KME

2011 Half Year report

Directors' report at 30 June 2011

Financial statements as at and for the six months ended 30 June 2011

Contents

Administration and Control Bodies

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, Cha

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.

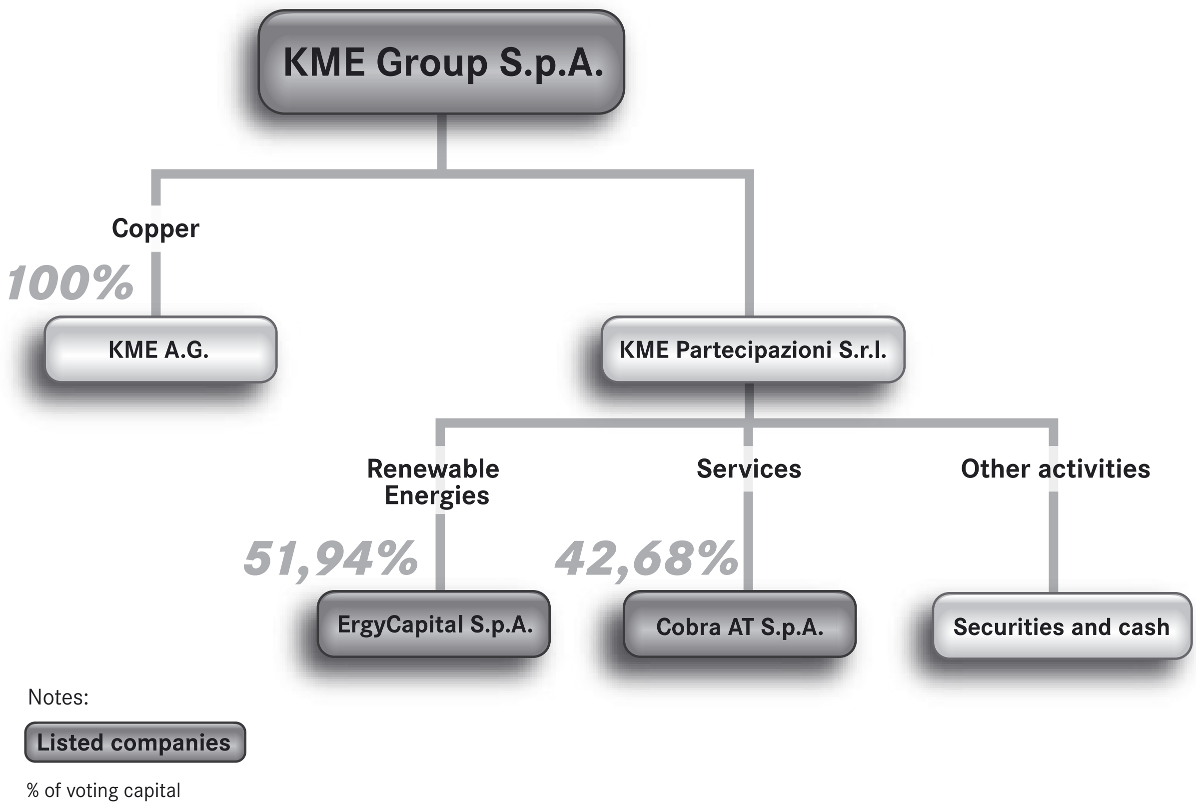
General representative of savings shareholders

Romano Bellezza

Directors’ report on the first half of 2011

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 385 million, while its investment in the “renewable energy” sector is of Euro 32 million and its investment in the services sector is of Euro 30 million.
The results of ErgyCapital S.p.A. for the period are included in the consolidated financial statements of KME Group S.p.A. using the equity method while those of Drive Rent S.p.A. (a company merged into Cobra A.T. S.p.A. effective from 1 July 2011) are included in the interim consolidated financial statements under the “discontinued operations” item following the approval of the merger project on 15 March 2011. Therefore, the accounting data for the period which is consolidated in its entirety refers to the Group’s core business companies and therefore to the copper and copper-alloy semi-finished products, in addition to the Parent KME Group S.p.A.
For additional information please see the individual paragraphs in this Report.

Summary of the Group’s corporate structure



In the first half of 2011, growth rates slowed down throughout world economies due to the strong contraction of activity in Japan as a result of the effects of the earthquake and slower growth in the United States. In the emerging countries, economies continued to expand though the restrictive measures taken by the monetary authorities could cause a slowdown in the future.

In Europe, the major area in which the Group is present, the economy is growing at differing rates. In Germany it is at a higher level due to the recovery of construction investments which had contracted in previous months due to adverse weather conditions and the good level of spending in plant and equipment; it remains weak in France and Italy and negative in Spain.

The outlook is burdened with fears tied to the ongoing uncertainty regarding the evolution of sovereign debt in different countries, which affects financial markets and the effects of which run the risk of spreading to the real economy setting, in motion a negative spiral that would quickly impact the sustainability of growth.

In a macroeconomic environment in which recovery continues to be fragile and characterised by widespread uncertainty, 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, are focused mostly towards productive and distribution activities with a view to diversifying the business and optimising costs at all levels. These measures are accompanied by an organisational structure designed along operational models that are flexible, efficient and rapid insofar as change management and which promote innovation with maximum focus on the customer and the market.
The continuous improvement of the operating performance of the corporate processes, conducted through the OPEX (operational excellence) approach, which is based on team work, problem solving ability and the research for innovation, aims to empower human resources, reduce areas of inefficiency, optimise the management of working capital and satisfy the customer, while paying maximum attention to safety in the workplace.
On the commercial front, a series of actions is underway aimed at strengthening the basis of the business diversification, promoting innovative solutions, proposing new uses for products, reinforcing distribution on reference markets, whether traditional or emerging, with interesting development prospects. The initiatives are accompanied by a communication strategy that has used the main media in major European countries, achieving excellent results in terms of brand awareness.

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

In the second half of 2010 ErgyCapital S.p.A. began a redefinition of the Group mission and a streamlining of the Group through the closure of operating offices, a reduced workforce and the consequent reduction of operating costs; these actions began to show their economic effects in the first half of 2011.
As for the business strategy, in consideration of the significant uncertainty created in the photovoltaic sector following the issue of a new law regarding incentives in this area, 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 new strategic lines aimed to 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.

On 1 July 2011 Drive Rent S.p.A. approved an important corporate/industrial reorganisation which involves the merger of Drive Rent S.p.A. into COBRA Automotive Technologies S.p.A, a company which is based in Varese and is the holding company of a group listed on the Italian Stock Exchange; it is a leader in car theft protection systems and vehicle safety through the use of IT and satellite technology.
42.7% of the new company is under KME Group S.p.A. and with this transaction it has set the foundations for an expansion of the service activity in the motor vehicle management field, enhancing value by combining the services, products and know-how of the two groups that gave rise to this business combination.

* * *

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

The **Consolidated Revenue** for the first half of 2011 amounted to a total of Euro 1,595.7 million, up by 16.5% compared to the same period in 2010, when it was Euro 1,369.9 million.
The higher raw material prices affected this increase. Net of the latter, revenue increased from Euro 375.1 million to Euro 421.4 million, a 12.3% increase; a comparison with the growth in the sales volumes, which reached 0.9%, shows the effect of the price recovery in addition to the effect of a production mix with increased added value.

EBITDA (*) at 30 June 2011 stood at Euro 50.7 million; in 2010 it was Euro 42.9 million. The increase was therefore 18.2%.
The improvement is also clear in relative terms; EBITDA as a percentage of net revenue rose from 11.4% in the first half of 2010 to 12.0% in the first half of 2011.

Profit before non-recurring items (*) was Euro 23.0 million (Euro 5.0 million as at 30 June 2010). We note that at the end of 2010, the residual life of the plant and equipment was assessed with the assistance of independent consultants and this resulted in lower depreciation by approximately Euro 5.5 million in the half year under review.

Euro 20 million of the **Net non-recurring expense** of Euro 6.4 million as at 30 June 2011, refers to additional reorganisation and rationalisation measures which involve the industrial units of the copper sector and Euro 5.7 million refers to further costs of a different nature which were partially offset by the positive economic effects of the reduction in the base-stock component of inventories.

Gross profit after non-recurring items (non-IFRS inventory measurement) amounted to Euro 16.6 million (Euro 7.6 million as at 30 June 2010).

The effect of the measurement of inventories and raw materials forward contracts at current prices (*), pursuant to IFRS, has dropped, net of the related tax effect, to Euro 18.5 million (Euro 41.4 million as at 30 June 2010) due to the different price of the raw material (copper) in the two reference periods.

Consolidated profit, net of taxes, amounted to Euro 25.0 million (Euro 38.0 million as at 30 June 2010).
This is net of the losses incurred by the investees consolidated using the equity method: Euro 0.6 million refers to the loss incurred by ErgyCapital S.p.A and the losses from discontinued operations, Euro 0.6 million refers to the loss incurred by Drive Rent S.p.A.

Financially, **net debt** as at 30 June 2011 was Euro 80.4 million (Euro 223.9 million at the end of December 2010). This reduction is largely due to the further optimisation of the credit terms, mainly insofar as suppliers are concerned.

The consolidated **equity** as at 30 June 2011 was equal to Euro 469.7 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

The demand for **copper and copper-alloy semi-finished products for the construction industry** (the consolidated revenue for this sector is approximately 1/3 of the total) 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.

The demand from the renovations area, where KME Group products are predominantly used, has been more stable compared to the demand for use in new constructions, an area heavily hit by the recession of 2009 and for which some signs of recovery have only been seen in Germany since the beginning of the year while France and Great Britain remained stable and Spain and Italy are negative.

In order to address this scenario, KME Group continues to promote integrated and innovative solutions through KME Architectural Solutions. The recent joint venture concluded with ZAHNER Architectural Metals (of Kansas City, USA) follows along these lines, as it was established in order to support architects and artists with original and advanced solutions insofar as metal coatings for buildings, while the KME Design line presented at the recent furniture fair of Milan (*Salone del Mobile*) aims to offer architects and interior designers, new generation surfaces with which to create coverings and objects in copper or copper alloys in all its variations for applications with aesthetic appeal.

The sales of **brass rods** for plumbing and heating systems went well; we note the development of new alloys able to comply with the strict international standards regarding lead content in materials that come into contact with drinking water.

The demand for **industrial semi-finished products** (the consolidated revenue for this sector is approximately 2/3 of the total) confirms the recovery in previous quarters, mainly insofar as products for the manufacturing industry (motor vehicles, mechanics, and electronics) in the German market.
Sales of **tubes for industrial applications** were stable while orders for **special products** are improving, particularly for ingot moulds and copper rods.

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).

Once again for this period under review, the **outlook** is expected to improve further compared to the previous year, unless recent events cause a reversal in the economic trend.

In the first half of 2011 the **investments** of the segment's production units totalled Euro 15.7 million (Euro 12.5 million in 2010).

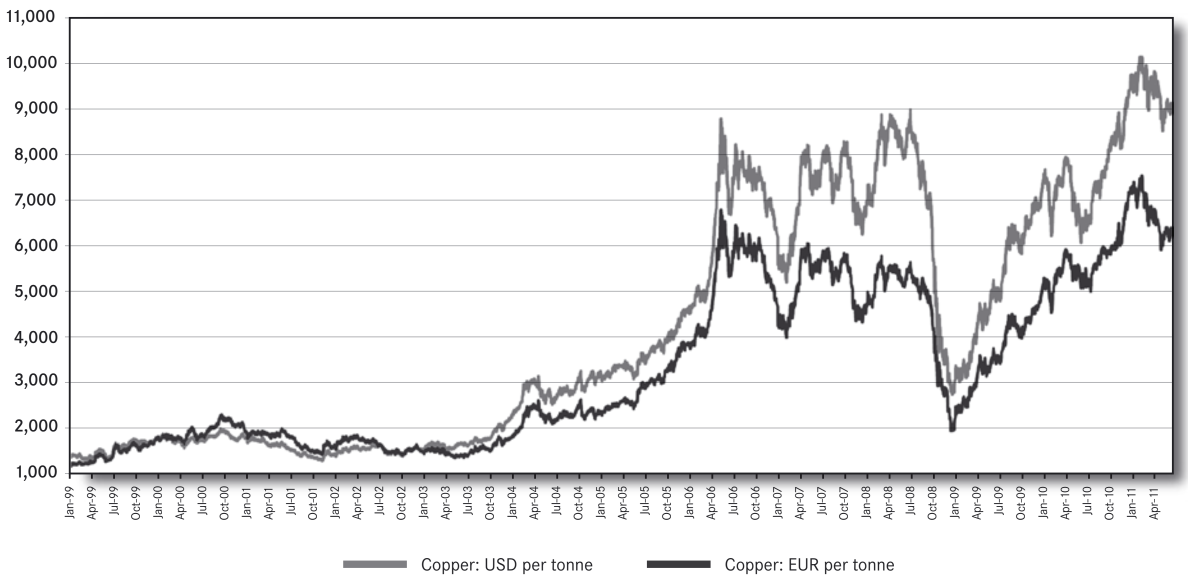
The segment's **workforce** at 30 June 2011 numbered 6,386 (6,471 at the end of 2010).

With regard to the **scrap metal trading** project which was launched in 2009 in order to diversify upstream activities compared to the traditional production of semi-finished products and in order to create a European network of companies operating in the recovery, treatment and trading of scrap metal, it was decided to acquire all shares of the Italian company Metalbuyer S.p.A. in order to reorganise its presence on the market and accelerate the research for synergies with other investees.
As for the equity investment in the French company Valika S.a.s. which was increased to 30% in 2010 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.

In the first half of the year under way, the **price of copper (raw material)**, which is the metal most used in the production of the Group's semi-finished products, has increased compared to the same period in the previous year by 31.8% in US$ (from US$ 7,130/tonne to US$ 9,400/tonne) and by 24.9% in Euro (from Euro 5,374/tonne to Euro 6,713/tonne) due to the appreciation of the European currency in this timeframe.

The average prices of copper in the second quarter of 2011 have dropped compared to the first quarter, by 5.6% in US$ (from US$ 9,681/tonne to US$ 9,137/tonne) and by 9.9% in Euro (from Euro 7,053/tonne to Euro 6,356/tonne).
In July 2011, the average price of copper was US$9,619 or Euro 6,745.

Copper - LME settlement prices



Renewable energy sector

In the first half of 2011, the ErgyCapital Group recognised revenue of Euro 8.9 million, in line with the first half of 2010.

The consolidated **EBITDA**, which was a positive Euro 2.8 million, has improved compared to the same period in the previous year (a positive Euro 0.3 million), due to three main factors:

- the finalisation of 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, 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 revenue connected to the production of electricity (+ 55%) as a result of the higher number of photovoltaic plants in operation, in addition to the good performance of the plants themselves;
- the growth of the geothermal operating sector, the revenue of which increased by approximately 9% compared to the same period of the previous year.

The **results for the period** show a consolidated loss of Euro 1.2 million (compared to a loss of Euro 3.9 million in the first half of 2010).
We note that the second quarter shows a significant improvement in profitability: EBITDA is a positive Euro 2.7 million (compared to a result for the second quarter of 2010 of Euro 0.8 million and of the first quarter of 2011 of Euro 0.1 million) and the profit for the quarter is also positive.

The net financial position changed from Euro 65.5 million as at 31 December 2010 to Euro 77.0 million. This change is mostly attributable to the following: Euro 1.9 million to the increase in financial liabilities connected to the loans received for the investments in the photovoltaic sector, net of the repayments made, and the biogas sector (Euro 3.9 million), net of the change in the fair value of the derivative contracts used for hedging interest rates (Euro 0.5 million), and Euro 4.2 million to the decrease in cash and cash equivalents.

