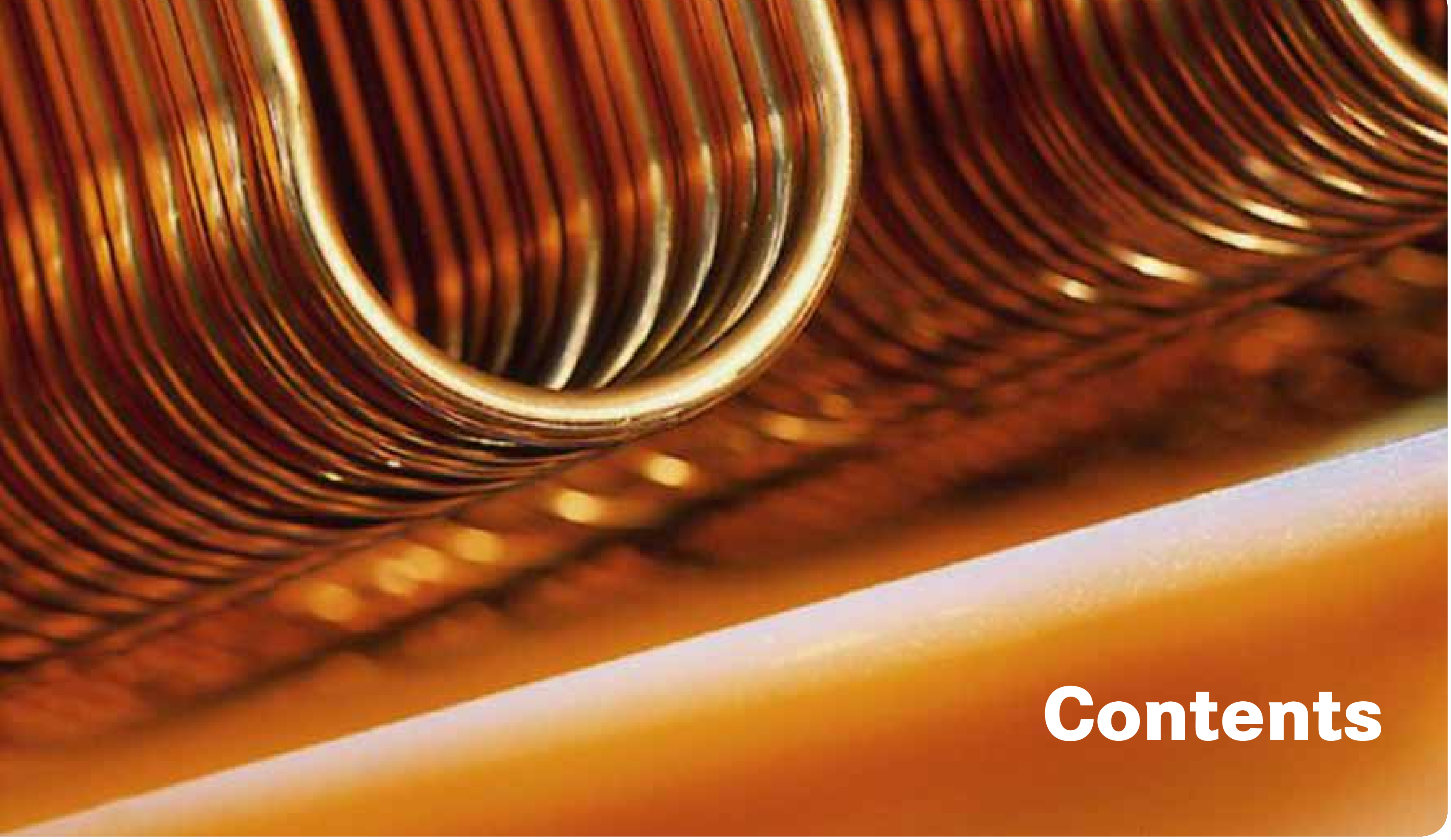
2011
Annual Report

ANNUAL REPORT 4

REPORT OF BOARD OF DIRECTORS 33



Contents

VINCENZO MANES
Vice Chairman

LETTER TO THE SHAREHOLDERS

Dear Shareholders,

for the fourth year in a row I find myself starting this brief report to you on the state of our Group's business having to refer to the enduring crisis which is gripping the Western economies, all the while swinging back and forth between the two shores of the Atlantic without reaching any kind of resolution. By now we've used up just about all the figures of speech to express it.
Europe, which to date remains KME's most important market, is presently going through a crucial moment indeed, probably the worst since the end of World War II.
"I want to tour Europe...; and yet I realize I am only going to a graveyard, the most precious of graveyards, that's what it is. Brave are the dead that lie buried there, every tombstone above them speaks of such an ardent life in the past, of a faith so passionate in one's actions, in one's truths, struggles, one's science..."
These are the words which Dostoyevsky put into Ivan Karamazov's mouth about 150 years ago, and this is the risk which a divided Europe runs once again – of becoming, not a graveyard perhaps, but a museum of values, principles and ideas condemned to irrelevance by the ever-evolving global processes.
Although 2011 started off with a few positive if contradictory signs, in the second semester markets took a nosedive as the sovereign debt crisis spread from country to country.
In this environment, the Western governments and the principal international regulatory institutions have shown all their fragility, as they are unable to respond decisively to international speculative finance, whose behaviour increasingly reminds us of the Brechtian stereotype of capitalism.
There is no longer any possible doubt that globalization is progressively shifting the axis of the world's economic activity towards Asia and the BRICS nations. This is an unavoidable shift and cannot be countered with some sort of outdated protectionism: but for this very reason it's high time for us to drastically overhaul international regulatory mechanisms to restore credible governance of the economic relations across different States and areas of the world.

KME Group thus finds itself sailing these treacherous seas, and will have to go on doing so in the foreseeable future.
In 2011 the Group continued implementing the programs to reorganize and restructure all its different investment sectors, starting with its KME A.G. copper business – the biggest of its activities – and going on to renewable energies with ErgyCapital SpA, and the services sector with Cobra AT SpA.
The exact figures for last year's activities are detailed in the budget report featured below.
Here I would like to underline the timeliness of our actions to increase the Group's profits, improve operational results and further reduce indebtedness. On the whole, we have retained our financial solidity thanks to a policy of carefully controlling management and costs, but also with strong measures to improve flexibility and our ability to quickly respond to the market's growing unpredictability.
We are firmly convinced that KME's financial side must at all times be aligned with its strategies for industrial development. This is why we launched the company's reorganization. Through the special operations going on at present and consisting of swap offers of KME and Intek shares (and those of subsequent mergers), this overhaul is meant to infuse more dynamism into the Group's various businesses, on the basis of a coordinated logic aimed at improving the cash flow and increasing value over time.
The KME and Intek merger we have in mind will consist of a single holding company benefitting not only from a significant reduction of costs, but also from important new synergies between the two companies existing presently. The aim here is to guarantee a single-pointed strategic leadership, and ever closer cooperation between the managements of KME's various investment sectors.
In brief, the international situation obliges us to sail on with an ever-wathchful eye, while we remain true to KME's core values and principles – innovation, sustainability, solidarity. Without them our very idea of doing business would lose all sense.
Allow me to point out how important and meaningful the human factor has been to us in the past and even more today. Economic endeavour is made of figures, but above all of people, even though these days people often get sidelined, with the unhappy results we are seeing. For KME Group the human factor is crucial at all times, so let me here acknowledge the dedicated commitment of our entire staff at all levels. From the top management to the factory personnel, all have faced the difficulties and sacrifices forced upon us by the global economic situation with an admirable spirit of sharing and fellowship.
As I mentioned at the beginning, we have tricky months ahead of us, and this is because the dangers we face are due for the most part to international conditions we are powerless to influence.
But let no-one try to push us into a corner. We have sufficient experience, know-how and far-sightedness to meet the new challenges squarely. Indeed, with the measures we have already put into place to streamline, diversify and internationalize, our Group can look to the coming years with reasonable hopes of success.


KME

KME is a **leading global** producer of semifinished and special products, with a central role in the copper value chain. KME's production range goes to an extremely wide target of user industries and manufacturing sectors.

Revenue, **3 billion euros**

Annual production, **485,000 tons**

13 production sites: 12 in Europe and one in China

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

Global sales network with offices, agencies and trading companies in 4 continents

2 state-of-the-art research centres: one in Italy and one in Germany

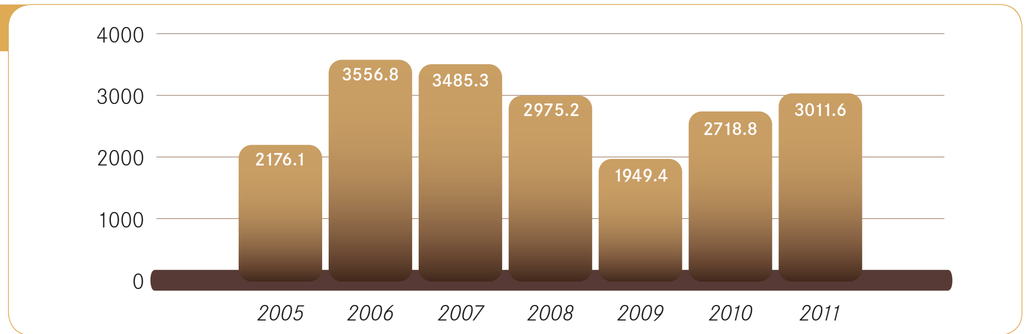
Service and technical assistance centres in the world's principal industrial areas

6.250 employees, more than **11.000** shareholders and **21.000** commercial partners

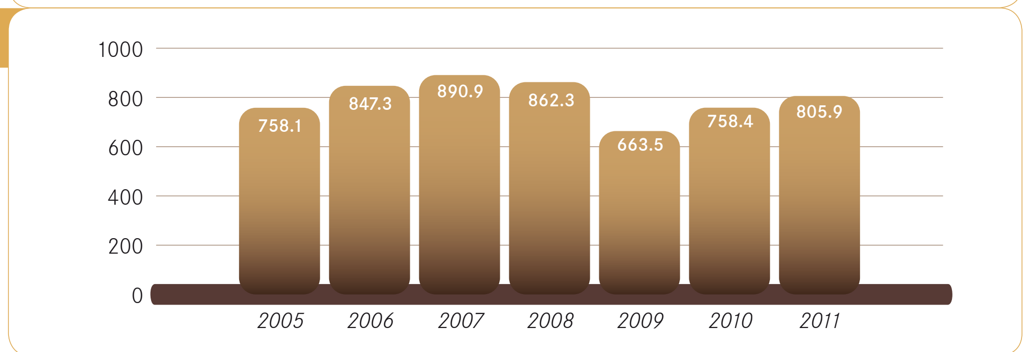
Headquarters and Centre of Operations: **Florence**, Italy

Founded in **1886** and listed on the Milan Stock Exchange since **1897**

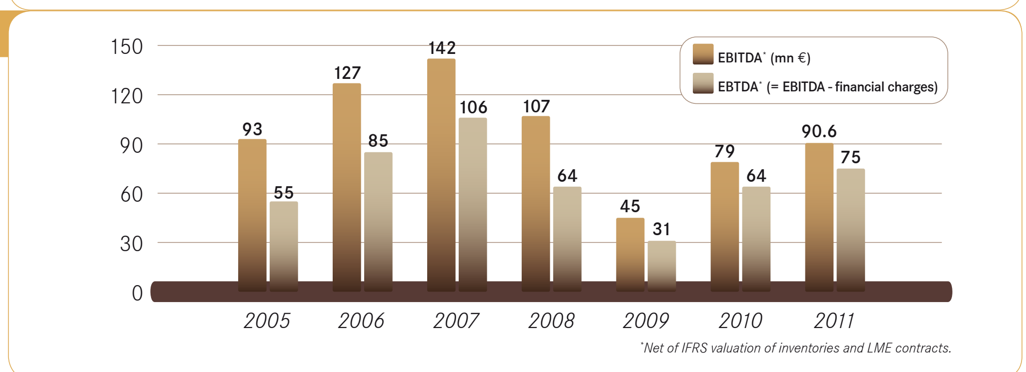
Turnover (mn €)



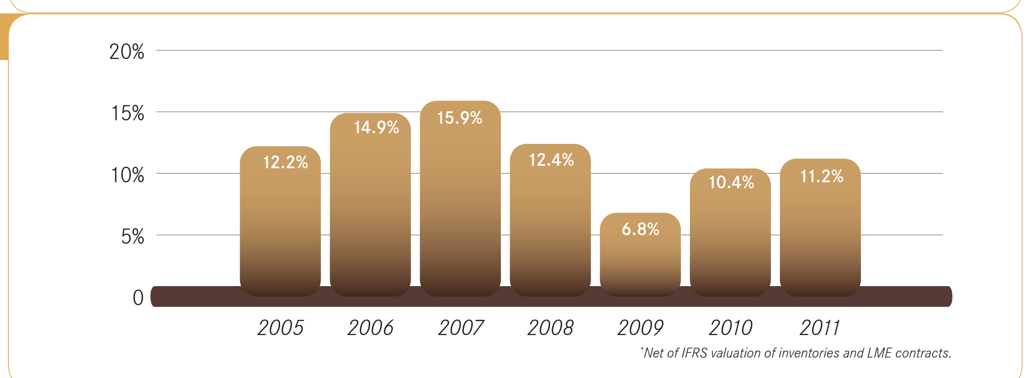
Net Added Value: revenue net of raw material cost (mn €)



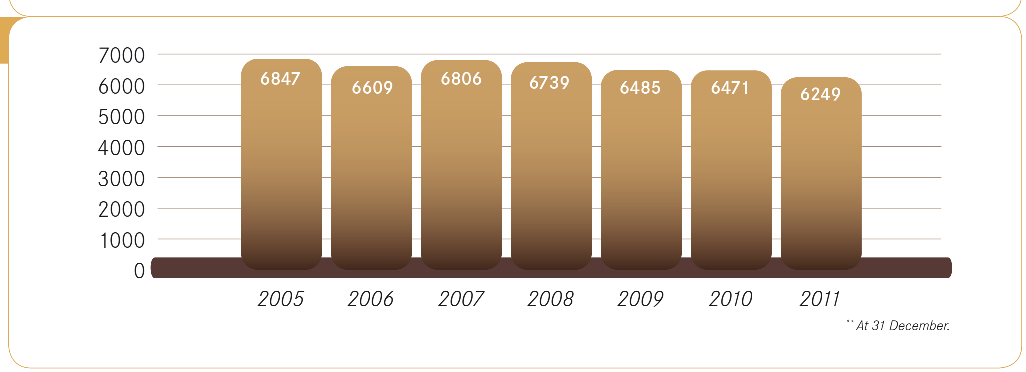
EBITDA* vs EBTDA*



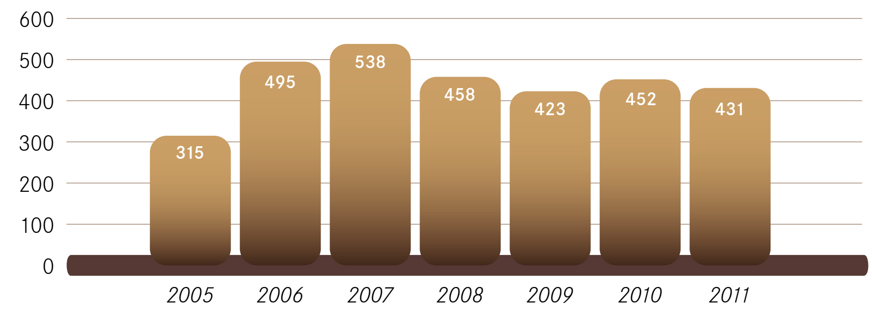
EBITDA* / Net Added Value (Net Revenue)



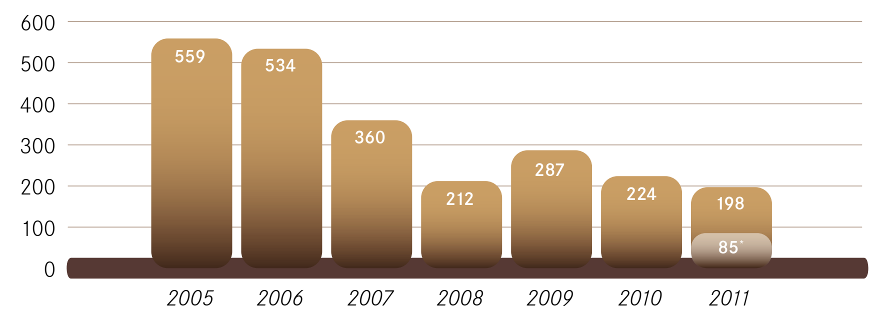
Employees**



Total equity (mn €)

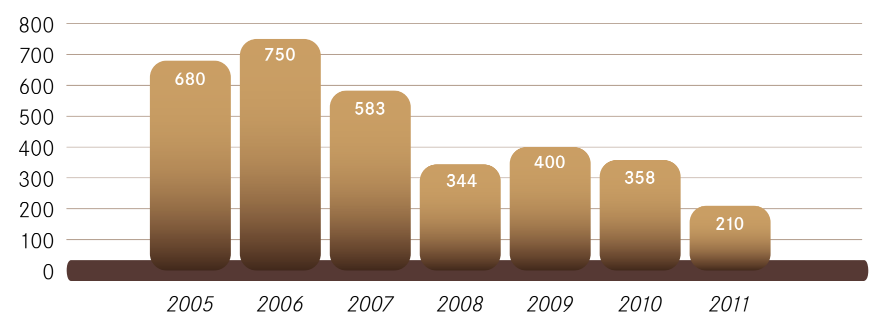


Net financial position (mn €)

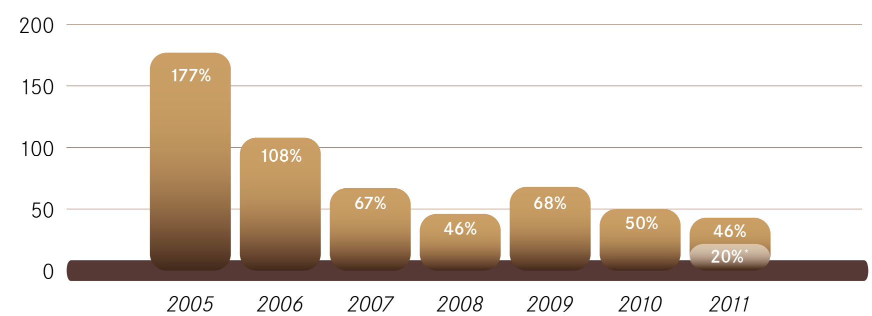


* excluding EU fines payments

Net working capital (mn €)



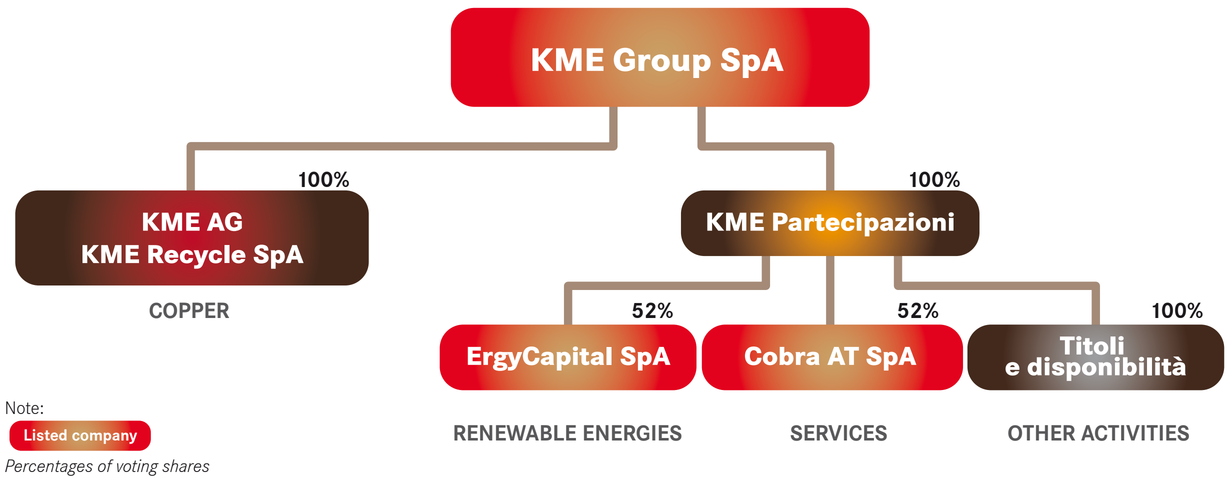
Debt / Equity ratio

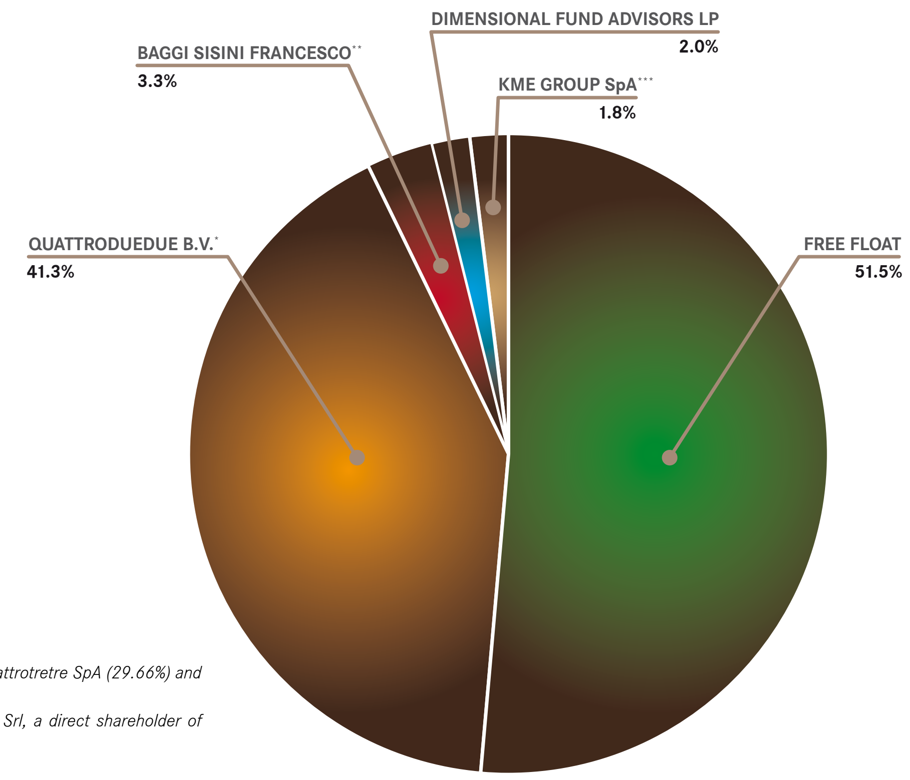


* excluding EU fines payments

OVERVIEW OF THE GROUP'S CORPORATE STRUCTURE

KME Group is a holding company with investments in three principal sectors: copper, renewable energies and services.





* indirectly owned through subsidiaries Quattrotretre SpA (29.66%) and Intek S.p.A. (11.67%)

** as a subject indirectly controlling Arbus Srl, a direct shareholder of KME Group

*** own shares

Board of Directors

Chairman	Salvatore Orlando
Deputy Chairman	Vincenzo Manes [B]
Deputy Chairwoman	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. Independent director, B. Executive director, C. Member of the Remuneration Committee (Alberto Pirelli, Chairman),
D. Member of the Internal Control Committee (Mario d'Urso, Chairman), E. The Director Domenico Cova resigned on 22 March 2011; the Board of Directors co-opted Riccardo Garrè on the same date and appointed him General Manager.

Board of Statutory Auditors

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

Manager in charge of financial reporting

Marco Miniati

Independent auditors

KPMG S.p.A.

General representative of savings shareholders

Romano Bellezza

KME Group S.p.A. has been listed on the Stock Exchange since 1897. During the year ended 31 December, 2011, KME Group shares registered the following performance:

- **KME Group's ordinary shares** reached a high of Euros **0.381** in February, and a low of Euros **0.246** in September;
- **KME Group's savings shares** reached a high of Euros **0.720** in March, and a low of Euros **0.479** in December;

Investor Relations

Tel: 055-4411454 / Fax: 055-4411681
Email: inverstor-relations@kme.com
Website: www.kme.com

Share Capital

	(Amounts in Euro)
No. of ordinary shares [1]	447,347,650
No. of savings shares	43,699,416
Share capital	297,040,568.04

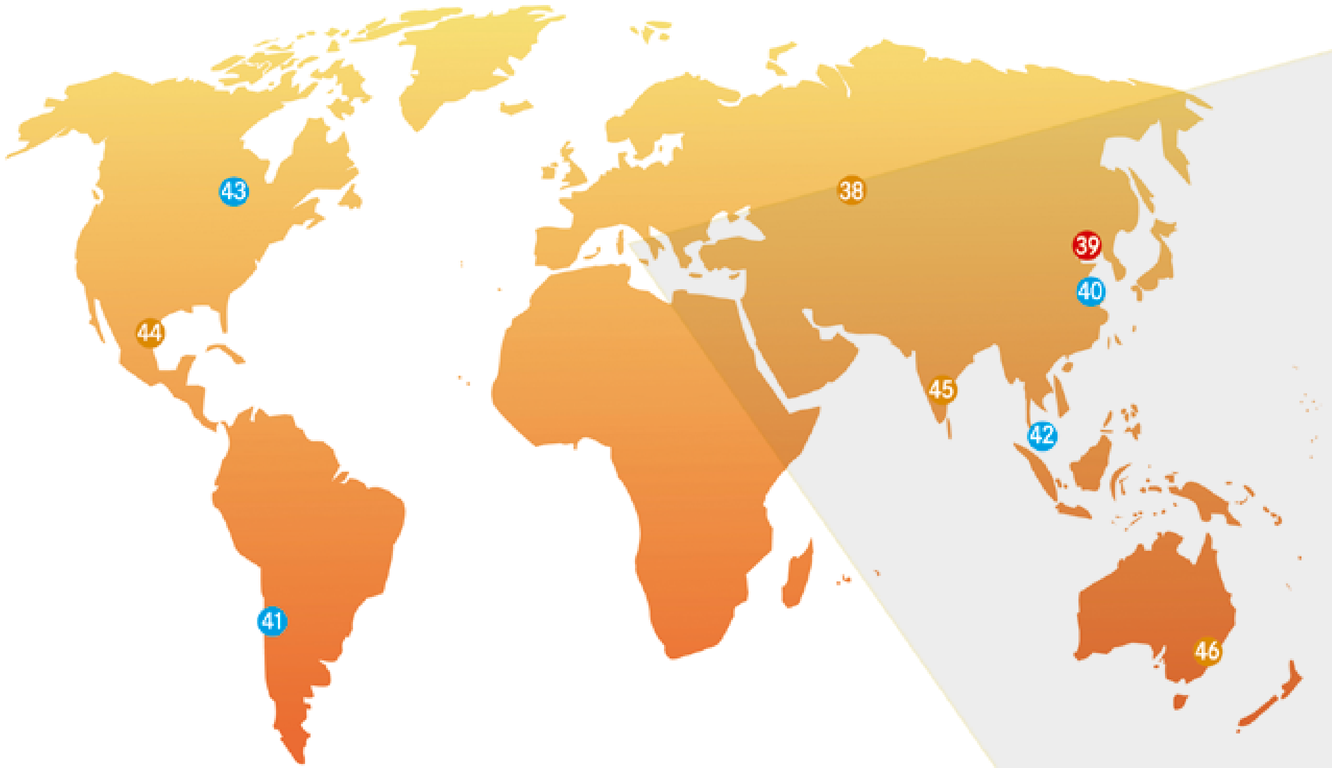
(1) - Including the ordinary shares issued on exercise of the KME Group warrants option, completed in December 2001.

Capitalisation

	(in Euros – Capitalisation at end 2011)
Capitalisation of ordinary shares	136,888,381
Capitalisation of savings shares	20,932,020
Capitalisation	**157,820,401**

QUOTES 2011

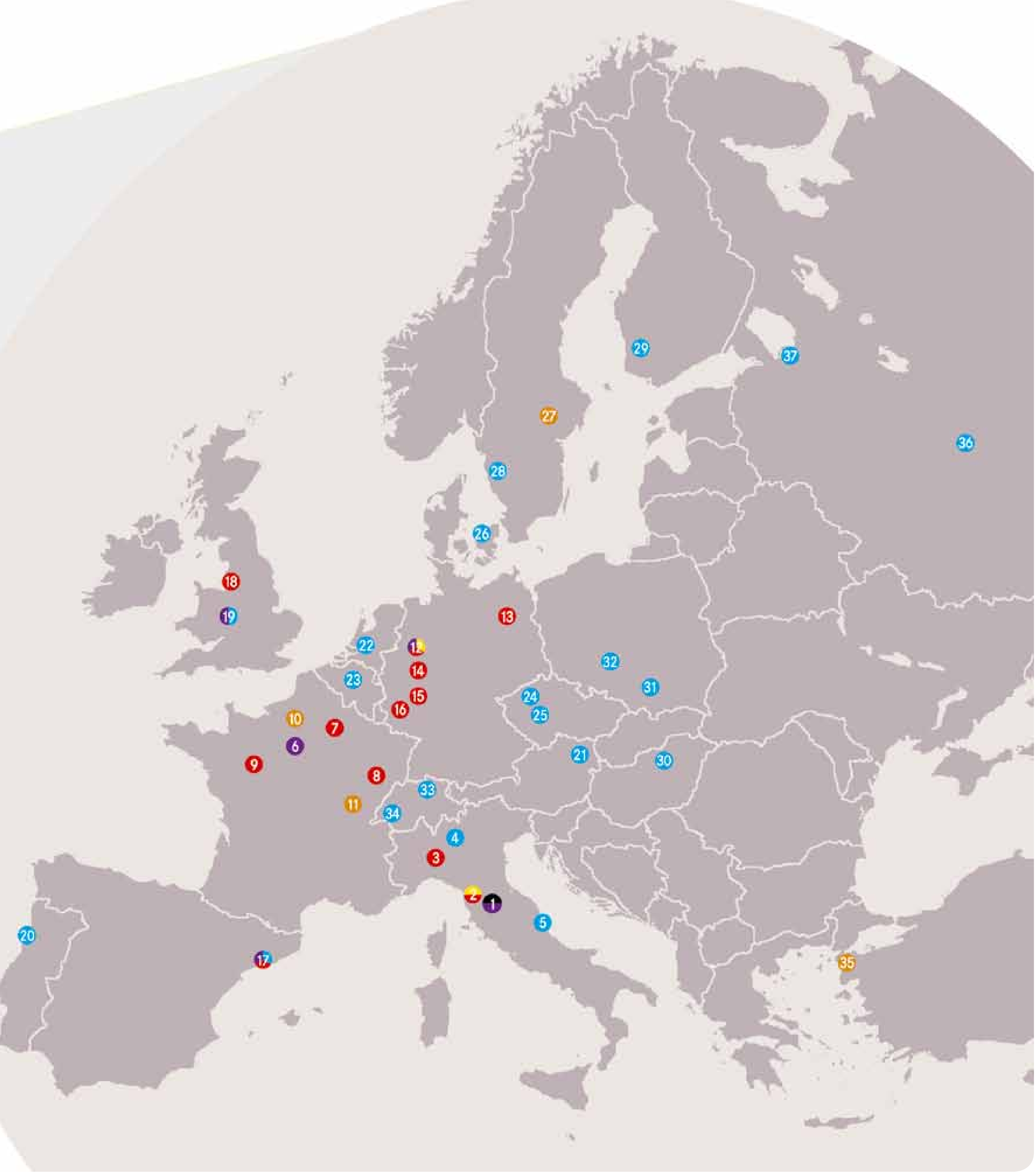
KME WORLDWIDE



- Head Office
- National branch offices
- Manufacturing plants
- Service centers
- Research and development center
- Sales subsidiaries and offices*

*Sales offices in Italy, Germany and France excluded

1	Firenze - Italy Head Office + National Branch Office
2	Fornaci di Barga - Italy Manufacturing plant R&D centre
3	Serravalle Scrivia - Italy
4	Milano - Italy
5	Osimo - Italy
6	Courbevoie - France
7	Givet - France
8	Niederbruck - France
9	Boisthorel - France
10	Sérifontaine - France
11	Besançon - France
12	Osnabrück - Germany National Branch Office Manufacturing plant R&D centre
13	Berlino - Germany
14	Greven - Germany
15	Menden - Germany
16	Stolberg - Germany
17	Barcellona - Spain National Branch Office Manufacturing plant Sales office
18	Kirkby - UK
19	Worcester - UK National Branch Office Sales office
20	Porto - Portugal
21	Vienna - Austria
22	Tiburg - The Netherlands
23	Diegem - Belgium
24	Kladno - Czech Republic
25	Praga - Czech Republic
26	Odense - Denmark
27	Stoccolma - Sweden
28	Jönköping - Sweden
29	Turku - Finland
30	Budapest - Hungary
31	Kety - Poland
32	Wroclaw - Poland
33	Zurigo - Switzerland
34	Ginevra - Switzerland
35	Istanbul - Turkey
36	Twer - Russian Fed.
37	San Pietroburgo - Russian Fed.
38	Magnitogorsk - Russian Fed.
39	Dalian - China
40	Shanghai - Cina
41	Santiago - Cile
42	Singapore - Singapore
43	Chicago - USA
44	Santa Catarina - Mexico
45	Bangalore - India
46	Wollongong - Australia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THE EVOLUTION OF COPPER

RICCARDO GARRÈ
Chief Executive Officer

CEO'S REPORT ON THE BUSINESS YEAR OF 2011

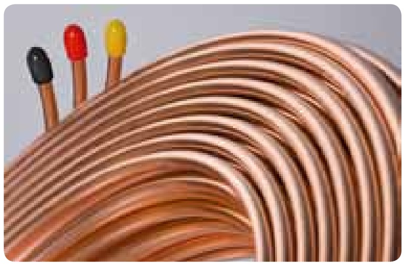
2011 was a difficult year for all the economies of the West, and in particular for those in Europe. Although market trends seemed at first to follow the pattern of the second semester of the previous year, they quickly entered uncertain and soon after that negative territory; in the second half the downward curve strengthened and eventually slumped into a full-fledged recession.
Thus KME A.G. found itself looking at a gloomy scenario, where the demand of copper and copper alloy semis contracted right from the beginning of the second quarter, and contracted even more throughout the second semester. The biggest difficulties were seen to hit the industries that supply the building sector, which suffered both from the economic trends in this area and from the high prices for raw materials. However, other industrial activities were also affected.
We confronted the situation with decisive action on the organizational front, and also in terms of price policy and cost optimization at all levels. The result was 10.8% growth in the gross turnover (+ 6.3% of the raw ingredient's net value) in spite of the drop in volume, and an operational result that rose 14.6%, all of which enabled us to minimize the negative repercussions of the world crisis.
What was our strategic vision? KME A.G. has remained strongly anchored to its value system and to its well-known competence in the copper sector, and has opted to increasingly position itself in the more advanced sectors of the global economy, bringing together innovation, technological excellence and sustainability, and thus boosting the overall value of its product range.
In the building sector, KME tried to respond to the unfavourable economic conditions by bringing to the market complete design solutions which are not only of high architectural value but also vehicle a particularly effective message in terms of environmental sustainability and human health.
Going in this same direction is the production of rolled "**Ecological copper**": these products are entirely obtained from recycled scrap metal, and save energy in the production phase as well as optimizing the costs of the raw material. The same holds true for the products with the KME Plus® trademark, which are installed mainly in hospitals and clinics, schools, gymnasiums and public transportation. KME Plus® products with the "**Antimicrobial Copper**" trademark and the "**CU+**" logo, are made of finished and semifinished copper and copper alloy products with a proven antimicrobial value, manufactured by companies following strict regulations and conforming to technical specifications based on a registration procedure.

KME has also boosted its strategic position in the high-tech sector of the building industry. We have consolidated our joint venture with the Zahner Group and completed building projects which include roofing and façade cladding and are highly innovative both technologically and architecturally. Also, KME unveiled a wide range of interior design solutions last year at Milan's "Fuori Salone" fair, and is again this year showcasing the same solutions in a brand-new showroom it has recently inaugurated in Milan, one of the world's capitals of design.
KME also continued its drive towards innovative sectors in the field of renewable energies, with products which harmonize sustainability and added value and go into the making of solar heat and solar cell systems, and are used for wind energy and electric mobility.
To make the best of the market opportunities KME gained through the above initiatives, we have also continued consolidating our structural and organizational base. While actively implementing our OpEx programs to boost excellence in all phases of the corporate operations, we have at the same time persevered in our efforts to set up KME Recycle, a multinational network for treating and marketing scrap metal, for we have no doubt that this sector of the metals industry will become more and more important in the future.
Finally, we identified a clear strategic path of global development which aims at increasingly asserting KME as a major player in the new expanding economies, either singly or in partnership with others. Pride of place goes to China, where KME is present in the engineering products sector with Dahlian Dashan, already a leader in its field.
The economic forecast for 2012 shows with brutal clarity that difficult months lie ahead, what with Europe in a de-facto recession, the US ecomony making a weak and uncertain comeback, and the BRIC countries also experiencing something of a slowdown.
In this overall context, KME will continue engineering innovative products and technologies, further streamline its corporate structure and work on cost-cutting policies, and formulate an appropriate growth plan to look beyond the present crisis.

ROLLED PRODUCTS

Ribbons, plates and discs are used in the electrical, electronic and mechanical industries, coin minting and production of decorative objects and gifts. Specific divisions produce high-performance alloy ribbons for connectors and the car industry, and ribbons for solar collectors.

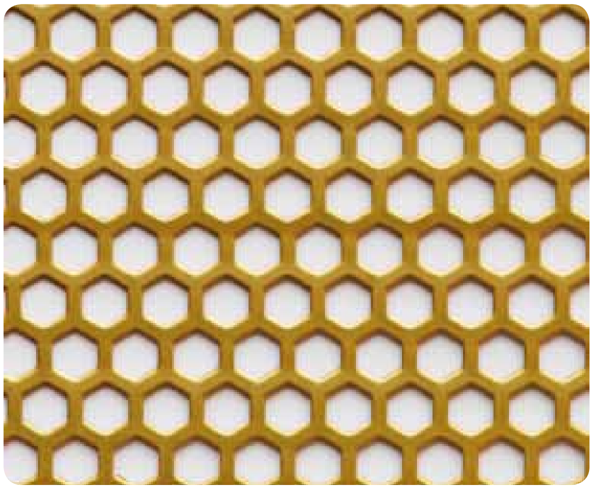
INDUSTRIAL TUBES



KME has a high quality range of copper tubes designed to meet the requirements for specific industrial applications: air-conditioning and cooling systems, construction of boilers, high-frequency coaxial cables, connectors and fittings, thermal solar systems...

ROLLED PRODUCTS FOR BUILDING

KME's traditional line of TECU® surfaces for façade cladding, roofing and rainwater drainage systems, is now enriched with the "**KME Design**" collection of surfaces for exterior/interior decoration.

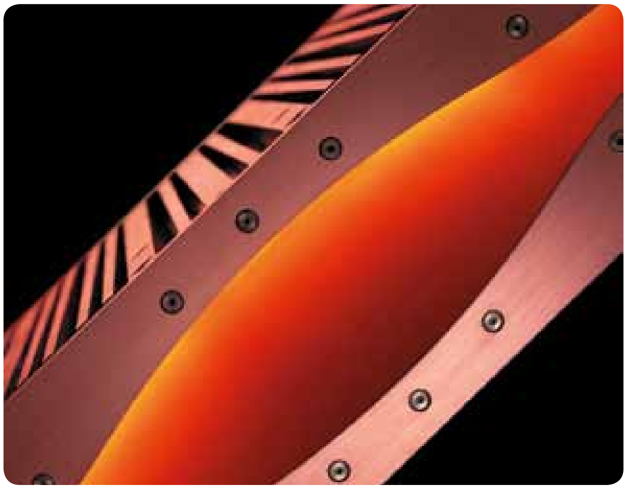


TUBES FOR PLUMBING AND HEATING SYSTEMS

Bare or sheathed tubes are ideal for drinking water and heating systems, conveying gasoil, natural gas and LPG, applications in the medical and food industries, and to create healthy and natural air conditioning systems.

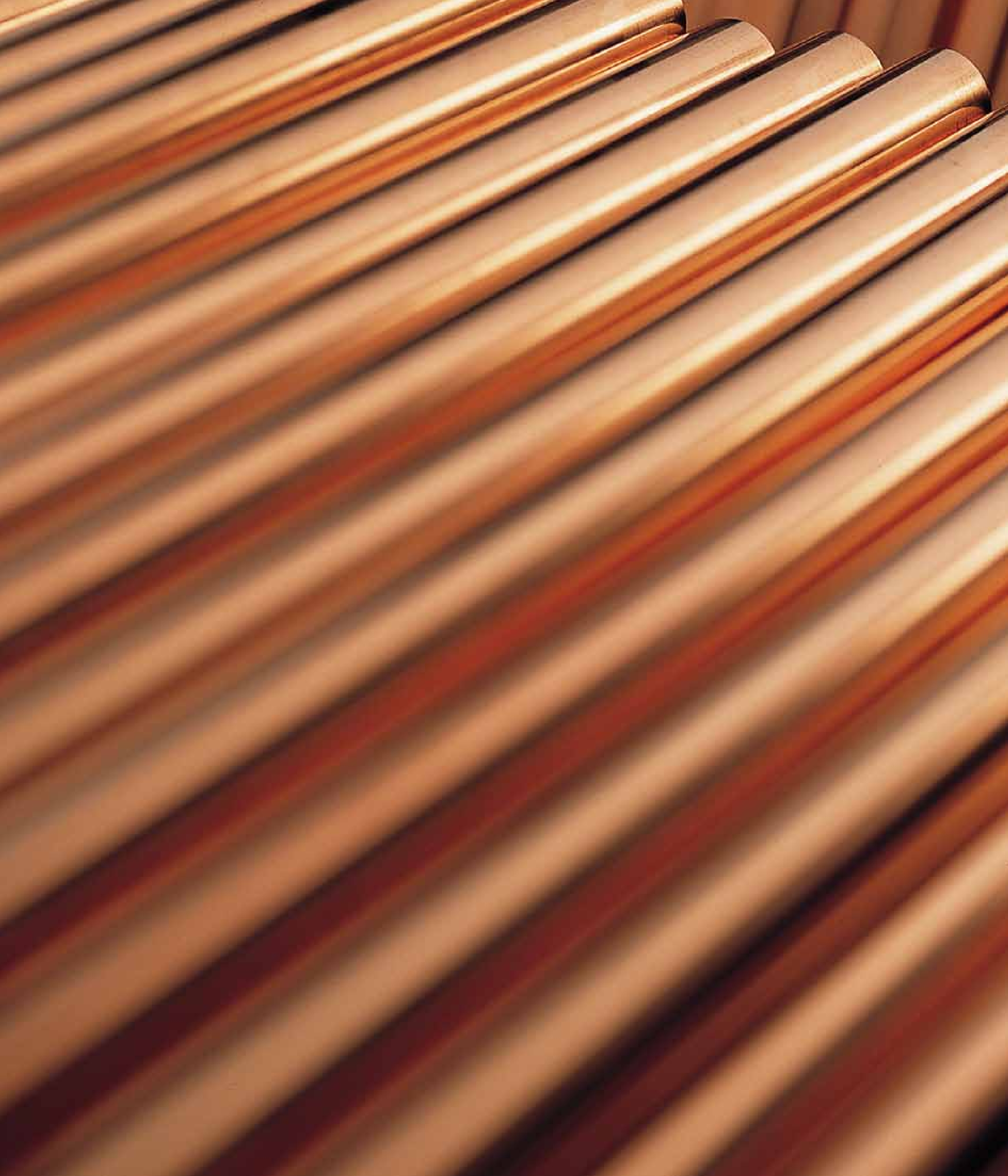
RODS

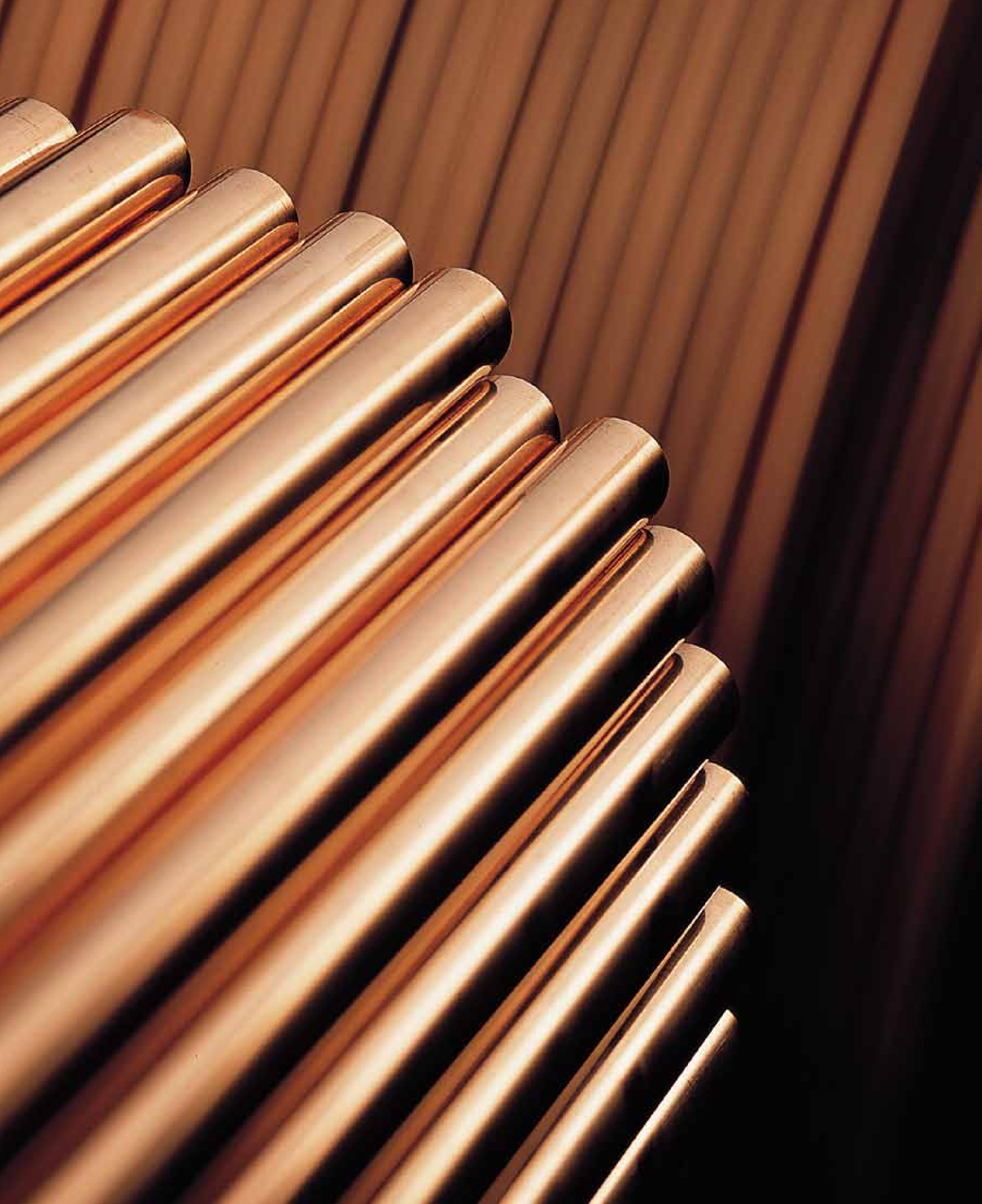
High quality copper and brass rods, plain and profiled, are utilized to produce taps, valves and fittings, precision mechanical components, car components, electronic and electrical apparatuses, locks, profiles for door and window frames and architectural applications.



