architectural Solutions is new in that it offers full-fledged turnkey installations which deliver quality, efficient logistics, and meet the agreed time frames. The service includes selection of the very highest quality products; project consulting; study of applications, systems and solutions which are well ahead of the existing ones; supervision on the building site.

Zahner-KME joint venture

In January 2011, a joint venture was announced between Kme and ZAHNER Architectural Metals, an acclaimed pioneer of new solutions for metal building envelopes, with clients and on-going projects all over the world. Based in Kansas City, ZAHNER is known as one of the few companies today with the skills required to meet the most ambitious projects developed by architects, designers and artists. Amongst its clients, it counts some of the world's most celebrated architectural studios. The **ZAHNER-KME** joint venture aims to support architects and artists with aesthetic solutions which are the boldest and most technologically advanced to date. The mission comes into being to promote the concept of the architect or artist as a true innovator, and felicitously merges the strong points of both companies to support architects everywhere in Europe in executing metal-clad buildings based on the very highest standards of design.
Both ZAHNER and KME bring to the task a great wealth of know-how, thanks to both companies' time-honoured experience in using metal for architectural and building projects.
KME's TECU® trademark, with its vast array of different and high-quality materials and surfaces, has for many years been putting its imprint of excellence on the best projects all over the world.
For their part, Bill Zahner and his team of professionals regularly develop projects of international stature for such architectural studios as Herzog de Meuron, Zaha Hadid and Richard O. Gehry.

The new common project between **ZAHNER** and **KME** is based in Osnabrück, Germany, and will operate across Europe to offer the most demanding architects and designers its extraordinary concentrate of expertise, experience and professional competence.

KME: Europe's leading training program for building applications

In keeping with the rationale of expanding business downstream from the production process, our Group launched **KME Academy**, thus taking the lead in Europe in offering specialized training in the fields of architecture and the building industry. **KME Academy** offers a rich program of over 15 different types of courses across European countries, with about one hundred sessions already planned for 2011, and a program which clearly focusses on the end user's specific demands, and at the same time promotes the use of copper in building projects. Right after its launching at the end of 2010, **KME Academy** began to deliver high-level practical expertise to professional installers on the use of copper products both for building envelope designs (TECU®, Architectural Solutions) and house installations (SANCO®, WICU®, SMISOL® etc.). Its training courses and seminars include diversified knowledge on how to meet market requirements and comply with the regulations in place in the different European countries, thus combining understanding of the specific requirements for each country with subjects of general interest relating to the building sector.

KME ACADEMY

Seminars on theory go hand in hand with specific courses which are in some cases fully certified and teach how to plan and install plumbing and heating systems. The training programs devoted to facade and roof cladding with copper rolled products offers learners excellent opportunities to perfect processing techniques, and learn all about specific regulations and professional standards. All courses and seminars are conducted by expert teaching staff with in-depth knowledge of the best solutions in the different fields of application. This is why **KME Academy**'s seminar and training programs aimed at the building sector are the best available in Europe.

A network of professional copper experts, built on mutual trust

KME pursues its widespread promotion of copper as a building material also by strengthening the **TECU® Partner** network, which is currently bringing together hundreds of European firms installing TECU® trademark products. By entering into this special relationship with KME, firms not only benefit from the know-how the Group offers them in regards to the specialized use of copper products, but also from the innovation generated by KME's European Research and Development Centres, its planning services and project support, its promotion tools and the intense exchange of ideas and skills between all TECU® partners. Such an articulated and comprehensive network of installers not only helps to vehicle KME's TECU® trademark, but also highlights the advantages of copper as a material for the building industry to a vast public of potential clients and decision makers. Indeed, KME has a similar initiative aimed at firms that deliver house installations. Here, too, the object is to recruit thousands of **KME Active Partners**, plumbers and installing firms, with whom our Group seeks to forge a shared experience, so as to spread increasing knowledge about copper and its use in house installations.

TECU® Architecture Award 2010

Open to architects and planners worldwide, the TECU® Architecture Award was first held by KME in 2000, reaching its fifth such contest in 2010. Its purpose is to continue promoting innovative concepts and foster new architectural solutions using TECU® materials and products. This year, 162 contributions from 17 different countries were submitted to the jury, and they consisted both of interesting and original constructions and architectural projects completed in the period between 2007 and 2010 and using TECU® materials. Several student projects using copper as a building material were also presented. An international jury selected the three best architectural works, located respectively in Perugia, Italy, Cologne, Germany, and Luxembourg.
Architects Diane Heirend e Philippe Schmit were awarded the first prize for their extension and renovation work on Villa Vauban Art Museum in Luxembourg City. Half of the new architectural volumes are below ground, while those above are clad with a dynamic, luminous, semi-transparent façade consisting of rolled perforated brass. Rather than dominating the grounds, the new constructions actually reflect the surrounding park's thick greenery in the best of ways. The jury's verdict stressed the perfect harmony achieved by the new extension both with the enveloping landscape and the pre-existing museum building.

In the framework of TECU® Architecture Award, CEO Riccardo Garrè awards the first prize to Diane Heirend e Philippe Schmit BAU 2011, at the international fair BAU 2011, held in Munchen.

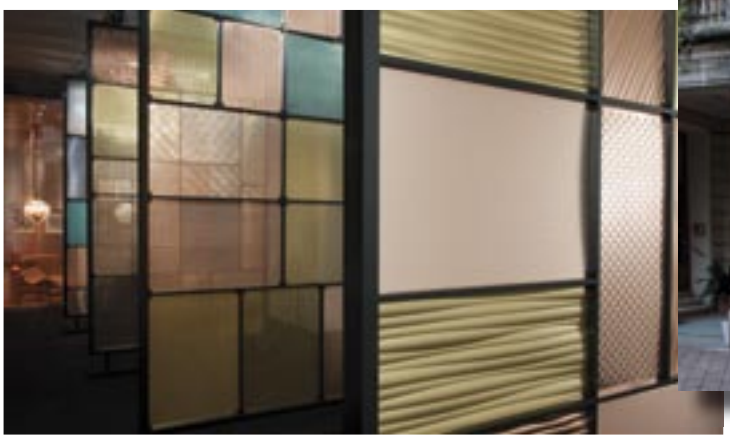
Excellence

For KME, Operational Excellence is a combination of leadership, teamwork, and an ability to solve problems. The aim of the OpEx program is to seek innovation and improvement of all KME processes using the Lean Six Sigma approach, and focussing attention on safety (in the framework of the EHS program), client satisfaction, the intelligent use of human resources, and reduction of the three main sources of loss of performance: wastage, variability and lack of flexibility. After two busy years, the OpEx program has increasingly been worked into Group's processes. In the early phase, KME initiated an ambitious program based on personnel training and pilot projects, which it successfully finalized, thereby creating solid OpEx governance at the group level. As a result, OpEx today is even more articulated and effective than it was a year ago. Indeed, OpEx is now present at KME headquarters and in all branch offices with an international Black and Green Belt network. More and more projects – 130 completed in 2010 – have been successfully implemented both in relation to the Group's productive processes as well as to its transnational processes.

KME conducted a deeper integration of all operations, and completed a widespread standardization which goes beyond the national frontiers of the Group's different companies and divisions.
To increase the involvement and commitment of all KME offices in this process, additional steps were taken to delegate OpEx coordination from the corporate to the local level. The results of all these changes are clearly visible in the Group's day-to-day activities; even more significantly, OpEx's contribution in promoting greater efficiency can be measured by how operations are actually conducted, a fact which facilitates assessment of the economic benefits derived thereby.
On this basis, and with the aim of bringing about the changes required for yet more improvement, new performance indicators were put into place throughout 2010, and an ambitious scheme, the Synchro Project, was launched at the Group level. Consisting of 13 sub-projects which affect different company sectors, Synchro's aim is to synchronize the distribution chain, from the procurement of raw materials right down to product delivery to our clients, in an effort to speed up the process and reduce the time delay between the client's initial request and collection of payment. For this, audits and benchmarking have become a standard approach to attain excellence across countries and divisions. KME sees it as an obligation to serve its clients in the best way possible, be they internal customers or external ones!

KME Design - The evolution of ideas

KME took the opportunity offered by Milan's 2011 furniture show, "Salone del Mobile", to present the new line KME Design, a brand-new collection devoted to interior design. KME Design was presented together with the art installation "Copper view". Thus for the first time KME crossed the threshold into the world of interior decoration, offering planners and designers state-of-the-art surfaces and textures, with which they can achieve unique cladding projects and finished objects of the very finest quality. The KME Design collection showcases copper surfaces in all their complex tonalities and variations, and enriches the offer with a series of alloys for further applications and aesthetic effects. Different textures and manufacturing processes complete the collection's wonderful material aspect: perforations, stretched mesh, stretched and flattened mesh, intertwined coloured copper, as well as innovative surface treatments which achieve the desired effect: matt, burnished, scratched, brushed, you name it...



Press Campaign 2010

In the final months of 2010, KME launched an international communication campaign highlighting its capacity to supply an extremely wide range of products and systems to the building industry. Based on different subjects, the KME Press Campaign 2010 got underway in November and continued throughout December, appearing in the major Italian and European newspapers. In this way, our Group not only promoted its innovative products and systems, but also underscored the uses and excellent qualities of copper as a building material. KME launched the campaign at a wide angle, in both Italian and international daily newspapers, such as Il Sole 24 Ore, La Repubblica, Il Corriere della Sera, The Times, Le Figaro, Süddeutsche Zeitung, Frankfurter Allgemeine Zeitung; specialized periodicals, including Brava Casa, Casamica, Side, AD, Elle Decor, Ville & Castelli, Case e Country, Case & Stili, Casabella, Domus, The Plan, Arca, Arketipo, The World of Interiors, AD Architectural Digest; and finally relevant Websites and the major radio stations (Radio Rai 1, Radio Rai 2, Radio 24).

The Road Show

The press campaign was followed by the early stages of a road show whose purpose is to tour Italy and Europe presenting KME's offer of products and solutions for the building industry and for energy efficiency. The exclusive copper-coloured truck started its itinerary in Italy at the end of January 2011, and in April continued touring through Germany. Inside the truck, which measures more than 16 metres in length, visitors find a 150 m2 show area displaying the unique range of solutions KME is now able to offer the world of architecture and the building industry.

KME's travelling showroom stops off at fairs specialized in products for construction and renewable energies, but also calls on the headquarters and offices of house installation firms who are KME clients. In this way, both installers and specialized players in the sector can visit the show at their leisure.

The KME Road Show is yet another means for our Group to bring both to experts and to the public at large its offer of integrated products, systems and solutions for the building industry and energy efficiency.

Annual Report

Environment, Health, Safety

In time, KME has increasingly come to believe that excellence in protecting EHS, Environment, Health and Safety, constitutes an absolutely crucial element in the long-term sustainability of its operations.

Thus, the year 2010 was a year of significant changes, with the Group increasingly focussing on this specific subject, and persevering in its commitment to fully and systematically integrate EHS into the running of the Group's industrial operations.

In the previous business year, a new EHS Policy was approved at the group level, which outlines the principles to be followed in all KME operations, with the object of fostering a shared culture in this regard.

The new group EHS organization which was set up as a result, is articulated and managed so that it can swiftly implement the adopted solutions and "best practices", and draw benefit from our corporation's experience and international stature.

KME also launched a new system of Corporate Reporting – hinging in particular on safety at work – in order to receive continuous updates regarding implementation results, and thus guarantee a constant and factual EHS integration into corporate governance.

In addition, by pursuing a strategy aiming at the complete integration of Safety into the framework of the OpEx program, KME introduced a management and reporting system of Near Misses in all its production plants.

In 2010, the Group also clearly defined its strategy and objectives in this province for the next two-year period, launching a Two-Year Plan for EHS Excellence.

By identifying the necessary guidelines to attain KME objectives of excellence in terms of Environment, Health and Safety, the Plan demonstrates our Group's intention of bringing EHS management into the very fabric of KME corporate vision, its strategy and all the other structural pillars of its business.

Within the Plan's framework, four key elements are identified – Commitment and Behaviour, Management Systems, Prevention, Best Practices – as well as the activities that go hand in hand with each of these, and on which all production plants and company offices are asked to concentrate their efforts.

Furthermore, with a view to taking real steps to achieve the "Zero Accident" objective, KME started a Behaviour-Based Safety program, founded on the analysis of individual behaviour and ways of improving it. Behaviour-Based

AGU
Arbeitsschutz gemeinsam umsetzen

Safety, or B-BS, is a protocol which is widely applied in the most advanced companies to regulate safety at work; its purpose is to predict and control risk behaviour, which is the main cause of accidents in the workplace.

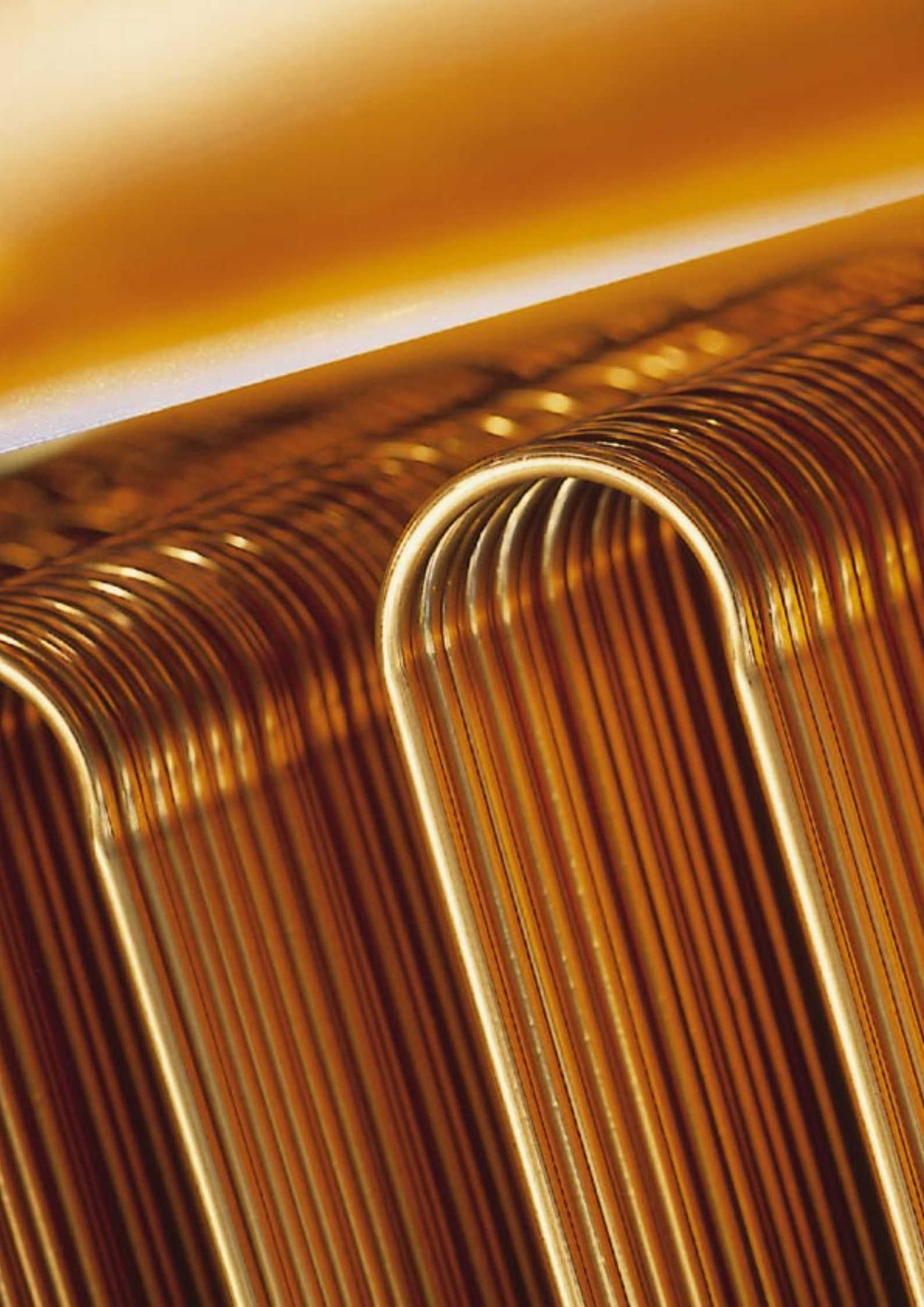
Starting with a pilot project which proved to be highly successful, the model was systematically applied to all the Group's industrial sites. Its chief defining element is based on the firm conviction that any accident is avoidable, inasmuch as each individual is responsible both for his own safety and that of his fellow workers.

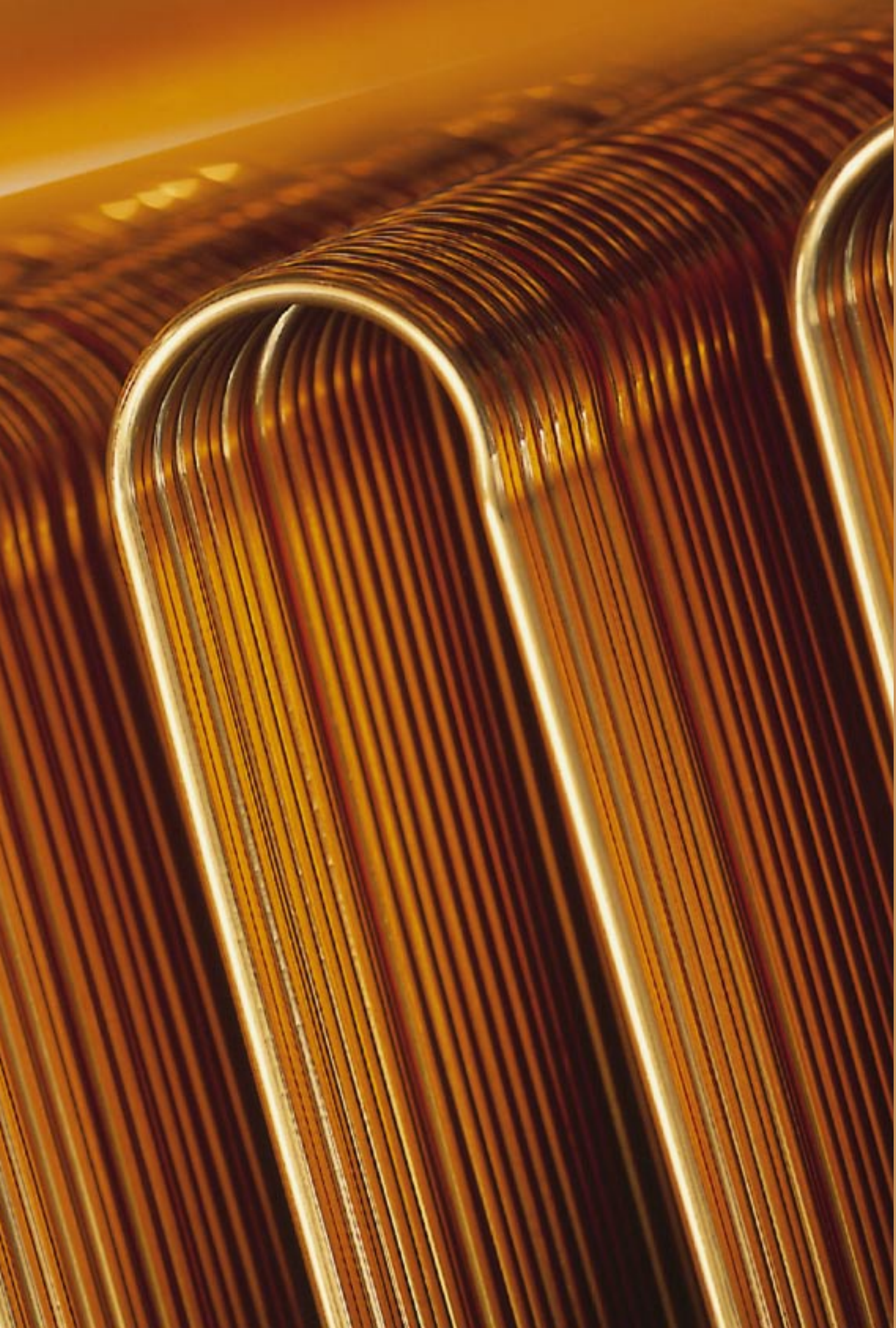
To give added impetus to the project, which deeply affects personal habits and attitudes amongst employees, KME resolved to adapt the program to the different countries in which the project was developed, thus taking into account the Group's multicultural identity.

At the same time, KME has also started a corporate program for prevention, dubbed 5S+ (where + indicates Safety as the method's defining aspect), which aims at improving work conditions across all of the Group's production sites.

The company's commitments to Sustainability include, amongst others, the certification program for the management systems of all KME industrial sites, in accordance with international standards ISO 14001 (Environment) and OHSAS 18001 (Health and Safety). This is scheduled to be completed by 2012. The program is a demanding one, but is deemed crucial to minimize risk and promote a process of constant improvement in this respect during operational management.

Finally, amongst the significant activities that took place in 2010, let us mention how all concerned KME Operational Companies fell in line with REACH regulations. REACH regulates the registration, evaluation and authorization of chemical substances which are imported into the European Union in quantities exceeding one ton. KME proceeded to register within the November 2011 deadline the substances it directly imports, and at all times verifies through its own supply chain that all substances utilized in production processes are in compliance with REACH regulations. Accordingly, KME has, through the EHS Group organization, made all relevant information available to its clients and end users of KME manufactured goods.





Annual Report

Dynamo Camp

Throughout 2010, Dynamo Camp went on extending the scope of its activities. For its part, KME redoubled its own involvement in the project with a special program, KMEforDynamoCamp, which aims at fully implemeting the Group's ideal of social responsibility. As well as the traditional contribution given by volunteers – a hundred of them – who gathered together to manage the annual appointment of Open Day September 2010, this year two additional days were organized, in which about sixty volunteers hailing from Florence Headquarters took in hand the recreative village's maintenance and clean-up. Staff from all the Italian offices, including Florence, Milan, Serrravalle Scrivia and Fornaci di Barga, additionally organized a small Christmas market. The event yielded funds worth 100 days/child.
The normal activities to support the camp's set-up went on as usual, both on the spot with the management of the village facilities, and with the technical assistance for the Dynamo Camp website. KME's contribution was thus crucial in attaining results which proved to be excellent in every respect. 787 children were hosted free of charge in 2010, up from the 500 children of the previous year. Programs were likewise broadened, going from 12 programs in 2009 to 17 in 2010.

Neurological diseases, together with cancer and blood-related pathologies, were entered into the list of illnesses whose sufferers qualify for a stay at Dynamo Camp. All in all, the chief illnesses in the list rose from 28 to 44, while the children staying at the camp came from 49 different hospitals, up from 34 hospitals in 2009.
Like in the previous year, last year, too, Dynamo Camp's young guests hailed from all over Italy. In the summer months, 34% children came from the Northern regions of the country, 41% from the Centre, and 25% from the South, including in that number foreign children receiving medical treatment in Italy. There were also young people from foreign countries, including amongst others from Germany, Iraq, Syria and Jordan.

400 volunteers freely supported the camp. For its part, the Association employed 37 seasonal staff, compared to the 26 staff of 2009.

New activities were introduced, such as the small circus school, and the drama activities staged with the help of the international artist company F.E.S.T.A. The Art Factory project was supported by volunteer work offered by artists Massimo Barzagli, Valerio Berruti, Davide Bramante, Gianni Moretti, Lucio Perone, Antonio Riello, Pietro

Dynamo Art Factory

Radio Dynamo

Ruffo, Maurizio Savini. Other artists who also freely gave their time and artistic skills to Dynamo Camp in 2010, were Marco Betta, Maria Luigia Borsi, Andrea Camilleri, Mauro Corona, Beppe Giacobbe, Linus, Giorgio Lotti, Teresa Mannino, Alessandra Mortelliti, Rocco Mortelliti, Maurizio Nichetti, Enrico Pieranunzi, Ron, and Marcia Theopilo.

June 2010 saw the official start of Radio Dynamo, a common project with Radio DeeJay for the artistic direction and musical programming, and Telecom Italia, which provided the technological Web solutions and the link with the associated children's hospitals. Radio Dynamo originally got going as an intra-mural project, but then went on to consolidate the Camp's outreach program, bringing Recreative Therapy programs to children's hospitals, day hospitals and family homes. In this way it involved sick children and adolescents in setting up the radio programs with the help of volunteers and professional speakers.

In addition, in December 2010 the Camping Lab project got going in the Oasis area of the grounds. This scheme, conducted in association with Novartis, allows children and adolescents to have educational, recreative and emotive experiences in the framework of activities and theme labs in the fields of science, ecology and sustainability.

In 2010, Dynamo Camp was awarded the Medal attesting the Italian President's Support for the Open Day 2010 Initiative, additionally receiving an honourable mention and one of the "Amico della Famiglia 2009" prizes awarded by the Italian Government's Department for Families.

Through the Academy program, a project conference on a common project with Unesco will be held at Dynamo Camp in April 2011.

Oasi Dynamo

Thus in 2010 Dynamo Oasis increased its activities all round and is by now firmly involved in the process of sustainable development of the local environment, to which KME wishes to give its full support. A number of different initiatives were put in place. From the educational point of view, a program of environmental education was inaugurated, in tandem with schools of the towns dotting the Pistoia mountains and nearby valleys. Let us also mention the educational and recreative visit to this area by a big group of children from Saharawi in August 2010, on the invitation of Pistoia province townships. The performance by Marcia Theophilo, Brazilian poet and Nobel Prize candidate, was particularly moving. In her capacity as a UNESCO representative in the Year of Biodiversity, she read a selection of her poems on the Amazon forest at the Dynamo Camp Theatre. The reading served as a guide to artist Eulalia Rose's exhibition of paintings, which she did for the book "Amazon Forever".

The Oasis also continued and extended its scientific and institutional work, working in close conjunction with the local environmental authorities to gather knowledge on and give protection to wild animals in their natural setting. For this purpose, visits were organized almost every month, both in the daytime and at night, to assess the number of animals, including species such as wild boar, deer, muflon, roebuck and hare, inhabiting the thousand hectares of the Oasis. Wolves were spotted on more than one occasion. Of especial importance was the joint work between Dynamo Camp and the WWF wild animal care centre in Ronchi, near Massa, a program which is also being followed by the local government authorities in Pistoia. On several occasions hurt animals which had been treated at the centre were returned to their natural habitat. It is a cause of great satisfaction to see the enthusiasm of the children who witness these events: what incredible emotion, when they see a healthy animal flying or galloping back into the wild!

KME Group S.p.A.

2010 Directors' report

Financial Statements of the Company and the Group at 31 December 2010

22 March 2011

Calling of Shareholders' Meeting

The holders of KME Group S.p.A. ordinary shares are hereby called to an ordinary and extraordinary Shareholders' Meeting at the registered office of KME Group S.p.A. at Via dei Barucci 2 in Florence, 11:00 am, on:

- 27 April 2011, first call;
- 28 April 2011, second call;

to discuss and resolve on the following items on the

Agenda

Ordinary Items

1. Separate financial statements for the year ended 31 December 2010; Directors' Report; Report of the Board of Statutory Auditors; Independent Auditor's Report. Proposal for allocation of profit. Presentation of the KME Group consolidated financial statements. Any related and subsequent resolutions.
2. Appointment of a Director pursuant to article 2386 of the Italian civil code; any related and subsequent resolutions.
3. Authorisation for the purchase and sale of treasury shares, whether ordinary or savings shares, pursuant to the combined provisions of articles 2357 and 2357 ter of the Italian civil code and article 132 of Legislative Decree 58/1998 and relevant implementation provisions; any related and subsequent resolutions, including with reference to the revocation of the previous similar authorization and conferral of powers.

Extraordinary Items

1. Amendment of the following articles of the Company Articles of Association: article 4 (Share capital); article 5 (Classes of shares); article 10 (Calling of Shareholders' Meetings); article 11 (Participating in Shareholders' Meetings and proxies); article 13 (Meeting minutes); article 14 (Management of the Company); articles 17 (Appointment and composition of the Board of Directors, term of office of members); articles 22 (Board of Statutory Auditors); article 25 (Financial year); related and subsequent resolutions including with regard to the titles of articles 5 and 10 and the conferral of powers.

Participation in the Shareholders' Meeting

Each ordinary share entitles the holder to one vote in the Company's ordinary and extraordinary Shareholders' Meetings; detailed information on the share capital and its breakdown is provided in the "corporate governance" section within the area dedicated to the Shareholders' Meeting on the Company's website **www.kme.com**.

Pursuant to the law and article 11 of the Company Articles of Association, the right to intervene in the Shareholders' Meeting and to exercise the right to vote is confirmed by a notification provided by the intermediary in charge of maintaining the accounts pursuant to the law, based on the accounting records as at the end of the accounting day of the seventh day preceding the date set for the first call of the Shareholders' Meeting, on which the market is open, that is, 14 April 2011 (the record date). The debit and credit entries into the accounts subsequent to this deadline do not count for the purposes of legitimation to vote in the Shareholders' Meeting.

The notification of the intermediary must be provided to the Company within the end of the third open market day preceding the date set for the first call of the Shareholders' Meeting (by 20 April 2011). The right to intervene and to vote applies in the event that the notifications are received by the Company after said deadline provided they are received by the start of each Shareholders' Meeting.

Every individual entitled to intervene in the Shareholders' Meeting may be represented on the basis of a written proxy pursuant to the applicable provisions of the law, with the option of signing the **proxy form (format 1)** on the Shareholders' Meeting Agenda items provided on the Company's website **www.kme.com**, in the "corporate governance" section of the area dedicated to the Shareholders' Meeting and at the Company's registered offices (Segreteria Societaria) at Via dei Barucci 2 in Florence (50127). The proxy may also be sent by registered letter to KME Group S.p.A. (Segreteria Societaria) at Via dei Barucci 2 in Florence (50127) or transmitted in such a way as to ensure its receipt by the Company, for example by fax to 055.4411681 or via e-mail to the following certified e-mail address *kmegspa@legalmail.it*.

The Company has appointed SPAFID S.p.A. as Shareholders' Representative pursuant to article 135 undecies of Legislative Decree 58/1998 (the Consolidated Finance Act) and this company can be appointed as a proxy on the Shareholders' Meeting Agenda items, provided that the relevant form is sent to the aforementioned Shareholders' Representative by courier, by registered letter with return receipt or by ordinary mail to the address Foro Bonaparte 10, Milan (20121) by the end of the second day on which the market is open prior to the date set for the first call of the Shareholders' Meeting (by 21 April 2011). This proxy is effective only for items relating to which the voting instructions have been given; the proxy form (form 2) is available on the Company's web site **www.kme.com**, in the "corporate governance " section of the area dedicated to the Shareholders' Meeting as well as at the Company's registered offices (Segreteria Societaria) at Via dei Barucci 2 in Florence (50127); the proxy and the voting instructions can be revoked within the deadline set forth above.

Right to query prior to the Shareholders' Meeting

Pursuant to the law, Shareholders are entitled to submit questions on the Agenda items even prior to the Shareholders' Meeting, by sending their queries together with documentation that appropriately proves their shareholder status, by registered letter to the registered offices of the Company (Segreteria Societaria) at Via dei Barucci 2 in Florence (50127) or by fax to no. 055.4411681, or by e-mail to the following certified e-mail address *kmegspa@legalmail.it*. Questions received prior to the Shareholders' Meeting will be answered at the latest during the meeting, while the Company retains the right to provide a single reply to questions having the same content.

Right to request additional items on the Agenda

Pursuant to the law, Shareholders who individually or jointly represent at least one 40th of the share capital can, within ten calendar days from the publication of the notice convening the Shareholders' Meeting (by 4 April 2011), request additional issues to be discussed, indicating additional items proposed by them within the query. The query, together with documentation that appropriately proves the ownership of the aforementioned percentage of share capital, must be submitted in writing to the registered offices of the Company (Segreteria Societaria) at Via dei Barucci 2 in Florence (50127) by registered letter, provided that it is received by the Company within the deadline above. Within that deadline and under the same terms, any shareholders proposing issues to be discussed must present a relevant report.

Additions are not allowed on items on which the Shareholders' Meeting resolves, pursuant to the law, upon the proposal of the Directors or on the basis of a project or report prepared by the latter, other than as set forth under article 125 ter, par. 1 of the Consolidated Finance Act.

More detailed information relating to the right to request additions to the Agenda are provided in the "corporate governance" section of the area dedicated to the Shareholders' Meeting on the website **www.kme.com**.

Appointment of Directors

For the appointment of a Director to the board in office pursuant to article 2386 of the Italian civil code, the ordinary shareholders meeting shall resolve on the basis of the legal majorities (without the application of the voting list system). Shareholders are therefore invited to present their candidacy for the office of Director; for further details please see the Directors' Report on Agenda item 2.

Documentation

The Reports, including the resolution proposals and any other documentation relating to the entire Agenda will be made available at the registered offices of the Company (Segreteria Societaria) at Via dei Barucci 2 in Florence (50127) and will also be published on the Company's web site www.kme.com in the "corporate governance" section of the area dedicated to the Shareholders' Meeting and at Borsa Italiana S.p.A.The Reports, including the resolution proposals and any other documentation relating to the entire Agenda, will be submitted as follows::

- the reports of the directors on points 1 and 2 of the ordinary Shareholders' Meeting Agenda shall be submitted at least **30 days prior** to the first call of the Shareholders' Meeting;
- the reports of the directors on point 3 of the ordinary Shareholders' Meeting Agenda together with other documents pursuant to article 154 ter of the Consolidated Finance Act and on point 1 of the extraordinary Shareholders' Meeting Agenda shall be submitted at least **21 days prior** to the first call of the Shareholders' Meeting;
- the documentation required by art. 77, par. 2 bis of the Consob Regulation 11971/98 on point 1 of the Agenda for the ordinary Shareholders' Meeting shall be submitted at least **15 days prior** to the first call of the Shareholders' Meeting, and this submission must take place exclusively at the registered offices of the Company.

Shareholders are entitled to obtain a copy.

Postal votes

Votes may also be sent in by mail. The voting forms, together with instructions, are available at the registered offices of the Company (Segreteria Societaria) at Via dei Barucci 2 in Florence (50127) and on the Company's web site **www.kme.com** in the "corporate governance" section of the area dedicated to the Shareholders' Meeting; the original form, together with a copy of the notification as required by the applicable laws for participation in the Shareholders' Meeting must the sent via a registered letter within the day preceding the first call of the Shareholders' Meeting to the registered offices of the Company (Segreteria Societaria) at Via dei Barucci 2 in Florence (50127). It is noted that forms received after the deadlines set forth or which have not been signed shall not be taken into account for constitution of the Shareholders' Meeting or for voting purposes.
Votes expressed via postal voting may be revoked via a written declaration provided to the Company (Segreteria Societaria) at Via dei Barucci 2 in Florence (50127), within the day preceding the first call of the Shareholders' Meeting or by express declaration by the interested party during the Shareholders' Meeting.

No procedure is in place for voting using electronic media.

Florence, 24 March 2011

The Board of Directors

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This notice is published, pursuant to article 125 bis of the Consolidated Finance Act, on the Company's website **www.kme.com** on 24 March 2011 as well as pursuant to article 10 of the Company Articles of Association on the daily newspaper "MF-Milano Finanza" on 25 March 2011.

Report of Board of Directors

2010 Directors' report

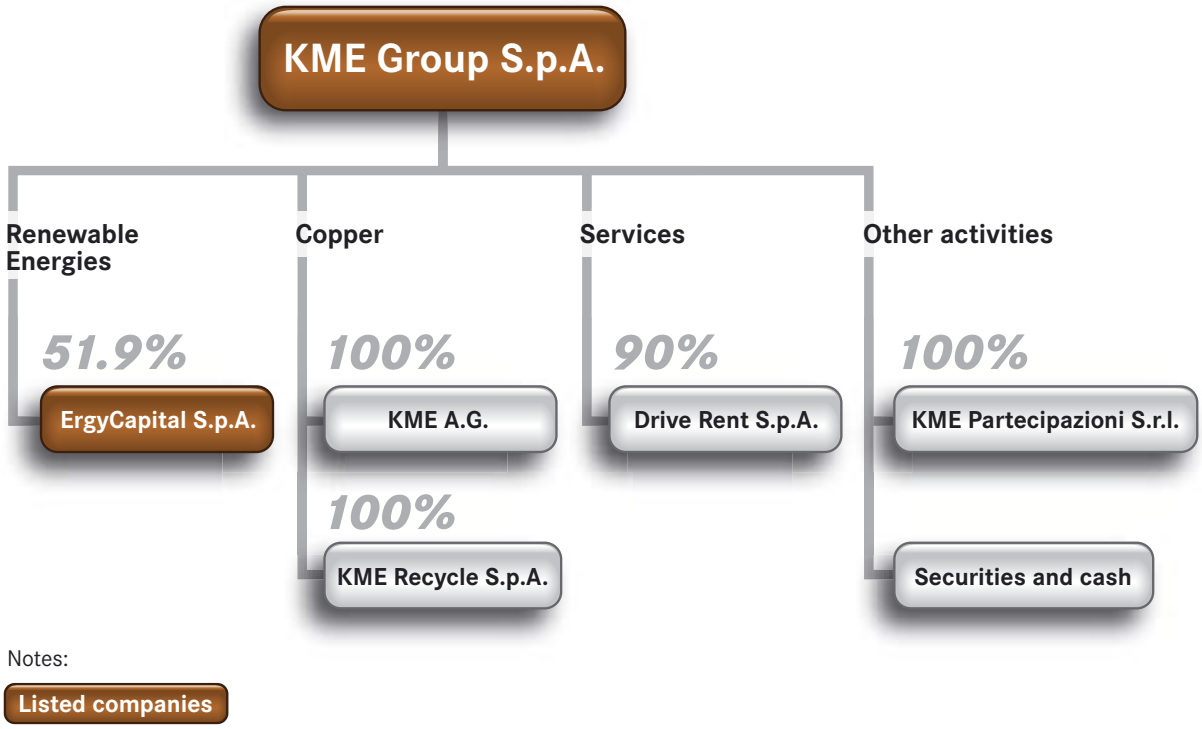
Dear Shareholders,

before setting out the performance of the KME Group, it must be recalled that the partial, proportional reverse demerger of iNTEk S.p.A. into KME Group S.p.A. (hereafter the "Demerger") became effective on 22 March 2010, after being approved at the Shareholders' Meeting of 2 December 2009.
The Demerger entailed the transfer to KME Group S.p.A. (hereafter the "Company" or "Parent") of certain assets and liabilities of iNTEk S.p.A. primarily comprised of investments.
The investments so acquired particularly related to: **ErgyCapital S.p.A.**, specialised in renewable energy and energy saving and **Drive Rent S.p.A.**, a provider of corporate motor vehicle fleet services.
In the financial statements for 2010, ErgyCapital S.p.A. was consolidated on an equity basis, while Drive Rent S.p.A. was considered as a "discontinued business" following the planned merger with Cobra S.p.A.

The following directors' report, therefore, relates to the segments in which the Company has invested, ranging from its traditional semi-finished copper products and copper alloys which are under the control of the German subsidiary KME A.G. and which remain the Group's core business, to the above new segments.

KME Group S.p.A.'s investment in the copper sector, which includes the manufacture of semi-finished copper products and copper alloys and ferrous and non-ferrous scrap metal trading, totals Euro 384.5 million; in the renewable energy sector its investment is Euro 31.8 million; and in the services sector it is Euro 30 million.
Other equity investments and net financial resources totalled Euro 28.7 million.

Summary of the Group's shareholding structure



Notes:

Listed companies

The gradual recovery in the global economy continued in 2010, albeit at differing rates in different countries and geographical areas, and in the final part of the year lost some of the momentum that it had enjoyed in previous months due to the gradual ending of favourable elements such as the stock cycle and the incentives provided by public authorities. The trend in the recovery and its intensity continued to be affected by significant uncertainty, despite the underlying trend remaining positive.

LThe recovery was strong in the main emerging economies, especially China and India, while it was more modest in advanced economies.
In Europe, the area where the Group has its biggest presence, exports were the main driver turning the economy

around. Domestic demand, on the other hand, only increased marginally in terms of consumption and was still affected by the uncertainty over the prospects for the labour market, the conditions for accessing credit, and a weak level of investment, which was hit by the remaining ample unused production capacity despite the gradual recovery in demand during 2010; investment in construction also remained modest.

In Europe the German economy proved to be the most dynamic and enjoyed competitive advantages arising from the modernisation of its manufacturing system and the efficiency of its labour market. External demand in particular supported capital expenditure on machinery and equipment; albeit in a weak business environment, investment in construction made up for the fall in the first few months of the year which was partly due to the adverse weather in some countries in Europe and North America.

In a macroeconomic situation characterised by significant uncertainty linked to the rising cost of raw materials, the volatility of finance markets, and foreign exchange trends, the KME Group took action to adopt new and more rigorous management models which maximised efficiency and flexibility and encouraged innovation with solutions that could anticipate market needs.
The restructuring and reorganisation work carried out in recent years has enhanced competitiveness and so enabled the benefits from the market recovery to be maximised.
2010 saw consolidated results that were an improvement on those for 2009, in terms of both volumes and profits.

Consolidated revenue in 2010 totalled Euro 2,718.7 million, up by 39.5% on 2009.
Net of raw materials, revenue rose from Euro 663.5 million to Euro 758.4 million, an increase of 14.3%.

EBITDA(*) in 2010 stood at Euro 79.0 million; in 2009 it was Euro 45.3 million. The rise was therefore 74.4%.
The improvement is also clear in relative terms: EBITDA as a percentage of revenue went from 6.8% in 2009 to 10.4% in 2010.

EBIT(*) stood at Euro 34.4 million (a loss of Euro 8.3 million in 2009).

Profit before non-recurring items(*) was Euro 19.0 million (a loss of Euro 22.9 million in 2009).

Non-recurring expenses stood at Euro 26.0 million and referred for Euro 12 million to the plans to reorganise the Group's industrial businesses, and full and partial impairment of assets for Euro 11.0 million.
The net effect of the measurement of inventories and orders for raw materials at current prices, in accordance with the requirements of the IFRS, rose from Euro 6.1 million in 2009 to Euro 18.0 million in 2010 due to the increase in raw material prices.

The consolidated loss before the profit of equity-accounted investees and discontinued operations(*) was Euro 5.6 million (Euro 23.4 million in 2009).

The consolidated loss(*) of Euro 17.7 million (a loss of Euro 23.4 million in 2009), after the loss on discontinued operations of Euro 1.4 million and the loss of equity-accounted investees of Euro 10.7 million, Euro 9.3 million of which related to the loss at ErgyCapital S.p.A. Current taxes totalled Euro 4.2 million and deferred taxes Euro 12.4 million.

In terms of financing, the KME Group, despite the difficult economic situation, managed to maintain its ability to generate financial resources through its operations. The adjustment of production levels to the new macroeconomic situation, the rationalisation of the procurement and use of raw materials and the optimisation of credit terms with customers and, above all, with raw material suppliers, enabled the need to finance working capital to be kept under control.
Group net debt(*) stood at Euro 223.9 million at the end of 2010, while at 31 December 2009 it was Euro 286.6 million.
Debt was held at a level lower than working capital, providing evidence of the Group's sound financial structure and the lack of structural indebtedness.

Consolidated equity at 31 December 2010, excluding equity attributable to non-controlling interests, was Euro 452.1 million (Euro 419.9 million at 31 December 2009).

(*) Reclassified indicators details on which are included in the section on "the Group's economic performance".

Copper sector: semi-finished products and scrap metal trading.

The manufacture of semi-finished products in copper and its alloys, after the major fall in 2009 (- 26% in Europe and - 15% in the main areas worldwide), following a similar, albeit less marked, trend in the previous two years, saw signs of recovery in 2010 driven by the gradual end of the international crisis and in light of the broad range of uses of these products.
In Europe manufacturing rose by around 22%, with stronger growth rates in the first three quarters.
As for the other important industrialised areas around the world, it is estimated that the manufacture of semi-finished products rose by 14% in 2010 in the USA and 32% in Japan.
The growth in China showed no signs of stopping, after a limited rise in 2009 in 2010 production exceeded 3.5 million tonnes, a higher level than the combined production of Western Europe (2.1 million) and the USA (0.9 million).

As for trends in demand in 2010 in the main sectors which use the Group's **semi-finished products in copper and alloys**, there were differences across sectors and geographical areas.

Building materials is an important market for the Group's products. Copper tubing is used for water heaters, copper and copper-alloy rolled products for roofing and facades; brass and bronze profiles for external fixtures and decorations; and brass rods for taps, handles, and locks.

The demand for **semi-finished products for the construction industry** (consolidated revenue for this sector was around a third of the total) saw some signs of recovery following a first part of the year which was affected by the very cold weather in Europe and North America, which caused a further slowdown in construction. There was a continuing negative impact from the rise in copper prices, especially in the final part of 2010 and at the start of 2011, with a high level of volatility which created uncertainties in the spending decisions of potential users.
As for **rolled copper roofing products**, the Group continues to develop its new strategies for downstream expansion and the use of new metals, despite decidedly weak market conditions, especially in some key countries such as Italy, Spain and the United Kingdom. There was also expansion in the supply of turnkey projects through the "Architectural Solutions" program which was created to offer integrated solutions for architecture and construction through the design and realisation of rolled products in copper, copper-alloys and zinc. In January 2011 an agreement was reached with Zahner Architectural Metals of Kansas City (USA), which provides metal facades working closely with architects, designers and artists. The joint venture, which is based in Germany, will enable the supply of experience and know-how in the use of metal in architecture to European architects who wish to optimise their understanding of design and aesthetics.

The outlook is good for copper roofing ("*TECU"® Solar Roof*) which combines the aesthetic qualities of copper with energy savings.
Sales of **tubing for water heating systems** remained weak, despite some signs of recovery thanks to the continuous improvement in customer service and the increase of its presence in renewable heating systems (in particular solar and geothermal).
There was a positive trend in demand for **brass rods** for plumbing and heating systems.

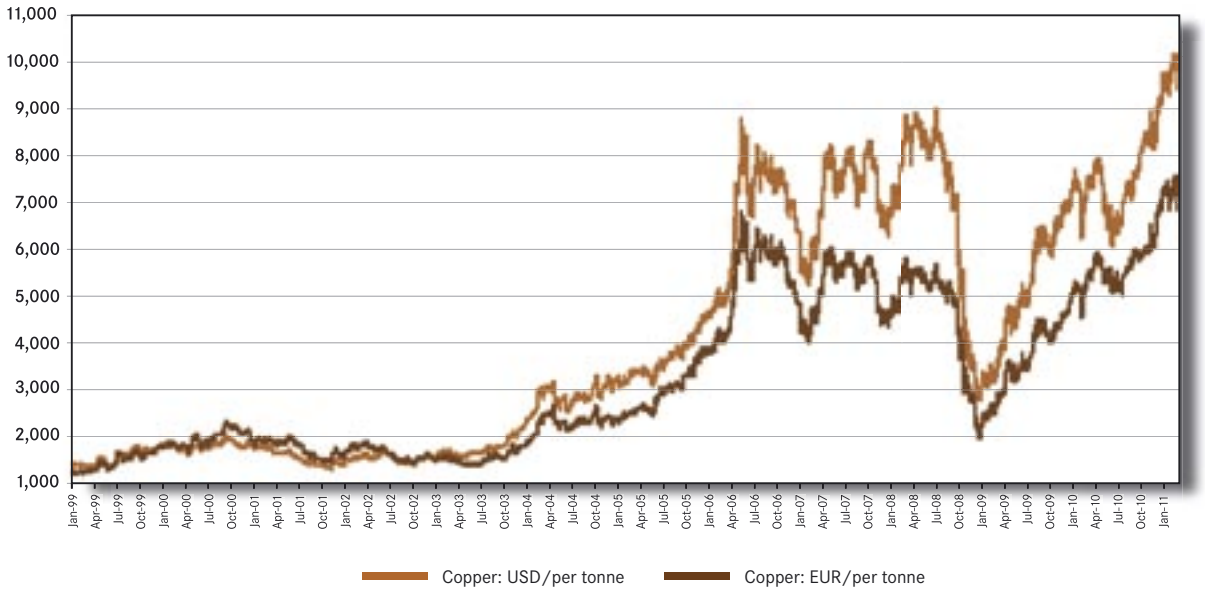
There are very many **industrial uses** for copper and copper-alloy products in, for example, the automotive, electric and electronic components, air conditioning and refrigeration as well as the fancy goods industries and mechanical engineering in general. The telecommunications industry incorporates copper tubing in the coaxial cables for mobile telephone transmission towers; the Group also produces continuous casting moulds for the steel industry and intermediate non-ferrous products, blanks for the minting of coins and special tubing for the construction of ships and offshore installations.

In 2010, compared to the heavy fall in 2009, there was a clear recovery in demand for **industrial semi-finished products** (consolidated revenue from this sector represents about two-thirds of the total).
Demand was up for **rolled products for the manufacturing industry**, in particular in the automotive, mechanical and white goods segments, above all in Germany.
There was also a recovery in demand for **tubing for industrial applications**, particularly in the air conditioning and refrigeration sectors as well as for components for the production of energy from renewable sources.

There were also some signs of recovery in demand for **copper casting moulds for the steel industry**.
There was a solid recovery in **copper bars** for electrical applications.

The **price of copper**, which is the most used metal in the Group's semi-finished products, was on average higher in the year than in 2009, driven by the recovery of emerging economies and the speculation that has resulted from the vast amount of liquidity at international level.
The average price of copper in 2010 was higher than last year, increasing by 46.0% in US dollar terms (from US$5,164 per tonne to US$7,538 per tonne) and by 54.9% in euro terms (from Euro 3,669 per tonne to Euro 5,683 per tonne).
In terms of trend, copper prices rose gradually, tailing off in the second half; the average price in the fourth quarter of 2010, compared to the fourth quarter of 2009, rose by 30.0% in US$ (from US$ 6,643 per tonne to US$ 8,634 per tonne) and by 41.5% in Euro (from Euro 4,494 per tonne to Euro 6,360 per tonne).
In the first few months of the current year the price of copper increased further reaching record levels; on average in January-February the price was US$ 9,720 per tonne (corresponding to Euro 7,194 per tonne). In the second half of February the price on occasion exceeded US$ 10,000 per tonne.

Copper - LME settlement prices



KME Group was able to take advantage of the recovery in demand by offering customers integrated services and solutions, combined with enhanced distribution.
Particular attention has been paid to sales: the new *"SYNCHRO"* project aims to synchronise the whole distribution chain, from the procurement of raw materials to the delivery of products to customers, by using a cross-cutting benchmark applied by production unit and by division, in order to achieve the highest possible levels of efficiency in the service.

Consolidated revenue in 2010 was Euro 2,718.7 million, up by 39.5% on Euro 1,949.4 million in 2009.
Net of raw material costs, revenue increased from Euro 663.5 million to Euro 758.4 million, a rise of 14.3%, while sales volumes rose by 18.7% as a result of a change in the mix.
The value of raw materials accounted for about 72% of revenue from sales of semi-finished products (66% on average for 2009).

This improved sales performance and enhanced competitiveness saw profits rise in the copper sector in 2010 compared to the previous year. The aim of the measures taken to rationalise the manufacturing and organisational set-up was to identify and implement the Group's best practice in various sectors and to reduce the execution times of all processes, while protecting the environment and ensuring utmost respect for the health and safety of workers.

EBITDA in 2010 was Euro 79.0 million, while in 2009 it was Euro 45.3 million.
The improvement in profit is also clear in relative terms; EBITDA as a percentage of revenue rose from 6.8% in 2009 to 10.4% in 2010.

2010 **EBIT** was positive by Euro 34.4 million against negative EBIT of Euro 8.3 million for 2009.
The level of amortisation and depreciation fell as a consequence of the check carried out, with the assistance of independent consultants, on the residual possible use of the most important plant and machinery. This led to the identification of an extension in the residual life of these assets, with an accounting effect of Euro 10.9 million.

Profit before non-recurring items, before calculating taxes, was Euro 19.0 million (a loss of Euro 22.9 million in 2009).

The sector recorded **non-recurring expenses** of Euro 26.0 million, basically due to the costs of restructuring industrial units.

In 2010 the **investments** of the segment's production units totalled Euro 43.8 million (Euro 37 million in 2009). Investments continue to be focused on rationalising the Group's production and distribution as well as on product development and optimising the use of raw materials.
The most important investment projects were at the Osnabruck plant in Germany to improve laminate production processes and rolled product manufacturing lines. Work to raise efficiency is underway at the Fornaci di Barga plant in Italy as part of the OpEX (Operational Excellence) project, as well as the enhancement of the Services Centre for laminates and a project has been approved to build a new furnace in the foundry, whilst in France the rationalisation of the lamination sector continued. In China enhancement of the production lines in the rolled products segment was started.

Research and innovation is centralised within the Group and is conducted at two Research and Development Centres located in Osnabrueck in Germany and Fornaci di Barga in Italy.
R&D is guided by customer and user requirements and is conducted in cooperation with a number of university research centres. Research at the Centres is focused on base metals whereas the production Divisions are responsible for research into quality control and process technologies.
The main areas of research are alloys and microstructure, the improvement of metal yields, the recovery of metals from foundry by-products, surface treatment, and the development of new alloys for electrical, electronic and mechanical uses and the identification of new technologies in the fields of solar heating systems.
The Centres are also engaged in research into improved solutions for the protection of the environment and factory safety.
Research has a decisive role to play in achieving the goal of product innovation, in the sense of a commitment on the part of the transformation industry to adapt its products to the growing needs of users and to increasingly competitive terms compared to alternative materials.
Copper is increasingly used in innovative sectors, such as electronics and its by-products, although its presence is not always directly perceptible since copper-based elements are almost always encased in the finished product.
The constant and rapid evolution of electronic devices requires copper components to offer increasing performance in ever smaller space. KME has fully met this need by cooperating with downstream industries (the electronic and automobile sectors) and developing special materials in high valued added copper alloys.
Product innovation at KME in recent years has also involved more traditional sectors, such as construction: in the copper tubing segment, for example, treatments have been introduced to achieve the passivisation and stabilisation of the inner wall of tubes used to transport drinking water as a guarantee against possible corrosion problems, in other words a thin copper tube has been created, with a covering in indissoluble polyester, which combines the advantages of a metal tube with those of greater lightness and flexibility and improves competitiveness compared to products in other materials.
In the segment of copper laminates for roofing, facades and guttering (eaves, drainpipes, etc.), KME has developed a series of copper laminates which are subjected to patented treatments to obtain special surfaces (coated,

burnished, golden, coloured), but also real cover protection systems (such as shingle roofs, staves, and corrugated or perforated plated-boxes) which have made the use of copper in construction even more versatile.

The segment's **workforce** at 31 December 2010 numbered 6,471 (6,485 at the end of 2009).
The Group's organisational set-up is focussed, on the one hand, on business areas and, on the other, on company processes.
The presence of senior managers to coordinate company processes has led to the adoption of organisational initiatives aimed at creating synergies on costs and investments and at developing methodologies and competences, with the help of a cross-cutting program launched at Group level known as OpEX (Operational Excellence). The purpose of this program is to focus on company processes, by identifying performance indicators, establishing targets and organisational improvements, and checking their application.
From a managerial viewpoint, the processes of Leadership Management and the instrument of Talent Review have enabled control of human resource management and the identification of more talented staff so as to direct their professional development.
In 2010 the intense dialogue with the unions and workers' representatives at company level continued, with the aim of identifying and agreeing the best solutions to respond to the difficult market situation.

Regarding the **outlook** for the sector, we may be sure that the level of competitiveness that has been achieved through the implementation of measures to enhance the production and organisational set-up will enable the company to take advantage of the more favourable situation on various business markets and therefore to achieve better results for the whole year than those for 2010, unless very recent international events cause a reversal in the economic trend.

Regarding the **scrap metal trading** project which was launched in 2009 with a view to diversifying business compared to the traditional manufacture of semi-finished products and with the aim of seeing a European network of companies operating in the recovery, treatment and trading of scrap, on the one hand, work continues to speed the project up in order to find the necessary synergies between the investees which are under the control of the sub-holding KME Recycle S.p.A., and the Group's other operating units, and, on the other, the process continues to rationalise and develop their presence on the scrap trading market.
As for the equity investment in the French company ALUMETALI S.a.s., it was increased from 10% to 30% by exercising the contractually envisaged option right, with the aim of enhancing cooperation with the partner company and continuing to expand the company's business.

The renewable energy segment

In 2010, some extraordinary events occurred which impacted on the results achieved by the ErgyCapital Group. In particular, there was the seizure of two worksites by the Courts in the Province of Rieti in February 2010 to the detriment of the subsidiaries Ergyca Green S.r.l. and Greenboat S.r.l.. This still continues and has brought with it a series of negative consequences in both financial and economic terms. In parallel to these internal issues, as from the second half of 2010 there has been a series of legislative provisions which have seriously penalised the photovoltaic sector where ErgyCapital had focussed its resources. In particular, the tariff reduction following approval of the tariffs for the Italian feed-in tariff program (Terzo Conto Energia) in force as from 1 January 2011 has made it necessary to completely review the approved programs.
In 2010 ErgyCapital recorded revenue of Euro 17.1 million (Euro 12.7 million for December 2009). The increase compared to the previous year was mainly due to the increase in electricity production from photovoltaic plant. In addition, revenue benefitted from the increase in the volume of production at the subsidiary E.Geo which operates in the geothermal sector.
EBITDA, which was negative at Euro 1.4 million, was in line with the results of the previous year.
The total consolidated loss of 19.9 million di Euro was affected by the impairments made, in part due to the significant restructuring of the Group, for a total of Euro 11.4 million on operating assets as well as for Euro 2.3 million as the net effect of discontinued operations.
The problems affecting the company led to the revision of the strategic objectives for 2011-2013.

The Board of Directors of ErgyCapital noted the serious situation which had arisen in 2010 and the significant uncertainty created in the photovoltaic sector following the issue of the recent Legislative Decree on renewable energy which follows the law on the feed-in tariff in force as from 1 January 2011. On the other hand, two business areas have been identified which offer good growth prospects:

- the biogas sector, which the company intends to use to lever growth with the consequent acceleration in the development and realisation of plant;
- the sector of low enthalpy geothermal energy, in which the subsidiary E.Geo S.p.A. is increasing its market share.

The new strategic guidelines set the following objectives:

a) creation of value from the pipeline of authorised projects for photovoltaic plant through the construction of 6-8 MW in 2011 alone and the sale of authorised projects for 30-35 MW of plant in 2011-2013;
b) the construction of three 1 MW biogas plants in 2011, five in 2012 and a similar number in 2013 and the disposal of any excess authorised projects in the period;
c) the consolidation of growth at E.Geo in the geothermal sector, which envisages reaching around Euro 10 million in revenue for 2013;
d) a reduction of around 50% in overheads compared to 2010;
e) broadly balanced financial operations as early as 2011, with an EBITDA target of Euro 20 million in 2013.

The plan objectives should be achievable with an additional financial input from the parent in the three year period which can be estimated at Euro 2-3 million, compatible with routine use of lines of credit and therefore without a new share capital request.

The company will also be engaged in seeking all available opportunities for cooperation/networking with others operating in the renewables sector and which can accelerate its development in terms of size and increase value for shareholders.

For further information on the operating performance of ErgyCapital S.p.A., refer to the documentation made available by the company.

Services segment

Drive Rent SpA, which is 90% owned by the KME Group, is the holding of the Drive Group, which consists of five different businesses: long-term car hire, third-party fleet management, the rental of replacement motor vehicles to auto repair businesses, corporate accommodation services and the management of a car park in the centre of Milan.

