



KME Group S.p.A.

Board of Directors' report
on management for the first half
of the 2007 financial year



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

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on management for the first half
of the 2007 financial year**

Registered Office: via dei Barucci, 2 – Florence, Italy
www.kmegroup.it

Share capital Euro 319,751,714.60, fully paid up
Tax code and Florence Company Registration no. 00931330583

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COMPANY BODIES AND INDEPENDENT AUDITORS

KME GROUP S.p.A.

Board of Directors

<i>Chairman</i>	Salvatore Orlando
<i>Vice Chairman</i>	Vincenzo Manes
<i>Directors</i>	Vincenzo Cannatelli ⁽³⁾
	Domenico Cova ⁽⁴⁾
	Mario d'Urso ⁽¹⁾ ⁽²⁾
	Marcello Gallo ⁽²⁾
	Giuseppe Lignana ⁽¹⁾
	Gian Carlo Losi ⁽⁴⁾
	Diva Moriani
	Alberto Pecci ⁽²⁾
	Alberto Pirelli ⁽¹⁾
	Italo Amedeo Romano ⁽⁴⁾

Board of Statutory Auditors

<i>Chairman</i>	Marcello Fazzini
<i>Standing Statutory Auditors</i>	Pasquale Pace
	Alessandro Trotter
<i>Alternate Statutory Auditors</i>	Marco Lombardi
	Angelo Garcea

Manager responsible for drafting accounting documents

Marco Miniati

Independent Auditors

KPMG S.p.A. ⁽⁵⁾

General representative for savings shareholders

Romano Bellezza

(1) Member of the Remuneration Committee.

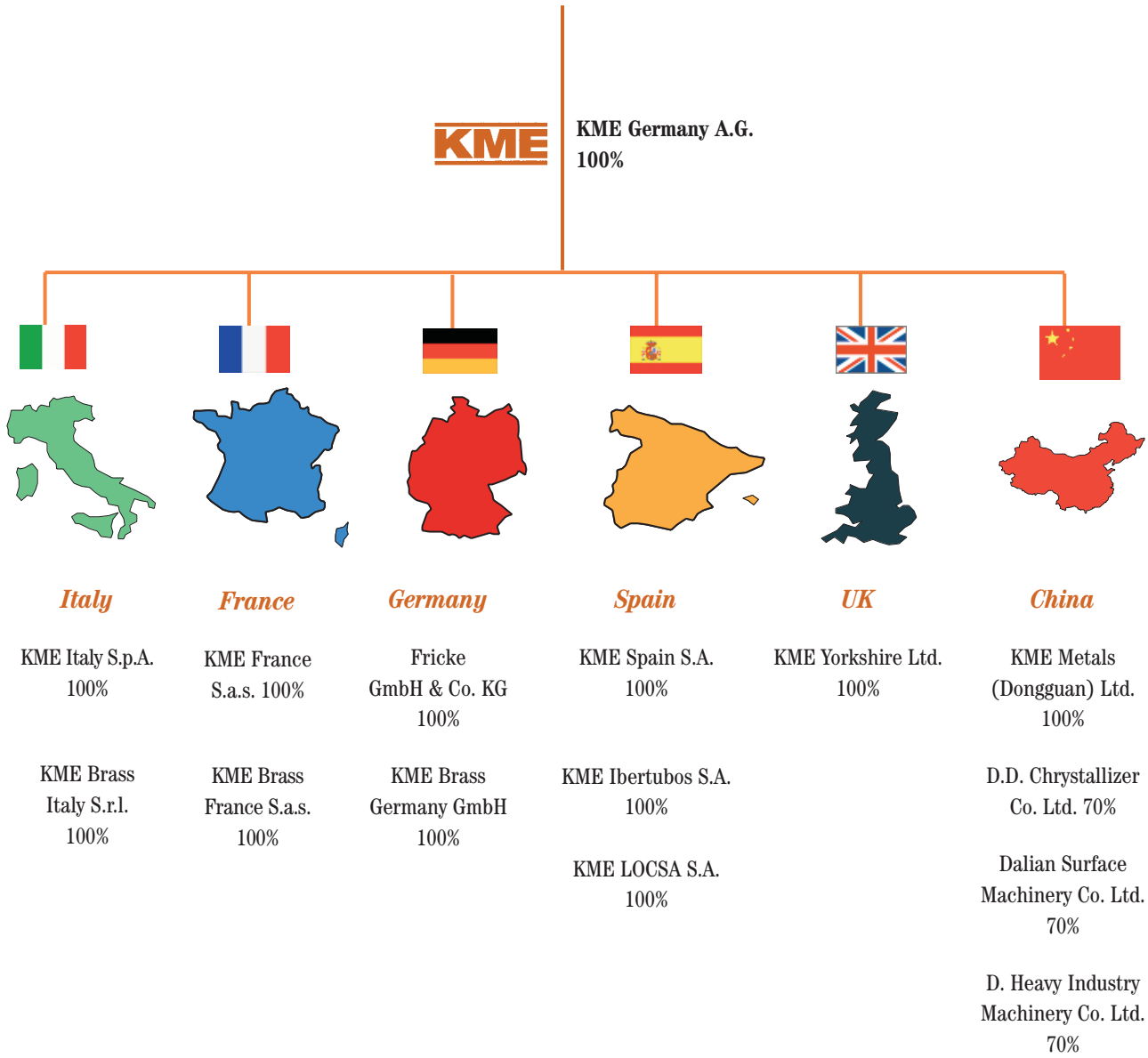
(2) Member of the Internal Control Committee.

(3) Mr. Cannatelli resigned as Chief Executive Officer effective 31 March 2007.

(4) Appointed by the Shareholders' Meeting of 3 August 2007. Domenico Cova and Italo Amedeo Romano were appointed as Managing Directors; Gian Carlo Losi was appointed as Secretary.

(5) Appointed by Shareholders' Meeting of 23 May 2007.

KME Group S.p.A.



DIRECTORS' REPORT

The Group's economic and financial results in the first half of the year improved over those of the same period last year, confirming the growth trend that began in the second half of 2006.

Consolidated sales for the half year were Euro 1,848 million, up 8.3% compared to the same period in 2006; net of raw materials value, sales increased by 9.1%, from Euro 430 million to Euro 469.3 million.

The Group's business plans successfully increased sales thanks to an improved mix and price recovery. These plans strengthened the Group's market position by emphasising products with higher added value, innovation, diversification of products and services offered at competitive terms, and greater presence on new markets. Particular attention was paid to markets in Eastern Europe and Asia, as demonstrated by recent acquisitions of Chinese companies manufacturing special high-technology-content products.

The favourable economic situation also contributed to improved results. Economic activity at the world level was generally positive, driven by rapid expansion of developing nations, especially those in Asia, which remain fundamental motors.

Growth in the world's various regions became more balanced, and prospects remain positive despite a certain slowdown deriving mainly from a slowdown of the US and Japanese economies.

International exports continued to sustain the European economy despite appreciation of the Euro, and growth in foreign demand was matched by more dynamic domestic demand, especially with regard to investments. Industrial output reached the highest values of the last five years, although the strong growth shown in the final months of last year was followed by signs of progressive slowdown in early 2007.

The favourable economic situation was reflected in demand for semi-finished products in copper and alloys; in Western Europe, where the Group has its greatest presence, these products were diversified by areas and production lines.

Demand for industrial products was good, especially in Germany and in other Northern European countries. The positive trend seen in the early months of the year was followed by a general slowdown. Likewise, demand for construction products increased in the first quarter as a result of favourable weather conditions, but tended to weaken in the second quarter.

World economic growth continued to increase raw materials prices, including that of copper, the metal most used for the Group's semi-finished products.

After the fall in prices recorded in the early months of this year, the price of copper became highly volatile and once again exceeded US\$ 8,000/tonn. High prices and volatility affect demand for semi-finished products because they create uncertainty in final users, who therefore tend to keep inventories at minimum levels.

The incidence of raw materials on Group sales rose to 75%. While on the one hand this clearly indicates the incidence of this component's influence on customer decisions, on the other it expresses the potential competitive advantage that can derive from rationalising and optimising the purchase and use of raw materials in the production process. The Group's investments have been and will continue to be allocated to achieve this goal.

In the first half of the year, the favourable sales trend was accompanied by positive contributions from re-organisation and production rationalisation measures implemented as part of the Business Plan.

This resulted in significant cost containment and increased profitability. **Gross operating profit (EBITDA)** increased from Euro 59.9 million to Euro 76.5 million (up 27.7%); as a percentage of revenue net of raw material value it rose from 13.9% to 16.3%. **Net operating profit (EBIT)** increased from Euro 16.1 million to Euro 51.0 million thanks to the absence of extraordinary expenses linked to the Group's re-organisation.

Operating profit is expressed net of the effect of the valuation of raw materials, which, due to their high prices and volatility, make it difficult to compare data from other periods. As a result, the performance trend cannot be properly represented. For more information, see the detailed description of the reclassification in the chapter entitled "Group financial trends".

The Group recorded **profit** for the period of Euro 66.1 million (compared to Euro 56.3 million for the six months ended 30 June 2006). The component deriving from revaluation of raw materials in the six month period (Euro 62.8 million gross of tax effect) was significantly lower than that in the same period last year (Euro 101.1 million gross of tax effect).

In the past two years, the targeting of operations and production sites has achieved significant growth in production: a 6% increase in production from the first half of 2005 to the first half of 2007 has been achieved with a 3% decrease in the average number of employees. These measures have contained the impact of increased unit costs of production factors (especially energy and transportation) on the income statement.

At 30 June 2007, the Group's **net financial debt** was Euro 455.2 million, a decrease of Euro 79.1 million (–14.8%) compared to 31 December 2006 (Euro 534.3 million). This decrease derives from the cash generated by current operations and, specifically, from positive results for the period and from rationalised management of the financial cycle, the duration of which was significantly reduced.

Thanks to increases in raw material prices from late 2006 to late June 2007, growing needs for working capital have been covered by new lines of credit granted by the Group's lending banks in late September 2006. Flexible use of such lines has allowed the Group to manage the variability of such needs promptly and effectively.

As for the **performance forecast** for 2007, the Group's prospects remain positive in the context of a favourable European scenario. Despite uncertainties caused by volatile raw material prices, operating results for 2007 are expected to generate a further increase in profitability compared to results for 2006.

Proposal to distribute available reserves via allotment of the investment in KME Green Energy

On 3 August 2007, the Shareholders' Meeting approved the proposal to distribute to the Company's Shareholders available reserves up to a maximum of Euro 1,948,445.10 via allotment of the Company's entire investment in the subsidiary KME Green Energy S.r.l., subject to its conversion into a company limited by shares ("S.p.A.").

Pursuant to the distribution, one share of KME Green Energy will be allotted for each ordinary share or each savings share of KME Group held.

KME Green Energy shares will be allotted to entitled parties on the first trading day following issuance of the ruling allowing trading of such shares on a ruled market or on such other day as agreed with competent authorities.

KME Green Energy was set up by KME Group on 3 July 2007 as a limited liability company ("S.r.l.") whose sole purpose is the acquisition (not regarding the general public) of the equity investments permitted to parties registered in the section referred to in Art. 113 of the Banking Act and in the general list referred to in Art. 106 of such Act, with express exclusion of granting of loans to the public.

In particular, in the context of such activity, KME Green Energy may assume, trade, and manage shareholdings, interests, and rights, whether or not represented by securities, in the capital of other companies, businesses or other bodies, listed or unlisted, majority or minority, as well as subscribe other financial instruments in general issued by such companies, businesses or other bodies.

KME Green Energy was set up by the Board of Directors of KME Group, which, in order to exploit opportunities offered by strong growth expected in the near future, has defined the guidelines of a Plan for investment in companies operating in the energy and renewable energy fields.

Pursuant to the Plan, KME Green Energy ordinary shares and warrants (as defined below) are to be traded on a regulated market.

KME Green Energy intends to become a principal player in the European renewable energy industry by means of financial investments in three business areas:

1. energy generation plants based on renewable sources;
2. products, services and technologies related to the renewable energy and energy-saving sector;
3. financial investments, i.e., venture capital, minority stakes, and units of funds in the renewable energy sector.

KME Green Energy will assume the technical and planning resources required for its operations, and has already found an industrial partner: Aledia S.p.A., holder of 19.998% of the share capital of KME Green Energy, with which it has signed an agreement. Aledia operates in the design, installation, and maintenance of electrical energy generation plants based on renewable sources, as well as in the creation of energy-saving solutions.

The Plan also provides that KME Group and its subsidiaries will provide the areas in which the companies to be acquired by KME Green Energy will build energy generation plants. This may allow Group companies to use the energy generated to cover the needs of its production units.

KME Green Energy will be led by Luca D'Agnese (former partner of McKinsey and outgoing Managing Director of Terna S.p.A.), who will be appointed the Company's Managing Director. Mr. D'Agnese has extensive experience in the energy industry thanks to his role at Terna S.p.A. and from know-how gained as CEO of GRTN - Gestore della Rete di Trasmissione Nazionale.

The Plan calls for:

- KME Green Energy's conversion from a company limited by quotas to a company limited by shares;
- the distribution of KME Green Energy shares to Shareholders of KME Group. The effectiveness of the resolution approving distribution is subordinate to issuance of the ruling to permit the listing of KME Green Energy shares and warrants (as defined below);
- a share capital increase up to a maximum of Euro 50 million, to be paid by KME Green Energy through the issuance of ordinary shares with no indication of par value, to be offered, for purposes of Art. 2441 of the Italian Civil Code, as an option to shareholders of Green Energy following distribution. The subscription price of each newly-issued share will be its implicit par value. For purposes of Art. 2441 section III of the Italian Civil Code, shareholders who exercise the option right will have a pre-emptive right to any new Green Energy shares for which option rights were not exercised, provided they simultaneously make a request therefor. The newly-issued ordinary shares will be paired at no cost with KME Green Energy S.p.A. warrants, freely circulating, at the ratio of 3 Green Energy warrants for 1 newly-issued ordinary share; the warrants will be exercisable at the ratio of 1 Green Energy ordinary share for 1 Green Energy warrant at the ordinary share subscription price referred to above. The effectiveness of the resolution approving the share capital increase will be subordinate to the CONSOB's issuance of authorisation to publish the incentive and listing prospectus regarding (i) the option for new Green Energy shares deriving from the capital increase and (ii) the listing of Green Energy shares and warrants on the ruled market;
- subsequently, the Plan calls for the possibility (compatible with financial market trends and the evolution of KME Green Energy's operations) of allowing institutional investors to participate in a larger capitalisation transaction of up to Euro 200 million.

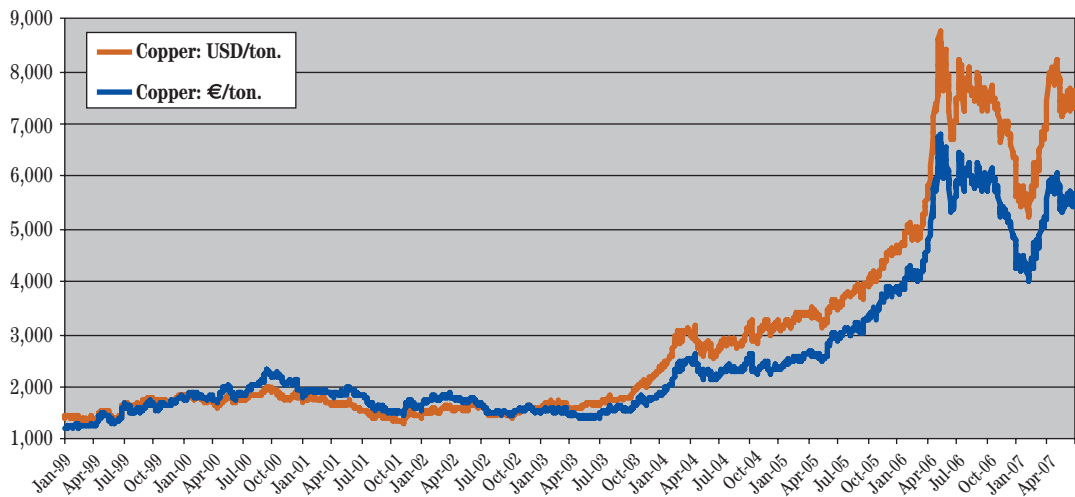
Copper market and prices

In the first half of 2007, the average trend of copper prices exceeded that of the same period last year by 11.7% in US\$ (rising from US\$ 6,075/ton. to US\$ 6,787/ton.) and by 3.7% in Euro (from Euro 4,920/ton. to Euro 5,100/ton.).

In terms of trend, the average price in the second quarter of 2007 compared to the first quarter was up by 28.8% in US\$ (from US\$ 5,933/ton. to US\$ 7,641/ton.) and by 25.3% in Euro (from Euro 4,523/ton. to Euro 5,667/ton.).

After dropping in the first quarter of this year, the copper prices began to rise again in April, reaching a monthly average of US\$ 7,967/ton. (corresponding to Euro 5,810/ton.) in July and US\$ 7,514/ton. (corresponding to Euro 5,520/ton.) in August.

COPPER PRICE LME SETTLEMENT



Group performance

The following table summarizes the Group's consolidated results for the first half of 2007. The comparative data are comparable because the IFRS were adopted for the entire 2006 and for both of the six-month reference periods. Some items ⁽¹⁾ of **gross operating profit** and **net operating profit** have been reclassified to better describe the actual trend of Group operations and to guarantee better comparability of results over time. Specifically:

- revenue is also shown net of raw material costs in order to eliminate the effect of price variability;
- the effects deriving from the change of the accounting standard applied to measure raw materials and the effects deriving from fair value valuation of hedging transactions made on the London Metal Exchange are itemized separately from revenue and from both gross and net operating profit. The adoption of IFRS caused a change in the measurement of metals inventories from the LIFO method to the weighted average cost system. This change, made in a context of rising prices, caused a revaluation of raw materials;
- non-recurring components are shown after the gross operating profit;
- the pre-tax profit is shown both gross ("adjusted pre-tax profit") and net of the effect of measurement of raw materials.

(1) Detail of reclassifications and reconciliation in compliance with IFRS:

(millions of Euros)	1 st half 2007 IFRS		Reclass.	1 st half 2007 RECL.	
Gross revenue	1,847.8			1,847.8	
Raw materials	0.0		(1,378.5)	(1,378.5)	
Revenue net of raw materials	1,847.8	100%		469.3	100%
Personnel expense	(182.9)			(182.9)	
Other consumables and costs	(1,524.3)		1,314.4	(209.9)	
Gross Operating Profit (EBITDA) (*)	140.6	7.61%		76.5	16.30%
Non-recurring (expense)/income	–		1.3	1.3	
Amortization and depreciation	(26.8)			(26.8)	
Net Operating Profit (EBIT)	113.8	6.16%		51.0	10.87%
Net financial expense	(16.5)			(16.5)	
Adjusted pre-tax profit	97.3	5.27%		34.5	7.35%
IFRS effect on inventories and LME contracts	0.0		62.8	62.8	
Pre-tax profit	97.3	5.27%		97.3	20.73%
Current taxes	(10.1)			(10.0)	
Deferred taxes	(21.0)			(21.0)	
Consolidated profit	66.3	3.59%	0.0	66.3	14.13%
Profit attributable to minority interests	0.2			0.2	
Profit attributable to the shareholders of the parent	66.0	3.58%	0.0	66.1	14.08%

(*) EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization) is not provided for by IFRS.

KME Group – Consolidated income statement

2006		(millions of Euros)	1 st half 2007		1 st half 2006		Change %
3,556.8		Gross revenue	1,847.8		1,705.6		8.3%
(2,709.5)		Raw materials	(1,378.5)		(1,275.6)		8.1%
847.3	100%	Revenue net of raw materials	469.3	100%	430.0	100%	9.1%
(347.4)		Personnel expense	(182.9)		(177.7)		2.9%
(373.4)		Other consumables and costs	(209.9)		(192.4) (*)		9.1%
126.5	14.93%	Gross Operating Profit (EBITDA)	76.5	16.30%	59.9	13.93%	27.7%
(26.5)		Non-recurring (expense)/income	1.3		(16.5)		n.s.
(53.7)		Amortization and Depreciation	(26.8)		(27.3)		-1.8%
46.3	5.46%	Net Operating Profit (EBIT)	51.0	10.87%	16.1	3.74%	216.8%
(41.6)		Net financial expense	(16.5)		(18.7) (*)		-11.8%
0.2		Results on par	0.0		0		n.s.
4.9	0.58%	Adjusted pre-tax profit	34.5	7.35%	(2.6)	-0.60%	n.s.
79.1		IFRS effect on inventories and LME contracts	62.8		101.1		-37.9%
84.0	9.91%	Pre-tax profit	97.3	20.73%	98.5	22.91%	-1.2%
(4.9)		Current taxes	(10.1)		(4.1)		143.9%
(27.4)		Deferred taxes	(21.0)		(38.1)		-44.9%
51.7	6.10%	Consolidated profit	66.3	14.13%	56.3	13.09%	17.8%
0.0		Profit attributable to minority interests	0.2		—		n.s.
51.7	6.10%	Profit attributable to the shareholders of the parent	66.0	14.08%	56.3	13.09%	17.4%

(*) For comparative purposes, Euro 2.0 million of factoring costs previously included in financial expense have been reclassified.

In the first six months of 2007, **revenue** totalled Euro 1,847.8 million, up 8.3% compared to the same period in 2006 (Euro 1,705.6 million).

Net of raw materials value, it rose 9.1%, from Euro 430.0 million to Euro 469.3 million thanks to an improved mix and price recovery. Sales volume decreased 2.9%.

Total **operating costs** increased by 6.1% due to greater production of products with higher added value and increased unitary costs of production factors, especially energy and transportation.
The labour cost component alone rose 2.9%.

Gross operating profit increased 27.7% to Euro 76.5 million. It represents 16.3% of revenue net of raw materials (compared to 13.9% for the first half of 2006).