SPECIAL PRODUCTS

A series of high-tech products: tubes for naval engineering, tube bundles, mineral insulated tubes, special extruded and drawn products, cupronickel cladding for offshore platforms and detailed solutions for the steel and metallurgical industries.





While on the one hand copper enjoys an ancient pedigree and has been used from time immemorial, its properties also make it a unique hi-tech material today. It has become a crucial ingredient in the high-performance products now utilized in a wide range of applications, and is showing its versatility in the field of design as well. In recent years KME has been involved in a number of important architectural projects, providing the roofing and/or façade cladding materials for San Francisco's De Young Memorial Museum, the Lisbon Harbour Control Tower, and the Padre Pio Pilgrimage Church near Foggia designed by Renzo Piano, to mention only a few examples. Thanks to their beautiful look and warm copper tones, these same products are also ideal for interior decoration. After unveiling its KME Design line in Milan's 2011 "Fuori Salone", this year the Group opened a brand-new showroom in Milan, in a second determined entry into the field of design. This venture, which may soon travel to other countries, not only offers planners and designers materials of high aesthetic value, but also KME excellence and experience in projects based on copper and copper alloys.

Showroom KME

An important result: KME's research and development activities once again give proof of the Group's unflagging attention to such themes as the environment and human health, qualifying it as the first European manufacturer of copper semis to have been licensed the "Antimicrobial Copper" trademark, which it has translated into a specific offer to the market with the KME Plus® trademark. KME Plus® features copper's unique antimicrobial properties, and cuts straight across traditional product lines. Thanks to its anti-bacterial properties, "antimicrobial copper" surfaces are the most effective worldwide in fighting infections, a fact amply shown by scientific studies. Thus KME's new range of products gives planners the opportunity to make a reasoned choice and select a material which is safe for human beings and can reduce the transmission of contagious diseases. "Antimicrobial copper" is ideal for hospitals and clinics, schools and public buildings, sports centres and gymnasiums, the food industry, public facilities and public transportation. In addition, KME Plus® alloys also maintain their crucial physical properties, such as resistance to wear and tear and to hostile environments, as well as the ability to retain their specific characteristics and finishing over time.

KME Plus® Alloys

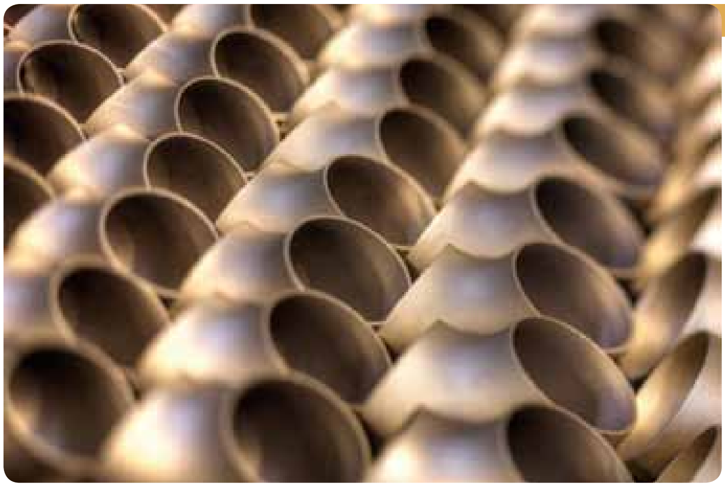
Scrap

Fully conscious of the key role which recycled materials play in preserving the environment and its resources, KME has always utilized scrap metal as widely as possible in its production processes. Today the very high level of metal refinement attained by the Group's manufacturing plants effectively annuls any qualitative difference between primary and recycled copper, thus helping not only to guard resources, but also to reduce energy consumption compared to the overall process of mining the metal, smelting and transporting it to the manufacturing plants. It is a fact that melting scrap metal requires far less energy than it does to extract the raw ore and then produce cathode-grade metal from it. According to the Bureau of International Recycling, recycling copper saves 85% of the energy needed to produce the primary metal. In this way CO_2 emissions are also reduced by about 36%.

Production phase

Copper is indefinitely and totally recyclable, and always performs at its very best. Today, KME brings to the market copper products for building and architecture manufactured exclusively with 100% recycled

Products for architecture and building



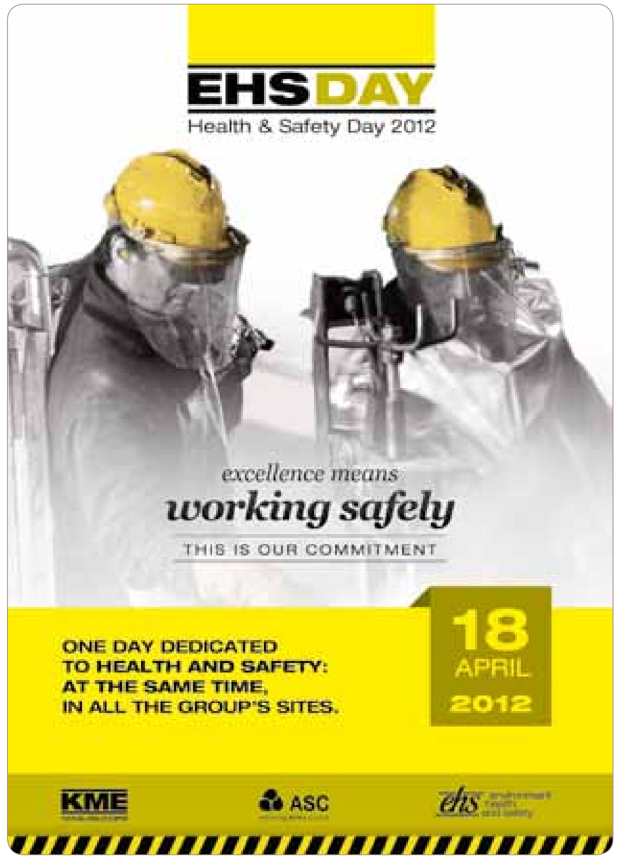
materials which have exactly the same physical and chemical properties as the primary metal, are used for the same applications and yield the same results. For this reason, KME recycled copper products have a crucial competitive edge over others when it comes to building projects based on bio building and bio architecture criteria, now more and more widespread in the public building sector. Only KME today can offer copper products for architecture and building made with 100% recycled material.

Opening factory in Dalian

As well as producing semifinished products, KME leads globally in engineering special high-tech products for the steel industry and the naval and offshore industries, where KME excellence has been consistently proved over time. To defend and boost its position in these sectors, the group has opened sales offices and servicing centres in various continents, including Asia, Australia and the Americas. With increasing efficiency it supports its clients in their respective industrial areas – some of the planet's largest. In addition, KME's "Engineered Products" Division has for the past 8 years enjoyed an important vantage point in the Chinese steel and metal industry market, which is constantly expanding. Thanks to its solid experience and specialized know-how, KME is increasing its production, turnover and profits year after year.

KME has launched a diversification process in the field of renewable energies with Kme Solar Italy. This company installs solar cell systems, which in themselves represent a natural evolution of our products, since into their making go copper tubes and copper alloy connections. Most importantly, KME Solar Italy can benefit from the parent company's technical and sales know-how in developing this new business sector, offering a unique and complete range of energy-saving solutions including, solar cell, solar heat, geothermal and low-temperature radiant systems.
In its determination to follow the path towards sustainable business activities, KME has been devoting much time and attention to health and safety on the job, and to environmental issues as well. In this field, it has reached highly significant results after setting up and implementing a "plan for excellence" in terms of environmental health and workplace safety, which featured in this Report last year. Working together also with the local labour unions, KME Group launched training and prevention programs, involving KME staff in all of our Italian, German, French, Spanish and U.K. offices, so as to promote responsible and efficient management of workplace safety and environmental

questions. The certifications which KME plants obtained as a result are tangible proof of the Group's dedicated commitment in this field, and how it meets the requirements of increasingly demanding and responsible clients. All in all, the Group's industrial plants have to date been awarded six ISO 14001:2004 environmental certifications, and five OHSAS 18001 certifications, for workers' health and workplace safety management.
The success of KME's activities in this field is principally demonstrated by the 30% reduction of sick leave hours due to accidents on the job last year. This allows us to realistically aim at becoming a "zero accident" industrial concern. Today we mark this first important step on the path which KME has initiated in recent years to promote sustainability, a concept which is also based on our culture of safety, appropriate behaviour, organizational and management models, prevention and examples that inspire.



Management Convention 5-7 september 2011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SOLIDARITY

In 2011, Dynamo camp celebrated its first five years of activity, and achieved exceptional results. Almost 900 children were welcomed to the Camp during the last season, thanks to the help of 500 volunteers who took part in the project with enthusiasm, professionalism and a strong sense of fellowship.

This achievement makes us at KME very proud, for we have from the very beginning been strongly committed to supporting this recreational therapy village for children suffering from severe or chronic illnesses, which goes by the name of Dynamo Camp and is located in KME's newly renovated ex-production plant at Limestre, in the mountains near Pistoia.

Last year's traditional end-of-season Open Day celebrations lasted right through the weekend and played host to about 7,000 visitors. The success of this event, by no means a minor one, served to underline what is being achieved at Camp Dynamo. To make it happen once again this year were about one hundred staff from KME, who freely volunteered to do the set-up and take care of the entire facility while the event was underway. KME's commitment here is in fact not only financial, but also a managerial one, given that its staff freely contributes part of its time and know-how so that the Camp Dynamo project can benefit from a big company's experience in business management and organizational methods. And, by the way, the Group's direct involvement in this initiative has now also gone beyond

Dynamo Academy

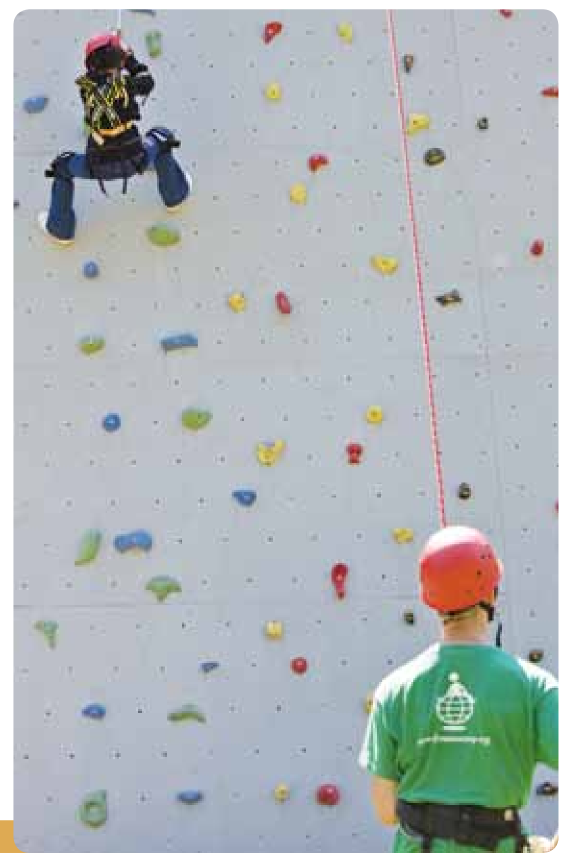
Osnabrück September 2011

the Italian borders. Last autumn, KME organized an “Open Doors” day in its German production plant at Osnabrück, inviting the citizenry to an event where they could get to know, appreciate and support the Camp’s activities, which in the past three years has also been hosting German children. This event took place last year, on 25 September, and attracted more than 20,000 people in the space of only 8 hours, even eliciting donations in support of Dynamo Camp Association.

Thanks to KME’s substantial contribution over time, and lately from other business companies as well, Dynamo Camp has become an important landmark in the context of corporate solidarity initiatives both in Italy and abroad.

For its part, Dynamo Sanctuary – the wildlife area which is affiliated to the WWF and surrounds the village on KME land – has also continued to grow with new “ecological tourism” programs and organic livestock breeding and agriculture. These initiatives, in addition to those undertaken by the Dynamo Academy, define the activity of a full-fledged “social enterprise”.

Dynamo Camp



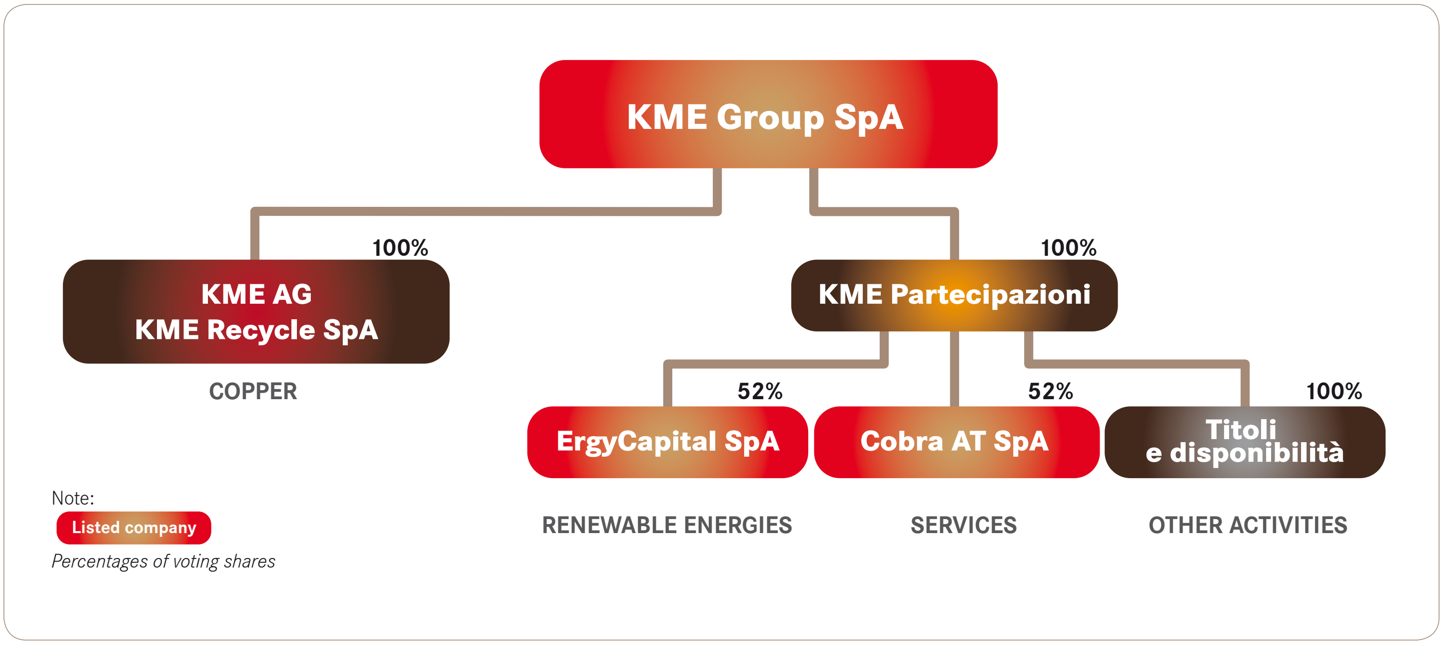
REPORT OF BOARD OF DIRECTORS

2011 Directors' report

Dear Shareholders,

Prior to beginning our report on operations, we provide below a summary of the Group's corporate structure updated to the date of this Report, with information on the KME Group S.p.A. investment sectors.
In addition to the traditional **"copper"** sector, which includes the production and marketing of copper and copper-alloy semi-finished products (by German subsidiary **KME A.G.**), which continues to be the Group's core business, new investment sectors emerged, such as the **"energy from renewable sources**" and energy savings areas handled by **ErgyCapital S.p.A.** and the integrated **"services"** area in the management of risks associated with the ownership, possession and usage of motor vehicles by **Cobra A.T. S.p.A.** as from 1 July 2011.
The new investment sectors and other minor activities have been concentrated into the fully owned subsidiary **KME Partecipazioni S.r.l.**
The investment of KME Group S.p.A. in the "copper" sector is recognised at Euro 389.6 million, while its investment in the "renewable energy" sector is of Euro 25.8 million and its investment in the services sector is of Euro 39.8 million.

The ErgyCapital S.p.A. profit for the year is accounted for in the consolidated financial statements of KME Group S.p.A. using the equity method. Drive Rent S.p.A. profit (merged by Cobra A.T. S.p.A. with effect from 1 July 2011) is stated in the consolidated financial statements as at and for the year ended 31 December 2011 under the item "discontinued assets" up to 30 June 2011; the profit for the period of Cobra AT S.p.A. between 1 July and 31 December 2011 is accounted for using the equity method.
Therefore the fully consolidated accounting figures for the year refer to the core business companies of the Group, i.e. involved in copper and copper alloy semi-finished products area, in addition to the Parent Company KME Group S.p.A. Please refer to the specific sections in this Report for further information.



Growth rates in developed economies slowed down significantly in the second half of 2011; the United States was the only country to show signs of recovery towards year end. The pace of growth also slowed down in emerging countries, albeit to a lesser extent, reflecting the restrictive monetary policies put in place in the first half of the year. In Europe, where the Group has its greatest presence, the economic situation has become progressively worse, reflecting the slowdown in the global business cycle. Exports continue to provide the main stimulus to product movement, while consumption and fixed investment levels are slack due to increasingly stringent lending conditions and the revision downwards of forecasts on demand.

There is still a high degree of uncertainty around, related to the effects of tightening the public purse strings in developed economies leading to low levels of savings in the banks with a consequent reduction in amounts loaned on the one hand, and an increase in interest rates on the other, leading to an increase in financing costs for families and businesses. The risk is that the weakness in production, lack of financial support and elevated sovereign debt levels will feed off each other into a continuing negative spiral downwards.

In a macroeconomic environment, featuring new downturns and widespread uncertainty at the beginning of 2012, the KME Group continues to implement its own corporate restructuring and development programs in various investment sectors in order to improve competitiveness and bring profitability to a level that is adequate insofar as the resources used.

The streamlining measures, which refer to the copper sector units and refer to the subsidiary **KME A.G.**, are focused mostly towards productive and distribution activities with a view to diversifying the business, increasing operating efficiency and optimising costs at all levels. These measures are set out in the 2012-2017 Plan, which was approved by the Board of Directors on 27 January 2012, and are in addition to the strict control of investment choices and an organisational structure designed around flexible operating models that can efficiently deal with rapid change and are aimed at promoting innovation with maximum focus on the customer and the market.
On the commercial front, a series of actions is underway aimed at strengthening the presence of various businesses on the market, promoting innovative solutions, proposing new uses for products, reinforcing distribution on reference markets, whether traditional or emerging, with interesting development prospects.

The companies operating in the new investment sectors are also involved in radical reorganisation programs.

ErgyCapital S.p.A. updated its definition of the Group mission in the second half of 2010, and downsized it by closing certain operating facilities, reducing the number of staff, resulting in significant reductions in operating costs.
As for the business strategy, in consideration of the significant uncertainty created in the photovoltaic sector, the company identified two business areas in the biogas and geothermal sectors which offer better growth prospects, while for the photovoltaic sector the company resolved to develop only the products that have already been authorised, through the realisation of some and the sale of the others.
The actions taken, as provided for in the plan approved by the Board of Directors, began to show results in 2011.
The new strategic lines adopted with the aim of return the companies to profitability and financial stability being necessary to effectively develop cooperation/integration with other entities that are active in the renewable energy sector so as to accelerate their growth and to increase their value.

In the “services” sector, through the merger which took effect on 1 July 2011 of the subsidiary Drive Rent S.p.A. in **COBRA Automotive Technologies S.p.A.**, a company with offices in Varese and which acts as a holding company for a group listed on the Italian stock exchange, KME Partecipazioni, which acquired 42.7% of the new entity, paved the way for the service activities in the automotive management area to be expanded, enhancing value and joining the services, products and specific know-how of the two groups. The new corporate structure has become one of the main operators in Europe, and can provide integrated services to manage risks associated with the possession, ownership and use of the vehicles, through the use of computer and satellite technology.
Due to the efficiency of this merger operation, and within the scope of the programme to strengthen the equity base of the new entity, Cobra launched a capital increase programme, ending up with income of Euro 17 million, which KME Partecipazioni invested in to the extent of its shareholding. Once the subscription phase had been completed, KME Partecipazioni increased its level of investment in Cobra from 42.68% to 51.59%.
This recapitalisation meant that Cobra could agree to reschedule payment back on its medium-term lines of credit for a total of Euro 28.5 million to 2017 with a pool of leading lending institutes.
In February 2012, Cobra entered into a binding agreement with the vehicle company AzzurGC GmbH, controlled by a private equity investor bluO SICAV SIF (“bluO”), regarding the sale of the Electronic Systems division.
The business being sold comprises a division of the parent company Cobra Automotive Technologies S.p.A., involved in the production and sale of electronic equipment for the automotive sector, and 100% investments in Cobra Automotive Technologies Korea Ltd., Cobra (Beijing) Automotive Technologies Co. Ltd. and Cobra Japan KK.
The price agreed for the sale amounts to Euro 5.0 million, of which Euro 1.0 million to pay on closing, Euro 2.0 million by 31 December 2013 and Euro 2.0 million by 31 December 2014. There is also an earn out mechanism in place, which provides for paying Cobra 5% of any capital gains made by bluO if the business is sold within 5 years of closing this transaction.
The Electronic Systems division shall be assigned to a company (“Cobra ES”) that will then be acquired by bluO. In addition, the property in Via Astico no. 41, Varese, will stay with Cobra and will be rented out to Cobra ES for 6 years with automatic renewal for a further 6 years.
The division being sold posted a net financial debt of about Euro 20 million in the 9-month period ended as at 30 September 2011 (consolidated proforma operating results). The transaction is expected to be closed by the first half of 2012, subject to certain conditions.
This sale will permit Cobra to focus on the higher added value telematic business, offering services to maintain the ownership of vehicles, manage maintenance costs, driving behaviour and driver safety; Cobra shall keep its strong commercial relationship with the business being sold.
Following the sale, the Cobra Group will have a consolidated net debt of about Euro 20 million, annual consolidated revenues of about Euro 90 million and 460 employees; as a result, it will be more streamlined, with reorganised structures and an overall reduction in costs and efficiency improvements. All of these factors, along with the availability of new products on the market, will fuel the growth prospects of Cobra in coming years.
After the transaction has been finalised, Cobra shall present a long-term industrial plan, updating the previous programme.

* * *

The industrial and commercial measures taken strengthened the competitiveness of KME Group and made it possible to achieve in 2011, within a more favourable market context, progressive price recovery and, therefore, improvement in profitability compared to the previous year.

SUMMARY OF THE GROUP'S LOSS FOR 2011

MAIN CONSOLIDATED RESULTS

(millions of Euros)	*2011*	*2010*
Revenue	3,011.6	2,718.7
Revenue (not including raw materials)	805.9	758.4
EBITDA	90.6	79.0
EBIT	45.0	34.4
Profit before non-recurring items	29.6	19.0
Non-recurring income/(expenses)	*(24.6)*	*(26.0)*
Gross consolidated profit (loss) (non IFRS inventory measurement)	*5.0*	*(7.0)*
Effect of IFRS measurement of inventories	*1.1*	*18.0*
Investee losses taken to net equity	*(7.1)*	*(10.7)*
Discontinued operations	*(0.6)*	*(1.4)*
Consolidated profit (loss) for the year attributable to owners of the Parent	(14.3)	(18.2)
Reclassified financial net debt	197.6 (at 31 Dec 2011)	223.9 (at 31 Dec 2010)
Equity	431.0 (at 31 Dec 2011)	452.1 (at 31 Dec 2010)

The **Consolidated Revenue** for 2011 amounted to a total of Euro 3,011.6 million, up by 10.8% on 2010, when it was Euro 2,718.7 million.
The higher raw material average prices affected this increase. Net of the latter, revenue increased from Euro 758.4 million to Euro 805.9 million, a 6.3% increase; a comparison with the growth in the sales trend, -6.5%, shows the effect of the price recovery in addition to the effect of a production mix with increased added value.

EBITDA (*) for 2011 stood at Euro 90.6 million; in 2010 it amounted to Euro 79.0 million. The increase was therefore 14.7%.
The improvement in profit is also clear in relative terms; EBITDA as a percentage of revenue rose from 10.4% in 2010 to 11.2% in 2011.

EBIT stood at a positive figure of Euro 45.0 million (Euro 34.4 million in 2010).

Profit before non-recurring items (*) was Euro 29.6 million (Euro 19.0 million in 2010).

The **net non-recurring expenses** amount to Euro 24.6 million. They represent the balance between charges for further reorganisation and cost-cutting measures involving the industrial units in the copper sector, amounting to Euro 38 million, and the positive economic effects resulting from the reduction of the base-stock (Euro 22.3 million) and other extraordinary items.

Gross profit (loss) after non-recurring items (non-IFRS inventory measurement) (*) amounted to Euro 5.0 million (Euro 7.0 million loss in 2010).

The net effect of the measurement of inventories and raw materials forward contracts at current prices (*), pursuant to IFRS, has dropped to Euro 1.1 million (Euro 18.0 million in 2010) due to the different prices of the raw material (copper) in the two reference periods, and in particular their greater stability at the end of 2011.

The loss for the year attributable to the owner of the parent, net of taxes, amounted to Euro 14.3 million (Euro 18.2 million in 2010).
This is net of the Euro 7.1 million in losses by the investees consolidated with the equity method; they regard the loss for the year of ErgyCapital S.p.A., amounting to Euro 2.1 million, and the loss in the second half of the year of Cobra A.T. S.p.A., amounting to Euro 5.0 million. Loss on the discontinued assets (– Euro 0.6 million) refers to the Drive S.p.A. loss between 1 January and 30 June 2011.

Financially, **net financial debt** (*) as at 31 December 2011 was Euro 197.6 million (Euro 223.9 million at the end of December 2010).
Ordinary operations had a positive effect on debt levels, reducing them by Euro 139.1 million (from Euro 223.9 million to Euro 84.8 million), while the 2003 EU fines of Euro 112.8 million for breaching competition law were confirmed at the end of 2011 and had a negative effect on debt levels. They were therefore classified under financial debts (as described below) with a corresponding increase in debt.
The optimisation of extended payment scheduling, especially to suppliers of raw materials, also helped reduce debt levels from the beginning of the year.

The **consolidated equity** (*) as at 31 December 2011 was equal to Euro 431.0 million (Euro 452.1 million as at 31 December 2010).

(*) Details on these reclassified indicators are included in the section on "Group performance".

Copper sector

After the collapse in 2009 and the partial recovery during 2010, the production of copper and copper alloy semi-finished products (not including wires) fell once again in 2011. After a fairly positive first quarter, production levels began to fall off progressively, worsening towards the end of the year. The estimate for the entire year of 2011 is that production levels in the four main global areas (Europe, United States, Japan and China) are basically in line with those of the previous year (around 7.4 million tonnes).
With reference to Europe, after the downturn in the three-year period 2007-2009 and the recovery in 2010, the production of semi-finished copper products was down again in 2011 (especially during the fourth quarter) in all countries (a drop of about 4-4.5%). From the geographical viewpoint, production has fallen in Spain and Portugal especially. With respect to the individual divisions, the slowdown in consumption mainly concerned the construction sector, while demand related to industrial goods (especially those in the automotive and electrical sector) held up better.
As regards the other three large industrialised zones, during 2011 the drop in production of semi-finished goods in Japan and the United States was lower compared to Europe. The only positive exception to the negative trends continues to be China, where the production of semi-finished goods continued to grow also in 2011, even though to a lesser extent than previous years (estimated growth around 5%). In 2011, Chinese production of semi-finished goods (of about 3.7 million tonnes) exceeded total production in Western Europe, the United States and Japan for the first time; in addition, Chinese production represents over 50% of the total in the main developed countries by now.

The demand for **copper and copper-alloy semi-finished products for the construction industry** (the consolidated revenue for this sector is approximately 1/4 of the total revenue of the Group) continues to be fundamentally weak and this is also adversely affected by the high level of copper prices and their volatility, which causes uncertainty in spending decisions by users.

After the significant decline in new buildings in the three year period 2008-2010, with a drop of 40% compared to 2007 levels, there was modest recovery at the beginning of 2011 only, especially in Germany and Northern European countries; it is still much lower than pre-recession levels however.

Demand for building renovation projects, where the KME Group products are mainly used, is more stable than for new buildings. This area also benefits from the energy savings works being done on buildings.

In order to deal with this, the KME Group continues to promote integrated, innovative solutions such as proposing original, advanced solutions to architects and artists to cover buildings with metallic materials, or in the interior design area, proposing new types of surfaces to designers to create coverings and objects in copper or copper alloys in all its myriad forms for applications and aesthetic effects. To this end, the first showroom was opened in Milan in February 2012, with which KME intends to pursue its mission to promote copper as an excellent material for the worlds of design and architecture.
This has resulted in an increasing increase in added value and price, even though sales volumes are still very weak; the main results have been obtained in **construction laminates** and **bathroom pipes**.

After the good recovery of sales volumes in previous quarters, sales of **brass bars** for taps and heating systems have suffered a sharp drop in the final quarters of 2011; the effect of the action on prices has remained positive.

After the recovery experienced in the first two quarters of 2011, demand in **semi-finished industrial sector goods** (consolidated revenue for this sector represents about 3/4 of the total) – especially in products for the manufacturing industry (vehicles, mechanics, electronic) in the German market – showed signs of a slowdown in the second half of the year, mainly in Italy and Spain, while France has become increasingly stable.
With respect to the various sectors, performance in the electrical appliance and boiler sectors have remained flat, while the electrical industry, components and automotive sectors continue to recover.
There was a marked slowdown in sales in both the **industrial laminates** and **industrial pipes** sectors in the fourth quarter, even though prices remained stable.

Special product orders improved further, especially with respect to the ingot moulds and copper bars.

For information on the financial performance and results of the sector, please see the fully consolidated accounting data, as these refer to the copper sector as well as to the Parent KME Group S.p.A. (see introduction).

In 2011 the overall **investments** of the segment's production units totalled Euro 53.1 million (Euro 43,8 million in 2010).
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 significant investments in 2011 were for the maximum saturation in use of the production plants in the Givet factory (France) for the industrial use pipes and construction production lines; the optimisation of raw material yields used in the laminate division and special product production lines in the *Osnabrück* factory (Germany); work on the refinery ovens in the Fornaci di Barga factory in order to improve the raw material unit costs.

Research and innovation is centralised within the Group and is conducted at two Research and Development Centres located in *Osnabrück* 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 microstructures, 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 also 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. In this context, KME obtained the license for use of the "Antimicrobal Copper" brand in May 2011, and developed a new range of alloys with anti-microbial properties ("KME Plus"®), which are very effective in improving hygienic conditions and reducing hospital acquired infections caused by bacteria, funguses and viruses normally present on the contact surfaces of public areas.

The segment's **workforce** as at 31 December 2011 numbered 6,249 (6,471 at the end of 2010).

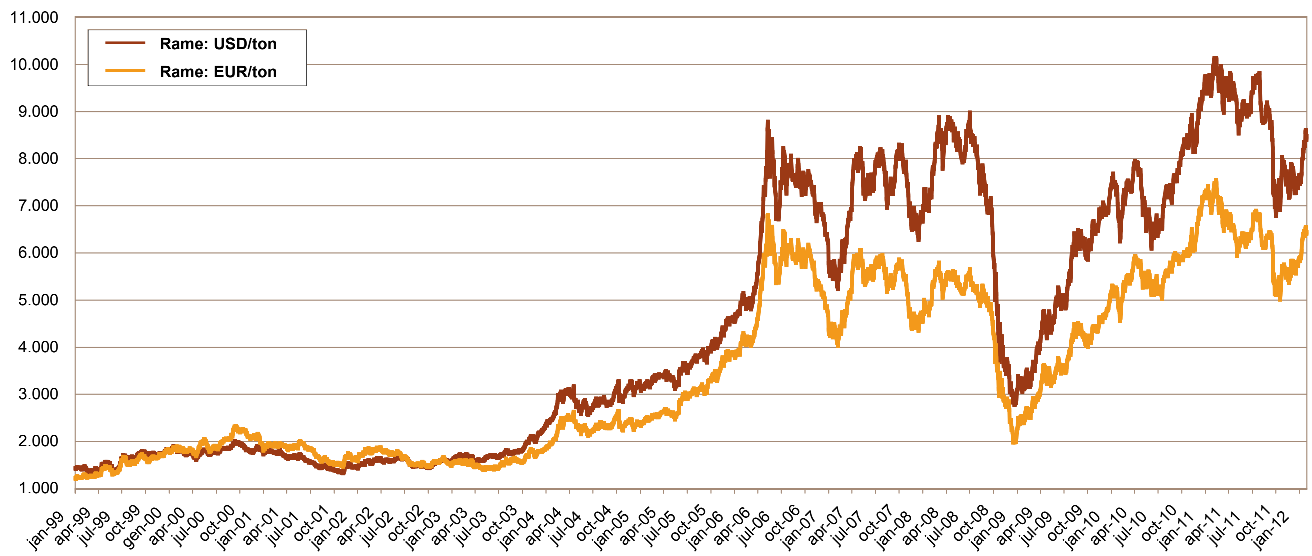
The Group's organisational set-up is focused on business areas and on company processes.
Changes continued to be made at the organisational level to coordinate costs and investments and develop methods and skills through the OpeX programme (Operational Excellence), which focuses on company processes, identifying the performance indicators, defining the targets, improving organisation and checking the results. Special focus continued to be applied to health and safety at the workplace. In 2011, five KME sites obtained health and safety certification in accordance with the international BSOHSAS 18001 management system standards, and 3010 employees received specific training in safety matters.
With respect to Human Resource management, work continued on the identification of potential and professional development (KME Key Resources Development) and the recognition of merit and objectives achieved (KME Reward Policy).
In 2011 the intense dialogue with workers' representatives continued, with the aim of identifying and agreeing the best solutions to respond to the difficult market situation.

With respect to the **business outlook**, the first few months of this year confirmed the reversal of the economic trends that began in the second half of 2011 and are expected to negatively influence sales performance for at least the initial part of 2012.
The adoption of cost-cutting measures in production and organisational structures, including past measures taken and those still in place, will help the Group raise its levels of competitiveness. This is necessary to continue to improve operating profit once the economic framework governing the various business markets recovers.

As regards the **scrap selling** project headed up by KME Recycle S.p.A. that had been initiated in 2009 in order to diversify upstream activities from the traditional business of producing semi-finished goods and with the aim of creating a European network of companies involved in scrap recycling, processing and selling, after the entire investment in the Italian company Metalbuyer S.p.A. had been acquired, work continued on restructuring it to reorganise its market presence and speed up research on coordination with other investee companies.
As for the equity investment in the French company Valika S.a.s. which was increased in September to 51% by exercising the contractually provided option, we confirm that the programs for the growth of the activity and collaboration with the partner are proceeding in a satisfactory manner.

The **price of copper raw material**, which is the metal most widely used in the production of the Group semi-finished products, increased by an average of 16.9% in US$ in 2011 compared to the previous year (increasing from US$ 7,538/tonne to US$ 8,812/tonne) and by 11.4% in Euros (from Euro 5,683 to Euro 6,330) due to the appreciation of the European currency during the year.
In terms of trends, the average prices of copper in the fourth quarter of 2011 fell by 16.6% in US$ compared to the third quarter (from US$ 8,982/tonne to US$ 7,489/tonne) and by 12.6% in Euros (from Euro 6,356 to Euro 5,555); prices have fallen by 13.3% in US$ (from US$ 8,634 to US$ 7,489) compared to the fourth quarter of 2010 and by 12.7% in Euros (from Euro 6,360 to Euro 5,555).
The average price of copper was US$ 8,233/tonne in the first two months of 2012, corresponding to Euro 6,300/tonne.

Copper prices LME settlement



Renewable energy sector

The **ErgyCapital** Group recorded **Revenue** of Euro 18.1 million in 2011 (Euro 17.1 million in 2010), showing a 6% increase over the previous year. This increase includes the significant growth (+71%) in revenue related to electricity production due to the higher number of photovoltaic plants in production, substantially offset by a significant reduction in capitalised costs mainly regarding development activities.

The consolidated **EBITDA**, which was a positive Euro 6.7 million, has improved compared to the same period in the previous year (a negative Euro 1.4 million), due to the following main factors:

- the restructuring work which had begun in 2010 and which, through the closing of certain operating offices and the concentration of resources within a single office (in Rome), with a concurrent reduction in the workforce, resulted in a drastic reduction of overheads (over 50% compared to the same period of the previous year);
- the increase in revenues related to electricity production and the start up of a biogas plant in addition to the strong performance of the plants

Total consolidated net loss amounts to Euro 4.5 million comprising net non-recurring allocations of about Euro 1.9 million due to the write-down of capitalised costs and other items amounting to Euro 2.8 million in relation to the operating assets in operation, a further Euro 0.3 million as the net effect of the discontinued operating assets and the reversal of impairment of the Piani S. Elia plant for Euro 1.2 million. The consolidated net loss in 2010 amounted to Euro 20.0 million.

The **Invested Capital** of the ErgyCapital Group as at 31 December 2011 amounted to Euro 102.3 million compared to Euro 88.7 million as at 31 December 2010. This increase is mainly due to the net increase in investments in the photovoltaic plants and the biogas sector.
Net financial debt of Euro 85.8 million (Euro 65.5 million as at 31 December 2010) is due to the increase in financial

liabilities related to loans received for investments in the photovoltaic sector, net of repayments made, and in biogas, in addition to loans received by ErgyCapital from banks for about Euro 2.0 million and the parent company KME Group S.p.A. for about Euro 3.0 million.
Equity amounts to Euro 16.6 million; the Company decided to propose to the next General Shareholders' Meeting to increase the share capital for a maximum of Euro 15 million in order to strengthen it. The KME Group agreed to invest in this to the extent of its shareholding.

Two photovoltaic plants were completed in Campania during the year and connected to the grid, one of which was 1.38 MWp and the other 0.99 MWp; the Piani S. Elia plant of 2.6 MWp was released from seizure, and a subsidised tariff rate was recognised, bringing the structures connected to the grid up to 19.6 MWp (17.2 MWp as at 31 December 2010). A 1.0 MWe biogas plant was completed and put into operation and two new biogas plants of 1.0 MWe each were initiated. A loan of Euro 5.1 million was agreed at the beginning of 2012 to build one of the two 1.0 Mwe biogas plants.

With respect to the outlook, further significant improvements in the consolidated profits are expected in 2012 compared to the previous year since the operating photovoltaic plants will be fully operational, the second biogas plant will start up into full operation, and structural costs will continue to fall following the corporate restructuring still in place.
For the future, the Company intends to avail of opportunities in the biogas sector, also in relation to regulatory developments, to continue its efforts to improve management efficiency in the photovoltaic sector without using additional financial resources and to undertake controlled development of growth in the geothermal sector.
The Company is committed to achieving full economic and financial balance in 2012, while simultaneously looking into strategic possibilities with other industrial entities to ensure development and enhanced value.

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

As mentioned in the introduction, the results of the ErgyCapital Group for the period are shown in the KME Group Consolidated Financial Statements under the item "Share of profit/(loss) of equity-accounted investees."

Services sector

On 30 November 2010 the Board of Directors of Drive Rent S.p.A. approved a corporate/industrial reorganisation that provided for the merger of Drive Rent S.p.A. into **Cobra Automotive Technologies S.p.A.,** the holding company of a group listed on the Italian Stock Exchange and a leader in car theft protection systems and vehicle safety through the use of IT and satellite technology. The transaction will allow the new entity to offer common and heterogeneous groups of customers (such as individual drivers, corporate fleets, lease companies, car manufacturers 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 merger plan was submitted and approved by the General shareholders' meetings of Drive Rent and Cobra A.T. on 15 March 2011. The operation was finalised by agreement of the merger on 14 June 2011, to take effect from 1 July 2011.

As regards performance at Cobra A.T., the 2011 results show the initial effects of the corporate restructuring.

Total 2011 **Revenue** of Euro 159.8 million rose 26.9% on 2010 due to both an increase in revenue related to the electronic system activities of Euro 106.6 million, and revenue from Services of Euro 62.9 million. The increase in revenue from Services is mainly due to the contribution from revenues resulting from the merger with Drive Rent.

Consolidated **EBITDA** stands at Euro 3.6 million compared to Euro 4.1 million in 2010; however if the non-recurring expenses of Euro 6.5 million, of which Euro 3.5 million are non monetary, were excluded, it would stand at Euro 10.1 million, + 101% over 2010 which amounted to Euro 5 million, excluding Euro 1 million in non-recurring costs incurred the previous year.
The EBITDA for the Electronic systems, adjusted by non-recurring expenses, amounts to Euro 2.5 million due to a significant increase in volumes and the cost control procedures.
The EBITDA from Services, adjusted by non-recurring expenses, amounts to Euro 7.6 million, showing a considerable increase due to both the merger with the Drive Rent Group, and the increase in the number of subscribers (direct and indirect) to the telematic services, up 11% from the figures at 31 December 2010 and exceeding 198,000 units. This growth is specifically related to consolidation of the “Smart Insurance” start up phase leading to a 141% increase and the positive contribution from the Porsche customers.

There was an **Operating Loss (EBIT)** of Euro 11.3 million compared to a loss of Euro 8.3 million the previous year. Excluding the non-recurring expenses of Euro 6.5 million, the EBIT posted a loss of Euro 4.8 million compared to a loss of Euro 7.4 million in 2010, excluding Euro 1 million in non-recurring expenses.

The **loss for the year** amounted to Euro 17.8 million compared to a loss of Euro 15.5 million in 2010. The loss for the year attributable to the owner of the parent, not including non-recurring expenses, amounts to Euro 11.2 million compared to Euro 14.5 million in 2010.

The **consolidated Net financial position** as at 31 December 2011 stands at Euro 39.5 million compared to Euro 30.6 million as at 31 December 2010. This increase is mainly due to the change in the scope of consolidation as a result of the merger with Drive Rent, partially offset by the capital increase of Cobra of about Euro 17 million.

With respect to **business outlook** in 2012, Cobra will continue with the restructuring of the Group, also in light of the agreement on the sale of the Electronic System sector, through simplification and company reorganisation, and focus on high value added services and launch new products. These improvements, along with the growth in volumes, will allow the Company to improve operating profit and significantly reduce the losses during the course of the year.

For further information on the operating performance of Cobra A.T. S.p.A., refer to the documentation made available by the Company.

As noted above, the Drive Group results for the period ended 30 June 2011 are reported in the consolidated financial statements of KME Group S.p.A. under the item “discontinued assets”. The profit of Cobra A.T. S.p.A. for the period 1 July 2011 - 31 December 2011 was accounted for using the net equity method.

Group performance

With respect to commenting on the Group performance, and more specifically the "copper" sector, both the IFRS income statement will be used, in addition to the reclassified income statement, known as the "RECL", since it is considered to be more representative of actual performance. The data included on the "RECL" income statement represent a reprocessing of the historical data aimed at showing the economic performance of the Group using operational criteria and information taken from the internal reporting system which therefore differs from the criteria used under the IFRS standards mainly in terms of measurement and presentation.
The main adjustment/reclassification components of the reprocessing in terms of measurement and presentation are shown below, and mainly refer to:

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 (i.e., inventories that will not be sold) of year-end metals inventories in the copper and copper-alloy semi-finished products sector is determined on a last-in, first-out basis. The stock that will be sold, on the other hand, is measured at its 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 control purposes, IFRS introduced an exogenous factor, the variability of which makes it impossible to compare homogeneous data for 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/EBIT.

The table below shows the effects of the different methods of measurement and presentation for 2011.

(millions of Euro)	*FY 2011 IFRS*		*reclassifications*	*adjustments*	*FY 2011 RECL*	
Gross revenue	3,011.6	**100.0%**			3,011.6	
Raw material costs	-		(2,205.7)		(2,205.7)	
Revenue net of raw material costs	**-**				**805.9**	**100%**
Personnel expense	(358.2)		21.1		(337.1)	
Other consumables and costs	(2,579.0)		2,208.4	(7.6)	(378.2)	
EBITDA*	**74.4**	**2.5%**			**90.6**	**11.2%**
Amortisation and depreciation	(55.6)		10.0		(45.6)	
EBIT	**18.8**	**0.6%**			**45.0**	**5.6%**
Net financial expense	(6.2)		(9.2)		(15.4)	
Profit / (loss) before non-recurring items	**12.6**	**0.4%**			**29.6**	**3.7%**
Non-recurring income (expenses)	-		(24.6)		(24.6)	
Impact IFRS measured inventories and forward contracts	-			7.6	7.6	
Taxes under IFRS measured inventories and forward contracts	-			(6.5)	(6.5)	
Current taxes	(21.9)		-		(21.9)	
Deferred taxes	3.8			6.5	10.3	
Profit / (loss) after taxes (IFRS inventory measurement)	**(5.5)**	**-0.2%**			**(5.5)**	**-0.7%**
Share of profit/ (loss) of equity-accounted investee companies	(7.1)				(7.1)	
Profit/(loss) from discontinued operations	(0.6)				(0.6)	
Consolidated profit/(loss)	**(13.2)**	**-0.4%**			**(13.2)**	**-1.6%**
Profit (loss) attributable to non-controlling interests	1.1				1.1	
Loss attributable to owners of the Parent	**(14.3)**	***-0.47%***			**(14.3)**	***-1.77%***

A condensed 2011 Consolidated Statement of Comprehensive Income for the Group with 2010 comparatives is shown below.
To ensure comparability, data relating to the Drive Group was removed and concentrated in the single item “Profit/(loss) from discontinued operations”.

