KME

2009 Half year report

Notes and condensed interim consolidated financial statements as at and for six months ended 30 June 2009

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

Contents

Company bodies

Board of Directors

Chairman	Salvatore Orlando
Deputy Chairman	Vincenzo Manes[B]
Chief Executive Officer	Domenico Cova[B]
Chief Executive Officer	Italo Romano[B]
	Vincenzo Cannatelli
	Mario d'Urso[A,C,D]
	Marcello Gallo
	Giuseppe Lignana[A,C,D]
Board Secretary	Gian Carlo Losi
	Diva Moriani[B]
	Alberto Pecci[A,D]
	Alberto Pirelli[A,C]

Board of Statutory Auditors

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

Manager in charge of financial reporting	Marco Miniati
Independent Auditors	KPMG S.p.A.
General Representative for Saving Shareholders	Romano Bellezza

A. Independent Director
B. Executive Director
C. Member of the Remuneration Committee (Alberto Pirelli, Chairman)
D. Member of the Internal Audit Committee (Mario d'Urso, Chairman)

Directors' Report

Operating review

The crisis that engulfed the financial markets has also had repercussions on the world's real economy.
The destruction of wealth, the credit crunch, severe consumer and business uncertainty and lack of confidence resulted in the collapse of investment, private consumption and, consequently, falls in production in all advanced countries and a slowdown in emerging economies.
There has been a severe decline in world trade for the first time in a quarter of a century, combined with the risk of further weakening of the international financial system.

In line with the progressive deterioration of the world economy, the pace of economic activities in Europe, the Group's prime market, continued to weaken during the first half of 2009 following the abrupt deterioration of economies in the last four months of last year.
The weakening was much more severe than expected and resulted in widespread recession. Initial, modest signs of stabilisation have only recently emerged albeit at levels which are very low. Uncertainty and fears persist that impetus given to production by the need to build up inventories is not sufficient to provide a basis for sustainable revival.

Demand for the Group's semi-finished copper and copper-alloy products has been impacted by the adverse economic conditions.

Demand from the **construction industry for semi-finished products** has been dampened by the continuing slowdown of spending on residential construction that started in 2007 and persisted throughout 2008 but which became more pronounced in the first months of this year. Restructuring and modernisation of existing buildings, however, appear to be more resilient due to the fact that they relate not only to private structures, but also public buildings which, in many countries, benefited from central and local government subsidies and grants. The sector also benefited from a decrease in copper prices that resulted in a fall in competition from substitute products, which, although more economical, are doubtlessly of lower quality.

There was a severe fall in the demand by **industry for semi-finished products** due to the downturn in manufacturing particularly as a result of the fall in spending on plant and machinery and consumer durable goods primarily as a consequence of the recession.
Against this backdrop of weak demand, the Group was, nonetheless, able to consolidate its position through reliable customer service and product quality and even to improve its market share in various sectors, especially in Italy and Germany.

Starting in March of this year, commodity prices of copper, the metal most used for the Group's production of semi-finished products, showed signs of recovery from the levels to which they had fallen following the severe slowdown of the world economy. Trends, however, have confirmed price volatility that has continued to cause consumer uncertainty.
The economic benefits derived from the measures taken for the more efficient use and procurement of raw materials, which has always been one of the priorities for Group operations, tend to be less significant when prices are falling.

Given this particularly bad market environment, the Group was able to use the strength of its range of products, improved services, expertise in providing customers with innovative solutions and the rationalisation of distribution to consolidate or improve its market position.

Consolidated revenue for the first half of 2009 was Euro 898.5 million, 44.6% lower than revenue for the same period of 2008. Revenue less raw material costs decreased 27.5% from Euro 458.8 million in 2008 to Euro 332.5 million in 2009. Sales volumes were down 30.3%.
The value of raw materials accounted for about 63% of the revenue from sales of semi-finished products (72% on average for the first six months of 2008).
Revenue for the second quarter of 2009 less raw material costs was 9.2% below the Euro 174.3 million for the first quarter.

The steps taken in previous years to increase the efficiency of the Group's facilities and streamline its manufacturing operations were recently intensified by combining them with more stringent fixed and variable cost controls, in order to reduce them to a level more consistent with the changed market conditions. The resultant benefits, however, could only partially offset the impact of decreased revenue.
The Group's operating profit for the first two quarters of 2009 was substantially in line with the fourth quarter of 2008, but down sharply on the first half of 2008, when, however, market conditions were markedly more favourable, as they had not yet been affected by the radical change in the economic environment.