Net operating profit totalled Euro 51 million (Euro 16.1 million for the first half of 2006); the absence of non-recurring costs linked to the Group's industrial reorganization (present in the same period last year) led to higher growth in EBIT.

The adjusted **pre-tax profit**, totalled Euro 34.5 million (a loss of Euro 2.6 million for the first half of 2006).

The **consolidated profit** for the period amounted to Euro 66.1 million (Euro 56.3 million for the first half of 2006); the revaluation of raw materials in the period was 38% lower than that in the same period last year.

Data by business area

Group industrial production is conducted in the following areas.

Revenue gross of raw materials

(millions of Euros)	Business area							
	Construction products		Industrial products		Consolid. and sundry		Group total	
First half 2007	684.8	37.1%	954.0	51.6%	209.0	11.3%	1,847.8	100.0%
First half 2006	692.8	40.6%	772.2	45.3%	240.6	14.1%	1,705.6	100.0%
Change %	-1.2%		23.5%		-13.1%		8.3%	

Revenue net of raw materials

(millions of Euros)	Business area							
	Construction products		Industrial products		Consolid. and sundry		Group total	
First half 2007	169.2	36.1%	300.1	63.9%	0.0	0.0%	469.3	100.0%
First half 2006	152.4	35.4%	277.5	64.5%	0.1	0.0%	430.0	100.0%
Change %	11.0%		8.1%		n.s.		9.1%	

In the first half of 2007, revenue net of raw materials of **industrial application products** represented 63.9% of total revenue; revenue from **construction products** 36.1%.

Building is an important end market for Group products.

Copper laminates are used in roofing, for accessories and façades; copper pipes are used in large quantities in home thermo-sanitary plants; and brass laminates and brass or bronze profiles are used in refinishing home interiors. Brass rods are widely used in the production of taps and faucets, handles, locks, valves and various accessories.

After a moderately positive trend in the first quarter, linked to good weather conditions, European demand for semi-finished products in copper and alloys for the home construction market showed signs of a slowdown. Consumption was influenced by the return of high copper prices and by volatility.

Shrinking demand for roofing laminates affected mainly Germany and France; better performance was achieved in some emerging Central-Eastern European markets. Likewise, sales of pipes for home thermo-sanitary plants was affected by the copper price trend in almost all Western European markets. In this unfavourable context, the Group was able to compensate for sales by increasing its presence in Central-Eastern Europe and in North Africa.

The trend for sales of brass rods for faucets and valves was positive but showed signs of slowing in the second quarter.

Semi-finished products in copper and alloys for **industrial use** are utilised in a wide variety of industrial sectors, from the car industry, to the electric and electronic components sector, to the air conditioning and refrigeration sector, to the figurines and gifts sector and mechanics in general.

Demand for these semi-finished goods was strong in the first quarter of the year, driven by a dynamic market in Germany and in other Northern European countries. This was followed by a general decline in demand. In this case as well, high raw material prices forced customers to keep inventories at a minimum.

In the first half of the year, there was strong demand for industrial laminates in Germany and in a few emerging markets such as Poland and Hungary, which offset the slowdown in other European countries.

The air conditioning and refrigeration sector generated strong sales of industrial pipes. Geographically, lower sales in Germany and Italy were compensated by the Group's position in countries such as Spain, Austria, Belgium, and Denmark, as well as in some important Central-Eastern Europe markets such as Russian and the Czech Republic.

Sales of brass and copper rods for electrical applications were positive.
Sales of ingot moulds for continuous steel casting were also positive.

Operating profit (EBIT)

(millions of Euros)	Construction products		Industrial products		Consolid. and sundry		Group total	
First half 2007	17.0	33.3%	35.7	70.0%	(1.7)	-3.3%	51.0	100.0%
First half 2006	13.7	85.1%	4.5	28.0%	(2.1)	-13.0%	16.1	100.0%
Change %	24.1%		n.s.		-19.0%		n.s.	

Assets by sector

(millions of Euros)	Construction products		Industrial products		Consolid. and sundry		Group total	
30 June 2007	636.2	31.3%	1,077.6	53.1%	316.4	15.6%	2,030.2	100.0%
31 December 2006	612.4	30.0%	1,018.6	49.9%	411.5	20.1%	2,042.5	100.6%
Change %	3.9%		5.8%		-23.1%		-0.6%	

Liabilities by sector

(millions of Euros)	Construction products		Industrial products		Consolid. and sundry		Group total	
30 June 2007	263.6	17.9%	445.6	30.3%	763.6	51.8%	1,472.8	100.0%
31 December 2006	232.2	15.0%	389.9	25.2%	925.1	59.8%	1,547.2	100.0%
Change %	13.5%		14.3%		-17.5%		-4.8%	

Amortization and depreciation

(millions of Euros)	Construction products		Industrial products		Consolid. and sundry		Group total	
First half 2007	8.7	32.5%	18.1	67.5%	0.0	0.0%	26.8	100.0%
First half 2006	8.9	32.6%	18.4	67.4%	0.0	0.0%	27.3	100.0%
Change %	-2.2%		-1.6%		n.s.		-1.8%	

Investments

(millions of Euros)	Construction products		Industrial products		Consolid. and sundry		Group total	
30 June 2007	6.8	28.8%	8.6	36.4%	8.2	34.7%	23.6	100.0%
31 December 2006	17.3	34.5%	28.7	57.2%	4.2	8.4%	50.2	100.0%
Change %	n.s.		n.s.		n.s.		n.s.	

Employees at 30 June 2007

(number employees)	Construction products		Industrial products		Consolid. and sundry		Group total	
30 June 2007	2,169	31.5%	4,717	68.5%	5	0.1%	6,891	100.0%
31 December 2006	2,173	32.9%	4,430	67.0%	6	0.1%	6,609	100.0%
Change %	-0.2%		6.5%		-16.7%		4.3%	

Investments

Investments in production units totalled Euro 24 million in the first half of 2007 (Euro 21 million in 2006). Investments continued in rationalization of the Group's production structure and in optimisation of raw material use.

As mentioned, the acquisition of 70% of Chinese company D. Heavy Industry Machinery Co. Ltd. and the simultaneous increase (from 30% to 70%) of stakes in two other companies (D.D. Chrystallizer Co. Ltd. and Dalian Surface Machinery Co. Ltd.) were completed on 8 June 2007.

The transaction had a total value of Euro 6.2 million. The acquired companies are estimated to have 2007 revenue of approximately Euro 15 million, with EBITDA of about 20% of sales.

The above acquisitions were conducted to consolidate the Group's presence on the Chinese market with regard to special products, in line with Industrial Plan goals to strengthen presence on emerging markets, especially in high-technology-content products.

Financial position

The following table presents the breakdown of **consolidated equity**:

(millions of Euros)	At 30.06.2007	At 31.12.2006
Share capital	319.7	319.6
Reserves	171.7	123.8
Profit for period	66.0	51.8
Total equity	557.4	495.2

The Group **net financial debt** at 30 June 2007 was Euro 455.2 million, Euro 79.1 million less than at the end of 2006.

The following table presents the breakdown of the **consolidated financial position**:

(millions of Euros)	At 30.06.2007	At 31.12.2006
Short term debt to banks	81.1	182.7
Medium to long term debt to banks	495.5	487.3
Financial debt to unconsolidated Group companies	9.0	80.7
Total financial debt	585.5	750.8
Cash and cash equivalents	(90.8)	(162.1)
Short-term financial receivables	(38.6)	(53.4)
Financial receivables to unconsolidated Group companies	(0.9)	(0.9)
Total cash and financial receivables	(130.3)	(216.4)
Total net financial debt	455.2	534.3

The above figures regarding financial position do not include potential expenditures for two EC sanctions, imposed on the Group industrial companies for two competition violations, for a total of Euro 107 million; these sanctions will generate cash flows only at the end of the entire process before EU courts, and only for an amount that is to be confirmed. Until that date, payment is guaranteed by a guarantee deposit (of Euro 17 million) and by bank sureties (of Euro 90 million); this extension however generates financial expense.

New and more flexible credit lines opened with the Group's banks in late September 2006 allow prompt and effective response to variability and coverage of increased working capital needs generated by higher raw material prices. In this regard, without recourse advances on trade receivables were made for Euro 426 million at 30 June 2007 (Euro 388.6 million at the close of 2006).

The cash flows for the first half of the year are summarised below:

Consolidated cash flow statement of KME Group S.p.A. for the six months ended 30 June 2007 - Indirect method (thousands of Euros)	First half 2007	At 31.12.2006
(A) Cash and cash equivalents at beginning of period/year	162,098	151,992
Pre-tax profit	97,308	84,133
Amortisation and depreciation	26,610	53,421
Impairment losses on current assets	133	1,439
Impairment losses/(reversals of impairment losses) on non-current assets other than financial assets	167	(2,027)
Impairment losses/(reversals of impairment losses) on current/non-current financial assets	—	1,149
Net interest accrued	14,577	33,452
Losses (gains) on non-current assets	(1,254)	(789)
Share of loss of equity - accounted associates	—	(216)
Change in pension funds, post employment benefits and stock option expense	130	681
Change in provisions for risks and charges	(4,166)	14,653
Decrease (increase) in inventories	(89,902)	(238,887)
(Increase) decrease in current receivables	4,401	108,694
(Increase) decrease in current payables	76,479	55,512
Changes from foreign currency translation	(24)	96
Net interest paid	(14,577)	(33,366)
Current taxes paid and reimbursed during the period/year	(10,072)	(5,004)
(B) Cash flows from operating activities	99,810	72,941
(Increases) in non-current intangible assets and property, plant and equipment	(23,563)	(50,242)
Decreases in non-current intangible assets and property, plant and equipment	7,021	3,512
(Increases) decreases in investments	(70)	(479)
(Increases) decreases in financial assets available for sale	—	—
Increases/decreases in other non-current assets/liabilities	407	16
Dividends received	1,511	1,750
(C) Cash flows from investing activities	(14,694)	(45,443)
Proceeds from the issue of share capital	96	128,835
Increases (decreases) in current and non-current financial payables	(169,323)	(84,036)
(Increases) decreases in current and non-current financial receivables	18,901	(60,877)
Dividends paid	(6,543)	(1,314)
(D) Cash flows from financing activities	(156,869)	(17,392)
(E) Change in cash and cash equivalents (B + C + D)	(71,753)	10,106
(F) Effect of change in consolidation scope	428	—
(G) Cash and cash equivalents at period/year end (A + E + F)	90,773	162,098

The following table presents the breakdown of reclassified **net invested capital**:

(millions of Euros)	At 30.06.2007	At 31.12.2006
Net non-current assets	773.5	778.2
Net working capital	711.2	706.9
Own funds	(472.2)	(455.7)
Net invested capital	1,012.5	1,029.4

Personnel

There were 6,886 employees at 30 June 2007 (6,609 at 31 December 2006). On a comparative basis, i.e., not considering the employees of recently acquired Chinese companies (334), there was a decrease of 0.9%.

(period average)	1 st half 2007		2006		Change %
Managers and white collars	1,750	25.2%	1,782	26.7%	-1.8%
Blue collars and technicians	5,193	74.8%	4,896	73.3%	6.1%
Total employees	6,943	100.0%	6,678	100.0%	4.0%

Related party transactions

Related party transactions, including intra-group operations, were neither atypical nor unusual, and therefore fall within the regular course of Group company business.

Effects from the relationships between KME Group S.p.A. and its subsidiaries are highlighted in the Parent Company accounts and their notes, and are eliminated in the drafting of the consolidated financial statements, as are those regarding relationships between the subsidiaries.

THE PARENT

In the first half of 2007, KME Group S.p.A. recorded profits of Euro 9.4 million net of taxes.

The **income statement** below has been reclassified, highlighting “Non-recurring income (expense)” on a separate line.

2006	Income statement (thousands of Euros)	1 st half 2007	1 st half 2006
0	Dividends from KME A.G.	–	–
2,913	Supply of services	1,468	1,553
(4,713)	Operating costs	(2,938)	(1,686)
(473)	Stock option cost	(187)	–
(1,584)	Net financial income (expense)	4,767	(2,354)
(3,857)	Profit from continuing operations	3,110	(2,487)
498	Non-recurring income (expense)	–	(1,211)
(3,359)	Pre-tax profit	3,110	(3,698)
10,565	Taxes	6,329	–
7,206	Profit	9,439	(3,698)

Ordinary profit improved thanks to higher net financial income, which includes:

- Euro 3.3 million in commissions paid by Group companies for guarantees given by the Parent to banks on behalf of such companies for the credit lines obtained in September 2006;
- Euro 1.3 million in dividends from Intek savings shares held in portfolio.

The positive balance of financial items has increased due to the elimination of the Euro 130 million subordinated loan of the Parent, which was fully repaid with the share capital increase carried out in the middle of last year.

Taxes are positive thanks to benefits accrued in the period (Euro 3.4 million) deriving from the use of prior tax losses of the Parent by Italian subsidiaries and the recognition of deferred tax assets (Euro 3.1 million) calculated on the Company’s taxable base estimated for the next two years, which may be covered with prior tax losses of the Parent.

The following table shows the main **balance sheet** items of KME Group S.p.A.:

ASSETS (thousands of Euros)	30.06.2007	31.12.2006
Investment property	7,735	10,535
Investment in KME Germany A.G.	303,851	303,156
Non-current assets	311,586	313,691
Intek savings shares	5,242	5,242
Sundry net receivables	20,755	9,684
Total assets	337,583	328,617

LIABILITIES (thousands of Euros)	30.06.2007	31.12.2006
Shareholders’ capital	319,739	319,643
Reserves	10,110	7,920
Equity	329,849	327,563
Net financial debt	(1,705)	(6,152)
Profit for the period/year	9,439	7,206
Total liabilities and equity	337,583	328,617

Shareholders’ equity increased due to the exercise of warrants in the period.

The **current reclassified net financial position** is positive for Euro 1.7 million.

(thousands of Euros)	At 30.06.2007	At 31.12.2006
Short-term loans to banks	10,114	102
Medium/long-term loans to banks	582	582
Financial payables to the parent	6,317	56,016
Payables for financial guarantees to subsidiaries	16,285	–
Total financial payables	33,298	56,700
Cash flows	(1,001)	(376)
Financial receivables from subsidiaries	(17,717)	(62,476)
Current receivables from financial guarantees to subsidiaries	(9,348)	–
Total cash and financial guarantees	(28,066)	(62,852)
Total net financial position	5,232	(6,152)
Non-current receivables from financial guarantees to subsidiaries	(6,937)	–
Total reclassified net financial position	(1,705)	(6,152)

Reclassification regards the inclusion of Payables and corresponding Receivables for financial guarantees to subsidiaries in the current and non-current part.

See the notes to the financial statements for details.

An examination of cash flows for the period illustrates the reasons for the changes:

Cash flow statement (thousands of Euros)	1 st half 2007	2006
(A) Cash and cash equivalents at beginning of the period/year	377	9,379
Pre-tax profit	3,110	(3,359)
Amortization and depreciation	1	–
Net interest accrued	(224)	3,186
Losses on non-current assets	–	(43)
Accruals to pension funds and similar	201	446
Accruals to other provisions	(90)	(934)
(Increase) decrease in current receivables	(8,788)	(7,337)
Increase (decrease) in current payables	(98)	463
Net interest paid	224	(3,100)
Current taxes (paid) and reimbursed during the period/year	3,262	10,532
(B) Cash flows from operating activities	(2,402)	(146)
(Increases) decreases in intangible assets and property, plant and equipment	2,775	(1,507)
Increases/decreases in other non-current assets/liabilities	–	(8)
(Increases) decreases in investments	–	–
Dividends received	1,265	415
(C) Cash flows from investing activities	4,040	(1,100)
Proceeds from the issue of share capital	96	128,835
Increases (decreases) in current and non-current financial payables	(23,402)	(89,655)
(Increases) decreases in current and non-current financial receivables	28,474	(45,622)
Dividends paid	(6,182)	(1,314)
(D) Cash flows from financing activities	(1,014)	(7,756)
(E) Profit on cash and equivalents (B + C + D)	624	(9,002)
(F) Cash and equivalents at period/year end (A + E)	1,001	377

Outlook

Revenue from commissions on guarantees given on behalf of subsidiaries and from benefits deriving from the national consolidated tax regime are expected to accrue in the second half of the year.

With regard to the performance of investments, see the above forecasts concerning Group performance on the whole.

Relationships with subsidiaries and the parent

As the parent, KME Group S.p.A. supplied services to Group companies. These activities generated income and expenses, which are broken down by company as follows:

(thousands of Euros)	1 st half 2007		2006	
	Income	Expenses	Income	Expenses
Intek S.p.A. (1)	1	(713)	75	—
KME Italy S.p.A.	1,220	(54)	2,172	(95)
KME Brass Italy S.r.l.	6	—	—	—
KME Germany A.G.	3,981	—	258	—
KME Brass Germany A.G.	6	—	—	—
KME France S.a.s.	288	—	516	—
KME Brass France S.a.s.	16	—	—	—
KME Yorkshire Ltd.	6	—	—	—
Immobiliare Agricola Limestone S.r.l.	89	—	—	—
Total	5,613	(767)	3,021	(95)

(1) G.I.M. - Generale Industrie Metallurgiche S.p.A. merged into Intek S.p.A. on 31 March 2007.

At 30 June 2007, receivables from subsidiaries were as follows:

(thousands of Euros)	30.06.2007	31.12.2006	Change	Change %
Financial receivables				
KME Italy S.p.A.	2,064	6,034	(3,970)	(65.79%)
KME Germany A.G.	10,302	54,191	(43,889)	(80.99%)
KME France S.a.s.	630	817	(187)	(22.89%)
Immobiliare Agricola Limestone S.r.l.	4,721	1,434	3,287	n.s.
	17,717	62,476	(44,759)	(71.64%)

(thousands of Euros)	30.06.2007	31.12.2006	Change	Change %
Trade receivables				
Intek S.p.A.	1	—	1	n.s.
KME Italy S.p.A.	34	—	34	n.s.
KME Brass Italy S.r.l.	6	—	6	n.s.
KME Germany A.G.	3,194	—	3,194	n.s.
KME Brass Germany A.G.	6	—	6	n.s.
KME France S.a.s.	16	—	16	n.s.
KME Brass France S.a.s.	16	—	16	n.s.
KME Yorkshire Ltd.	6	—	6	n.s.
	3,279	—	3,279	n.s.

The current account held with Intek S.p.A. generated net interest expense of Euro 0.7 million.

Current litigation

With reference to the information provided in the financial statements at 31 December 2006, the Company is still waiting for a hearing to be scheduled before the Court of first instance of the European Communities for the two community procedures.

With regard to the class actions pending in the United States, see the information provided in the financial statements at 31 December 2006.

Updates:

1. with regard to the case pending before the Federal Court of Tennessee (USA), in May 2007 the Court confirmed lack of jurisdiction on the substance of the application and rejected entirely the collective class action regarding sanitary pipes. The plaintiffs have filed an appeal;
2. in July 2007, the Federal Court of Tennessee rejected the collective class action regarding industrial pipes. The plaintiffs have filed an appeal;
3. in May 2007, the State Court of Massachusetts (USA) dismissed the collective class action;
4. the case before the State Court of California (USA) is still pending and there are no updates regarding the case under way before the Federal Court of California. Lastly, a class action begun before the Federal Court of California, which was served only on KME America. Technically, this case has not been suspended, but has not developed in any way.

There are no updates with regard to the two environmental suits concerning the industrial area in which the Brescia plant is located. These cases involve the Company and its subsidiary KME Italy S.p.A. separately.

Regarding the case involving KME Italy S.p.A., the next hearing has been set for 22 May 2008; for the case regarding the Company, the next hearing has been set for 20 December 2007.

It is too early to express an opinion as to the outcome of either case.

Investigation is currently under way for the cases pending before the Court of Hannover (Germany) regarding squeeze-outs and mergers.

There are no updates regarding the case brought against Luigi Orlando, the Company's former Chairman; the next hearing has been set for 12 June 2009.

The hearing for the case in Greece regarding a credit recovery action was adjourned from 27 April 2007 to 4 April 2008.

Lastly, the Italian Supreme Court, by ruling dated 29 March 2007 and published 10 July 2007, definitively confirmed the Company's case and rejected the plaintiff's claims in the suit regarding methods of withdrawal at the time of the merger of Europa Metalli - LMI S.p.A..

Subsequent events

See the above sections for information regarding the plan to invest in companies operating in the energy and renewable sources field.

On 16 July 2007, in order to carry out the resolutions passed by the Shareholders' Meeting of 21 June, there was a reverse split of the ordinary shares and savings shares of KME Group S.p.A. in the ratio of 1 new share for every 3 old shares in the same category. Consequently, as of such date the Company's share capital of Euro 319,751,714.60 was divided into 250,304,006 shares without indication of par value, of which 231,231,896 are ordinary shares (Euro 291,143,548.60) and 19,072,110 are savings shares (Euro 28,608,166.00). Also on 16 July 2007, the number of warrants needed to subscribe 1 ordinary share was changed from 1 to 3; consequently, the subscription price for 1 ordinary share was changed from Euro 0.35 to Euro 1.05.

* * *

See the respective notes for details and analyses of consolidated data and Parent data.

INVESTOR INFORMATION

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

In the first six months of 2007, the Group' shares recorded the following changes:

- **KME Group ordinary shares** had a high of **Euro 2.283** in May and a low of **Euro 1.590** in March;
- **KME group savings shares** had a high of **Euro 2.324** in May and a low of **Euro 1.474** in January.

