KME Group S.p.A.

Board of Directors' report on management for the first half of the 2006 financial year

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Legal headquarters: Florence, via dei Barucci, 2
www.kmegroup.it

Corporate capital Euro 319,643,223.00, fully paid in;
Tax code no. and company registry no. at Florence 00931330583

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COMPANY BODIES AND AUDITING COMPANY

KME GROUP S.P.A.

The Board of Directors

Chairman	Salvatore Orlando
Vice Chairman	Vincenzo Manes
Chief Executive Officer	Vincenzo Cannatelli
	Mario d'Urso (1) (2)
	Marcello Gallo (2)
	Giuseppe Lignana (1)
	Diva Moriani
	Alberto Pecci (2)
	Alberto Pirelli (1)

Board of Auditors

Chairman	Marcello Fazzini
Acting auditors	Pasquale Pace
	Alessandro Trotter
Substitute auditors	Marco Lombardi
	Angelo Garcea

Auditing company

Deloitte & Touche S.p.A.

General representative for savings shareholders

Romano Bellezza

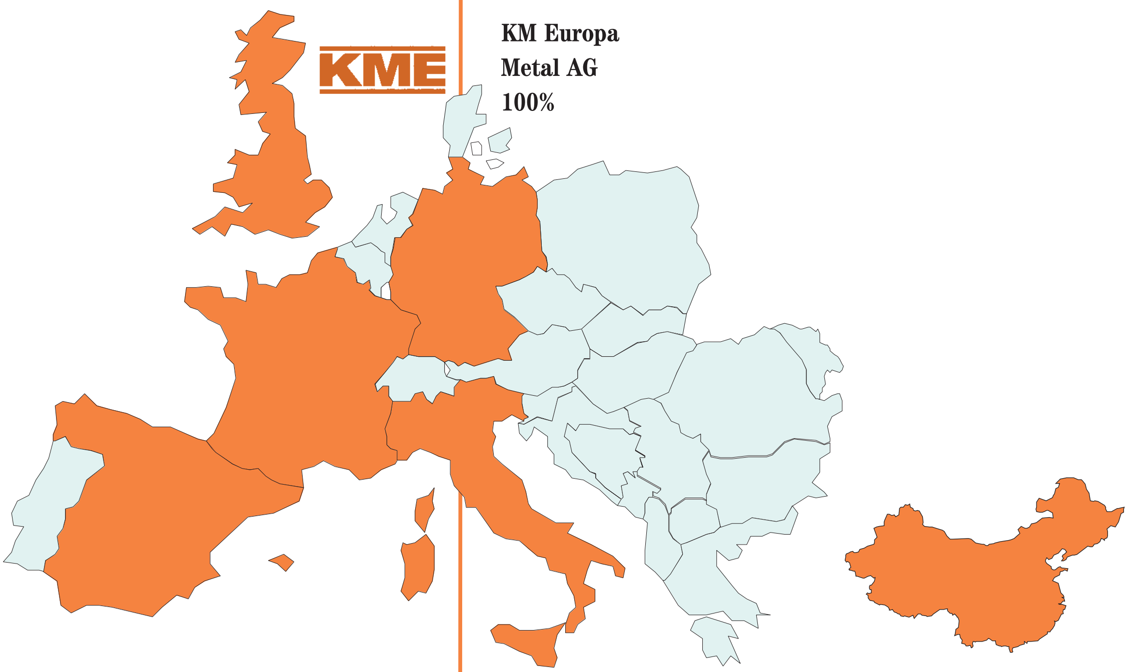
(1) Member of the Remuneration Committee
(2) Member of the Internal Controls Committee

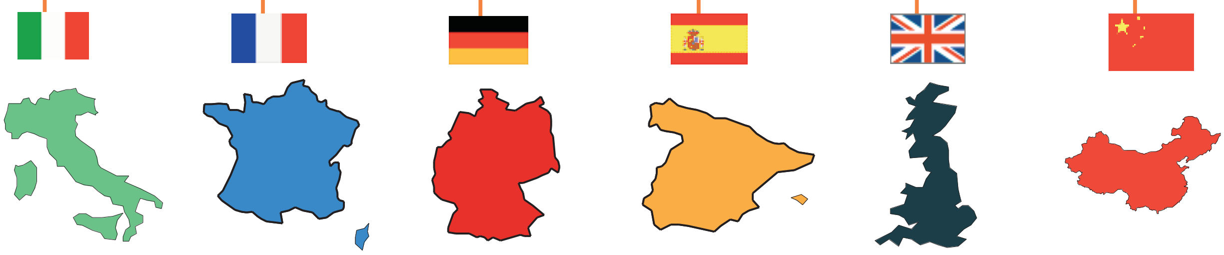
GROUP STRUCTURE AT 30 JUNE 2006

KME Group S.p.A.

100%

KM Europa Metal AG
100%





Italy

Europa Metalli S.p.A.
100%

EM Brass S.r.l.
100%

France

Tréfimétaux S.A.
100%

TMX Brass S.a.s.
100%

Germany

Fricke GmbH & Co. KG
100%

KME Brass GmbH
100%

Spain

Sociedad Industrial Asturiana “Santa Bàrbara” S.A.
99.9%

KME Ibertubos S.A.
100%

LOCSA Laminados Oviedo-Còrdoba S.A.
100%

United Kingdom

KME Yorkshire Ltd.
100%

China

KME Metals (Dongguan) Ltd.
100%

CHANGE OF COMPANY NAME

Before continuing to the management report for the first half of the 2006 financial year, please be reminded that at the extraordinary general shareholders' meeting held on 19 May 2006, the Company name was changed from "S.M.I. - Società Metallurgica Italiana S.p.A." to "KME Group S.p.A.".

This decision was made to underline how much Company business is linked to international Group operations in the non-ferrous metallurgy sector, in which the Company has been present since its founding in 1886. The new name allows the Company to make a more immediate and direct connection to its current industrial and productive situation in which it is present in the main Western European countries.

BOARD OF DIRECTORS' REPORT ON MANAGEMENT FOR THE FIRST HALF OF THE 2006 FINANCIAL YEAR

Carried by still vigorous economic growth on a world level that saw the United States and China as the two main motors of expansion, the European economic situation showed signed of uptake in the first half of this year despite persisting uncertainties on the size and stability of economic growth in the medium term.

This new outlook was gradually reflected in the demand of semi-finished products in copper and alloys; however these signs of improvement were not evenly distributed geographically and over the production range. This recovery follows a 2005 in which European production of semi-finished products in copper and alloys fell by 10% on the previous year, settling at around 2.6 million tons, i.e. the lowest level in the past ten years.
Demand from industrial sectors gradually consolidated at a positive level which mostly involved the air conditioning and refrigeration sector, while smaller increases were recorded in the white goods, cars and furnaces compartments.
Demand from construction however remained uncertain, above all in Germany and Italy; the hydro-thermo-sanitary applications compartment went against this trend, even if demand suffered a drop in the second quarter.

Raw materials prices influenced market progression in this half year.
Growth in raw materials prices and especially in copper prices — the metal most used by the Group — reached record levels in the first months of this year, hitting growth levels of 80% from January to May, to then invert in the month of June.
The persistence of high prices and high volatility for raw materials provoked market uncertainty, inducing clients to delay purchase commitments as well as keep stockpiles at minimum levels therefore made it more difficult to forecast demand progression and production programming.
The weight of raw materials prices on overall sales prices of semi-finished products went from 63% to 75%.

The improvement in the European economic situation — along with commercial actions aimed at the optimization and development of innovative products and higher added value and insertion into new markets — determined an increase in sales that grew by 62% in the first half of 2006, going from Euro 1,052.4 million in the 1st half 2005 to Euro 1,705.6 million; net of the raw materials cost, sales increased by 9.3%, going from Euro 393.5 million to Euro 430.0 million.

A more satisfying sales trend and positive contributions from re-organization and production rationalization measures, that were implemented according to the Industrial Plan, caused Group results to show significant improvements in profitability.

Net consolidated profits for the half year were Euro 56.3 million, while in the first half of 2005 a loss of Euro 3.5 million was recorded.
Both the improvement in profitability for ordinary operations and the reassessment of the raw materials in inventory following their price increases contributed to the half year's results.
Regarding ordinary operations, **gross operating profits (EBITDA)** climbed to Euro 61.9 million, an increase of Euro 16.2 million (+35%); this represents 14.4% of sales value (in the first half 2005 this figure was 11.6%).
The reassessment of raw materials in inventory (which totaled Euro 101.1 million that, net of tax effects, fell to Euro 68 million), partially offset by provisions for industrial re-organization for Euro 16.5 million, brought **net operating profits (EBIT)** to Euro 119.2 million, i.e. five times higher than the EBIT made in the same period in the past year, which was Euro 23 million.

Regarding the balance sheet, the increase in the price of raw materials determined an increase in working capital for growth in exposure towards clients and the higher value of inventory, and, correspondingly, a higher need for financial coverage.
For this reason, **net debt** for the Group at 30 June 2006 increased by Euro 109.6 million versus 31 December 2005, going from Euro 559.1 million to Euro 668.7 million, with a working capital that reached Euro 850 million.
Net of the effect of changes in raw materials prices, Group management produced cash of approximately Euro 20 million.

Industrial Plan

In order to face the weak European economy and its uncertainties — in a sector with structural production overcapacity — in the past years the Group has been under strong competitive pressure to defend its positioning on markets.
Improvements in efficiency and the lowering of the break-even point — obtained thanks to the industrial actions that were planned and executed — were not always able to compensate the drop in demand and the increase in the unit costs of production factors.
Therefore, a decision was made to accelerate and render these actions more incisive, with the objective of not only achieving a more competitive costs structure, but also of bringing the industrial grouping to have a more flexible organizational and productional set-up, one that is able to react more quickly to changes in market conditions.

The Group Industrial Plan 2006-2010 following the above-mentioned lines was approved at the Board of Directors' meeting on 15 May 2006, and was based on a series of structural measures made to bring profitability back up to levels that are sustainable and suited to remunerate the capital invested, even in a weak economic context and therefore with sales that are largely stable.

Industrial actions are aimed at the re-organization and rationalization of production lay-out through:
- the closing of an additional medium-size production site in France and the concentration of activities in the remaining units, within a wider re-organization process aimed at improving efficiency, not only of production structures but also of service functions;
- the focusing and closer selection of investments;
- the development of professional expertise also in the corporate areas (i.e. administration, finance, auditing and IT) with changes in the organizational models finalized towards a centralization of tasks and more efficient and synergetic use of human resources.

Commercial actions aim at:
- the optimization and development of products with higher added value, and especially of some special product lines in which the Group has a leading position worldwide;
- innovative initiatives set to diversify the product and services range offered to clients at competitive conditions which will also contrast the market effects of growth in raw materials prices;
- reinforcing advantages deriving from the appreciation and reputation of brands that characterize the main production areas, above all in the construction products sector;
- taking the opportunities offered by new markets, especially in the Eastern European zone.

This Plan is based on the following assumptions and objectives in the five-year period in reference:
- largely stable sales; the small increase forecasted starting in 2008 is due to actions focused on raising the added value of the sales mix;
- investments of Euro 225 million;
- an improvement in gross operating profits on sales (net of raw materials) from 12.1% in 2005 to 14.5% in 2006 to 18% in 2009-2010;
- cash generation, determined by management and based on largely stable sales, of approximately Euro 100 million in the five years; this amount corresponds to a cash requirement for the payment of EU sanctions without having to seek additional financing. Obviously this cash generation was calculated based on the stability of raw materials prices.

The results of the first half year of 2006 were better than the financial objectives set in the Plan.

Capital increase

At the extraordinary general shareholders' meeting on 19 May 2006, a share capital increase for the KME Group S.p.A. for Euro 130 million was approved, taking place though the issue of ordinary shares without nominal value, paired with free warrants.

At the Board of Directors' meeting on 28 June 2006, their unit issue price was fixed at Euro 0.35. Consequently, final size of the capital increase was Euro 129,868,200, through the issue of 371,052,000 ordinary shares offered in option at a price of Euro 0.35 each, at a ratio of no. 44 new ordinary shares for each group of no. 45 ordinary shares and/or savings shares already owned. These new shares were paired with free warrants at a ratio of no. 1 warrant for each no. 5 newly issued shares, convertible at the price of Euro 0.35 for the same number of ordinary shares by 11 December 2009.
The options offer was launched on 3 July 2006 and ended on 20 July 2006; from 26 July until 1 August 2006 the unopted rights were offered on the Milanese stock exchange according to art. 2441, comma III, of the Italian Civil Code.
At the end of the operation, a total of no. 273,418,772 new ordinary KME Group S.p.A. shares were subscribed — 73.7% of the total shares offered — paired with no. 54,682,960 warrants. The subscription value was Euro 95.7 million.
The Parent Company G.I.M. - Generale Industrie Metallurgiche S.p.A., which committed to guaranteeing the entire issue of Euro 129.9 million, subscribed the remaining no. 97,633,228 ordinary shares, bringing its interests in KME Group S.p.A. voting capital from just above 50%, to 60.4%.

ME Group S.p.A.'s new share capital is therefore Euro 319,643,223, divided into 750,602,046 shares without nominal value, of which no. 693,385,714 ordinary shares and no. 57,216,332 savings shares. A total of no. 74,209,605 warrants were also issued with the said new shares, and the request for their listing is currently underway.

KME Group S.p.A.'s capital increase represents the fulfillment of the recapitalization of the entire Group held by GIM S.p.A., which started during the past year with its own capital increase of Euro 152 million.
Within the framework of the operations aimed at flowing funds to its companies, GIM S.p.A. committed part of these proceeds for "Subordinated partner financing" to the subsidiary of Euro 130 million, at the six-month Euribor increased by 1.5% on the year. In turn, KME Group invested part of this financing to make a capital injection of 100% for the German subsidiary KM Europa Metal AG — part of the Group's industrial grouping — for a total of Euro 111.8 million.
Through the KME Group S.p.A. capital increase that was offered to all shareholders, the latter were also given the possibility to participate in the Group's recapitalization.

GIM S.p.A. subscribed its interest (for Euro 56.1 million) and covered the unopted remainder (for Euro 34.2 million) through the partial conversion of the Subordinated member financing that, in turn, was fully reimbursed by KME Group S.p.A. with the part of the capital increase that was subscribed by the market (for Euro 39.6 million).

The effects of these operations were:

- the Group's overall recapitalization, considering GIM S.p.A.'s capital increase and market-subscribed part of KME Group's capital increase, reached a total of Euro 192 million;
- KME Group S.p.A. rationalized its shareholder structure, reimbursing GIM S.p.A. for the full amount of the subordinated financing of Euro 130 million and thus cancelling any of its liabilities to the Parent Company; net available cash is Euro 8.9 million.

Copper market and prices

The average trend of copper prices in the first half of 2006 was higher than the same one in the past year by 82.5% in US dollars (it went from USD 3,328/ton to USD 6,075/ton and by 89.7% in Euro (from Euro 2,593/ton to Euro 4,918/ton).

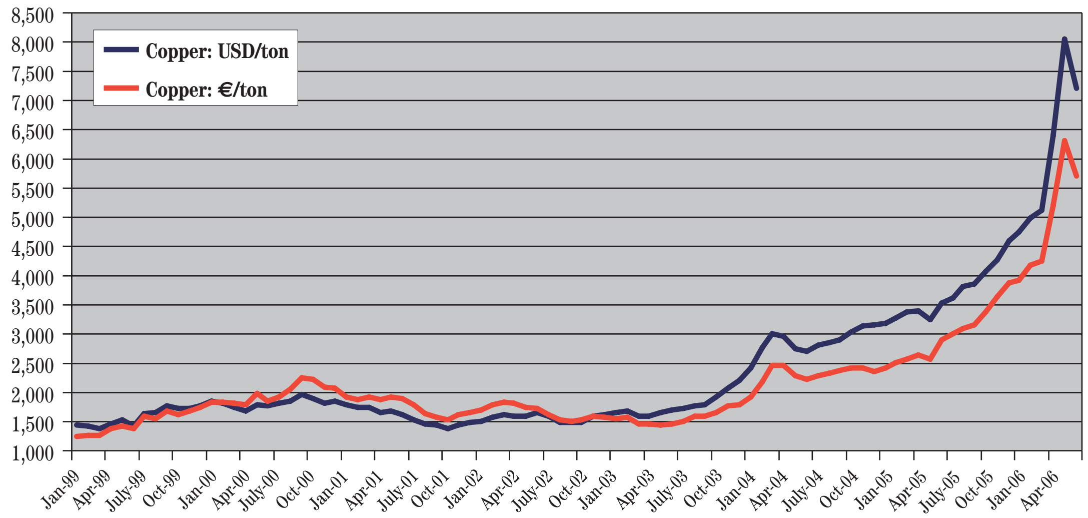
Regarding the price trend, the average price in the second quarter 2006 — compared to the last quarter of 2005 — was higher by 67.6% in USD (from USD 4,301/ton to USD 7,210/ton) and by 58.3% in euros (from Euro 3,620/ton to Euro 5,730/ton).

Between January and May 2006, this price grew by 76%, reaching a maximum of USD 8,788/ton on 12 May of this year (+92%).

Please be reminded that raw materials are sold to clients at the same price as their relative hedge price, made at the moment the order is obtained; therefore the price changes do not directly influence the financial operational results of

the management of Group companies. They do however cause changes on the assessment of owned raw materials stockpiles according to the new IAS/IFRS accounting standards. (Please see the details regarding this in the financial results for the half year).
Nevertheless, as already underlined, the persistence of high and volatile prices for raw materials cause uncertainties on the market and on client behavior, making the forecasting of demand more difficult.

COPPER PRICE LME SETTLEMENT



Group financial trends

The following table summarizes the consolidated financial results made by the Group in the first half year 2006.

The comparative figures are homogenous since the new international IAS/IFRS accounting standards were also adopted for the reference periods.