In regard to **outlook**, in the second half of 2011 a significant improvement is expected in the economic results compared to the corresponding period of the previous year resulting from the performance of the plants in operation and control of overheads following the corporate restructuring work which has already been completed.

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 half year are shown in the Consolidated Financial Statements under the item "Share of profit/(loss) of equity-accounted investees."

Services sector

The following businesses are carried out by Drive Rent S.p.A., which is 90% owned by the KME Group and the Drive Group holding company: long-term vehicle leasing, third-party vehicle management, leasing of replacement vehicles to repair companies and the management of corporate housing.

During the first half of 2011, the long-term vehicle leasing business continued to fall, in line with the forecast of its termination by the end of the year.

The management of third party vehicles continues to be affected by the crisis in the automotive sector and in Italy signs of recovery have not yet been felt; the situation remains extremely critical in Spain and there are signs of a further drop in volumes, despite the fact that the drops were already significant in previous years.
The decrease in the volumes of activity of the Drive Group is less steep than the overall drop in the market, thanks to the contracts acquired in recent months.
The contribution margins have improved compared to last year due to the termination of certain contracts with corporate clients with low or no profitability. Particularly significant was the termination by the subsidiary Drive Service of a significant agreement relating to the management of several thousand special vehicles on behalf of a car manufacturer. This termination was concluded in the month of June and compensation was paid for certain irregular costs incurred in 2010, as estimated upon closure of the financial statements for last year in which a special provision had been made.

The management of the replacement vehicles for repair and body shops, which includes long-term leasing of vehicles to certain of them, was lower than expected due to the continuing difficulties in the automobile repair sector. On the other hand the profitability has improved on account of the different mix of services sold, which is moving more towards the provision of services for vehicle management, while the weight of long-term leasing of replacement cars to the network is dropping.
We reiterate that this activity, which is carried out under the Autonostop brand, was transferred at the end of 2010 by Drive Service to the newco Autonostop S.r.l., which is 100% owned by Drive Service. This transaction is part of the allocation plan for activities according to criteria of similarity and streamlining, concentrating commercial and operating resources on specific and customised objectives for individual services/markets.
Housing, or the management of corporate housing, has been stable insofar as the number of apartments managed. The acquisition of two contracts with a major Italian industrial group promises prospects of growth within the next few months.

The subsidiary Easydriver Car Services Espana S.L.U. recognised a positive performance in the period and which exceeded expectations, despite the continuing crisis in the Spanish market. The forecasts for 2011 remain affected by the general conditions of the economy in that country.

The revenue and profitability of the associate Elogistique S.r.l. (30% owned) which manages a parking lot in the centre of Milan, are in line with the forecasts.

In the first half of 2011, the consolidated **revenue** of the Drive Group was Euro 23.5 million (Euro 29.8 million in the corresponding period of 2010). The drop in sales is mainly attributable to the termination at the end of 2010 of a contract with a major industrial group, which however did not reduce average profitability. In fact, despite the drop in revenue, the **EBITDA** of Euro 2.8 million is essentially in line with the figure for the first half of 2010 (Euro 2.6 million) and there was a **net loss** for the period of Euro 0.6 million, compared to a net loss in the first half of 2010 of Euro 0.8 million.

LAs at 30 June 2011 the financial position showed a consolidated net debt of Euro 13.2 million (Euro 17.5 million at the end of 2010).

Insofar as **investments** are concerned, implementation of the SID (Drive Information System), the proprietary management platform supporting the corporate products and services, continued in 2011 and the platform was already operative in almost all its components. This is resulting in improved productivity, thanks also to the integration with the accounting and document systems.

The **employees** of the Drive Group as at 30 June 2011 numbered 249 (251 as at 31 December 2010).

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

As mentioned in the introduction, the results of the Drive Group for the half year are shown in the interim consolidated financial statements at 30 June 2011 under the item "discontinued operations," following the merger project with Cobra S.p.A.

* * *

Impairment testing

For the purposes of preparing the interim financial statements as at 30 June 2011, and in particular in order to carry out impairment tests on goodwill, as required by the International Financial Reporting Standards, the updated data from the Companies concerned was used.

For the copper and copper-alloy semi-finished products sector the Plan approved by the Board of Directors in their meeting of 5 August 2010 was used as a reference. The Directors compared the Plan data with the performance of 2010 and the first half of 2011 and found it to be in line with the projections and the performances projected for all of 2011, the assumptions and records for which were in line with the statement made in the section on "outlook"; for the subsequent years up to 2015 the assumptions and Plan data were updated based on recent events.

With regard to the companies ErgyCapital S.p.A. and Drive Rent S.p.A. no reasons emerged that would require review of the measurements recognised in the financial statements of KME Group S.p.A. as at and for the year ended 31 December 2010.

The Directors also considered the fact that the Company's market capitalisation expressed in the stock exchange was significantly lower than the carrying amount of the equity, confirming what was reported in the financial statements as at and for the year ended 31 December 2010 in terms of strong instability of the financial markets, unsatisfactory coverage of analysts and trading volumes affected by the low liquidity of the securities; all these factors has severely penalised stock market prices so that they no longer necessarily reflect the economic value of the Company.

For additional information on the parameters and procedures used for impairment testing, please refer to the notes to the condensed interim consolidated financial statements included in this Report.

Group performance

As for the following comments on the operating results, some equity and income information derived from the Group's management systems and based on accounting principles different from IFRS, mainly in terms of measurement and presentation, been used; certain reclassifications/adjustments relating to the measurement of the year-end inventories consist of information that cannot be defined as financial in the sense of the audit standard 001 issued by the Italian Accounting profession. The following are the major components:

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. Metals that will be sold, on the other hand, are measured at their contractual selling prices, which are deemed to be their realisable value. Under IFRS, on the other hand, inventories are required to be measured at the lower of purchase cost on a FIFO basis and net realisable value. IFRS also require forward sales and purchase contracts as well as hedging contracts traded on the LME to be separately identified and reported in the financial statements at their fair values, as if they were financial instruments.*

   By not permitting the LIFO measurement of year-end inventories that is used internally for management 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 the first half of 2011.

(millions of Euros)	1st half 2011 IFRS		reclassifications	adjustments	1st half 2011 RICL	
Gross revenue	1,595.7	**100.0%**			1,595.7	
Raw material cost	-		(1,174.3)		(1,174.3)	
Revenue net of raw material costs	**-**				**421.4**	**100%**
Personnel expense	(177.2)		4.2		(173.0)	
Other consumables and costs	(1,347.9)		1,178.6	(28.5)	(197.7)	
Gross Operating profit EBITDA (*)	70.6	**4.4%**			50.7	**12.0%**
Amortisation and depreciation	(22.4)		-		(22.4)	
Operating profit (EBIT)	**48.2**	**3.0%**			**28.2**	**6.7%**
Net financial expense	(3.1)		(2.1)		(5.2)	
Profit before non-recurring items	**45.1**	**2.8%**			**23.0**	**5.5%**
Non-recurring income /(expense)	-		(6.4)		(6.4)	
Impact IFRS measured inventories and forward contracts	-			28.5	28.5	
Taxes under IFRS measured inventories and forward contracts	-			(10.0)	(10.0)	
Current taxes	(4.9)		-		(4.9)	
Deferred taxes	(14.1)			10.0	(4.1)	
Profit for the period (IFRS inventory measurement)	**26.1**	**1.6%**			**26.1**	**6.2%**
Share of loss of equity-accounted investees	(0.6)				(0.6)	
Loss from discontinued operations	(0.6)				(0.6)	
Consolidated profit / (loss)	**25.0**	**1.6%**			**25.0**	**5.9%**
Loss attributable to non-controlling interests	(0.4)				(0.4)	
Profit attributable to owners of the Parent	**25.4**	**1.59%**			**25.4**	**6.03%**

The above reclassified performance indicators are useful for the analysis of the Group's economic performance because they are considered more representative of actual economic and financial performance.

The table below summarises the consolidated results of the KME Group in the first half of 2011, compared with the results for the corresponding period in 2010.
To ensure comparability, data relating to the Drive Group was removed and concentrated in the single item "Net profit/(loss) from discontinued operations."

KME Group - Consolidated income statement

FY 2010 RECL	(millions of Euros)	1st half 2011 RECL		1st half 2010 RECL		% change
2,718.7	Gross revenue	1,595.7		1,369.9		16.5%
(1,960.3)	Raw material cost	(1,174.3)		(994.8)		18.0%
758.4	**Revenue net of raw material costs**	**421.4**	**100%**	**375.1**	**100%**	**12.3%**
(331.7)	Personnel expense	(173.0)		(170.8)		1.3%
(347.7)	Other consumables and costs	(197.7)		(161.4)		22.5%
79.0	**Gross Operating profit EBITDA (*)**	**50.7**	**12.0%**	**42.9**	**11.4%**	**18.1%**
(44.6)	Amortisation and depreciation	(22.4)		(27.9)		-19.6%
34.4	**Operating profit (EBIT)**	**28.2**	**6.7%**	**15.0**	**4.0%**	**88.2%**
(15.4)	Net financial expense	(5.2)		(10.0)		-48.0%
19.0	**Profit before non-recurring items**	**23.0**	**5.5%**	**5.0**	**1.3%**	**360.0%**
(26.0)	Non-recurring income /(expense)	(6.4)		2.6		NMF
20.6	Impact IFRS measured inventories and forward contracts	28.5		51.6		-44.8%
(2.6)	Taxes under IFRS measured inventories and forward contracts	(10.0)		(10.2)		-2.0%
(4.2)	Current taxes	(4.9)		(7.9)		-38.0%
(12.4)	Deferred taxes	(4.1)		(0.5)		NMF
(5.6)	Profit for the period (IFRS inventory measurement)	26.1	6.2%	40.6	10.8%	-35.7%
(10.7)	Share of loss of equity-accounted investees	(0.6)		(1.8)		NMF
(1.4)	Loss from discontinued operations	(0.6)		(0.8)		NMF
(17.7)	**Consolidated profit / (loss)**	**25.0**	**5.9%**	**38.0**	**10.1%**	**-34.3%**
0.5	Loss attributable to non-controlling interests	(0.4)		0.5		
(18.2)	**Profit attributable to owners of the Parent**	**25.4**	**6.03%**	**37.5**	**10.00%**	**-32.2%**

(*) 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 the first half of 2011 amounted to a total of Euro 1,595.7 million, up by 16.5% compared to the same period in 2010, when it was Euro 1,369.9 million.
The increase was due in part to the rise in raw material prices; net of raw material costs, revenue rose from Euro 375.1 million to Euro 421.4 million, up by 12.3 %. In terms of volumes the increase was 0.9%.
The effect of the value of raw materials on total revenue was 73.6%.

EBITDA for the first half of 2011 totalled Euro 50.7 million, while in 2010 it was Euro 42.9 million. The increase was therefore 18.2%.
In relative terms, as a percentage of revenue, EBITDA rose from 11.4% to 12.0%.

EBIT stood at a positive figure of Euro 28.2 million (Euro 15 million in 2010).

mortisation/depreciation decreased by Euro 5.5 million. We reiterate that at the end of 2010, the residual life of the major plant and equipment was assessed with the assistance of independent consultants and led to identification of longer lives than had been expected and therefore a lower depreciation of approximately Euro 5 million in the half year.

Profit before non-recurring items totalled Euro 23.0 million (Euro 5.0 million in 2010).

Euro 20 million of the Net **non-recurring expense** of Euro 6.4 million as at 30 June 2011, refers to additional reorganisation and rationalisation measures which involve the industrial units of the copper sector and Euro 5.7 million refer to further costs of a different nature which were partially offset by the positive economic effects of the reduction in the base-stock component of inventories.

Profit after non-recurring items (non-IFRS inventory measurement) amounted to Euro 16.6 million (Euro 7.6 million as at 30 June 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 41.4 million in 2010 to Euro 18.5 million in 2011 due to the difference in raw material prices in the two reference periods.

The **Share of loss of equity-accounted investees** amounted to Euro 0.6 million (negative by Euro 1.8 million in 2010) and relates to the result referring to the investee ErgyCapital S.p.A. The **loss from discontinued operations** amounted to Euro 0.6 million and relates to the subsidiary Drive Rent S.p.A.

The **consolidated profit**, net of the taxes, amounted to Euro 25.0 million (profit of Euro 38.0 million in 2010); net of non-controlling interests this is equal to Euro 25.4 million (Euro 37.5 million in 2010).

Group financial position

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

(Euro / millions)	At 30 June 2011	At 31 December 2010
Share capital	297.0	297.0
Reserves	147.2	173.3
Profit /(loss) for the period/year	25.4	(18.3
Equity attributable to non-controlling interests	4.3	5.0
Total Equity	**473.9**	**457.0**

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

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

Group **Net Debt (*)** at 30 June 2011 stood at Euro 80.4 million (Euro 223.9 million at the end of 2010).
This further reduction in debt was achieved by means of measures to limit financing needs for working capital, in particular by optimising credit terms with customers and, above all, with raw material suppliers.
The level of “Liquidity” varies in relation to the temporary cash surpluses in the Group’s ordinary operations.
Debt was held at a level lower than working capital, providing evidence of the Group’s sound financial structure and the lack of structural indebtedness.

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

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

Net debt		30.06.2011	31.12.2010
(Thousands of Euros)		**(RECL)**	**(RECL)**
Short-term financial payables		120,490	125,157
Medium to long-term financial payables		330,450	316,875
Financial payables due to Group companies		2,246	2,230
(A) Total loans and borrowings		**453,186**	**444,262**
Cash and cash equivalents		(84,212)	(39,751)
Other financial assets		-	(14,358)
Short-term financial receivables		(144,180)	(87,761)
Financial receivables due from Group companies (8,079) (4,597)			
(B) Total cash and cash equivalents and current financial assets		**(236,471)**	**(146,467)**
fair value of LME and metals forward contracts		(20,547)	39,870
fair value of other financial instruments		452	1,878
(C) Financial instruments measured at fair value		**(20,095)**	**41,748**
Consolidated net financial position (A)+(B)+(C)	**(1)**	**196,620**	**339,543**
Non-current financial assets	**(2)**	**(116,175)**	**(115,686)**
Total net debt		**80,445**	**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 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. The definitive payment and related outflow of cash will obviously only be made on conclusion of the entire hearing of the appeal pending before the EU judicial authorities and only for the amount ordered to be paid.

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

(Euro / millions)	At 30 June 2011	At 31 December 2010
Net non-current assets	792.2	797.2
Net working capital	122.9	203.3
Provisions	(433.8)	(406.0)
Discontinued operations	73	86.4
Net invested capital	**554.3**	**680.9**

(*) "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".*

Pending litigation

As an update to the Directors' Report as at 31 December 2010, we hereby provide information regarding the progress of litigation involving the Company:

- After the recent ruling on the litigation that was pending before the Court of Hanover regarding the 2001 merger that involved the Group's German companies, the litigation referring to the subsequent squeeze out is currently in its final phase.

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

- PAs for the appeal pending before the European Court of Justice regarding industrial tubes, on 6 October 2010 the hearing was held and on 10 February 2011 the Attorney General's opinion was deposited and the view was expressed that the appeal should be rejected. The European Court of Justice must assess the arguments put forward by the companies concerned in the KME Group, by the Commission and by the Advocate

General for the purposes of issuing its sentence.
Conversely, in regard to the appeal relating to the sewerage piping, on 12 May 2011 the hearing was held without the presence of the Attorney General.

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

Subsequent events

There were no significant events to indicate other than what was presented above.

Florence, 4 August 2011

The Board of Directors

Investor information

KME Group S.p.A. has been listed on the stock Exchange since 1897.