In 2010, the long-term hire car business continued to fall, in line with the forecast of its termination by the end of 2011.
The management of third-party vehicles continues to be affected by the crisis in the automotive industry, which affected corporate fleets in 2009 and, as a result of the ending of government incentives in both Italy and Spain, spread to sales to private consumers in 2010. Nonetheless, the Drive Group succeeded in maintaining business volumes, thanks to the winning of new contracts in the year. Contribution margins were below expectations as a result of the failure to develop sales of services to private individuals, which the contracts won with corporate customers offset in terms of revenue but not profits. The profit problem is largely due to an important contract held by the subsidiary Drive Service S.p.A. with a major industrial group, which generated losses on a high number of special vehicles for which non-routine maintenance costs were incurred which had not been foreseen in the contract. An agreement reached with the customer at the start of July, and which is backdated to 1 January 2010, established the criteria for charging these costs to the customer, but the difficulties and the delays encountered in introducing the operating procedures needed for the agreement reached to be fully effective led to the mutual termination of the contract with the customer at the end of 2010 and the creation of a technical/legal discussion group to jointly establish the mandate for a third party to define the exact scale of the compensation due from the customer to Drive Service S.p.A. It is reasonable to assume that the dispute may be concluded in the first half of 2011 with the recognition for Drive Service S.p.A. of an intermediate sum between the requests made and an initial settlement offer made by the customer. The size of this amount, which is reflected in the financial statements for 2010, should be considered as prudent, since it is believed that the case to be presented by Drive Service S.p.A. will enable it to obtain a much higher award of the non-routine costs incurred on the contract.
Car hire and the management of replacement vehicles for repair and body shops also saw volumes come in at

below expectations due to the ongoing difficulties in the auto repair segment. However, the number of customers and vehicles continues to increase. The increase in the customer portfolio and the consolidation of the company's leadership in the sector suggest a significant pick-up in revenue and profit margins as soon as the market recovers.

The number of apartments managed to provide accommodation for corporate customers has evened out after the fall in 2009 caused by the general economic downturn, whereas intensive marketing efforts have resulted in promising contacts with large corporations and the acquisition of two new contracts with a leading Italian industrial group.

The subsidiary Easydriver Car Services Espana S.L.U. recorded positive results in the year, despite the continuing economic and financial problems in Spain.

In 2010 the **consolidated revenue of the Drive Group** was Euro 58.4 million compared to Euro 73.2 million in 2009; the fall was entirely due to the ending of the recharging of costs incurred for two major customers, following a review of the agreements with these customers.
EBITDA was positive at Euro 5.8 million (Euro 7.2 million for 2009) and there was a loss for the year of Euro 1.4 million.
The consolidated net financial position at 31 December 2010 saw overall net debt of Euro 17.5 million (Euro 18.9 million at the end of 2009).
Operations in the first few months of 2011 saw a slight improvement in margins and confirmed the falling trend in net debt.
Regarding new **investments** the implementation continued in 2010 of the S.I.D. (Drive Information System), a proprietary operating platform to support all company products and services, and is now operational for most of its components. The finalisation of this project will enable the Group's various activities to be managed more effectively and efficiently, also thanks to the integration with the accounting system and with the archiving and email systems.
The total **workforce** of the Drive Group numbers 251.

On 30 November 2010 the Board of Directors of Drive Rent S.p.A. approved an important corporate/industrial reorganisation which involves the merger of Drive Rent S.p.A. into Cobra Automotive Technologies S.p.A, a company which is based in Varese and is the holding of a group listed on the Italian Stock Exchange and is a leader in car theft protection systems and vehicle safety through the use of IT and satellite technology.
The transaction will enable the post-merger company to offer single groups of customers (such as individual drivers, company fleets, leasing companies, car manufacturers and insurance companies) not only their services and the electronic products which they already manufacture (through cross-selling), but also and above all new services and products it has developed by combining the distinct know-how of the two groups. The transaction is expected to be completed in the first half of 2011.
On the basis of an exchange ratio of 383.7 Cobra S.p.A. ordinary shares for every Drive Rent S.p.A. ordinary share and assuming that the current ownership arrangements of Cobra and Drive Rent stay the same, the share capital of the new company at the end of the merger will be divided as follows:

- KME Group S.p.A. 42.7%;
- Serafino Memmola, directly and through Cobra Automotive Technologies S.A. (Lux.), 26.6%.

A shareholders' agreement was signed on 18 November 2010 between KME Group S.p.A and Cobra Automotive Technologies S.A. in order to regulate the corporate governance of the new company and the reciprocal dealings as shareholders of Cobra S.p.A following the merger.
On 15 March 2011 the Shareholders' Meeting of Drive Rent S.p.A. and Cobra S.p.A. approved the plan to merge Drive Rent S.p.A. into Cobra Automotive Technologies S.p.A.; it should be noted that the merger is subordinate to it not creating any obligation to launch a public tender offer pursuant to articles 106 and 109 of Legislative Decree no. 58/98.

For further information on the aforementioned merger, refer to the documentation available on the websites of the companies and of Borsa Italiana S.p.A.

* * *

KME Group S.p.A.

The **Parent KME Group S.p.A.** ended 2010 with profit of Euro 61.1 million (Euro 3.6 million in 2009); the marked rise in profit was due to the positive balance on non-recurring items, while the profit on ordinary operations was below that of the previous year due to lower financial income.

The non-recurring items concerned, on the one hand, the partial recovery of the historical cost of the equity investment in the subsidiary KME A.G. (for Euro 72.6 million), which is in charge of the Group's industrial presence in the copper sector, and on the other, the alignment of the carrying amounts of other assets (of which Euro 10.4 million relating to the investment in ErgyCapital S.p.A.).

For further details, refer to the paragraph on the Parent's financial statements.

The Board of Directors, in consideration of the Group's improved results from ordinary operations in 2010 compared to the previous year, has decided to propose to shareholders the distribution of a dividend to savings shares to the extent of the preference envisaged by art. 8 of the company articles of association, i.e. Euro 0.07241 per share for an outlay of Euro 3.1 million; as well as to propose to remunerate ordinary shares with the payment of a dividend per share of Euro 0.011 for an outlay of Euro 4.9 million.
The dividend will be paid on 12 May 2011 (date of coupon detachment 9 May 2011).

* * *

Impairment testing

For the purposes of preparing the financial statements at 31 December 2010, and in particular in order to carry out impairment tests on property, plant and equipment and intangible assets recorded therein, as required by the International Financial Reporting Standards, the updated data from the companies concerned was used.

In particular, for semi-finished products in copper and alloys, the new plan for 2010-2014 was used, as approved by the Board of Directors of KME Group S.p.A. on 5 August 2010. The directors verified the impairment test carried out for the consolidated half year report at 30 June 2010 and compared the data used with the final performance in 2010, and discovered that it was in line with forecasts. They also verified the expected performance in 2011, the assumptions and records for which were in line with the statement made in the section on "outlook"; for the following years, up to 2014, the data approved by the Board of Directors was confirmed.

As for ErgyCapital S.p.A., which is in charge of the renewable energy sector, the plan for the period 2011-2013 was used, as approved by the company's Board of Directors on 22 March 2011.

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

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

Group performance

Some of the following comments on operating results are, consequently, based on accounting methods that are at variance with IFRS, primarily with respect to presentation and measurement. Specifically:

1 *in order to eliminate the impact of fluctuations in raw material prices, revenue is also presented* ***net of raw material costs****;*

2 ***the cost of the base-stock component of year-end metals inventories in the semi-finished copper and copper alloy sector*** *(i.e., inventories that will not be sold) is determined on a last-in, first-out basis. Metals that will be sold, on the other hand, are measured at their contractual selling prices, which are deemed to be their realisable value. Under IFRS, on the other hand, inventories are required to be measured at the lower of purchase cost on a FIFO basis and net realisable value. IFRS also require forward sales and purchase contracts as well as hedging contracts traded on the LME to be separately identified and reported in the financial statements at their fair values, as if they were financial instruments;*

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

3 ***Non-recurring items*** *shown in the statement of comprehensive income are reported below EBITDA.*

The table below shows the effects of the different methods of measurement and presentation for 2010.

(millions of Euro)	FY 2010 IFRS		reclassifications	adjustments	FY 2010 RECL	
Gross revenue	2,718.7	100.0%			2,718.7	
Raw material costs	-		(1,960.3)		(1,960.3)	
Revenue net of raw material costs	-				**758,4**	**100%**
Personnel expense	(332.9)		1.2		(331.7)	
Other consumables and costs	(2,300.2)		1,973.2	(20.6)	(347.7)	
EBITDA (*)	**85.5**	**3.1%**			**79.0**	**10.4%**
Depreciation/amortisation	(50.6)		6.0		(44.6)	
EBIT	**34.9**	**1.3%**			**34.4**	**4.5%**
Net financial expense	(21.3)		5.9		(15.4)	
Profit before non-recurring items	**13.6**	**0.5%**			**19.0**	**2.5%**
Non-recurring income (expense)	-		(26.0)		(26.0)	
Impact IFRS measured inventories and forward contracts	-			20.6	20.6	
Taxes under IFRS measured inventories and forward	-			(2.6)	(2.6)	
Current taxes	(4.2)		-		(4.2)	
Deferred taxes	(15.0)		-	2.6	(12.4)	
Result after taxes (IFRS inventory measurement)	**(5.6)**	**-0.2%**			**(5.6)**	**-0.7%**
Share of profit of equity-accounted investee companies	(10.7)				(10.7)	
Profit/(loss) from discontinued operations	(1.4)				(1.4)	
Consolidated loss	**(17.7)**	**-0.7%**			**(17.7)**	**-2.3%**
Profit attributable to non-controlling interests	0.5				0.5	
Loss attributable to owners of the Parent	**(18.3)**	**-0.67%**			**(18.3)**	**-2.41%**

The above reclassified performance indicators are useful for the analysis of the Group's statement of comprehensive income because they are considered more representative of actual profitability and cash flow.

A condensed 2010 Consolidated Statement of Comprehensive Income for the Group with 2009 comparatives is shown below.

KME Group - Consolidated Statement of Comprehensive Income

(millions of Euro)	FY 2010 IFRS		FY 2009 RECL		% Change
Gross revenue	2,718.7		1,949.4		39.5%
Raw material costs	(1,960.3)		(1,285.9)		52.4%
Revenue net of raw material costs	**758.4**	**100%**	**663.5**	**100%**	**14.3%**
Personnel expense	(331.7)		(300.8)		10.3%
Other consumables and costs	(347.7)		(317.4)		9.5%
EBITDA (*)	**79.0**	**10.4%**	**45.3**	**6.8%**	**insig.**
Depreciation/amortisation	(44.6)		(53.6)		-16.9%
EBIT	**34.4**	**4.5%**	**(8.3)**	**-1.3%**	**insig.**
Net financial expense	(15.4)		(14.6)		5.5%
Profit before non-recurring items	**19.0**	**2.5%**	**(22.9)**	**-3.5%**	**insig.**
Non-recurring income (expense)	(26.0)		2.9		insig.
Impact IFRS measured inventories and forward contracts	20.6		4.5		insig.
Taxes under IFRS measured inventories and forward contracts	(2.6)		1.6		insig.
Current taxes	(4.2)		(10.2)		-58.8%
Deferred taxes	(12.4)		0.7		insig.
Result after taxes (IFRS inventory measurement)	**(5.6)**	**-0.7%**	**(23.4)**	**-3.5%**	**insig.**
Share of profit of equity-accounted investee companies	(10.7)		-		insig.
Profit/(loss) from discontinued operations	(1.4)		-		insig.
Consolidated loss	**(17.7)**	**-2.3%**	**(23.4)**	**-3.5%**	**-24.2%**
Profit attributable to non-controlling interests	0.5		0.5		
Loss attributable to owners of the Parent	**(18.3)**	**-2.41%**	**(23.9)**	**-3.60%**	**-23.5%**

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

Consolidated revenueor 2010 totalled Euro 2,718.7 million, up by 39.5% on 2009.
The increase was due in part to the rise in raw material prices; net of raw material costs, revenue rose from Euro 663.5 million to Euro 758.4 million, up by 14.35%.

EBITDA or 2010 totalled Euro 79.0 million, while in 2009 it was Euro 45.3 million. The increase was therefore 74.4%. In relative terms, as a percentage of revenue, EBITDA rose from 6.8% to 10.4%.
Total operating costs rose by 9.9% compared to growth in revenue of 14.3%.

EBIT stood at a positive figure of Euro 34.4 million (a negative figure of Euro 8.3 million in 2009). The level of amortisation and depreciation fell as a consequence of the check carried out, with the assistance of independent consultants, on the residual possible use of the most important plant and machinery. This led to the identification of an extension in the residual life of these assets, with an accounting effect of Euro 10.9 million.

Profit before non-recurring items totalled Euro 19.0 million (a loss of Euro 22.9 million in 2009).

Non-recurring expenses stood at Euro 26.0 million and referred for Euro 12 million to the plans to reorganise the Group's industrial businesses, and to full and partial impairments of assets for Euro 11.0 million.
The effect, net of the tax expense, of the measurement of inventories and orders for raw materials in accordance with the requirements of the IFRS (compared to their measurement on a LIFO basis), rose from Euro 6.1 million in 2009 to Euro 18.0 million in 2010 due to the increase in raw material prices.

The consolidated loss before the profit of equity-accounted investees and discontinued operations was Euro 5.6 million (Euro 23.4 million in 2009).

The loss relating to equity-accounted investees of Euro 10.7 million was due for Euro 9.3 million to the loss at the investee ErgyCapital S.p.A. The loss on discontinued operations of Euro 1.4 million related to the loss in the year of the subsidiary Drive Rent S.p.A.

Consolidated loss was Euro 17.7 million, compared to profit of Euro 23.4 million in 2009.

Group financial position

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

(Euro/millions)	At 31 December 2010	At 31 December 2009
Share capital	297.0	250.0
Reserves	178.3	196.7
Loss for the period	(18.3)	(23.9)
Total Equity	**457.0**	**422.8**

Share capital rose as a consequence:
- of the demerger transaction for Euro 23.7 million, from Euro 250.0 million to Euro 273.7 million;
- of the cash share capital increase offered to shareholders and carried out in June-July 2010 for Euro 23.2 million, from Euro 273.7 million to Euro 297.0 million.

The company's new share capital, at the date of this report, was Euro 297,013,585.26 divided into 490,978,019 shares, of which 447,278,603 were ordinary shares and 43,699,416 savings shares, both without any indication of their par value.

Reserves fell due to the coverage of the losses recorded in 2009 and rose by around Euro 15 million as a consequence of the recognition in equity of the goodwill arising on the demerger.

Group **net debt**(*) at 31 December 2010 stood at Euro 223.9 million (Euro 286.6 million at the end of 2009).
The reduction in debt was achieved by means of measures to limit financing needs for working capital, in particular by optimising credit terms with customers and, above all, with raw material suppliers.
The level of "Liquidity" varies in relation to the temporary cash surpluses in the Group's ordinary operations.
Debt was held at a level lower than working capital, providing evidence of the Group's sound financial structure and the lack of structural indebtedness.

(*) This is an indicator of financial structure and is equal to gross financial liabilities reduced by cash and cash equivalents and financial receivables. The composition of "non-current financial assets" is given in note (2).

The table below gives a breakdown of consolidated **net debt**:

		31.12.2010	31.12.2009
(thousands of Euro)		(RECL)	(RECL)
Short-term financial payables		125,157	186,700
Medium to long-term financial payables		316,875	363,075
Financial payables due to subsidiaries		2,230	2,432
(A) Total loans and borrowings		**444,262**	**552,207**
Cash and cash equivalents		(39,751)	(108,964)
Other financial assets		(14,358)	-
Short-term financial receivables		(87,761)	(64,609)
Financial receivables due from Group companies		(4,597)	(1,283)
(B) Total cash and current financial assets		**(146,467)**	**(174,856)**
Fair value of LME and metals forward contracts		39,870	20,771
Fair value of other financial instruments		1,878	351
(C) Financial instruments measured at fair value		**41,748**	**21,122**
Consolidated net financial position (A)+(B)+ (C)	**(1)**	**339,543**	**398,473**
Non-current financial assets	**(2)**	**(115,686)**	**(111,923)**
Total Net Debt		**223,857**	**286,550**

(1) Definition pursuant to CONSOB Communication DEM/6064293 of 28.07.06 in application of the CESR recommendations of 10 February 2005.
(2) Euro 108.5 million of these receivables relate to guarantee deposits in connection with two fines imposed by the European Community in 2003-2004 on Group manufacturing companies for two violations of anti-trust rules. The definitive payment and related outflow of cash will obviously only be made on conclusion of the entire hearing of the appeal pending before the EU judicial authorities and only for the amount ordered to be paid.

Cash flows for the year are summarized as follows:

Cash flow statement, indiret method

(thousands of Euro)		31.12.2010	31.12.2009
A) Cash and cash equivalents at the beginning of the year	*rif. Note*	**108,964**	**38,814**
Profit (loss) before taxes		2,867	(15,537)
Depreciation and amortisation		45,848	56,273
Impairment losses on current assets		5,568	2,707
Impairment losses (reversals of impairment losses) on non-current assets other than financial assets		4,714	-
Impairment losses (reversals of impairment losses) on current and non-current financial assets		6,317	290
Losses (gains) on disposal of non-current assets		(236)	(4,355)
Change in provisions for pensions, post-employment benefits and stock options		144	(413)
Change in provisions for risks and charges		(1,196)	(5,484)
Decrease (increase) in inventories		(151,348)	(50,814)
Share of profit of equity-accounted investees		10,735	-
(Increase) decrease in current receivables		(9,498)	(39,188)
Increase (decrease) in current payables		208,905	53,986
Changes from currency translation		(286)	(1,238)
Decrease (increase) in LME and metals forward contracts		19,098	128,235
Paid taxes		(4,764)	(7,230)
(B) Cash flows from operating activities		**136,868**	**117,702**
(Increase) in non-current intangible assets and property, plant and equipment	*4.22*	(44,261)	(37,779)
Decrease in non-current intangible assets and property, plant and equipment		1,693	6,174
(Increase) decrease in investments		(30,418)	(5,712)
(Increase) decrease in available-for-sale financial assets		-	-
Increase/decrease in other non-current assets/liabilitiesi		6,779	545
Dividends received		260	1,463
(C) Cash flows from investing activities		**(65,947)**	**(35,309)**
Equity cash variations	*4.22*	22,860	6
(Purchase) sale of treasury shares		-	(539)
Increase (decrease) in current and non-current financial payables		(107,191)	109,415
(Increase) decrease in current and non-current financial receivables		(45,582)	(109,638)
Dividends paid and profits distributed		(2,651)	(11,488)
(D) Cash flows from financing activities		**(132,564)**	**(12,244)**
(E) Change in cash and cash equivalents (B)+(C)+(D)		**(61,643)**	**70,150**
(F) Change in scope of consolidation	*4.22*	**5,742**	**-**
(G) Total cash flows used in discontinued operations		**(13,312)**	**-**
(H) Cash and cash equivalents at the end of the year (A)+(E)+(F)+(G)		**39,751**	**-**

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

(millions of Euro)	At 31 December 2010	At 31 December 2009
Net non-current assets	790.8	776.0
Net working capital	296.1	325.6
Net provisions	(406.0)	(392.2)
Net invested capital	**680.9**	**709.4**

(*) Net invested capital" is a financial indicator which is not envisaged by the IFRS and should not be considered as an alternative to the indicators envisaged by the IFRS. Its components are given here below:

- *"Net non-current assets" consists of the sum of the items "Property plant and equipment and intangible assets", "Investments" and "Other non-current assets".*
- *"Net working capital" consists of the sum of the items "Inventories" and "Trade receivables" net of "Trade payables" and "Other current assets/ liabilities", except for the items previously considered in the definition of "net debt".*
- *"Net provisions" includes the item "Employee benefits", "Provision for EU fines", "Net deferred taxes" and other "Provisions for risks and charges".*

At the end of June 2010 KME Group S.p.A. and the main subsidiaries that operate in the sector of semi-finished products in copper and its alloys obtained from a pool of banks an extension on the maturity, from September 2011 to January 2015, of credit lines for a total amount of Euro 475 million.
The agreement relates to two tranches: Tranche A (a revolving facility for the working capital requirements of the industrial companies, particularly to finance inventories) and Tranche B (for other financing requirements). These tranches were agreed in 2006 and were still committed for an amount approximating the original amount made available. The agreement ensures the availability of facilities that are sufficiently flexible for the Group's financing needs.
In addition to extending the final maturity, the revised agreement provides for a significant reduction in the collateral granted to the banks and for the simplification of financial covenants that are in line with the Group's business plan. The new covenants only relate to the ratios of EBITDA to Financial expenses, and Total financial indebtedness to consolidated equity. The financial covenant ratios, moreover, are in line with the existing covenants of the extended term credit facilities. The test of these covenants is planned to be carried out every six months: at 31 December 2010 all the covenants had been complied with.
The financial costs are substantially in line with the existing costs of the extended facilities.

The Group also has an outstanding loan signed with Mediocredito Centrale S.p.A. for an amount of Euro 103 million, which is guaranteed by SACE S.p.A., and which is for the financing of costs relating to industrial investments or acquisitions of foreign companies.
The supply of the loan in tranches ended in 2010; the maturity is set at 8 years starting from the date of actual use. The loan envisages compliance with some covenants, to be checked on a six monthly basis, in relation to income (EBITDA) and financial parameters (Equity and net debt); at 31 December 2010 these covenants had been fully complied with.

The Parent KME Group S.p.A.

KME Group S.p.A.'s profit for 2010, after taxes, was Euro 61.1 million (Euro 3.6 million in 2009).

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

(thousands of Euro)	FY 2010	FY 2009
Dividends from investments	-	-
Service income	2,839	2,839
Operating costs	(5,001)	(4,270)
Stock option costs	(224)	(501)
Net financial income (charges)	3,635	8,617
Profit from ordinary activities	**1,249**	**6,685**
Non-recurring income (expenses)	61,011	(1,345)
Profit before taxes	**62,260**	**5,340**
Taxation	(1,159)	(1,711)
Profit for the year	**61,101**	**3,629**

The profit from ordinary activities fell due to lower financial income caused by the ending of cash balances as a result of the demerged liabilities received; net cash was replenished by the capital increase at the end of July 2010.

The increase in **operating costs** arose from the higher variable pay for executive directors (Euro 0.4 million) and higher non-deductible VAT (Euro 0.2 million).

Financial income includes:

- Euro 4.3 million (2009: Euro 6.4 million) in fee income from subsidiaries for guarantees issued by the Parent on behalf of the subsidiaries to banks in order to obtain available lines of credit;
- Euro 0.5 million in losses (2009: Euro 0.2 million in gains) on listed securities held in portfolio as a result of stock market prices at 31 December 2010.

Non-recurring items concerned the partial recovery of the historical cost of the investment in KME A.G. (for Euro 72.6 million), a German subsidiary which is in charge of the Group's industrial presence in the sector of semi-finished products in copper and its alloys.
Non-recurring expenses include Euro 7.2 million for the impairment of 43,981,434 ErgyCapital S.p.A. ordinary shares and Euro 3.2 million for the alignment made to the carrying amount of 50,871,755 ErgyCapital S.p.A. 2016 warrants.

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

(thousands of Euro)	31.12.2010	31.12.2009
ASSETS		
Investments		
Copper sector		
Investment in KME Germany A.G..	380,000	307,350
Investment in KME Recycle S.p.A.	4,500	2,000
	384,500	**309,350**
Renewable energy sector		
ErgyCapital S.p.A. shares	24,554	2,366
ErgyCapital S.p.A. ordinary shares 2016 warrants	7,251	1,386
	31,805	**3,752**
Services sector		
Investment in Drive Rent S.p.A.	**30,000**	-
Other investments		
KME Partecipazioni S.r.l.	9,810	0
iNTEk S.p.A. savings shares	1,527	3,541
Treasury shares	2,888	2,888
IAL S.r.l.	0	3,216
	14,225	**9,645**
Financial position	**14,509**	**33,356**
Other assets/(liabilities)	**(2,946)**	**(4,790)**
Total assets	**472,093**	**351,313**
LIABILITIES		
Equity		
Share capital	**297,014**	**250,015**
Reserves	113,978	97,669
Profit for the year	61,101	3,629
Total equity	**472,093**	**351,313**

The change in assets between 31 December 2010 and 31 December 2009 was largely due to the recognition of the demerged liabilities received from iNTEk S.p.A., with effect as from 22 March 2010.
Following this transaction KME Group S.p.A. took on the role **of holding of investments**, with investments in the "**copper**", "**renewable energy**" and "**services**" sectors. The other diversified investments, including the real estate company I.A.L. S.r.l. and Culti S.r.l., were concentrated in December 2010 in the new sub-holding **KME Partecipazioni S.r.l.**

The overall carrying amount of the new investments arising from the Demerger was Euro 67.2 million (of which Euro 34.4 million relating to the investment in Ergycapital S.p.A., Euro 30 million relating to Drive Rent S.p.A. and Euro 2.8 million to the investment in Culti S.r.l.), which was matched by the taking on of financial payables for Euro 28.4 million, and by the increase in equity of Euro 38.9 million (of which share capital with a par value of Euro 23.7 million and goodwill arising on the demerger of Euro 15.1 million).

As noted previously, on drawing up the financial statements at 31 December 2010 investments were measured in accordance with the provisions of the IFRS.
Against this background, there was further confirmation, as regards the German subsidiary KME A.G. which is in

charge of the industrial presence in the sector of semi-finished products in copper and its alloys, of the results of the measurement carried out during the partial, proportional reverse demerger of iNTEk S.p.A. in favour of KME Group S.p.A. and approved at the Shareholders' Meeting of 2 December 2009 and of the impairment test carried out for the consolidated half year report at 30 June 2010, measurements which were made with the support of external independent consultants. On the basis of these results the directors considered that the situation had changed from the circumstances which had led to the impairment of the historical cost of this investment, for an amount of Euro 220 million, during the preparation of the separate financial statements at 31 December 2003; they, therefore, arranged, pursuant to art. 2426, para. 1, point 3, of the Italian Civil Code to a partial reversal for an amount of Euro 72.6 million, bringing the carrying amount of the investment in the subsidiary KME A.G. to Euro 380 million, and thus in line with the accounting entry of the sector in the consolidated financial statements.
Also on measuring investments in preparing the financial statements at 31 December 2010, it was arranged to align the carrying amount of the investment in ErgyCapital S.p.A. The alignment of Euro 7.2 million was calculated on the basis of the results of the impairment test, as required by the accounting standards applied, which was based on the long-term plan for 2011-2013 as approved by the company's Board of Directors; the alignment was also adopted in line with the strategic decision taken by the Board of Directors of KME Group S.p.A. to look for opportunities to create future value from the investment following the programs to reorganise and focus the business which are currently being carried out by the management of the investee. The carrying amount of the investment was changed to Euro 0.50 for every ErgyCapital ordinary share held and therefore to a total amount of Euro 22.0 million. Consequently, the directors considered it necessary to also impair the carrying amount of 50,871,755 ErgyCapital S.p.A. 2016 warrants held, for an amount of Euro 3.3 million, and so bringing it to the level of the official share price at the date of these financial statements, i.e. Euro 0.128 per warrant.

The **net financial position** of KME Group S.p.A. fell due to the taking on during the Demerger of a financial liability of Euro 28.4 million as well as due to the outlays connected to the recapitalisations of subsidiaries for Euro 10 million and increases due to the share capital increase in June - July 2010, which led to income of Euro 23.2 million.

Share capital increased by Euro 23.7 million as a consequence of the Demerger and by Euro 23.2 million due to the share issue of June – July 2010.

Treasury shares at 31 December 2010 consisted of 8,212,755 ordinary shares and 135,831 savings shares. Total treasury shares held at that date were 1.70% of total share capital.
In February 2011 610,055 ordinary shares were sold on the Stock Exchange generating income of Euro 225,290.78. Therefore, at the date of this report treasury shares held consisted of 7,602,700 ordinary shares (1.70% of the category) and 135,831 savings shares (0.31% of the category).

The reclassified **net financial position** of the Parent at 31 December 2010 was as follows:

(thousands of Euro)	31.12.2010	31.12.2009
Short-term financial payables	40,814	29,470
Medium to long-term financial payables	73,641	61,466
Financial payables due to subsidiaries	55,332	24,067
Guarantees issued liabilities	13,277	5,588
(A) Total loans and borrowings	**183,064**	**120,591**
Cash and cash equivalents	(251)	(403)
Other financial assets	(14,358)	-
Financial receivables due from subsidiaries	(115,628)	(90,896)
Current receivables for indemnities due from subsidiaries	(4,314)	(3,767)
(B) Total cash and cash equivalents and current financial assets	**(134,551)**	**(95,066)**
Fair value of other financial instruments	2,973	-
C) Financial instruments measured at fair value	**2,973**	**-**
Consolidated net financial position (A)+(B)+(C)	**51,486**	**25,525**
Non-current receivables for indemnities due from subsidiaries	(8,963)	(1,821)
Non current financial receivables due from subsidiaries	(51,664)	(52,814)
Non-current financial receivables due from banks	(5,368)	(4,246)
Total reclassified net debt	**(14,509)**	**(33,356)**

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

Cash flows for the year are summarized as:

Statement of cash flows, indirect method

(thousands of Euro)	31.12.2010	31.12.2009
A) Cash and cash equivalents at the beginning of the year	**403**	**661**
Profit before taxes	62,260	5.340
Depreciation and amortisation	12	8
Impairment losses on current assets	(60,071)	-
Impairment losses (reversals of impairment losses) on non-current assets other than financial assets	(1,640)	-
Impairment losses (reversals of impairment losses) on current and non-current financial	230	506
Losses (gains) on disposal of non-current assets	(349)	(4,505)
Change in provisions for pensions, post-employment benefits and stock options	648	5,800
Change in provisions for risks and charges	(2,223)	1,942
Taxes paid during year	(983)	(101)
(B) Cash flows from operating activities	**(2,116)**	**8,990**
(Increase) in non-current intangible assets and property, plant and equipment	(68)	(69)
Decrease in non-current intangible assets and property, plant and equipment	1,642	-
(Increase) decrease in investments	(80,384)	2,521
(Increase) decrease in available-for-sale financial assets	-	-
Increase/decrease in other non-current assets/liabilities	351	266
Dividends received	158	633
(C) Cash flows from investing activities	**(78,301)**	**3,351**
Changes in equity	61,748	6
(Purchase) sale of treasury shares	-	(539)
Increase (decrease) in current and non-current financial payables	65,447	30,920
(Increase) decrease in current and non-current financial receivables	(44,279)	(31,498)
Dividends paid and profits distributed	(2,651)	(11,488)
(D) Cash flows from financing activities	**80.265**	**(12,599)**
(E) Change in cash and cash equivalents (B)+(C)+(D)	**(152)**	**(258)**
(F) Effect of changes in assets held for sale	**-**	**-**
(G) Cash and cash equivalents at the end of the year (A)+(E)+(F)	**251**	**403**

As far as the **outlook** is concerned, fees relating to the issuance of indemnities on behalf of subsidiaries are expected to continue to be accrued in 2011. Information on the outlook for investments is set out above in the section dealing with the outlook for the Group as a whole.

Transactions with related parties

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

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

As for the description of the proportional reverse demerger of iNTEk S.p.A. in favour of KME Group S.p.A. and its effects on the company's financial position, refer to the related sections.
For further information, it is possible to consult the documentation made available to the public on the company's website **www.kme.com** and deposited at Borsa Italiana S.p.A.

Transactions with subsidiaries

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

	31.12.2010		31.12.2009	
(thousands of Euro)	**Income**	**Expenses**	**Income**	**Expenses**
KME Italy S.p.A.	2,331	(626)	3,024	(107)
KME Brass Italy S.r.l.	63	(185)	135	(16)
Immobiliare Agricola Limestre S.r.l.	32	-	25	-
EM Moulds S.r.l.	21	(115)	-	(77)
KME Recycle S.p.A.	54	-	14	(42)
KME Germany A.G.	371	-	335	-
KME Germany A.G. & Co. K.G.	5,645	(57)	7,811	(239)
KME Brass Germany Gmbh	254	-	255	-
KME Arkitectural Metals Gmbh & Co. KG	2	-	-	-
KME France S.a.s.	2,164	-	1,234	(22)
KME Brass France S.a.s.	786	-	830	-
KME Yorkshire Ltd	144	-	198	-
KME Locsa S.A.	144	(71)	163	(4)
Culti S.r.l.	5	(1)	-	-
ErgyCapital S.p.A.	6	-	-	-
Drive Service S.r.l.	-	(21)	-	-
Total	**12,022**	**(1,076)**	**14,024**	**(507)**

Receivables and payables due from/to subsidiaries were as follows:

(thousands of Euro)	31.12.2010	31.12.2009	Change	% change
Financial (payables) receivables				
KME Italy S.p.A.	(39,694)	(21,041)	(18,653)	88.65%
KME Brass Italy S.r.l.	(3,522)	(423)	(3,099)	732.62%
Immobiliare Agricola Limestre S.r.l.	965	777	188	24.20%
EM Moulds S.r.l.	(5,203)	(2,602)	(2,601)	99.96%
KME Recycle S.p.A.	3,343	1,516	1,827	120.51%
KME Germany A.G.	9,705	51,280	(41,575)	-81.07%
KME Germany A.G. & Co. K.G.	37,895	37,951	(56)	insig.
KME Germany A.G. & Co. K.G.	(6,913)	-	(6,913)	insig.
KME Brass Germany Gmbh	4,829	4,493	336	7.48%
KME France S.a.s.	78,185	19,796	58,389	294.95%
KME Brass France S.a.s.	18,551	21,769	(3,218)	-14.78%
KME Yorkshire Ltd	3,249	2,868	381	13.28%
KME Locsa	6,329	3.258	3,071	94.26%
Culti S.r.l.	390	-	390	insig.
ErgyCapital S.p.A.	3,851	-	3,851	insig.
Drive Service S.r.l.	-	-	-	0.00%
Total	**111,960**	**119,642**	**(7,682)**	**-6.42%**

(thousands of Euro)	31.12.2010	31.12.2009	Change	% change
Trade receivables and other				
KME Italy S.p.A.	-	-	-	-
KME Brass Italy S.r.l.	-	-	-	-
Immobiliare Agricola Limestre S.r.l.	-	-	-	-
EM Moulds S.r.l.	-	-	-	-
KME Recycle S.p.A.	-	-	-	-
KME Germany A.G.	-	-	-	-
KME Germany A.G. & Co. K.G.	-	-	-	-
KME Brass Germany Gmbh	-	-	-	-
KME France S.a.s.	-	-	-	-
KME Brass France S.a.s.	-	-	-	-
KME Yorkshire Ltd	-	76	(76)	insig.
KME Locsa S.A.	-	13	(13)	insig.
Culti S.r.l.	5	-	5	insig.
ErgyCapital S.p.A.	-	-	-	-
Drive Service S.r.l.	-	-	-	-
Total	**5**	**89**	**(84)**	**-94.38%**

(thousands of Euro)	31.12.2010	31.12.2009	Change	% change
Trade payables and other				
KME Italy S.p.A.	-	73	(73)	insig.
KME Brass Italy S.r.l.	-	-	-	-
Immobiliare Agricola Limestre S.r.l.	-	-	-	-
EM Moulds S.r.l.	-	-	-	-
KME Recycle S.p.A.	-	-	-	insig.
KME Germany A.G.	-	-	-	-
KME Germany A.G. & Co. K.G.	-	-	-	insig.
KME Brass Germany Gmbh	-	-	-	-
KME France S.a.s.	-	-	-	insig.
KME Brass France S.a.s.	-	-	-	-
KME Yorkshire Ltd	-	-	-	-
KME Locsa S.A.	-	-	-	-
Culti S.r.l.	-	-	-	-
ErgyCapital S.p.A.	-	-	-	-
Drive Service S.r.l.	3	-	3	insig.
Total	**3**	**73**	**(70)**	**-95.89%**

* * *

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

Pending litigation

Update of information on pending litigation given in the half year report as at and for the six months ended 30 June 2010:

- the case pending before the Court of Hanover relating to the merger of the German companies has been settled through the payment by KME Germany A.G. & Co. K.G. of Euro 125,000. The case regarding the subsequent squeeze out, on the other hand, is still pending.

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

- As for the appeal pending before the European Court of Justice regarding industrial tubing, on 6 October 2010 the hearing was held and on 10 February 2011 the Advocate General's opinion was deposited and the view was expressed that the appeal should be rejected. The European Court of Justice must assess the arguments put forward by the companies concerned in the KME Group, by the Commission and by the Advocate General for the purposes of issuing its sentence.
  On the other hand, as for the appeal procedure regarding sanitary tubes, the companies concerned in the KME Group have asked the European Court of Justice to set a date for the hearing.

- Following the dismissal of the class action in the United States brought by direct customers, which also related to anti-trust violations, the class action brought by indirect customers was also dismissed;

- In regard to the claim for damages started in February 2010 by Toshiba Carrier UK Ltd and other companies in the same group, before the English High Court of Justice - Chancery Division, against KME Yorkshire Ltd, KME AG, KME France S.A.S. and KME Italy S.p.a., together with another five manufacturers of LWC, again with respect to anti-trust violations, after three plaintiffs had withdrawn their appeal, it should be noted that on 4 January 2011 the companies affected in the KME Group filed an appeal for removal from the proceedings and for lack of jurisdiction.

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

Risks relating to the general economic environment

KME Group is active in the metallurgical sector, specifically the production and processing of copper and copper alloy products, which have historically been subject to excess production capacity and cyclicality.

The Group's financial position is affected by economic trends which have varying effects in the different countries where it operates, especially in Europe. The gradual deterioration of the economy, combined with the volatility of raw material prices and the credit crunch obviously had major and widespread repercussions on demand in the sectors using copper and copper alloy semi-finished products.

It is always difficult to predict the extent and duration of the business cycle. The cyclical nature of the sectors in which the Group operates tends to be a reflection of general economic trends, the effects of which are sometimes amplified.

Each macroeconomic phenomenon such as the collapse of principal markets, financial market volatility and the consequent deterioration of capital markets, increased energy prices, fluctuating prices of commodities and other raw materials, adverse movements in interest and exchange rates and tightening of government policy (including environmental regulations) – which are believed to have a negative impact on the sectors in which KME operates – could lead to a deterioration in the Group's outlook, operations, financial position, results of operations. Against this background, the Group has brought forward a number of contingent measures designed to counter the effect of lower volumes and price pressures. Restructuring, designed to assure more efficient production, a more focused organisational structure, and the optimal use of capital invested, which have been ongoing for some time, also continued.

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

Competition and commodity price risks

The main industrial sector where KME operates is traditionally characterised by significant overcapacity and by a high level of competition, including in product sectors other than metallurgy. The risk of product substitutions, production cost levels, cost control and the continuing search for efficiencies, product innovation and the ability to offer customers services and solutions are all factors that can have a considerable effect on results.

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

Raw materials price increases also have an effect on financial position in that they lead to an increase in the working capital of industrial companies (through the increase in the value of warehouse inventories and trade amounts outstanding) that must be financed. To this end, in 2006 the KME Group acquired credit lines that were sufficient to meet the needs arising from the rise in raw material prices; but if these prices should stabilise at the very high levels reached in the first few months of 2011, the Group might find it necessary to further increase its credit lines at a time when the financial markets are more difficult and costly.

From an operating viewpoint, a significant and long-lasting increase in raw material prices, in particular of copper, exposes the group to the risk that users may seek to use alternative products for some applications, products which are available at much lower prices, but of lower quality and performance; the sectors exposed to this type of competition might find it difficult to achieve their planned performance targets.

Risks connected to investments in the renewable energy and energy saving sector

Production of renewable energy is closely connected to the weather (sun and wind) in the places where production plant is installed. In particular, the photovoltaic power generation sector is characterised by annual seasonal factors which are typical of the sector and which make renewable energy production discontinuous owing to the climatic conditions. In reference to renewable energy power generation plant, it should be noted that there are restrictions on its installation arising for example from the topographic and morphological conditions of the land, from the possibility of and the limits on connecting power generation plant to the local and national electricity distribution grids, from town-planning and environmental restrictions, as well as countryside landscape restrictions, in the local area (such as closeness to inhabited areas or protected zones pursuant to national and/or local law).

For these reasons, the number of available sites to install power generation plant is inevitably limited. In addition, the increase in installed renewable energy power generation plant and the increase in competition in looking for such sites have the consequence of reducing the number of sites available.

Therefore, should, for the aforementioned circumstances, it not be possible to find sites which are available and suitable for the development of projects to install power generation plant, there might be limits on the investment activity of ErgyCapital S.p.A. in this sector, with a consequent negative impact on the Group's investment strategy and, consequently, on its financial situation.

The renewable energy and energy saving market is characterised by a high level of competition and by rapid and major technological innovation. In addition, the technologies for the production of energy from renewable sources are tending to become increasingly complex and require ever greater financial resources for their development. ErgyCapital S.p.A.'s work, therefore, is very dependent on its ability to develop advanced technological solutions, to install increasingly efficient power generation plant, and to contain the costs of such installations.

The revenues of companies operating in the renewable energy sector depend, among other things, on the sale prices for electricity. Depending on the country where the electricity produced is sold, sale prices can be set (wholly or in part) by the competent public and/or regulatory authorities in the form of tariffs, or left to the free determination of the market. The business and results of operations of ErgyCapital S.p.A. and, consequently, of the Group depend on electricity tariffs and market prices.

ErgyCapital S.p.A. operates in a sector which is conditioned by relevant legal and regulatory provisions, including the law on authorisation procedures for the location and installation of renewable energy power generation plant. In addition, the profitability of investments in power generation assets also depends on Italian and EU law which sets aside incentives, on occasion significant incentives, for this activity.

Liquidity risk

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

The Group intends to meet its cash requirements for the repayment of borrowings and capital expenditure through cash from operating activities, cash on hand and fresh bank borrowings or the extension of credit lines.

Given the current difficult environment, the Group intends to maintain sufficient operating cash flow generation capacity through measures designed to control the level of working capital, in particular, cash needs arising from raw materials inventories. Any significant and sudden reduction in sales volumes as well as extremely high raw material prices could have an adverse effect on operating cash flow generation. The current financial crisis means that it is not possible to ignore the possibility that circumstances on the banking and money markets could lead to difficult and costly negotiations with lenders.

Risks connected to forecasts, estimates and internal data processing relating to the Group, the company and the market

This report contains some data and forecasts regarding the objectives set by the KME Group and some assumptions regarding the financial development of the parent and of the subsidiaries.

The data and the forecasts on the activities and expected results of the issuer and of the subsidiaries are based on the company's estimates and assumptions regarding future and uncertain events, including the economic trend in the main European countries where the Group operates, the occurrence of which could bring to light significant discrepancies with the forecasts made. It is not possible to guarantee that what has been forecast and is expected to happen will in fact happen. The final results of the KME Group could be different from those forecast owing to known and unknown risks, uncertainty and other factors.

* * *

As Parent, KME Group S.p.A. is substantially exposed to the same risks and uncertainties described above to which the Group is exposed. It should, however, be borne in mind that the results of KME Group S.p.A. are a function of dividends distributed by subsidiaries and, therefore, ultimately reflect their business, investment and dividend policies.

Subsequent events

There were no further events to note besides those indicated in the individual sections.

Proposal to approve the financial statements and to allocate the profit for 2010

At their Ordinary General Meeting held on 27/28 April 2011 at the Company's registered offices at Via dei Barucci, 2, Florence, KME Group S.p.A.'s Shareholders, having noted the reports of the Board of Statutory Auditors and the Independent Auditors,

resolve

a) to approve the Directors' Report to the financial statements as at and for the year ended 31 December 2010 which show a profit of Euro 61,100,677, as well as the financial statements as a whole and the individual entries and records with the proposed allocations and applications, and to allocate the balance of the "stock option reserve", relating to the stock option plan for 2006-2011, of Euro 6,941,919, which has become available, to increase "retained earnings";

b) to allocate profit for the year of Euro 61,100,677 as follows:

• 5% to the Legal Reserve	Euro	3,055,034
• 2% to the Board of Directors (in excess of the fixed component of compensation of Euro 195,000.00)(*)	Euro	0
• to savings shares(**) in the amount of a dividend of Euro 0.07241 per share, totalling	Euro	3,154,440
• to savings shares(**) in the amount of a dividend of Euro 0.011 per share, totalling	Euro	4,836,435
• the remainder to retained earnings	Euro	50,054,768

The date of dividend payment will be 12 May 2011, with coupon detachment (no. 3) for savings shares and coupon no. 2 for ordinary shares on 9 May 2011.

Florence, 22 March 2011

The Board of Directors

(*) The Board of Directors has waived the fee due as established by art. 8 of the company articles of association.

(**) excluding 135,831 savings shares and 7,602,700 ordinary shares currently held by the Company or any other number of shares held by the Company on the dividend payment date, with any differences to be withdrawn or appropriated to/from retained earnings.

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

Dear Shareholders,

the purpose of this report (the "Report"), which has been prepared in compliance with art. 123 bis of the Consolidated Law on Finance (the Testo Unico della Finanza or "TUF") is to provide the information required by the TUF regarding the structure, organisation and functioning of the Company with respect to the requirements of art. 89 bis of Consob Regulation approved by Resolution 11971 of 14 May 1999 (the "Issuers Regulation") and the Market Regulation of the markets organised and managed by Borsa Italiana S.p.A., Section IA.2.6.
For the ease of reading and comparison, the Report is divided into three parts, five sections and four tables and addresses the issues listed by art. 123 bis of the TUF. It is an integral part of the Directors' Report at 31 December 2010 and has been prepared in compliance with the indications given in the "Code of Conduct" provided by Borsa Italiana S.p.A. (hereafter the "Code of Conduct" or the "Code" in its version of March 2006) which the company has adopted. The purpose of the Report is to describe the extent of the Company's compliance with the Code during the year ended 31 December 2010 by giving the reasons for any departures from the Code and describing the action already taken and action planned to assure conformity.

The Company has continually improved the quality and quantity of the information it has provided on corporate governance every year ever since the presentation of the financial statements at 30 June 2000. The individual reports within the sections of the financial statements for the respective years can be viewed at **www.kme.com**. Starting with the Report for the year ended 31 December 2006, the Reports are also available in a specific section of the website.
We consider it worth recalling that during 2010 new and important provisions were introduced on corporate governance.

The first consists of the transposition of EU Directive no. 36/2007 through Legislative Decree no. 27/10, which came into force on 22 March 2010, which led to the introduction of the provisions of the so-called "shareholders' rights directive" which required the adoption of a series of changes on:

- timeframes and means of calling Shareholders' meetings;
- legitimacy and means of depositing shares to take part in Shareholders' meetings;
- timeframes and means of presenting lists for the appointment of directors and statutory auditors;
- right of those with voting rights to ask for an addition to the order of business for Shareholders' meetings;
- participation in Shareholders' meetings via electronic means;
- right of those with voting rights to ask questions;
- conferment of proxies with voting instructions.

n reference to the similar transposition of EU Directive 43/06 on audit, through Legislative Decree no. 39/2010, which in its turn came into force as from 7 April 2010, we consider it worth recalling in particular that the Board of Statutory Auditors also acts as the "Committee for Internal Control and Audit", with supervisory functions in the areas of financial disclosure, internal control and risk management systems, and audit.

Finally, CONSOB, with its Resolution no. 17221 of 12 March 2010, in force as from 9 April 2010, introduced new provisions on dealings with so-called "related parties", by establishing that the related procedures should be operative as from 1 December 2010, while the system as a whole became fully operational as from 1 January 2011.

The company has largely adopted the new provisions and in particular the updating of the articles of association and the procedure on transactions with related parties were put for examination and approval by the Board of Directors, to the extent of its competence, at its meeting of 11 November 2010; other related changes will be put for the approval of the Shareholders' meeting called for 27/28 April 2011 and the Directors' Report prepared for it will provide the necessary updates.

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

1. Regulatory environment

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

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

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

CONSOB also required that this information either be an integral part of the Directors' Report or in the form of a stand-alone report and be made available on the internet. In regard to these provisions, the Report is included as an integral part of the Directors' Report on the financial statements as at and for the year ended 31 December 2010. This Report has, therefore, also been made available on the page "Report on Corporate Governance" at **www.kme.com** as well as on Borsa Italiana S.p.A.'s website (**www.borsaitaliana.it**) in its capacity as the manager of the market.

In preparing the Report account has been taken of the indications provided by ASSONIME as well as the "Guidelines" prepared by Borsa Italiana S.p.A. and the "Guide to the compilation of the report on corporate governance" again prepared by ASSONIME in cooperation with Emittenti Titoli S.p.A.

The Report based on the experimental format for reports on corporate governance published by Borsa Italiana S.p.A. for issuers, which, as explained by Borsa Italiana S.p.A., is not intended to be mandatory but rather a tool to assist 1) issuers to assure the report complies with art. 123 bis of the TUF and 2) statutory auditors in their examinations. The tables at the end of the report have also been prepared and updated in compliance with it.

2. Company profile

IThe core business of KME Group S.p.A. is the manufacture and sale of semi-finished products in copper and its alloys, in which sector it is a world leader.

Following execution of the partial, proportional reverse demerger of iNTEk S.p.A. (hereafter "iNTEk") in favour of KME Group S.p.A. which was completed on 22 March 2010 (hereafter the "Demerger"), the company extended its business to other sectors from its traditional core business and acquired significant stakes in the following companies:

- ErgyCapital S.p.A. (renewable energy);
- Drive Rent S.p.A. (services for company vehicle fleets);
- CULTI S.r.l. (furnishings).

The Directors' Report contains further information.

The Company maintained its structure of corporate governance with a Shareholders' Meeting, Board of Directors and Board of Statutory Auditors. The Remuneration and Internal Control Committees were also established both of which consist of only independent and non-executive directors.
The corporate governance structure of other group companies, however, is different with Germany's largest industrial company having a structure which is fully in line with German practice that entails a two tier management structure consisting of a Supervisory Board (Aufsichtsrat) and a Management Board (Vorstand).

As for the investees, there is a Shareholder Agreement in force between the KME Group and Aledia S.p.A. (hereafter "Aledia"), pursuant to article 122 of the TUF, regarding the ordinary shares of the investee ErgyCapital S.p.A., which was originally signed on 10 December 2007 between iNTEk and Aledia and subsequently modified and supplemented on 25 February 2010 by means of an additional corrective agreement, and so has been in force among the current shareholders since 22 March 2010, the date the Demerger became effective.

The Agreement, which is consultative in nature in addition to regulating voting, restricts the transfer of financial instruments and produces the joint exercise of dominant influence as per art. 122, para. 1 and para. 5, lett. a), b) and d), of the TUF.

This Agreement covers 39,328,835 ordinary shares of ErgyCapital S.p.A., or 51.846% of the share capital, of which 25,412,895 shares, or 26.80% of the share capital, are held by the KME Group and 13,915,940 shares, or 14.67% of the share capital, by Aledia.

By virtue of the Shareholders' Agreement, KME Group and Aledia jointly exercise dominant influence over the operations of ErgyCapital, while neither of them has the power to exercise control over the company individually pursuant to article 93 of the TUF.

As for Drive Rent S.p.A., it should be noted that the Shareholders' meeting of 15 March 2011 approved its merger into Cobra Automotive Technologies S.p.A., a company set up under Italian law and listed on the MTA, STAR segment, which operates in the field of integrated safety services for the prevention and management of vehicle-related risks. Following the merger, KME will become its majority shareholder with 42.68%.

It should be noted that the company and the current majority shareholder in Cobra Automotive Technologies S.p.A., i.e. Cobra A.T.S.A., have signed a "shareholders' agreement" pursuant to art. 122 of the TUF and which is based on the objectives being pursued with the merger, i.e. to create the best possible conditions to maximise the potential development and value of Cobra Automotive Technologies S.p.A. The agreements have been communicated to CONSOB, deposited at the Varese Companies Register and were published in "Italia Oggi" on 23 November 2010.

On 2 December 2009, the Shareholders approved resolutions for:

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

These transactions were all carried out between the end of 2009 and 2010 and the equivalent Report for 2009 sets out the impact of the first three transactions as they were already complete at the time of that Report's preparation.

3. First part: shareholding structure

3.1 Structure of share capital

The share capital at 31 December 2010 was Euro 297,013,585.26, consisting of 490,978,019 shares, of which 447,278,603 were ordinary shares and 43,699,416 were savings shares, all of which with no par value.

During 2010, the share capital rose by Euro 6,764.10 due to the exercise of 19,326 "ordinary share warrants 2006/2011" which led to the issue of 9,663 ordinary shares, net of the exercise of 19,551 warrants, or 6,517 shares, for a total of Euro 6,842.85, which occurred in December 2009. The most recent exercise of warrants occurred in July.

We note that during the year the share capital was split on 8 February 2010, and followed by the share capital increase for the Demerger (22 March 2010), following which the share capital was Euro 273,761,740.66, consisting of a total of 418,117,631 shares, of which 381,367,530 were ordinary shares and 36,750,101 savings shares, all of which with no par value.

Subsequently, in the period 21 June - 23 July it was decided to carry out a cash share capital increase for a maximum amount of Euro 59,207,365.00 and a maximum issue of 604,389,069 shares, of which 169,619,800 were ordinary shares and 16,642,850 savings shares, offered to ordinary shareholders and savings shareholders, to the extent of their respective holdings, at a ratio of 5 new shares for every 11 shares held. The offer price was Euro 0.30 for each ordinary share and Euro 0.50 for each savings share.

At the end of the transaction, 65,901,410 ordinary shares, 38.85% of those on offer, and 6,949,315 savings shares, 41.76% of those on offer, had been subscribed for a total value of Euro 23,245,080.50.

The 447,278,603 outstanding ordinary shares are 91.11% of share capital and do not entail rights different or additional to the rights pursuant to legislation and the Company Articles of Association.

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

Similarly, the 43,699,416 outstanding savings shares are 8.89% of share capital and do not entail rights different or additional to the rights pursuant to legislation and the Company Articles of Association.

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

Savings shares entail the following preferential rights:

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

There was also a total of 67,876,124 KME Group S.p.A. ordinary share warrants 2006/2011 outstanding at 31.12.10 that had been issued under the authorisation given at the Extraordinary Shareholders' Meeting of 19 May 2006.

The Shareholders approved the following resolutions in that connection at the Extraordinary Meeting of 2 December 2009:

- the prolongation of the term of the warrants from 11 December 2009 to 30 December 2011;
- the change of their terms and conditions of exercise from the previous one new ordinary share for each three warrants held at an exercise price of Euro 1.05 per share to the current one new ordinary share for each two warrants held at the exercise price of Euro 0.70 per share.

Their exercise (by 30 December 2011) may cause the issue of a maximum of 33,938,062 ordinary shares with no par value, with a consequent maximum share capital increase of Euro 23,756,643.40.

At that same Extraordinary Meeting of 2 December 2009, Shareholders also approved a resolution in connection with the demerger for the issuance of an additional 73,330,660 KME Group S.p.A. ordinary share warrants 2009/2011 in exchange for iNTEk S.p.A. ordinary share warrants 2005/2011. The exercise of the KME Group S.p.A. ordinary share warrants 2009/2011 (by 30 December 2011) entails the issuance of one ordinary share for each warrant held at an exercise price of Euro 0.892 per share, including a premium of Euro 0.632. An exercise of the warrants would result in a maximum nominal share capital increase of Euro 19,065,971.60 through the issuance of a maximum of 73,330,660 ordinary shares with no par value.
It should be recalled that the exercise price of these warrants was set on their issue at Euro 0.90 – of which Euro 0.64 was the premium – a price which was modified as from 21 June 2010 pursuant to art. 3, paragraph 1 of their regulation due to the share capital increase.

The warrants were issued to eligible parties on 22 March 2010 following the effectiveness of the demerger of the same date.

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

All the above financial instruments are listed on the market which is regulated and managed by Borsa Italiana S.p.A. The ordinary shares are included in the "FTSE Italy Small Cap" index on the same market.

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

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

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

The authorisation in question was partially used by the Board of Directors, when the deadlines set at the Shareholders' meeting of 2 December 2009 passed, on 7 October 2010 by executing the stock option plan approved by the Shareholders' meeting as part of the project to reorganise the Group which was implemented in the previous months by means of the Demerger.

The Demerger in fact led to a greater focus on the Group's activities by transforming the role of KME Group S.p.A. into that of an investment holding, which is responsible for three distinct business areas: copper, renewable energy and services, each of which has separate incentive systems.

The "KME Group S.p.A. Stock Option Plan 2010-2015" (hereafter the "Plan") replaces the previous plan, which was approved in 2006, which, in light of the Group's new corporate/organisational arrangements, was withdrawn at the same time; further details on the Plan are given in the following section on "the remuneration of the directors and other Group senior management" as well as the "Information Report" which was prepared at the time and is available on the company's website.

The share capital increase servicing the Plan, with regard to the part which has already been approved at the date of this report, envisages the issue of a maximum of 25,500,000 KME Group S.p.A. ordinary shares, with dividend rights, at a price per share of Euro 0.295, for an overall amount of a maximum of Euro 7,522,500.00, excluding the option right pursuant to art. 2441, para. 4, lett. b, of the Italian Civil Code.

As required by the aforementioned provision, the independent auditors, KPMG S.p.A., has issued a specific report on the correspondence of the issue price of the new shares to their market value.

Another section of the Directors Report shows the performance of the Companies shares and market capitalisation during the year. In this regard, it should be noted that a specific section of the website www.kme.com is dedicated to these aspects and is continually updated and thus shows the real-time trend in trading.

Key data regarding financial instruments issued by the Company at the date of this Report is set out in the table below:

Table 1: information on shareholding structure

Structure of share capital

	ISIN	number of shares	% of total share capital
Ordinary shares	IT0004552359	447,278,603	91.11
Bearer savings shares	IT0004552367	43,699,416	8.89
Registered savings shares	IT0004552375		

Other financial instruments granting the right to subscribe new share issues

	ISIN	in issue	Class of shares issued on exercise	Number of shares issued on exercise
Warrant 2006-11	IT0004077167	67,876,124	Ordinary shares	33,938,062
Warrant 2009-11	IT0004552383	73,330,660	Ordinary shares	73,330,660

3.2 Transferability

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

3.3 Significant shareholdings in the Company

During 2010, following the Demerger there was a change in the majority control of the company, a circumstance which was highlighted in the previous year's Report.
Prior to the Demerger and the share capital split, iNTEk S.p.A., a company which in its turn is 47.256% owned by Quattroduedue Holding B.V., held 126,167,569 ordinary shares, or 53.574% of the shares issued in that category. iNTEk S.p.A. also held 896,906 savings shares, or 4.703% of the share issued in that category. In total, iNTEk S.p.A. therefore held 49.92% of the entire share capital.

After these transactions and taking into account the further purchases of Quattroduedue Holding B.V. shares, at the date the Demerger became effective (22 March 2010), it held 120,397,452 ordinary shares, or 31.570% of the shares issued in that category. Of these 91,220,020 ordinary shares, 23.919%, were held directly and 29,177,432 ordinary shares, 7.651%, were held through the subsidiary IntekCapital S.p.A.

Subsequently, following the share capital increase, at the end of the following month of July Quattroduedue Holding B.V.'s overall holding stood at 184,880,841 ordinary shares, 41.335%, held through its subsidiaries IntekCapital S.p.A. (52,197,171 ordinary shares or 11.670%) and Quattroduedue S.p.A. (132,683,664 ordinary shares or 29.665%). The remaining 6 ordinary shares are held by Quattroduedue Holding B.V.

Compared to the entire share capital, its overall holding is 37.7%

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

As far as the company is aware, the other shareholders who hold more than 2% of the share capital are Francesco Baggi Sisini, through the subsidiary Arbus S.r.L., with 12,593,898 ordinary shares or 3.302% (or 2.82% after the share capital increase), and Dimensional Fund Advisors L.P. with 8,952,227 ordinary shares, 2.0015%.

The company has 12,721 shareholders according to the updated entries in the Shareholders Register.

3.4 Securities conferring special rights

No securities have been issued conferring special rights of control.

3.5 Employee investment, voting rights

There is no system of employee investment.

3.6 Restrictions on voting rights

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

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

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

3.7 Shareholders' agreements

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

3.8 Change of control clause

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

3.9 Authorisations to increase capital and acquire treasury shares

The Board of Directors has not been authorised pursuant to art. 2443 of the Italian Civil Code to issue equity instruments, with the sole exception of the authorisation of the Directors at the Extraordinary Shareholders' Meeting of 2 December 2009 to increase share capital within five years of the date of the Meeting by a total of Euro 15 million for the issue of a maximum amount of 31,000,000 ordinary shares, without rights pursuant to the second sentence of art. 2441, para. 4 of the Italian Civil Code to service a Stock Option Plan for Executive Directors and Executives of the Company and the Group as approved in the ordinary session of the same Meeting, which has, as yet, not been used.

