

## **Report by the Board of Directors on the Group's Operations at September 30, 2011**

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**November 10, 2011**

Registered office: 2 via dei Barucci, Florence  
[www.kme.com](http://www.kme.com)

Share capital: 297,013,585.26 euros fully paid-in  
Company Register of the Court of Florence and Tax I.D. Number: 00931330583

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| <b>KME Group S.p.A.</b> |
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**Board of Directors**

Chairman  
Deputy Chairman  
Deputy Chairman  
General Manager  
General Manager

Salvatore Orlando  
Vincenzo Manes<sup>B</sup>  
Diva Moriani<sup>B</sup>  
Riccardo Garrè<sup>B</sup>  
Italo Romano<sup>B</sup>

Secretary to the Board of Directors

Vincenzo Cannatelli  
Mario d'Urso<sup>A,C,D</sup>  
Marcello Gallo  
Giuseppe Lignana<sup>A,C,D</sup>  
Gian Carlo Losi  
Alberto Pecci<sup>A,D</sup>  
Alberto Pirelli<sup>A,C</sup>

A. Independent Director

B. Executive Director

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

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

**Board of Statutory Auditors**

Chairman

Marco Lombardi

Statutory Auditors

Pasquale Pace  
Vincenzo Pilla

Alternates

Lorenzo Boni  
Angelo Garcea

**Corporate Accounting Documents Officer**

Marco Miniati

**Independent Auditors**

KPMG S.p.A.

**Common Representative of Savings Shareholders**

Romano Bellezza

## Report of the Board of Directors on the Group's Operations at September 30, 2011

Prior to proceeding with a review of the Group's operating performance, an overview of the Group's corporate structure that shows the investment sectors of KME Group S.p.A., updated as of the date of this Report, is provided below.

In addition to its traditional activities in the “copper” sector, which encompass the production and distribution of copper and copper-alloy semifinished products (headed by the German subsidiary **KME A.G.**) and continue to be its core business, the Group's investments include the new sectors of “renewable energy sources” and energy conservation, headed by **ErgyCapital S.p.A.**, and integrated “services” in the field of risk management in connection with the possession, ownership and use of motor vehicles, headed by **Cobra A.T. S.p.A.** as of July 1, 2011.

These new investment sectors and sundry activities are held by **KME Partecipazioni S.r.l.**, a wholly-owned subsidiary of the Group.

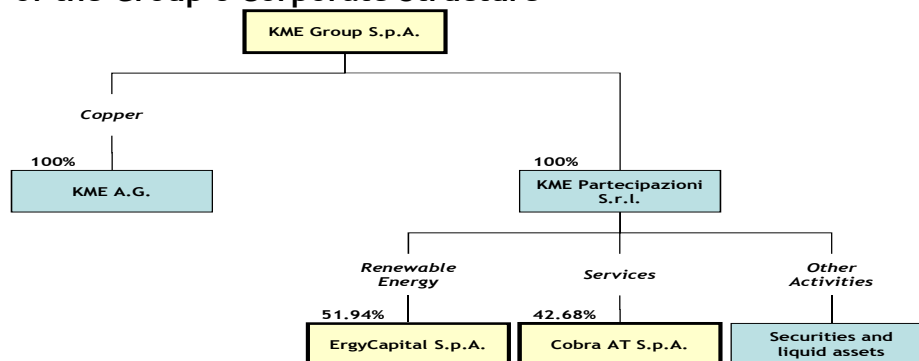
The carrying amounts of the investment held by KME Group S.p.A. are 384.6 million euros for the “copper” sector, 31.5 million euros for the “renewable energy” sector and 30.0 million euros for the “service” sector.

In the consolidated financial statements of KME Group S.p.A., the results for the period of ErgyCapital S.p.A. are accounted for by the equity method. Those of Drive Rent S.p.A. (a company absorbed by Cobra A.T. S.p.A. effective July 1, 2011) are reflected in the consolidated financial statements at September 30, 2011 under the line item “Discontinued operations” for the period up to June 30, 2011; the results of Cobra A.T. S.p.A. for the third quarter of 2011 are accounted for by the equity method.

Consequently, the accounting data for the period resulting from line-by-line consolidation refer to the companies engaged in Group's core business, i.e., the sector of copper and copper-alloy semifinished products, and KME Group S.p.A., the Group's Parent Company. For comparison purposes, the 2010 consolidated data have been made consistent with the 2011 data in terms of scope of consolidation.

Additional information is provided in the various sections of this Report.

### Overview of the Group's Corporate Structure



#### Notes:

Listed companies

The percentages shown refer to the voting share capital

In recent months, the rate of growth posted by the advanced economies showed that the gradual slowing that started in the second quarter of the current year is continuing. In the emerging countries, growth, driven by internal demand, remained strong, even though it weakened slightly.

In Europe, which is the area where the Group is most active, the economy's growth rate also lost momentum, reflecting weakness in world trade and turmoil in the financial markets. Manufacturing activity was strongest in Germany, in line with the European average in France and barely positive in Italy. Signals of persistently weak economic conditions were also apparent in the United Kingdom, both in the manufacturing and service sectors.

The outlook continues to be clouded by significant uncertainty caused by deepening concerns about the prospects for the sovereign debt of some countries, which are weighing on the financial markets and are affecting the terms for accessing bank credit by businesses, which have become more restrictive and risk to further undermine the progress of recovery.

In a macroeconomic environment characterized by a still tentative upturn in economic activity and by widespread causes of uncertainty, the KME Group is continuing to implement internal programs to restructure and stimulate the growth of its companies in the various investment sectors, with the aim of increasing their competitiveness and restore their profitability sufficiently to provide an adequate return on invested capital.

The programs launched to streamline the operating units in the copper sector pursue the twin objectives of refocusing the activities of the manufacturing and distribution operations, in order to strengthen their business diversification, while optimizing costs at all levels. These programs are being implemented concurrently with the adoption of an organizational structure designed in accordance with flexible operating models that respond quickly to change, are aimed at promoting innovation and are intensely focused on customer and market needs.

In the sales area, the Group is implementing a series of programs designed to consolidate the market positions of its businesses, focusing on innovative solutions, promoting new applications for its products and strengthening its distribution network in all areas, including both traditional markets and emerging markets with attractive growth potential.

The companies that are at the helm of the new investment sectors are also engaged in implementing radical reorganization programs.