In order to better show the operational situation, some items in the components that contributed to the calculation of **gross operating profits** were reclassified (*), specifically:

- the effects due to the changing of the accounting policies regarding the assessment of raw materials inventory were counted separately, as were the effects deriving from the fair value measurement of hedging

(*) Breakdown of the reclassifications made:

(millions of Euro)	1st half 2006 IAS		Reclassifications	1st half 2006 Recl.	
Gross sales	1705.6			1,705.6	
Raw materials costs	0.0		**(1,275.6)**	(1,275.6)	
Sales net of raw materials	**1,705.6**	***100%***		**430.0**	***100%***
Labour costs	(177.7)			(177.7)	
Other consumables and costs	(1,381.4)		**1,191**	(190.4)	
Gross Operational Profits	**146.5**	***34.07%***		**61.9**	***14.40%***
Non-recurring (charges)/income	0.0		**(16.5)**	(16.5)	
IFRS impact on inventory and LME contracts	0.0		**101.1**	101.1	
Amortization and depreciation	(27.3)			(27.3)	
Net Operational Profits	**119.2**	***27.72%***		**119.2**	***27.72%***

operations made on the London Metal Exchange. Please remember that the introduction of new international accounting standards caused a change in the metals inventory assessment from the LIFO method to the weighted average cost system. This change, made in a growing prices context, provoked the revaluation of raw materials in inventory that is not taken into consideration in the reclassified gross operational profits for the period;

- the non-recurring components were also reclassified, showing them under the gross operational profits for the period line, and therefore not influencing this figure.

Net operational profits correspond to those in the consolidated income statement shown in the notes, and conform to the new IAS/IFRS accounting standards.

KME Group S.p.A. – Consolidated income statement

FY 2005		(millions of Euro)	1st half 2006		1st half 2005		Change
2,176.10		Gross sales	1,705.6		1,052.4		*62.1%*
(1,417.90)		Raw materials costs	(1,275.6)		(658.9)		*93.6%*
758.1	***100%***	**Sales net of raw materials**	**430.0**	***100%***	**393.5**	***100%***	***9.3%***
(341.8)		Labour costs	(177.7)		(179.6)		*–1.1%*
(323.5)		Other consumables and costs	(190.4)		(168.2)		*13.2%*
92.8	***12.24%***	**Gross Operational Profits**	**61.9**	***14.40%***	**45.7**	***11.60%***	***35.4%***
(29.7)		Non-recurring (charges)/income	(16.5)		3.1		*n.s.*
36.5		IFRS impact on inventory and LME contracts	101.1		2.1		*n.s.*
(54.8)		Amortization and depreciation	(27.3)		(27.8)		*–1.9%*
44.8	***5.91%***	**Net Operational Profits**	**119.2**	***27.72%***	**23.0**	***5.85%***	***n.s.***
(37.8)		Net financial charges	(20.7)		(22.5)		*–8.2%*
0.3		Results on equity	0.0		0.1		*n.s.*
7.4	***0.98%***	**Pre-tax profits**	**98.5**	***22.91%***	**0.6**	***0.16%***	
(3.8)		Current taxes	(4.1)		(5.5)		*–26.0%*
0.8		Deferred taxes	(38.1)		1.4		*n.s.*
4.3	***0.57%***	**Net profits**	**56.3**	***13.09%***	**(3.5)**	***(0.90%)***	***n.s.***

In the first half of 2006, **sales** were Euro 1,705.6 million, higher by 62.1% than the figure from the same period last year. Net of the increase in the value of raw materials, this figure increased by 9.3%, going from Euro 393.5 million to Euro 430.0 million. Sales volumes recorded an increase of 8.8%.

Operational costs increased by 5.8%. The labour costs component was reduced by 1.1% despite higher production volumes (from 30 June 2005 to 30 June 2006, the number of employees was reduced by 347 people). Other operational costs grew due to higher business activity and greater unit production costs, specifically those regarding energy and transport.

Gross operational profits, at Euro 61.9 million, showed growth of 35.4%. This represents 14.4% of sales net of raw materials (in 2005 this figure was 11.6%).

Net operational profits were positive for Euro 119.2 million (Euro 23 million in 2005).
The first half of the 2006 financial year benefited markedly from the reassessment of raw materials in inventory (for Euro 101.1 million) since these prices increase during the period, and since the adoption of the new IAS/IFRS accounting standards; these benefits were partially absorbed by extraordinary charges connected to the industrial restructuring plan (for Euro 16.5 million).

The **net consolidated profits** at 30 June 2006 — after the calculation of taxes which were burdened by deferred liabilities linked to the reassessment of raw materials in inventory and LME contracts by Euro 33.5 million — were positive for Euro 56.3 million.

Data per business area

Group industrial production was directed towards the following areas.

Sales gross of raw materials

(millions of Euro)	Business area							
	Construction products		Industrial products		Consolid. and sundry		Group total	
1st half 2006	**692.8**	*40.6%*	**772.2**	*45.3%*	**240.6**	*14.1%*	**1,705.6**	*100.0%*
1st half 2005	**408.4**	*38.8%*	**556.4**	*52.9%*	**87.6**	*5.1%*	**1,052.4**	*100.0%*
Change %	***69.6%***		***38.8%***		***n.s.***		***62.1%***	

Sales net of raw materials

(millions of Euro)	Business area							
	Construction products		Industrial products		Consolid. and sundry		Group total	
1st half 2006	**152.4**	*35.4%*	**277.5**	*64.5%*	**0.1**	*0.0%*	**430.0**	*100.0%*
1st half 2005	**139.9**	*35.6%*	**253.6**	*64.4%*	**0.0**	*0.0%*	**393.5**	*100.0%*
Change %	***8.9%***		***9.4%***		***n.s.***		***9.3%***	

In the first half of 2006, sales net of raw materials for **industrial applications products** represented 64.5% of total sales, and those for **construction products** 35.4%.

Home construction 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 thermo-sanitary domestic 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.
European demand for semi-finished products in copper and alloys destined to the home construction market was weak during the entire half year, and was negatively influenced also by the high price of raw materials and their volatility, with a consequent aggravation of the risk that copper will be substituted by alternative materials.
The shrinking of demand for roofing laminates was especially evident, not only in Italy and Germany but also in France, Austria and Switzerland. After a satisfying first quarter, business in the hydro-thermo-sanitary pipe sector decreased in the following months.
More positive signals — partially amplified statistically by the sharp shrinkage in 2005 — came from the brass rod sector for applications in faucets and valves.

Regarding semi-finished products in copper and alloys for **industrial use**, these had a very wide use in the most diverse 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 positive in this half year, especially in Germany.
Within the individual compartments, the most encouraging signs came from air conditioning and refrigeration; smaller increases were made in the white goods and furnaces sector.
Though markedly smaller than those recorded in home construction products, the high prices of raw materials also induced clients in the industrial sector to procrastinate regarding purchases and maintain stockpiles at minimum levels.
The scarcity of cathodes negatively influenced the supply of special extruded products and drawn bars destined to the electrical industry.
Sales of ingot moulds for continuous steel casting recorded a figure that was mainly in line with the previous year.

Operational profits (EBIT)

(millions of Euro)	Construction products		Industrial products		Consolid. and sundry		Group total	
1st half 2006	53.1	*44.5%*	67.2	*56.4%*	(1.1)	*–0.9%*	119.2	*100.0%*
1st half 2005	8.0	*34.8%*	12.0	*52.2%*	3.0	*13.0%*	23.0	*100.0%*
Change %	*n.s.*		*n.s.*		*n.s.*		*n.s.*	

Assets per sector

(millions of Euro)	Construction products		Industrial products		Consolid. and sundry		Group total	
30 June 2006	700.6	*33.6%*	1,115.9	*53.4%*	271.3	*13.0%*	2,087.8	*100.0%*
31 December 2005	546.4	*29.7%*	958.9	*52.1%*	336.9	*18.3%*	1,842.2	*100.0%*
Change %	*28.2%*		*16.4%*		*–19.5%*		*13.3%*	

Liabilities per sector

(millions of Euro)	Construction products		Industrial products		Consolid. and sundry		Group total	
30 June 2006	252.5	*14.8%*	398.1	*23.3%*	1,057.1	*61.9%*	1,707.7	*100.0%*
31 December 2005	197.6	*12.9%*	342.5	*22.4%*	986.9	*64.6%*	1,527.0	*100.0%*
Change %	*27.8%*		*16.2%*		*7.1%*		*11.8%*	

Amortization and depreciation

(millions of Euro)	Construction products		Industrial products		Consolid. and sundry		Group total	
1st half 2006	8.9	*32.6%*	18.4	*67.4%*	0.0	*0.0%*	27.3	*100.0%*
1st half 2005	7.8	*28.1%*	20.0	*71.9%*	0.0	*0.0%*	27.8	*100.0%*
Change %	*14.1%*		*–8.0%*		*n.s.*		*–1.8%*	

Investments

(millions of Euro)	Construction products		Industrial products		Consolid. and sundry		Group total	
30 June 2006	7.0	*33.0%*	14.2	*67.0%*	0.0	*0.0%*	21.2	*100.0%*
31 December 2005	11.4	*25.9%*	32.6	*74.1%*	0.0	*0.0%*	44.0	*100.0%*
Change %	*–38.6%*		*–56.4%*		*n.s.*		*–51.8%*	

Employees at 30 June 2006

(No. employees)	Construction products		Industrial products		Consolid. and sundry		Group total	
30 June 2006	2,175	*32.5%*	4,466	*66.8%*	47	*0.7%*	6,688	*100.0%*
31 December 2005	2,333	*34.1%*	4,470	*65.3%*	44	*0.6%*	6,847	*100.0%*
Change %	*–6.8%*		*–0.1%*		*6.8%*		*–2.3%*	

Investments

During the first half of 2006, investments for the industrial units were Euro 21 million (Euro 20 million in 2005).
Investments forecasted in the Industrial Plan were finalized at the further re-organization and rationalization of the Group's production set-up. The higher outlays in this half year involved the focus on production sites in the laminated products sector.

Financial data

Group **net debt** at 30 June 2006 was Euro 668.7 million, and increase of 109.6 million compared to the end of 2005. This amount does not include the subordinated partner financing received from GIM S.p.A. as previously described.

The following table shows the breakdown of the consolidated financial position (*):

(thousands of Euro)	30.06.2006	31.12.2005
Short term debt to banks	287,355	234,146
Medium to long term debt to banks	437,207	459,379
Financial debt to unconsolidated Group companies	20,096	18,472
Total financial debt	**744,658**	**711,997**
Cash	(75,059)	(151,992)
Financial credits to unconsolidated Group companies	(918)	(920)
Total cash and financial credits	**(75,977)**	**(152,912)**
Total net financial position	**668,681**	**559,085**

We specify that the figures shown above regarding the financial position do not include potential expenditures for two EC sanctions, imposed on 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 security deposit (of Euro 17 million) and by bank surety (of Euro 90 million); this extension however generates financial charges.

As previously indicated, the rise in debt compared to 31 December 2005 was determined by an increase in the price of raw materials, which increased working capital for growth in exposure towards clients and the higher value of inventory, and, correspondingly, a higher need for financial coverage.
Regarding the need for financial coverage, in June negotiations with financial institutions to extend credit lines were concluded; the agreements entailed the concession of additional financing, on top of existing loans, for a total of Euro 100 million.

Financial covenants were also reviewed regarding financing contract in order to better suit these to new raw materials prices. At 30 June 2006, all benchmarks were respected.
Negotiations with the institutes continue in order to evaluate new credit line opportunities having structures that allow greater flexibility in terms of their amount and their use against the variability of working capital requirements. Obviously, Group management is also taking actions to contain working capital that are even more incisive than the actions planned.

(*) The amounts indicated are net of non-recourse factoring transactions for trade receivables of Euro 176.1 million at the end of June 2006 and of Euro 60.3 million at the end of December 2005.

Cash flow for the half year is summarized as follows:

	Consolidated cash flow statementKME Group S.p.A. – Indirect method (thousands of Euro)	30.06.2006	31.12.2005
(A)	**Cash and cash equivalents at beginning of year**	**151,992**	**74,035**
	Pre-tax profits	98,494	7,362
	Amortisation on tangible and intangible assets	27,178	55,030
	Write-downs of current assets	530	1,538
	Write-downs (write-ups) of non-current assets other than financial assets	132	16,452
	Write-downs (write-ups) current/non-current financial assets	557	183
	Net interest matured	19,068	29,617
	Capital losses (gains) on non-current assets	(1,351)	(5,292)
	Associated consolidated profits at shareholders' equity	–	(317)
	Change in employee severance indemnity and pension funds	(985)	(3,125)
	Change in funds for risks and charges	11,923	9,148
	Decrease (increase) in inventory	(204,718)	(56,352)
	Current receivables (increase) decrease	(113,010)	(24,829)
	Current payables increase (decrease)	99,899	(2,568)
	Change from currency conversion	(41)	113
	Net interest paid during year	(19,021)	(29,529)
	Current taxes paid and reimbursed during year	(4,100)	(5,182)
(B)	**Operating cash flow**	**(85,445)**	**(7,751)**
	(Increases) from non-current tangible and intangible assets	(21,544)	(44,818)
	Decrease from non-current tangible and intangible assets	2,820	15,105
	(Increase) decrease in interests	176	–
	(Increase) decrease in financial assets available for sale	–	–
	Increase/decrease from other non-current assets/liabilities	1,305	(4,106)
	Dividends received	824	426
(C)	**Cash flow from investments**	**(16,419)**	**(33,393)**
	Paid increases in shareholders' equity	–	–
	Increases (decreases) current and non-current financial payables	46,860	124,217
	(Increases) decreases current and non-current financial receivables	(20,590)	(5,116)
	Dividends paid	(1,339)	–
(D)	**Cash flow from investments**	**24,931**	**119,101**
(E)	**Change in cash and cash equivalents (B + C + D)**	**(76,933)**	**77,957**
(F)	**Cash and cash equivalents at end of period (A + E)**	**75,059**	**151,992**

Not including the increase in cash requirements due to changes in raw materials prices, of Euro 130 million, Group management produced cash for approximately Euro 20 million.

Personnel

The number of employees at 30 June 2006 was 6,688 people, a decrease of 2.3% compared to 31 December 2005 (which was 6,847 people).

(period average)	1st half 2006		2005		Change %
Managers and white-collar	1,764	*26.3%*	1,886	*26.8%*	*–6.5%*
Blue collar and technicians	4,949	*73.7%*	5,151	*73.2%*	*–3.9%*
Total employees	**6,713**	***100.0%***	**7,037**	***100.0%***	***–4.6%***

Management forecasts

The consolidation of the uptake in the European economy and the contribution of growth measures in efficiency and cost containment allow for a further gradual improvement for Group profitability in the next months.

The financial results updated for all of 2006 exceed the Industrial Plan objectives that were approved at the beginning of the year.

Operations between subsidiaries

Operations between subsidiaries, 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 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 relationships with the Parent Company G.I.M. S.p.A. are also shown in these statements.

THE PARENT COMPANY

In the half year, the Parent Company KME Group S.p.A. recorded a loss of Euro 3.7 million, net of taxes.

The **income statement** shown below has been reclassified, highlighting "Non-recurring income (charges)" in a separate line.

FY 2005	**Income statement** (thousands of Euro)	1st half 2006	1st half 2005
–	Dividends from KME A.G.	–	–
1,289	Supply of services	1,553	818
(4,225)	Management costs	(1,686)	(2,539)
(3,325)	Net financial income (charges)	(2,354)	(1,774)
(6,261)	**Ordinary profits**	**(2,487)**	**(3,495)**
6,701	Non-recurring income (charges)	(1,211)	7,137
440	**Pre-tax profits**	**(3,698)**	**3,642**
955	Taxes	–	(40)
1,395	**Net profits**	**(3,698)**	**3,602**

Ordinary profits remain negative due to the burden of financial charges deriving from subordinated partner financing conceded from the parent company.
The balance of non-recurring items from which the first half of the previous year benefited was significantly reduced this year. The negative component in this item for the year underway is due to consultancy costs for the Group's reorganization projects (Euro 1.0 million) and the adjustment to the current price of GIM savings shares (Euro 0.3 million), net of lower contingent assets.

In the second half of this financial year, the Company's income statement will benefit from lower financial charges as a consequence of the capital increase.

In the following table, the main **balance sheet** items of the KME Group S.p.A. are shown:

ASSETS (thousands of Euro)	30.06.2006	31.12.2005
Real estate investments	8,985	8,985
Interest in KME A.G.	302,670	302,670
Non-current assets	**311,655**	**311,655**
G.I.M. savings shares	4,313	4,620
Various net credits	–	2,824
Total Assets	**315,968**	**319,099**

LIABILITIES (thousands of Euro)	30.06.2005	31.12.2005
Shareholders' capital	189,775	189,775
Legal reserves	7,996	7,914
Shareholders' equity	**197,771**	**197,689**
Current net financial position	**(8,868)**	**(9,985)**
Subordinated financing from G.I.M. S.p.A.	130,000	130,000
Various net debt	763	–
Result for the period	**(3,698)**	**1,395**
Total liabilities and equity	**315,968**	**319,099**

The **current net financial position** is positive for Euro 8.9 million.