Further information is available at section 5 below on the remuneration of the Board of Directors.

Further to the authorisation by the Shareholders' Meeting to acquire the company's own ordinary and savings shares, the last of which was approved by the Shareholders' meeting of 29 April 2010, at 31 December 2010 and taking account of the fact that there were no purchases verified as from 26 February 2009, these holdings are respectively 8,212,755 ordinary shares (1.836% of the total of the category and 1.673% of the whole share capital) and 135,831 savings shares (0.311% of the total of the category and 0.028% of the whole share capital). Total treasury shares held at that date were 1.700% of total share capital.

Finally, it should be noted that at 31 December 2010 the Company held 8,212,755 own ordinary shares (corresponding to 5,475,170 ordinary shares held by the company prior to the share capital split) and 135,831 own savings shares (90,555 pre-split), or respectively 1.836% and 0.311% of the shares in those categories.

In February 2011, at the date of this Report 610,055 own ordinary shares had been sold. Consequently, the holding of own shares is 7,602,700 ordinary shares, or 1.70% of the ordinary share capital, while the holding of savings shares is unchanged and so overall equal to 1.699% of the entire share capital.

The subsidiaries do not hold shares of the parent.

One of the agenda items for the Shareholders' Meeting convened to approve the financial statements as at and

for the year ended 31 December 2010 will be the approval of a new authorisation of the Board of Directors to acquire and hold treasury shares.

3.10 Management and coordination

The company, although it is controlled by Quattroduedue Holding B.V. as indicated above, is not subject to management and coordination, as envisaged by article 2497 and following articles of the Italian Civil Code as well as art. 37 of CONSOB Regulation no. 16191 of 29 October 2007 (hereafter "Market regulation"), due to the fact that:

a. it has the autonomous powers of negotiation with respect to contractual arrangements with customers and suppliers;
b. the Company does not participate in any centralised treasury arrangements operated either by iNTEk S.p.A. or Quattroduedue Holding B.V. or any other company under the control of iNTEk S.p.A., Quattroduedue Holding B.V. and KME Group S.p.A.;
c. the number of independent Directors (4 out of 12) is such as to ensure that their opinions have a material influence on board decisions;
d. the Internal Control Committee consists exclusively of independent directors pursuant to art. 37, para. 1 bis of the Market Regulation.

4. Second part: information on corporate governance

4.1 Compliance

It was announced at the Board of Directors' Meeting of 10 November 2006 that the Company had adopted the Code of Conduct and that its relevant principles would be gradually introduced throughout the Company.

The text of the Code of Conduct is available from Borsa Italiana S.p.A. and can also be viewed at: **http://www.borsaitaliana.it/borsaitaliana/regolamenti/corporategovernance/corporategovernance.en.htm** (section: "Regulations – Corporate Governance").

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

4.2 Board of Directors

4.2.1 Appointment and replacement of directors

The requirements for the appointment and replacement of members of the Board of Directors are those pursuant to law as amended and supplemented by the Company Articles of Association (art. 17) as are the procedures for their amendment. We also note that the provisions in question were modified by the Board of Directors at its meeting of 11 November 2010 in compliance with the aforementioned "shareholders' rights directive".

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

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

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

The Shareholders at their above-mentioned Meeting of 29 April 2009 fixed the number at twelve which was unchanged from the previous Board. The section entitled "Composition of the Board of Directors" contains more detailed information.
A list of nominations for Directorships was presented on time by the then majority shareholder, iNTEk S.p.A. (53.82% Shareholder of ordinary capital) in compliance with the procedure required by art. 17 of the Company Articles of Association. The Shareholders unanimously elected iNTEk's nominees with 57.691% of voting shares in attendance.

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

The procedure pursuant to art. 17 of the Articles of Association requires:

- the submission of lists of candidates at least 25 days prior to the first call of the Shareholders' meeting, so that they are available at least 21 days beforehand at the company offices, on the company's website and through Borsa Italiana S.p.A.;
- the shareholding percentage required for the submission of lists to be equal to the highest percentage required by regulation which is currently 4.5% of ordinary capital (as per CONSOB Resolution no. 17633 of 26 January 2011);
- when counting votes, the lists which have not obtained a percentage of votes equal to one half of the percentage required to submit a list, to be ignored;
- one Director to be appointed from the non-controlling Shareholder list that received the highest number of votes;
- the list to indicate the candidates for appointment as "Independent Directors" and art. 17 of the Articles of Association requires that their number be at least equal to the statutory minimum number of independent Directors and that they be in possession of the attributes required by law;
- the prerequisite for directors to be considered as independent to be assessed pursuant to art. 148, para. 3 of the TUF as well as, on the basis of the provisions regarding this prerequisite and also in reference to integrity and professionalism, pursuant to the other applicable provisions and the Code of Conduct.

The procedure pursuant to art. 17 of the company articles of association, which is updated on the basis of the new provisions in this regard, is also available on the relevant page of the website **www.kme.com**.

4.2.2 Composition of the Board of Directors

The names of the members of the Board of Directors are given below together with a description of their responsibilities including those of constituent Committees and a brief curriculum vitae. Such information is also available on the relevant web page of **www.kme.com**. Since 2005 there has been a single female director who took over as Deputy Chairwoman in 2010.

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

We note that, as from 22 March 2011, Domenico Cova left his position as director and General Manager of the Company and that, from the same date, Riccardo Garrè was co-opted in his place pursuant to art. 2386 of the Italian Civil Code and was appointed General Manager with responsibility for the sector of semi-finished products in copper and its alloys; the next Shareholders' Meeting of 27/28 April 2011 has been called partly to pass the consequent resolutions.

Information relating to both directors is set out below.

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

Vincenzo Manes (Deputy Chairman)
Vincenzo Manes was born in 1960 and holds a degree in Economics and Business. He is Chairman and Chief Executive Officer of iNTEk S.p.A. and is a Shareholder of Quattroduedue Holding B.V. in addition to being Chairman of Aeroporto di Firenze S.p.A. and a Director of ErgyCapital S.p.A.
He was appointed to the Board of Directors of KME Group S.p.A. on 14 February 2005.

Diva Moriani (Deputy Chairwoman)
Diva Moriani holds a degree in Economics and Business. She joined the Board of Directors of the Company in 2002 and became Deputy Chairwoman in 2007; she is Chairwoman of iNTEkCapital S.p.A., Chief Executive Officer of I2 Capital Partners SGR S.p.A. and Deputy Chairwoman of ErgyCapital S.p.A. She was appointed to the Board of Directors of KME Group S.p.A. on 27 April 2005. The Board of Directors approved the appointment of Diva Moriani as Deputy Chairwoman on 25 March 2010, granting her full ordinary and extraordinary powers.

Domenico Cova (resigned on 22 March 2011)
Domenico Cova was born in 1949 and holds a degree in Electronic Engineering. He joined the Group following the acquisition of Trafilerie e Laminatoi di Metalli S.p.A. (TLM) a member of the French Pechiney Group. He was appointed head of rod production at the Serravalle Scrivia plant in 1977 and its Manager in 1983. He was then transferred to the French subsidiary KME France S.A.S. becoming its Chairman in 2000. He became a member of the KME A.G.

Management Board in 1995. He was appointed Chief Operating Officer of KME A.G. in 2007 and subsequently Chief Executive Officer in 2010. He was appointed Director by Shareholders' resolution of 3 August 2007 and on the same date he was appointed General Manager. He resigned from these positions as well as those in other companies of the Group in March 2011.

Riccardo Garré (Director and General Manager)
Born in 1962, Riccardo Garrè holds a degree in Experimental Physics and joined the Group in 1988, initially managing a number of Italian Research Centre operations and then taking over leadership of the Superconductors Division in 1992.
In 2000 he joined the Saint-Gobain Group as CEO of Saint-Gobain Euroveder Italia, also becoming General Manager of the worldwide Tempered Glass Division for the household appliances market.
He was appointed General Manager of Saint-Gobain Glass's Italian operations in 2003.
He became General Manager of Saint-Gobain Glass France in 2007.
In 2010 he returned to the KME Group as COO (Chief Operating Officer) of KME A.G.
On 22 March 2011 he was co-opted as a Company director, pursuant to art. 2386 of the Italian Civil Code, and as General Manager. He took over the industrial copper business as CEO (Chief Executive Officer) of KME A.G.

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

Vincenzo Cannatelli
Vincenzo Cannatelli was born in 1952 and holds a degree in Mechanical Engineering; he also has important international experience and began his career in the Stet and Elsag Bayle Groups to then move to ENEL where he held important positions in the operating companies as Chief Operating Officer in the Infrastructure & Networks as well as the Market Divisions.
He was co-opted as Director by resolution of the Board of Directors on 11 April 2006 and confirmed by the Shareholders at their Meeting of 19 May 2006 for the next three years. He was also appointed by the Board of Directors on the same date to the position of Chief Executive Officer, which he held until 31 March 2007, after which he continued to hold the position of Director. He is Chairman of ErgyCapital S.p.A.

Mario d'Urso (independent)
Mario d'Urso was born in Naples in 1940 and holds a degree in Law. He has held positions in the finance sector and government and was Senator of the Republic and an under-secretary in one of the past governments.
He was appointed to the Board of Directors of KME Group S.p.A. on 14 February 2005.

Marcello Gallo
Marcello Gallo was born in Siracusa in 1958 and holds a degree in Political Economics. He is Chief Executive Officer of iNTekCapital S.p.A., which is a subsidiary of iNTEk S.p.A. where he is currently Deputy Chairman after having served as General Manager from 1998 to 2003. He is a member of the Boards of Directors of companies controlled by iNTEk S.p.A.
He was appointed to the Board of Directors of KME Group S.p.A. on 14 February 2005.

Giuseppe Lignana (independent)
Giuseppe Lignana was born in 1937 and holds a degree in Electronic Engineering. He was Chief Executive Officer of CEAT Cavi S.p.A. and Director at Banca Commerciale Italiana S.p.A. and SIRTI S.p.A.. He joined Cartiere Burgo S.p.A. in 1984 where he served as General Manager, Chief Executive Officer and finally Chairman in 2004 and is currently Honorary Chairman.
He was appointed to the Board of Directors on 12 January 2005.

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

Alberto Pecci (independent)
Alberto Pecci was born in 1943 and holds a degree in Political Sciences. He has been a member of the Boards of Directors of the Company and the Group for many years. He is Chairman of the Boards of Directors of Pecci Industrial Group Companies, which operates in the textile sector, and is a member of the Boards of Directors of El.En. S.p.A. and Alleanza Assicurazioni S.p.A.. He served as Chairman of Fondiaria S.p.A. and as Director at Assicurazioni Generali S.p.A., Mediobanca S.p.A. and Banca Intesa S.p.A.
He joined the Board of Directors on 28 June 1996.

Alberto Pirelli (independent)
Alberto Pirelli was born in 1954 and obtained a degree in Ichthyology and Aquaculture in the United States. He has held operating positions in the Pirelli Group and is currently Deputy Chairman of Pirelli & C. S.p.A. and is a Director of Camfin S.p.A. and Olimpia S.p.A. He is Deputy Chairman of Gruppo Partecipazioni Industriali S.p.A.
He joined the Board of Directors on 27 October 2000.

Set out below is a table showing positions as director or statutory auditor held by each Director at 31 December 2010 in joint-stock companies, limited partnerships and private limited companies.

Name	Company	Position
Salvatore Orlando	KME Italy S.p.A. (1)	Chairman of the Board of Directors
	KME A.G. (1)	Member of the Supervisory Board
	iNTEk S.p.A. (3)	Member of the Board of Directors
Vincenzo Manes	iNTEk S.p.A. (3)	Chairman/Chief Executive Officer
	iNTEkCapital S.p.A. (2)	Member of the Board of Directors
	Fondazione Dynamo	Chairman of the Board of Directors
	I_2 Capital Partners SGR S.p.A. (2)	Deputy Chairman of the Board of Directors
	ErgyCapital S.p.A. (1) (3)	Deputy Chairman of the Board of Directors
	Società Editoriale Vita S.p.A.	Member of the Board of Directors
	Fondazione Laureus Sport for Good Italia	Member of the Board of Directors
	Fondazione W.W.F. Italia	Member of the Board of Directors
	Fondazione Vita	Chairman
	Meccano S.p.A.	Member of the Board of Directors
	Aeroporto di Firenze	Chairman of the Board of Directors
	Foundation “Hole in the Wall Camps”	Member of the Board of Directors
	Committee to Encourage Corporate Philanthropy	Member of the Committee
	Associazione Palazzo Strozzi	Member of the Strategic Committee and Management Committee
	Fondazione Umana Mente	Member of the Steering Committee
	Società italiana di Filantropia	Deputy Chairman
	Progetto 10Decimi	Member of the Advisory Committee
	422 Holding B.V.	Member of the Supervisory Board
	KME A.G. (1)	Member of the Supervisory Board
Diva Moriani	IntekCapital S.p.A. (2)	Chairwoman of the Board of Directors
	I_2 Capital Portfolio S.p.A. (2)	Chairwoman of the Board of Directors
	iNTEk S.p.A. (3)	Deputy Chairwoman of the Board of Directors
	ErgyCapital S.p.A. (1) (3)	Deputy Chairwoman of the Board of Directors
	I_2 Capital Partners SGR S.p.A. (1)	Chief Executive Officer
	Fondazione Dynamo	Member of the Board of Directors
	Associazione Dinamo	Member of the Board of Directors
	Meccano S.p.A.	Member of the Board of Directors
	Dynamo Accademy S.r.l.	Member of the Board of Directors
	Franco Vago S.p.A.	Member of the Board of Directors
	KME A.G. (1)	Member of the Supervisory Board

Domenico Cova	KME A.G. (1)	Member of the Supervisory Board
	KME Italy S.p.A. (1) *	Member of the Board of Directors
Italo Romano	KME Italy S.p.A. (1)	Executive Deputy Chairman of the Board of Directors
	KME A.G. (1)	Member of the Management Committee
	EM Moulds S.r.l.	Sole Director
	Istituto Italiano del Rame S.r.l.	Chairman
Vincenzo Cannatelli	Aledia S.p.A.	Chairman of the Board of Directors
	ErgyCapital S.p.A. (1) (3)	Chairman of the Board of Directors
	Ntv S.p.A.	Executive Deputy Chairman of the Board of Directors
Mario d'Urso	Fondi Gabelli (Gruppo Gamco)	Member of the Board of Directors
	Il Sole 24 Ore S.p.A.	Member of the Board of Directors
Marcello Gallo	FEB S.p.A.	Chairman and Chief Executive Officer
	iNTEk S.p.A. (3)	Deputy Chairman of the Board of Directors
	IntekCapital S.p.A. (2)	Chief Executive Officer
	I_2 Capital Partners SGR S.p.A. (2)	Chief Executive Officer
	Fondazione Dynamo Onlus	Member of the Board of Directors
	ISNO 3 S.r.l. (2)	Sole Director
	ISNO 4 S.r.l.	Sole Director
	FEI S.r.l.	Sole Director
	KME A.G. (1)	Member of the Supervisory Board
Giuseppe Lignana	Museo Nazionale del Risorgimento Italiano	Member of the Board of Directors
Gian Carlo Losi	None	
Alberto Pecci	Gruppo Industriale Pecci	Chairman of the Board of Directors
	El.En. S.p.A. (3)	Member of the Board of Directors
Alberto Pirelli	Pirelli & C. S.p.A. (3)	Deputy Chairman of the Board of Directors
	Gruppo Partecipazioni Industriali S.p.A.	Deputy Chairman of the Board of Directors
	Camfin S.p.A. (2)	Member of the Board of Directors
	Pirelli Tyre S.p.A.	Member of the Board of Directors
	FIN.AP di Alberto Pirelli & C. S.a.p.a.	Chairman of the Board of Directors

(1) company controlled by KME.
(2) company controlled by iNTEk.
(3) company listed on a regulated market.
* served until 22 March 2011.

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

The Board of Directors with respect to:

- the personal attributes and professional qualifications of its members;
- the number and importance of the above-listed positions;
- the high number of Board of Directors meetings attended by its members.

chooses not to limit in the discretion in the number of positions that each of its members may hold.

4.2.3 Role of the Board of Directors

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

The Board of Directors financial reporting responsibilities are to present:

- the separate and consolidated financial statements at 31 December;
- the interim financial statements at 30 June;
- interim directors' reports at 31 March and 30 September.

4.2.4 Delegations

The Board of Directors has appointed a Chairman and two Deputy Chairpersons (Vincenzo Manes and Diva Moriani) and has appointed two Directors to also act as General Managers (Riccardo Garrè and Italo Romano) with non-conflicting specific responsibilities. This functional and operational policy avoids the concentration of responsibilities in one person and is in compliance with the Code of Conduct.

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

Art. 16 of the Articles of Association provides that the Deputy Chairpersons have the same powers as the Chairman in order to deal with urgent matters or to substitute the Chairman in the event of his absence and/or other impediment.
The Board of Directors has, furthermore, delegated, solely to Deputy Chairman Vincenzo Manes, the powers of:

- coordination and guidance of the activities of other executive directors;
- guidance, coordination and control of external communications including communications with Shareholders;
- in particular, including, but not limited to, and consistent with instructions and guidelines decided by the Board of Directors, all matters regarding the management of the Company's administrative, financial, control, legal, tax, insurance, human resources and information technology affairs in addition to industrial and commercial matters and services. The Deputy Chairman has the powers to guide and coordinate all such activities by Group companies through the relevant operational designees and always within the limits of the Board of Directors strategic policies.

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

The Deputy Chairwoman Diva Moriani has the powers for the management of the Company's administrative, financial, control, legal, tax, insurance and information technology affairs in addition to industrial and commercial matters and services and also human resources and internal communication; the Deputy Chairwoman has the powers to guide and coordinate all such activities by Group companies through the relevant operational designees and always within the limits of the strategic policies decided by the Board of Directors and by the Deputy Chairman Vincenzo Manes.
In exercising such powers, the Deputy Chairwoman may determine rules for the various internal departments, assign responsibilities, appoint attorneys-in-fact with single or joint signing authorities in addition to issuing orders and requirements for the organisation and functioning of the Company. Such powers may be delegated with respect to amounts between Euro 2 million and Euro 15 million.

The General Managers have single signing authority powers with respect to the following responsibilities:

- Director Riccardo Garrè: management of the Company's and the Group's industrial and commercial operations in the copper sector within the limits and pursuant to the guidelines established by the Board of Directors and the Deputy Chairpersons;
- Director Italo Romano: management of the Company's and the Group's administration, finances, planning, control and information technology within the limits and pursuant to the guidelines established by the Board of Directors and the Deputy Chairpersons.

Limits are applied to the authorities of both Directors, when acting in their capacity as General Manager, ranging from Euro 1 million to Euro 10 million per transaction depending on its nature.
As already noted, Domenico Cova resigned his positions in the Company as from 22 March 2011. He had powers for the management of the Company's and the Group's industrial and commercial interests in the copper segment, again within the limits and in accordance with the guidelines established by the Board of Directors and by the Deputy Chairpersons.

Due to the nature of their powers, the Deputy Chairpersons and the Directors Riccardo Garrè and Italo Romano are considered Executive Directors.

As set out in more detail in the section below on transactions with related parties, the Board of Directors has given both the Deputy Chairpersons specific powers.

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

As for investments in other sectors, we note that in ErgyCapital S.p.A. the director Vincenzo Cannatelli, formerly Chairman of the Company's Board of Directors, increased his delegated powers as from 1 January 2011, following the resignation of the Chief Executive Officer Luca d'Agnese. As for Drive Rent S.p.A. its Chief Executive Officer is Ludovico Maggiore.

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

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

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

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

There is no waiver to the prohibition of competition pursuant to art. 2390 of the Italian Civil Code.

4.2.5 Independent Directors

In compliance with the requirements of art. 3.C.1. of the Code of Conduct, arts. 147 *ter*, paragraph 4 and 148, paragraph 3 of the TUF and CONSOB communication DEM/9017893 of 26 February 2009, the Directors Mario d'Urso, Giuseppe Lignana, Alberto Pecci and Alberto Pirelli each confirmed that they continue to qualify as Independent Directors pursuant to the aforementioned provisions and both the Boards of Directors and Statutory Auditors are in agreement.

Although the meetings pursuant to art. 3.C.6. of the Code are not held, they have been appointed to two Committees that consist solely of non-executive and independent Directors and hold separate meetings during the year.

With respect to the independence of Alberto Pecci, it should be noted that he was appointed Director by resolution of the Shareholders at their Meeting of 28 June 1996 for the years ending 31 December 1996 and 1997 and has, therefore, held the position continuously for over nine years in apparent contradiction with the criterion for independence pursuant to art. 3.C.1. letter e) of the Code of Conduct. In addition, Mr Pecci was personally a member of the former parent G.I.M. – Generale Industrie Metallurgiche S.p.A. syndicate, and thus in conflict with the criteria set out at points a) and b) of the same article.

Similarly, there is an apparent violation of the same criteria with respect to Mr Pirelli, who was a non-executive director of G.I.M. - Generale Industrie Metallurgiche S.p.A. until its merger with iNTEk S.p.A. (31 March 2007) and member of Pirelli & C. S.p.A. which is a member of the shareholding syndicate in G.I.M. - Generale Industrie Metallurgiche S.p.A. and KME Group S.p.A. He also joined the Board of Directors in 2000.

Following the same reasoning as applied to two members of the Board of Statutory Auditors, set out hereinafter, the Board of Directors, in agreement with the Board of Statutory Auditors, does not believe that the independence of Alberto Pecci and Alberto Pirelli is diminished and recognises, in fact and in substance, their full autonomy in reasoning and decision-making.

4.2.6 Lead Independent Director

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

4.2.7 Internal procedures of the Board of Directors

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

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

- Internal Control Committee;
- Remuneration Committee;

their composition and functioning are described below.

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

In 2010, the Board of Directors met six times, the same number as in 2009. In 2011 four meetings have been planned as shown below:

- 16 March (examination of draft financial statements)[1];
- 12 May (examination of the 31 March interim directors' report);
- 4 August (examination of the interim financial statements at 30 June);
- 10 November (examination of the 30 September directors' report).

(1) The meeting was then postponed to 22 March

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

Although the number of meetings attended by each Director are analysed in the table at the end of this Report, you are advised that attendance record for Directors and Statutory Auditors was 92% (compared to 93%) and 78% (compared to 90%), respectively; all absences were excused.

4.2.8 Processing of company information

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

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

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

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

4.2.8.1 Transactions with related parties

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

The internal Rules adopted in March 2003 and first revised in November of the same year and then in 2005 and 2006 and finally on 11 November 2010 implement statutory requirements and comply with the Regulation adopted by CONSOB in its resolution no. 17221 of 12 March 2010 (hereafter the "Related Parties Regulation") which in particular requires that transactions with related parties, which are realised directly or through subsidiaries, must be carried out in compliance with the principles of:

- transparency;
- correctness in substance;
- correctness in procedures.

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

Here below are the most important provisions of the Rules which are available in full in the specific section of the Company website.

4.2.8.1.1 Identification of parties

Related parties are those indicated by CONSOB, but the Board of Directors has identified as further "executives with strategic responsibilities" (under the corresponding CONSOB definition contained in the "Related Parties Regulation") also the executive directors of KME A.G., ErgyCapital S.p.A. and Drive Rent S.p.A. and has extended application of the procedure to them.

Specifically, the Directors and the Statutory Auditors of the Company, where they have an interest, either on their own behalf or on that of third parties, must inform the Board of Directors of this, in the person of its Chairman, detailing its nature, timeframes, origin and weight. Those Directors who have such an interest are also obliged to abstain from voting regarding it and they must absent themselves during the related procedure, except in the case where a different and unanimous resolution is passed by the Board of Directors regarding it.

An internal procedure is envisaged to draw up, manage and maintain the list of related parties and the list is updated every six months taking into account the equity investments owned and the information received from the Directors and the Statutory Auditors, as well as from the other executives with strategic responsibilities.

Group companies are required to comply with the internal Rules and ensure the flow of information to the Company.

4.2.8.1.2 Identification of transactions

"Transactions with related parties" means any transfers of resources, services or obligations between related parties, regardless of the fact that the action has been carried out for consideration.

This includes:

- merger, demerger or strictly non-proportional demerger transactions, if carried out with related parties;
- any decision on the allocation of compensation and economic benefits, in whatever form, for members of the administrative and control bodies and managers with strategic responsibilities.

In compliance with the indications in the CONSOB Regulation and its attachments, transactions are divided into:

- important transactions;
- less important transactions;
- exempt transactions.

4.2.8.1.3 Internal Control Committee

The Internal Control Committee, which is appointed by the Board of Directors and consists solely of independent and non-executive directors:

- watches over the fact that the procedures regarding transactions with related parties conform to the related legislative and regulatory measures that are applicable to them, as well as the fact that they are fully observed in practice;
- provides the Board of Directors with its opinion regarding the Company's interest in undertaking transactions with related parties as well as regarding the cost-effectiveness and correctness of the related conditions.

Regarding important transactions, the Committee must be involved in both the investigative and negotiation stages through the complete and speedy receipt of all the related information.

The Committee has the discretionary power of being able to ask for information and making its comments to the delegated bodies and the parties assigned to carry out the related negotiations, as well as being assisted by its own independent experts, at the Company's expense, for the purpose of evaluating the characteristics of the transaction.

Regarding the compensation of the executives who have strategic responsibilities for the Company and the Group, the competencies foreseen by the Related Parties Regulation for the Internal Control Committee are exercised by the Remuneration Committee to which the same provisions envisaged for the Internal Control Committee are applied and its decisions are communicated to the Internal Control Committee for the purpose of ensuring the best possible coordination between the two bodies.

The Chairman of the Board of Directors and the Chairman of the Board of Statutory Auditors are invited to take part in the Committee meetings. Executives, members of the administration and controls bodies of subsidiaries and associates, their executives, as well as representatives of the Independent Auditors may also be invited.

The resolutions of the Committee are validly passed with a majority vote and specific alternative procedures are envisaged for transactions in which members of the Committee are related parties.

The Minutes of the Committee meetings are drafted by the Secretary to the Board of Directors and, where applicable, must contain the reasons for the assumption that it is in the Company's interest to carry out the transaction, as well on the basic appropriateness and correctness of the related conditions.

Important transactions are submitted for the prior approval of the Board of Directors that passes a resolution on them, observing the procedures laid down by article 19 of the Articles of Association, after having heard the reasoned opinion of the Internal Control Committee on the Company's interest in carrying out the transaction, as well as on the basic appropriateness and correctness of the related conditions.

The Committee's opinion is binding, with the warning that important transactions that have not had prior approval from the Committee cannot be carried out by the Board of Directors.

If the Board of Directors intends to carry out such a transaction without prior approval, it must call an ordinary Shareholders' Meeting, without delay, putting the approval of said transaction onto the meeting agenda. The Shareholders' Meeting passes valid resolutions regarding this with the majorities laid down by the Articles of Association.

The transaction is held to be not approved and, therefore, cannot be carried out, only if the majority of the voting non-related shareholders cast their votes against the transaction and if the non-related shareholders present at the Shareholders' Meeting represent at least 10% of the share capital with voting rights.

The less important transactions referred to in article 11 of the internal Rules are examined and resolved upon by the competent Company body in accordance with the related procedures currently in force.

4.2.8.1.4 Powers of the Deputy Chairpersons

The procedure envisages that Deputy Chairman Vincenzo Manes and, in the case of his absence or impediment, or where urgency is required, the Deputy Chairwoman Diva Moriani and as long as they, individually, have no conflict of interest regarding the transaction in question, have the power to approve transactions of the Company and its subsidiaries for an amount that is no higher than Euro 5 million.

Furthermore, the corresponding transactions of a higher amount than Euro 5 million as well as those for a lesser amount for which there exists a conflict of interest involving the Deputy Chairperson called upon to approve them, must be submitted to the Board of Directors for its prior approval.

In both cases the transactions must be submitted for the prior, non-binding and reasoned approval of the Internal Control Committee regarding the interest in carrying out the transaction, as well as regarding the basic appropriateness and correctness of the related conditions.

In the case of transactions that fall within the area of those decisions reserved for the Deputy Chairperson and regarding which the Committee has expressed a negative reasoned opinion, the Deputy Chairperson called upon to approve them must, without delay, inform the Chairman of the Board of Directors, who then has to inform the other Board members. Each one of the non-executive members of the Board of Directors, excluding the members of the Internal Control Committee, has the faculty of being able to call a meeting of the Board, within three days, for the purpose of passing a resolution regarding the approval of this type of transaction.

4.2.8.1.5 Exempt transactions

The internal Rules are not applicable to the following:

1. resolutions regarding the compensation of those directors invested with special duties, which fall within the total amount approved, in advance, by the Shareholders' Meeting pursuant to article 2389, paragraph 3, of the Italian Civil Code;
2. transactions of less than Euro 100,000.00 with physical persons and no higher than Euro 500,000.00 with other persons, as long as they do not present any risks linked to the characteristics of the transaction itself and also with the requirement that these transactions cannot have a significant impact on the financial position of the Company. In both cases the above amounts are meant to represent a year's transactions and, therefore, they are cumulative;
3. "Incentive Plans", based on financial instruments, approved by the Shareholders' Meeting, pursuant to article 114 bis, of the TUF (Consolidated Finance Act) and the related executive transactions;
4. resolutions regarding the compensation of directors invested with special duties, other from those in point 1 above, but only in the case where the conditions laid down by the measures regarding this matter as set out in article 13, paragraph 3, letters a) and b) of the Related Parties Regulation are observed;
5. ordinary transactions finalised at conditions equivalent to normal market conditions, or standard practice;
6. transactions with, or between, subsidiaries, as well as transactions with associates as long as, within the subsidiaries or associates that are the counterparts to the transaction, there are no interests, qualified as significant pursuant to the internal Rules, of other related parties of the Company.

Since important transactions are not subject to the obligation of publication in the "Information Document" pursuant to the applicable provisions, the Company shall:

1. communicate to CONSOB, within the timeframes laid down by the applicable measures, the name of the counterpart, the subject and the amount of the transactions.
2. show in the Interim and Annual Directors' Reports which transactions, subject to the information obligations, have been finalised while taking advantage of the exclusion.

For the purposes of the non-application of the internal Rules, the following shall not be considered to be "significant interests":

1. the mere sharing of one or more directors, or executives with strategic responsibilities, between the Company and subsidiaries and associates;
2. the existence of relations of an equity nature, excluding those referred to in the following point 3 and, in general, those arising from the compensation of executives with strategic responsibilities that is no greater than Euro 200,000.00, calculated cumulatively on a yearly basis, between subsidiaries and associates, on the one hand, and other related parties of the Company, on the other hand and that, in any case, impact, or are impacted by, the transaction in question;
3. the existence of incentive plans based on financial instruments or, in any case, on variable compensation, which depend upon the results achieved by the subsidiaries or associates with which the transaction has been carried out and whose beneficiaries are directors or executives with strategic responsibilities, also of the Company, and when the transaction in question is less than 5% of the results achieved by the subsidiaries and associates, on which the incentives are calculated;
4. when the subsidiary or associate is invested in by the party that controls the Company, if the effective weight of that equity investment is not higher than the effective weight of the equity investment owned by the same party in the Company.

Whenever it is foreseen that a series of homogenous transactions will be carried out with specific categories of related parties within the same year, they can all be authorised by a "Framework Resolution".

4.2.8.1.6 Information

The Company supplies information, in its Interim and Annual Reports, regarding the following matters:

- on the individual important transactions finalised during the accounting period;
- on any other individual transactions with related parties, as defined pursuant to article 2427, paragraph 2, of the Italian Civil Code, also finalised during the accounting period, which have had a relevant impact on the financial position, or on the results of operations, of the Company;
- on any change or development regarding transactions with related parties, which were described in the last Annual Report and that have had a relevant impact on the financial position, or on the results of operations, during the accounting period.

In the case of a negative opinion by the Committee regarding a less important transaction, the Company shall make publicly available, within 15 days from the closing date of each quarter of the financial year and observing the conditions, timeframes and methodologies of the CONSOB Regulations, a "Document" containing the description of the aforesaid transaction.

Each quarter both the Board of Directors and the Board of Statutory Auditors must receive from the executive directors of the Company, a specific information report regarding the transactions with related parties that are not subject to the prior approval of the Board of Directors. The information report must explain the nature of the relationship, the conditions, specifically the economic conditions, the methodologies and the timeframes for the completion of the transaction, the evaluation procedure followed, the interest and the motivation underlying it and the reasons for it.

Furthermore, there must also be supplied a specific information document regarding the carrying out of those transactions that have had the prior approval of the Board of Directors, also through "Framework Resolutions".

When important transactions take place, also when carried out by Italian and foreign subsidiaries, pursuant to article 114, paragraph 5, of the TUF, an "Information Document", is drawn up in conformity with Attachment 4 of the Related Parties Regulation, and is attached to the internal Rules as letter c) and forms a substantial part of them.

4.2.8.1.7 Procedure for verifying the Rules

The Board of Directors will periodically check the effectiveness of the procedure that has been put in place and, in any case, see to it that it is reviewed together with the Board of Statutory Auditors every two years, while there always remains the possibility of making more timely and speedy interventions, for the purpose of ensuring the highest possible level of efficiency of the internal Rules.

4.2.8.1.8 Proposals to modify the Rules

To complete the work undertaken at the end of 2010, the Board of Directors decided to put for the approval of the next Shareholders' Meeting called for 27/28 April 2011 changes to articles 10 (Calling of Shareholders' Meetings) and 14 (Management of the Company) of the Articles of Association to enable the Board of Directors, should the transaction with the related party be urgent and need not be put for approval to the Shareholders' Meeting, to carry it out immediately in compliance with the conditions envisaged by the Related Parties Regulation.

If the transaction is then carried out by a subsidiary, the Board of Directors must be informed at its next meeting. In addition, given transactions to be put to the approval of the Shareholders' Meeting which are urgent and which are connected to critical situations in the Company, the transaction may be carried out by way of exception to the relevant provisions, provided that, at the subsequent Shareholders' Meeting called to pass resolutions in this regard, the provisions envisaged by the Related Parties Regulation for such situations are applied.

4.2.9 Composition and functioning of Board of Directors constituent Committees

4.2.9.1 Remuneration Committee

It should be noted that in March 2010 a new text was adopted for art. 7 of the Code of Conduct which deals with "remuneration" and which states that the Remuneration Committee consists of the directors Alberto Pirelli (Chairman), Mario d'Urso and Giuseppe Lignana, all of whom are non-executive and independent.

Directors' remuneration is determined by the Shareholders' Meeting on their appointment (see section on "The remuneration of directors and Group executives") and already includes differentiated remuneration for those who are part of the Committees.

The Board of Directors, pursuant to principle 7, point 3 of the Code, believes that all the members of the Committee have adequate know-how and experience of financial matters.

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

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

Regarding the remuneration of Company and Group executives with strategic responsibilities, the Committee exercises the powers envisaged by the Related Parties Regulation for the Internal Control Committee in compliance with the provisions envisaged for the Committee itself. Its decisions are communicated to the Internal Control Committee in order to ensure the best possible coordination between the two Committees.

Its meetings, which are minuted, are attended by the regular members of the Board of Statutory Auditors thus assuring the coordination required by art. 21 of the Company Articles of Association. Although the Committee has the requisite powers, it has not deemed it necessary to use external consultants since it has considered as sufficient the information brought to its attention by the Company's divisions with respect to their decisions.

Two meetings were held in 2010, as in 2009, and both meetings were attended by all the members. In the meetings it formulated recommendations for the variable component of the pay for the Deputy Chairman Vincenzo Manes for 2010, as well as examining, on the basis of information supplied by the Chairman, the criteria adopted for the Group's senior management.

4.2.9.2 Internal Control Committee

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

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

As already noted, the Internal Control Committee watches over the fact that the procedures regarding transactions with related parties conform to the related legislative and regulatory measures that are applicable to them, as well as the fact that they are fully observed in practice.

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

4.3 Board of Statutory Auditors

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

4.3.1 Composition of the Board of Statutory Auditors

The current Board of Statutory Auditors was appointed by iNTEk S.p.A. (the then majority shareholder of the Company with 53.58% of voting capital) and appointed by the Shareholders at their Meeting on 29 April 2009 for 2009, 2010 and 2011 with their appointment terminating on the date of the Shareholders' Meeting held to approve the financial statements as at and for the year ending 31 December 2011.
Shareholders resolved to unanimously elect the nominees with 55.42% of voting capital in attendance.

None of the Statutory Auditors, therefore, were appointed from a list submitted by a non-controlling Shareholder, which, pursuant to art. 22 of the Articles of Association, would be the highest non-controlling shareholding in accordance with arts. 147 ter, para. 1 of the TUF and 144 quater of the Issuers Regulation, which is currently identified at 4.5%, as per CONSOB Resolution no. 17633 of 26 January 2011.

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

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

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

Vincenzo Pilla (Standing Auditor)
Vincenzo Pilla was born in 1961 and holds a degree in Economics and Business and is a registered certified accountant and Auditor with a professional practice in Florence. He is the author of publications and papers on company and tax matters. He also holds positions on other Boards of Statutory Auditors, including Group companies and acts on behalf of the courts.
He joined the Board of Statutory Auditors on 29 April 2009.

Lorenzo Boni (Alternate Auditor)
Lorenzo Boni was born in 1968 and holds a degree in Economics and Business and is a registered certified accountant and auditor with a professional practice in Florence. He is the author of publications and papers on company and tax matters and also engaged in activities at the University of Florence.
He was appointed for the first time as Alternate Auditor on 29 April 2009.

Angelo Garcea (Alternate Auditor)
Angelo Garcea was born in 1969 and holds a degree in Economics and Business and is a registered certified accountant and Auditor with a professional practice in Florence. He is the author of numerous papers on taxation. He was appointed for the first time as Alternate Auditor on 28 October 1999.

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

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

- the submission of a list for the appointment and the curriculum vitae of each candidate at least 25 days before the Shareholders' Meeting in first call and so made available at least 21 days beforehand at the Company offices, on the Company website and through Borsa Italiana S.p.A.;
- if only one list has been presented by this deadline or lists which are interconnected pursuant to the laws in force, lists may be submitted up to the fifth subsequent day (a deadline reduced to the third day by the new provisions which are being adopted as part of the changes to the Articles of Association put to the extraordinary Shareholders' Meeting). In this case, the threshold is halved;
- the addition to the list of one alternate auditor designated by non-controlling Shareholders as a substitute, if required, for the standing auditor also selected from a non-controlling Shareholder list;
- in the event of a tie in the votes for two or more lists, the auditors in the list submitted by the Shareholder with the largest shareholding or, if this is not possible, the highest number of Shareholders, shall be deemed elected.

In particular, it is noted that In accordance with arts. 148 *bis* of the TUF and 144 *terdecies* of the Rules, Statutory Auditors may not hold more than five positions as Statutory Auditor in issuers.

The requirements of the Company Articles of Association with respect to the appointment of Statutory Auditors are available at **www.kme.com** and we would remind you that the procedure has been updated and made compliant with the new provisions by means of the resolutions of the Board of Directors' meeting of 11 November 2010 and that further detailed changes will be put to the Shareholders' Meeting called for 27/28 April 2011.

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

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

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

This assessment is also confirmed in the ethical conventions in force as from 1 January 2011 and approved by the Italian accounting profession, which invite the Board of Statutory Auditors to verify the existence of a "concrete threat" to the independence of its members on a case by case basis and on the basis of an assessment of the risks which may compromise its integrity and objectivity.

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

Other positions as board directors and statutory auditors held by the Company's Statutory Auditors held at other companies or in the Group are shown below and were provided to Shareholders when the Statutory Auditors were appointed. Their current number and importance for each auditor are below the thresholds envisaged by CONSOB and by the aforementioned ethical conventions.

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

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

In that connection, furthermore, the Board of Statutory Auditors oversees the independence of the independent auditors and confirmed in its Reports on the separate and consolidated Financial Statements that no other mandates had been concluded with the independent auditors either by the Company or the Group with the exception of those indicated in its Reports on the separate and consolidated Financial Statements.

We note the novelty that the aforementioned Directive 2006/43/EC on the legally-required audit introduced into the organisation of listed companies, i.e. the "Internal Control and Audit Committee", a body identified with the Board of Statutory Auditors, with oversight of:

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

The remuneration of the Board of Statutory Auditors is disclosed in the following table as required by CONSOB ("Model 1" of attachment 3C of the Issuers Regulation):

Name (in Euro)	**Position**	**Term of office**	**Expiry of the position**	**Emoluments**	**Nonmonetary benefits**	**Bonuses and other incentives**	**Other compensation** (1)
Marco Lombardi	Chairman	01.01.10 - 31.12.10	31.12.2011	32.620	-	-	19.583
Pasquale Pace	Standing Auditor	01.01.10 - 31.12.10	31.12.2011	23.163	-	-	-
Vincenzo Pilla	Standing Auditor	01.01.10 - 31.12.10	31.12.2011	22.140	-	-	22.649

(1) Emoluments paid by subsidiaries.

The Board of Statutory Auditors met seven times during the year as it did in 2008. Its members' rate of attendance was 95% (compared to 93%).

Set out below is a table showing the positions held by each Statutory Auditor as director or statutory auditor at 31.12.10 in joint-stock companies, limited partnerships and private limited companies.

Name	Company	Position
Marco Lombardi	RECS S.r.l.	Sole Director
	Brandini S.p.A.	Chairman of the Board of Statutory Auditors
	D&D La Certosa Firenze S.p.A.	Chairman of the Board of Statutory Auditors
	KME Italy S.p.A. (1)	Standing auditor
	Grifoni & Masini S.p.A.	Standing auditor
	SAIF Servizi Ass.ni Industriali Firenze S.r.l.	Standing auditor
	Associazione Partners Palazzo Strozzi	Internal auditor
Pasquale Pace	Baia San Giorgio – Villaggio turistico sportivo San Giorgio S.r.l.	Chairman of the Board of Statutory Auditors
	Primiceri S.p.A.	Chairman of the Board of Statutory Auditors
	Fidanzia Sistemi S.r.l.	Standing auditor
	Marzocca S.r.l.	Standing auditor
Vincenzo Pilla	KME Recycle S.p.A. (1)	Chairman of the Board of Statutory Auditors
	EL.EN. S.p.A. (2)	Chairman of the Board of Statutory Auditors
	Deka Mela S.r.l.	Chairman of the Board of Statutory Auditors
	Lasit S.p.A.	Chairman of the Board of Statutory Auditors
	Affitto Firenze S.p.A.	Chairman of the Board of Statutory Auditors
	KME Italy S.p.A. (1)	Chairman of the Board of Statutory Auditors
	Cut Lite Penta S.r.l.	Standing auditor
	Geikos S.p.A.	Standing auditor
Lorenzo Boni	KME Italy S.p.A. (1)	Standing auditor
Angelo Garcea	no other positions held	

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

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

The Shareholders' Meeting's powers and responsibilities are those set out in the Italian Civil Code and the TUF.

As noted previously, the transposition of EU Directive no. 36/2007, commonly known as the "shareholders' rights directive", has profoundly changed the provisions regarding the involvement of shareholders in the activities of listed companies.

The Shareholders' Meeting in fact now consists of those who have voting rights and whose prepared communication, sent by authorised intermediaries, has reached the company, pursuant to the provisions in force, on the basis of the entries in the accounting records relating to the end of the accounting day on the seventh day of trading prior to the date set for the Shareholders' Meeting in first call, and which has reached the company within the legal deadlines.

The consequent changes which were introduced into the Articles of Association and into internal procedures by the Board of Directors aim to confirm and ensure equality of treatment for all the Shareholders so that they are in the same position as regards participation in and exercise of voting rights at Shareholders' Meetings and will be completed with further changes which will be put for the approval of the extraordinary Shareholders' Meeting called for 27/28 April 2011, to which reference should be made via the subsequent Directors' Report.

The Company Articles of Association (arts. 2 and 14) empower the Board of Directors to determine the registered and any secondary offices, to approve mergers and demergers of subsidiaries, to reduce share capital in the event of a withdrawal by a Shareholder and to adjust share capital as a result of any changes in law. In addition, at the Shareholders' Meeting called for 27/28 April 2011, it will be proposed to extend the decision and the discretion of the Board of Directors for particular cases regarding transactions with related parties, naturally in compliance with the exceptions allowed by the laws in force.

We note that art. 10 of the Articles of Association envisaged that the call of the meeting be made via publication on the Company's website, but that it has also been decided to still publish the related announcement in a newspaper (which are currently: "Il Sole 24 Ore" – "MF - Milano Finanza" – "Italia Oggi"), in addition to the announcement in the Official Gazette.

In any case, we note that the website **www.kme.com** contains a specific area dedicated to corporate governance and is constantly renewed and updated. For the Shareholders' Meeting called for 27/28 April 2011, part of the website has been dedicated to the related documentation, including not only the documentation on the items on the agenda but also that for the exercise of Shareholders' rights as envisaged by art. 125 quater of the TUF, such as, for example, the format for proxy voting, the documentation for the appointment of the Designated Representative, and that for voting by correspondence.

As regards the provisions for the deposit of shares in order to participate at Shareholders' Meetings, art. 11 (Participation and representation at Shareholders' Meetings) of the Articles of Association already includes the principle of the "record date", and is a revolution compared to the previous procedure. Effectively participation at Shareholders' Meetings is now connected to the entries in the accounting records as at the seventh open trading day preceding the date set for the Shareholders' Meeting in first call.
We also note the new provisions regarding the issue of proxies and electronic notification of the same which are contained in art. 11 of the Articles of Association.

The same article of the Articles of Association contains the provisions to exercise voting rights by correspondence, provisions which moreover are subject to examination by the aforementioned Shareholders' Meeting in order to be in line with the new laws in this regard.

Naturally, the Shareholders' Meeting called for 27/28 April 2011 is subject to these laws.

The other methods of participating in Shareholders' Meetings are contained in art. 10 (Calling of Shareholders' Meetings) of the Articles of Association, particularly with reference to the protection of non-controlling Shareholders with respect to the appointment of Directors and Statutory Auditors.

In a departure from the Code, the Company has decided to dispense with Shareholder Meeting Rules and Regulations due to the existence of the provisions of Chapter III of the Company Articles of Association.

In that connection, art. 12 (Chairmanship of the Shareholders' Meeting) of the Articles of Association expressly requires the Chairman of the Shareholders' Meeting to assure the propriety of the proceedings by directing and regulating deliberations and limiting the length of individual contributions.

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

Each share carries unrestricted voting rights unless otherwise provided by law.

In 2010, one ordinary Shareholders' Meeting was held on 29 April.

4.4.1 Company Articles of Association and protection of non-controlling Shareholders

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

The Company Articles of Association contain provisions for the protection of non-controlling Shareholders with respect to the calling of Shareholders' Meetings, inclusion of agenda items (art. 10) and appointment of the Boards of Directors (art. 17) and Statutory Auditors (art. 22) the appointment of proxies, voting by mail (art. 11), the Board of Statutory Auditors reporting requirements (arts. 14 and 18) and the Joint Representative of Savings Shareholders (art. 24).

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

Among the changes to the Articles of Association (respectively art. 13 and art. 5) to be put to the Shareholders' Meeting called for 27/28 April 2011, are mention of the right of Shareholders to put forward questions before the Shareholders' Meeting (art. 125 bis, para. 4, lett. b), no. 1) of the TUF) and the right to require identification of Shareholders (art. 83 duodecies of the TUF).

4.4.1.1 Additions to the Agenda

Art. 10 of the Articles of Association highlights, in compliance with art. 126 bis of the TUF, that shareholders who represent at least one fortieth of the share capital may ask, within 10 days of publication of the call notice for the Shareholders' Meeting, for an addition to the list of items to be addressed. The request must be presented in writing and must contain an indication of the items to be addressed. The deadline of 5 days which is currently indicated in the Articles of Association may be changed by the extraordinary Shareholders' Meeting called for 27/28 April 2011 in order to align it to the new law in force, and since it conflicts with this law, is henceforth no longer applicable.

The request for an addition is published in the same way as the call notice within the legal deadlines.

Agenda items may not be added with respect to matters for resolution by Shareholders as required by law, proposed by Directors or with reference to a project or report proposed by Directors, other than those specified in art. 125 ter, paragraph 1 of the TUF.

4.4.1.2 Request to call Shareholders' Meeting

As noted by art. 10 of the Articles of Association, and as envisaged by art. 2367 of the Italian Civil Code, Shareholders who represent a twentieth of the share capital in terms of ordinary shares can ask the Chairman of the Board of Directors to call a Shareholders' Meeting.
The request must be made by registered post and must contain the list of the items to be included on the Agenda and the detailed list of those requesting the meeting, attaching a copy of the communication issued by the authorised intermediaries bearing witness to ownership of the shares and their number.

4.5 System of Internal Controls

4.5.1 Proceedings of the Internal Control Committee

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

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

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

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

The Committee met twice in 2010 as in 2009 and two-thirds of its members were present. The Chairman of the Board of Statutory Auditors was present at both meetings which were minuted.

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

4.5.2 Executive director responsible for the system of internal controls

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

4.5.3 Head of Internal Control

The appointment of the Head of Internal Control has been delegated by the Board of Directors to the Deputy Chairman to whom the Head reports. Organisationally, the Head of Internal Control is independent of all operational units and, in turn, has no operational responsibilities. The Head also reports to the Internal Control Committee and the Board of Statutory Auditors and their work is equivalent to internal audit.

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

4.5.4 Internal Audit

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

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

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

4.5.6 Manager Responsible for Financial Reporting

At its meeting of 29 April 2009 and in accordance with the provisions of art. 16 of the Company Articles of Association and after having ascertained the possession of the necessary professional and personal attributes and the individual's integrity, the Board of Directors, with the agreement of the Board of Statutory Auditors, reappointed Marco Miniati as the Manager Responsible for Financial Reporting who was originally appointed on 21 June 2007. Mr. Miniati was made responsible for the performance of the relevant duties and was given all necessary powers for which he is separately remunerated.

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

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

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

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

The Board of Directors annually checks possession of the necessary prerequisites for the Manager Responsible.

4.5.7 Risk management system with respect to financial reporting

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

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

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

a) Description of the key aspects of the existing risk management system and the system of internal controls in connection with financial reporting

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

- Assessment of controls addressing the risks identified: in this step, KME evaluates the key characteristics of its monitoring process or the manner in which controls over risks identified are periodically prioritised (both in terms of purpose as well as effectiveness).

In order to assure that the system of internal controls over financial reporting is highly reliable, the Company:

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

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

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

b) Related roles and company units

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

4.5.8 Independent auditors

KPMG S.p.A. has been appointed to perform the audit, pursuant to arts. 155 and following of the TUF, of the separate and consolidated financial statements as well as the interim separate and consolidated financial statements of KME Group S.p.A.

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

The director of audit for the independent auditors is Riccardo Cecchi who has held this role since 25 October 2007 with the certification issued in relation to the interim financial statements at 30 June 2007.

Total fees paid to KPMG were Euro 137,000. Total fees paid by the Group were Euro 1,378,000. The relevant details have been annexed to the notes of the separate financial statements.

The only additional services KPMG was engaged to provide during the year have been included in the schedule pursuant of art. 149 duodecies of the Issuers Regulation shown below:
- preparation of the compliance opinion for the "KME Group S.p.A. Stock Option Plan 2010-2015";
- verification of the financial ratios relating to the medium to long-term loan agreement;
- other services in connection with administrative and tax returns.

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

4.5.9 The Oversight Body and "Model 231"

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

4.6 Investor relations

To underline the importance of Shareholders' Meetings as the best method for the Board of Directors to provide information to Shareholders on the Company's performance and outlook, in order to facilitate better informed participation in Shareholders' Meetings, besides the deposit of documents envisaged by the provisions in force, the Company sends Shareholders who have taken part in the last three Shareholders' Meetings (or who have requested it) an "IT support" (previously it was a printed collection of documents) containing the related documentation at least one week before the holding of the meeting. In addition, during all Shareholders' Meetings, all those participating are given a folder with the related documentation which, for the Shareholders' Meeting for the financial statements, is accompanied by a copy of the Articles of Association in force.

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

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

The site not only contains archived documentation, accounting and financial documents (annual, half-year and quarterly financial statements, share performance with graphs) and information on corporate actions (annual schedule, corporate governance reports, exercise of rights, callings of Shareholders' Meetings and methods of participating, procedures for the appointment of the Board of Directors and the Board of Statutory Auditors), but also information and data on the range of products, their application and information of interest to suppliers and customers.
An ample section of the site is dedicated to corporate governance (bodies, Company Articles of Association, Warrant Terms and Conditions, Procedures and Internal Codes, minutes), with special pages dedicated to any pending, non-routine matters. The site also contains the annual information documents from 2005 required by art. 54 of the Issuers Regulation.

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

During 2010, the website www.kme.com was accessed over one and a half million times by over 700 thousand visitors with over 4.5 million pages visited, a marked increase on 2009. In particular, it is noted that the interactive version of the 2009 financial statements received over 4,500 visits both in Italian (60%) and in English (40%).

Around 5,000 pdf files of the financial statements alone were downloaded and the presentation of the Group, which is updated whenever quarterly figures are published, was downloaded, primarily in English, over 2,800 times.

There is also a continual dispatch service of announcements and documents issued by the Company to persons on a mailing list. Over 22,000 items were sent during the year (1,184 names on the mailing list compared to 1,221 for 2009).

It is of course possible to e-mail requests to the Company at **investor.relations.@kme.com.**

For the Shareholders' Meeting of 27/28 April 2011, the website has a specific section where it is possible to easily find all the documentation on the items on the Agenda as well as that relating to the means of participating in the Shareholders' Meeting, as also indicated by art. 125 quater of the TUF.

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

4.7 Other Corporate Governance issues

4.7.1 Internal Dealing Code

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

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

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

Note that the table below has been "enhanced" with further details compared to that envisaged by CONSOB (in other words "Model 3" of Attachment 3C of the Issuers Regulation) to enable an easier comparison on an annual basis and a better understanding of the impact of operations which affected the Company's shares during 2010, the investments held in the Company and in its subsidiaries by the directors and Statutory Auditors are indicated below:

First and last names	Investee	Number of shares held at the end of 2009 pre-split	No. shares allocated following the split (08.02.2010)	No. KME 06/11 warrants allocated by iNTEk S.p.A. following the free distribution (15.02.2010)	No. shares allocated following the demerger (22.03.2010)	Number of shares bought during 2010	Number of shares sold during 2010	Number of shares held at the end of 2010
Salvatore Orlando	Kme Group S.p.A.	==	==	n. 737,849 w. 06/11	n. 3,293,995 az. ord. n. 156,875 w. 09/11		==	n. 3,293,995 az. ord. n. 737,849 w. 06/11 n. 156,875 w. 09/11
Diva Moriani	Kme Group S.p.A.			n. 44,240 w. 06/11	n. 197,500 az. ord. n. 73,145 w. 09/11	n. 73,330 az. ord.(b) n. 161,326 diritti d'opz.	n. 44,240 w. 06/11 n. 73,145 w. 09/11	n. 270,830 az. ord.
Domenico Cova	Kme Group S.p.A.	n. 75,000 az. ord.	n. 37,500 az. ord.	==	==	n. 51,135 az. ord. (b)	==	n. 163,635 az. ord.
Italo Romano	Kme Group S.p.A.	n. 75,000 az. ord.	n. 37,500 az. ord.	==		n. 51,135 az. ord. (b)	==	n. 163,635 az. ord.
Vincenzo Cannatelli	Kme Group S.p.A.	n. 97,663 az. ord. n. 104,218 w. 06/11	n. 48,831 az. ord.	==	==		==	n. 146,494 az. ord. n. 104,218 w. 06/11
Marcello Gallo	Kme Group S.p.A.	==		n. 86,940 w. 06/11	n. 388,125 az. ord. n. 127,312 w. 09/11	n. 180,000 az. ord (b) n. 396,000 diritti d'opz.		n. 568,125 az. ord. n. 86,940 warrant n. 127,312 warrant
Gian Carlo Losi	Kme Group S.p.A.	n. 64,788 az. ord.	n. 32,394 az. ord.	==		n. 44,175 az. ord. (b)	==	n. 141,357 az. ord.
Alberto Pecci	KME Group S.p.A.	n. 1,399 az. ord. n. 7,166 az. risp. n. 65,317 az. risp. (a) n. 24,176 warrant	n. 698 az. ord. n. 3,583 az. risp. n. 32,658 az. risp.(a)	n. 132,587 w. 06/11	n. 591,920 az. ord. n. 161,430 w. 09/11	n. 4,855 az. risp. (b) n. 22,270 az. risp. (a) b)	n. 594,017 diritti d'opz. n. 48,981 diritti d'opz.(a)	n. 594,017 az. ord. n. 15,634 az. risp. n. 120,245 az. risp.(a) n. 156,763 w. 06/11 n. 161,430 w. 09/11

(a) indirect holding through subsidiary;

(b) shares received by subscribing share capital increase.

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

4.7.2 Protection of personal data

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

4.8 Changes after the end of the reporting period

fter the end of the year, no extraordinary transactions were undertaken, while work continued to verify the efficiency of and update the provisions and procedures of the Company in light of the numerous changes introduced on governance. The work will expand further due to the changes to the Articles of Association put for the approval of the Shareholders' Meeting called for 27/28 April 2011. Particular attention has been dedicated to the organisation of the Company website in order to facilitate the involvement of Shareholders in the activities of the Company and to increase their knowledge of it.

For the sake of completeness, we note that at KME Group S.p.A., as from 22 March 2011 Domenico Cova resigned his positions as Director and General Manager and Riccardo Garrè was co-opted on the same date pursuant to and in application of art. 2386 of the Italian Civil Code and also took over as General Manager. As from the same date, the Deputy Chairwoman Diva Moriani took over as Chairwoman of the Board of Directors of ErgyCapital S.p.A. from Vincenzo Cannatelli who was appointed Chief Executive Officer at the same time.

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

The issue of the remuneration of directors and executives with strategic responsibilities is closely followed and subject to significant legislative changes.

In particular, in February 2011 Legislative Decree no. 259 of 30 December 2010, which transposes the Recommendations of the European Commission no. 913 of 2004 and no. 385 of 2009, came into force and led to the introduction in the TUF of the new art. 123 ter. In particular, the law envisages the obligation to prepare a "Remuneration Report" to be presented at the Shareholders' Meeting for the separate financial statements, an obligation which will start next year. The related resolution of the Shareholders' Meeting will not be binding.

Previously, on 18 January 2011 CONSOB started a consultation process on remuneration, self-assessment of the Board of Directors and succession plans in anticipation of the issue of a communication and recommendation on these matters. The consultation ended recently on 24 February 2011 with communication no. DEM/1101984 with which CONSOB requires listed companies to indicate in their Report a number of pieces of information with practically immediate effect.

The first series of requests made by CONSOB regards the possible existence, and the related details, of the agreements indicated in art. 123 bis, para. 1, lett. i) of the TUF, in other words in regard to agreements which envisage compensation for directors in the case of resignation or dismissal without just cause or if the employment relationship has ceased following a takeover bid. In this regard refer to paragraph 5.2.2 below.

The second series of requests from CONSOB concerns the preparation of the so-called "Model 1" contained in Attachment 3C of the Issuers Regulation, with the recommendation to listed companies to implement it fully and promptly. The Model in question is set out in paragraph 5.2.1 below.

Art. 7 of the Code of Conduct was also completely revised during 2010 and its new provisions will become applicable during 2011, with a communication in the same Report which will be presented next year.

Starting with this Report the Company is already therefore beginning to update the format used for "remuneration" and to supplement its content in the sense indicated in the new provisions.

5.1 The provisions of the Articles of Association regarding the remuneration of directors

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

The annual fixed payment to Directors, to be divided equally among the Directors subject to a 50% increase payable to Directors who are members of the Board of Directors' constituent committees was set at Euro 195,000.00 by the Shareholders' Meeting of 29 April 2009. The fixed payment, however, shall be treated as payment on account of the amount pursuant to art. 8 of the Articles of Association. The fixed payment is therefore Euro 13,000.00 for each Director, plus Euro 6,500.00 if they are member of a Committee.

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

5.2 Remuneration policy and the procedures used

Remuneration policy is a key tool to create sustainable corporate value. It contributes to maintaining a high level of professional skills and aligning individual targets and conduct to the Group's medium to long-term strategies and plans.