In the second half of 2010, ErgyCapital S.p.A. began the process of redefining the mission of its group and downsizing its operations through the closure of operating locations and a reduction in staff levels, with an attendant significant decrease in operating expenses. These programs began to produce a positive effect during the first nine months of 2011.

Insofar as the business strategy is concerned, given the high level of uncertainty that developed in the photovoltaic industry, the company identified biogas and geothermal energy as two business areas that offer more attractive growth opportunities. In the photovoltaic areas, it chose a strategy limited to maximizing the value of its authorized projects, by developing some of them and disposing of the remainder.

The aim of this new strategic approach is to restore the company's profitability and financial balance, which are the prerequisites for effectively developing collaboration/aggregation opportunities with other parties in the renewable energy sector that could hasten the company's expansion and boost value creation.

In the service sector, with the merger by absorption, effective July 1, 2011, of the Drive Rent S.p.A. subsidiary into Cobra Automotive Technologies S.p.A., a company based in Varese, which is the holding company of a group listed on Borsa Italiana with a leadership position in the area of car alarms and vehicle security systems based on the use of information technology and satellite technology, KME Group S.p.A., which owns a 42.7% interest in the new entity resulting from this transaction, helped lay the groundwork for an expansion of vehicle management services and enhanced the value of the new entity by combining the services, products and distinctive knowhow of the two groups that executed the merger.

\* \* \*

The industrial and commercial programs implemented strengthened the competitiveness of the KME Group, enabling it, in 2011, to take advantage of a more favorable market environment to gradually realign prices and, consequently, significantly improve its profitability compared with the previous year.

### Financial Highlights of the Group at September 30, 2011

| Consolidated Financial Highlights                  |                       |                       |
|--|-----------------------|-----------------------|
| (in millions of euros)                             | at September 30, 2011 | at September 30, 2010 |
| Revenue  | 2,323.6               | 2,062.1               |
| Revenue (net of raw materials)                     | 614.9                 | 563.7                 |
| EBITDA   | 75.5                  | 65.4                  |
| EBIT   | 42.6                  | 24.5                  |
| Profit before nonrecurring items                   | 30.9                  | 14.6                  |
| Nonrecurring income/(expense)                      | 4.0                   | (0.1)                 |
| Consol. profit before taxes (non-IFRS inventories) | 34.9                  | 14.5                  |
| Impact of IFRS measured inventories                | 4.3                   | 42.0                  |
| Losses of companies valued by equity method        | (2.7)                 | (4.2)                 |
| Discontinued operations                            | (0.6)                 | (0.7)                 |
| Consolidated profit before taxes                   | 35.9                  | 50.9                  |
| Reclassified net debt                              | (14.5)                | 223.9 at 12/31/10     |
| Shareholders' equity                               | 480.1(*)              | 452.1 at 12/31/10     |

(\*) Result for the period before taxes.

**Consolidated revenue** totaled 2,323.6 million euros in the first nine months of 2011, up 12.7% compared with the 2,062.1 million euros booked in the same period last year.

Higher raw material prices account in part for the in revenue increase. Revenue also shows a gain when restated net of the value of raw materials, rising from 563.7 million euros to 614.9 million euros, for a gain of 9.1%. When viewed against the trend in unit sales (-3.7%), the revenue increase shows the effect of higher prices and of a product mix with a greater value-added component.

**EBITDA(\*)** grew to 75.5 million euros in the first nine months of 2011, compared with 65.4 million euros in 2010, for a year-over-year gain of 15.4%.

The increase in profitability is also apparent when the data are viewed on a relative basis, with the ratio of EBITDA to net revenue improving from 11.6% in the first nine months of 2010 to 12.3% in the first nine months of 2011.

**EBIT(\*)** rose to 42.6 million euros (24.5 million euros in 2010). Please note that, at the end of 2010, the Company, with the support of independent consultants, carried out a reassessment of the remaining useful lives of major items of plant and machinery, as a result of which depreciation and amortization expense decreased by about 8 million euros in the reporting period.

The **profit before nonrecurring items(\*)** amounted to 30.9 million euros (14.6 million euros at September 30, 2010).

**Net nonrecurring income** totaled 4.0 million euros at September 30, 2011. This amount is the net difference between charges for additional programs to restructure and streamline production units in the copper area, totaling 23 million euros, and the positive effect on the income statement of a reduction in structural inventories and other nonrecurring items.

The **profit before taxes and after nonrecurring items (non-IFRS inventories)** totaled 34.9 million euros (14.5 million euros at September 30, 2010).

The **pre-tax effect of valuing raw material inventories and commitments at current prices(\*)**, as required by IFRS accounting principles, decreased to 4.3 million euros (down from 42.0 million euros at September 30, 2010) due to the different price of raw copper during the two periods under comparison.

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(\*) *Reclassified indicators, the composition of which is explained in the chapter on the operating results of the Group.*

The **consolidated profit** before taxes amounted to 35.9 million euros (50.9 million euros at September 30, 2010).

This amount is after losses from companies consolidated by the equity method totaling 2.7 million euros, which include 0.5 million euros for the Group's interest in the loss reported by ErgyCapital S.p.A. and 2.2 million euros for the Group's interest in the loss incurred by Cobra A.T. S.p.A. in the third quarter. The negative result from discontinued operations (-0.6 million euros) refers to the loss incurred by Drive Rent S.p.A. from January 1 to June 30, 2011.

On the balance sheet side, the **net financial position(\*)** was positive by 14.5 million euros at September 30, 2011 (negative by 223.9 million euros at December 31, 2010 and by 80.4 million euros at June 30, 2011).

The steady reduction in indebtedness since the beginning of the year was achieved in part by optimizing the management of payment-term extensions, primarily with suppliers of raw materials. The improvement in the third quarter of 2011 reflects the effect of measuring instruments hedging commodity contracts at their fair value at the end of the period, given the sharp decline in commodity prices in the closing days of September. The resulting positive effect amounted to about 125 million euros.

Consolidated **shareholders' equity(\*)** totaled 480.1 million euros at September 30, 2011 (452.1 million euros at December 31, 2010).

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(\*) Indicators, the composition of which is explained in the chapter on the Group's financial performance and financial position.



## Copper Sector

Demand for **copper and copper-alloy semifinished products in the construction industry** (the consolidated revenue generated in this area account for about one-quarter of total revenue) continues to be characterized by an underlying weakness, fueled in part by the negative effect of the high level and volatility of raw copper prices and the resulting uncertainty weighing on spending decisions by users.