(thousands of Euro)	30.06.2006	31.12.2005
Short term debt to banks	100	123
Medium to long term debt to banks	684	684
Short term debt to subsidiaries	16,624	15,440
Total financial debt	**17,408**	**16,247**
Cash	(401)	(9,378)
Financial credits to subsidiaries and associates	(25,875)	(16,854)
Total cash and financial credits	**(26,276)**	**(26,232)**
Total net financial position	**(8,868)**	**(9,985)**

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

Cash flow statement (thousands of Euro)	30.06.2006	31.12.2005
(A) Cash and other at start of year	**9,379**	**8,434**
Pre-tax profits	(3,698)	439
Amortization on tangible and intangible assets	–	143
Dividends	(413)	
Net interest matured	2,868	1,926
Capital losses (gains) on non-current assets	(43)	–
Provisions for pension funds and similar	(976)	(131)
Allocation to provisions and other funds	4,180	2,348
Current receivables (increase) decrease	774	51,335
Current payables increase (decrease)	–	(3,954)
Net interest paid during year	(2,821)	(1,838)
(B) Operating cash flow	**(129)**	**50,268**
Decrease from non-current tangible and intangible assets	–	7,710
(Increase) decrease in interests	–	(119,563)
Increase/decrease from other non-current assets/liabilities	(7)	(2)
Dividends received	413	
(C) Cash flow from investments	**406**	**(111,855)**
(Increases) decreases current and non-current financial payables	1,067	79,386
Increases (decreases) current and non-current financial receivables	(9,011)	(16,854)
Dividends paid	(1,314)	–
(D) Cash flow from investments	**(9,258)**	**62,532**
(E) Net profits on cash and other (B + C + D)	**(8,981)**	**945**
(F) Cash and other at end of year (A + E)	**398**	**9,379**

Relationships with subsidiaries and the parent company

As the parent company, KME Group S.p.A. supplied services to Group companies. These businesses generated income and charges, broken down per company as follows:

(thousands of Euro)	30.06.2006		31.12.2005	
	Income	Charges	Income	Charges
G.I.M. S.p.A.	36		120	(111)
Europa Metalli S.p.A.	1,096	(50)	927	(261)
KM Europa Metal A.G.	129		197	
Tréfimétaux S.A.	258		257	
Total	**1,519**	**(50)**	**1,501**	**(372)**

Receivables from subsidiaries at 30 June 2006 are as follows:

(thousand of Euro)	30.06.2006	31.12.2005	Absolute change	Change %
Financial receivables				
Europa Metalli S.p.A.	7,002	3,273	3,729	*113.9%*
KM Europa Metal A.G.	16,648	11,334	5,314	*46.9%*
Tréfimétaux S.A.	1,619	1,340	279	*20.8%*
Immob. Agricola Limestre	606	913	(307)	*–33.6%*
	25,875	**16,860**	**9,015**	***53.5%***

Current accounts with G.I.M. S.p.A. generated net interest of Euro 0.3 million.
Interest on subordinated partner financing received by G.I.M. was Euro 3.1 million.

Management forecasts

Since KME Group S.p.A. profits are calculated on the distribution of dividends of its subsidiary KM Europa Metal A.G. that heads the Group's industrial grouping, please see the forecasts made shown in previous pages regarding industrial activity performance.
Please remember that with respect to Group company commitments made with financing institutes in February 2005 for debt restructuring, dividend distribution may only take place using profits of an ordinary nature, after the debt has been serviced, if the financial covenants have been respected, and if advanced reimbursements of debts to banks have been paid if so required.
No reserves distribution of any kind is allowed, except those accumulated after 31 December 2004 with undistributed profits and within the same limits as dividends are distributed.

Lawsuits underway

Regarding information in the Management Report in the 2005 financial statements, there are no updates regarding EU proceedings linked to the sanctions inflicted by the EU Commission on some industrial Group companies. Similarly, there are no updates regarding class action suits already proposed in the United States for sanitary pipes (moreover a further and similar suit was extended to the industrial pipes sector after 30 June 2006), to the two suits pending at the Hanover Court regarding mergers and squeeze outs in Germany, and to the lawsuit regarding credit recovery in Greece.
However, regarding the lawsuit against Luigi Orlando, the previous Company President, the shareholders proposed an appeal to the unfavorable verdict against him made by the Court of Rome.
Moreover, we would like to inform you that a lawsuit for environmental damages has been launched against the subsidiary Europa Metalli S.p.A. regarding their Brescia plant which closed in 1997. The company has been cited along with another ten companies and bodies by another company cited by private citizens; currently, Europa Metalli S.p.A. has not been proved responsible.

Important events occurring after the previous year's closing

The execution of the capital increase of Euro 129.9 million adjudicated at the shareholders' meeting of 19 May 2006 has already been mentioned previously.

At their meeting on 31 July 2006, the Board of Directors executed a stock option plan for the KME Group S.p.A., for Directors with executive positions or operational tasks, and for Company and subsidiary managers; they fully exercised the proxies for the capital increase to service this plan which dates from the shareholders' meeting held on 19 May 2006, according to art. 2443 of the Italian Civil Code.

No. 7,580,174 options were given to Vice Chairman Vincenzo Manes corresponding to a value, based on the exercise price, of Euro 2.6 million; to CEO Vincenzo Cannatelli, no. 11,661,807 options corresponding to a value of Euro 4 million were given; Diva Moriani, the operations director, received no. 1,166,181 options worth a total of Euro 0.4 million.

A total of no. 23,323,614 options were given worth a total of Euro 8 million, to 19 Group managers.

The options give each beneficiary the right to subscribe through payment to an equal number of Company ordinary shares at a price of Euro 0.343 each, calculated based on the official average share price recorded on the Milanese stock exchange from 30 June to 31 July 2006.
The shares arising from the possible exercising of these options may determine a share capital increase of a maximum of Euro 15 million, which is 4.7% of the new shareholders' capital.

These options are 1/3 exercisable starting from 1 September 2007, 1/3 starting from 1 September 2008, 1/3 starting from 1 September 2009. The last date for options exercising is 28 February 2011.

* * *

For further information and analyses of consolidated figures for the Parent Company please see the notes to the financial statements.

* * *

INVESTOR INFORMATION

Investor relations:
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Fax: 055-4411681
E-mail: info@kmegroup.it
Website: www.kmegroup.it

(figures in Euro)	
Ordinary shares	693,385,714
Savings shares	57,216,332
Corporate capital	319,643,223
KME Group 2006-2009 warrants in circulation	74,209,605

Market price (end of June 2006 – adjusted figures in Euros)	
KME Group ordinary	0.358
KME Group savings	0.380

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

During the first half 2006, KME Group shares recorded the following changes:

- **KME Group ordinary shares** recorded a maximum of recorded a maximum of Euro **0.421** during January, and a minimum of Euro **0.326** during June;
- **KME Group savings shares** recorded a maximum of Euro **0.402** during May and a minimum of Euro **0.349** during February.

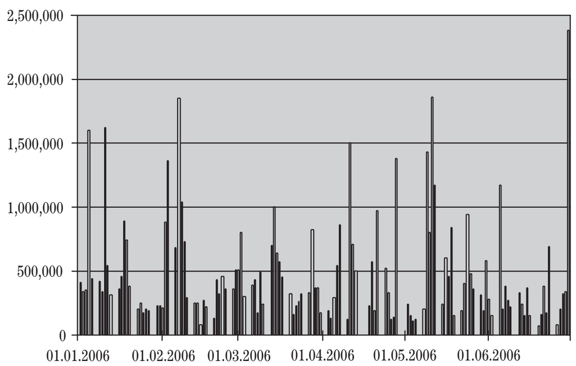
(figures in Euro)	
Capitalization ordinary shares	248,232,086
Capitalization savings shares	21,742,206
Capitalizations	**269,974,292**

Shareholders	
Number of ordinary shareholders	**12,833**
Main shareholders	
GIM S.p.A.	60.4%

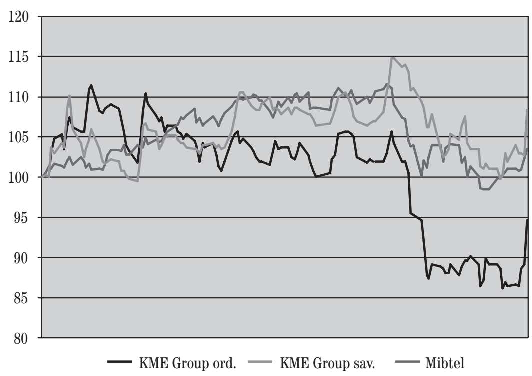
Dividends per share (figures in Euro)	**2003**	**2004**	**2005**
Dividends per ordinary share	–	–	–
Dividends per savings share	–	–	0.023

Market trend (figures in Euro)	**End of 2005**	**June 2006**	**Change**
KME Group ord.	0.405	0.358	*–11.6%*
KME Group sav.	0.371	0.380	*2.4%*
Mibtel	26,778	27,886	*4.1%*

Volumes KME Group ord. 1st half 2006



List prices 1st half 2006



CONSOLIDATED FINANCIAL SCHEDULES

KME Group S.p.A.

Consolidated financial statements

Distinction made between current/non-current items (thousands of Euro)	**Ref. in notes**	**30.06.2006**	**31.12.2005**
Real estate, plants and equipment	4.1	616,914	624,305
Real estate investments	4.2	9,607	9,272
Goodwill and differences in consolidation	4.3	109,840	109,840
Other intangible assets	4.4	1,246	1,631
Interests in subsidiaries and associates	4.5	5,381	5,564
Interests in other companies	4.5	245	245
Interests at shareholders' equity	4.5	2,447	2,573
Other non-current assets	4.6	27,414	28,960
Non-current financial assets	4.7	6,400	–
Deferred tax assets	4.20	36,274	40,651
Non-current assets		**815,768**	**823,041**
Inventories	4.8	648,890	444,361
Trade receivables	4.9	483,500	358,270
Other current assets and receivables	4.10	36,836	50,141
Current financial assets	4.11	27,728	14,404
Cash and cash equivalents	4.12	75,059	151,992
Current assets		**1,272,013**	**1,019,168**
TOTAL ASSETS		**2,087,781**	**1,842,209**
Corporate capital		189,775	189,775
Other reserves		45	–
Own shares	2.10	(37)	(37)
Profits from previous FYs		5,176	5,165
Technical consolidation reserves		25,129	22,292
First adoption IAS/IFRS reserve	2.10	93,658	93,658
Profits/(losses) for the year		56,345	4,343
Group shareholders' equity		**370,091**	**315,196**
Minority shareholders' equity		–	–
Total shareholders' equity		**370,091**	**315,196**
Employee benefits	4.14	165,468	166,663
Deferred tax liabilities	4.20	162,729	128,977
Payables and financial liabilities	4.15	567,207	589,379
Other non-current liabilities	4.16	7,281	7,257
Funds for risks and charges	4.17	130,559	128,668
Non-current liabilities		**1,033,244**	**1,020,944**
Payables and financial liabilities	4.18	329,948	260,924
Payables to suppliers	4.19	197,506	122,575
Other current liabilities	4.19	119,114	94,767
Funds for risks and charges	4.17	37,878	27,803
Current liabilities		**684,446**	**506,069**
TOTAL LIABILITIES AND EQUITY		**2,087,781**	**1,842,209**

KME Group S.p.A.

Consolidated financial statements

Costs classification per nature (thousands of Euro)	**Ref. in notes**	**1st half 2006**	**1st half 2005**
Sales revenues	5,1	1,705,628	1,052,380
Change in finished and semi-finished products inventory		4,557	(3,182)
Internal works capitalizations		1,188	834
Other operational revenues		6,101	19,935
Purchase and change in raw materials inventory		(1,204,057)	(685,155)
Personnel costs	5,2	(177,703)	(179,636)
Amortisation, impairment and depreciation	5,3	(27,310)	(27,825)
Other operational expenses	5,4	(189,210)	(154,316)
Operational profits (EBIT)		**119,194**	**23,035**
Financial income/(expense)	5,5	(20,700)	(22,540)
Related profits and shareholders' equity		–	136
Pre-tax profits		**98,494**	**631**
Current taxes	5,6	(4,100)	(5,544)
Deferred taxes	5,6	(38,049)	1,377
Total income tax		**(42,149)**	**(4,167)**
Net profits from current businesses		**56,345**	**(3,536)**
Net profits from discontinued businesses		–	–
Total net profits		**56,345**	**(3,536)**
Minorities' net profits		**–**	**–**
Group net profits		**56,345**	**(3,536)**

Profits per share (Euro)	**1st half 2006**	**1st half 2005**
Base profits per share	0.1684	(0.0173)
Diluted earnings per share	0.1684	(0.0173)

Schedule linking profits for the Parent Company KME Group S.p.A. and their attributable consolidated profits

(thousands of Euro)	30.06.2006
Profits from separate financial statements of KME Group S.p.A.	(3,698)
Profits from consolidated companies (1) (2)	60,043
Other consolidation adjustments (3)	–
Consolidated net profits	**56,345**

Subsidiary profits 1 January 2006-30 June 2006	
(1) Profits form KM Europa Metal A.G. (consolidated)	60,135
(2) Immobiliare Agricola Limestre S.r.l. profits	(92)
(3) Consolidation adjustments	–
Total	**60,043**

Reconciliation schedule for consolidated net shareholders' equity KME Group S.p.A. at 30 June 2006

(thousands of Euro)	Corporate capital	Other reserves	Own shares	Profits previous years	Consolidation reserves	First adoption IAS/IFRS reserves	Profits for the FY	Total Equity
Equity at 31.12.2005 IAS/IFRS	**189,775**	**–**	**(37)**	**5,165**	**22,292**	**93,658**	**4,343**	**315,196**
Allocation of previous year's profits		70		11	4,262		(4,343)	–
Dividends distribution					(1,314)			(1,314)
Charges on corporate capital increase		(25)						(25)
Change in technical consolidation reserves					(111)			(111)
Current FY profits							56,345	56,345
Equity at 30.06.2006 IAS/IFRS	**189,775**	**45**	**(37)**	**5,176**	**25,129**	**93,658**	**56,345**	**370,091**
IAS reclassification own shares	(33)	–	37	(4)	–	–	–	–
Equity at 30.06.2006 IAS/IFRS	**189,742**	**45**	**–**	**5,172**	**25,129**	**93,658**	**56,345**	**370,091**

At 30 June 2006 the Parent Company held 65,000 of its own savings shares. The value of these shares was reclassified in reduction of issued capital, while the premium or discount with respect to the nominal value adjusts the other equity components.

The change in "technical consolidation reserves" is attributable to the Euro conversion of financial statement items expressed in foreign currencies.

KME Group S.p.A.

Consolidated cash flow statement

	Consolidated cash flow statement - Indirect method (thousands of Euro)	**30.06.2006**	**31.12.2005**
(A)	**Cash and cash equivalents at beginning of year**	**151,992**	**74,035**
	Pre-tax profits	98,494	7,362
	Amortisation on tangible and intangible assets	27,178	55,030
	Write-downs of current assets	530	1,538
	Write-downs (write-ups) of non-current assets other than financial assets	132	16,452
	Write-downs (write-ups) current/non-current financial assets	557	183
	Net interest matured	19,068	29,617
	Capital losses (gains) on non-current assets	(1,351)	(5,292)
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	Change from currency conversion	(41)	113
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	Decrease from non-current tangible and intangible assets	2,820	15,105
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	Increase/decrease from other non-current assets/liabilities	1,305	(4,106)
	Dividends received	824	426
(C)	**Cash flow from investments**	**(16,419)**	**(33,393)**
	Paid increases in shareholders' equity	–	–
	Increases (decreases) current and non-current financial payables	46,860	124,217
	(Increases) decreases current and non-current financial receivables	(20,590)	(5,116)
	Dividends paid	(1,339)	–
(D)	**Cash flow from investments**	**24,931**	**119,101**
(E)	**Change in cash and cash equivalents (B + C + D)**	**(76,933)**	**77,957**
(F)	**Cash and cash equivalents at end of period (A + E)**	**75,059**	**151,992**

ACCOUNTING PRINCIPLES APPLIED AND ACCOMPANYING NOTES

1. General information

KME Group S.p.A. (KME GR) and its industrial subsidiaries (which together constitute "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 in all the principle world markets.
The KME Group is a joint-stock company registered in Italy at the Florence company registry under n. 00931330583, and its shares are listed on the stock exchange that is organized and managed by Borsa Italiana S.p.A..
The half year report to 30 June 2006 was approved by the Board of Directors on 12 September 2006.

2. Accounting principles adopted

2.1 Reporting criteria

The half year financial statements at 30 June 2006 were reported following the indications furnished by the National Commission for Companies and Markets (CONSOB) in the Issuers' Regulation and in respect of international accounting principles.
The consolidated financial statements was reported conforming to the measurements criteria established in the ***International Financial Report Standards (IFRS)*** stipulated by the ***International Accounting Standards Board (IASB)*** and adopted by the European Commission according to the procedure in art. 6 of EC Regulation no. 1606/2002 of the European Parliament and Council dated 19 July 2002. In the report of these statements, the Directors took account of the principles of responsibility, of the company continuity, of clarity, of significance, importance, reliability, fairness, prudence, and comparability.
The Group has not yet applied the accounting principles that, though issued by the IASB, have an application date that follows the reference date for these financial statements. We estimate that the future adoption of these principles will not however have any significant impact on the present overall financial situation of the Group.
The events and company operations were noted and represented in conformity with their actual economic state, and not only according to their legal form.
Nothing was inserted in this report that involved the data and reconciliations outlined in paragraphs 39 and 40 of IFRS 1 "First adoption of IFRS", and the CONSOB memorandum number 6064313 from 28 July 2006 from the moment that the Parent adopted the new accounting principles on 1 December 2004, both on a consolidated level as well as on a separate level. Schedules and figures involving this can be found in the half year report to 30 June 2005 and in the financial statements to 31 December 2005.

2.2 Consolidation principles

(a) Subsidiaries

The subsidiaries are all companies over which KME GR exercises directional and ruling powers regarding financial and operations policies, generally accompanied by the possibility of exercising its more than 50% of the voting rights in the company bodies.
The assets, liabilities, income and charges of the subsidiaries consolidated through the global integration method have been fully included in the consolidated financial statements; the value of these interests is eliminated against the corresponding fraction of shareholders' capital of the companies, attributing their current value at the date that control was acquired to each individual asset and liability element. Any possible residual differences, if positive, are entered under the asset item "goodwill and consolidation differences"; if negative, they are entered in the income statement. Minority shareholders' equity and profits are entered under their respective statement items. After its initial detection, "goodwill" is measured at cost net of any losses in value according to IAS 36 "*Impairment of assets*".
At the time of the initial application of IFRS, KME Group S.p.A. opted for the non-retroactive application of IFRS 3 (Business combinations) as allowed by IFRS 1 paragraph 13a.

At the transition date to IFRS, no changes in the consolidation area arose that therefore include non-significant subsidiaries and companies whose consolidation does not produce any significant effects. These generally involve companies who perform commercial business activities. The effects of these exclusions do not however have relevance and therefore their omission does not influence the financial decisions of the users of this half year report.
Profits deriving from incomplete inter-company operations with third parties, if significant, are eliminated. Also subject to elimination are credits, debts, income, charges, guarantees, commitments and risks between consolidated companies. Inter-company losses are not eliminated because they are considered as representative of the real reduced value of a good sold. All subsidiary financial statements were adjusted in order to render constant the measurement principles and standards adopted on a Group level.
Below we show a list of the fully consolidated subsidiaries.