KME GROUP - CONSOLIDATED INCOME STATEMENT "RECL"					
(millions of Euro)	***FY 2011 RECL***		***FY 2010 RECL***		***% Change***
Gross revenue	3,011.6		2,718.7		10.8%
Raw material costs	(2,205.7)		(1,960.3)		12.5%
Revenue net of raw material costs	**805.9**	**100%**	**758.4**	**100%**	***6.3%***
Personnel expense	(337.1)		(331.7)		1.6%
Other consumables and costs	(378.2)		(347.7)		8.8%
EBITDA*	**90.6**	**11.2%**	**79.0**	**10.4%**	***14.7%***
Amortisation and depreciation	(45.6)		(44.6)		2.3%
EBIT	**45.0**	**5.6%**	**34.4**	**4.5%**	***30.7%***
Net financial expense	(15.4)		(15.4)		0.0%
Profit before non-recurring items	**29.6**	**3.7%**	**19.0**	**2.5%**	***55.8%***
Non-recurring income (expenses)	(24.6)		(26.0)		n.s.
Impact IFRS measured inventories and forward contracts	7.6		20.6		-63.1%
Taxes under IFRS measured inventories and forward contracts	(6.5)		(2.6)		n.s.
Current taxes	(21.9)		(4.2)		n.s.
Deferred taxes	10.3		(12.4)		n.s.
Profit / (loss) after taxes (IFRS inventory measurement)	**(5.5)**	**-0.7%**	**(5.6)**	**-0.7%**	***-1.8%***
Share of (loss) of equity-accounted investee companies	(7.1)		(10.7)		n.s.
Profit/(loss) from discontinued operations	(0.6)		(1.4)		n.s.
Consolidated profit/ (loss)	**(13.2)**	**-1.6%**	**(17.7)**	**-2.3%**	**-25.6%**
Profit/(loss) attributable to non-controlling interests	1.1		0.5		
Profit / (loss) attributable to owners of the Parent	**(14.3)**	***-1.77%***	**(18.2)**	***-2.40%***	***-21.7%***

(*) 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 economic amount based on EBIT but before depreciation, amortisation and non-recurring items.

The **Consolidated Revenue** for 2011 amounted to a total of Euro 3,011.6 million, up by 10.8% compared to 2010, when it was Euro 2,718.7 million.
The increase was due in part to the rise in raw material prices; net of raw material costs, revenue rose from Euro 758.4 million to Euro 805.9 million, up by 6.3%. In terms of volumes the decrease was 6.5%.
The effect of the value of raw materials on total revenue was 73%.
Labour costs stayed essentially stable despite an increase of added value of about 6%.

EBITDA for 2011 totalled Euro 90.6 million, while in 2010 it was Euro 79.0 million. The increase was therefore 14.7%. In relative terms, as a percentage of revenue, EBITDA rose from 10.4% to 11.2%.

EBIT stood at a positive figure of Euro 45.0 million (Euro 34.4 million in 2010).

Profit before non-recurring items totalled Euro 29.6 million (Euro 10.0 million in 2010).

Non-recurring expenses amounted to Euro 24.6 million as at 31 December 2011. It represents the balance between charges for further reorganisation and cost-cutting measures involving the industrial units in the copper sector, for Euro 38 million, and the write-down of the carrying amounts of certain investments for Euro 9.8 million, as well as the positive economic effects resulting from the reduction of base-stock of Euro 22.3 million, calculated in accordance with the management reprocessing logic, and other non-recurring items detailed in the explanatory notes, including the capital gain arising from the merger of Drive Rent S.p.A. into Cobra AT S.p.A. (Euro 12.9 million).

Profit after non-recurring items (non-IFRS inventory measurement) amounted to Euro 5.0 million (Euro 7.0 million loss as at 31 December 2010).

The effect, net of the tax expense, of the **measurement of inventories and raw materials forward contracts** in accordance with the requirements of the IFRS (compared to their measurement on a LIFO basis), fell from Euro 18.0 million in 2010 to Euro 1.1 million in 2011 due to the difference in raw material prices in the two reference periods, and in particular their greater stability at the end of 2011.

There was a **loss for the year attributable to the owners of the parent**, after tax and non-controlling interests, of Euro 14.3 million (a loss of Euro 18.2 million in 2010).
This figure is net of the Euro 7.1 million in losses by the investees consolidated with the equity method; these losses include the loss for the period of ErgyCapital S.p.A., of Euro 2.1 million, and the loss in the second half of Cobra A.T. S.p.A amounting to Euro 5.0 million. Losses from discontinued operations (– Euro 0.6 million) refer to the Drive S.p.A. losses between 1 January and 30 June 2011.

Group financial position

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

(Euro / million)	***At 31 December 2011***	***At 31 December 2010***
Share capital	297.0	297.0
Reserves	148.3	173.2
Profit/(loss) for the year	(14.3)	(18.2)
Equity attributable to non-controlling interests	6.1	5.0
Total Equity	**437.1**	**457.0**

The **share capital**, at the date of this Report, was Euro 297,040,568.04 divided into 491,047,066 shares, of which 447,347,650 were ordinary shares and 43,699,416 savings shares, both without any indication of their par value.

The **Reserves** have decreased due to the coverage of the consolidated loss recorded in 2010.

The Group **reclassified net financial debt** as at 31 December 2011 is Euro 197.6 million (Euro 223.9 million at 2010 year end).

Ordinary operations had a positive effect on debt levels, reducing them by Euro 139.1 million (from Euro 223.9 million to Euro 84.8 million), while the 2003 EU fines of Euro 112.8 million for breaching competition law were confirmed at the end of 2011 and had a negative effect on debt levels. They were therefore transformed into financial debts, with a corresponding increase in debt.

The optimisation of extended payment scheduling, especially with respect to suppliers of raw materials, also helped reduce debt levels from the beginning of the year.

The level of "Liquidity" varies in relation to the temporary cash surpluses in the Group's ordinary operations.

The table below gives a breakdown of **Consolidated net financial debt (*):**

NET FINANCIAL DEBT			
		31.12.2011	***31.12.2010***
(thousands of Euro)		***(RECL)***	***(RECL)***
Short-term financial payables		228,524	125,157
Medium to long-term financial payables		266,669	316,875
Financial payables due to Group companies		2,418	2,230
(A) Total loans and borrowings		**497,611**	**444,262**
Cash and cash equivalents		(66,483)	(39,751)
Other financial assets		-	(14,358)
Short-term financial receivables		(201,742)	(87,761)
Financial receivables due from Group companies		(7,182)	(4,597)
(B) Total cash and current financial assets		**(275,407)**	**(146,467)**
Fair value of LME and metals forward contracts		(9,280)	39,870
Fair value of other financial instruments		(10,690)	1,878
(C) Financial instruments measured at fair value		**(19,970)**	**41,748**
Consolidated net financial position (A)+(B)+(C)	**(1)**	**202,234**	**339,543**
Non-current financial assets	**(2)**	**(4,589)**	**(115,686)**
Total Net Financial Debt		**197,645**	**223,857**

(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 at the end of 2012 of these assets relates 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. At the end of 2011 these fines became definitive and were therefore transformed into financial debt recorded (for Euro 112.8 million) under "short term financial debts" and considered as part of the net financial position, including in application of the CESR recommendation pursuant to point (1).

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

Cash flows for the year 2011 are summarized as follows:

CONSOLIDATED STATEMENT OF CASH FLOWS, INDIRECT METHOD		
(thousands of Euro)	***31.12.2011***	***31.12.2010***
A) Cash and cash equivalents at the beginning of the year	**39,751**	**108,964**
Profit (loss) before taxes	5,462	2,867
Depreciation and amortisation	45,396	45,848
Impairment losses on current assets	3,961	5,568
Impairment losses (reversals of impairment losses) on non-current assets other than financial assets	10,240	4,714
Impairment losses (reversals of impairment losses) on current and non-current financial assets	4,695	6,317
Losses (gains) on disposal of non-current assets	(13,562)	(236)
Change in provisions for pensions, post-employment benefits and stock options	981	144
Change in provisions for risks and charges	73	(1,196)
Decrease (increase) in inventories	16,842	(151,348)
Share of profit of equity-accounted investees	9,083	10,735
(Increase) decrease in current receivables	25,090	(9,498)
Increase (decrease) in current payables	123,294	208,905
Changes from currency translation	(330)	(286)
Decrease (increase) in LME and metals forward contracts	(49,127)	19,098
Paid taxes	(22,194)	(4,764)
(B) Cash flows from operating activities	**159,04**	**136,868**
(Increase) in non-current intangible assets and property, plant and equipment	(60,537)	(44,261)
Decrease in non-current intangible assets and property, plant and equipment	15,766	1,693
(Increase) decrease in investments	(17,448)	(30,418)
Increase/decrease in other non-current assets/liabilities	7,017	6,779
Dividends received	852	260
(C) Cash flows from investing activities	**(54,349)**	**(65,947)**
Equity cash variations	57	22,860
(Purchase) sale of treasury shares	226	-
Increase (decrease) in current and non-current financial payables	(90,648)	(107,191)
(Increase) decrease in current and non-current financial receivables	16,271	(45,582)
Dividends paid and profits distributed	(7,990)	(2,651)
(D) Cash flows from financing activities	**(82,083)**	**(132,564)**
(E) Change in cash and cash equivalents (B)+(C)+(D)	**23,471**	**(61,643)**
(F) Change in scope of consolidation	**3,107**	**5,742**
(G) Total cash flows used in discontinued operations	**154**	**(13,312)**
(H) Cash and cash equivalents at the end of the year (A)+(E)+(F)+(G)	**66,483**	**39,751**

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

(Euro / million)	***At 31 December 2011***	***At 31 December 2010***
Net non-current assets	804.1	797.2
Net working capital	104.8	203.3
Provisions	(274.2)	(406.0)
Discontinued operations	—	86.4
Net invested capital	**634.7**	**680.9**

The reduction in "Provisions" is mainly due to reversal of the EU fine amount, which was recorded under current financial payables since it became payable on a definitive basis as noted above.

(*) "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".*

The Parent KME Group S.p.A.

The KME Group S.p.A. posted a loss for 2011, after tax, of Euro 9.9 million (profits of Euro 61.1 million in 2010).

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

(EUR thousands)	*Year 2011*	*Year 2010*
Dividends from investments	-	-
Service income	2,839	2,839
Net operating costs	(5,066)	(5,001)
Stock option costs	(867)	(224)
Net financial income /(charges)	5,216	3,635
Profit from ordinary activities	**2,122**	**1,249**
Non-recurring income /(expenses)	(11,160)	61,011
Profit before taxes	**(9,038)**	**62,260**
Taxation	(847)	(1,159)
Profit for the year	**(9,885)**	**61,101**

Profit from ordinary activities was slightly higher in 2011 than 2010.

Net financial income/(charges) include Euro 5.1 million (Euro 4.3 million in 2010) in fee income from subsidiaries for guarantees issued by the Parent on behalf of the subsidiaries to banks in order to obtain credit lines.

The **Non-recurring expenses** including the adjustment, of Euro 9.7 million, to the carrying value of the investment in KME Partecipazioni S.r.l. (with Euro 4.7 million resulting from measurement of the investee company ErgyCapital S.p.A., Euro 3.6 million from measurement of the investee company Culti S.r.l. and the remaining amount from adjustment to the stock market prices of the trading securities) and Euro 1.4 million for extraordinary charges in the company reorganisation.
Non-recurring items in 2010 concerned the partial recovery of the historical cost of the investment in KME A.G., 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.

The following shows a summary of the reclassified **Financial situation** of KME Group S.p.A.

(millions of Euros):	***2011***		***2010***	
ASSETS				
Investments				
Copper sector				
Investment in KME A.G.	380.1		380.0	
Investment in KME Recycle S.p.A.	9.5	**389.6**	4.5	**384.5**
KME Partecipazioni S.r.l.		**78.3**		**9.8**
Of which:				
Renewable energy sector				
ErgyCapital S.p.A. shares	*20.5*		*24.6*	
ErgyCapital S.p.A. 2016 warrant	*5.3*		*7.2*	**31.8**
	25.8			
Services sector				
Investment in Cobra AT S.p.A.	*39.8*			**30.0**
Other investments	*12.6*			**1.5**
Net financial position		**(12.9)**		**14.5**
Other assets /(liabilities)		**(2.5)**		**(2.9)**
Total assets		**452.5**		**469.2**
EQUITY				
Share capital	297.0		297.0	
Treasury shares	(2.7)		(2.9)	
Reserves	168.1		114.0	
Profit/(loss) for 2011	(9.9)		61.1	
Total Equity		**452.5**		**469.2**

The changes in the statement of financial position between 31 December 2010 and 31 December 2011 are essentially due to the transfer of the investments in ErgyCapital S.p.A. and Cobra A.T. S.p.A to the 100% owned subsidiary KME Partecipazioni S.r.l. Other transfers of smaller investments (totalling Euro 9.8 million) had taken place at the end of December 2010.

The investment in KME A.G. (Germany), which belongs to the corporate grouping operating in the copper and copper-alloy semi-finished products sector and that in Recycle S.p.A. which operates in the metal marketing sector, is equal to 100%.

The shares of ErgyCapital S.p.A. held by KME Partecipazioni S.r.l. represent 51.9% of the capital. The ownership of the ErgyCapital 2016 warrants represents 66.6% of the outstanding shares. The shares are apportioned for accounting purposes into a fixed portion (43,981,434 shares at Euro 0.43/share for 46.4% of the capital) and a disposable portion (5,277,893 shares at Euro 0.28/share for 5.6% of the capital); the warrants are apportioned into a fixed

portion (50,871,755 warrants at Euro 0.09/warrant) and a disposable portion (5,775,550 warrants at Euro 0.09/warrant). This different reclassification reflects the various purposes for which these shares are held: 46.4% for strategic investments and the remaining 5.6% for trading.
The overall investment in the capital of Cobra A.T. S.p.A. of 50,072,850 shares, held through KME Partecipazioni S.r.l., rose from 42.7% to 51.6% after subscribing to the share capital increase offered in option by the Company last December. The investments are apportioned for accounting purposes into a fixed portion (41,425,750 shares at Euro 0.90/share for 42.7% of the capital) and a disposable portion (8,647,100 shares at Euro 0.30/share for 8.9% of the capital) acquired following the above mentioned capital increase. This different reclassification reflects the various purposes for which these shares are held: 42.7% for strategic investments and the remaining 8.9% for trading.

On drawing up the financial statements at 31 December 2011, investments were measured in accordance with the provisions of the IFRS.
In this context, the carrying amount of the investment in the German subsidiary KME A.G. which heads the industrial group in the sector of semi-finished copper and copper alloy products, was confirmed in the valuation made at the time of the merger between iNTEk S.p.A. and KME Group S.p.A., which was approved by the Board of Directors on 27 January 2012, and the impairment tests done on the consolidated financial statements for the year ending as at 31 December 2011, on the basis of the provisional data contained in the 2012-2017 Plan, approved by the Board of Directors of 27 January 2012; the valuation was made with the assistance of independent external consultants.
When the equity investments were being measured when the financial statements at 31 December 2011 were being drawn up, KME Partecipazioni S.r.l. adjusted the carrying amount of its shareholding in ErgyCapital S.p.A. The impairment of the fixed shares, of Euro 3.0 million, was calculated on the basis of the impairment test which had been carried out with the assistance of an independent advisor and which took the long-term plan of the Company into account; the adjustment was also made in accordance with the actions in place due to the strategic decision by the Board of Directors to seek opportunities to further enhance the value of the investment once the reorganisation and business focus programmes have been completed, currently being carried out by the investee company management. The carrying amount of the investment was changed to Euro 0.43 for every ErgyCapital ordinary share held and therefore to a total amount of Euro 19.0 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 1.7 million, and so bringing it to the level of the official share price at the date of these financial statements, i.e. Euro 0.09 per warrant, for an overall amount of Euro 4.8 million.

KME Partecipazioni S.r.l. also impaired the carrying amount of the equity investment in Culti S.r.l. reducing it to Euro 3.8 million (from Euro 7.4 million) considering both the losses posted by the Company in 2011 and future value enhancement strategies in place.

The **Net financial position** of KME Group S.p.A. at the end of 2011 was due to the payments related to recapitalisation of the subsidiaries for Euro 19.5 million, of which Euro 9.8 million for the recapitalisation of Cobra A.T. S.p.A. and Euro 5.0 million for KME Recycle S.p.A., in addition to payment of the 2010 dividend for Euro 8.0 million.
Treasury shares as at 31 December 2011 comprise 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 2011 was as follows:

(thousands of Euro)	***31.12.2011***	***31.12.2010***
Short-term financial payables	28,919	40,814
Medium to long-term financial payables	59,848	73,641
Financial payables due to subsidiaries	7,787	55,332
Guarantees issued liabilities	12,096	13,277
(A) Total loans and borrowings	**108,650**	**183,064**
Cash and cash equivalents	(6,605)	(251)
Other financial assets	-	(14,358)
Financial receivables due from subsidiaries	(30,484)	(115,628)
Current receivables for indemnities due from subsidiaries	(5,262)	(4,314)
(B) Total cash and cash equivalents and current financial assets	**(42,351)**	**(134,551)**
Fair value of other financial instruments	-	2,973
(C) Financial instruments measured at fair value	**-**	**2,973**
Consolidated net financial position (A)+(B)+(C)	66,299	51,486
Non-current receivables for indemnities due from subsidiaries	(6,834)	(8,963)
Non current financial receivables due from subsidiaries	(42,010)	(51,664)
Non-current financial receivables due from banks	(4,575)	(5,368)
Total reclassified net financial position	**12,880**	**(14,509)**

(1) Definition pursuant to communication CONSOB DEM 6064293 of 28.7.2006 in application of the CESR recommendations of 10.2.2005.

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 2011 are summarized as follows:

STATEMENT OF CASH FLOWS, INDIRECT METHOD		
(thousands of Euro)	***31.12.2011***	***31.12.2010***
A) Cash and cash equivalents at the beginning of the year	**251**	**403**
Profit/(loss) before taxes	(9,037)	62,260
Depreciation and amortisation	16	12
Impairment losses (reversals of impairment losses) on current and non-current financial assets	9,700	(60,071)
Losses (gains) on disposal of non-current assets	-	(1,640)
Change in provisions for pensions, post-employment benefits and stock options	875	230
Change in provisions for risks and charges	(753)	(349)
(Increase) decrease in current receivables	(2,434)	648
Increase (decrease) in current payables	1,597	(2,223)
Taxes paid during year	(339)	(983)
(B) Cash flows from operating activities	**(375)**	**(2,116)**
(Increase) in non-current intangible assets and property, plant and equipment	(64)	(68)
Decrease in non-current intangible assets and property, plant and equipment	-	1,642
(Increase) decrease in investments	(24,531)	(80,384)
(Increase) decrease in available-for-sale financial assets	-	-
Increase/decrease in other non-current assets/liabilities	336	351
Dividends received	131	158
(C) Cash flows from investing activities	**(24,128)**	**(78,301)**
Changes in equity	57	61,748
(Purchase) sale of treasury shares	226	-
Increase (decrease) in current and non-current financial payables	(77,387)	65,447
(Increase) decrease in current and non-current financial receivables	115,951	(44,279)
Dividends paid and profits distributed	(7,990)	(2,651)
(D) Cash flows from financing activities	**30,857**	**80,265**
(E) Change in cash and cash equivalents (B)+(C)+(D)	**6,354**	**(152)**
(F) Effect of changes in assets held for sale	**-**	**-**
(G) Cash and cash equivalents at the end of the year (A)+(E)+(F)	**6,605**	**251**

With respect to the **business outlook**, commissions on the financial guarantees given on behalf of subsidiaries will fall due during the current year. As regards performance of the equity investments, please refer to the provisions of the previous sections on development in the sectors that the Group is involved in.

Transactions with related parties

Related party transactions, included 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.

On 3 February 2012, the Disclosure on the merger between Quattrotretre S.p.A. and iNTEk S.p.A. and the merger between iNTEk S.p.A. and KME Group S.p.A. was published in accordance with article 5 of Consob Regulation no. 17221/2010 as amended.
For more information on the contents of the Disclosure and in general on the business combination announced on 25 October 2011 and approved on 27 January 2012, please refer to the documentation made available to the public on the Internet site of KME Group S.p.A., at the registered office of KME Group S.p.A., on the Internet site of iN-TEk S.p.A., at the registered office of iNTEk S.p.A., and at the registered office of Borsa Italiana S.p.A. and on the Internet site of Borsa Italiana S.p.A. on 3 February 2012.

Transaction 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:

(Thousands of Euros)	***31.12.2011***		***31.12.2010***	
	Income	***Expenses***	***Income***	***Expenses***
KME Italy S.p.A.	2,318	(916)	2,331	(626)
KME Brass Italy S.r.l.	104	(282)	63	(185)
Immobiliare Agricola Limestre S.r.l.	55	-	32	-
EM Moulds S.r.l.	15	(192)	21	(115)
KME Recycle S.p.A.	256	-	54	-
KME A.G.	153	-	371	-
KME Germany A.G. & Co. K.G.	5,957	(1,332)	5,645	(57)
KME Brass Germany G.m.b.h.	267	-	254	-
KME Architectural Metals Gmbh & Co. KG	-	-	2	-
KME France S.a.s.	3,023	(26)	2,164	-
KME Brass France S.a.s.	1,017	-	786	-
KME Yorkshire L.t.d.	152	-	144	-
KME Locsa S.A.	265	-	144	(71)
Culti S.r.l.	77	(1)	5	(1)
ErgyCapital S.p.A.	232	-	6	-
KME Partecipazioni S.r.l.	1	-	-	-
KME Solar Italy S.r.l.	4	-	-	-
Drive Service S.r.l.	-	-	-	(21)
Total	**13,896**	**(2,749)**	**12,022**	**(1,076)**

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

FINANCIAL (PAYABLES) RECEIVABLES				
(Thousands of Euros)	***31.12.2011***	***31.12.2010***	*Change*	*Change %*
KME Italy S.p.A.	(17)	(39,694)	39,677	-99.96%
KME Brass Italy S.r.l.	(25)	(3,522)	3,497	-99,29%
Immobiliare Agricola Limestre S.r.l.	1,253	965	288	29.84%
EM Moulds S.r.l.	(19)	(5,203)	5,184	-99.63%
KME Recycle S.p.A.	6,383	3,343	3,040	90.94%
KME A.G.	4,065	9,705	(5,640)	-58.11%
KME Germany A.G. & Co. K.G.	31,988	37,895	(5,907)	-15.59%
KME Germany A.G. & Co. K.G.	(97)	(6,913)	6,816	-98.60%
KME Brass Germany G.m.b.h.	4,106	4,829	(723)	-14.97%
KME France S.a.s.	6,029	78,185	(72,156)	-92.29%
KME France S.a.s.	(7,629)		(7,629)	n.s.
KME Brass France S.a.s.	6,529	18,551	(12,022)	n.s.
KME Yorkshire L.t.d.	2,692	3,249	(557)	-17.14%
KME Locsa S.A.	2,489	6,329	(3,840)	-60.67%
Culti S.r.L.	-	390	(390)	n.s.
ErgyCapital S.p.A.	6,839	3,851	2,988	77.59%
KME Partecipazioni S.r.l.	121	-	121	n.s.
Total	**64,707**	**111,960**	**(47,253)**	**-42.21%**

TRADE RECEIVABLES AND OTHER				
(Thousands of Euros)	***31.12.2011***	***31.12.2010***	*Change*	*Change %*
KME Italy S.p.A.	119	-	119	n.s.
KME Brass Italy S.r.l.	58	-	58	n.s.
Immobiliare Agricola Limestre S.r.l.	-	-	-	
EM Moulds S.r.l.	8	-	8	n.s.
KME Recycle S.p.A.	-	-	-	
KME A.G.	-	-	-	
KME Germany A.G. & Co. K.G.	2,209	-	2,209	n.s.
KME Brass Germany Gmbh	39	-	39	n.s.
KME France S.a.s.	-	-	-	
KME Brass France S.a.s.	-	-	-	
KME Yorkshire L.t.d.	-	-	-	
KME Locsa S.A.	-	-	-	
Culti S.r.l.	15	5	10	n.s.
ErgyCapital S.p.A.	-	-		
KME Solar Italy S.r.l.	4	-	4	
Total	**2,452**	**5**	**2,447**	**n.s.**

TRADE PAYABLES AND OTHER				
(Thousands of Euros)	***31.12.2011***	*31.12.2010*	*Change*	*Change %*
KME Italy S.p.A.	196	-	196	n.s.
KME Brass Italy S.r.l.		-		
Immobiliare Agricola Limestre Srl		-		
EM Moulds S.r.l.		-		
KME Recycle S.p.A.		-		
KME A.G.		-		
KME Germany A.G. & Co. K.G.	794	-	794	n.s.
KME Brass Germany Gmbh		-		
KME France S.a.s.		-		
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)	n.s.
Total	**990**	**3**	**987**	**n.s.**

* * *

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

Pending litigation

We will set out the legal proceedings that the Company is directly involved in as at 31 December 2011 below.

- the action pending before the Regional Court of Hannover regarding the squeeze out operation of 2001 that the German parent company was involved in was settled for Euro 754,103.35 (after interest).

- As regards the EU fines, the Court of Justice of the European Union made its rulings on the appeals brought by the industrial subsidiaries KME A.G., KME France S.a.s. and KME Italy S.p.A. on 8 December 2011 against the fines inflicted by the European Commission on 16 December 2003 and 3 September 2004 for breach of competition law in the industrial pipe and plumbing and heating pipe sectors. The Court decided not to grant the appeals. The fines by the Commissions of Euro 39.8 million and Euro 67.1 million respectively therefore became definitive, and were paid in February 2012. Provisions for said fines had already been set aside in the income statements for the 2003 financial period.

- 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 anti-trust violations, it should be noted that on 4 January 2011 the companies concerned in the KME Group filed an appeal for removal from the proceedings and for lack of jurisdiction. There was a hearing in October 2011, following which the High Court issued its rejection of the application by the KME Group companies, who therefore made a request for authorisation to submit an appeal. On 31 January last, the Court of Appeal issued its preliminary authorisation permitting the KME Group companies to submit an appeal. The hearing will be held in the next few months. On the basis of the information available, the Company believes that the risk of an unfavourable outcome to the dispute is improbable, and in any case cannot be quantified, and therefore it did not allocate any provisions to cover the potential liabilities that could result from the proceedings.

Principal risks and uncertainties to which KME Group S.p.A. and the subsidiaries 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 Group 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, 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

Following project announcement of 25 October 2011, on 27 January 2012, the Board of Directors of iNTEk S.p.A. and KME Group S.p.A. approved a structured corporate reorganisation aimed at merging the structures of these Companies into a single holding, with the aim of unifying the approach to managing the various businesses involved and focusing on enhancing value over time.
The merger of the two structures, which partly coincide in terms of management, that currently manage iNTEk and KME, will also lead to significant cost savings since both companies are listed, in addition to giving them shared strategic direction and a combination of experience and specific skills in the various activities.

The approved merger plan is scheduled to come into effect with the merger of iNTEk into KME, and shall be preceded by the launch of two public offerings of voluntary exchange of the ordinary treasury shares of both Companies, with payment represented by debt securities issued by the offering Companies for which the quotation shall be requested.

The execution of the exchange offering will permit those Shareholders who so wish, even during this period of difficult market conditions, to transform their shares into financial instruments with low risk levels and certain interest payments at advantageous terms.
Conversely, the shareholders wishing to remain as such and share in the new Group strategies will benefit from the fact that they can purchase the shares that form part of the Offering at a discount compared to their actual book value and the intrinsic value of the company assets.

The Board of Directors of KME Group S.p.A. and iNTEk S.p.A., also considering the analyses carried out and the assumptions made by an independent advisor, decided that the objectives pursued by the KME IPO and the iNTEk IPO were compatible with the assumption of higher debt due to the IPOs themselves.
The analyses carried out to check the financial compatibility made reference to the entire merger project planned.

Please refer to the documentation made available by the Companies for further information on the project proposed by the Boards of Directors.

Proposal to approve the financial statements for the 2011 financial year and cover the loss for the year

At their Ordinary General Meeting held on ……. 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 Report on operations by the Board of Directors for the year ended as at 31 December 2011 which shows a net loss of Euro 9,884,832, in addition to the financial statements as a whole, and the individual entries and records with the provisions and uses proposed;

b. to cover the net loss for the period of Euro 9,884,832 by taking a corresponding amount from the "Merger surplus" reserve, which has therefore been reduced from Euro 13,221,797 to Euro 3,336,965.

Florence, 28 March 2012

The Board of Directors

(*) The Board of Directors of KME Group S.p.A. authorised the Chairman and the two Deputy Chairmen to call the General Shareholders' Meeting to approve the draft Financial Statements for the 2011 financial period by 28 June 2012, i.e. within 180 days from the end of the financial period, taking advantage of the longer term permitted under article 2364, paragraph 2 of the Italian Civil Code due to the overlap between General Meeting call/participation requirements and the procedures that need to be followed regarding the corporate transactions in place.

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 no. 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.

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; the Reports are also available in a special section starting from the Report on the financial year ended on 31 December 2006.

For the ease of reading and comparison, the Report is divided into two parts, four sections and four tables and is an integral part of the Directors' Report at 31 December 2011. It 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 declared to adopt. The purpose of the Report is to describe the extent of the Company's compliance with the Code during the year ended 31 December 2011 by giving the reasons for any departures from the Code and describing the action already taken and action planned to assure conformity.
The Code of Conduct was substantially revised in December 2011, with its recommendations made "simpler" by reducing them to 10 from the previous 12 in the 2006 Code, and by updating the contents to reflect the many regulatory changes that made certain sections obsolete (hereinafter the "New Code").
The provisions of the New Code must be introduced by the end of the 2012 financial period, informing the market of this with the report to be published in 2013; in addition the Company has already commenced the necessary checks and updates. References to the articles in the Code in this Report obviously refer to the old text.
In addition, note that the section of the Report that has traditionally been devoted to remuneration of the Directors and the key managers, can now be found under a specific, separate "Remuneration Report" drawn up in compliance with CONSOB provisions to which the reader should refer.
Finally, certain changes were introduced in corporate governance matters in 2011 such as the following:

- introduction into the system of the "shareholders' rights directive" provisions which entails adopting a series of changes to the Shareholders' Meetings;
- implementation of the EU Directive on auditing matters, in accordance with which the Board of Statutory Auditors also comprises the "Internal Control and Auditing Committee", with supervisory functions in the area of financial disclosures, internal control systems, risk management and auditing;
- the full entry into effect of the CONSOB provisions on relations with "related parties".

The Company adopted the new provisions adjusting the Articles of Association during the General Shareholders' Meeting of 28 April 2011 and adopting new procedures regarding transactions with related parties at the end of 2010.

Due to the number of references made to the Company Articles of Association, a copy has been attached to the end of the Report, and they are also available on the website www.kme.com.

1. Regulatory environment

The "corporate governance" provisions have been subject to numerous legislative changes which led to application of a temporary system in 2008. The most recent legislation in that respect came into full force with the period ended 31 December 2009.

CONSOB 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 in a specific section 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 2011. 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.

As noted above, the section of the Report that was traditionally devoted to remuneration of Directors and key managers can now be found in a specific, separate "Remuneration Report".

The Report takes account of the provisions of the III edition of the "Experimental format of Corporate Governance Reports" that Borsa Italiana S.p.A. communicated to issuing companies in February 2012. As specified by Borsa Italiana S.p.A., the report is "non binding" and "functions as an instrument aimed at assisting issuers in preparing and checking the report pursuant to article 123 bis of the TUF, and for the controls to be carried out by the Board of Statutory Auditors". The tables at the end of the report have also been prepared and updated in compliance with it.

In addition, "gender quota" provisions were introduced into the TUF in 2011 applicable to management and control bodies. These provisions had already entered into effect in August 2011 but will be applied to bodies that are up for change starting from August 2012. In addition, legislation is being put in place in the first few months of 2012 aimed at "correcting" certain provisions of the TUF regarding the protection of Shareholders' rights. These corrections should apply to the general meetings where publication of the first call of the meeting is made after 1 January 2013.

2. Company profile

The 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 inversely proportional split of iNTEk S.p.A. (hereinafter "iNTEk") in favour of KME Group S.p.A. finalised on 22 March 2010 (hereinafter the "Split") and the merger of Drive Rent S.p.A. and COBRA Automotive Technologies S.p.A. which took effect from 1 July 2011, the Company extended its activities to different industrial sectors from its traditional sectors, acquiring significant equity investments in the following companies:

- ErgyCapital S.p.A. (renewable energy);
- COBRA Automotive Technologies S.p.A. (services).

equity holdings concentrated in the fully owned company KME Partecipazioni S.r.L.
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).

2.1 Shareholders' agreements of investee companies

With respect to companies that do not form part of the copper sector, there is a significant shareholders' agreement in place between KME Group and Aledia S.p.A. (hereinafter "Aledia") pursuant to article 122 of the TUF regarding ordinary shares of the investee company ErgyCapital S.p.A., originally agreed on 10 December 2007 between iNTEk and Aledia and subsequently amended on 25 February 2010 due to an amending agreement, and therefore in effect between the current Shareholders since 22 March 2010, the date the Split took effect.

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. CONSOB was notified of the agreements and they were filed with the Registry of Companies of Rome.

This Agreement covers 39,328,835 ordinary shares of ErgyCapital S.p.A., or 41.47% of the share capital, of which 25,412,895 shares, or 26.80% of the share capital, are held through KME Partecipazioni S.r.l. 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 noted above, in 2011 there was a merger between Drive Rent S.p.A. and Cobra Automotive Technologies S.p.A., a company governed by Italian law, listed on the STAR segment of the Mercato Telematico Azionario (Telematic Share Market) (hereinafter "M.T.A."), which operates in the integrated security service sector for the prevention and management of vehicle associated risk, resulting in KME becoming the biggest shareholder with 42.68% after the merger. This shareholding then increased to 51.589% following subscription to the capital increase operation of Cobra Automotive Technologies S.p.A. which reached a conclusion in January 2012.

A "shareholders' agreement" was signed between the Company and the other major shareholder of Cobra Automotive Technologies S.p.A., Cobra Automotive Technologies S.A., which is considered to be significant in accordance with article 122 of the TUF, and which furthers the objectives pursued with the merger, i.e. to improve conditions so that the potential to develop and enhance the value of Cobra Automotive Technologies S.p.A. can be maximised. CONSOB was notified of the agreements and they were filed with the Registry of Companies of Varese.

The indirect ownership by the Company through KME Partecipazioni S.r.L. of the majority of voting rights that can be exercised in the ordinary shareholders' meeting of Cobra Automotive Technologies S.p.A. does not give rise to the control of this latter since there are "reduction of powering" factors attached to the majority holding that do not permit it to establish the financial and management policies of the aforesaid company by reason of provisions of the Articles of Association and agreements.

3. First part: ownership structure

3.1 Structure of share capital

The share capital at 31 December 2011 was Euro 297,040,568.04, consisting of 491,047,066 shares, of which 447,347,650 were ordinary shares and 43,699,416 were savings shares, all of which with no par value.
Both categories are listed on the M.T.A.

The share capital increased by Euro 26,982.78 in 2011 due to the exercise of 41,048 "2006/2011 KME Group S.p.A. ordinary share warrants", which led to the issue of 20,524 ordinary shares and the exercise of 48,523 "2009/2011 KME Group S.p.A. ordinary share warrants" which in turn led to the issue of 48,523 ordinary shares.

The last exercise of the share warrants was in December 2011.

The 447,347,650 ordinary shares represent 91.11% of the 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 savings shares represent 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 the Savings Shareholders are provided by articles 145 et seq. of the TUF and articles 5, 8 and 28 of the Articles of Association. Their joint representative, who can take part, and has the right to intervene, in the General Meetings of the Shareholders who own ordinary shares and whose rights are provided under article 26 of the Articles of Association, is Mr. Romano Bellezza, appointed for the 2009/2011 period by the Special Meeting of the 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.

The right to exercise the "2006/2011 KME Group S.p.A. ordinary share warrants" or the "2009/2011 KME Group S.p.A. ordinary share warrants" ceased on 30 December 2011.

To that end, there was a total of 6,423,049 warrants exercised (equal to about 4.4% of the total issued), with the resulting subscription and issue of 2,390,078 new ordinary shares for a value of about Euro 2.2 million.

A resolution was also approved by Shareholders at 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 "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., issued a specific report on the correlation to the market value of the issue price of the new shares.

Any exercise of the options that were provided under the stock option plan could give rise to a change in the share capital on a monthly basis. 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.

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.

TABLE 1: INFORMATION ON THE STRUCTURE OF SHARE CAPITAL AND THE FINANCIAL INSTRUMENTS

STRUCTURE OF SHARE CAPITAL

	ISIN	*number of shares*	*% of total share capital*
Ordinary shares	IT0004552359	447,347,650	91.11
Bearer savings shares	IT0004552367	43,699,416	8.89
Registered savings shares	IT 0004552375		

OTHER FINANCIAL INSTRUMENTS

granting the right to subscribe new share issues (all rights lapsed from 30 December 2011)

	ISIN	*in issue*	*Class of shares issued on exercise*	*Number of shares issued on exercise*
Warrants 2006-11	IT0004077167	67,876,124	Ordinary shares	33,938,062
Warrants 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
After the amendments made in 2010 following the Split and following the capital increase of the Company, the overall holding of Quattroduedue Holding B.V. amounted to a total of 184,880,841 ordinary shares, corresponding to 41.33%, held through its subsidiaries IntekCapital S.p.A. with 52,197,171 ordinary shares, equal to 11.67%, and Quattroduedue S.p.A. with 132,683,664 ordinary shares, equal to 29.66%. The remaining 6 ordinary shares were held by Quattroduedue Holding B.V.

There were no changes for the year in consideration, apart from the merger (with effect from 15 June 2011) of IntekCapital S.p.A. into its parent company iNTEk S.p.A. which therefore became a direct shareholder of the Company, thereby changing the previous chain of control.

With reference to the date of 19 January 2012, therefore following the year-end date, Quattroduedue S.p.A. in turn transferred its shareholding to the fully controlled Quattrotretre S.r.L. (60.18% of whose capital belongs to Quattroduedue S.p.A and 39.82% of which to Quattroduedue Holding B.V.).

In view of the above, at the date of this Report, the overall holding of Quattroduedue Holding B.V. amounted to a total of 184,880,841 ordinary shares, corresponding to 41.328%, held through its subsidiaries INTEk S.p.A. with 52,197,171 ordinary shares, equal to 11.67%, and Quattroduedue S.p.A. with 132,683,664 ordinary shares, equal to 29.66%. The remaining 6 ordinary shares are held by Quattroduedue Holding B.V.

The total Quattroduedue Holding B.V. holding is still the same, at 37.7% with respect to the entire share capital.

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 2.82% and Dimensional Fund Advisors L.P. with 8,952,227 ordinary shares, 2.0015%.

The company has 11,321 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.
The Company did not adopt any provisions in its Articles of Association that depart from the provisions of the passivity rule pursuant to article 104, paragraph I and II of the TUF, nor provide for application of the neutralisation rules pursuant to the following article 104 bis, paragraph II and III of the TUF.

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 key managers of the Company and the Group as approved in the ordinary session of the same Meeting, which has been partially used as reported in the paragraph 3.1 here above.

Further details can be found in the previously mentioned Remuneration Report.

The Shareholders' General Meeting of 28 April 2011 gave the Board of Directors the authorisation governed by the provisions of articles 2357 and 2357 ter of the Italian Civil Code, and article 132 of Legislative Decree 58/98 to purchase ordinary shares and savings shares.

The Shareholders' General Meeting, which shall be called to discuss the extraordinary operation mentioned in another part of the Directors' Report (please refer to it for further information) will also decide on granting new authorisation to the Directors to acquire and sell treasury shares, revoking the previous authorisation at the same time.

Within the scope of the authorisations given by the Shareholders' General Meeting for the acquisition of treasury, ordinary and savings shares, as at 31 December 2011 and considering that no acquisitions had been made since 26 February 2009, these holdings amounted to 7,602,700 ordinary shares (1.70% of the total of the category and 1.5% of the entire share capital) and 135,831 savings shares (0.310% of the total of the category and 0.028% of the entire share capital). Total treasury shares held at that date were 1.575% of total share capital.

610,055 ordinary treasury shares were sold in February 2011.
The subsidiaries do not hold shares of the parent.

3.10 Management and coordination

Even though the Company is controlled by Quattroduedue Holding B.V. as indicated above, it does not consider itself to be subject to management and coordination as provided under articles 2497 et seq. of the Civil Code, and article 37 of CONSOB Regulation 16191 of 29 October 2007 (hereinafter "Market Regulation"), since:

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 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. If the standards and application criteria of the Code have not been accepted, adequate information will be provided on the reasons for the failure to apply it or its partial application.

The text of the Code of Conduct is available from Borsa Italiana S.p.A. and can also be viewed at: www.borsaitaliana.it (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.

As noted above, the Code of Conduct was subject to significant revision in December 2011 and its provisions are expected to be introduced by the end of 2012.

In accordance with the new provisions regarding remuneration, payments made to the Directors, the General Managers, the Key Managers with key responsibilities and the Board of Statutory Auditors, and any of their capital investments are no longer reported in this Report, but are contained in the Remuneration Report using the tables prepared by CONSOB.

More specifically:

- the information required by article 123-bis, first paragraph, letter i) *("the agreements between the company and* *the directors.......... that provide for compensation in the event of dismissal or resignation without just cause, or if the work relationship ceases following a public purchase offering") are contained in the Remuneration Report;*

- the information required under article 123-bis, first paragraph, letter 1) *("the regulations applicable to the appointment and replacement of the directors...... and amendments to the Articles of Association, if different from the legislative and regulatory laws applicable on an additional basis") are illustrated in the section of this Report dedicated to the Board of Directors.*

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. Note that these provisions were subject to recent amendments in 2010 and 2011 in accordance with the shareholders' rights directive. These amendments were illustrated in detail in last year's Report to which you should refer for further details.

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. 18083 of 25 January 2012);
- 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 described in article 17 of the Articles of Association is also available in the relevant section 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.

When the Directors and Statutory Auditors currently in office were appointed, there were no "gender quotas" yet in place for administration and control bodies. These provisions are contained in Law no. 120 of 12 July 2011 and shall apply from the next change of the administration and control bodies starting from August 2012; the subject is also dealt with by article 144-undecies of the Issuer's Rules. Since 2005 there has been a single female director who took over as Deputy Chairwoman in 2010.

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

With effect from 22 March 2011, Mr. Domenico Cova, engineer, resigned his position as Director and General Manager of the Company, and on the same date, Mr. Riccardo Garrè replaced him in accordance with article 2386 of the Italian Civil Code and was appointed as General Manager with responsibility in the semi-finished copper and copper alloy products sector. The following General Shareholders' Meeting of 28 April 2011 confirmed him in his position as Director, and the Board of Directors meeting held on the same date confirmed his position as General Manager.

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

Diva Moriani (Deputy Chairwoman)
Diva Moriani holds a degree in Economics and Business. She joined iNTEK S.p.A in 1999 and the Company's Board of Directors in 2002 and became Deputy Chairwoman in 2007; she is Chief Executive Officer of KME Partecipazioni and of I2 Capital Partners SGR S.p.A. and Chairwoman of ErgyCapital S.p.A. since 2011. The Board of Directors approved the appointment of Diva Moriani as Deputy Chairwoman on 25 March 2010, granting her full ordinary and extraordinary powers. She joined the Board of Directors on 27 April 2005.

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 Garrè (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. The Shareholders' Meeting of 28 April 2011 confirmed his role as Director and the Board of Directors' Meeting held on the same day confirmed his position as General Manager.

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 as General Manager "Administration, Control & Corporate Plan" in 2004. In 2005 he was appointed to the Board of Directors of KME Italy S.p.A. and became its Executive Deputy Chairman. He became part of the Vorstand (Management Board) of KME A.G. in 2005 and took on the position of CFO (Chief Financial Officer) of KME Group S.p.A. He was appointed Director by decision of the General Shareholders' Meeting of 3 August 2007 and the Board of Directors appointed him as General Manager on the same date.

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 the CEO of ErgyCapital S.p.A. and Executive Deputy Chairman of NTV – Nuovo Trasporto Viaggiatori 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 Deputy Chairman of iNTEK S.p.A., 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 Chairman of KME Partecipazioni S.r.l. He was appointed Director by decision of the General Shareholders' Meeting on 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 2011 in joint-stock companies, limited partnerships and private limited companies.