The trend in new construction, following a slump in the three-year period from 2008 to 2010 that produced a contraction of 40% compared with the level in 2007, showed signs of a modest recovery starting the first half of this year, particularly in Germany and other countries in Northern Europe, but activity remained well below pre-recession levels.

On the other hand, building renovation, an area in which the products of the KME Group are extensively used, is proving to be a more stable business than new construction, supported in part by projects to make buildings more energy efficient.

In response to this scenario, the KME Group continued to promote integrated and innovative solutions, providing architects and artists with original, cutting-edge solutions for metal exterior-wall coverings and offering to designers and stylists in the interior furnishings business next generation surfaces that can be used for coverings and objects made of copper or copper alloys, available in a number of variations for different applications and aesthetic effects.

Projects launched in these areas produced substantial increases in value added and prices, but sales volumes are still modest.

In the market segment of **brass bars** for plumbing valves and fittings and heating systems, the trend of healthy gains sales volumes recorded in previous quarters suffered a sharp loss of momentum in the third quarter. However, pricing programs continues to have a positive effect.

Demand for **semifinished products for the industrial sector** (the consolidated revenue generated in this area account for about three-quarters of total revenue), after the upturn of recent quarters, particularly in the case of products for the manufacturing sector (automotive, mechanical engineering, electronics) in the German market, showed signs of slowing in the third quarter, particularly in Italy and Spain, but became gradually more stable in France.

An analysis by market segments shows that demand remained stagnant in the home appliance and boiler areas, but continued to recover in the electronics, components and automotive industries.

The sales trend, while weaker, remained positive for **industrial sheet metal** products and contracted for **tubing for industrial applications**, but prices continued to hold relatively steady.

Orders for **specialty products** continued to improve, particularly for ingot molds and copper bars.

For a review of the copper sector's operating and financial performance, please see the accounting data resulting from line-by-line consolidation, the entire amount of which, as explained at the beginning of this Report, refers to the copper sector and KME Group S.p.A., the Group's Parent Company.

As for **the business outlook**, even though demand appears to have slowed, management confirms that it expects to report for the current year operating results showing a further improvement compared with the previous year.

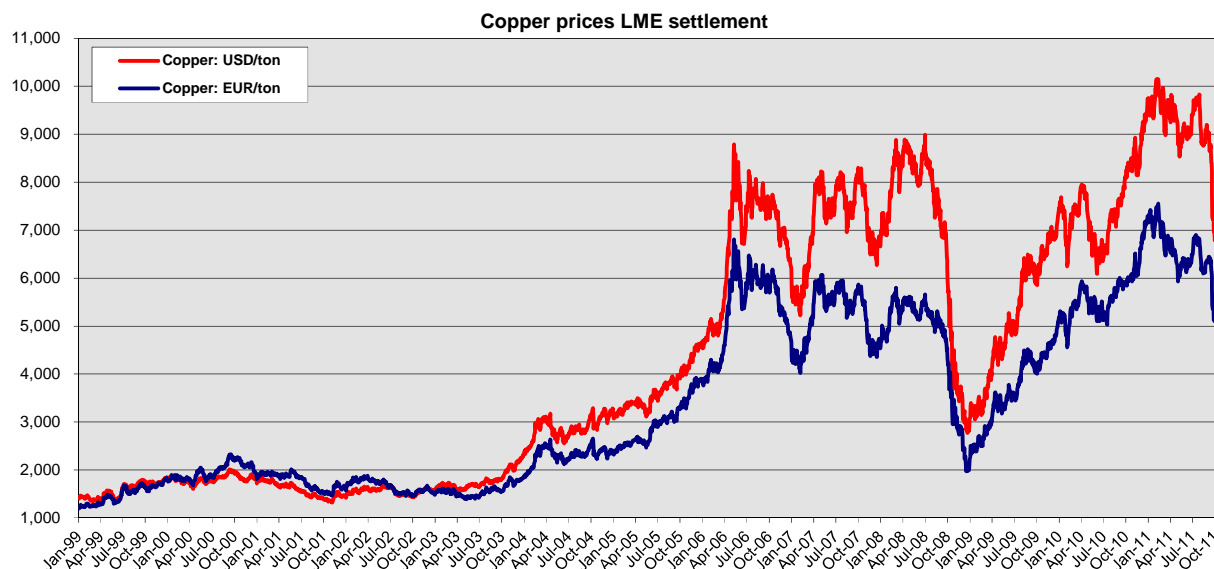
With regard to project involving the **marketing of scrap metal**, which was launched in 2009 with the aim of diversifying the Group's activities upstream of its traditional production of semifinished goods and establishing a European network of companies engaged in recovering, processing and distributing scrap metal, having completed the acquisition of 100% of Metalbuyer S.p.A., the Company is continuing the restructuring of this Italian subsidiary in order to reorganize its market presence and accelerate the exploitation of synergies with other investee companies.

As for the interest held in Valika S.a.s., which was raised to 51% in September 2011 by exercising a contractual call option, the implementation of programs to grow the company's activities is progressing satisfactorily, as is the collaboration with the French partner.

In the first nine months of 2011, the **price of raw copper**, which is the main metal used in the Group's semifinished products, was higher on average than in the same period last year, showing an increase of 29.1% when stated in U.S. dollars (from USD 7,169/ton to USD 9,256/ton) and a gain of 20.8% when stated in euros (from EUR 5,455/ton to EUR 6,589/ton) reflecting the impact of the appreciation of the euro during the reporting period.

Looking at price trends, average copper prices were lower the third quarter of 2011 than in the second quarter of the year, decreasing by 1.7% in US dollars (from USD 9,137/ton to USD 8,982/ton) but were unchanged in euros (at EUR 6,356/ton).

In October, the price of copper averaged USD 7,349, equal to EUR 5,360.



### **Renewable Energy Source Sector**

The Board of Directors of ErgyCapital S.p.A., meeting on November 10, 2011, approved the consolidated results at September 30, 2011.

The result for the third quarter is in line with the positive operating performance of the second quarter and confirms the turnaround that is taking place compared with previous periods.