In the first half of 2011, the KME Group shares underwent the following changes:

- the KME Group's ordinary share reached a maximum value of Euro 0.381 in February and a minimum value of Euro 0.325 in June;
- the KME Group's savings share reached a maximum value of Euro 0.720 in March and a minimum value of Euro 0.577 in January;
- the KME Group's 2006-2011 warrant reached a maximum value of Euro 0.021 in February and a minimum value of Euro 0.005 in June;
- the KME Group's 2009-2011 warrant reached a maximum value of Euro 0.017 in February and a minimum value of Euro 0.005 in June.

(in Euro – at the end of June 2011)	
No. of ordinary shares	447,278,603
No. of savings shares	43,699,416
Share capital	297,013,585.26
No, of outstanding 2006-2011 warrants - KME Group	67,876,124
No, of outstanding 2009-2011 warrants - KME Group	73,330,660

Listed price (at the end of June 2011)	
KME Group ordinary shares	0.335
KME Group savings shares	0.623
KME Group 2006-2011 warrant	0.005
KME Group 2009-2011 warrant	0.007

(Amounts in Euro – capitalisation at the end of June 2011)	
Capitalisation of ordinary shares	149,838,332
Capitalisation of savings shares	27,224,736
Capitalisation	**177,063,068**

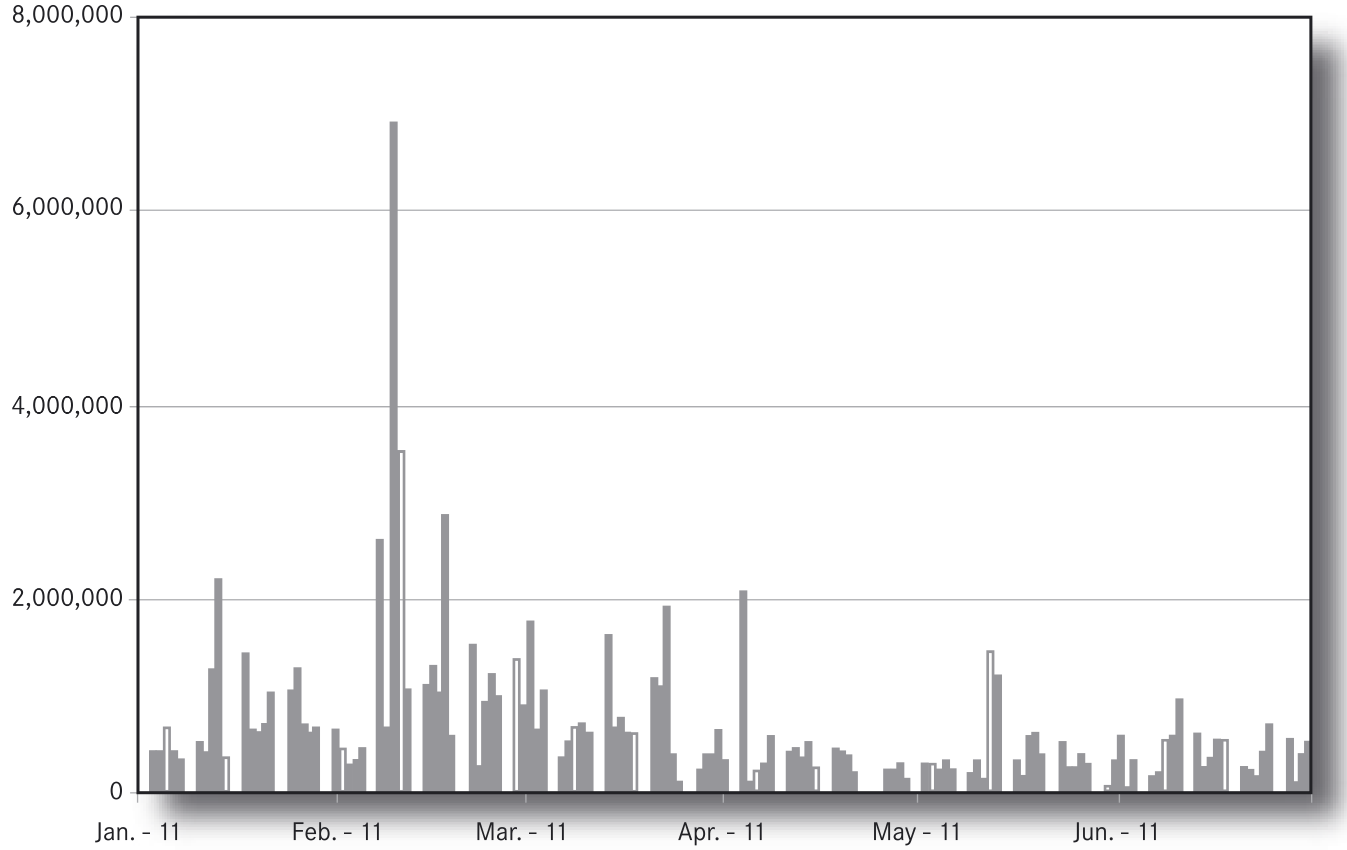
Shareholders	
Number of ordinary shareholders	12,721
Main ordinary shareholders (1)	
Quattroduedue B.V. (2)	41.33%
Baggi Sisini Francesco (3)	3.30%
Dimensional Fund Advisors L.P.	2.00%

(1) – No other shareholder notified they hold an investment representing more than 2% of ordinary shares.
(2) – Indirectly owned through subsidiaries Quattroduedue S.p.A. (29.66%) and Intek S.p.A. (11.67%).
(3) – As a subject indirectly controlling Arbus S.r.l., KME's direct shareholder.

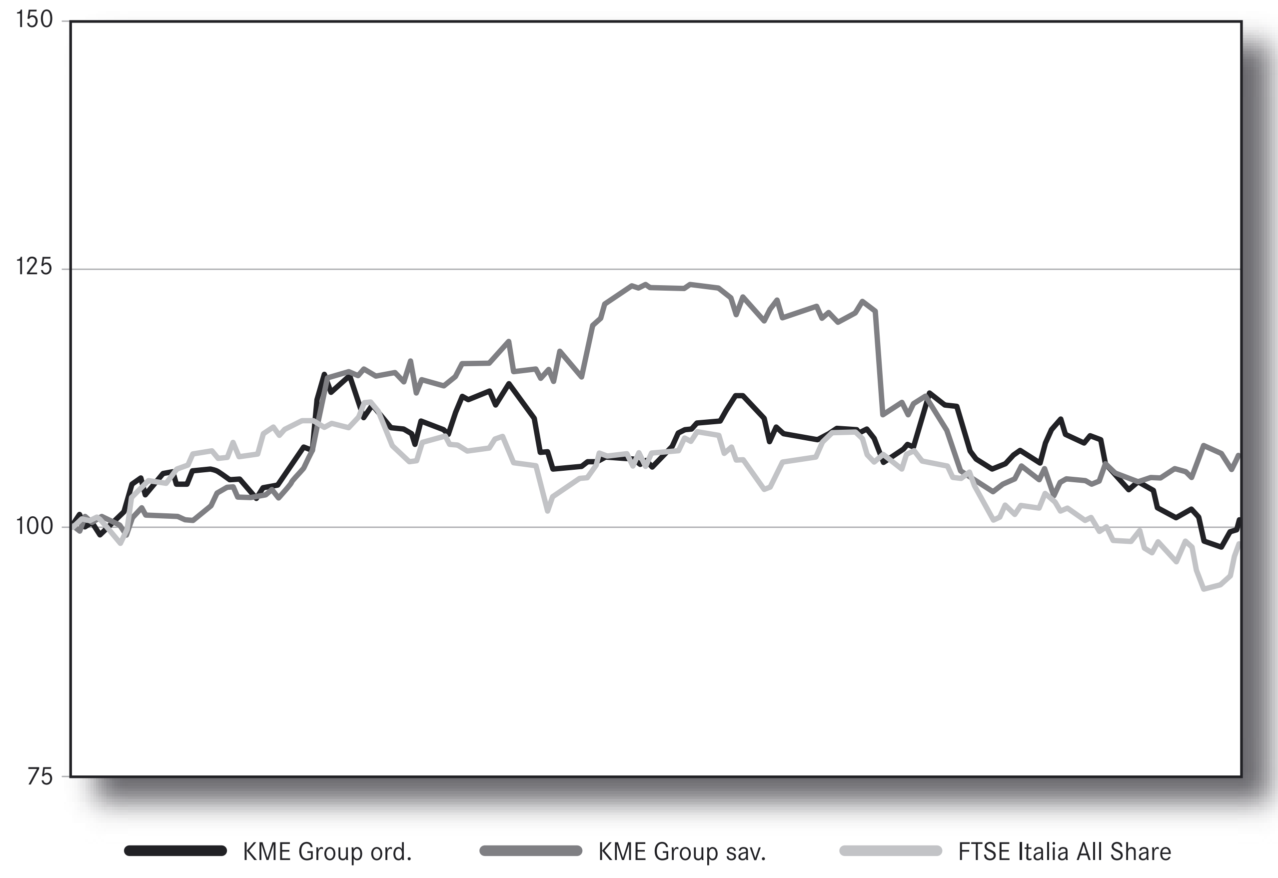
Dividend per share (amounts in Euro)	**2009**	**2010**
Dividend per ordinary share	-	0.011
Dividend per savings share	0.07241	0.07241

Stock Exchange prices (in Euro)	**End 2010**	**June 2011**	**Change**
KME Group ord. shares	0.334	0.335	0.3%
KME Group sav. shares	0.581	0.623	7.2%
KME Group 2006-2011 warrant	0.018	0.005	-72.2%
KME Group 2009-2011 warrant	0.014	0.007	-50.0%
FTSE Italia All Share	20,936	20,913	-0.1%

KME Group ordinary shares - trading volume (1st half 2011)



Prices (1st half 2011)



Condensed interim consolidated financial statements as at and for the six months ended 30 June 2011

Consolidated statement of financial position

(Thousands of Euros)	*ref. notes*	30.06.2011	*of which related parties*	31.12.2010	*of which related parties*
Property, plant and equipment	*4.1*	575,811		583,873	
Investment property	*4.2*	28,631		28,603	
Goodwill and consolidation differences	*4.3*	114,582		114,582	
Other intangible assets	*4.4*	3,235		3,490	
Investments in subsidiaries and associates	*4.5*	23,468	*23,468*	17,301	*17,301*
Investments in other companies	*4.5*	258	*258*	1,908	*1,908*
Investments in equity-accounted investees	*4.5*	20,253	*20,253*	21,951	*21,951*
Other non-current assets	*4.6*	25,897		25,501	
Non-current financial assets	*4.7*	116,175		115,686	
Deferred tax assets	*4.20*	29,770		47,033	
NON-CURRENT ASSETS		**938,080**		**959,928**	
Inventories	*4.8*	640,701		622,054	
Trade receivables	*4.9*	146,229	*8,427*	146,505	*10,462*
Other current receivables and assets	*4.10*	34,895	*407*	26,180	
Current financial assets	*4.11*	186,337	*8,079*	140,242	*4,597*
Cash and cash equivalents	*4.12*	84,212		39,751	
Current assets held for sale	*4.23*	72,961	*72,961*	86,393	*86,393*
CURRENT ASSETS		**1,165,335**		**1,061,125**	
TOTAL ASSETS		**2,103,415**		**2,021,053**	
Share capital		297,014		297,014	
Other reserves		186,221		189,572	
Treasury shares	*2.11*	(2,680)		(2,888)	
Retained earnings		72,188		15,191	
Technical consolidation reserves	*4.13*	(109,742)		(29,267)	
Other components of comprehensive income	*4.13*	1,258		794	
Profit /(loss) for the period/year		25,395		(18,351)	
Equity attributable to owners of the Parent	***2.11***	**469,654**		**452,065**	
Equity attributable to non-controlling interests		4,301		4,952	
TOTAL EQUITY	***2.11***	**473,955**		**457,017**	
Employee benefits	*4.14*	151,713		152,757	
Deferred tax liabilities	*4.20*	135,171		138,135	
Financial payables and liabilities	*4.15*	330,450		316,875	
Other non-current liabilities	*4.16*	13,426	*1,995*	13,740	*1,797*
Provisions for risks and charges	*4.17*	143,622		137,240	
NON-CURRENT LIABILITIES		**774,382**		**758,747**	
Financial payables and liabilities	*4.18*	132,512	*2,246*	197,841	*2,230*
Trade payables	*4.19*	506,379	*4,972*	410,772	*6,027*
Other current liabilities	*4.19*	129,467	*431*	103,501	*466*
Provisions for risks and charges	*4.17*	31,310		24,910	
Current liabilities held for sale	*4.23*	55,410	*55,410*	68,265	*68,265*
CURRENT LIABILITIES		**855,078**		**805,289**	
TOTAL EQUITY AND LIABILITIES		**2,103,415**		**2,021,053**	

Consolidated statement of comprehensive income

(Thousands of Euros)	*ref. notes*	1st half 2011	*of which related parties*	1st half 2010	*of which related parties*
Revenue from sales and services	*5.1*	1,595,738	*12,092*	1,369,891	*6,228*
Change in inventories of finished goods and semi-finished products		3,788		10,056	
Capitalised internal work		1,471		876	
Other operating income	*5.2*	8,781	*23*	10,162	*331*
Purchases and change in raw materials	*5.3*	(1,171,542)	*(2,456)*	(967,922)	*(13,899)*
Personnel expenses	*5.4*	(177,226)	*(518)*	(171,383)	
Amortisation, depreciation and impairment losses	*5.5*	(22,443)		(28,228)	
Other operating costs	*5.6*	(190,378)	*(1,968)*	(149,797)	*(1,164)*
Operating profit		**48,189**		**73,655**	
Financial income	*5.7*	10,831	*379*	9,155	*284*
Financial expenses	*5.7*	(13,904)	*(42)*	(23,642)	*(18)*
Share of loss of equity-accounted investees	*5.8*	(580)	*(580)*	(1,820)	
Profit before taxes		**44,536**		**57,348**	
Current taxes	*5.9*	(4,898)		(7,857)	
Deferred taxes	*5.9*	(14,116)		(10,731)	
Total income taxes		(19,014)		(18,588)	
Profit from continuing operations		25,522		38,760	
Loss from discontinuing operations		(573)	*(573)*	(765)	*(765)*
Profit for the period		24,949		37,995	
Other components of total comprehensive income:					
Gains/(losses) on translating the financial statements of foreign operations		(797)		2,019	
Net change in the cash flow hedge reserve		475		(827)	
Taxes on other components of total comprehensive income		-		-	
Other components of total comprehensive income after taxes		**(322)**		**1,192**	
Total comprehensive income for the period		**24,627**		**39,187**	
Profit/(loss) for the period attributable to:					
non-controlling interets		(446)		474	
owners of the Parent		25,395		37,521	
Profit for the period		**24,949**		**37,995**	
Total comprehensive income/(loss) attributable to:					
non-controlling interets		(202)		583	
owners of the Parent		24,829		38,604	
Total comprehensive income for the period		**24,627**		**39,187**	

Earnings per share (Euro):	**1st half 2011**	**1st half 2010**
basic earnings per share excluding discontinued operations	0.0521	0.0968
diluite earnings per share excluding discontinued operations	0.0547	0.0968
basic earnings per share	0.0506	0.0945
diluite earnings per share	0.0478	0.0945