Name	*Company*	*Position*
Salvatore Orlando	KME Italy S.p.A.(1)	Chairman of the Board of Directors
	KME Germany A.G.(1)	Member of the Supervisory Board
	iNTEk S.p.A(3)	Member of the Board of Directors
Vincenzo Manes	iNTEk S.p.A. (3)	Chairman/Chief Executive Officer
	IntekCapital S.p.A. (2)(***)	Member of the Board of Directors
	Fondazione Dynamo	Chairman of the Board of Directors
	I_2 Capital Partners SGR S.p.A. (2)	Deputy Chairman of the Board of Directors
	ErgyCapital S.p.A. (1) (3)(*)	Member of the Board of Directors
	Vita Società Editoriale 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 S.p.A.	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
	Società Italiana di Filantropia	Deputy Chairman
	Progetto 10Decimi	Member of the Advisory Committee
	Comitato per la promozione del dono ONLUS	Founding member
	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
	I2 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)	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 Dynamo	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
	KME Partecipazioni S.r.l. (1)	Chief Executive Officer
Domenico Cova(**)	KME A.G. (1)	Member of the Management Committee
Riccardo Garrè	KME Italy S.p.A. (1)	Member of the Board of Directors
	KME A.G. (1)	Chairman of the Management Committee
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
	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)	Chief Executive Officer
	NTV S.p.A.	Executive Deputy Chairman
Mario d'Urso	Fondi Gabelli (Gamco Group)	Member of the Board of Directors
	Il Sole 24 Ore S.p.A. (3)	Member of the Board of Directors
	Dynamo Camp	Member of the Board of Directors
Marcello Gallo	FEB S.p.A.	Chairman
	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)	Chairman
	ISNO 4 S.r.l. (2)	Chairman
	FEI S.r.l.	Sole Director
	KME A.G. (1)	Member of the Supervisory Board
	Bredafin Innovazione S.p.A. (in liquidation)	Receiver
	Dynamo Academy S.r.l.	Member of the Board of Directors
	Associazione Dynamo	Member of the Board of Directors
	Fondazione Dynamo	Member of the Board of Directors

Giuseppe Lignana	Museo Nazionale del Risorgimento Italiano	Member of the Board of Directors
Gian Carlo Losi	KME Partecipazioni S.r.l. (1)	Chairman
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.	Member of the Board of Directors
	Camfin S.p.A. (3)	Member of the Board of Directors
	Pirelli Tyre S.p.A.	Deputy Chairman of the Board of Directors
	FIN.AP di Alberto Pirelli & C. S.a.p.a.	General partner
	Alexandria Tire Company S.A.E.	Member of the Board of Directors
	Celikord A.S.	Member of the Board of Directors
	Fondazione Pirelli	Member of the Board of Directors
	Pirelli Tyre (Pty) Limited	Member of the Board of Directors
	Dosso 5 S.r.l.	Sole Director
	Società Agricola Bosco Cotogno S.p.A.	Member of the Board of Directors
	Turk- Pirelli Lastikleri A.S.	Deputy Chairman of the Board of Directors

(1) company controlled by KME.
(2) company controlled by iNTEk.
(3) company listed in a regulated market.
(*) served until 4 August 2011.
(**) served until 22 March 2011.
(***) the company IntekCapital S.p.A. was merged into iNTEk S.p.A. on 16.6.2011

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 chooses not to limit the number of positions any of its members may hold in other companies with respect to:

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

4.2.3 Role of the Board of Directors

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

The new Code also highlights the fact that one of the main objectives of the Board of Directors is to create value over the medium-long term, and places emphasis on its duty to establish the nature and level of risk that is consistent with the strategic objectives of the Company.

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 Delegation of powers

4.2.4.1 Chief Executive Officers

The Board of Directors has appointed a Chairman (Salvatore Orlando) 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 Board of Directors assigned to the Deputy Chairwoman Diva Moriani 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 noted above, Mr. Domenico Cova, engineer, resigned his positions with the Company as of 22 March 2011. Domenico Cova was assigned 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;

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.

4.2.4.2 Reports to the Board of Directors

Due to the fact that the two Executive Directors, who also hold the position of General Manager, are also members of the Management Board of KME 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. These reports will help raise the level of awareness of the Directors and the Statutory Auditors of the situation of the company and its dynamics.

As for investments in other sectors, we note that in ErgyCapital S.p.A. as from 1 January 2011, the director Vincenzo Cannatelli, formerly Chairman of the Company's Board of Directors, was attributed operating powers and became Chief Executive Officer, while Diva Moriani, Director and Deputy Chairwoman of KME, became the Company's Chairwoman.

Ludovico Maggiore, former CEO of Drive Service S.p.A., is a member of the Board of Directors of COBRA Automotive Technologies S.p.A.

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 and of articles 3 and 4 of the new Code, 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. and 3.C.2. of the Code of Conduct, and of 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, with the abstention of the interested parties and 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

In the understanding that the Chairman of the Board of directors is not considered to be an Executive Director and is not the controlling shareholder of the Company, 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.

To this end, paragraphs C.3. and C.4 of article 2 of the New Code emphasise the importance of this appointment by the Board of Directors, therefore a choice that the Board of Directors appointed for the next three-year period 2012/2014 will have to make.

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.

In accordance with the topics on the agenda, using procedures that have become established at meetings of the Board of Directors, managers of the Company and the Group, consultants and experts and representatives of the independent auditors may be invited at the discretion of the Chairman and the Deputy Chairpersons and/or upon request by the other Directors and the Board of Statutory Auditors. The minutes of the meeting will also contain the names of these participants.

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.

The composition and function of the Internal Control Committee is illustrated below, while the Remuneration Report contains the information on the Remuneration Committee.

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.
However, in accordance with the new provisions of the Code of Conduct, the Board of Directors that will be appointed for the three-year period 2012/2015 will have to make a decision on its creation, considering that it has different functions from the previous body, more specifically:
- opinions on the size and composition of the Board of Directors;
- proposals for the appointment of candidates to the position of director if co-opting is necessary when replacing independent directors;
- preparation of a plan for the replacement of executive directors.

The Board of Directors met 7 times this year, i.e. once more than the previous year.
Four further meetings were scheduled for this year, as specified below:
- 28 March (examination of draft financial statements);
- 14 May (examination of the 31 March interim directors' report);
- 3 August (examination of the interim financial statements at 30 June);
- 13 November (examination directors' report as at 30 September).

As of the present date, 2 meetings of the Board of Directors have been held which had not been scheduled in the above list.

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

Although the number of meetings attended by each Director are analysed in the table at the end of this Report, you are advised that attendance record for Directors and Statutory Auditors was 93% (compared to 92%) and 71% (compared to 78%), 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.

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 believes that these procedures are sufficient to manage any 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. and ErgyCapital S.p.A. extending application of the procedure to them.

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 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 scope 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;
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, terms 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

Articles 10 (Calling Meetings) and 14 (Company Management) of the Articles of Association permit the Board of

Directors to carry out the operation with the related parties immediately in accordance with the terms provided in the Related Parties Regulation if it is urgent and cannot be submitted for approval to the Shareholders' Meeting.

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.
Considering the new legislation on the matter as noted above, please refer to the "Remuneration Report".

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".

In accordance with the new provisions of the Code of Conduct, the Committee will take on the new name of "Control and Risk Committee" during the year.

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, was 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. 18083 of 25 January 2012.
The Board is composed 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 his 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 within this deadline, or lists that are linked in accordance with prevailing law, lists may be filed up to the third day prior to the date of the 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 of the Shareholders' Meeting of 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 verify on a yearly basis 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 will carry out its activities validly, will take part in the meetings of the Board of Directors and the other Committees, coordinating its activities with the internal audit function in particular, and with the Internal Control Committee. In addition, the Board of Statutory Auditors has acquired and developed its capacity to interact on a continuous basis with Company departments, which it does directly and completely independently.

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 that the 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.

In accordance with the new provisions on remuneration, payments made to the Statutory Auditors are shown in the table drawn up in accordance with CONSOB provisions (or "Schedule 1" of attachment 3C of the Issuers' Regulations) contained in the Remuneration Report.

The Board of Statutory Auditors met seven times during the year as it did during the previous year. Its members' rate of attendance was 90.5% (compared to 95%).

Set out below is a table showing the positions held by each Statutory Auditor as director or statutory auditor at 31 December 2011 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
	Associazione Palazzo Strozzi	Chairman of the Board of Statutory Auditors
	SAIF S.r.l.	Chairman of the Board of Statutory Auditors
	KME Italy S.p.A. (1)	Standing auditor
	Grifoni & Masini S.p.A.	Standing auditor
	Casasole S.p.A.	Standing 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
	S.A.I.F. S.r.l.	Standing auditor
Lorenzo Boni	KME Italy S.p.A. (1)	Standing auditor
Angelo Garcea	Polimoda Consulting S.r.l.	Chairman of the Board of Statutory Auditors

(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.

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 resulting changes have already been introduced into the Articles of Association and internal procedures, and are aimed at confirming and ensuring equality of treatment to all the Shareholders in the same position as regards their shareholdings and the exercise of the right to vote at Shareholders' Meetings.

The Company Articles of Association (arts. 2 and 14) empower the Board of Directors to determine the registered and any secondary offices, to approve mergers and demergers of subsidiaries, to reduce share capital in the event of a withdrawal by a Shareholder and to comply with regulatory provisions and to be competent 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' Meetings, 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. The ways to ask questions during a Meeting and how to ask for additions to be made to the Agenda are shown in the same area.

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 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.

This article in the Articles of Association contain the provisions on how to exercise the vote by correspondence.

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, attached to this Report and available on the Company's website in the *Investor relations – corporate governance – articles of association* section. Greater details on participation at the specific meeting and the right to ask questions can be found in the same area with reference to upcoming Shareholders' Meetings.

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 2011, one ordinary and extraordinary Shareholders' Meeting was held on 28 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 applied in 2011 (respectively art. 13 and art. 5) 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 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

In accordance with the new provisions of the Code of Conduct, the system will take on the new name of "INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM" during the year.

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 2011, as in 2010, and 67% of their members was present. The Chairman of the Board of Statutory Auditors was present at both meetings which were minuted. It already met four times in 2012; there is no calendar provided setting out its upcoming meetings.

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 Chairperson to whom the Head reports. Organisationally, the Head of Internal Control is independent of all operational units and, in turn, has no operational responsibilities.

His work corresponds to internal auditing, thereby complying with the provisions in the new Code of Conduct to this effect.

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 and its subsidiaries are 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 Directors' necessary professional and personal attributes and the individual's integrity, the Board of Directors, with the agreement of the Board of Statutory Auditors, re-appointed Marco Miniati as the Manager Responsible for Financial Reporting, who was originally appointed on 21 June 2007. Mr. Miniati was made responsible for the performance of the relevant duties and was given all necessary powers for which he is separately remunerated.

Marco Miniati was born in 1960 and has been a Group Executive since 1997. His activities have been focused on the control of operations of the French and German companies. He became the General Manager 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 statement 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, in December 2006, had the internal audit 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 main and/or key risks, or on 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 controls* (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.

a. 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 person in charge of carrying out the audit on behalf of the independent auditors is Mr. Riccardo Cecchi, who has been in this role for 5 financial periods, starting with the certification issued on 25 October 2007 regarding the half-yearly report as at 30 June 2007. Article 17, paragraph IV of Legislative Decree no. 39 of 27 January 2010 (known as the "Consolidated Law on Auditing") establishes the maximum term to hold this position as 6 financial periods.

Total remuneration paid by the Company amounts to Euro 86,000. The total remuneration paid at Group level amounts to Euro 1.54 million. Please refer to the explanatory notes to the financial statements for further information.

The independent auditors were not given any further duties during the year.

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, 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 and share views 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 folder) 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 operations and products of the industrial companies of the Group. 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, 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 as well as the price trend concerning metals used by the Group (copper, zinc and nickel). This is the most frequently visited section of the website.
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. This Report is also available in the relevant section and the Remuneration Report shall also be available starting from this year.
The “annual information document”, provided by article 54 of the Issuers’ Rules is available for the years between 2005 and 2011, when it was no longer obligatory to provide this document.

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

The website www.kme.com. had over a million and a half hits during 2011 by over 600,000 visitors with over 4.3 million pages viewed, which was down a bit from 2010.
Over 4,000 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, over 2,300 times. Translation in English is also available.

There is also a continual dispatch service of announcements and documents issued by the Company to persons on a mailing list. Over 26,000 items were sent during the year (1,192 names on the mailing list compared to 1,184 in 2010).

Since 2008, a version of the annual financial statements has been prepared that can be both downloaded as a pdf file and searched and consulted on-line in both Italian and English.

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

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.

For the Shareholders’ Meetings, 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.
This extraordinary operation goes to confirm the validity of the choice made to give increasing focus to the organisation and update of the Company’s website, which is highly important in providing all parties, without any restrictions, with the broadest, most direct information on the Company’s activities.

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 of 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 blackout periods with respect to trading in the Company's financial instruments by "relevant persons" has been maintained.

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.

In accordance with the new provisions regarding remuneration, the equity investments held in the Company and its subsidiaries by the Directors and Statutory Auditors are reported in the Remuneration Report which should be consulted for reference.

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

After year end a complex extraordinary operation began which includes the merger of iNTEk S.p.A. in the Company; its multiple effects have not yet been completely implemented as at the date of this Report.

At the same time, work on checking the efficiency, and therefore the update, of the company provisions and procedures continued, due to the numerous updates introduced on company matters. This work will be developed further in accordance with the amendments proposed in the review of the Code of Conduct, the upcoming legislative changes expected to be introduced in 2012, and finally due to the effects of the extraordinary operation noted above. To that end, the necessary updates will be provided in the half-yearly Report on 30 June 2012, which is scheduled to be examined by the Board of Directors on 3 August 2012.

TABLE 2 - STRUCTURE OF THE BOARD OF DIRECTORS AND ITS CONSTITUENT COMMITTEES

BOARD OF DIRECTORS											INTERNAL CONTROL COMMITTEE		REMUNERATION COMMITTEE	
Position	*Member*	*Serving from*	*Serving until*	*List (M/m) **	*Executive*	*Non executive*	*Ind. as per Civil Code*	*Ind. as per TUF*	*% ***	*Number of other positions ****	****	**	****	**
Chairman	Salvatore Orlando	29.04.2009	31.12.2011	M		x			100	3				
Deputy Chairwoman	Vincenzo Manes	29.04.2009	31.12.2011	M	x				100	10				
Deputy Chairwoman	Diva Moriani	29.04.2009	31.12.2011	M	x				100	10				
Director Gen. Man.	Domenico Cova	29.04.2009	16.03.2011	M	x				100	1				
Director Gen. Man.	Riccardo Garrè	22.03.2011	31.12.2011	M	x				100	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			86	8				
Director	Giuseppe Lignana	29.04.2009	31.12.2011	M		x	x	x	86	= =	x	100	x	100
Director	Gian Carlo Losi	29.04.2009	31.12.2011	M		x			100	1				
Director	Alberto Pecci	29.04.2009	31.12.2011	M		x	x	x	71	2	x	0		
Director	Alberto Pirelli	29.04.2009	31.12.2011	M		x	x	x	86	10			x	100
DIRECTORS WHOSE APPOINTMENT CEASED DURING THE YEAR														
Director	Domenico Cova	20.04.2009	16.03.2011	X	==	==	==	==	100	==	==	==	==	==

Indicate the quorum required for the presentation of lists for the most recent appointment: 2.5%			
Number of meetings held during the year	Board Directors 7	Internal Control: 2	Remuneration: 1

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	*Member*	*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	8
Standing auditor	Pasquale Pace	29.04.2009	31.12.2011	M	X	71	4
Standing auditor	Vincenzo Pilla	29.04.2009	31.12.2011	M	X	100	9
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	==	1
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 non-compliance with the Code's recommendations*
Powers and transactions with related parties			
Has the Board of Directors delegated powers stipulating:			
a) limits?	x		
b) methods of exercise?	x		
c) frequency of reporting?	x		
Has the Board of Directors 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 30 December 2011 *(most recent amendments)*

KME Group S.p.A.
Registered Office : 2 Via dei Barucci, Florence
Florence Company Register, Tax I.D. number: 00931330583

B Y L A W S

TITLE I

Article 1 Name
A corporation is hereby established with the following name: KME Group S.p.A.

Article 2 Registered Office
The Company's registered office is in Florence.
The Board of Directors may move the Company's registered office anywhere in Italy and may establish and subsequently close offices, branches and agencies in Italy and abroad.

Article 3 Purpose
The Company's purpose is to acquire equity investments in other companies and institutions, both in Italy and abroad; to provide financing and technical and financial coordination to the companies and institutions in which it has an investment; and to buy, hold, manage and place publicly traded and privately held securities.
In pursuit of its purpose, the Company may also: issue and receive sureties and other guarantees; execute commercial transactions that are complementary or related to the operations of companies or institutions in which it holds equity investments; buy, sell and manage residential and industrial buildings; and, in general, execute any transaction that may be relevant to its purpose or conducive to or useful for its achievement.

TITLE II

Article 4 Share Capital
The Company's share capital, which amounts to 297,040,568.04 (two hundred ninety-seven million forty thousand five hundred sixty-eight thousand point zero four) euros, is comprised of 491,047,066 (four hundred ninety-one million forty seven thousand sixty six) shares without par value, including 447,347,650 (four hundred forty-seven million three hundred forty-seven thousand six hundred fifty) common shares and 43.699.416 (forty three million six hundred ninety-nine thousand four hundred sixteen) savings shares.
A resolution to increase the Company's share capital adopted with the voting majorities required by Articles 2368 and 2369 of the Italian Civil Code can suspend the preemptive rights of shareholders with respect to a number of shares equal to not more than 10% of the preexisting share capital, provided the shares' issue price is consistent with the shares' market price and that such conclusion is supported by a special report issued by a legally recognized independent auditor or independent auditing firm.
On October 7, 2010, acting in accordance with the powers it was awarded by the Extraordinary Shareholders' Meeting of December 2, 2009 pursuant to Article 2443 of the Italian Civil Code, the Board of Directors approved a resolution agreeing to increase the Company's share capital by up to 7,522,500.00 (seven million five hundred twenty-two thousand five hundred) euros through the issuance of up to 25,500.000 (twenty-five million five hundred thousand) common shares without par value, regular ranking for dividends, which the Company's Executive Directors and Managers of the Company or its subsidiaries may acquire for consideration, through subscription, until December 31, 2015, in accordance with the "2010-2015 KME Group S.p.A. Stock Option Plan," with exclusion of the preemptive rights of shareholders, as allowed under Article 2441, Section 4, second sentence, of the Italian Civil Code.
Pursuant to the resolution originally approved by the Extraordinary Shareholders' Meeting of May 19, 2006, as amended by the Shareholders' Meetings of June 21, 2007 and December 2, 2009 and by a resolution adopted by the Board of Directors on June 28, 2006, at December 30, 2011, the last exercise date, a total of 6,374,526 (six million three hundred seventy-four thousand five hundred twenty-six) "2006-2011 KME Group S.p.A. Common Share Warrants" had been exercised, causing the issuance of 2,341,555 (two million three hundred forty-one thousand five hundred fifty-five) common shares.
Pursuant to the resolution originally approved by the Extraordinary Shareholders' Meeting of December 2, 2009, as amended by virtue of the implementation of the capital increase required to carry out the partial, proportional reverse demerger of INTEk S.p.A. for the Company's benefit, approved by the abovementioned Extraordinary Shareholders' Meeting of December 2, 2009, in accordance with Article 3, Section I, of the Warrant Regulations, at December 30, 2011, the last exercise date, a total of 48.523 (forty-eight thousand five hundred twenty-three) "2009-2011 KME Group S.p.A. Common Share Warrants" had been exercised, causing the issuance of 48.523 (forty-eight thousand five hundred twenty-three) common shares.
The amount of the share capital and the breakdown between common and savings shares referred to in this article could change as a result of the transactions discussed in Article 7 below and the exercise of conversion rights held by the holders of convertible bonds and of any issued warrants.

Article 5 Identification of Shareholders and Classes of Shares
The Company may ask the intermediaries, acting through the centralized clearing system, to provide the personal data of shareholders who did not expressly prohibit the communication of such data, together with the number of shares registered in their accounts as of a specific date. If the same request is made by shareholders, the applicable laws and regulations in effect at any given time shall apply, also with respect to the minimum ownership interest required to file such request. In such a case, unless otherwise required by the applicable regulations, the cost shall be shared equally by the Company and the requesting shareholders.
As allowed by current laws and these Bylaws, the shares may be issued either in registered or bearer form. In the latter case, they may be converted into registered form at the request and cost of the holder.

The Shareholders' Meeting may resolve to issue preferred shares, with or without voting rights, and determine the characteristics of and the rights conveyed by such shares. However, savings shares shall have the characteristics and convey the rights that the law and these Bylaws require.
Resolutions authorizing the issuance of new savings shares with the same characteristics as those already outstanding need not be approved by a Special Shareholders' Meeting. Their holders will not be entitled to attend meetings of holders of other classes of shares nor to request that such meetings be convened.
A reduction of the Company's share capital due to losses shall have no impact on the savings shares, except for the portion of the loss that exceeds the portion of the Company's share capital represented by the other classes of shares.
If the Company's common and savings shares were to be permanently and definitively excluded from trading on regulated markets, the holders of savings shares would have the right to convert their shares into common shares on a one-for-one basis or, alternatively, into preferred shares, the terms of issuance and characteristics of which will be determined by the shareholders. Within three months of the event that caused such a situation to occur, the Board of Directors shall convene an Extraordinary Shareholders' Meeting that will adopt resolutions concerning this issue.
Without prejudice to any other right that the Company may have or to the special procedures that the law provides to act against delinquent shareholders, the failure to pay-in subscribed share capital within the stipulated deadlines will automatically trigger the accrual of interest, computed in accordance with Article 5 of Legislative Decree No. 231 of October 9, 2002, without the Company being required to give notice or sue.
Shareholders who fail to collect dividends within five years will lose their right to those dividends, which will then revert to the Company.

Article 6 Bonds and Other Non-equity Financial Instruments
The Company, acting within the confines of the applicable statutes, may issue convertible and nonconvertible bonds.

Article 7 Delegation of Powers to the Directors
The Extraordinary Shareholders' Meeting, acting pursuant to Article 2443 of the Italian Civil Code, may delegate to the Board of Directors the power to carry out, in one or more installments, capital increases of up to a predetermined amount for a period of up to five years from the date of the corresponding resolution.
The Extraordinary Shareholders' Meeting of December 2, 2009, acting pursuant to Article 2443 of the Italian Civil Code, resolved to delegate to the Board of Directors the power to carry out a contributory capital increase, divisible into one or more installments, for a period of five years from the date of its resolution, by an amount, including additional paid-in capital, of up to 15,000,000.00 (fifteen million) euros, through the issuance of up to 31,000,000 (thirty-one million) common shares, with same characteristics as the shares then outstanding, with suspension of the preemptive rights of shareholders, as allowed under Article 2441, Section 4, second sentence, of the Italian Civil Code, reserved for subscription by the beneficiaries of the "KME Group S.p.A. Stock Option Plan," as approved by the Ordinary Shareholders' Meeting of December 2, 2009, at an issue price equal to the arithmetic average of the official closing price of the KME Group S.p.A. common shares on the Online Securities Exchange organized and operated by Borsa Italiana S.p.A. during the period from the date of the option award and the same day in the previous calendar month.
The Board of Directors, meeting on October 7, 2010, implemented in full the mandate it received from the Extraordinary Shareholders' Meeting of December 2, 2009, as explained in Article 4 above.

Article 8 Earnings
After adding to the reserves and the statutory provision and allocating 2% (two percent) of the balance to the Board of Directors, the Company's earnings will be appropriated as follows:
- To the savings shares an annual amount that shall not exceed 7.24% (seven point two four percent) of € 1.50 (one point five zero) per share, which is equal to € 0.1086 (zero point one zero eight six) per share. If in a given year the savings shares receive an annual dividend smaller than 7.24% (seven point two four percent) of € 1.50 (one point five zero) per share, which is equal to € 0.1086 (zero point one zero eight six) per share, the balance will be added to the preferred dividend over the following two years.
- The appropriation of the remaining earnings will be determined by the Shareholders' Meeting pursuant to law, it being understood that the distribution of a dividend to all of the shares shall be carried out in such a way that the savings shares receive a total dividend that is greater than the dividend paid to the common shares by an amount equal to 2.07% (two point zero seven percent) of € 1.50 (one point five zero) per share, which is equal to € 0.3105 (zero point three one zero five) per share.

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

Article 9 Interim Dividends
The Board of Directors may declare interim dividends, provided it acts in compliance with the terms and conditions of the relevant statutes.

TITLE III

Article 10 Convening and Holding Shareholders' Meetings and Approving Resolutions
The Shareholders' Meeting may be convened in ordinary or extraordinary session, as the law requires. It is convened by the Board of Directors and may be held away from the Company's registered office, provided it is convened somewhere in Italy or in another country within the European Union.
The Ordinary Shareholders' Meeting held to approved the financial statements must be convened within 120 days from the end of the Company's reporting year or, in the cases set forth in Article 2364, Section 2, of the Italian Civil Code, within 180 days from the end of the Company's reporting year, the provisions of Article 154 *ter* of Legislative Decree No. 58/1998 notwithstanding.
The Extraordinary Shareholders' Meeting shall be convened in all cases required pursuant to law.
Shareholders' Meetings may be convened on a single calling or on a first or second call-

ing or, limited to Extraordinary Shareholders' Meetings, on a third calling.
Ordinary and Extraordinary Shareholders' Meetings are validly convened and resolutions validly adopted in accordance with the provisions of the applicable laws and the Bylaws.
The Notice of Shareholders' Meeting shall be published on the Company website and, when required by the applicable statutes, in the *Official Gazette of the Italian Republic* or, alternatively, in at least one of the following newspapers: *Il Sole 24 Ore*, *MF/Milano Finanza* or *Italia Oggi*. The abovementioned publication obligations shall be complied with within the deadlines and in the manner required by the laws and regulations in effect each time.
The Notice shall also indicate that the vote may be exercised by mail and describe how this may be accomplished, and shall list the parties from whom a mail ballot may be requested and the address to which the ballots should be mailed.
Acting within the deadline required by the laws and regulations in effect each time, shareholders who individually or jointly represent at least one fortieth of the share capital may ask that the Meeting's Agenda be amended to include the additional topics listed on their petition, which must be filed in writing together with a detailed list of the petitioning shareholders. The eligibility to exercise this right shall be certified by means of a communication provided to the Company by the intermediary authorized to maintain the corresponding books of accounts, pursuant to law. Notice of any amendments made to the Meeting's Agenda as a result of such petitions must be given, within the statutory deadline, in the same manner required for the Notice of the Meeting.
Items on the Agenda that are submitted for approval to the Shareholders' Meeting by the Board of Directors pursuant to law or in connection with a project or report prepared by the Board of Directors, other than those referred to in Article 125-*ter,* Section 1, of Legislative Decree No. 58/1998, may not be amended, without prejudice to any other requirements imposed by laws or regulations that may be in effect at any given time.
Unless the law requires otherwise, the Board of Directors shall convene a Shareholders' Meeting within 30 days of the receipt of a request to that effect, provided such a request is filed by shareholders representing at least one-twentieth of the Company's common share capital. Such requests, which must be sent to the Chairman of the Board of Directors by registered letter, shall list in detail the items on the Agenda and each of the parties requesting the Meeting. Copies of the relevant communications by authorized intermediaries attesting share ownership and the number of shares owned must be attached to the abovementioned requests.
In addition to the issues over which it has jurisdiction pursuant to law, the Ordinary Shareholders' Meeting shall approve resolution authorizing actions by the Board of Directors concerning transactions with related parties, pursuant to Article 2364, Section 1, Number 5, of the Italian Civil Code, in accordance with the provisions of the laws or regulations that may be in effect at any given time.

Article 11 Attendance and Representation at Shareholders' Meetings

Only the holders of common shares and, limited to the Shareholders' Meeting convened to elect the Board of Directors and in any case within the limits specified in Article 17 below, the holders of participatory financial instruments (PFIs), as defined in and governed by Articles 26 and following of these Bylaws, shall have a right to vote at Shareholders' Meetings.
Only holders of voting rights for whom the Company has received from authorized intermediaries the communication required pursuant to current law, based on the evidence available in the relevant accounting records of said intermediaries at the close of the seventh stock market trading day prior to the date for the Shareholders' Meeting on the first or single calling and delivered to the Company within the statutory deadline, may attend the Meeting.
Each share conveys the right to cast one vote.
Votes may also be cast by mail, in accordance with the terms and conditions set forth in the Notice of the Meeting, on the ballot prepared and provided in accordance with the laws currently in force.
Mail-in ballots, to which shareholders are required to attach copies of the communication required under current laws to participate in the Meeting, must arrive at the address listed in the Notice of the Meeting no later than the day before the date of the Meeting's first or single calling.
Without prejudice to the statutory provisions that govern the collection of proxies, holders of voting rights may be represented by an agent, provided they comply with the applicable statutory requirements.
Notification of a proxy may be given electronically, in accordance with the procedures listed each time in the Notice of the Shareholders' Meeting, by using a special section of the Company website or by means of an e-mail sent to the electronic mailbox listed in the abovementioned Notice.
The Company may designate a party whom shareholders or PFI holders may appoint as their proxy agent to represent them at the Shareholders' Meeting, pursuant to Article 135 *undecies* of Legislative Decree No. 58/1998, disclosing the abovementioned designation in the Notice of the Shareholders' Meeting.

Article 12 Chairmanship of Shareholders' Meetings

Shareholders' Meetings are chaired by the Chairman of the Board of Directors or, if the Chairman is not available, by the eldest of the Deputy Chairmen or by the Chief Executive Officer or by the eldest of the Directors attending the Meeting.
The Chairman of the Meeting shall be responsible for determining whether the Meeting has been properly convened, whether in ordinary or extraordinary session; ascertaining the identity of the attendees and their right to attend the Meeting; ensuring that the Meeting is carried out properly; managing and overseeing the discussion, with the right to determine beforehand the length of floor time allotted to each party entitled to speak; setting the sequence and method of voting; verifying the results of each ballot, announcing the result of each ballot and recording it in the Minutes.
The Chairman may also allow Group executives and employees to attend the Meeting.
The persons authorized to exercise the right to vote and the Common Representatives of the holders of savings shares, bonds and other financial instruments may ask to speak about the items on the Agenda to offer remarks and information and put forth motions. In such cases, motions may be put forth until the Chairman rules that the discussion about the item that is the subject of the motion has been closed.
Should he or she deem it necessary, the Chairman may adjourn the Meeting.
The Chairman shall rely on the assistance of a Secretary selected by the Chairman. In those instances in which the Minutes of the Meeting must be drawn up by a Notary, the Notary serves as Secretary.

Article 13 Minutes of the Shareholders' Meeting

The resolutions adopted by the Shareholders' Meeting shall be recorded in the Minutes, which are signed by the Chairman and the Secretary (or the Notary) and prepared in accordance with the laws currently in force.
The Minutes of the Meeting shall also summarize the remarks made by each eligible party with regard to the items on the Agenda. If a request is made that the remarks by an eligible party be recorded verbatim, the eligible party in question shall provide at the meeting a document prepared for that purpose, which will be inserted in the Minutes.
Parties eligible to exercise the right to vote may submit questions in advance of the Shareholders' Meeting, with the Company reserving the right to provide answers before or during the Shareholders' Meeting. The eligibility to exercise this right shall be certified by means of a communication provided to the Company by the intermediary authorized to maintain the corresponding books of accounts, pursuant to law.
The Secretary or the Notary may rely on the help of trusted assistants and use recording devices exclusively as personal aids for the purpose of drafting the Minutes.
Copies and abstracts of Minutes that are not prepared with the formality of Notary documents shall be certified as truthful by the Chairman of the Board of Directors or his or her substitute.

TITLE IV

Article 14 Management of the Company

The Board of Directors has the most ample powers to organize and manage the Company and is responsible for the administration of regular and extraordinary transactions carried out by the Company in pursuit of its purpose, the sole exceptions being actions that the law reserves for the Shareholders' Meeting.
The Board of Directors may adopt resolutions concerning mergers and demergers, in accordance with the provisions of Articles 2505, 2505 *bis* and 2505 *ter* of the Italian Civil Code); may reduce the Company's share capital if a shareholder exercises the right to request redemption of his or her shares; and may amend the Bylaws to comply with provisions of the law.
The Board of Directors shall adopt procedures to ensure the transparency and the substantive and procedural fairness of transactions with related parties in accordance with the applicable laws. These procedures may provide for special exemptions, when allowable, for transactions carried out directly or through subsidiaries that are of an urgent nature and in all other cases allowed pursuant to the applicable laws, and may set forth special operating requirements for the approval of resolutions.
Acting within the confines of the law, the Board of Directors may establish internal Committees, some of which may have executive authority, and determine their jurisdiction and internal rules. The Board may also delegate its powers to individual Directors, determining the limits and manner in which such delegated powers may be exercised while retaining the right to reserve for its jurisdiction transactions covered by the abovementioned delegation of powers.
Directors to whom powers and attributions have been delegated and those who are members of any Committee that may have been established are required to inform the Board of Directors and the Board of Statutory Auditors on a quarterly basis about the Company's overall performance and outlook, and about transactions, whether executed by the Company or its subsidiaries, that could have a major impact on the Company's operations, financial performance or balance sheet because of their size or characteristics. The abovementioned Directors shall also provide quarterly reports about transactions in which they may have an interest, either directly or on behalf of outsiders, or which could be influenced by an individual who exercises a management and coordination function.
When special circumstances require it, the reports referred to above may have to be provided in writing.
The Board of Directors may delegate powers and attributions to Company employees and outsiders in connection with the execution of specific transactions.

Article 15 Executive Committee

With the exception of those powers that are reserved for its jurisdiction pursuant to law, the Board of Directors may delegate its powers to an Executive Committee, which shall comprise between three and five Directors, including the Chairman. The Board of Directors shall determine its powers, attributions and method of operation.
The Executive Committee may meet informally and adopt resolutions without a meeting, its members casting their votes by telephone or telegram, confirmed with a letter or telex that will be stored among the Company's records.
The permanent members of the Board of Statutory Auditors shall attend the meetings of the Executive Committee.

Article 16 Corporate Governance Positions

The Board of Directors elects one of its members to serve as Chairman. The Chairman will be responsible for representing the Company in the manner described in Article 20 below.
The Board may also appoint one or more Deputy Chairmen and Co-Chief Executive officers and set their powers and attributions, and may also grant special powers and attributions to individual Directors.
The Deputy Chairmen replace the Chairman when he or she is absent or unavailable.
If the Chairman and the Deputy Chairmen are absent or unavailable, another Director designated by the Board shall act as Chairman.
Each year, the Board of Directors shall appoint a Secretary, who need not be a Director.
The Board of Directors, taking into account the input of the Board of Statutory Auditors, appoints and dismisses the Corporate Accounting Documents Officer and determines his or her compensation. The Corporate Accounting Documents Officer must have across-the-board expertise in the areas of accounting, finance and control and must meet the integrity requirements applicable to Directors.
The activities, functions and responsibilities of the Corporate Accounting Documents Officer shall be those set forth in the relevant provisions of current statutes.
The Board of Directors determines the length of the term of office of the Corporate Accounting Documents Officer and provides him or her with the authority and resources needed to perform the assigned tasks.

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

The Board of Directors shall be comprised of ten to thirteen Directors elected by the Shareholders' Meeting.
PFI holders, subject to compliance with the eligibility rules of the regulations currently in effect and these Bylaws, shall have a right to attend and vote at Shareholders' Meetings convened to elect the Board of Directors

exclusively with regard to (i) determining how many Directors shall sit on the Board, and this number shall be binding until the Shareholders' Meeting decides otherwise; (ii) voting for slates of candidates, consistent with the limitations specified in this Article 17; (iii) if necessary, replacing the Director drawn from slates filed by PFI holders; and, lastly, (iv) determining the Board's compensation in response to a motion submitted to the Shareholder's Meeting for resolution in accordance with Article 21 below.

The term of office for Directors may not exceed three years, and Directors may be reelected.

The Board of Directors must include the minimum number of independent Directors required pursuant to law and these independent Directors must meet the relevant statutory requirements. Any independent Director who ceases to qualify as independent subsequent to his or her election shall immediately notify the Board of Directors and shall automatically be removed from office. The candidate drawn from slates filed by PFI holders is mandatorily required to satisfy the independence requirements of Article 148, Section 3, of Legislative Decree No. 58/1998.

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

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

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

a) Slates listing the names of candidates to the office of Director shall be filed at the address provided in the Notice of the Shareholders' Meeting at least 25 (twenty-five) days prior to the first or single calling of the Shareholders' Meeting. Slates shall be made available to the public at the Company's registered office, on the Company website and at the office of the stock market operating company at least 21 (twenty-one) days prior to the first or single calling of the Shareholders' Meeting.

Slates of candidates must be accompanied by the following information:

1. Information identifying the holders of voting rights who are filing slates showing the total percentage interest held.

Ownership of the percentage interest required for the purpose of filing a slate of candidates, pursuant to the requirements stated above, may be certified subsequent to the filing of the slate, provided this is done at least 21 (twenty-one) days prior to the first or single calling of the Shareholders' Meeting by means of a communication provided to the Company by the intermediary authorized to maintain the corresponding books of accounts, pursuant to law.

2. An affidavit by the shareholders who are not among those who individually or jointly own a controlling or relative majority interest in the Company stating that they are not parties to any of the linkage transactions referred to in the applicable provisions of the relevant statutes;

3. Detailed information about the personal and professional background of the candidates and an affidavit by the candidates accepting their nomination and attesting, under their responsibility, that there are no issues that would make them unelectable or incompatible, that they meet the requirements of the relevant provisions of current statutes and the Bylaw for election to the offices they seek and stating whether they qualify as independent Directors in accordance with Article 148, Section 3, of Legislative Decree No. 158/1998.

b) A shareholder or a PFI holder may not file or vote for more than one slate either directly or through a representative or a nominee. Parties belonging to the same group and parties who have joined a shareholders' agreement involving the Company's shares may not file or vote for more than one slate either directly or through a representative or a nominee. PFI holders may vote only for slates filed by PFI holders and shareholders may vote only for slates filed by shareholders. A candidate's name may appear only on one slate, under penalty of becoming unelectable.

c) Only (i) parties who alone or together with others account for a percentage interest in the Company's share capital (stated in terms of common shares that convey the right to vote on resolutions of the Shareholders' Meeting that concern the election of members of corporate governance bodies) equal to the highest percentage required to comply with the provisions of the regulations issued by the CONSOB (Italian National Corporation and Stock Market Commission) in this area, and (ii) parties who alone or together with others account for a percentage of the PFIs (computed on the total number of PFIs outstanding) equal at least to the slate filing percentage required of shareholders have a right to file a slate of candidates.

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

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

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

e) In the event of a tie between two or more slates, the candidates listed on the slate filed by the shareholders who own the largest percentage interest in the Company's share capital at the time their slate was filed or, alternatively, the largest number of holders of voting rights shall be elected to the Board of Directors.

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

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

The replacement of Directors drawn from slates filed by shareholders shall take place in accordance with the applicable provisions of the relevant laws, the use of slate voting not being required. The cooptation system provided by Article 2386 of the Italian Civil Code may not be used to replace Directors drawn from slates filed by PFI holders and the Shareholders' Meeting, which shall be convened promptly, shall adopt the corresponding resolution by a relative majority of the votes cast by PFI holders.

Article 18 Meetings of the Board of Directors

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

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

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

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

Article 19 Validity of Meetings of the Board of Directors

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

In the event of a tie, the side supported by the Chairman shall prevail.

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

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

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

Article 20 Representation of the Company

The Chairman of the Board of Directors (or his or her substitute) represents the Company before third parties and in judicial proceedings without need for joint signatories and, without the need to secure the prior approval of the Board of Directors, is empowered to file or respond to legal actions in any level or type of jurisdiction, both in Italy and abroad, including the Constitutional Court; to file or respond to requests for statutory and private arbitration proceedings; to file complaints, criminal charges and lawsuits; to file appeals; to request regular and extraordinary encumbrances; to file petitions asking for urgent relief or protective measures, 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 be entitled to represent the Company within the scope of the powers they may have been granted.

If the Chairman, the Deputy Chairmen, the Co-Chief Executive Officers or Company executives should be absent or unavailable, corporate resolutions may be validly signed by two Directors.

Article 21 Compensation

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

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

TITLE V

Article 22 Board of Statutory Auditors

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

As required by current laws and regulations, the members of the Board of Statutory Auditors must meet the integrity and professionalism requirements set forth in the relevant statutes.

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

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

a) At least 25 (twenty-five) days prior to the date of the first or single calling of the Shareholders' Meeting convened to elect the Board of Statutory Auditors, slates listing in numerical order the candidates to the posts of Statutory Auditors and Alternate Auditors must be filed at the address listed in the Notice of the Meeting. Slates shall be made available to the public at the Company's registered office, on the Company website and at the office of the stock market operating company at least 21 (twenty-one) days prior to the first or single calling of the Shareholders' Meeting.

Slates must contain the following information:

1. Information identifying the shareholders who are filing slates showing the total percentage interest held.

Ownership of the total percentage interest held may be certified subsequent to the filing of the slate, provided this is done at least 21 (twenty-one) days prior to the date of the first or single calling of the Shareholders' Meeting by means of a communication provided to the Company by the intermediary authorized to maintain the corresponding books of accounts, pursuant to law.

2. An affidavit by shareholders who are not among those who individually or jointly own a controlling or relative majority interest in the Company stating that they are not parties to any of the linkage transactions referred to in the applicable provisions of the relevant statutes;

3. Detailed information about the personal and professional backgrounds of the candidates, including a listing of management and control posts held by each candidate at other companies, and an affidavit by the candidates accepting their nomination and attesting, under their responsibility, that there are no issues that would make them

unelectable or incompatible, that they meet the requirements of the relevant provisions of current statutes and the Bylaws for election to the offices they seek.
b) If, within the deadline set forth in Section a) above, only one slate is filed or if only slates submitted by parties who, in accordance with the provisions of Section a) No. 2, above, are linked with each other pursuant to the laws currently in force are filed, slates may be filed until the third day following the abovementioned date.
In the cases referred to in this Section b), the threshold set forth in Section d) below shall be reduced in half.
c) A shareholder may not file or vote for more than one slate either directly or through a representative or a nominee. Parties belonging to the same group and parties who have joined a shareholders' agreement involving the Company's shares may not file or vote for more than one slate either directly or through a representative or a nominee. A candidate's name may appear only on one slate, under penalty of becoming unelectable.
d) Parties who alone or together with others account for a percentage interest in the Company's share capital (stated in terms of common shares that convey the right to vote on resolutions of the Shareholders' Meeting that concern the election of members of corporate governance bodies) equal to the highest percentage set forth in Article 147 *ter*, Section 1, of Legislative Decree No. 58/1998 and required to comply with the provisions of the regulations issued by the CONSOB (Italian National Corporation and Stock Market Commission) in this area have a right to file a slate of candidates.
The minimum percentage interest in the Company's share capital required to file slates of candidates shall be set forth in the Notice of Shareholders' Meeting.
Only slates filed by parties who deposited on time the documents required pursuant to Sections a) and b) above will be deemed to have been validly filed. If the Shareholders' Meeting is postponed to a second calling, properly filed slates shall still be valid.
e) The first two candidates on the slate that received the highest number of votes and the first candidate on the slate that received the highest number of votes among the slates filed and voted by parties who are not linked with reference shareholders, as defined in Article 148, Section 2, of Legislative Decree No. 58/1998, will be elected to the post of Statutory Auditor.
The first candidate listed on the slate that received the highest number of votes and the first candidate on the slate among the slates filed and voted by parties who are not linked with reference shareholders, as defined in Article 148, Section 2, of Legislative Decree No. 58/1998, will be elected to the post of Alternate Auditor.
In the event of a tie between two or more slates, the candidates listed on the slate filed by the shareholders who own the largest percentage interest in the Company's share capital at the time their slate was filed or, alternatively, the largest number of said holders of voting rights shall be elected to the post of Statutory Auditor.
f) The first candidate on the slate filed by minority shareholders that received the highest number of votes will serve as Chairman of the Board of Statutory Auditors. If two or more slates receive the same number of votes, the procedure explained in the preceding Section shall be applied.
g) If only one slate is filed, the first 3 (three) candidates and the next two (2) candidates, in the order they are listed on the slate, will be elected Statutory Auditors and Alternates, respectively. The first candidate listed on the slate will be elected Chairman.
The members of the Board of Statutory Auditors are required to comply with the limits set forth in the applicable provisions on the number of corporate governance posts that may be held.
If a Statutory Auditor were to die, resign or be dismissed, the first Alternate elected from the same slate will replace him or her.
If the Chairman of the Board of Statutory Auditors were to die, resign or be dismissed, the Alternate Auditor who replaced the outgoing auditor in the slate filed by the minority shareholders shall become Chairman of the Board of Statutory Auditors.
The foregoing provisions concerning the election of Statutory Auditors shall also apply to Shareholders' Meetings convened to elect Statutory Auditors and/or Alternate Auditors and the Chairman of the Board of Statutory Auditors, when such elections are necessary to fill vacancies on the Board of Statutory Auditors.
If for any reason it becomes impossible to elect a Board of Statutory Auditors or elect and/or replace a portion of its members in the manner described above, the Shareholders' Meeting shall proceed in accordance with the applicable laws.

Article 23 Meetings of the Board of Statutory Auditors
The Board of Statutory Auditors shall meet at least once every ninety days. Meetings of the Board of Statutory Auditors may be held by teleconference or videoconference, provided all participants can be identified and are able to follow the discussion and participate in real time in the discussion of the items on the Agenda.
Meetings of the Board of Statutory Auditors shall be deemed to have been validly convened when a majority of the Statutory Auditors are present and its resolutions are adopted with the favorable vote of an absolute majority of the attendees.

Article 24 Legally Recognized Auditing of the Accounting Records
The Company's accounting records shall be the subject of a legally recognized audit performed by a legally recognized independent auditor or independent auditing firm listed in a special register established pursuant to and for the purposes of Legislative Decree No. 39/2010.
The Shareholders' Meeting, acting upon a detailed proposal by the Board of Statutory Auditors, shall select the party retained to perform a legally recognized audit of the Company's accounting records, determining the party's compensation, and may revoke the auditing assignment, in accordance with the relevant laws.
The auditing assignment shall be for a length of time consistent with relevant regulatory provisions and may be renewed, as allowed by said provisions.

TITLE VI

Article 25 Fiscal Year
The Company's fiscal year ends on December 31.

TITLE VI – BIS PARTICIPATORY FINANCIAL INSTRUMENTS

Article 26 Issuance
On May 9, 2010, the Company, acting pursuant to the combined provisions of Article 2346, Section 6, and Article 2351, Section 5, of the Italian Civil Code, resolved to issue up to 254,864,115 participatory debt financial instruments, constituting a single issue of securities called "2012-2017 KME Group S.p.A. Participatory Debt Financial Instruments" (hereinafter the "PFIs"), with a face value of 0.42 euros each and, consequently, for a total maximum consideration

of 107,042,928.30 euros, with the characteristics specified in these Bylaws.
Pursuant to Legislative Decree No. 58/1998 and the corresponding implementation regulations, the PFIs will be included in dematerialized form in the centralized clearing system operated by Montetitoli S.p.A.
Consequently, any transaction involving the PFIs (including transfers and encumbrances) and the exercise of ownership and administrative rights attributed to their holders pursuant to these Bylaws shall be implemented exclusively in accordance with the provisions of laws and regulations in effect from time to time and applicable to financial instruments included in dematerialized form in the centralized clearing system operated by Montetitoli S.p.A.
The PFIs will be listed for trading on the Online Bond and Government Securities Market organized and operated by Borsa Italiana S.p.A.