In the first nine months of 2011, the ErgyCapital Group reported **revenue** of 14.0 million euros, up about 12% compared with the first nine months of 2010. Revenue was also up in the third quarter, rising to 5.1 million euros, or 43% more than in the third quarter of 2010. Consolidated **EBITDA** for the first nine months of 2011, positive by 5.4 million euros, were up sharply compared with negative EBITDA of 0.4 million euros in the same period last year. The following factors account for this improvement:

- The effects of the restructuring program launched in 2010, which, by closing some operational locations, concentrating all resources at a single facility and concurrently downsizing the staff, drastically reduced overhead, cutting it by more than 50% compared with the same period last year;
- Higher revenue from the production of electric power (+60% for the first nine months and +67% for the quarter), made possible by an increase in the number of photovoltaic systems in operation, the permanent lifting of the seizure of a 2.6-MWp facility located in the municipality of Piani di S. Elia (RI) and a solid performance by all generating facilities.

The ErgyCapital Group reported a **consolidated net loss** of 1.2 million euros at September 30, 2011 (loss of 7.5 million euros in 2010) and virtual breakeven for the third quarter (loss of 3.6 million euros in 2010).

The **net financial position** was negative by 83.6 million euros (65.5 million euros at December 31, 2010 and 77.0 million euros at June 30, 2011); net invested capital, which

reflects the investments made in photovoltaic and biomass projects, grew to 103.7 million euros at September 30, 2011 (88.7 million euros at December 31, 2010).

As for the **business outlook**, operating results for the fourth quarter of 2011 are expected to show a further significant improvement in consolidated operating results compared with the same period last year, thanks to an increase in the number of photovoltaic facilities in operation, positive performances by these facilities (with higher yields than those achieved last year and those originally expected), the startup at full capacity of the first biogas system and a steady reduction in overhead resulting from the ongoing corporate restructuring process.

In the first quarter of 2012, the company will update its strategic objectives for the next three years.

The company continues to be engaged in seeking new opportunities for collaboration/business combinations with other players in the renewable energy area that could increase shareholder value.

The Board of Directors of ErgyCapital S.p.A. analyzed the company's financial position and was made cognizant of the reluctance of the banking system to support new development projects and provide new credit lines, given the current conditions of the financial markets, and of the great degree of uncertainty that exists in the regulatory framework of the photovoltaic industry.

The shareholder KME Group S.p.A. has provided financial support (6.4 million euros at September 30, 2011), helping the company to secure the operating resources it needs, and agreed to provide two temporary guarantees for the benefit of the ErgyCapital Group aimed mainly at supporting the development of biogas activities.

In order to rebalance the company's financial position and access new sources of financing, the Board of Directors approved a **capital increase proposal** for up to 15 million euros, to be implemented in 2012.

KME Group S.p.A. confirmed its willingness to underwrite its pro rata share of the abovementioned capital increase, also using receivables owed by ErgyCapital S.p.A. to cover all or part of the investment.

For additional information about the operating performance of ErgyCapital S.p.A., please consult the documents made available by the company.

As mentioned at the beginning of this Report, the results of the ErgyCapital Group for the reporting period are shown in the consolidated income statement of KME Group S.p.A. under the line item "Losses of companies valued by the equity method."

## Service Sector

On November 30, 2010, the Board of Directors of Drive Rent S.p.A. approved a corporate/industrial restructuring transaction that called for the merger by absorption of Drive Rent S.p.A. into **Cobra Automotive Technologies S.p.A.**, which is the holding company of a group listed on Borsa Italiana with a leadership position in the area of car alarms and vehicle security systems based on the use of information technology and satellite technology. This transaction will enable the new entity to offer to common and diverse groups of customers (individual motorists, corporate fleets, leasing companies, carmakers and insurance companies) not only the existing services and electronic products (cross selling activities), but also, and more importantly, products developed by combining the distinctive knowhow of the two groups.

On March 15, 2011, the merger proposal was submitted to and approved by the Shareholders' Meetings of Drive Rent and Cobra Automotive Technologies. The transaction was finalized with the signing of a deed of merger on June 14, 2011, effective July 1, 2011. As of the date of this Report, KME Group S.p.A. held a 42.7% interest in the share capital of Cobra A.T. S.p.A., the absorbing company.

Additional information about this business combination is provided in the documents available on the company and Borsa Italiana S.p.A. websites.

The Interim Report on Operations at September 30, 2011 of Cobra A.T. S.p.A., approved by the company's Board of Directors on October 28, 2011, includes for the first time the income statement and balance sheet data of the companies in the Drive Group, absorbed effective July 1, 2011.

At the industrial level, with data restated on a comparable scope of consolidation basis, the results show a continuation of the upturn of the revenue generated by **Electronic Systems** (anti-theft systems and parking and other driving aids), which grew by 20.9%, while the revenue from **Services** (for car rental, fleet management and insurance companies) held steady (the increase of 8.0 million euros is due almost exclusively to the consolidation of the Drive Group).

At September 30, 2011, total consolidated **revenue** amounted to 117.9 million euros (97.1 million euros at September 30, 2010), 79.5% of which was generated outside Italy (28.7% in Asia and 49.4% in the rest of Europe).

In the third quarter of 2011, on a comparable scope of consolidation basis, revenue grew by about 6% compared with the same period last year, but the revenue reported by the Drive Group decreased.

Insofar as profitability is concerned, **EBITDA** for the first nine months of 2011, restated net of nonrecurring charges, totaled 7.4 million euros (4.9 million euros in 2010), equal to 6.3% of revenue. Nonrecurring charges amounted to 5.9 million euros (including 3.4 million euros in non-cash items).

At September 30, 2011, **EBIT** were negative by 7.2 million euros (negative by 2.8 million euros at September 30, 2010) and the **net loss** for the period totaled 11.2 million euros (loss of 5.4 million euros in 2010).

As for the **business outlook**, margins are expected to improve in the closing quarter of this year compared with the third quarter. The Group is engaged in the process of integrating with Drive's operations, with special emphasis on maximizing operational efficiency and ensuring that the improvements in profitability will continue next year.

At September 30, 2011, the net financial position showed a consolidated **net debt** of 48.5 million euros, compared with 30.6 million euros on the same date the previous year. The consolidation of the Drive Group, which added 15.2 million euros in debt, is the main reason for this increase.

The Cobra Group is currently working with a pool of banks to reorganize its credit lines, with the aim of extending their maturity and redetermining the financial covenants. It is worth mentioning that Cobra A.T. S.p.A. approved a capital increase of up to 23 million euros and the KME Group agreed to underwrite its pro rata share of the increase.

For additional information about the operating performance of Cobra A.T. S.p.A. please consult the document made available by the company.

As mentioned at the beginning of this Report, the results of the Drive Group are shown in the consolidated income statement of KME Group S.p.A. under the line item "Discontinued operations" for the period up to June 30, 2011. The economic result of Cobra AT S.p.A. for the period from July 1, 2011 to September 30, 2011 is accounted for by the equity method.