(amounts expressed in Euros – situation post-reverse split 16 July 2007)

No. ordinary shares	231,231,896
No. savings shares	19,072,110
Share capital	319,751,714.60
No. warrants KME Group 2006-2009 outstanding	73,899,627

Market price (end of June 2007 – values adjusted post reverse split)

KME Group ordinary	2.049
KME Group savings	1.959

(amounts expressed in Euros – capitalization at end of June 2007 with values adjusted post reverse split)

Ordinary capitalization	473,794,155
Savings capitalization	37,362,263
Capitalization	511,156,418

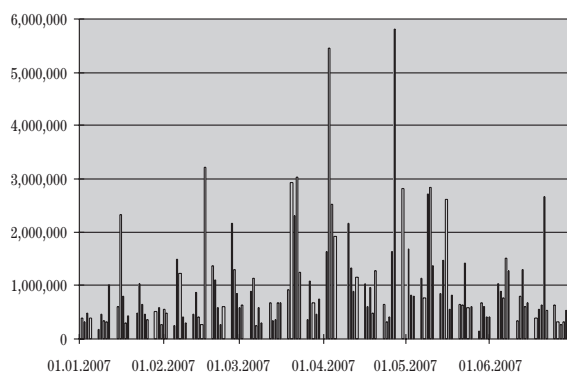
Shareholders

No. ordinary shareholders	13,000
Majority shareholders	
Intek	53.82%
J.P. Morgan	2.00%

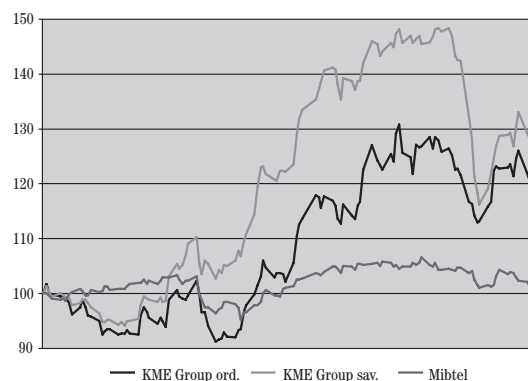
Dividend per share (amounts expressed in Euros)	2004	2005	2006
Dividend per ordinary share	–	–	–
Dividend per savings share	–	0.0230 (*)	0.1086 (**)
(*) Preference dividend effective 2003.			
(**) Gross unit dividend for 2006, equal to Euro 0.0362, and of preference dividends for 2005 and 2004.			

Stock Market performance (amount expressed in Euros)	End of 2006	June 2007	Change %
KME Group ord.	1.719	2.049	19.2%
KME Group sav.	1.549	1.959	26.5%
Mibtel	31,892	32,886	3.1%

Volumes traded KME Group ordinary shares 1st half 2007



Quotations 1st half 2007



INTERIM CONSOLIDATED FINANCIAL STATEMENTS

KME Group S.p.A.

Consolidated balance sheet

Distinction made between current/non-current items (amounts in thousands of Euro)	Note	As at 30.06.2007	As at 31.12.2006
Property, plant and equipment	4.1	608,350	619,923
Investment property	4.2	15,895	10,591
Goodwill and goodwill arising on consolidation	4.3	114,582	109,840
Other intangible assets	4.4	1,521	955
Investments in subsidiaries and associates	4.5	4,973	4,906
Other investments	4.5	245	245
Investments in equity accounted investees	4.5	—	2,634
Other non-current assets	4.6	28,031	29,143
Deferred tax assets	4.19	34,537	44,710
Non-current assets		808,134	822,947
Inventories	4.7	773,529	683,627
Trade receivables	4.8	229,632	230,693
Other receivables and current assets	4.9	71,715	67,791
Current financial assets	4.10	56,446	75,347
Cash and cash equivalents	4.11	90,773	162,098
Current assets		1,222,095	1,219,556
TOTAL ASSETS		2,030,229	2,042,503
Share capital		319,739	319,643
Other reserves		2,585	(4)
Treasury shares	2.10	(37)	(37)
Retained earnings		5,917	5,176
Consolidation reserves (*)		69,095	25,044
IFRS reserve	2.10	92,518	93,658
Profit (loss) for the period/year		66,017	51,785
Equity attributable to shareholders of the parent		555,834	495,265
Equity attributable to minority interests		1,626	—
Total equity		557,460	495,265
Employee benefits	4.13	166,058	166,904
Deferred tax liabilities	4.19	170,816	160,289
Financial payables and liabilities	4.14	495,469	487,353
Other non-current liabilities	4.15	7,017	7,721
Provisions for risks and charges	4.16	130,492	143,137
Non-current liabilities		969,852	965,404
Financial payables and liabilities	4.17	101,670	279,175
Trade payables	4.18	232,095	164,575
Other current liabilities	4.18	129,833	108,080
Provisions for risks and charges	4.16	39,319	30,004
Current liabilities		502,917	581,834
TOTAL LIABILITIES AND EQUITY		2,030,229	2,042,503

(*) The item “Consolidation reserves” consists of the profit/(loss) reserve from previous years, the consolidation reserve, and the conversion reserve.

KME Group S.p.A.

Consolidated income statement

Costs classification by nature (amounts in thousands of Euro)	Note	1 st half 2007	1 st half 2006	Change
Revenue from sales	5.1	1,847,816	1,705,628	142,188
Variation in inventory of finished and semi-finished products		8,804	4,557	4,247
Capitalised internal works		677	1,188	(511)
Other operating income		8,265	6,101	2,164
Purchase and change of raw materials		(1,384,309)	(1,204,057)	(180,252)
Personnel expense	5.2	(182,957)	(177,703)	(5,254)
Amortisation, depreciation and impairment losses	5.3	(26,777)	(27,310)	533
Other operating expenses	5.4	(157,719)	(189,210)	31,491
Operating profit (EBIT)		113,800	119,194	(5,394)
Financial income	5.5	4,618	4,578	40
Financial expense	5.5	(21,109)	(25,278)	4,169
Share of profit/(loss) of equity accounted investees		—	—	—
Pre-tax profit		97,309	98,494	(1,185)
Current taxes	5.6	(10,070)	(4,100)	(5,970)
Deferred taxes	5.6	(20,976)	(38,049)	17,073
Total income taxes		(31,046)	(42,149)	11,103
Profit from continued operations		66,263	56,345	9,918
Profit from discontinued operations		—	—	—
Total profit for the period		66,263	56,345	9,918
Profits attributable to minority interests		246	—	246
Profits attributable to the shareholders of the parent		66,017	56,345	9,672

Earnings per share (in Euro)	1 st half 2007	1 st half 2006
Basic earnings per share	0.2766	0.5052 (*)
Diluted earnings per share	0.2365	0.5052 (*)

(*) "Earnings per share" at the foot of the income statement consider for the purposes of IAS 33 paragraph 64, the reverse split (at the ratio of 1 ordinary and savings share for every 3 of the same type) resolved by the Shareholder's Meeting of 21 June 2007 and carried out on 16 July 2007.
As a result of such transaction, the indices at 30 June 2006 have been adjusted to reflect the new number of shares.

Schedule of changes in consolidated share equity of KME Group S.p.A. at 30 June 2007

(amounts in thousands of Euro)	Share capital	Other reserves	Treasury shares	Retained earnings	Consolidation reserve	IFRS reserve	Profit for the year/period	Total equity
Equity at 31.12.2005 IFRS	189,775	0	(37)	5,165	22,292	93,658	4,343	315,196
Allocation of previous year's profit	0	70	0	11	4,262	0	(4,343)	0
Distribution of dividends	0	0	0	0	(1,314)	0	0	(1,314)
Share capital increase net of expenses	129,868	(1,033)	0	0	0	0	0	128,835
Granting of stock options	0	959	0	0	0	0	0	959
Change in consolidation reserves	0	0	0	0	(196)	0	0	(196)
Profit for the period	0	0	0	0	0	0	51,785	51,785
Equity at 31.12.2006 IFRS	319,643	(4)	(37)	5,176	25,044	93,658	51,785	495,265
Allocation of Parent profit	0	1,398	0	6,948	0	(1,140)	(7,206)	0
Allocation of subsidiaries' profit	0	0	0	0	44,579		(44,579)	0
Distribution of dividends	0	0	0	(6,207)	0	0	0	(6,207)
Share capital increase net of expenses	96	0	0	0	0	0	0	96
Granting of stock options	0	882	0	0	0	0	0	882
Recognition in Equity w/o impact on IS	0	309	0	0	0	0	0	309
Change in consolidation reserves	0	0	0	0	(527)	0	0	(527)
Profit for the period	0	0	0	0	0	0	66,017	66,017
Equity at 30.06.2007 IFRS	319,739	2,585	(37)	5,917	69,096	92,518	66,017	555,835
Reclassification of treasury shares	(37)	0	37	0	0	0	0	0
Equity at 30.06.2007 IFRS	319,702	2,585	0	5,917	69,096	92,518	66,017	555,835

At 30 June 2007, prior to the reverse split, the Parent held directly 65,000 savings shares without par value. Such shares were entirely reclassified to reduce the share capital.

The change in "consolidation reserves" is attributable mainly to the first consolidation of the Chinese companies and, to a lesser extent, to the effect of the translation into Euros of financial statements items expressed in currencies other than the presentation currency.

Reconciliation schedule of consolidated share equity of KME Group S.p.A. at 30 June 2006

(amounts in thousands of Euro)	Share capital	Other reserves	Treasury shares	Retained earnings	Consolidation reserve	IFRS reserve	Profits for the year/period	Total equity
Equity at 31.12.2005 IFRS	189,775	0	(37)	5,165	22,292	93,658	4,343	315,196
Allocation of previous year's profit		70		11	4,262		(4,343)	0
Distribution of dividends					(1,314)			(1,314)
Expenses for share capital increase		(25)						(25)
Change in consolidation reserves					(111)			(111)
Profit for the period							56,345	56,345
Equity at 30.06.2006 IFRS	189,775	45	(37)	5,176	25,129	93,658	56,345	370,091
Reclassification of treasury shares	(33)	0	37	(4)	0	0	0	0
Equity at 30.06.2006 IFRS	189,742	45	0	5,172	25,129	93,658	56,345	370,091

KME Group S.p.A.

Consolidated cash flow statement

Consolidated cash flow statement – Indirect method (amounts in thousands of Euro)	1 st half 2007	1 st half 2006
(A) Cash and cash equivalents at beginning of period	162,098	151,992
Pre-tax profit	97,308	98,494
Amortisation and depreciation	26,610	27,178
Impairment losses on current assets	133	530
Impairment losses on (reversals of impairment losses) on non-current assets other than finan. assets	167	132
Impairment losses on (reversals of impairment losses) on current/non-current financial assets	–	557
Net interest accrued	14,577	19,068
Losses on non-current assets	(1,254)	(1,351)
Share of profit/(losses) of equity accounted associates	–	–
Change pension funds post employment benefits and stock option expense	130	(985)
Change in provisions for risks and charges	(4,166)	11,923
Decrease (increase) in inventories	(89,902)	(204,718)
(Increase) decrease in current receivables	4,401	(113,010)
Increase (decrease) in current payables	76,479	99,899
Changes from foreign currency translation	(24)	(41)
Net interest paid	(14,577)	(19,021)
Current taxes paid and reimbursed during the period	(10,072)	(4,100)
(B) Cash flows from operating activities	99,810	(85,445)
(Increases) in non-current intangible assets and property, plant and equipment	(23,563)	(21,544)
Decreases in non-current intangible assets and property, plant and equipment	7,021	2,820
(Increases) decreases in investments	(70)	176
(Increases) decreases in financial assets available for sale	–	–
Increases/decreases in other non-current assets/liabilities	407	1,305
Dividends received	1,511	824
(C) Cash flows from investing activities	(14,694)	(16,419)
Proceeds from the issue of share capital	96	–
Increases (decreases) in current and non-current financial payables	(169,323)	46,860
(Increases) decreases in current and non-current financial receivables	18,901	(20,590)
Dividends paid	(6,543)	(1,339)
(D) Cash flows from financing activities	(156,869)	24,931
(E) Change in cash and cash equivalents (B + C + D)	(71,753)	(76,933)
(F) Effect of change in consolidation scope	428	–
(G) Cash and cash equivalents at end of period (A + E + F)	90,773	75,059

ACCOUNTING POLICIES

1. General information

KME Group S.p.A. (KME GR) and its industrial subsidiaries (which together form the “Group”) operate in the semi-finished copper and copper alloys sector.

The Group owns industrial plants in many European countries and sells its products on all the principal world markets. KME Group is a company limited by shares registered in Italy at the Florence company registry under no. 00931330583; its shares are listed on the telematic stock exchange organized and managed by Borsa Italiana S.p.A.

The half-year report at 30 June 2007 was approved by the Board of Directors on 10 September 2007.

The three Chinese companies (Dalian Dashan Crystallizer Co. Ltd., Dalian Heavy Industry Machinery Co. Ltd., and Dalian Surface Machinery Co. Ltd.) acquired during the period are wholly consolidated in this Report on a line-by-line basis for the first time. The comparative consolidated data presented regarding the previous year have not been adjusted because the effects produced by the change in the consolidation scope are insignificant.

2. Accounting policies adopted

2.1 Reporting criteria

This half-year Report at 30 June 2007 was in accordance with the instructions provided by the Italian Commission for Listed Companies and the Stock Exchange (CONSOB) in the Issuer Regulation and in conformity with International Financial Reporting Standards (IFRS).

Specifically, the form and content of this Report conform to the disclosure required by IAS 34 and by Art. 81 of CONSOB regulation 11971/99 and subsequent modifications.

The consolidated half-year report was prepared in conformity with the measurement and recognition criteria established by the International Financial Report Standards (IFRS) issued by the International Accounting Standards Board (IASB) and endorsed by the European Commission according to the procedure referred to in Art. 6 of EC Regulation 1606/2002 of the European Parliament and Council dated 19 July 2002. When drafting this Report, the Directors took account of the principle of accruals, the going concern assumption and the concepts of clarity, significance, relevance, reliability, fairness, prudence, and comparability. When drafting this Report, the Group applied the same accounting policies and calculation methods used in the latest annual financial statements.

The Group has not yet applied those standards which, though issued by the IASB, have an effective date later than the reference date for this Report. We estimate that the future adoption of these standards will not have any significant impact on the Group's overall financial position.

Company events and transactions are recorded and represented in conformity with their economic substance and not only according to their legal form.

The notes in this Report describe the content and significance of alternative performance indicators not required by IFRS, in line with recommendation CESR 05 – 178b published on 3 November 2005.

2.2 Basis of consolidation

(a) Subsidiaries

The subsidiaries are all companies over which KME GR has the power to govern the financial and operating policies, generally accompanied by the possibility of exercising more than 50% of the voting rights in the company bodies.

The assets, liabilities, income and expenses of the subsidiaries consolidated have been fully recognised in the consolidated financial statements; the carrying amount on a line-by-line basis of these investments is eliminated against the corresponding portion of equity of the investees, attributing the fair value at the date that control was acquired to each individual asset and liability item. Any residual difference, if positive, is recognised under the asset item “goodwill and goodwill arising on consolidation”; if negative, it is recognised in the income statement. Equity and

profit for the period attributable to minority interests are recognised under specific items. Subsequent to initial recognition, “goodwill” is measured at cost net of any accumulated impairment losses according to IAS 36 “*Impairment of assets*”.

At the time of the first adoption of IFRS, KME Group S.p.A. opted for the non-retrospective application of IFRS 3 (Business combinations) as allowed by IFRS 1 paragraph 13a.

At the transition date to IFRS, there were no changes to the consolidation scope, which excludes non-significant subsidiaries and companies whose consolidation does not produce any significant effects. These generally involve companies which perform commercial activities. The effects of these exclusions do not have significance and therefore their omission does not influence the financial decisions of the users of this half-year report.

Unrealised inter-company profit with third parties, if significant, are eliminated. Also subject to elimination are receivables, payables, income, expenses, guarantees, commitments and risks between consolidated companies. Inter-company losses are not eliminated because they represent the impairment loss on the asset sold. All subsidiary financial statements were adjusted to unify the standards and measurement criteria adopted at Group level.

The following is a schedule of subsidiaries consolidated on a line-by-line basis.

Summary schedule of companies consolidated on a line-by-line basis

Name	Reg. Office	Currency	Share/ quota capital	Business object	% of ownership	
					Direct	Indirect
KME Group S.p.A.	Italy	Euro	319,643,223	Financial holding	Parent Co.	
KME Germany A.G. (***)	Germany	Euro	142,743,879	Copper & alloys processing	100.00%	
KME Italy S.p.A. (***)	Italy	Euro	100,000,000	Copper & alloys processing		100.00%
KME France S.a.s. (***)	France	Euro	53,000,000	Copper & alloys processing		100.00%
KME Spain S.A. (***)	Spain	Euro	1,943,980	Holding		100.00%
KME LOCSA S.A. (***)	Spain	Euro	10,040,000	Copper & alloys processing		100.00%
KME Verwaltungs und Dienst. mit beschr.	Germany	Euro	10,225,838	Copper & alloys processing		100.00%
Fricke GmbH	Germany	Euro	25,564	Holding		100.00%
Kabelmetal Messing Beteiligungsges mbH Berlin	Germany	Euro	15,338,756	Real estate		100.00%
Fricke GmbH & Co. KG	Germany	Euro	1,329,359	Copper & alloys processing		100.00%
Cuprum S.A.	Spain	Euro	60,910	Sales		100.00%
Bertram GmbH	Germany	Euro	300,000	Services		100.00%
KME Ibertubos S.A.	Spain	Euro	332,100	Copper & alloys processing		100.00%
KME Yorkshire Ltd.	UK	GBP	10,014,603	Copper & alloys processing		100.00%
Yorkshire Copper Tube	UK	GBP	3,261,000	Not operative		100.00%
Yorkshire Copper Tube (Exports) Ltd.	UK	GBP	100	Not operative		100.00%
KME Brass Germany GmbH (***)	Germany	Euro	50,000	Copper & alloys processing		100.00%
KME Brass France S.a.s. (***)	France	Euro	7,800,000	Copper & alloys processing		100.00%
Immobiliare Agricola Limestone S.r.l.	Italy	Euro	7,735,000	Real estate	100.00%	
Dalian Dashan Chrystallizer Co. Ltd. (*)	China	RMB	10,000,000	Copper & alloys processing		70.00%
Dalian Surface Machinery Ltd. (*)	China	RMB	5,500,000	Copper & alloys processing		70.00%
Dalian Heavy Industry Machinery Co. Ltd. (*)	China	RMB	10,000,000	Copper & alloys processing		70.00%
KME Brass Italy S.r.l. (***)	Italy	Euro	15,025,000	Copper & alloys processing		100.00%
EM Moulds S.r.l. (***)	Italy	Euro	115,000	Copper & alloys processing		100.00%

(*) At 30 June 2007, following their acquisition, the three Chinese companies were included in the consolidation scope. Dalian Dashan Chrystallizer Co. Ltd. and Dalian Surface Machinery Ltd. had previously been consolidated using the equity method. Further details on these acquisitions are provided elsewhere in this Report.

(**) In the first half of 2007, EM Moulds S.r.l. was set up with the aim of increasing the value of the ingot mould business. EM Moulds S.r.l. leads the company branch that markets the ingot mould sector previously included among KME Italy S.p.A.'s businesses.

(***) Effective 1 May 2007, all of the specified companies adopted a new company name bearing the “KME” trademark in order to strengthen its visibility and recognition on international markets.

(b) Associates

Associates are all companies upon which KME GR exercises significant influence but not control. Significant influence is presumed when KME GR owns, directly or indirectly through subsidiaries, 20% or more of the voting rights exercisable at shareholders' meetings. Interests in associates are consolidated using the equity method.

Under the equity method, the interest is initially recognised at cost subsequently adjusted to recognise the parent's share of profit or loss accrued following the acquisition date. The dividends received reduce the carrying amount of the interest.

At the reporting date, there were no associates consolidated using the equity method.

(c) Joint ventures

A joint venture is a contractual agreement through which 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, set by contract.

Joint ventures are consolidated using the proportional consolidation method as defined in IAS 31 paragraphs 30-37.

At the date of this Report, the Group did not participate in any joint ventures as defined by IAS 31.

2.3 Transactions in foreign currencies

(a) Functional and presentation currency

All amounts are expressed in Euros, which is also the functional currency of the Parent.

(b) Translation of financial statements prepared in currencies other than the Euro

Financial statements expressed in foreign currencies were translated into Euros by applying the average exchange rates for the period to individual income statement items, and the exchange rates ruling at the closing date of this report to individual balance sheet items.

The following exchange rates were used to translate foreign currency amounts:

1 Euro	equal to a 0.6716 GBP	31 December 2006
1 Euro	equal to 0.6740 GBP	30 June 2007 used to translate the balance sheet
1 Euro	equal to 0.6746 GBP	2007 average, used to translate the income statement
1 Euro	equal to 10.2793 RMB	31 December 2006
1 Euro	equal to 10.2816 RMB	30 June 2007 used to translate the balance sheet
1 Euro	equal to 10.2710 RMB	2007 average, used to translate the income statement

The difference between the profit for the period resulting from the translation of average exchange rates for the period and the profit resulting from the translation based on rates at the end of June was allocated to the consolidation reserves and equity attributable to minority interests to the extent pertaining to the Group and minority interests, respectively. In case of sale, these differences will be charged to the income statement as gains or losses from the sale of these investments.

2.4 Property, plant and equipment

Property, plant and equipment are recognised at purchase or production cost, including accessory charges directly attributable to them.

Items of them are measured at cost, net of depreciation and accumulated impairment losses, with the exception of land, which is not depreciated and is measured at cost, net of accumulated impairment losses.

Depreciation is recognised starting from the month in which the asset is available for use or is potentially able to generate the economic benefits associated with it. They are charged monthly on a straight-line basis over their useful life, or, for disposals, over their last month of use.

The depreciation rates take into consideration the useful life of the various plants according to the results of the report in American Appraisal. The new useful lives were applied to property, plant and equipment starting on 1 January 2004, and at the transition date to IFRS, their fair value was adopted as deemed cost, while for the other assets, the new useful lives were applied starting on 1 January 2005.

Financial expenses relative to the purchase of property, plant and equipment are charged to the income statement unless they are directly attributable to the acquisition, construction, or production of an asset that justifies capitalization.