An overall pay structure which is balanced consists of:

- an adequate balance between fixed and variable pay. Variable pay must not be predominant and must envisage maximum limits. Particular attention should be paid to the fixed element of pay, as a safeguard for professional skills, in close connection with the role covered, the breadth of responsibility and maintaining positive results over time;

- an appropriate formulation of variable pay, which looks at the medium to long-term goals and avoids only considering short-term actions. The connection between pay and performance must be based on preset, measurable parameters which are connected not only to quantitative evaluations but also to qualitative judgments, with particular attention paid to the clear weighting of risks;

- focus on the creation of value for Shareholders over the medium to long-term.

Remuneration policy for executive directors and the criteria for the remuneration of executives with strategic responsibilities are put for the approval of the Board of Directors at the proposal of the Remuneration Committee, which consists solely of independent directors, and with the favourable opinion of the Board of Statutory Auditors.

5.2.1 Directors' remuneration

The breakdown of directors' remuneration in 2010, including in subsidiaries, is shown in the table below which has been prepared in accordance with CONSOB indications (in other words "Model 1" as set out in Attachment 3 C of the Issuers Regulation).

The table also shows the combined total of remuneration for other "executives with strategic responsibilities" who – for the purposes of this paragraph – are identified for 2010 as two further members of the Vorstand of KME A.G. (Roelf Evert Reins and Riccardo Garrè) and the Chief Executive Officer of Drive Rent S.p.A. (Ludovico Maggiore).

Name (in Euro)	2010 Position	Period in charge	Expiry of the charge	Emoluments	Nonmonetary benefits incentives	Bonuses and other	Other remuneration
Salvatore Orlando	Chairman	01.01.10-31.12.10	31.12.2011	238,000	4,349		125,052(1)
Vincenzo Manes	Deputy Chairman	01.01.10-31.12.10	31.12.2011	1,143,000(2)	18,311		80,104(3)
Diva Moriani	Deputy Chairwoman	01.01.10-31.12.10	31.12.2011	213,000	3,001		25,104(4)
Domenico Cova	Director/ Gen. Man	01.01.10-31.12.10	31.12.2011	13,000			837,396(5)
Italo Romano	Director/ Gen. Man	01.01.10-31.12.10	31.12.2011	13,000			834,726(6)
Vincenzo Cannatelli	Director	01.01.10-31.12.10	31.12.2011	14,200			
Mario d'Urso	Director	01.01.10-31.12.10	31.12.2011	26,000(7)			
Marcello Gallo	Director	01.01.10-31.12.10	31.12.2011	15,400			25,104(8)
Giuseppe Lignana	Director	01.01.10-31.12.10	31.12.2011	26,600(9)			
Gian Carlo Losi	Director	01.01.10-31.12.10	31.12.2011	46,570(10)			371,833(11)
Alberto Pecci	Director	01.01.10-31.12.10	31.12.2011	19,500(12)			
Alberto Pirelli	Director	01.01.10-31.12.10	31.12.2011	19,500(13)			
Executives with strategic responsibilities							1,602,682(14)

(1) Remuneration received as Chairman of KME Italy S.p.A. for Euro 100,000 and as member of the Supervisory Board of KME A.G. for Euro 25,052
(2) Of which Euro 405,000 in variable pay for 2010 to be paid in 2011
(3) Remuneration received as Deputy Chairman of the Supervisory Board of KME A.G.
(4) Remuneration received as member of the Supervisory Board of KME A.G.
(5) Of which Euro 231,075 in variable pay for 2010 to be paid in 2011, as member of the Vorstand of KME A.G.
(6) Of which Euro 231,075 in variable pay for 2010 to be paid in 2011, as member of the Vorstand of KME A.G.
(7) Of which Euro 13,000 for participation in the Remuneration and Internal Control Committees
(8) Remuneration received as member of the Supervisory Board of KME A.G.
(9) Of which Euro 13,000 for participation in the Remuneration and Internal Control Committees
(10) Of which Euro 33,570 for acting as Secretary to the Board
(11) Remuneration received as executive of subsidiary
(12) Of which Euro 6,500 for participation in the Internal Control Committee
(13) Of which Euro 6,500 for participation in the Remuneration Committee. Alberto Pirelli is paid by Pirelli & C. S.p.A.
(14) Of which Euro 359,962 in variable pay for 2010 to be paid in 2011

For the Deputy Chairman Vincenzo Manes and the executive directors (Domenico Cova and Italo Romano) who are also part of the Vorstand of KME A.G. as well as for Riccardo Garrè and Roelf Evert Reins, who are also members of the Vorstand of KME A.G., in addition to fixed remuneration variable remuneration is also recognised which takes into account the achievement of specific objectives in the copper sector, linked for 50% to financial parameters and 50% to annual operating profit parameters which are drawn up in line with those of the long-term business plans.

In reference to the overall remuneration in 2010, the variable amount of the Deputy Chairman Vincenzo Manes was around 33%, while the variable share of the remuneration of other executives with strategic responsibilities was around 27%.

The pay policy adopted is in line with paragraphs 7.P.2. and 7.C.1. of the Code of Conduct.

Currently there is no plan to defer payment of part of the variable remuneration, except for the part which accumulates in the form of leaving entitlements of the recipient. The application of this principle of the Code of Conduct will be taken into consideration once the corporate reorganisation process is complete and which involves the KME Group following the division which became effective as from 22 March 2010, with changes in senior management in the main sectors in which the Company operates as well as the adoption of new business plans for the aforementioned sectors.

The remuneration of non-executive directors is included due to their involvement in the existing Committees.

5.2.2 Directors post-employment benefits and termination benefits paid on resignation, dismissal or separation following a takeover bid

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

the implementation of the most urgent of the measures to reinstate the Group's financial soundness following the severe downturn of 2004.

This treatment will not be recognised should the position of Deputy Chairman be revoked for just cause.

Besides the above and in specific reference to art. 123 bis, para. 1 lett. i) of the TUF, the Directors' service contracts with the Company do not provide for payments in the event of resignation or dismissal without just cause or in the event of separation following a takeover bid.

No fee or compensation is envisaged for "non-competition commitments", and equally for the allocation or maintenance of non-cash benefits or the signing of consultancy contracts following the end of the employment relationship.

5.3 Stock option plan

5.3 .1 The "KME Group S.p.A. Stock Option Plan 2006-2011"

The "KME Group S.p.A. Stock Option Plan 2006-2011", which was established in July 2006 for executive Directors of the Company and Group Executives and amended in 2007 (following resignations and new appointments of Directors and Executives and the regrouping of share capital, which, however, was not tantamount to a restructuring of capital), was revoked by resolutions of the Board of Directors of 7 October 2009 and by the Shareholders' Meeting of 2 December 2009.

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

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

5.3.2 The new "KME Group S.p.A. Stock Option Plan 2010-2015"

The new incentive and loyalty plan was approved at the Shareholders' Meeting of 2 December 2009 and is exclusively for the executive directors and managers of KME and its direct and indirect subsidiaries.

The new plan is for the grant of options to subscribe or acquire, as the case may be:
- newly issued KME ordinary shares arising from the share capital increase delegated to the Board of Directors pursuant to art. 2443 of the Italian Civil Code, excluding the option right pursuant to art. 2441, para. 4, point 2, of the Italian Civil Code;
- ordinary treasury shares held by the Company.

The "information document" on the Plan required by art. 84 bis of the Issuers Regulation has been made available to the public in accordance with the timing and in the manner required by law and is also available on the relevant web page of **www.kme.com**.
The Plan entails the free grant of options to each of the beneficiaries to subscribe to or acquire, as the case may be, ordinary shares on the exercise of options in the ratio of 1 share for each option exercised at a price equal to the arithmetic mean of the official MTA closing prices of ordinary KME shares during the period between the grant and the same date of the preceding calendar month.
The total maximum number of KME ordinary shares to be granted to the beneficiaries under the Plan may be no more than 31,000,000 out of, at the Board of Directors sole discretion, either a fresh issue or shares held in portfolio by the Company or partly out of a fresh issue and partly out of shares held in portfolio in the proportion as may be established from time to time by the Board of Directors in the best interests of the Company.

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

The Plan is intended for parties who, at the grant date, were:
(i) executives under permanent employment by the Company or its subsidiaries;
(ii) executive directors of the Company.
At the grant date, the Board of Directors will select the beneficiaries from the above groups and determine the number of options to grant to each beneficiary with the professional expertise and responsibilities of each within the organisational structure of the Group.

It should be noted that the granting and exercise of options are not subordinate to achieving particular results nor is it envisaged to achieve specific performance levels and to keep shares for preset periods of time or until the end of service, as is required by art. 7 of the Code of Conduct in its new version approved in March 2010, and so subsequent to the Plan which was approved on 2 December 2009.

The Plan specifically provides that in the event of a separation from the Company by bad leavers all options granted to such persons will be cancelled and will be without effect and validity. Bad leavers are persons who separate from the Company in the following circumstances:
(i) dismissal, revocation of appointment as director and/or of the beneficiary's powers, non-renewal of the appointment as director and/or the beneficiary's powers each for cause;
(ii) resignation of the beneficiary for reasons other than those of a good leaver.
In the event of a separation of a good leaver, the beneficiary or their heirs shall maintain the right to exercise the options granted subject to the obligations, methods and timing of Plan.

The options may be exercised, in one or more tranches, at any time between the first date and last date (31 December 2015) of the exercise period as shown below:
"First date" means:
(a) for the number of options equal to 1/3 of the options granted, the first business day following the first year from the grant date;
(b) for the number of options equal to 1/3 of the options granted, the first business day following the second year from the grant date;
(c) for the number of options equal to 1/3 of the options granted, the first business day following the third year from the grant date.

It is understood that, should the exercise of options, on the basis of the right granted by the Shareholders' Meeting of 2 December 2009, occur prior to the initial date of exercise as established herein, the shares subscribed and/or purchased following the exercise of the options will be subject to a twenty-four month lock-up period from the subscription date (for fresh issues) or the acquisition date (for shares held in portfolio by the Company).

"Lock-up" means the requirement that the Beneficiary be restricted from transferring shares obtained from the Company under the Plan to incentivate and promote loyalty through subscription or acquisition on exercise of the Options.
Shares subscribed and/or acquired on the exercise of an option and subject to lock-up will remain in the custody of the Company (or other entity acting for the Company) for the entire duration of the lock-up period.

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

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

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

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

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

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

5.3 .3 Execution of the "KME Group S.p.A. Stock Option Plan 2010-2015"

At its meeting of 7 October 2010, the Board identified the Plan beneficiaries and determined the amount of options granted to each of them, for a total number of 25,500,000 options (the maximum number of options authorised by the Shareholders' Meeting is 31,000,000). The decision was taken, at the proposal of the Remuneration Committee, with the vote in favour of the independent directors and the favourable opinion of the Board of Statutory Auditors; the directors who were beneficiaries of the Plan abstained from voting.

The grant was as follows:

to Vincenzo Manes - Deputy Chairman	n.	14,500,000 options
to Diva Moriani – Deputy Chairwoman	n.	9,000,000 options
to Gian Carlo Losi – Director/Executive	n.	2,000,000 options

The Board reserved the right to subsequently grant the remaining options.

The options grant beneficiaries the right to subscribe or buy from the Company an equivalent number of KME Group S.p.A. ordinary shares at the price per share of Euro 0.295:

- 1/3 as from 10 October 2011;
- 1/3 as from 8 October 2012;
- 1/3 as from 8 October 2013.

The final exercise date is set at 31 December 2015.

As an alternative to the above, the Board of Directors granted beneficiaries, on the basis of the right approved at the Shareholders' Meeting, the possibility of exercising the options as from 8 December 2010; in the case of early exercise, the shares subscribed and/or bought will be subject to a twenty-four month lock-up in compliance with the incentive goals of the Plan.

The exercise price for the options, in compliance with the decision of the Shareholders, was set at equal to the average of the official closing prices for KME Group S.p.A. ordinary shares recorded on the Mercato Telematico Azionario which is organised and managed by Borsa Italiana in the period from the grant date to the same day one month previous.

Also at the meeting of 7 October 2010, the Board of Directors partly used the delegated power it received at the extraordinary Shareholders' Meeting of 2 December 2009, pursuant to art. 2443 of the Italian Civil Code, by deciding on the cash share capital increase to be organised in tranches, through the issue of a maximum of 25,500,000 KME Group S.p.A. ordinary shares with regular dividend rights, at the price per share of Euro 0.295, for a total maximum amount of Euro 7,522,500.00, excluding option rights pursuant to art. 2441, para. 4, point 2, of the Italian Civil Code.
As required by the aforementioned provision, the independent auditors, KPMG S.p.A., issued a specific report on the correlation to the market value of the issue price of the new shares.
The breakdown of the Plan is set out below in compliance with the model ("Model 2" as set out in Attachment 3 C of the Issuers Regulation) required by CONSOB.

Attachment 3C - Model 2 to the Issuers Regulation no. 11971 of 14/05/1999

Stock options granted to members of the Board of Directors, General Managers and executives with strategic responsibilities

		Options held at the start of the year			Option granted in year			Options exercised in year			Options expired in year	Options held at year-end		
First and last names	Position	Number of options	Average exercise price	Average expiry (1)	Number of options	Average exercise price	Average expiry (1)	Number of options	Average exercise price	Average market price in year	Number of options	Number of options	Average exercise price	Average expiry (1)
Vincenzo Manes	Deputy Chairman	-	-	-	14,500,000	0.295	31/12/2015	-	-	-	-	14,500,000	0.295	31/12/2015
Diva Moriani	Deputy Chairwoman	-	-	-	9,000,000	0.295	31/12/2015	-	-	-	-	9,000,000	0.295	31/12/2015
Giancarlo Losi	Director/Executive	-	-	-	2,000,000	0.295	31/12/2015	-	-	-	-	2,000,000	0.295	31/12/2015
Total		**-**			**25,500,000**			**-**			**-**	**25,500,000**		

(1) - The date indicated corresponds to that of the final date by which options may be exercised.

Florence, 22.03.11

Board of Directors

Table 2: Structure of the Board of Directors and its Constituent Committees

Board of Directors											Internal Control Committee		Remuneration Committee	
Position	Members	Serving since	Serving until	List (M/m)*	Executive	Non executive	Indip. as per Civil Code	Indip. as per TUF	% **	N. of other positions***	****	**	****	**
Chairman	Salvatore Orlando	29.04.2009	31.12.2011	M		x			100	3				
Deputy Chairman	Vincenzo Manes	29.04.2009	31.12.2011	M	x				100	9				
Deputy Chairwoman	Diva Moriani	29.04.2009	31.12.2011	M	x				100	8				
Director Gen. Man.	Domenico Cova	29.04.2009	16.03.2011	M	x				83	2				
Director Gen. Man.	Italo Romano	29.04.2009	31.12.2011	M	x				100	3				
Director	Vincenzo Cannatelli	29.04.2009	31.12.2011	M					100	3				
Director	Mario d'Urso	29.04.2009	31.12.2011	M		x	x	x	100	1	x	100	x	100
Director	Marcello Gallo	29.04.2009	31.12.2011	M		x			83	8				
Director	Giuseppe Lignana	29.04.2009	31.12.2011	M		x	x	x	83	==	x	100	x	100
Director	Gian Carlo Losi	29.04.2009	31.12.2011	M		x			100	==				
Director	Alberto Pecci	29.04.2009	31.12.2011	M		x	x	x	67	2	x	0		
Director	Alberto Pirelli	29.04.2009	31.12.2011	M		x	x	x	83	4			x	100
Directors whose appointment ceased during the year														
==	==	==	==	==	==	==	==	==	==	==	==	==	==	==

Indicate the quorum required to present lists for the most recent appointment: 2.5%

Number of meetings held during the year	Board Directors 6	Internal Control: 2	Remuneration: 2

Notes
The table indicates attendance at minuted meetings, and it should be recalled that all the member of the Board and the participants at the meetings receive documentation promptly and information regarding items on the Agenda, and take part in their examination in preparation for the resolutions to be passed.

* This column indicates M/m depending on whether the member has been elected from the majority backed list (M) or from a minority list (m).
** This column indicates the percentage of involvement of directors in the meetings respectively of the Board and the committees (no. of presences/no. of meetings held during the effective period of service of the person in question).
*** Number of positions as Director or Statutory Auditor held in other finance, banking, insurance or other companies of considerable size listed in regulated markets in Italy or abroad. In the Report is the list of these companies with a reference to each director, specifying whether the company in which the position is held is part or not of the Group which controls it or of which the Issuer is part.
**** "x" indicates membership of the Board Director of the Committee.

Table 3: Structure of the Board of Statutory Auditors

Board of Statutory Auditors

Position	Componenti	Serving from	Serving until	List (M/m)*	Independence as per Italian Civil Code	%**	Number of other positions ***
Chairman	Marco Lombardi	29.04.2009	31.12.2011	M	X	100	6
Standing auditor	Pasquale Pace	29.04.2009	31.12.2011	M	X	86	4
Standing auditor	Vincenzo Pilla	29.04.2009	31.12.2011	M	X	100	8
Alternate auditor	Lorenzo Boni	29.04.2009	31.12.2011	M	X	==	1
Alternate auditor	Angelo Garcea	29.04.2009	31.12.2011	M	X	==	==
Statutory auditors whose appointment ceased during the year							
==	==	==	==	==	==	==	==

Indicate the quorum required for the presentation of lists for the most recent appointment: 2.5%

Number of meetings held during the year: 7

Notes
* This column indicates M/m depending on whether the member has been elected from the majority backed list (M) or from a minority list (m).
** This column indicates the percentage of involvement of Statutory Auditors in the meetings of the Board of Statutory Auditors (no. of presences/no. of meetings held during the effective period of service of the person in question).
*** This column indicates the number of positions as director or statutory auditor held by the person concerned which are relevant pursuant to art. 148 bis TUF.

Table 4: Other provisions of the Code of Conduct

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

Updated version of the Company Articles of Association at 11 November 2010 (most recent amendments)

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

Company Articles of Association

Chapter I

Art. 1 Name
A public limited company bearing the name KME Group S.p.A. has been incorporated.

Art. 2 Registered Office
The Company's registered office is in Florence.
The Board of Directors may change the location of the registered office to any other location in Italy and may open, change the location of and close offices, branches and agencies in Italy and abroad.

Art. 3 Object
The object of the Company is investments in other companies or entities both in Italy and abroad, the financing and the technical and financial coordination of its investees and entities, the purchase, sale, holding, management and placement of public and private securities.
The Company's object includes: the issuance and acceptance of guarantees and other warranties; engaging in transactions of a complementary nature or in connection with the operations of its investees and entities; the acquisition and disposal of industrial and non-industrial buildings; as well as, in general, any other transaction required to achieve its object or assistance or beneficial to its achievement.

Chapter II

Art. 4 Share capital
The share capital of the Company is € 297,013,585.26 (two hundred and ninety-seven million, thirteen thousand, and five hundred and eighty-five euro and twenty-six cent) divided into 490,978,019 (four hundred and ninety million, nine hundred and seventy-eight thousand and nineteen) shares with no par value, 447,278,603 (four hundred and forty-seven million, two hundred and seventy-eight thousand, six hundred and three) of which are ordinary shares and 43,699,416 (forty-three million, six hundred and ninety-nine thousand, four hundred and sixteen) savings shares.
Resolutions to increase share capital approved by the majority pursuant to arts. 2368 and 2369 of the Italian Civil Code may be without rights to existing Shareholders subject to a maximum of 10% of share capital before the increase provided that the issue price is equal to the market price of the shares as confirmed in a specific report to be issued by the internal auditor or the independent auditors.

The Board of Directors, in exercise of the delegated power pursuant to art. 2443 of the Italian Civil Code granted by the extraordinary Shareholders' Meeting of 2 December 2009, on 7 October 2010 resolved to increase the share capital by a maximum par value of Euro 7,522,500.00 (seven million, five hundred and twenty-two thousand, five hundred) through 25,500,000 (twenty five million, five hundred thousand) ordinary shares with no indication of their par value, with regular dividend rights, to be offered for subscription, by 31 December 2015, for cash, excluding the option right pursuant to art. 2441, para. 4, point 2, of the Italian Civil Code, to the executive directors of the Company and the executives of the Company or its subsidiaries servicing the "KME Group S.p.A. Stock Option Plan 2010-2015".
In execution of the resolution of the Shareholders at their Meeting of 19 May 2006, the Company also issued a total of 74,209,605 (seventy-four million, two hundred and nine thousand, six hundred and five) warrants, consequently increasing share capital against payment by a further maximum of € 25,973,361.75 (twenty-five million, nine hundred and seventy-three thousand, three hundred and sixty one euro and seventy-five cent) through the issuance in one or more tranches of a maximum of 74,209,605 (seventy-four million, two hundred and nine thousand, six hundred and five) ordinary shares with no par value and full dividend rights for the exclusive and

irrevocable service of the above warrants at a price of €0.35 each (zero euro and thirty-five cent) equal to the issue price of shares with no par value issued at the above-mentioned extraordinary Shareholders' Meeting, in the ratio of 1 (one) share for each 1 (one) warrant held. Warrants may be exercised between 1 January 2007 and 11 December 2009, since extended to 30 December 2011, in accordance with the resolution of the extraordinary Shareholders' Meeting of 2 December 2009 as required by the rules and regulations, with the consequent latest date for the capital increase now 13 January 2012.

In execution of the authorisation approved at the Shareholders' Meeting of 19 May 2006, the Board of Directors, at its meeting of 28 June 2006, fixed the maximum increase in share capital to service warrants of 74,210,400 (seventy-four million, two hundred and ten thousand, four hundred) in issue as € 25,973,640.00 (twenty-five million, nine hundred and seventy-three thousand, six hundred and forty euro).
In execution of the capital increase subsequent to the regrouping of ordinary and savings share capital by the ratio of 1 (one) new share for each 3 (three) shares held of the same class and to the additional consequent resolutions passed at the Extraordinary Shareholders' Meeting of 21 June 2007, there was a total of 73,899,627 (seventy-three million, eight hundred and ninety-nine thousand, six hundred and twenty-seven) warrants in issue on 16 July 2007 the exercise of which would result in the issue of a maximum of 24,633,209 (twenty-four million, six hundred and thirty-three, two hundred and nine) KME Group S.p.A. ordinary shares with no par value consequently increasing capital by a maximum of € 25,864,869.45 (twenty-five million, eight hundred and sixty-four thousand, eight hundred and sixty-nine euro and forty-five cent).
At 31 July 2010 6,333,478 (six million, three hundred and thirty-three thousand, four hundred and seventy-eight) "KME Group S.p.A. ordinary share warrants 2006-2011" had been issued with the consequent emission of 2,321,031 (two million, three hundred and twenty-one thousand, and thirty-one) ordinary shares, with a remainder therefore of 67,876,124 (sixty-seven million, eight hundred and seventy-six thousand, one hundred and twenty-four) warrants.
At their Extraordinary Meeting of 2 December 2009, the shareholders approved the split of KME Group S.p.A. ordinary and savings shares to replace shares in issue in the following ratio: (i) three ordinary shares for each two ordinary shares held; (ii) 3 savings shares for each 2 savings shares held.
As a result of the KME Group S.p.A. ordinary and savings share split approved at the Extraordinary Shareholders' Meeting of 2 December 2009, the residual 67,895,450 (sixty-seven million, eight hundred and ninety-five thousand, four hundred and fifty) warrants (after the cancellation of 1 warrant to make the split arithmetically possible) in issue give the right to subscribe to 1 (one) KME Group S.p.A. ordinary share without par value for each 2 (two) shares held at a price of € 0.70 (zero euro and seventy cent) each in accordance with the Rules and Regulations.
The maximum capital increase to services warrants in issue is, therefore, € 23,763,407.50 (twenty-three million, seven hundred and sixty-three thousand, four hundred and seven euro and fifty cent) divided into a maximum of 33,947,725 (thirty-three million, nine hundred and forty-seven thousand, seven hundred and twenty-five) KME Group S.p.A. ordinary shares with no par value with the last date for execution being determined as 13 January 2012.
In execution of the resolution approved at the Extraordinary Shareholders' Meeting of 2 December 2009, the Company issued a total of 73,330,660 (seventy-three million, three hundred and thirty thousand, six hundred and sixty) warrants (the KME Group S.p.A. Ordinary Share Warrants 2009/2011) giving holders the right by applying prior to 30 December 2011 to subscribe to 1 (one) ordinary share for each warrant held at a price of € 0.90 (zero euro and ninety cent) per share (€ 0.64 (zero euro and sixty-four cent) of which as a share premium) with the consequent increase in share capital of a maximum of € 19,065,971.60 (nineteen million, sixty-five thousand, nine hundred and seventy-one euro and sixty cent) through the issue of a maximum of 73,330,660 (seventy-three million, three hundred and thirty thousand, six hundred and sixty) ordinary shares with no par value for the exercise of 73,330,660 (seventy-three million, three hundred and thirty thousand, six hundred and sixty) warrants.
Following the execution of the share capital increase approved at the Shareholders' Meeting of 2 December 2009, as from 21 June 2010 and in compliance with the provisions of art. 3, para. I of the "Regulations for KME Group S.p.A. ordinary share warrants 2009-2011", with no change in the related ratio, the subscription price for each new share was Euro 0.892 (zero point eight, nine, two) (of which Euro 0.632 (zero point six, three, two) by way of share premium).
The amount of share capital and its constituent classes of ordinary and savings shares pursuant to this article are liable to change from time to time as a consequence of capital increases pursuant to art- 7 below and the right of conversion of holders of any convertible bonds and warrants in issue.

Art. 5 Classes of shares
As permitted by law and these Articles of Association, all shares are either registered or bearer shares and convertible from one to the other at the request and expense of the holder.
Shareholders may authorise the issuance of voting and non-voting preference shares and determine their cha-

racteristics and rights. Savings shares, however, have the characteristics and rights fixed by law and these Articles of Association.
Authorisations to issue new savings shares with the same characteristics as those in issue do not require a special Meeting. The holders of savings shares may not participate in the Meetings of Shareholders of other classes of shares nor may they request the convocation of a meeting.
Reductions of share capital due to losses are without effect on savings shares unless such losses exceed the amount of other classes of shares in issue.
In the event of a permanent and definitive delisting of the Company's ordinary and savings shares from regulated markets, Shareholders shall have the right to convert their ordinary shares at one to one or, alternatively, into preference shares the terms of issue and characteristics of which shall be determined at the Shareholders' Meeting. The Board of Directors shall, within three months of the occurrence of the event that resulted in the delisting, convene an Extraordinary Shareholders' Meeting for deliberations.
Without prejudice to all other rights of the Company and the specific procedures required by law against defaulting Shareholders, non-payment of capital calls shall entitle the Company to claim penalty interest computed in accordance with art. 5 of Legislative Decree 231 of 9 October 2002 without first proving default or petitioning the courts.
The Company shall be entitled to any dividends that remain unclaimed for a period of five years.

Art. 6 Bonds and non-equity financial instruments
The Company may issue convertible and non-convertible bearer or registered bonds in accordance with the law.

Art. 7 Directors' powers
Shareholders at Extraordinary Meetings may authorise Directors, pursuant to art. 2443 of the Italian Civil Code, to increase share capital one or more times to a maximum amount as determined for a maximum period of five years from the date of the resolution.
The extraordinary Shareholders' Meeting of 2 December 2009 approved the grant to the Board of Directors, pursuant to article 2443 of the Italian Civil Code, of the right to increase the share capital in one or more tranches against payment, within a period of five years from the date of this resolution, for a maximum amount, including any premium, of Euro 15,000,000.00 (fifteen million), through the issue of a maximum of 31,000,000 (thirty-one million) ordinary shares with the same features as those in circulation, excluding the option right pursuant to article 2441, para. 4, point 2, of the Italian Civil Code, to be reserved for beneficiaries of the "KME Group S.p.A. Stock Option Plan" approved at the ordinary Shareholders' Meeting of 2 December 2009, at an issue price which corresponds to the average of the official closing prices for KME Group S.p.A. ordinary shares recorded on the Mercato Telematico Azionario which is organised and managed by Borsa Italiana in the period from the grant date of the options to the same day one month previous.
The Board of Directors, at its meeting of 7 October 2010, fully used the delegated power granted at the extraordinary Shareholders' Meeting of 2 December 2009, as indicated in art. 4 above.

Art. 8 Profit for the year
Profit for the year after accruals to the legal reserve and the distribution of 2% of the residual to the Board of Directors shall be allocated as follows:
- a maximum of € 0.07241 (zero point zero seven two four one) per year to savings Shareholders. In the event that in any one year dividends distributed to savings Shareholders is less than € 0.07241 (zero point zero seven two four one) per share, the difference shall be added to the preference dividend for the next two years;
- the allocation of the remaining profit shall be the prerogative of the Shareholders in accordance with law, subject, however, to the requirement that dividends distributed with respect to all shares exceed savings share dividends by € 0.020722 (zero point zero two zero seven two two) per year and per share.

n the event of a distribution of reserves, the entitlement of savings shares shall be the same as other classes of shares.
In the event of a share regrouping or split (as is the case for other equity actions making it necessary to leave the rights of Savings Shareholders unaltered as if they had a par value) the amounts fixed in the preceding paragraphs shall be accordingly modified.

Art. 9 Interim dividends
The Board of Directors may declare interim dividends in accordance with the timing and conditions fixed by law.

Chapter III

Art. 10 Calling of Shareholders' Meetings

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

The call notice may contain the indication of the date and time of the Shareholders' Meeting in second and third call and will be published on the Company website and, when required by the applicable law, in the Official Gazette of Italy, or, alternatively, in at least one of the following newspapers: "Il Sole 24 Ore", "Milano Finanza", "Italia Oggi"; all within the deadlines and in the means envisaged by the law and by the regulations in force and applicable.

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

Shareholders representing, individually or jointly, at least one fortieth of share capital may, within five days of the publication of the calling of the Shareholders' Meeting, request the addition of agenda items for resolution by indicating in their request the nature of the matters they propose. Any additional agenda items for resolution at the Shareholders' Meeting shall be notified in the same form required for the publication of the call notice within the legal deadlines.

Agenda items may not be added with respect to matters for resolution by Shareholders as required by law, proposed by Directors or with reference to a project or report proposed by Directors, other than those set out in art. 125-ter, para. 1, of Legislative Decree 58/1998. There is no prejudice to any other provision established by the law, including by regulation, which is in force at the time.

Unless otherwise provided by law, the Board of Directors shall call Shareholders' Meetings within thirty days of the receipt of a request in that regard if submitted by Shareholders representing at least 20% of ordinary share capital. Such requests shall be sent to the Chairman of the Board of Directors by registered mail and shall contain a list of the items to be added to the agenda and a detailed list of the Shareholders supporting the request in addition to attaching a copy of suitable certification issued by authorised intermediaries attesting the ownership and number of shares.

Art. 11 Participating in Shareholders' Meetings and proxies

Those parties may participate in the Shareholders' Meeting for whom the Company has received the prescribed notification from authorised intermediaries, pursuant to the provisions in force, on the basis of the results of the accounting entries relating to the end of the accounting day of the seventh open trading day prior to the date set for the Shareholders' Meeting in first call, and which has reached the Company within the legal deadlines.

Each share shall have the right to one vote.

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

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

Without prejudice to legal provisions with respect to proxies, holders of voting rights may be represented by a proxy, in compliance with the applicable provisions.

Electronic notification of the proxy may be used in accordance with the procedures indicated as appropriate in the call notice, through use of a specific section of the Company website or through a message sent to the certified email address given in the call notice.

Art. 12 Chairman of the Shareholders' Meetings

Shareholders' Meetings shall be chaired by the Chairman of the Board of Directors or, in his absence, the most senior Deputy Chairperson present or the Chief Executive Officer or the most senior of the Directors present.

It is the responsibility of Chairman of the Meeting to verify the regularity of the constitution of ordinary and extraordinary meetings, to ascertain the identity and legitimacy of attendees, assure correct procedures, to direct and regulate deliberations with the powers to determine the length of the deliberations of each Shareholder, to determine the order and method of voting, to ascertain the number of votes cast and proclaim the results and assure that they are recorded in the minutes.

The Chairman may authorise the participation in the meeting of Group executives and employees.
Attendees with voting rights, joint representatives of savings Shareholders, bondholders and holders of financial instruments may request the floor with respect to matters under resolution to provide their observations and information and to make proposals. Such requests may be made until such time as the Chairman declares the deliberations on the relevant agenda item closed.
The Chairman may adjourn the meeting as and when he sees fit.
The Chairman shall be assisted by a secretary of his designation. In the event that the meeting minutes are kept by a notary, that notary shall be designated as the secretary.

Art. 13 Meeting minutes
Resolutions passed by Shareholders must be recorded in the minutes and signed by the Chairman and the secretary or notary and be recorded in accordance with statutory requirements.
The deliberations of each Shareholder with relevance to the agenda shall be briefly recorded in the meeting minutes. In the event it is requested to record deliberations in full, the Shareholder provides the secretary or notary with the text for insertion in the minutes.
The secretary or notary shall be assisted by persons of their choice and may only use recording equipment for their own personal use in recording the minutes.
The conformity of copies of and extracts from the minutes that are not notarised shall be certified by the Chairman of the Board of Directors or his representative.

Chapter IV

Art. 14 Management of the Company
The Board of Directors shall have the widest powers with respect to the routine and non-routine organisation, management and administration of the Company for the attainment of its objectives with the sole exception of instruments reserved by law for the Shareholders' Meeting.
The Board of Directors may approve all resolutions having regard to mergers and demergers in compliance with articles 2505, 2505 *bis* and 2506 ter of the Italian Civil Code, reduce share capital in the event of the withdrawal of a Shareholder and amend these Articles of Association as required by the law.
The Board of Directors may, within the limits established by law, create constituent committees and determine their responsibilities, powers and internal regulations and may delegate powers to individual members determining the limits and manner of exercising such powers and may reserve for itself transactions otherwise covered by such delegated powers.
Directors holding powers that have been conferred or delegated in addition to those participating in any constituent Committees shall be under an obligation to provide quarterly reports to the Board of Directors and Board of Statutory Auditors on the general trends of business and its outlook as well as on transactions, entered into by the Company or its subsidiaries, of significant importance for its financial position and results of operations due to their size or nature. Quarterly reports shall also be submitted with respect to transactions in which the Directors have an interest either for themselves or other parties or which are under the influence of the party exercising management and coordination.
When so required by specific circumstances, the reports may also be in writing.
The Board of Directors may, in general, also confer general powers or powers specific to a transaction on employees and third parties.

Art. 15 Executive Committee
The Board of Directors may, with the exception of powers expressly reserved to itself, delegate its power to an Executive Committee consisting of three to five directors, including the Chairman, and determine its powers and procedures.
The Executive Committee may meet informally and pass resolutions other than at meetings by telephone or telegraph voting confirmed by letter or teleprinter which shall be kept in the Company's files.
The regular members of the Board of Statutory Auditors shall attend meetings of the Executive Committee.

Art. 16 Company positions
The Board of Directors shall elect its Chairman from among its members who shall be the Company's legal representative as required by art. 20.
It may also appoint one or two Deputy Chairpersons and Chief Executive Officers determining their powers in addition to conferring specific powers on individual Directors.
The Deputy Chairpersons shall substitute the Chairman in the event of his absence or other impediment.
In the event of the absence or other impediment of the Chairman or Deputy Chairpersons, the Board of Directors shall be chaired by another Director designated by the Board of Directors.

The Board of Directors shall appoint a secretary every year who is not required to be a member of the Board of Directors.
The Board of Directors shall, subject to consultation with the Board of Statutory Auditors, appoint and dismiss the Manager Responsible for Financial Reporting and shall determine his remuneration.
The Manager Responsible for Financial Reporting shall have interdisciplinary experience in business administration, finance and control and must also have the moral standing required for Directors.
The activities, functions and responsibilities of the Manager Responsible for Financial Reporting shall be those required by laws and regulations.
The Board of Directors shall determine the term of the appointment of the Manager and shall confer powers and means sufficient for the exercise of his duties.

Art. 17 Appointment and composition of the Board of Directors, term of office of its members
The Board of Directors shall be composed of nine to twelve Directors appointed at the Shareholders' Meeting after having determined the number of members that will be binding unless otherwise resolved.
Directors' terms may not be longer than three years but they may be re-elected.
The Board of Directors must also have the minimum number of independent Directors required by law. Any independent Director no longer qualifying as independent subsequent to appointment shall provide immediate notice to the Board of Directors and the appointment shall be cancelled.
If for any reason one or more Directors vacate their positions during the year, they shall be replaced as required by law.
In the event that the majority of Directors vacate their positions, the entire Board of Directors shall be considered dismissed and a Shareholders' Meeting called without delay for the appointment of a new Board of Directors.
The procedure to be adopted by the Shareholders' Meeting for the appointment of a Board of Directors shall be the following:
a) lists containing the names of the nominees for the position of Director shall be submitted to the address shown on the notice of the Shareholders' Meeting for the appointment of Board of Directors at least 25 (twenty-five) days prior to the Meeting. The list will be made available to the general public at the Company offices, on the Company website and at the market operator at least 21 (twenty one) days before the first call date of the Shareholders' Meeting. In the event that the deadline falls on a Saturday, Sunday or public holiday, the deadline shall be the next business day.
Lists must be accompanied by:

1. information pertaining to the identity of the Shareholders submitting lists, showing the total certified percentage shareholding in compliance with the deadlines and means, including regulatory, in force at the time and which show the ownership of the stake.
   The ownership of the stake requested, pursuant to the above point, for the purposes of presenting the list is certified subsequent to the submission of the list, provided that it is done at least 21 (twenty one) days before that set for the Shareholders' Meeting in first call.
   In the event that the deadline falls on a Saturday, Sunday or public holiday, the deadline shall be the next business day.
2. a declaration by Shareholders other than those holding, individually or jointly, a controlling or majority shareholding attesting the absence of a relationship in accordance with relevant law;
3. exhaustive information on the personal and professional attributes of nominees in addition to a declaration by each nominee that he or she accepts the nomination and attests, under personal liability, to the lack of any reason that could cause the nominee to be ineligible or incompatible for election, the possession of the attributes required by law and these Articles of Association indicating any facts that could result in classification as an independent Director pursuant to art. 148, paragraph III of Legislative Decree 58/1998;

b) Shareholders may not submit or vote for more than one list either directly or indirectly through an intermediary or trustee. Those belonging to the same Group and those who have entered into a Shareholders' agreement with respect to the Company's shares may not submit or vote for more than one list either directly or indirectly through an intermediary or trustee. Nominees appearing on more than one list shall be declared ineligible;
c) those Shareholders may submit lists who, individually or jointly, hold a sufficient number of ordinary shares to vote at Shareholders' Meetings for the appointment of members of the Board of Directors – equal to the highest percentage pursuant to CONSOB, Commissione Nazionale per le Società, and Stock Exchange Rules.
The percentage shareholding of parties submitting lists shall be included in the notice.
Only those lists shall be valid to the extent submitted by Shareholders who presented the documentation required by the deadline pursuant to point a) of this article. In the event a Meeting is postponed to the second or third calling, the submission of lists shall be deemed valid;

d) all those nominee Directors shall be appointed who appear on the list that obtained the highest number of votes with the exception of the last nominee in numerical order. The nominee on any non-controlling Shareholders' lists, who is first in numerical order and is not related to those who submitted or voted for the first list, shall also be appointed. The preceding, however, shall be subject to the elimination of all lists which have not obtained one half of the percentage of votes required for the submission of lists as provided above;
e) in the event of a tie in the votes for two or more lists, the Directors in the list submitted by the Shareholder with the highest percentage shareholding or, if this is not possible, the largest number of shareholders shall be deemed elected;
f) in the event that only one list is submitted those nominees shall be elected in the order they are listed;
g) n the event that no lists are submitted, Shareholders shall appoint Directors in application of the majorities required by law.

Art. 18 Meetings of the Board of Directors
The Board of Directors shall meet as and when deemed necessary by the Chairman or, if appointed by the Executive Committee, subject to a minimum of four meetings a year.
Directors shall be notified by letter sent to their home address at least five days prior to the meeting. In the event of extreme urgency, the notice may be sent only two days in advance.
Notices must contain the agenda and the time and place of the meeting. Meetings may be also be held in a location other than the registered office provided that the location is in Italy or another European Union member state.
The regular members of the Board of Statutory Auditors shall attend meetings of the Board of Directors.

Art. 19 Validity of Board of Directors Meetings
Only those resolutions shall be valid that were approved by the majority of serving Directors subject to achieving an absolute majority.
In the event of a tie, the Chairman shall cast the deciding vote.
Meetings may be held using teleconference and video conference techniques provided that it is possible for all participants to be identified and it is possible for them to follow deliberations and participate in them in real time. To the extent that these conditions are met, the meeting shall be deemed to have been held at the place where the Chairman and the secretary are located.
Resolutions shall be minuted and signed by the Chairman and by the secretary. The minutes shall show the Directors present at the meeting.
The conformity of copies of and extracts from the minutes that are not notarised shall be certified by the Chairman of the Board of Directors or his representative.

Art. 20 Representation of the Company
The legal representative of the company in dealings with third parties and the courts shall be the Chairman of the Board of Directors, who shall have single signing authority, or his representative. The Chairman shall have the powers to bring and contest legal actions, without prior approval of the Board of Directors, of any nature and in any jurisdiction whether in Italy or abroad, including the Constitutional Court, to bring arbitrations and contest applications for arbitrations based on hearing in accordance with law, to present evidence, criminal and civil actions, petition appeals, encumber assets and petition the courts for summary hearings and preventive orders as well as to waive the right to court proceedings; to accept waivers; to settle lawsuits and disputes, both in and out of court, granting for this purpose the necessary power of attorney; and to appoint legal counsel and agents and representatives in general and determine the scope of their powers.
Other Directors shall represent the Company to the extent permitted by the powers conferred on them.
In the event of the absence of other impediment of the Chairman, Deputy Chairpersons or Directors, corporate deeds may be validly signed by two Directors.

Art. 21 Remuneration
The Board of Directors shall be entitled to a share in the Company's profit as set out in art. 8 and may, furthermore, determine a fixed annual fee for Directors.
The Board of Directors shall, after consultation with the Board of Statutory Auditors, determine the compensation of Directors with specific responsibilities.

Chapter V

Art. 22 Board of Statutory Auditors

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

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

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

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

a) lists containing the names of the nominees for the position of Standing and Alternate Auditor shall be submitted to the address shown on the notice of the Shareholders' Meeting for the appointment of Board of Statutory Auditors at least 25 (twenty-five) days prior to the Meeting. The list will be made available to the general public at the Company offices, on the Company website and at the market operator at least 21 (twenty one) days before the first call date of the Shareholders' Meeting. In the event that the deadline falls on a Saturday, Sunday or public holiday, the deadline shall be the next business day.

Lists must be accompanied by:

1. information pertaining to the identity of the Shareholders submitting lists, showing the total certified percentage shareholding in compliance with the deadlines and means, including regulatory, in force at the time and which show the ownership of the stake.

   The ownership of the stake requested, pursuant to the above point, for the purposes of presenting the list is certified subsequent to the submission of the list, provided that it is done at least 21 (twenty one) days before that set for the Shareholders' Meeting in first call.

   In the event that the deadline falls on a Saturday, Sunday or public holiday, the deadline shall be the next business day.
2. declaration by Shareholders other than those holding, individually or jointly, a controlling or majority shareholding attesting the absence of a relationship in accordance with relevant law;
3. exhaustive information on the personal and professional attributes of nominees in addition to a declaration by each nominee that he or she accepts the nomination and attests, under personal liability, to the lack of any reason that could cause the nominee to be ineligible or incompatible for election and the possession of the attributes required these Articles of Association;

b) in the case that on the expiry of the deadline set out in para. a) above a single list has been submitted, or only lists presented by shareholders, who, on the basis of the provisions of para. a) no. 2, are interconnected pursuant to the provisions in force, lists may be presented up to the fifth day following that date, with the warning that should the deadlines fall on a holiday or a Saturday, the effective deadline is extended to the next working day. In those instances provided by para. b), the percentage pursuant to para. d) shall be reduced by one half;

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

d) those Shareholders may submit lists who, individually or jointly, hold a sufficient number of ordinary shares to vote at Shareholders' Meetings for the appointment of members of the Board of Statutory Auditors – equal to the highest percentage pursuant to art. 147 ter, para. I, of Legislative Decree no. 58/1998 pursuant to CONSOB, Commissione Nazionale per le Società, and Stock Exchange Rules.

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

Only lists presented by shareholders who have duly deposited the documentation required within the deadlines set out in paras. a) and b) will be considered valid. In the event a Meeting is postponed to the second or third calling, the submission of lists shall be deemed valid;

e) the Standing Auditors deemed elected shall be the first two nominees of the list that obtained the highest number of votes in addition to the nominee holding first place of the lists submitted by Shareholders other than the majority Shareholder within the meaning of art. 148, paragraph II of Legislative Decree 58/1998.
The Alternate Auditors deemed elected shall be the first nominee of the list that obtained the highest number of votes of the lists submitted by Shareholders other than the majority Shareholder pursuant to art. 148, para. II of Legislative Decree 58/1998.
In the event of a tie in the votes for two or more lists, the nominees in the list submitted by the Shareholder with the highest percentage shareholding or, if this is not possible, the largest number of Shareholders, shall be deemed elected;
f) the first nominee that obtained the highest number of votes on the list submitted by non-controlling shareholders shall be the Chairman of the Board of Statutory Auditors. The preceding paragraph shall apply in the event of a tie;
g) in the event that only one list is submitted, the first three nominees shall be deemed elected Standing Auditors and the next two Alternate Auditors. Nominees shall deemed be elected in the order they are listed. The first nominee on the list shall be the Chairman.
The members of the Board of Statutory Auditors are required to comply with the cumulative number of other positions as provided by relevant laws and regulations.
In the event of a decease, withdrawal or expiry of the term of appointment of a Statutory Auditor, the vacating Statutory auditor shall be replaced by the first Alternate taken from the same list as the vacating Statutory Auditor. In the event that the Statutory Auditor requiring replacement is the Chairman, the Board of Statutory Auditors shall be chaired by the Alternate Auditor replacing the vacating Chairman until the next Shareholders' Meeting.
The preceding provisions with respect to the election of Statutory Auditors shall also be applicable to the Shareholders' Meeting that is required to appoint Standing and Alternate Statutory Auditors and the Chairman of the Board of Statutory Auditors to assure that the Board is complete following the replacement of a member.
In the event that it is not possible to appoint a Board of Statutory Auditors or make other appointments and/or additions to keep the Board whole in accordance with the above, the Shareholders' Meeting shall proceed in accordance with law.

Art. 23 Meetings of the Board of Statutory Auditors
The Board of Statutory Auditors shall meet every ninety days. Meetings may be held using teleconference and video conference techniques provided that it is possible for all participants to be identified and it is possible for them to follow deliberations and participate in them in real time.
The Board of Statutory Auditors shall be regularly constituted if attended by the majority of auditors. Resolutions shall be passed by absolute majority.

Art. 24 Audit of the accounts
The Company's accounts shall be audited by auditors or independent auditors entered in the register held pursuant to and in application of Legislative Decree 39/2010.
The independent auditors mandated to conduct the audit of the accounts shall be appointed at the Shareholders' Meeting, when their remuneration is also set, on the reasoned proposal of the Board of Statutory Auditors and their appointment may be withdrawn in compliance with the legal provisions in force.
The term of the appointment shall be determined by the relevant provisions and may be renewed.

Chapter VI

Art. 25 Financial year
The Company's financial year shall end on 31 December of every year.
The Company shall approve the financial statements and publish the annual financial statements within one hundred twenty days of the year end.

Chapter VII

Art. 26 Rights of Joint Representatives
Based on written communications and/or special meetings with directors at the Company's offices, the Board of Directors keep the Joint Representatives of Savings Shareholders, bondholders and holders of other non-participating financial instruments sufficiently informed with respect to the Company's operations that can influence the prices of the various classes of shares, bonds and other financial instruments in issue.

Chapter VIII

Art. 27 Duration of the Company

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

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

Chapter IX

Art. 28 Liquidation of the Company

The Company shall be liquidated in accordance with law.

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

Consolidated financial statements at 31 December 2010

Consolidated financial statements at 31 December 2010

Consolidated statement of financial position

(thousands of Euro)	*note*	31.12.2010	*of which related parties*	31.12.2009	*of which related parties*
Property, plant and equipment	*4.1*	583,873		594,217	
Investment property	*4.2*	28,603		23,728	
Goodwill and consolidation differences	*4.3*	114,582		114,897	
Other intangible assets	*4.4*	3,490		3,528	
Investments in subsidiaries and associates	*4.5*	17,301	*17,301*	6,526	*6,526*
Investments in other companies	*4.5*	1,908	*1,908*	258	*258*
Investments in equity-accounted investees	*4.5*	21,951	*21,951*	3,958	*3,958*
Other non-current assets	*4.6*	25,501		28,878	
Non-current financial assets	*4.7*	115,686		111,923	
Deferred tax assets	*4.20*	47,033		34,867	
NON-CURRENT ASSETS		**959,928**		**922,780**	
Inventories	*4.8*	622,054		469,512	
Trade receivables	*4.9*	146,505	*10,462*	140,129	*21,802*
Other current receivables and assets	*4.10*	26,180	-	27,186	*5*
Current financial assets	*4.11*	140,242	*4,597*	100,912	*1,283*
Cash and cash equivalents	*4.12*	39,751		108,964	
Current assets held for sale	*4.23*	86,393	*86,393*	-	
CURRENT ASSETS		**1,061,125**		**846,703**	
TOTAL ASSETS		**2,021,053**		**1,769,483**	
Share capital		297,014		250,015	
Other reserves		189,572		174,082	
Treasury shares	*2.11*	(2,888)		(2,888)	
Retained earnings		15,191		14,395	
Consolidation reserves	*4.13*	(29,267)		8,135	
Reserve for deferred tax	*4.13*	794		65	
Loss for the period		(18,351)		(23,929)	
Equity attributable to owners of the Parent	***2.11***	**452,065**		**419,875**	
Equity attributable to non-controlling interests		4,952		2,928	
TOTAL EQUITY	***2.11***	**457,017**		**422,803**	
Employee benefits	*4.14*	152,757		152,382	
Deferred tax liabilities	*4.20*	138,135		111,550	
Financial payables and liabilities	*4.15*	316,875		363,075	
Other non-current liabilities	*4.16*	13,740	*1,797*	14,266	*1,446*
Provisions for risks and charges	*4.17*	137,240		136,113	
NON-CURRENT LIABILITIES		**758,747**		**777,386**	
Financial payables and liabilities	*4.18*	197,841	*2,230*	237,980	*2,432*
Trade payables	*4.19*	410,772	*6,027*	209,657	*14,064*
Other current liabilities	*4.19*	103,501	*466*	94,714	*160*
Provisions for risks and charges	*4.17*	24,910		26,943	
Current liabilities held for sale	*4.23*	68,265	*68,265*	-	
CURRENT LIABILITIES		**805,289**		**569,294**	
TOTAL EQUITY AND LIABILITIES		**2,021,053**		**1,769,483**	

Consolidated statement of comprehensive income

(thousands of Euro)	note	31.12.2010	of which related parties	31.12.2009	of which related parties
Revenue from sales and services	5.1	2,718,666	16,408	1,949,367	32,208
Change in inventories of finished goods and semi-finished products		13,485		(23,085)	
Capitalised internal work		2,712		1,823	
Other operating income	5.2	20,734	30	21,482	1,428
Purchases and change in raw materials	5.3	(2,015,961)	(27,579)	(1,320,573)	(42,718)
Personnel expense	5.4	(332,921)	(721)	(301,914)	(784)
Amortisation, depreciation and impairment losses	5.5	(50,562)		(56,743)	
Other operating costs	5.6	(321,218)	(3,075)	(270,969)	(2,837)
Operating profit (loss)		**34,935**		**(612)**	
Financial income	5.7	10,730	273	14,211	1,203
Financial expense	5.7	(32,063)	(283)	(29,136)	(94)
Share of profit of equity-accounted investees	5.8	(10,735)	(10,735)	-	
Profit (loss) before taxes		**2,867**		**(15,537)**	
Current taxes	5.9	(4,185)		(10,179)	
Deferred taxes	5.9	(15,047)		2,288	
Total income taxes		**(19,232)**		**(7,891)**	
Loss from continuing operations		**(16,365)**		**(23,428)**	
Loss from discontinued operations		(1,442)	(1,442)	-	
Loss for the period		**(17,807)**		**(23,428)**	
Other components of total comprehensive income (loss):					
Gains/(losses) on translating the financial statements of foreign operations		1,302		(625)	
Net change in the cash flow hedge reserve		(448)		-	
Revaluation of real estate assets (IAS 40 P. 61)		1,501		-	
Taxes on other components of total comprehensive income		(347)		-	
Other components of total comprehensive income after taxes		**2,008**		**(625)**	
Total comprehensive loss for the period		**(15,799)**		**(24,053)**	
Profit/(loss) for the period attributable to:					
non-controlling interets		544		501	
owners of the Parent		(18,351)		(23,929)	
Loss for the period		**(17,807)**		**(23,428)**	
Total comprehensive income (loss) attributable to:					
non-controlling interets		760		(399)	
owners of the Parent		(16,558)		(24,452)	
Total comprehensive loss for the period		**(15,799)**		**(24,053)**	

Earnings per share (Euro):	**31.12.2010**	**31.12.2009**
basic earnings/(loss) per share	(0.0526)	(0.0663)
diluite earnings/(loss) per share	(0.0526)	(0.0663)

Statement of changes in consolidated equity at 31 December 2010

(Thousand of Euro)	Share capital	Other reserves	Treasury shares	Retained earnings	Consolidation reserve	Other comprehensive income	Profit/(loss) for the period	Total equity attributable to owners of the Parent	Equity attributable to non-controlling interests	Total equity
Equity at 31.12.2009	**250,015**	**174,082**	**(2,888)**	**14,395**	**8,135**	**65**	**(23,929)**	**419,875**	**2,928**	**422,803**
Allocation of Parent's profit/(loss)		182		796			(3,629)	(2,651)		(2,651)
Allocation of subsidiaries' profit					(27,558)		27,558	-		-
Dividends and allocations to the Board of Directors									-	-
Issue of new shares (exercise of warrants)	13							13		13
Share capital increase	23,246							23,246		23,246
(Purchase) sale of treasury shares								-		-
Deferred taxes recognised in equity						23		23		23
Expiry of stock option		243						243		243
reverse demerger of iNTEk S.p.A.	23,740	15,464						39,204		39,204
Other changes (*)		(399)			(10,930)	-		(11,329)	1,264	(10,065)
Other components of total comprehensive income					1,086	706		1,792	216	2,008
Total losses/income recognised in equity	**-**	**-**	**-**	**-**	**1,086**	**706**	**-**	**1,792**	**216**	**2,008**
Profit/(loss) for the period							(18,351)	(18,351)	544	(17,807)
Total comprehensive income	**-**	**-**	**-**	**-**	**1,086**	**706**	**(18,351)**	**(16,559)**	**760**	**(15,799)**
Equity at 31.12.2010	**297,014**	**189,572**	**(2,888)**	**15,191**	**(29,267)**	**794**	**(18,351)**	**452,065**	**4,952**	**457,017**
Reclassification of treasury shares	(2,888)		2,888					-		-
Equity at 31.12.2010	**294,126**	**189,572**	**-**	**15,191**	**(29,267)**	**794**	**(18,351)**	**452,065**	**4,952**	**457,017**

(*) The negative change in consolidation reserves is due largely to the initial consolidation of the Drive Group.

At 31 December 2010 the parent directly held 135,831 savings shares and 8,212,755 ordinary shares with no par value, after the split by the means of the allocation of three shares for every two held carried out on 08.02.2010. The same shares were then reclassified in full and thus reduced the share capital.

Statement of changes in consolidated equity at 31 December 2009

(Thousand of Euro)	Share capital	Other reserves	Treasury shares	Retained earnings	Consolidation reserve	Other comprehensive income	Profit/(loss) for the period	Total equity attributable to owners of the Parent	Equity attributable to non-controlling interests	Total equity
Equity at 31.12.2008	**250,009**	**172,276**	**(2,349)**	**5,910**	**98,500**	**131**	**(68,651)**	**455,826**	**2,529**	**458.355**
Allocation of Parent's profit/(loss)		12,539		8,485			(21,024)	-		-
Allocation of subsidiaries' profit					(89,675)		89,675	-		-
Dividends and allocations to the Board of Directors		(11,488)						(11,488)		(11.488)
Available reserves	-	-						-		-
Issue of new shares (exercise of warrants)	6							6		6
(Purchase) sale of treasury shares			(539)					(539)		(539)
Deferred taxes recognised in equity						(66)		(66)		(66)
Expiry of stock option					(167)			(167)		(167)
Expiry of stock option		755						755		755
Other components of total comprehensive income (loss)					(523)			(523)	(102)	(625)
Total losses/income recognised in equity	**-**	**-**	**-**	**-**	**(523)**	**-**	**-**	**(523)**	**(102)**	**(625)**
Profit/(loss) for the period							(23,929)	(23,929)	501	(23.428)
Total comprehensive income (loss)	**-**	**-**	**-**	**-**	**(523)**	**-**	**(23,929)**	**(24,452)**	**399**	**(24.053)**
Equity at 31.12.2009	**250,015**	**174,082**	**(2,888)**	**14,395**	**8,135**	**65**	**(23,929)**	**419,875**	**2,928**	**422.803**
Reclassification of treasury shares	(2,888)		2,888					-		-
Equity at 31.12.2009	**247,127**	**174,082**	**-**	**14,395**	**8,135**	**65**	**(23,929)**	**419,875**	**2,928**	**422.803**

At 31.12.09 the Parent directly held 90,555 savings shares and 5,475,170 ordinary shares with no par value. The shares were subsequently reclassified and offset against share capital.

Consolidated statement of cash flows, indirect method

(thousands of Euro)		31.12.2010	31.12.2009
A) Cash and cash equivalents at the beginning of the year	*rif. Note*	**108,964**	**38,814**
Profit (loss) before taxes		2,867	(15,537)
Depreciation and amortisation		45,848	56,273
Impairment losses on current assets		5,568	2,707
Impairment losses (reversals of impairment losses) on non-current assets other than financial assets		4,714	470
Impairment losses (reversals of impairment losses) on current and non-current financial assets		6,317	290
Losses (gains) on disposal of non-current assets		(236)	(4,355)
Change in provisions for pensions, post-employment benefits and stock options		144	(413)
Change in provisions for risks and charges		(1,196)	(5,484)
Decrease (increase) in inventories		(151,348)	(50,814)
Share of profit of equity-accounted investees		10,735	-
(Increase) decrease in current receivables		(9,498)	(39,188)
Increase (decrease) in current payables		208,905	53,986
Changes from currency translation		(286)	(1,238)
Decrease (increase) in LME and metals forward contracts		19,098	128,235
Paid taxes		(4,764)	(7,230)
(B) Cash flows from operating activities		**136,868**	**117,702**
(Increase) in non-current intangible assets and property, plant and equipment	*4.22*	(44,261)	(37,779)
Decrease in non-current intangible assets and property, plant and equipment		1,693	6,174
(Increase) decrease in investments		(30,418)	(5,712)
(Increase) decrease in available-for-sale financial assets		-	-
Increase/decrease in other non-current assets/liabilities		6,779	545
Dividends received		260	1,463
(C) Cash flows from investing activities		**(65.947)**	**(35,309)**
Equity cash variations	*4.22*	22,860	6
(Purchase) sale of treasury shares		-	(539)
Increase (decrease) in current and non-current financial payables		(107,191)	109,415
(Increase) decrease in current and non-current financial receivables		(45,582)	(109,638)
Dividends paid and profits distributed		(2,651)	(11,488)
(D) Cash flows from financing activities		**(132,564)**	**(12,244)**
(E) Change in cash and cash equivalents (B)+(C)+(D)		**(61,643)**	**70,150**
(F) Change in scope of consolidation	*4.22*	**5,742**	**-**
(G) Total cash flows used in discontinued operations		**(13,312)**	**-**
(H) Cash and cash equivalents at the end of the year (A)+(E)+(F)+(G)		**39,751**	**108,964**

In the statement of cash flows the amounts relating to positions or transactions with related parties are not shown separately since they are not significant with the exception of the reverse demerger of iNTEK S.p.A., the most important effects of which are shown in note 4.22.