## Operating Results of the Group

Some of the operating and financial data used in the review of the Group's operating results provided below are derived from the Group's reporting systems and are based on accounting principles that differ from the IFRS principles, mainly in terms of measurement and presentation. As a result, certain reclassifications/restatements concerning the valuation of ending inventories produce information that does not qualify as financial information pursuant to Auditing Principle 001 published by the Italian National Board of Certified Public Accountants and Auditors. The main items are reviewed below:

- 1 Revenue is also shown net of the value of raw materials to eliminate the impact of fluctuations in raw material prices.
- 2 When valuing ending inventories of the copper and copper-alloy semifinished product sector, the portion of the metal component representing structural inventories (i.e., the portion of inventories that was not set aside to fill customer orders) was valued by the LIFO method. The portion of inventories set aside for customer orders was valued based on the value of the corresponding orders, which is deemed to be the realizable value. Under the IFRS method, inventories are valued at the lower of the cost computed by the FIFO method or net realizable value. The IFRS principles also require that inventory buy and sell commitments and the corresponding hedges executed on the LME be disclosed separately and shown in the financial statements as financial instruments measured at fair value.  
The IFRS principles, by not allowing the measurement of the Sector's ending inventories by the LIFO method, which is the method used for internal management controlling activities, introduced an exogenous economic component the variability of which makes it impossible to compare homogeneous data for different periods and does not allow an accurate presentation of the actual results from operations.
- 3 Nonrecurring items are shown below the EBITDA line.

The table that follows shows the impact of the different measurement and presentation criteria used on the data for the first nine months of 2011.

| (in millions of euros)                   | 9/30/11<br>IFRS | Reclassifi-<br>cations | Restate-<br>ments | 9/30/10<br>reclass. |
|--|-----------------|------------------------|-------------------|---------------------|
| Gross revenue                            | 2,323.6         | 100.0%                 |                   | 2,323.6             |
| Raw material costs                       | -               | (1,708.8)              |                   | (1,708.8)           |
| <b>Revenue net of raw material costs</b> | -               |                        |                   | <b>614.9</b>        |
| Personnel expense                        | (257.2)         | 5.5                    |                   | (251.7)             |
| Other consumables and costs              | (1,998.1)       | 1,714.8                | (4.3)             | (287.6)             |
| <b>EBITDA (*)</b>                        | <b>68.3</b>     | <b>2.9%</b>            |                   | <b>75.5</b>         |
| Depreciation and amortization            | (32.9)          | -                      |                   | (32.9)              |
| <b>EBIT</b>                              | <b>35.4</b>     | <b>1.5%</b>            |                   | <b>42.6</b>         |
| Net financial expense                    | 3.8             | (15.5)                 |                   | (11.7)              |

|   |             |              |     |             |              |
|---|-------------|--------------|-----|-------------|--------------|
| <b>Result before nonrecurring items</b>                         | <b>39.2</b> | <b>1.7%</b>  |     | <b>30.9</b> | <b>5.0%</b>  |
| Nonrecurring income / (expense)                                 | -           |              | 4.0 | 4.0         |              |
| <b>Profit before taxes (non-IFRS inventories)</b>               | <b>39.2</b> | <b>1.7%</b>  |     | <b>34.9</b> | <b>5.7%</b>  |
| Impact of IFRS measured inventories and forward contracts       | -           |              | 4.3 | 4.3         |              |
| Share of profit (loss) of equity-accounted investee companies   | (2.7)       |              |     | (2.7)       |              |
| Loss from discontinued operations                               | (0.6)       |              |     | (0.6)       |              |
| <b>Consolidated profit before taxes</b>                         | <b>36.0</b> | <b>1.5%</b>  |     | <b>36.0</b> | <b>5.9%</b>  |
| Profit attributable to non-controlling interests                | 0.1         |              |     | 0.1         |              |
| <b>Profit before taxes attributable to owners of the Parent</b> | <b>35.9</b> | <b>1.55%</b> |     | <b>35.9</b> | <b>5.84%</b> |

*The reclassified indicators described above are used in the review of the Group's operating results, because they are deemed to be more representative of the Group's actual operating and financial performance.*

The table below provides an overview of the consolidated operating results of the KME Group in the first nine months of 2011 and a comparison with the corresponding data for the same period in 2010.

For the sake of comparability, these results were restated net of the data of the Drive Group, which are combined under the single line item "Net loss from discontinued operations."

### **KME Group - Consolidated Income Statement**

| 2010<br>reclass. | (in millions of euros)  | 9/30/11<br>reclass. | 9/30/10<br>reclass. | %<br>change   |
|------------------|---|---------------------|---------------------|---------------|
| 2,718.7          | Gross revenue   | 2,323.6             | 2,062.1             | 12.7%         |
| (1,960.3)        | Raw material costs  | (1,708.8)           | (1,498.4)           | 14.0%         |
| <b>758.4</b>     | <b>Revenue net of raw material costs</b>                        | <b>614.9</b>        | <b>563.7</b>        | <b>9.1%</b>   |
| (331.7)          | Personnel expense   | (251.7)             | (251.0)             | 0.3%          |
| (347.7)          | Other consumables and costs                                     | (287.6)             | (247.3)             | 16.3%         |
| <b>79.0</b>      | <b>EBITDA (*)</b>   | <b>75.5</b>         | <b>65.4</b>         | <b>15.4%</b>  |
| (44.6)           | Depreciation and amortization                                   | (32.9)              | (40.9)              | -19.6%        |
| <b>34.4</b>      | <b>EBIT</b>   | <b>42.6</b>         | <b>24.5</b>         | <b>74.3%</b>  |
| (15.4)           | Net financial expense   | (11.7)              | (9.9)               | 18.2%         |
| <b>19.0</b>      | <b>Profit before nonrecurring items</b>                         | <b>30.9</b>         | <b>14.6</b>         | <b>112.1%</b> |
| (26.0)           | Nonrecurring income (expense)                                   | 4.0                 | (0.1)               | n.m.          |
| <b>(7.0)</b>     | <b>Profit before taxes (non-IFRS inventories)</b>               | <b>34.9</b>         | <b>14.5</b>         | <b>141.2%</b> |
| 20.6             | Impact of IFRS measured inventories and forward contracts       | 4.3                 | 42.0                | -89.8%        |
| (10.7)           | Share of profit (loss) of equity-accounted investee companies   | (2.7)               | (4.2)               | n.m.          |
| (1.4)            | Loss from discontinued operations                               | (0.6)               | (0.7)               | -14.5%        |
| <b>1.5</b>       | <b>Consolidated result before taxes</b>                         | <b>36.0</b>         | <b>51.6</b>         | <b>-30.3%</b> |
| 0.5              | Profit attributable to non-controlling interests                | 0.1                 | 0.7                 |               |
| <b>1.0</b>       | <b>Profit before taxes attributable to owners of the Parent</b> | <b>35.9</b>         | <b>50.9</b>         | <b>-29.4%</b> |

(\*) EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization) is an indicator that is not mentioned in the IFRS accounting principles. However, it provides a useful yardstick to assess the Group's operating performance. It is an intermediate income statement item equal to EBIT before deducting depreciation and amortization and nonrecurring items.