Article 26-bis Conveyance

Each PFI shall be issued and subscribed in exchange for the conveyance (the "Conveyance") to the Company of 1 (one) KME Group S.p.A. common share, without stated par value, tendered in acceptance of the voluntary all-inclusive public exchange offer promoted by the Company, pursuant to Article 102 of Legislative Decree No. 58/1998, for 254,864,115 Company common shares (the "Voluntary Offer") or within the framework of the procedure for extension of the Voluntary Offer's deadline, if such a procedure is implemented (the "Extended Deadline").
The issuance and subscription of the PFIs shall take place, for the shares tendered in response to the Voluntary Offer, on the payment date of the Voluntary Offer's consideration or, if an Extended Deadline procedure is implemented and for the shares tendered within the procedure's framework, on the payment date of the Extended Deadline's consideration, based on a ratio of 1 (one) PFI, face value 0.42 euros each, for 1 (one) KME Group S.p.A. common share tendered and acquired by the Company, for a maximum face value amount of 107,042,928.30 euros. For the purposes of these Bylaws, the "KME Offer" shall be understood to mean the entire public exchange offer procedure, including the Extended Deadline procedure, if implemented.
The face value of each PFI is 0.42 euros, which corresponds to the stipulated value assigned, within the framework of the KME Offer, to the items subject of the Conveyance, i.e., to each KME Group S.p.A. common share.
Consequently, and considering the obligation to repay the value of the Conveyance in accordance with the terms and modalities specified in Article 26-*quater* of these Bylaws, in recognition of the Conveyance and the issuance of the PFIs, the Company shall include in its financial statements a liability account in an amount equal to the total value of the PFIs, as determined in accordance with the applicable accounting principles in effect on the PFI Record Date.

Article 26-ter Duration

The PFIs shall have a duration of 5 years (or sixty months) counting from the PFI Record Date to the corresponding day of the sixtieth month after the PFI Record Date (the "PFI Maturity Date").
As stipulated, for the purpose of the attribution of ownership rights to PFI holders, the "PFI Record Date" shall correspond to the payment date of the consideration for the Voluntary Offer.

Article 26-quater Ownership Rights

The PFIs shall accrue interest at the fixed annual coupon rate of 8% (eight percent) (the "Coupon Interest Rate") from the PFI Record Date (included) to the PFI Maturity Date (excluded).
Interest shall be paid annually in arrears, i.e., at the end of each period of 12 (twelve) months, counting from the PFI Record Date. The last payment shall be due on the PFI Maturity Date.
The amount of each coupon payment shall be determined by multiplying the face amount of each PFI, i.e., 0.42 euros, by the Coupon Interest Rate.
Interest shall be computed based on the actual number of days included in the corresponding interest period over the number of days included in a calendar year (365 or 366 for a leap year), in accordance with the Act/Act unadjusted day count convention, as understood in market practice.
If the coupon payment date should not fall on a business day, according to the "Target" calendar in effect from time to time ("Business Day"), it shall be extended to the first Business Day immediately following, but this extension shall not entitle PFI holders to receive any additional amount or cause a postponement of subsequent coupon payment dates.
The "interest period" shall be understood to mean the time period from a coupon payment date (included) to the next coupon payment date (excluded) or, limited to the first interest period, the period from the PFI Record Date (included) to the first coupon payment date (excluded), it being understood that, if a coupon payment date should fall on a day that is not a Business Day and, consequently, is postponed to the first following Business Day, this extension shall not be taken into account for the purpose of computing the actual number of days in the corresponding interest period (Following Business Day Convention – Unadjusted).
PFIs shall be redeemed at par, i.e., at 100% of their face value, in a lump sum, on the PFI Maturity Date.
If the PFI Maturity Date should fall on a day that is not a Business Day, it shall be postponed to the first following Business Day, but this extension shall not entitle PFI holders to receive any additional amount.
PFIs shall cease to accrue interest on the PFI Maturity Date.
Coupon payments and the redemption of the face value of the PFIs shall be carried out exclusively through authorized intermediaries who are registered with Montetitoli S.p.A.
Insofar as coupon payments are concerned, the rights of PFI holders shall lapse after five year from the date when the interest became payable and, insofar as repayment of the face value is concerned, after ten years from the date when PFIs became redeemable.
The PFIs shall not bet junior to any other present and future unsecured indebtedness of the Company.

Article 26-quinquies Administrative Rights

Pursuant to the combined provisions of Article 2346, Section 6, and Article 2351, Section 5, of the Italian Civil Code, PFI holders, collectively and until the PFI Maturity Date, shall have the right to elect a member of the Company's Board of Directors, who shall meet the independence requirements of Article 148, Section 3, of Legislative Decree No. 58/1998 (the "Securities Class Director").
As required by Article 17 of these Bylaws, the election shall take place on the occasion of the Shareholders' Meeting convened to elect the Board of Directors.
Without prejudice to their right to attend the Shareholders' Meeting and vote to elect the Securities Class Director, PFI holders shall have no other right regarding attendance and voting at the Company's Shareholders'

Meeting, nor any other administrative rights that is not expressly provided for pursuant to law or these Bylaws.

Article 26-sexies Meeting of PFI Holders

Except for the election of the Securities Class Director, PFI holders shall convene in a PFI Holders' Meeting to exercise their administrative rights and protect their interest.
The PFI Holders' Meeting shall approve resolutions regarding:
(1) the election and dismissal of the common representative referred to in Article 26-septies of these Bylaws;
(2) amendments to these Bylaws concerning the administrative and ownership rights of PFI holders;
(3) a proposal of composition with creditors;
(4) the establishment of a fund to cover expenses required to protect their common interest and the corresponding accounting;
(5) other issues of common interest to PFI holders.
Each PFI, with a face value of 0.42 euros, conveys the right to cast a vote at the PFI Holders' Meeting.
Insofar as they may be compatible and without prejudice to the provisions set forth in the paragraphs that follow, the provisions applicable to the Company's Special Shareholders' Meetings, including provisions of laws and regulations governing attendance and voting rights that may be in effect from time to time and Article 11 of these Bylaws, limited to the exercise of the rights of PFI holders at PFI Holders' Meetings, shall also apply to PFI Holders' Meetings.
In shall be understood that the favorable vote of a majority of PFI holders shall be required for resolutions concerning Item (2) above, irrespective of the calling on which their Meeting may be convened.
A PFI Holders' Meeting may be convened at the request of the Board of Directors or the common representative of PFI holders and on all other occasions required pursuant to law.
The amendments to the Bylaws referred to in Item (2) above shall not become effective until evidence is provided that they were approved by the PFI Holders' Meetings.

Article 26-septies Common Representative

The PFI Holders' Meetings shall elect a PFI Common Representative who, the necessary changes having been made, shall have the same characteristics, obligations and powers as those set forth in Articles 2417 and 2418 of the Italian Civil Code and these Bylaws.

Article 26-octies Lack of Right to Early Redemption of PFIs or Other Rights

It shall be understood that PFI holders shall have no right to demand early redemption of PFIs as a result of any resolution that may be adopted by the Company, including resolutions for which dissenting shareholders may be entitled to demand redemption of their shares pursuant to law or these Bylaws.
It shall further be understood that PFIs do not convey to their holders any different and/or additional right beyond those specifically and expressly provided to them pursuant to law or these Bylaws.

Article 26-novies Tax Status

Interest, bonuses and other income originating from the PFIs are subject to the tax laws applicable to debt securities issued by listed companies. Specifically, interest from PFIs is subject to a substitute income tax, currently set at 20%, pursuant to Legislative Decree No. 239 of April 1, 1996, as amended. The substitute tax is not applicable when the beneficiary is a recipient of business income, other than independent contractors; in such cases, the interest income is included in the computation of the business' taxable income.
Non-resident investors may benefit from an exemption from the substitute tax provided the conditions of Articles 6 and 7 of Legislative Decree No. 239 of April 1, 1996 are met.

Article 26-decies Early Redemption and Buybacks of PFIs

The Company reserves the right to carry out a full or partial early redemption of the PFIs by means of a notice published pursuant to Article 26-undecies at least 20 (twenty) Business Days before the early redemption date, which may occur starting one year after the PFI Record Date. If the early redemption option is exercised, the PFIs shall be redeemed at par. The PFIs shall stop accruing interest on the early redemption date.
The company may buy back the PFIs at any time at market prices or on different terms. If purchases are carried out by means of a tender offer, the offer shall be addressed to all PFI holders on the same terms. The Company shall have the option of holding, reselling or cancelling the PFIs. The necessary changes having been made, the provisions of Article 2357-ter, Section 2, of the Italian Civil Code governing treasury shares shall apply as long as the Company holds the PFIs.

Article 26-undecies Miscellaneous Provisions

All communications from the Company to the PFI holders shall be made by means of a notice published on the Company website and, when required by the regulations applicable from time to time, on a national circulation newspaper. Communications shall also be issued in accordance with the modalities customary in the reference market.

TITLE VII

Article 27 Rights of the Common Representatives

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

TITLE VIII

Article 28 Duration of the Company

The duration of the Company is until December 31, 2050 and may be extended one or more times by a resolution of the Shareholders' Meeting.
A resolution extending the Company's duration shall not entitle shareholders to request redemption of their shares, as allowed under Article 2437 of the Italian Civil Code.

TITLE IX

Article 29 Liquidation of the Company

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

TRANSITIONAL PROVISION I

The election of the Securities Class Director shall take place, the necessary changes having been made, by applying, if required, the provisions of these Bylaws governing the replacement of Directors.
Signed: Salvatore Orlando; Ernesto Cudia

CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2011

Consolidated financial statements at 31 December 2011

CONSOLIDATED STATEMENT OF FINANCIAL POSITION					
(thousands of Euro)	*Notes*	*31.12.2011*	*of which related parties*	*31.12.2010*	*of which related parties*
Property, plant and equipment	*4,1*	580,114		583,873	
Investment property	*4,2*	30,812		28,603	
Goodwill and consolidation differences	*4,3*	118,367		114,582	
Other intangible assets	*4,4*	2,982		3,490	
Investments in subsidiaries and associates	*4,5*	15,152	*15,152*	17,301	*17,301*
Investments in other companies	*4,5*	258	*258*	1,908	*1,908*
Investments in equity-accounted investees	*4,5*	47,826	*47,826*	21,951	*21,951*
Other non-current assets	*4,6*	8,560		25,501	
Non-current financial assets	*4,7*	4,589		115,686	
Deferred tax assets	*4,20*	31,491		47,033	
NON-CURRENT ASSETS		**840,151**		**959,928**	
Inventories	*4,8*	607,483		622,054	
Trade receivables	*4,9*	129,489	*6,835*	146,505	10,462
Other current receivables and assets	*4,10*	31,980		26,180	
Current financial assets	*4,11*	251,902	*7,182*	140,242	*4,597*
Cash and cash equivalents	*4,12*	66,483		39,751	
Current assets hel for sale	*4,23*	-	-	86,393	*86,393*
CURRENT ASSETS		**1,087,337**		**1,061,125**	
TOTAL ASSETS		**1,927,488**		**2,021,053**	
Share capital		297,041		297,014	
Other reserves		186,674		189,572	
Treasury shares	*2,11*	(2,680)		(2,888)	
Retained earnings		72,188		15,191	
Consolidation reserves	*4,13*	(107,852)		(29,267)	
Reserve for deferred tax	*4,13*	(80)		794	
Loss for the period		(14,292)		(18,351)	
Equity attributable to owners of the Parent	***2,11***	**430,999**		**452,065**	
Equity attributable to non-controlling interests		6,062		4,952	
TOTAL EQUITY	***2,11***	**437,061**		**457,017**	
Employee benefits	*4,14*	153,439		152,757	
Deferred tax liabilities	*4,20*	119,133		138,135	
Financial payables and liabilities	*4,15*	266,669		316,875	
Other non-current liabilities	*4,16*	20,320	*2,133*	13,740	1,797
Provisions for risks and charges	*4,17*	17,128		137,240	
NON-CURRENT LIABILITIES		**576,689**		**758,747**	
Financial payables and liabilities	*4,18*	247,776	*2,417*	197,841	*2,230*
Trade payables	*4,19*	526,938	*701*	410,772	*6,027*
Other current liabilities	*4,19*	123,009	*563*	103,501	*466*
Provisions for risks and charges	*4,17*	16,015		24,910	
Current liabilities hel for sale	*4,23*	-	-	68,265	*68,265*
CURRENT LIABILITIES		**913,738**		**805,289**	
TOTAL EQUITY AND LIABILITIES		**1,927,488**		**2,021,053**	

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(thousands of Euro)	**Notes**	**31.12.2011**	***of which related parties***	**31.12.2010**	***of which related parties***
Revenue from sales and services	5,1	3,011,637	*20,778*	2,718,666	*16,408*
Change in inventories of finished goods and semi-finished products		948		13,485	
Capitalised internal work		4,960		2,712	
Other operating income	5,2	24,268	*31*	20,734	*30*
Purchases and change in row materials	5,3	(2,264,171)	*(106)*	(2,015,961)	*(27,579)*
Personnel expenses	5,4	(358,195)	*(986)*	(332,921)	*(721)*
Amortisation, depreciation and impairment losses	5,5	(55,636)		(50,562)	
Other operating costs	5,6	(345,043)	*(8,817)*	(321,218)	*(3,075)*
Operating profit (loss)		**18,768**		**34,935**	
Financial income	5,7	29,521	*714*	10,730	*273*
Financial expenses	5,7	(35,703)	*(2,913)*	(32,063)	*(283)*
Share of profit of equity-accountede associates	5,8	(7,123)	*(7,123)*	(10,735)	*(10,735)*
Profit before taxes		**5,463**		**2,867**	
Current taxes	5,9	(21,878)		(4,185)	
Deferred taxes	5,9	3,781		(15,047)	
Total income taxes		**(18,097)**		**(19,232)**	
Profit/(loss) from continuing operations		**(12,634)**		**(16,365)**	
Profit /(loss) from discontinuing operations	5,10	(573)	*(573)*	(1,442)	*(1,442)*
Profit/(loss) for the period		**(13,207)**		**(17,807)**	
Other components of total comprehensive income:					
Gains/(losses) on translating the financial statements of foreign operations		1,186		1,302	
Net change in the cash flow hedge reserve		(852)		(448)	
Revaluation of real estate assets (IAS 40)		-		1,501	
Taxes on other components of total comprehensive income		-		(347)	
Other components of total comprehensive income after taxes		**334**		**2,008**	
Total comprehensive income for the period		**(12,873)**		**(15,799)**	
Profit/(loss) for the period attributable to:					
non-controlling interets		1,085		544	
owners of the Parent		(14,292)		(18,351)	
Profit/(loss) for the period		**(13,207)**		**(17,807)**	
Total comprehensive income attributable to:					
non-controlling interets		368		760	
owners of the Parent		(13,241)		(16,559)	
Total comprehensive income for the period		**(12,873)**		**(15,799)**	

Earnings per share (Euro):		***31.12.2011***		***31.12.2010***	
basic earnings/(loss) per share		(0.0390)		(0.0526)	
diluite earnings/(loss) per share		(0.0369)		(0.0526)	

STATEMENT OF CHANGES IN CONSOLIDATED EQUITY AT 31 DECEMBER 2011

(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 31.12.2010	**297,014**	**189,572**	**(2,888)**	**15,191**	**(29,267)**	**794**	**(18,351)**	**452,065**	**4,952**	**457,017**
Allocation of Parent's profit/(loss)		11.045		50,056			(61,101)	-		-
Allocation of subsidiaries' profit					(79,452)		79,452	-		-
Dividends and allocations to the Board of Directors		(7,990)						(7,990)		(7,990)
Issue of new shares (exercise of warrants)	27	30						57		57
(Purchase) sale of treasury shares		18	208					226		226
Deferred taxes recognised in equity						(22)		(22)		(22)
Expiry of stock option		940						940		940
Other changes		(6,941)		6,941	49	-		49	(343)	(294)
Other components of total comprehensive income					818	(852)		(34)	368	334
Total losses/income recognised in equity	**-**	**-**	**-**	**-**	**818**	**(852)**	**-**	**(34)**	**368**	**334**
Profit/(loss) for the period							(14,292)	(14,292)	1,085	(13,207)
Total comprehensive income	**-**	**-**	**-**	**-**	**818**	**(852)**	**(14,292)**	**(14,326)**	**1,453**	**(12,873)**
Equity at 31.12.2011	**297,041**	**186,674**	**(2,680)**	**72,188**	**(107,852)**	**(80)**	**(14,292)**	**430,999**	**6,062**	**437,061**
Reclassification of treasury shares	(2,680)		2,680					-		-
Equity at 31.12.2011	**294,361**	**186,674**	**-**	**72,188**	**(107,852)**	**(80)**	**(14,292)**	**430,999**	**6,062**	**437,061**

At 31 December 2011 the Parent directly held 135,831 savings shares and 7,602,700 ordinary shares with no par value. Their historical cost has been fully reclassified, thus reducing the share capital.

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 merger 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 means of the allocation of three shares for every two held carried out on 8 February 2010. The same shares were then reclassified in full, thus reducing the share capital.

CONSOLIDATED STATEMENT OF CASH FLOWS, INDIRECT METHOD			
(thousands of Euro)		***31.12.2011***	***31.12.2010***
A) Cash and cash equivalents at the beginning of the year	*Notes*	**39,751**	**108.964**
Profit (loss) before taxes		5,462	2,867
Depreciation and amortisation		45,396	45,848
Impairment losses on current assets		3,961	5,568
Impairment losses (reversals of impairment losses) on non-current assets other than financial assets		10,240	4,714
Impairment losses (reversals of impairment losses) on current and non-current financial assets		4,695	6,317
Losses (gains) on disposal of non-current assets		(13,562)	(236)
Change in provisions for pensions, post-employment benefits and stock options		981	144
Change in provisions for risks and charges		73	(1,196)
Decrease (increase) in inventories		16,842	(151,348)
Share of profit of equity-accounted investees		9,083	10,735
(Increase) decrease in current receivables		25,090	(9,498)
Increase (decrease) in current payables		123,294	208,905
Changes from currency translation		(330)	(286)
Decrease (increase) in LME and metals forward contracts		(49,127)	19,098
Paid taxes		(22,194)	(4,764)
(B) Cash flows from operating activities		**159,904**	**136,868**
(Increase) in non-current intangible assets and property, plant and equipment		(60,537)	(44,261)
Decrease in non-current intangible assets and property, plant and equipment		15,766	1,693
(Increase) decrease in investments		(17,448)	(30,418)
Increase/decrease in other non-current assets/liabilities		7,017	6,779
Dividends received		852	260
(C) Cash flows from investing activities		**(54,349)**	**(65,947)**
Equity cash variations		57	22,860
(Purchase) sale of treasury shares		226	-
Increase (decrease) in current and non-current financial payables		(90,648)	(107,191)
(Increase) decrease in current and non-current financial receivables		16,271	(45,582)
Dividends paid and profits distributed		(7,990)	(2,651)
(D) Cash flows from financing activities		**(82,083)**	**(132,564)**
(E) Change in cash and cash equivalents (B)+(C)+(D)		**23,471**	**(61,643)**
(F) Change in scope of consolidation		**3,107**	**5,742**
(G) Total cash flows used in discontinued operations	*4,22*	**154**	**(13,312)**
(H) Cash and cash equivalents at the end of the year (A)+(E)+(F)+(G)		**66,483**	**39,751**

Positions or transactions with related parties are not separately recorded in the statement of cash flows since their amount is negligible.

Accounting standards applied and notes

1. General information

KME Group S.p.A. ("KME") and its subsidiaries (that together make up the "Group") operate mainly in the copper and copper-alloy semi-finished products, services and renewable energy sectors.
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 (Società per Azioni) registered in Italy with the Florence Company Register, no. 00931330583, and its shares are listed on the Mercato Azionario Telematico (Borsa Italiana's electronic market) organised and managed by Borsa Italiana S.p.A.
The consolidated financial statements at 31 December 2011 were approved by the Board of Directors on 28 March 2012 and will be published in accordance with legal requirements.
Although it is owned by Quattroduedue B.V., the Company is not subject to the management and coordination of 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 Parent 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.

As detailed in the Directors' Report, on 27 January 2012 the Boards of Directors of INTEK S.p.A. and KME Group S.p.A. approved a broad corporate operation to bring the structures of the two companies under a single holding company, with the aim of managing the individual businesses that each controls as a single unit so as to develop them and to give more focus to their role of creating value in the long term.

The execution of the merger, which in accordance with the approved project will be undertaken by merging INTEK into KME, will be preceded by the launch of two voluntary share exchange offers by the two companies for their ordinary treasury shares, with the payment being made in debt securities issued by the companies and for which listing will be sought.

For further information on the transaction proposed by the Boards of Directors, refer to the documentation made available by the Company.

During the year, effective from 1 July 2011, the merger of the Drive Group into Cobra Automotive Technologies S.p.A. has been concluded. We reiterate that on 30 November 2010 the Board of Directors of Drive Rent S.p.A. approved a corporate/industrial restructuring that provided for the merger of Drive Rent into Cobra Automotive Technologies S.p.A, the holding company of a group listed on the Italian Stock Exchange and a leader in car theft protection systems and vehicle safety through the use of IT and satellite technology. The transaction will allow the new entity to offer common and heterogeneous groups of customers (such as individual drivers, corporate fleets, lease companies, car manufacturers 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).
On 15 March 2011, the merger project was submitted to and approved by the shareholders' meetings of Drive Rent and Cobra Automotive Technologies. The conclusion of the transaction took place with the signing of the merger deed on 14 June 2011, effective from 1 July 2011.

2. Accounting policies

2.1 Basis of presentation

The consolidated financial statements as at and for the year ended 31 December 2011 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 2010.

In addition the following standards, amendments and interpretations, some of which were revised as part of the 2010 annual improvements conducted by the IASB, which became effective on or after 1 January 2011, have been applied for the first time:

1. **IAS 24 - Related Party disclosure (Amendment):** the amendment simplifies the disclosure requirements for government-related entities and clarifies the definition of "related party". This standard was issued in November 2009; the competent bodies concluded the endorsement process in July 2010; the standard is applicable from 1 January 2011.
2. **IAS 32 - Financial instruments:** presentation – Classification 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 in question is applicable as from 1 January 2011 retrospectively. The amendment to IAS 32 did not affect the financial statements at 31 December 2011.
3. **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. In addition, the requirement for disclosure on expired or impaired financial assets which have been renegotiated has been eliminated. It is also a requirement to provide a description and the financial effect of any collateral held as a guarantee and other conditions to improve the quality of receivables. The improvement is applicable from 1 January 2011.
4. **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 by issuing company's shares, then the shares issued by the company become part of the price paid for the 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 statement of comprehensive income for the period. The change to IFRIC 19 had no effect on the statement of financial position at 31 December 2011.

5. **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' schedules. The improvement is applicable from 1 January 2011.
6. **IAS 34 – Interim Financial Reporting**: 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 interim 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 instruments listed 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.

The Group has not yet applied the accounting standards which are listed below in paragraph 2.22 and which, although already issued by the IASB, become effective after the date of these separate financial statements as at 31 December 2011.

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

Specific notes contained in the Directors' Report disclose the content and meaning of the alternative performance measures, where applicable, which although not required by IAS-IFRS, are in compliance with CESR recommendation 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 are recognised in the condensed interim consolidated financial statements at their full value; the carrying amount of the investments is eliminated by offsetting it against the underlying interest in the respective equity, and the individual assets and liabilities are measured at their fair value at the date when control of the investee was established. Any difference, if positive, is recognised as "goodwill and consolidation differences" and in the income statement, 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.
Non-significant subsidiaries and companies the consolidation of which does not produce significant effects are not included in the scope of the consolidation. 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 intragroup transactions, if material, are eliminated. Receivables, payables, income, expenses, guarantees, commitments and contingencies in connection with transactions between and among consolidated companies are also eliminated. Intragroup losses are not eliminated as they are deemed to represent an impairment loss on the good sold. All financial statements of subsidiaries have been adjusted to ensure consistency of accounting policies and standards with those of the Group.
The reporting year of all consolidated subsidiaries is the calendar year.
In the case of the sale or transfer of an investee company, the removal from the consolidation area is accounted for from the date of effective loss of control.
In the case of the transfer of a subsidiary to a jointly controlled company or an associate, the recognition of the profit or loss from the loss of control is reflected in the income statement.
In particular, it should be noted that, in some circumstances, the company has chosen to adopt as its accounting standard that envisaged by IAS 27 which provides for the profit or loss to be recognised in full on the income statement at the time of the loss of control; the alternative treatment, which the company has chosen not to adopt, is that envisaged by IAS 28, IAS 31 and SIC 13 which provides for the elimination to be applied solely for the share of the equity investment being disposed of.
The aforementioned accounting treatment has been adopted in the 2011 financial statements with reference to the transfer of the equity investment of Drive S.p.A. into Cobra AT S.p.A., as detailed later in the notes.

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

SUMMARY OF COMPANIES CONSOLIDATED USING THE FULL						
Company name	***Country***	***Currency***	***"Share/ quota Capital"***	***Activity***	***% control***	
KME Group S.p.A. (*)	Italy	Euro	297,040,568	Finance	Parent	
KME A.G.	Germany	Euro	142,743,879	Holding	100.00%	
KME Germany A.G. & Co. K.G.	Germany	Euro	180,001,000	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	600,000	Copper and copper-alloy		100.00%
KME Verwaltungs und Dienst. mit beschr.	Germany	Euro	10,225,838	Non-operating		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%
Cuprum S.A.	Spain	Euro	60,910	Services		100.00%
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	U.K.	GBP	10,014,603	Copper and copper-alloy		100.00%
Yorkshire Copper Tube	U.K.	GBP	3,261,000	Non-operating		100.00%
Yorkshire Copper Tube (Exports) Ltd.	U.K.	GBP	-	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	20,000,000	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%	
KME Partecipazioni S.r.l.	Italy	Euro	47,900,000	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		70.00%
Metalbuyer S.p.A.	Italy	Euro	500,000	Metal Trade		100.00%
Valika S.A.S.	France	Euro	200,000	Metal Trade		51.00%

(*) Share capital at the date of publication of these consolidated financial statements.

At the date of these consolidated financial statements there were the following changes in the consolidation area compared to 31 December 2010:

a. consolidation of Metalbuyer S.p.A as from 29 April 2011 on occurrence of 100% acquisition of the company by the subsidiary KME Recycle S.p.A.;
b. consolidation of Valika S.A.S.: the financial statements of Valika have been consolidated on a line-by-line basis as from 28 September 2011 following the acquisition of a further stake which brought the share held by the subsidiary KME Recycle S.p.A. to 51%.

During the year KME Partecipazioni S.r.l. took over from KME Group S.p.A. the investments in ErgyCapital S.p.A. and Drive Rent S.p.A. (which at 1 July 2011 was merged into Cobra A.T. S.p.A.), Il Post S.r.l. and Azioni di Risparmio iNTEk S.p.A. Other transfers of minor equity investments (for a total of Euro 9.8 million) took place at the end of December 2010.
The contribution amounts, as per the sworn assessments of independent experts, were equal to their carrying amounts.

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 all those companies over 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 owners of the Parent. Dividends received are deducted from the carrying amount of the investment.
At the date of these consolidated financial statements there were no associate companies consolidated through the equity method.

(c) Joint ventures
A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control. Joint control is the contractually agreed sharing of control over an economic activity.
Joint ventures are equity accounted as required by IAS 31, paragraphs 38-41.
At the date of these consolidated financial statements, the Group owned entities arising from the equity investment of 43,981,434 ordinary shares or 46.38% of the share capital of ErgyCapital S.p.A. Despite the absence of an equal proportion of voting rights, control of the economic activity and strategic guidelines of this investee is divided with the partner Aledia S.p.A. by virtue of the contracts that pledge 25,412,895 ordinary shares of ErgyCapital S.p.A. or 26.80% of the share capital held, following the conferral to KME Partecipazioni S.r.l. which took place on 29 June 2011, by the Parent Company KME Group S.p.A.
Furthermore the Group continues to hold, with the same objectives, purposes and for a short term period, 5,277,893 ordinary shares or 5.6% of the share capital of ErgyCapital S.p.A. classified, as in previous years, under financial assets held for trading.
Therefore effective from 29 June 2011, KME Partecipazioni S.r.l. is to be considered as having all the rights and obligations provided by the contractual agreements which previously bound KME Group S.p.A. directly.
As from 1 July 2011 the Group also controls, through the subsidiary KME Partecipazioni S.r.l. following the transfer from the parent company KME Group S.p.A., joint control economic activities arising from equity investments, represented by 41,425,750 ordinary shares (42.68% of the share capital) of Cobra A.T. S.p.A. In addition, the Group holds 8,647,100 ordinary shares (8.91% of the share capital) of Cobra A.T. S.p.A. classified under financial assets held for trading since they are held for short-term purposes. In this case too the control over the economic activity and the strategic direction of the investee is shared with Cobra A.T. SA by virtue of contractual agreements which

contain commitments for the stable regulation of corporate governance and reciprocal dealings as shareholders, under which the company does not have the power to appoint the majority of the members of the Board of Directors and only has minority voting rights on the Board since two-fifths of the members appointed to it must have the pre-requisites for independence pursuant to art. 147-ter, TUF.

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 foreign currency financial statements

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

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:

1 Euro	0.8608 GBP	31.12.2010
1 Euro	0.8353 GBP	31.12.2011 used for translation of the statement of financial position
1 Euro	0.8682 GBP	2011 average used for translation of the statement of comprehensive income

1 Euro	8.8220 RMB	31.12.2010
1 Euro	8.1588 RMB	31.12.2011 used for translation of the statement of financial position
1 Euro	9.0169 RMB	2011 average used for translation of the statement of comprehensive income

1 Euro	16.5475 MXN	31.12.2010
1 Euro	18.0512 MXN	31.12.2011 used for translation of the statement of financial position
1 Euro	17.3078 MXN	2011 average used for translation of the statement of comprehensive income

1 Euro	1.3136 AUD	31.12.2010
1 Euro	1.2723 AUD	31.12.2011 used for translation of the statement of financial position
1 Euro	1.3488 AUD	2011 average used for translation of the statement of comprehensive income

1 Euro	40.8200 RUB	31.12.2010
1 Euro	41.7650 RUB	31.12.2011 used for translation of the statement of financial position
1 Euro	40.9593 RUB	2011 average used for translation of the statement of comprehensive income

The difference between the profit for the period resulting from translation using the average rates for the year and that which results from the translation using the rates at end December, is recognised in the consolidation reserves (Group portion) and in Equity attributable to non-controlling interests (non-controlling interests portion). 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

Investments in owned operating assets

Property, plant and equipment are recorded at purchase or production cost, including any directly charged accessory costs and are shown net of the related depreciation and any impairment loss determined in accordance with the methods set out below. Any item of property, plant and equipment consisting of different components with varying useful lives, is separately accounted for.

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

Ordinary maintenance costs are charged to the income statement, while the costs to replace parts of fixed assets and extraordinary maintenance costs are capitalised when it is possible that future measureable economic benefits will arise from them.

Depreciation is accounted for from the month the asset becomes available for use, or when it is potentially able to provide the economic benefits associated with it. Depreciation is charged monthly on a straight line basis until the end of the useful life of the relevant asset or, in the event of disposal, until the last month of use.

The useful life is constantly checked taking into account any changes in the frequency of use of the assets and any changes in depreciation plans are applied prospectively.

Should events occur which indicate possible impairment loss of property, plant and equipment, or when there are marked reductions in the market value of these assets, significant technological changes or significant obsolescence, the residual value is subject to verification on the basis of the estimated present value of forecast future cash flows and, if necessary, is adjusted. This impairment is subsequently eliminated when the conditions which caused it to be recorded no longer exist.

Land, whether it is unoccupied or is connected to ancillary and industrial buildings, is not amortised since it is considered to have an indefinite useful life.

Depreciation is charged based on the following useful lives:

Propert	from 25 to 50 years
Olant and machinery	from 10 to 40 years
Other equipment	from 5 to 15 years

Borrowing costs relating to the purchase of property, plant and equipment have been capitalised in compliance with IAS 23.

Replacement parts of significant value are capitalised and depreciated based on the useful life of the asset to which they refer; low value replacement parts are recognised in profit or loss 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 under finance leases
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 financial liabilities. 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 company will obtain title to the asset at the end of the lease.

Property, plant and equipment are tested for impairment whenever there is specific objective evidence thereof. The test involves estimating the recoverable amount of the asset, defined as the higher of fair value less costs to sell and value in use, and comparison of the appropriate value with the carrying amount. The recoverable amount is the greater of value in use and fair value less costs to sell. 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 previously created on the revaluation of the asset. Subsequent revaluations are treated analogously. For information on the impairment test refer to the indications in the following paragraph.

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 amortised. Recoverability of their carrying amounts is, however, tested annually and whenever there is objective indication 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 subsidiaries KME AG and KME Recycle and their subsidiaries, the Plan for 2012-2017 was used, as approved by the Board of Directors in January 2012.

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 "copper and copper-alloy semi-finished products" segment, which is substantially in line with the scope of consolidation in the consolidated financial statements of the subsidiary KME AG and KME Recycle.

The impairment tests were carried out to determine the value in use of the assets subject to impairment testing and therefore through the present value of the expected future cash flows over two time periods, the first defined on the basis of the aforementioned new business plan compiled by the management and the second on the basis of the terminal value. The cash flows from operations used to determine the terminal value have been calculated based on the average EBITDA expected in the Plan for 2013-2017 with a growth rate ("g") of 0%. This terminal value is purposely conservative in consideration of the status of the sector's maturity and its cycle nature.
The cash flows from operations obtained in this manner were discounted using the WACC discount rate (weighted average cost of capital) equal to 9.3% net of taxes. This rate takes into account an average risk-free rate of 3.68%

(fluctuating from 2.6% in Germany and 5.4% in Spain), a market risk premium of 5.2% and an average interest rate on the debt of 5.1%; to this base rate an additional premium of 2.0% was added in order to reflect the uncertainty related to recent volatility on financial markets, the changed economic conditions and the consequent degree of uncertainty on the duration and depth of the current phase.
The increased discount rate therefore expresses values as part of the conservative scenario, in consideration also of the additional premium which was used.
The aforementioned impairment was also subjected to a sensitivity test which did not indicate any need to for write-downs assuming a negative growth rate ("g") of up to 3.7% or a WACC increase of 2.2%.

(b) Other intangible assets with finite useful 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:

- purchased from third parties;
- acquired through business combinations; or
- internally generated.

In the first two instances, intangible assets, including directly attributable expenses, are initially recognised at cost or fair value, respectively. They are then systematically amortised based on their useful life, which is the period over which the assets will be used by the company, generally between three and five 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 generated 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 lease 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 properties are 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. At the reference date of this Report no variations in the estimated value had occurred on the basis of a report prepared in-house by the company's technical staff.

2.7 Financial assets and liabilities

For the reasons explained in paragraph 2.2, investments in unconsolidated subsidiaries are carried at fair value or cost less accumulated impairment losses pursuant to IAS 27 para. 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 "*Held-to-maturity assets*". The assets included in this category are measured at amortised cost 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 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 sales/purchase 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 short-term trade payables and receivables, for which the time value of money is immaterial, 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 with changes recognised 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 profit and losses are recognised directly in equity.

Determination of impairment losses
All financial assets and liabilities, with the exception of "*Financial assets and liabilities at fair value through profit or loss*", 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 measured 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 that asset.

For investments in equity-accounted investees, pursuant to IAS 28 para. 31 *et seq*., IAS 39 is applied to determine the need to recognise any further impairment losses relating to the net investment. The entire carrying amount of the investment is however tested for impairment under IAS 36 by comparing its recoverable amount 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 if the subsequent increase in recoverable amount 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 financial assets, on initial recognition, is determined on the basis of the transaction price and is, therefore, equal to the amount paid or received.

Subsequent, 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 currency forward 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 sales and purchase 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, when this is significant.

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 expense.

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. If necessary, this value is reduced at the end of the period so that it becomes aligned with its estimated realisable value, which is the official price at the end of the reporting period recorded on the LME market.
- The cost of production of work in progress and finished goods includes incidental expenses plus the amount of indirect costs that can reasonably be allocated to the product, excluding administrative expenses, costs to sell and financial expense. The absorption of general expenses in production costs is based on normal production capacity.

Contract work in progress is measured on the basis of the stage of completion and the contractual consideration price less contractual 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 7).

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 share capital to be received. As required by IAS 32, treasury shares are recognised 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 owned 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-related reserves with preference given to the share premium reserve.

2.12 Receivables and payables

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

2.13 Current and deferred taxes

Tax expense for the period 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. The current tax burden represents the estimated tax payable computed on taxable income for the period as determined with reference to current tax rates or those substantially in effect at the end of the reporting period. Deferred taxes are recognised on temporary differences between the carrying amounts of the assets and liabilities and the corresponding amounts recognised for tax purposes. Deferred taxes are not recognised 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 them. The carrying amounts of deferred tax assets are tested for impairment at the end of each reporting period and are reduced to the extent that they are 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 plans” or “defined benefit” plans. The Group’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 recognised pro-rata in 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 of any plan assets.

Italian Law no. 296 of 27 December 2006 and subsequent decrees and regulations enacted during 2007 introduced – as part of pension reform – significant changes concerning the allocation of the portions accruing of post-employment benefits plan. As a result of these changes, the new flows of post-employment benefits can be directed by workers towards forms of supplementary pension provision or retained in the company (in the case of companies with fewer than 50 employees) or transferred to the INPS, the government pension & welfare agency (in the case of companies with more than 50 employees). Basing itself on the generally accepted interpretation of the new rules, the Group decided 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 to be measured according to 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 with exclusion, in calculation of the cost of the period, of components relating to actuarial estimates.*

The valuation of defined benefit plans was carried out by independent actuaries.

2.15 Provisions for risks and charges

Provisions for risks and charges are liabilities, the amount or due date 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 discounted to 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 if 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 to the extent that it is probable that the Group will obtain economic benefits and the amounts thereof can be reliably determined. It is measured at the fair value of the consideration received or which is expected to be received, with account taken of any returns, rebates, discounts and premiums relating to quantity. 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 expenses

Financial income includes interest income from cash invested, exchange rate gains, dividends, guarantee fees received, gains on disposal of available-for-sale financial assets, fair value gains on assets held for trading and derivatives except for fair value gains on of LME and metals forward contracts 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 expenses include loan interest expense, exchange rate losses, guarantee fees expense, losses on the disposal of available-for-sale financial assets, factorage paid with respect to factoring of receivables with recourse, decreases in the fair value of assets held for trading and derivatives except for the decreases in fair value of LME and metals forward contracts which are reported under "Purchases and change in raw materials".

2.19 Segment reporting

At the operational level, the KME Group is organised 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 sector consisting of an industrial grouping which is a leader in the international global production of copper and copper-alloy semi-finished products;
- Energy from renewable sources: a sector consisting 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: through the merger of the subsidiary Drive Rent S.p.A., with effect as from 1 July 2011, the services sector is represented by the **COBRA Automotive Technologies S.p.A.** group, a company based in Varese and

which is the parent company of a group listed on the Italian stock market. It is a leader in the car anti-theft and vehicle safety sector through the use of computer-based and satellite technology.

The management monitors the operating results of the business units separately in order to define the allocation of resources; the results in each sector are 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.

2.20 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 outstanding savings shares less any savings treasury shares held directly or through subsidiaries;
2. the denominator of "basic earnings per share" is the weighted average of the outstanding ordinary shares during the year less ordinary treasury shares;
3. 3the denominator of "diluted earnings per share" is the weighted average of the ordinary shares adjusted by adding the number of any new ordinary shares that could be issued through:
   - conversion of all outstanding warrants;
   - exercise of all stock options granted.

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.
The calculation at 31 December 2011 of the basic earnings per share was done by taking the Group net loss of Euro 14.3 million (a loss of Euro 18.4 million in December 2010), net of the share due to savings shares, attributable to holders of issued ordinary shares and the weighted average number of ordinary shares which was 447,278,983, taking account of any stock splits and/or reverse-stock splits and any increases/reduction in share capital pursuant to IAS 33 para. 64. In addition, the potentially diluting effect arising from the conversion of all the stock options was calculated.

2.21 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 sales and purchase contracts with customers and suppliers recognised as financial instruments, the useful lives of non-current assets and the related recoverable amount, allowance for impairment, any 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.

2.22 Accounting standards not yet applied

Certain new standards, revisions to standards and interpretations in issue at 31 December 2011 that are relevant to the Company had not yet become effective and were not used to prepare these financial statements.

The most important included:

IAS 1 – Presentation of financial statements (*Improvement*): it introduces a clarification regarding the minimum comparative information to provide. On the date of these financial statements at 31 December 2011, the competent bodies of the European Union had not concluded the endorsement process required for application.

IAS 16 – Property, Plant And Equipment (Classification): the amendment clarifies that maintenance equipment can be capitalised under “property, plant and equipment” rather than under inventory if they have been used for a period longer than one year, regardless of whether they are specifically related to a specific plant or machine or not. On the date of these statement of financial position and income statement, the competent bodies of the European Union had not concluded the endorsement process required for application.

IAS 19 – Employee benefits: on 16 June 2011 an amendment was issued which eliminates the option of deferring recognition of actuarial gains and losses using the corridor method. Consequently, it will be necessary to show the total deficit or surplus on the statement of financial position and in cash flows. In the statement of comprehensive income it will be necessary to show the cost components linked to the work performed and the net financial expense; the other components on the statement of comprehensive income, on the other hand, must include the actuarial gains and losses arising from the annual recalculation of assets and liabilities. At the date of these separate financial statements, the competent bodies of the European Union had not concluded the endorsement process required for application of the aforementioned amendment. The application of the new standard is mandatory from 1 January 2013.

IAS 27 – Separate Financial Statements: On 12 May 2011 the IASB issued IFRS 10 – Consolidated Financial Statements which will replace SIC-12 Consolidation – Special Purpose Entities and parts of IAS 27 – Consolidated and Separate Financial Statements. It will establish the accounting treatment for investments in the separate financial statements. The new standard defines the existence of control, for the purposes of consolidation, in various ways and not only as the result of the power to direct financial and operational policies. Therefore, an investor controls an entity when he/she is exposed to changes in results arising from his/her involvement with the company and has the possibility of influencing these results through exercise of his/her power over the company. At the date of these separate financial statements, the competent bodies of the European Union had not concluded the endorsement process required for application of the aforementioned amendment. The application of the new standard is mandatory from 1 January 2013.

IAS 32 – Financial instruments (*Improvement*): introduces clarification in the application of some criteria for the offset of financial assets and liabilities. At the date of these separate financial statements, the competent bodies of the European Union had not concluded the endorsement process required for application of the aforementioned amendment. The application of the new standard is mandatory from 1 January 2013.

IFRS 7 – Financial Instruments: Disclosures: the amendment requires further disclosure on the effects or potential effects of agreements to offset financial assets and liabilities on the statement of financial position and in cash flows, when legally possible.

IFRS 11 – Joint Arrangements: in May 2011 IFRS 11 was published which will replace IAS 31 – Interests in Joint Ventures and SIC – 13 – Jointly Controlled Entities – Non-monetary contributions by venturers. The previous standard envisaged the identification of a joint controller entity and the possibility of choosing the consolidation method from between the equity method and proportionate consolidation. The new standard distinguishes joint ventures (if the entity has rights and obligations connected to the overall net assets covered by the agreement) from joint operations (if the entity has rights and/or obligations related to specific assets and liabilities) as opposed to IAS 31 which required identification of joint venture entities. Participants in a joint venture have contractual rights and obligations deriving from the agreement and which are based on substance over form. The participants in a joint venture must measure the investment using the equity method. Proportionate consolidation is no longer allowed. The assets and liabilities of a joint operation will be recognised both in the consolidated financial statements as well as in the separate financial statements according to the applicable International Accounting Standards. At the date of these separate financial statements, the competent bodies of the European Union had not concluded the endorsement process required for application of the aforementioned amendment. The application of the new standard is mandatory from 1 January 2013.

IFRS 12 – Disclosure of Interests in Other Entities: this standard mainly aims to define the criteria for determining control and to provide a uniform disclosure that is able to highlight the risks associated with the relations, regardless of the nature of the relation itself. IFRS 12 focuses on disclosure regarding interests in other entities such as joint ventures, investments in subsidiaries, investments in associates, joint ventures or interests in companies that are not included in the scope of consolidation. At the date of these separate financial statements, the competent bodies of the European Union had not concluded the endorsement process required for application of the aforementioned amendment. The application of the new standard is mandatory from 1 January 2013.

IFRS 13 – Fair-value Measurement: on 12 May 2011, the IASB published IFRS 13 which provides guidance for measurement at fair value. It mainly introduces the definition of fair value, a guide for the determination thereof and a series of minimum disclosures that are common to all items measured at fair value. Essentially the new standard will define how to determine the fair value and will apply to all the IFRS which require or allow the measurement of fair value. The board has defined fair value as the price that should be paid to extinguish a liability in an arm’s length transaction on the date on which the measurement is made. Essentially the new definition brings the concept of fair value close to that of an exit price. In addition, the standard established criteria to use to determine the fair value of assets and liabilities that cannot be directly observed on the market, including: the market approach, cost approach or according to discounted future cash flows.
The disclosure must make clear to the reader the measurement techniques, the effect on profit or loss and on other components of comprehensive income deriving from the measurements made using non-observable data to a significant extent. The application of the new standard is mandatory from 1 January 2013.

IAS 12 – Income Taxes: lo IASB in data 20 dicembre 2010 ha emesso un emendamento che chiarisce la determinazione delle imposte differite sugli investimenti immobiliari valutati al *fair value* secondo quanto disposto dallo IAS 40, introducendo che devono essere determinate considerando che il valore contabile di tale attività sarà recuperato attraverso la vendita. Di conseguenza l’emendamento SIC-21 – Imposte sul reddito – Recuperabilità di un’attività non ammortizzabile rivalutata non sarà più applicabile. L’emendamento è applicabile in modo retrospettivo dal 1° gennaio 2012.

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 to define the objectives and processes to cover the following risks: credit, liquidity, currency, interest rate and, above all, fluctuations in commodity prices.