Summary schedule of fully consolidated companies

Company name	Legal Headquarters	Business	% of ownership	
			Direct	Indirect
KME Group S.p.A.	Italy	Financial	Parent	
KM Europa Metal A.G.	Germany	Copper, alloys finishing	100.00%	
Europa Metalli S.p.A.	Italy	Copper, alloys finishing		100.00%
Tréfimétaux S.A.	France	Copper, alloys finishing		100.00%
S.I.A. - Santa Bàrbara S.A.	Spain	Financial holding		100.00%
LOCSA S.A.	Spain	Copper, alloys finishing		100.00%
KME Verwaltungs und Dienst. mit beschr.	Germany	Non-operative		100.00%
Fricke GmbH	Germany	Holding		100.00%
Kabelmetal Messing Beteiligungsges mbH Berlin	Germany	Real estate		100.00%
Fricke GmbH & Co. KG	Germany	Copper, alloys finishing		100.00%
Cuprum S.A.	Spain	Services		100.00%
Bertram GmbH	Germany	Services		100.00%
KME Ibertubos S.A.	Spain	Copper, alloys finishing		100.00%
KME Yorkshire Ltd.	England	Copper, alloys finishing		100.00%
Yorkshire Copper Tube	England	Non-operative		100.00%
Yorkshire Copper Tube (Exports) Ltd.	England	Non-operative		100.00%
KME Iberica SL	Spain	Marketing		100.00%
KME Brass GmbH	Germany	Copper, alloys finishing		100.00%
TMX Brass S.a.s.	France	Copper, alloys finishing		100.00%
Immobiliare agricola Limestre S.r.l.	Italy	Real estate	100.00%	
EM Brass S.r.l.	Italy	Copper, alloys finishing		100.00%

At 30 June 2006, no changes in the consolidation area were recorded.
At 31 December 2005 the companies KME Iberica SL, EM Brass S.r.l., TMX Brass S.a.s., KME Brass GmbH and Immobiliare Agricola Limestre S.r.l. were included in the consolidation area. KME Iberica SL carries out a small commercial business, while EM Brass S.r.l., TMX Brass S.a.s. (formerly Sté Isignoise de Participations S.A.) and KME Brass GmbH are companies founded specifically to take in business in the “rod sector” within the framework of the enhancement project mentioned previously. The Parent Company’s property assets were taken in by the company Immobiliare Agricola Limestre S.r.l.. Their inclusion in the consolidation area therefore did not cause any problems regarding comparability.

(b) Associate companies

Associate companies are all companies upon which KME GR exercises substantial influence but not control. Substantial influence is assumed when KME GR owns, directly or indirectly through subsidiaries, 20% or more of the voting rights exercisable at shareholders’ meetings. Interests in associate companies are consolidated through the shareholders’ equity method.
Using the shareholders’ equity method, the interest is initially accounted at cost following adjustments to record the portion attributable to the parent company in the profits or losses matured following the acquisition date. The dividends received reduce the accounting value of the interest.
Below we show a list of the associates consolidated using the shareholders’ equity method.

Summary schedule of companies consolidated using shareholders' equity method

Company name	Legal Headquarters	Business	% of ownership by KME GR	
			Direct	Indirect
Dalian Dashan Chrystallizer Co. Ltd.	China	Industrial		30.00%
Dalian ETDZ Dashan Surface Machinery Ltd.	China	Industrial		30.00%

The above-mentioned companies were included in the consolidation area at the end of the past financial year.

(c) Joint ventures

A joint venture is a contractual agreement through which two or more parties start a business that is then subject to joint control. Joint control is the sharing of control of a business, 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, no joint ventures as defined according to IAS 31 are owned by the Group.

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 Company.

(b) Conversion of financial statements made in currencies other than the Euro

Financial statements expressed in foreign currencies were converted into Euro by applying the average exchange rates for the period to individual income statement items, and the current exchange rates at the closing date of these statements to individual balance sheet items.

The exchange rates used in the conversion of foreign cash are the following:

1 Euro	0.6853 GBP	31 December 2005
1 Euro	0.6927 GBP	30 June 2006 used in the conversion of the balance sheet
1 Euro	0.6867 GBP	average for 2006 used in the conversion of the income statement
1 Euro	9.5204 RMB	31 December 2005
1 Euro	10.1648 RMB	30 June 2006 used in the conversion of the balance sheet
1 Euro	not applicable	average for 2005 used in the conversion of the income statement

The difference between the profits for the period resulting from the conversion of average exchange rates for the period and the one resulting from the conversion based on rates from the end of June 2006 were paid to the technical consolidation reserves and third party shareholders' equity for the Group's share and the third parties' share, respectively. If these assets are sold, these differences will be charged to the income statement as part of the capital gains or losses relative to the sale of these interests.

2.4 Tangible assets

Fixed assets are entered at the cost of purchase or production, including the additional charges directly imputed to them.

Fixed assets are measured at cost, net of amortizations and write-downs, with the exception of real estate that is not amortizable and that is measured at cost, net of write-downs.

Amortizations are accounted starting from the month in which the asset is available for use, or is potentially able to supply the economic benefits associated with it. These are imputed on a monthly basis at even shares until the end of their useful life, or, for divestments, up to their last month of use.

The amortization rates take into consideration the useful life of the various plants according to the results of the report in American Appraisal. The new useful "lifes" were applied to tangible fixed assets starting from 1 January 2004, and at the transition date to IAS/IFRS, their fair value was adopted substituting their cost, while for the other fixed assets, the new useful "lifes" were applied from 1 January 2005.

The financial charges relative to the purchase of fixed assets are charged to the income statement unless they are directly attributed to the acquisition, construction, or production of an asset that justified the capitalization thereof.

Replacement parts of significant value are capitalized and amortized based on the useful life of their related asset; others are posted to the income statement when their cost has been sustained.

Capital goods purchased through financial leasing are accounted as tangible fixed assets as a counter charge of their related debt. The lease rate is dismantled into the components of its financial charges, charged to the income statement, and of its principal repayment, entered thus reducing its financial debt. Assets owned in financial leasing are recognized for the lower of their cost, and the actual value of the minimum leasing payments due at the date of contract initiation.

If indications of certain specific lasting losses in value are present, tangible fixed assets are subject to an impairment test. This test consists in the estimate of the recoverable value of the assets, defined as the higher of the net sale price and its use value, and compared with the relative net accounting value. If the recoverable value is less than its accounting value, the latter is reduced to the recoverable value; this reduction is imputed to the income statement, specifically the remeasurement reserve that was established previously, at the moment of the remeasurement of the asset under examination. Possible and successive revaluations take the opposite course.

2.5 Intangible assets

(a) Goodwill

Goodwill refers to the difference in the acquisition cost of an interest in KME Europa Metal A.G. and its shareholders' equity at the moment of acquisition. Goodwill and other intangible assets having indefinite useful life are not subject to amortization; the recoverability of their book value is checked annually or whenever events take place that might cause a reduction in their value. Any possible write downs are not subject to any reestablishments in value.

(b) Other intangible assets having limited useful life

This regards assets not having any physical or identifiable presence, controlled by a company and able to produce future financial benefits.

Intangible assets may arise through:

- third party acquisitions;
- company combinations;
- internal production.

In the first two cases, intangible assets are measurement initially and in respect to their cost and fair value including any directly attributable charges. They are then amortized systematically during their useful life, which is the estimate of the period in which the assets are used by the company, usually a length of time between three to five years. These assets are moreover shown net of possible impairments by adopting the same criteria as indicated for "tangible assets". Their residual value at the end of their useful life is considered to be zero.

Products developed internally are only capitalized if the conditions detailed in IAS 38 paragraph 57 exist.

2.6 Real estate investments

These are properties and factories owned to receive leasing or rent rates, or for the appreciation of the capital invested, or for both reasons. These assets are measured at fair value and are therefore not systematically amortized. At the date of transition of IFRS, the said assets were measured at fair value and this value was used to substitute their cost.

2.7 Financial assets

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

For the reasons illustrated in paragraph 2.2, interests in subsidiaries outside the consolidation area are measured at cost adjusted for impairment.

Any other possible interests are measured at fair value and their effects are charged to shareholders' equity. When the fair value can not be reliably determined, the interests are measured at cost adjusted for write-downs.

Financial assets not involving 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 criterion that applies to them as defined in IAS 39.

Financial assets that are purchased or sold primarily for resale or repurchase in the short term and the financial derivatives not designated as hedging instruments are classified in the category "*fair value financial assets booked to the income statement*". These assets are measured at fair value and their effects are charged to the income statement.

Non-derivative financial assets, with the exception of capital assets, 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 criterion of their effective interest. For current loans and receivables and generally for all short term credits and debts for which the time value has little relevance, we presume that their amortized coincides with their book value.

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 charged directly to shareholders' equity, less write downs.

All financial assets, except for "*fair value financial assets booked to the income statements*" are eventually subject to impairment according to IAS 39 paragraphs 58-70.

Own shares are measured at historic acquisition cost and entered as a reduction to consolidated shareholders' 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 forward contracts — is disciplined by explicit risk management strategies, approved by the Board of Directors. The Group does not use financial instruments for speculative purposes.

2.8 Inventories

Inventories are measured at the lower amount between cost and net sale value. The cost, determined through the application of the weighted average cost method on a quarterly basis, includes all direct charges and a share of the other costs sustained to bring the inventories to their current place in their current conditions. The transformation cost of finished and semi-finished products includes accessory directly imputable costs and their portion of indirect production costs that can be reasonably imputed to the product. Semi-finished made-to-order products are measured based on their matured contractual prices within reasonable certainty for the part of the order that has been executed, less marketing costs.

2.9 Cash and cash equivalents

This item includes cash and 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).

2.10 Shareholders' equity

Corporate capital is constituted by ordinary and savings shares without face value, subscribed and paid on the reference date of these statements, possibly reduced for the loans to partners for unpaid tenths. The value of repurchased own shares according to IAS 32, is shown in reduction of issued capital, while the premium or discount with respect to the nominal value adjusts the other equity components. This representation is however only given in the supplementary notes, while in the statements the historical cost of own shares held is shown differently with a minus sign, thus reducing net equity.
Reserves for own shares held in portfolio is no longer booked in light of the different methods of presentation introduced by IAS. The balance of existing reserves was therefore reclassified to specific reserves, by the use of which it was first created.
Costs for equity operations are charged directly to a reduction of capital reserves, preferably using the share premium reserves.
The balance of adjustments for transition to IAS is entered in a specific equity reserve called "First-adoption to IAS IFRS reserves".

2.11 Payables

Payables are recognized at amortized cost. When the effects of this recognition are inconsequential — as for short-term trade payables — these are booked at their nominal value.

2.12 Current and deferred taxes

Current revenue taxes are calculated based on the estimate of taxable revenue keeping account of the rates and fiscal regulations that are applicable or almost approved at the closing date of the fiscal year.
Deferred and pre-paid taxes are calculated on the timing differences between the value of the assets and liabilities entered into the statements and the corresponding value recognized for fiscal purposes according to the balance sheet liability method. The entry of pre-paid taxes is only made when their recoverability is highly probable. The accounting value of deferred tax assets is reviewed each fiscal year to verify the maintenance of the "probable" future use condition. Deferred taxes were not discounted back, and were recorded under non-current assets and liabilities. Deferred tax assets and liabilities are compensated to each individual subsidiary when conditions detailed in IAS 12 exist.

2.13 Employee benefits

The employment benefits are defined based on programmes that according to their characteristics are divided into "defined contributions" and "defined benefits" programs. For defined contributions, the company obligation is constituted by the contributions due at the statements' reference date, and limited to the depositing of contributions outside of the company's legal body (i.e. the Italian state or a fund). Liabilities relative to defined benefits programs, as in the employee severance indemnity in art. 2120 of the Civil Code, net of possible assets servicing the plan, are determined based on actuarial principles and are accrued in coherence with the work period necessary to obtain these benefits. The actuarial profits and losses relative to defined benefits programs deriving from the changes in actuarial hypotheses or from modifications in the conditions of the plans have been recognized pro quota to the income statement using the so-called "corridor method"; this means they are recognized only when the net value of the actuarial profits and losses not recognized at the end of the previous fiscal year exceeds the higher between 10% of the actual value of the plan and 10% of the fair value of the assets serving the plan.
All measurements of defined benefits plans were made by independent actuaries.

2.14 Reserves

Reserves are liabilities with uncertain maturities or totals. Reserves are recognized only if:
1. the company is under some obligation (legal or otherwise) resulting from a past event;

2. it is probable the use of resources able to produce economics benefits will be necessary to fulfill an obligation;
3. a reliable estimate of the size of the obligation may be made.

Reserves are therefore the best estimates of the costs necessary to extinguish the obligation or to transfer it to third parties at the statements' reference date. Where the present value of money is an important factor, the size of a reserve is represented by the current value of costs that are presumed necessary to extinguish the obligation.
Reserves for restructuring costs are recognized only when the Group has a detailed formal plan to do so, that identifies at least: the assets and the main operations units involved, the costs to be sustained, the approximate number of employees involved and when the third parties involved may validly expect that the company will implement the said restructuring, either because it is under way or it has been publicly announced.

2.15 Recognition of revenue

Revenue from sales and services are recognized when there is an effective transferal of the risks and advantages deriving from the ownership or the fulfillment of a service.

2.16 Leasing

Leasing involves a contract through which the leaser 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. The contracts that substantially transfer all the risks and benefits deriving from the ownership of an asset are defined as "financial leasing", even when ownership is not transferred at contract termination. Financial leasing is governed according to IAS 17 paragraphs 20-32.
Operational leasing contracts are defined as all leasing contracts that are not financial leasing.

2.17 Dividends

Dividends are recognized as liabilities only for the period for which they have been voted on at shareholder meetings.

2.18 Profits per share

The following criteria were used in the calculation of the base and diluted profits per share:
1) the numerator was the financial result attributable to the parent company adjusted for the profits that must be attributed, for the financial year underway, to the savings shares in circulation net of own shares, ordinary shares and/or saving shares held directly or through subsidiaries;
2) the denominator for the "base profit per share" was the weighted average of the ordinary shares in circulation for the financial year, net of an possible own shares;
3) the denominator for "diluted profits per share" was the weighted average of ordinary shares adjusted hypothesizing the issue of new ordinary shares following the conversion, if existing, of all warrants in circulation. For this calculation we hypothesized, in case there are warrants in circulation, that the conversions take place at the beginning of the financial year and that there is no higher income or lower costs deriving from their conversion.

2.19 Use of estimates

The drafting of these statements and the relative notes in application of IFRS required that the Directors make estimates and assumptions that influenced the value of the assets and liabilities in the statements.
These estimates have been primarily used to determine the useful life of intangibles, to make reserves for risks on receivables, for the ascertainment of possible impairments, for employee benefits, taxes, for restructuring reserves, for intangible assets with indefinite life, and for other reserves and provisions.

These estimates and assumptions will be periodically reviewed and any eventual effects will be immediately reflected in the income statement. At the reference date for these statements, the Directors however believe that the estimates and assumptions used reflect the best possible measurements given the available information. Moreover, the directors believe that the estimates and assumptions adopted will not cause tangible adjustments to the book values of assets and liabilities until the next financial year.

2.20 Risk management

During the course of business, the Group is subject to a variety of operational and financial risks. The Group's policy is to eliminate or at least minimize those risks through hedging strategies set and approved by the Board of Directors. The Group therefore sets formal procedures to define the objectives and the procedures to hedge against credit risks, liquidity risks, exchange risks, interest rate risks, and above all, fluctuations in raw materials prices.
Credit risk management mostly takes place through client portfolio selection based on historical experience, assurances, and the insurance of a large part of our trade receivables.
Liquidity risk may arise from the difficulty in obtaining financing to support operations within the right timeframe. Cash inflows and outflows, and the liquidity of Group companies are centrally monitored and coordinated under control of the Group's treasury.
The Group is subject to exchange rate and interest risks because it operates internationally, and transactions are made in different currencies and at diverse interest rates. Exposure to exchange rate risk derives above all from the geographical layout of the various production activities and the geographic distribution of markets in which the Group sells its products. Group policy is to hedge against all these risks through the use of derivatives such as cross-currency swaps and forward contracts.
The management of raw materials price fluctuations (above all those involving copper) is however the most important and strategic type of risk management. The Group uses strategies to hedge against these fluctuations through physical transactions or forward contracts on the London Metal Exchange (LME), with the objective of hedging against 100% of the risk.