**Consolidated revenue** totaled 2,323.6 million euros in the first nine months of 2011, for a gain of 12.7% compared with the 2,062.1 million euros reported at September 30, 2010.

The increase in revenue reflects in part the impact of higher raw material prices. Restated net of the value of raw materials, revenue shows a gain of 9.1%, rising from 563.7 million euros to 614.9 million euros. However, sales volumes were down 3.7%.

The value of raw materials accounted for 73.5% of total revenue.

Personnel expense held steady, despite an increase of 9.1% in value added.

In the first nine months of 2011, **EBITDA** grew to 75.5 million euros, compared with 65.4 million euros in 2010, for a year-over-year gain of 15.4%.

On a relative basis, the ratio of EBITDA to net revenue improved from 11.6% to 12.3%.

**EBIT** rose to 42.6 million euros (24.5 million euros in 2010).

**Depreciation and amortization** decreased by 8 million euros. Please note that, at the end of 2010, the Company, with the support of independent consultants, carried out a reassessment of the remaining useful lives of major items of plant and machinery, which determined that the useful lives of those assets should be extended.

The **profit before nonrecurring items** amounted to 30.9 million euros (14.6 million euros in 2010).

**Net nonrecurring income** totaled 4.0 million euros at September 30, 2011. This amount is the net balance of charges for additional programs to restructure and streamline the Group's industrial operations in the copper sector, amounting to 23 million euros, and the positive economic impact of a reduction in structural inventories and other nonrecurring items.

The **profit before taxes and after nonrecurring items (non-IFRS inventories)** totaled 34.9 million euros (14.5 million euros at September 30, 2010).

The impact, before tax effect, of **valuing raw material inventories and commitments** in accordance with IFRS accounting principles (instead of using a LIFO valuation) decreased from 42.0 million euros in 2010 to 4.3 million euros in 2011, due to the different price of raw copper during the two reporting periods under comparison.

The **consolidated profit before taxes attributable to owners of the Parent** amounted to 35.9 million euros (profit of 50.9 million euros in 2010).

This amount is after losses from companies consolidated by the equity method, which include 0.5 million euros for the Group's interest in the loss reported by ErgyCapital S.p.A. and 2.2 million euros for the Group's interest in the loss incurred by Cobra A.T. S.p.A. in the third quarter. The negative result from discontinued operations (-0.6 million euros) refers to the loss incurred by Drive Rent S.p.A. from January 1 to June 30, 2011.

## **Financial Performance and Financial Position of the Group**

The table below provides a breakdown of consolidated shareholders' equity:

| (in millions of euros)                           | At September<br>30, 2011 | At December<br>31, 2010 |
|--|--------------------------|-------------------------|
| Share capital                                    | 297.0                    | 297.0                   |
| Reserves   | 147.2                    | 173.3                   |
| Profit for the period                            | 35.9(*)                  | (18.3)                  |
| Profit attributable to non-controlling interests | 4.4                      | 5.0                     |
| <b>Total shareholders' equity</b>                | <b>484.5</b>             | <b>457.0</b>            |

(\*) Profit before taxes.

As of the date of this Report, the Company's **share capital** amounted to 297,013,585.26 euros, divided into 490,978,019 shares, including 447,278,603 common shares and 43,699,416 savings shares, both classes of shares without par value.

The **reserves** decreased due to the coverage of the consolidated loss reported in 2010.

The Group's **net financial position(\*)** was positive by 14.5 million euros at September 30, 2011 (negative by 223.9 million euros at December 31, 2010 and by 80.4 million euros at June 30, 2011).

The steady reduction in indebtedness since the beginning of the year was achieved in part by optimizing the management of payment-term extensions, primarily with suppliers of raw materials. The improvement in the third quarter of 2011 reflects the effect of measuring instruments hedging commodity contracts at their fair value at the end of the period, given the sharp decline in commodity prices in the closing days of September. The resulting positive effect amounted to about 125 million euros.

The liquidity level varies, reflecting temporary end-of-period surpluses of liquid assets in the Group's regular operating activity.

A breakdown of **consolidated net financial debt(\*)** is provided below:

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(\*) This financial structure indicator is equal to gross indebtedness less cash and cash equivalents and loans receivable. Information about the components of "non-current financial assets" is provided in Note 2.

## Net financial debt

|   | 9/30/11          | 12/31/10         |
|---|------------------|------------------|
| (in thousands of euros)                                 | (reclassified)   | (reclassified)   |
| Short-term financial payables                           | 93,754           | 125,157          |
| Medium to long-term financial payables                  | 260,077          | 316,875          |
| Financial payables due to subsidiaries                  | 2,282            | 2,230            |
| <b>(A) Total borrowings</b>                             | <b>356,113</b>   | <b>444,262</b>   |
| Cash and cash equivalents                               | (58,851)         | (39,751)         |
| Other financial assets                                  | -                | (14,358)         |
| Short-term financial receivables                        | (82,151)         | (87,761)         |
| Financial receivables due from Group companies          | (11,295)         | (4,597)          |
| <b>(B) Total cash and current financial assets</b>      | <b>(152,297)</b> | <b>(146,467)</b> |
| Fair value of LME and metal forward contracts           | (87,550)         | 39,870           |
| Fair value of other financial instruments               | (13,567)         | 1,878            |
| <b>(C) Financial instruments measured at fair value</b> | <b>(101,117)</b> | <b>41,748</b>    |
| <b>Consolidated net financial position (A)+(B)+(C)</b>  | <b>(1)</b>       | <b>102,699</b>   |
| <b>Non-current financial assets</b>                     | <b>(2)</b>       | <b>(117,247)</b> |
| <b>Total net debt</b>                                   | <b>(14,548)</b>  | <b>223,857</b>   |

(1) As defined in Consob Communication DEM/6064293 issued on July 28, 2006 to implement the CESR Recommendations of February 10, 2005.