Replacing parts of significant value are capitalized and depreciated based on the useful life of the related asset; others are taken to the income statement when the cost is incurred.

Asset purchased under finance leases are recognised as property, plant and equipment as a counter-item of the related payable. The lease instalment is broken down into financial charges, charged to the income statement, and of its principal repayment, recognised as a reduction in the financial payable. Assets under finance leases are recognised at the lower of cost and the present value of the minimum lease payments at the inception of the lease.

Items of property, plant and equipment are subject to an impairment test if there are specific indicators of on impairment loss. The test consists of the estimate of the recoverable amount of the asset, defined as the higher of net selling price and value in use, compared to net carrying amount. If recoverable amount is less than the carrying amount, the latter is reduced to the recoverable amount; this reduction is charged to the income statement or to the revaluation reserve that was established previously, at the time of revaluation of the asset in question. Any subsequent revaluations employ the reverse procedure.

2.5 Intangible assets

(a) Goodwill

Goodwill refers to the difference between the acquisition cost of investments and the current value of assets, liabilities, and contingent liabilities of the subsidiary at the acquisition date. Goodwill and other intangible assets with indefinite useful life are not subject to amortization; the recoverability of their carrying amount is checked annually or whenever events take place that might cause an impairment loss. Any impairment losses cannot be reinstated.

(b) Other intangible assets with finite useful life

These assets lack physical substance, are identifiable, controlled by the company, and capable of producing future economic benefits.

The company may acquire intangible assets via:

- acquisition from third parties;
- business combinations;
- internal production.

In the first two cases, intangible assets are measured initially and in respect to their cost and fair value including any directly attributable charges. They are then amortized systematically over their useful life, which is the estimate of the period in which the assets are used by the company, usually from 3 to 5 years. These assets are moreover shown net of any impairment losses by adopting the same criteria as indicated for “property, plant and equipment”. Their residual value at the end of their useful life is considered to be zero.

Assets produced internally are capitalized only if the conditions specified in IAS 38 paragraph 57 exist.

2.6 Investment property

These are land and factories owned for purposes of earning rental income or for capital appreciation, or both. These assets are measured at fair value and are therefore not amortized. At the date of transition to IFRS, these assets were measured at fair value and this value was used as deemed cost. Changes in fair value are charged directly to the income statement.

2.7 Financial assets

All investments and interests in subsidiaries, associates and joint ventures are measured at cost in the financial statements of the individual subsidiaries.

For the reasons illustrated in paragraph 2.2, investments in subsidiaries outside the consolidation scope are measured at cost adjusted to reflect impairment losses.

Other interests are measured at fair value and their effects are taken to equity. When fair value cannot be reliably determined, interests are measured at cost adjusted to reflect impairment losses.

Non-derivative financial assets with fixed or determinable payments and fixed maturities that the company has the intention and ability to hold up to maturity are designated as “*assets held to maturity*”. Held-to-maturity assets are measured with the amortized cost method, using the effective interest method as defined in IAS 39.

Financial assets that are purchased or held primarily for resale or repurchase in the short term and the financial derivatives not designated as hedging instruments are classified in the category “*financial assets at fair value through profit or loss*”. These assets are measured at fair value and their effects are taken to the income statement.

Non-derivative financial assets, with the exception of equity instruments, having fixed or determinable payments and not listed on an active market, and not falling within previous categories, are classified as “*loans and receivables*” and are measured at amortized cost using the effective interest method. For current *loans* and *receivables* and generally for all short term receivables and payables for which the time component is insignificant, amortized cost is assumed to coincide with the carrying amount.

All other non-derivative financial assets that are not classified in the previous three categories are classified as “*financial instruments available for sale*” and measured at fair value, and their effects are recognised directly in equity, except for impairment losses.

All financial assets, except for “*financial assets at fair value through profit or loss*” are tested for impairment according to IAS 39 paragraphs 58-70.

Treasury shares are measured at historical acquisition cost and recognised as a reduction in consolidated equity.

The Group uses derivatives to hedge against changes in the price of raw materials, interest rates and exchange rates. The use of derivatives — mainly London Metal Exchange contracts, interest rate swaps and foreign currency forward exchange contracts — is governed by explicit risk management strategies, approved by the Board of Directors. The Group does not use financial instruments for speculative purposes. The Group does not recognise these financial instruments pursuant to hedge accounting rules because its operation does not satisfy the formal requirements of IAS 39.

2.8 *Factoring*

KME Group factors a large part of its trade receivables. Factoring may be with or without recourse. The Group's factoring transactions without recourse conform to the requirements of IAS 39 for derecognition of the asset, given that risks and rewards are substantially transferred. Any transactions that do not conform with the requirements of IAS 39 are maintained in the Group's balance sheet even if they have legally been transferred; a financial liability of equal amount is recognised in the consolidated financial statements.

2.9 *Inventories*

Inventories are measured at the lower of cost and net realisable value. The cost, calculated by applying the weighted average cost method on a quarterly basis, includes all direct charges and a share of the other costs incurred to bring the inventories to their current place in their current conditions. The transformation cost of finished and semi-finished products includes directly attributable accessory costs and the portion of indirect production costs that can be reasonably allocated to the product. Contract work in progress is measured based on the matured contractual fees within reasonable certainty for the part of the order that has been performed, less marketing costs.

2.10 *Cash and cash equivalents*

This item includes cash, on-demand deposits, and short-term high-liquidity financial investments that may be readily convertible into cash, and are subject to little risk of change in value (IAS 7 paragraph 45).

2.11 *Equity*

Equity consists of ordinary shares and savings shares without par value, subscribed and paid up at the reporting date, reduced by any share capital proceeds yet to be received. Pursuant to IAS 32, repurchased treasury shares are shown as a decrease of issued capital, while the premium or discount with respect to par value adjusts other equity components.

This representation is only given in the notes, while in the schedules the historical cost of treasury shares is shown separately with a minus sign, thus reducing equity.

The reserve for the purchase of treasury shares is no longer recorded due to the different presentation method introduced by IFRS. The balance of the current reserve has been reclassified to the specific reserves previously used to create it.

Costs for equity transactions have been charged directly as a reduction in reserves, preferably using the share premium reserve.

The balance of IFRS adjustments is recognised in a specific equity reserve called “IFRS reserve”.

2.12 Payables

Payables are recognised at amortized cost. When the effect of discounting is irrelevant — such as for short-term trade payables — they are recorded at face value.

2.13 Current and deferred taxes

Current income taxes are calculated based on an estimate of taxable income, with consideration of the tax rates and regulations that are applicable or substantially approved at period end.

Deferred taxes are calculated on the temporary differences between the carrying amount of the assets and liabilities recognised in the balance sheet and the corresponding amounts recognised for tax purposes according to the balance sheet liability method. Deferred tax assets are recognised only when recovery is probable. The carrying amount of deferred tax assets is reviewed at each reporting date to verify maintenance or occurrence of the “probable” future use condition.

Deferred taxes are not discounted, and are recognised in non-current assets and liabilities. Deferred tax assets and liabilities are offset at individual subsidiary level when the conditions described in IAS 12 exist.

2.14 Employee benefits

Employee benefits are based on plans defined as “defined contribution” and “defined benefit” depending on their characteristics. In defined contribution plans, the company’s obligation, limited to the payment of contributions to a legally distinct body (which may be the Government or a fund) consists of contributions due at the reporting date. The liability for defined benefit plans, such as the Italian post-employment benefits as defined by Art. 2120 of the Italian Civil Code, net of any plan assets, is calculated on the basis of actuarial assumptions and is recognised on an accruals basis in line with the work period required to obtain the benefits. Actuarial profits and losses relative to defined benefits plans deriving from changes in actuarial assumptions or from modifications of plan conditions were recognised pro quota in the income statement using the so-called “corridor method”; this means they are recognised only when the net amount of the actuarial profits and losses not recorded at the end of the previous year exceeds the higher of 10% of the present value of the obligation and 10% of the fair value of any plan assets.

Defined benefits plans are measured by independent actuaries.

2.15 Provisions

Provisions are liabilities with uncertain maturities or amounts. They are recorded only if:

1. the Group has a present obligation (legal or constructive) deriving from a past event;
2. it is probable that an outflow of economic benefits will be required to settle the obligation;
3. a reliable estimate of the obligation can be made.

Provisions are therefore the best estimates of the expense necessary to settle the obligation or to transfer it to third parties at the reporting date. Where the time value of money is significant, the amount of a provision is represented by the present value of the expenses that are expected to be necessary to settle the obligation.

Provisions for restructuring are recognised only when the Group has a detailed formal plan that identifies at least: the activity and the main operative units involved, the costs to be incurred, the approximate number of employees involved, and when the third parties involved may validly expect that the company will implement said restructuring, either because it is already under way or it has been publicly announced.

2.16 Revenue recognition

Revenue from sales and services are recognized when the significant risks and rewards of ownership have been transferred or upon provision of a service.

2.17 Leases

A lease is an agreement whereby the lessor transfers to the lessee, in exchange for payment or a series of payments, the right to use an asset for a set period of time. Contracts that substantially transfer all the risks and rewards of ownership of an asset are defined as “*finance leases*” even when ownership is not transferred at end of the contract. Finance leases are governed according to IAS 17 paragraphs 20-32.

Operating leases are defined as all leases that are not finance leases.

2.18 Dividends

Dividends are recognised as liabilities only in the period in which they were resolved by the shareholders' meeting.

2.19 Stock options

Starting from the financial statements at 31 December 2006, personnel expense includes (consistent with the nature of remuneration paid) stock options granted to executive members of the Board of Directors of KME Group S.p.A. and to certain Group managers. The fair value of the stock options was calculated from option value at the time of granting by applying the Black & Scholes model, which considers conditions for exercise of the right, current share value, exercise price, option term, dividends, expected volatility, and risk-free interest rate. The expense for the stock options is recognised with a balancing entry in equity, item “Stock option reserve”. The fair value of rights assigned to managers of KME Group S.p.A. subsidiaries is charged to the companies employing such managers, with early application of IFRIC 11 as permitted by paragraph 12 of said interpretation.

2.20 Earnings per share

The following criteria were used to calculate basic and diluted earnings per ordinary share:

- 1) the numerator was the profit attributable to the shareholders of the parent, adjusted for the profit to be attributed, for the current year, to savings shares outstanding, net of treasury saving shares held directly or through subsidiaries;
- 2) the denominator for “basic earnings per share” was the weighted average number of ordinary shares outstanding in the year, net of any ordinary treasury shares;
- 3) the denominator for “diluted earnings per share” was the weighted average number of ordinary shares adjusted by assuming the issue of new ordinary shares following:
 - conversion of all warrants outstanding;
 - exercise of all stock options granted.

For this calculation it was assumed that conversions of warrants and the exercise of stock options took place at the beginning of the year and that there was no higher income or lower costs deriving therefrom.

Pursuant to paragraph 64 of IAS 33, the data presented at the foot of the income statement consider the reverse split (at the ratio of 1 ordinary and savings share for each 3 shares of the same type) resolved by the extraordinary shareholders' meeting of 21 June 2007 and carried out on 16 July 2007.

2.21 Use of estimates

The drafting of these financial statements and the relative notes in application of IFRS required management to make estimates and assumptions that influenced the reported amounts of the assets and liabilities.

These estimates were made primarily to determine the useful life of non-current assets, the provision for bad debts, to determine impairment losses, for employee benefits, taxes, provisions for restructuring, intangible assets with indefinite life, and for other provisions and accruals.

These estimates and assumptions will be periodically reviewed and any effects will be immediately recognized in the income statement. At the reporting date, the Directors believe that these estimates and assumptions reflect the best possible measurements given the available information. Moreover, the Directors believe that these estimates and assumptions will not cause material adjustments to the carrying amounts of assets and liabilities until the next year.

3. Risk management

The Group is exposed to a variety of operative and financial risks. The Group's policy is to eliminate or at least minimize such risks by means of hedging strategies defined and approved by the Board of Directors. The Group therefore has formal procedures to define objectives and procedures to hedge against credit risks, liquidity risks, currency risks, interest rate risks and, above all, fluctuations in raw materials prices.

Credit risk is managed mainly by selecting customers based on historical experience, credit limits, insurance, and factoring without recourse of the majority of trade receivables.

Liquidity risk may arise from difficulty in obtaining loans to support operations in the right timeframe. Cash inflows and outflows, and the liquidity of Group companies are centrally monitored and coordinated by the Group's treasury.

The Group is exposed to currency and interest rate risks because it operates internationally, and transactions are made in different currencies and at different interest rates. Exposure to currency risk derives mainly from the geographical location of the various production activities and the geographic location of the markets in which the Group sells its products. Group policy is to hedge all these risks through the use of derivatives such as cross-currency swaps and forward contracts.

The most important and strategic type of risk management regards price fluctuations of raw materials (especially copper). The Group hedges these fluctuations through physical transactions or forward contracts on the London Metal Exchange (LME), with the objective of hedging 100% of risk. Forward purchase/sale contracts are therefore agreed only with extremely reliable parties.

NOTES TO THE CONSOLIDATED HALF YEAR REPORT

4. Notes to consolidated financial statements

4.1 Property, plant and equipment

(thousand of Euros)	Land	Buildings	Plant and equipment	Other	Under construction	Total
At 31 December 2005						
Historical cost	56,934	181,076	871,083	149,205	27,008	1,285,306
Accumulated depreciation and impairment losses	80	89,223	465,620	106,078	–	661,001
Net carrying amount	56,854	91,853	405,463	43,127	27,008	624,305
At 31 December 2006						
Historical closing cost	57,970	187,882	882,553	151,567	29,757	1,309,729
Accumulated depreciation and impairment losses	80	94,392	482,459	112,875	–	689,806
Net closing carrying amount	57,890	93,490	400,094	38,692	29,757	619,923
At 30 June 2007						
Historical opening cost	57,970	187,882	882,553	151,567	29,757	1,309,729
Translation differences	(22)	(18)	(250)	(8)	(3)	(301)
Change in consolidation scope	445	2,057	1,900	408	6	4,816
Increases		229	1,031	1,190	12,066	14,516
Reclassifications	186	639	7,876	431	(9,132)	–
Decreases	(1,702)	(463)	(1,380)	(2,336)		(5,881)
Historical closing cost	56,877	190,326	891,730	151,252	32,694	1,322,879
At 30 June 2007						
Accumulated depreciation and impairment losses	80	94,392	482,459	112,875	–	689,806
Translation differences		(3)	(217)	(8)	–	(228)
Change in consolidation scope	30	314	786	347	–	1,477
Depreciation	4	2,863	19,633	3,722	–	26,222
Impairment losses			167		–	167
Decreases		(6)	(919)	(1,990)	–	(2,915)
Accumulated depreciation and impairment losses	114	97,560	501,909	114,946	–	714,529
At 30 June 2007						
Historical closing cost	56,877	190,326	891,730	151,252	32,694	1,322,879
Accumulated depreciation and impairment losses	114	97,560	501,909	114,946	–	714,529
Net closing carrying amount	56,763	92,766	389,821	36,306	32,694	608,350
of which under finance lease	1,300	3,817		261		5,378

Euro 263 million of the above assets were given as a guarantee as part of the refinancing agreement signed during the period.

The period's most important investments are described in the Directors' Report.

Assets under finance leases include the "Firenze Novoli" building that is the Group's headquarters (for Euro 5.1 million), and some telecommunication equipment and facilities (for Euro 0.3 million) of the subsidiary KME Germany A.G. The lease for this building includes two purchase options dated 30 September 2009 or 30 September 2016.

The following table shows details of future minimum lease payments for finance leases at the reporting date and their present value:

(thousand of Euros)	Within 1 year	1 to 5 years	Over 5 years	Total 30.06.2007
Minimum payments	508	1,786	3,697	5,991
Interest share	10	248	1,332	1,590
Present value	498	1,538	2,365	4,401

previous year:

(thousand of Euros)	Within 1 year	1 to 5 years	Over 5 years	Total 31.12.2006
Minimum payments	508	1,841	3,896	6,245
Interest share	10	256	1,443	1,709
Present value	498	1,585	2,453	4,536

4.2 *Investment property*

(thousand of Euros)	Investment property measured at fair value
Carrying amount at 01.01.2007	10,591
Increases for acquisitions	–
Increases for capitalised expenses	8,104
Increases for business combinations	–
Disposals	(2,800)
Changes in fair value	–
Changes in use	–
Other changes	–
Carrying amount at 30.06.2007	15,895

The item “investment property” consists of investments by Immobiliare Agricola Limestone srl in land and buildings. They are held in order to earn rental income or for capital appreciation, and are measured at fair value. During the first six months, no rental income or operating costs directly connected to said investment property were recognised in the income statement.

Increases recognised in the period (Euro 8.1 million) derive from appreciation of fair value and from improvements made to part of the investment property by the subsidiary Immobiliare Agricola Limestone S.r.l..

The item “Disposals” regards the building owned by the Parent.

4.3 *Goodwill and goodwill arising on consolidation*

(thousand of Euros)	KME Germany A.G.	DD Chystall.	DD Surface	DD H. Machinery	Total
Net opening balance	109,840	–	–	–	109,840
Change in consolid. scope and reclass.	–	82	404	–	486
Changes of the period	–	2,659	274	1,323	4,256
Changes due to impairment test	–	–	–	–	–
Net closing balance	109,840	2,741	678	1,323	114,582

In the first half of 2007, the balance of goodwill arising on consolidation changed following acquisition of the Chinese companies, as fully described in the “Directors’ Report”. The column “Change in consolid. scope and reclass.” shows the goodwill generated at the time of acquisition of 30% in 2004.

In the annual financial statements, “goodwill and goodwill arising on consolidation” is compared (impairment) to the recoverable amount calculated by estimating “value in use”. The value in use of this asset is estimated by using projected cash flows based on reasonable and sustainable hypotheses included in the most recent forecasts approved by company bodies. Cash flows, net of tax and financial charges, were discounted by using the rate that reflects the yield of a risk-free investment resulting from the equity risk premium relative to the return of a risk-free investment multiplied by the volatility index of its specific sector relative to that of the market (i.e., the Weighted Average Cost of Capital approach). Cash flows include a constant growth rate not higher than the average long term growth rate of the industrial sector in which the Group operates.

4.4 *Other intangible assets*

(thousand of Euros)	Other assets	Under development	Total
At 31 December 2005			
Historical opening cost	14,539	13	14,552
Accumulated amortisation	12,921	–	12,921
Net closing carrying amount	1,618	13	1,631
At 31 December 2006			
Historical closing cost	14,976	11	14,987
Closing accumulated amortisation	14,032	–	14,032
Net closing carrying amount	944	11	955
At 30 June 2007			
Historical opening cost	14,976	11	14,987
Translation differences	–	–	–
Change in consolidation scope	13	–	13
Increases	206	738	944
Reclassifications	552	(552)	–
Decreases	(1,357)	–	(1,357)
Historical closing cost	14,390	197	14,587
At 30 June 2007			
Opening accumulated amortisation	14,032	–	14,032
Translation differences	–	–	–
Change in consolidation scope	4	–	4
Amortisations	387	–	387
Reclassifications	–	–	–
Decreases	(1,357)	–	(1,357)
Closing accumulated amortisation	13,066	–	13,066
At 30 June 2007			
Historical closing cost	14,390	197	14,587
Closing accumulated amortisation	13,066	–	13,066
Net closing carrying amount	1,324	197	1,521

There were no substantial changes during the period.

4.5 Investments in subsidiaries and associates; other interests

The following table lists the Group's investments:

Name	Reg. Office	Business object	% KME ownership		1 June 2007 (thousand of Euros)	31 December 2006 (thousand of Euros)
			Direct	Indirect		
Subsidiaries measured at cost						
Accumold A.G.	Switzerland	Not operative		100.00%	—	—
Europa Metalli Tréfinétaux Deutschland GmbH	Germany	Not operative		100.00%	—	—
Europa Metalli Tréfinétaux UK Ltd.	Uk	Not operative		100.00%	591	595
Evidal Schmole Verwaltungsges mbH	Germany	Not operative		50.00%	—	—
KME Austria Vertriebsgesellschaft mbH	Austria	Sales		100.00%	168	168
KM - Hungaria Szinesfem Kft.	Hungary	Sales		100.00%	8	8
KME metal GmbH	Portugal	Not operative		100.00%	511	511
KM Polska Sp.zo.o.	Poland	Sales		100.00%	64	64
KME (Suisse) S.A.	Switzerland	Sales		100.00%	1,000	1,000
KME America Inc.	United States	Sales		100.00%	7	7
KME Asia Pte Ltd.	Singapore	Sales		100.00%	99	99
KME Chile Lda	Chile	Sales		100.00%	18	18
KME China Limited	China	Sales		100.00%	657	657
KME Czech Republic	Czech Rep.	Sales		100.00%	3	3
KME Danmark A/S	Denmark	Sales		100.00%	134	134
KME Messing Beteiligungs GmbH	Germany	Not operative		100.00%	511	511
KME Portugal Metais Lda	Portugal	Sales		100.00%	—	—
Irish Metal Industrial Ltd.	Ireland	Sales		100.00%	—	—
YIM Scandinavia A.B.	Sweden	Sales		100.00%	—	—
KME Moulds Mexico S.A. de CV	Mexico	Sales		100.00%	6	6
Luebke GmbH	Germany	In liquidation		100.00%	102	102
N.V. KME Benelux S.A.	Belgium	Sales		100.00%	885	885
Société Haillane de Participations	France	Holding		99.99%	40	40
TMX Components S.a.s.	France	Holding		100.00%	169	99
XT Limited	Uk	Sales		100.00%	—	—
KME Metals (Dongguan) Ltd.	China	Sales		100.00%	—	—
Informatica y Organizacion S.A.	Spain	Not operative		100.00%	—	—
Total					4,973	4,907
Other investments measured at cost						
Consorzio Italmun	Italy	In liquidation	50.00%		129	129
Other investments measured of KME France S.a.s.	France	Misc.	n.a.	n.a	116	116
Total					245	245
Associates measured using the equity method						
Dalian Dashan Chrystallizer Co. Ltd.	China	Industrial		70.00%	—	1,813
Dalian Surface Machinery Ltd.	China	Industrial		70.00%	—	822
Total					—	2,635

The total change of Euro 66 thousand compared to the previous period in the item “investments in subsidiaries and associates” is broken down as follows:

- the increase of Euro 70 thousand is due to the acquisition of a minority interest the subsidiary TMX Components S.a.s. On 1 August 2007, the subsidiary was merged into KME France S.a.s.;
- the exchange rate effect on the carrying amount of the investment in Europa Metalli Tréfinétaux UK Ltd.