Statement of changes in consolidated equity as at 30 June 2011

(Thousands of Euros)	Share capital	Other reserves	Treasury shares	Retained earnings	Consolidation reserves	Reserve for Other components of comprehensive income	Profit/(loss) for the period	Total equity attributable to owners of the Parent	Equity attributable to noncontrolling interests	Total consolidated consolidato 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/(loss)					(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)	-							-		-
Share capital increase	-							-		-
(Purchase)/ sale of treasury shares		18	208					226		226
Deferred taxes recognised in equity						(11)		(11)		(11)
Expiry of stock option		517						517		517
Reverse demerger of iNTEK S.p.A.		-						-		-
Other changes (*)		(6,941)		6,941	(428)	-		(428)	(3)	(431)
Components of comprehensive income					(595)	475		(120)	(202)	(322)
Total losses/income recognised in equity	**-**	**-**	**-**	**-**	**(595)**	**475**	**-**	**(120)**	**(202)**	**(322)**
Profit/ (loss) for the period							25,395	25,395	(446)	24,949
Total comprehensive income	**-**	**-**	**-**	**-**	**(595)**	**475**	**25,395**	**25,275**	**(648)**	**24,627**
Equity at 30.06.2011	**297,014**	**186,221**	**(2,680)**	**72,188**	**(109,742)**	**1,258**	**25,395**	**469,654**	**4,301**	**473,955**
Reclassification of treasury shares	(2,680)		2,680					-		-
Equity at 30.06.2011	**294,334**	**186,221**	**-**	**72,188**	**(109,742)**	**1,258**	**25,395**	**469,654**	**4,301**	**473,955**

At 30 June 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 as at 30 June 2010

(Thousands of Euros)	Share capital	Other reserves	Treasury shares	Retained earnings	Consolidation reserves	Reserve for Other components of comprehensive income	Profit/(loss) for the period	Total equity attributable to owners of the Parent	Equity attributable to noncontrolling interests	Total consolidated consolidato equity
Equity at 31.12.2008	**250,009**	**172,276**	**(2,349)**	**5,910**	**98,500**	**131**	**(68,651)**	**455,826**	**2,529**	**458,355**
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)		2,833		796			(3,629)	-		-
Allocation of subsidiaries' profit/(loss)					(27,558)		27,558	-		-
Dividends and allocations to the Board of Directors		(2,651)						(2,651)		(2,651)
Issue of new shares (exercise of warrants)	13							13		13
(Purchase)/ sale of treasury shares								-		-
Deferred taxes recognised in equity						(33)		(33)		(33)
Reverse demerger of iNTEK S.p.A.	23,740	15,464						39,204		39,204
Other changes (*)					(10,792)	-		(10,792)	1,211	(9,581)
Components of comprehensive income					1,436	(827)		609	583	1,192
Total losses/income recognised in equity	**-**	**-**	**-**	**-**	**1,436**	**(827)**	**-**	**609**	**583**	**1,192**
Profit/(loss) for the period							37,521	37,521	474	37,995
Total comprehensive income	**-**	**-**	**-**	**-**	**1,436**	**(827)**	**37,521**	**38,130**	**1,057**	**39,187**
Equity at 30.06.2010	**273,768**	**189,728**	**(2,888)**	**15,191**	**(28,779)**	**(795)**	**37,521**	**483,746**	**5,196**	**488,942**
Reclassification of treasury shares	(2,888)		2,888					-		-
Equity at 30.06.2010	**270,880**	**189,728**	**-**	**15,191**	**(28,779)**	**(795)**	**37,521**	**483,746**	**5,196**	**488,942**

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

At 30 June 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 Euros)		30.06.2011	30.06.2010
(A) Cash and cash equivalents at the beginning of the period	***ref. Notes***	**39,751**	**108,964**
Profit/(loss) before taxes		44,536	57,338
Depreciation and amortisation		22,781	28,496
Impairment losses on current assets		3,795	1,897
Impairment losses /(reversals of impairment losses) on non-current assets other than financial assets		(338)	(268)
Impairment losses / (reversals of impairment losses) on current and non-current financial assets		-	367
Losses /(gains) on disposal of non-current assets		137	(446)
Change in provisions for pensions, post-employment benefits and stock options		178	(39)
Change in provisions for risks and charges		13,005	(5,864)
Decrease / (increase) in inventories		(19,870)	(46,519)
Share of profit/(loss) of equity-accounted investees		580	1,820
(Increase) /decrease in current receivables		(13,485)	(33,958)
Increase/ (decrease) in current payables		122,631	174,222
Changes from currency translation		682	(1,135)
Decrease/(increase) in LME and metals forward contracts		(60,409)	(41,779)
Paid taxes		(5,247)	(8,436)
(B) Cash flows from operating activities		**108,976**	**125,696**
(Increase) in non-current intangible assets and property, plant and equipment		(15,411)	(12,981)
Decrease in non-current intangible assets and property, plant and equipment		621	808
(Increase)/ decrease in investments		(3,339)	(22,023)
(Increase)/ decrease in available-for-sale financial assets		-	-
Increase/decrease in other non-current assets/liabilities		(316)	935
Dividends received		271	258
(C) Cash flows from investing activities		**(18,174)**	**(33,003)**
Cash increase in equity		-	13
(Purchase) /sale of treasury shares		226	-
Increase /(decrease) in current and non-current financial payables		5,399	(58,749)
(Increase)/ decrease in current and non-current financial receivables		(44,131)	(84,056)
Dividends paid and profits distributed		(7,990)	(2,651)
(D) Cash flows from financing activities		**(46,496)**	**(145,443)**
(E) Change in cash and cash equivalents (B)+(C)+(D)		**44,306**	**(52,750)**
(F) Change in scope of consolidation		**-**	**5,742**
(G) Total cash flows from/(used in) discontinued operations	***4.22***	**154**	**(1,789)**
(H) Cash and cash equivalents at the end of the period (A)+(E)+(F)+(G)		**84,211**	**60,167**

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 condensed interim consolidated financial statements as at and for the six months ended 30 June 2011 were approved by the Board of Directors on 4 August 2011 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 also indicated in the Directors’ Report, there were no significant events after 30 June 2011.

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.
As the effective date was 1 July 2011, pursuant to IFRS 5 - *Non-current Assets Held for Sale and Discontinued Operations*, the Drive Group has been qualified as a “Discontinued Operation” at the date of these condensed interim consolidated half-year financial statements and was represented as such in these financial statements; this required the following reclassifications:

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

In other words, the condensed interim consolidated financial statements of the KME Group as drafted entail the line-by-line consolidation of both the subsidiaries set to remain within the scope of the Group and the Drive Group but they are highlighted separately. A specific section in the notes, to which reference should be made, provides an analytical breakdown of the content of the items relating to “Current assets and liabilities held for sale” and of the “Net profit/(loss) from discontinued operations”.
Pursuant to IFRS 5 para. 34 the Consolidated statement of comprehensive income and Consolidated statement of cash flows for the six months ended 30 June 2010 were reclassified for comparison purposes in order to show the assets and liabilities of the Drive Group as a “Discontinued operation” on that date.

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

2. Accounting policies

2.1 Basis of presentation

The condensed interim consolidated financial statements as at and for the six months ended 30 June 2011 have been prepared pursuant to article 154ter of Italian Legislative Decree no. 58/1998.
The condensed consolidated half-year financial statements have been 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) No. 1606/2002 of the European Parliament and of the Council of 19 July 2002 and with requirements in implementation of article 9 of Italian Legislative Decree 38/2005, where applicable.
In preparing these condensed interim consolidated financial statements, the Directors have applied the concepts of accruals, going concern, clarity, significance, materiality, reliability, neutrality, prudence and comparability and applied accounting standards consistent with those used for the consolidated financial statements as at and for the year ended 31 December 2010.

From last year, the fair value on "LME and metal sales/purchase contracts" and "(Gains)/losses on LME trading", which were previously included in "Other operating costs" are now grouped and reported under "Purchases and change in raw materials". This classification improves the comparability of "Other operating costs" and "Purchases and change in raw materials" since both amounts are now reported net of raw materials price risk hedges (above all for copper). It is not permitted by IAS 39 to recognise these financial instruments as hedging instruments, even though they are acquired to manage price risks.

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 have any significant effects on the condensed interim consolidated financial statements of the Group.

3. **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 did not have any effect on the Group as of the date of these condensed interim consolidated financial statements as at and for the six months ended 30 June 2011.

4. **IFRS 7 - Financial instruments (improvement)** – disclosures: this change focuses on the interaction between disclosures of a qualitative and disclosures of a quantitative type required by the standard regarding the nature and scope of risks inherent in the financial instruments. This should help users of the financial statements to connect the information presented and establish a general description regarding the nature and scope of the risks deriving from the financial instruments. Furthermore, the requirements for disclosure of financial assets that have expired but have been renegotiated or impaired and disclosure of the fair value of the collateral have been eliminated. The improvement is applicable from 1 January 2011.

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.

7. **IFRS 1 – First-Time Adoption of the International Financial Reporting Standards (IFRS):** clarifications have been added on the disclosures required for the first-time application of IFRS and details for new users that change accounting standards or the use of exemptions allowed by IFRS 1 after having prepared interim financial statements pursuant to IAS 34 (Interim Financial Reporting) but in any case prior to publication of the IFRS-compliant financial statements for the year.

The Group has not yet applied the accounting standards which are listed below in paragraph 2.23 and which, although already issued by the IASB, become effective after the date of these condensed interim consolidated financial statements as at and for the six months ended 30 June 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 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 profit or loss, if negative. The portion of equity and profit attributable to non-controlling interests is recognised under the relevant items. After initial recognition, "goodwill" is measured at cost less accumulated impairment losses as required by IAS 36 - *Impairment of Assets*.
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.

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

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

Company name	Country	Currency	Share/quota Capital	Activity	% control direct	% control indirect
KME Group S.p.A. (*)	Italy	Euro	297,013,585	Finance	Parent	
KME A.G. (**)	Germany	Euro	142,743,879	Holding	100.00%	
KME Germany A.G. & Co. K.G.	Germany	Euro	200,003,000	Copper and copper-alloy		100.00%
KME Italy S.p.A.	Italy	Euro	103,839,000	Copper and copper-alloy		100.00%
KME France S.A.S.	France	Euro	15,000,000	Copper and copper-alloy		100.00%
KME Spain S.A.	Spain	Euro	1,943,980	Trade		100.00%
KME LOCSA S.A.	Spain	Euro	10,040,000	Copper and copper-alloy		100.00%
KME Verwaltungs und Dienst. mit beschr.	Germany	Euro	10,225,838	Copper and copper-alloy		100.00%
KME Architectural Metals GmbH	Germany	Euro	25,564	Holding		100.00%
Kabelmetal Messing Beteiligungsges mbH Berlin	Germany	Euro	4,514,200	Real estate		100.00%
KME Architectural Metals GmbH & CO KG	Germany	Euro	1,329,359	Copper and copper-alloy		100.00%
KME Cuprum S.A.	Spain	Euro	60,910	Trade		100.00%
KME Bertram GmbH	Germany	Euro	300,000	Services		100.00%
KME Ibertubos S.A.	Spain	Euro	332,100	Copper and copper-alloy		100.00%
KME Yorkshire Ltd	UK	GBP	10,014,603	Copper and copper-alloy		100.00%
Yorkshire Copper Tube	UK	GBP	3,261,000	non -operating		100.00%
Yorkshire Copper Tube (Exports) Ltd.	UK	GBP	100	non -operating		100.00%
KME Brass Germany Gmbh	Germany	Euro	50,000	Copper and copper-alloy		100.00%
KME Brass France S.A.S.	France	Euro	7,800,000	Copper and copper-alloy		100.00%
KME Moulds Mexico S.A. de C.V.	Mexico	MXN	7,462,226	Trade		100.00%
Dalian Dashan Chrystallizer Co. Ltd	China	RMB	10,000,000	Copper and copper-alloy		70.00%
Dalian Surface Machinery Ltd	China	RMB	5,500,000	Copper and copper-alloy		70.00%
Dalian Heavy Industry Machinery Co. Ltd.	China	RMB	10,000,000	Copper and copper-alloy		70.00%
KME Brass Italy S.r.l.	Italy	Euro	15,025,000	Copper and copper-alloy		100.00%
KME Service S.r.l.	Italy	Euro	115,000	Finance		100.00%
EM Moulds S.r.l.	Italy	Euro	115,000	Trade		100.00%
KME Recycle S.p.A.	Italy	Euro	2,000,000	Finance	100.00%	
Drive Rent S.p.A.	IItaly	Euro	2,500,000	Services		90.00%
Drive Service S.p.A.	Italy	Euro	1,000,000	Services		90.00%
Autonostop S.r.l.	Italy	Euro	100,000	Services		90.00%
Easydriver Car Services Espana S.L.U.	Spain	Euro	232,880	Services		90.00%
KME Partecipazioni S.r.l.	Italy	Euro	40,000,000	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		

(*) Share capital on the date of these condensed interim consolidated financial statements

At the date of these condensed interim consolidated financial statements there have been no changes to the scope of the consolidation.

On 29 April 2011, through its subsidiary KME Recycle S.p.A. the Group purchased 100% of the associate Metalbuyer S.p.A. At the date of these condensed interim consolidated financial statements, the subsidiary Metalbuyer S.p.A. had not been consolidated and therefore on the date of this Report it was recognised at cost net of any impairment losses. During the second half of the year, upon completion of the acquisition and reorganisation process, Metalbuyer S.p.A. will be included in the scope of consolidation.
In consideration also of the decreased activity during the half year, the effects of the non consolidation of Metalbuyer S.p.A and of other subsidiaries that were not consolidated, are not considered significant in terms of the Group's consolidated financial statements.
During the first half of 2011, KME Partecipazioni S.r.l. received from KME Group S.p.A. investments in ErgyCapital S.p.A. and Drive Rent S.p.A. Other contributions of smaller investments (totalling Euro 9.8 million) had taken place at the end of December 2010.
The contribution amounts, as per the sworn assessments of independent experts, were equal to their carrying amounts.

(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 condensed interim 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 condensed interim 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 by KME Partecipazioni S.r.l. which took place on 29 June 2011.

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.

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.

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 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, as follows:

1 Euro	0.8608 GBP	31.12.2010
1 Euro	0.9026 GBP	30.06.2011 used for translation of the statement of financial position
1 Euro	0.8681 GBP	2011 average used for translation of the statement of comprehensive income
1 Euro	8.8220 RMB	31.12.2010
1 Euro	9.3416 RMB	30.06.2011 used for translation of the statement of financial position
1 Euro	9.1868 RMB	2011 average used for translation of the statement of comprehensive income
1 Euro	16.5475 MXN	31.12.2010
1 Euro	16.9765 MXN	30.06.2011 used for translation of the statement of financial position
1 Euro	16.7042 MXN	2011 average used for translation of the statement of comprehensive income
1 Euro	1.3136 AUD	31.12.2010
1 Euro	1.3485 AUD	30.06.2011 used for translation of the statement of financial position
1 Euro	1.3576 AUD	2011 average used for translation of the statement of comprehensive income
1 Euro	40.8200 RUB	31.12.2010
1 Euro	40.4000 RUB	30.06.2011 used for translation of the statement of financial position
1 Euro	40.2001 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 31 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

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

For all the other assets the Group has kept the same depreciation rates as used previously.

Depreciation is charged based on the following useful lives:

buildings	from 25 to 50 years
Plant and machinery	from 10 to 40 years
Other assets	from 5 to 10 years

Borrowing costs relating to the purchase of property, plant and equipment have been capitalised in compliance with IAS 23.
Replacement parts of significant value are capitalised and depreciated based on the useful life of the asset to which they refer; low value replacement parts are 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 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.

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 copper and copper-alloy semi-finished products consisting of the subsidiary KME AG and its subsidiaries, the 2010-2014 Plan was used, as approved by the Board of Directors on 5 August 2010 and updated for 2011–2015 on the date of this Report.

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.

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 determined by application of the perpetual yield with the growth rate of 0%. This growth rate is purposely conservative in consideration of the status of the sector's maturity.
The cash flows from operations obtained in this manner were discounted using the WACC discount rate (weighted average cost of capital) equal to 9.90% net of taxes. This rate takes into account an average risk-free rate of 3.56% (fluctuating from 3.0% in Germany and 5.4% in Spain), a market risk premium of 5.20% and an average interest rate on the debt of 5.4%; to this base rate an additional premium of 2.5% 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 growth rate of up to 2.0% and an increase in the capital cost of up to 10.9%.