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 short-term financial payables 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 and, 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 non-current financial liabilities. Variable rate payables expose the Group to a cash flow risk, while fixed rate liabilities 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 sales and purchase 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, issue of another financial instrument or swapping of financial instruments. This is also the case for price fixing sales and purchase 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);
- having the same reference price (LME quotation);
- being 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, metal price fixing sales and purchase 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 inventory raw materials”.

All derivative financial instruments used by the Group are not 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 2011 the following companies were added to the scope of consolidation: Metalbuyer S.p.A. and Valika S.a.S., which are both controlled by KME Recycle S.p.A.
In the table below which contained the statement of financial position items, the carrying amounts relating to the opening balances for 2010 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 31.12.2010						
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**
At 31.12.2011						
Opening historical cost	**55,928**	**211,513**	**1,034,628**	**90,292**	**21,699**	**1,414,060**
Translation differences	223	537	1,454	127	149	2,490
Change in scope of consolidation	8	212	329	4,256	-	4,805
Increases	350	1,336	8,513	2,991	36,564	49,753
Reclassifications	-	3,024	25,423	1,813	(30,260)	0
Decreases	(637)	(7,018)	(20,648)	(4,049)	-	(32,352)
Closing historical cost	**55,872**	**209,604**	**1,049,699**	**95,430**	**28,151**	**1,438,757**
At 31.12.2011						
Opening accumulated depreciation and impairment losses	**185**	**116,007**	**653,689**	**60,306**	**-**	**830,187**
Translation differences	12	99	1,198	86	-	1,394
Change in scope of consolidation	-	187	176	3,818	-	4,181
Increases	31	6,782	32,254	5,249	-	44,317
Impairment losses/(reversals of impairment losses)	-	-	6,699	-	-	6,699
Decreases	-	(5,557)	(18,827)	(3,673)	-	(28,056)
Reclassifications	-	(71)	-	(8)	-	(79)
Closing accumulated depreciation and impairment losses	**228**	**117,447**	**675,189**	**65,778**	**-**	**858,643**
At 31.12.2011						
Closing historical cost	55,872	209,604	1,049,699	95,430	28,151	1,438,757
Closing accumulated depreciation and impairment losses	228	117,447	675,189	65,778	-	858,643
Closing net carrying amount	**55,644**	**92,157**	**374,510**	**29,652**	**28,151**	**580,114**
of which finance leases:	**1,300**	**3,319**	**-**	**-**	**-**	**4,619**

Following is the distribution by geographic segment of property, plant and equipment:

(Geographical segment millions of Euro)		*31.12.2011*		*31.12.2010*
Germany	270.1	46.6%	272.7	46.7%
Italy	220.5	38.0%	223.1	38.2%
France	54.8	9.4%	47.4	8.1%
United Kingdom	13.0	2.2%	12.3	2.1%
Spain	9.6	1.7%	17.8	3.0%
China	10.1	1.7%	8.5	1.5%
Other	2.1	0.4%	2.1	0.4%
Total	**580.1**	**100%**	**583.9**	**100%**

A portion of the aforementioned assets worth Euro 201.1 million (Euro 204.1 million at the end of last year) is used as guarantees of credit lines granted to the Group.
The most significant investments during the period are detailed in the Directors' Report.

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 a purchase option 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	3,498	-	3,896
of which interest	8	664	-	672
Present value	**390**	**2,834**	**-**	**3,224**

previous year:

(thousands of Euro)	*1 year or less*	*from 1 to 5 years*	*over 5 years*	*Total*
Minimum lease payments	398	1,594	2,103	4,095
of which interest	8	230	523	761
Present value	**390**	**1,364**	**1,580**	**3,334**

4.2 Investment property

(thousands of Euro)	*Land*	*Buildings*	*Total*
Carrying amount at 31.12.2010	**7,277**	**21,326**	**28,603**
Increase	-	-	-
Capitalised expenditure	84	2,125	2,209
Business combination	-	-	-
Disposals	-	-	-
Change in fair value	-	-	-
Changes of use	-	-	-
Other changes	-	-	-
Carrying amount at 31.12.2011	**7,361**	**23,451**	**30,812**

The "Investment Property" item consists of investments in land and buildings belonging to Immobiliare Agricola Limestre S.r.l. and KME Italy S.p.A.

Investment property, which is held in order to generate lease income or to appreciate the invested capital, is recorded at fair value on the basis either of valuations made by independent external experts with recognised and relevant professional qualifications that are confirmed by the directors or valuations made by technical staff from within the company.

The following amounts were recognised in profit or loss during the year:
- rental income of Euro 416 thousand;
- operating costs directly relating to the investment properties of Euro 663 thousand.

4.3 Goodwill and consolidation differences

The amount is composed of consolidation differences of Euro 118,367 thousand concerning the segment of copper and copper-alloy semi-finished products.

During the year the value of consolidation differences rose by Euro 3.8 million following the initial consolidation of Valika SAS (Euro 2.4 million) and Metalbuyer S.p.A. (Euro 1.4 million).

Goodwill and consolidation differences are tested for impairment based on the recoverable amount determined by estimating value in use as described in note 2.5.

4.4 Other intangible assets

(thousands of Euro)	*Other assets*	*Assets under development*	*Total*
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**
At 31.12.2011			
Opening historical cost	13,289	281	13,570
Translation differences	-	-	-
Change in scope of consolidation	(568)	-	(568)
Increases	790	467	1,257
Reclassifications	239	(383)	(144)
Decreases	(1,412)	-	(1,412)
Closing historical cost	**12,338**	**365**	**12,703**
At 31.12.2011			
Opening accumulated amortisation and impairment losses	**10,080**	**-**	**10,080**
Translation differences	-	-	-
Change in scope of consolidation	(624)	-	(624)
Increases	1,634	-	1,634
Reclassifications	33	-	33
Decreases	(1,402)	-	(1,402)
Closing accumulated amortisation and impairment losses	**9,721**	**-**	**9,721**
At 31.12.2011			
Closing historical cost	12,338	365	12,703
Closing accumulated amortisation and impairment losses	9,721	-	9,721
Closing net carrying amount	**2,617**	**365**	**2,982**

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 2011 amounted to Euro 1.5 million (Euro 1.0 million for 2010).

4.5 Investments in subsidiaries, associates and other companies

The Group's investments are listed below:

Name	Registered Address	Operations	% owned by KME		31.12.2011	31.12.2010
			direct	indirect	thousands of Euro	
Subsidiaries and associates measured at cost						
Accumold AG	Switzerland	In liquidation		100.00%	-	-
AMT - Advanced Mould Technology India Private Ltd.	India	Trading		99.60%	1,500	1,500
Culti S.r.l.	Italy	Trading		100.00%	3,800	3,760
Europa Metalli Trèfimétaux UK Ltd.	U.K.	Non-operating		100.00%	479	465
Evidal Schmole Verwaltungsges mbH	Germany	Non-operating		50.00%	-	-
Il Post S.r.l.	Italy	Publishing		31.54%	400	200
Irish Metal Industrial Ltd.	Ireland	Trading		100.00%	-	-
KME - Hungaria Szinesfem Kft.	Hungary	Trading		100.00%	8	8
KME (Suisse) S.A.	Switzerland	Trading		100.00%	1,000	1,000
KME America Inc.	United States	Trading		100.00%	7	7
KME Asia Pte Ltd.	Singapore	Trading		100.00%	99	99
KME Austria Vertriebgesellschaft mbH	Austria	Trading		100.00%	-	168
KME Beteiligungsgesellschaft mbH	Germany	Non-operating		100.00%	-	-
KME Chile Lda	Chile	Trading		100.00%	18	18
KME China Limited	China	Non-operating		100.00%	-	-
KME Czech Republic	Czech Republic	Trading		100.00%	3	3
KME India Private Ltd.	India	Trading		100.00%	91	17
KME Kalip Servis Sanayi	Turkey	Trading		85.00%	25	-
KME metal GmbH	Germany	Non-operating		100.00%	511	511
KME Metals (Shanghai) Trading Ltd.	China	Trading		100.00%	81	81
KME Polska Sp. Zo.o.	Poland	Trading		100.00%	64	64
KME Solar Italy S.r.l.	Italy	Energy Sector		80.00%	305	182
Metal Center Danmark A/S	Denmark	Trading		30.00%	134	134
N.V. KME Benelux SA	Belgium	Trading		100.00%	883	883
P.H.M. Pehamet Sp.Zo.o	Poland	Trading		30.07%	802	-
Societe Haillane de Partecipations	France	Non-operating		99.99%	40	40
VALIKA S.a.S.	France	Trading		30.00%	-	1,650
Warrant ErgyCapital S.p.A.	Italy	Energy Sector		n.a.	4,833	6,511
XT Limited	U.K.	Non-operating		100.00%	-	-
Zahner KME GmbH	Germany	Trading		50.00%	69	-
Total					**15,152**	**17,301**
Other Investments measured at cost						
Editoriale Fiorentina S.r.l.	Italy	Publishing		7.13%	142	142
Other investments of KME France SAS	France	Various	n.a.	n.a.	116	116
Other investments of KME Recycle S.p.A.	Italy	Various	n.a.	n.a.	-	1,650
Total					**258**	**1,908**
Equity accounted investees						
Metalbuyer S.p.A.	Italy	Trading		30,00%	-	1,594
ErgyCapital S.p.A.	Italy	Energy Sector		46,38%	15,600	20,357
Cobra A.T. S.p.A.	Italy	Services		42,68%	32,226	-
Total					**47,826**	**21,951**

Compared to the previous period, the decrease of Euro 2.1 million in “Investments in Subsidiaries and Associates” is broken down as follows:

- the increase of Euro 123 thousand following the share capital increase of KME Solar Italy S.r.l.;
- the acquisition by KME Germany A.G. & Co. K.G. of a 30% shareholding in P.H.M. Pehamet Sp.Zo.o. for Euro 802 thousand;
- the acquisition by KME Germany A.G. & Co. K.G. of a 50% shareholding in Zahner KME GmbH. for Euro 69 thousand;
- the acquisition by KME Germany A.G. & Co. K.G. of a 85% shareholding in KME Kalip Servus Sanasyi for Euro 25 thousand;
- the increase of Euro 74 thousand following the share capital increase of KME India Private Ltd;
- the increase of Euro 200 thousand following the share capital increase of Il Post S.r.l.;
- the increase of Euro 40 thousand following the increase in the share capital, net of the impairment of Culti S.r.l.;
- the impairment of Euro 1,678 thousand following the alignment to recoverable value, which is determined on the basis of fair value, of the ErgyCapital S.p.A. warrants;
- the liquidation for Euro 168 thousand of KME Austria;
- the decrease of Euro 1,650 thousand following the acquisition of control of Valika S.a.S., with its consequent inclusion in the scope of consolidation;
- translation differences relating to the investment in Europa Metalli Trèfimétaux UK Ltd. (a Euro 14 thousand increase);

“Other KME France S.A.S. investments” 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 decrease of Euro 1,650 thousand was due to the inclusion of KME Recycle S.p.A. in the scope of consolidation.

- The net increase in “equity-accounted investees” of Euro 25,876 thousand is due to:
- the decrease of Euro 1,594 thousand following the acquisition of the controlling interest in Metalbuyer S.p.A. with its consequent inclusion in the scope of consolidation;
- the decrease of Euro 4,757 thousand following application of the equity method to ErgyCapital S.p.A.;

1. the increase of Euro 32,227 thousand, following the transfer of Drive Rent S.p.A. to Cobra A.T. S.p.A.; on 1 July 2011 the merger of Drive Rent S.p.A. into Cobra A.T. S.p.A. took effect.

4.6 Other non-current assets

(thousands of Euro)	*Balance at*	*Changes for the period*	*Change in scope of consolidation*	*Balance at*
	31.12.2010			31.12.2011
Guarantee deposits	17,462	(16,416)	10	1,056
Others receivables	8,039	(521)	(14)	7,504
Total	**25,501**	**(16,937)**	**(4)**	**8,560**

Euro 8.6 million relating to KME Germany AG & Co. KG, Euro 4.8 million relating to KME France and Euro 3.1 million relating to KME Italy) paid to a bank by way of partial cover for payment of the fines applied by the European Commission for the infraction under art. 81 of the EU Treaty. This fine became definitive and was paid in February 2012.
The residual amount relates largely to other guarantee deposits of KME Italy (Euro 0.3 million), KME France and KME Brass France (Euro 0.5 million).

None of the above mentioned amounts are due within twelve months.

4.7 Non-current financial assets

The amount of Euro 110.3 million relating to the deposits set up to guarantee the EU's aforementioned fine at some banks (La Caixa for Euro 34.2 million, Banca Nazionale del Lavoro for Euro 18.0 million, Deutsche Bank for Euro 58.1 million) was also reclassified under current financial receivables.

The amount of Euro 4.6 million relates to a deposit at Unicredit Banca d'Impresa S.p.A. that has been pledged to Unicredit Mediocredito Centrale S.p.A. (MCC). The balance must always be equal to 1/16 (one sixteenth) of the loan outstanding from time to time, in addition to accrued interest due and payable on the next payment date. Any amounts on the account in excess of that amount are immediately available. For further details regarding the amount and the nature of the loan please refer to paragraph 4.15.

4.8 Inventories

(thousands of Euro)	*Opening balances*	*Changes for the year*	*Change in scope of consolidation*	*Closing balances*
Raw materials, consumables and supplies				
Work in progress and semi-finished products	31,414	2,084	-	33,498
Finished goods	39,650	(835)	-	38,815
Total	**622,054**	**(15,663)**	**1,092**	**607,483**

At the end of 2011, the value of several metals (mainly silver, zinc and nickel) as they resulted from the application of the FIFO method was higher compared to their realisable value as determined according to note 2.9, by Euro 7.4 million (Euro 0.5 million in the previous year). An allowance for impairment of this same amount was recognised.

QUANTITY COMPARATIVE CHART			
Property stock	*31.12.2010*	*31.12.2011*	*Var %*
Total tons	**88,423**	**95,022**	**7.5%**

Of the above amount, 87.3 thousand tonnes (85.2 thousand tonnes in 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 31.12.2010	Changes for the year	Change in scope of consolidation	Balance at 31.12.2011
Due from customers	147,630			136,786
(Allowance for impairment)	(10,718)	676	(3,480)	(13,522)
Net trade receivables due from customers	**136,912**	**(29,459)**	**15,811**	**123,264**
Due from subsidiaries	4,393	1,034	-	5,427
Due from associates	5,200	(4,523)	-	677
Due from parents	-	121	-	121
Total	**146,505**	**(32,827)**	**15,811**	**129,489**

"Receivables due from customers" include Euro 54.5 million (Euro 61.2 million in the previous year) that have been factored with recourse.

The Directors are of the opinion that the carrying amount of trade receivables approximates their fair value.
Gli Amministratori ritengono che il valore contabile dei crediti commerciali approssimi il loro *fair value*.

4.10 9 Other current receivables and assets

(thousands of Euro	Balance at 31.12.2010	Changes for the year	Change in scope of consolidation	Balance at 31.12.2011
Tax assets	10,164	(4,591)	271	5,844
Advance payments to supplies	3,790	2,386	404	6,580
Prepayments and accrued income	1,717	(589)	799	1,927
Other receivables	10,509	7,120	-	17,629
Total	**26,180**	**4,326**	**1,474**	**31,980**

The "Other receivables" item consists mainly of:

- Receivables due from insurance companies of Euro 4.4 million;
- Receivables due from social security agencies of Euro 2.7 million;
- Receivables due from local authorities, essentially referring to the German companies, for refunds relating to energy savings of Euro 7.5 million.

The carrying amount of other receivables is believed to approximate their fair value.

4.11 Current financial assets

Current financial assets	Balance at 31.12.2010	Changes for the year	Change in scope of consolidation	Balance at 31.12.2011
Financial assets held for trading	19,179			6,174
LME and metal buyer/selles contracts	25,420	(619)	-	24,801
Interest rate swaps and currency forward contracts	3,286	8,718	-	12,004
Receivables due from factoring companies	85,830	(17,273)	-	68,557
Other current financial assets	1,930	130,154	1,100	133,184
Loans to parent companies	4,597	2,545	-	7,142
Loans to subsidiaries	-	40	-	40
Total	**140,242**	**110,039**	**1,621**	**251,902**

"Financial assets held for trading" consist of:

- 2,184,369 iNTEk S.p.A. savings shares, of a par value of Euro 0.710, recognised at their official listed price at the end of the reporting period. It should be noted that until February 2012 there was a call option on the aforementioned shares which was granted to the banks that arranged the previous bank agreement signed in February 2005 and which no longer exists;
- 5,277,893 ErgyCapital S.p.A. ordinary shares, which are carried at their official price at the end of the reporting period (Euro 0.269 per share);
- 5,775,550 ErgyCapital S.p.A. warrants, at the end of the reporting period (Euro 0.095 per warrant).
- 8,647,100 Cobra A.T. S.p.A. ordinary shares, which are carried at their official price at the end of the reporting period (Euro 0.307 per share);

"LME and metal sales/purchase contracts" are recognised at the fair value of contracts outstanding at the end of the reporting period.

Receivables due from factoring companies of Euro 43.7 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 24.8 million.

The change in current financial assets relates mainly to the reclassification under this item of the guarantee deposits (Euro 16.5 million), which were previously recorded under non-current assets, and escrow accounts (Euro 110.3 million), which were previously recorded under non-current financial assets, both of which were set up to guarantee the EU fine which became definitive and was paid in February 2012.

4.12 Cash and cash equivalents

(thousands of Euro	*Balance at 31.12.2010*	*Changes for the year*	*Change in scope of consolidation*	*Balance at 31.12.2011*
Bank and post office accounts	39,615	23,493	3,261	66,369
Cash on hand	136	(22)	-	114
Total	**39,751**	**23,471**	**3,261**	**66,483**

"Cash and cash equivalents" consist of bank and post office accounts and cash on hand.

The increase in the liquidity is tied to a temporary effect in order to cover the obligations in the first days of the month of January.

4.13 Equity

For an illustration of the changes in consolidated equity please see the "statement of changes in equity" (the "technical consolidation reserves" item includes the subsidiaries' profit from previous years net of consolidation adjustments, the consolidation reserve and the translation reserve).
We note in particular the net negative change (against the proportional amount of Euro 685 thousand) in the cash flow hedge reserve recognised in equity by the investee ErgyCapital S.p.A.

The increase in "Retained earnings" related to the profit for 2010 of KME Group S.p.A.

During 2010 the Parent implemented the new "KME Group S.p.A. 2010–2015 Stock Option Plan". On 7 October 2010, the Parent's Board of Directors identified the Plan beneficiaries and determined the number of options assigned to each of them, for a total of 25,500,000 options (the maximum number of options authorised 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 voting.
The options give the beneficiaries the right to subscribe or purchase from the Company an equivalent number of KME Group S.p.A. ordinary 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 was set at 31 December 2015; refer to section 5.4 for the details.

4.14 Employee benefits

(thousands of Euro)	*Balance at 31.12.2010*	*Increase*	*Decrease*	*Changes in scope of consolidation*	***Balance at 31.12.2011***
Defined benefit plans	136,582				137,914
Post-employment benefits	16,175	746	(1,573)	177	15,525
Total	**152,757**	**11,514**	**(11,009)**	**177**	**153,439**

"Defined benefit plans" are recognised net of any plan assets. Euro 122.5 million of defined benefit plans relate to the German subsidiaries and Euro 15.4 million relate to the subsidiary KME Yorkshire Ltd.

	31.12.2010	***31.12.2011***
Discount rate	4.3% - 5.7%	4.3% - 5.0%
Rate of return on plan assets	6.4%	6.0%
Rate of increase in future salaries	1.0% - 2.5%	2.0% - 2.6%
Future increase in services	2.0% - 3.0 %	2.0% - 3.0.0 %
Average remaining working life	15 years	14 years

Liability net value (thousands of Euro)	*31.12.2010*	***31.12.2011***
Present value of partially or fully funded obligations	63,591	75,800
Fair value of defined benefit plan assets	(53,981)	(56,662)
Deficit	9,610	19,138
Present value of unfunded obligations	159,822	164,636
Actuarial gains (losses) net yet recognised	(16,675)	(30,335)
Past service cost not yet recognised	-	-
Amount not recognised as assets pursuant to IAS 19, para.58	-	-
Net liability reported in statement of financial position	**152,757**	**153,439**

Income statement changes (thousands of Euro)	*Year 2010*	***Year 2011***
Current service cost	2,760	3,151
Interest expense	11,059	11,263
Expected return on plan assets	(3,244)	(3,361)
Recognised actuarial gains (losses)	223	660
Past service cost	59	-
Effect of any curtailment or settlement	-	-
Total cost reported in statement of comprehensive income	**10,857**	**11,713**

The amounts recognised in profit or loss are reported under "Personnel expense".

Other information:

Present value of obligation (thousands of Euro)	*31.12.2010*	*31.12.2011*
Opening balance of obligation	212,947	223,409
Current service cost	2,760	3,151
Interest on obligation	10,984	11,263
Plan participants' contributions	483	478
Actuarial gains (losses)	5,339	12,363
Expired or reduced liabilities	59	-
Translation differences on foreign plans	1,841	2,309
Benefits provided and paid	(11,007)	(12,560)
Effect of any curtailment or settlement	3	146
Past service cost	-	-
Closing balance of obligation	**223,409**	**240,559**

Fair value of plan assets (thousands of Euro)	*31.12.2010*	*31.12.2011*
Opening balance of fair value of plan assets	48,397	53,981
Expected return on plan assets	3,244	3,361
Actuarial gains (losses)	489	(1,775)
Translation differences on non-euro plan assets	1,494	1,643
Employer contributions	1,581	1,690
Plan participants' contributions	483	478
Settlements	-	-
Benefits provided and paid	(1,707)	(2,716)
Closing balance of fair value of plan assets	**53,981**	**56,662**

At the end of 2011, the plan assets consisted of equity instruments (50.8%), fixed rate securities (41.1%) and property assets (8.1%).

Present value of plans and adjustments based on past experience (thousands of Euro)	*31.12.2010*	*31.12.2011*
Present value of defined benefit obligation	223,409	240,559
Plan assets	(53,981)	(56,662)
Surplus (deficit)	169,428	183,897
Adjustments to pain liabilities based on past experience	864	919
Adjustments to pain assets based on past experience	79	95

4.15 Non-current financial payables and liabilities

(thousands of Euro)	*Balance at 31.12.2010*	*Changes for the period*	*Balance at 31.12.2011*
Due to banks	313,499	(49,923)	263,576
Due to lease companies	3,191	(225)	2,966
Due to others	185	(58)	127
Total	**316,875**	**(50,206)**	**266,669**

At the end of June 2010, KME Group S.p.A. and its major subsidiaries operating in the copper and copper-alloy semi-finished products 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, increased to Euro 565 million last April.
The agreement, which refers to the two lines named “tranche A” (in the form of a revolving credit line used to cover the inventory needs of industrial companies) and “tranche B” (a revolving credit line used to cover intra-month inventory needs of industrial companies), was stipulated in 2006 and is currently used for an amount approximating the extended amount, represents a facility characterised 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 collateral 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 extended loans referred to. The verification of compliance with the aforementioned covenants shall take place on a bi-annual basis; at 31 December 2011 all were complied with.

The financing cost has remained essentially in line with the extended one.

To guarantee repayment of the aforementioned credit lines, the following was agreed:

- a pledge, with reservation of the voting right, of the shares and quotas of KME A.G. subsidiaries: KME Italy S.p.A. and KME Brass Italy S.r.l.;
- a first-level mortgage on the real estate and industrial equipment belonging to the Osnabrück plant of KME Germany A.G. & CO K.G.;
- a pledge of the inventory of the industrial companies, except for non-European subsidiaries;
- a lien on some factoring and insurance contracts;
- a pledge of a portion of the receivables of KME Ibertubos S.A. and Locsa S.A.

The agreement signed with GE Commercial Finance was renewed in May 2011 and consists of a credit line for up to Euro 600 million usable for factoring without recourse. This agreement which expires in June 2014, provides for covenants in line with those of the banking pool.

Furthermore, at the end of April 2011, some French and Italian affiliates of the Group signed with Mediofactoring an agreement for a credit line of up to Euro 250 million to be used for factoring. This agreement which expires in June 2014, provides for covenants in line with those of the banking pool.
On the date of these consolidated financial statements, the aforementioned transactions without recourse amounted to Euro 313.2 million (Euro 361.2 million at the end of the previous year).

The group also has a loan from Mediocredito Centrale S.p.A. (residual amount: Euro 72.7 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 (for a total of Euro 103 million) of the loan by tranches was completed in 2010; expiration is set at eight years from the date of the actual usage. The loan agreement provides for compliance with the covenants, to be verified at the end of each half year, which are also in line with those of the banking pool and which were complied with in full as at 31 December 2011.

Amounts due to lease companies relate to the recognition, under IAS 17, of the finance lease for the Group's headquarters in Florence.

All the non-current payables and liabilities fall due after more than 12 months and less than 5 years, except for a bank loan of Euro 2.8 million.

4.16 Other non-current liabilities

Other non-current liabilities primarily relate to payables due to employees of German subsidiaries (Euro 17.3 million) and post-employment benefits of the Deputy Chairman of the Parent (Euro 2 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 31.12.2010*	*Translation differences*	*Increases*	*Decreases and reversals*	*Change in scope of consolidation*	*Current portion*	***Balance 31.12.2011***
Provision for restructuring	11,962	5	4,578	(6,163)	-	(4,369)	6,013
EU fines provision	126,473	-	2,911	(129,384)	-	-	-
Other provisions for risks and charges	23,715	159	4,581	(6,742)	1,048	(11,646)	11,115
Total	**162,150**	**164**	**12,070**	**(142,289)**	**1,048**	**(16,015)**	**17,128**

The "Current portion" and the balance at 31 December 2010 take into account the movements in "provisions for risks and charges" reported under current liabilities.

The provision for restructuring mainly relates to the cost of downsizing operations in France, Spain and Italy.

As for EU fines, on 8 December 2011 the European Court of Justice handed down its sentences on the appeals brought by the company against the fines decided by the European Commission on 16 December 2003 and on 3 September 2004 regarding violations of antitrust law in the sectors respectively of industrial tubes and tubes for the plumbing industry. The Court decided not to accept the appeals. Therefore, the Commission's fines became definitive and in February 2012 they were paid.
The total due of Euro 129.4 million, including interest accrued up to 31 December 2011, was therefore reclassified under current financial payables.

"Other provisions for risks and charges" include, but are not limited to, contingent liabilities of Euro 6.8 million with respect to environmental risks, Euro 1.1 million for legal and tax risks and Euro 2.9 million for product warranties.

With respect to main litigation brought against the Group's industrial companies, please be advised that:

- the lawsuit pending before the High Regional Court of Hannover, relating to the squeeze out operation in 2001 involving the German parent companies, was settled for an amount of Euro 0.8 million (net of interest);

- 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, again in relation to anti-trust violations, it should be noted that on 4 January 2011 the companies concerned in the KME Group filed an appeal for removal from the proceedings and for lack of jurisdiction. In October 2011 there was a hearing following which the High Court rejected the appeal of the KME Group companies, which therefore presented a request to authorise an appeal presentation. On 31 January 2012 the Court of Appeal issued the preliminary authorisation order for the appeal presentation by the KME Group companies. The hearing will be held in coming months.

At the publication date of these consolidated financial statements, there were no other significant contingent liabilities.

4.18 Current financial payables and liabilities

(thousands of Euro)	*Balance at 31.12.2010*	*Changes for the period*	*Change in scope of consolidation*	*Balance at 31.12.2011*
Due to banks	59,023	(28,348)	5,122	35,797
Due to subsidiaries	2,230	187	-	2,417
Due to lease companies	259	10	-	269
Due to factoring companies	61,213	(6,693)	-	54,520
Interest rate swaps (IRS) and currency forward contracts	5,163	(3,849)	-	1,314
LME and metal buyer/seller contracts	65,290	(49,769)	-	15,521
Due to others	4,663	128,757	4,518	137,938
Total	**197,841**	**40,295**	**9,640**	**247,776**

The "Due to factoring companies" item relates to the transferral of receivables with recourse at the end of the reporting period.

"LME and metal sales/purchase contracts" are recognised at the fair value of contracts outstanding at the end of the reporting period.

The current financial payables item "Due to others" includes a reclassification of the aforementioned payables regarding EU fines which became definitive and were paid in February 2012.

The net financial position with the details of its main components pursuant to Consob Communication no. 6064293 and the CESR recommendation of 10 February 2005 "Recommendations for the consistent implementation of the European Commission's Regulation on Prospectuses" is presented in the "Directors' Report" rather than in these notes.

4.19 Trade payables and other current liabilities

(thousands of Euro)	*Balance at 31.12.2010*	*Changes for the period*	*Change in scope of consolidation*	*Balance at 31.12.2011*
Due to suppliers	404,753	111,254	10,351	526,358
Due to associates	5,375	(5,375)	-	-
Due to subsidiaries	644	(64)	-	580
Total	**410,772**	**105,815**	**10,351**	**526,938**

The increase in the "Due to suppliers" item is the result of the increased extension of the payment terms provided by major suppliers of raw materials also through the use of letter of credit as a payment instrument. At the date of these consolidated financial statements the total value of open letters of credit was Euro 304.8 million.

The carrying amount of trade payables is believed to approximate their fair value.

(thousands of Euro)	*Balance at 31.12.2010*	*Changes for the period*	*Change in scope of consolidation*	*Balance at 31.12.2011*
Due to employees	39,039	2,004	12	41,055
Due to social security institutions	12,607	(761)	395	12,241
Tax payables	21,047	14,946	175	36,168
Accured expenses and deferred income	3,299	(277)	-	3,022
Other payables	27,509	2,468	546	30,523
Total	**103,501**	**18,380**	**1,128**	**123,009**

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 the amount due to customers (Euro 26.0 million) for advance payments received and credit notes issued.

4.20 Deferred tax assets and liabilities

(thousands of Euro)	*Balance at 31.12.2010*	*Changes for the period*	*Change in scope of consolidation*	***Balance at 31.12.2011***
Deferred tasx assets	47,033	(15,545)	3	31,491
Deferred tax liabilities	(138,135)	19,002	-	(119,133)
Total	**(91,102)**	**3,457**	**3**	**(87,642)**

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 174.3 million carried forward.

At 31 December 2011 “recognised” and “unrecognised” deferred tax assets on tax losses carried forward are shown below, broken by company:

(thousands of Euro)	*31.12.10*	***31.12.2011***
a) recognised tax losses carried forward		
KME Group S.p.A.	-	1,675
KME AG	4,694	-
KME Germany AG & Co. KG	23,239	-
KME Verwaltungs- u. Dienstleistungs-GmbH	2,039	1,481
KME Italy S.p.A.	16,000	16,000
KME Locsa SA	930	930
KME Yorkshire Ltd	2,253	4,438
Total (1)	**49,155**	**24,524**
b) unrecognised tax losses carried forward		
KME France S.A.	62,895	61,986
KME Spain SA	30,602	39,671
KME Italy S.p.A.	23,997	41,483
KME Locsa SA	19,498	19,498
KME Architectural Metals GmbH & Co. KG	9,705	9,940
Other companies	1,599	1,699
Total (2)	**148,296**	**174,277**
Total (1) + (2)	**197,451**	**198,801**

Deferred tax assets and liabilities by financial statements item are shown below:

(thousands of Euro)	Deferred tax assets		Deferred tax liabilities	
	31.12.10	31.12.2011	31.12.10	31.12.2011
Property, plant and equipment	248	248	61,120	57,224
Intangible assets	15	59	-	-
Investment property	214	170	-	-
Other non-current assets	-		-	-
Inventories	91	405	67,431	52,810
Trade receivables	1,592	1,722	141	122
Other current receivables and assets	3	-	14	140
Current financial assets	2,216	456	5,574	7,939
Current assets for sale or distribution	-		90	-
Employee benefits	9,403	9,255	628	564
Non-current financial liabilities	1,074	3	-	
Other non-current liabilities	2,205	4,276	-	
Provisions for risks and charges	1,946	2,296	-	35
Current financial liabilities	12,596	4,026	3,005	74
Trade payables	581	679	120	
Other current liabilities	142	661	12	225
Deferred tax assets on equity items	88	67	-	
Deferred tax assets on tax loss carry forwards	14,619	7,168	-	
Total	**47,033**	**31,491**	**138,135**	**119,133**

Deferred taxes recognised in equity primarily refer to costs associated with the capital increase incurred by the Parent.
The reduction in “deferred taxes on tax loss carry forwards” relating to the subsidiaries KME AG and KME Germany AG & Co. KG was due to their use, related mainly to the change in inventories with consequent use of the “older” LIFO pools (the method used in Germany for the tax assessment of inventories).

4.21 Transactions with related parties

During the year, the Group traded with unconsolidated related parties. The related amounts were insignificant, as shown in the condensed interim consolidated financial statements.
All such transactions, however, were at arm’s length.

Information regarding the remuneration of key Managers and Directors is shown below:

(thousand of Euro)	*Year 2011*					*Year 2010*					
Short-term Benefits	Post-employment benefits	Other long term benefits	Termination benefits	Share-based payments	**Total for the year**	Short-term Benefits	Post-employment benefits	Other long term benefits	Termination benefits	Share-based payments	**Total for the year**
5,441	20		2,619	941	**9,021**	5,910	27	-	829	243	**7,009**

4.22 Consolidated statement of cash flows

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. The changes in equity were considered on the basis of the date of initial consolidation (1 January 2011).

4.23 Assets and liabilities held for sale

In the previous year the item "assets and liabilities held for sale" included a reclassification of the items relating to the Drive Group following the envisaged merger of Drive Rent S.p.A. into Cobra Automotive Technologies S.p.A. The operation took effect on 1 July 2011.
Following the merger and subsequent share subscriptions, COBRA Automotive Technologies S.p.A. is currently 51.59% owned and is consolidated on an equity basis.

5. Income Statement

Pursuant to Consob Communication no. 6064293/06 it is hereby specified that the Group did not carry out any "atypical and/or unusual transactions" in the first half of 2011.

5.1 Revenue from sales and services

An analysis of revenue by geographical segment is shown below:

Geographical segment (millions of Euro)	*Year 2010*	*Year 2011*
Germany	683	741
Italy	565	507
France	301	352
United Kingdom	208	215
Spain	115	112
Other European countries	597	748
Total Europe	**2,469**	**2,676**
Rest of World	250	336
Total	**2,719**	**3,011**

The change in the scope of consolidation for revenue from sales caused an increase of Euro 44.1 million.

Revenue, net of raw material costs, as shown in the Directors' Report increased by Euro 47.5 million from Euro 758.4 million for 2010 to Euro 805.9 million for 2011.

No single customer accounted for more than 10% of Group revenue (IFRS 8, para. 34).

5.2 Purchases and change in raw materials

(thousands of Euro)	*Year 2010*	*Year 2011*	*Change*
Purchase of raw materials and consumables	(2,094,757)	(2,330,906)	11.27%
(Gains)/losses on LME trading	(40,084)	35,255	n.s.
Fair value on LME and metal buyer/seller contracts	(18,982)	49,270	n.s.
Change in raw materials and consumables	137,862	(17,790)	n.s.
Total	**(2,015,961)**	**(2,264,171)**	**12.31%**

5.3 Other operating income

(thousands of Euro)	*Year 2010*	*Year 2011*	*Change*
Government grants	1,944	1,760	-9.47%
Gains on sale of non-current assets	1,182	2,622	n.s.
Rental income	1,255	1,213	-3.35%
Cafeteria	598	609	1.84%
Insurance claim	4,389	2,343	-46.62%
Other	11,366	15,721	38.32%
Total	**20,734**	**24,268**	**17.04%**

The “gains on sale of non-current assets” for 2011 mainly refers (Euro 2.3 million) to the transfer of the company branch consisting of the corporate complex which manufactures shell-casings.

The overall amount (Euro 2.6 million) of “Gains on sale of non-current assets” has been reported under “Non-recurring income /(expenses)” in the “Reclassified Consolidated Income Statement “ shown in the Directors’ Report.

5.4 Personnel expense

(thousands of Euro)	*Year 2010*	*Year 2011*	*Change*
Wages and salaries	254,004	260,196	2.44%
Social security charges	62,913	63,965	1.67%
Cost of stock option	243	941	n.s.
Other personnel expense	15,761	33,093	n.s.
Total	**332,921**	**358,195**	**7.59%**

“Other personnel expense” includes provisions for “defined benefit pension plans” and “post-employment benefits” of Euro 11.5 million.
Euro 21.1 million of the above personnel expense relating to the cost of decreasing personnel and reducing hours worked (special temporary government-sponsored lay-off scheme, solidarity agreements and similar arrangements) have been reported under “Non-recurring income /(expenses)” in the “Reclassified Consolidated Income Statement” shown in the Directors’ Report.

Average number of employees:

year average	*1st half 2010*	*1st half 2011*	*% Change*
Executives and clerical	1,781	1,776	-0.3%
	27.5%	*27.9%*	
Blue collar and special categories	4,696	4,600	-2.0%
	72.5%	*72.1%*	
Total employees	**6,477**	**6,376**	**-1.6%**
	100.0%	***100.0%***	

During 2010, the “KME Group S.p.A. 2010–2015 Stock Option Plan” (the “Plan”) was activated, in place of the previous one which was implemented in 2006 and revoked in 2009 on account of the new corporate structure/organisation of the Group.
In its meeting on 7 October 2010, the Board of Directors identified the Plan beneficiaries and determined the number of options assigned to each of them, for a total of 25,500,000 options (the maximum number of options authorised by the Shareholders’ Meeting is 31,000,000).
The options give the beneficiaries the right to subscribe or purchase from the Company an equivalent number of KME Group S.p.A. ordinary 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/option) has been determined by independent actuary on the award date by application of the Black & Scholes model which includes variables regarding the conditions of exercise, current share value, expected volatility (estimated through projection of actual volatility for the past year), the risk free interest rate for the Euro zone, expected dividend yield, and the probability that option holders will meet the requirements to exercise their rights at the end of the vesting period.

The evolution of the stock option plan at 31 December 2011 is as follows:

Situation at	*31/12/2010 no. of options*	*31/12/2011 no. of options*
Options outstanding at January 1	**-**	**25,500,000**
New options granted	25,500,000	
Rights reallocated	-	-
Options exercised during the period	-	-
Options canceled during the period	-	-
Options outstanding at end of period	**25,500,000**	**25,500,000**
of which exercisable	-	8,500,000

More details regarding the Plan are provided in the section "Remuneration of Directors and Group Managers" and in the "Information Document" which has been prepared and is available on the Company's website.
It should be noted that, as part of the ongoing extraordinary merger operation and the public offering described in the Directors' Report, rights holders have waived exercise of their options until the end date of the extraordinary operation.

5.5 Amortisation, depreciation and impairment losses

(thousands of Euro)	*Year 2010*	*Year 2011*	*Change*
Depreciation	44,379	44,227	-0.34%
Amortisation	1,469	1,169	-20.42%
Reversals of prior year impairment losses	(655)	(636)	-2.90%
Impairment losses	5,369	10,876	102.57%
Total	**50,562**	**55,636**	**10.04%**

Part of the "Amortisation of intangible assets" and "Impairment" of Euro 10.0 million, which mainly regards the closure of a plant located in Spain and the write-down of part of the consolidation difference relating to the subsidiary Metalbuyer S.p.A., have been indicated as "Non-recurring income (expenses)" in the "Reclassified Consolidated Income Statement" presented in the "Directors' Report".

5.6 Other operating costs

(thousands of Euro)	*Year 2010*	*Year 2011*	*Change*
Energy	69,207	72,841	5.25%
Maintenance and repairs	34,495	36,197	4.93%
Insurance premiums	12,767	13,658	6.98%
Rent paid and operating leases	11,459	11,560	0.88%
Outsourced production	23,740	34,186	44.00%
Sales logistics and transport	59,839	60,012	0.29%
Commissions	17,269	18,565	7.50%
Factoring funding fees	4,372	6,846	56.59%
Other operating costs	88,070	91,178	3.53%
Total	**321,218**	**345,043**	**7.42%**

"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, if any, totalling Euro 7.0 million;
2. bank fees of Euro 4.2 million;
3. losses on disposal of Euro 2.0 million;
4. accruals to allowance for impairment of Euro 3.9 million;
5. advertising and other business expenses of Euro 5.5 million;
6. external staff expenses of Euro 6.3 million;
7. legal consultancy and administrative costs plus fees for company bodies and independent auditors of Euro 15.6 million;

8. waste disposal costs of Euro 5.2 million;
9. travel and company cafeterias of Euro 8.8 million;
10. security costs of Euro 1.9 million;
11. information technology consulting of Euro 1.7 million;
12. membership fees of Euro 2.2 million.

A part of the aforementioned costs (Euro 25.1 million) has been reported under "Non-recurring income (expenses)" in the "Reclassified Consolidated Income Statement " shown in the Directors' Report.
These costs include allocations for industrial restructuring for Euro 9.3 million and interest accrued on EU anti-trust fines for Euro 2.9 million.

5.7 Financial income and expense

(thousands of Euro)	*Year 2010*	*Year 2011*	*Change*
Interest income	933	1,751	87.67%
Exchange rate gains	5,914	12,669	n.s.
Dividends	260	851	n.s.
Other financial income	3,623	14,250	n.s.
Total financial income	**10,730**	**29,521**	**n.s.**
Interest expense	(13,023)	(12,936)	-0.67%
Exchange rate losses	(5,679)	(8,783)	54.66%
Other financial expense	(13,361)	(13,984)	4.66%
Total financial expense	**(32,063)**	**(35,703)**	**11.35%**
Net financial expense	**(21,333)**	**(6,182)**	**-71.02%**

Other financial expense include Euro 1.7 million relating to interest on the factoring of receivables with recourse.

The item "other financial income" includes Euro 12,945 thousand relating to the capital gain, realised at consolidated level, arising from the disposal of the Drive Group following its merger into COBRA AT S.p.A. This capital gain is calculated as the difference between the value of the investment in Cobra received in the swap for the transfer of the investment in Drive and the book value of the investment in Drive S.p.A. at the transfer date. This capital gain, as described in the section on accounting standards, refers to full recognition of the capital gain.
These have been reported under "Non-recurring income (expenses)" in the "Reclassified Consolidated Income Statement " shown in the Directors' Report.

The item "other financial expense" includes:

1. impairment of Euro 1,960 thousand on the investment recorded using the equity method in ErgyCapital S.p.A.;
2. impairment of Euro 1,679 thousand calculated by aligning the recoverable fair value (stock market price) of the ErgyCapital S.p.A. 2016 warrants recorded under "Investments in subsidiaries, associates and others";
3. impairment of Euro 2,660 thousand recorded by aligning the value of the investment in Culti S.r.l. This value was estimated on the basis of the forecasts provided by the directors of the subsidiary.

The overall amounts have been reported under "Non-recurring income (expenses)" in the "Reclassified Consolidated Income Statement " shown in the Directors' Report.

5.8 Share of profit/(loss) of equity-accounted investees

The amount of Euro -7.1 million relates to the pro-quota results of the losses for the year of the following investees.

- ErgyCapital S.p.A. of Euro 2.1 million
- Cobra A.T. S.p.A. for Euro 5.0 million.

5.9 Current and deferred taxes

(thousands of Euro)	*Year 2010*	*Year 2011*	*Change*
Current taxes	(4,185)	(21,878)	422.77%
Deferred taxes	(15,047)	3,781	-125.13%
Total	**(19,232)**	**(18,097)**	**-5.90%**

Since 2007, KME Group S.p.A. and most of its Italian subsidiaries elected to apply the "tax consolidation arrangement", so that IRES (Italian corporate income tax) is computed on a tax base equal to the algebraic sum of the taxable profit/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 tax consolidation arrangement 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 2011 tax benefits of Euro 536.8 thousand were recognized from the disposal of tax losses and the excess "gross operating profit" among Group companies included in the tax consolidation regime.

Reconciliation of theoretical tax charge and the effective charge:

(thousands of Euro)	*31.12.2011*	*31.12.2010*
Profit (loss) before taxes	5,463	2,867
Tax charge at theoretical rate	(1,715)	(900)
(tax rate used: 31.4%)		
Reconciliation:		
Use of different tax rates:	29	77
Other items:		
Non-deductible (expenses) and non-taxable income	(13,947)	(11,416)
Use of tax losses	2,530	(1,518)
Impairment losses on investments and certificates	(2,668)	(1,207)
Current taxes for previous years	244	(512)
Taxes on pprofits of equity-accounted investees	(2,237)	(3,336)
Other	(333)	(420)
Total tax expense recognised in the income statement	**(18,097)**	**(19,232)**

5.10 Loss from discontinued operations

This item includes the reclassification of the results for the first half of 2011 recorded by Drive Group as illustrated also in paragraph 4.23.

6 Other information

Financial instruments by category

(thousands of Euro)	*31.12.2010*	*31.12.2011*	*Change*
Fin. assets recognised at fair value through profit or loss	49,815	176,163	126,348
Held-to-maturity assets	-	-	-
Loans and receivables	420,361	291,400	(128,961)
Available-for-sale financial assets	-	-	-
Fin. liabilities carried at fair value through profit or loss	70,453	16,835	(53,618)
Fin. liabilities carried at amortised cost	855,035	1,024,548	169,513

Financial instruments by financial statements item

Financial instruments and reconciliation with financial statements items at 31 December 2011:

Financial statements item (thousands of Euro)	*Total*	*Carried at amortised cost*	*Carried at fair value*	*Outside the scope of IFRS 7*
Financial asset				
Investments in subsidiaries and associates	15,152			15,152
Investments in other companies	258			258
Investments in equity accounted investees	47,826			47,826
Non-current financial assets	4,589	4,589		
Other non-current assets	8,560	8,560		
Trade receivables	129,489	129,489		
Other current receivables and assets				
Tax	5,844			5,844
Suppliers	6,580	6,580		
Other non-financial assets	19,556			19,556
	31,980			
Cash and cash equivalents	66,483	66,483		
Current financial assets				
Factoring	68,557	68,557		
Receivables	7,142	7,142		
Financial instruments	36,805		36,805	
Other instruments	139,358		139,358	
	251,862			
		291,400	**176,163**	**88,636**

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	299,373	299,373		
With recourse factoring	52,656	52,656		
Without recourse factoring	1,864	1,864		
Payable to lease companies	3,235	3,235		
Other financial Liabilities	140,482	140,482		
Financial instruments	16,835		16,835	
	514,445	**497,610**	**16,835**	
Trade payables	526,938	526,938		
	1,041,383	**1,024,548**	**16,835**	

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)	*Expiry*			*Total at*	
	1 year or less	*from 1 to 5 years*	*over 5 years*	*31.12.2011*	*31.12.2010*
LME commodity contracts Purchase/sale metal contracts	662,951	10,624		673,575	612,300
Foreign exchange forward contracts	311,507	3,221		314,728	218,690
Cross-currency swaps				-	-
Interest rate swaps (IRS)				-	-
Total	**974,458**	**13,845**		**988,303**	**830,990**

The net change in 2011 of the fair value recognized in the Statement of Comprehensive Income for LME transaction and metal buying/selling contracts was positive by Euro 49.3 million (negative by Euro 19.0 million in 2010).