EBITDA* for the first half of 2009 was Euro 22.3 million, compared with Euro 64.4 million for the first six months of 2008 (return on net sales declined from 14.0% to 6.7%).
EBITDA for the second quarter of 2009 of Euro 11.7 million was Euro 10.6 million ahead of the first quarter. The return on sales less raw material costs increased from 6.1% to 7.4%.
EBIT** for the first quarter of 2009 was a negative Euro 8.9 million, compared to a positive EBIT of Euro 42.9 million in the same period last year.
The **consolidated loss before taxes** was Euro 20.1 million (profit before taxes of Euro 12.3 million in the first six months of 2008).

Again for this period, the performance indicators contained in this Directors' report were calculated using figures that are not fully consistent with the requirements of IFRS, under which the condensed interim consolidated financial statements were prepared. Specifically, they are calculated ignoring the effect on profit or loss of measuring raw material inventories substantially at current value, as required by IFRS, since price volatility means that an exogenous factor would have been introduced, the variability of which would make it impossible to compare homogeneous data for two different periods and to provide an accurate picture of the results of operations. More detailed information is included in the description of the reclassifications made, which is provided later in this Report in "Group performance".
Unlike the first six months of 2008, fluctuating prices lead to the measurement of inventories based on current prices (the lower of the weighted average cost for the quarter and end-of-period realisable value), rather than a base stock** LIFO valuation, resulting in a reduction in the LIFO cushion (the difference between LIFO and IFRS inventory valuations). This was Euro 29.3 million at the end of June 2008, whereas it was a negative Euro 1.5 million at 30 June 2009.

* Reclassified indicators, a description of which is contained in "Group performance".
** Base stock is that part of inventories that is not intended to be sold and is, therefore, a strategic reserve needed for production and substantially stable over time.

The **loss** attributable to owners of the Parent for the first half of 2009, as determined measuring inventories in compliance with IFRS, was Euro 21.8 million, whereas a profit of Euro 41.3 million was reported for the first six months of 2008.
Group **net debt** at 30 June 2009 was Euro 225.4 million, which was slightly below net debt at 31 December 2008 of Euro 227.6 million. This reflects the reduction in net current assets, particularly inventories, notwithstanding increased raw materials prices compared to 2008 and the payment of dividends.
Debt was held at a level lower than working capital, demonstrating the Group's balanced financial position and lack of structural debt.

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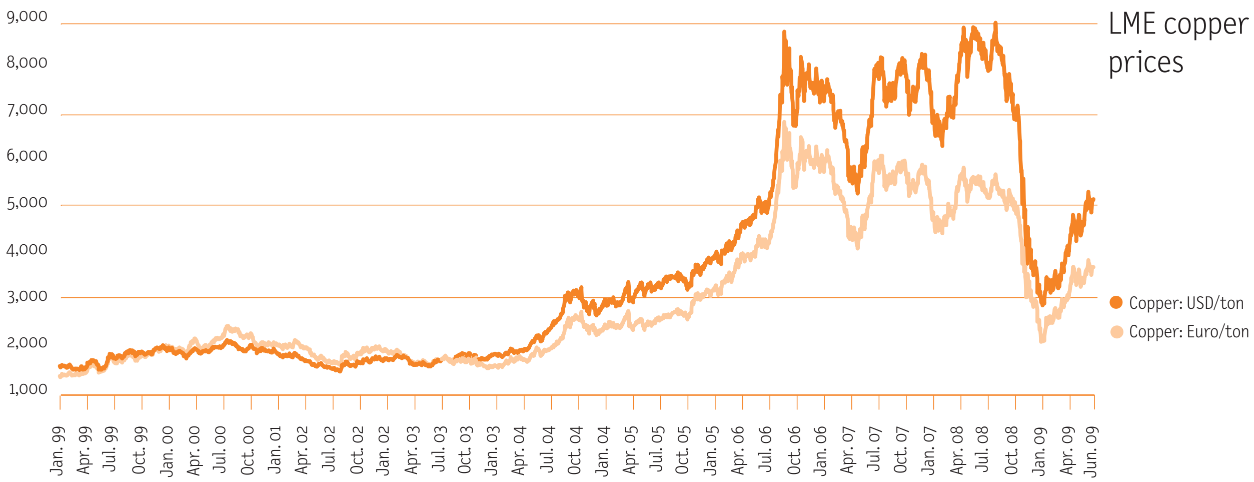
Turning to the **operating outlook**, the first modest signs of stabilising economic conditions do not yet appear to have reversed market trends.
At the outset of the radical change in the economic environment, the Group promptly introduced a series of contingent measures to counter the effects on income of a reduced level of operations and pressure on prices, as well as to assure sufficient cash flow generation.
The business plan, which is intended to provide a more efficient structure of production, continues to be followed in parallel with a streamlining of distribution and an optimisation of invested capital without, however, neglecting opportunities to diversify business as demonstrated by the recent sales of scrap metals. The objective is to prepare the ground for a return to earnings growth when the economic environment once again becomes more favourable.