(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 property is not held for the production or supply of the goods and services relating to the company's core business. These assets are initially recognised at fair value with any subsequent changes recognised in profit or loss and are, consequently, not systematically depreciated. The fair value of investment property was appraised, at the end of the year 2010, by recognised and suitably qualified professionals. On the date of this Report there were no changes in the estimates.

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 45).

2.11 Equity

Share capital consists of ordinary and savings shares of no par value, fully subscribed and paid up at the end of the reporting period, reduced by any 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. These charges were subsequently covered during the year through a reduction in available reserves, as resolved at the Shareholders' Meeting of 23 May 2007.

2.12 Receivables and payables

Receivables and payables are recognised at amortised cost. When the difference between present and par value is insignificant, such as for 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 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, 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 expense includes loan interest expense, exchange rate losses, guarantee fees expense, losses on the disposal of available-for-sale financial assets, factorage paid with respect to factoring of receivables with recourse, decreases in the fair value of assets held for trading and derivatives except for the decreases in fair value of LME and metals forward contracts which are reported under "Purchases and change in raw materials".

2.19 Segment information

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: a sector consisting of a grouping of companies belonging to the Drive Group which was purchased by KME Group S.p.A. following the partial and proportional reverse demerger of iNTEK S.p.A. to KME Group S.p.A., which is active in the long-term vehicle leasing, management of private vehicles, lease of replacement vehicles to repair companies, management of corporate housing and the management of a vehicle parking lot in the centre of Milan; the assets, liabilities and net results of this sector are presented in the financial statements as "Current assets/liabilities held for sale" since, in the first half of 2011 (with effect from 1 July 2011), the merger of Drive Rent S.p.A. into Cobra Automotive Technologies S.p.A. was concluded.

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) the 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 as at 30 June 2011 of the basic earnings per share was carried out using the Profit for the period attributable to owners of the Parent of Euro 25.4 million (profit of Euro 37.5 million for the period ended June 2010) and, net of the amount receivable by the savings shares, which is attributable to the owners of outstanding ordinary shares and the weighted average number of ordinary shares of 439,675,905 with account taken of any splitting and/or regrouping and any increases/decreases of share capital pursuant to IAS 33 paragraph 64. In

particular, the potentially dilutive effect from the outstanding warrants was not calculated, according to IAS 33 paragraph 47.
Pursuant to IAS 33 paragraph 12, the basic and diluted earnings per share at 30 June 2010 and 2011 have also been reported net of the result from discontinued operations.

2.21 Use of estimates

The preparation of these condensed interim consolidated financial statements and related 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 issued at 30 June 2011 that are relevant to the Group had not yet become effective and were not used to prepare these condensed interim consolidated financial statements.

The most important included:

IAS 32 - Financial instruments (Improvement): it introduces a clarification regarding the presentation of taxes on the distribution of financial instruments to shareholders and the related transaction costs that must be accounted for according to IAS 12. At the date of these condensed interim consolidated financial statements, the competent bodies of the European Union had not yet concluded the endorsement process required for application.

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

IAS 34 – Interim Financial Reporting (Improvement): clarifications have been added regarding the additional information to be presented in the interim financial statements in regard to segment reporting. Disclosure of all segment assets is only required when they are used in managerial decisions and have undergone significant changes compared to the previous period. On the date of these condensed interim consolidated financial statements, 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 condensed interim consolidated financial statements, the competent bodies of the European Union had not concluded the endorsement process required for application.

IFRS 10 – Consolidated Financial statements: on 12 May 2011, the IASB published IFRS 10 which replaces IAS 27 and SIC 12. The standard indicates that an investor controls the entity in which they invested only when

the following conditions are met:
- they have the ability to direct the relevant activities;
- they have an exposure, or rights, to variable returns;
- they have the ability to use their power.

The application of the new standard is mandatory and set to begin from 1 January 2013.

IAS 27 – Separate Financial Statements: following the issuing of IFRS 10, IAS 27 refers only to separate financial statements and regulates the accounting treatment of investments in subsidiaries, associates and joint ventures. The application of the new standard is mandatory from 1 January 2013.

IFRS 11 – Joint Arrangements: in May 2011, IFRS 11 was published to replace IAS 31. The old standard provided for identification of a joint controller entity and the possibility of selecting the consolidation method from between the equity and proportionate consolidation methods. 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 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 condensed interim consolidated 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. In regard to the first aspect, 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 regard to the second point, 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.

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 in place formal procedures for the definition of objectives and procedures for hedging credit, liquidity, currency, interest and above all commodity price risks.

Types of risk:

a) credit risk: there are no significant geographical concentrations in connection with this risk. Existing guidelines require adequate assessment of customers' creditworthiness. This is achieved by selecting customers on the basis of historical experience, capitalisation and/or financial information, lines of credit in existence, insurance and the factoring of the greatest part of receivables without recourse;

b) liquidity risk: liquidity risk can arise from the inability to raise working capital financing as and when required. All inflows and outflows and cash balances of Group companies are centrally monitored and managed by Group Treasury. The Group intends to meet its cash requirements for the repayment of 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 condensed interim consolidated financial statements

4.1 Property, plant and equipment:

(Thousands of Euros)	Land	Buildings	Plant and equipment	Other assets	Assets under construction	Total
Al 31.12.2010						
Closing historical cost	55,928	211,513	1,034,628	90,292	21,699	1,414,060
Accumulated depreciationand 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 30.06.2011						
Opening historical cost	**55,928**	**211,513**	**1,034,628**	**90,292**	**21,699**	**1,414,060**
Translation differences	(231)	(469)	(2,828)	(109)	(18)	(3,655)
Change in scope of consolidation	-	-	-	-	-	-
Increases	-	134	2,482	988	12,044	15,649
Reclassifications	-	824	6,624	1,280	(8,728)	-
Decreases (2) (791) (4,094) (773) - (5,660)						
Closing historical cost	**55,695**	**211,211**	**1,036,812**	**91,677**	**24,998**	**1,420,393**
At 30.06.2011						
Accumulated depreciation and impairment losses	**185**	**116,007**	**653,689**	**60,306**	**-**	**830,187**
Translation differences	(6)	(64)	(2,427)	(96)	-	(2,594)
Depreciation	15	3,482	16,114	2,617	-	22,229
Impairment losses/(reversals of impairment losses)	-	-	(305)	-	-	(305)
Decreases	-	(784)	(3,453)	(666)	-	(4,903)
Reclassifications	-	(30)	-	(3)	-	(33)
Accumulated depreciation and impairment losses	**194**	**118,611**	**663,619**	**62,158**	**-**	**844,582**
At 30.06.2011						
Closing historical cost	55,695	211,211	1,036,812	91,677	24,998	1,420,393
Accumulated depreciation and impairment losses	194	118,611	663,619	62,158	-	844,582
Closing net carrying amount	**55,501**	**92,600**	**373,193**	**29,519**	**24,998**	**575,811**
of which finance leases:	**1,300**	**3,377**	**-**	**-**	**-**	**4,677**

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

Geographical segment (millions of Euros)	**30.06.2011**		**31.12.2010**	
		%		%
Germany	268.69	46.7%	272.7	46.7%
Italy	219.94	38.2%	223.1	38.2%
France	48.30	8.4%	47.4	8.1%
United Kingdom	11.62	2.0%	12.3	2.1%
Spain	17.06	3.0%	17.8	3.0%
China	7.95	1.4%	8.5	1.5%
Other	2	0.4%	2	0.4%
Total	**575.8**	**100%**	**583.9**	**100%**

A portion of the aforementioned assets worth Euro 201.6 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 as at the reference date of these condensed interim consolidated financial statements and the relevant present value are shown below:

(Thousands of Euros)	**Within 1 year**	**Between 1 and 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

previous year:

(Thousands of Euros)	**Within 1 year**	**Between 1 and 5 years**	**Over 5 years**	**Total**
Minimum lease payments	398	1,594	2,303	4,295
of which: interest	8	230	614	852
Present value	390	1,364	1,689	3,443

4.2 Investment property

(Thousands of Euros)	**Land**	**Buildings**	**Total**
Carrying amount at 31.12.2010	**7,277**	**21,326**	**28,603**
Acquisitions	-	-	-
Capitalised expenditure	-	28	28
Business combination	-	-	-
Disposals	-	-	-
Change in fair value	-	-	-
Changes of use	-	-	-
Other changes and reclassifications	-	-	-
Carrying amount at 30.06.2011	**7,277**	**21,354**	**28,631**

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.

These investment properties which are held for lease or for capital investment appreciation purposes are recognised at fair value and have all been valued as at 31 December 2010 by independent external appraisers with recognised and pertinent professional qualifications.

The following amounts were recognised in profit or loss in the first half of 2011:
- ental income of Euro 169 thousand;
- operating costs directly relating to the investment properties of Euro 443 thousand.

4.3 Goodwill and consolidation differences

The amount is composed of consolidation differences of Euro 114,582 thousand.

There were no changes in the first half of 2011.

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

(migliaia di Euro)	**Other assets**	**Assets under development**	**Total**
At 31.12.2010			
Closing historical cost	13,289	281	13,570
Accumulated amortisation and impairment losses	10,080	-	10,080
Closing net carrying amount	**3,209**	**281**	**3,490**
At 30.06.2011			
Opening historical cost 1	**3,289 2**	**81**	**13,570**
Translation differences	-	-	-
Change in scope of consolidation	-	-	-
Increases	152	144	296
Reclassifications	51	(51)	-
Decreases	(967)	-	(967)
Closing historical cost	**12,525**	**374**	**12,899**
At 30.06.2011			
Accumulated amortisation and impairment losses	**10,080**	**-**	**10,080**
Translation differences	-	-	-
Change in scope of consolidation	-	-	-
Amortisation	552	-	552
Reclassifications	(1)	-	(1)
Decreases	(967)	-	(967)
Accumulated amortisation and impairment losses	**9,664**	**-**	**9,664**
At 30.06.2011			
Closing historical cost	12,525	374	12,899
Accumulated amortisation and impairment losses	9,664	-	9,664
Closing net carrying amount	**2,861**	**374**	**3,235**

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. During the first half of 2011 research costs of Euro 0.8 million (Euro 0.5 million in the first half of 2010) were incurred.

4.5 Investments in subsidiaries, associates and other companies

The Group's investments are listed below:

Company name	Registered office	Activity	% owned by KME direct	% owned by KME indirect	30 June 11	31 Dec.10
			direct	indirect	Thousands of Euros	
Subsidiaries and associates measured at cost						
Accumold AG	Switzerland	In liquidation		100.00%	0	0
AMT - Advanced Mould Technology India Private Ltd.	India	Trading		99.60%	1,500	1,500
Europa Metalli Trèfimétaux UK Ltd.	England	non-operative		100.00%	443	465
Evidal Schmole Verwaltungsges mbH	Germany	non-operative		50.00%	0	0
Irish Metal Industrial Ltd.	Ireland	Trading		100.00%	0	0
KME - Hungaria Szinesfem Kft.	Hungary	Trading		100.00%	8	8
KME Polska Sp. Zo.o.	Poland	Trading		100.00%	64	64
KME (Suisse) S.A.	Switzerland	Trading		100.00%	1,000	1,000
KME America Inc.	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	168
KME Beteiligungsgesellschaft mbH	Germany	non-operative		100.00%	0	0
KME Chile Lda	Chile	Trading		100.00%	18	18
KME China Limited	China	non-operative		100.00%	0	0
KME Czech Republic	Czech Rep.	Trading		100.00%	3	3
KME metal GmbH	Germany	non-operative		100.00%	511	511
KME Metals (Shanghai) Trading Ltd.	China	Trading		100.00%	81	81
Metal Center Danmark A/S	Denmark	Trading		30.00%	134	134
N.V. KME Benelux SA	Belgium	Trading		100.00%	883	883
Societe Haillane de Partecipations	France	non-operative		99.99%	40	40
XT Limited	England	non-operative		100.00%	0	0
KME India Private Ltd.	India	Trading		100.00%	17	17
VALIKA S.a.S.	France	Trading		30.00%	1,650	1,650
KME Solar Italy S.r.l.	Italy	Energy Sector		80.00%	305	182
Culti S.r.l.	Italy	Trading		100.00%	3,760	3,760
Warrant ErgyCapital S.p.A.	Italy	Energy Sector		n.a.	6,511	6,511
Il Post S.r.l.	Italy	Publishing		31.54%	200	200
Metalbuyer S.p.A.	Italy	Trading		100.00%	5,195	0
P.H.M. Pehamet Sp.Zo.o	Poland	Trading		30.07%	802	0
Zahner KME GmbH	Germany	Trading		50.00%	69	0
Elogistique S.r.l.	Italy	Trading		30.00%	0	0
Total					**23,468**	**17,301**
Other investments measured at cost						
Editoriale Fiorentina S.r.l.	Italy	Publishing		7.13%	142	142
Other KME France SAS investments	France	Various	n.a.	n.a.	116	116
Other KME Recycle S.r.l. investments	Italy	Various	n.a.	n.a.	0	1,650
Total					**258**	**1,908**
Equity-accounted investees						
Metalbuyer S.p.A.	Italy	Trading		30.00%	0	1,594
ErgyCapital S.p.A.	Italy	Energy Sector		46.38%	20,253	20,357
Total					**20,253**	**21,951**

Compared to the previous period, the increase of Euro 6.2 million in "Investments in Subsidiaries and Associates" is broken down as follows:
- translation differences relating to the investment in Europa Metalli Trèfimétaux UK Ltd. (a Euro 22 thousand decrease);
- 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 of the controlling interest (100%) of Metalbuyer S.p.A. which had previously been 30% owned and consolidated using the equity method, for Euro 5.2 million.

"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 in "equity-accounted investees" of Euro 1,698 thousand is due to:
- Euro 1,594 thousand following the acquisition of the controlling interest in Metalbuyer S.p.A. with its consequent reclassification under subsidiaries;
- uro 104 thousand following the application of the equity method to ErgyCapital S.p.A., following the reverse demerger of iNTEk S.p.A. as a result of the following movements:
  - proportional loss for the period of Euro 580 thousand;
  - positive change (against the proportional amount of Euro 475 thousand) in the cash flow hedge reserve recognised in equity by the investee.

4.6 Other non-current assets

(Thousands of Euros)	Balance at 31.12.2010	Changes	Balance at 30.06.2011
Guarantee deposits	17,462	621	18,083
Other receivables	8,039	(225)	7,814
Total	**25,501**	**396**	**25,897**

The "Guarantee deposits" item consists mainly of:
- the amounts paid to a bank amounting to Euro 16.5 million (of which Euro 8.6 billion relate to KME Germany AG & Co. KG, Euro 4.8 million relating to KME France and Euro 3.1 million relating to KME Italy) as a guarantee deposit to partially cover the potential payment of fines imposed by the European Commission for infringements pursuant to article 81 of the EC Treaty. This deposit may subsequently be used in payment of any fines imposed following the court proceedings currently underway. The amount of the fines not covered by the deposit is covered by bank guarantees;
- other guarantee deposits of KME Italy (Euro 0.3 million), KME France (Euro 0.5 million) and KME Germany (Euro 0.5 million).

The "Other receivables" item consists mainly of:
- receivables from insurance companies held by KME Germany AG & Co. KG of Euro 2.4 million and the French companies of Euro 3.1 million;
- oans to employees (Euro 1.7 million), mainly extended by French subsidiaries as required by French law providing employees the possibility of obtaining loans from the company with which to purchase property.