The item “other investments measured of KME France S.a.s.” includes small investments measured (usually of less than 1%) in companies that operate in the building sector. In fact, French companies must pay a certain percentage of their personnel expense as contributions, loans, and interest to support the properties of their employees.

As of the date of this Report, the Group does not hold investment in any “associates measured using the equity method” because they have been wholly consolidated following acquisition of control as per IAS 27, paragraph 13.

4.6 Other non-current assets

This item basically consists of KME Italy S.p.A. guarantee deposits (Euro 0.3 million), receivables from KME Germany A.G. insurance (Euro 2.3 million), loans to employees granted mostly by French subsidiaries as a result of a law that guarantee employees the possibility of obtaining company loans for property purchases (Euro 2.8 million), and of deposits at banks that total Euro 17.8 million including interest accrued up to 30 June 2007, made as interest-bearing guarantee deposits to partially cover the possible payment of sanctions imposed by the European Commission for the infringement of Art. 81 of the EC Treaty. The difference not deposited is covered through bank guarantees.

None of the above-mentioned receivables is due within the year.

4.7 Inventories

(thousand of Euros)	Opening balance	Changes of the period	Closing balance
1) Raw materials, consumables and supplies	605,349	80,873	686,222
2) Work in progress and semi-finished products	34,609	1,184	35,793
3) Contract work in progress	699	770	1,469
4) Finished products and goods	42,970	7,075	50,045
Total	683,627	89,902	773,529

Inventories were measured at the lower of cost and realisable value.

At the end of last year, a Euro 82.3 million write-down was recognised in the income statement to account for lower selling price compared to cost, calculated according to the weighted average cost on a quarterly basis.

In the second quarter of 2007, the events and circumstances that led to such write-down no longer existed, and such value adjustment was reversed for Euro 71.2 million.

The increase in raw materials mainly attributable to higher purchase prices during the first half of the year. The increase in stocks resulted in a Euro 23.5 million increase in inventories.

Comparison of amounts - Owned STOCK	31.12.2006	30.06.2007	Change %
Total tons	123,751	127,429	3.0%

114.9 thousand tons of stock, mainly copper, has been pledged to guarantee the credit lines granted to the Group.

4.8 Trade receivables

(thousand of Euros)	Balance at 31.12.2006	Changes in period	Balance at 30.06.2007
1) From customers	232,345	(462)	231,883
(Provision for bad debts)	(7,666)	(642)	(8,308)
Total net balance	224,679		223,575
2) From subsidiaries	5,953	42	5,995
3) From associates	37	25	62
4) From parent	24	(24)	—
Total	230,693	(1,061)	229,632

The directors believe that the carrying amount of trade receivables approximates their fair value.

4.9 *Other receivables and current assets*

(thousand of Euros)	Balance at 31.12.2006	Changes in period	Balance at 30.06.2007
1) Tax assets	14,061	4,243	18,304
2) Advances to suppliers	16,087	(6,615)	9,472
3) Prepayments and accrued income	2,244	85	2,329
4) Receivables from factoring companies	22,371	6,515	28,886
5) Other receivables	13,028	(304)	12,724
Total other receivables and current assets	67,791	3,924	71,715

The directors believe that the carrying amount of “other receivables” approximates their fair value.

4.10 *Current financial assets*

(thousand of Euros)	Balance at 31.12.2006	Changes in period	Balance at 30.06.2007
Financial assets available for sale	—	—	—
Financial assets held for trading	5,243	—	5,243
LME contracts	15,332	(4,418)	10,914
Interest rate swaps (IRS)/forwards on currencies	432	296	728
Receivables from factoring companies	53,425	(14,774)	38,651
Financial receivables from subsidiaries	915	(5)	910
Total	75,347	(18,901)	56,446

Financial assets held for trading consist of 5,824,990 INTEK S.p.A. savings shares held by the Parent. The savings shares are recorded at a unit value of Euro 0.90, which is the exercise price of the call option granted to lending banks in the previous bank agreement agreed in February 2005 and no longer in effect. The option expires in 2012.

The item “LME contracts” refers to the counter-value of potential income deriving from the fair value measurement of contracts existing at the reporting date.

Receivables from factoring companies consist mainly of factored receivables yet to be collected at the date of this report.

4.11 *Cash and cash equivalents*

(thousand of Euros)	Balance at 31.12.2006	Changes in period	Balance at 30.06.2007
Bank and postal deposits	159,458	(70,123)	89,335
Cash and cash equivalents	2,640	(1,202)	1,438
Total	162,098	(71,325)	90,773

“Cash and cash equivalents” consist of bank and postal deposits and cash on hand.

The decrease in cash and cash equivalents is essentially due to the repayment of financial payables to the parent INTEK S.p.A. for approximately Euro 50 million (see note 4.17).

4.12 *Equity*

See the “schedules of changes in equity” for a description of changes in equity.

4.13 Employee benefits

(thousand of Euros)	Balance at 31.12.2006	Increases	Decreases	Balance at 30.06.2007
Defined benefit plans	145,386	5,185	(4,827)	145,744
Post employment benefits	21,518	(670)	(534)	20,314
Total	166,904	4,515	(5,361)	166,058

The “Defined benefits plans” are shown net of any plan assets. The defined benefit plans include Euro 119.6 million for the German subsidiaries, and Euro 26.1 million for the subsidiary KME Yorkshire Ltd.

The decrease derives from the coming into force of the reform of the Italian pension law, which caused a change in methodology and a consequent reduction in liability, with a direct charge to the income statement due to non-recurring events (curtailment).

Because the majority of employees chose the allocation of post-employment benefits only in the final months of the period, the Company’s files are still being updated and more precise actuarial forecasts will be produced in the near future.

General criteria adopted:

	30.06.2007	31.12.2006
Discounting rate	4.5%-5.3%	4.5%-5.3%
Rate of return on assets	6.9%	6.9%
Future salary increase rate	2.3%-3.0%	2.3%-3.0%
Future increase in benefits	1.75%-3.0%	1.75%-3.0%
Average remaining working life	14 years	14 years

Net amount of liabilities:

	30.06.2007	31.12.2006
Present value of partially or fully covered obligations	77,380	75,289
Fair value of defined benefit plan assets	(67,346)	(65,499)
Deficit	10,034	9,790
Present value of unfunded obligations	161,631	162,966
Actuarial gains and (losses) not yet recognised	(5,607)	(5,852)
Past service cost not yet recognised	—	—
Amounts not recognised as assets as per IAS 19 para. 58 (b)	—	—
Net liabilities shown in the balance sheet	166,058	166,904

Changes to Income Statement (thousand of Euros)	1 st half 2007	1 st half 2006
Current service cost	2,913	3,419
Interest expense	5,075	5,286
Expected rate of return on plan assets	(1,809)	(2,044)
Actuarial (gains) and losses recognised	(114)	212
Past service cost	—	—
Effect of any curtailment or settlement	(1,550)	(2,631)
Total cost recognised in the income statement	4,515	4,242

All figures recognised in the income statement are included in the item “Personnel expense”.

Other information:

Present value of obligation (thousand of Euros)	1 st half 2007	2006
Opening balance of obligation	238,255	238,127
Current service cost	2,913	6,583
Interest on obligation	5,075	10,323
Contributions by plan participants	187	290
Actuarial (gains)/losses	–	(5,861)
Liabilities settled or reduced	(1,539)	–
Translation differences on foreign plans	(264)	1,533
Benefits paid and distributed	(5,616)	(12,762)
Past service cost	–	22
Closing balance of obligation	239,011	238,255

Fair value of plan (thousand of Euros)	1 st half 2007	2006
Fair value opening balance of plan assets	65,499	59,010
Expected rate of return on plan assets	1,809	3,570
Actuarial gains and (losses)	37	1,234
Translation differences on non-Euro plans	(227)	1,175
Employer contributions	957	1,861
Contributions by plan participants	187	290
Settlements	–	–
Benefits paid and distributed	(916)	(1,641)
Fair value closing balance of plan assets	67,346	65,499

Present value of defined benefit plans and adjustments based on experience (thousand of Euros)	1 st half 2007	2006
Present value of defined benefit obligation	239,011	238,255
Plan assets	(67,346)	(65,499)
Surplus (deficit)	171,665	172,756
Adjustments to plan liabilities	–	2,714
Adjustments to plan assets	–	70

4.14 *Non-current financial payables and liabilities*

(thousand of Euros)	Balance at 31.12.2006	Changes in period	Balance at 30.06.2007
1) To banks	482,056	7,333	489,389
2) To Parent	–	–	–
3) To lease companies	4,207	(144)	4,063
4) To others	1,090	927	2,017
Total	487,353	8,116	495,469

Last year, KME Group S.p.A. signed two new refinancing agreements totalling Euro 1.65 billion with GE Commercial Finance (GE Corporate Finance Bank S.A.) and Deutsche Bank, each for its own facility.

The first agreement, with GE Commercial Finance, consists of a credit line for a maximum of Euro 800 million, usable to factor trade receivables without recourse, with a 5-year term. At the date of this report, such transactions amount to Euro 426 million.

The second agreement, with Deutsche Bank, as Initial Mandated Lead Arranger, Agent and coordinator bank, and with seven other Mandated Lead Arrangers (BNL, UniCredit, Capitalia, Mediobanca, Commerzbank, Dresdner Bank and HSH Nordbank), involved the granting of two loans:

- a revolving credit line for a maximum of Euro 650 million, with a 3-year term extendable for an additional 2 years, to cover financial needs for inventories and guaranteed by such inventories;

- a Euro 200 million loan to cover other financial needs, with a 5-year term (a 3-year grace period and the following 2 years with linear repayment), guaranteed by the non-current assets of the Group's German industrial companies.

The following were arranged to guarantee repayment of the above credit lines:

- a lien, with reservation of voting rights, on the shares of the subsidiaries KME Italy S.p.A., KME Brass Italy S.p.A., KME France S.a.s., and KME France Brass S.a.s.;
- a first level mortgage on the property and other non-current of KME Germany A.G.;
- a lien on inventories of industrial companies, with exclusion of the Spanish subsidiaries;
- a privilege to factoring and insurance contracts.

The agreements also require respect of financial covenants referring to consolidated equity, indebtedness, and EBITDA, as well as to the ratio of EBITDA to consolidated net financial.

The credit lines were negotiated at a variable market rate with a spread on EURIBOR. The amount shown in the financial statements is measured at amortised cost using the effective interest method. The calculation includes commissions and margins paid, which are an integral part of the interest rate and the transition costs.

At the date of this report, all of the above-mentioned covenants have been respected.

Payables to lease companies refer mainly to the finance lease for the building housing the Group's headquarters in Florence, Italy, as per IAS 17.

All non-current payables and liabilities are due over of more than 12 months and less than 5 years, except for Euro 4.6 million of payables to banks and Euro 3.2 million of payables to lease companies, which are due over five years.

4.15 Other non-current liabilities

These relate mainly to payables to employees of German subsidiaries (Euro 7.0 million).

4.16 Provisions for risks and charges

The following is a summary schedule of changes in provisions for risks and charges:

(thousand of Euros)	Balance at 31.12.2006	Exchange effect	Increases	Decreases and uses	Current component	Balance at 30.06.2007
Restructuring provision	25,399	—	159	(6,636)	(16,458)	2,464
EU sanctions provision	113,583	—	1,597	—	—	115,180
Other provisions	30,058	(3)	3,341	(1,536)	(22,861)	8,999
Parent provisions	4,101	—	—	(251)	—	3,850
Total	173,141	(3)	5,097	(8,423)	(39,319)	130,493

The item “current component” — as the balance at 31 December 2006 — takes into account the reclassification of this component in current liabilities in the item “Provisions for risks and charges”.

The restructuring provision relates to reductions of assets in the “laminates” sector in France, where the number of employees will be reduced by 225.

The increase in “EU sanctions provision” relates to the accrual of interest on the nominal figure of European Commission sanctions.

The changes in “Parent provisions” are shown in the notes to the separate financial statements included in this report.

With reference to the information provided in the financial statements at 31 December 2006, the Company is still waiting for a hearing to be scheduled before the Court of first instance of the European Communities for the two community procedures.

With regard to the class actions pending in the United States, see the information provided in the financial statements at 31 December 2006.

Updates:

1. with regard to the case pending before the Federal Court of Tennessee (USA), in May 2007 the Court confirmed lack of jurisdiction on the substance of the application and rejected entirely the collective class action suit regarding sanitary pipes. The plaintiffs have filed an appeal;
2. in July 2007, the Federal Court of Tennessee rejected the collective class action regarding industrial pipes. The plaintiffs have filed an appeal;
3. in May 2007, the State Court of Massachusetts (USA) dismissed the collective class action;
4. the case before the State Court of California (USA) is still pending and there are no updates regarding the case under way before the Federal Court of California. Lastly, a class action begun before the Federal Court of California, which was served only on KME America. Technically, this case has not been suspended, but has not developed in any way.

There are no updates with regard to the two environmental suits concerning the industrial area in which the Brescia plant is located. These cases involve the Company and its subsidiary KME Italy S.p.A. separately.

Regarding the case involving KME Italy S.p.A., the next hearing has been set for 22 May 2008; for the case regarding the Company, the next hearing has been set for 20 December 2007.

It is too early to express an opinion as to the outcome of either case.

Investigation is currently under way for the cases pending before the Court of Hannover (Germany) regarding squeeze-outs and mergers.

There are no updates regarding the case brought against Luigi Orlando, the Company's former Chairman; the next hearing has been set for 12 June 2009.

The hearing for the case in Greece regarding a credit recovery action was adjourned from 27 April 2007 to 4 April 2008.

Lastly, the Italian Supreme Court, by ruling dated 29 March 2007 and published 10 July 2007, definitively confirmed the Company's case and rejected the plaintiff's claims in the suit regarding methods of withdrawal at the time of the merger of Europa Metalli - LMI S.p.A..

In the first half of the year, tax audits of subsidiaries KME Germany AG, KME Italy Spa and KME Locsa SA were conducted by competent authorities.

There are no other potentially significant liabilities at the date of this Report.

4.17 Current financial payables and liabilities

(thousand of Euros)	Balance at 31.12.2006	Changes in period	Balance at 30.06.2007
1) To banks	162,506	(116,084)	46,422
2) To Parent	56,016	(49,699)	6,317
3) To subsidiaries	2,654	2	2,656
4) To lease companies	265	14	279
5) To factoring companies	29,293	8,987	38,280
6) Interest rate swaps (IRS)/futures on currency	707	(131)	576
7) LME contracts	5,716	(1,666)	4,050
8) To others	22,018	(18,928)	3,090
Total	279,175	(177,505)	101,670

The item "LME contracts" refers to the counter-value of potential charges deriving from the fair value measurement of contracts existing at the reporting date.

Interest rate swaps were agreed to hedge against interest rate risk on part of the existing banking exposure through the purchase of the fixed rate against the sale of variable rate linked to the 6-month Euribor.

The decrease in sums due to banks is due mainly to the fact that the amount at the end of last year included a part (Euro 143 million) of the revolving credit line of Euro 650 million with minimum term of 3 years that the Directors prudently chose to include in current liabilities. Based on the information available at the time, said amount could have been collectable this year pursuant to contractual provisions that consider the trend of raw materials prices.

Payables to factoring companies represent the amount of factoring without recourse at the reporting date.

The following table summarizes the notional amounts and maturities of existing derivatives at the reporting date:

Description (thousand of Euros)	Due			Total at	
	Within 1 year	1 to 5 years	Over 5 years	30.06.2007	31.12.2006
LME commodities contracts	266,389	897	—	267,286	150,581
Currency futures	73,034	—	—	73,034	140,891
Cross-currency swaps	—	2,106	—	2,106	2,548
Interest rate swaps (IRS)	—	45,000	—	45,000	45,000
Total	339,423	48,003	—	387,426	339,020

The amount of net financial position with details of principal components pursuant to Consob Communication 6064293 and CESR recommendation dated 10 February 2005 “Recommendation for uniform implementation of European Commission rules on prospectuses” is shown in the “Directors’ Report” instead of in these notes.

4.18 Trade payables and other current liabilities

(thousand of Euros)	Balance at 31.12.2006	Changes in period	Balance at 30.06.2007
1) To suppliers	162,948	67,730	230,678
2) To subsidiaries	1,627	(210)	1,417
2) To Parent	—	—	—
Total trade payables	164,575	67,520	232,095

The directors believe that the carrying amount of trade payables approximates their fair value.

(thousand of Euros)	Balance at 31.12.2006	Changes in period	Balance at 30.06.2007
1) To employees	42,189	12,542	54,731
2) To Parent	—	—	—
3) To social security institutions	12,324	(1,635)	10,689
4) Tax liabilities	21,480	15,558	37,038
5) Accrued expenses and deferred income	759	275	1,034
6) Other payables	31,328	(4,987)	26,341
Total other current liabilities	108,080	21,753	129,833

Payables to employees include obligations accrued but not paid at the reporting date.

Tax liabilities include Euro 16.9 million in VAT and Euro 11.9 million in income taxes.

Other payables include Euro 20.8 million in trade payables for advances and credit notes issued.

4.19 *Deferred tax assets and liabilities*

(thousand of Euros)	Balance at 31.12.2006	Changes in period	Balance at 30.06.2007
1) Deferred tax assets	44,710	(10,173)	34,537
2) Deferred tax liabilities	(160,289)	(10,527)	(170,816)
Difference	(115,579)	(20,700)	(136,279)

Deferred tax assets and liabilities are calculated on temporary differences between the carrying amount of the reported assets and liabilities and the corresponding amounts recognized for tax purposes.

Deferred tax assets are recorded only when their recovery is highly probable.

Pursuant to IAS 12 paragraph 39, the Parent did not allocate deferred tax liabilities on the temporary difference for the financial investment in the subsidiary KME Germany A.G.

Deferred taxes are recognised under non-current assets and liabilities and are offset for each subsidiary if requirements of IAS 12 are satisfied.

At the reporting date, the Group did not recognise deferred tax assets on prior tax losses of Euro 111.9 million.

The following table presents details (at 30 June 2007) of prior year tax losses “recognised” and “not recognised” for purposes of recognising deferred tax assets, broken down by company:

(thousand of Euros)	31.12.2006
a) Prior year tax losses, recognised	
KME Group S.p.A.	3,790
KME Germany A.G.	10,580
KME Verwaltungs- u. Dienstleistungs GmbH	3,994
KME Yorkshire Ltd.	742
Total (1)	19,106
b) Prior year tax losses, not recognised	
KME Group S.p.A.	35,823
KME France S.a.s.	40,998
KME Spain S.A.	12,071
KME Locsa S.A.	23,067
Other companies	—
Total (2)	111,959
Total (1 + 2)	131,065

The following shows the details of deferred tax assets and liabilities broken down by item.

(thousand of Euros)	Deferred tax assets 30.06.2007	Deferred tax assets 31.12.2006	Deferred tax liabilities 30.06.2007	Deferred tax liabilities 31.12.2006
Property, plant and equipment	296	222	85,946	86,964
Intangible assets	565	653	—	—
Investment property	—	—	—	—
Other non-current assets	2	2	1,201	1,190
Inventories	553	2,707	72,494	61,778
Trade receivables	1,085	389	998	985
Other receivables and current assets	405	—	133	97
Current financial assets	381	2,374	4,053	4,460
Employee benefits	13,714	14,729	1,170	599
Non-current financial liabilities	1,512	1,544	203	248
Other non-current liabilities	1,740	1,750	—	—
Provisions for risks and charges	6,727	6,510	4,103	2,470
Current financial liabilities	1,068	1,651	490	1,449
Trade payables	4	38	22	49
Other current liabilities	616	956	—	—
Deferred taxes on Equity components	309	—	3	—
Deferred taxes on period/year tax losses	5,560	11,185	—	—
Total	34,537	44,710	170,816	160,289

Deferred tax assets allocated to Equity refer mainly to share capital increase expenses incurred by the Parent last year.

4.20 Disclosure on transactions with related parties

In the first half of the year, the Group conducted business transactions with related parties not included in the consolidation scope; such transactions generated insignificant amounts.

All such transactions were carried out at market prices and values. Given their lack of significance, information is omitted regarding the impact of such transactions on the Group's financial position and results for purposes of CONSOB Communication no. 6064293.

With the merger of the former parent GIM S.p.A. in to INTEK S.p.A., and due to the termination the "GIM S.p.A. shareholders' Agreement," the former shareholders of GIM (such as RAS S.p.A. and Mediobanca S.p.A., now shareholders of INTEK) are no longer considered related parties and, therefore, transactions with such parties (insurance policies and loans) are no longer among those monitored.

The following table presents information regarding the remuneration of key management personnel:

(thousand of Euros)	1 st half 2007						2006					
	Short-term benefits	Post-employment benefits	Other long-term employee benefits	Termination benefits	Share-based payments	Total for period	Short-term benefits	Post-employment benefits	Other long-term employee benefits	Termination benefits	Share-based payments	Total for period
	3,763	144	48	1,399	658	6,012	6,456	30	314	—	738	7,538

5. Income statement

For purposes of CONSOB Communication no. 6064293/06, we declare that in the first six months of 2007 the Group did not conduct any "atypical and/or unusual transactions". See the Directors' Report for a description of "significant non-recurring events and transactions".