Market and prices of the raw material copper

The average price of copper for the first half of 2009 was 50.1% below the same period of the previous year in US dollar terms (decreasing from US$8,108 per tonne to US$4,046) and 42.8% in euro terms (from Euro 5,294 per tonne to Euro 3,027), due to the appreciation of the euro during the period.

Looking at price trends, in the second quarter of 2009, the average price of copper was higher than in the first quarter by 36.1% in US dollar terms (up from US$3,435 per tonne to US$4,676) and 30.1% in euro terms (up from Euro 2,637 per tonne to Euro 3,430).

In July 2009, the price of copper became more stable with the average price for the month at US$5,216 per tonne (Euro 3,701).



Scrap metal trading project

On 26 February 2009 KME Group S.p.A. entered into an agreement to acquire a 30% equity interest in METALBUYER S.p.A. of Naples. Under the terms of the agreement, the transaction is valued at Euro 1.5 million and KME will have a three year call option on an additional 21% shareholding in the company in accordance with predetermined terms and conditions.
A similar agreement, executed on 5 May 2009, involved the purchase of a 30% equity interest in SIGIMET S.p.A. of Alessandria. This transaction is valued at Euro 1.8 million and KME, again, will have a three year call option on an additional 21% shareholding in SIGIMET.

Both METALBUYER S.p.A. and SIGIMET S.p.A. are ferrous and non-ferrous metal traders of raw materials and, predominantly, scrap.

Both agreements are consistent with KME Group S.p.A.'s strategy that aims to enter the ferrous and non-ferrous scrap metals recycling and trading business, in order to diversify its operations away from its traditional manufacture of copper and copper-alloy semi-finished products.
KME Recycle S.p.A., a new, wholly owned subsidiary established for this purpose, will operate as a holding company providing support for the operations and development of companies in which it holds equity interests. Equity investments will be made with an approach initially entailing the purchase of a minority shareholding in target companies, together with a call option on an additional stake large enough to obtain control.
KME Group and participating entrepreneurs believe that this is the best way to meet the needs of the metal recycling market, because it combines the strengths of different business models to develop the synergies needed to ensure the growth of the business at the expected rates of return.

Group performance

As explained above, by not permitting the LIFO valuation of year-end inventories that is used internally for management purposes, the IFRS have introduced an exogenous factor the variability of which makes it impossible to compare homogeneous data for two different periods and to provide an accurate picture of the results of operations.

Some financial statement figures are, consequently, based on accounting methods that are at variance with IFRS, primarily with respect to presentation and measurement.

Specifically:

1 in order to eliminate the impact of fluctuations in raw material prices, revenue are also presented **net of raw material costs**;

2 the base-stock component of year-end metals inventories (i.e., inventories that will not be sold) are valued using the LIFO method. Metals that will be sold, on the other hand, are measured at their contractual selling prices, which are deemed to be their realisable value. Under IFRS, on the other hand, inventories are required to be measured at the lower of weighted average cost and net realisable value. Net realisable value is the average of the prices of the corresponding sales commitments for the relevant inventories, whereas base stocks are to be measured at the average official price on the London Metal Exchange over the last month. IFRS require forward sales and purchase contracts, as well as hedging contracts traded on the LME, to be separately identified and reported in the financial statements at their fair values, in common with financial instruments;

3 **non-recurring items** are shown in the income statement below EBITDA.

The table below shows the effects of the different methods of measurement and presentation for the first half of 2009.