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

4.7 Non-current financial assets

The amount of Euro 110.3 million (110.3 million in the previous year) relates to guarantee deposits at the following banks in connection with unpaid EU fines:
- La Caixa: Euro 34.2 million;
- Banca Nazionale del Lavoro: Euro 18.0 million;
- Deutsche Bank: Euro 58.1 million.

The amount of Euro 4.9 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 Euros)	**Opening balances**	**Changes for the period**	**Closing balances**
Raw materials, consumables and supplies	550,989	15,050	566,039
Work in progress and semi-finished products	31,415	3,312	34,727
Finished goods 3	9,650	285	39,935
Total	**622,054**	**18,647**	**640,701**

At the end of the first half of 2011, the value of several metals 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 12.2 million (Euro 0.5 million in the previous year). An allowance for impairment of this same amount was recognised.

Quantity comparitive chart

Property stock	**31.12.2010**	**30.06.2011**
Total tons	**88,423**	**90,527**

Of the above amount, 85.4 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 Euros)	**Balance at 31.12.2010**	**Changes for the period**	**Balance at 30.06.2010**
Due from customers	147,630	4,374	152,004
(Allowance for impairment)	(10,718)	(2,932)	(13,650)
Net trade receivables	**136,912**	**1,442**	**138,354**
Due from subsidiaries	4,393	(387)	4,006
Due from associates	5,200	(1,331)	3,869
Due from parents	-	-	-
Total	**146,505**	**(276)**	**146,229**

"Receivables due from customers" include Euro 62.9 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.

4.10 Other current receivables and assets

(Thousands of Euros)	Balance at 31.12.2010	Changes for the period	Balance at 30.06.2011
Tax assets	10,164	(6,542)	3,622
Advance payments to suppliers	3,790	9,443	13,233
Prepayments and accrued income	1,717	1,177	2,894
Other receivables	10,509	4,637	15,1466
Total	**26,180**	**8,715**	**34,895**

The “Other receivables” item consists mainly of:

- Receivables due from insurance companies of Euro 3.5 million;
- Receivables due from social security agencies of Euro 2.6 million;
- Receivables due from local authorities, essentially referring to the German companies, for refunds relating to energy savings of Euro 4.6 million.

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

4.11 Current financial assets

(Thousands of Euros)	Balance at 31.12.2010	Changes for the period	Balance at 30.06.2011
Financial assets held for trading	19,179	(14,973)	4,206
LME and metal sales/purchase contracts	25,420	2,964	28,384
Interest rate swaps (IRS)/ currency forward contracts	3,286	(1,798)	1,488
Receivables due from factoring companies	85,830	54,810	140,640
Other current financial assets	1,930	1,610	3,540
Financial receivables due from subsidiaries	4,597	3,482	8,079
Total	**140,242**	**46,095**	**186,337**

“Financial assets held for trading” consist of:

- 2,184,369 iNTEk S.p.A. savings shares, of a par value of Euro 0.707, recognised at their official listed price at the end of the reporting period. A call option on the aforementioned iNTEk savings shares was given to lenders of the above mentioned bank loan obtained in February 2005 and which is no longer outstanding. The exercise price of the options, which will expire in 2012, is Euro 0.90.
- 5,277,893 ErgyCapital S.p.A. ordinary shares, which are carried at their official price at the end of the reporting period (Euro 0.409 per share);
- 5,775,550 ErgyCapital S.p.A. warrants, which are carried at their official price at the end of the reporting period (Euro 0.087 per warrant).

“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 include receivables assigned without recourse but not yet collected at the end of the reporting period (Euro 103.0 million) and the revolving amount of the consideration which will be collected upon the due dates of the related invoices assigned of Euro 37.6 million.

4.12 Cash and cash equivalents

(Thousands of Euros)	Balance at 31.12.2010	Changes for the period	Balance at 30.06.2011
Bank and post office accounts	39,615	44,470	84,085
Cash on hand	136	(9)	127
Total	**39,751**	**44,461**	**84,212**

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 July.

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

4.13 Equity

or 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 positive change (against the proportional amount of Euro 475 thousand) in the cash flow hedge reserve recognised in equity by the investee ErgyCapital S.p.A.

The increase in the “Retained earnings” item is related to the result for 2010 of KME Group S.p.A., and is essentially due to the revaluation of the investment in KME AG.

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 is 31 December 2015.

4.14 Employee benefits

(Thousands of Euros)	Balance at 31.12.2010	Increases	Decreases	Balance at 30.06.2011
Defined benefit plans	136,582	5,253	(5,293)	136,542
Post-employment benefits	16,175	338	(1,342)	15,171
Total	**152,757**	**5,591**	**(6,635)**	**151,713**

“Defined benefit plans” are recognised net of any plan assets. Euro 122 million of defined benefit plans relate to the German subsidiaries and Euro 14.5 million relate to the subsidiary KME Yorkshire Ltd.

General criteria applied:

	31.12.2010	30.06.2011
Discount rate	4.3% - 5.7%	4.3% - 5.7%
Rate of return on plan assets	6.4%	6.4%
Rate of increase in future salaries	1.0% - 2.5%	1.0% - 2.5%
Future increase in services	2.0% - 3.0 %	2.0% - 3.0 %
Average remaining working life	15 years	15 years

Liability carrying amount (Thousands of Euros)	**31.12.2010**	**30.06.2011**
Present value of partially or fully funded obligations	63,591	61,734
Fair value of defined benefit plan assets	(53,981)	(52,618)
Deficit	**9,610**	**9,116**
Present value of unfunded obligations	159,822	159,314
Actuarial gains /(losses) net yet recognised	(16,675)	(16,717)
Past service cost not yet recognised	-	-
Amount not recognised as assets pursuant to IAS 19, para.58(b)	-	-
Net liability reported in statement of financial position	**152,757**	**151,713**

Statement of comprehensive income changes (Thousands of Euros)	**Year 2010**	**1st half 2011**
Current service cost	2,760	1,357
Interest expense	11,059	5,509
Expected return on plan assets	(3,244)	(1,523)
Recognised actuarial gains/(losses)	223	220
Past service cost	59	-
Effect of any curtailment or settlement	-	-
Total cost reported in income statement	10,857	5,563

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

Other information:

Present value of obligation (Thousands of Euros)	**31.12.2010**	**30.06.2011**
Opening balance of obligation	212,947	223,383
Current service cost	2,760	1,356
Interest on obligation	10,984	5,509
Plan participants’ contributions	483	230
Actuarial (gains)/losses	5,339	(646)
Expired or reduced liabilities	59	-
Translation differences on foreign plans	1,841	(2,912)
Benefits provided and paid	(11,007)	(5,891)
Effect of any curtailment or settlement	3	(13)
Past service cost	-	-
Closing balance of obligation	**223,409**	**221,016**

Fair value of plan assets (Thousands of Euros)	**31.12.2010**	**30.06.2011**
Opening balance of fair value of plan assets	48,397	53,981
Expected return on plan assets	3,244	1,523
Actuarial gains/ (losses)	489	(646)
Translation differences on non-euro plans	1,494	(2,436)
Employer contributions	1,58	1 731
Plan participants’ contributions	483	230
Settlements	-	-
Benefits provided and paid	(1,707)	(765)
Closing balance of fair value of plan assets	**53,981**	**52,618**

At the end of the first half of 2011, the plan assets consisted of equity instruments (53%) and fixed rate securities (47%).

Present value of plans and adjustments based on past experience (Thousands of Euros)	31.12.2010	30.06.2011
Present value of defined benefit obligation	223,409	221,016
Plan assets	(53,981)	(52,618)
Surplus (deficit)	**169,428**	**168,398**
Adjustments to plan liabilities based on past experience	864	864
Adjustments to plan assets based on past experience	79	79

4.15 Non-current financial payables and liabilities

(Thousands of Euros)	Balance at 31.12.2010	Changes for the period	Balance at 30.06.2011
Due to banks	313,499	13,733	327,232
Due to lease companies	3,191	(111)	3,080
Due to others	185	(47)	138
Total	**316,875**	**13,575**	**330,450**

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 30 June 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 Osnabruek 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 Architectural Metals GmbH, 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.
On the date of these condensed interim consolidated financial statements, the aforementioned transactions without recourse amounted to Euro 451.2 million (Euro 361.2 million at the end of the previous year).

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 without recourse. This agreement which expires in June 2014, provides for covenants in line with those of the banking pool.

The Group also has a loan from Mediocredito Centrale S.p.A. of Euro 78.3 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 30 June 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 non-current payables and liabilities have maturities of between twelve months and five years except for a Euro 2.8 million bank loan and payables due to lease companies of Euro 2.1 million with maturity of over 5 years.

4.16 Other non-current liabilities

Other non-current liabilities primarily relate to payables due to employees of German subsidiaries (Euro 11.4 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 Euros)	**Balance at 31.12.2010**	**Translation differences**	**Increases**	**Decreases and reversals**	**Current portion**	**Balance at 30.06.2011**
Provision for restructuring	11,962	(2)	14,107	(2,299)	(19,585)	4,183
Provision for EU fines	126,473	-	1,597	-	-	128,070
Other provisions for risks and charges	23,715	(122)	1,085	(1,584)	(11,725)	11,369
Total	**162,150**	**(124)**	**16,789**	**(3,883)**	**(31,310)**	**143,622**

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 and Spain.

The increase in the "Provision for EU fines" relates to interest expense on the par value of the fines levied by the European Commission. In regard to the aforementioned fines relating to infringements of antitrust legislation by certain KME Group industrial companies, it is hereby noted that, with reference to the pending appeal to the EU Court of Justice regarding industrial piping, the hearing was held on 6 October 2010 and on 10 February 2011 the Attorney General expressed the opinion that the appeal should be rejected. The EU Court of Justice must assess the arguments presented by the interested companies of the KME Group, the Commission and the Attorney General in order to issue its ruling. Conversely, in regard to the appeal relating to the sewerage piping, on 12 May 2011 the hearing was held without the presence of the Attorney General. While awaiting the relative rulings, the provisions for both penalties of Euro 38.1 million ad Euro 67.1 million respectively, are shown among non-current components.

“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 3.2 million for product warranties.

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

- 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. There were no other developments.

On the date of these condensed consolidated half-year financial statements, there were no other significant contingent liabilities.

4.18 Current financial payables and liabilities

(Thousands of Euros)	Balance at 31.12.2010	Changes for the period	Balance at 30.06.2011
Due to banks	59,023	(6,454)	52,569
Due to subsidiaries	2,230	16	2,246
Due to lease companies	259	5	264
Due to factoring companies	61,213	1,782	62,995
Interest rate swaps (IRS)/currency forward contracts	5,163	(3,223)	1,940
LME and metal sales/purchase contracts	65,290	(57,453)	7,837
Due to others	4,663	(2)	4,661
Total	**197,841**	**(65,329)**	**132,512**

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

The “LME and metal sales/purchase contracts” item is carried at the fair value of the contracts outstanding on the date of these condensed interim consolidated financial statements.

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 Euros)	Balance at 31.12.2010	Changes for the period	Balance at 30.06.2011
Due to suppliers	404,753	96,714	501,467
Due to associates	5,375	(1,223)	4,152
Due to subsidiaries	644	116	760
Total	**410,772**	**95,607**	**506,379**

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.

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

(Thousands of Euros)	Balance at 31.12.2010	Changes for the period	Balance at 30.06.2011
Due to employees	39,039	10,197	49,236
Due to social security institutions	12,607	(1,376) 1	1,231
Tax payables	21,047	14,622	35,669
Accrued expenses and deferred income	3,299	(46)	3,253
Other payables	27,509	2,569	30,078
Total	**103,501**	**25,966**	**129,467**

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 24.6 million) for advance payments received and credit notes issued.

4.20 Deferred tax assets and liabilities

(Thousands of Euros)	Balance at 31.12.2010	Changes for the period	Balance at 30.06.2011
Deferred tax assets	47,033	(17,263)	29,770
Deferred tax liabilities	(138,135)	2,964	(135,171)
Total	**(91,102)**	**(14,299)**	**(105,401)**

Deferred tax assets and liabilities are calculated on temporary differences between carrying amounts of assets and liabilities recognised in the financial statements and the corresponding amounts recognised for tax purposes.

The Parent has not recognised deferred tax on the temporary difference relating to the financial investment in the subsidiary KME AG in compliance with paragraph 39 of IAS 12.

At the end of the reporting period, the Group did not recognise deferred tax assets on tax losses carried forward (Euro 151.2 million).

At 30 June 2011 “recognised” and “unrecognised” deferred tax assets on tax losses carried forward are shown below, broken down by company:

(Thousands of Euros)	31.12.10	30.06.11
a) recognised tax losses carried forward		
KME Group S.p.A.	-	-
KME AG 4,	694	2,727
KME Germany AG & Co. KG	23,239	11,908
KME Verwaltungs- u. Dienstleistungs-GmbH	2,039	1,793
KME Architectural Metals GmbH & Co. KG	-	-
KME Italy S.p.A.	16,000	16,000
KME Locsa SA	930	930
KME Yorkshire Ltd	2,253	1,287
Total (1)	**49,155**	**34,645**
b) unrecognised tax losses carried forward		
KME Group S.p.A.	-	-
KME France S.A.	62,895	66,257
KME Brass France S.A.S.	-	1,365
KME Spain SA	30,602	33,521
KME Italy S.p.A.	23,997	18,749
KME Locsa SA	19,498	19,498
KME Architectural Metals GmbH & Co. KG	9,705	10,252
Other companies	1,599	1,556
Total (2)	**148,296**	**151,198**
Total (1) + (2)	**197,451**	**185,843**

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

(Thousands of Euros)	Deferred tax assets		Deferred tax liabilities	
	31.12.10	**30.06.11**	**31.12.10**	**30.06.11**
Property, plant and equipment	248	265	61,120	59,580
Intangible assets	15	13	-	-
Investment property	214	170	-	-
Other non-current assets	-	-	-	-
Inventories	91	375	67,431	68,630
Trade receivables	1,592	1,727	141	108
Other current receivables and assets	3	1	14	7
Current financial assets	2,216	554	5,574	5,291
Current assets held for sale or distribution	-		90	-
Employee benefits	9,403	8,612	628	673
Non-current financial liabilities	1,074	1,036	-	-
Other non-current liabilities	2,205	1,899	-	-
Provisions for risks and charges	1,946	2,145	-	-
Current financial liabilities	12,596	1,763	3,005	349
Trade payables	581	612	120	533
Other current liabilities	142	179	12	-
Deferred taxes on equity items	88	77	-	-
Deferred taxes on tax losses carried forward	14,619	10,342	-	-
Total	**47,033**	**29,770**	**138,135**	**135,171**

Deferred taxes recognised in equity primarily refer to costs associated with the capital increase incurred by the Parent.
The decrease in the “Deferred taxes on tax losses carried forward” is due to their use mainly by the subsidiary KME Germany AG & Co. KG. and by KME Italy S.p.A.

4.21 Transactions with related parties

During the period, 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:

(Thousands of Euros)					1st half2011						2010
Short-term benefits	Post-employment benefits	Other longterm benefits	Termination benefits	Sharebased payments	Total for the period	Short-term benefits	Post-employment benefits	Other longterm benefits	Termination benefits	Sharebased payments	Total for the year
2.738	9		410	517	3.674	5.910	27	-	829	243	7.009

4.22 Consolidated statement of cash flows

- In the item "Total cash flows from/(used in) discontinued operations", the consolidated statement of cash flows for the first half of 2011 takes account of the cash flows from the Drive Group in the first half of 2011 (Euro 154 thousand).

4.23 Assets and liabilities held for sale

This item contains the current and non-current assets held for sale at the date of these condensed interim consolidated financial statements.