Accounting policies and notes

1. General information

KME Group S.p.A. (KME) and its subsidiaries (collectively the "Group") operate mainly in the sector of semi-finished products in copper and its alloys, in services and in the renewable energy sector.
The Group owns industrial plants in various European countries and sells its products in all the major countries of the world.
KME Group is a joint stock Company registered in Italy at the Florence Companies Register, no. 00931330583, and its shares are listed on the Mercato Azionario Telematico (Borsa Italiana's electronic market) organised and operated by Borsa Italiana S.p.A..
The consolidated financial statements at 31 December 2010 were approved by the Board of Directors on 22 March 2011 and will be published in accordance with legal requirements.
Although it is controlled by Quattroduedue S.p.A., the Company does not consider that its operations are managed and coordinated by Quattroduedue S.p.A. pursuant to articles 2497 *et seq.* of the Italian Civil Code and article 37 of the Market Regulations due to the fact that:

a. it has autonomous powers of negotiation with respect to contractual arrangements with customers and suppliers;
b. it does not have with the parent or any other company under it any centralised treasury arrangement;
c. the number of independent Directors (4 out of 12) is such as to ensure that their opinions have a material influence on board decisions.

As also indicated in the Directors' Report, there were no significant events after the end of the year.

During the first half of 2010 the partial, proportional reverse demerger of iNTEk S.p.A. into KME Group S.p.A. took place (hereafter in short also only the "Demerger").
The operation caused a share capital increase to service the swap and the allocation to KME Group of assets and liabilities of INTEK's equity, consisting largely of investments.

The investments transferred were:

- **ErgyCapital S.p.A.** (investment of 51.94%, of which 46.38% obtained through the Demerger, with a total carrying amount, shares plus warrants, of Euro 34.4 million at the time of the Demerger, and 8.68% already directly held by KME Group S.p.A.): an investment company, specialised in the renewable energy and energy saving sectors, the shares of which are traded on the Electronic Market for Investment Vehicles (MIV) organised and managed by Borsa Italiana. The company's strategy is to diversify its investments across different power generation technologies (e.g., photovoltaic, biomass, wind power) and different segments of the industry from the basic technology through to plant construction and generation.
  After the Demerger, KME Group replaced iNTEk S.p.A. as a party to the Shareholder Agreement, which was originally signed on 10 December 2007, between iNTEk S.p.A. and Aledia S.p.A., with respect to the ordinary shares of ErgyCapital S.p.A.
  The Agreement, which is consultative in nature in addition to regulating voting, also restricts the transfer of restricted financial instruments. This effectively ensures the joint control over the Company. At 31 December 2010, the agreement covered 39,328,835 ordinary shares of ErgyCapital or 41.47% of the share capital, 25,412,895 of which, or 26.80% of share capital, held by KME Group and 13,915,940, or 14.67% of the share capital, held by Aledia.
  In July 2010, ErgyCapital increased its share capital by Euro 9.9 million. KME Group subscribed to a total of 8,796,287 shares for a total of Euro 4.6 million. On completion of the capital increase, KME Group's total investment in ErgyCapital was 51.94%, with 46.38% being held as a non-current investment and the remainder as a current investment held for trading.

- **Drive Rent S.p.A.** (90% investment with a carrying amount of Euro 30 million): a service company involved in the management of corporate fleets of motor vehicles. It is engaged in a variety of businesses: long-term car hire, third-party fleet management, the rental of replacement motor vehicles to auto repair businesses, corporate accommodation services and the management of a car park in the centre of Milan.
  The remaining 10% of Drive Rent's share capital is held by three individuals, one of whom, Ludovico Maggiore, is the managing director of Drive Rent S.p.A.

Drive Rent S.p.A. operates independently, determining its own operating and financial policies.
On 30 November 2010 the guidelines were approved for the project to merge Drive Rent S.p.A. into Cobra Automotive Technologies S.p.A. The swap rate was set by the respective Boards of Directors at 383.7 Cobra Automotive Technologies shares for every 1 Drive Rent S.p.A. share.
On 15 March 2011 the Shareholders of Drive Rent S.p.A. and Cobra S.p.A. approved the merger of Drive Rent S.p.A. into Cobra Automotive Technologies S.p.A.; it should be recalled that the merger is subordinate to it not creating an obligation to make a takeover bid pursuant to articles 106 and 109 of Legislative Decree 58/98.
The merger is currently envisaged to be completed by the end of the first half of 2011. Since the transaction has become likely pursuant to IFRS 5 – Non-current assets held for sale and discontinued operations, the Drive Group is classed as a "Discontinued operation" and has been represented as such in the financial statements; this has caused the following reclassifications:

- income and cost items have been classified under "Net profit/loss of discontinued operations" on the statement of comprehensive income;
- current and non-current assets have been classified under "Current assets held for sale;
- current and non-current liabilities have been classified under "Current liabilities held for sale";
- all cash flows have been reclassified under "Total cash flows used in discontinued operations".

In other words, the consolidated financial statements of the KME Group as drafted entail the line-by-line consolidation of the subsidiaries destined to remain in the scope of the Group and of the Drive Group and are highlighted separately. A specific section in the notes, to which reference should be made, provides an analytical breakdown of the content of the items relating to "Current assets and liabilities held for sale" and of the "Net profit/loss of discontinued operations".

- **Culti S.r.l.** (investment of 40% with a carrying amount of Euro 1.0 million, which increased to 100% following the Demerger to total Euro 3.4 million): the company is engaged in residential interior design and household goods in the furnishings and life style sector. The company is managed by a Sole Director and operates independently, determining its own operating and financial policies. On 23 December 2010 the investment was transferred to KME Partecipazioni S.r.l. which was set up on 3 December 2010.

In addition to the demerged net assets transferred to KME Group, there were also a financial payable to Intesa Sanpaolo S.p.A. of Euro 31.1 million and loans and receivables of Euro 3.9 million. For further details regarding the aforementioned transaction, refer to the "Information Document" which can be consulted at www.kme.com.

2. Accounting policies

2.1 Basis of presentation

The consolidated financial statements as at and for the year ended 31 December 2010 have been prepared pursuant to article 154 ter of Legislative Decree 58/1998.
The consolidated financial statements were prepared in compliance with the requirements for measurement and recognition under International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and endorsed by the European Commission in accordance with the procedure set forth in article 6 of Regulation (EC) 1606/2002 of the European Parliament and Council of 19 July 2002 and with requirements in implementation of article 9 of Legislative Decree 38/2005.
In preparing this consolidated financial statements, the Directors have applied the concepts of accruals, going concern, clarity, significance, materiality, reliability, neutrality, prudence and comparability and applied accounting policies consistent with those used for the consolidated financial statements as at and for the year ended 31 December 2009.

Moreover, from this year, the fair value of "LME and metal buyer/seller contracts" and "(Gains)/losses on LME trading", which were previously included in "Other operating costs" are now grouped and reported under "Purchases of and change in raw materials". This classification improves the comparability of "Other operating costs" and "Purchases of and change in raw materials" since both amounts are now reported net of raw materials price risk hedges (above all for copper). It is not permitted by IAS 39 to report these financial instruments as hedging instruments even though they are acquired to manage price risks.
The comparative "Purchases of and change in raw materials" reported in the Statement of comprehensive income at 31 December 2009 includes a reclassification in this connection of Euro 105.8 million.

In addition, the Group some time ago started a policy of rationalisation and monitoring of various processes. Since 2009, thanks also to the OpEx program, the Group has been committed to looking for solutions and technological innovations as well as the constant and preventative maintenance of its own strategic machinery. The continuous search for innovation and quality has enabled the improvement and enhancement of the manufacturing capacity of the most important plant and machinery in terms of company production. To this end and on the basis of the requirements of the key accounting standard (IAS 16 para. 51), the directors, as from the first half year, have analysed the residual possibility of using the company's most important plant and machinery, from both an economic and manufacturing viewpoint, in order to estimate the most representative residual life.

In the light of these events and situations, the directors decided it was appropriate to seek help in estimating the residual useful life from a leading company in the sector, SGS Italia S.p.A.

The change in the useful life was applied, on the basis of IAS 16 para. 51 and IAS 8 para. 32, for the future as from 1 January 2010, thus causing a reduction in "amortisation, depreciation and impairment losses", compared to the previous year of around 10.9 million Euro.

In addition the following standards, amendments and interpretations, some of which were revised as part of the 2009 annual improvements conducted by the IASB, which became effective on or after 01 January 2010, have been applied for the first time:

1. **IAS 27 Consolidated and separate financial statements** (2008) requires changes in a parent's ownership interests in a subsidiary that do not result in a loss of control to be accounted for in equity. In the event control is lost but an equity interest in the company is maintained, the remaining equity interest must be recognised at fair value from the date control is lost and any gain or loss must be recognised in profit or loss. The changes to IAS 27 had no impact on the consolidated financial statements at 31 December 2010.

2. As part of IASB's Annual Improvements for 2008, **IFRS 5 - Non-current assets held for sale and discontinued operations** was modified to require companies with committed plans to dispose of equity interests, which will result in the loss of control of an investee, to reclassify all of the subsidiary's assets and liabilities as available-for-sale notwithstanding the fact that the company will still have a non-controlling equity interest in the subsidiary subsequent to the planned disposal. The amendment, which is required to be applied prospectively from 1 January 2010, clarified that IFRS 5 and other IFRS specifically referring to non-current assets (or disposal groups) classified as available-for-sale or discontinued operations should contain all of the disclosures required for these types of assets and transactions.

3. **IFRS 2 - Share-based payments (improvement):** the amendment, which was required to be applied from 1 January 2010, clarified that as a result of the change to the definition of business combinations under IFRS 3, contributions of a business unit on formation of a joint venture and common control transactions are not within the scope of IFRS 2. There was no material variation of the financial information reported at 31 December 2010 as a result of the adoption of the improvement.

4. **IAS 7 - Statement of cash flows:** The amendment, which is required to be applied from 1 January 2010, requires that expenditure resulting in a recognised asset can be classified as cash flow from investing activities, whereas expenditure not resulting in a recognised asset (as could be the case for advertising and personnel training expenditure) must be classified cash flow from operating activities.

5. **IAS 36 - Impairment of assets:** the amendment requires that all operating segments or combinations of operating units to which goodwill is attributed for the purposes of impairment testing may not be larger than an operating segment as defined by paragraph 5 of IFRS 8 before the combination permitted under paragraph 12 of IFRS 8 for segments engaging in similar business activities or having other similarities. There was no material variation of the financial information reported at 31 December 2010 as a result of the adoption of the amendment.

6. **IAS 38 - Intangible assets**: the 2008 revisions to IFRS 3 require, subject to the availability of sufficient information, the measurement, at fair value, of an intangible asset that was acquired in a business combination to the extent that the intangible asset is separately identifiable or was derived from rights under contract or law. IAS 38 was consequently amended to reflect the revision of IFRS 3. The amendment also clarified the description of measurement techniques commonly used by entities when measuring the fair value of intangible assets acquired in a business combination that are not traded in active markets. Specifically, the measurement

techniques can either include the net present value of projected cash flows generated by the asset, estimated avoided costs through possession of the asset which is not required to be used under licence or the costs required to recreate or replace the asset (similar to the cost method).

7. **IAS 39 - Financial instruments:** recognition and measurement: this amendment clarifies the standard's definition of an underlying that is hedged in certain circumstances. There was no material variation of the financial information reported at 31 December 2010 as a result of the adoption of the amendment.

8. **IAS 17 – Leasing:** as a result of a revision to IAS 17, leasehold landed property will also be subject to the test under IAS 17 for the purposes of classifying the lease either as an operating or a finance lease regardless of whether title passes on the expiry of the lease. Prior to these changes, the standard required that if the land title to leasehold property did not pass on expiry of the lease, the lease would be classified as an operating lease with an indefinite useful life. All existing land held under leases which have not expired at the date of adoption are required to be separately measured with any retrospective recognition of a new lease accounted for as if the lease was a finance lease.

10. **IFRS 8 – Operating segments:** Operating segments: IFRS 8 has introduced the concept of "management approach" with respect to segment reporting and requires a change in segment presentation and disclosure in line with information that is provided internally to senior Group management for the assessment of the performance of the segment for the purposes of resource allocation. A full description of the application of IFRS 8 is contained in paragraph 7.

11. **IFRIC 17 – Distributions of non-cash dividends to shareholders:** this introduces the following clarification: a dividend payable should be recognised when the dividend is appropriately authorised and is not at the discretion of the entity; dividend payables should be measured at the fair value of the assets to be distributed; the difference between the dividends paid and the carrying amount of the net assets distributed must be recognised in profit or loss.

The following amendments, improvements and interpretations, which are effective as from 1 January 2010, address situations and cases which are not relevant for the Group at the date of these financial statements, but which could have accounting effects on future transactions or agreements:
- IFRIC 18 – Transfers of assets from customers
- IFRIC 15 – Agreements for the construction of real estate
- IFRIC 16 – Hedges of a net investment in a foreign operation

The Group has not yet applied these accounting standards which, although already issued by the IASB, become effective after the date of these consolidated financial statements and are listed subsequently at paragraph 2.23.

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

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

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

2.2 Basis of Consolidation

(a) Subsidiaries
Subsidiaries are all those companies over which KME exercises control of financial and operating policies, which is generally accompanied by exercising more than 50% of the voting rights in corporate bodies.
The assets and liabilities, income and expenses of the subsidiaries consolidated on a line-by-line basis have been included in the consolidated financial statements with the investee's equity being reduced by the net carrying amount of the investee's assets and liabilities on the date that control was acquired. Any difference, if positive, is recognised as "goodwill and consolidation differences" and in profit or loss, if negative. The portion of equity and profit attributable to non-controlling interests is recognised under the relevant items. After initial recognition, goodwill is measured at cost less accumulated impairment losses as required by IAS 36 - Impairment of Assets.

On initial adoption of IFRS, KME Group S.p.A. elected not to retrospectively apply IFRS 3 - Business combinations as permitted under IFRS 1.
At the IFRS transition date, there were no changes in the scope of consolidation, except for insignificant subsidiaries and companies, the consolidation of which has no material effect. These are generally companies with operations consisting entirely of sales. Ignoring such companies has no material effect on the Group's financial statements and will have no influence on the business decisions of the financial statements' users.
Unrealised profits on intercompany trading, if material, are eliminated. Receivables, payables, income, expenses, guarantees, commitments and contingencies in connection with transactions between and among consolidated companies are also eliminated. Intercompany losses are not eliminated as they are deemed to represent an impairment loss on the asset sold. All financial statements of subsidiaries have been adjusted to assure consistency of accounting policies with those of the Group.
The financial year of all consolidated subsidiaries is the calendar year.

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

List of subsidiaries consolidated on a line-by-line basis

Company name	Country	Currency	Share/quota Capital	Activity	% control direct	% control indirect
KME Group S.p.A. (*)	Italy	Euro	297,013,585	Finance	Parent	
KME A.G. (**)	Germany	Euro	142,743,879	Holding	100.00%	
KME Germany A.G. & Co. K.G.	Germany	Euro	200,003,000	Copper and copper-alloy		100.00%
KME Italy S.p.A.	Italy	Euro	103,839,000	Copper and copper-alloy		100.00%
KME France S.A.S.	France	Euro	15,000,000	Copper and copper-alloy		100.00%
KME Spain S.A.	Spain	Euro	1,943,980	Trade		100.00%
KME LOCSA S.A.	Spain	Euro	10,040,000	Copper and copper-alloy		100.00%
KME Verwaltungs und Dienst. mit beschr.	Germany	Euro	10,225,838	Copper and copper-alloy		100.00%
KME Architectural Metals GmbH	Germany	Euro	25,564	Holding		100.00%
Kabelmetal Messing Beteiligungsges mbH Berlin	Germany	Euro	4,514,200	Real estate		100.00%
KME Architectural Metals GmbH & CO KG	Germany	Euro	1,329,359	Copper and copper-alloy		100.00%
KME Cuprum S.A.	Spain	Euro	60,910	Trade		100.00%
KME Bertram GmbH	Germany	Euro	300,000	Services		100.00%
KME Ibertubos S.A.	Spain	Euro	332,100	Copper and copper-alloy		100.00%
KME Yorkshire Ltd	UK	GBP	10,014,603	Copper and copper-alloy		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 and copper-alloy		100.00%
KME Brass France S.A.S.	France	Euro	7,800,000	Copper and copper-alloy		100.00%
KME Moulds Mexico S.A. de C.V.	Mexico	MXN	7,462,226	Trade		100.00%
Dalian Dashan Chrystallizer Co. Ltd	China	RMB	10,000,000	Copper and copper-alloy		70.00%
Dalian Surface Machinery Ltd	China	RMB	5,500,000	Copper and copper-alloy		70.00%
Dalian Heavy Industry Machinery Co. Ltd.	China	RMB	10,000,000	Copper and copper-alloy		70.00%
KME Brass Italy S.r.l.	Italy	Euro	15,025,000	Copper and copper-alloy		100.00%
KME Service S.r.l.	Italy	Euro	115,000	Finance		100.00%
EM Moulds S.r.l.	Italy	Euro	115,000	Trade		100.00%
KME Recycle S.p.A.	Italy	Euro	2,000,000	Finance	100.00%	
Drive Rent S.p.A.	Iltaly	Euro	2,500,000	Services	90.00%	
Drive Service S.p.A.	Italy	Euro	1,000,000	Services		90.00%
Autonostop S.r.l.	Italy	Euro	100,000	Services		90.00%
Easydriver Car Services Espana S.L.U.	Spain	Euro	232,880	Services		90.00%
KME Partecipazioni S.r.l.	Italy	Euro	10,000	Holding	100.00%	
Immobiliare Agricola Limestre S.r.l.	Italy	Euro	110,000	Real estate		100.00%
KME Moulds Service Australia Pty Limited	Australia	AUD	100	Trade		65.00%
KME Service Russland Ltd	Russia	RUB	10,000	Trade		65.00%

(*) Share capital at the date of publication of these consolidated financial statements.
(**) As from 18 June 2010 KME Germany A.G. changed its name to KME A.G.

At the date of these consolidated financial statements, following the partial, proportional reverse demerger of the former parent Intek S.p.A. into KME Group S.p.A., there were the following changes in the scope of consolidation:

1) line-by-line consolidation and subsequent reclassification of the balances pursuant to IFRS 5 of the Drive Group consisting of the subsidiary Drive Rent S.p.A. and the subsidiaries Drive Service S.r.L., Autonostop S.r.l. and Easydriver Car Services Espana S.L.U.;

2) consolidation on an equity basis for the investment in ErgyCapital S.p.A. since the company is subject to joint control;

The results of operations of these investees have been consolidated as from 1 January 2010 to 31 December 2010, despite the partial, proportional reverse demerger of the former parent iNtek S.p.A. into KME Group S.p.A being effective as from 22 March 2010. The effect due to the demerger of the results of operations for the first 81 days of the year was not significant.

In addition, at the date of these financial statements the following companies were consolidated for the first time: KME Service Russland Ltd, KME Moulds Service Australia Pty, KME Moulds Mexico S.A. All these companies operate in the trading of "ingot moulds" and have been consolidated with a view to further development of the sector which is envisaged in the Group's strategic plan.

In order to comply with a legal provision in Germany, it is stated that:
"Pursuant to Art. 264b HGB (German Commercial Code) the subsidiaries KME Germany AG & Co. KG, Osnabrück, and KME Architectural Metals GmbH & Co. KG, Greven-Reckenfeld, and pursuant to art. 264 para. 3 HGB (German Commercial Code) KME Brass Germany GmbH, Osnabrück, do not prepare a "management report" and do not publish their annual report".

(b) Associates
Associates are companies in which KME exercises significant influence but not control. Significant influence is deemed to exist when KME holds, directly or indirectly through subsidiaries, 20% or more of the voting rights in the investee. Investments in associates are consolidated using the equity method.
Under the equity method, the investment is initially recognised at cost and then adjusted to recognise the percentage of post acquisition profits or losses attributable to the Group. Dividends received are deducted from the carrying amount of the investment.
The associate Metalbuyer S.p.A which was bought on 30 June 2009 through the subsidiary KME Recycle S.p.A. belongs to this category.

(c) Joint venture
A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control. Joint control is the contractually agreed sharing of control over an economic activity.
Joint ventures are equity accounted as required by IAS 31, paragraphs 38-41.
At the date of these consolidated financial statements, and following the partial, proportional reverse demerger of iNTEK S.p.A., the Group had jointly controlled assets arising from its investment, represented by 43,981,434 ordinary shares, 46.38% of the share capital of ErgyCapital S.p.A. in which, albeit without equal voting rights, control over the business and strategy of the investee is shared with the partner Aledia S.p.A. by virtue of the contractual agreements which bind 25,412,895 ordinary shares of ErgyCapital S.p.A., 26.80% of the share capital held by KME Group S.p.A. In addition, the Group continues to hold, with the same objectives, aims and short-term view, 5,277,893 ordinary shares, 5.6% of the share capital of ErgyCapital S.p.A. classified, as in previous years, under financial assets held for trading.

2.3 Foreign currency transactions

(a) Functional and presentation currency
All amounts are expressed in euros which is also the Parent's functional currency.

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

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

1 Euro	0.8881 GBP	31.12.2009
1 Euro	0.8608 GBP	31.12.2010 used for translation of the statement of financial position
1 Euro	0.8589 GBP	2010 average used for translation of the statement of comprehensive income
1 Euro	9.8350 RMB	31.12.2009
1 Euro	8.8220 RMB	31.12.2010 used for translation of the statement of financial position
1 Euro	9.0005 RMB	2010 average used for translation of the statement of comprehensive income
1 Euro	18.9223 MXN	31.12.2009
1 Euro	16.5475 MXN	31.12.2010 used for translation of the statement of financial position
1 Euro	16.7871 MXN	2010 average used for translation of the statement of comprehensive income
1 Euro	1.6008 AUD	31.12.2009
1 Euro	1.3136 AUD	31.12.2010 used for translation of the statement of financial position
1 Euro	1.4462 AUD	2010 average used for translation of the statement of comprehensive income
1 Euro	43.1540 RUB	31.12.2009
1 Euro	40.8200 RUB	31.12.2010 used for translation of the statement of financial position
1 Euro	40.3908 RUB	2010 average used for translation of the statement of comprehensive income

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

2.4 Property, plant and equipment

Property, plant and equipment are recognised at purchase or production cost and include directly attributable incidental expenses. Any item of property, plant and equipment consisting of two or more components with varying useful lives, is separately accounted for.
Property, plant and equipment are carried at cost, net of accumulated depreciation and impairment losses, with the exception of land which is not depreciated and is carried at cost net of accumulated impairment losses.
Depreciation is accounted for the month the asset becomes available for use, or when it is potentially able to provide the economic benefits associated with it. Depreciation is charged monthly on a straight line basis until the end of the useful life of the relevant asset or, in the event of disposal, until the last month of use.
The amortisation and depreciation rates as from 2010 have been changed following the recalculation of the residual useful lives as per the study carried out starting in the first half-year and completed only in December 2010, by SGS Italia S.p.A. and described in paragraph 2.1. The new useful lives have been applied as from 1 January 2010 to the plant and machinery subject to the specific analysis, in other words to the plant and machinery of greater economic and manufacturing importance.

For all the other assets the Group has kept the same amortisation and depreciation rates as used previously.

Depreciation is charged based on the following useful lives:

Property	from 25 to 50 years
Plant and machinery	from 10 to 40 years
Other equipment	from 5 to 10 years

Borrowing costs relating to the purchase of property, plant and equipment have been capitalised in compliance with IAS 23.
Replacement parts of significant value are capitalised and depreciated based on the useful life of the asset to which they refer; low value replacement parts are charged to the statement of comprehensive income when the expense is incurred.

The cost of internally produced assets includes material costs and direct labour plus any other directly attributable costs incurred in bringing the asset to its intended location and preparing it for its intended use.
Assets acquired under finance leases are recognised as property, plant and equipment together with the corresponding liability. The cost of the lease is separated into two components: financial expense, recognised in profit or loss, and repayment of principal, recognised as a reduction of borrowings. Assets held under finance leases are recognised at the lower of cost and the present value of minimum lease payments at the inception of the lease. Assets held under finance leases are depreciated over the shorter of the lease term and their useful lives unless there is reasonable certainty that the Group will obtain title to the asset at the end of the lease.

Property, plant and equipment are tested for impairment whenever there is specific objective evidence thereof. The test involves estimating the recoverable amount of the asset, defined as the higher of fair value less costs to sell and value in use, and comparison of the appropriate value with the carrying amount. The recoverable amount is the greater of value in use and fair value less selling costs. Value in use is determined by discounting projected cash flows at a pre-tax discount rate that reflects current market estimates of the time value of money and the risks associated with the relevant asset. To the extent that the recoverable amount is less than the carrying amount, the carrying amount is reduced to the recoverable amount with the difference either being recognised in profit or loss or in a revaluation reserve created on the revaluation of the asset. Subsequent revaluations are treated analogously.
The impairment tests on property, plant and equipment, in the "copper sector" at the date of these financial statements, were developed by determining the "value in use" through the discounted cash flow (DCF) method by discounting the cash flow from operations generated by assets (net of the tax effect) at a discount rate representing the weighted average cost of capital (WACC) between 7% and 8.8% calculated on the basis of the geographic dislocation of the assets in question. The DCF method was applied using as a base the income forecasts and changes in some equity items contained in the Company's plans as drawn up and approved by the Board of Directors for 2011- 2014. These flows have been considered over a limited time horizon which the directors have indicated as the average useful life of the plant (30 years).
The terminal value has been calculated using the assumptions that long-term EBITDA is the EBITDA forecast for 2014, that depreciation is an investment and using a long-term growth rate "g" of zero.
The sensitivity analysis was carried out using a change in the WACC from 7% to 10.8% and in the "g" growth rate from zero to 2%.

2.5 Intangible assets

(a) Goodwill
Goodwill is the difference between the acquisition cost of investments and the fair value of the subsidiaries' assets, liabilities and contingent liabilities on the acquisition date. Goodwill and other intangible assets with indefinite useful lives are not normally amortised. Recoverability of their carrying amounts is, however, tested annually and whenever there is objective evidence of impairment. Any impairment losses recognised are not subsequently reversed.
In particular, for the segment of semi-finished products in copper and its alloys consisting of the subsidiary KME AG and its subsidiaries, the new Plan for 2010-2014 was used, as approved by the Board of Directors of KME Group S.p.A. on 5 August 2010.

Even though the Group's business primarily relates to products for industry and construction, these areas are not considered operating segments pursuant to IFRS 8 due to the fact that the nature of the products, production processes, assets used for the production processes and the methods of distribution are substantially the same. As a result, goodwill subject to this impairment has been allocated to the "semi-finished products in copper and its alloys" segment, which is substantially in line with the scope of consolidation in the consolidated financial statements of the subsidiary KME Germany A.G.

In reference to the impairment test of the "semi-finished products in copper and its alloys" segment, the directors considered the fact that the Company's market capitalisation was considerably below the carrying amount of equity. The directors confirmed that the high volatility of financial markets caused by the unprecedented depth of the economic crisis and low market liquidity had severely penalised stock market prices so that they no longer necessarily reflect the economic value of the Company; however, the recent trend in the share price had shown clear signs of recovery. The directors, nonetheless, verified the impairment test carried out for the interim conso-

lidated financial statements at 30 June 2010 and proceeded to compare the plan data used with the actual performance in 2010 and they found it to be in line with forecasts and the trends expected for 2011, the assumptions and results for which are in line with the contents of the "outlook" in the Directors' Report. This comparison did not reveal any need for impairment to be applied or for further analyses.

(b) Other intangible assets with indefinite lives

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

- from third parties;
- acquired through business combinations; or
- internally generated.

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

2.6 Investment property

These are two building complexes, one located in Limestre and the other in Campo Tizzoro, consisting of land and buildings which are held for leasing or for appreciation of the invested capital or both, and they are not held for sale as part of the normal operations of the company. Such property is not held for the production or supply of the goods and services relating to the company's core business. These assets are initially recognised at fair value with any subsequent changes recognised in profit or loss and are, consequently, not systematically depreciated. The fair value of investment property was appraised, at the end of the year 2010, by recognised and suitably qualified professionals. Based on IAS 40 par. 61, the difference between the carrying amount and the fair value on the classification date of "property, plant and machinery" under the "Investment Property" category is allocated to a specific equity reserve and among other components of the statement of comprehensive income.

2.7 Financial assets and liabilities

For the reasons explained in note 2.2, investments in unconsolidated subsidiaries are carried at fair value or cost less accumulated impairment losses pursuant to IAS 27 par. 38.
Other investments are recognised at fair value through equity. When fair value cannot be reliably determined, the investments are measured at cost adjusted for accumulated impairment losses.
Non-derivative financial assets with fixed or determinable payments or payments which have a specific due date, that the company intends and has the ability to hold until maturity, are designated as "Assets held to maturity". The assets included in this category are measured under the amortised cost method using the effective interest method pursuant to IAS 39.
Financial assets and liabilities acquired or held primarily to be sold or repurchased in the short term and derivative financial instruments not designated as hedging instruments are classified as "Financial assets recognised at fair value through profit or loss" separately indicating those that were classified as such on initial recognition (fair value option). These assets are measured at fair value through profit or loss. This category also includes LME contracts and all metal forward buyer and seller contracts used to hedge raw material price risk.

Non-derivative financial assets and liabilities, except for equity instruments, with fixed or determinable payments, not listed on an active market and not included in any of the above categories, are classified as "Loans and receivables" and are carried at amortised cost using the effective interest method. The amortised cost of current

loans and receivables and all current trade payables and receivables, for which the passage of time has little effect, is deemed to correspond to their fair value.
All other non-derivative financial assets which are not classified in one of the three categories above are classified as "Available-for-sale financial assets" and measured at fair value directly in equity with the exception of any impairment losses.
Treasury shares are measured at historical cost and recognised as a reduction of consolidated equity. In the event of sale, reissue or cancellation, the consequent gains and losses are recognised directly in equity.

Determination of impairment losses

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

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

Pursuant to IAS 28 par. 31 et seq. for investments in equity-accounted investees IAS 39 is applied to determine the need to recognize further impairment losses relating to the net investment. The entire carrying amount of the investment is however tested under IAS 36 for impairment by comparing its recoverable value whenever application of IAS 39 indicates a possible impairment of the investment.

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

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

Measurement at fair value

The fair value of financial assets and liabilities at fair value through profit or loss and available-for-sale assets, on initial recognition, is determined on the basis of the transaction price and is, therefore, equal to the amount paid or received.
Subsequent to and at the end of each reporting period, the fair value of financial instruments listed on an active market is based on market prices. The market prices used for derivatives are the bid prices, whereas ask prices are used for financial liabilities. The fair value of instruments that are not listed on an active market is determined using measurement techniques, based on a series of methods and assumptions relating to market conditions at the end of the reporting period. The fair value of interest rate swaps is calculated with reference to the present value of expected future cash flows. The fair value of forward currency contracts is determined with reference to the forward exchange rate at the end of the reporting period.
Fair value adjustments of derivative instruments not classified as hedging instruments are immediately recognised in profit or loss.
The fair value of non-derivative financial instruments is determined by discounting future cash flows at the market interest rate for the end of the reporting period.
The fair value of price fixing copper buyer and seller contracts is determined with reference to the market price at the end of the reporting period of the contract's metal component compared to the contract price. Fair value also reflects counterparty risk and the time value of money through discounting.

2.8 Factoring of receivables

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

2.9 Inventories

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

- Metal (including the metal content of work in progress and finished goods) is measured at cost on a first-in, first-out basis. This value is reduced at the end of the year so that it becomes aligned with its presumed realizable value, which is the official price at the end of the reporting period plus accessory charges, recorded on the LME market.

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

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

Supplies and consumables are measured at weighted average cost.

2.10 Cash and cash equivalents

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

2.11 Equity

Share capital consists of ordinary and savings shares of no par value, fully subscribed and paid up at the end of the reporting period, reduced by any unpaid calls on capital. As required by IAS 32, the value of treasury shares is reported as a reduction of subscribed share capital, whilst any premium or discount to par value is recognised as an adjustment to other components of equity. Such adjustments are reported in the notes, whilst the historical cost of treasury shares is reported on the face of the statement of financial position as a reduction of equity.
The reserve for treasury shares is no longer used due to the change in presentation introduced by IFRS. The existing balance of the reserve was, consequently, reclassified to the relevant, specific reserves that had been used to create it.
Costs of equity transactions have been charged directly to equity reserves with preference given to the share premium reserve. These charges were subsequently covered during the year through a reduction in available reserves, as resolved at the Shareholders' Meeting of 23 May 2007.

2.12 Receivables and payables

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

2.13 Current and deferred taxes

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

2.14 Employee benefits

Post-employment benefits are payable under plans which, depending on their terms and conditions, are classified either as “defined contribution” or “defined benefit plans”. The Company’s liability under defined contribution plans is limited to the payment of contributions to a separate legal entity (including the Government or a fund), and consists of contributions due at the end of the reporting period. Liabilities under defined benefit plans, such as post-employment benefits, pursuant to article 2120 of the Italian Civil Code, less any plan assets, are determined on the basis of actuarial assumptions and accrued with reference to the length of service required for benefits to become vested. Actuarial gains and losses relating to defined benefit plans deriving from changes in actuarial assumptions or plan terms and conditions are prorated to profit or loss using the corridor method, which entails recognition of the net amount of actuarial gains and losses not recorded at the end of the previous period exceeding the greater of 10% of the present value of the obligation and 10% of the fair value reporting of any plan assets.
Law 296 of 27 December 2006 and subsequent decrees and orders promulgated in 2007 to reform the pension system introduced significant changes to the identity of institutions holding post-employment benefit plan assets prior to the payment of benefits. Employees may now elect either for contributions to be paid to supplementary pension plans or to be held in the company (companies with less than 50 employees) or transferred to INPS (companies with more than 50 employees). Based on the generally held interpretation of these rules, the Group believes that:
- post-employment benefits vested at 31 December 2006 but not yet paid at the end of the reporting period are to be classified as defined benefit plans and measured by actuarial methods without, however, including the component relating to future pay increases;
- contributions payable both to supplementary pension schemes and INPS for post-employment benefits vesting subsequent to that date are to be classified as defined contribution plans excluding, however, for the purposes of accruing the liability, the actuarial component.

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

2.15 Provisions for risks and charges

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

1. the Group has a current (legal or constructive) obligation as a result of a past event;
2. it is probable that resources will be needed to produce economic benefits to meet the obligation;
3. it is possible to make a reliable estimate of the amount of the obligation.

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

2.16 Revenue recognition

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

2.17 *Leases*

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

2.18 Financial income and expense

Financial income includes interest income from cash invested, exchange rate gains, dividends, guarantee fees received, gains on disposal of available-for-sale financial assets, increases in the fair value of assets held for trading and derivatives except for increases in the fair value of LME contracts and metals forwards which are reported under “Purchases and change in raw materials”. Dividends are recognised only when the Shareholders’ right to receive payment has been established.
Financial expense includes loan interest expense, exchange rate losses, guarantee fees expense, losses on the disposal of available-for-sale financial assets, factorage paid with respect to factoring of receivables with recourse, decreases in the fair value of assets held for trading and derivatives except for the increases in fair value of LME contracts and metals forwards which are reported under “Purchases and change in raw materials”.

2.20 Segment information

At the operational level, the KME Group is organized in business units according to the products and services it offers and has three operating segments for which information is provided, as follows:

- Copper products: a segment consisting of an industrial grouping which is of absolute significance in international global production of semi-finished copper and copper alloys;

- Energy from renewable sources: this segment consists of a grouping of companies belonging to the ErgyCapital S.p.A. Group which is active in the area of plant and energy generation from renewable sources, especially in the field of photovoltaic energy;
- Services: This segment is represented by grouping of companies belonging to the Drive Group which was purchased by KME Group S.p.A. Following the proportionate partial reverse demerger of iNTEK S.p.A. into KME Group S.p.A., which is active in the long-term leasing of automobiles, the management of private vehicles, the leasing of replacement vehicles to repair companies, management of corporate guest rooms and the management of an automobile parking lot in the centre of Milan; the assets, liabilities and net results of this segment are presented in the financial statements as "Current assets/liabilities held for sale" since on 30 November 2010 the guidelines for the merger of Drive Rent S.p.A. into Cobra Automotive Technologies S.p.A. were approved. The completion of the merger Is currently expected to be concluded in the first half of 2011;

The management monitors the operating results of the business units separately in order to allocate resources; the valuation of the results in each sector is assessed on the basis of the operating profit or loss.
There are no transfers of resources between the three major sectors.
Segment information is provided under paragraph 7 of the notes.

2.21 Earnings/(loss) per share

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

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

   - conversion of all outstanding warrants;
   - exercise of all stock options outstanding.

For this calculation, it was assumed that warrants were converted and stock options exercised at the beginning of the year and that the conversion and exercise did not result in increased income or decreased expenses.
Basic loss per share at 31 December 2010 was calculated by taking the loss of the Group of Euro 18.3 million (Euro 23.9 million for 2009) less any amounts owing to savings shares, attributable to ordinary shareholders and the weighted average of ordinary shares outstanding of 408,581,993 as calculated in accordance with IAS 33, paragraph 64, following the share split of 8 February 2010 and the share capital increase which took place on 23 July 2010. In particular, the dilutive affect which could potentially arise upon conversion of all the outstanding warrants and stock options was not calculated pursuant to the provisions of IAS 33 par.47.

2.22 Use of estimates

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

2.23 Accounting standards not yet applied

Certain new standards, revisions to standards and interpretations in issue at 31.12.10 that are relevant to the Group had not yet become effective and were not used to prepare these consolidated financial statements.

The most important included:

Amendment to IAS 24 - Related party disclosures: IThe amendment simplifies the disclosure requirements for government-related entities and clarifies the definition of "related party". This standard was issued in November 2009 and is applicable from 1 January 2011. The competent bodies concluded the endorsement process in July 2010. This improvement will be applicable from 1 January 2011.

IFRS 9 – Financial instruments: The new standard establish as criteria for a classification of financial assets and liabilities and the derecognition of financial assets. In particular, the new standard uses a unique approach based on the management of financial instruments and the characteristics of contractual cash flows of financial assets to determine the measurement criteria replacing the various rules in IAS 39. For financial liabilities, the main amendment refers to the accounting treatment of changes in fair value of a financial liability designated as a financial liability measured at fair value in the income statement. Therefore the changes in fair value attributable to changes in counterparty risk are recognized in other components of the consolidated statement of comprehensive income. The amounts recognized under "other components of comprehensive income" are not transferred to the income statement when the liabilities are extinguished or settled. Furthermore the new standard provides for a single method to measure impairment losses on financial assets. IFRS 9 must be applied from 2013. At the date of these financial statements, the relevant European Union bodies had not yet concluded the endorsement process required for the application of the aforementioned improvements.

IAS 32 - Financial instruments: Classifications of Rights Issues: In October 2009 the IASB issued an amendment in order to address the accounting for rights issues (rights, options or warrants) that are denominated in currencies other than the issuer's functional currency. Previously, such rights were accounted for as liabilities from derivative financial instruments; however, the amendment requires that, under certain conditions, these rights be reclassified in equity regardless of the currency in which the exercise price is expressed. The amendment is required to be applied retrospectively from 1 January 2011. The adoption of this amendment is not expected to significantly affect the Group's financial statements.

IFRIC 19 –Extinguishing Financial Liabilities with Equity Instruments: the new amendment provides instructions regarding the recognition of the extinguishment of a financial liability through the issuing of equity instruments. The interpretation establishes that, if a company renegotiates the extinguishment conditions of a financial liability and its creditor accepts to extinguish it through issuing of the company's shares, then the shares issued by the company become part of the price paid for extinguishment of the financial liability and must be measured at fair value; the difference between the carrying amount of the extinguished financial liability and the initial value of the equity instruments issued must be recognised in the income statement for the period. The interpretation is applicable from 1 January 2011.

IFRS 7 Financial instruments (improvement) – disclosures: This change focuses on the interaction between disclosures of a qualitative and disclosures of a quantitative type required by the standard regarding the nature and scope of risks inherent in the financial instruments. This should help users of the financial statements to connect the information presented and establish a general description regarding the nature and scope of the risks deriving from the financial instruments. Furthermore, the requirements for disclosure of financial assets that have expired but have been renegotiated or impaired and disclosure of the fair value of the collateral have been eliminated. The improvement is applicable from 1 January 2011.

IFRS 7 - Financial Instruments: (Disclosures): sAdditional quantitative and qualitative disclosures on financial instruments are required in order to improve comprehension of the transactions involving the transferral of the financial assets including understanding of the possible effects deriving from any risk which continues to be borne by the company that transferred said assets. Furthermore a disclosure is required for transferrals that take place close to the closing of the financial year (window dressing). The improvement is applicable from 1 July 2011.

IAS 1 - Presentation of financial statements: This change requires that reconciliation of changes in every component of equity be presented in the notes or the financial statements. The improvement is applicable from 1 January 2011.

IAS 34 – Interim Financial Statements: Clarifications have been added on the additional information that must be presented in interim financial statements regarding the significant events and transactions and the financial instruments. In regard to the former it is specified that the annual financial statements must show the significant events that took place during the period between the closure of the annual financial statements and the preparation of the interim financial statements. In regard to the latter additional information is required regarding: changes in the economic circumstances affecting fair value of the financial assets and liabilities; the levels of information used to measure fair value of financial instruments (prices of listed instruments on active markets for identical assets and liabilities; prices other than these or other values that can be directly or indirectly observed; information relating to non observable data); changes in the classification of financial assets; changes in contingent assets or liabilities. The improvement is applicable from 1 January 2011.

IFRS 1 – First Time Adoption of the International Financial Reporting Standards (IFRS): ntroduces clarifications on the disclosures required for the first time application of IFRS and details for new users that change accounting standards or the use of exemptions allowed by IFRS 1 after having prepared interim financial statements pursuant to IAS 34 (Interim Financial Statements) but prior to publication of the IFRS compliant financial statements for the year.

IAS 12 - Income Taxes: Companies are required to measure deferred taxes from an ongoing operation based on the method with which the carrying amount of this asset will be recovered (i.e., through continuing use or through sale). This amendment will be applicable from 1 January 2012. . At the date of these financial statements, the relevant European Union bodies had not yet concluded the endorsement process required for the application of this improvement.

IFRS 28 -Investments in Subsidiaries and IAS 31 – Interests in Joint Ventures (amendments): Participants in a joint venture have contractual rights and obligations deriving from the agreement which are based on substance over form. The participants in a joint venture must valuate the investment using the equity method. Proportional consolidation is no longer allowed. This improvement is expected in the first half of 2011. At the date of these financial statements, the relevant European Union bodies had not yet concluded the endorsement process required for the application of this improvement.

The following amendments, improvements and interpretations, effective from 1 January 2011, referred to cases that are not present in these financial statements but which could have accounting effects on future transactions or agreements.

IFRIC 14 -The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction: This improvement provides that prepayment of contributions by an entity subject to payment of a minimum contribution be accounted for as an asset if a defined benefit plan is subject to a minimum contribution requirement.

3. Financial risk management

The Group is subject to a number of operating and financial risks in the normal course of its business. Group policy is to eliminate or at least minimise such risks through hedging strategies. The Group, therefore, has formal procedures for the setting of objectives and procedures for hedging credit, liquidity, currency, interest rate and above all raw materials price risks.

Types of risk:

a) credit risk: there are no significant geographical concentrations in connection with this risk. Existing guidelines require adequate assessment of customers' creditworthiness. This is achieved by selecting customers on the basis of historical experience, capitalisation and/or financial information, lines of credit in existence, insurance and the factoring of the greatest part of receivables without recourse;

b) liquidity risk: liquidity risk can arise from the inability to raise working capital financing as and when required. All inflows and outflows and cash balances of Group companies are centrally monitored and managed by Group Treasury. The Group intends to meet its cash requirements for the repayment of borrowings and capital expenditure through cash from operating activities, cash on hand and fresh bank borrowings or the roll-over of existing bank credit. Given the current environment, the Group intends to maintain sufficient operating cash flow generation capacity through measures designed to control the level of working capital, in particular, cash needs arising from raw materials inventories;

c) currency risk: the Group operates internationally and it engages in transactions in a number of currencies and interest rates. The exposure to currency risk arises primarily from the geographic location of the markets on which the Group sells its products. It is Group policy to hedge all of the above risks through derivative financial instruments such as cross currency swaps and forward contracts;

d) interest rate risk: interest rate risk, to which the Group is exposed, arises primarily in connection with long-term loans. Variable rate loans expose the Group to a cash flow risk, while fixed rate loans entail assumption of the risk of a change in fair value. The Group currently has no IRS (interest rate swaps) on the books which convert variable into fixed interest rates;

e) commodity price risk (particularly copper): this is the most significant and strategic of the risks to which the Group is exposed. The objective is to fully hedge this risk through trading in physical goods or forward contracts on the London Metal Exchange (LME). Specifically, all metal price fixing buyer and seller contracts are netted daily and the change in the net open position is generally hedged by LME contracts so that the company is not exposed to overnight price risk. LME contracts are normally paper deals (i.e., settled through the payment of differentials), whereas trading in physical goods may require delivery of the actual commodity, finished goods or semi-finished products. In reality, both transactions are physical in nature which, however, can also be settled through: cash payment of differentials, issuing another financial instrument or trading in financial instruments. This is also the case for price fixing seller and buyer contracts with customers and suppliers which, although normally settled by physical delivery, may also be settled prior to the delivery date by squaring positions and can also be used to take advantage of opportunities on the market which would otherwise have to be ignored without, however, making physical delivery of the commodity. The concept of similarity and neutrality for LME and physical goods trading is supported by:
   - having analogous methods of execution (physical or payment of differentials);
   - they both have the same reference price (LME quotation);
   - the fact that they are managed through only one risk management position, changes in which are linked to operational factors, and only one administrative and accounting system;
   - reliably determining fair value.

The fact that both LME contracts and customer and supplier contracts may both be settled through payment of differential market prices means that, in accordance with paragraph 6b of IAS 39, metals buyer and seller contracts can, similarly to financial instruments, be accounted for at fair value with changes in fair value recognised in profit or loss under "Purchases and change in raw materials".

All derivative financial instruments used by the Group are designated as hedging instruments within the meaning of IAS 39, even though they were acquired to manage the aforementioned risks (please refer to paragraph 2.7).

In any case, the Group does not trade in financial derivatives for speculative purposes, even though it does not account for the financial instruments in accordance with hedge accounting rules, as these transactions do not meet the conditions set out in IAS 39.

4. Notes to the consolidated financial statements

We hereby inform you that starting from 2010 the following companies were added to the scope of consolidation: KME Moulds Service Australia Pty Ltd., KME Moulds Mexico SA and KME Service Russland Ltd.
In the table below which contained the statement of financial position items, the carrying amounts relating to the opening balances for 2009 are shown as "Changes in scope of consolidation."

4.1 Property, plant and equipment

(thousands of Euro)	Land	Buildings	Plant and equipment	Other assets	Assets under construction	Total
At 31.12.2009						
Closing historical cost	58,415	202,989	951,384	155,729	18,805	1,387,322
Closing accumulated depreciation and impairment losses	146	108,270	568,058	116,631	-	793,105
Closing net carrying amount	**58,269**	**94,719**	**383,326**	**39,098**	**18,805**	**594,217**
At 31.12.2010						
Opening historical cost	**58,415**	**202,989**	**951,384**	**155,729**	**18,805**	**1,387,322**
Translation differences	258	403	2,361	149	261	3,431
Change in scope of consolidation	-	3	1,360	638	-	2,001
Increases	11	1.435	5,837	5,874	28,781	41,938
Reclassifications	(2,683)	6,888	83,644	(67,986)	(26,148)	(6,285)
Decreases	(73)	(205)	(9,957)	(4,113)	-	(14,348)
Closing historical cost	**55,928**	**211,513**	**1,034,628**	**90,292**	**21,699**	**1,414,060**
At 31.12.2010						
Opening accumulated depreciation and impairment losses	**146**	**108,270**	**568,058**	**116,631**	**-**	**793,105**
Translation differences	8	65	1,770	88	-	1,932
Increases	31	7,719	30,037	8,053	-	45,840
Impairment losses/(reversals of impairment losses)	-	-	4,447	-	-	4,447
Decreases	-	(42)	(9,257)	(3,601)	-	(12,900)
Reclassifications	-	(5)	58,394	(60,909)	-	(2,520)
Closing accumulated depreciation and impairment losses	**185**	**116,007**	**653,689**	**60,306**	**-**	**830,187**
At 31.12.2010						
Closing historical cost	55,928	211,513	1,034,628	90,292	21,699	1,414,060
Closing accumulated depreciation and impairment losses	185	116,007	653,689	60,306	-	830,187
Closing net carrying amount	**55,743**	**95,506**	**380,939**	**29,986**	**21,699**	**583,873**
of which finance leases:	**1,300**	**3,432**	**-**	**-**	**-**	**4,732**

Following is the distribution by geographic area of property, plant and equipment

Geographical segment (thousands of Euro)	31.12.2010		31.12.2009	
		%		%
Germany	272.75	46.7%	277.3	46.7%
Italy	223.07	38.2%	228.0	38.4%
France	47.35	8.1%	49.5	8.3%
United Kingdom	12.35	2.1%	12.6	2.1%
Spain	17.77	3.0%	19.3	3.3%
China	8.48	1.5%	7.5	1.3%
Other	2	0.4%	-	0.0%
Total	**583.9**	**100%**	**594.2**	**100%**

Part of the aforementioned assets, with a net carrying amount of Euro 204.1 million (Euro 267.5 million last year), were given as security under the terms of a loan agreement which was revised on 29 June 2010.
The most significant investments during the year are detailed in the Directors' Report.

The reclassifications refer to the no longer "instrumental" property of Campo Tizzoro (PT) which the directors reclassified under Investment Property upon conclusion of the "Service Conference" which essentially approved the validity and completeness of the work carried out, the characterization plan and the consequent "risk analysis." The areas are therefore usable without requiring further interventions for restoration, except the limitations in the use transferred with the town planning instruments by the municipality.

Furthermore, the group launched a policy for rationalization and monitoring of the various processes some time ago. Thanks in part to the OpEx program, the Group has been very involved in investigating solutions and technological innovations as well as constant and preventive maintenance of its strategic equipment since 2009. The continued research for innovation and quality has made it possible to improve and enhance the productive capacities of the plant and machinery that play a major role in the group's production process. To this end and based on the requirements of the accounting standard of reference (IAS 16 par. 51), the Directors carried out an analysis of the residual life of the major plant and machinery, both from an economic viewpoint and production one, in order to estimate the most representative residual life.
In light of these events and situations, the Directors considered it appropriate to enlist the services of a leading company, SGS Italia S.p.A., for the estimation of the residual life.
The change in the useful life was applied, based on the requirements in IAS 16 par. 51 and consequently in accordance with IAS 8 par. 32 prospectively from 1 January 2010, which resulted in a reduction in the item "Amortisation, depreciation and impairment losses," of approximately Euro 10.9 million compared to the previous year.

Land and buildings under finance leases primarily relate to the "Firenze Novoli" building which houses the Group's headquarters. The lease for this building contains an option to buy exercisable on 30 September 2016.

Future minimum payments under finance leases at the end of the reporting period and the relevant present value are shown below:

(thousands of Euro)	**1 year or less**	**from 1 to 5 years**	**over 5 years**	**Total**
Minimum lease payments	398	1,594	2,303	4,295
of which interest	8	230	614	852
Present value	390	1,364	1,689	3,443

previous year:

(thousands of Euro)	**1 year or less**	**from 1 to 5 years**	**over 5 years**	**Total**
Minimum lease payments	398	1,594	2,701	4,693
of which interest	8	230	805	1,043
Present value	390	1,364	1,896	3,650

4.2 Investment property

(thousands of Euro)	Land	Buildings	Total
Carrying amount at 31.12.2009	**4,816**	**18,912**	**23,728**
Increase	-	-	-
Capitalised expenditure	99	463	562
Business combination	-	-	-
Disposals	-	(9)	(9)
Change in fair value	1,090	(597)	493
Changes of use	-	-	-
Other changes	1,272	2,557	3,829
Carrying amount at 31.12.2010	**7,277**	**21,326**	**28,603**

The "Investment Property" item consists of investments in land and building belonging to Immobiliare Agricola Limestre S.r.l. and KME Italy S.p.A.

The reclassifications refer to the no longer "instrumental" property of Campo Tizzoro (PT), belonging to KME Italy S.p.A.
The Directors have reclassified the non "instrumental" part of the Campo Tizzoro (PT) property during this year upon conclusion of the "Services Conference" which essentially approved the validity and completeness of the work, the characterization plan and the "risk analysis" establishing that the areas are usable for industrial purposes without requiring additional restoration.

These investment properties which are held for lease or for capital Investment appreciation purposes are recognized at fair value and have all been evaluated as at 31 December 2010 by independent external appraisers with recognised and pertinent professional qualifications.

The following amounts were recognised in profit or loss during the year:
- rental income of Euro 300 thousand;
- consolidation differences of Euro 114,582 thousand.

4.3 Goodwill and consolidation differences

This amount consists of:
- consolidation differences of Euro 114,582 thousand.

During the year the carrying amount of the consolidation difference decreased by Euro 315 thousand following impairment losses on goodwill connected with the acquisition by the German subsidiary KME Architectural Metals GmbH & Co. K.G. of two divisions made up of plant and equipment, trade receivables and inventories during 2008.

During the year following the proportionate reverse demerger of iNTEk S.p.A, the carrying amount of the consolidation differences amounted to Euro 22.5 million and the carrying amount of the goodwill to Euro 3.6 million. These increases were attributable to the entry of the Drive Group in the scope of the consolidation.
We reiterate that the entrance of the Drive Group into the consolidation area took place on a going concern basis, as the proportionate reverse demerger of iNTEk S.p.A. fell under the "under common control" transactions. On the date of these financial statements the carrying amount of the aforementioned consolidation differences referring to the Drive Group were reclassified under the "Current assets held for sale" item.

Goodwill and consolidation differences are tested for impairment based on the recoverable amount determined by estimating value in use.

4.4 Other intangible assets

(thousands of Euro)	Other assets	Assets under development	Total
At 31.12.2009			
Closing historical cost	12,029	340	12,369
Closing accumulated amortisation and impairment losses	8,841	-	8,841
Closing net carrying amount	**3,188**	**340**	**3,528**
At 31.12.2010			
Opening historical cost	**12,029**	**340**	**12,369**
Translation differences	-	-	-
Change in scope of consolidation	-	-	-
Increases	1.112	318	1,430
Reclassifications	377	(377)	-
Decreases	(229)	-	(229)
Closing historical cost	**13,289**	**281**	**13,570**
At 31.12.2010			
Opening accumulated amortisation and impairment losses	**8,841**	**-**	**8,841**
Translation differences	-	-	-
Change in scope of consolidation	-	-	-
Increases	1,468	-	1,468
Reclassifications	-	-	-
Decreases	(229)	-	(229)
Closing accumulated amortisation and impairment losses	**10,080**	**-**	**10,080**
At 31.12.2010			
Closing historical cost	13,289	281	13,570
Closing accumulated amortisation and impairment losses	10,080	-	10,080
Closing net carrying amount	**3,209**	**281**	**3,490**

The intangible assets shown above primarily relate to software and have finite useful lives.
Research and development expenditure is recognised directly in profit or loss. Research and development expenditure for the year amounted to Euro 1.0 million (Euro 1.3 million for the previous year).

4.5 Investments in subsidiaries, associates and other companies

The Group's investments are listed below:

Name	Registered Address	Operations	% owned by KME		31.12.10	31.12.09
			direct	indirect	thousands of Euro	
Subsidiaries and associates measured at cost						
Accumold AG	Switzerland	In liquidation		100.00%	0	0
AMT - Advanced Mould Technology India Private Ltd.	India	Trading		99.62%	1,500	1,500
Europa Metalli Trèfimétaux UK Ltd.	U.K.	non-operating		100.00%	465	450
Evidal Schmole Verwaltungsges mbH	Germany	non-operating		50.00%	0	0
Irish Metal Industrial Ltd.	Ireland	Trading		100.00%	0	0
KME Hungaria Szinesfem Kft.	Hungary	Trading		100.00%	8	8
KME Polska Sp. Zo.o.	Poland	Trading		100.00%	64	64
KME (Suisse) S.A.	Switzerland	Trading		100.00%	1,000	1,000
KME America Inc.	U.S.	Trading		100.00%	7	7
KME Asia Pte Ltd.	Singapore	Trading		100.00%	99	99
KME Austria Vertriebgesellschaft mbH	Austria	Trading		100.00%	168	168
KME Beteiligungsgesellschaft mbH	Germany	non-operating		100.00%	0	0
KME Chile Lda	Chile	Trading		100.00%	18	18
KME China Limited	China	Trading		100.00%	0	367
KME Czech Republic	Czech Republic	Trading		100.00%	3	3
KME Messing Beteiligungs GmbH Norib.	Germany	non-operating		100.00%	0	0
KME metal GmbH	Germany	non-operating		100.00%	511	511
KME Metals (Shanghai) Trading Ltd.	China	Trading		100.00%	81	16
KME Mould Service Australia Pty Ltd. (*)	Australia	Trading		65.00%	0	676
KME Moulds Mexico SA de CV (*)	Mexico	Trading		100.00%	0	528
KME Service Russland Ltd. (*)	Russia	Trading		60.00%	0	54
Metal Center Danmark A/S	Denmark	Trading		30.00%	134	134
N.V. KME Benelux SA	Belgium	Trading		100.00%	883	883
Societe Haillane de Partecipations	France	non-operating		99.99%	40	40
XT Limited	U.K.	non-operating		100.00%	0	0
KME India Private Ltd.	India	Trading		100.00%	17	0
VALIKA S.a.S.	France	Trading		30.00%	1,650	0
KME Solar Italy S.r.l.	Italy	Energy Sector		80.00%	182	0
Culti S.r.l.	Italy	Trading		100.00%	3,760	0
Warrant ErgyCapital S.p.A.	Italy	Energy Sector		n.a.	6,511	0
Il Post S.r.l.	Italy	Publishing		31.54%	200	0
Elogistique S.r.l.	Italy	Trading		30.00%	0	0
Total					**17,301**	**6,526**
Other Investments measured at cost						
Editoriale Fiorentina S.r.l.	Italy	Publishing		7.13%	142	142
Altre partecipazioni di KME France SAS	France	Various	insig.	insig.	116	116
Altre partecipazioni KME Recycle S.r.l.	Italy	Various	insig.	insig.	1,650	0
Total					**1,908**	**258**
Equity accounted investees						
Metalbuyer S.p.A.	Italy	Trading		30.00%	1,594	1,958
Sigimet S.p.A.	Italia	Trading		0%	0	2,000
ErgyCapital S.p.A.	Italy	Energy Sector		46.38%	20,357	0
Total					**21,951**	**3,958**

(*) At 31 December 2010 consolidated line-by-line.

The increase of Euro 10.7 thousand compared to the previous year in Investments in Subsidiaries and Associates is broken down as follows:

- The increase of Euro 3,760 thousand following the acquisition of 100% of Culti S.r.l., 40% following the reverse demerger by iNTEk and the remaining 60% purchased subsequently;
- The increase of Euro 1,650 thousand following the acquisition of 30% of Valika S.r.l. through the subsidiary KME Recycle S.p.A.;
- The increase of Euro 200 thousand following the acquisition of 31.537% of Post S.r.l. by the parent KME Group S.p.A.;
- translation differences relating to the investment in Europa Metalli Trèfimétaux UK Ltd. (a Euro 15 thousand increase);
- a Euro 65 thousand increase relating to KME Metals (Shanghai) Trading Ltd;
- The increase of Euro 182 thousand following the acquisition of 80% of KME Solar Italy S.p.A.;
- The impairment loss on the investment in the subsidiary KME China Limited corresponding to a reduction of Euro 367 thousand;;
- The decrease of Euro 1,258 thousand due to the consolidation of the investments in KME Moulds Service Australia Pty Ltd., KME Moulds Mexico SA de CV and KME Service Russland Ltd.
- The increase of Euro 6,511 thousand for 50,871,755 ErgyCapital S.p.A. warrants

Other investments of KME France S.A.S. include small investments (generally less than 1%) in companies operating in the construction sector. French companies are, in fact, required to pay a certain percentage of the personnel expense as contributions, loans or investments to assist their staff in purchasing real estate.