5.1 Revenue from sales

The following table shows revenue from sales broken down by geographic area:

Breakdown by geographic area (millions of Euros)	1 st half 2007	%	1 st half 2006	%
Italy	407	22.0	348	20.4
France	192	10.4	184	10.8
Germany	443	24.0	407	23.9
Spain	108	5.8	98	5.7
UK	156	8.4	160	9.4
Other European countries	388	21.0	394	23.1
Total Europe	1,694	91.7	1,591	93.3
Rest of world	153	8.3	114	6.7
Total	1,847	100.0	1,705	100.0

Revenue from sales, net of increases in raw materials prices, increased by Euro 44.4 million, from Euro 430.0 million (first half 2006) to Euro 474.4 million (first half 2007).

5.2 Personnel expense

(thousand of Euros)	1 st half 2007	1 st half 2006	Change %
Salaries and wages	142,299	135,969	4.66%
Social security contributions	34,389	33,417	2.91%
Stock option expense	883	—	n.s.
Other personnel expense	5,386	8,317	-35.24%
Total	182,957	177,703	2.96%

“Other personnel expense” includes accruals to defined benefit pension plans and to post-employment benefits.

Stock option expense regards the start of an incentive plan, reserved to executive members of the Board of Directors and to Group managers with direct responsibility for operating results, providing free assignment of rights to shares of KME Group S.p.A. at a 1-to-3 ratio, starting on 1 September 2007 and with an exercise deadline of 28 February 2011. The strike price was set at Euro 1.029 per share, calculated on the basis of the average of official Stock Market prices in the month preceding the grant date (31 July 2006) and considering the reverse split of ordinary and savings shares on 16 July 2007. The expense incurred in the period, and thus the fair value of services received, was calculated indirectly by making reference to the fair value of the equity instruments granted.

The fair value of the stock options (Euro 0.1) was calculated by an independent actuary at the time of granting by applying the Black & Scholes model, which considers conditions for exercise of the right, current share value, expected volatility (estimated on volatility of the underlying during the previous year), the Euro-zone risk-free interest rate, the expected dividend rate (estimated at zero), and the probability that entitled parties will be exercise such right at the end of the vesting period.

The following table presents changes in the stock option plan at 30 June 2007:

situation at	2006 no. shares	30.06.2007 no. shares
Rights at 1 January	zero	43,731,776
New rights granted	43,731,776	zero
Rights exercised in period	zero	zero
Rights expired in period	zero	3,784,592
Rights at end of period	43,731,776	39,947,184
of which exercisable	zero	zero

The first tranche of rights granted can be exercised starting 1 September 2007.

5.3 *Amortisation, depreciation and impairment losses*

(thousand of Euros)	1 st half 2007	1 st half 2006	Change %
Depreciation	26,223	26,610	-1.45%
Amortisation	387	568	-31.87%
Impairment losses	167	132	26.52%
Total	26,777	27,310	-1.95%

During the period, the Directors recognized “impairment losses” for Euro 167 thousand relating to business in France.

5.4 *Other operating expenses*

(thousand of Euros)	1 st half 2007	1 st half 2006	Change %
Energy	35,576	34,918	1.88%
Maintenance and repairs	19,953	15,553	28.29%
Insurance premiums	7,252	5,107	42.00%
Operative rents and leases	4,658	3,608	29.10%
Differential on LME transactions	(18,456)	38,626	n,s,
Fair value on LME contracts	2,752	(16,366)	n,s,
Outsourcing	14,729	11,236	31.09%
Logistics and transport on sales	25,755	24,263	6.15%
Commissions	11,395	9,665	17.90%
Other operating costs	53,067	62,600	-15.23%
Total	156,681	189,210	-17.19%

The increase in “insurance premiums” derives from greater recourse to factoring and therefore to higher expenses to insure factored receivables credits.

The item “differential on LME transactions” includes the difference between the notional amount of sales and purchases made during the period.

“Other operating costs” include:

1. accruals, net of any releases, to “Provisions for risks and charges” of Euro 3.4 million;
2. bank services and without recourse factoring services of Euro 9.5 million;
3. operating lease payments of Euro 3.4 million.

The following table summarizes the non-cancellable minimum lease payments at the reporting date:

(thousand of Euros)	30.06.2007	30.06.2006
Within 1 year	5,173	3,159
1 to 5 years	9,385	5,983
Over 5 years	211	187
	14,769	9,329

At the reporting date, the Group had commitments to purchase plant and machinery for Euro 26.8 million.

5.5 *Financial income and expense*

(thousand of Euros)	1 st half 2007	1 st half 2006	Change %
Interest income	1,126	766	47.00%
Gains (losses) on exchange rate	1,367	935	46.20%
Dividends	1,511	824	83.37%
Other financial income	614	2,053	-70.09%
Total financial income	4,618	4,578	0.87%
Interest expense	(15,807)	(19,945)	-20.75%
Other financial expense	(5,302)	(5,333)	-0.58%
Total financial expense	(21,109)	(25,278)	-16.49%
Total net financial expense	(16,491)	(20,700)	-20.33%

The item “Interest expense” includes Euro 0.2 million to the parent INTEK S.p.A..

The reduction in net financial expense is due to lower indebtedness, which dropped from Euro 668.7 million at 30 June 2006 to Euro 455.2 million at the reporting date as a result of greater use of without recourse factoring.

5.6 *Current and deferred taxes*

(thousand of Euros)	1 st half 2007	1 st half 2006	Change %
Current taxes	10,070	4,100	145.61%
Deferred taxes	20,976	38,049	-44.87%
Total	31,046	42,149	-26.34%

Starting this year, KME Group S.p.A. and its Italian subsidiaries have opted for the “national tax consolidation” system, calculating IRES (corporate income taxes) on a tax basis corresponding to the algebraic sum of positive and negative tax bases of individual companies. Financial relationships, as well as liabilities and mutual obligations, are defined in the agreement and rules for the national tax consolidation option, according to which the parent and/or the subsidiaries with a negative tax basis receive an amount equal to the relative tax saving realised by the parent and/or the subsidiaries with a positive tax basis.

Tax benefits of Euro 3.5 million were recognised in the first half of the year, deriving from the use of tax losses of KME Group S.p.A. previously not recognised as deferred tax assets, and used to reduce the current tax burden.

Deferred taxes are calculated on the temporary differences between the carrying amount of reported assets and liabilities according to statutory criteria and corresponding tax amounts. Temporary differences also derive from consolidation adjustments that change the carrying amount in the consolidated financial statements compared to tax amounts.

The following summary table explains the correlation between tax charge in the period and the product of the accounting result and the tax rate applicable for purposes of IAS 12 paragraph 81.

Correlation between tax charge and accounting result

(thousand of Euros)	30.06.2007	30.06.2006
Pre-tax profit	97,309	98,494
Theoretical tax burden (tax bracket used: 37.25%)	36,248	36,689
Reconciliation:		
Effect due to different tax ratio	472	527
Other effects:		
Non-deductible charges	6,446	4,940
Non-taxable income	(4,443)	(1,581)
Tax losses of the period not recognised as deferred tax assets	489	4,879
Taxable offset against unrecognised prior year tax losses	(3,894)	(3,113)
Recognition of deferred taxation as per IAS 12 para. 37	(3,381)	–
Other	(891)	(192)
Taxes recognised in the income statement	31,046	42,149

At the reporting date, the Parent, pursuant to IAS 12 paragraph 37, recognised net deferred tax assets for Euro 3.3 million, previously unrecognised, as a result of expectations to achieve future taxable income that will enable their recovery.

5.7 Segment reporting

Group industrial production is conducted in the following areas.

Revenue, gross of raw materials

(millions of Euros)	Business areas							
	Construction products		Industrial products		Consolid. and sundry		Group total	
30 June 2007	684.8	37.1%	954.0	51.6%	209.0	11.3%	1,847.8	100.0%
30 June 2006	692.8	40.6%	772.2	45.3%	240.6	14.1%	1,705.6	100.0%
Change %	–1.2%		23.5%		–13.1%		8.3%	

Revenue, net of raw materials

(millions of Euros)	Business areas							
	Construction products		Industrial products		Consolid. and sundry		Group total	
30 June 2007	169.2	36.1%	300.1	63.9%	0.0	0.0%	469.3	100.0%
30 June 2006	152.4	35.4%	277.5	64.5%	0.1	0.0%	430.0	100.0%
Change %	11.0%		8.1%		n.s.		9.1%	

In the first half of 2007, revenue net of raw materials of **industrial application products** represented 63.9% of total revenue; revenue from **construction products** 36.1%.

Building is an important end market for Group products.

Copper laminates are used in roofing, for accessories and façades; copper pipes are used in large quantities in home thermo-sanitary plants; and brass laminates and brass or bronze profiles are used in refinishing home interiors. Brass rods are widely used in the production of taps and faucets, handles, locks, valves and various accessories.

After a moderately positive trend in the first quarter, linked to good weather conditions, European demand for semi-finished products in copper and alloys for the home construction market showed signs of a slowdown. Consumption was influenced by the return of high copper prices and by volatility.

Shrinking demand for roofing laminates affected mainly Germany and France; better performance was achieved in some emerging Central-Eastern European markets. Likewise, sales of pipes for home thermo-sanitary plants was affected by the copper price trend in almost all Western European markets. In this unfavourable context, the Group was able to compensate for sales by increasing its presence in Central-Eastern Europe and in North Africa.

The trend for sales of brass rods for faucets and valves was positive but showed signs of slowing in the second quarter.

Semi-finished products in copper and alloys for **industrial use** are utilised in a wide variety of industrial sectors, from the car industry, to the electric and electronic components sector, to the air conditioning and refrigeration sector, to the figurines and gifts sector and mechanics in general.

Demand for these semi-finished goods was strong in the first quarter of the year, driven by a dynamic market in Germany and in other Northern European countries. This was followed by a general decline in demand. In this case as well, high raw material prices forced customers to keep inventories at a minimum.

In the first half of the year, there was strong demand for industrial laminates in Germany and in a few emerging markets such as Poland and Hungary, which offset the slowdown in other European countries.

The air conditioning and refrigeration sector generated strong sales of industrial pipes. Geographically, lower sales in Germany and Italy were compensated by the Group's position in countries such as Spain, Austria, Belgium, and Denmark, as well as in some important Central-Eastern Europe markets such as Russian and the Czech Republic.

Sales of brass and copper rods for electrical applications were positive.

Sales of ingot moulds for continuous steel casting were also positive.

Operating profit (EBIT)

(millions of Euros)	Construction products		Industrial products		Consolid. and sundry		Group total	
First half 2007	17.0	33.3%	35.7	70.0%	(1.7)	-3.3%	51.0	100.0%
First half 2006	13.7	85.1%	4.5	28.0%	(2.1)	-13.0%	16.1	100.0%
Change %	24.1%		n.s.		-19.0%		n.s.	

Assets by sector

(millions of Euros)	Construction products		Industrial products		Consolid. and sundry		Group total	
30 June 2007	636.2	31.3%	1,077.6	53.1%	316.4	15.6%	2,030.2	100.0%
31 December 2006	612.4	30.0%	1,018.6	49.9%	411.5	20.1%	2,042.5	100.6%
Change %	3.9%		5.8%		-23.1%		-0.6%	

Liabilities by sector

(millions of Euros)	Construction products		Industrial products		Consolid. and sundry		Group total	
30 June 2007	263.6	17.9%	445.6	30.3%	763.6	51.8%	1,472.8	100.0%
31 December 2006	232.2	15.0%	389.9	25.2%	925.1	59.8%	1,547.2	100.0%
Change %	13.5%		14.3%		-17.5%		-4.8%	

Amortization and depreciation

(millions of Euros)	Construction products		Industrial products		Consolid. and sundry		Group total	
First half 2007	8.7	32.5%	18.1	67.5%	0.0	0.0%	26.8	100.0%
First half 2006	8.9	32.6%	18.4	67.4%	0.0	0.0%	27.3	100.0%
Change %	-2.2%		-1.6%		n.s.		-1.8%	

Investments

(millions of Euros)	Construction products		Industrial products		Consolid. and sundry		Group total	
30 June 2007	6.8	28.8%	8.6	36.4%	8.2	34.7%	23.6	100.0%
31 December 2006	17.3	34.5%	28.7	57.2%	4.2	8.4%	50.2	100.0%
Change %	n.s.		n.s.		n.s.		n.s.	

Employees at 30 June 2007

(number employees)	Construction products		Industrial products		Consolid. and sundry		Group total	
30 June 2007	2,169	31.5%	4,717	68.5%	5	0.1%	6,891	100.0%
31 December 2006	2,173	32.9%	4,430	67.0%	6	0.1%	6,609	100.0%
Change %	-0.2%		6.5%		-16.7%		4.3%	

Investments

Investments in production units totalled Euro 24 million in the first half of 2007 (Euro 21 million in 2006).

Investments continued in rationalization of the Group's production structure and in optimisation of raw material use.

As mentioned, the acquisition of 70% of Chinese company D. Heavy Industry Machinery Co. Ltd. and the simultaneous increase (from 30% to 70%) of stakes in two other companies (D.D. Chrystallizer Co. Ltd. and Dalian Surface Machinery Co. Ltd.) were completed on 8 June 2007.

The transaction had a total value of Euro 6.2 million. The acquired companies are estimated to have 2007 revenue of approximately Euro 15 million, with EBITDA of about 20% of sales.

The above acquisitions were conducted to consolidate the Group's presence on the Chinese market with regard to special products, in line with Industrial Plan goals to strengthen presence on emerging markets, especially in high-technology-content products.

ATTACHMENTS TO NOTES TO THE CONSOLIDATED HALF YEAR REPORT

Schedule reconciling the profit of the parent KME Group S.p.A. and consolidated profit at 30 June 2007

(thousand of Euros)	
Profit separate fin. statements KME Group S.p.A.	9,439
Profit attributable to consolidated companies ⁽¹⁾ ⁽²⁾	56,578
Consolidation adjustments ⁽³⁾	–
Net consolidated profit/(loss)	66,017
Subsidiary profits/(loss) 01.01.2007-30.06.2007	
(1) Profit of KME Germany A.G. (consolidated)	56,738
(2) Loss of Immobiliare Agricola Limestre S.r.l.	(160)
(3) Consolidation adjustments	–
Total	56,578

PARENT INTERIM SEPARATE FINANCIAL STATEMENTS

KME Group S.p.A.

Balance sheet

(thousands of Euros)	Note	30.06.2007	Related party portion	31.12.2006	Related party portion
Property, plant and equipment	4.1	23		–	
Investment property	4.2	–		2,800	
Investments	4.3	311,586	311,586	310,891	310,891
Other investments	4.3	129		129	
Other non-current assets	4.4	22			
Other financial assets	4.5	6,937	6,937	22	
Deferred tax assets	4.6	3,451		–	
Non-current assets		322,148		313,842	
Trade receivables	4.7	17,792	17,787	10,540	10,537
Other receivables and current assets	4.8	5,931		5,822	
Current financial assets	4.9	32,308	32,308	67,719	67,719
Cash and cash equivalents	4.10	1,001		377	
Current assets		57,032		84,456	
TOTAL ASSETS		379,180		398,298	
Share capital	4.11	319,739		319,643	
Other reserves	4.11	744		(963)	
Treasury shares	4.11	(37)		(37)	
Retained earnings	4.11	5,918		5,178	
Reserve for IFRS first-time adoption	4.11	1,644		2,784	
Stock Option reserve	4.11	1,841		959	
Profits for the period/year	4.11	9,439		7,206	
Equity		339,288		334,769	
Employee benefits	4.12	361		347	
Deferred tax liabilities	4.13	72		–	
Financial payables and liabilities	4.14	7,519	6,937	582	
Other payables	4.15	–		–	
Provisions for risks and charges	4.16	3,850		4,101	
Non-current liabilities		11,802		5,030	
Financial payables and liabilities	4.17	25,779	15,665	56,119	56,016
Trade payables	4.18	971	554	437	65
Other current liabilities	4.19	1,340	445	1,943	1,209
Current liabilities		28,090		58,499	
TOTAL LIABILITIES AND EQUITY		379,180		398,298	

KME Group S.p.A.**Income statement**

(thousands of Euros)	Note	30.06.2007	Related party portion	30.06.2006	Related party portion
Revenue from sales and services	6.1	1,436	1,420	1,456	1,456
Other revenue	6.2	261	27	246	63
Personnel expense	6.3	(749)	(442)	(400)	(128)
Amortisation, depreciation and impairment losses	6.4	(1)	—	—	—
Other operating expenses	6.5	(2,604)	(1,251)	(2,338)	(745)
Operating profit/(loss)		(1,657)		(1,036)	
Financial income/(expense)	6.6	4,767	4,718	(2,662)	(2,525)
Pre-tax profit		3,110		(3,698)	
Current taxes	6.7	3,259	3,481	—	—
Deferred taxes	6.8	3,070	—	—	—
Total income taxes		6,329		—	
NET PROFIT/(LOSS) FOR THE PERIOD/YEAR		9,439		(3,698)	

Schedule of changes in equity

(thousands of Euros)	Share Capital	Other Reserves	Treasury Shares	Retained earnings	FTA IFRS reserve	Stock Option reserve	Profit for year/ period	Total Equity
Balance at 31.12.2005	189,775	–	(37)	5,167	2,784	–	1,395	199,084
Resol. Meeting of 19.5.2006:								
– legal reserve		70					(70)	
– carried forward				11			(11)	
– dividends distributed							(1,314)	(1,314)
Share capital increase	129,868							129,868
Expenses share cap. increase		(1,038)						(1,038)
Revenues unopted rights		5						5
Granting for Stock Option						959		959
Profit for 2006							7,206	7,206
Balance at 31.12.2006	319,643	(963)	(37)	5,178	2,784	959	7,206	334,769
Resol. Meeting of 23.5.2007:								
– legal reserve		360					(360)	–
– carried forward				639			(639)	–
– dividends distributed							(6,207)	(6,207)
– use of the IFRS reserve		1,038		101	(1,139)			–
Share capital increase	96							96
Granting for Stock Option						882		882
Def. taxes recogn. in equity		309						309
Profit for the period							9,439	9,439
Balance at 30.06.2007	319,739	744	(37)	5,918	1,644	1,841	9,439	339,288
IFRS reclass. Treasury shares	(37)		37					–
Balance at 30.06.2007	319,702	744	–	5,918	1,644	1,841	9,439	339,288

Schedule of changes in share equity in previous six months

(thousands of Euros)	Share Capital	Other Reserves	Treasury Shares	Retained earnings	FTA IFRS reserve	Stock Option reserve	Loss for year/ period	Total Equity
Balance at 31.12.2005	189,775	–	(37)	5,167	2,784	–	1,395	199,084
Resol. Meeting of 19.5.2006:								
– legal reserve		70					(70)	
– carried forward				11			(11)	
– dividends distributed							(1,314)	(1,314)
– expenses share cap. increase				(26)				(26)
Loss for the period							(3,698)	(3,698)
Balance at 30.06.2006	189,775	70	(37)	5,152	2,784	–	(3,698)	194,046

KME Group S.p.A.

Cash flow statement

(thousands of Euros)	First half 2007	First half 2006
(A) Cash and cash equivalents at beginning of period	377	9,379
Pre-tax profit	3,110	(3,698)
Amortisation and depreciation	1	–
Dividends	-	(413)
Net interest accrued	(224)	2,868
Losses on non-current assets	–	(43)
Accruals to pension and similar funds	201	(976)
Accruals to other provisions	(90)	4,180
(Increase) decrease in current receivables	(8,788)	774
Increase (decrease) in current payables	(98)	–
Net interest paid	224	(2,821)
Current taxes (paid) and reimbursed during the period	3,262	
(B) Cash flows from operating activities	(2,402)	(129)
(Increases) decreases in non-current intangible assets and property, plant and equipment	2,775	–
Increases/decreases in other non-current assets/liabilities	–	–
(Increases) decreases in investments	–	(7)
Dividends received	1,265	413
(C) Cash flows from investing activities	4,040	406
Proceeds from the issue of share capital	96	1,067
Increases (decreases) in current and non-current financial payables	(23,402)	(9,011)
(Increases) decreases in current and non-current financial receivables	28,474	(1,314)
Dividends paid	(6,182)	
(D) Cash flows from financing activities	(1,014)	(9,258)
(E) Change in cash and cash equivalents (B + C + D)	624	(8,981)
(F) Cash and cash equivalents at end of period (A + E)	1,001	398

ACCOUNTING POLICIES

2. General information

KME Group S.p.A. (KME) and its industrial subsidiaries (which together form the “Group”) operate in the semi-finished copper and copper alloys sector.

The Group owns industrial plants in many European countries and sells its products on all the principal world markets. KME Group is a company limited by shares registered in Italy at the Florence company registry under no. 00931330583; its shares are listed on the telematic stock exchange organized and managed by Borsa Italiana S.p.A.

The half year report at 30 June 2007 was approved by the Board of Directors on 10 September 2007.

2.1 *Reporting criteria*

This half-year Report at 30 June 2007 was in accordance with the instructions provided by the Italian Commission for Listed Companies and the Stock Exchange (CONSOB) in the Issuer Regulation and in conformity with International Financial Reporting Listed Standards (IFRS).

The separate financial statements were prepared in conformity with the measurement and recognition criteria established by the International Financial Report Standards (IFRS) issued by the International Accounting Standards Board (IASB) and endorsed by the European Commission according to the procedure referred to in Art. 6 of EC Regulation 1606/2002 of the European Parliament and Council dated 19 July 2002. When drafting the financial statements, the Directors took account of the principle of accruals, the going concern assumption, clarity, significance, relevance, reliability, fairness, prudence, and comparability.

KME has not yet applied those standards which, though issued by the IASB, have an effective date later than the reference date for this Report. We estimate that the future adoption of these standards will not have any significant impact on the Company's overall financial position.

The company events and transactions are recorded and represented in conformity with their economic substance and not only according to their legal form.