The Group Drive items were reclassified following the merger of Drive Rent S.p.A. into Cobra Automotive Technologies S.p.A., a company which is based in Varese and is the holding company of a group listed on the Italian Stock Exchange; it is a leader in car theft protection systems and vehicle safety through the use of IT and satellite technology.
The transaction will allow the 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 transaction was finalised on 1 July 2011.
Based on a share swap of 383.7 ordinary shares of Cobra for every ordinary share of Drive Rent and assuming that the current ownership structure of Cobra and Drive Rent has remained unchanged, the share capital of the new entity after the merger is:

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

A shareholders agreement was concluded between KME Group S.p.A. and Cobra Automotive Technologies S.A. on 18 November 2010 in order to establish the corporate governance of the new entity and the reciprocal relations as shareholders of Cobra S.p.A. upon completion of the merger.
On 15 March 2011, the Shareholders' Meetings of Drive Rent S.p.A. and Cobra S.p.A. approved the merger Project of Drive Rent S.p.A. into Cobra Automotive Technologies S.p.A. The transaction was finalised with the signing of the merger deed on 14 June 2011, effective from 1 July 2011.

Based on the above, the assets and liabilities of the Drive Group were reclassified pursuant to IFRS 5 – *Non-Current Assets Held for Sale.*
Based on the aforementioned agreements, the new entity resulting from the merger will no longer be under the exclusive control of KME and will therefore no longer be consolidated on a line-by-line basis. At the time of drafting these condensed interim consolidated financial statements, the assets and liabilities of the Drive Group were thus reclassified pursuant to IFRS 5 –*Non-Current Assets Held for Sale.*
The market value of the Cobra Automotive Technologies S.p.A shares on the effective date of the merger was

higher than the carrying amounts shown in the condensed interim consolidated financial statements. The drop in the market values of the shares in the immediately following period was not considered permanent and therefore no impairment losses were recognised to this end.

Assets and liabilities by financial statements item are shown below:

(Thousands of Euros)	30 June 2011
Property, plant and equipment	5,858
Goodwill and consolidation differences	26,098
Other intangible assets	5,303
Investments in equity-accounted investees	6
Other non-current assets	5,327
Non-current financial assets	103
Deferred tax assets	1,607
Trade receivables	19,683
Other current receivables and assets	4,764
Current financial assets	1,100
Cash and cash equivalents	3,112
Current assets held for sale	**72,961**
Employee benefits	551
Deferred tax liabilities	1,585
Financial payables and liabilities	4,523
Other non-current liabilities	2,983
Provisions for risks and charges	1,033
Short-term financial payables and liabilities	12,928
Trade payables	17,870
Other current liabilities	13,937
Current liabilities held for sale	**55,410**

5. Statement of comprehensive income

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 Euros)	1st Half 2010	1st Half 2011
Germany	321	388
Italy	264	261
France	155	202
United Kingdom	145	117
Spain	55	69
Other European countries	285	376
Total Europe	1,225	1,413
Rest of the world	146	182
Total	**1,370**	**1,595**

As shown in the Directors' Report, revenue, net of raw material costs, increased by Euro 46.3 million from Euro 375.1 million in the first half of 2010 to Euro 421.4 million in the first half of 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 Euros)	1st Half 2010	1st Half 2011	Change
Purchase of raw materials and consumables	(1,021,243)	(1,238,746)	21.30%
(Gains)/losses on LME trading	(24,960)	(9,287)	-62.79%
Fair value on LME and metal sales/purchase contracts	41,818	60,409	44.46%
Change in raw materials and consumables	36,463	16,082	-55.90%
Total	**(967,922)**	**(1,171,542)**	**21.04%**

The cost of raw material supplies includes the marginal increase caused by the longer terms granted by the suppliers.

5.3 Other operating income

(Thousands of Euros)	1st Half 2010	1st Half 2011	Change
Government grants	1,069	862	-19.36%
Gains on sale of fixed assets	775	233	-69.94%
Rental income	605	615	1.65%
Cafeteria	285	314	10.18%
Insurance claim	1,788	146	-91.83%
Other	5,640	6,611	17.22%
Total	**10,162**	**8,781**	**-13.59%**

5.4 Personnel expense

(Thousands of Euros)	1st Half 2010	1st Half 2011	Change
Wages and salaries	132,810	135,583	2.09%
Social security charges	30,839	32,353	4.91%
Cost of stock option	-	518	NMF
Other personnel expense	7,734	8,772	13.42%
Total	**171,383**	**177,226**	**3.41%**

"Other personnel expense" includes provisions for "defined benefit pension plans" and "post-employment benefits" of Euro 5.6 million.

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 0.073) has been determined by an independent actuary on the grant 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 30 June 2011 is as follows:

Situation at	**31/12/2010 no. options**	**30/06/2011 no. options**
Options outstanding at 1 January	**zero**	**25,500,000**
New options awarded	25,500,000	-
Options re-awarded	-	-
Options exercised during the period	-	-
Options expired during the period	-	-
Options outstanding at end of the period	**25,500,000**	**25,500,000**
of which eligible for exercise	zero	zero

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.

Euro 4.2 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 /(expense)" in the "Reclassified Consolidated Income Statement" shown in the Directors' Report.

Average number of employees:

Period average	**1st Half 2010**	**1st Half 2011**	**Change %**
Managers and white collars	1,819	1,784	*-1.9%*
	28.2%	27.8%	
Blue collars and special categories	4,635	4,632	*-0.1%*
	71.8%	72.2%	
Total employees	6,454	6,416	*-0.6%*
	100.0%	***100.0%***	

5.5 Amortisation, depreciation and impairment losses

(Thousands of Euros)	**1st Half 2010**	**1st Half 2011**	**Change**
Depreciation	27,987	22,229	-20.57%
Amortisation	509	552	8.45%
Reversals of prior period impairment losses	(362)	(338)	-6.63%
Impairment losses	94	-	NMF
Total	**28,228**	**22,443**	**-20.49%**

As shown in paragraph 4.1, pursuant to the requirements of IAS 16 para. 51, the Directors have analysed the residual possibility of using the company's most important plant and equipment, from both an economic and manufacturing viewpoint, in order to estimate the most representative residual life. This choice was determined by the existence of events and situations, including a prudent rationalisation policy and monitoring of various processes. Since 2009, thanks also to the OpEx program, the Group has been strongly committed to looking for solutions and technological innovations as well as carrying out constant and preventative maintenance of its own strategic equipment. The continuous search for innovation and quality has enabled the improvement and enhancement of the manufacturing capacity of the most important plant and equipment in terms of company production.

For the assessment, the Directors requested the assistance of a leading company in the sector, SGS Italia S.p.A.

The change in the useful life was applied, on the basis of IAS 16 para. 51 and IAS 8 para. 32, prospectively as from 1 January 2010, thus causing a reduction in "amortisation, depreciation and impairment losses", compared to the first half of 2010, of around 5.5 million Euro.

5.6 Other operating costs

(Thousands of Euros)	1st Half 2010	1st Half 2011	Change
Energy	36,563	38,574	5.50%
Maintenance and repairs	16,177	19,775	22.24%
Insurance premiums	7,564	7,351	-2.82%
Rent paid and operating leases	5,335	5,693	6.71%
Outsourced production	11,655	17,587	50.90%
Sales logistics and transport	27,675	30,649	10.75%
Commissions	8,874	9,623	8.44%
Factoring funding fees	1,789	3,280	83.34%
Other operating costs	34,165	57,846	69.31%
Total	**149,797**	**190,378**	**27.09%**

"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 15.5 million;
2. bank fees of Euro 2.1 million;
3. losses on disposal of Euro 0.4 million;
4. accruals to allowance for impairment of Euro 3.8 million;
5. advertising and other business expenses of Euro 3.1 million;
6. external staff expenses of Euro 3.6 million;
7. legal consultancy and administrative costs plus fees for company bodies and independent auditors of Euro 7.1 million;
8. waste disposal costs of Euro 2.6 million;
9. travel and company cafeterias of Euro 4.1 million;
10. security costs of Euro 0.7 million;
11. information technology consulting of Euro 1.2 million;
12. membership fees of Euro 1.2 million.

A part of the aforementioned costs (Euro 21.2 million) has been reported under "Non-recurring income /(expense)" in the "Reclassified Consolidated Income Statement " shown in the Directors' Report.
These costs include allocations for industrial restructuring of Euro 14.1 million, interest accrued on EU fines for antitrust violations of Euro 1.6 million and Euro 2.2 million relating to impairment losses on trade receivables.

5.7 Financial income and expense

(Thousands of Euros)	1st Half 2010	1st Half 2011	Change
Interest income	311	604	94.21%
Exchange rate gains	6,991	8,041	15.02%
Dividends	258	678	162.79%
Other financial income	1,595	1,508	-5.45%
Total financial income	**9,155**	**10,831**	**18.31%**
Interest expense	(6,725)	(6,454)	-4.03%
Exchange rate losses	(14,184)	(3,304)	-76.71%
Other financial expense	(2,733)	(4,146)	51.70%
Total financial expense	**(23,642)**	**(13,904)**	**-41.19%**
Net financial expense	**(14,487)**	**(3,073)**	**-78.79%**

“Interest expense” includes Euro 0.6 million relating to interest on the factoring of receivables with recourse.

A part of the exchange rate gains (Euro 2.1 million) were reclassified under “Revenue net of raw material costs” in the “Reclassified Consolidated Income Statement “ shown in the Directors’ Report in order to offset the exchange rate effects realised in the period between the acquisition date of the sales orders and the invoicing date.

The reduction of interest expense is mainly due to the lower interest bearing debt that, by excluding “Financial instruments at fair value” and “Other financial assets” (consisting of real estate assets), decreased from Euro 212.9 million at 30 June 2010 to Euro 100.5 million at the end of the reporting period.

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

The negative amount of Euro 0.6 million relates to the proportional results of the losses for the period of the investee ErgyCapital S.p.A.

5.9 Current and deferred taxes

(Thousands of Euros)	1st Half 2010	1st Half 2011	Change
ICurrent taxes	(7,857)	(4,898)	-37.66%
Deferred taxes	(10,731)	(14,116)	31.54%
Total	**(18,588)**	**(19,014)**	**2.29%**

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 the first half of 2011 tax benefits of Euro 534.1 thousand were recognised from the transfer of tax losses and excess “gross operating profit” between KME Italy S.p.A. and its subsidiaries.

Deferred tax assets and liabilities are computed on temporary differences between carrying amounts of the assets and liabilities under accounting standards and the corresponding tax amounts. Temporary differences also arose in connection with consolidation adjustments that caused a difference between consolidated carrying amounts and tax amounts.

Reconciliation of theoretical tax charge and the effective charge:

(Thousands of Euros)	1st half 2011	1st half 2010
Profit/(loss) before taxes	44,536	56,852
Tax charge at theoretical rate	(13,984)	(17,852)
(tax rate used: 31.4%)		
Reconciliation:		
Effect due to different tax rates	180	420
Other effects:		
Non-deductible (expenses) and non-taxable income	(3,565)	(669)
Losses on which deferred tax assets are not recognised	(1,139)	-
Impairment losses on investments and shares	(129)	-
Current taxes for previous years	0	(757)
Taxes on share of profit/(loss) of equity-accounted investees	(182)	-
Other	(195)	1
Effective tax charge recognised in profit or loss	**(19,014)**	**(18,857)**

5.10 - Loss from discontinued operationse

This item includes the reclassification of the Drive Group as illustrated in paragraph 4.23.

The table below gives a per item breakdown in the income statement:

(Thousands of Euros)	1st half 2011
Revenue	23,458
Change in inventories of finished goods and semi-finished products	-
Capitalised internal work	-
Other operating income	1,061
Purchases and change in raw materials	-
Personnel expense	(5,053)
Amortisation, depreciation and impairment losses	(2,647)
Other operating costs	(16,666)
Operating profit	**153**
Financial income	-
Financial expense	(511)
Loss before taxes	**(358)**
Current taxes	(388)
Deferred taxes	173
Total income taxes	**(215)**
Loss from discontinued operations	**(573)**

6 Other information

Financial instruments by category

(Thousands of Euros)	31-12-2010	30-06-2011	Change
Financial assets at fair value through profit or loss	49,815	37,618	(12,197)
Held-to-maturity assets	-	-	-
Loans and receivables	420,361	534,465	114,104
Available-for-sale financial assets	-	-	-
Financial liabilities at fair value through profit or loss	70,453	9,777	(60,676)
Financial liabilities at amortised cost	855,035	959,564	104,529

Financial instruments by financial statements item

Financial instruments and reconciliation with financial statements items at 30 June 2011:

Financial statements item (Thousands of Euros)	Total	Carried at amortised cost	Carried at fair value	Outside the scope of IFRS 7
Financial assets:				
Investments in subsidiaries and associates	23,468			23,468
Investments in other companies	258			258
Investments in equity-accounted investees	20,253			20,253
Non-current financial assets	116,175	116,175		
Other non-current assets	25,897	25,897		
Trade receivables	146,229	146,229		
Other current receivables and assets				
Tax assets	3,622			3,622
Trade receivables	13,233	13,233		
Other non-financial assets	18,040			18,040
	34,895			
Cash and cash equivalents	84,212	84,212		
Current financial assets				
Factoring	140,640	140,640		
Receivables	8,079	8,079		
Financial instruments	29,872		29,872	
Other instruments	7,746		7,746	
	186,337			
		534,465	**37,618**	**65,641**

Financial statements item (Thousands of Euros)	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	379,801	379,801		
With recourse factoring	59,535	59,535		
Without recourse factoring	3,460	3,460		
Due to lease companies	3,344	3,344		
Other financial liabilities	7,045	7,045		
Financial instruments	9,777		9,777	
	462,962	**453,185**	**9,777**	
Trade payables	506,379	506,379		
	969,341	**959,564**	**9,777**	

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 Euros)	1 year or less	from 1 to 5 years	Term over 5 years	30.06.11	Total at 31.12.10
LME commodity contracts and and metal sales/purchase contracts	939,694			939,694	612,300
Currency forward contracts	236,728			236,728	218,690
Cross-currency swaps				-	-
Interest rate swaps (IRS)				-	-
Total	**1,176,422**	**-**		**1,176,422**	**830,990**

The net change in the first half of 2011 of the fair value recognised in the Statement of Comprehensive Income for LME transactions and metal sales/purchase contracts was positive by Euro 26.2 million (positive by Euro 41.8 million in the first half of 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 third parties at the date of these condensed interim consolidated financial statements was as follows:

Description (Thousands of Euros)	Gross carrying amount	Impairment 30.06.2011	Net carrying amount
current	104,358	2,637	101,721
less than 60 days past due	25,029	1,761	23,268
61 to 120 days past due	3,687	153	3,534
121 days to 1 year past due	5,571	605	4,966
over 1 year past due	13,360	8,494	4,865
Total	**152,005**	**13,650**	**138,354**

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

(Thousands of Euros)	
31.12.2010	**10,718**
Translation differences	(73)
Change in scope of consolidation	0
Impairment of the year	3,307
Uses	(246)
Releases	(56)
30.06.2011	**13,650**

Currency exposure

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

30.06.2011	USD	GBP	CHF	SEK	EUR
Non-current financial assets	-	-	-	-	-
Other non-current assets	-	-	-	-	-
Trade receivables	11,878	1,079	105	16,283	1,626
Other current receivables and assets	1,547	47	294	-	-
Current financial assets	15,996	4,889	3,640	16,844	657
Cash and cash equivalents	5,835	4,208	2,301	17,667	158
Financial liabilities	(145)	59	125	-	-
Trade payables	284,331	400	89	5,372	(100)
Other current liabilities	457	196	1	9,042	-
Gross statement of financial position exposure	**(249,387)**	**9,568**	**6,125**	**36,380**	**2,541**
Projected sales	48,531	12,428	6,725	66,362	958
Projected purchases	73,467	851	293	8,080	337
Gross exposure	**(274,323)**	**21,145**	**12,557**	**94,662**	**3,162**
Currency forward contracts	(264,313)	13,070	6,555	48,329	(11,052)
Net exposure	**(10,010)**	**8,075**	**6,002**	**46,333**	**14,214**

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 30 June 2011, in equity and an improvement (deterioration) of the net results for the period of Euro 1.0 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 30 June 2011 was as follows:

	Carrying amount	
(Thousands of Euros)	**31.12.2010**	**30.06.2011**
Fixed rate instruments:		
Financial assets	36,046	37,767
Financial liabilities	12,384	8,750
Total	**23,662**	**29,017**
Variable rate instruments:		
Financial assets	117,956	162,493
Financial liabilities	370,666	381,440
Total	**(252,710)**	**(218,947)**

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 for these condensed interim consolidated financial statements 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 commodity 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 for these condensed interim consolidated financial statements would have resulted in a decrease in equity and profit for the period of Euro 6.6 million. The same effect on financial statements figures at 31 December 2010 would 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 condensed interim consolidated financial statements would have produced a decrease (increase) in equity and results of approximately Euro 1.4 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

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.