(2) These receivables include 112.7 million euros in escrow deposits established in connection with two fines levied in 2003 and 2004 by the European Community on the Group's industrial companies for alleged antitrust violations. Obviously, these penalties will result in actual cash outflows only when the entire process in the venues where the Company filed its appeals has been completed and only for the confirmed amount.

As stated in the "Report on the Group's Operations at June 30, 2011," approved by the Board of Directors on August 4, 2011, at the end of June 2011 the Group showed a "Consolidated net financial position" (defined in accordance with the CESR Recommendation of February 10, 2005) of 196.6 million euros and a "Total net debt" of 80.4 million euros, after deducting "Non-current financial assets" of 116.2 million euros, which consisted almost exclusively of escrow deposits established in connection with two fines levied by the European Community, which the Company is challenging in the appropriate venues.

This amount of 80.4 million euros is the "Total net debt" referred to in the press release issued by the Company on October 25, 2011.

A breakdown of reclassified **net invested capital**(\*) is as follows:

| (in millions of euros)                     | At September 30,<br>2011 | At December 31,<br>2010 |
|--|--------------------------|-------------------------|
| Capital invested in net non-current assets | 821.5                    | 797.2                   |
| Net working capital                        | 67.2                     | 203.3                   |
| Provisions                                 | (418.7)                  | (406.0)                 |
| Discontinued operations                    | ---                      | 86.4                    |
| <b>Net invested capital</b>                | <b>470.0</b>             | <b>680.9</b>            |

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 (\*) "Net invested capital" is a financial measurement not provided in the IFRSs and should not be treated as an alternative to those provided in the IFRSs. It is comprised of the following components:

- "Capital invested in net non-current assets", which is the sum of "Property, plant and equipment and intangible assets," "Investments in associates" and "Other non-current assets."
- "Net working capital," which is the sum of "Inventories" and "Trade receivables," net of "Trade payables" and "Other current assets/liabilities," but excluding the amounts already used to compute "Net financial debt."
- "Net provisions," which include "Provisions for employee benefits," "Provision for E.U. fines," "Net deferred-tax liabilities" and other "Provisions for risks and charges."

## Pending Litigation

As an update to the information provided in the Report at June 30, 2010, the Company discloses that the Court of Justice of the European Union announced that it will hand down its decision in both of the two pending proceedings, concerning, respectively, tubing for industrial and for plumbing applications, at a hearing scheduled for December 8, 2011.

## Significant Events Occurring After September 30, 2011

On October 25, 2011, the Boards of Directors of KME Group and Intek agreed to concurrently launch two voluntary public exchange offers for all outstanding shares, each of the two offers for the respective company shares, with the corresponding consideration consisting of debt securities issued by each offeror company.

- a) KME Group will launch a voluntary public exchange offer for all of its own outstanding common shares, except for the shares directly and indirectly held by Quattrodue Holding BV, its controlling shareholder, and any treasury shares held by the issuer.

Offer's consideration: 1 debt instrument issued by KME Group, with a unit face value of 0.42 euros, will be offered in exchange for each KME Group common share tendered in response to the offer. The KME Group debt securities offered in exchange, which will be listed on the MOT on the offer's settlement date, will have a duration of five years from the date of issue and will accrue interest at an 8% annual rate.

- b) Intek will launch a voluntary public exchange offer for all of its own outstanding common shares, except for the shares directly and indirectly held by Quattrodue Holding BV, its controlling shareholder, and any treasury shares held by the issuer.

Offer's consideration: 1 debt instrument issued by Intek, with a unit face value of 0.50 euros, will be offered in exchange for each Intek common share tendered in response to the offer. The Intek debt securities offered in exchange, which will be listed on the MOT on the offer's settlement date, will have a duration of five years from the date of issue and will accrue interest at an 8% annual rate.

The launching of public exchange offers by KME Group and Intek for their own common shares is not aimed at delisting the KME Group and Intek common shares from the MTA.

The public exchange offers that KME Group and Intek are planning to launch for their own shares will enable the KME Group and Intek shareholders who accept them to monetize their investment on more favorable terms than those available consistent with market trends and enjoy a remuneration that will remain constant over time. This transaction will enable the companies to buy back their own shares at a price lower than their shareholders' equity value.

The launching by KME Group and Intek of public exchange offers for their own common shares is subject to the prior adoption by their respective Shareholders' Meetings of resolutions authorizing purchases of treasury shares, as required by Article 2358 of the Italian Civil Code, for a maximum amount corresponding to the common shares subject of the public exchange offers, and the subsequent retirement of all of the treasury shares that each issuer will hold at the end of the abovementioned offers. The execution of the exchange offers is expected to be completed in the first quarter of 2012.

In addition, the Boards of Director of KME Group and Intek began an assessment of the conditions required to proceed with a merger by absorption of Intek and Quattrodedue S.p.A. (a wholly owned subsidiary of Quattrodedue Holding B.V.) into KME Group or, alternatively, of KME Group and Quattrodedue S.p.A. into Intek, to be carried out once the execution of the public exchange offers launched by KME Group and Intek for their own common shares is completed.

The Extraordinary Shareholders' Meetings of KME Group and Intek convened to adopt the resolutions required to launch the exchange offers are expected to take place sometimes in January 2012.

Additional information about the approved transaction is provided in the documents made available by the Company.

Florence, November 11, 2011

The Board of Directors

**The financial statements at September 30, 2011 are annexed to this Report.**

## ***Financial Statements of the Interim Report on Operations at September 30, 2011***

The Interim Report on Operations at September 30, 2011, which was not audited, was prepared in accordance with Article 154 *ter* of the Uniform Financial Code, enacted with Legislative Decree No. 195/2007.

The data in the consolidated statement of financial position are those at September 30, 2011 and at December 31, 2010.

Consolidated income statement data are provided for the first nine months and the third quarter of 2011. They are also compared with the data for the same periods in 2010. The presentation of the financial statements is consistent with the presentation used in the semiannual consolidated financial statements and the annual financial statements.