The net increase in "equity-accounted investees" of Euro 17,993 thousand is due to:

- The Euro 2 million decrease upon disposal of the investment in Sigimet S.p.A.;
- The Euro 364 thousand decrease, upon adjustment of the carrying amount of investment in Metalbuyer S.p.A.;
- Euro 20,357 thousand to the acquisition of ErgyCapital S.p.A. following the reverse demerger by iNTEk S.p.A. It was recognized at the indicated value as a consequence of the following movements:
  - cost of the investment (equal to the carrying amount in the last financial statements approved by iNTEk S.p.A.) of Euro 24,654 thousand;
  - subscription of a share capital increase of Euro 4,578 thousand;
  - prorated loss during the period of Euro 9,274 thousand;
  - increase (by a prorated amount equal to Euro 724 thousand) deriving from movements in equity, mainly related to the share capital increase of the investee totalling Euro 1,560 thousand. This increase resulted in a concurrent increase in the consolidation reserve;
  - decrease (of a net prorated amount of Euro 324 thousand) of the recognized hedging reserve, amounting to Euro 699 thousand after taxes, in the equity of the investee.

The impairment loss on the investment in ErgyCapital S.p.A. in the separate financial statements of the parent had no accounting effects in the consolidated financial statements as the carrying amount after application of the "equity method" is lower than the recoverable value.

4.6 Other non-current assets

(migliaia di Euro)	Balance at 31.12.2009	Changes for the period	Balance at 31.12.2010
Guarantee deposits	17,269	193	17,462
Others receivables	11,609	(3,570)	8,039
Total	**28,878**	**(3,377)**	**25,501**

The "Guarantee deposits" item consists mainly of:

- the amounts paid to credit institutions of Euro 16.5 million (of which Euro 8.6 million relate to KME Germany AG & Co. KG, Euro 4.8 million to KME France and Euro 3.1 million to KME Italy) as a guarantee deposit in partial coverage of the potential payment of the penalty imposed by the European Commission for a contravention of article 81 of the EC treaty. These deposits may subsequently be used in payment of any fines imposed following the court proceedings currently underway. The amount of the fines not covered by the deposits are covered by a bank guarantee.

The "Other receivables " item consists mainly of:

- Other guarantee deposits of KME Italy (Euro 0.3 million) and KME France (Euro 0.4 million);
- Receivables from insurance held by KME Germany AG & Co. KG amounting to Euro 2.4 million and the French companies in the amount of Euro 3.6 million;
- loans to employees (Euro 1.7 million), mainly extended by French subsidiaries as required by French law providing employees the possibility of obtaining loans from the company with which to purchase property.

None of the above mentioned amounts are payable within twelve months.

4.7 Non-current financial assets

The Euro 110.3 million (107.7 million as at 31 December 2009) relates to guarantee deposits at the following credit institutions in connection with unpaid EU fines:
- La Caixa: Euro 35.1 million;
- Banca Nazionale del Lavoro: Euro 17.9 million;
- Deutsche Bank: Euro 57.3 million.

The increase is due to the interest receivable due as at 31 December 2010.

The amount of Euro 5.4 million related to a deposit at Unicredit Banca d'Impresa S.p.A. that has been pledged to Mediocredito Centrale S.p.A. (MCC). The balance on this account must always be equal to 1/16 (one sixteenth) of loan outstandings at the same point in time in addition to accrued interest due and payable on the next interest payment date. Any amounts on the account in excess of that amount are immediately available. For further details regarding the amount and the nature of the loan please refer to paragraph 4.15.

4.8 Inventories

(thousands of Euro)	Opening balances	Changes for the period	Change in scope of consolidation	Closing balances
Raw materials, consumables and supplies	412,196	138,549	245	550,990
Work in progress and semi-finished products	24,818	6,596	-	31,414
Finished goods	32,498	7,152	-	39,650
Total	**469,512**	**152,297**	**245**	**622,054**

The carrying amount of silver and zinc, as determined on a FIFO basis at the end of 2010, was higher than the realisable value determined as explained in note 2.9, by Euro 0.5 million. An allowance for impairment of this same amount was recognised..

Quantity comparative chart

Property stock	31.12.2009	31.12.2010	Var %
Total tons	88,267	88,423	0.2%

Of the above amount 85.2 thousand tonnes (85.9 thousand tonnes for the previous year), consisting mainly of copper, have been pledged as collateral for credit lines extended to the Group.

4.9 Trade receivables

thousands of Euro)	Balance at 31.12.2009	Changes for the period	Change in scope of consolidation	Balance at 31.12.2010
Due from customers	128,367	18,621	642	147,630
(Allowance for impairment)	(9,230)	(1,488)	-	(10,718)
Net trade receivables due from customers	**119,137**	**17,133**	**642**	**136,912**
Due from subsidiaries	2,435	1,967	(9)	4,393
Due from associates	18,527	(13,327)	-	5,200
Due from parents	30	(30)	-	-
Total	**140,129**	**5,743**	**633**	**146,505**

"Trade receivables due from customers" include Euro 61.2 million (Euro 33.4 million at 31 December 2009) that have been factored with recourse.

The increase in "Trade receivables" is mainly due to increased operations and the increase in the price of the raw materials.

The Directors are of the opinion that the carrying amount of trade receivables approximates their fair value.

4.10 Other current receivables and assets

(thousands of Euro)	Balance at 31.12.2009	Changes for the period	Change in scope of consolidation	Balance at 31.12.2010
Tax assets	8,719	1,441	4	10,164
Advance payments to supplies	6,302	(2,512)	-	3,790
Prepayments and accrued income	2,597	(880)	-	1,717
Other receivables	9,568	892	49	10,509
Total	**27,186**	**(1,059)**	**53**	**26,180**

The carrying amount of other receivables is believed to approximate fair value.

4.11 Current financial assets

(thousands of Euro)	Balance at 31.12.2009	Changes for the period	Change in scope of consolidation	Balance at 31.12.2010
Financial assets held for trading	7,294	11,885	-	19,179
LME and metal buyer/selles contracts	27,049	(1,629)	-	25,420
Interest rate swaps and currency forward contracts	677	2,609	-	3,286
Receivables due from factoring companies	61,738	24,092	-	85,830
Other current financial assets	2,871	(941)	-	1,930
Loans to parent companies	1,283	4,362	(1,048)	4,597
Total	**100,912**	**40,378**	**(1,048)**	**140,242**

”Financial assets held for trading” consist of:

- 2,184,369 iNTEk S.p.A. savings shares, of a par value of Euro 0.699, recognised at their official listed price at the end of the reporting period. A call option on the aforementioned iNTEk savings shares was given to lenders of the above mentioned bank loan obtained in February 2005 and which is no longer outstanding. The exercise price of the options, which will expire in 2012, is Euro 0.90;
- 5,277,893 ErgyCapital S.p.A. ordinary shares, which are carried at their official price at the end of the reporting period (Euro 0.484 per share);
- 5,775,550 ErgyCapital S.p.A. warrants, at the end of the reporting period (Euro 0.13 per warrant);
- Other shares listed in regulated markets carried at their official price at the end of the reporting period.

“LME and metal buyer/seller contracts” are carried at the fair value of contracts outstanding at the end of the reporting period.

Receivables due from factoring companies of Euro 54.8 million are carried at the amounts of receivables assigned without recourse but not yet collected at the end of the reporting period and the revolving amount of the consideration which will be collected upon the due dates of the relative invoices assigned of Euro 31 million.

4.12 Cash and cash equivalents

(thousands of Euro)	Balance at 31.12.2009	Changes for the period	Change in scope of consolidation	Balance at 31.12.2010
Bank and post office accounts	108,850	(69,404)	169	39,615
Cash on hand	114	22	-	136
Total	**108,964**	**(69,382)**	**169**	**39,751**

“Cash and cash equivalents” consist of bank and post office accounts and cash on hand.

4.13Equity

Please see the “Statement of changes in equity” for an analysis of changes in consolidated equity. The following

changes in "technical consolidation reserves" took place during the year:

- first consolidation of the Drive Group which resulted in a reduction of the consolidation reserves of Euro 11.6 million;
- increase of the equity of investee ErgyCapital S.p.A. of Euro 1,561 thousand which produced an increase in the consolidation reserve of a prorated amount of Euro 724 thousand;
- decrease (of a net prorated amount of Euro 324 thousand) of the recognized hedging reserve, amounting to Euro 699 thousand after taxes, in the equity of the investee ErgyCapital S.p.A.

During the year the parent implemented the new KME group S.p.A. Stock Option Plan 2011–2015." On 7 October 2010, the parent's Board of Directors identified the plan benefits and determined the number of options assigned to each benefit, for a total of 25,500,000 options (the maximum number of options authorized at the Shareholders' Meeting is 31,000,000). The decision was assumed, upon proposal of the Remuneration Committee, with the favourable vote of the Independent Directors and the favourable opinion of the Board of Statutory Auditors; the Directors who are beneficiaries of the plan abstained from the voting.
The options attribute to the beneficiaries the right to subscribe or purchase from the company an equivalent number of ordinary KME Group S.p.A. shares at the unit price of Euro 0.295:

- 1/3 starting from 10 October 2011;
- 1/3 starting from 8 October 2012;
- 1/3 starting from 8 October 2013;

The final exercise date is 31 December 2015.

4.14 Employee benefits

(thousands of Euro)	Balance at 31.12.2009	Increase	Decrease	Balance at 31.12.2010
Defined benefit plans	135,673	10,200	(9,291)	136,582
Post-employment benefits	16,709	657	(1,191)	16,175
Total	**152,382**	**10,857**	**(10,482)**	**152,757**

Defined benefits plans are carried net of any plan assets. Euro 121.4 million of defined benefit plans relate to the German subsidiaries and Euro 15.2 million relate to the subsidiary KME Yorkshire Ltd.

Criteria applied:

	31.12.2009	31.12.2010
Discount rate	3.8% - 5.8%	4.3% - 5.7%
Rate of return on plan assets	6.7%	6.4%
Rate of increase in future salaries	2.0% - 3.0 %	1.0% - 2.5%
Future increase in services	2.0% - 3.0 %	2.0% - 3.0%
Average remaining working life	14 years	15 years

Liability carrying amount (thousands of Euro)	**31.12.2009**	**31.12.2010**
Present value of partially or fully funded obligations	58,668	63,591
Fair value of defined benefit plan assets	(48,397)	(53,981)
Deficit	**10,271**	**9,610**
Present value of unfunded obligations	154,279	159,822
Actuarial gains (losses) net yet recognised	(12,168)	(16,675)
Past service cost not yet recognised	-	-
Amount not recognised as assets pursuant to IAS 19, para.58 (b)	-	-
Net liability reported in statement of financial position	**152,382**	**152,757**

Statement of comprehensive income changes (thousands of Euro)	**Year 2009**	**Year 2010**
Current service cost	2,371	2,760
Interest expense	10,995	11,059
Expected return on plan assets	(2,420)	(3,244)
Recognised actuarial gains (losses)	(300)	223
Past service cost	-	59
Effect of any curtailment or settlement	-	-
Total cost reported in statement of comprehensive income	10,646	10,857

The amounts recognised in profit or loss are reported under "Personnel expense".

Other information:

Present value of obligation (thousands of Euro)	31.12.2009	31.12.2010
Opening balance of obligation	186,661	212,947
Current service cost	2,371	2,760
Interest on obligation	10,930	10,984
Plan participants' contributions	437	483
Actuarial gains (losses)	20,730	5,339
Expired or reduced liabilities	-	59
Translation differences on foreign plans	3,026	1,841
Benefits provided and paid	(11,205)	(11,007)
Effect of any curtailment or settlement	(3)	3
Past service cost	-	-
Closing balance of obligation	**212,947**	**223,409**

Fair value of plan assets (thousands of Euro)	31.12.2009	31.12.2010
Opening balance of fair value of plan assets	37,656	48,397
Expected return on plan assets	2,420	3,244
Actuarial gains (losses)	4,995	489
Translation differences on non-euro plan assets	2,637	1,494
Employer contributions	1,725	1,581
Plan participants' contributions	437	483
Settlements	-	-
Benefits provided and paid	(1,473)	(1,707)
Closing balance of fair value of plan assets	**48,397**	**53,981**

At the end of 2010, the plan assets consisted of equity instruments (62%) and fixed rate securities (38%).

Present value of plans and adjustments based on past experience (thousands of Euro)	31.12.2009	31.12.2010
Present value of defined benefit obligation	212,947	223,409
Plan assets	(48,397)	(53,981)
Surplus (deficit)	**164,550**	**169,428**
Adjustments to plan liabilities based on past experience	(8,329)	864
Adjustments to plan assets based on past experience	(9)	79

4.15 Financial payables and liabilities

(thousands of Euro)	Balance at 31.12.2009	Changes for the period	Balance at 31.12.2010
Due to banks	358,415	(44,916)	313,499
Due to lease companies	3,403	(212)	3,191
Due to others	1,257	(1,072)	185
Total	**363,075**	**(46,200)**	**316,875**

At the end of June 2010 KME Group S.p.A. and its major subsidiaries operating in the semi-finished copper and copper alloy sector obtained from a pool of banks an extension of the expiration of credit lines amounting to Euro 475 million from September 2011 to January 2015.
The agreement which refers to the two lines named "tranche A" (in the form of a revolving credit used to cover the inventory needs of industrial companies) and "tranche B" (a revolving credit used to cover intra-month inventory needs of industrial companies) concluded in 2006 and existing to date for an amount equal to the prorated amount, confirms a facility asset characterized by broad flexibility of use in relation to the Group's financing needs.

In addition to the extension of the expirations, the revised agreement provides for a substantial reduction in real guarantees provided to banks and simplification of the covenants, rendering the latter more in line with the group's business plans. The new covenants refer only to the EBITDA/financial expense ratio and the gross financial indebtedness/consolidated equity and the measure thereof is in line with the parameters that the covenants of the prorated loans referred to. The verification of compliance with the aforementioned covenants shall take place on a bi- annual basis; at 31 December 2010 all were complied with.
The financing cost has remained essentially in line with the prorated cost

The agreement signed with GE Commercial Finance for a credit line of up to Euro 600 million, for the non-recourse factoring of trade receivables, is essentially unchanged.
At the end of the reporting period the aforementioned non-recourse transactions amounted to Euro 361.2 million.

The group also has a loan from Mediocredito Centrale S.p.A. of Euro 103 million guaranteed by SACE S.p.A., for the financing of costs relating to industrial investments, i.e., the acquisition of foreign entities.
The granting of the loan by tranches was completed in 2010; expiration is set at 8 years from the date of the actual usage. The loan contract requires compliance with certain covenants to be verified on a biannual basis and which refer to economic parameters (EBITDA and Financial expense ratio) and financial parameters (equity and net indebtedness ratio); at 31 December 2010 these covenants were fully complied with.

The reduction of the payables towards banks is the result of the further containment of the capital for the year, achieved also through the extension of payment terms provided by major suppliers of raw materials.

Amounts due to lease companies relate to the recognition, under IAS 17, of the finance lease for the Group's headquarters in Florence.

All non-current payables and liabilities have maturities of between twelve months and five years except for a Euro 2.8 million bank loan and payables to lease companies of Euro 2.0 million with maturity of over 5 years.

4.16 Other non-current liabilities

Other non-current liabilities primarily relate to payables to employees of German subsidiaries (Euro 11.7 million) and post-employment benefits of the Deputy Chairman of the Parent (Euro 1.8 million).

4.17 Provisions for risks and charges

A summary of the movements relating to the provisions for risks and charges is as follows:

(thousands of Euro)	Balance 31.12.2009	Translation differences	Increases	Decreases and reversals	Current portion	Balance 31.12.2010
Provision for restructuring	9,348	-	8,726	(6,113)	(11,695)	266
EU fines provision	123,253	-	3,220	-	-	126,473
charges	30,455	290	4,916	(11,945)	(13,215)	10,501
Total	163,056	290	16,862	(18,058)	(24,910)	137,240

The "Current portion" and the balance at 31 December 2009, show movements in the current portion of provisions for risks and charges reported under "Current liabilities" in the statement of financial position.

The provision for restructuring relates to the cost of downsizing operations in France and Germany.

The increase in the "EU fines provision" relates to interest expense on the par value of the fines levied by the European Commission. In regard to the aforementioned fines relating to infringements of antitrust legislation by certain KME Group industrial companies, it is hereby noted that with reference to the pending appeal to the European Court of Justice regarding industrial piping, the hearing was held on 6 October 2010 and on 10 February 2011 the opinion of the Advocate General was submitted expressing the opinion that the appeal should

be rejected. The European Court of Justice must assess the arguments presented by the interested companies of the KME Group, the Commission and the Advocate General in order to issue its ruling. In regard to the appeal connected with the sewerage piping, the interested companies of the KME Group requested the European Court of Justice to set a date for the hearing.

"Other provisions for risks and charges" include, but are not limited to, contingent liabilities of Euro 7.0 million with respect to environmental damage, Euro 1.0 million for legal and tax contingencies and Euro 3.5 million for product warranties.

The lawsuit pending before the Court of Hanover on the merger involving the German companies was defined with an amount of Euro 125,000 payable by KME Germany A.G. & Co K.G. The lawsuit that involves the subsequent squeeze out is however ongoing.

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

- following the shelving of the class action suits brought by direct customers in the United States, which once again referred to infringements of the antitrust legislation, the class action suits brought by indirect customers were also closed;

- With regard to the lawsuit claiming damages which was brought in February 2010 by Toshiba Carrier UK Ltd and another 15 companies belonging to the same group before the English High Court of Justice Chancery Division against KME Yorkshire Ltd, KME AG, KME France S.A.S. and KME Italy S.p.a., and another five producers of LWC pipes, again in relation to antitrust legislation, it is noted that on 4 January of this year the companies belonging to KME Group that were involved submitted a petition for rejection and lack of jurisdiction. There were no other developments.

At the publication date of these financial statements, there were no other significant contingent liabilities.

4.18 Financial payables and liabilities

(thousands of Euro)	Balance at 31.12.2009	Changes for the period	Change in scope of consolidation	Balance at 31.12.2010
Due to banks	148,141	(89,118)	-	59,023
Due to subsidiaries	2,432	(202)	-	2,230
Due to lease companies	281	(22)	-	259
Due to factoring companies	33,425	27,788	-	61,213
Interest rate swaps (IRS) and currency forward contracts	1,027	4,136	-	5,163
LME and metal buyer/seller contracts	47,820	17,470	-	65,290
Due to others	4,854	(2,777)	2,586	4,663
Total	**237,980**	**(42,725)**	**2,586**	**197,841**

The "due to factoring companies" relate to the transferral of receivables with recourse at the end of the reporting period.
Interest rate swaps were concluded to hedge the interest rate risk on certain outstanding bank borrowings through swapping Euribor for fixed rate.

"LME and metal buyer/seller contracts" are carried at the fair value of contracts outstanding at the end of the reporting period.

The net financial position with the details of its main components pursuant to Consob Ruling 6064293 and the CESR Recommendation of 10 February 2005 "Recommendations for the consistent implementation of the European Commission regulation on information memoranda" is presented in the "Directors' Report" rather than in the notes.

4.19 Trade payables and other current liabilities

(migliaia di Euro)	Balance at 31.12.2009	Changes for the period	Change in scope of consolidation	Balance at 31.12.2010
Due to suppliers	195,638	209,070	45	404,753
Due to associates	13,370	(7,995)	-	5.375
Due to subsidiaries	649	(5)	-	644
Due to Parent	-	-	-	-
Total	**209,657**	**201,070**	**45**	**410,772**

The increase in the "due to suppliers" item is due to the increased operations and the extension of the payment terms provided by major suppliers of raw materials.

The carrying amount of trade payables approximates their fair value.

(thousands of Euro)	Balance at 31.12.2009	Changes for the period	Change in scope of consolidation	Balance at 31.12.2010
Due to employees	32,958	6,075	6	39,039
Due to social security institutions	10,564	2,043	-	12,607
Tax payables	18,229	2,767	51	21,047
Accrued expenses and deferred income	3,714	(415)	-	3,299
Other payables	29,249	(1,783)	43	27,509
Total	**94,714**	**8,687**	**100**	**103,501**

The amount due to employees includes accrued obligations that were unpaid at the end of the reporting period.

Tax payables primarily relate to value added tax payable and direct taxes.

Other payables include a Euro 24.6 million liability to customers for advance payments received and credit notes issued.

4.20 Deferred tax assets and liabilities

(thousands of Euro)	Balance at 31.12.2009	Changes for the period	Balance at 31.12.2010
Deferred tax assets	34,867	12,166	47,033
Deferred tax liabilities	(111,550)	(26,585)	(138,135)
Total	**(76,683)**	**(14,419)**	**(91,102)**

Deferred tax assets and liabilities are computed on temporary differences between carrying amounts of assets and liabilities recognised in the financial statements and the corresponding amounts recognised for tax purposes.

The Parent has not recognised deferred tax on the temporary difference relating to the financial investment in the subsidiary KME AG in compliance with paragraph 39 of IAS 12.

At the end of the reporting period, the Group did not recognise deferred tax assets on tax losses of Euro 159.5 million carried forward.

The details at 31 December 2010, of recognised and unrecognised deferred taxes on tax losses carried forward by Company, are shown below:

(thousands of Euro)	31.12.09	31.12.10
a) recognised tax losses carried forward		
KME Group S.p.A.	-	-
KME AG	135	4,694
KME Germany AG & Co. KG	-	23,239
KME Verwaltungs- u. Dienstleistungs-GmbH	2,586	2,039
KME Architectural Metals GmbH & Co. KG	1,704	-
KME Italy S.p.A.	16,000	16,000
KME Locsa SA	930	930
KME Yorkshire Ltd	4,222	2,253
Total (1)	**25,577**	**49,155**
b) unrecognised tax losses carried forward		
KME Group S.p.A.	4,297	-
KME France S.A.	69,629	62,895
KME Brass France S.A.S.	1,156	-
KME Spain SA	24,377	30,602
KME Italy S.p.A.	17,725	23,997
KME Locsa SA	20,888	19,498
KME Architectural Metals GmbH & Co. KG	-	9,705
Other companies	927	1,599
Total (2)	**138,999**	**148,296**
Total (1) + (2)	**164,576**	**197,451**

Deferred tax assets and liabilities by financial statements item are shown below:

(thousands of Euro)	Deferred tax assets		Deferred tax liabilities	
	31.12.09	31.12.10	31.12.09	31.12.10
Property, plant and equipment	216	248	64,481	61,120
Intangible assets	132	15	8	-
Investment property	324	214	-	-
Other non-current assets	-	-	-	-
Inventories	139	91	42,360	67,431
Trade receivables	934	1,592	287	141
Other current receivables and assets	13	3	10	14
Current financial assets	941	2,216	2,874	5,574
Current assets for sale or distribution	-	-	-	90
Employee benefits	9,186	9,403	648	628
Non-current financial liabilities	1,140	1,074	-	-
Other non-current liabilities	2,472	2,205	-	-
Provisions for risks and charges	4,800	1,946	-	-
Current financial liabilities	6,174	12,596	881	3,005
Trade payables	823	581	1	120
Other current liabilities	871	142	-	12
Deferred tax assets on equity items	65	88	-	-
Deferred tax assets on tax loss carry forwards	6,637	14,619	-	-
Total	**34,867**	**47,033**	**111,550**	**138,135**

Deferred tax assets recognised in equity primarily refer to costs associated with the capital increase incurred by the Parent.

4.21 Transactions with related parties

In addition to the aforementioned demerger, during the year, the Group traded with unconsolidated related parties. The related amounts were insignificant, as explained in the financial statements.
All such transactions, however, were at arm's length.

Information regarding the remuneration of key Executives and Directors is shown below:

(thousands of Euro)					FY 2010						FY 2009
Short-term benefits	Post-employment benefits	Other longterm benefits	Termination benefits	Sharebased payments	Total for the year	Short-term benefits	Post-employment benefits	Other longterm benefits	Termination benefits	Sharebased payments	Total for the year
5,910	27	-	829	243	7,009	5,072	26	428	353	557	6,436

4.22 Consolidated Statement of Cash Flows

The statement of cash flows for 2010 takes account of the iNTEk S.p.A. proportionate reverse demerger into KME Group S.p.A which is described in detail in the Directors' Report. In particular, this transaction significantly influences the following items:

- "total cash flows used in discontinued operations". The amount takes account of the recognition of the consolidation difference relating to the Drive Group of Euro 7.4 million, which had previously been recognised in the consolidated financial statements of iNTEk S.p.A.;
- The "statement of changes in equity" refers exclusively to the increase of the parent's share capital during the second half of the year. Indeed, pursuant to IAS 7 par. 44 the increase in equity for the reverse demerger is considered as a non monetary transaction. In the parent's separate financial statements however this item included also the increase of the proportionate reverse demerger by iNTEk S.p.A offsetting the increase in the assets (essentially "equity investments" in consolidated companies) and liabilities received with the demerger.

Other information:

- The "change in the scope of consolidation" includes the opening balance of the item "cash and cash equivalents" of the companies that are included in the scope of the consolidation for the first time.

4.23 Assets and liabilities held for sale

This item contains the current and non-current assets held for sale on the closing date of these consolidated financial statements.
The Group Drive items were reclassified following approval, on 30 November 2010, of the guidelines for the merger of Drive Rent S.p.A. into Cobra Automotive Technologies S.p.A.; A company with registered offices in Varese and a group holding company listed with the Borsa Italiana and a leader in the area of auto theft prevention and automobile safety through the use of information and satellite technology.
Post merger, the transaction will allow the entity to offer common and heterogeneous groups of customers (such as individual drivers, corporate fleets, leasing companies, automobile companies and insurance companies) new products and services developed by combining the know-how of the two groups, in addition to the electronic services and products already in production (cross selling). The transaction is expected to be concluded in the first half of 2011.
Based on an exchange of 383.7 ordinary shares of Cobra for every ordinary share of Drive Rent and assuming that the current ownership structure of Cobra and Drive Rent remains unchanged, the share capital of the new entity after the merger will be:

- KME Group S.p.A., 42.7%
- Serafino Memmola, directly and through Cobra Automotive Techonologies S.A. (Lux.), 26.6%.

A shareholders agreement was concluded between KME Group S.p.A and Cobra Automotive Techonologies S.A. on 18 November 2010 in order to establish the corporate governance of the new entities and the reciprocal relations as shareholders of Cobra S.p.A. upon conclusion of the merger.
On 15 March 2011, the Shareholders' Meeting of Drive Rent S.p.A. and Cobra S.p.A. approved the merger of Drive Rent S.p.A. into Cobra Automotive Techonologies S.p.A.; it is hereby reiterated that the merger is conditional on the fact that it will not result in the obligation to launch a takeover bid pursuant to articles 106 and 109 of

legislative Decree 58/98.
Based on the above, the assets and liabilities of the Drive Group were reclassified pursuant to IFRS 5 –Non-Current Assets Held for Sale.
Based on the aforementioned agreements, the new entity resulting from the merger will no longer be under the exclusive control of KME and will therefore no longer be fully consolidated. On the preparation date of the financial statements, the assets and liabilities of the Drive Group were reclassified pursuant to IFRS 5 –Non-Current Assets Held for Sale.

Assets and liabilities by financial statements item are shown below:

(thousands of Euro)	31.12.2010
Property, plant and equipment	7,874
Goodwill and consolidation differences	26,098
Other intangible assets	6,329
Investments in equity-accounted investees	6
Other non-current assets	5,127
Non-current financial assets	103
Deferred tax assets	1,501
Trade receivables	29,051
Other current receivables and assets	7,346
Financial assets held for sale	-
Cash and cash equivalents	2,958
Current assets held for sale	**86,393**
Employee benefits	575
Deferred tax liabilities	1,652
Financial payables and liabilities	6,657
Other non-current liabilities	861
Provisions for risks and charges	630
Current financial payables and liabilities	13,831
Trade payables	17,266
Other current liabilities	26,793
Current liabilities held for sale	**68,265**

5. Statement of Comprehensive Income

Pursuant to Consob Communication no. 6064293/06, it is hereby specified that the Group did not engage in "atypical and/or unusual transactions" except for the demerger already disclosed to the market pursuant to the law and applicable Consob regulations.

5.1 Revenue from sales and services

An analysis of revenue by geographical segment is shown below:

Geographical segment (millions of Euro)	**Year 2009**	**Year 2010**
Germany	489	683
Italy	369	565
France	206	301
United Kingdon	211	208
Spagna	74	115
Other European countries	390	597
Total Europe	**1,740**	**2,469**
Rest of the world	210	250
Total	**1,950**	**2,719**

Revenue, net of raw material costs, as shown in the Directors' Report increased by Euro 94.9 million from Euro 663.5 million for 2009 to Euro 758.4 million for 2010.
No single customer accounted for more than 10% of Group revenue (IFRS 8, par. 34).

5.2 Purchases and change in raw materials

(thousands of Euro)	Year 2009	Year 2010	Change
Purchase of raw materials and consumables	(1,303,707)	(2,094,757)	60.68%
(Gains)/losses on LME trading	7,288	(40,084)	insig.
Fair value on LME and metal buyer/seller contracts	(113,107)	(18,982)	-83.22%
Change in raw materials and consumables	88,953	137,862	54.98%
Total	**(1,320,573)**	**(2,015,961)**	**52.66%**

5.3 Other operating income

(thousands of Euro)	Year 2009	Year 2010	Change
Government grants	3,947	1,944	-50.75%
Gains on sale of non-current assets	4,949	1,182	-76.12%
Rental income	1,385	1,255	-9.39%
Cafeteria	517	598	15.67%
Insurance claim	387	4,389	insig.
Other	10,297	11,366	10.38%
Total	**21,482**	**20,734**	**-3.48%**

One part of the aforementioned operating income of Euro 2.1 million relating to state contributions of Euro 0.3 million, insurance refunds of Euro 0.8 million and other income amounting to Euro 1.0 million are presented as "non-recurring income and expenses" in the "Reclassified Statement of Comprehensive Income" contained in the Directors' Report.

5.4 Personnel expense

(thousands of Euro)	Year 2009	Year 2010	Change
Wages and salaries	223,632	254,004	13.58%
Social security charges	62,001	62,913	1.47%
Cost of stock option	784	243	-69.01%
Other personnel expense	15,497	15,761	1.70%
Total	**301,914**	**332,921**	**10.27%**

"Other personnel expense" includes provisions for defined benefit pension funds and post-employment benefits of Euro 10.8 million.

During the year the KME Group S.p.A. Stock option plan for 2010 – 2015 was activated, in replacement of the previous one which was implemented in 2006 and revoked in 2009 on account of the new corporate structure/organization of the Group.
In its meeting on 7 October 2010, the Board of Directors identified the plan benefits and determined the number of options assigned to each benefit, for a total of 25,500,000 options (the maximum number of options authorized by the Shareholders' Meeting is 31,000,000).

The options attribute to the beneficiaries the right to subscribe or purchase from the company an equivalent number of ordinary KME Group S.p.A. shares at the unit price of Euro 0.295:

- 1/3 starting from 10 October 2011;
- 1/3 starting from 8 October 2012;
- 1/3 starting from 8 October 2013;

The final exercise date is 31 December 2015.

The fair value of stock options (Euro 0.073) has been determined by an independent actuary on the award date by application of the Black & Scholes model which includes variables regarding the conditions of exercise, current share value, expected volatility (estimated through projection of actual volatility for the past year), the risk free interest rate for the Euro zone, expected dividend yield, and the probability that option holders will meet the requirements to exercise their rights at the end of the vesting period.

The evolution of the stock option Plan at 31 December 2010 is as follows:

Situation at	**31/12/2009 no. options**	**31/12/2010 no. options**
Options outstanding at 1 January	**33,144,453**	**zero**
New options awarded	-	25,500,000
Options re-awarded	-	-
Options exercised during year	-	-
Options expired during year	33,144,453	-
Options outstanding at end of year	**zero**	**25,500,000**
of which eligible for exercise:	zero	zero

More details regarding the Plan are provided in the section "The remuneration of Directors and Group Executives" and the "Information Document" which has been prepared and is available on the company's website.

Euro 1.2 million of other personnel expense relating to the cost of reducing hours worked (special temporary government-sponsored lay-off scheme, solidarity agreements and similar arrangements) has been reported under "Non-recurring income (expenses)" in the Reclassified Statement of Comprehensive Income shown in the Directors' Report.

Average number of employees:

year average	**2009**	**2010**	**% change**
Executives and clerical	1,843	1,781	*-3.4%*
	27.9%	*27.5%*	
Blue collar and special categories	4,751	4,696	*-1.2%*
	72.1%	*72.5%*	
Total employees	**6,594**	**6,477**	***-1.8%***
	100.0%	***100.0%***	

5.5 Amortisation, depreciation and impairment losses

(thousands of Euro)	**Year 2009**	**Year 2010**	**Change**
Depreciation	55,163	44,379	-19.55%
Amortisation	1,110	1,469	32.34%
Reversals of prior year impairment losses	(834)	(655)	-21,46%
Impairment losses	1,304	5,369	insig.
Total	**56,743**	**50,562**	**-10.89%**

"Accumulated impairment losses", equal to Euro 5.4 million, and Euro 0.5 million of the amortisation of intangible assets (basically "goodwill") were reported under "non-recurring income (expenses)" in the Reclassified Statement of Comprehensive Income shown in the Directors' Report.

As illustrated in paragraph 4.1, based on the requirements of the accounting standard of reference (IAS 16 par. 51), the Directors carried out an analysis of the residual life of the major plants and machinery, from an economic and production viewpoint, in order to estimate the most representative residual life. This choice was determined by the existence of events and situations, including a prudent rationalization policy and monitoring of various processes. Thanks in part to the OpEx program, the Group has been very involved in investigating solutions and technological innovations as well as constant and preventive maintenance of its strategic equipment since 2009. The continued research for innovation and quality has made it possible to improve and enhance the productive capacities of the plant and machinery that play a major role in the company's production process.

For the assessment, the Directors requested the assistance of a leading company in the sector, SGS Italia S.p.A..

The change in the useful life was applied, based on the requirements in IAS 16 par. 51 and IAS 8 par. 32 and prospectively from 1 January 2010, which resulted in a reduction in the item "Amortisation, depreciation and impairment losses," of approximately Euro 10.9 million compared to the previous year.

5.6 Other operating costs

(thousands of Euro)	Year 2009	Year 2010	Change
Energy	65,407	69,207	5.81%
Maintenance and repairs	24,823	34,495	38.96%
Insurance premiums	11,280	12,767	13.18%
Rent paid and operating leases	10,594	11,459	8.16%
Outsourced production	19,704	23,740	20.48%
Sales logistics and transport	45,148	59,839	32.54%
Commissions	16,336	17,269	5.71%
Factoring funding fees	4,418	4,372	-1.04%
Other operating costs	73,259	88,070	20.22%
Other operating costs	**270,969**	**321,218**	**18.54%**

"Factoring funding fees" are the fees on the factoring without recourse of trade receivables.

"Other operating costs" include:

1. provisions for risks and charges less releases totalling Euro 8.3 million.
2. bank fees of Euro 2.7 million;
3. losses on disposal of Euro 0.7 million;
4. allowance for impairment of Euro 5.6 million;
5. advertising and other business expenses of Euro 7.2 million;
6. external staff expenses of Euro 4.4 million;
7. legal consultancy and administrative costs plus fees for company bodies and independent auditors of Euro 11.9 million.
8. waste disposal costs of Euro 5.1 million;
9. travel and company cafeterias of Euro 8.7 million;
10. monitoring costs of Euro 1.3 million;
11. information technology consulting, Euro 2.4 million.

One part of the aforementioned operating income of Euro 17.5 million relating to interest due in regard to EU imposed penalties for antitrust violations of Euro 3.2 million, allocations to the risk provisions of Euro 6.3 million, allocations to credit risk of Euro 3.0 million, consulting of Euro 1.5 million and the other operating costs amounting to Euro 3.5 million are presented as "non-recurring income and expenses" in the "Reclassified Statement of Comprehensive Income" contained in the Directors' Report.

5.7 Financial income and expense

(thousands of Euro)	Year 2009	Year 2010	Change
Interest income	937	933	-0.43%
Exchange rate gains	10,494	5,914	-43.64%
Dividends	1,463	260	-82.23%
Other financial income	1,317	3,623	175.09%
Total financial income	**14,211**	**10,730**	**-24.50%**
Interest expense	(13,955)	(13,023)	-6.68%
Exchange rate losses	(6,512)	(5,679)	-12.79%
Exchange rate losses	(8,669)	(13,361)	54.12%
Total financial expense	**(29,136)**	**(32,063)**	**10.05%**
Net financial expense	**(14,925)**	**(21,333)**	**42.93%**

"Interest expense" includes Euro 0.4 million relating to interest on the factoring of receivables with recourse.

The reduction of interest expense is due to the fall in interest rates (Euribor) and the lower interest bearing debt that, by excluding "financial instruments at fair value" and "Other financial assets" (consisting of real estate assets), decreased from Euro 265.4 million at 31 December 2009 to Euro 196.5 million at the end of the reporting period.
The "Other financial expense" item also includes the Euro 3.3 million impairment loss on the ErgyCapital S.p.A. warrants held by the Parent. The Directors adjusted the carrying amount of the ErgyCapital 2016 warrants, determining the recoverable value through the fair value and therefore according to their official listing price on the date of these financial statements. This impairment loss, together with "other financial expense" relating to the impairment of financial receivables, for a total of Euro 5.9 million, are included in "Non-recurring income (expenses)" in the "Reclassified Statement of Comprehensive Income" shown in the Directors' Report.

5.8 Share of profit of equity-accounted investees

The amount of Euro 10.7 million relates to the pro-quota results of the losses for the year of the following investees.
- ErgyCapital S.p.A. of Euro 9,274 thousand
- Metalbuyer S.p.A. of Euro 1,461 thousand

5.9 Current and deferred taxes

(thousands of Euro)	Year 2009	Year 2010	Change
Current taxes	(10,179)	(4,185)	-58.89%
Deferred taxes	2,288	(15,047)	insig.
Total	**(7,891)**	**(19,232)**	**insig.**

Since 2007, KME Group S.p.A. and most of its Italian subsidiaries elected to be assessed under a tax consolidation arrangement, so that IRES is computed on assessable income equal to the net taxable profit/tax loss of each company participating in the arrangement. Financial relationships, responsibilities and reciprocal obligations are set out in the agreement and terms and conditions regarding the national consolidated tax scheme by which the Parent and/or subsidiaries with tax losses receive a payment equal to the relevant tax savings realised by the Parent and/or subsidiaries with taxable income.
During 2010 tax benefits of Euro 276 thousand were recognized from the disposal of tax losses and the excess "gross operating profit" between KME Italy S.p.A. and its subsidiaries.

Deferred tax assets and liabilities are computed on temporary differences between carrying amounts of the assets and liabilities under accounting standards and the corresponding tax amounts. Temporary differences partially also arose in connection with consolidation adjustments that caused a difference between consolidated carrying amounts and tax amounts.

Reconciliation of tax charge at theoretical rate and the effective charge:

(thousands of Euro)	31.12.2010	31.12.2009
Profit (loss) before taxes	2,867	(15,537)
Tax charge at theoretical rate	(900)	4,879
(tax rate used: 31.4%)		
Reconciliation:		
Use of different tax rates:	77	1,302
Other items:		
Non-deductible (expenses) and non-taxable income	(11,416)	(17,591)
Use of tax losses	(1,518)	4,646
Impairment losses on investments and certificates	(1,207)	0
Current taxes for previous years	(512)	(1,100)
Taxes on profits of equity-accounted investees	(3,336)	0
Other	(420)	(27)
Total tax expense recognised in the statement of comprehensive income	**(19,232)**	**(7,891)**

5.10 – Loss from discontinued operations

This item includes the reclassification of the Drive Group as illustrated in paragraph 4.23.

The table below gives a per item breakdown in the Statement of Comprehensive Income:

(thousands of Euro)	31.12.2010
Change in inventories of finished goods and semi-finished products	58,387
Capitalised internal work	-
Other operating income	299
Purchases and change in raw materials	671
Personnel expense	-
Amortisation, depreciation and impairment losses	(10,116)
Ammortamenti, impairment e svalutazioni	(5,293)
Other operating costs	(43,821)
Operating profit	**127**
Financial income	16
Financial expense	(1,167)
Loss before taxes	**(1,024)**
Current taxes	(366)
Deferred taxes	(52)
Total income taxes	**(418)**
Loss from discontinued operations	**(1,442)**

6. Other information

Financial instruments by category

(thousands of Euro)	31-12-2009	31-12-2010	Change
Fin. assets recognised at fair value through profit or loss	34,378	49,815	15,437
Held-to-maturity assets	-	-	-
Loans and receivables	318,586	420,361	101,775
Available-for-sale financial assets	-	-	-
Fin. liabilities carried at fair value through profit or loss	48,401	70,453	22,052
Fin. liabilities carried at amortised cost	762,311	444,263	(318,048)

Financial instruments by financial statements presentation

Financial instruments and reconciliation with financial statements items at 31 December 2010:

Financial statements item (thousands of Euro)	Total	Carried at amortised cost	Carried at fair value	Outside the scope of IFRS 7
Financial assets:				
Investments in subsidiaries and associates	17,301			17,301
Investments in other companies	1,908			1,908
Investments in equity accounted investees	21,951			21,951
Non-current financial assetsi	114,387	114,387		
Other non-current assets	25,501	25,501		
Trade receivables	146,505	146,505		
Other current receivables and assets				
Tax credit	10,164			10,164
Trade receivables	3,790	3,790		
Other non-financial assets	12,226			12,226
	26,180			
Cash and cash equivalents	39,751	39,751		
Current financial assets				
Factoring	85,830	85,830		
Receivables	4,597	4,597		
Financial instruments	28,706		28,706	
Other instruments	21,109		21,109	
	140,242			
		420,361	**49,815**	**63,550**

Financial statements item (thousands of Euro)	Total	Carried at amortised cost	Carried at fair value	Outside the scope of IFRS 7
Financial liabilities:				
Current and non-current financial liabilities				
Due to banks	375,955	375,955		
With recourse factoring	58,281	58,281		
Without recourse factoring	2,932	2,932		
Payable to lease companies	3,450	3,450		
Other financial Liabilities	3,645	3,645		
Financial instruments	70,453		70,453	
	514,716	**444,263**	**70,453**	
Trade payables	410,772	410,772		
	925,488	**855,035**	**70,453**	

Notional value of financial instruments and derivatives

The following table shows a summary of notional values and terms of derivative financial instruments outstanding at the end of the reporting period:

(thousands of Euro)	1 year or less	from 1 to 5 years	over 5 years	Total at 31.12.10	Total at 31.12.09
LME commodity contracts and metal buyer/seller contracts	612,300			612,300	489,537
Foreign exchange forward contracts	218,690			218,690	101,987
Cross-currency swaps				-	-
Interest rate swaps (IRS)				-	-
Total	**830,990**	-		**830,990**	**591,524**

The net change in 2010 of the fair value recognized in the Statement of Comprehensive Income for LME transaction and metal buying/selling contracts was negative by Euro 19.2 million (negative by Euro 101.1 million in 2009).

The notional value of LME and metal buyer/seller contracts is the aggregate of sales and purchases.

Exposure to credit risk and impairment losses

The carrying amount of financial assets is the Group's maximum exposure to credit risk.

The ageing of trade receivables due from non-Group companies at the date of presentation of these financial statements was as follows:

Description (thousands of Euro)	Gross carrying amount	Impairment losses 31.12.2010	Net carrying amount
current	102,236	1,678	100,558
less than 60 days past due	21,557	38	21,519
61 to 120 days past due	4,075	154	3,921
121 days to 1 year past due	10,718	1,442	9,276
over 1 year past due	9,044	7,406	1,637
Total	**147,630**	**10,718**	**136,911**

Movements in the allowance for impairment during the year are shown below:

(thousands of Euro)	
31.12.2009	**9,230**
Translation differences	134
Change in scope of consolidation	0
Impairment losses of the year	2,898
Uses	(599)
Releases	(945)
31.12.2010	**10,718**

Currency risk exposure

The following table shows the Group's exposure to currency risk by notional amount for the relevant currency:

31.12.2010	USD	GBP	CHF	SEK	EUR
Non-current financial assets					
Other non-current assets					
Trade receivables	11,006	1,236	108	2,120	125
Other current receivables and assets	38	64	(10)	-	-
Current financial assets	8,747	1,295	1,575	12,913	932
Cash and cash equivalents	1,912	3,568	2,528	43,327	109
Financial liabilities	82	92	(1)	457	3,690
Trade payables	216,151	232	161	2,354	722
Other current liabilities	272	810	93	9,330	-
Gross statement of financial position exposure	**(194,802)**	**5,029**	**3,948**	**46,219**	**(3,246)**
Projected sales	44,028	11,580	4,237	29,610	187
Projected purchases	37,750	156	293	2,837	520
Gross exposure	**(188,524)**	**16,453**	**7,892**	**72,992**	**(3,579)**
Currency forward contracts	(136,685)	11,939	5,351	84,177	(9,213)
Net exposure	**(51,839)**	**4,514**	**2,541**	**(11,185)**	**5,634**

Sensitivity analysis

A 10% appreciation (depreciation) of the Euro against the currencies in the above table would have caused an increase (decrease), at 31 December 2010, in equity and an improvement (deterioration) of the results for the year of Euro 3.4 million. The analysis was made assuming that all other variables remained constant, in particular, interest rates. The same analysis for 31 December 2009 would have increased (decreased) results and equity by Euro 0.2 million.

Currency risk exposure for the previous financial year:

31.12.2009	USD	GBP	CHF	SEK	EUR
Non-current financial assets					
Other non-current assets					
Trade receivables	11,187	(646)	326	28,974	(59)
Other current receivables and assets	21	37	6		
Current financial assets	6,248	530	1,979	2,075	708
Cash and cash equivalents	6,341	1,767	987	11,240	182
Financial liabilities	253	62	106	-	236
Trade payables	50,947	121	52	1,488	53
Other current liabilities	(12)	1	-	5,963	
Gross statement of financial position exposure	**(27,391)**	**1,504**	**3,140**	**34,838**	**542**
Projected sales	37,180	5,559	5,242	21,675	116
Projected purchases	48,485	197	317	2,450	709
Gross exposure	**(38,696)**	**6,866**	**8,065**	**54,063**	**(51)**
Currency forward contracts	(35,572)	7,560	7,491	50,029	(8,208)
Net exposure	**(3,124)**	**(694)**	**574**	**4,034**	**8,157**

Interest rate exposure

The Group's interest rate structure of interest-bearing financial instruments at 31 December 2010 was as follows:

	Carrying amount	
(thousands of Euro)	**31.12.2009**	**31.12.2010**
Fixed rate instruments:		
Financial assets	40,950	36,046
Financial liabilities	7,196	12,384
Total	**33,754**	**23,662**
Variable rate instruments:		
Financial assets	177,244	117,956
Financial liabilities	539,756	370,666
Total	**(362,512)**	**(252,710)**

Sensitivity analysis of the fair value of fixed rate instruments and of LME contracts

The Group had no fixed rate financial assets or liabilities carried at fair value through profit or loss or any derivatives (interest rate swaps) designated as fair value hedges. As a result, any changes in the interest rates at the end of the reporting period would not have had an effect on the Statement of Comprehensive Income.

The Group uses LME contracts (commodities forwards traded on the London Metal Exchange) to hedge fluctuations in the price of raw materials, particularly copper. These instruments are measured at fair value through profit or loss. A Euro 100 per tonne increase in the price of copper at the end of the reporting period would have resulted in a decrease in equity and a deterioration of results for the year of Euro 5.4 million. The same effect on financial statements figures at 31 December 2009 would have produced an equal decrease of Euro 4.6 million.

Sensitivity analysis of the cash flows of variable rate financial instruments

An increase (or decrease) of 50 interest rate basis points (bps) at the end of the reporting period would produce a decrease (increase) in equity and profit of approximately Euro 1.6 million (Euro 2.0 million in the first half of 2009). The analysis was carried out assuming that the other variables, in particular exchange rates, remained constant and was carried out using the same assumptions for 2009.

Exposure to liquidity risk

Liquidity risk can arise from the inability to raise working capital financing as and when required. The inflows and outflows and the liquidity of Group companies are monitored and coordinated by Group Treasury. The flexibility of existing credit lines meant that the Group was able resolve problems relating to covering the temporary cash shortfalls caused by increased raw materials prices.

Fair value and carrying amounts

Pursuant to IFRS 7 paragraph 25, financial assets and liabilities must be carried in the statements of financial position at fair value.

Fair value hierarchy

IFRS 7, par. 27A requires financial instruments recognised at fair value in the statement of financial position to be classified with reference to a hierarchy of levels, based on the significance of the input used to determine fair value.

The standard stipulates three levels:

Level 1 - quoted prices for the asset or liability to be measured;

Level 2 - directly observable market inputs other than Level 1 inputs;

Level 3 - inputs not based on observable market data.

Financial instruments recognised in the statement of financial position at fair value (see reconciliation), except for "financial assets held for trading" pertaining to Level 1, are all classified as Level 2 of the hierarchy, due to the fact that they all relate to either physical transactions with customers and suppliers, or forward contracts concluded at prices quoted on the London Metal Exchange (LME) for the purposes of hedging fluctuating commodity prices.
There were no transfers in the first half of 2010 between Levels 1 and 2.
The Group does not use derivative financial instruments that would be classified as Level 3.

Other financial commitments

Below is a summary showing the minimum irrevocable payment commitments under operating leases at the end of the reporting period:

(thousands of Euro)	31.12.2009	31.12.2010
within 1 year	5,213	5,864
between 1 and 5 years	6,873	8,649
due after 5 years	166	336
	12,252	**14,849**

Purchase commitments relating to property, plant and equipment at the end of the reporting period amounted to Euro 13.1 million. These purchase commitments will lapse next year.

7. Segment information

Following is the segment information as required by IFRS 8. At operational level, the KME Group is organized in business units according to the products and services it offers and has three operating segments for which information is provided, as follows:

- **Copper products:** a segment consisting of an industrial grouping which is of absolute significance in international global production of semi-finished copper and copper alloys;
- **Services:** This segment is represented by a grouping of companies belonging to the Drive Group which was purchased by KME Group S.p.A. following the proportionate partial reverse demerger of iNTEK S.p.A. into KME Group S.p.A., which is active in the long-term leasing of automobiles, the management of private vehicles, the leasing of replacement vehicles to repair companies, management of corporate guest rooms and the management of an automobile parking lot in the centre of Milan; the assets, liabilities and results of this segment are presented in the financial statements as "Current assets/liabilities held for sale" since on 30 November 2010 the guidelines for the merger of Drive Rent S.p.A. into Cobra Automotive Technologies S.p.A. were approved. The merger of Drive Rent S.p.A. into Cobra Automotive Technologies S.p.A. is currently expected to be concluded in the first half of 2011;
- **Energy from renewable sources:** this segment consists of a grouping of companies belonging to the ErgyCapital S.p.A. Group which is active in the area of plant and energy generation from renewable sources, especially in the field of photovoltaic energy.

(Amount in €/000)	Operating sectors				
	Copper and copperalloy semi-finished goods	**Services** [1]	**Energy from renewable sources**	**Consolidated and various**	**Total**
Revenue	2,718,700		-	(34)	2,718,666
Financial income	3,535		-	7,195	10,730
Financial expense	(22,298)		-	(9,765)	(32,063)
Amortisation, depreciation and impairment losses	(50,535)		-	(27)	(50,562)
Segment profit before taxes	17,644	[2]	(9,239)	(5,538)	2,867
Non-current financial assets					
Investments in subsidiaries and associates	8,737		6,511	4,042	19,290
Investments in equity accounted investees	-	-	20,357	1,594	21,951
Consolidation differences	114,582	-	-	-	114,582
Other non-current assets	788,837		-	15,268	804,105
Current assets	1,003,443	86,393 [1]	-	(28,711)	1,061,125
Current and non-current liabilities	1,530,216	68,265 [1]	90	(34,535)	1,564,036

(1) At the end of the reporting period the services sector, wholly attributable to the Drive Group, was recognised as "Discontinued operations". For reclassifications and relevant information reference should be made to paragraph 4.23 of the notes

(2) Loss of the Drive Group amounting to Euro -1.4 million is recognised in the Statement of Comprehensive Income under "Profit/(loss) from discontinued operations".

Following are the comparative figures at 31 December 2009

(Amount in €/000)	Operating sectors				
	Copper and copperalloy semi-finished goods	**Services**	**Energy from renewable sources**	**Consolidated and various**	**Total**
Revenue	1,949,434	N/A	N/A	(67)	1,949,367
Financial income	10,942	N/A	N/A	3,269	14,211
Financial expense	(34,511)	N/A	N/A	5,375	(29,136)
Amortisation, depreciation and impairment losses	(57,999)	N/A	N/A	1,256	(56,743)
Segment profit before taxes	(21,790)	N/A	N/A	6,253	(15,537)
At 31 december 2009					
Non-current financial assets					
Investments in subsidiaries and associates	6,784	N/A	N/A	-	6,784
Investments in equity accounted investees	-	N/A	N/A	3,958	3,958
Consolidation differences	114,897	N/A	N/A	-	114,897
Other non-current assets	786,615	N/A	N/A	10,526	797,141
Current assets	852,105	N/A	N/A	(5,402)	846,703
Current and non-current liabilities	1,378,435	N/A	N/A	(31,755)	1,346,680

The figures for the "Services" and "Energy from renewable sources" are presented only from 2010 as they were acquired by the Group following the proportionate reverse merger of iNTEk S.p.A..

Annexes to the notes to the consolidated financial statements:

Reconciliation statement between the profit of the Parent KME Group SpA and the consolidated loss for the year ended 31 December 2010

(thousands of Euro)	
Profit of KME Group S.p.A. separate financial statements	61,101
Loss of subsidiaries (1) (2)	(5,147)
Consolidation adjustments (3)	(63,570)
Share of profit of equity-accounted investees (4)	(10,735)
Consolidated loss attributable to owners of the Parent	**(18,351)**
Profit of subsidiaries 01.01.2010 - 31.12.2010	
(1) KME A.G. consolidated profit	341
(2) Drive Rent S.p.A. consolidated loss	(1,298)
(2) Immobiliare Agricola Limestre S.r.l. consolidated profit	(123)
(2) KME Recycle S.p.A. consolidated prodit	(3,147)
(2) KME Partecipazioni S.p.A. consolidated profit	(920)
(3) Derecognition impairment losses (reversal of impairment losses) on investments	(63,533)
(3) Netting of intercompany dividends	-
(3) Other consolidation adjustments	(37)
(4) Investees contribution to equity	(10,735)
Total	**(79,452)**

Reconciliation statement between the equity of the Parent KME Group Spa and the consolidated equity as at 31 December 2010

(thousands of Euro)	
Parent's Equity including profit	**469,205**
Consolidation reserves	62,312
Difference between consolidated loss and Parent's profit	(79,452)
Group's Equity including loss	**452,065**
Breakdown of consolidation reserves	
(1) Netting of investments	(71,793)
(2) Netting of intercompany dividendso	-
(3) KME A.G. goodwill arising on consolidation	109,840
(4) Drive Rent S.p.A. goodwill arising on consolidation	22,473
(5) Effect of the translation of the financial statements in Euro	1,086
(6) Components of total comprehensive income:	706
Total	**62,312**

Statement of the Deputy Chairman and the Manager responsible for financial reporting

KME Group S.p.A.

STATEMENT ABOUT THE CONSOLIDATED FINANCIAL STATEMENTS PURSUANT TO ART. 154 BIS, PARAGRAPH 5 OF LEGISLATIVE DECREE 58/98, AS SUBSEQUENTLY AMENDED AND ADDED TO

1. Having regard to the requirements of article 154 bis, paragraphs 3 and 4, of Legislative Decree 58 of 24 February 1998, the undersigned Vincenzo Manes, Deputy Chairman, and Marco Miniati, the Manager Responsible for Financial Reporting at KME Group S.p.A., hereby certify:
   - the adequacy with respect to the characteristics of the Company and
   - the actual application,

   of administrative and accounting procedures in the preparation of the consolidated financial statements as at and for the year ended 31 December 2010.

2. No material findings were made in this regard.

3. It is also certified that:

   3.1 the consolidated financial statements:

   a. were prepared in compliance with International Financial Reporting Standards as endorsed by the European Community pursuant to Regulation (EC) 1606/2002 of the European Parliament and of the Council of 19 July 2002;

   b. correspond to the underlying accounting records;

   c. are suitable to provide a true and fair view of the issuer's financial position and results of operations and that of its consolidated companies;

   3.2 the Directors' Report contains a reliable analysis of the operating performance and results and the situation of the issuer and its consolidated companies, together with a description of the principle risks and uncertainties to which they are exposed.

Florence, 22 March 2011

The Deputy Chairman

signed Vincenzo Manes

Manager responsible for the preparation of corporate accounting documentation

signed Marco Miniati

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Cap. Soc. 297.013.585,26 int. vers.
Cod. Fiscale e Reg. Imprese
di Firenze n° 00931330583
Partita IVA 00944061006

Report of the Board of Statutory Auditors on the consolidated financial statements as at and for the year ended 31 December 2010

The Board of Statutory Auditors hereby presents its brief report on the consolidated financial statements as at and for the year ended 31 December 2010, pursuant to its obligation to oversee compliance with the law and the memorandum of association in general and the obligation, which has consistently been observed, to report to the Shareholders on the examination of matters and documents submitted to the Shareholders' Meeting by Directors.

In order to avoid unnecessary duplication, this report is complementary to the report on the separate financial statements as at and for the year ended 31 December 2010.

The Board of Directors, in compliance with Legislative Decree 127/1991, has presented consolidated financial statements as at and for the year ended 31 December 2010, which is the end of the reporting period of the parent and its subsidiaries.

The consolidated financial statements have been prepared in compliance with IFRS requirements for recognition and measurement. The executive Deputy Chairman of the Company, Vincenzo Manes, and the Director, Marco Miniati, the Manager Responsible for Financial Reporting of KME Group S.p.A., provided the Directors and Statutory Auditors with a written statement on 22 March 2011, in part for the purposes of art. 154 bis of Legislative Decree 58/1998, certifying the adequacy for a company of this type of the management and accounting procedures for the preparation of separate and consolidated financial statements for 2010, and their conformity with international financial reporting standards.

All subsidiaries, being those companies over which the Group exercises control of financial and operational policies, which is generally accompanied by exercising more than 50% of the voting rights, have been consolidated.

Associates are companies over which the Group exercises significant influence but not control.

In 2010, the investments which did not refer to the copper, the renewable energy sector or services sectors were grouped under the sub-holding company KME Participazioni srl.

Information on the scope of consolidation is contained in the notes which, in brief, explain that subsidiaries are consolidated on a line-by-line basis and associates (companies over which KME Group S.p.A. exercises significant influence but not control) are consolidated using the equity method.

Companies over which significant influence is not exercised, which are small in size and with operations significantly different from those of the Group's principal companies, have not been consolidated and the effect of their exclusion is immaterial, as expressly stated in the text.

Information on the most important events, related party and/or intercompany transactions in 2010, reports and representations made by shareholders and third parties and, in general, oversight and examinations, is contained in the Report of the Board of Statutory Auditors on the separate financial statements for the year.

The consolidated loss for the year is Euro 18.3 million mainly due to the non-recurring expenses which arose from the allocations made subsequent to the reconversion of production sites and the losses deriving mainly from the subsidiary ErgyCapital.

Exhaustive information has been provided in the consolidated financial statements (accounting policies, notes and annexes).

It is noted finally that during 2010 the company amended the criteria for depreciation of the plant and machinery as shown in the specified statements in the Directors' Report, which shows an extension of the average useful life and corresponding reduction in depreciation of approximately Euro 10.9 million.

It is noteworthy that the Company continues to disclose the differences arising on the measurement of inventories in accordance with IFRS, compared to the Company's management accounts combined with a reconciliation of the results for the year.