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 in the first half of 2011 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 Euros)	**31.12.2010**	**30.06.2011**
Within 1 year	5,864	5,977
Between 1 and 5 years	8,649	9,668
Over 5 years	336	910
	14,849	**16,555**

Purchase commitments relating to property, plant and equipment at the end of the reporting period amounted to Euro 16.4 million. These purchase commitments will lapse next year.

7 Segment reporting

Segment information is presented pursuant to IFRS 8. At operational level, the KME Group is organised in business units according to the products and services it offers and has three reportable 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:** a sector consisting of a grouping of companies belonging to the Drive Group which was purchased by KME Group S.p.A. following the partial and proportional reverse demerger of iNTEK S.p.A. to KME Group S.p.A., which is active in the long-term vehicle leasing, management of private vehicles, leasing of replacement vehicles to repair companies, management of corporate housing and the management of a vehicle parking lot in the centre of Milan; the assets, liabilities and results of this sector are presented in the financial statements as "Current assets/liabilities held for sale" since, in the first half of 2011 (with effect from 1 July 2011), the merger by incorporation of Drive Rent S.p.A. into Cobra Automotive Technologies S.p.A. was finalised.

At 30 June 2011

(Amount in €/000)			Operating sectors		
	Copper and copper-alloy semifinished products	Services[1]	Energy from renewable sources	Consolidated and various	Total
Revenue	1,595,774		-	(36)	1,595,738
Financial income	9,659		-	1,172	10,831
Financial expense	(15,428)		-	1,524	(13,904)
Amortisation, depreciation and impairment losses	(22,429)		-	(14)	(22,443)
Segment profit/(loss) before taxes	44,686	[2]	(580)	430	44,536
Non-current assets:					
Investments in subsidiaries and associates	13,255		6,511	3,960	23,726
Investments in equity-accounted investees	-	-	20,253	-	20,253
Consolidation differences	114,582	-	-	-	114,582
Other non-current assets	768,078		-	11,441	779,519
Current assets	1,123,471	72,961[1]	-	(31,097)	1,165,335
Current and non-current liabilities	1,601,950	55,410[1]	-	(27,900)	1,629,460

(1) At the end of the reporting period, the services sector, wholly attributable to the Drive Group, was recognised as "Discontinued operations". For reclassifications and relevant information reference should be made to paragraph 4.23 of the notes.

(2) The loss of the Drive Group amounting to Euro 0.6 million is recognised in the Statement of Comprehensive Income under "Profit/(loss) from discontinued operations".

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

At 30 June 2010

(Amount in €/000)			Operating sectors		
	Copper and copper-alloy semifinished products	Services[1]	Energy from renewable sources	Consolidated and various	Total
Revenue	1,369,924	-	-	(33)	1,369,891
Financial income	2,191	-	-	6,964	9,155
Financial expense	(19,067)	-	-	(4,575)	(23,642)
Amortisation, depreciation and impairment losses	(28,216)	-	-	(12)	(28,228)
Segment profit/(loss) before taxes	58,245	-	(1,820)	923	57,348
At 31 December 2010					
Non-current assets:					
Investments in subsidiaries and associates	8,737		6,511	3,961	19,209
Investments in equity-accounted investees	1,594	-	20,357	-	21,951
Consolidation differences	114,582	-	-	-	114,582
Other non-current assets	788,837		-	15,349	804,186
Current assets	1,003,443	86,393	-	(28,711)	1,061,125
Current and non-current liabilities	1,530,216	68,265	90	(34,535)	1,564,036

(1) At the end of the reporting period, following the merger of Drive Group into Cobra Automotive Technologies S.p.A. effective from 1 July 2011, the consolidated statement of comprehensive income and, consequently the figures of the "services" segment, have been reclassified with the aim of presenting revenue, costs and Drive Group's results as "Discontinued operations" pursuant to IFRS 5. For reclassifications and relevant information reference should be made to paragraph 4.23 of these notes.

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 attributable to the owners of the Parent for the six months ended 30 June 2011

(Thousands of Euros)	
Profit as per KME Group S.p.A.'s condensed interim separate financial statements	116
Profit of consolidated companies (1) (2)	25,859
Consolidation adjustments (3)	-
Share of loss of equity-accounted investees (4)	(580)
Consolidated profit attributable to owners of the Parent	**25,395**
Profit of subsidiaries 1.1.2010 - 31.12.2010	
(1) KME AG group consolidated profit	26,447
(2) Drive Rent S.p.A. group consolidated loss	(573)
(2) Share of profit/(loss) of Immobiliare Agricola Limestre S.r.l.	(67)
(2) Share of profit/(loss) of KME Recycle S.p.A.	51
(2) Share of profit/(loss) of KME Partecipazioni S.p.A.	1
(3) Derecognition of impairment losses/(reversal of impairment losses) on investments in consolidated companies	-
(3) Netting of intercompany dividends	-
(3) Other consolidation adjustments	-
(4) Share of loss of equity-accounted investees	(580)
Total	**25,279**

Reconciliation statement between the equity of the Parent KME Group S.p.A. and the consolidated equity attributable to the owners of the Parent as at 30 June 2011

(Thousands of Euros)	
Parent's equity including profit for the period	**462,063**
Consolidation reserves	(17,688)
Difference between consolidated profit attributable to owners of the Parent and the separate profit of the Parent	25,279
Consolidated equity attributable to owners of the Parent including profit	**469,654**
Breakdown of consolidation reserves:	
1) Netting of investments and consolidation adjustments	(149,881)
2) Netting of intercompany dividends	-
3) KME AG consolidation difference	109,840
4) Drive Rent S.p.A. group consolidation difference	22,473
5) Effect of the translation of foreign currency financial statements	(595)
6) Equity items of the statement of comprehensive income	475
Total	**(17,688)**

Statement of the Deputy Chairman and the Manager in charge of financial reporting

KME Group S.p.A.

KME

Statement relating to the condensed interim consolidated financial statements pursuant to article 81-ter of the Consob Regulation no. 11971 of 14 May 1999 as amended and supplemented

1. Having regard to the provisions of article 154-bis, paragraphs 3 and 4, of Italian Legislative Decree 58 of 24 February 1998, the undersigned, Vincenzo Manes, Deputy Chairman, and Marco Miniati, Manager in charge of financial reporting at KME Group S.p.A., hereby confirm:

- the adequacy with respect to the characteristics of the Company and
- the effective application of administrative and accounting procedures for the preparation of the condensed interim consolidated financial statements for the half year from 1 January 2011 to 30 June 2011.

2. No material findings emerged in this regard.

3. Moreover, they state that:

3.1. the condensed interim consolidated 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 references concerning significant events that took place in the first half of the year and their effect on the condensed interim consolidated financial statements, together with a description of the major risks and uncertainties for the six months remaining in the year. The Directors' Report also includes a reliable analysis of significant transactions with related parties.

Florence, 4 August 2011

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

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(Translation from the Italian original which remains the definitive version)

Auditors' report on review of condensed interim consolidated financial statements

To the shareholders of
KME Group S.p.A.

1 We have reviewed the condensed interim consolidated financial statements of the KME Group as at and for the six months ended 30 June 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 condensed interim consolidated financial statements in accordance with the International Financial Reporting Standard applicable to interim financial reporting (IAS 34), endorsed by the European Union. Our responsibility is to prepare this report based on our review.

2 We conducted our review in accordance with Consob (the Italian Commission for Listed Companies and the Stock Exchange) guidelines set out in Consob resolution no. 10867 dated 31 July 1997. The review consisted primarily of the collection of information about the captions of the condensed interim consolidated financial statements and the consistency of application of the accounting policies through discussions with company directors and analytical procedures applied to the financial data presented in such condensed interim consolidated financial statements. The review excluded such audit procedures as tests of controls and substantive procedures on assets and liabilities and is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards. As a consequence, contrary to our report on the annual consolidated financial statements, we do not express an audit opinion on the condensed interim consolidated financial statements.

The condensed interim consolidated financial statements present the corresponding figures of the prior year annual consolidated and condensed interim consolidated financial statements for comparative purposes. As disclosed in the "General information" section of the notes, in accordance with IFRS 5 "Non-current assets held for sale and discontinued operations", the parent's directors restated some of the corresponding figures of the prior year condensed interim consolidated financial statements. We reviewed the 2010 condensed interim consolidated financial statements and issued our report thereon on 27 August 2010. We have examined the methods used to restate the prior year corresponding figures and related disclosures for the purposes of preparing our report on the condensed interim consolidated financial statements at 30 June 2011. With regard to the corresponding figures included in the prior year annual consolidated financial statements, reference should be made to our report dated 5 April 2011.

3 Based on our review, nothing has come to our attention that causes us to believe that the condensed interim consolidated financial statements of the KME Group as at and for the six months ended 30 June 2011 have not been prepared, in all material respects, in conformity with the International Financial Reporting Standard applicable to interim financial reporting (IAS 34), endorsed by the European Union.

Florence, 9 August 2011

KPMG S.p.A.

(signed on the original)

Riccardo Cecchi
Director of Audit

Condensed information on KME Group S.p.A. operations

In the first half of 2011 KME Group S.p.A. recognised a profit, net of taxes, of Euro 0.1 million.

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

(Thousands of Euros)

2010	Statement of comprehensive income	1st half 2011	1st half 2010
—	Dividends from KME A.G.	—	—
2,839	Revenue from services	1,420	1.420
(5,001)	Operating costs	(2,746)	(2,459)
(224)	Stock option costs	(477)	(0)
3,635	Net financial income /(charges)	2,389	2,418
1,249	**Profit from ordinary activities**	**586**	**1,379**
61,011	Non-recurring income /(expense)	(140)	(38)
62,260	**Profit before taxes**	**446**	**1,341**
(1.159)	Taxation	(330)	(1,131)
61,101	**Profit for the period**	**116**	**21**0

The **profit from ordinary activities** for the half year is slightly lower that the profit in the corresponding period of the previous year due to the recognition of the figurative expense relating to the existing 2010 – 2015 Stock Option Plan.

Net financial income/(charges) include:

- Euro 2.4 million (Euro 2.1 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 of credit lines;
- Euro (0.3) million (Euro 0.5 million in 2010) from measurement of the securities in the portfolio at stock exchange prices as at end of June 2011.

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

Financial position of the KME Group S.p.A.

ASSETS		**30/06/2011**		**31/12/2010**	
(Thousands of Euro					
Investments					
Copper sector					
Investment in KME Germany A.G.		380,041		380,000	
Investment in KME Recycle S.p.A.		4,500	**384,541**	4,500	**384,500**
KME Partecipazioni S.r.l.			**72,848**		**9,810**
Of which:					
Renewable energy sector					
ErgyCapital S.p.A. shares	24,343				24,554
ErgyCapital S.p.A. 2016 warrant	7,240				7,251
	31,583				**31,805**
Services sector					
Investment in Drive Rent S.p.A.	30,000				**30,000**
Other assets	**11,265**				**1,527**
Treasury shares			**2,680**		**2,888**
Net financial position			**7,947**		**14,509**
Other assets /(liabilities)			**(3,381)**		**(2,946)**
Total assets			**464,635**		**472,093**

EQUITY				
(Thousands of Euros)				
Share capital	297,014		297,014	
Reserves		167,505		113,978
Profit/(loss) of the period	116		61,101	
Total Equity		**464,635**		**472,093**

The **changes in the statement of financial position** between 31 December 2010 and 30 June 2011 are essentially due to the transfer of the investments in ErgyCapital S.p.A. and Drive Rent 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 amounts of the transfers, which were based on sworn appraisals by independent experts, were the same as the carrying amounts; indeed the amount of the equity of KME Partecipazioni S.r.l., equal to Euro 72.8 million, corresponds to the total of the portfolio investments listed above as at 31 December 2010.

The investment in KME Germany A.G., 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 represent 51.9% of the capital. The ownership of the ErgyCapital 2016 warrants represents 66.5% of the outstanding shares.
In regard to the 90% investment in Drive Rent S.p.A., we reiterate as above that it was merged into Cobra Automotive S.p.A effective from 1 July 2011; upon conclusion of this merger, at the date of this Report, KME Group S.p.A. owns 17,266,500 shares of Cobra or 42.68% of its share capital.

The amount of the **share capital** of KME Group S.p.A. as at 30 June 2011 has remained unchanged compared to the end of 2010 and equals Euro 297,013,585.26, divided into 447,278,603 ordinary shares and 43,699,416 savings shares, with no indication of their par value.

The reclassified **net financial position** of the Parent as at 30 June 2011 was positive by Euro 7.9 million.

Net financial position of KME Group S.p.A.

(Thousands of Euros)	30.06.2011	31.12.2010
Current financial payables	41,111	40,814
Non-current financial payables	66,834	73,641
Financial payables due to subsidiaries	52,764	55,332
Payables with respect to financial guarantees issued	14,117	13,277
(A) Total loans and borrowings	**174,826**	**183,064**
Cash and cash equivalents	(488)	(251)
Other financial assets	-	(14,358)
Financial receivables due from subsidiaries	(116,351)	(115,628)
Current receivables due from subsidiaries with respect to financial guarantees	(5,278)	(4,314)
(B) Total cash and cash equivalents, and current financial assets	**(122,117)**	**(134,551)**
other financial instruments measured at fair value	-	2,973
(C) Financial instruments measured at fair value	**-**	**2,973**
Consolidated net financial position (A)+(B)+(C)	**52,709**	**51,486**
Non-current receivables due from subsidiaries with respect to financial guarantees	(8,839)	(8,963)
Non-current financial receivables due from subsidiaries	(46,838)	(51,664)
Non-current financial receivables due from banks	(4,980)	(5,368)
Reclassified net financial position	**(7,948)**	**(14,509)**

The decrease, during the half year, of the financial position is the result of the payment of a dividend for ordinary and savings shares in May of this year, which required an outflow of Euro 8 million.

Outlook

Fees relating to the financial guarantees issued on behalf of subsidiaries are expected to continue to be accrued in the second half of 2011. Information on the outlook for investments is set out above in the section dealing with the outlook for the Group as a whole.

Florence, 4 August 2011

Board of Directors

Statement of the Manager in charge of financial reporting pursuant to the provisions of Italian Legislative Decree 58/1998, article 154-bis., para. 2 (the Consolidated Finance Act)

The Manager in charge of financial reporting, Marco Miniati, hereby certifies pursuant to paragraph 2, art. 154-bis of the Consolidated Finance Act (Italian Legislative Decree 58/1998), that the financial information contained in the "Condensed information on KME Group S.p.A. operations" as at and for the six months ended 30 June 2011 reflects the balances recorded in the accounting documents, books and entries.

The Manager in charge of financial reporting

(signed Marco Miniati)

KME Group S.p.A.

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Euro 273,761,740.66 fully paid up
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