4. Explanatory notes to financial statements

4.1 Real estate, plants and equipment

(thousands of Euro)	Land	Buildings	Plants and machinery	Other assets	Fixed assets: work in progress	Total
At 31 December 2005						
Historic cost	56,934	181,076	871,083	149,205	27,008	1,285,306
Amortization and depreciation fund	80	89,223	465,620	106,078	–	661,001
Net book value	**56,854**	**91,853**	**405,463**	**43,127**	**27,008**	**624,305**
At 30 June 2006						
Historic opening cost	56,934	181,076	871,083	149,205	27,008	1,285,306
Currency exchange difference	(59)	(42)	(721)	(23)	(7)	(852)
Change in consolidation area	**–**	**–**	**–**	**–**	**–**	**–**
Increases	–	380	4,945	687	15,014	21,026
Reclassifications	197	1,579	10,578	668	(13,022)	–
Decreases	(56)	(178)	(19,906)	(499)	–	(20,639)
Historic closing cost	**57,016**	**182,815**	**865,979**	**150,038**	**28,993**	**1,284,841**
At 30 June 2006						
Opening amortization and depreciation fund	80	89,223	465,620	106,078	–	661,001
Currency exchange difference	–	(3)	(621)	(22)	–	(646)
Change in consolidation area	–	–	–	–	–	–
Amortizations	–	2,791	19,488	4,331	–	26,610
Impairments	–	–	132	–	–	132
Reclassifications	–	–	–	–	–	–
Decreases	–	(168)	(18,610)	(392)	–	(19,170)
Amortization and depreciation fund	**80**	**91,843**	**466,009**	**109,995**	**–**	**667,927**
At 30 June 2006						
Historic closing costs	57,016	182,815	865,979	150,038	28,993	1,284,841
Amortization and depreciation fund	80	91,843	466,009	109,995	–	667,927
Closing net book value	**56,936**	**90,972**	**399,970**	**40,043**	**28,993**	**616,914**
of which financial leasing	**1,300**	**3,927**		**356**		**5,583**

Investments for the period primarily relate to the industrial semi-finished products sector, for Euro 14.2 million.
Since the past financial year, new "useful lifes" have been applied, determined by an external independent assessor.
Assets held in financial leasing involve the "Firenze Novoli" property that is the Group's headquarters (for Euro 5.2 million), and some equipment and telecoms facilities (for Euro 0.4 million). The leasing contract for this piece of real estate includes two purchase options on the dates of 30 September 2009 or 30 September 2016.
The following table shows details of the minimum future payments for financial leases at financial statement reference dates and their current value:

(thousands of Euro)	Within 1 year	Between 1 and 5 years	Over 5 years	Total 30.06.2006
Minimum payment due	508	1,896	4,095	6,499
Share of interest	10	265	1,559	1,834
Current value	**498**	**1,631**	**2,536**	**4,665**

4.2 Real estate investments

The item "real estate investments" is composed of the investments of Immobiliare Agricola Limestre S.r.l. in plots of land (Euro 0.8 million) and buildings (Euro 7.2 million), and of buildings owned by the Parent Company for Euro 1.3 million. These investments are held in order to receive leasing fees, or to appreciate their investment capital, and have been measured at cost at the moment of their first accounting entry, and at their fair value in successive accounting entries. The

real estate properties of Immobiliare Agricola Limestre S.r.l. were transferred from the KME Group S.p.A. during the past financial year. Their fair value was determined by an independent assessor at the moment of their transfer.
During the fiscal year, no revenues from rental fees or operating costs directly connected to the said real estate investments were recognized to the income statement.

4.3 Goodwill and differences in consolidation

During the half year the value of differences in consolidation did not record any changes. The said value inherent to the cost of the interest in KME A.G. was compared at the end of the past financial year with the recoverable value determined with an estimate of its "use value". The use value of this asset is estimated by using financing flow projections based on reasonable and sustainable hypotheses contained in the most recent forecasts approved by company bodies. The discounting back of cash flows, net of fiscal and financial charges, was obtained 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).
Financing 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

	Other assets	Fixed assets: work in progress	Total
At 31 December 2005			
Historic opening costs	14,539	13	14,552
Amortization fund	12,921	–	12,921
Opening net book value	**1,618**	**13**	**1,631**
At 30 June 2006			
Historic opening costs	14,539	13	14,552
Currency exchange difference	–	–	–
Change in consolidation area	–	–	–
Increases	81	102	183
Reclassifications	17	(17)	–
Decreases	(29)	–	(29)
Closing historic costs	**14,608**	**98**	**14,706**
At 30 June 2006			
Opening amortization fund	12,921	–	12,921
Currency exchange difference	–	–	–
Change in consolidation area	–	–	–
Increases	568	–	568
Reclassifications	–	–	–
Decreases	(29)	–	(29)
Closing amortization fund	**13,460**	**–**	**13,460**
At 30 June 2006			
Historic closing cost	14,608	98	14,706
Closing amortization fund	13,460	–	13,460
Closing net book value	**1,148**	**98**	**1,246**

Research and development charges for the first half year for Euro 0.9 million were fully recognized in the income statement.

During the half year no substantial changes took place.

4.5 *Interests in subsidiaries and associates, other interests, and interests measure at shareholders' equity*

The following table lists Group interests:

Company name	Legal Headquarters	Business	% SMI ownership		Book value (thousands of Euro)
			Direct	Indirect	
Subsidiary measured at cost					
Accumold A.G.	Switzerland	In liquidation		100.00%	–
Europa Metalli Tréfimétaux Deutschland GmbH	Germany	Non-operative		100.00%	–
Europa Metalli Tréfimétaux UK Ltd.	England	Non-operative		100.00%	577
Evidal Schmole Verwaltungsges mbH	Germany	Non-operative		50.00%	–
KME Austria Vertriebgesellschaft mbH	Austria	Sales		100.00%	168
KM - Hungaria Szinesfem Kft.	Hungary	Sales		100.00%	8
KME Metal GmbH	Portugal	Non-operative		100.00%	511
KM Polska Sp.zo.o.	Poland	Sales		100.00%	64
KME (Suisse) S.A.	Switzerland	Sales		100.00%	1,000
KME America Inc.	U.S.	Sales		100.00%	7
KME Asia Pte Ltd.	Singapore	Sales		100.00%	99
KME Chile Limitada	Chile	Sales		100.00%	18
KME China Limited	China	Sales		100.00%	1,149
KME Czech Republic	Czech Rep.	Sales		100.00%	3
KME Danmark A/S	Denmark	Sales		100.00%	134
KME Messing Beteiligungs GmbH	Germany	Non-operative		100.00%	511
Irish Metal Industrial Ltd.	Ireland	Sales		100.00%	–
YIM Scandinavia A.B.	Sweden	Sales		100.00%	–
KME Moulds Mexico S.A. de CV	Mexico	Services		100.00%	6
Luebke GmbH	Germany	Non-operative		100.00%	102
N.V. KME Benelux S.A.	Belgium	Sales		100.00%	885
Societe Haillane de Partecipations	France	Financial		99.99%	40
TMX Components S.a.s.	France	Services		65.00%	99
XT Limited	England	Non-operative		100.00%	–
KME Metals (Dongguan) Ltd.	China	Sales		100.00%	–
Informatica y Organizacion S.A.	Spain	In liquidation		100.00%	–
Total					**5,381**
Other interests measured at cost					
Consorzio Italmun	Italy	In liquidation	50.00%		129
Other interests in Tréfimétaux S.A.	France	Various	n.a.	n.a.	116
Total					**245**
Associated co. Measured at shareholders' equity					
Dalian Dashan Chrystallizer Co. Ltd.	China	Industrial		30.00%	1,678
Dalian ETDZ Dashan Surface Machinery Ltd.	China	Industrial		30.00%	769
Total					**2,447**

The negative change of Euro 183 thousand compared to the previous period for the item "interests in subsidiaries and associates" can be broken down as follows:

- the decrease of Euro 177 thousand is due to the writing off of the interest in the subsidiary KME Portugal Metais Lda;
- the exchange rate effect on the value of the interest in Europa Metalli Tréfimétaux UK Ltd..

The item "other interests of Tréfimétaux S.A." includes small interests (usually of less than 1%) in companies that operate in the building sector. In fact, the French companies must pay a certain percentage of their labour costs as contributions, loans, and interest to support the real estate properties of their employees.

Associated companies were consolidated concisely for the first time on 31 December 2005, using the shareholders' equity method. Within these interests, Euro 486 thousand is included as goodwill. The negative variation of Euro 126 thousand is attributable to exchange rate effects.

Below we show some financial information at 30 June 2006 regarding the above-mentioned companies:

Description (thousands of Euro)	**Country**	**Assets**	**Liabilities**	**Revenues**	**Profits**	**% of ownership**
Dalian Dashan Chrystallizer Co. Ltd.	Cina	5,604	565	3,750	217	30%
Dalian ETDZ Dashan Surface Machinery Co. Ltd.	Cina	1,273	57	340	53	30%

4.6 Other non-current assets

This item is basically made up of EM caution monies (Euro 1 million), credits for KME A.G. insurance (Euro 2.2 million), loans to employees made for the most part through the subsidiary Tréfimétaux S.A. (TMX) for legal stipulations that guarantee employees the possibility of obtaining company loans for property purchases (Euro 2.8 million); and of deposits at credit institutes that total Euro 17.2 million including interest maturing up to 30 June 2006, made as interest-bearing security deposits to partially cover the possible payment of sanctions imposed by the European Commission for the infraction of art. 81 of the EC Treatise. The difference not deposited is covered through bank guarantees.
None of the above-mentioned credits is due within the next financial year.

4.7 Non-current financial assets

During the half year, a time deposit was made by the subsidiary KME Iberica S.L. for Euro 6.4 million at a credit institute to service and guarantee the trade receivables portfolio sold by the subsidiary Tréfimétaux S.A..

4.8 Inventories

(thousands of Euro)	**Initial amounts**	**Change during period**	**Final amounts**
1) Raw materials, consumables, and merchandize	377,011	199,994	577,005
2) Semi-finished products and products in progress	30,819	1,503	32,322
3) Custom jobs in progress	982	(753)	229
4) Finished products and merchandize	35,549	3,785	39,334
Total	**444,361**	**204,529**	**648,890**

On 30 June 2006 inventory for a book value of Euro 305 million was placed in guarantee.

The increase in inventory value, besides the increase in stock, is mainly attributable to the large increase in raw material prices recorded during the first six months of 2006.

Quantity comparison table - STOCK owned	**30.06.2006**	**31.12.2005**	**Change %**
Total tons	119,096	114,206	*4.3%*

4.9 Trade receivables

(thousands of Euro)	**Balance at 31.12.2005**	**Change during period**	**Balance at 30.06.2006**
1) From clients	361,277	122,227	483,504
(Receivables depreciation fund)	(7,653)	98	(7,751)
Net total	**353,624**		**475,753**
2) From subsidiaries	4,534	3,166	7,700
3) From associates	62	(40)	22
4) From parent companies	50	(25)	25
Total	**358,270**	**125,426**	**483,500**

On 30 June 2006 trade receivables for book value of Euro 240.3 million were placed in guarantee.

We believe that the book value of the trade receivables approximates their fair value.

4.10 Other current credits and assets

(thousands of Euro)	Balance at 31.12.2005	Change during period	Balance at 30.06.2006
1) Tax credits	21,939	(3,734)	18,205
2) Dividend credits not cashed in	–	–	–
3) Accrued income and prepayments	3,458	515	3,973
4) Other receivables	24,744	(10,086)	14,658
Total other current liabilities	**50,141**	**(13,305)**	**36,836**

The item "other receivables" mainly include receivables towards suppliers and receivables for the sale of instrumental goods.

We believe that the book value of "other receivables" approximates their fair value.

4.11 Current financial assets

(thousands of Euro)	Balance at 31.12.2005	Change during period	Balance at 30.06.2006
Financial assets available for sale	557	(557)	–
Financial assets held for trading	4,621	(308)	4,313
Current forward contracts	58	1,023	1,081
LME contracts	8,248	13,168	21,416
Financial receivables from subsidiaries	920	(2)	918
Total	**14,404**	**13,324**	**27,728**

Financial assets held for trading are constituted by 5,704,444 GIM S.p.A. savings shares that are held by the Parent Company. The decrease in the period regards the correction of these shares on the Milanese stock exchange at the end of June 2006.
The item "LME contracts" refers to the counter-value of potential income deriving from the fair value measurement of contracts existing at the reference date of these financial statements.

4.12 Cash and cash equivalents

(thousands of Euro)	Balance at 31.12.2005	Change during period	Balance at 30.06.2006
Bank and postal deposits	151,194	(77,253)	73,941
Cash on hand	798	320	1,118
Total	**151,992**	**(76,933)**	**75,059**

The decrease in available cash and cash equivalents is essentially due to the coverage of working capital following the price increase in raw materials.

4.13 Shareholders' equity

In order to illustrate changes in shareholders' equity, please see the other parts of this document.

4.14 Employee benefits

(thousands of Euro)	Balance at 31.12.2005	Increases	Decreases	Balance at 30.06.2006
Defined benefits pension fund	143,426	5,333	(4,676)	144,083
Employee severance fund	23,237	810	(2,662)	21,385
Total	**166,663**	**6,143**	**(7,338)**	**165,468**

The value of the "Defined benefits pension funds" is expressed net of any possible activity made to service the plans. The defined benefits pension funds involve Euro 119.5 million for the German subsidiaries, and Euro 24.6 million for the subsidiary KME Yorkshire Ltd..

General principles adopted:

	30.06.2006	31.12.2005
Discount rate	4.0%-5.4%	4.0%-4.9%
Asset yield rate	7.0%	7.0%
Future salary increase	2.2%-3.0%	2.2%-3.0%
Future pension increase	1.5%-3.0%	1.5%-3.0%
Average residual work life	15 years	15 years

Net liabilities value:

	30.06.2006	31.12.2005
Current value of partially or fully covered obligations	70,529	76,173
Fair value of assets plan	(59,739)	(59,010)
Deficit	10,790	17,163
Current value of unfunded obligations	160,774	161,954
Actuarial profits and losses not recorded	(6,096)	(12,454)
Past services cost still not recorded	–	–
Amount not recorded as assets ex IAS 19 paragraph 58 (b)	–	–
Net liabilities expressed in shareholders' equity	**165,468**	**166,663**

Change in balance sheet (thousands of Euro)	30.06.2006	31.12.2005
Net liabilities recognized at beginning of FY	166,663	164,464
Current rate change effect	(266)	708
Change in consolidation area	–	–
Net charges recognized in income statement	4,242	14,115
Benefits payment and contributions to funds	(4,310)	(10,944)
Employer contribution share	(846)	(1,554)
Other changes incl. extinctions and reductions	(15)	(126)
Net liabilities recognized in statements	**165,468**	**166,663**

Change in income statement (thousands of Euro)	30.06.2006	31.12.2005
Cost of current services	3,419	6,337
Interest cost	5,286	10,872
Return on plan assets	(2,044)	(3,152)
Actuarial profits and losses	212	58
Past service cost	–	–
Effects of any reductions or extinctions	(2,631)	–
Total cost recorded in income statement	**4,242**	**14,115**

All figures recognized to the income statement are included in the item "Personnel costs".

4.15 Non-current payables and financial liabilities

(thousands of Euro)	Balance at 31.12.2005	Change during period	Balance at 30.06.2006
1) To credit institutes	453,395	(21,969)	431,426
2) To parent companies	130,000	–	130,000
3) To leasing companies	4,471	(131)	4,340
4) To others	1,513	(72)	1,441
Total	**589,379**	**(22,172)**	**567,207**

Medium and long term financial exposure is the effect of debt restructuring signed on 1 February 2005. The main characteristics of this agreement are illustrated in the notes to the financial statements at 31 December 2005.

This operation is guarantied by the Group's available shareholders assets. The assets of the subsidiary Europa Metalli S.p.A. and the property, warehouse and receivables of Tréfimétaux S.A. are excluded from this operation.

Total guaranties made at the end of June 2006 involve:

- the lien, reserving the voting right, on the nominal value equivalent to Euro 142.7 million of the shares in the subsidiary KME A.G.;
- the lien on the shares of all the interests in subsidiaries of the industrial parent company KME A.G.;
- the mortgage on the real estate property of KME A.G. regarding plots of land (Euro 29.2 million) and buildings (Euro 29.4 million);
- the lien on the following KME A.G. and Tréfimétaux assets: plants and machinery for Euro 252.7 million, inventory for Euro 305.0 million, trade receivables for Euro 240.3 million, brands and patents for Euro 63.0 million, and other assets for Euro 3.4 million.

The agreement moreover stipulates that Group companies cannot use their assets as guarantee. More specifically, the companies cannot sell, transfer or make any other acts on their assets, with some limited exceptions.

The increase in financial debt to GIM S.p.A. is due to the financing operations between Group companies, aimed at streaming funds deriving from the capital increase of the parent company, made during the past financial year to operational companies.

The directors maintained this debt in "non-current liabilities" despite the fact that this amount was put in guarantee through the capital increase of the Parent Company. For more information regarding the capital increase and the use of the relevant resources please see the pertinent part of this document.

Bank loans have been negotiated at a variable rate with a spread on the Euribor. The value of the rate is considered the market rate; therefore the stated figure expresses the fair value of the said liability.

Medium term financing and lines of credit conceded in the Inter-banking agreement dated 1 February 2005 were maintained at their natural maturity following the respecting of all the contractually stipulated covenants.

Debts to leasing companies relate mainly to the financial leasing contract of the real estate in Florence that is the Group's central headquarters, as per IAS 17.

All non-current debts and liabilities have a maturity of more than 12 months and less than 5 years, except for Euro 251.5 million of debt to credit institutions, Euro 130 million of debt to parent companies, and Euro 3.3 million in debt to leasing companies, the maturities of which exceed the five financial years.

4.16 Other non-current liabilities

These primarily relate to debts to employees of German subsidiaries (Euro 6.8 million) and TMX S.A. (Euro 0.5 million).

4.17 Provisions for risks and charges

The following table shows a summary schedule of the changes in provisions for risks and charges:

(thousands of Euro)	Balance at 31.12.2005	Exchange effect	Increases	Decreases	"Current" component	Balance at 30.06.2006
Restructuring fund	19,089	–	15,516	(7,303)	(25,181)	2,121
EU sanctions fund	110,304	–	1,569	–		111,873
Other funds for risks and charges	22,216	(10)	4,898	(1,728)	(12,697)	12,679
Parent company funds	4,862	–	–	(976)	–	3,886
Total	**156,471**	**(10)**	**21,983**	**(10,007)**	**(37,878)**	**130,559**

The item "current components" – as in the balance to 31 December 2005 – takes into account the movement of this component summed up in current liabilities in the item "Provisions for risks and charges".
The increases in the restructuring provision relate to reductions of assets in the "laminates" sector. After having concentrated laminates production in the Osnabruck and Fornaci di Barga plants with the consequent closing of the plants in Stolberg and Campo Tizzoro in Germany and Italy respectively, during the course of the half year a restructuring plan in France was begun that will involve the reduction of 225 employees.
The increase in "EU sanctions provisions" relate to the maturation of liability interest on the nominal figure of European Commission sanctions.
The changes in "Parent Company provisions" are shown in the notes to the separate financial statements included in this file.

4.18 Current payables and financial liabilities

(thousands of Euro)	Balance at 31.12.2005	Change during period	Balance at 30.06.2006
1) To credit institutes	165,292	75,556	240,848
2) To parent companies	15,440	1,184	16,624
3) To subsidiaries	2,589	883	3,472
4) To others	443	16,548	16,991
5) To factoring companies	60,136	(20,645)	39,491
6) Interest rate swap (IRS)/forward currency contracts	2,390	(1,304)	1,086
7) LME contracts	14,634	(3,198)	11,436
Total	**260,924**	**69,024**	**329,948**

The increase in "financial debts to others" is due to the forward sales operations with repurchase agreements made during the half year.