2.2 *Property, plant and equipment*

Property, plant and equipment are recognised at purchase or production cost, including accessory charges directly attributable to them.

Items of them are measured at cost, net of depreciation and accumulated impairment losses, with the exception of land, which is not depreciated and is measured at cost, net of accumulated impairment losses.

Depreciation is recognised starting from the month in which the asset is available for use or is potentially able to generate the economic benefits associated with it. They are charged monthly on a straight-line basis over their useful life, or, for disposals, over their last month of use.

The depreciation rates take into consideration the useful life of the various plants according to the results of the report in American Appraisal. The new useful lives were applied to property, plant and equipment starting on 1 January 2004, and at the transition date to IFRS, their fair value was adopted as deemed cost, while for the other assets, the new useful lives were applied starting on 1 January 2005.

Financial expenses relative to the purchase of property, plant and equipment are charged to the income statement unless they are directly attributable to the acquisition, construction, or production of an asset that justifies capitalization.

Replacing parts of significant value are capitalized and depreciated based on the useful life of the related asset; others are taken to the income statement when the cost is incurred.

Asset purchased under finance leases are recognised as property, plant and equipment as a counter-item of the related payable. The lease instalment is broken down into financial charges, charged to the income statement, and of its principal repayment, recognised as a reduction in the financial payable. Assets under finance leases are recognised at the lower of cost and the present value of the minimum lease payments at the inception of the lease.

Items of property, plant and equipment are subject to an impairment test if there are specific indicators of an impairment loss. The test consists of the estimate of the recoverable amount of the asset, defined as the higher of net selling price

and value in use, compared to net carrying amount. If recoverable amount is less than the carrying amount, the latter is reduced to the recoverable amount; this reduction is charged to the income statement or to the revaluation reserve that was established previously, at the time of revaluation of the asset in question. Any subsequent revaluations employ the reverse procedure.

2.3 Intangible assets

These assets lack physical substance, are identifiable, controlled by the company, and capable of producing future economic benefits.

The company may acquire intangible assets via:

- acquisition from third parties;
- business combinations;
- internal production.

In the first two cases, intangible assets are measured initially and in respect to their cost and fair value including any directly attributable charges. They are then amortized systematically over their useful life, which is the estimate of the period in which the assets are used by the company, usually from 3 to 5 years. These assets are moreover shown net of any impairment losses by adopting the same criteria as indicated for “property, plant and equipment”. Their residual value at the end of their useful life is considered to be zero.

Assets produced internally are capitalized only if the conditions specified in IAS 38 paragraph 57 exist.

2.4 Investment property

These are land and factories owned for purposes of earning rental income or for capital appreciation, or both. These assets are measured at fair value and are therefore not amortized. At the date of transition to IFRS, these assets were measured at fair value and this value was used as deemed cost. Changes in fair value are charged directly to the income statement.

2.5 Financial assets

All investments and interests in subsidiaries, associates and joint ventures are measured at cost.

For the reasons illustrated in paragraph 2.2, investments in subsidiaries outside the consolidation scope are measured at cost adjusted to reflect impairment losses.

Other interests are measured at fair value and their effects are taken to equity. When fair value cannot be reliably determined, interests are measured at cost adjusted to reflect impairment losses.

Non-derivative financial assets with fixed or determinable payments and fixed maturities that the company has the intention and ability to hold up to maturity are designated as “*assets held to maturity*”. Held-to-maturity assets are measured with the amortized cost method, using the effective interest method as defined in IAS 39.

Financial assets that are purchased or held primarily for resale or repurchase in the short term and the financial derivatives not designated as hedging instruments are classified in the category “*financial assets at fair value through profit or loss*”. These assets are measured at fair value and their effects are taken to the income statement.

Non-derivative financial assets, with the exception of equity instruments, having fixed or determinable payments and not listed on an active market, and not falling within previous categories, are classified as “*loans and receivables*” and are measured at amortized cost using the effective interest method. For current *loans* and *receivables* and generally for all short term receivables and payables for which the time component is insignificant, amortized cost is assumed to coincide with the carrying amount.

All other non-derivative financial assets that are not classified in the previous three categories are classified as “*financial instruments available for sale*” and measured at fair value, and their effects are recognised directly in equity, except for impairment losses.

All financial assets, except for “*financial assets at fair value through profit or loss*” are tested for impairment according to IAS 39 paragraphs 58-70.

Treasury shares are measured at historical acquisition cost and recognised as a reduction in consolidated equity.

2.6 Inventories

Inventories are measured at the lower of cost and net realisable value. The cost, calculated by applying the weighted average cost method on a quarterly basis, includes all direct charges and a share of the other costs incurred to bring the inventories to their current place in their current conditions. The transformation cost of finished and semi-finished products includes directly attributable accessory costs and the portion of indirect production costs that can be reasonably allocated to the product. Contract work in progress is measured based on the matured contractual fees within reasonable certainty for the part of the order that has been performed, less marketing costs.

2.7 Cash and cash equivalents

This item includes cash, on-demand deposits, and short-term high-liquidity financial investments that may be readily convertible into cash, and are subject to little risk of change in value (IAS 7 paragraph 45).

2.8 Equity

Equity consists of ordinary shares and savings shares without par value, subscribed and paid up at the reporting date, reduced by any share capital proceeds yet to be received. Pursuant to IAS 32, repurchased treasury shares are shown as a decrease of issued capital, while the premium or discount with respect to par value adjusts other equity components. This representation is only given in the notes, while in the schedules the historical cost of treasury shares is shown separately with a minus sign, thus reducing equity.

The reserve for the purchase of treasury shares is no longer recorded due to the different presentation method introduced by IFRS. The balance of the current reserve has been reclassified to the specific reserves previously used to create it.

Costs for equity transactions have been charged directly as a reduction in reserves, preferably using the share premium reserve.

The balance of IFRS adjustments is recognised in a specific equity reserve called “IFRS reserve”.

2.9 Payables

Payables are recognised at amortized cost. When the effect of discounting is irrelevant — such as for short-term trade payables — they are recorded at face value.

2.10 Current and deferred taxes

Current income taxes are calculated based on an estimate of taxable income, with consideration of the tax rates and regulations that are applicable or substantially approved at period end.

Deferred taxes are calculated on the temporary differences between the carrying amount of the assets and liabilities recognised in the balance sheet and the corresponding amounts recognised for tax purposes according to the balance sheet liability method. Deferred tax assets are recognised only when recovery is probable. The carrying amount of deferred tax assets is reviewed at each reporting date to verify maintenance or occurrence of the “probable” future use condition.

Deferred taxes are not discounted, and are recognised in non-current assets and liabilities. Deferred tax assets and liabilities are offset at individual subsidiary level when the conditions described in IAS 12 exist.

Current income taxes and deferred taxes are recognised in the income statement, with the exception of current and deferred taxes deriving from transactions that are taken directly to equity.

2.11 Employee benefits

Employee benefits are based on plans defined as “defined contribution” and “defined benefit” depending on their characteristics. In defined contribution plans, the company’s obligation, limited to the payment of contributions to a

legally distinct body (which may be the Government or a fund) consists of contributions due at the reporting date. The liability for defined benefit plans, such as the Italian post employment benefits as defined by Art. 2120 of the Italian Civil Code, net of any plan assets, is calculated on the basis of actuarial assumptions and is recognised on an accruals basis in line with the work period required to obtain the benefits. Actuarial profits and losses relative to defined benefits plans deriving from changes in actuarial assumptions or from modifications of plan conditions were recognised pro quota in the income statement using the so-called “corridor method”; this means they are recognised only when the net amount of the actuarial profits and losses not recorded at the end of the previous year exceeds the higher of 10% of the present value of the obligation and 10% of the fair value of any plan assets.

Defined benefits plans are measured by independent actuaries.

2.12 Provisions

Provisions are liabilities with uncertain maturities or amounts. They are recorded only if:

1. the Group has a present obligation (legal or constructive) deriving from a past event;
2. it is probable that an outflow of economic benefits will be required to settle the obligation;
3. a reliable estimate of the obligation can be made.

Provisions are therefore the best estimates of the expense necessary to settle the obligation or to transfer it to third parties at the reporting date. Where the time value of money is significant, the amount of a provision is represented by the present value of the expenses that are expected to be necessary to settle the obligation.

Provisions for restructuring are recognised only when the Group has a detailed formal plan that identifies at least: the activity and the main operative units involved, the costs to be incurred, the approximate number of employees involved, and when the third parties involved may validly expect that the company will implement said restructuring, either because it is already under way or it has been publicly announced.

2.13 Revenue recognition

Revenue from sales and services are recognized when the significant risks and rewards of ownership have been transferred or upon provision of a service.

2.14 Leases

A lease is an agreement whereby the lessor transfers to the lessee, in exchange for payment or a series of payments, the right to use an asset for a set period of time. Contracts that substantially transfer all the risks and rewards of ownership of an asset are defined as “*finance leases*” even when ownership is not transferred at end of the contract. Finance leases are governed according to IAS 17 paragraphs 20-32.

Operating leases are defined as all leases that are not finance leases.

2.15 Dividends

Dividends are recognised as liabilities only in the period in which they were resolved by the shareholders' meeting.

2.16 Stock options

Starting from the financial statements at 31 December 2006, personnel expense includes (consistent with the nature of remuneration paid) stock options granted to executive members of the Board of Directors of KME Group S.p.A. and to certain Group managers. The fair value of the stock options was calculated from option value at the time of granting by applying the Black & Scholes model, which considers conditions for exercise of the right, current share value, exercise

price, option term, dividends, expected volatility, and risk-free interest rate. The expense for the stock options is recognised with a balancing entry in equity, item "Stock option reserve". The fair value of rights assigned to managers of KME Group S.p.A. subsidiaries is charged to the companies employing such managers, with early application of IFRIC 11 as permitted by paragraph 12 of said interpretation.

2.17 Earnings per share

For information on the calculation of basic and diluted earnings per share, see the notes to the consolidated financial statements. For the purposes of IAS 33 paragraph 4, such information must be presented on the basis of consolidated data only.

2.18 Use of estimates

The drafting of these financial statements and the relative notes in application of IFRS required management to make estimates and assumptions that influenced the reported amounts of the assets and liabilities.

These estimates were made primarily to determine the useful life of non-current assets, the provision for bad debts, to determine impairment losses, for employee benefits, taxes, provisions for restructuring, intangible assets with indefinite life, and for other provisions and accruals.

These estimates and assumptions will be periodically reviewed and any effects will be immediately recognized in the income statement. At the reporting date, the Directors believe that these estimates and assumptions reflect the best possible measurements given the available information. Moreover, the Directors believe that these estimates and assumptions will not cause material adjustments to the carrying amounts of assets and liabilities until the next year.

3. Risk management

The Group is exposed to a variety of operative and financial risks. The Group's policy is to eliminate or at least minimize such risks by means of hedging strategies defined and approved by the Board of Directors. The Group therefore has formal procedures to define objectives and procedures to hedge against credit risks, liquidity risks, currency risks, interest rate risks and, above all, fluctuations in raw materials prices.

Credit risk is managed mainly by selecting customers based on historical experience, credit limits, insurance, and factoring without recourse of the majority of trade receivables.

Liquidity risk may arise from difficulty in obtaining loans to support operations in the right timeframe. Cash inflows and outflows, and the liquidity of Group companies are centrally monitored and coordinated by the Group's treasury.

The Group is exposed to currency and interest rate risks because it operates internationally, and transactions are made in different currencies and at different interest rates. Exposure to currency risk derives mainly from the geographical location of the various production activities and the geographic location of the markets in which the Group sells its products. Group policy is to hedge all these risks through the use of derivatives such as cross-currency swaps and forward contracts.

The most important and strategic type of risk management regards price fluctuations of raw materials (especially copper). The Group hedges these fluctuations through physical transactions or forward contracts on the London Metal Exchange (LME), with the objective of hedging 100% of risk.

NOTES TO THE SEPARATE HALF YEAR REPORT

4. Notes to the separate half year report

4.1 *Property, plant and equipment*

(thousands of Euros)	Plant and equipment	Other assets	Total
At 31 December 2006			
Historical cost	186	689	874
Accumulated depreciation and impairment losses	186	689	874
Net carrying amount	–	–	–
At 30 June 2007			
Historical opening cost	186	689	874
Increases		24	24
Reclassifications	–	–	–
Decreases	–	(25)	(25)
Historical closing cost	186	688	874
At 30 June 2007			
Accumulated depreciation and impairment losses	186	689	874
Depreciations	–	1	1
Reclassifications	–	–	–
Decreases	–	(25)	(25)
Accumulated depreciation and impairment losses	186	665	850
At 30 June 2007			
Historical closing cost	186	688	874
Accumulated depreciation and impairment losses	186	665	850
Net closing carrying amount	–	23	23

Furnishings were sold, with realisation of gains, and office furniture was purchased. The depreciation charge for new increases was recognised.

4.2 *Investments property*

(thousands of Euros)	Measured at fair value
Carrying amount at 01.01.2007	2,800
Increases for acquisitions	–
Increases for capitalised expenses	–
Increases for business combinations	–
Disposals	(2,800)
Changes in fair value	–
Changes in use	–
Other changes	–
Carrying amount at 30.06.2007	–

As referred to in the Directors' Report at 31 December 2006, the residential building located at Borgo San Jacopo 26 in Florence, Italy was sold on 15 January 2007.

4.3 Investments

List of Investments in subsidiaries recognised non-current in long-term investments.

Name (amounts in Euros)	Reg. Office	Share /quota capital	Equity at 30.06.2007 ⁽¹⁾	Profit/(loss) at 30.06.2007	Financial assets	% of investment carrying amount (item: investments)
KME Germany A.G.	Osnabrueck	142,743,879	136,803,000	8,702,000	100%	303,851,210
Immobiliare Agricola Limestone S.r.l.	Pistoia	7,735,000	411,110,000 ⁽²⁾	56,738,000 ⁽²⁾		
			7,180,000	(160,000)	100%	7,735,000

(1) Including profit for year.

(2) Equity and consolidated Group profit at 30 June 2007.

(thousands of Euros)	Investments in subsidiaries	Interests in associates	Interests in other companies	Total
Historical cost	531,068	129	—	531,197
Reversals of impairment losses	—	—	—	0
Impairment losses	(220,178)	—	—	(220,178)
Amount in previous year	310,891	129	—	311,020
Increases	696	—	—	696
Decreases	—	—	—	0
Reversals of impairment losses	—	—	—	0
Impairment losses	—	—	—	0
Changes in year	696	—	—	696
Historical cost	531,764	129	—	531,893
Reversals of impairment losses	—	—	—	0
Impairment losses	(220,178)	—	—	(220,178)
Closing balance	311,586	129	—	311,715

The item “investments in subsidiaries” includes the wholly-owned investments in KME Germany A.G. (Euro 303,851,210) and in Immobiliare Agricola Limestone S.r.l. (Euro 7,735,000).

The item “interests in associates” refers to the 50% interest in “Consorzio Italmun 25 in liquidation”, deriving from the merger of Europa Metalli SE.DI. S.p.A.

The Euro 696 thousand increase in investments in subsidiaries derives from the measurement value, recognised in equity, of stock options granted to managers of subsidiaries.

4.4 Other non-current assets

(thousands of Euros)	30.06.2007	Reclassif.	31.12.2006	Change	Change %
Guarantee deposits	7	7	—	7	n.s.
Advance of tax on post-employment benefits as per Law 662/96	15	15	—	15	n.s.
	22	22	—	22	n.s.

4.5 Other financial assets

(thousands of Euros)	30.06.2007	Of related party	Reclassif.	31.12.2006	Change	Change %
Guarantee deposits	—		(7)	7	(7)	n.s.
Advance of tax on post-employment benefits as per Law 662/96	—		(15)	15	(15)	n.s.
Receivables from commissions on guarantees	6,937	6,937	—	—	6,937	n.s.
	6,937	6,937	(22)	22	6,914	n.s.

Receivables from commissions on guarantees represent the present value of commissions to be received in future years (due after 12 months) for guarantees granted by KME Group to banks on behalf of Group companies for loans obtained by such companies in September 2006.

4.6 *Deferred tax assets*

(thousands of Euros)	30.06.2007	31.12.2006	Change	Change %
Deferred tax assets	3,451	–	3,451	<i>n.s.</i>
	3,451	–	3,451	<i>n.s.</i>

At the reporting date, a new measurement of previously unrecognised deferred tax assets was conducted for purposes of IAS 12 paragraph 37.

Following such measurement, Euro 1.3 million in deferred tax assets was recognised on part of previous tax losses, estimated on the tax bases of two future years. In addition, Euro 2.1 million in deferred tax assets was recognised deriving from the temporary differences at 30 June 2007, Euro 309 thousand of which are charged directly to equity.

4.7 *Trade receivables*

(thousands of Euros)	30.06.2007	31.12.2006	Change	Change %
Trade receivables	938	936	2	0.25%
Provision for bad debts	(933)	(933)	–	<i>n.s.</i>
Total trade receivables	5	3	2	91.87%
From Parent	1	–	1	<i>n.s.</i>
From subsidiaries	17,786	10,537	7,249	68.80%
	17,792	10,540	7,253	68.82%

Trade receivables are substantially unchanged. With regard to the litigation involving a Greek customer of the merged company Europa Metalli SE.DI. S.p.A. concerning collection of a Euro 933 thousand receivable (entirely written down), see “Current litigation”.

Receivables from subsidiaries regard: Euro 14,507 thousand (Euro 10,537 thousand of which refers to 2006, settled on 18 July 2007) in benefits deriving from the use of the Parent previous tax losses by Italian subsidiaries that exercised the option for the national consolidated tax regime; Euro 3,279 thousand in receivables accrued in the six-month period on commissions from the above-described guarantees.

4.8 *Other receivables and current assets*

(thousands of Euros)	30.06.2007	31.12.2006	Change	Change %
Tax assets	5,689	5,811	(122)	–2.1%
Prepayments and accrued income	238	8	230	<i>n.s.</i>
From others	4	2	1	56.5%
	5,931	5,822	109	1.9%

Tax assets refer mainly to requests for reimbursement of direct taxes.

The following table presents receivables broken down by due date:

(thousands of Euros)	Due within			Total
	Within 12 months	Within 5 years	Over 5 years	
Trade receivables	5	–	–	5
From parent	1			1
From subsidiaries	17,786	–	–	17,786
From others:				
– tax assets	5,689	–	–	5,689
– prepayments and accrued income	238			238
– other	4			4
	23,723	–	–	23,723

4.9 Current financial assets

(thousands of Euros)	30.06.2007	Of related parties	31.12.2006	Change
Financial assets held for trading:				
5,824,990 Intek S.p.A. savings shares	5,242	5,242	5,242	–
Financial receivables from parent	17,717	17,717	62,476	(44,759)
Receivables from commissions on guarantees	9,348	9,348	–	9,348
Total	32,308	32,308	67,719	(44,759)

Following the merger of G.I.M. - Generali Industrie Metallurgiche S.p.A. to Intek S.p.A., concluded on 31 March 2007, and the performance of share exchange transactions, 5,242,497 savings shares of G.I.M. - Generale Industrie Metallurgiche S.p.A. were converted into 5,824,990 savings shares of Intek S.p.A., equal to 38.37% of the shares in that class. The savings shares are recognised at a unit value of Euro 0.90, which is the exercise price of the call option granted to lending banks in the previous bank agreement signed in February 2005 and no longer in effect.

The amount of financial receivables from subsidiaries represents the balance of current accounts held by the Parent with the subsidiaries KME Germany A.G., KME Italy S.p.A., KME France S.a.s., and Immobiliare Agricola Limestone S.r.l. This receivable is due within 12 months.

Receivables from commissions on guarantees represent the present value of commissions to be received within the next 12 months for guarantees given by KME Group to banks on behalf of Group companies for loans obtained by such companies.

If receivables from commissions on guarantees due after 12 months (described above) are considered as well, such receivables total Euro 16,285 thousand.

4.10 Cash and cash equivalents

(thousands of Euro)	30.06.2007	31.12.2006	Change	Change %
1) Bank and postal deposits	998	374	624	n.s.
3) Cash and cash equivalents	3	3	–	n.s.
	1,001	377	624	n.s.

4.11 Equity

At 30 June 2007, share capital was Euro 319,738,842, divided into 693,658,911 ordinary shares and 57,216,332 savings shares, without indication of par value.

The Company still has 73,936,408 warrants for ordinary shares of KME Group 2006/2009 outstanding, convertible into an equal number of ordinary shares at the unit exercise price of Euro 0.35.

Equity changed as follows:

(thousands of Euros)	Share Capital	Other Reserves	Treasury Shares	Retained earnings	IFRS reserve	Stock Option Reserve	Profit for the year/period	Total Equity
Balance at 31.12.2005	189,775	–	(37)	5,167	2,784	–	1,395	199,084
Allocation of profit for year Resol. Meeting of 19.5.2006:								
– legal reserve		70					(70)	
– carried forward				11			(11)	
– dividends distributed							(1,314)	(1,314)
Share capital increase	129,868							129,868
Expenses share cap. increase		(1,038)						(1,038)
Revenue from unopted rights		5						5
Granting of Stock Option						959		959
Profit for 2006							7,206	7,206
Balance at 31.12.2006	319,643	(963)	(37)	5,178	2,784	959	7,206	334,769
Resol. Meeting of 23.5.2007:								
1) Distribution of profit for year								
– legal reserve		360					(360)	–
– carried forward				639			(639)	–
– dividends distributed							(6,207)	(6,207)
2) Use of the IFRS reserve		1,038		101	(1,139)			
Share capital increase	96							96
Granting of Stock Option						882		882
Def. taxes recogn. in equity		309						309
Profit for the period							9,439	9,439
Balance at 30.06.2007	319,739	744	(37)	5,918	1,644	1,841	9,439	339,288
IFRS reclass. Treasury shares	(37)		37					
Balance at 30.06.2007	319,702	744	–	5,918	1,644	1,841	9,439	339,288

In the six-month period, share capital increase by a counter-value of Euro 95,618.95 following the exercise of 273,197 warrants and the consequent issue of 273,197 ordinary shares.