In particular, in 2010 the consolidated loss was influenced by a positive adjustment resulting from IFRS measurement criteria of approximately Euro 20 million, gross of taxes.

The difference arose as a result of the effect of extremely volatile prices on the measurement of inventories and related financial instruments under IFRS, which has introduced a variable that that can distort results.

Information on key indicators of financial and non-financial performance can be extracted from the tables contained in the notes to the financial statements.

The Independent Auditors KPMG, with which the Board of Statutory Auditors had the necessary contact, issued an unqualified opinion on the financial statements and disclosure systems for the year on 5 April 2011.

In conclusion, the Board of Statutory Auditors is of the opinion that the consolidated financial statements and accompanying documents adequately reflect the Group's financial position and results of operations as at and for the year ended 31 December 2010.

The consolidated financial statements and accompanying documents have only been provided to Shareholders for information purposes and do not require approval.

Florence, 5 April 2011

THE BOARD OF STATUTORY AUDITORS
Chairman of the Board of Statutory Auditors
(signed by Marco Lombardi)

The standing auditor
(signed by Vincenzo Pilla)

The standing auditor
(signed by Pasquale Pace)

Report of the auditors

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(Translation from the Italian original which remains the definitive version)

Report of the auditors in accordance with articles 14 and 16 of Legislative decree no. 39 of 27 January 2010

To the shareholders of
KME Group S.p.A.

1 We have audited the consolidated financial statements of KME Group as at and for the year ended 31 December 2010, comprising the statement of financial position, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes thereto. The parent's directors are responsible for the preparation of these financial statements in accordance with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 9 of Legislative decree no. 38/05. Our responsibility is to express an opinion on these financial statements based on our audit.

2 We conducted our audit in accordance with the auditing standards recommended by Consob, the Italian Commission for Listed Companies and the Stock Exchange. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement and are, as a whole, reliable. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by directors. We believe that our audit provides a reasonable basis for our opinion.

The consolidated financial statements present the prior year corresponding figures for comparative purposes. As disclosed in the notes, the parent's directors restated some of the corresponding figures included in the prior year consolidated financial statements. We audited such consolidated financial statements and issued our report thereon on 12 April 2010. We have examined the methods used to restate the prior year corresponding figures and related disclosures for the purposes of expressing an opinion on the consolidated financial statements at 31 December 2010.

3 In our opinion, the consolidated financial statements of KME Group as at and for the year ended 31 December 2010 comply with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 9 of Legislative decree no. 38/05. Therefore, they are clearly stated and give a true and fair view of the financial position of KME Group as at 31 December 2010, the results of its operations and its cash flows for the year then ended.

KPMG S.p.A. è una società per azioni di diritto italiano e fa parte del network KPMG di entità indipendenti affiliate a KPMG International Cooperative ("KPMG International"), entità di diritto svizzero.

Ancona Aosta Bari Bergamo
Bologna Brescia Brescia Cagliari
Catania Como Firenze Genova
Lecce Milano Napoli Novara
Padova Palermo Parma Perugia
Pescara Roma Torino Treviso
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Sistemi per azioni
Capitale sociale
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Partita IVA 00709600159
VAT number IT00709600159
Sede legale: Via Vittor Pisani, 25
20124 Milano MI ITALIA

4 The directors of KME Group S.p.A. are responsible for the preparation of a directors' report on the financial statements in accordance with the applicable laws and regulations. Our responsibility is to express an opinion on the consistency of the directors' report and its specific section on corporate governance and shareholding structure, to the extent of the information required by article 123-bis.1.c/d/f/l/m and article 123-bis.2.b of Legislative decree no. 58/98 with the financial statements to which they refer, as required by the law. For this purpose, we have performed the procedures required by the Italian Standard on Auditing 001 issued by the Italian Accounting Profession and recommended by Consob. In our opinion, the directors' report and the information required by article 123-bis.1.c/d/f/l/m and article 123-bis.2.b of Legislative decree no. 58/98 disclosed in the specific section of such report are consistent with the consolidated financial statements of KME Group S.p.A. as at and for the year ended 31 December 2010.

Florence, 5 April 2011

KPMG S.p.A.

(signed on the original)

Riccardo Cecchi
Director of Audit

Financial statements of KME Group S.p.A. at 31 December 2010

Separate financial statements at 31 December 2010

Statement of financial position

(in Euro)	*note*	At 31.12.2010	of which with related parties	At 31.12.2009	of which with related parties
Property, plant and equipment	*4.1*	216,933		162,727	
Investments	*4.2*	423,021,585	423,021,585	312,566,288	312,566,288
Other financial assets	*4.3*	65,995,295	60,627,760	58,880,541	54,634,915
Deferred tax assets	*4.4*	2,468,816		2,197,484	
NON-CURRENT ASSETS		**491,702,629**		**373,807,040**	
Trade receivables	*4.5*	5,776	5,776	89,064	89,064
Other current receivables and assets	*4.6*	469,903	311	1,192,590	
Current financial assets	*4.7*	139,120,125	124,761,625	101,957,331	101,957,331
Cash and cash equivalents	*4.8*	250,511		402,887	
Current assets held for sale	*4.9*	30,000,000	30,000.000	-	-
CURRENT ASSETS		**169,846,316**		**103,641,872**	
TOTAL ASSETS		**661,548,945**		**477,448,912**	
Share capital	*4.10*	297,013,585		250,014,923	
Other reserves	*4.10*	91,601,028		76,331,753	
Treasury shares	*4.10*	(2,887,602)		(2,887,603)	
Retained earnings	*4.10*	15,191,120		14,394,985	
Stock Option reserve	*4.10*	7,184,835		6,941,919	
Profit for the year	*4.10*	61,100,677		3,629,375	
EQUITY		**469,203,642**		**348,425,352**	
Employee benefits	*4.11*	161,586		156,230	
Deferred tax liabilities	*4.4*	89,534		-	
Financial payables and liabilities	*4.12*	82,604,252	8,963,045	63,287,197	1,821,411
Other payables	*4.13*	1,797,455	1,797,455	1,446,454	1,446,454
Provisions for risks and charges	*4.14*	2,440,368		2,789,368	
NON-CURRENT LIABILITIES		**87,093,195**		**67,679,249**	
Financial payables and liabilities	*4.15*	103,433,087	59,645,429	57,303,062	27,833,645
Trade payables	*4.16*	329,505	3,130	701,807	73,476
Other current liabilitiesi	*4.17*	1,489,515	462,345	3,339,442	152,429
CURRENT LIABILITIES		**105,252,108**		**61,344,311**	
TOTAL EQUITY AND LIABILITIES		**661,548,945**		**477,448,912**	

Statement of comprehensive income

(in Euro)	note	FY 2010	of which with related parties	FY 2009	of which with related parties
Revenue from sales and service	*6.1*	2,839,000	2,839,000	2,839,000	2,839,000
Other income	*6.2*	1,002,721	204,625	16,506	860
Personnel expense	*6.3*	(680,045)	(223,864)	(726,399)	(500,504)
Amortisation, depreciation and impairment losses	*6.4*	(12,040)		(8,032)	-
Other operating costs	*6.5*	(5,536,423)	(3,344,306)	(5,395,192)	(2,189,147)
Operating loss		**(2,386,787)**		**(3,274,117)**	**-**
Financial income	*6.6*	86,350,690	82,707,429	13,122,909	11,820,082
Financial expense	*6.6*	(21,704,242)	(11,432,382)	(4,508,662)	(321,400)
Profit before taxes		**62,259,662**		**5,340,130**	**-**
Current taxes	*6.7*	(404,884)		(3,049,862)	
Deferred taxes	*6.7*	(754,101)		1,339,107	-
Total income taxes		**(1,158,985)**		**(1,710,755)**	**-**
Profit from continuing operations		**61,100,677**		**3,629,375**	**-**
Profit/(loss) from discontinued operations		**-**		**-**	
Profit for the year		**61,100,677**		**3,629,375**	
Other components of total comprehensive income:		-		-	
Taxes on other components of total comprehensive income		-		-	
Other components of total comprehensive income after taxes		**-**		**-**	
Total comprehensive income for the year		**61,100,677**		**3,629,375**	

Statement of changes in equity at 31 December 2010

(Thousands of Euro)	Share capital	Other reserves	Treasury shares	Retained earnings	Reserve for stock option	Profit for the period	Total equity
Equity at 31.12.2009	**250,015**	**76,332**	**(2,888)**	**14,395**	**6,942**	**3,629**	**348,425**
Allocation of Parent's profit/(loss)		182		796		(978)	-
Dividends and allocations to the Board of Directors						(2,651)	(2,651)
Increase due to merger effect	38,888	-		-			38,888
Share capital increase	23,245						23,245
Reserve for goodwill arising on demerger	(6,484)	6,800					316
Non-distributable reserves	(6,422)	6,422					-
Constitution of reserves on taxable distribution	(2,242)	2,242					-
Purchase) sale of new shares (Warrants exercise)	14		-				14
Deferred taxes recognised in equity		22					22
Expiry of stock option					243		243
Other components of total comprehensive income		(399)					(399)
Total losses/income recognised in equity	**-**	**(399)**	**-**	**-**	**-**	**-**	**(399)**
Profit for the period						61,101	61,101
Total comprehensive income	**-**	**-**	**-**	**-**	**-**	**61,101**	**61,101**
Equity at 31.12.2010	**297,014**	**91,601**	**(2,888)**	**15,191**	**7,185**	**61,101**	**469,204**
Reclassification of treasury shares	(2,888)		2,888				-
Equity at 31.12.2010	**294,126**	**91,601**	**-**	**15,191**	**7,185**	**61,101**	**469,204**

Statement of changes in equity at 31 December 2009

Thousands of Euro)	Share capital	Other reserves	Treasury shares	Retained earnings	Reserve for stock option	Profit for the period	Total equity
Equity at 31.12.2008	**250,010**	**75,347**	**(2,349)**	**5,910**	**6,187**	**21,024**	**356,129**
Allocation of Parent's profit/(loss)		1,051		8,485		(9,536)	-
Dividends and allocations to the Board of Directors						(11,488)	(11,488)
Share capital increase	5						5
Non-distributable reserve							-
(Purchase) sale of treasury shares			(539)				(539)
Deferred taxes recognised in equity		(66)					(66)
Expiry of stock option					755		755
Other components of total comprehensive income							-
Total losses/income recognised in equity	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Profit/(loss) for the period						3,629	3,629
Total comprehensive income	**-**	**-**	**-**	**-**	**-**	**3,629**	**3,629**
Equity at 31.12.2009	**250,015**	**76,332**	**(2,888)**	**14,395**	**6,942**	**3,629**	**348,425**
Reclassification of treasury shares	(2,888)		2,888				-
Equity at 31.12.2009	**247,127**	**76,332**	**-**	**14,395**	**6,942**	**3,629**	**348,425**

Statement of cash flows, indirect method

(thousands of Euro)	31.12.2010	31.12.2009
(A) Cash and cash equivalents at the beginning of the year	**403**	**661**
Profit before taxes	62,260	5,340
Depreciation and amortisation	12	8
Impairment losses on current assets	-	-
Impairment losses (reversals of impairment losses) on non-current assets other than financial assets	-	-
Impairment losses (reversals of impairment losses) on current and non-current financial assets	(60,071)	-
Losses (gains) on disposal of non-current assets	(1,640)	-
Change in provisions for pensions, post-employment benefits and stock options	230	506
Change in provisions for risks and charges	(349)	(4,505)
Decrease (increase) in inventories	-	-
(Increase) decrease in current receivables	648	5,800
Increase (decrease) in current payables	(2,223)	1,942
Taxes paid during year	(983)	(101)
(B) Cash flows from operating activities	**(2,16)**	**8,990**
(Increase) in non-current intangible assets and property, plant and equipment	(68)	(69)
Decrease in non-current intangible assets and property, plant and equipment	1,642	-
(Increase) decrease in investments	(80,384)	2,521
(Increase) decrease in available-for-sale financial assets	-	-
Increase/decrease in other non-current assets/liabilities	351	266
Dividends received	158	633
(C) Cash flows from investing activities	**(78,301)**	**3,351**
Changes in equity	61,748	6
(Purchase) sale of treasury shares	-	(539)
Increase (decrease) in current and non-current financial payables	65,447	30,920
(Increase) decrease in current and non-current financial receivables	(44,279)	(31,498)
Dividends paid and profits distributed	(2,651)	(11,488)
(D) Cash flows from financing activities	**80,265**	**(12,599)**
(E) Change in cash and cash equivalents (B)+(C)+(D)	**(152)**	**(258)**
(F) Effect of changes in assets held for sale	**-**	**-**
(G) Cash and cash equivalents at the end of the year (A)+(E)+(F)	**251**	**403**

Accounting policies and notes

1. General information

KME Group S.p.A. ("KME") and its subsidiaries (that together make up the "Group") operate mainly in the semi-finished copper products and copper alloys sector and in energy from renewable sources.
The Group owns industrial plants in various European countries and sells its products in all the major countries of the world.
KME Group is a joint stock Company registered in Italy at the Florence Companies Register, no. 00931330583, and its shares are listed on the Mercato Azionario Telematico (Borsa Italiana's electronic market) organised and operated by Borsa Italiana S.p.A.
The separate financial statements at 31 December 2010 were approved by the Board of Directors on 22 March 2011 and will be published in accordance with legal requirements.
Although it is controlled by Quattroduedue S.p.A., the Company does not consider that its operations are managed and coordinated by Quattroduedue pursuant to articles 2497 et seq. of the Italian Civil Code and article 37 of the Market Regulations due to the fact that:

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

In the first half of 2010 the proportionate reverse demerger of iNTEk S.p.A into KME Group S.p.A. took place (hereinafter, also the "Demerger").
The transaction involved the assignment to the KME Group of assets and liability elements from the equity of iNTEk S.p.A., which comprises essentially investments.

The assigned investments were:

- **ErgyCapital S.p.A.**: investment company, specialized in renewable energies and energy savings with shares listed on the Mercato Azionario Telematico (Borsa Italiana's electronic market) for Investment Vehicle (MIV) organised and operated by Borsa Italiana S.p.A. The Company's strategy is based on the diversification of its investments, aiming for different technologies for the production of energy (such as: photovoltaic, biomass, wind) and in various segments of the industrial chain, from basic technologies, to plant construction and production.
  Following the Demerger, the KME Group replaced iNTEk S.p.A. in the shareholders' agreement regarding the ordinary shares of ErgyCapital S.p.A. which had originally been concluded on 10 December 2007 between iNTEk S.p.A. and Aledia S.p.A.
  The agreement has the features of a "consultation and voting agreement" which also sets limits on the transfer of pledged financial Instruments and results in the joint exercise of dominant influence on the company.
  As at 31 December 2010, this agreement covers 39,328,835 ordinary shares of ErgyCapital, or 41.47% of the share capital of which 25,412,895 shares or 26.80% of the share capital, held by KME Group and 13,915,940 shares or 14.67% of the share capital are held by Aledia S.p.A.
  In July ErgyCapital started a transaction to increase the share capital by Euro 9.9 million. KME Group undersigned a total of 8,796,287 shares worth Euro 4.6 million. Upon completion of the transaction, the total equity investment of the KME Group in the share capital of ErgyCapital was 51.94%. Of this investment, 46.38% was recognised as a non-current investment and the rest was recognised as a current investment held for trading.
  At 31 December 2010, KME Group S.p.A. also owned 56,647,305 ErgyCapital 2016 warrants worth Euro 7,250,856, of which 50,871,755 warrants having a value of Euro 6,511,585 are considered as a fixed investment.

- **Drive Rent S.p.A.**this is a Service Company which operates in the field of corporate automobile fleets. It handles vehicle leasing by third parties, leasing of replacement vehicles to repair companies, the operation of corporate guest rooms and an automobile parking lot in the centre of Milan.
  The remainder of the share holding, equal to 10%, is held by three natural persons of whom one, Ludovico Maggiore, is the managing director of Drive Rent S.p.A.
  Drive Rent S.p.A. operates independently insofar as its operating and financial choices.
  On 13 November 2010, the guidelines for the merger of Drive Rent S.p.A. into Cobra Automotive Technologies S.p.A., a company listed on Borsa Italiana, were approved. On 15 March 2011, the shareholders of Cobra Automotive Technologies S.p.A. and Drive Rent S.p.A. approved the merger during an extraordinary meeting. The exchange ratio was determined by their respective Boards of Directors as 383.7 shares of Cobra Automotive

Technologies for every share of Drive Rent S.p.A.. The completion of the merger is currently expected in the first half of 2011. The Drive Group is qualified as a "Discontinued Operation" and is presented accordingly in the financial statements; this presentation resulted in the reclassification of the value of the shareholding under the item "Current assets held for sale or distribution."

- **Culti S.r.l.**: This company is involved in the interior design of homes and objects for the home, the furnishings sector and interior design accessories (life style). The company is managed by a Sole Administrator and is independent insofar as the determination of its operating and financial strategies. At the end of December 2010, the quotaholding was transferred to a company fully owned by KME Partecipazioni S.r.l. . The transferral took place on the basis of an evaluation made by an expert appraiser of Euro 4.7 million.

Among the elements of the divided equity assigned to the KME Group is also included a payable towards Intesa Sanpaolo S.p.A. of Euro 31.1 million loans receivables of Euro 3.9 million.
Due to the shareholding received, the KME Group increased its own equity of Euro 38.8 million, of which Euro 23.7 million by increasing the share capital from Euro 250,021,765.45 to Euro 273,761,740.66 with the issuing of 28,116,243 new ordinary shares and 8,141,936 new savings shares and Euro 15.1 million by recognizing an advance amount paid for the demerger in equity.

For more information regarding the aforementioned transaction, please see the relative "Information Document" which is also available on the website **www.kme.com**.

2. Accounting policies

2.1 Basis of presentation

The separate financial statements as at and for the year ended 31 December 2010 have been prepared pursuant to article 154 ter of Legislative Decree 58/1998.
The financial statements were prepared in compliance with the requirements for measurement and recognition under International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and endorsed by the European Commission in accordance with the procedure set forth in article 6 of Regulation (EC) 1606/2002 of the European Parliament and Council of 19 July 2002 and with requirements in implementation of article 9 of Legislative Decree 38/2005.
In preparing the financial statements, the Directors have applied the concepts of accruals, going concern, clarity, significance, materiality, reliability, neutrality, prudence and comparability and applied accounting policies consistent with those used for the consolidated financial statements as at and for the year ended 31 December 2009.

In addition the following standards, amendments and interpretations, some of which were revised as part of the 2009 annual improvements conducted by the IASB, which became effective on or after 1 January 2010, have been applied for the first time:

1. **IAS 27** Consolidated and separate financial statements (revised 2008) requires changes in a parent's ownership interests in a subsidiary that do not result in a loss of control to be accounted for in equity. In the event control is lost but an equity interest in the company is maintained, the remaining equity interest must be recognised at fair value from the date control is lost and any gain or loss must be recognised in profit or loss. The amendments to IAS 27 did not affect the financial statements at 31 December 2010.

2. As part of IASB's Annual Improvements for 2008, **IFRS 5 - Non-current assets held for sale and discontinued operations** was modified to require companies with committed plans to dispose of equity interests, which will result in the loss of control of an investee, to reclassify all of the subsidiary's assets and liabilities as available-for-sale notwithstanding the fact that the company will still have a non-controlling equity interest in the subsidiary subsequent to the planned disposal. The amendment, which is required to be applied prospectively from 1 January 2010, also clarified that IFRS 5 and other IFRS specifically referring to non-current assets (or disposal groups) classified as available-for-sale or discontinued operations should contain all of the disclosures required for these types of assets and transactions. Please see par. 4.9 of these notes to the financial statements in regard to the effects of this standard on the consolidated financial statements.

3. **IFRS 2 – Share-based payments (improvement):** the amendment which must be applied from 1 January 2010 clarified that, as a result of the change to the definition of business combinations under IFRS 3, contributions of a business unit on formation of a joint venture and common control transactions are not within the scope of IFRS 2. It should be noted that no significant accounting effect is found following the adoption of such improvement as at 31 December 2010.

4. **IAS 7 – Statement of cash flows:** The amendment, which is required to be applied from 1 January 2010, requires that expenditure resulting in a recognised asset can be classified as cash flow from investing activities, whereas expenditure not resulting in a recognised asset (as could be the case for advertising and personnel training expenditure) must be classified cash flow from operating activities.

5. **IAS 36 – Impairment of assets:** the amendment requires that all operating segments or combinations of operating units to which goodwill is attributed for the purposes of impairment testing may not be larger than an operating segment as defined by paragraph 5 of IFRS 8 before the combination permitted under paragraph 12 of IFRS 8 for segments engaging in similar business activities or having other similarities. It is noted that the adoption of this amendment at 31 December 2010 did not produce any significant accounting effects.

6. **IAS 38 – Intangible assets:** the 2008 revisions to IFRS 3 require, subject to the availability of sufficient information, the measurement, at fair value, of an intangible asset that was acquired in a business combination to the extent that the intangible asset is separately identifiable or was derived from rights under contract or law. IAS 38 was consequently amended to reflect the revision of IFRS 3. The amendment also clarified the description of measurement techniques commonly used by entities when measuring the fair value of intangible assets acquired in a business combination that are not traded in active markets. Specifically, the measurement techniques can either include the net present value of projected cash flows generated by the asset, estimated avoided costs through possession of the asset which is not required to be used under licence or the costs required to recreate or replace the asset (similar to the cost method).

7. **IAS 39 – Financial instruments:** recognition and measurement: This amendment clarifies the standard's definition of an underlying that is hedged in certain circumstances. It is noted that the adoption of this amendment at 31 December 2010 did not produce any significant accounting effects.

8. **IAS 17 – Leases:** as a result of a revision to IAS 17, leasehold landed property will also be subject to the test under IAS 17 for the purposes of classifying the lease either as an operating or a finance lease regardless of whether title passes on the expiry of the lease. Prior to these changes, the standard required that if the land title to leasehold property did not pass on expiry of the lease, the lease would be classified as an operating lease with an indefinite useful life. All existing land held under leases which have not expired at the date of adoption are required to be separately measured with any retrospective recognition of a new lease accounted for as if the lease was a finance lease.

10. **IFRS 8 – Operating Segments:** IFRS 8 has introduced the concept of "management approach" with respect to segment reporting and requires a change in segment reporting presentation in line with information that is provided internally to senior Group management for the assessment of the performance of the segment for the purposes of resource allocation. For the description of the application the aforementioned amendment, please see the notes to the consolidated financial statements included with those statements, as, pursuant to IFRS 8, par. 4, this information is presented only in the notes to the consolidated financial statements.

11. **IFRIC 17 – Distributions of Non-Cash dividends to Shareholders:** introduces the following clarifications: The amounts due for dividends must be recognized when the dividend has been appropriately authorized and is no longer under the discretion of the entity; dividends payable must be measured at the fair value of the assets to be distributed; the difference between the dividends paid and the carrying amount of the asset distributed must be recognized in profit or loss.

The following amendments, improvements and interpretations, effective from 1 January 2010, referred to cases that are not present in these financial statements but could have accounting effects on future transactions or agreements.

- IFRIC 18 – Transfers of Assets from Customers
- IFRIC 12 –Service Concession Arrangements
- IFRIC 15 –Agreements for the Construction of Real Estate
- IFRIC 16 –Hedges of a Net Investment in a Foreign Operation

The Company has not yet applied those standards listed in note 2.18, which, although issued by the IASB, will only become effective subsequent to the end of the reporting period.

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

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

These financial statements are presented in Euro, the Company's functional currency

2.2 Property, plant and equipment

Property, plant and equipment are recognised at purchase or production cost and include directly attributable incidental expenses.
Property, plant and equipment are carried at cost, net of accumulated depreciation and impairment losses, with the exception of land which is not depreciated and is carried at cost net of accumulated impairment losses.
Depreciation is provided from the month the asset becomes available for use, or when it is potentially able to provide the economic benefits associated with it. Depreciation is charged monthly on a straight line basis until the end of the useful life of the relevant asset or, in the event of disposal, until the last month of use.
Borrowing costs relating to the purchase of property, plant and equipment have been capitalised in compliance with IAS 23.
Replacement parts of significant value are capitalised and depreciated based on the useful life of the asset to which they refer; low value replacement parts are charged to the Statement of Comprehensive Income when the expense is incurred.
The cost of internally produced assets includes material costs and direct labour plus any other directly attributable costs incurred in bringing the asset to its intended location and preparing it for its intended use.
Assets acquired under finance leases are recognised as property, plant and equipment together with the corresponding liability. The cost of the lease is separated into two components: financial expense, recognised in profit or loss, and repayment of principal, recognised as a reduction of borrowings. Assets held under finance leases are recognised at the lower of cost and the present value of minimum lease payments at the inception of the lease.
Assets held under finance leases are depreciated over the shorter of the lease term and their useful lives unless there is reasonable certainty that the Group will obtain title to the asset at the end of the lease.
Property, plant and equipment are tested for impairment whenever there is specific objective evidence thereof. The test involves estimating the recoverable amount of the asset, defined as the higher of fair value less costs to sell and value in use, and comparison of the appropriate value with the carrying amount. The recoverable amount is the greater of value in use and fair value less selling costs. Value in use is determined by discounting projected cash flows at a pre-tax discount rate that reflects current market estimates of the time value of money and the risks associated with the relevant asset. To the extent that the recoverable amount is less than the carrying amount, the carrying amount is reduced to the recoverable amount with the difference either being recognised in profit or loss or in a revaluation reserve created on the revaluation of the asset. Subsequent revaluations are treated analogously. Information regarding impairment tests with respect to the preparation of these financial statements are contained in the following "Financial assets and liabilities".

2.3 Intangible assets

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

- purchased from third parties;
- acquired through business combinations; or
- internally generated.

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

2.4 Financial assets and liabilities

All investments in subsidiaries, associates and joint ventures are measured at cost less any impairment losses.
Non-derivative financial assets with fixed or determinable payments or payments which have a specific due date, that the company intends and has the ability to hold until maturity, are designated as "Assets held to maturity". The assets included in this category are measured under the amortised cost method using the effective interest method pursuant to IAS 39.
Financial assets and liabilities acquired or held primarily to be sold or repurchased in the short term and derivative financial instruments not designated as hedging instruments are classified as "Financial assets or liabilities recognised at fair value through profit or loss" separately indicating those that were classified as such on initial recognition (fair value option). These assets are measured at fair value through profit or loss.
Non-derivative financial assets and liabilities, except for equity instruments, with fixed or determinable payments, not listed on an active market and not included in any of the above categories, are classified as "Loans and receivables" and are carried at amortised cost using the effective interest method. The amortised cost of current loans and receivables and all current trade payables and receivables, for which the passage of time has little effect, is deemed to correspond to their fair value.
All other non-derivative financial assets which are not classified in one of the three categories above are classified as "Available-for-sale financial assets" and measured at fair value directly in equity with the exception of any impairment losses.
Treasury shares are measured at historical purchase cost and recognised as a reduction in equity. In the event of sale, reissue or cancellation, the consequent gains and losses are recognised directly in equity.

Determination of impairment losses

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

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

Pursuant to IAS 28 par. 31 et seq.. for investments in equity-accounted investees IAS 39 is applied to determine the need to recognize further impairment losses relating to the net investment. The entire carrying amount of the investment is however tested under IAS 36 for impairment by comparing its recoverable value whenever application of IAS 39 indicates a possible impairment of the investment.

All impairment losses are recognised in profit or loss. Any accumulated impairment losses relating to an available-for-sale financial asset previously recognised through equity, if considered material and permanent, are transferred to profit or loss even if the financial asset has not been derecognised.

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

For the preparation of these separate financial statements, the Directors considered that the reasons that led to the impairment losses in KME A.G., which belongs to the industrial grouping of the semi-finished copper and copper alloy segment in the 2003 financial statements no longer apply. In particular, it is reiterated that in the 2003 financial statements the investment had been impaired by approximately Euro 220 million, of which approximately Euro 110 million related specifically to penalties levied by the European Commission, while the remaining Euro 110 million related to further impairment losses. Given this context, the Directors determined that by applying to the investment in KME A.G. the cash flows and discount rates to the impairment test carried out for the consolidated financial statements, the recoverable value would make it Possible to reverse the write-down of the investment, net of the penalties of the European Commission. However, the Directors decided to recover the value of the investment to an amount equal to its evaluation using the equity method, as extracted

from the Group consolidated financial statements based on certain qualitative considerations; in particular, the uncertainty and volatility that is characterizing the raw materials markets and especially the copper market, the need to hedge increasing financial needs as determined by the increase in raw material prices, the more difficult and expensive credit markets, the use of cash flows in perpetuity and the opportunity of awaiting the actual consolidation of the results forecasted in the plan approved in August 2010. These considerations led the Directors apply an additional risk premium of 2.5% for the impairment evaluation which in turn led them to apply a partial reversal. Furthermore, this valuation is further confirmed by the results of the proportionate reverse demerger of iNTEK S.p.A into KME Group S.p.A. which was approved at the Shareholders' Meeting on 2 December 2009 and the impairment test carried out within the Interim Consolidated Financial statements as at and for the six months ended at 30 June 2010, conducted with the assistance of independent external appraisers. Based on these considerations and pursuant to article 2426 comma par. 1.3 of the Italian civil code, the Directors proceeded to carry out of partial reversal of impairment losses of Euro 72.6 million bringing the carrying amount of the investment in the subsidiary KME A.G. to Euro 380 million.

The impairment test on the value of the investment in ErgyCapital S.p.A. was determined through the "useful value" using the discounted cash flow (DCF) method by discounting the operating cash flows generated by the assets themselves (net of the tax effect) at a discount rate representative of the average cost of capital (WACC) of 7.42%. The DCF method was applied using the economic forecasts and the changes in certain equity items contained in the company's business plan which were processed and approved by the Board of Directors meeting on 22 March 2011 for the 2011 – 2013 period.
The terminal value is calculated by projecting the income expected from the investments in existence in 2013 over a limited time period which the directors indicated as being the useful life of the plans (20 years) and using a long term growth rate "g" of zero.

Measurement at fair value

The fair value of financial assets and liabilities at fair value through profit or loss and available-for-sale assets, on initial recognition, is determined on the basis of the transaction price and is, therefore, equal to the amount paid or received.
Subsequent to and at the end of each reporting period, the fair value of financial instruments listed on an active market is based on market prices. The market prices used for derivatives are the bid prices, whereas ask prices are used for financial liabilities. The fair value of instruments that are not listed on an active market is determined using measurement techniques, based on a series of methods and assumptions relating to market conditions at the end of the reporting period. The fair value of interest rate swaps is calculated with reference to the present value of expected future cash flows. The fair value of forward currency contracts is determined with reference to the forward exchange rate at the end of the reporting period.
Fair value adjustments of derivative instruments not classified as hedging instruments are immediately recognised in profit or loss.
The fair value of non-derivative financial instruments is determined by discounting future cash flows at the market interest rate for the end of the reporting period.
The fair value of price fixing copper buyer and seller contracts is determined with reference to the market price at the end of the reporting period of the contract's metal component compared to the contract price. Fair value also reflects counterparty risk and the time value of money through discounting.

2.5 Cash and cash equivalents

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

2.6 Equity

Share capital consists of ordinary and savings shares of no par value, fully subscribed and paid up at the end of the reporting period, reduced by any unpaid calls on capital. The value of treasury shares is reported in accordance with IAS 32 as a reduction of subscribed share capital. Such adjustments are reported in the notes, whilst the historical cost of treasury shares is reported on the face of the statement of financial position as a reduction of equity.

The reserve for treasury shares is no longer used due to the change in presentation introduced by IFRS. The existing balance of the reserve was, consequently, reclassified to the relevant, specific reserves that had been used to create it. Information regarding compliance with articles 2357 ter and 2359 bis of the Italian Civil Code is, nevertheless, contained in the notes.
Costs of equity transactions have been charged directly to equity reserves with preference given to the share premium reserve. These charges were subsequently covered during the year through a reduction in available reserves, as resolved at the Shareholders' Meeting of 23 May 2007.

2.7 Receivables and payables

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

2.8 Current and deferred taxes

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

2.9 Employee benefits

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

prior to the payment of benefits. Employees may now elect either for contributions to be paid to supplementary pension plans or to be held in the company (companies with less than 50 employees) or transferred to INPS (companies with more than 50 employees). Based on the generally held interpretation of these rules, the Group believes that:

- post-employment benefits vested at 31 December 2006 but not yet paid at the end of the reporting period are to be classified as defined benefit plans and measured by actuarial methods without, however, including the component relating to future pay increases;
- contributions payable both to supplementary pension schemes and INPS for post-employment benefits vesting subsequent to the end of the reporting period are to be classified as defined contribution plans excluding, however, for the purposes of accruing the liability, the actuarial component.

The measurement of "Post-employment benefits" was carried out by an independent actuary.

2.10 Provisions for risks and charges

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

1. the Company has a present (legal or implicit) obligation owing to a past event;
2. it is probable that resources will be needed to produce economic benefits to meet the obligation;
3. it is possible to make a reliable estimate of the amount of the obligation.

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

2.11 Revenue recognition

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

2.12 Leases

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

Operating leases are defined as any arrangement for the lease of assets that is not a finance lease.

2.13 Dividends

Dividends to be paid are recognised as liabilities only in the period in which they were approved by the Shareholders. Dividends to be received are recorded only when the Shareholders' right to receive payment has been established.

2.14 Financial income and expense

Financial income includes interest income from cash invested, exchange rate gains, dividends, guarantee fees received, gains on disposal of available-for-sale financial assets, increases in the fair value of assets held for trading and derivatives.

Financial expense includes loan interest expense, exchange rate losses, guarantee fees expense, losses on the disposal of available-for-sale financial assets, decreases of the fair value of assets held for trading and derivatives.

2.15 Stock options

Commencing with the financial statements as at and for the year ended 31 December 2006, personnel expense includes the cost associated with stock options granted to executive members of KME Group S.p.A.'s board directors and certain other group executives, consistent with the nature of compensation paid. The fair value of stock options has been determined by the option's value as determined by the Black & Scholes model which takes into consideration the conditions relating to the exercising of the option, the current share value, the exercise price, duration of the option, dividends, expected volatility and the risk-free interest rate. The cost of stock options, distributed over the entire vesting period, is recognised together with a contra-entry in equity under "Reserve for stock options". The fair value of options granted to Executives of KME Group S.p.A.'s subsidiaries is recognised as an increase in the carrying amount of "investments" with the contra-entry posted to "Reserve for stock options".

2.16 Earnings per share

Information on the computation of basic and diluted earnings per share is contained in the notes to the consolidated financial statements. In compliance with IAS 33, paragraph 4, this information is only provided with respect to consolidated figures.

2.17 Use of estimates

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

2.18 Accounting standards not yet applied

ertain new standards, revisions to standards and interpretations in issue at 31 December 2010 that are relevant to the Group had not yet become effective and were not used to prepare these financial statements.

The most important included:

Amendment to IAS 24 - Related party disclosures: the amendment simplifies the disclosure requirements for government-related entities and clarifies the definition of "related party". This standard was issued in November 2009 and is applicable from 1 January 2011. The competent bodies concluded the endorsement process in July 2010. This improvement will be applicable from 1 January 2011.

IFRS 9 - Financial Instruments: The new standard establish as criteria for a classification of financial assets and liabilities and the derecognition of financial assets. In particular, the new standard uses a unique approach based on the management of financial instruments and the characteristics of contractual cash flows of financial assets to determine the measurement criteria replacing the various rules in IAS 39. For financial liabilities, the main amendment refers to the accounting treatment of changes in fair value of a financial liability designated as a financial liability measured at fair value in the income statement. Therefore the changes in fair value attributable to changes in counterparty risk are recognized in other components of the consolidated statement of comprehensive income. The amounts recognized under "other components of comprehensive income" is not transferred to the income statement when the liabilities are extinguished or settled. Furthermore the new standard provides for a single method to measure impairment losses on financial assets. IFRS 9 must be applied from 2013. At the date of these financial statements, the relevant European Union bodies had not yet concluded the endorsement process required for the application of this improvement.

IAS 32 - Financial instruments: Classifications of Rights Issues: In October 2009 the IASB issued an amendment in order to address the accounting for rights issues (rights, options or warrants) that are denominated in currencies other than the issuer's functional currency. Previously, such rights were accounted for as liabilities from derivative financial instruments; however, the amendment requires that, under certain conditions, these rights be reclassified in equity regardless of the currency in which the exercise price is expressed. The amendment is required to be applied prospectively from 1 January 2011. The adoption of this amendment is not expected to significantly affect the Group's financial statements.

IFRIC 19 –Extinguishing Financial Liabilities with Equity Instruments: the new amendment provides instructions regarding the recognition of the extinguishment of a financial liability through the issuing of equity instruments. The interpretation establishes that, if a company renegotiates the extinguishment conditions of a financial liability and its creditor accepts to extinguish it through issuing of the company's shares, then the shares issued by the company becomes part of the price paid for extinguishment of the financial liability and must be measured at fair value; the difference between the carrying amount of the extinguished financial liability and the initial value of the equity instruments issued must be recognized in the income statement for the period. The interpretation is applicable from 1 January 2011.

IFRS 7 Financial instruments (improvement): disclosures. This change focuses on the interaction between disclosures of a qualitative and disclosures of a quantitative type required by the standard regarding the nature and scope of risks inherent in the financial instruments. This should help users of the financial statements to connect the information presented and establish a general description regarding the nature and scope of the risks deriving from the financial instruments. Furthermore, the requirements for disclosure of financial assets that have expired but have been renegotiated or impaired and disclosure of the fair value of the collateral have been eliminated. The improvement is applicable from 1 January 2011.

IFRS 7 - Financial Instruments: (Disclosures): Additional quantitative and qualitative disclosures on financial instruments are required in order to improve comprehension of the transactions involving the transferral of the financial assets including understanding of the possible effects deriving from any risk which continues to be borne by the company that transferred said assets. Furthermore a disclosure is required for transferrals that take place close to the closing of the financial year (window dressing). The improvement is applicable from 1 July 2011.

IAS 1 - Presentation of financial statements: This change requires that reconciliation of changes in every component of equity be presented in the notes or the financial statements. The improvement is applicable from 1 January 2011.

IAS 34 – Interim Financial Statements: Clarifications have been added on the additional information that must be presented in interim financial statements regarding the significant events and transactions and the financial

instruments. In regard to the former it is specified that the annual financial statements must show the significant events that took place during the period between the closure of the annual financial statements and the preparation of the interim financial statements. In regard to the latter additional information is required regarding: changes in the economic circumstances affecting fair value of the financial assets and liabilities; the levels of information used to measure fair value of financial instruments (prices of listed instruments on markets for identical assets and liabilities; prices other than these or other values that can be directly or indirectly observed; information relating to non observable data); changes in the classification of financial assets; changes in contingent assets or liabilities. The improvement is applicable from 1 January 2011.

IFRS 1 – First Time Adoption of the International Financial Reporting Standards (IFRS): Introduces clarifications on the disclosures required for the first time application of IFRS and details for new users that change accounting standards or the use of exemptions allowed by IFRS 1 after having prepared interim financial statements pursuant to IAS 34 (Interim Financial Statements) but prior to publication of the IAS/IFRS compliant financial statements for the year.

IAS 12 - Income Taxes: Companies are required to measure deferred taxes from an ongoing operation based on the method with which the carrying amount of this asset will be recovered (i.e., through continuing use or through sale). The amendment is required to be applied from 1 January 2012. At the date of these financial statements, the relevant European Union bodies had not yet concluded the endorsement process required for the application of this amendment.

IFRS 28 -Investments in Subsidiaries and IAS 31 – Interests in Joint Ventures (amendments): Participants in a joint venture have contractual rights and obligations deriving from the agreement which are based on substance over form. The participants in a joint venture must valuate the investment using the equity method. Proportional consolidation is no longer allowed. This improvement is expected by the first half of 2011. At the date of these financial statements, the relevant European Union bodies had not yet concluded the endorsement process required for the application of this improvement.

The following amendments, improvements and interpretations, effective from 1 January 2011, referred to cases that are not present in these financial statements but which could have accounting effects on future transactions or agreements.

IFRIC 14 -The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction: This improvement provides that prepayment of contributions by an entity subject to payment of a minimum contribution be accounted for as an asset if a defined benefit plan is subject to a minimum contribution requirement.

IFRIC 13 – Customer Loyalty Programs, with reference to the fair value of premiums

3. Financial risk management

Information on financial risk management is contained in the notes to the consolidated financial statements.

4. Notes to the separate financial statements

4.1 Property, plant and equipment

(thousands of Euro)	Plant and equipment	Other assets	Total
At 31.12.2009			
Closing historical cost	170	797	967
Closing accumulated depreciation and impairment losses	169	635	804
Closing net carrying amount	**1**	**162**	**163**
At 31.12.2010			
Opening historical cost	**170**	**797**	**967**
Increases	-	68	68
Reclassifications	-	-	-
Decreses	-	(4)	(4)
Closing historical cost	**170**	**861**	**1.031**
At 31.12.2010			
Opening accumulated depreciation and impairment losses	**169**	**635**	**804**
Increases	1	11	12
Impairment losses/(reversals of impairment losses)	-	-	-
Reclassifications	-	-	-
Decreses	-	(2)	(2)
Closing accumulated depreciation and impairment losses	**170**	**644**	**814**
At 31.12.2010			
Closing historical cost	170	861	1.031
Closing accumulated depreciation and impairment losses	170	644	814
Closing net carrying amount	**-**	**217**	**217**

Property, plant and equipment primarily relate to fixtures and furnishings. The increase was a result of purchases made during the year 2010.
Rates of depreciation for the year were: 12% on office fixtures and furnishings, 25% on security system.

4.2 Investments in subsidiaries

Schedule of investments in subsidiaries carried as non-current financial assets.

Name (thousands ofi Euro)	**Registered office**	**Share Capital**	**Equity at 31.12.2010**[1]	**Profit/(loss) at 31.12.2010**	**Percentage of interest**	**Carrying amount (investments)**
Subsidiaries						
KME A.G.	Osnabrück	142,744	339,555 [1]	(6,798)	100%	380,000
			271,663 [2]	341		
KME Partecipazioni S.r.l.	Florence	5,000	9,810	(11)	100%	9,810
KME Recycle S.p.A.	Florence	2,000	1,085	(3,147)	100%	4,500
						394,310

(1) Including profit (loss) for the year
(2) Equity and consolidated profit (loss) at 31 December 2010.

Investments information:

(thousands of Euro)	**Investments in subsidiaries**	**Investments in jointly controlled entities**	**Other investments**	**Total**
Historical cost	537,271	-	-	537,271
Decreases	(4,519)	-	-	(4,519)
Reversals of impairment losses	-	-	-	-
Impairment losses	(220,186)	-		(220,186)
Brought forward	**312,566**	**-**	**-**	**312,566**
Increases	16,089	38,996	200	55,285
Decreases	(6,976)			(6,976)
Reversals of impairment losses	72,631			72,631
Impairment losses	-	(10,484)		(10,484)
Change for year	**81,744**	**28,512**	**200**	**110,456**
Historical cost	548,841	38,996	200	588,037
Decreases	(6,976)			(6,976)
Reversals of impairment losses	72,631			72,631
Impairment losses	(220,186)	(10,484)	-	(230,670)
Carried forward	**394,310**	**28,512**	**200**	**423,022**

The "Investments in subsidiaries" item is comprised of the 100% shareholdings in KME Germany A.G. (Euro 380,000,000), KME Recycle S.p.A. (Euro 4,500,000) and KME Partecipazioni S.r.l. (Euro 9,810,000).
The increase in the carrying amount of the investments in subsidiaries of Euro 16.1 million is due to:

a) The allocation during the year of Euro 19 thousand (with the contra entry to equity) to the cost of the stock options in the 2010 – 2015 plan assigned to managers of subsidiaries;
b) Euro 2.5 million to increasing the equity of KME Recycle S.p.A.;
c) Euro 3.8 million to the acquisition on 22 March 2010, as an effect of the demerger, of Culti S.r.l. and its subsequent recapitalizations;
d) Euro 9.8 million to the establishment of the new company KME Partecipazioni S.r.l., through the conferral of shareholdings and financial assets.

The decrease of Euro 7 million is due to the disposal of 100% of the shareholdings in Agricola Limestre S.r.l. (with the carrying amount of approximately Euro 3.2 million) and Culti S.r.l. (with the carrying amount of approximately Euro 3.8 million), to the new subsidiary KME Partecipazioni S.r.l..
The reversal of impairment losses which amounted to Euro 72.6 million took place pursuant to IAS 36, par. 109 et seq., in order to partially reverse the impairment loss on the carrying amount of the investment in KME A.G. to the current recoverable value that the Directors have estimated at Euro 380 million after impairment testing. This positive component was allocated to the Statement of Comprehensive Income and therefore contributed to the formation of the results for the year.

The item "Investments in jointly controlled entities" contains the investment in ErgyCapital S.p.A. (of 46.38% for 43,981,434 shares) and the 2016 warrants in ErgyCapital S.p.A.
Following the reverse demerger from iNTEk S.p.A. 35,185,147 shares of ErgyCapital S.p.A. which were worth a total of Euro 24.7 million and 101,743,509 2011 warrants of ErgyCapital worth a total of Euro 9.8 million were received. On 14 July 2010, following the optional increase of capital transaction, a further 8,796,287 shares were subscribed with a value of Euro 4.6 million; the warrants held on that date were swapped with new ErgyCapital 2016 warrants at a ratio of 2 2011 warrants to 1 2016 warrant. Therefore at the end of the reporting period the number of ErgyCapital S.p.A. shares held by the company was 43,981,434 and the number of ErgyCapital S.p.A. warrants was 50,871,755.

On the preparation date of these financial statements the aforementioned investment was impaired by Euro 7.2 million bringing it to Euro 22 million. The Directors calculated the amount of the impairment loss based on the results of the impairment test.

By virtue of the aforementioned impairment loss, the Directors adjusted the value of the ErgyCapital 2016 warrants by Euro 3.3 million, determining the recoverable value through the fair value , i.e., according to their official listing price on the date of these financial statements; therefore these warrants are inserted at the carrying amount of Euro 6,511,585 (Euro 0.128 per warrant).

The item "Other investments" contained the investment of 31.5% in "Il Post S.r.l.".

4.3 Other financial assets

(thousands of Euro)	Balance at 31.12.2009	of which with related parties	Changes for the period	Balance at 31.12.2010	of which with related parties
MCC loan receivable from Group companies	52,814	52,814	(1,150)	51,664	51,664
Receivable f rom Unicredito (pledged deposit)	4,246		1,122	5,368	
Guarantee fees receivable	1,821	1,821	7,142	8,963	8,963
Total	**58,881**	**54,635**	**7,114**	**65,995**	**60,627**

A loan agreement with Mediocredito Centrale S.p.A. (MCC) was signed in April 2008 for up to Euro 103 million to finance capital expenditure that has been or will be incurred by non-Italian subsidiaries or acquisitions of non-Italian companies by KME Group S.p.A. This loan was granted in the period from June 2008 to March 2010 in three tranches. Each of these had a duration of 8 years from the date of its actual use. if
The agreement requires 1) Sace S.p.A. (SACE) to issue a first call guarantee in favour of MCC and 2) a negative pledge on the Group's consolidated assets of a maximum of Euro 200 million, excluding goodwill and cash and cash equivalents, throughout the term of the loan.
On 31 December 2010, MCC disbursed Euro 33 million under the first tranche, Euro 30.2 million under the second tranche and Euro 39.8 million of the third tranche (total Euro 103 million) to KME Group S.p.A.
"MCC loan receivable from Group companies" of Euro 51.7 million is the non-current portion of the loan disbursed by Mediocredito Centrale S.p.A. to KME Group S.p.A. and transferred to subsidiaries.
"Receivable from Unicredit (pledged deposit)" of Euro 5.4 million refers to a bank deposit in the name of KME Group S.p.A. at Unicredit Banca d'Impresa S.p.A. and pledged to Mediocredito Centrale. The balance on this account must always be equal to 1/16 (one sixteenth) of loan outstanding amount at any one point in time in addition to accrued six month interest due and payable on the next interest payment date. Any amounts on the account in excess of that amount are immediately available.
"Guarantee fees receivable" are the present value of guarantee fees receivable in more than 12 months, for guarantees issued by the Company to banks on behalf of the Group companies to which the loans were extended. The increase compared to the previous year is due to the renegotiation of the agreement signed in 2006 with a pool of banks led by Deutsche bank, at the end of June 2010 following which the KME Group obtained an extension of the credit lines from September 2011 to January 2015 amounting to a total of Euro 475 million.

The agreement which refers to the two lines named "tranche A" (in the form of a revolving credit used to cover the inventory needs of industrial companies) and "tranche B" (a revolving credit used to cover intra-month inven-

tory needs of industrial companies) concluded in 2006 and existing to date for an amount equal to the prorated amount, confirms a facility asset characterized by broad flexibility of use in relation to the Group's financing needs.
The carrying amount determined in that manner is believed to approximate fair value.

4.4 Deferred tax assets and liabilities

(thousands of Euro)	Balance at 31.12.2009	Changes for the period	Balance at 31.12.2010
Deferred tax assets	2,197	272	2,469
Deferred tax liabilities	-	(90)	(90)
Total	**2,197**	**182**	**2,379**

Deferred tax assets and liabilities by financial statements item are shown below.

	Deferred tax assets		Deferred tax liabilities	
(thousands of Euro)	31.12.10	31.12.09	31.12.10	31.12.09
Property, plant and equipment	-	-	-	-
Investments	-	-	90	-
Intangible assets	-	-	-	-
Investment property	-	-	-	-
Other non-current assets	-	-	-	-
Inventories	-	-	-	-
Trade receivables	257	257	-	-
Other current receivables and assets	-	5	-	-
Employee benefits	6	4	-	-
Non-current financial liabilities	-	-	-	-
Other non-current liabilities	494	398	-	-
Provisions for risks and charges	671	768	-	-
Current financial liabilities	-	-	-	-
Trade payables	-	-	-	-
Other current liabilities	99	700	-	-
Deferred tax assets on equity items	88	65	-	-
Deferred tax assets on tax loss carry forwards	854	-	-	-
Total	**2,469**	**2,197**	**90**	**-**

Deferred tax liabilities are computed on temporary differences between carrying amounts of assets and liabilities recognised in the financial statements and the corresponding amounts recognised for tax purposes.

"Deferred tax assets on tax loss carry forwards" are recognised only when their recovery is highly probable.
At the end of the reporting period the company had recognized deferred tax assets on proportional tax losses assigned by iNTEk S.p.A. due to the demerger of Euro 854 thousand.
The details at 31 December 2010, of recognised and unrecognised deferred tax assets on tax loss carry forwards by the Company, are shown below:

(thousands of Euro)	31.12.2009	31.12.2010
a) recognised tax losses carried forward		
KME Group S.p.A.	-	-
Total 1 (1)	-	-
b) unrecognised tax losses carried forward		
KME Group S.p.A.	4,297	-
Total (2)	**4,297**	**-**
Total (1) + (2)	**4,297**	**-**

During this year they were used to reduce the tax losses assigned following the demerger of Euro 2,180 thousand. This transaction however resulted in the elimination of the previous losses of KME Group S.p.A. which amounted to Euro 4,297 thousand due to failure to meet the requirements set forth under article 172 of the Consolidated Income Tax Law (T.U.I.R.).

The deferred tax losses of Euro 90 thousand were recognized with regard to the value of the ErgyCapital warrants which arose following the reverse demerger from iNTEk S.p.A. as described in more detail in paragraph 4.2 of these notes.

4.5 Trade receivables

(thousands of Euro)	Balance at 31.12.2009	of which with related parties	Changes for the period	Balance at 31.12.2010	of which with related parties
Due from customers	933		-	933	
(Allow ance for impairment)	(933)		-	(933)	
Net trade receivables due from customers	**-**		**-**	**-**	
Due from parents	-		-	-	
Due from subsidiaries	89	89	(83)	6	6
Due from associates	-		-	-	
Total	**89**	**89**	**(83)**	**6**	**6**

The carrying amount of trade receivables approximates their fair value.

4.6 Other current receivables and assets

(thousands of Euro)	Balance at 31.12.2009	of which with related parties	Changes for the period	Balance at 31.12.2010	of which with related parties
Tax credits	578		(153)	425	
Prepayments and accrued income	613		(568)	45	
Other receivables	2		(2)	-	
Total	**1,193**		**(723)**	**470**	

The change in the "tax receivables" item is mainly due to the refund by Inland Revenue of Euro 109 thousand for direct taxes and the VAT credit to foreign countries of Euro 10 thousand, the use of IRAP credit (equal to Euro 366 thousand) for the payment of the taxes relating to 2009, the use of the VAT credit (equal to Euro 56 thousand) for payment of the relative tax in 2010, recognition of the direct tax credit (amounting to approximately Euro 85 thousand) and the IRAP of account for 2010 of Euro 303 thousand.

Euro 301 thousand is due to the reduction in accrued income and prepayments from the transaction costs relating to the third tranche of the MCC loan (as described in further detail in paragraph 4.2) which had been granted in 2010. However from the granting date the aforementioned costs were paid according to the repayment schedule; Euro 312 thousand are due to the release of costs for this year that relate mainly to travel expenses and rents paid; Euro 45 thousand to prepayments in 2010 relating to services that will be used in the following year.

Maturity bands are shown below:

	Due dates			
(thousands of Euro)	Within the next 12 months	Within 5 years	Over 5 years	Total
Tax	425	-	-	425
Prepayments and accrued income	45	-	-	45
Other	-		-	-
Total	**470**	**-**	**-**	**470**

4.7 Current financial assets

(thousands of Euro)	Balance at 31.12.2009	of which with related parties	Changes for the period	Balance at 31.12.2010	of which with related parties
Financial assets held for trading					
- 2,184,369 INTEK S.p.A. savings shares	3,541	3,541	(2,014)	1,527	1,527
- 5,277,893 ErgyCapital S.p.A. shares	2,366	2,366	189	2,555	2,555
- 5,775,550 ErgyCapital S.p.A. warrants	1,387	1,387	(648)	739	739
- Other listed shares	-		14,358	14,358	
Financial receivables due from subsidiaries	90,896	90,896	24,732	115,628	115,628
Guarantee fees receivables	3,767	3,767	547	4,314	4,314
Total	**101,957**	**101,957**	**37,164**	**139,121**	**124,763**

"Financial assets held for trading" consist of:

- iNTEk S.p.A. savings shares, of a par value of Euro 0.699, recognised at their official listed price at the end of the reporting period. A call option on those savings shares was given to lenders of the above mentioned bank loan obtained in February 2005 and which is no longer outstanding. The exercise price of the options, which will expire in 2012, is Euro 0.90.
- ErgyCapital S.p.A. ordinary shares, which are carried at their official price at the end of the reporting period (Euro 0.484 per share);
- ErgyCapital S.p.A. warrants, at the end of the reporting period (Euro 0.128 per warrant).
- The item "Other shares listed" contains temporary financial investments in shares carried at their official price at the end of the reporting period. At the end of the reporting period these investments had been realized in their entirety.

The amount in the item "financial receivables due from subsidiaries" contains: Euro 101.6 million of the current balance in the parent's books with 100% owned subsidiaries KME A.G., KME France S.A.S., KME Brass France S.A.S., KME Yorkshire L.t.d., KME Locsa S.A., KME Recycle S.p.A., and Immobiliare Agricola Limestre S.r.l.; Euro 3.8 million relating to the current account balance with ErgyCapital S.p.A.; Euro 0.4 million of the balance of the loan granted to 100% owned subsidiary Culti S.r.l. These loans are ordinary uses of the Parent's cash holdings. The remaining Euro 10.1 million is the current portion maturing in the next 12 months of the Mediocredito Centrale loan.
"Guarantee fees receivable" are the present value of guarantee fees that are receivable within 12 months, for guarantees issued by the KME Group S.p.A. to banks on behalf of the Group companies to which loans were extended.
The total amount of guarantee fees receivable within and beyond twelve months determined in the manner described in note 4.3 was Euro 13.2 million which approximated their fair value at 31 December 2010.

4.8 Cash and cash equivalents

(thousands of Euro)	Balance at 31.12.2009	Changes for the period	Balance at 31.12.2010
Bank and post office accounts	399	(149)	250
Cash on hand	4	(3)	1
Total	**403**	**(152)**	**251**

4.9 Current assets held for sale

(thousands of Euro)	Balance at 31.12.2009	of which with related parties	Changes for the period	Balance at 31.12.2010	of which with related parties
Available-for-sale financial assets					
- 45,000 Drive Rent S.p.A. shares	-	-	30,000	30,000	30,000
Total	**-**		**30,000**	**30,000**	**30,000**

This item contains the current and non-current assets held for sale on the closing date of these financial statements.
The classification of the investment in Drive Rent S.p.A. contained in this item is related to approval, on 30

November 2010, of the guidelines for the merger of Drive Rent S.p.A. into Cobra Automotive Technologies S.p.A.; this transaction was subsequently approved by the Shareholders Meeting held on 15 March 2011. The exchange ratio was determined by their respective Boards of Directors as 383.7 shares of Cobra Automotive Technologies for every share of Drive Rent S.p.A.. The completion of the merger is currently expected in the first half of 2011. Since the transaction is probable pursuant to IFRS 5, Non-current Assets Held For Sale and Discontinued Operations, the Drive Group qualifies as a discontinued operation.

4.10 Equity

The number of subscribed shares is as follows:

	Ordinary shares		Savings shares	
(thousands of Euro)	**2010**	**2009**	**2010**	**2009**
In issue on 1 January	235,494,342	235,489,347	19,072,110	19,072,110
Split of shares dated 8 February	117,750,428		9,536,055	
Issued for cash	65,917,590	4,995	6,949,315	
Assigned by split operation	28,116,243		8,141,936	
In issue at end of the reporting period	447,278,603	235,494,342	43,699,416	19,072,110

Subscribed share capital at 31 December 2010 totals Euro 297,013,585.26 subdivided into 447,278,603 ordinary shares and 43,699,416 savings shares with no par value.

Also in issue on the date of these financial statements were:

- 67,876,124 "2006/2011 warrants on KME Group S.p.A. ordinary shares", which, if exercised, in the ratio that has been determined of one ordinary share for two warrants at an exercise price of Euro 0.70, would result in a maximum increase in share capital of Euro 23,756,643.40 through the issuance of a maximum of 33,938,062 ordinary shares;

- 73,330,660 "2009/2011 warrants on KME Group S.p.A. ordinary shares", which, if exercised, at the exercise price of Euro 0.892, including a premium of Euro 0.632, would result in a maximum increase in share capital of Euro 19,065,971.60 through the issuance of a maximum of 73,330,660 ordinary shares.

The following changes in equity were recorded in 2010:

(Thousands of Euro)	Share capital	Other reserves	Treasury shares	Retained earnings	Reserve for stock option	Profit for the period	Total equity
Equity at 31.12.2009	**250,015**	**76,332**	**(2,888)**	**14,395**	**6,942**	**3,629**	**348,425**
Allocation of Parent's profit/(loss)		182		796		(978)	-
Dividends and allocations to the Board of Directors						(2,651)	(2,651)
Increase due to merger effect	38,888	-			-		38,888
Share capital increase	23,245						23,245
Reserve for goodwill arising on demerger	(6,484)	6,800					316
Non-distributable reserves	(6,422)	6,422					-
Constitution of reserves on taxable distribution	(2,242)	2,242					-
Purchase) sale of new shares (Warrants exercise)	14		-				14
Deferred taxes recognised in equity		22					22
Expiry of stock option					243		243
Other components of total comprehensive income		(399)					(399)
Total losses/income recognised in equity	**-**	**(399)**	**-**	**-**	**-**	**-**	**(399)**
Profit for the period						61,101	61,101
Total comprehensive income	**-**	**-**	**-**	**-**	**-**	**61,101**	**61,101**
Equity at 31.12.2010	297,014	91,601	(2,888)	15,191	7,185	61,101	469,204
Reclassification of treasury shares	(2,888)		2,888				-
Equity at 31.12.2010	**294,126**	**91,601**	**-**	**15,191**	**7,185**	**61,101**	**469,204**

n execution of the Shareholders' resolution of 13 May 2010 gross dividends of Euro 0.07241 per savings share were paid. No dividend was distributed for ordinary shares.