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

Interest rate swap were made 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 following table summarizes the notional values and maturities of the existing derivatives at the reference date for these financial statements:

Description (thousands of Euro)	**Maturity**			**Total at**	
	Within 1 year	**From 1 to 5 years**	**Over 5 years**	**30.06.2006**	**31.12.2005**
LME contracts on commdities	194,924	248	–	**195,172**	**186,354**
Forward current contracts	186,078	–	–	**186,078**	**120,568**
Cross-currency swaps	2,962	–	–	**2,962**	**3,385**
Interest rate swaps (IRS)	25,000	45,000	–	**70,000**	**70,000**
Total	**408,964**	**45,248**	–	**454,212**	**380,307**

4.19 Payables to suppliers and other current liabilities

(thousands of Euro)	**Balance at 31.12.2005**	**Change during period**	**Balance at 30.06.2006**
1) To suppliers	121,621	74,657	196,278
2) To subsidiaries	951	277	1,228
2) To parent company	3	(3)	–
Total trade payables	**122,575**	**74,931**	**197,506**

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

(thousands of Euro)	**Balance at 31.12.2005**	**Change during period**	**Balance at 30.06.2006**
3) To employees	40,486	12,321	52,807
4) To insurance companies	16,303	(6,417)	9,886
5) Tax payables	15,578	18,014	33,592
6) Accrued liabilities and deferred income	1,149	(18)	1,131
6) Other payables	21,251	447	21,698
Total other current liabilities	**94,767**	**24,347**	**119,114**

The increase in debts "towards employees" is due to the higher charges for matured vacation days not take in the month of June compared to the end of the year. The decrease in "debts to insurance institutes" is due to the advance of the maturity – within the month of reference and no longer within the 10th of the following month – for the feasibility of their deposit that took place in Germany.
The increase in tax debt is mainly due to higher VAT debt following the increase in sales.

We believe that the book value of "other current liabilities" approximates their fair value.

4.20 Deferred tax assets and liabilities

(thousands of Euro)	**Balance at 31.12.2005**	**Exchange effect**	**Change during period**	**Balance at 30.06.2006**
1) Deferred tax assets	40,651	–	(4,377)	36,274
2) Deferred tax liabilities	128,977	(80)	33,672	162,729
Difference (1 – 2)	**(88,326)**	**80**	**(38,049)**	**(126,455)**

Deferred and pre-paid tax liabilities are calculated on the timing differences between the value of the assets and liabilities entered into the statements and the corresponding value recognized for fiscal purposes. The increase in deferred tax liabilities can mainly be attributed to the increase in the value of inventory.

The following shows the details for deferred tax assets and liabilities divided per item.

Description (thousands of Euro)	**Tax assets 30.06.2006**	**Tax assets 31.12.2005**	**Tax liabilities 30.06.2006**	**Tax liabilities 31.12.2005**
Real estate, plants and machinery	90	–	88,782	90,038
Intangible fixed assets	743	831	2	4
Real estate investments	–	–	–	–
Other non-current assets	2	215	1,205	1,464
Inventory	–	–	59,683	31,846
Trade receivables	441	–	1,160	1,134
Other receivables and current assets	–	125	76	74
Current financial assets	197	–	2,620	1,444
Employee benefits	15,359	15,564	672	301
Non-current financial liabilities	1,708	1,826	–	–
Other non-current liabilities	829	875	9	–
Funds for risks and charges	6,577	7,483	1,184	188
Current financial liabilities	2,444	4,425	7,282	1,741
Payables to suppliers	–	–	54	105
Other current liabilities	671	2,496	–	638
Past tax losses	7,213	6,811	–	–
Total	**36,274**	**40,651**	**162,729**	**128,977**

The recording of pre-paid taxes is only made when their recoverability is highly probable. Deferred taxes are entered in non-current assets and liabilities, and are compensated at an individual subsidiary level only when the assumptions according to IAS 12 exist.
At the reference date for these financial statements, the Group did not recognize deferred tax assets on past tax losses of Euro 172.7 million.

The following shows the details to 30 June 2006 of the past tax losses that were “recognized” and “not recognized” in the financial statements as assets in order to ascertain the deferred tax assets, broken down per company:

(thousands of Euro)	**30.06.2006**
a) Recognized past tax losses	
KME A.G.	18,962
KME Verwaltungs- u. Dienstleistungs GmbH	4,398
Total (1)	**23,360**
b) Unrecognized past tax losses	
KME Group S.p.A.	65,859
TMX S.A.	50,353
SIA S.A.	12,022
Locsa S.A.	21,053
Other companies	–
Total (2)	**149,287**
Total (1 + 2)	**172,647**

No current or deferred taxes were booked to shareholders’ equity.

4.21 Information on operations between related companies

During the 2005 and the first half of 2006, the Group initiated commercial operations with related companies not contained within the consolidation perimeter, that resulted in insignificant amounts. All aforementioned transactions however were executed at market figures and prices.

The following shows information regarding the remuneration of managers with strategic positions:

	First half 2006					FY 2005				
	Short term benefits	**Benefits following end of work contract**	**Other long term benefits**	**Severance pay**	**Half year total**	**Short term benefits**	**Benefits following end of work contract**	**Other long term benefits**	**Severance pay**	**Year total**
	1,580	**117**	**15**	**703**	**2,415**	**4,673**	**980**	**16**	**1,566**	**7,235**

5. Income statement

5.1 Sales revenues

The following table shows the breakdown of sales revenues per geographic area:

Revenues per geographical area (millions of Euro)	**1st half 2006**	**%**	**1st half 2005**	**%**
Italy	348	*20.4%*	221	*21.0%*
France	184	*10.8%*	131	*12.5%*
Germany	407	*23.9%*	245	*23.3%*
Other European countries	652	*38.2%*	379	*36.0%*
Total Europe	**1,591**	***93.3%***	**976**	***92.8%***
Rest of world	114	*6.7%*	76	*7.2%*
Total	**1,705**	***100.0%***	**1,052**	***100.0%***

Sales revenues, net of the cost increases in raw materials, increased by Euro 38.7 million, going from Euro 393.5 million (in the first half 2005) to Euro 430.0 million (in the first half 2006).

5.2 Labour costs

(thousands of Euro)	**1st half 2006**	**1st half 2005**	**Change**
Salaries and stipends	135,969	133,713	*1.69%*
Social security charges	33,417	36,360	*–8.09%*
Other personnel costs	8,317	9,563	*–13.03%*
Total	**177,703**	**179,636**	***–1.08%***

Other personnel costs include provisions to "defined benefits pension funds" and to employee severance funds.

5.3 Depreciation and impairment

(thousands of Euro)	**1st half 2006**	**1st half 2005**	**Change**
Amortization on fixed assets	26,610	26,826	*–0.81%*
Amortization on intangible assets	568	999	*–43.14%*
Impairments	132	–	*n.s.*
Total	**27,310**	**27,825**	***–1.85%***

During the fiscal year, the Directors recognized "impairment losses" for Euro 132 thousand relating to business in the laminates sector of the subsidiary TMX S.A..

5.4 Other operational expenses

(thousands of Euro)	1st half 2006	1st half 2005	Change
Energy needs	34,918	27,974	*24.82%*
Maintenance and repairs	15,553	16,907	*–8.01%*
Insurance premiums	5,107	5,491	*–6.99%*
Operational rents and leases	3,608	4,156	*–13.19%*
Differential on LME transactions	38,626	10,903	*254.27%*
Fair value on LME contracts	(16,366)	4,774	*n.s.*
Third party processing	11,236	17,610	*–36.20%*
Sales logistics and transporation	24,263	20,264	*19.73%*
Commissions	9,665	8,573	*12.74%*
Other operational costs	62,600	37,664	*66.21%*
Total	**189,210**	**154,316**	***22.61%***

The item "differential on LME transactions" includes the difference between the notional value of trades and the purchases made during the period. Previously, in the income statement layout according to art. 2425 of the Italian Civil Code, the "differential" of these transactions were summarized in "production costs" under the item "raw materials, consumables and merchandize".

In "other operational expenses" the provisions for "Provisions for risks and charges" were also summed up, net of possible grants, for Euro 16.8 million.

The following table summarizes the minimum mandatory leasing payments at the reference date of these financial statements:

(thousands of Euro)	30.06.2006	31.12.2005
Within 1 year	3,159	3,897
From 1 to 5 years	5,983	6,340
Over 5 years	187	21
	9,329	**10,258**

5.5 Financial income and expenses

(thousands of Euro)	1st half 2006	1st half 2005	Change
Bank interest assets	766	564	*35.82%*
Dividends	824	324	*154.32%*
Other financial income	2,053	2,368	*–13.30%*
Total financial income	**3,643**	**3,256**	***11.89%***
Interest liabilities	(19,945)	(12,993)	*53.51%*
Profits (or losses) on exchange rates	935	(2,731)	*n.s.*
Other financial charges	(5,333)	(10,072)	*–47.05%*
Total financial charges	**(24,343)**	**(25,796)**	***–5.63%***
Total net financial charges	**(20,700)**	**(22,540)**	***–8.16%***

5.6 Current and deferred taxes

(thousands of Euro)	1st half 2006	1st half 2005	Change
Current taxes	4,100	5,544	*–26.05%*
Deferred taxes	38,049	(1,377)	*n.s.*
Total	**42,149**	**4,167**	***911.50%***

Correlation between tax charges and accounting profits

(thousands of Euro)	**30.06.2006**	**30.06.2005**
Pre-tax proftis	98,494	631
Theoretical tax burden (tax rate used 37.25%)	36,689	235
Reconciliation	–	–
Effect due to various tax rates	527	459
Other effects	–	–
Non-deductible charges	4,940	5,919
Tax exempt income	(1,581)	(1,547)
Previous tax losses previously not recognized	4,879	–
Previous tax losses	(3,113)	(899)
Other effects	(192)	–
Taxes recorded in income statement	**42,149**	**4,167**

PARENT COMPANY FINANCIAL STATEMENTS SCHEDULES

KME Group S.p.A.

Balance sheet

(thousands of Euro)	30.06.2006	31.12.2005
Fixed assets	–	–
Real estate investments	1,250	1,250
Interests	310,405	310,405
Other interests	129	129
Other financial assets	21	14
Deferred tax assets	33	33
Non current assets	**311,838**	**311,831**
Trade receivables	7	140
Other current assets and receivables	5,869	9,916
Current financial assets	30,188	21,475
Cash and cash equivalents	398	9,379
Current assets	**36,462**	**40,910**
TOTAL ASSETS	**348,300**	**352,741**
Corporate capital	189,775	189,775
Legal reserves	70	
Own shares	(37)	(37)
Other reserves	(25)	
Profits from previous FYS	5,176	5,165
First adoption IAS-IFRS reserve	2,785	2,785
Profits/(losses) for the year	(3,698)	1,395
Net shareholders' equity	**194,046**	**199,083**
Subordinated financing from G.I.M. S.p.A.	130,000	130,000
Employee benefits	331	374
Deferred tax liabilities	–	–
Debts and financial liabilities	686	684
Funds for risks and charges	3,886	4,862
Non-current liabilities	**134,903**	**135,920**
Debt and financial liabilities	16,740	15,671
Payables to suppliers	1,808	1,288
Other current liabilities	803	779
Current liabilities	**19,351**	**17,738**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**348,300**	**352,741**

KME Group S.p.A.

Financial statements

Income statement Cost classification per nature (thousands of Euro)	**30.06.2006**	**30.06.2005**
Sales and services revenues	1,456	696
Other revenues	246	384
Cost of labour	(400)	(917)
Amortization and depreciation	–	(59)
Other operational costs:		
– non-financial services	(2,044)	(1,160)
– minorities assets	(58)	(98)
– various management charges	(236)	(305)
Extraordinary income (charges)	–	5,369
Operating profits	**(1,036)**	**3,910**
Financial income/(charges)	(2,662)	(268)
Pre-tax profits	**(3,698)**	**3,642**
Current taxes	–	–
Deferred taxes	–	(40)
Total income tax	**–**	**(40)**
NET PROFIT	**(3,698)**	**3,602**

KME Group S.p.A.

Cash flow statement

(thousands of Euro)		30.06.2006	31.12.2005
(A)	**Cash and other at start of year**	**9,379**	**8,434**
	Pre-tax profits	(3,698)	439
	Amortisation on tangible and intangible assets	–	143
	Dividends	(413)	
	Matured net interest	2,868	1,926
	Capital losses (gains) on non-current assets	(43)	–
	Provisions for pension funds and similar	(976)	(131)
	Provisions to other funds	4,180	2,348
	(Increase) decrease in current receivables	774	51,335
	Increase (decrease) in current payables		(3,954)
	Net interest paid during year	(2,821)	(1,838)
(B)	**Operating cash flow**	**(129)**	**50,268**
	Decrease from non-current tangible and intangible assets	–	7,710
	(Increase) decrease in interests	–	(119,563)
	Increase/decrease from other non-current assets/liabilities	(7)	(2)
	Dividends received	413	
(C)	**Cash flow from investments**	**406**	**(111,855)**
	(Increases) decreases current and non-current financial payables	1,067	79,386
	Increases (decreases) current, non-current financial receivables	(9,011)	(16,854)
	Dividends paid	(1,314)	
(D)	**Cash flow from financial assets**	**(9,258)**	**62,532**
(E)	**Net profits on cash and other (B + C + D)**	**(8,981)**	**945**
(F)	**Cash and other at end of year (A + E)**	**398**	**9,379**

ACCOUNTING POLICIES ADOPTED

1. Reporting criteria

The financial statements at 30 June 2006 were reported following the indications furnished by the National Commission for Companies and Markets (CONSOB) in the Issuers' Regulation and in respect of international accounting principles.

The financial statements were reported conforming to the measurement criteria established in the ***International Financial Report Standards (IFRS)*** stipulated by the ***International Accounting Standards Board (IASB)*** and adopted by the European Commission according to the procedure in art. 6 of EC Regulation no. 1606/2002 of the European Parliament and Council dated 19 July 2002. In the report of these statements, the Directors took account of the principles of responsibility, of the company continuity, of clarity, of significance, importance, reliability, fairness, prudence, and comparability.

The events and company operations were reported and represented in conformity with their actual economic state, and not only according to their legal form.

Nothing was inserted In this report that involved the data and reconciliations outlined in paragraphs 39 and 40 of IFRS 1 "First adoption of IFRS" and the CONSOB memorandum number 6064313 from 28 July 2006 from the moment that the Parent Company adopted the new accounting principles on 1 December 2004, both on a consolidated level as well as on a separate level. Schedules and figures involving this can be found in the half year report at 30 June 2005 and in the financial statements at 31 December 2005.
KME Group SpA bestowed the mandate for the complete review and verification of the IFRS reconciliation statements at 1 January 2004 and 31 December 2004 to the Deloitte & Touche S.p.A. auditing company; their report is available on the company website "*www.kmegroup.it*".

2. Tangible assets

Fixed assets are entered at the cost of purchase or production, including the additional charges directly imputed to them.

Fixed assets are measured at cost, net of amortizations and write-downs, with the exception of real estate that is not amortizable and that is measured at cost, net of write-downs.

Amortizations are accounted starting from the month in which the asset is available for use, or is potentially able to supply the economic benefits associated with it. These are imputed on a monthly basis in even proportions until the end of their useful life, or, for divestments, up to their last month of use.

The financial charges relative to the purchase of fixed assets are charged to the income statement unless they are directly attributed to the acquisition, construction, or production of an asset that justified the capitalization thereof.

Replacement parts of significant value are capitalized and amortized based on the useful life of their related asset; others are posted to the income statement when their cost has been sustained.

Capital goods purchased through financial leasing are accounted as tangible fixed assets as a counter charge of their related debt. The lease rate is dismantled into the components of its financial charges, charged to the income statement, and of its principal repayment, entered thus reducing its financial debt. Assets owned in financial leasing are recognized for the lower of their cost and the actual value of the minimum leasing payments due at the date of contract initiation.

If indications of impairment are present, tangible fixed assets are subject to an impairment test. This test consists in the estimate of the recoverable value of the assets, defined as the higher of the net sale price and its use value, and compared with the relative net book value. If the recoverable value is less than its book value, the latter is reduced to the recoverable value; this reduction is imputed to the income statement, specifically the remeasurement reserve that was established previously, at the moment of the remeasurement of the asset under examination. Possible and successive revaluations take the opposite course.

3. Real estate investments

These are properties and factories owned to receive leasing or rent rates, or for the appreciation of the capital invested, or for both reasons. These assets are measured at fair value and are therefore not systematically amortized. At the date of transition of IFRS, the said assets were measured at fair value and this value was used to substitute their cost.

4. Financial assets

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

Any other possible interests are measured at fair value and their effects are charged to shareholders' equity. When the fair value can not be reliably determined, the interests are measured at cost adjusted for write-downs.

Financial assets not involving 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 criterion that applies to them as defined in IAS 39.

Financial assets that are purchased or sustained primarily for sale or trading, and the financial derivative instruments not designated as hedging instruments are classified in the category "fair value assets designated to the income statement", i.e. "designated assets". These assets are measured at fair value and their effects are charged to the income statement.

Non-derivative financial assets — with the exception of capital assets — 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 criterion of their effective interest.

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 charged directly to shareholders' equity less write-downs.

All financial assets except for designated assets are eventually subject to impairment according to IAS 29 paragraphs 58-70.

Own shares are measured at historic acquisition cost and entered as a reduction to shareholders' equity.

5. Cash and cash equivalents

This item includes cash and 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).

6. Shareholders' equity

Corporate capital is constituted by ordinary and savings shares without face value, subscribed and paid on the reference date for these statements, possibly reduced for the loans to partners for payable tenths. The value of repurchased own shares according to IAS 32, is shown in reduction of issued capital, while the premium or discount with respect to the nominal value adjusts the other equity components. This representation is however only given in the supplementary notes, while in the statements the historical cost of own shares held is shown differently with a minus sign, thus reducing net equity.