Treasury shares regard 65,000 savings shares recorded at purchase cost of Euro 37,161.

The item “other reserves” includes:

• legal reserve	Euro 430,049
• deferred taxes recognised in equity	Euro 309,000
• share premium reserve (sale of un-opted rights)	Euro 4,666
	Euro 743,715

Retained earnings and the “IFRS Reserve” reserves (the latter created in 2004 upon adoption of new accounting standards) are both available with the exception of amounts allocated to cover:

- reserve as counter-item for 5,824,990 Intek S.p.A. savings shares in portfolio for a counter-value of Euro 5,242,497, as per Art. 2359-*bis* of the Italian Civil code;
- reserve as counter-item for 65,000 treasury savings shares in portfolio for a counter-value of Euro 37,161 as per Art. 2357-*ter* of the Italian Civil code.

The item “stock option reserve” (recorded for Euro 958,537 for 2006 and Euro 882,425 for the first half of 2007) derives from the measurement of stock options granted to the Company’s executive directors (for Euro 659,632) and to Group managers (Euro 1,181,330).

4.12 Employee benefits

The amount is calculated on the basis of benefits accrued at the end of June for all employees, based on the law, on labour agreements, and on IAS 19.

(thousands of Euros)	Changes in period/year			
	30.06.2007	31.12.2006	Uses	Accruals
Post-employment benefits	347	340	5	12
Discounting recog. as per IAS 19	14	7		7
	361	347	5	19

Uses regard an employee who left the Company in the first half of 2007.

4.13 Deferred tax liabilities

(thousands of Euros)	30.06.2007	31.12.2006	Change	Change %
Deferred tax liabilities	72	—	72	<i>n.s.</i>
	72	—	72	<i>n.s.</i>

Deferred tax liabilities were recognised based on the difference between the amount reported in the financial statements and the tax amount of INTEK savings shares.

4.14 Non-current financial payables and liabilities

(thousands of Euros)	30.06.2007	Of related parties	31.12.2006	Change	Change %
Financing Law 46/1982	582		582	—	<i>n.s.</i>
Payables for financial guarantees given	6,937	6,937	—	6,937	<i>n.s.</i>
	7,519	6,937	582	6,937	<i>n.s.</i>

Financing refers to the portion due after 12 months according to Law 46/1982 deriving from the merger of Europa Metalli SE.DI. S.p.A..

The item “Payables for financial guarantees given” is the counter-item of the item recognised in non-current financial assets with the same origin, and represents the fair value of liabilities incurred as part of the guarantees given, having assessed possible risk situations and thus contingent liabilities for purposes of IAS 37. Because the item refers entirely to guarantees given for loans obtained by subsidiaries, we believe that the present value of commissions to be received, specified in current and non-current financial assets, represents the best estimate of the fair value of contingent liabilities in relation to such guarantees.

4.15 Other payables

There are no other payables items.

4.16 Provisions for risks and charges

(thousands of Euros)	30.06.2007	31.12.2006	Change	Change %
Product warranty	2,702	2,707	(5)	-0.2%
Corp. reorganization	781	781	–	n.s.
Legal and tax risks:				
– Legal risks	367	380	(13)	-3.4%
– Misc. risks	–	233	(233)	n.s.
	3,850	4,101	(251)	-6%

The “product warranty provision” was accrued following the merger of the subsidiary Europa Metalli SE.DI. S.p.A. for products that it sold to the Italian Defence Department.

The decrease in the “Miscellaneous risk provisions” is due to its release.

4.17 Current financial payables and liabilities

These consist of the following:

(thousands of Euros)	30.06.2007	Of related parties	31.12.2006	Change	Change %
Payables to banks	10,114	–	103	10,011	n.s.
Payables to parent	6,317	6,317	56,016	(49,699)	-89%
Payables due to financial guarantees given	9,348	9,348	–	9,348	n.s.
	25,779	15,665	56,119	(30,340)	n.s.

The item “Payables to banks” derives from the use of new credit lines.

The item “Payables to parent” decreased due to repayment of most of the loan received.

The item “Payables due to financial guarantees given” represents the counter-item of the item with the same origin recognised in current financial assets; see the note at paragraph 4.14.

4.18 Trade payables

(thousands of Euros)	30.06.2007	Of related parties	31.12.2006	Change	Change %
Suppliers	417	–	372	45	12.2%
Suppliers - parent	554	554	4	550	n.s.
Suppliers - subsidiaries	–	–	61	(61)	n.s.
	971	554	437	534	n.s.

We believe that the carrying amount of trade payables approximates their fair value.

4.19 Other current liabilities

These consist of the following:

(thousands of Euros)	30.06.2007	Of related parties	31.12.2006	Change	Change %
Other current liabilities	1,340	446	1,943	(603)	69%
	1,340	446	1,943	(603)	69%

The item refers to payables to members of company bodies (Euro 445 thousand) for remuneration accrued but not yet paid, and to tax and social security payables (Euro 747 thousand) due after the period.

5. Guarantees and commitments

Pursuant to the bank agreements signed in September 2006, KME Group, severally with its industrial subsidiaries, is bound up to a maximum of Euro 650 million with a term of three years (tranche A) and Euro 200 million with a term of five years (tranche B), with monthly redemption starting in the fourth year.

The following amounts were used at the end of the six-month period:

- Euro 529.80 million for tranche A,
- Euro 200.0 million for tranche B.

Tranche B also covers the loan from the European Investment Bank (Euro 46.4 million) and the guarantees given to the European Community (Euro 98.9 million).

KME Group has maintained its obligation to provide participating banks with a put option on 5,704,444 GIM savings shares, exercisable at the unit price of Euro 1. At the end of December 2006 the number of shares was reduced to 5,242,497 following exercise of such option by a bank.

Following the merger of GIM - Generale Industrie Metallurgiche S.p.A. to Intek S.p.A. at the end of March, the number of shares increased to 5,824,990 in consideration of the share exchange ratio, which called for assignment of 10 Intek shares for every 9 GIM savings shares held. As a result, the unit value decreased from Euro 1 to Euro 0.90.

6. Information on the income statement

6.1 Revenue from sales and services

(thousands of Euros)	1 st half 2007	Of related parties	1 st half 2006	Of related parties	Change %
Commissions for services	1,436	1,420	1,456	1,456	–1%
	1,436	1,420	1,456	1,456	–1%

The item “Commissions for services” includes amounts invoiced for financial, insurance, and administrative services to Group companies.

6.2 Other revenue

(thousands of Euros)	1 st half 2007	Of related parties	1 st half 2006	Of related parties	Change %
Investment property	–		19		<i>n.s.</i>
Recovery of expenses incurred also in the interest of Group companies	25	25	63	63	–60.3%
Other income	232	2	164		41.5%
Gains on sales of non-current assets	4		–		<i>n.s.</i>
	261	27	246	63	6%

Recovery of expenses incurred in the interest of Group companies and then charged: the main items relate to travel costs.

Other income includes Euro 225 thousand referring to the reversal of variable fees due to but waived by executive directors in the previous year.

Gains on sales of non-current assets refer to the sale of furniture fully depreciated.

6.3 Personnel expense

(thousands of Euros)	1 st half 2007	Of related parties	1 st half 2006	Of related parties	Change %
Wages and salaries	410	185	290	92	41.4%
Social security contributions	133	70	83	35	60.2%
Stock option cost	187	187	–		<i>n.s.</i>
Post-employment benefits	19		27		–29.6%
	749	442	400	128	87.3%

Personnel expense includes costs related to the stock options granted to executive members of the Board of Directors of KME Group. For more information on this item, see other parts of this Report.

6.4 Amortisation, depreciation and impairment losses

(thousands of Euros)	1 st half 2007	1 st half 2006	Change %
Furniture	1	–	<i>n.s.</i>
Plant, machinery, equipment	–	–	<i>n.s.</i>
Motor vehicles	–	–	<i>n.s.</i>
	1	–	<i>n.s.</i>

A depreciation charge was recognised on office furniture purchased during the first half of the year.

6.5 Other operating expenses

The item is broken down as follows:

(thousands of Euros)	1 st half 2007	Of related parties	1 st half 2006	Of related parties	Change %
Fees to Directors and Statutory Auditors	1,200	1,200	695	695	72.7%
Professional services	459		1,171		-60.8%
Travel expenses	310		45		n.s.
Fees paid subsidiaries/parent for services	2	2	0		n.s.
Legal and corporate advertising	96		29		n.s.
Electricity, heating, postal, telephone	17		27		-38.9%
Misc. insurance	20		46		-56.5%
Misc. maintenance	-		1		n.s.
Outsourcing and Securities Listing	102		30		n.s.
Workshops and seminars	13		0		n.s.
Property leases	87	20	30	30	n.s.
Condominium charges	28	28	-		n.s.
Leases and rentals	21		28		-25.0%
Misc. tax expenses	2		4		-50.0%
Non-deductible VAT	55		56		-1.8%
Membership fees	10		23		-56.5%
Misc. costs	24	1	153		-84.4%
Charity	225		-		n.s.
Bank commissions	5		-		n.s.
Use of provisions	(71)		-		n.s.
	2,604	1,251	2,338	725	11%

6.6 Financial income/(expense)

(thousands of Euros)	1 st half 2007	Of related parties	1 st half 2006	Of related parties	Change %
Financial income	5,506	5,432	1,123	906	n.s.
Financial expense	(739)	(715)	(3,785)	(3,431)	n.s.
	4,767	4,717	(2,662)	(2,525)	n.s.

Financial income is broken down as follows: Euro 889 thousand from inter-company current accounts bearing interest at market rates; Euro 1,265 thousand from dividends received on INTEK savings shares, and Euro 3,279 thousand from commissions from Group companies for guarantees given, as described above.

Financial expense is broken down as follows: Euro 715 thousand in interest to Group companies charged to inter-company current accounts at market rates, and Euro 23 thousand in interest to banks for short-term loans.

6.7 Current taxes

(thousands of Euros)	1 st half 2007	Of related parties	1 st half 2006	Change %
IRAP	(222)	-	-	n.s.
Revenue from tax consolidation	3,481	3,481	-	n.s.
	3,259	3,481	-	n.s.

Current taxes refer to IRAP (Regional tax on productive activities); net revenue from tax consolidation refers to amounts recognised by Italian subsidiaries for the use of the parent tax losses pursuant to the "National Tax Consolidation regime".

6.8 *Deferred taxes*

(thousands of Euros)	1 st half 2007	1 st half 2006	Change %
Deferred tax liabilities	(72)	—	<i>n.s.</i>
Deferred tax assets	3,142	—	<i>n.s.</i>
	3,070	—	<i>n.s.</i>

At the reporting date and pursuant to IAS 12 paragraph 37, KME Group recognised net deferred tax assets of Euro 3.3 million (Euro 0.3 million of which is a counter-item of Equity, previously not recognised), following the forecast of future taxable income that will enable their recovery.

7. *Other information*

Average number of employees

	1 st half 2007	1 st half 2006	Change %
Managers	3	3	5.6%
White collars	1	—	<i>n.s.</i>
Blue collars	1	1	<i>n.s.</i>
	5	4	25.0%

ATTACHMENTS TO THE NOTES TO THE PARENT HALF YEAR REPORT

List of investments at 30.06.2007 and of changes since 31.12.2006
(also pursuant to Art. 126 of Consob Regulation 11971/99)

Investments (amounts in Euros)	Par value	At 31.12.2006		Changes in period (+/-)		Value adjustments	At 30.06.2007			Market value		Differences
		Number	Value	Number	Value		Number	%	Average carrying amount	Carrying amount	Unit value	
Subsidiaries (recognised under non-current financial assets)												
KME Germany A.G.	w/o par value	27,918,276	303,155,540		695,671			27,918,276	100.00		303,851,211	
Immobiliare Agricola Limestone S.r.l.			7,735,000						100.00		7,735,000	
Total investments in Subsidiaries			310,890,540		695,671	0					311,586,211	
Associates (recognised under non-current financial assets)												
Consorzio Italmun		1	129,114					1	50.00	129,114.00	129,114	
Total interests in Associates			129,114		0	0					129,114	
Parent (recognised under current assets)												
INTEK S.p.A.- savings shares	€ 0.26	5,242,497	5,242,497	582,493	0	0		5,824,990	38.37	0.900	5,242,497	1.146
Total interests in Parent			5,242,497		0	0					5,242,497	
Treasury Shares (recognised as a decrease of Equity)												
KME Group S.p.A. savings shares	w/o par value	65,000	37,161					65,000		0.572	37,161	0.650
Total Treasury Shares			37,161		0	0					37,161	
Total			316,299,312		695,671	0					316,994,983	
												5,089
												1,438,031

List of investments in indirect subsidiaries
(also pursuant to Articles 125 and 126 of Consob Regulation 11971/99)

	Registered office	Business object	Share/quota Capital		Direct Share/quota at 30.06.2007		% Total direct & indirect investment
			Currency	Amount	%	Company	
KME Italy S.p.A.	Italy	Copper & alloys processing	Euro	100,000,000	100.00	KME Germany A.G.	100.00
Kabelmetal Messing Bet. GmbH, Berlin	Germany	Real estate	Euro	4,514,200	100.00	KME Germany A.G.	100.00
Kabelmetal Messing Bet. GmbH, Nbg.	Germany	Holding	DM	511,291	100.00	KME Germany A.G.	100.00
KME Metal GmbH	Germany	Raw materials sales	Euro	511,292	100.00	KME Germany A.G.	100.00
KME Verwaltungs- und Dienstleistungsgesellschaft mit beschränkter Haftung	Germany	Copper & alloys processing	Euro	10,225,838	100.00	KME Germany A.G.	100.00
Evidal Schmöde Verwertungsgesellschaft	Germany	Sales	Euro	30,000	50.00	KME Germany A.G.	50.00
Fricke GmbH	Germany	Holding	Euro	25,564	100.00	KME Germany A.G.	100.00
Fricke GmbH & Co. K.G.	Germany	Non-ferrous processing	Euro	1,329,359	100.00	KME Germany A.G.	100.00
KME Asia Pte. Ltd.	Singapore	Sales	\$SG	300,000	100.00	KME Germany A.G.	100.00
KME Danmark A/S	Denmark	Sales	DKK	1,000,000	100.00	KME Germany A.G.	100.00
KME Metals (Dongguan) Ltd.	China	Sales	RMB	41,391,200	100.00	KME China Ltd.	100.00
KME America Inc,	United States	Sales	\$US	5,000	100.00	KME Germany A.G.	100.00
KME Austria Vertriebsgesellschaft mbH	Austria	Sales	Euro	72,673	100.00	KME Germany A.G.	100.00
KM - Hungaria Szinesfem Kft.	Hungary	Sales	HUF	3,000,000	100.00	KME Germany A.G.	100.00
KME (Suisse) S.A.	Switzerland	Sales	FS	250,000	100.00	KME Germany A.G.	100.00
KM Polska Sp.z o.o.	Poland	Sales	PLZ	250,000	100.00	KME Germany A.G.	100.00
KME UK Ltd.	UK	Sales	LST	10,014,603	100.00	KME Germany A.G.	100.00
Yorkshire Copper Tube	UK	Industrial	LST	3,261,000	100.00	KME UK Ltd.	100.00
EMT UK Ltd.	UK	Sales	LST	500,000	100.00	KME UK Ltd.	100.00
Irish Metal Industries Ltd.	Ireland	Sales	Euro	127	100.00	KME UK Ltd.	100.00
Yorkshire Copper Tube (Exports) Ltd.	UK	Sales	LST	100	100.00	Yorkshire Copper Tube	100.00
YIM Scandinavia A.B.	Sweden	Sales	SEK	100,000	100.00	KME Danmark A/S	100.00
N.V. KME Benelux	Belgium	Sales	Euro	62,000	84.70	KME Germany A.G.	100.00
					15.30	KME France S.a.s.	100.00
KME China Ltd.	China	Sales	\$HK	27,095,000	100.00	KME Germany A.G.	100.00
KME Chile Lda.	Chile	Sales	PSC	9,000,000	99.00	KME Germany A.G.	100.00
					1.00	KME metal GmbH	100.00
KME Moulds Mexico S.A. de C.V.	Mexico	Sales	MXN	50,000	99.00	KME Germany A.G.	100.00
					1.00	Kabelmetal Messing Bet. GmbH, Berlin	100.00
KME Czech Republic S.r.o.	Czech Republic	Sales	CZK	100,000	100.00	KME Germany A.G.	100.00
Accumold A.G.	Switzerland	Services	FS	200,000	100.00	KME Germany A.G.	100.00
Bertram's GmbH	Germany	Services	Euro	300,000	100.00	KME Germany A.G.	100.00
Luebbe GmbH	Germany	In liquidation	Euro	102,258	100.00	KME Germany A.G.	100.00
KME Ibertubos S.A.	Spain	Copper & alloys processing	Euro	332,100	100.00	KME Spain S.A.	100.00
KME Spain S.A.	Spain	Financial holding	Euro	1,943,980	99.86	Kabelmetal Messing Bet. GmbH, Berlin	99.86
Cuprum S.A.	Spain	Sales	Euro	60,910	100.00	KME Spain S.A.	100.00
Informatica y Organizacion S.A.	Spain	Services	Euro	276,175	100.00	KME Spain S.A.	100.00
KME LOCSA S.A.	Spain	Copper & alloys processing	Euro	10,040,000	100.00	KME Spain S.A.	100.00
Europa Metalli Tréfmétaux Deutschland GmbH	Germany	Sales	Euro	1,043,035	100.00	KME Germany A.G.	100.00
KME France S.a.s.	France	Copper & alloys processing	Euro	15,000,000	100.00	KME Germany A.G.	100.00
XT Ltd.	UK	Sales	LST	430,000	100.00	KME UK Ltd.	100.00
KME Brass France S.a.s.	France	Copper & alloys processing	Euro	7,800,000	100.00	KME France S.A.S.	100.00
Société Haillane de Participations S.A.	France	Financial holding	Euro	40,000	99.76	KME France S.A.S.	99.76
TMX Components S.a.s.	France	Financial holding	Euro	52,450	100.00	KME France S.A.S.	100.00
Dalian Dashaan Chrystallizer Co. Ltd.	China	Copper & alloys processing	RMB	10,000,000	70.00	KME Germany A.G.	70.00
Dalian Surface Machinery Co. Ltd.	China	Copper & alloys processing	RMB	5,500,000	70.00	KME Germany A.G.	70.00
Dalian Heavy Industry Machinery Co. Ltd.	China	Copper & alloys processing	RMB	10,000,000	70.00	KME Germany A.G.	70.00
KME Brass Germany GmbH	Germany	Copper & alloys processing	Euro	50,000	100.00	KME Germany A.G.	100.00
KME Brass Italy S.r.l.	Italy	Copper & alloys processing	Euro	15,025,000	100.00	KME Italy S.p.A.	100.00
EN Moulds S.r.l.	Italy	Copper & alloys processing	Euro	115,000	100.00	KME Italy S.p.A.	100.00

STATEMENT OF MANAGER RESPONSIBLE FOR DRAFTING THE COMPANY'S ACCOUNTING DOCUMENTS

The undersigned, Marco Miniati, Manager responsible for drafting the accounting documents of KME Group S.p.A., hereby declares in conformity to the requirements of paragraph two of Art. 154-*bis* of Italian Legislative Decree 58/1998 (Consolidated Finance Act) that, to the extent of his knowledge, the half year Report at 30 June 2007 corresponds to the Group's documentary findings, accounting books and records.

Florence, 10 September 2007

The Manager

Marco Miniati

INDEPENDENT AUDITORS' REPORT



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

Review report

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

- 1 We have reviewed the interim separate and consolidated financial statements comprising the balance sheets, income statements, statements of changes in equity, cash flow statements (the "financial schedules") and notes thereto of KME Group S.p.A. and KME Group as at and for the six months ended 30 June 2007, which are included in the half year report of KME Group S.p.A.. This half year report is the responsibility of the parent's directors. Our responsibility is to prepare this report based on our review. We have also reviewed the part of the half year report describing the activities of the company and group for the period with the sole objective of verifying consistency with the remainder of the half year report.
- 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 relating to the captions of the financial schedules and the consistency of application of the accounting policies through discussions with company directors and analytical procedures applied to the financial data presented in the financial schedules. The review excluded such audit procedures as tests of controls and verification or validation of assets and liabilities and is significantly less than an audit performed in accordance with generally accepted auditing standards. As a consequence, contrary to the reports of other auditors on the annual separate and consolidated financial statements, we do not express an opinion on the half year report.
- 3 Reference should be made to the reports of other auditors dated 11 April 2007 for their opinions on the prior year separate and consolidated figures which are presented for comparative purposes.

The interim separate and consolidated financial statements also include the corresponding figures relative to the interim separate and consolidated financial statements of the corresponding period of the previous year, with respect to which reference should be made to the review report of other auditors dated 29 September 2006.

KPMG S.p.A., an Italian limited liability share capital company and a member firm of the KPMG network of independent member firms affiliated with KPMG International, a Swiss cooperative.

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Varese Verona

Società per azioni
Capitale sociale
Euro 6.728.450,00 i.v.
Registro Imprese Milano e
Codice Fiscale N. 00709600159
R.E.A. Milano N. 512867
Part. IVA 00709600159
Sede legale: Via Vittor Pisani, 25
20124 Milano MI



- 4 Based on our review, we are not aware of any material modifications or integrations that should be made to the financial schedules and notes thereto of KME Group S.p.A. and KME Group, referred to in paragraph 1, for them to be in conformity with IAS 34 and the guidelines governing the preparation of the half year reports set out in article 81 of the Consob regulation adopted with resolution no. 11971 dated 14 May 1999 and subsequent modifications and integrations.

Florence, 25 October 2007

KPMG S.p.A.

(Signed on the original)

Riccardo Cecchi
Director of Audit