The notional amount of “LME commodity contracts and metal sales/purchase 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 consolidated financial statements was as follows:

Description (thousands of Euro)	Gross carrying amount	Impairment losses 31.12.2011	Net carrying amount
not yet due	89.471	1.192	88.279
less than 60 days past due	19.844	243	19.601
61 to 120 days past due	4.636	702	3.934
121 days to 1 year past due	8.613	1.253	7.360
over 1 year past due	14.222	10.132	4.090
Total	**136.786**	**13.522**	**123.264**

Changes in the allowance for impairment during the year are shown below:

	(thousands of Euro)
31.12.2010	10.718
Translation differences	82
Change in scope of consolidation	3.480
Impairment losses of the year	2.010
Uses	(1.639)
Releases	(1.129)
31.12.2011	**13.522**

Currency exposure

The following table shows the Group's exposure to currency risk by notional amount for the relevant currency:

31.12.2011	*USD*	*GBP*	*CHF*	*SEK*	*EUR*
Non-current financial assets	-	-	-	-	-
Other non-current assets	-	-	-	-	-
Trade receivables	14,165	1,317	26	11,630	273
Other current receivables and assets	33	50	-	-	-
Current financial assets	11,049	1,447	1,610	13,748	845
Cash and cash equivalents	8,812	3,629	3,598	4,742	436
Financial liabilities	150	1	144	6,474	273
Trade payables	302,241	397	78	6,504	579
Other current liablilities	301	158	-	8,756	-
Gross statement of financial position exposure	**(268,633)**	**5,887**	**5,012**	**8,386**	**702**
Projected sales	35,803	8,826	2,440	45,030	497
Projected purchases	41,836	589	292	1,038	1,520
Gross exposure	**(274,666)**	**14,124**	**7,160**	**52,378**	**(321)**
Currency forward contracts	(298,860)	8,070	3,300	44,550	(2,668)
Net exposure	**24,194**	**6,054**	**3,860**	**7,828**	**2,347**

Currency risk exposure for the previous financial year:

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**

The “EUR” column expresses the exchange risk of foreign subsidiaries that did not have the Euro as their functional currency.

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 2011, in equity and an improvement (deterioration) of the net results for the period of Euro 3.2 million. The analysis was made assuming that all other variables remained constant, in particular interest rates. The same analysis for 31 December 2010 would have increased (decreased) results and equity by Euro 3.4 million.

Interest rate exposure

The Group’s interest rate structure of interest-bearing financial instruments at 31 December 2011 was as follows:

	Carrying amount	
(thousands of Euro)	*31.12.2010*	*31.12.2011*
Fixed rate instruments:		
Financial assets	36,046	7,670
Financial liabilities	12,384	74,123
Total	**23,662**	**(66,453)**
Variable rate instruments:		
Financial assets	117,956	70,430
Financial liabilities	370,666	421,623
Total	**(252,710)**	**(351,193)**

Sensitivity analysis of the fair value of fixed rate instruments and of LME contracts

The Group had no fixed rate financial assets or liabilities at fair value through profit or loss or any derivatives (interest rate swaps) designated as 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 forward contracts traded on the London Metal Exchange) to hedge against fluctuations in the raw materials prices, 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 6.6 million. The same effect on financial statements figures at 31 December 2010 would have had a negative impact of Euro 5.4 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 for these consolidated financial statements would have produced a decrease (increase) in equity and results of approximately Euro 1.1 million (Euro 1.6 million in the 2010). 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 2010.

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 amount

Pursuant to IFRS 7 para. 25 we declare that the carrying amount of the financial assets and liabilities recognised in these consolidated financial statements do not diverge from their fair value.

Fair value hierarchy

IFRS 7, para. 27A requires financial instruments recognised at fair value in the statement of financial position to be classified with reference to a hierarchy of levels, based on the significance of the input used to determine fair value.

The standard stipulates three levels:
Level 1 - listed prices on an active market for the asset or liability to be measured;
Level 2 - inputs other than the listed prices indicated in Level 1 that are observable directly (prices) or indirectly derived from (prices) on the market;
Level 3 - inputs not based on observable market data.

Financial instruments recognised at fair value in the statement of financial position (see reconciliation table), 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 listed on the London Metal Exchange (LME) for the purposes of hedging commodity price risk.
There were no transfers between Levels 1 and 2.
The Group does not use financial instruments that would be classified as Level 3.

Other financial obligations

Below is a summary showing the minimum irrevocable payment obligations under operating leases at the end of the reporting period:

(thousands of Euro)	***31.12.2010***	***31.12.2011***
within 1 year	5,864	5,342
between 1 and 5 years	8,649	9,796
due after 5 years	336	1,907
	14,849	**17,045**

Purchase commitments relating to property, plant and equipment at the end of the reporting period amounted to Euro 13.9 million. These purchase commitments will lapse within one year.

7 Segment reporting

Pursuant to IFRS 8 the following segment reporting is provided. At the operational level, the KME Group is organised 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 sector consisting of an industrial grouping which is a leader in the international global production of copper and copper-alloy semi-finished products;
- **Energy from renewable sources**: a sector consisting 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**: sector with group of companies belonging to the Cobra AT Group. Through the merger, effective as from 1 July 2011, of the subsidiary Drive Rent S.p.A. into COBRA Automotive Technologies S.p.A., a company based in Varese and the holding company of a group listed on the Italian stock market, KME Partecipazioni S.r.l., which bought 42.7% of the new entity, laid the foundations for an expansion of its services into the field of vehicle management and greater creation of value by combining the services, products, and distinctive know-how of the two groups. The new corporate structure has become one of the main operators in Europe in the provision of integrated services for the management of risks associated with the possession, ownership and use of vehicles, through the use of information and satellite-based technology.

At 31 December 2011					
(Amount in €/000)	OPERATING SECTORS				
	Copper and copper-alloy semi-finished goods	Services	Energy from renewable sources	Consolidated and various	Total
Revenue	3,011,693	-	-	(56)	3,011,637
Financial income	13,541	12,945	-	3,035	29,521
Financial expense	(30,526)	-	(1,960)	(3,217)	(35,703)
Amortisation, depreciation and impairment losses	(55,603)	-	-	(33)	(55,636)
Segment profit before taxes	6,646	(5,014)	(2,109)	5,939	5,462
Non-current financial assets					
Investments in subsidiaries and associates	6,377	-	4,833	4,200	15,410
Investments in equity accounted investees	-	32,226	15,600	-	47,826
Consolidation differences	118,367	-	-	-	118,367
Other non-current assets	645,593	-	-	12,955	658,548
Current assets	1,073,742	-	-	13,595	1,087,337
Current and non-current liabilities	1,455,065	-	-	35,362	1,490,427

The comparative data with the same period of the previous year are shown below:

At 31 December 2011					
(Amount in €/000)	OPERATING SECTORS				
	Copper and copper-alloy 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 the notes to the consolidated financial statements at 31 December 2010.
(2) Loss of the Drive Group amounting to Euro -1.4 million is recognised in the Statement of Comprehensive Income at 31 December 2010 under "Profit/(loss) from discontinued operations.

Annexes to the notes to the condensed interim consolidated financial statements:

Reconciliation statement between the profit of the Parent KME Group S.p.A. and the consolidated profit for period ended 31 December 2011

	(thousands of Euro)
Profit of KME Group S.p.A. separate financial statements	(9,885)
Loss of subsidiaries (1) (2)	(17,970)
Consolidation adjustments (3)	20,685
Share of profit of equity-accounted investees (4)	(7,123)
Consolidated loss attributable to owners of the Parent	**(14,293)**
Profit of subsidiaries 1.1.2011 - 31.12.2011	
(1) KME A.G. consolidated profit	(8,132)
(2) Share of profit/(loss) of other subsidiaries of KME Group S.p.A.	(9,838)
(3) Derecognition impairment losses (reversal of impairment losses) on investments	9,700
(3) Netting of intercompany dividends	-
(3) Other consolidation adjustments	10,985
(4) Investees contribution to equity	(7,123)
Total	**(14,246)**

Reconciliation statement between the equity of the Parent KME Group S.p.A and the consolidated equity as at 31 December 2011

	(thousands of Euro)
Parent's Equity including profit	**452,531**
Consolidation reserves	(17,124)
Difference between consolidated loss and Parent's profit	(4,408)
Group's Equity including loss	**430,999**
Breakdown of consolidation reserves	
1) Netting of investments	(126,930)
2) Netting of intercompany dividends	-
3) KME A.G. goodwill arising on consolidation	109,840
4) Effect of the translation of the financial statements in Euro	818
5) Components of total comprehensive income:	(852)
Total	**(17,124)**

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 effective application,

   of administrative and accounting procedures in the preparation of the consolidated financial statements as at and for the year ended 31 December 2011.

2. No material findings emerged in this regard.

3. Moreover, they state 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) no. 1606/2002 of the European Parliament and of the Council of 19 July 2002;
   b. reflect the balances recorded in the companies' books and accounting records;
   c. are suitable to provide a true and fair view of the financial position and results of operations of the issuer and all the 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, 28 March 2012.

Deputy Chairman	Manager in charge of financial reporting
signed Vincenzo Manes	*signed Marco Miniati*

Report of the Board of Statutory Auditors on the consolidated financial statements as at and for the year ended 31 December 2011

The Board of Statutory Auditors hereby presents its brief report on the consolidated financial statements as at and for the year ended 31 December 2011, pursuant to its obligation to oversee compliance with the law and the articles 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 31/12/11.
The main equity data in the consolidated financial statements can be summarised as follows:

- Non-current assets Euro/000s 840,151
- Current assets Euro/000s 1,087,337
- Equity Euro/000s 437,061
- Non-current liabilities Euro/000s 576,689
- Current liabilities Euro/000s 913,738

At the level of the income statement, operating profit was Euro/000s 18,767 and there was a loss for the year of Euro/000s 12,874.
The Directors' Report sets out the mechanism for determining impairment.
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 2011, which is the end of the reporting period of the parent and its subsidiaries.
The consolidated financial statements have been prepared in compliance with the IFRS/IAS valuation and measurement criteria. 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, 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 at 31 December 2011, and the conformity of the financial statements 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 2011, the investments which did not refer to the copper, the renewable energy sector or services sectors were grouped under the sub-holding company KME Partecipazioni 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 2011, reports and representations made by shareholders and third parties and, in general, oversight and controls, 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 14.3 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 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 2011 the consolidated loss was influenced by a positive adjustment resulting from IFRS measurement criteria of approximately Euro 7.6 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.
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 2011.
The consolidated financial statements and accompanying documents have only been provided to Shareholders for information purposes and do not require approval.

Florence, 20 April 2012

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)

KPMG S.p.A.
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(Translation from the Italian original which remains the definitive version)

Report of the auditors in accordance with 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 2011, 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.

Reference should be made to the report dated 5 April 2011 for our opinion on the prior year consolidated financial statements, which included the corresponding figures presented for comparative purposes.

3 In our opinion, the consolidated financial statements of KME Group as at and for the year ended 31 December 2011 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 2011, the results of its operations and its cash flows for the year then ended.

4 The directors of KME Group S.p.A. are responsible for the preparation of a directors' report on the financial statements in accordance with the applicable laws and regulations. Our responsibility is to express an opinion on the consistency of the directors' report and its specific section on corporate governance and shareholding structure, to the extent of

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 2011.

Florence, 20 April 2012

KPMG S.p.A.

(signed on the original)

Riccardo Cecchi
Director of Audit

FINANCIAL STATEMENTS OF KME GROUP S.P.A. AT 31 DECEMBER 2011

Separate financial statements of KME Group S.p.A. at 31 December 2011

STATEMENT OF FINANCIAL POSITION					
(in Euro)	*note*	*at 31.12.2011*	*of which with related parties*	*at 31.12.2010*	*of which with related parties*
Property, plant and equipment	*4,1*	264,835		216,933	
Investments	*4,2*	467,851,294	467,851,294	423,021,585	423,021,585
Other financial assets	*4,3*	53,419,680	48,844,427	65,995,295	60,627,760
Deferred tax assets	*4,4*	1,921,293		2,468,816	
NON-CURRENT ASSETS		**523,457,102**		**491,702,629**	
Trade receivables	*4,5*	2,451,847	2,451,847	5,776	5,776
Other current receivables and assets	*4,6*	328,945		469,903	311
Current financial assets	*4,7*	35,744,703	35,744,703	139,120,125	124,761,625
Cash and cash equivalents	*4,8*	6,605,104		250,511	
Current assets held for sale	*4,9*	0		30,000,000	30,000,000
CURRENT ASSETS		**45,130,599**		**169,846,316**	
TOTAL ASSETS		**568,587,701**		**661,548,945**	
Share capital	*4,10*	297,040,568		297,013,585	
Other reserves	*4,10*	94,682,423		91,601,028	
Treasury shares	*4,10*	(2,680,317)		(2,887,602)	
Retained earnings	*4,10*	72,187,807		15,191,120	
Stock Option reserve	*4,10*	1,183,784		7,184,835	
Profit (loss) for the year	*4,10*	(9,884,832)		61,100,677	
EQUITY		**452,529,433**		**469,203,642**	
Employee benefits	*4,11*	170,200		161,586	
Deferred tax liabilities	*4,4*	-		89,534	
Financial payables and liabilities	*4,12*	66,682,303	6,833,678	82,604,252	8,963,045
Other payables	*4,13*	2,133,455	2,133,455	1,797,455	1,797,455
Provisions for risks and charges	*4,14*	1,687,368		2,440,368	
NON-CURRENT LIABILITIES		**70,673,326**		**87,093,195**	
Financial payables and liabilities	*4,15*	41,968,012	13,049,147	103,433,087	59,645,429
Trade payables	*4,16*	1,876,594	884,711	329,505	3,130
Other current liabilities	*4,17*	1,540,336	588,002	1,489,515	462,345
CURRENT LIABILITIES		**45,384,942**		**105,252,108**	
TOTAL EQUITY AND LIABILITIES		**568,587,701**		**661,548,945**	

STATEMENT OF COMPREHENSIVE INCOME					
(in Euro)	*note*	*FY 2011*	*of which with related parties*	*FY 2010*	*of which with related parties*
Revenue	*6,1*	2,839,000	2,839,000	2,839,000	2,839,000
Other income	*6,2*	352,823	860	1,002,721	204,625
Personnel expense	*6,3*	(1,370,331)	(867,074)	(680,045)	(223,864)
Amortisation, depreciation and impairment losses	*6,4*	(16,610)	-	(12,040)	-
Other operating costs	*6,5*	(6,357,805)	(3,272,577)	(5,536,423)	(3,344,306)
Operating loss		**(4,552,923)**		**(2,386,787)**	**-**
Financial income	*6,6*	12,427,101	11,189,796	86,350,690	82,707,429
Financial expense	*6,6*	(16,911,402)	(11,402,387)	(21,704,242)	(11,432,382)
Profit/(loss) before taxes		**(9,037,224)**		**62,259,662**	**-**
Current taxes	*6,7*	(411,570)	(134,190)	(404,884)	-
Deferred taxes	*6,7*	(436,038)	-	(754,101)	-
Total income taxes		**(847,608)**		**(1,158,985)**	**-**
Loss from continuing operations		**(9,884,832)**		**61,100,677**	**-**
Profit/(loss) from discontinued operations		**-**		**-**	
Profit for the year		**(9,884,832)**		**61,100,677**	
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		**(9,884,832)**		**61,100,677**	

STATEMENT OF CHANGES IN EQUITY

(thousands of Euro)	Share capital	Other reserves	Treasury shares	Retained earnings	Reserve for stock option	Profit for the year	Total equity
Equity at 31.12.2010	**297,014**	**91,601**	**(2,888)**	**15,191**	**7,185**	**61,101**	**469,204**
Allocation of Parent's profit/(loss)		3,055		50,055		(53,110)	-
Dividends and allocations to the Board of Directors						(7,991)	(7,991)
Expiry of stock option plan 2006-2011		-		6,942	(6,942)		-
Share capital increase	27						27
Reserve for goodwill arising on demerger		6,422					6,422
Non-distributable reserve		(6,422)					(6,422)
Constitution of reserves on taxable distribution		-					-
Issue of new shares (exercise of warrants)		31					31
(Purchase) sale of treasury shares		17	208				225
Deferred taxes recognised in equity		(22)					(22)
Expiry of stock option					941		941
Costs associated with Share Capital increase		-					-
Total losses/income recognised in equity	-	-	-	-	-	-	-
Profit/(loss) for the year						(9,885)	(9,885)
Total comprehensive income/(loss)	-	-	-	-	-	**(9,885)**	**(9,885)**
Equity at 31.12.2011	**297,041**	**94,682**	**(2,680)**	**72,188**	**1,184**	**(9,885)**	**452,530**
Reclassification of treasury shares	(2,680)		2,680				-
Equity at 31.12.2011	**294,361**	**94,682**	-	**72,188**	**1,184**	**(9,885)**	**452,530**

(thousands of Euro)	Share capital	Other reserves	Treasury shares	Retained earnings	Reserve for stock option	Profit for the year	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	0				316
Non-distributable reserve	(6,422)	6,422					-
Constitution of reserves on taxable distribution	(2,242)	2,242					-
Issue of new shares (exercise of warrants)	14						14
(Purchase) sale of treasury shares							-
Deferred taxes recognised in equity		22					22
Expiry of stock option					243		243
Costs associated with Share Capital increase		(399)					(399)
Total losses/income recognised in equity	-	**(399)**	-	-	-	-	**(399)**
Profit/(loss) for the year						61,101	61,101
Total comprehensive income/(loss)	-	-	-	-	-	**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 CASH FLOWS, INDIRECT METHOD		
(thousands of Euro)	***31.12.2011***	***31.12.2010***
A) Cash and cash equivalents at the beginning of the year	**251**	**403**
Profit before taxes	(9,037)	62,260
Depreciation and amortisation	16	12
Impairment losses (reversals of impairment losses) on current and non-current financial assets	9,700	(60,071)
Losses (gains) on disposal of non-current assets	-	(1,640)
Change in provisions for pensions, post-employment benefits and stock options	875	230
Change in provisions for risks and charges	(753)	(349)
(Increase) decrease in current receivables	(2,434)	648
Increase (decrease) in current payables	1,597	(2,223)
Taxes paid during year	(339)	(983)
(B) Cash flows from operating activities	**(375)**	**(2,116)**
(Increase) in non-current intangible assets and property, plant and equipment	(64)	(68)
Decrease in non-current intangible assets and property, plant and equipment	-	1,642
(Increase) decrease in investments	(24,531)	(80,384)
Increase/decrease in other non-current assets/liabilities	336	351
Dividends received	131	158
(C) Cash flows from investing activities	**(24,128)**	**(78,301)**
Changes in equity	57	61,748
(Purchase) sale of treasury shares	226	-
Increase (decrease) in current and non-current financial payables	(77,387)	65,447
(Increase) decrease in current and non-current financial receivables	115,951	(44,279)
Dividends paid and profits distributed	(7,990)	(2,651)
(D) Cash flows from financing activities	**30,857**	**80,265**
(E) Change in cash and cash equivalents (B)+(C)+(D)	**6,354**	**(152)**
(F) Effect of changes in assets held for sale	**-**	**-**
(G) Cash and cash equivalents at the end of the year (A)+(E)+(F)	**6,605**	**251**

Accounting standards applied and notes

1. GENERAL INFORMATION

KME Group S.p.A. ("KME") and its subsidiaries (that together make up the "Group") operate mainly in the copper and copper-alloy semi-finished products, services and renewable energy sectors.
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 (Società per Azioni) registered in Italy with the Florence Company Register, no. 00931330583, and its shares are listed on the Mercato Azionario Telematico (Borsa Italiana's electronic market) organised and managed by Borsa Italiana S.p.A.
The separate financial statements at 31 December 2011 were approved by the Board of Directors on 28 March 2012 and will be published in accordance with legal requirements.

Although it is owned by Quattroduedue Holding B.V., the Company is not subject to the management and coordination of 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 Parent 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.

As set out in more detail in the Directors' Report, on 27 January 2012 the Boards of Directors of INTEK S.p.A. and KME Group S.p.A. approved a broad corporate operation to bring the structures of the two companies under a single holding company, with the aim of managing the individual businesses that each controls as a single unit so as to develop them and to give more focus to their role of creating value in the long term.

The execution of the merger, which in accordance with the approved project will be undertaken by merging INTEK into KME, will be preceded by the launch of two voluntary share exchange offers by the two companies for their ordinary treasury shares, with the payment being made in debt securities issued by the companies and for which listing will be sought.

For further information on the transaction proposed by the Boards of Directors, refer to the documentation made available by the Company.

During 2011, effective from 1 July 2011, the merger of the Drive Group into Cobra Automotive Technologies S.p.A. has been concluded. We reiterate that on 30 November 2010 the Board of Directors of Drive Rent S.p.A. approved a corporate/industrial restructuring that provided for the merger of Drive Rent into Cobra Automotive Technologies S.p.A, the holding company of a group listed on the Italian Stock Exchange and a leader in car theft protection systems and vehicle safety through the use of IT and satellite technology. The transaction will allow the new entity to offer common and heterogeneous groups of customers (such as individual drivers, corporate fleets, lease companies,

car manufacturers 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).
On 15 March 2011, the merger project was submitted to and approved by the shareholders' meetings of Drive Rent and Cobra Automotive Technologies. The conclusion of the transaction took place with the signing of the merger deed on 14 June 2011, effective from 1 July 2011. The transaction became effective on 1 July 2011.

On 29 June 2011 the transfer was completed to the subsidiary KME Partecipazioni S.r.l. of the following securities and investments:
a) Investment in ErgyCapital S.p.A. of which:
- 43,981,434 ordinary shares, equal to 46.38% for a value of Euro 22 million, held as a long-term investment and therefore classified under fixed assets;
- 5,277,893 ordinary shares, equal to 5.57% for a value of Euro 2.3 million, held as financial assets in order to take advantage of any market or disposal opportunities on the basis of the market trend;
b) ErgyCapital S.p.A. 2016 warrants of which:
- 50,871,755, equal to 59.81% for a value of Euro 6.5 million, held as a long-term investment and therefore classified under fixed assets;
- 5,775,550, equal to 6.79% for a value of Euro 0.7 million, held as financial assets in order to take advantage of any market or disposal opportunities on the basis of the market trend;
c) Investment in Drive Rent S.p.A. 45,000 shares, equal to 90%, which at the date of this report were exchanged with 17,266,500 shares, (42.68%) for a value of Euro 30 million;
d) iNTEK S.p.A. savings shares (2,184,369) for a value of Euro 1.5 million;

On 1 August 2011 there was also the transfer of the investment in Il Post S.r.l. for a value of Euro 0.4 million, again to the subsidiary KME Partecipazioni S.r.l.

2. ACCOUNTING POLICIES

2.1 Basis of presentation

The separate financial statements as at and for the year ended 31 December 2011 have been prepared pursuant to article 154 ter of Legislative Decree 58/1998.
These 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, whether applicable.
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 2010.

In addition the following standards, amendments and interpretations, some of which were revised as part of the 2010 annual improvements conducted by the IASB, which became effective on or after 1 January 2011, have been applied for the first time:

IAS 24 – Related Party disclosure (Amendment): the amendment simplifies the disclosure requirements for government-related entities and clarifies the definition of "related party". This standard was issued in November 2009; the competent bodies concluded the endorsement process in July 2010; the standard is applicable from 1 January 2011.

IAS 32 - Financial instruments: presentation – Classification 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 in question is applicable as from 1 January 2011 retrospectively. The amendment to IAS 32 did not affect the financial statements at 31 December 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. In addition, the requirements for disclosure on financial assets which are expired or written down but which have been renegotiated have been eliminated. Moreover, it is required to provide a description and the financial effect of the collateral held as a guarantee and other conditions to improve credit quality. The improvement is applicable from 1 January 2011.

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 by issuing company's shares, then the shares issued by the company become part of the price paid for the 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 statement of comprehensive income for the period. The change to IFRIC 19 had no impact on the statement of financial position at 31 December 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' schedules. The improvement is applicable from 1 January 2011.

IAS 34 - Interim Financial Reporting: 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 interim 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 instruments listed 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.

The Group has not yet applied the accounting standards which are listed below in paragraph 2.17 and which, although already issued by the IASB, become effective after the date of these separate financial statements as at 31 December 2011.

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

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

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

2.2 Property, plant and equipment

Investments in operating assets
Property, plant and equipment are recorded at purchase or production cost, including direct accessory costs, and are shown net of accumulated depreciation and any impairment determined in accordance with the methods set out below. Any item of property, plant and equipment consisting of different components with varying useful lives, is separately accounted for.

Property, plant and equipment are measured 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.

Ordinary maintenance costs are charged to the income statement, while the costs to replace parts of fixed assets and extraordinary maintenance costs are capitalised when it is possible that future measureable economic benefits will arise from them.

Depreciation is accounted for from the month the asset becomes available for use, or when it is potentially able to provide the economic benefits associated with it. Depreciation is charged monthly on a straight line basis until the end of the useful life of the relevant asset or, in the event of disposal, until the last month of use.

The useful life is constantly checked taking into account any changes in the frequency of use of the assets and any changes in depreciation plans are applied prospectively.

Should events occur which indicate possible impairment of property, plant and equipment, or when there are marked reductions in the market value of these assets, significant technological changes or significant obsolescence, the residual value is subject to verification on the basis of the estimated present value of forecast future cash flows and, if necessary, is adjusted. This impairment is subsequently eliminated when the conditions which caused it to be recorded no longer exist.

Land, whether it is unoccupied or is connected to ancillary and industrial buildings, is not amortised since it is considered to have an indefinite useful life.

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 recognised in profit or loss 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 under finance leases

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 financial liabilities. 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 company will obtain title to the asset at the end of the lease.

Property, plant and equipment are tested for impairment whenever there is specific objective evidence thereof. The test involves estimating the recoverable amount of the asset, defined as the higher of fair value less costs to sell and value in use, and comparison of the appropriate value with the carrying amount. The recoverable amount is the greater of value in use and fair value less costs to sell. 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 previously created on the revaluation of the asset. Subsequent revaluations are treated analogously. Information regarding impairment tests 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 initially recognised at cost or fair value, respectively. They are then systematically amortised based on their useful life, which is the period over which the assets will be used by the company, generally between three and five 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 generated 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 “*Held-to-maturity assets*”. The assets included in this category are measured at amortised cost 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 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 short-term trade payables and receivables, for which the time value of money is immaterial, 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 with changes recognised 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 profit and losses are recognised directly in equity.

Determination of impairment losses
All financial assets and liabilities, with the exception of "*Financial assets and liabilities at fair value through profit or loss*", 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 measured 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 that asset.

Recoverability of the carrying amounts is tested annually and whenever events occur which create a presumption of impairment.
In particular, for the purposes of assessing the recoverable value of the investment in KME AG, use was made of the impairment tests arranged for the consolidated financial statements in reference to copper and copper-alloy semi-finished products as approved by the Board of Directors, net of the values referring to KME Recycle and its subsidiaries.

The impairment tests were carried out to determine the value in use of the assets subject to impairment testing and therefore through the present value of the expected future cash flows over two time periods, the first defined on the basis of the aforementioned new business plan compiled by the management and the second on the basis of the terminal value. The cash flows from operations used to determine the terminal value have been calculated based on the average EBITDA expected in the Plan for 2013-2017 with a growth rate ("g") of 0%. This terminal value is purposely conservative in consideration of the status of the sector's maturity and its cycle nature.
The cash flows from operations obtained in this manner were discounted using the WACC discount rate (weighted average cost of capital) equal to 9.3% net of taxes. This rate takes into account an average risk-free rate of 3.68% (fluctuating from 2.6% in Germany and 5.4% in Spain), a market risk premium of 5.20% and an average interest rate on the debt of 5.1%; to this base rate an additional premium of 2% was added in order to reflect the uncertainty related to recent volatility on financial markets, the changed economic conditions and the consequent degree of uncertainty on the duration and depth of the current phase.

The increased discount rate therefore expresses values as part of the conservative scenario, in consideration also of the additional premium which was used.

The aforementioned impairment was also subjected to a sensitivity test which did not indicate any need to for write-downs assuming a negative growth rate (“g”) of up to 3.4% and a WACC increase of 2.1%.

In reference to KME Recycle, the recoverable value identified for the impairment test reflects the total value of its subsidiaries Metalbuyer S.p.A. and Valika S.A. determined on the basis of the forecast cash flows included in the Plan for 2012-2017.

In reference to KME Partecipazioni, the recoverable value identified for the impairment test reflects the loss recorded by the company in 2011 largely connected to write-downs for permanent impairment of its subsidiaries.

For investments in equity-accounted investees, pursuant to IAS 28 para. 31 et seq., IAS 39 is applied to determine the need to recognise any further impairment losses relating to the net investment. The entire carrying amount of the investment is however tested for impairment under IAS 36 by comparing its recoverable amount 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 is restated if the subsequent increase in value can be objectively connected to a permanent event which occurred following the impairment, for a total amount which, in any case, cannot exceed the actual results. 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 financial assets, on initial recognition, is determined on the basis of the transaction price and is, therefore, equal to the amount paid or received.
Subsequent, 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 currency forward 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 sales and purchase 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, when this is significant.

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 7).

2.6 Equity

The reserve for treasury shares is no longer used due to the change in presentation introduced by IAS. The existing balance of the reserve was, consequently, reclassified to the relevant, specific reserves that had been used to create it. The notes, nonetheless, contain information on compliance with articles 2357 ter and 2359 bis of the Italian Civil Code.
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 share capital to be received. 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 owned treasury shares is reported on the face of the statement of financial position as a reduction of equity.
The costs for equity operations have been used directly against other reserves.

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 short-term trade receivables and payables, they are recognised at their par value.

2.8 Current and deferred taxes

Tax expense for the period 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 recognised on temporary differences between the carrying amounts of the assets and liabilities and the corresponding amounts recognised for tax purposes. Deferred taxes are not recognised 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 them. The carrying amounts of deferred tax assets are tested for impairment at the end of each reporting period and are reduced to the extent that they are 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 plans" or "defined benefit" plans. The Group'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 recognised pro-quota in 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 of any plan assets.
Italian Law no. 296 of 27 December 2006 and subsequent decrees and regulations enacted during 2007 introduced – as part of pension reform – significant changes concerning the allocation of the portions accruing of post-employment benefits plan. As a result of these changes, the new flows of post-employment benefits can be directed by workers towards forms of supplementary pension provision or retained in the company (in the case of companies with fewer than 50 employees) or transferred to the INPS, the government pension & welfare agency (in the case of companies with more than 50 employees). Basing itself on the generally accepted interpretation of the new rules, the Group decided 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 discounted to 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 if 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.

Starting from 2010 the KME Group S.p.A. stock option plan for 2010–2015 was activated (hereinafter the "Plan"), 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.

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, and 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

Pursuant to IAS 33 para. 4 this kind of information is presented only for 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, and 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

Certain new standards, revisions to standards and interpretations in issue at 31 December 2011 that are relevant to the Company had not yet become effective and were not used to prepare these financial statements.

The most important included:

IAS 1 - Presentation of financial statements (Improvement): it introduces a clarification regarding the minimum comparative information to provide. On the date of these financial statements (31 December 2011), the competent bodies of the European Union had not concluded the endorsement process required for application.

IAS 16 - Property, Plant And Equipment (Classification): the amendment clarifies that maintenance equipment can be capitalised under "property, plant and equipment" rather than under inventory if they have been used for a period longer than one year, regardless of whether they are specifically related to a specific plant or machine or not. On the date of these separated financial statements, the competent bodies of the European Union had not concluded the endorsement process required for application.

IAS 19 - Employee benefits: on 16 June 2011 an amendment was issued which eliminates the option of deferring recognition of actuarial gains and losses using the corridor method. Consequently, it will be necessary to show the total deficit or surplus on the statement of financial position and in cash flows. In the statement of comprehensive income it will be necessary to show the cost components linked to the work performed and the net financial expense; the other components on the statement of comprehensive income, on the other hand, must include the actuarial gains and losses arising from the annual recalculation of assets and liabilities. At the date of these separate financial statements, the competent bodies of the European Union had not concluded the endorsement process required for application of the aforementioned amendment. The application of the new standard is mandatory from 1 January 2013.

IAS 27 - Separate Financial Statements: On 12 May 2011 the IASB issued IFRS 10 – Consolidated Financial Statements which will replace SIC-12 Consolidation – Special Purpose Entities and parts of IAS 27 – Consolidated and Separate Financial Statements. It will establish the accounting treatment for investments in the separate financial statements. The new standard defines the existence of control, for the purposes of consolidation, in various ways and not only as the result of the power to direct financial and operational policies. Therefore, an investor controls an entity when he/she is exposed to changes in results arising from his/her involvement with the company and has the possibility of influencing these results through exercise of his/her power over the company. At the date of these separate financial statements, the competent bodies of the European Union had not concluded the endorsement process required for application of the aforementioned amendment. The application of the new standard is mandatory from 1 January 2013.

IAS 32 - Financial instruments (Improvement): introduces clarification in the application of some criteria for the offset of financial assets and liabilities. At the date of these separate financial statements, the competent bodies of the European Union had not concluded the endorsement process required for application of the aforementioned amendment. The application of the new standard is mandatory from 1 January 2013.

IFRS 7 - Financial Instruments: Disclosures: the amendment requires further disclosure on the effects or potential effects of agreements to offset financial assets and liabilities on the statement of financial position and in cash flows, when legally possible.

IFRS 11 - Joint Arrangements: in May 2011 IFRS 11 was published which will replace IAS 31 – Interests in Joint Ventures and SIC – 13 – Jointly Controlled Entities – Non-monetary contributions by venturers. The previous standard envisaged the identification of a joint controller entity and the possibility of choosing the consolidation method from between the equity method and proportionate consolidation. The new standard distinguishes joint ventures (if the entity has rights and obligations connected to the overall net assets covered by the agreement) from joint operations (if the entity has rights and/or obligations related to specific assets and liabilities) as opposed to IAS 31 which required identification of joint venture entities. Participants in a joint venture have contractual rights and obligations deriving from the agreement and which are based on substance over form. The participants in a joint venture must measure the investment using the equity method. Proportionate consolidation is no longer allowed. The assets and liabilities of a joint operation will be recognised both in the consolidated financial statements as well as in the separate financial statements according to the applicable International Accounting Standards. At the date of these separate financial statements, the competent bodies of the European Union had not concluded the endorsement process required for application of the aforementioned amendment. The application of the new standard is mandatory from 1 January 2013.

IFRS 12 - Disclosure of Interests in Other Entities: this standard mainly aims to define the criteria for determining control and to provide a uniform disclosure that is able to highlight the risks associated with the relations, regardless of the nature of the relation itself. IFRS 12 focuses on disclosure regarding interests in other entities such as joint ventures, investments in subsidiaries, and investments in associates, joint ventures or interests in companies that are not included in the scope of consolidation. At the date of these separate financial statements, the competent bodies of the European Union had not concluded the endorsement process required for application of the aforementioned amendment. The application of the new standard is mandatory from 1 January 2013.

IFRS 13 - Fair-value Measurement: on 12 May 2011, the IASB published IFRS 13 which provides guidance for measurement at fair value. It mainly introduces the definition of fair value, a guide for the determination thereof and a series of minimum disclosures that are common to all items measured at fair value. Essentially the new standard will define how to determine the fair value and will apply to all the IFRS which require or allow the measurement of fair value. The board has defined fair value as the price that should be paid to extinguish a liability in an arm's length transaction on the date on which the measurement is made. Essentially the new definition brings the concept of fair value close to that of an exit price. In addition, the standard established criteria to use to determine the fair value of assets and liabilities that cannot be directly observed on the market, including: the market approach, cost approach or according to discounted future cash flows.
The disclosure must make clear to the reader the measurement techniques, the effect on profit or loss and on other components of comprehensive income deriving from the measurements made using non-observable data to a significant extent. The application of the new standard is mandatory from 1 January 2013.

IAS 12 - Income Taxes: On 20 December 2010 the IASB issued an amendment which clarifies the determination of deferred taxes on investment property assessed at fair value in accordance with the provisions of IAS 40, by introducing the provision that they must be determined in consideration of the fact that the carrying value of this asset will be recovered through its sale. Consequently the amendment SIC-21 – Income Taxes – Recovery of Revalued Non-Depreciable Assets will no longer be applicable. The amendment is applicable from 1 January 2011 retrospectively.

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 OF KME GROUP S.P.A.

4.1 Property, plant and equipment

(thousands of Euro)	*Plant and equipment*	*Other assets*	*Total*
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**
At 31.12.2011			
Opening historical cost	**170**	**861**	**1,031**
Increases	-	64	64
Reclassifications	-	-	-
Decreases	-	-	-
Closing historical cost	**170**	**925**	**1,095**
At 31.12.2011			
Opening accumulated depreciation and impairment losses	**170**	**644**	**814**
Increases	-	16	16
Impairment losses/(reversals of impairment losses)	-	-	-
Reclassifications	-	-	-
Decreases	-	-	-
Closing accumulated depreciation and impairment losses	**170**	**660**	**830**
At 31.12.2011			
Closing historical cost	170	925	1,095
Closing accumulated depreciation and impairment losses	170	660	830
Closing net carrying amount	**-**	**265**	**265**

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 of Euro)	Registered office	Share Capital	Equity at 31.12.2011(1)	Profit/(loss) at 31.12.2011	Percentage of interest	Carrying amount (investments)
Subsidiaries						
KME A.G.	Osnabrück	142,744	334,880 (1)	(66,960)	100%	380,073
			264,231 (2)	(8,132)		
KME Partecipazioni S.r.L.	Florence	47,900	78,278	(9,700)	100%	78,278
KME Recycle S.p.A.	Florence	2,000	2,306	(3,779)	100%	9,500
						467,851

(1) Including profit (loss) for the year
(2) KME AG's equity and sub-consolidated profit (loss) at 31 December 2011, excluding allocation of goodwill recognised in the KME Group's consolidated financial statements.

Investments information:

(migliaia di Euro)	Investments in subsidiaries	Investments in jointly controlled entities	Other investments	Total
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)
Brought forward	**394,310**	**28,512**	**200**	**423,022**
Increases	83,241		200	83,441
Decreases		(28,512)	(400)	(28,912)
Reversals of impairment losses				-
Impairment losses	(9,700)	-	-	(9,700)
Change for year	**73,541**	**(28,512)**	**(200)**	**44,829**
Historical cost	625,106	38,996	400	664,502
Decreases	-	(28,512)	(400)	(28,912)
Reversals of impairment losses	72,631			72,631
Impairment losses	(229,886)	(10,484)	-	(240,370)
Carried forward	**467,851**	**-**	**-**	**467,851**

The "Investments in subsidiaries" item is comprised of the 100% shareholdings in KME Germany A.G. (Euro 380,073,794), KME Recycle S.p.A. (Euro 9,500,000) and KME Partecipazioni S.r.l. (Euro 78,277,500).
The increase in the carrying amount of the investments in subsidiaries of Euro 83.2 million is due to:

a. The allocation during the year of Euro 74 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. for Euro 78.1 million to the increase in the value of the investment in KME Partecipazioni S.r.l., through the transfer of investments (for a total of Euro 63.4 million) and underwriting of a share capital increase (for a total of Euro 14.7 million);
c. for Euro 5.0 million to the increase in the value of the investment in KME Recycle S.p.A.

The decrease of Euro 28.5 million is due to the disposal of 46.38% of the shareholdings in ErgyCapital S.p.A.(with the carrying amount of approximately Euro 22 million), warrant of ErgyCapital S.p.A. (with the carrying amount of approximately Euro 6.5 million) to the new subsidiary KME Partecipazioni S.r.l.
The restatement of Euro 72.6 million was realised in the previous year, pursuant to IAS 36 para. 109 and ff., in order to partially restate the carrying value of the investment in KME A.G. up to the current recoverable value that the directors, on the basis of an impairment test, have taken to be Euro 380 million.
The write-down of Euro 9.7 million was made in order to adjust the value of the investment in KME Partecipazioni S.r.l. to the latter's equity, net of the losses recorded in 2011.

"Investments in joint control companies" included the investment in ErgyCapital S.p.A. (46.38% for 43,981,434 shares) and the ErgyCapital S.p.A. 2016 warrants (59.81% for 50,871,755 warrants).
On 29 June 2011 the aforementioned investment in ErgyCapital S.p.A. and the ErgyCapital S.p.A. 2016 warrants were transferred to the subsidiary KME Partecipazioni S.r.l.

"Other investments" included the 31.5% investment in "Il Post S.r.l.", which was transferred on 1 August 2011 to the subsidiary KME Partecipazioni S.r.l. The increase recorded during 2011 related to the share capital increase that occurred on 27 July 2011.

4.3 Other financial assets

(thousands of Euro)	*Balance at 31.12.2010*	*of which with related parties*	*Changes for the year*	*Balance at 31.12.2011*	*of which with related parties*
Unicredit loan receivable from Group companies	51,664	51,664	(9,653)	42,011	42,011
Receivable from Unicredito (pledged deposit)	5,368		(793)	4,575	
Guarantee fees receivable	8,963	8,963	(2,129)	6,834	6,834
Total	**65,995**	**60,627**	**(12,575)**	**53,420**	**48,845**

A loan agreement with Mediocredito Centrale S.p.A. (MCC – now Unicredit S.p.A,) 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.
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 2011, 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 42 million is the non-current portion of the loan disbursed by Mediocredito Centrale S.p.A. (MCC, now Unicredit S.p.A,) to KME Group S.p.A. and transferred to subsidiaries.
"Receivables due from Unicredit escrow account" of Euro 4.6 million refer to the amount on deposit in the current account in the name of KME Group S.p.A. and tied in favour of Unicredit S.p.A. (formerly MCC - Mediocredito Centrale) to guarantee the loan agreed in 2008. The positive balance on the aforementioned account is always equal to one-sixteenth of the amount of the outstanding loan at any one time, plus the amount of interest accrued half yearly and due for payment on the subsequent period end. Any amounts on the account in excess of that amount are immediately available.

"Guarantee fees receivables" are the present value of guarantee fees receivables due after 12 months, for guarantees issued by the Company to banks on behalf of the Group companies to which the loans were extended. At the end of June 2010, KME Group S.p.A. and its major subsidiaries operating in the copper and copper-alloy semi-finished products 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, increased to Euro 565 million last April.
The agreement relates to two tranches: Tranche A (a revolving facility for inventories of the industrial companies) 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.
The carrying amount of receivables determined in that manner is believed to approximate fair value.

4.4 Deferred tax assets and liabilities

(thousands of Euro)	*Balance at 31.12.2010*	*Changes for the year*	***Balance at 31.12.2011***
Deferred tax assets	2,469	(548)	1,921
Deferred tax liabilities	(90)	90	-
Total	**2,379**	**(458)**	**1,921**

Deferred tax assets and liabilities by financial statements item are shown below.

	Deferred tax assets		*Deferred tax liabilities*	
(thousands of Euro)	***31.12.11***	*31.12.10*	***31.12.11***	*31.12.10*
Property, plant and equipment	-	-	-	-
Investments	-	-	-	90
Intangible assets	-	-	-	-
Investment property	-	-	-	-
Other non-current assets	-	-	-	-
Inventories	-	-	-	-
Trade receivables	257	257	-	-
Other current receivables and assets	-	-	-	-
Employee benefits	4	6	-	-
Non-current financial liabilities	-	-	-	-
Other non-current liabilities	571	494	-	-
Provisions for risks and charges	464	671	-	-
Current financial liabilities	-	-	-	-
Trade payables	-	-	-	-
Other current liabilities	98	99	-	-
Deferred tax assets on equity items	67	88	-	-
Deferred tax assets on tax loss carry forwards	460	854	-	-
Total	**1,921**	**2,469**	**-**	**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 date of these financial statements the Company used deferred tax assets on tax loss carry forwards that were transferred by iNTEk S.p.A. due to the merger, by way of partial coverage of the IRES corporation tax for the period of Euro 394 thousand.

The deferred tax losses of Euro 90 thousand, recognized with regard to the value of the ErgyCapital warrants which arose following the reverse demerger from iNTEk S.p.A., were released following the transfer of warrants, as described in more detail in paragraph 4.2 of these notes.

The details at 31 December 2011, of recognised and unrecognised deferred tax assets on tax loss carry forwards by the Company, are shown below:

(thousands of Euro)	*31.12.2010*	*31.12.2011*
a) recognised tax losses carried forward		
KME Group S.p.A.	-	1,674
Total (1)	**-**	**1,674**
b) unrecognised tax losses carried forward		
KME Group S.p.A.	-	-
Total (2)	**-**	**-**
Total (1) + (2)	**-**	**-**

During this year losses of Euro 1,432 thousand assigned following last year’s demerger were used to reduce taxes.

4.5 Trade receivables

(thousands of Euro)	*Balance at 31.12.2010*	*of which with related parties*	*Changes for the year*	*Balance at 31.12.2011*	*of which with related parties*
Due from customers	933		-	933	
(Allowance for impairment)	(933)		-	(933)	
Net trade receivables due from customers	**-**		**-**	**-**	
Due from subsidiaries and associates	6	6	2,446	2,452	2,452
Total	**6**	**6**	**2,446**	**2,452**	**2,452**

Receivables due from subsidiaries refer to fees for guarantees provided.
The carrying amount of trade receivables approximates their fair value.

4.6 Other current receivables and assets

(thousands of Euro)	*Balance at 31.12.2010*	*of which with related parties*	*Changes for the year*	*Balance at 31.12.2011*	*of which with related parties*
Tax credits	425		(149)	276	
Prepayments and accrued income	45		-	45	
Other receivables	-		8	8	
Total	**470**		**(141)**	**329**	

The change in “tax receivables” was mainly due to the use of the IRAP (regional manufacturing tax) receivable (Euro 197 thousand) to pay the tax relating to 2010, net of the payment on account made for 2011 (Euro 129 thousand), the repayment of direct taxes and the VAT receivables due from foreign countries (Euro 101 thousand), and the payment on account for taxes for 2011 (Euro 24 thousand).