Reserve for own shares in portfolio (art. 2357-*ter* of the Italian Civil Code) is entered in the "Previous years' profits" reserve, which is indicated in the statements according to IAS requirements.

Costs for equity operations are imputed directly reducing capital reserves, preferably using the share premium reserves.

The balance of adjustments for transition to IAS is entered in a specific equity reserve called "First-adoption to IAS IFRS reserves".

7. Payables

Payables are recognized at amortized cost.

8. Current and deferred taxes

Current revenue taxes are calculated based on the estimate of taxable revenue keeping account of the rates and fiscal regulations that are applicable or basically approved at the closing date of the fiscal year.

Deferred and pre-paid taxes are calculated on the timing differences between the value of the assets and liabilities entered into the statements and the corresponding value recognized for fiscal purposes according to the balance sheet liability method. The entry of pre-paid taxes is only made when their recoverability is highly probable. The book value of deferred tax assets is reviewed each fiscal year to verify the maintenance of the "probable" future use condition.

Deferred taxes are not discounted back and are entered in non-current assets and liabilities, and compensated, within the conditions stipulated in IAS 12.

9. Employee benefits

The employments benefits are defined based on programmes that according to their characteristics are divided into "defined contributions" and "defined benefits" programs. For defined contributions, the company obligation is constituted by the contributions due at the statements' reference date, and limited to the depositing of contributions outside of the company's legal body (i.e. the Italian state or a fund). Liabilities relative to defined benefits programs, as in the employee severance indemnity in art. 2120 of the Italian Civil Code, net of possible assets servicing the plan, are determined based on actuarial principles and are accrued in coherence with the work period necessary to obtain these benefits. The actuarial profits and losses relative to defined benefits programs deriving from the changes in actuarial hypotheses or from modifications in the conditions of the plans have been recognized pro quota to the income statement using the so-called "corridor method"; this means they are recognized only when the net value of the actuarial profits and losses not recognized at the end of the previous fiscal year exceeds the higher between 10% of the actual value of the plan and 10% of the fair value of the assets serving the plan.

The measurement of defined benefits programs was made by an independent actuary.

10. Reserves

Reserves are liabilities with uncertain maturities or totals. Reserves are recognized only if:

4. the company is under some obligation (legal or otherwise) resulting from a past event;
5. it is probable the use of resources able to produce economics benefits will be necessary to fulfill an obligation;
6. a reliable estimate of the size of the obligation may be made.

Reserves are therefore the best estimates of the costs necessary to extinguish the obligation or to transfer it to third parties at the statements' reference date. Where the present value of money is an important factor, the size of a reserve is represented by the current value of costs that are presumed necessary to extinguish the obligation.

Reserves for restructuring or reorganizing costs are recognized only when the Company has a detailed formal programme to do so, that identifies at least: the assets and the main operations units involved, the costs to be sustained, the approximate number of employees involved and when the third parties involved may validly expect that the company will implement the said restructuring, either because it is under way or it has been publicly announced.

11. Recognition of revenue

Revenue from sales and services are recognized when there is an effective transferal of the risks and advantages deriving from the ownership or the fulfillment of a service.

12. Leasing

Leasing involves a contract through which the leaser 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. The contracts that substantially transfer all the risks and benefits deriving from the ownership of an asset are defined as “financial leasing”, even when ownership is not transferred at contract termination. Financial leasing is governed according to IAS 17 paragraphs 20-32.

Operational leasing contracts are defined as all leasing contracts that are not financial leasing.

13. Dividends

Dividends are recognized as liabilities only for the period for which they have been voted on at shareholder meetings.

14. Use of estimates

The drafting of this half year report and the related notes in application of IFRS required that the Directors make estimates and assumptions that influenced the value of the assets and liabilities in the statements.
These estimates have been primarily used to make reserves for risks on receivables, for the ascertainment of possible write-downs, for employee benefits, taxes, restructuring reserves and for other reserves and provisions.
These estimates and assumptions will be periodically reviewed and any eventual effects will be immediately reflected in the income statement. At the reference date for this half year report, the Directors believe however that the estimates and assumptions used reflect the best possible measurements given the available information.

NOTES TO THE PARENT COMPANY'S HALF YEAR REPORT

BALANCE SHEET INFORMATION

NON-CURRENT ASSETS

Fixed assets

(thousands of Euro)	Fixed assets: work in progress	Other tangible fixed assets	Total
Historic cost	1,250	921	2,171
Write-ups	–	–	–
IAS effects	–		–
Amortizations	–	(921)	(921)
Previous FY balance	**1,250**	**–**	**1,250**
Increases	–	–	–
Decreases:	–	42	42
– historic cost	–	–	–
– write-ups	–	–	–
Amortizations	–	(42)	(42)
Change during half year	**–**	**–**	**–**
Historic cost	1,250	879	2,129
Write-ups	–	–	–
IAS effects	–	–	–
Amortizations	–	(879)	(879)
Final balance	**1,250**	**–**	**1,250**

An automobile and some furniture that were fully amortized were sold during the period, thus making capital gains.

The composition and the movements in amortization funds can be broken down as follows:

(thousands of Euro)	Balance 31.12.2005	Amortizations during half year	Decreases	Balance 30.06.2006
Plants and machinery	186	–	–	186
Furniture and interiors	546	–	–	546
Electronics	101	–	–	101
Vehicles	88	–	(42)	46
Other assets	**921**	**–**	**(42)**	**879**

Tangible fixed assets were fully amortized in the 2005 financial year.

Interests

List of interests in subsidiaries entered in financial fixed assets

Company name	Headquarters		Corporate capital	Shareholders' equity to 30.06.2006 (1)	Profits to 30.06.2006	Owned portion	Book value (item: Interests)
Subsidiaries							
KM Europa Metal A.G.	Osnabrueck	Euro	142,743,879	369,073,000	60,135,000	100%	302,669,821
				309,050,000 (2)	3,056,000 (2)		

(1) Including profits for the half year.

(2) Consolidated shareholders' equity and profits to 31 December 2005.

(thousands of Euro)	Interests in subsidiaries	Interests in associates	Interests in other companies	Total
Historic cost	530,583	129	–	530,712
Write-ups	–	–	–	–
Write-downs	(220,178)	–	–	(220,178)
Previous FY bilance	**310,405**	**129**	**–**	**310,534**
Increases	–	–	–	–
Decreases	–	–	–	–
Write-ups	–	–	–	–
Write-downs	–	–	–	–
Change in FY	**–**	**–**	**–**	**–**
Historic cost	530,583	129	–	530,712
Write-ups	–	–	–	–
Write-downs	(220,178)	–	–	(220,178)
Final bilance	**310,405**	**129**	**–**	**310,534**

The item “interests in subsidiaries” did not change during the half year; it includes the full interest in KM Europa Metal A.G. (Euro 302,669,880) and 100% of the capital of Immobiliare Agricola Limestre S.r.l. (Euro 7,735,000). The item “interests in associates” refers to the 50% interest in “Consorzio Italmun 25 in liquidation” from the incorporation of Europa Metalli SE.DI. S.p.A..

Other financial assets

(thousands of Euro)	30.06.2005	31.12.2005	Absolute change	Change %
Pre-paid employee severance tax, law 662/96	14	14	–	*0%*
Caution monies	7	–	7	*n.s.*
	21	**14**	**7**	***50%***

Changes here relate to the making of a surety deposit for the rental contract of a property.

Deferred tax assets

This figure is unchanged from 31 December 2005.

(thousands of Euro)	30.06.2006	31.12.2005	Absolute change	Change %
Deferred tax assets	33	33	–	*0%*
	33	**33**	**–**	***0%***

CURRENT ASSETS

Trade receivables

(thousands of Euro)	30.06.2006	31.12.2005	Absolute change	Change %
From clients	940	937	3	*0%*
Credit risk provision	(933)	(933)	–	*n.s.*
Total clients	**7**	**4**	**3**	***75%***
From subsidiaries	–	136	(136)	*n.s.*
	7	**140**	**(133)**	***–95%***

Receivables from clients remain basically unchanged. Regarding litigation against a Greek client for the newly incorporated Europa Metalli SE.DI. S.p.A. for a receivable of Euro 933 thousand deriving from the sale of some plants, please see the paragraphs that illustrate current lawsuits; this risk is fully covered by the appropriate provision.

The amount given to the subsidiary Europa Metalli S.p.A. on 31 December 2005 for the recover of costs relating to the termination of agricultural assets rental contracts was collected normally in the first months of 2006.

Other current assets and receivables

(thousands of Euro)	30.06.2065	31.12.2005	Absolute change	Change %
From others:				
– various	5,869	9,916	(4,047)	*–41%*
	5,869	**9,916**	**(4,047)**	***–41%***

During the half year, tax credits for Euro 1.1 million were received; the credit at 30 June for direct reimbursable taxes totaled Euro 5.8 million (Euro 6.9 million at 31 December 2005). VAT credits at 31 December 2005 (Euro 97 thousand) were compensated in the Group VAT consolidation with the Parent company G.I.M. S.p.A..
A receivable was also cashed in arising from 2005 for the positive outcome of the lawsuit involving the exercising of the right to cancel during the incorporation of the company Europa Metalli - LMI (Euro 2.9 million).

The composition of receivables per maturity date is the following:

(thousands of Euro)	Amounts matured			
	Within the next 12 months	Within 5 years	Beyond 5 years	Total
Receivables from clients	7	–	–	7
From others:				
– various	5,869	–	–	5,869
	5,876	**–**	**–**	**5,876**

CURRENT FINANCIAL ASSETS

Financial assets held for trading

(thousands of Euro)	Interests in subsidiaries	Total
Historic cost	7,054	7,054
Change in fair value	(2,434)	(2,434)
Previous FY balance	**4,620**	**4,620**
Increases	–	–
Decreases	–	–
Change in fair value	(308)	(308)
Change during half year	**(308)**	**(308)**
Historic cost	7,054	7,054
Change in fair value	(2,742)	(2,742)
Final balance	**4,312**	**4,312**

KME Group S.p.A. has in portfolio 5,704,444 G.I.M. S.p.A. savings shares (41.75% of this category), valued at the Milanese stock exchange price on 30 June 2006 (Euro 0.756), as per the shareholders' meeting held on 15 May 2003 (and previous meetings).
A purchase option on these savings shares, held by the KME Group, was conceded to the credit institutes that signed the inter-banking agreement dated 1 February 2005; the option may be exercised during the course of the financing at a price of Euro 1.00 per savings share.

Financial credits

(thousands of Euro)	30.06.2065	31.12.2005	Absolute change	Change %
a) To subsidiaries	25,875	16,854	9,021	*54%*
	25,875	**16,854**	**9,021**	***54%***

The amount in this item is the balance of the current accounts held by the Parent Company with the subsidiaries KM Europa Metal A.G., Europa Metalli S.p.A., TMX S.A. and Immobiliare Agricola Limestre S.r.l..
The credits shown mature within 12 months.

Cash and cash equivalents

(thousands of Euro)	30.06.2065	31.12.2005	Absolute change	Change %
1) Bank and postal deposits	395	9,372	(8,977)	*–96%*
3) Cash on hand	3	6	(3)	*–50%*
	398	**9,378**	**(8,980)**	***–96%***

The decrease in cash in the Company's current bank accounts is due to its use to cover management costs and to the increase in the balances of inter-company current accounts.

LIABILITIES AND EQUITY

Shareholders' equity

Corporate capital at 30 June 2006 totals Euro 189,775,023, and divided into no. 322,333,714 ordinary shares and no. 57,216,332 savings shares.
According to art. 8 of company regulations, holders of savings shares have the right, in the event of a fiscal year in which no profits arise, to receive a minimum guaranteed dividend in the following two financial years. Please be reminded that for the financial years 2004 and 2005, no dividends were distributed.

At the extraordinary shareholders' meeting on 19 May 2006, shareholders voted for a capital increase for the maximum amount of Euro 129.9 million; for more information on its outcome please see the Management report.

Shareholders' equity underwent the following changes:

(thousands of Euro)	Corporate capital	Other reserves	Own shares	Profits previous years	First adoption IAS/IFRS RESERVES	Profits for the FY	Total shareholders' equity
Balance at 31.12.2004	**189,775**	**25**	**(37)**	**5,523**	**2,784**	**(382)**	**197,688**
Provisions from EGM dated 27.4.2005 for 2004 FY losses forward:							
– 2004 profits carried forwared				(101)			(101)
– IAS/IFRS adoption		(25)		(255)		382	102
– FY 2005 profits						1,395	1,395
Sharehodlers' equity at 31.12.2005 IAS/IFRS	**189,775**	**–**	**(37)**	**5,167**	**2,784**	**1,395**	**199,084**
Decisions EGM 19.5.2006:							
– legal reserve		70				(70)	–
– profits carried forward				11		(11)	–
– dividends						(1,314)	(1,314)
– capital increase charges				(26)			(26)
Half year profits						(3,698)	(3,698)
Sharehoders' equity at 30.06.2006 IAS/IFRS	**189,775**	**70**	**(37)**	**5,152**	**2,784**	**(3,698)**	**194,046**
IAS reclassifications of own share	(32)		37	(5)			–
Sharehoders' equity at 30.06.2006 IAS/IFRS	**189,743**	**70**	**–**	**5,147**	**2,784**	**(3,698)**	**194,046**

Own shares involve 65,000 savings shares having a nominal value of Euro 32,500 and booked at their cost of Euro 37,161.

The item “Profits from previous financial years” comprises:

–	Non-available reserves as a counter-entry of the 5,704,444 G.I.M. savings shares held in portfolio	4,313
–	Non-available reserves as a counter-entry of the 65,000 KME Group S.p.A. savings shares owned	37
–	Residual profits from previous financial years	828
		5,178

NON-CURRENT LIABILITIES

Subordinated partner financing

This financing conceded by the Parent Company G.I.M. S.p.A. was made regarding an operation to stream funds deriving from the capital increase to the operational companies in the Group. The loan has a seven-year maturity and has a coupon set at the 6-month Euribor plus 1.5% per year. Repayment of the loan is postponed and subordinated to the total fulfillment of all the claims of the lending banks according to the Inter-bank Agreement of 1 February 2005, which was published on the same date stated in the Management Report published in the 2004 financial year.

(thousands of Euro)	30.06.2006	31.12.2005	Absolute change	Change %
Trade payables to Parent Company subordinate financing account	130,000	130,000	–	*n.s.*
	130,000	**130,000**	**–**	***n.s.***

Employee benefits

The size of employee benefits is determined based on the benefits matured at the end of the financial year for all employees, based on Italian law and on employment contracts and the relevant IAS principle discounting back these benefits.

(thousands of Euro)			Change during FY	
	30.06.2006	31.12.2005	Utilizations	Allocations
Employee severance fund	318	377	69	26
Actualizations and rec. IAS 19	13	(3)	–	–
	331	**374**	**69**	**26**

Utilizations relate to employees that have left the company or have been transferred to another Group company during the half year.

Payables and financial liabilities

These are composed as follows:

(thousands of Euro)	30.06.2006	31.12.2005	Absolute change	Change %
Other payables				
Financing as per law 46/1982	686	684	2	*n.s.*
	686	**684**	**2**	***n.s.***

Other payables include the portion of the financing with maturity dated beyond 12 months deriving from the incorporation of Europa Metalli SE.DI. S.p.A., according to law 46/1982.

Provisions for risks and charges

(thousands of Euro)	30.06.2006	31.12.2005	Absolute change	Change %
Product guarantee fund	2,707	2,707	–	*0%*
Company reorg. fund	716	1,692	(976)	*n.s.*
Legal and tax risks fund	463	463	–	*n.s.*
	3,886	**4,862**	**(976)**	***–20%***

The “product guarantee fund” was added following the merger of the subsidiary Europa Metalli SE.DI. S.p.A. for products that it sold to the Italian Defence Department.
The Company reorganization fund decreased for expenditures due to employees who left the company.

CURRENT LIABILITIES

Payables and financial liabilities

These are composed as follows:

(thousands of Euro)	30.06.2006	31.12.2005	Absolute change	Change %
Payables to banks	99	128	(29)	*29%*
Payables to parent companies	16,624	15,440	1,184	*–7%*
Interest rate swaps	17	103	(86)	*n.s.*
	16,740	**15,671**	**1,069**	***7%***

Banking debt decreased due to returns made during the period.

Payables to suppliers

These are composed as follows:

(thousands of Euro)	30.06.2006	31.12.2005	Absolute change	Change %
Suppliers	1,808	1,288	520	*40%*
	1,808	**1,288**	**520**	***40%***

The increase is due to professionals’ fees booked at the end of the period and already paid for the most part in July 2006.

Other current liabilities

These are composed as follows:

(thousands of Euro)	30.06.2006	31.12.2005	Absolute change	Change %
Other current liabilities	803	779	24	*3%*
	803	**779**	**24**	***3%***

This item refers to debts to company bodies for unliquidated charges and tax and insurance debts with maturities that last beyond the closing of the financial year.

GUARANTEES AND COMMITMENTS

- The KME Group holds savings shares available to partners for Euro 37 thousand.

S.M.I. gave joint guarantees to other Group companies, for the Agreement that was signed on 1 February 2005 with financial institutions, that were announced in the press release issued on that date. These guarantees refer to the utilization of lines of credit by subsidiaries, divided as such:

- Euro 419.21 million for utilizations of medium term financing;
- Euro 141.34 million for utilizations of revolving credit lines;
- Euro 65.76 million for letters of credit given in February 2005 for the suretyship required by the EU in relation to its second sanction, increased by the interest matured;
- Euro 29.92 million for letters of credit given in May 2004 for the suretyship required by the EU in relation to its first sanction, increased by the interest matured;
- Euro 54.93 million for the confirmation of the suretyship given to BEI to guarantee the remaining financing tranche, for a **total of Euro 711 million**.

Moreover, during June a further line of revolving credit for Euro 70 million was granted by the main banking institutes that participated in the Agreement, which was fully utilized at the end of the half year.

Again, regarding the Inter-bank Agreement, shares of the interest KM Europa Metal AG were placed in lien, reserving the voting rights, that correspond to a value of Euro **142.7 million**.