The Interim Report on Operations at September 30, 2011 was prepared in accordance with the valuation and measurement criteria set forth in the International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB) and adopted by the European Commission, in accordance with the procedure set forth in Article 6 of Regulation (EC) No. 1606/2002 of July 19, 2002 of the European Parliament and Council, and the legislation enacted to implement Article 9 of Legislative Decree No. 38/2005, if applicable.

The comparative income statement at September 30, 2010 was reclassified to make its data consistent with those at September 30, 2011, with the data of the Drive Group combined under the single line item “Loss from discontinued operations.”

In addition, the Cobra Group is being consolidated by the equity method starting on July 1, 2011.

Specifically, the merger of Drive Rent S.p.A. into Cobra A.T. S.p.A. became effective on July 1, 2011. As a consequence of this transaction, the results of the Drive Group for the period up to June 30, 2011 are reflected in this Report under the line item “Loss from discontinued operations” (and thus below the “Result before taxes”). The results of the Cobra Group are consolidated starting in the third quarter of 2011.

## KME Group S.p.A. - Consolidated Financial Statements

### Consolidated Statement of Financial Position

| (in thousands of euros)                                | 9/30/11          | 12/31/10         |
|--|------------------|------------------|
| Property, plant and equipment                          | 577,447          | 583,873          |
| Investment property                                    | 28,663           | 28,603           |
| Goodwill and consolidation differences                 | 114,582          | 114,582          |
| Other intangible assets                                | 3,170            | 3,490            |
| Investments in subsidiaries and associates             | 24,984           | 17,301           |
| Investments in other companies                         | 258              | 1,908            |
| Investments in equity-accounted investees              | 46,580           | 21,951           |
| Other non-current assets                               | 25,768           | 25,501           |
| Non-current financial assets                           | 117,247          | 115,686          |
| Deferred-tax assets                                    | 47,006           | 47,033           |
| <b>NON-CURRENT ASSETS</b>                              | <b>985,705</b>   | <b>959,928</b>   |
| Inventories  | 555,657          | 622,054          |
| Trade receivables                                      | 174,531          | 146,505          |
| Other receivables and current assets                   | 32,369           | 26,180           |
| Current financial assets                               | 234,353          | 140,242          |
| Cash and cash equivalents                              | 58,851           | 39,751           |
| Current assets held for sale                           | -                | 86,393           |
| <b>CURRENT ASSETS</b>                                  | <b>1,055,761</b> | <b>1,061,125</b> |
| <b>TOTAL ASSETS</b>                                    | <b>2,041,466</b> | <b>2,021,053</b> |
| Share capital  | 297,014          | 297,014          |
| Other reserves   | 186,481          | 189,572          |
| Treasury shares  | (2,680)          | (2,888)          |
| Retained earnings                                      | 72,188           | 15,191           |
| Consolidation reserves                                 | (108,527)        | (29,267)         |
| Reserve for deferred taxes                             | (265)            | 794              |
| Net profit (loss) for the period                       | 35,904           | (18,351)         |
| <b>Equity attributable to the owners of the Parent</b> | <b>480,115</b>   | <b>452,065</b>   |
| Equity attributable to non-controlling interests       | 4,366            | 4,952            |
| <b>TOTAL EQUITY</b>                                    | <b>484,481</b>   | <b>457,017</b>   |
| Employee benefits                                      | 152,101          | 152,757          |
| Deferred-tax liabilities                               | 138,035          | 138,135          |
| Financial payables and liabilities                     | 260,077          | 316,875          |
| Other non-current liabilities                          | 14,079           | 13,740           |
| Provisions for risks and charges                       | 15,215           | 137,240          |
| <b>NON-CURRENT LIABILITIES</b>                         | <b>579,507</b>   | <b>758,747</b>   |
| Financial payables and liabilities                     | 132,223          | 197,841          |
| Trade payables   | 565,334          | 410,772          |
| Other current liabilities                              | 119,601          | 103,501          |
| Provisions for risks and charges                       | 160,320          | 24,910           |
| Current liabilities held for sale                      | -                | 68,265           |
| <b>CURRENT LIABILITIES</b>                             | <b>977,478</b>   | <b>805,289</b>   |
| <b>TOTAL EQUITY AND LIABILITIES</b>                    | <b>2,041,466</b> | <b>2,021,053</b> |



## KME Group S.p.A. – Consolidated Financial Statements

### Consolidated Statement of Comprehensive Income

(in thousands of euros)

|   | 9/30/11       | 3Q 2011         | 9/30/10       | 3Q 2010        |
|---|---------------|-----------------|---------------|----------------|
| Revenue from sales and services                                   | 2,323,648     | 727,910         | 2,105,944     | 736,053        |
| Change in inventories of finished goods and semifinished products | 6,630         | 2,842           | 13,778        | 3,722          |
| Capitalized internal work   | 2,742         | 1,271           | 2,082         | 1,206          |
| Other operating income  | 13,791        | 5,010           | 15,360        | 5,198          |
| Purchases and change in inventory of raw materials                | (1,752,630)   | (581,088)       | (1,499,003)   | (531,081)      |
| Personnel expense   | (257,241)     | (80,015)        | (259,213)     | (87,830)       |
| Amortization, depreciation and impairment losses                  | (32,884)      | (10,441)        | (46,828)      | (18,600)       |
| Other operating costs   | (268,643)     | (78,265)        | (261,047)     | (111,250)      |
| <b>EBIT</b>   | <b>35,413</b> | <b>(12,776)</b> | <b>71,073</b> | <b>(2,582)</b> |
| Financial income  | 32,396        | 21,565          | 6,396         | (2,759)        |
| Financial expense   | (28,574)      | (14,670)        | (21,723)      | 1,919          |
| Share of profit of equity-accounted investees                     | (2,718)       | (2,138)         | (4,172)       | (2,352)        |
| <b>Profit (Loss) before taxes</b>                                 | <b>36,517</b> | <b>(8,019)</b>  | <b>51,574</b> | <b>(5,774)</b> |

***Declaration Provided by the Corporate Accounting Documents Officer  
Pursuant to Article 154 bis, Section 2, of Legislative Decree No.  
58/1998 (Uniform Financial Code)***

Marco Miniati, the Company's Corporate Accounting Documents Officer, acting pursuant to Article 154 *bis*, Section 2, of the Uniform Financial Code (Legislative Decree No. 58/1998), declares that the accounting information contained in this Report on Operations at September 30, 2011 is consistent with the data in the supporting documents and in the Company's books of accounts and accounting records.

Florence, November 10, 2011

*(signed: Marco Miniati)*

Corporate Accounting Documents Officer