Following the resolutions of the shareholders' meeting held on 2 December 2009, on 8 February 2010 the splitting of the KME ordinary and savings shares took place with the assignment of three shares for every two shares held. The number of Treasury shares is therefore subject to this variation and at 31 December 2010 Treasury shares consist of 8,212,755 ordinary shares recognised at their purchase cost of Euro 2,790,544 and 135,831 savings shares, recognised at their purchase cost of Euro 97,059.

Following the shareholders' meeting resolutions of iNTEk S.p.A. on 17 February 2010, seven KME Group 2006/2011 warrants were assigned for each group of 50 iNTEk S.p.A. shares held. On 31 December 2010 there were 815,493 company owned warrants.

"Other reserves" includes:

• Legal reserve	Euro	2,279,013
• Deferred tax assets recognised in equity	Euro	87,804
• share premium reserve (sale of unexercised rights)	Euro	4,918
• Distributable reserves	Euro	74,164,741
• Reserve for goodwill arising on demerger	Euro	6,799,747
• Non distributable reserve pursuant to Legislative Decree 38/2005	Euro	6,422,051
• Reserves taxable on distribution	Euro	2,241,865
• Costs associated with a capital increase	Euro	(399,111)
	Euro	**91,601,028**

The "Legal Reserve" may be used to absorb losses.
The "Share premium reserve" may, pursuant to art. 2431 of the Italian Civil Code, be distributed to Shareholders subject to a minimum balance on the Legal Reserve of one fifth of share capital.
"Distributable reserves" were created by resolution made at the extraordinary Shareholders' Meeting of 14 March 2008, which approved the voluntary reduction of share capital by Euro 74,164,741.31 (from Euro 324,164,741.31 to Euro 250,000,000.00) and the creation of distributable reserves of equal amount. The resolution was executed on 26 June 2008.
The use of "Distributable reserves" is unrestricted except for the following amounts:
- a share reserve with respect to 8,212,755 ordinary shares and 135,831 treasury savings shares totalling Euro 2,887,603, pursuant to article 2357 ter of the Italian Civil Code.

The "reserve for goodwill arising on demerger" is available.
The "Non distributable reserve pursuant to Legislative Decree 38/2005" was attributed during the demerger against the measurement at fair value of the ErgyCapital S.p.A. warrants, which took place in 2009 by iNTEk S.p.A. and is net of allocated deferred taxes.
The "reserves taxable on distribution" of Euro 2,241,865 was allocated pro-quota by iNTEk S.p.A. following the demerger.

The "stock option reserve" consists of the reserve from the 2006/2011 Plan of Euro 6,941,919 (recognized at Euro 958,537 in 2006, Euro 2,221,891 for 2007 and Euro 3,006,973 for 2008 and Euro 754,518 for 2009) and the reserve for the 2010/2015 Plan of Euro 242,916. The latter arises from the recognition of stock options assigned to the company's Executive Directors (of Euro 2,485,375) and to Group Executives (of Euro 4,699,460). Euro 6,941,919 of this reserve is available since the related 2006/2011 Plan was definitively revoked with the consent of the beneficiaries as per the resolution of the shareholders' meeting held on 2 December 2009. For details regarding the 2010/2015 stock option plan please see paragraph 6.3 and the chapter on the "Report on Corporate Governance."

4.11 Employee benefits

This amount is determined based on the vested interests of all employees at the end of the reporting period, in compliance with law, employment contracts and IAS 19.

(thousands of Euro)	Balance at 31.12.2009	Increase	Decrease	Balance at 31.12.2010
Post-employment benefits	156	10	(4)	162
Total	**156**	**10**	**(4)**	**162**

4.12 Non-current financial payables and liabilities

(thousands of Euro)	Balance at 31.12.2009	of which with related parties	Changes for the period	Balance at 31.12.2010	of which with related parties
Law 46/1982 loan	246		(120)	126	
Mediocredito Centrale loan	58,627		13,592	72,219	
BNP Paribas loan	2,593		(1,297)	1,296	
Guarantees issued liability	1,821	1,821	7,142	8,963	8,963
Total	**63,287**	**1,821**	**19,317**	**82,604**	**8,963**

The amounts of the Law 46/1982 loan that arose on the merger of Europa Metalli SE.DI. S.p.A. and the BNP Paribas loan refer to the portion due after 12 months.

The amount of the loan from Mediocredito Centrale, totalling Euro 72.2 million, is the non-current portion of the first, second and third tranches disbursed to the Parent; see note 4.3 for details.

"Guarantees issued liability" is the entry of a non-current asset relating to the same guarantees and is the fair value of liabilities under guarantees issued, having assessed the degree of risk and hence the remoteness of the contingency in accordance with IAS 37. Since all guarantees were issued in connection with loans extended to subsidiaries, the present value of guarantee fees receivable, recognised as current and non-current financial assets, represents the best estimate of the fair value of contingent liabilities relating to guarantees issued.

4.13 Other payables

Other payables consists of the post-employment benefits approved by the Board of Directors on 29 April 2009, confirming what approved by the Board of Directors of 14 March 2008, amounting to the prorated average of one year's average pay for each three years of service and payable to the Deputy Chairman on resignation.

(thousands of Euro)	Balance at 31.12.2009	of which with related parties	Changes for the period	Balance at 31.12.2010	of which with related parties
Post-employment benef its	1,446	1,446	351	1,797	1,797
Total	**1,446**	**1,446**	**351**	**1,797**	**1,797**

4.14 Provisions for risks and charges

(thousands of Euro)	Balance 31.12.2009	Increases	Decreases and reversals	Balance 31.12.2010
Products w arranty provisions	2,702	-	(349)	2,353
Legal risks provisions	87	-	-	87
Other provisions for risks and charges	-	-	-	-
Total	**2,789**	**-**	**(349)**	**2,440**

The "Products warranty provision" was recognised on the merger with the subsidiary Europa Metalli SE.DI. S.p.A. with respect to the warranties on products that had been sold by the subsidiary to the Ministry of Defence.
The release of Euro 349 thousand resulted mainly from the reduction of the guarantee contracts in existence at the end of the reporting period, as they had expired; it also referred to the withdrawal of the claims made by the Ministry of Defence following the favourable outcome of the investigation conducted on specific lots which were said to have had technical issues.
At the publication date of these financial statements, there were no other significant contingent liabilities.

4.15 Current financial payables and liabilities

Current financial payables and liabilities consist of:

(thousands of Euro)	Balance at 31.12.2009	of which with related parties	Changes for the period	Balance at 31.12.2010	of which with related parties
Due to banks	29,469		11,345	40,814	
Due to subsidiaries	24,067	24,067	31,265	55,332	55,332
Guarantees issued liability	3,767	3,767	547	4,314	4,314
Sw ap of listed shares	-		2,973	2,973	
Total	**57,303**	**27,834**	**46,130**	**103,433**	**59,646**

The "Due to banks" item consists of the usage of available credit lines of Euro 14.1 million, the current portion of the Mediocredito Centrale loan of Euro 13.4 million (see comments under paragraph 4.3), the Euro 1.3 million BNP Paribas loan, the Banca Intesa loan of Euro 6.9 million, the Banca Etruria loan of Euro 5.0 million and the loan from Europa Metalli SEDI pursuant to law no. 46 of Euro 0.1 million.
The "Due to subsidiaries" item contains the balance of the current accounts with subsidiaries KME Italy S.p.A., EM Moulds S.r.l., KME Brass Italy S.p.A. and KME Germany AG & Co. KG and represents the financial support provided to the subsidiaries.
"Guarantees issued liability" is the contra entry of a non-current asset relating to the same guarantees; see note 4.7.
The "Swap of listed shares" refers to the market value at the end of the reporting period of the existing Financial Instruments subscribed to as a hedge for the changes in the prices of listed shares under the item "Financial assets held for sale."

4.16 Trade payables

(thousands of Euro)	Balance at 31.12.2009	of which with related parties	Changes the period	Balance at 31.12.2010	of which with parties
Due to suppliers	629		(303)	326	
Due to subsidiaries and associates	73	73	(70)	3	3
Total	**702**	**73**	**(373)**	**329**	**3**

The carrying amount of trade payables approximates their fair value.

4.17 Other current liabilities

(thousands of Euro)	Balance at 31.12.2009	of which with related parties	Changes the period	Balance at 31.12.2010	of which with parties
Due to employees	16		22	38	
Due to social security institutions	20		(4)	16	
Tax payables	307		360	667	
Accured expenses and deferred income	13		(13)	-	
Other payables	2,983	152	(2,214)	769	462
Total	**3,339**	**152**	**(1,849)**	**1,490**	**462**

The "due to employees" item refers to amounts due but not yet settled.
The "tax payables" item mainly refers to payables for withholding taxes payable (Euro 213 thousand), the IRAP payable (Euro 197 thousand) and the VAT tax payable (Euro 257 thousand).

The "other payables" item refers essentially to amounts due to members of the corporate bodies (totalling Euro 462 thousand) and other payables (amounting to Euro 307 thousand).

5. Guarantees and commitments

The notes to the financial statements at 31 December 2009 reiterated that KME Group S.p.A. had been negotiating with the Group's financing institutions in order to redefine the structure of the available credit lines to ensure that they are flexible and to extend their expirations. At the end of June 2010 KME Group S.p.A. and its major subsidiaries operating in the semi-finished copper and copper alloy sector obtained from a pool of banks an extension of the expiration of credit lines amounting to Euro 475 million from September 2011 to January 2015.

The agreement which refers to the two lines named "tranche A" (in the form of a revolving credit used to cover the inventory needs of industrial companies) and "tranche B" (a revolving credit used to cover intra-month inventory needs of industrial companies) concluded in 2006 and existing to date for an amount equal to the prorated amount, confirms a facility asset characterized by broad flexibility of use in relation to the Group's financing needs.

On the indicated date tranche B was converted into a guarantee bank deposit in relation to penalties imposed by the European Commission on certain of the Group's industrial companies; at the end of the year the loan extended by the European Investment Bank was repaid.

KME Group S.p.A. still has an obligation under a call option with an exercise price of Euro 1 per share on 5,704,444 G.I.M. savings shares given to banks participating in the banking agreement of February 2005. At the end of December 2006 the number of shares subject to the option reduced to 5,242,497 following the exercise of one banks option.
Following the merger of G.I.M. - Generale Industrie Metallurgiche S.p.A. into iNTEk S.p.A. at the end of March 2007, the number of shares subject to the option increased to 5,824,990 shares as a result of the share exchange ratio for the merger of 10 iNTEk S.p.A. shares for every 9 G.I.M. savings shares held. The exercise price consequently decreased from Euro 1 to Euro 0.9.
iNTEk savings shares were transferred on 31 December 2009 in accordance with a share sale and purchase agreement that provided, inter alia, the granting by the acquirer of a call option on 2,184,369 iNTEk savings shares and 3,640,615 KME savings shares that arose on the proportionate partial reverse demerger of iNTEk S.p.A. into KME Group S.p.A. of 22 March 2010.
On the date of these financial statements the 2,184,369 iNTEk savings shares were purchased by KME Group S.p.A., while the rights relating to the 3,640,615 KME savings shares were granted to fully owned subsidiary KME Partecipazioni S.r.l.

KME Group S.p.A. has joint and several obligation together with its industrial subsidiaries with respect to a Mediocredito Centrale S.p.A. /SACE line of Euro 103 million repayable over eight years. Drawings under the line are for the acquisition by the Parent of companies outside Italy and capital expenditure made by non-Italian industrial subsidiaries. At the end of December 2010 all the lines have been used. Net of the already paid instalments they amounted to Euro 84.7 million.

It is hereby reiterated that starting from the 12th month following the effective date of the merger of Drive Rent S.p.A. into Cobra Automotive Technologies S.p.A (Cobra), KME Group S.p.A. granted to the managing director of the merging company, Mr. Carmine Carella, an irrevocable option to acquire up to 1,082,010 Cobra shares at par value, in appreciation of his role in the conception and structuring of the transaction. This obligation is subject to the underlying share reaching a specific value on the stock Exchange (Euro 1.85/share), among other things.
Furthermore an option was granted to acquire an additional 810,000 ordinary Cobra shares which is exercisable at the price of Euro 2.2 per share in the period from 1/1/2012 to 31/12/2014 in the 90 days subsequent to the sale by KME Group S.p.A. of more than 50% of the Cobra S.p.A. shares it holds, or at any other time subsequent to the end of said period provided that the value of the underlying share on the stock exchange has reached a price of Euro 2.4 per share.

6. Notes to the statement of comprehensive income

6.1 Revenue from sales and services

(thousands of Euro)	Year 2009	of which with related parties	Year 2010	of which with related parties	% Change
Revenue from sales and services	2,839	2,839	2,839	2,839	0.00%
Total	**2,839**	**2,839**	**2,839**	**2,839**	

"Revenue from sales and services" includes amounts invoiced to Group companies for financial, insurance, tax and administrative support services.

6.2 Other income

(thousands of Euro)	FY 2009	of which with related parties	FY 2010	of which with related parties	Change
Gains f rom the sale of non-current assets	-		700		insig.
Other	16		302		insig.
Total	16		1,002		insig.

The capital gains from the sale of non-current assets are connected to the sale to Cassa di Risparmio di Firenze of a couple of Vincenzo Maria Coronelli Globes (terrestrial and celestial), special Venice edition 1692/1693. The income was provided to the "Dynamo Camp Onlus" Association pursuant to the resolutions of the Board of Directors on 31 January 2008 and 25 March 2009.
The item "Other" consists mainly of the charge back to subsidiaries of costs incurred on their behalf of Euro 203 thousand and the adjustment of costs incurred in previous years of Euro 75 thousand.

6.3 Personnel expense

(thousands of Euro)	FY 2009	of which with related parties	FY 2010	of which with related parties	Change
Wages and salaries	157		360		insig.
Social security charges	63		87		38.10%
Cost of stock option	501	501	224	224	-55.29%
Other personnel expense	6		10		66.67%
Total	**727**	**501**	**681**	**224**	**-6.33%**

During the year the KME Group S.p.A. stock option plan for 2010–2015 was activated, in replacement of the previous one which was implemented in 2006 and revoked in 2009 on account of the new corporate structure/organization of the Group.
In its meeting on 7 October 2010, the Board of Directors identified the plan benefits and determined the number of options assigned to each benefit, for a total of 25,500,000 options (the maximum number of options authorized at the Shareholders' Meeting is 31,000,000).
The options attributed to the beneficiaries the right to subscribe or purchase from the company an equivalent number of ordinary KME Group S.p.A. shares at the unit price of Euro 0.295:

- 1/3 starting from 10 October 2011;
- 1/3 starting from 8 October 2012;
- 1/3 starting from 8 October 2013;

The final exercise date is 31 December 2015.

The fair value of stock options (Euro 0.73) has been determined by independent actuary on the award date by application of the Black & Scholes model which includes variables regarding the conditions of exercise, current share value, expected volatility (estimated through projection of actual volatility for the past year), the risk free interest rate for the Euro zone, expected dividend yield, and the probability that option holders will meet the

requirements to exercise their rights at the end of the vesting period.

The cost of the stock options for the year and therefore the fair value of the services received was determined indirectly with reference to the fair value of the equity instruments granted.

More details regarding the Plan are provided in the section "The Remuneration of Directors and Group Executives" in the Report on Corporate Governance which is an integral part of these financial statements and the "Information Document" which has been prepared and is available on the company's website.

The "Wages and salaries" item includes also the fees paid to collaborators employed on a continuing basis of Euro 161 thousand. In the previous year this expense have been recognized among other operating costs and amounted to Euro 174 thousand.

6.4 Amortisation, depreciation and impairment losses

(thousands of Euro)	Year 2009	Year 2010	Variazione
Depreciation	8	12	50.00%
Total	**8**	**12**	**50.00%**

6.5 Other operating costs

This item consists of the following amounts:

(thousands of Euro)	Year 2009	of which with related parties	Year 2010	of which with related parties	Change
Directors' and Statutory Auditors' fees	1,504	1,504	1,842	1,842	22.47%
Professional services	1,632	81	788		-51.72%
Directors' and employees' travel and subsistence	618		686		11.00%
Service fees to subsidiaries/parent	4	4	4	4	insig.
Legal and company reporting	45		67		48.89%
Electricity, heating, post, phone costs	26		18		-30.77%
Insurance premiums	65		280		insig.
Third party services and listings	65		77		18.46%
Training and seminars	11		-		insig.
Real estate leases	199	152	247	155	24.12%
Incidental property expenses	104	104	147	147	41.35%
Leases and rentals	100	62	58	42	-42.00%
Various tax charges	5		6		20.00%
Undeductible VAT	85		251		insig.
Trade association contributions	23		23		insig.
Other costs	5,242	16	121	4	insig.
Donations	38		908	800	insig.
Bank fees	9		11		22.22%
Provisions releases	(4,646)		(349)		-insig.
Accrual to provision for risks	-		-		insig.
Accrual to directors' post-employment benef its	266	266	351	351	31.95%
Total	**5,395**	**2,189**	**5,536**	**3,345**	**2.61%**

Among the "professional services" are included the expenses for the conclusion of the demerger (Euro 77 thousand), and the "other costs" include expenses for INAIL [National Institution for Insurance against Accidents at Work] compensation (Euro 48 thousand).
The amount under the item "Donations" includes payment of the revenue from the sale of non-current assets described under paragraph 6.2
In regard to the "Provisions releases" of Euro 349 thousand, please see paragraph 4.14.
The accrual to directors' post-employment benefits is explained in note 4.13.

6.6 Financial income (expense)

(thousands of Euro)	Year 2009	of which with related parties	Year 2010	of which with related parties	Change
Interest income from group companies	4,693	4,693	4,673	4,673	insig.
Dividends	633	633	158	158	insig.
Other financial income	7,796	6,494	81,520	77,876	insig.
Total financial income	**13,122**	**11,820**	**86,351**	**82,707**	**insig.**
Interest expense w ith group companies	(321)	(321)	(933)	(933)	insig.
Loan interest expense	(3,504)		(4,101)		17.04%
Other financial expense	(683)		(16,670)	(10,500)	insig.
Total financial expense	**(4,508)**	**(321)**	**(21,704)**	**(11,433)**	**insig.**
Net financial expense	**8,614**	**11,499**	**64,647**	**71,274**	**insig.**

"Financial income" consists mainly of:

- interest charged on intercompany accounts at market rates and on the Mediocredito Centrale loan transferred to subsidiaries of Euro 4.7 million;
- dividends relating to iNTEk S.p.A. savings shares of Euro 0.2 million;
- adjustment to the carrying amount of other listed shares of the Euro 2.9 million; as described in further detail below, a negative difference of the same amount was recognized on the hedging contracts concluded with Morgan Stanley;
- adjustment of the carrying amount of 2,184,369 iNTEk S.p.A. shares by Euro 0.1 million;
- commissions payable to Group companies for guarantees given, as mentioned above, totalling Euro 4.3 million;
- gain on the sale of the iNTEk S.p.A. stock portfolio containing 5,824,985 shares of Euro 0.1 million;
- gain of Euro 0.2 million on the swap hedge related to the partial sale of the listed shares;
- reversal of the impairment loss on the investment in Culti S.r.l. to the transfer value of the newly established KME Partecipazioni S.r.l. of Euro 0.9 million;
- partial reversal of the impairment loss on the investment in KME A.G. of Euro 72.6 million as illustrated further in paragraph 4.2 herein.

"Financial expense" consists mainly of:

- interest payable to Group companies on intercompany accounts at market rates amounting to Euro 0.9 million;
- interest payable to banks for short and medium/long term loans of Euro 4.1 million;
- adjustment of the carrying amount of 5,775,550 ErgyCapital S.p.A. warrants classified under "financial assets held for sale" of Euro 0.6 million;
- adjustment of the carrying amount of 5,277,893 ErgyCapital S.p.A. warrants classified under "financial assets held for sale" of Euro 0.052 million;
- minor gain on the sale of 175,000 "other listed shares" of Euro 0.3 million;
- difference from the swap contract with Morgan Stanley hedging the price changes on "other listed shares" of Euro 2.9 million;
- adjustment to the carrying amount of financial receivables and investments referring to the transferral to KME Partecipazioni S.r.l., of Euro 2.2 million;
- impairment loss on the investment in ErgyCapital S.p.A. and the relative warrants classified under the item "Investments" of Euro 10.5 million as illustrated in paragraph 4.2.

6.7 Current and deferred taxes

(thousands of Euro)	Year 2009	of which with related parties	Year 2010	of which with related parties	Change
Current taxes	(3,050)		(405)		insig.
Deferred taxes	1,339		(754)		insig.
Total	**(1,711)**		**(1,159)**		**47.63%**

The current taxes referred to IRAP for the current year of Euro 197 thousand and IRAP for last year of Euro 208 thousand.

It is reiterated that the Company has not made payments of income tax as a result of using the tax losses assigned pro quota by iNTEk S.p.A., following the demerger. The only payment made refers to IRAP.

A reconciliation of theoretical tax charge for the year and the effective tax charge pursuant to IAS 12 paragraph 81 is shown below.

Reconciliation of tax charge at theoretical rate and the effective charge

(thousands of Euro)	FY 2010	FY 2010
Profit before taxes	**62,260**	**5,340**
Tax charge at theoretical rate	(17,122)	(1,469)
- Impairment losses/reversal of impairment losses on investments and nondeductible/taxable shares	16,778	-
- Other	(256)	
- Deferred tax deductions	0	(142)
- Release and use of deferred taxes from demerger	(155)	
- Previous year taxes	(208)	
- IRAP	(197)	(100)
Total effective tax charge	**(1,159)**	**(1,711)**

Deferred taxes recognised in equity

(thousands of Euro)	Year 2009	Change	Year 2010	Change
Capital increase-related expenses	65	23	88	26.14%
Total	**65**	**23**	**88**	**26.14%**

7. Other information

Average number of employees

		FY 2009	FY 2010	Change
Executives	n.	1	1	0,0%
Clerical	n.	3	4	33.33%
Total	**n.**	**4**	**5**	**25.0%**

Financial instruments by category

(thousands of Euro)	31.12.09	31.12.10	Change
Fin. assets recognised at fair value through profit or loss	12,882	62,456	49,574
Held-to-maturity assets	-	-	
Loans and receivables	149,642	173,387	23,745
Investments in subsidiaries and other companies	312,566	423,022	110,456
Fin. liabilities carried at fair value through profit or loss	5,588	16,250	10,662
Fin. liabilities carried at amortised cost	115,705	170,116	54,411

Financial instruments by financial statements presentation

Financial instruments and reconciliation with financial statements items at 31 December 2010:

Financial statements item (thousands of Euro)	Total	Carried at amortised cost	Carried at fair value	Outside the scope of IFRS 7
Financ ial assets:				
Investments	423,022			423,022
Non-current financial assets	65,995	57,032	8,963	
Other non-current assets	-		-	
Trade receivables	6	6	-	
Other current receivables and assets:				
Tax credits	425	425	-	
Bank and post office accounts	-		-	
Due to subsidiaries	-		-	
Other non-financial assets	45	45	-	
	470			
Cash and cash equivalents	251	251	-	
Current financial assets:				
Guarantees issued	4,314		4,314	
Financial receivables due from subsidiaries	115,628	115,628	-	
Intek S.p.A. savings shares	1.527		1,527	
ErgyCapital S.p.A. shares	2,555		2,555	
ErgyCapital S.p.A. warrants	739		739	
Other listed sharesi	14,358		14,358	
	139,121			
Financial assets held for sale:				
Drive rent S.p.A.	30,000		30,000	
	30,000			
	658,865	**173,387**	**62,456**	**423,022**

Financial statements item (thousands of Euro)	Total	Carried at amortised cost	Carried at fair value	Outside the scope of IFRS 7
Financ ial liabilities::				
Current and non-current financial liabilities				
Due to banks	114,455	114,455		
Guarantees issued	13,277	-	13,277	
Other financial Liabilities	55,332	55,332	-	
Derivatives	2,973	-	2,973	
	186,037	**169,787**	**16,250**	**-**
Trade payables	329	329	-	
	186,366	**170,116**	**16,250**	**-**

Notional value of derivative instruments

At the end of the reporting period KME Group S.p.A. was in possession of a SWAP contract with Morgan Stanley hedging the changes in price of other listed shares held for trading. On the date these financial statements were approved the aforementioned financial Instrument was no longer in existence as the relative stock had been sold.

Exposure to credit risk and impairment losses

The carrying amount of financial assets represents the maximum exposure to credit risk of KME Group S.p.A.

The ageing of trade receivables at the end of the reporting period was as follows:

Description (migliaia di Euro)	Gross carrying amount	Impairment losses 31.12.2010	Net carrying amount
current	-	-	-
less than 60 days past due	6	-	6
61 to 120 days past due	-	-	-
121 days to 1 year past due	-	-	-
over 1 year past due	933	933	-
Total	**939**	**933**	**6**

Changes during the year in the allowance for impairment are shown below:

(thousands of Euro))	
31.12.2009	**933**
Impairment losses of the year	-
Uses	-
Releases	-
31.12.2010	**933**

Currency risk exposure

KME Group S.p.A. had no financial statements items or sale or purchase commitments denominated in foreign currencies at the end of the reporting period.

Interest rate exposure

The Group's interest rate structure of interest-bearing financial instruments at the end of the reporting period was as follows:

	Carrying amount	
(thousands of Euro)	**31.12.2009**	**31.12.2010**
Fixed rate instruments:		
Financial assets	-	-
Financial liabilities	363	7,078
Total	**(363)**	**(7,078)**
Variable rate instruments:		
Financial assets	148,355	173,130
Financial liabilities	115,003	162,709
Total	**33,352**	**10,421**

Sensitivity analysis of the cash flows of variable rate financial instruments

A 50 basis point increase (decrease) in interest rate receivable or payable at the end of the reporting period would have led to an insignificant decrease (increase) in equity.

Fair value and carrying amounts

Pursuant to IFRS 7 paragraph 25, the carrying amount of financial assets and liabilities approximates fair value.

Fair value hierarchy

IFRS 7, para. 27 A requires financial instruments recognised at fair value in the statement of financial position to be classified with reference to a hierarchy of levels, based on the significance of the input used to determine fair value.

The standard stipulates three levels:
a) Level 1 - quoted prices for the asset or liability to be measured;
b) Level 2 - directly observable market inputs other than Level 1 inputs;
c) Level 3 - inputs not based on observable market data.

Financial instruments recognised in the statement of financial position at fair value, as shown in the above detailed statement are, with the exception of financial assets and liabilities in the form of guarantees issued, all classified as Level 1 of the hierarchy since they are all securities listed on regulated markets.
There were no transfers in 2009 between Levels 1 and 2.
Guarantees issued are classified as Level 3. Their fair value is determined by the use of a discount rate that is believed to reflect their risk. Given the nature of the transactions to which the guarantees relate, no gains or losses were recognised for the year either in profit or loss or in equity.

Other financial commitments

Below is a summary showing the minimum irrevocable payment commitments under rental agreements and operating leases at the end of the reporting period:

(thousands of Euro)	**31.12.2009**	**31.12.2010**
Within 1 year	214	408
1 to 5 years	850	793
After 5 years	-	-
	1,064	**1,201**

Disclosure of payments for services rendered by the Independent Auditors

In accordance with article 149 *duodecies* of the "Issuers Regulation", the following table shows the payments made during the year for services provided by the Independent Auditors, KPMG S.p.A. and its subsidiaries:

(thousands of Euro)	**Total**	**KME Group S.p.A.**	**Subsidiaries**
a) audit services	1,278	82	1,196
b) non-audit services:			
- certifications relating to financial covenants services - stock option plan	53	53	-
- other services	47	2	45
c) services provided by associated firms	-	-	-
Total	**1,378**	**137**	**1,241**

Annexes to the notes to the separate financial statements at 31 December 2010

List of investment at 31 December 2010 and changes since 31 December 2009 (includes disclousure pursuant to article 126 of Consob regulation 11971/99)

Investments (in Euro)	Par value	Existing at 31.12.2009		Change of the period (+ / -)		Adjustments	Existing at 31.12.2010				Stock market price 31.12.2010		Difference
	Euro	Quantity	Value	Quantity	Value		Quantity	%	Average carrying amount	Carrying amount	Value per share	Value	
Subsidiaries and other investments (carried as non-current financial assets)													
KME A.G. [5]	no par value	27,918,276	307,350,288		19,052	72,630,660	27,918,276	100.00		380,000,000			
Immobiliare Agricola Limestre S.r.L. [8]		1	3,216,000	(1)	(3,200,000)	(16,000)	-	-		-			
KME Recycle S.p.A.	1	2,000,000	2,000,000	-	2,500,000	-	2,000.000	100.00		4,500,000			
ErgyCapital S.p.A. Ord. Shares [1]		-	-	43,981,434	29,227,672	(7,227,672)	43,981,434	46.38	0.50	22,000,000			
ErgyCapital S.p.A. warrant [1]		-	-	101,743,509	9,767,377	(3,255,792)	50,871,755 [6]	59.81%		6,511,585			
Il Post S.r.L. [4]		-	-	1	200,000		1	31.537		200,000			
KME Partecipazioni S.r.L. [7]		-	-	1	9,810,000		1	100.00		9,810,000			
Total			**312,566,288**		**48,324,101**	**62,131,196**				**423,021,585**			**-**
Subsidiaries and other investees (recognised in current assets - held for sale)													
INTEK S.p.A.- Sav. Sh.	0.26	5,824,990	3,541,594	(3,640,621)	(2,166,534)	151,814	2,184,369	38.37	0.70	1,526,874	0.699	1,526,874	-
ErgyCapital S.p.A.	no par value	5,001,932	2,365,914	275,961	241,007	(52,421)	5,277,893	5.57	0.484	2,554,500	0.484	2,554,500	-
	Warrant	14,291,235	1,386,250	(8,515,684)	(55,103)	(591,877)	5,775,550 [6]	6.79	0.13	739,271	0.128	739,271	-
Other listed shares		-	-	325,000	11,439,025	2,919,475	325,000	0.72	44.18	14,358,500	44.180	14,358,500	-
Total			**7,293,758**		**9,458,395**	**2,426,991**				**19,179,145**			**-**
Subsidiaries and other investees (recognised in current assets - held for sale)													
Drive Rent S.p.A. Ord. Sh. [1]	50	-	-	45,000	30,000,000	-	45,000	90.00		30,000,000			
Total			**-**		**30,000,000**	**-**				**30,000,000**			**-**
Treasury shares (deducted from equity)													
KME Group S.p.A. Sav. Sh.	no par value	90,555	97,059	45,276 [2]	(1.07)		135,831		0.71	97,058	0.58	78,918	(18,140)
KME Group S.p.A. Ord. Sh.	no par value	5,475,170	2,790,544	2,737,585 [2]	-		8,212,755		0.34	2,790,544	0.33	2,743,060	(47,484)
KME Group S.p.A. WARRANT 09-11		-	-	815,493[3]			815,493		0.00	-	0.01	11,417	11,417
Total			**2,887,603**		**(1.07)**	**-**				**2,887,602**			**(54,207)**
Total			**322,747,649**		**87,782,495**	**64,558,188**				**475,088,332**			**(54,207)**

1) Investments acquired on 22 March following demerger between iNTEk Spa and KME Group SpA. At the end of the reporting period these assets have been classified as "assets held for sale" as specified below.

2) On 8 February 2010 ordinary and saving shares of KME Group Spa have been split (shareholders' meeting resolution of 2 December 2009) - 3 shares every 2 shares held.

3) On 17 February iNTEk S.p.A. gave 7 warrant KME Group S.p.A. every 50 Intek S.p.A. shares held (5,824,990 Intek shares held - 40 shares :50 *7)

4) On 12 May new acquisition Il Post S.r.L. - Milan

5) KME Germany A.G. changed its name into KME AG on 18 June 2010

6) Public offer ErgyCapital S.p.A. (July 2010) Warrants held on this date are replaced with new Ergycapital warrants 2016 (2 warrants 2011 every warrrant 2016)

7) Investment established on 3 December

8) Investment sold to KME Partecipazioni S.r.l. on 29 December

List of indirect investments
(including pursuant to articles 125 and 126 of CONSOB Regulation 11971/99)

		Registered Office	Operations	Share Capital Currency	Share Capital Amount	Direct interests at 31.12.2010 %	Direct interests at 31.12.2010 Name	% Total investment
KME Germany A.G. & Co. K.G.		Germany	Industrial	Euro	200,003,000	99.99	KME A.G.	100.00
						0.01	KME Beteiligungs mbH	
Kabelmetal Messing Bet. GmbH, Berlin		Germany	Real Estate	Euro	4,514,200	100.00	KME A.G.	100.00
KME Metal GmbH		Germany	non-operating	Euro	511,292	100.00	KME A.G.	100.00
KME Verwaltungs - und Dienstleistungsgesellschaft mit beschraenkter Haftung		Germany	non-operating	Euro	10,225,838	100.00	KME A.G.	100.00
Evidal Schmoele Verwaltungsgesellschaft mbH		Germany	non-operating	Euro	30,000	50.00	KME A.G.	50.00
KME Architectural Metals Gmbh		Germany	Holding company	Euro	25,564	100.00	KME A.G.	100.00
KME Architectural Metals Gmbh & Co. K.G.		Germany	Industrial	Euro	1,329,359	100.00	KME A.G.	100.00
KME Brass Germany GmbH		Germany	Industrial	Euro	50,000	100.00	KME A.G.	100.00
KME Beteiligungsgesellschaft mbh		Germany	Holding company	Euro	1,043,035	100.00	KME A.G.	100.00
KME France S.A.S.		France	Industrial	Euro	15,000,000	100.00	KME A.G.	100.00
Accumold A.G.		Switzerland	In liquidation	FS	200,000	100.00	KME A.G.	100.00
KME Yorkshire Ltd.		U.K.	Industrial	LST	10,014,603	100.00	KME A.G.	100.00
KME Italy S.p.A		Italy	Industrial	Euro	103,839,000	100.00	KME A.G.	100.00
KME Moulds Mexico S.A. de C.V.		Mexico	Trading	MXN	7,642,226	99.00	KME 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 A.G.	70.00
Dalian ETDZ Surface Machinery Co. Ltd.		China	Industrial	RMB	5,500,000	70.00	KME A.G.	70.00
Dalian Dashan Heavy Machinery Co. Ltd		China	Industrial	RMB	10,000,000	70.00	KME A.G.	70.00
KME China Ltd.		China	Holding company	$HK	27,095,000	100.00	KME A.G.	100.00
KME Metals (Shanghai) Trading Ltd.		China	Trading	USD	100,000	100.00	KME A.G.	100.00
KME Service S.r.L.		Italy	Financial	Euro	115,000	100.00	KME A.G.	100.00
KME Service Russland Ltd.	(5)	Russia	Industrial	RUB	10,000	65.00	KME Germany A.G. & Co. K.G.	65.00
Bertram's GmbH		Germany	Services	Euro	300,000	100.00	KME Germany A.G. & Co. K.G.	100.00
KME Czech Republic S.r.o.		Czech Republic	Trading	CZK	100,000	100.00	KME Germany A.G. & Co. K.G.	100.00
KME Moulds Service Australia PTY Ltd.		Australia	Industrial	AUD	100	65.00	KME Germany A.G. & Co. K.G.	65.00
KME Chile Lda.		Chile	Metals trading	PSC	9,000,000	99.00	KME Germany A.G. & Co. K.G.	100.00
						1.00	KME Metal GmbH	
KME Asia Pte. Ltd.		Singapore	Trading	$SG	200,000	100.00	KME Germany A.G. & Co. K.G.	100.00
KME America Inc.		Stati Uniti	Trading	$US	5,000	100.00	KME Germany A.G. & Co. K.G.	100.00
KME Austria Vertriebsgesellschaft mbH		Austria	Trading	Euro	72,673	100.00	KME Germany A.G. & Co. K.G.	100.00
KME Hungaria Szinesfem Kft.		Hungary	Trading	HUF	3,000,000	100.00	KME Germany A.G. & Co. K.G.	100.00
KME (Suisse) S.A.		Switzerland	Trading	FS	250,000	100.00	KME Germany A.G. & Co. K.G.	100.00
KME Polska Sp.z.o.o.		Poland	Trading	PLZ	250,000	100.00	KME Germany A.G. & Co. K.G.	100.00
Metalcenter Danmark A/S		Denmark	Holding company	DKK	1,524,880	30.00	KME Germany A.G. & Co. K.G.	30.00
KME India Private Ltd.		India	Trading	INR	1,000,000	99.00	KME Germany A.G. & Co. K.G.	100.00
						1.00	KME A.G.	
AMT - Advanced Mould Technology India Private Ltd.	(4)	India	Industrial	INR	28,766,250	90.61	KME Germany A.G. & Co. K.G.	90.61
N.V. KME Benelux		Belgium	Trading	Euro	62,000	84.80	KME Germany A.G. & Co. K.G.	100.00
						15.20	KME France S.A.S.	
KME Solar Italy S.r.l.	(6)	Italy	Architectural solutions	Euro	10,000	80.00	KME Germany A.G. & Co. K.G.	80.00
KME Brass France S.A.S.		France	Industrial	Euro	7,800,000	100.00	KME France S.A.S.	100.00
Société Haillane de Participations S.A.		France	non-operating	Euro	40,000	99.76	KME France S.A.S.	99.76
KME Brass Italy S.r.l.		Italy	Industrial	Euro	15,025,000	100.00	KME Italy S.p.A.	100.00
EM Moulds S.r.l.		Italy	Trading	Euro	115,000	100.00	KME Italy S.p.A.	100.00
Editoriale Fiorentina S.r.l.		Italy	Editoriale	Euro	1,000,000	7.13	KME Italy S.p.A.	7,13
KME Spain S.A.		Spain	Trading	Euro	1,943,980	99.86	Kabelmetal Messing Bet. GmbH, Berlin	99.86
KME Ibertubos S.A.		Spain	Industrial	Euro	332,100	100.00	KME Spain S.A.	100.00
Cuprum S.A.		Spain	Services	Euro	60,910	100.00	KME Spain S.A.	100.00
KME LOCSA S.A.		Spain	Industrial	Euro	10,040,000	100.00	KME Spain S.A.	100.00
Yorkshire Copper Tube		U.K.	non-operating	LST	3,261,000	100.00	KME Yorkshire Ltd.	100.00
Europa Metalli - Tréfimétaux U.K. Ltd.		U.K.	non-operating	LST	500,000	100.00	KME Yorkshire Ltd.	100.00
XT Ltd.		U.K.	non-operating	LST	430,000	100.00	KME Yorkshire Ltd.	100.00
Irish Metal Industries Ltd.		Irlanda	Trading	Euro	127	100.00	KME Yorkshire Ltd.	100.00
Yorkshire Copper Tube (Exports) Ltd.		U.K.	non-operating	LST	100	100.00	Yorkshire Copper Tube	100.00
Metalbuyer S.p.A.		Italy	Metals trading	Euro	2,195,224	30.00	KME Recycle S.p.A.	30.00
Valika SAS	(1)	France	Metals trading	Euro	200,000	30.00	KME Recycle S.p.A.	30.00
Immobiliare Agricola Limestre S.r.L.	(7)	Italy	Real Estate	Euro	110,000	100.00	KME Partecipazioni S.r.L.	100.00
Culti S.r.L.	(2)	Italy	Furnishings	Euro	500,000	100.00	KME Partecipazioni S.r.L.	100.00
HC S.r.l.	(2)	Italy	Trading	Euro	50,000	100.00	Culti S.r.L.	100.00
Culti A.G.	(2)	Switzerland	Trading	CHF	100,000	100.00	Culti S.r.L.	100.00
Culti USA LLC	(2)	USA	Trading		-	100.00	Culti S.r.L.	100.00
Drive Service S.p.A.	(3)	Italy	Services	Euro	1,000,000.04	100.00	Drive Rent S.p.A.	100.00
Elogistique S.r.L.	(3)	Italy	Services	Euro	20,000	30.00	Drive Rent S.p.A.	30.00
Easydriver Car Services Espana S.L.U.	(3)	Spain	Services	Euro	232,880	100.00	Drive Rent S.p.A.	100.00
Autonostop S.r.L.	(3)	Italy	Services	Euro	100,000	100.00	Drive Service S.p.A.	100.00

Investments sold:
Sigimet S.p.A. on 19 March 2010 by KME Recycle S.p.A.
New investments/changes:
(1) Valika S.A.S. 10% acquired on 8 February
(1) Valika S.A.S. A further 20% acquired on 22 December
(2) Culti S.r.l. 40% acquired by KME Group S.p.A. on 22 March
(2) Culti S.r.l. A further 60% acquired by KME Group S.p.A. on 14 May
(2) HC S.r.l. Wholly acquired through Culti S.r.l. on 14 May
(2) Culti USA LLC. Wholly acquired through Culti S.r.l. on 14 May
(2) Culti AG. Wholly acquired through Culti S.r.l. on 14 May
(2) Culti S.r.l.: wholly acquired by KME Partecipazioni S.r.l. on 29 December
(3) Drive Service S.p.A. 90% acquired through Drive Rent S.p.A. on 22 March
(3) Drive Service S.p.A. Share capital increased to Euro 1,000,000.04
(3) Elogistique S.r.l. 98% acquired through Drive Rent S.p.A. on 22 March
(3) Elogistique S.r.l. On 18 June Drive Rent S.p.A. sold a 68% share
(3) Easydriver Car Services Espana S.L.U. 90% acquired through Drive Rent S.p.A. on 22 March
(3) Autonostop S.r.l. 90% acquired through Drive Service S.p.A.on 3 December
(3) Autonostop S.r.l. quota capital increased to 100,000.00 Euro on 30 December
(4) AMT - Advanced Mould Technology India Private Ltd. On 2 June KME Germany AG & Co KG decreased its stake to 90.61%
(5) KME Service Russland Ltd. On 1 July KME Germany AG & Co. KG increased its stake to 65%
(6) KME Solar Italy S.r.l. 80% acquired by KME Germany AG & Co. KG on 25 October
(7) Immobiliare Agricola Limestre S.r.l.: wholly acquired by KME Partecipazioni S.r.l. on 29 December

Statement of the Deputy Chairman and the Manager responsible for financial reporting

KME Group S.p.A.

KME

STATEMENT ABOUT THE SEPARATE FINANCIAL STATEMENTS PURSUANT TO ART. 154 BIS, PARAGRAPH 5 OF LEGISLATIVE DECREE 58/98, AS SUBSEQUENTLY AMENDED AND ADDED TO

1. Having regard to the requirements of article 154 bis, paragraphs 3 and 4, of Legislative Decree 58 of 24 February 1998, the undersigned Vincenzo Manes, Deputy Chairman, and Marco Miniati, the Manager Responsible for Financial Reporting at KME Group S.p.A., hereby certify:
   - the adequacy with respect to the characteristics of the Company and
   - the actual application,

   of administrative and accounting procedures in the preparation of the consolidated financial statements as at and for the year ended 31 December 2010.

2. No material findings were made in this regard.

3. It is also certified that:

   3.1 the separate financial statements:

   a. were prepared in compliance with International Financial Reporting Standards as endorsed by the European Community pursuant to Regulation (EC) 1606/2002 of the European Parliament and of the Council of 19 July 2002;

   b. correspond to the underlying accounting records;

   c. are suitable to provide a true and fair view of the issuer's financial position and results of operations;

   3.2 the Directors' Report contains a reliable analysis of the operating performance and results and the situation of the issuer and its consolidated companies, together with a description of the principle risks and uncertainties to which they are exposed.

Florence, 22 March 2011

The Deputy Chairman

signed Vincenzo Manes

Manager responsible for the preparation of corporate accounting documentation

signed Marco Miniati

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Report of the Board of Statutory Auditors of KME Group S.p.A. on the separate financial statements as at and for the year ended 31 December 2010

Dear Shareholders,

the Directors have called the Annual General Meeting for 27/28 April 2011 to resolve on the Parent's separate financial statements as at and for the year ended 31 December 2010, in addition to other agenda items. The Board of Statutory Auditors, hereby, reports on matters for which it is competent as required by art. 153 of Legislative Decree no. 58 of 24 February 1998, having due regard to other specific laws and regulations currently in force. The report has been subdivided into sections in accordance with CONSOB reporting requirements.

Significant events in 2010

The most significant event during the year, already described in the Report of the Statutory Auditors on the prior-year financial statements to which reference should be made, was the proportionate reverse demerger of the parent, iNTEk S.p.A. into KME Group S.p.A. as approved at the relevant Shareholders' Meetings of 2 December 2009 with the date of effectiveness of the relevant demerger deed being 22 March 2010.
Furthermore from 21 June to 23 July 2010 the share capital increase to pay for the contribution of a total of Euro 23,245,080.50, at the subscription price of Euro 0.30 for the ordinary shares and Euro 0.5 for the savings shares was carried out.
In execution of the authorization attributed to it at the shareholders' meeting on 2 December 2009, on 7 October 2010 the Board of Directors resolved to establish a new KME Group SpA stock option plan for 2010 – 2015 for a total of 25,500,000 options (compared to a maximum of 31,000,000 authorized at the Shareholders' Meeting) as explained in further detail in the Report on Corporate Governance prepared by the Board of Directors.
The recipients of the plan are Deputy Chairpersons Mr. Vincenzo Manes and Ms. Diva Moriani and the Director/Manager Mr. Giancarlo Losi.
With its resolution of 22 March 2011 the Board of Directors also approved an incentive plan for the management of the group in the copper segment, for 2011, linked by 50% to the operating performance and 50% to equity performance.
Furthermore with its resolution of 11 November 2010 the Board of Directors granted a mandate to the Deputy Chairpersons to take all necessary actions required to complete the merger between the subsidiary Drive Rent S.p.A. and the listed company Cobra S.p.A..
This merger had already been decided by our investee Drive Rent and the merging company.
Again upon resolution of the Board of Directors taken on 11 November 2011 a new regulation was approved with the related parties in regard to the relative Consob regulation.
The Board of Directors also approved the Business Plan for 2010 – 2014 in its meeting of 5 August 2010.

Atypical or unusual transactions, including intercompany and transactions with related parties

The Board is not aware of atypical or unusual transactions that took place during the year.
Comments on day to day transactions are provided in the notes to the financial statements.
These transactions essentially related to the sale of goods and services in addition to financial and organisational transactions that were all conducted on an arm's length basis.

Observations and requests for information by the independent auditors/reports by Shareholders pursuant to art. 2408 of the Italian Civil Code/representations.

On 9 April 2010 a shareholder communicated to Consob and the company certain queries regarding the extraordinary transactions which took place and the relative prices of the stock on the Exchange.
As there was no reference to specific acts or circumstances in this communication, the Board did not pursue this issue further.
On the date this report was compiled there was no information regarding initiatives taken by Consob in regard to this communication.

On 24 June 2010, a shareholder submitted a complaint via fax based on article 2408 of the Italian civil code concerning the procedures according to which the share capital increase took place on 16 June 2010, questioning the criteria for the subscription of the share capital increase and in particular the failure to appoint an intermediary for the management of the so-called balances.
With its letter of 30 June 2010 and in agreement with the Board of Statutory Auditors, the company answered as follows: "for these types of transactions, market practices do not provide for the intervention of an intermediary appointed for transactions involving split rights as shareholders can negotiate these rights directly on the exchange."

Auditors' engagements

In addition to the audit engagement against total fees of Euro 137,000 at parent level for the audit, verification of financial covenants, opinions on compliance of stock option plans and other lesser services and Euro 1,241,000 at consolidated level, for auditing services including for entities belonging to the independent auditors' network.
The Board of Statutory Auditors is of the opinion that none of these additional services have compromised the independence of KPMG.

Opinions required by law issued by KPMG

In regard to the stock option plan the independent auditors KPMG has issued an opinion regarding the compliance of the issue price of the ordinary underlying shares.

Oversight and information acquired by the Board of Statutory Auditors

During the year ended 31 December 2010 the members of the Board of Statutory Auditors participated in the shareholders' meeting held on 29 April 2010 and the meetings of the Board of Directors held on 25 March 2010, 13 May 2010, 16 June 2010, 5 August 2010, 7 October 2010 and 11 November 2010.
The Board of Statutory Auditors also held seven meetings in 2010 on 2 March 2010, 10 March 2010, 9 April 2010, 20 April 2010, 27 May 2010, 6 September 2010 and 2 December 2010 as required by art. 2404 of the Italian Civil Code.
The Statutory Auditors also met with the independent auditors and were continually in contact with the Company's management.
The Board of Statutory Auditors also attended a number of meetings of the company's Internal Control Committee to obtain certain relevant information.
Exhaustive information on the various corporate bodies of the company is contained in the report on corporate governance accompanying the financial statements.
In the performance of its oversight responsibilities, at meetings and in frequent discussions, the Board of Statutory Auditors confirmed:

a) compliance with the requirements of the law and the Articles of Association during the year;
b) compliance with the principles of proper management, the existence of a satisfactory management structure and an adequate system of internal control;
c) that no information of particular note emerged at meetings with KPMG and the Directors, including pursuant to art. 150 of Legislative Decree 58/1998;
d) that subsidiaries provided all the information required by law and art. 114, paragraph 2 of Legislative Decree 58/1998;
e) that the Company has published a report on Corporate Governance in accordance with regulatory requirements, which the Board of Statutory Auditors found adequate for its purposes. No instances of non-compliance came to the attention of the Board of Statutory Auditors in the performance of its oversight;
f) The Board of Statutory Auditors participated in the meetings of the Remuneration Committee held on 24 March 2010 and 1 October 2010; upon resolution of the Board of Directors on 22 March 2011, the achievement of certain parameters relating to variable remuneration in 2010 for the top management was verified.
g) the Board of Statutory Auditors participated in the meetings held by the Internal Control Committee on 25 March and 5 August 2010;
h) the Board of Statutory Auditors also participated in the meetings held by the Supervisory Board, pursuant to Law 231/01 on 2 March 2010, 29 July 2010 and 15 December 2010;
i) the Board requested, and continually received, information and updates on pending litigation, detailed information of which is not repeated here since it is contained in the Directors' Report.
Specific provisions were made in the past with respect to this complaint.

The Board of Statutory Auditors has periodically verified each of its members' independence and professionalism, in addition to the independence of members of the Board of Directors and, generally, the lack of any obstacles to their ability to hold the positions to which they were appointed, and compliance with the rule on the total number of positions held.
Members of the Board of Statutory Auditors have summarised the positions held in other listed and unlisted Group and non-Group companies, as required by art. 144 *quinquiesdecis* of the Issuers Regulation and annex 5 *bis* of schedule 4 of the same Regulation.

Analysis of the 2010 separate financial statements

The separate financial statements as at and for the year ended 31 December 2010 report a profit of € 61.1 million and a consolidated loss of € 18.3 million.
This result is mostly due to the reversal of the 2003 impairment loss on the investment in German subsidiary KME AG of Euro 72,600,000.
This reversal of impairment loss was accounted for by the company in execution of applicable provisions as set forth in the International Financial Reporting Standards, based on the provisions of IAS 36.
In relation to this recognition the Board of Statutory Auditors collected specific information, including from the independent auditors, in regard to the existence of the prerequisites for this recognition.
The criterion adopted for the recognition and quantification of this reversal of impairment loss is based on the one hand on the achievement of the forecast figures which for 2010 do not depart significantly from the figure set forth in the 2010 – 2014 Plan and which were used as a basis for calculation of the impairment loss on this investment and on the other hand the adoption of a quantification criterion that is in line with previous evaluations made on the occasion of the proportionate reverse demerger as above and the impairment test which took place upon preparation of the Interim Consolidated Financial statements at 30 June 2010, both valuations conducted with the assistance of independent external consultants.
This reversal of impairment loss is further confirmed through the measurement of the investment using the equity method, as can be seen in the Group's consolidated financial statements.
In regard to the progress in 2010, the other significant transactions in the 2010 separate financial statements is connected to the impairment loss on the investee ErgyCapital of Euro 7,200,000 which brought the latter's carrying amount to Euro 22,000,000, an amount verified also through the corresponding impairment test.
Regarding the credit lines the Group has access to, it is hereby noted that the bank covenants that accompany the loan contracts in regard to minimum consolidated EBITDA have been fulfilled with regard to the financial statements data at 31 December 2010.
At the date these financial statements were prepared, the Company held 7,602,200 of its own ordinary shares which is equal to 1.70% of share capital and 135,831 of its own savings shares, which is equal to 0.311% of share. Treasury shares amount to 1.576% of the share capital, equal to € 2.7 million.
The Independent Auditors issued an unqualified opinion on the financial statements and accounting systems for the year on 5 April 2011.
The Executive Deputy Chairman of the Company, Vincenzo Manes, and the Director, Marco Miniati, the Manager Responsible for Financial Reporting of KME Group S.p.A., provided the Directors and Statutory Auditors with a statement on 22 March 2011, in part for the purposes of art. 154 bis of Legislative Decree 58/1998, certifying the adequacy, for a company of this type, of the management and accounting procedures for the preparation of separate and consolidated financial statements for the year 2010, and the conformity of the financial statements with international financial reporting standards.

Proposal to Shareholders

The Board of Statutory Auditors is in agreement with the proposed approval of the separate financial statements as at and for the year ended 31 December 2010 and the appropriation of profit for the year of € 61,100,677 as follows:
- € 3,055,034 to the legal reserve;
- a dividend of € 0.07241 per share to be paid to savings shareholders for a total of € 3,154,440;
- a dividend of € 0.011 per share to be paid to ordinary shareholders for a total of € 4,836,435;
- € 50,054,768 to retained earnings.

Florence, 5 April 2011

THE BOARD OF STATUTORY AUDITORS
Chairman of the Board of Statutory Auditors
(signed by Marco Lombardi)

The standing auditor
(signed by Vincenzo Pilla)

The standing auditor
(signed by Pasquale Pace)

A list of the positions as board directors and statutory auditors held in other companies by members of the Board of Statutory Auditors (art. 144 quinquiesdecies of the Issuers Regulation) is set out below, with the year in which the relevant appointment terminates shown in brackets:

Marco Lombardi – Chairman of the Board of Statutory Auditors:
- 1 position as statutory auditor in a listed company, 5 positions as statutory auditor in unlisted companies, 1 position as board director in an unlisted company as follows:
RECS, sole director (until further notice); Brandini S.p.A., Chairman of the Board of Statutory Auditors (2010); D e D La Certosa S.p.A., Chairman of the Board of Statutory Auditors (2010); KME Italy S.p.A., standing auditor (2012); Grifoni e Masini S.p.A., standing auditor (2010); SAIF S.r.l., standing auditor (2010).

Vincenzo Pilla - standing auditor:
- 2 positions as statutory auditor in listed companies, 8 positions as statutory auditor in unlisted companies as follows:
KME Recycle S.p.A., Chairman of the Board of Statutory Auditors (2011); EL.EN S.p.A., Chairman of the Board of Statutory Auditors (2012); DeKaMela S.r.l., Chairman of the Board of Statutory Auditors (2012); Lasit S.p.A., Chairman of the Board of Statutory Auditors (2012); Affitto Firenze S.p.A., Chairman of the Board of Statutory Auditors (2011); Cut lite Penta S.r.l., standing auditor (2009); Geikos S.p.A., standing auditor (2012); KME Italy S.p.A., Chairman of the Board of Statutory Auditors (2012).

Pasquale Pace - standing auditor:
- 1 position as statutory auditor in a listed company, 4 positions as statutory auditor in unlisted companies as follows:
Primiceri S.p.A., Chairman of the Board of Statutory Auditors (2011); Baia san Giorgio villaggio turistico sportivo san Giorgio S.r.l., Chairman of the Board of Statutory Auditors (2009); Marzocca S.r.l., standing auditor (2011); Fidanzia Sistemi S.r.l., standing auditor (2011).
Information regarding identities required by schedule 1 of annex 5 *bis* is shown in the relevant CONSOB communication.

Report of the auditors

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(Translation from the Italian original which remains the definitive version)

Report of the auditors in accordance with articles 14 and 16 of Legislative decree no. 39 of 27 January 2010

To the shareholders of
KME Group S.p.A.

1 We have audited the separate financial statements of KME Group S.p.A. as at and for the year ended 31 December 2010, comprising the statement of financial position, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes thereto. The company's directors are responsible for the preparation of these financial statements in accordance with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 9 of Legislative decree no. 38/05. Our responsibility is to express an opinion on these financial statements based on our audit.

2 We conducted our audit in accordance with the auditing standards recommended by Consob, the Italian Commission for Listed Companies and the Stock Exchange. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the separate financial statements are free of material misstatement and are, as a whole, reliable. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by directors. We believe that our audit provides a reasonable basis for our opinion.

Reference should be made to the report dated 12 April 2010 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 2010 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 2010, the results of its operations and its cash flows for the year then ended.

4 The directors of KME Group S.p.A. are responsible for the preparation of a directors' report on the financial statements in accordance with the applicable laws and regulations. Our responsibility is to express an opinion on the consistency of the directors' report and

KPMG S.p.A. è una società per azioni di diritto italiano e fa parte del network KPMG di entità indipendenti affiliate a KPMG International Cooperative ("KPMG International"), entità di diritto svizzero.

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its specific section on corporate governance and shareholding structure, to the extent of the information required by article 123-bis.1.c/d/f/l/m and article 123-bis.2.b of Legislative decree no. 58/98 with the financial statements to which they refer, as required by the law. For this purpose, we have performed the procedures required by the Italian Standard on Auditing 001 issued by the Italian Accounting Profession and recommended by Consob. In our opinion, the directors' report and the information required by article 123-bis.1.c/d/f/l/m and article 123-bis.2.b of Legislative decree no. 58/98 disclosed in the specific section of such report are consistent with the separate financial statements of KME Group S.p.A. as at and for the year ended 31 December 2010.

Florence, 5 April 2011

KPMG S.p.A.

(signed on the original)

Riccardo Cecchi
Director of Audit

Resolutions by the Ordinary and Extraordinary Shareholders' Meeting

Resolutions by the Ordinary Shareholders' Meeting

The Shareholders' Meeting of KME Group S.p.A., convened in ordinary session on April 28, 2011 at the Company's head office in Florence,

resolved to

a) approve the Report of the Board of Directors on Operations for the year ended December 31, 2010, which shows a net profit of 61,100,677 euros, as well as the financial statements in their entirety and their individual entries and data, with the recommended appropriations and utilizations, and use the amount of the "stock option reserve" corresponding to the 2006-2011 stock option plan, which has become available, amounting to 6,941,919 euros, to increase "retained earnings;"

b) allocate the net profit of 61,100,677 euros as follows:

• 5% to the statutory reserve	3,055,034	euros
• 2% to the Board of Directors (in excess of the fixed compensation of 195,000,00)	0	euros
• to the savings shares, as a dividend of 0.07241 euros per share, for a total of	3,154,440	euros
• to the common shares, as a dividend of 0.011 euros per share, for a total of	4,836,435	euros
• bring forward the balance of	50,054,768	euros

c) amend the composition of the Board of Directors by electing Riccardo Garrè to the post of Director for the year ending on December 31, 2011;

d) revoke a previous resolution to purchase and dispose of common and/or savings treasury shares approved by the Ordinary Shareholders' Meeting of April 29, 2010;

e) authorize transactions involving the purchase and disposal of common and/or savings treasury shares for a period of 18 months, counting from the date of this resolution by the Ordinary Shareholders' Meeting.

Resolutions by the Extraordinary Shareholders' Meeting

The Shareholders' Meeting of KME Group S.p.A., convened in extraordinary session on April 28, 2011 at the Company's head office in Florence,

resolved to

a) amend the following articles of the Bylaws: Article 4 (Share Capital), Article 5 (Classes of Shares), Article 10 (Convening Shareholders' Meetings), Article 11 (Attendance and Representation at Shareholders' Meetings), Article 13 (Minutes of the Shareholders' Meeting), Article 14 (Management of the Company), Article 17 (Election and Composition of the Board of Directors and Term of Office of Its Members), Article 22 (Board of Statutory Auditors), Article 25 (Fiscal Year).

Florence, April 28, 2011

Resolutions by the Ordinary and Extraordinary Shareholders' Meeting

KME Group S.p.A.

Headquarters
Via dei Barucci, 2 - 50127 Firenze

Share capital
Euro 273,761,740.66 fully paid up
Florence Companies' Register
And Tax Code no, 00931330583

www.kme.com

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