Prepayments and accrued income are due to the recording of prepayments mainly for travel costs and services to be used in subsequent periods.

They are shown by due date as follows:

	Due dates			
(thousands of Euro)	*Within the next 12 months*	*Within 5 years*	*Over 5 years*	*Total*
Tax	276	-	-	276
Prepayments and accrued income	45	-	-	45
Other	8		-	8
Total	**329**	**-**	**-**	**329**

4.7 Current financial assets

(thousands of Euro)	*Balance at 31.12.2010*	*of which with related parties*	*Changes for the year*	*Balance at 31.12.2011*	*of which with related parties*
Financial assets held for trading					
- 2,184,369 INTEK S.p.A. savings shares	1,527	1,527	(1,527)	-	-
- 5,277,893 ErgyCapital S.p.A. shares	2,555	2,555	(2,555)	-	-
- 5,775,550 ErgyCapital S.p.A. warrants	739	739	(739)	-	-
- Other listed shares	14,358		(14,358)	-	
Financial receivables due from subsidiaries	115,628	115,628	(85,145)	30,483	30,483
Guarantee fees receivables	4,314	4,314	948	5,262	5,262
Total	**139,121**	**124,763**	**(103,376)**	**35,745**	**35,745**

The fall in “Financial assets held for trading” is linked, as regards iNTEk S.p.A. savings shares, ErgyCapital S.p.A. shares and ErgyCapital S.p.A. warrants, to the transfer on 29 June 2011 to the subsidiary KME Partecipazioni S.r.l., and to the disposal, following the sale in the first quarter of the year, of the other securities recorded at 31 December 2010 under “other listed shares”.

The amount in the item “financial receivables due from subsidiaries” contains: Euro 13.4 million of the current balance in the parent’s books with 100% owned subsidiaries KME A.G., KME Brass France S.A.S., KME Yorkshire L.t.d., KME Recycle S.p.A., KME Partecipazioni S.r.l. and Immobiliare Agricola Limestre S.r.l.; Euro 6.8 million relating to the current account balance with ErgyCapital S.p.A. These loans are ordinary uses of the Parent’s cash holdings. The remaining Euro 10.2 million is the current portion maturing in the next 12 months of the Unicredit S.p.A. (formerly Mediocredito Centrale) loan, including interests.
“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 12 million which approximated their fair value at 31 December 2011.

4.8 Cash and cash equivalents

(thousands of Euro)	*Balance at 31.12.2010*	*Changes for the period*	***Balance at 31.12.2011***
Bank and post office accounts	250	6,353	6,603
Cash on hand	1	1	2
Total	**251**	**6,354**	**6,605**

The positive balance on bank current accounts at the end of 2011 is due to temporary holdings of liquidity.

4.9 Current assets held for sale

(thousands of Euro)	*Balance at 31.12.2010*	*of which with related parties*	*Changes for the period*	***Balance at 31.12.2011***	*of which with related parties*
Financial assets held for sale					
- 45,000 Drive Rent S.p.A. shares	30,000	30,000	(30,000)	-	-
Total	**30,000**		**(30,000)**	**-**	**-**

At 31 December 2010 this item contains the current and non-current assets held for sale on the closing date of these financial statements.
At this date, the item included the investment in Drive Rent S.p.A., following the merger of Drive Rent S.p.A. into Cobra Automotive Technologies S.p.A.; the operation was effective as from 1 July 2011. On 29 June 2011 the investment in Drive Rent S.p.A. was transferred to the subsidiary KME Partecipazioni S.r.l.

4.10 Equity

The number of subscribed shares is as follows:

	Ordinary shares		Saving shares	
	at 31.12.2011	***at 31.12.2010***	***at 31.12.2011***	***at 31.12.2010***
In issue on 1 January	447.278.603	235.494.342	43.699.416	19.072.110
Split of shares dated 8 February	-	117.750.428	-	9.536.055
Issued following exercise of warrants	69.047			
Issued for cash	-	65.917.590	-	6.949.315
Assigned by split operation	-	28.116.243	-	8.141.936
In issue at end of the reporting period	**447.347.650**	**447.278.603**	**43.699.416**	**43.699.416**

Subscribed share capital at 31 December 2011 totals Euro 297,040,568.04 subdivided into 447,347,650 ordinary shares and 43,699,416 savings shares with no par value.

On the date of these financial statements the remaining 67,835,076 “KME Group S.p.A. 2006/2011 ordinary share warrants” and 73,282,137 “KME Group S.p.A. 2009/2011 ordinary share warrants” forfeited all rights and therefore are, to all intents and purposes, invalid since they had not been exercised by the deadline of 30 December 2011.

The following changes in equity were recorded in 2011:

(thousands of Euro)	*Share capital*	*Other reserves*	*Treasury shares*	*Retained earnings*	*Reserve for stock option*	*Profit for the year*	*Total equity*
Equity at 31.12.2010	**297,014**	**91,601**	**(2,888)**	**15,191**	**7,185**	**61,101**	**469,204**
Allocation of Parent's profit/(loss)		3,055		50,055		(53,110)	-
Dividends and allocations to the Board of Directors						(7,991)	(7,991)
Expiry of stock option plan 2006-2011		-		6,942	(6,942)		-
Share capital increase	27						27
Reserve for goodwill arising on demerger		6,422					6,422
Non-distributable reserve		(6,422)					(6,422)
Constitution of reserves on taxable distribution		-					-
Issue of new shares (exercise of warrants)		31					31
(Purchase) sale of treasury shares		17	208				225
Deferred taxes recognised in equity		(22)					(22)
Expiry of stock option					941		941
Costs associated with Share Capital increase		-					-
Total losses/income recognised in equity	-	-	-	-	-	-	-
Profit/(loss) for the year						(9,885)	(9,885)
Total comprehensive income/(loss)	-	-	-	-	-	**(9,885)**	**(9,885)**
Equity at 31.12.2011	**297,041**	**94,682**	**(2,680)**	**72,188**	**1,184**	**(9,885)**	**452,530**
Reclassification of treasury shares	(2,680)		2,680				-
Equity at 31.12.2011	**294,361**	**94,682**	-	**72,188**	**1,184**	**(9,885)**	**452,530**

In execution of the Shareholders' resolution of 12 May 2011 gross dividends of Euro 0.07241 per savings share and of Euro 0.011 per ordinary shares were paid.

Treasury shares changed following the sale in the first quarter of 610,055 ordinary shares for Euro 224,864, recording a capital gain under equity of Euro 17,578. As at 31 December 2011, treasury shares consist of 7,602,700 ordinary shares recognised at their purchase cost of Euro 2,583,259 and 135,831 savings shares, recognised at their purchase cost of Euro 97,058.
"Other reserves" includes:

Legal reserve	Euro	5,334,047
Deferred tax assets recognised in equity	Euro	65,853
Share premium reserve (sale of unexercised rights)	Euro	35,652
Distributable reserves	Euro	74,164,741
Reserve for goodwill arising on demerger	Euro	13,221,797
Reserves taxable on distribution	Euro	2,241,865
Costs associated with a capital increase	Euro	(399,111)
Capital gain/loss reserve for treasury shares	Euro	17,578
Total	**Euro**	**94,682,422**

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 amounts allocated to the share reserve with respect to 7,602,700 ordinary shares and 135,831 treasury savings shares totalling Euro 2,680,317, pursuant to article 2357 ter of the Italian Civil Code.

The "reserve for goodwill arising on demerger" is available.

The "Non-distributable reserve under Leg. Decree 38/2005", which was recorded during the merger for the fair value valuation of the ErgyCapital S.p.A. warrants in 2009 by iNTEk S.p.A., net of the deferred taxes that were set aside, has been reclassified, for the whole amount of Euro 6,422,051, to the "Reserve from merger surplus", since following the transfer of these warrants to KME Partecipazioni S.r.l. the reserve has become distributable.

The "reserves taxable on distribution" of Euro 2,241,865 was recognised pro-quota by iNTEk S.p.A. following the demerger.

Following the withdrawal of the Stock Option Plan for 2006-2011, with the agreement of the beneficiaries and on the basis of the resolution of the Shareholders' meeting of 2 December 2009, the reserve accrued up to 31 December 2009 of Euro 6,941,919 has become distributable. In this regard, with the resolution of the Shareholders' meeting of 28 April 2011, the whole amount was added to "Retained earnings".
On the date of this report the "Stock option reserve" consisted of the reserve relating to the 2010/2015 Plan for a total of Euro 1,183,784 (of which Euro 242,916 relating to 2010 and Euro 940,868 to 2011 accrued on the date of these financial statements). This reserve originates from the valuation of the stock options allocated to the Company's executive directors (Euro 1,090,938) and to the Group's managers (Euro 92,846).

The item "Retained earnings" of Euro 72,187,806.55 is available for use.

4.11 Employee benefits

(thousands of Euro)	*Balance at 31.12.2010*	*Increase*	*Decrease*	***Balance at 31.12.2011***
Post-employment benefits	162			170
Total	**162**	**10**	**(2)**	**170**

This amount is determined based on the vested interests at the end of the reporting period, in compliance with law, employment contracts and IAS 19.

4.12 Non-current financial payables and liabilities

(thousands of Euro)	*Balance at 31.12.2010*	*of which with related parties*	*Changes for the period*	***Balance at 31.12.2011***	*of which with related parties*
Law 46/1982 loan	126		(126)	-	
Unicredit loan (formerly MCC)	72,219		(12,371)	59,848	
BNP Paribas loan	1,296		(1,296)	-	
Guarantees issued liability	8,963	8,963	(2,129)	6,834	6,834
Total	**82,604**	**8,963**	**(15,922)**	**66,682**	**6,834**

The amount of the loan from Unicredit S.p.A. (formerly Mediocredito Centrale), totalling Euro 59.8 million, is the non-current portion of the first, second and third tranches disbursed to the Company; 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 (or pro-quota for shorter periods) and payable to the Deputy Chairman on resignation.

(thousands of Euro)	*Balance at 31.12.2010*	*of which with related parties*	*Changes for the period*	*Balance at 31.12.2011*	*of which with related parties*
Post-employment benefits	1,797	1,797	336	2,133	2,133
Total	**1,797**	**1,797**	**336**	**2,133**	**2,133**

4.14 Provisions for risks and charges

(thousands of Euro)	*Balance at 31.12.2010*	*Increases*	*Decreases and reversals*	*Balance at 31.12.2011*
Products warranty provisions	2,353	-	(753)	1,600
Legal risks provisions	87	-	-	87
Other provisions for risks and charges	-	-	-	-
Total	**2,440**	**-**	**(753)**	**1,687**

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 753 thousand refers to the termination of this obligation for some of these contracts.
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 31.12.2010*	*of which with related parties*	*Changes for the period*	*Balance at 31.12.2011*	*of which with related parties*
Due to banks	40,814		(11,895)	28,919	
Due to subsidiaries	55,332	55,332	(47,544)	7,788	7,788
Guarantees issued liability	4,314	4,314	947	5,261	5,261
Swap of listed shares	2,973		(2,973)	-	
Total	**103,433**	**59,646**	**(61,465)**	**41,968**	**13,049**

The "Due to banks" item consists of the usage of available credit lines of Euro 11.5 million, the current portion of the Unicredit S.p.A. (formerly Mediocredito Centrale) loan of Euro 13.5 million (see comments under paragraph 4.3), the Euro 1.3 million BNP Paribas loan, the Cassa di Risparmio di Parma e Piacenza loan of Euro 2.5 million, and the loan from Europa Metalli SEDI pursuant to law no. 46 of Euro 0.1 million.

The item "Due to subsidiaries" represents the balance on the current accounts held with the subsidiaries KME France S.A.S., KME Germany AG & Co. KG and the interest accrued and to be paid on the date of these financial statements on the closed current accounts of KME Italy S.p.A., EM Moulds S.r.l., and KME Brass Italy S.r.l.

“Guarantees issued liability” is the contra entry of a non-current asset relating to the same guarantees; see note 4.7.

The reduction in “Swap of listed shares” refers to the closing of the existing financial instruments subscribed to as a hedge for the changes in the prices of listed shares which had been recorded under the item “Financial assets held for sale.”

4.16 Trade payables

(thousands of Euro)	*Balance at 31.12.2010*	*of which with related parties*	*Changes for the period*	*Balance at 31.12.2011*	*of which with related parties*
Due to suppliers	326		666	992	
Due to subsidiaries and associates	3	3	882	885	885
Total	**329**	**3**	**1,548**	**1,877**	**885**

The change in “payables due to suppliers” is essentially linked to legal and consultancy expenses incurred for ongoing corporate operations.

The item “payables due to subsidiaries and associates” refers to expenses temporarily advanced by the subsidiary KME Germany AG & CO. KG. on behalf of KME Group S.p.A.

The carrying amount of trade payables approximates their fair value.

4.17 Other current liabilities

(thousands of Euro)	*Balance at 31.12.2010*	*of which with related parties*	*Changes for the period*	*Balance at 31.12.2011*	*of which with related parties*
Due to employees	38		21	59	
Due to social security institutions	16		3	19	
Tax payables	667		(134)	533	
Accured expenses and deferred income	-		-	-	
Other payables	769	462	160	929	588
Total	**1,490**	**462**	**50**	**1,540**	**588**

The “due to employees” item refers to amounts due but not yet settled.

The item “Tax payables” mainly includes payables due to tax authorities for withholding taxes to be paid (Euro 140 thousand), VAT to be paid (Euro 103 thousand) and IRAP, regional manufacturing tax, accrued in the year (Euro 210 thousand).

The “other payables” item refers essentially to amounts due to members of the corporate bodies (totalling Euro 454 thousand) and other payables (amounting to Euro 475 thousand).

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5. GUARANTEES AND COMMITMENTS

At the end of June 2010, KME Group S.p.A. and its major subsidiaries operating in the copper and copper-alloy semi-finished products 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, increased to Euro 565 million last April.
The agreement, which refers to the two lines named “tranche A” (in the form of a revolving credit line used to cover the inventory needs of industrial companies) and “tranche B” (a revolving credit line used to cover intra-month inventory needs of industrial companies), was stipulated in 2006 and is currently used for an amount approximating the extended amount, represents a facility characterised 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 collateral 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 extended loans referred to. The verification of compliance with the aforementioned covenants shall take place on a bi-annual basis; at 31 December 2011 all were complied with.

KME Group S.p.A. still has a seven-year 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 partial inversely proportional split of iNTEk S.p.A. into KME Group S.p.A. of 22 March 2010.
The 2,184,369 iNTEk savings shares were purchased by KME Group S.p.A., and 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 a joint and several obligation together with its industrial subsidiaries with respect to a Unicredit S.p.A. (formerly 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 the reporting period all the lines have been used. Net of the already paid instalments they amounted to Euro 72.7 million.

In reference to the 45,000 Drive Rent S.p.A. shares that were swapped with 17,266,500 Cobra Automotive Technologies S.p.A. shares following the merger with effect as from 1 July 2011, it should be noted that there is a pledge in favour of G.E. Capital S.p.A. to guarantee a loan of Intek S.p.A. prior to the split operation, for which the Parent company KME Group S.p.A. is jointly committed with its subsidiary KME Partecipazioni S.r.l. which, as from 29 June 2011, acquired the investment in Drive Rent S.p.A.

In addition, it should be noted that as from the twelfth 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 the Chief Executive Officer of the merging company, Carmine Carella, an irrevocable option for the purchase of up to 1,082,010 Cobra shares at their nominal value for his role in designing and structuring the operation. 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. In reference to this commitment it should be noted that KME Group S.p.A. remains jointly liable with the subsidiary KME Partecipazioni S.r.l.

As from November 2011 KME Group S.p.A. issued a bank guarantee for a Euro 2 million loan granted by Intesa SanPaolo to the indirectly controlled company ErgyCapital S.p.A. On the date of these financial statements a further guarantee was also issued against the Euro 6.1 million loan granted by a pool of banks, the lead bank of which is Banca Popolare di Vicenza S.c.p.a., to the agricultural company S. Vito Biogas S.r.l., which is indirectly controlled by ErgyCapital S.p.A.

6. NOTES TO THE STATEMENT OF COMPREHENSIVE INCOME

6.1 Revenue

(thousands of Euro)	*Year 2010*	*of which with related parties*	*Year 2011*	*of which with related parties*	*Change*
Revenue	2,839	2,839	2,839	2,839	0.00%
Total	**2,839**	**2,839**	**2,839**	**2,839**	**0.00%**

“Revenue” includes amounts invoiced to Group companies for financial, insurance, tax and administrative support services.

6.2 Other income

(thousands of Euro)	*Year 2010*	*of which with related parties*	*Year 2011*	*of which with related parties*	*Change*
Gains from the sale of non-current assets	700		-		n.s.
Other	302		353		17%
Total	**1,002**		**353**		**-65%**

6.3 Personnel expense

(thousands of Euro)	*Year 2010*	*of which with related parties*	*Year 2011*	*of which with related parties*	*Change*
Wages and salaries	360		402		11.67%
Social security charges	87		92		5.75%
Cost of stock option	224	224	867	867	n.s.
Other personnel expense	10		9		-10.00%
Total	**681**	**224**	**1,370**	**867**	**n.s.**

Starting from 2010 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 give the beneficiaries the right to subscribe or purchase from the Company an equivalent number of KME Group S.p.A. ordinary 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 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.

Further details on the Plan are set out in the "Prospectus" which was prepared at the time and is available on the Company's website.

6.4 Amortisation, depreciation and impairment losses

(thousands of Euro)	*Year 2010*	*Year 2011*	*Change*
Depreciation	12	17	41.67%
Total	**12**	**17**	**41.67%**

The increase in amortisation, depreciation and impairment losses for the period of these financial statements is due to the higher level of investment during 2011 as set out in paragraph 4.1.

6.5 Other operating costs

This item consists of the following amounts:

(thousands of Euro)	*Year 2010*	*of which with related parties*	*Year 2011*	*of which with related parties*	*Change*
Directors' and Statutory Auditors' fees	1,842	1,842	1,858	1,858	0.87%
Professional services	788	-	1,992		n.s.
Directors' and employees' travel and subsistence	686		518		-24.49%
Service fees to subsidiaries/parent	4	4	4	4	0.00%
Charges for legal disputes	-	-	858	781	n.s.
Legal and company reporting	67		116		73.13%
Electricity, heating, post, phone costs	18		27		50.00%
Insurance premiums	280		72		-74.29%
Third party services and listings	77		100		29.87%
Training and seminars	-		14		n.s.
Real estate leases	247	155	252	157	2.02%
Incidental property expenses	147	147	101	101	-31.29%
Leases and rentals	58	42	66	22	13.79%
Various tax charges	6		12		100.00%
Undeductible VAT	251		391		55.78%
Trade association contributions	23		23		0,00%
Other costs	121	4	142	14	17.36%
Donations	908	800	218	-	-75.99%
Bank fees	11		11		0.00%
Provisions releases	(349)		(753)		n.s.
Accrual to provision for risks	-		-		0.00%
Accrual to directors' post-employment benefits	351	351	336	336	-4.27%
Total	**5,536**	**3,345**	**6,358**	**3,273**	**14.85%**

The item "Professional services" includes non-recurring costs relating to ongoing corporate operations and consultancy services for the reorganisation and growth of investee companies, for a total amount of Euro 1,460 thousand.

The accrual to directors' post-employment benefits is explained in note 4.13.

6.6 Financial income (expense)

(thousands of Euro)	Year 2010	of which with related parties	Year 2011	of which with related parties	Change
Interest income from group companies	4,673	4,673	5,995	5,995	28.29%
Dividends	158	158	131	131	-17.09%
Other financial income	81,520	77,876	6,301	5,064	-92.27%
Total financial income	**86,351**	**82,707**	**12,427**	**11,190**	**-85.61%**
Interest expense with group companies	(933)	(933)	(1,702)	(1,702)	82.42%
Loan interest expense	(4,101)		(3,992)		-2.66%
Other financial expense	(16,670)	(10,500)	(11,217)	(9,700)	-32.71%
Total financial expense	**(21,704)**	**(11,433)**	**(16,911)**	**(11,402)**	**-22.08%**
Net financial expense	**64,647**	**71,274**	**(4,484)**	**(212)**	**n.s.**

"Financial income" consists mainly of:

- interest charged on intercompany accounts at market rates and on the Unicredit S.p.A. (Mediocredito Centrale) loan transferred to subsidiaries of Euro 6.0 million;
- commissions payable to Group companies for guarantees given, as mentioned above, totalling Euro 5.1 million;
- income from the transfer, as described previously, of the ErgyCapital S.p.A. shares and ErgyCapital S.p.A. warrants for a total of Euro 0.4 million;
- dividends relating to iNTEk S.p.A. savings shares of Euro 0.1 million.

"Financial expense" consists mainly of:

- impairment of the investment in KME Partecipazioni S.r.l. for a total of Euro 9.7 million as described in paragraph 4.2.
- interest payable to banks for short and medium/long term loans of Euro 4.0 million;
- interest payable to Group companies on intercompany accounts at market rates amounting to Euro 1.7 million;
- adjustment, at the transfer date, of the value of the iNTEk S.p.A. and ErgyCapital S.p.A. shares and the ErgyCapital S.p.A. warrants for Euro 0.6 million.

6.7 Current and deferred taxes

(thousands of Euro)	Year 2010	of which with related parties	Year 2011	of which with related parties	Change
Current taxes	(405)		(412)	(134)	1.73%
Deferred taxes	(754)		(436)		-42.18%
Total	**(1,159)**		**(848)**	**(134)**	**-26.83%**

Current taxes refer to IRAP regional manufacturing tax in the current year for Euro 210 thousand, IRES corporation tax in the current year for Euro 178 thousand and Euro 23 thousand for taxes in relation to the previous year.

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 2011*	*FY 2010*
Profit before taxes	**(9,037)**	**62,260**
Tax charge at theoretical rate	2,485	(17,122)
- Impairment losses/Reversal of impairment losses on investments and non-deductible/ taxable shares	(2,668)	16,778
- Capital gains and losses on transfer	(150)	-
- Other	(282)	(256)
- Release and use of deferred taxes from split operation	-	(155)
- Previous year taxes	(24)	(208)
- IRAP	(210)	(197)
Total effective tax charge	**(848)**	**(1,159)**

Deferred taxes recognised in equity

(thousands of Euro)	*Year 2010*	*Change*	*Year 2011*	*Change*
Capital increase-related expenses	88	(22)	66	-25.00%
Total	**88**	**(22)**	**66**	**-25.00%**

7. OTHER INFORMATION

Average number of employees

		FY 2010	*FY 2011*	*Change*
Executives	no.	1	1	0%
Clerical	no.	4	4	0%
Total	**no.**	**5**	**5**	**0%**

Financial instruments by category

(thousands of Euro)	*31.12.10*	*31.12.11*	*Change*
Fin. assets recognised at fair value through profit or loss	62,456	12,096	(50,360)
Held-to-maturity assets	-	-	
Loans and receivables	173,387	86,126	(87,261)
Investments in subsidiaries and other companies	423,022	468,180	45,158
Fin. liabilities carried at fair value through profit or loss	16,250	12,095	(4,155)
Fin. liabilities carried at amortised cost	170,116	98,432	(71,684)

Financial instruments by financial statements item

Financial instruments and reconciliation with financial statements items at 31 December 2011:

FINANCIAL STATEMENTS ITEM				
(thousands of Euro)	*Total*	*Carried at amortised cost*	*Carried at fair value*	*Outside the scope of IFRS 7*
Financial asset:				
Investments	467,851			467,851
Non-current financial assets	53,420	46,586	6,834	
Other non-current assets	-		-	
Trade receivables	2,452	2,452	-	
Other current receivables and assets:				
Tax credits	276		-	276
Bank and post office accounts	-	-		
Due to subsidiaries	-		-	
Other non-financial assets	53		-	53
	329			
Cash and cash equivalents	6,605	6,605	-	
Current financial assets:				
Guarantees issued	5,262		5,262	
Financial receivables due from subsidiaries	30,483	30,483	-	
Intek S.p.A. savings shares	-		-	
ErgyCapital S.p.A. shares	-		-	
Warrant ErgyCapital S.p.A.	-		-	
Other listed shares	-		-	
	35,745			
Financial assets held for sale:				
Drive Rent S.p.A.	-		-	
	-			
	566,402	**86,126**	**12,096**	**468,180**

(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	88,767	88,767		
Guarantees issued	12,095	-	12,095	
Other financial Liabilities	7,788	7,788	-	
Derivatives	-	-	-	
	108,650	**96,555**	**12,095**	**-**
Trade payables	1,877	1,877	-	
	110,527	**98,432**	**12,095**	**-**

Exposure to credit risk and impairment losses

The carrying amount of financial assets represents the maximum exposure to credit risk of KME Group S.p.A.
The ageing of trade receivables at the end of the reporting period was as follows:

Description (thousands of Euro)	*Gross carrying amount*	*Impairment losses 31.12.2011*	*Net carrying amount*
current	-	-	-
less than 60 days past due	2,452	-	2,452
61 to 120 days past due	-	-	-
121 days to 1 year past due	-	-	-
over 1 year past due	933	933	-
Total	**3,385**	**933**	**2,452**

Changes during the year in the allowance for impairment are shown below:

(thousands of Euro)	
31.12.2010	**933**
Impairment losses of the year	-
Uses	-
Releases	-
31.12.2011	**933**

Currency 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 interest rate structure of interest-bearing bank exposures at the end of the reporting period was as follows:

	Carrying amount	
(thousands of Euro)	***31.12.10***	***31.12.2011***
Fixed rate instruments:		
Financial assets	-	-
Financial liabilities	7,078	126
Total	**(7,078)**	**(126)**
Variable rate instruments:		
Financial assets	173,130	83,672
Financial liabilities	162,709	96,429
Total	**10,421**	**(12,757)**

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 amount

Pursuant to IFRS 7 para. 25, the carrying amount of financial assets and liabilities is the same ad their 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 on an active market for the asset or liability to be measured;
b. Level 2 - directly observable market inputs directly (prices) on indirectly (prices derivates) observable on the market;
c. Level 3 - inputs not based on observable market data.

The financial instruments recorded on the statement of financial position at fair value, as shown by the table above, are represented solely by guarantees issued which are part of the Level 3 activity. Their fair value is determined by applying a rate that is considered representative of the risk taken on. 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.
There were no transfers in 2011 between Levels 1 and 2.

Other financial obligations

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)	*31.12.10*	*31.12.2011*
Within 1 year	408	306
1 to 5 years	793	505
After 5 years	-	
	1,201	**811**

Disclosure of payments for services rendered by the Independent Auditors

In accordance with article 149 duodecies of the "Issuers Regulation", the following table shows the payments made during the year for services provided by the Independent Auditors, KPMG S.p.A. and its subsidiaries:

(thousands of Euro)	*Total*	*KME Group S.p.A.*	*Subsidiaries*
a) audit fees	1,271	84	1,187
b) fees other than audit:			
- certifications relating to financial covenants financial covenants - stock option plan	-	-	-
- other fees	265	2	263
c) fees charged by associated firms	-	-	-
Total	**1,536**	**86**	**1,450**

Annexes to the notes to the separate financial statements at 31 December 2011 of KME Group S.p.A.

LIST OF INVESTMENTS AT 31.12.2011 AND CHANGES SINCE 31.12.2010
(includes disclosure pursuant to article 126 Consob regulation no. 11971/99)

Investiments (in Euro)	*Investiments*	*Existing at 31.12.2010*		*Changes for the period (+ / -)*	
	Euro	*Quantity*	*Value*	*Quantity*	*Value*
Subsidiaries and other investments (recognised in non-current financial assets)					
KME A.G.	no nominal value	27,918,276	380,000,000		73,794
KME Recycle S.p.A.	1	2,000,000	4,500,000	0	0
ErgyCapital S.p.A. Ord. Sh. (1)		43,981,434	22,000,000	(43,981,434)	(22,000,000)
ErgyCapital S.p.A. warrant (1)		50,871,755	6,511,585	(50,871,755)	(6,511,585)
Il Post S.r.L. (2)	200,000	1	200,000	(1)	(200,000)
KME Partecipazioni S.r.L. (1) (2) (3)		1	9,810,000		78,167,500
Total			**423,021,585**		**49,529,709**
“Subsidiaries and other investments (recognised in current assets)”					
INTEK S.p.A.- Sav. Sh. (1)	0.26	2,184,369	1,526,874	(2,184,369)	(1,454,800)
ErgyCapital S.p.A. (1)	no nominal value	5,277,893	2,554,500	(5,277,893)	(2,343,400)
	Warrant2016 (6)	5,775,550	739,271	(5,775,550)	(727,715)
Other listed shares		325,000	14,358,500	(325,000)	(14,358,500)
Total			**19,179,145**		**(18,884,415)**
“Subsidiaries and other investments (recognised in current assets - held for sale)”					
Drive Rent S.p.A. Ord. Sh. (1)	50	45,000	30,000,000	(45,000)	(30,000,000)
Total			**30,000,000**		**(30,000,000)**
Treasury shares (deducted from equity)					
KME Group S.p.A. Sav. Sh.	no nominal value	135,831	97,058	0	
KME Group S.p.A. Ord. Sh.	no nominal value	8,212,755	2,790,544	(610,055)	(207,286)
KME Group S.p.A. WARRANT 06-11 (4)		815,493	-	(815,493)	
Total			**2,887,602**		**(207,285,54)**
Total			**475,088,332**		**438,008**

(1) Investments acquired on 22 March 2010 following demerger between iNTEk Spa and KME Group SpA. On 29 June 2011 those shares were transferred to KME Partecipazioni S.r.l.
(2) Acquired on 12 May 2010. On 1 August 2011 it was transferred to KME Partecipazioni S.r.l. after a share capital increase equal to Euro 199,999.80
(3) During 2011 it received investments and securities amounting to Euro 63,437,500, and in December 2011 KME Group S.p.A subscribed to the partial share capital increase authorised by the Shareholders' Meeting on 28 July and 15 December 2011 for Euro 14,730,000
(4) On 29 December, they were sold as the aforementioned warrants expired unexercised on 30 December 2011.

Adjustments	Existing at 31.12.2011				Stock market price 31.12.2011		Difference
	Quantity	%	Average carrying amount	Closing balance	Value per share	Value	
	27,918,276	100.00		380,073,794			
5,000,000	2,000,000	100.00		9,500,000			
	0			0			
	0			0			
	0			(0)			
(9,700,000)	1	100.00		78,277,500			
(4,700,000)				**467,851,294**			**-**
(72,074)	0	0.00		0			-
(211,100)	0	0.00		0			-
(11,556)	0	0.00		0			-
(29,937)	0	0.00		0			-
(324,667)				**0**			**-**
-	0			0			
-				**0**			**-**
	135,831		0.71	97,058	0.565	76,745	(20,314)
	7,602,700		0.34	2,583,258	0.285	2,166,770	(416,489)
	0		0.00	-	0.000	0	0
-				**2,680,317**			**(436,803)**
(5,024,667)				**470,531,610**			**(436,803)**

LIST OF INDIRECT INVESTMENTS
(includes disclosures pursuant to article 125 and 126 of CONSOB Regulation 11971/99)

				Share Capital		Direct interests at 31.12.2011		% Total
		Registered office	Operations	Currency	Amount	%	Name	investment
KME Germany A.G. & Co. K.G.	(1)	Germany	Industrial	Euro	180,001,000	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	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	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
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	(2)	China	Industrial	RMB	20,000,000	70.00	KME A.G.	70.00
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
Zahner KME GmbH	(3)	Germany	Trading	Euro	25,000	50.00	KME Germany A.G. & Co. K.G.	50.00
KME Service Russland Ltd.	(4)	Russia	Trading	RUB	10,000	70.00	KME Germany A.G. & Co. K.G.	70.00
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	Trading	AUD	100	65.00	KME Germany A.G. & Co. K.G.	65.00
KME Chile Lda.		Cile	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.		U.S.	Trading	USD	5,000	100.00	KME Germany A.G. & Co. K.G.	100.00
KME Marine Service America LLC	(5)	U.S.	Industrial	USD	1,000	100.00	KME America Inc.	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 Kalip Servis A.S.	(6)	Turkey	Trading	TRY	50,000	85.00	KME Germany A.G. & Co. K.G.	85.00
KME Polska Sp.z.o.o.		Poland	Trading	PLZ	250,000	100.00	KME Germany A.G. & Co. K.G.	100.00
P.H.M. Pehamet Sp.Zo.o.	(7)	Poland	Trading	PLZ	7,865,000	30.00	KME Germany A.G. & Co. K.G.	30.00
Metalcenter Danmark A/S		Denmark	Holding	DKK	1,524,880	30.00	KME Germany A.G. & Co. K.G.	30.00
KME India Private Ltd.	(8)	India	Trading	INR	5,897,750	99.80	KME Germany A.G. & Co. K.G.	100.00
						0.20	KME A.G.	
AMT - Advanced Mould Technology India Private Ltd.		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	84.70	KME Germany A.G. & Co. K.G.	100.00
						15.30	KME France S.A.S.	
KME Solar Italy S.r.l.		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	Publishing	Euro	1,000,000	7.13	KME Italy S.p.A.	7.13
KME Spain S.A.		Spain	Commerciale	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	600,000	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.		Ireland	Trading	Euro	127	100.00	KME Yorkshire Ltd.	100.00
Yorkshire Copper Tube (Exports) Ltd.		U.K.	non-operating	LST	-	100.00	Yorkshire Copper Tube	100.00
Metalbuyer S.p.A.	(9)	Italy	Metals trading	Euro	500,000	100.00	KME Recycle S.p.A.	100.00
Valika SAS	(10)	France	Metals trading	Euro	200,000	51.00	KME Recycle S.p.A.	51.00
Real Estate Agricola Limestre S.r.L.		Italy	Real Estate	Euro	110,000	100.00	KME Partecipazioni S.r.L.	100.00
ErgyCapital S.p.A. (azioni ordinarie)	(11)	Italy	Services	Euro	62,969,713	51.95	KME Partecipazioni S.r.l.	51.95
ErgyCapital S.p.A. (warrants)	(11)	Italy	Services	Euro		66.60	KME Partecipazioni S.r.l.	66.60
iNTEK S.p.A. (azioni di risparmio)	(11)	Italy	Financial	Euro	35,389,743	38.37	KME Partecipazioni S.r.l.	38.37
Il Post S.r.l.	(12)	Italy	Services	Euro	128,250	30.43	KME Partecipazioni S.r.L.	30.43
Culti S.r.L.	(13)	Italy	Funishings	Euro	100,000	100.00	KME Partecipazioni S.r.L.	100.00
Cobra Automotive Technologies S.p.A.	(14)	Italy	Servizi	Euro	11,647,353	51.59	KME Partecipazioni S.r.L.	51.59
HC S.r.l.	(15)	Italy	Trading	Euro	50,000	100.00	Culti S.r.L.	100.00
Culti A.G.		Switzerland	Trading	CHF	100,000	100.00	Culti S.r.L.	100.00
Culti USA LLC		U.S.	Trading	$US	-	100.00	Culti S.r.L.	100.00

Investments sold and disposed of:
Accoumold A.G.: on 21 June 2011 disposed of following liquidation
KME China L.t.d.: on 21 October 2011 disposed of following liquidation
New investments/changes:
(1) KME Germany Ag & Co KG: on 31.12.2010 it reduced its share capital to € 180,001,000.00
(2) Dalian Dashan Chrystallizer Co. Ltd.: as from 4 July 2011 increases its share capital to RMB 20,000,000
(3) Zahner KME Gmbh: acquired on 21 April 2011
(4) KME Service Russland Ltd: as from 26 August 2011 the investment held was increased to 70%.
(5) KME Marine Service America LLC: acquired on 27 December 2010
(6) KME Kalip Servis A.S.: acquired on 5 May 2011
(7) P.H.M. Pehamet Sp.Zo.o.: acquired on 13 June 2011
(8) KME India Private Ltd.: as from 17 November 2011 it increased its share capital to Rupees 5,987,750, and therefore KME Germany Ag & Co Kg's stake increases to 99.8% while KME AG's decreases to 0.20%
(9) Metalbuyer S.p.A.: on 5 May 2011 cancelled its share capital and KME Recycle S.p.A. rebuilt it in full.
(10) Valika S.A.S.: on 28 September 2011 the relevant stake increased by 21%
(11) On 29 June 2011 the Parent KME Group S.p.A. transferred them to KME Partecipazioni S.r.l.
(12) Il Post S.r.l.: on 1 August 2011 KME Group S.p.A. transferred the investment in Il Post S.r.l. to the subsidiary KME Partecipazioni S.r.l.
(13) Culti S.r.L.: on 28 December 2011 it cancelled its share capital and rebuilt it to € 100,000.00
(14) Cobra Automotive Technologies S.p.A.: on 29 June 2011 Drive Rent S.p.A. was 90% transferred to KME Partecipazioni S.r.l.. On 1 July 2011 the merger with Cobra AT S.p.A. and its subsidiaries Drive Service S.p.A., Elogistique S.r.l., Easydriver Car Services Espana S.L.U. and Autonostop S.r.l. took effect. On 20 December the share capital increase was subscribed for € 9,841,905, increasing the investment recognised in non-current financial assets to 42.68% and the shares held for trading to 8.91%
(15) HC S.r.l.: on 28 December 2011 it cancelled its share capital and rebuilt it to € 50,000.00

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 effective application,

   of administrative and accounting procedures in the preparation of the separate financial statements as at and for the year ended 31 December 2011.

2. No material findings emerged in this regard.

3. 1. Moreover, they state 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) no. 1606/2002 of the European Parliament and of the Council of 19 July 2002;
   b. reflect the balances recorded in the companies' books and accounting records;
   c. can provide a true and fair representation of the equity, income and finance situation of the issuer.

   3.2 the Directors' Report contains a reliable analysis of the operating performance and results and the situation of the issuer, together with a description of the principle risks and uncertainties to which it is exposed.

Florence, 28 March 2012

Deputy Chairman	Manager in charge of financial reporting
signed Vincenzo Manes	*signed Marco Miniati*

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 31/12/11

Dear Shareholders,
The Board of Statutory Auditors hereby reports on the draft financial statements approved during the meeting of the Board of Directors of 28.03.2012, to the extent of its competence pursuant to art. 153 of Leg. Decree no. 58 of 24 February 1998, assuming application of the other special provisions in force.
The report has been subdivided into sections in accordance with CONSOB reporting requirements.

Significant events in 2011

The most important transaction in the year, which started in 2011 and is still ongoing, concerns the merger of KME Group S.p.A. and the parent company INTEK S.p.A. and the latter's parent company Quattrotretre S.p.A., which is described in more detail in the merger plan approved by the Board of Directors on 27 January 2012.
At the same time as the merger, the Company is also formalising at the date of this report a public tender offer to be undertaken through the purchase and subsequent annulment of the Company's ordinary treasury shares, which was again approved during the Board of Directors' meeting of 27 January 2012.
The extraordinary Shareholders' meeting to approve the aforementioned public tender offer has been called for 8/9 May 2012.
Since this is a transaction with a related party, the Company has adopted the procedures envisaged by the related Regulation and in particular it has been put to the Internal Control Committee consisting of independent directors, and specific opinions have been sought from independent advisors, both in relation to the swap rate for the merger and in relation to the financial compatibility of the whole operation, as well as with the assistance of lawyers from outside the Company.
In consideration of the complexity of the operation, the important financial consequences and the type of operation, both the merger and the public tender offer have been made subordinate to the non-occurrence, before signing the related documents, of potentially harmful effects (the so-called Material Adverse Change clause).
More analysis will be made available in the Prospectus under art. 70 of the CONSOB Regulation for Issuers.

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.
During 2011 the merger was undertaken of Drive Rent S.p.A. into Cobra Automotive Technologies S.p.A., which is listed on the STAR segment of the electronic stock market (MTA).
In relation to this investee company, during 2012 the market was informed of an operation to sell the electronic systems branch of this company.

Observations and requests for information by the independent auditors/reports by Shareholders pursuant to art. 2408 of the Italian Civil Code/representations.

During its periodic meetings, the Board has not received any information or specific disclosure from the independent auditors.
In relation to the merger and the public tender offer as set out above, a shareholder has asked for additional information in regard to that in the press release, to which the Company has replied by referring to the information available following the drafting and publication of the prospectus under art. 70 of the Regulation for Issuers, in order to guarantee the same level of disclosure to the whole market.

Auditors' engagements

Besides the audit engagement, for a total fee of Euro 86,000 at Parent company level, at Group level a further Euro 1,187,000 was paid for audit work and Euro 265,000 for minor services.
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

The auditors KPMG, during 2012, issued their opinion on the swap ratio in relation to the merger.

Oversight and information acquired by the Board of Statutory Auditors

During the year ended 31 December 2011 the members of the Board of Statutory Auditors participated in the shareholders' meeting held on 28 April 2011 and the meetings of the Board of Directors held on 22 March, 28 April, 12 May, 16 June, 4 August, 25 October and 10 November.
The Board held 7 meetings during 2011 (01.03-11.03-28.03-30.05-23.08-06.09-29.11) pursuant to 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 require-

ments, 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 22 March 2011; 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. Parameters for 2011 were also resolved.
g. the Board of Statutory Auditors participated in the meetings held by the Internal Control Committee on 16 March and 4 August 2011;
h. the Board of Statutory Auditors also participated in the meetings held by the Supervisory Board, pursuant to Law 231/01 on 6 July 2011 and 19 December 2011;
i. the Board requested, and continually received, information and updates on pending litigation, detailed information of which is not repeated here since it is contained in the Directors' Report.

It is noted that on 7 February 2012 the subsidiary KME A.G. arranged for the complete payment of the EU fine imposed in previous years, following the sentence of the EU Court of Justice.

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.

The members of the Board of Statutory Auditors have summarised below their positions held in other companies both in the Group and for third parties, whether listed or unlisted.

Analysis of the 2011 separate financial statements

The separate financial statements at 31 December 2011 show a loss for the year of Euro 9,884,833, while at consolidated level there was a loss of Euro 14.3 million.

The following impairments was recognised:

KME Partecipazioni S.r.l. Euro 9,700,000.

In its turn this impairment derives mainly from the valuation of (indirect) investments in the subsidiaries ErgyCapital and Culti.

Regarding the credit lines the Group has access to, it is hereby noted that the bank covenants that accompany the loan contracts have been fulfilled with regard to the financial statements data at 31/12/11.

At the date these financial statements were prepared, the Company held 7,602,700 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 0.31% of share. Treasury shares amount to 1.575% 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.

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, 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 2011, and the conformity of the financial statements with international financial reporting standards.

Proposal to Shareholders

The Board of Statutory Auditors expresses its favourable opinion on approval of the financial statements at 31 December 2011 which envisage covering the loss of Euro 9,884,833 through the use and consequent reduction of the "Demerger surplus" reserve.

Florence, 20 April 2012

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 is set out below, with the year in which the relevant appointment terminates shown in brackets:

Marco Lombardi – Chairman of the Board of Statutory Auditors:

• 1 position as statutory auditor in a listed company, 6 positions as statutory auditor in unlisted companies, 1 position as board director in an unlisted company as follows:

Sole Director RECS (until withdrawn); Brandini S.p.A. Chairman of the Board of Statutory Auditors (2013); D & D La Certosa S.p.A. Chairman of the Board of Statutory Auditors (2013); KME Italy S.p.A. standing auditor (2012); Grifoni e Masini S.p.A. standing auditor (2013); SAIF S.r.l. standing auditor (2013); Casasole S.p.A. auditor (effective 2013).

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 (2012); Geikos S.p.A. standing auditor (2012); KME Italy S.p.A. Chairman of the Board of Statutory Auditors (2012); SAIF S.r.l. standing auditor (2011).

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 (2011); 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.

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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 2011, 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 5 April 2011 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 2011 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 2011, the results of its operations and its cash flows for the year then ended.

4 The directors of KME Group S.p.A. are responsible for the preparation of a directors' report on the financial statements in accordance with the applicable laws and regulations. Our responsibility is to express an opinion on the consistency of the directors' report and its specific section on corporate governance and shareholding structure, to the extent of

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 2011.

Florence, 20 April 2012

KPMG S.p.A.

(signed on the original)

Riccardo Cecchi
Director of Audit

RESOLUTIONS

RESOLUTIONS BY THE ORDINARY SHAREHOLDERS' MEETING / APPROVAL OF THE 2011 ANNUAL FINANCIAL STATEMENTS / ELECTION OF DIRECTORS AND STATUTORY AUDITORS

The Ordinary Shareholders' Meeting approved the 2011 Annual Financial Statements of KME Group S.p.A., agreeing to cover the loss for the year of 9,884,832.00 euros by drawing an equal amount from available equity reserves.
The Shareholders' Meeting also approved the Compensation Report.
The Shareholders' Meeting then elected a Board of Directors and a Board of Statutory Auditors for a three-year term, from 2012 to 2014, based on slates filed by Quattrotretre S.p.A., the Company's majority shareholder, which owns 29.66% of its common shares.
The following candidates were elected to the Board of Directors:
Mario d'Urso, Marcello Gallo, Riccardo Garrè, Giuseppe Lignana, Gian Carlo Losi, Vincenzo Manes, Diva Moriani, Alberto Pirelli, Salvatore Orlando and Italo Romano.
The **Board of Directors,** meeting after the Shareholders' Meeting, reappointed:
Salvatore Orlando as **Chairman**;
Vincenzo Manes as **Deputy Chairman**;
Diva Moriani as **Deputy Chairman**;
Riccardo Garrè as **General Manager**;
Italo Romano as **General Manager**.
Based on the powers respectively delegated to them, Vincenzo Manes, Diva Moriani, Riccardo Garrè and Italo Romano qualify as Executive Directors.
The Board of Directors also established:
a **Compensation Committee,** comprised of Alberto Pirelli (Chairman), Mario d'Urso and Giuseppe Lignana;
a **Control and Risk Committee,** comprised of Mario d'Urso (Chairman), Giuseppe Lignana and Alberto Pirelli.
The following candidates were elected to the **Board of Statutory Auditors:**
Riccardo Perotta (**Chairman**);
Marco Lombardi e Francesca Marchetti (Statutory Auditors);
Luca Bertoli e Lorenzo Boni (Alternates).

Firenze, 28 giugno 2012

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