Please remember that the agreements with financing institutes require also a commitment that Group Companies may distribute dividends only using profits of an ordinary nature, after the debt has been serviced, if the financial covenants have been respected, and if advanced reimbursements of debts to banks have been paid if so required.

INCOME STATEMENT INFORMATION

Sales and services revenues

(thousands of Euro)	1st half 2006	1st half 2005	Change %	FY 2005
Commissions for services to Group companies	1,456	696	*n.s.*	1,289
Sales and services revenues	1,456	696	*n.s.*	1,289

The item "commissions for services to Group companies" includes sales invoices for legal and administrative assistance services; the difference compared to the previous period relates to the increased activity performed by KME Group for Group interests.

Other revenues

(thousands of Euro)	1st half 2006	1st half 2005	Change %	FY 2005
Real estate income	19	22	*–14%*	37
Recovery of expenses sustained, also for Group companies	63	99	*–36%*	218
Various income	164	263	*n.s.*	141
Other revenues and income	**246**	**384**	***–36%***	**396**

Real estate income derives from the lease of civil real estate in Florence.

Expenses recovery relates to costs sustained in the interests of Group companies and then re-debited; the main items relate to personnel costs.

Various income regards non-recurring items relative to tax refunds (Euro 127 thousand) and the sale of furniture (Euro 37 thousand).

Labour costs

The amount of labour costs was reduced due to the lower number of employees.

(thousands of Euro)	1st half 2006	1st half 2005	Change %	FY 2005
Salaries	290	648	*–55%*	1,175
Social security	83	215	*–61%*	373
Employee severance indemnity	27	54	*n.s.*	43
	400	**917**	***n.s.***	**1,591**

Amortization and depreciation

Tangible asset amortization

(thousands of Euro)	1st half 2006	1st half 2005	Change %	FY 2005
Furniture	–	47	*n.s.*	117
Plants, machinery and equipment	–	6	*n.s.*	11
Vehicles	–	6	*n.s.*	16
	–	**59**	***n.s.***	**144**

All assets were fully amortized in the 2005 financial year.

Other management expenses

For non-financial services

This item is detailed below:

(thousands of Euro)	1st half 2006	1st half 2005	Change %	FY 2005
Remuneration for executives and auditors	695	471	*48%*	915
Professional services	1,171	366	*n.s.*	926
Travel expenses	45	47	*–4%*	92
Parent company services payments		123	*n.s.*	162
Legal and company advertising	29	18	*n.s.*	63
Electricity, heating, postal, telephones	27	43	*–37%*	86
Various insurance	46	41	*12%*	80
Various maintenance	1	21	*n.s.*	18
Listing costs	30	30	*0%*	37
	2,044	**1,160**	***76%***	**2,379**

Amongst professional services, a non-recurring cost was included regarding consultancy for the Group re-organization plan, for Euro 1,052,000.

Rent, leasing, and similar costs

(thousands of Euro)	1st half 2006	1st half 2005	Change %	FY 2005
Property rent	30	71	*–58%*	192
Leasing rates	28	27	*–4%*	56
	58	**98**	***–41%***	**248**

Various management costs

(thousands of Euro)	1st half 2006	1st half 2005	Change %	FY 2005
Various tax charges	4	43	*–91%*	55
Undeductible VAT	56	116	*–52%*	31
Other expenses	153	124	*23%*	146
Association costs	23	22	*5%*	30
	236	**305**	***–23%***	**262**

Please note, compared to the first half 2005, the lower VAT taxes that are non-deductible at the rate of the lower non-deductible pro-rata, due to the lower percentage of tax exempt transactions (i.e. sale of securities) on the total business volume made during the 2005 financial year.
In other expenses, Euro 15,276 is non-recurring.

Extraordinary income (charges)

(thousands of Euro)	1st half 2006	1st half 2005	Change %	FY 2005
Income	–	5,369	*n.s.*	9,048
Charges	–	–	*n.s.*	(2,347)
	–	**5,369**	***n.s.***	**6,701**

In the 2005 financial year, the following events affected income:

- the reimbursement of the taxes on shareholders' equity paid by the newly-incorporated Europa Metall - LMI S.p.A. in 1997 (Euro 6.075 million);

- the favourable outcome of the lawsuit involving the exercising of the right to cancel at the incorporation of the company Europa Metalli - LMI S.p.A. (Euro 2.973 millions);

and the following affected charges:

- provisions for the Company re-organization (Euro 1.692 million) that were made to offset expenditures paid to personnel that left the Company;
- provisions for product guarantees (Euro 400 thousand) that was necessary in light of a dispute made by the Italian Ministry of Defence regarding some products delivered by the newly-incorporated SE.DI. S.p.A., still under guarantee.

In the first half of 2006, following Consob recommendations announced in their memorandum dated 28 July 2006 no. 6064293, the non-recurring components of the income statement have been shown within the various accounting items. They total Euro 903 thousand.

Financial income and expense

Financial income/(expense)

(thousands of Euro)	1st half 2006	1st half 2005	Change %	FY 2005
Financial income	1,123	2,155	*–48%*	2,740
Financial charges	(3,785)	(2,423)	*56%*	(6,065)
	(2,662)	**(268)**	***n.s.***	**(3,325)**

These items include interest assets of Group companies (Euro 493.21 thousand), interest assets from banks (Euro 31.65 thousand), dividends from GIM savings shares (Euro 413 thousand), interest assets on tax credits (Euro 79.9 thousand), and the extinction of the fair value IRS (Euro 103.28 thousand). Interest liabilities regard subordinated financing from the Parent Company and ordinary current accounts (Euro 3.431 million), medium term financing (Euro 33.30 thousand), the fair value adjustment of GIM savings shares (Euro 308 thousand, non-recurring), and other financing and ordinary current accounts (Euro 12.7 thousand).
Interest on current accounts held by the Parent Company and the subsidiaries are regulated at market rates.

Taxes

Deferred taxes

(thousands of Euro)	1st half 2006	1st half 2005	Change %	FY 2005
IAS application effects	–	(40)	*n.s.*	
Deferred taxes clearance	–	–	–	1,263
	–	**(40)**	***n.s.***	**1,263**

Other information

Average number of employees

	1st half 2006	1st half 2005	Change %	FY 2005
Managers	3	5	*–40%*	5
White-collar employees	–	1	*n.s.*	1
Blue-collar employees	1	1	*n.s.*	1
	4	**7**	***–43%***	**7**

ATTACHMENTS TO NOTES ON THE PARENT COMPANY'S FINANCIAL STATEMENTS

List of interests at 30 June 2006 and changes versus 31 December 2005

(according art. 126 of Consob regulation no. 11971/99)

Interests (figures in Euro)	Nominal value	Balance at 31.12.2005		Change during year (+/–)		Adjustments	Balance at 30.06.2006				Market value		Difference
		Quantity	Value	Quantity	Value		Quantity	%	Average entry value	Book value	Unit value	Equivalent	
Subsidiaries (recorded in financial fixed assets)													
KM Europa Metal	No par value	27,918,276	302,669,821				27,918,276	100.00%		302,669,821			
Immobiliare Agricola Limestre S.r.l.			7,735,000					100.00%		7,735,000			
Total interests in subsidiaries			**310,404,821**		–	–				**310,404,821**			
Associates (recorded in financial fixed assets)													
Consorzio Italmun		1	129,114				1	50.00%	129,114.00	129,114			
Total interests in associates			**129,114**		–	–				**129,114**			
Parent companies (recorded in working capital)													
G.I.M. S.p.A. svgs.	€ 1.00	5,704,444	4,620,600	–	–	(308,040)	5,704,444	41.75%	0.756	4,312,560	0.756	4,312,560	–
Total interests in parent companies			**4,620,600**		–	**(308,040)**				**4,312,560**			–
Own shares (recorded in working capital)													
KME Group svgs.	€ 0.50	65,000	37,161				65,000		0.572	37,161	0.382	24,830	(12,331)
Total own shares			**37,161**		–	–				**37,161**			**(12,331)**
Total			**315,191,696**		–	**(308,040)**				**314,883,656**			**(12,331)**

List of interests in indirect subsidiaries
(according to art. 125 and 126 of Consob regulation no. 11971/99)

Name	Legal Headquarters	Business	Corporate capital		Direct shareholder at 30.06.2006		% Total part. direct and indirect
			Currency	Total	%	Company name	
KM Europa Metal A.G.	Germany	Copper and alloys processing	Euro	142,743,879	100.00	KME Group S.p.A.	100.00
Europa Metalli S.p.A.	Italy	Copper and alloys processing	Euro	100,000,000	100.00	KM Europa Metal A.G.	100.00
Kabelmetal Messing Bet. GmbH, Berlin	Germany	Real estate	Euro	15,338,756	100.00	KM Europa Metal A.G.	100.00
Kabelmetal Messing Bet. GmbH, Nbg.	Germany	Holding	DM	511,291	100.00	KM Europa Metal A.G.	100.00
KME metal GmbH	Germany	Raw materials sales	Euro	511,292	100.00	KM Europa Metal A.G.	100.00
KME Verwaltungs - und Dienstleistungsgesellschaft mit beschraenkter Haftung	Germany	Copper and alloys processing	Euro	10,225,838	100.00	KM Europa Metal A.G.	100.00
Evidal Schmöele Verwautungsgesellschaft	Germany	Sales	Euro	30,000	50.00	KM Europa Metal A.G.	50.00
Fricke GmbH	Germany	Holding	Euro	25,564	100.00	KM Europa Metal A.G.	100.00
Fricke GmbH & Co. K.G.	Germany	Non-ferrous processing	Euro	1,329,359	100.00	KM Europa Metal A.G.	100.00
KME Asia Pte. Ltd.	Singapore	Sales	$SG	300,000	100.00	KM Europa Metal A.G.	100.00
KME Danmark A/S	Denmark	Sales	DKK	1,000,000	100.00	KM Europa Metal A.G.	100.00
KME Iberica S.L.	Spain	Sales	Euro	39,065	100.00	S.I.A. - Santa Bàrbara S.A.	100.00
KME Metals (Dongguan) Ltd.	China	Sales	RMB	41,391,200	100.00	KME China Ltd.	100.00
KME America Inc.	US	Sales	$US	5,000	100.00	KM Europa Metal A.G.	100.00
KME Austria Vertriebsgesellschaft mbH	Austria	Sales	Euro	72,673	100.00	KM Europa Metal A.G.	100.00
KM - Hungaria Szinesfem Kft.	Hungary	Sales	HUF	3,000,000	100.00	KM Europa Metal A.G.	100.00
KME (Suisse) S.A.	Switzerland	Sales	FS	250,000	100.00	KM Europa Metal A.G.	100.00
KM Polska Sp.zo.o.	Poland	Sales	PLZ	250,000	100.00	KM Europa Metal A.G.	100.00
KME UK Ltd.	Great Britain	Sales	LST	10,014,603	100.00	KM Europa Metal A.G.	100.00
Yorkshire Copper Tube	Great Britain	Industrial	LST	3,261,000	100.00	KME UK Ltd.	100.00
EMT UK Ltd.	Great Britain	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.	Great Britain	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	KM Europa Metal A.G.	100.00
					15.30	Tréfimétaux S.A.	
KME China Ltd.	China	Sales	$HK	27,095,000	100.00	KM Europa Metal A.G.	100.00
KME Chile Lda.	Chile	Sales	PSC	9,000,000	99.00	KM Europa Metal A.G.	100.00
					1.00	KME metal GmbH	
KME Moulds Mexico S.A. de C.V.	Mexico	Sales	MXN	50,000	99.00	KM Europa Metal A.G.	100.00
					1.00	Kabelmetal Messing Bet. GmbH, Berlin	
KME Czech Republic S.r.o.	Czech Rep.	Sales	CZK	100,000	100.00	KM Europa Metal A.G.	100.00
Accumold A.G.	Switzerland	Services	FS	200,000	100.00	KM Europa Metal A.G.	100.00
Bertram's GmbH	Germany	Services	Euro	300,000	100.00	KM Europa Metal A.G.	100.00
Luebke GmbH	Germany	In liquidation	Euro	102,258	100.00	KM Europa Metal A.G.	100.00
KME Ibertubos S.A.	Spain	Copper and alloys processing	Euro	332,100	100.00	S.I.A. - Santa Bàrbara S.A.	100.00
S.I.A. - Santa Bàrbara 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	S.I.A. - Santa Bàrbara S.A.	100.00
Informatica y Organizacion S.A.	Spain	Services	Euro	276,175	100.00	S.I.A.- Santa Bàrbara S.A.	100.00
LOCSA - Laminados Oviedo Cordoba S.A.	Spain	Copper and alloys processing	Euro	10,040,000	100.00	S.I.A.- Santa Bàrbara S.A.	100.00
Europa Metalli Tréfimétaux Deutschland GmbH	Germany	Sales	Euro	1,043,035	100.00	KM Europa Metal A.G.	100.00
Tréfimétaux S.A.	France	Copper and alloys processing	Euro	53,000,000	100.00	KM Europa Metal A.G.	100.00
XT Ltd.	Great Britain	Sales	LST	430,000	100.00	KME UK Ltd.	100.00
TMX Brass S.a.s.	France	Copper and alloys processing	Euro	7,800,000	100.00	Tréfimétaux S.A.	
Société Haillane de Participations S.A.	France	Financial	Euro	40,000	99.76	Tréfimétaux S.A.	
TMX Components S.a.s.	France	Financial	Euro	52,450	65.00	Tréfimétaux S.A.	65.00
Dalian Dashan Chrystallizer Co. Ltd.	China	Copper and alloys processing	RMB	10,000,000	30.00	KM Europa Metal A.G.	30.00
Dalian Surface Machinery Co. Ltd.	China	Copper and alloys processing	RMB	5,500,000	30.00	KM Europa Metal A.G.	30.00
Immobiliare Agricola Limestre S.r.l.	Italy	Real estate	Euro	7,735,000	100.00	KME Group S.p.A.	100.00
KME Brass GmbH	Germany	Copper and alloys processing	Euro	50,000	100.00	KM Europa Metal A.G.	100.00
Europa Metalli Brass S.r.l.	Italy	Copper and alloys processing	Euro	15,025,000	100.00	Europa Metalli S.p.A.	100.00
Outokumpu Copper Superconductors Italy S.p.A.	Italy	Copper and alloys processing	Euro	5,600,000	5.00	Europa Metalli S.p.A.	5.00

INDEPENDENT AUDITING FIRM'S REPORT

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AUDITORS' REVIEW REPORT ON THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2006 DRAWN UP IN ACCORDANCE WITH ARTICLE 81 OF THE CONSOB REGULATION ADOPTED WITH RESOLUTION N. 11971 OF MAY 14, 1999 AND SUBSEQUENT MODIFICATIONS

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

1. We have reviewed the accompanying interim consolidated financial statements of KME Group S.p.A. for the six-month period ended June 30, 2006, consisting of the balance sheets, income statements, statements of changes in equity, cash flow statements and related explanatory notes both at Company and consolidated. These interim consolidated financial statements are the responsibility of the directors of KME Group S.p.A. Our responsibility is to issue a report on these interim consolidated financial statements based on our review. In addition, we have verified the consistency of the report on operations with the other data contained in the above interim consolidated financial statements.

2. Our review was carried out in accordance with the standards recommended by the Italian Regulatory Commission for Companies and the Stock Exchange ("Consob") for the review of the half-yearly interim financial statements under Resolution n. 10867 of July 31, 1997. Our review consisted principally of applying analytical procedures to the underlying financial data, assessing whether accounting policies have been consistently applied and making enquiries of management responsible for financial and accounting matters. The review excluded audit procedures such as tests of controls and substantive verification procedures of the assets and liabilities and was therefore substantially less in scope than an audit performed in accordance with established auditing standards. Accordingly, unlike our report on the year-end consolidated financial statements, we do not express an audit opinion on the half-yearly interim consolidated financial statements.

3. As far as comparative figures related to the year ended December 31, 2005 and the six-month period ended June 30, 2005 are concerned, reference should be made to our auditors' report dated April 11, 2006 and our auditors' review report dated October 27, 2005, respectively.

   The Parent Company's comparative data regarding the interim financial statements of the prior year restated under the IFRS international accounting standards and the related IFRS reconciliation statements derive from the half-yearly data drawn up in accordance with the law and the accounting standards previously in force and upon which we had performed a limited review; reference should be made to our auditors' review report dated October 27, 2005.

4. Based on our review, we are not aware of any material modifications that should be made to the accompanying interim non-consolidated and consolidated financial statements mentioned in paragraph 1. above in order for them to be in conformity with International Accounting Standard (IAS) n. 34 and with the criteria provided by Consob regulations, Article 81, for the preparation of the half-yearly interim financial statements approved with Resolution n. 11971 of May 14, 1999 and subsequent modifications.

Ancona Bari Bergamo Bologna Brescia Cagliari Firenze Genova Milano Napoli Padova Parma Roma
Torino Treviso Verona

Member of
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5. We highlight the following facts, which are described in greater detail in the report on operations and in the explanatory notes:

   a) The Group is implementing a business plan that includes important operations, both concerning industrial management and the financial and organization structure. With regard to this last aspect, in the report on operations and in the explanatory notes management emphasizes that the considerable increase in indebtedness is the result of the higher raw material prices. The greater financial requirement led the Group to increase the existing lines of credit and, at the same time, pursue new financing opportunities, featuring greater flexibility in terms of their level and their use against the variable nature of the working capital. As regards economic results, management foresees steady improvement through cost containment and efficiency improvement measures, the results of which are subject to the recovery of the European economy, which showed positive signs in the first six months of the current year.

   b) Some companies of the Group were subject to two fines, totalling Euro 107 million, imposed by the European Commission, following the charge of violations of the EEC Treaty regarding competition rules. The amounts have been allocated to the risk provisions in the consolidated financial statements and, in order to provide for any disbursement necessary for their payment, specific lines of credit have been defined with financial institutions.

DELOITTE & TOUCHE S.p.A.

Signed by
Paolo Guglielmetti
Partner

Florence, Italy
September 29, 2006

This report has been translated into the English language solely for the convenience of international readers.