(millions of Euro)	1st Half 2009 IFRS		reclassifications	adjustments	1st Half 2009 RECL	
Gross revenue	898.5	100%			898.5	
Raw material costs	-		(566.0)		(566.0)	
Revenue net of raw material costs	**-**				**332.5**	**100.00%**
Personnel expense	(152.3)		1.1		(151.2)	
Other consumables and costs	(731.9)		567.1	5.8	(159.0)	
EBITDA*	**14.3**	**1.59%**			**22.3**	**6.71%**
Non-recurring income (expenses)	-		(3.8)	-	(3.8)	
Depreciation and amortisation	(28.7)		1.3	-	(27.4)	
EBIT	**(14.4)**	**-1.60%**			**(8.9)**	**-2.68%**
Net financial costs	(6.3)		(3.7)		(10.0)	
Dividends and fair value of assets held for trading	-		4.0		4.0	
Gains (losses) recognised in equity	-				-	
Profit before taxes (non IFRS inventory measurement)	**(20.7)**	**-2.30%**			**(14.9)**	**-4.49%**
Current taxes	(13.5)				(13.5)	
Deferred taxes	12.6		(4.3)	-	8.3	
Profit after taxes (non IFRS inventory measurement)	**(21.6)**	**-2.40%**			**(20.1)**	**-6.06%**
Impact IFRS val. of invent., phys. commit. and LME contracts	-			(5.8)	(5.8)	
Taxes under IFRS measured inventories and physical and LME futures contracts	-		4.3		4.3	
Consolidated profit/(loss)	**(21.6)**	**-2.40%**	**-**	**-**	**(21.6)**	**-6.50%**
Non-controlling interests	0.2				0.2	
Profit/(loss) attributable to owners of the Parent	**(21.8)**	**-2.43%**			**(21.8)**	**-6.56%**

* EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortisation) is not an IFRS line item. It is a useful indicator of the Group's operating performance. EBITDA is an intermediate amount based on EBIT but before depreciation and amortisation.

The reclassified performance indicators described above are useful for the analysis of the Group's income statement because they are considered more representative of actual profitability and cash flow. Obviously, the comments on the Group's operating performance are also supplemented by financial statement data with an IFRS compliant measurement of raw materials inventories.

An overview of the Group's consolidated income statement for the first half of 2009 with comparatives for the first six months of 2008 and the full 2008 financial year is shown below.

KME Group - Consolidated income statement

(millions of Euro)

Full year 2008 RECL			1st Half 2009 RECL		1st Half 2008 RECL		Change %
2,975.2		Gross revenue	898.5		1,623.1		-44.6%
(2,112.9)		Raw material costs	(566.0)		(1,164.3)		-51.4%
862.3	**100.00%**	**Revenue net of raw material costs**	**332.5**	**100.00%**	**458.8**	**100.00%**	**-27.5%**
(353.8)		Personnel expense	(151.2)		(182.3)		-17.1%
(401.9)		Other consumables and costs	(159.0)		(212.1)		-25.0%
106.6	**12.36%**	**EBITDA***	**22.3**	**6.71%**	**64.4**	**14.04%**	**-65.4%**
(3.2)		Non-recurring income (expenses)	(3.8)		5.2		insig.
(53.4)		Depreciation and amortisation	(27.4)		(26.7)		2.8%
50.0	**5.80%**	**EBIT**	**(8.9)**	**-2.68%**	**42.9**	**9.35%**	**-120.8%**
(43.0)		Net financial expense	(10.0)		(18.0)		-44.4%
0.6		Dividends and fair value of trading assets	4.0		3.6		11.1%
-		Gains (losses) recognised in equity	-		-		0.0%
7.6	**0.88%**	**Profit before taxes (non IFRS inventory measurement)**	**(14.9)**	**-4.49%**	**28.5**	**6.21%**	**insig.**
(9.9)		Current taxes	(13.5)		(9.2)		46.7%
(1.2)		Deferred taxes	8.3		(7.0)		insig.
(3.5)	**-0.40%**	**Profit after taxes (non IFRS inventory measurement)**	**(20.1)**	**-6.06%**	**12.3**	**2.68%**	**insig.**

First half 2009 **revenue** totalled Euro 898.5 million, 44.6% less than the Euro 1,623.1 million for the same period last year.
The decrease was brought about by raw materials price trends. Restated to eliminate the impact of raw materials prices, revenue decreased 27.5% from Euro 458.8 million to Euro 332.5 million. Sales volumes fell by 30.3%.
Revenue for the second quarter of 2009 less raw materials, were 9.2% below the Euro 174.3 million for the first quarter.

Total **operating costs** decreased 21.3%, due to the fall in sales volumes, which was partially offset by an increase in the output of products with greater value added. Personnel expense alone decreased 17.1%.
The Group responded to the extremely adverse economic environment by rigorously cutting all costs, particularly personnel and procurement. An ongoing dialogue with employees' representatives resulted in the development of mutually agreeable solutions that enabled the Group to adjust to changing market conditions and increase its organisational flexibility and efficiency. Management also contributed to the joint effort of the entire staff by accepting a pay cut.

EBITDA of Euro 22.3 million is 65.4% less than the same period of the previous year. It is 6.7% of revenue net of raw materials (14.0% in 2008).
EBITDA for the second quarter of 2009 of Euro 11.7 million was up from the Euro 10.6 million for the first quarter. The return on sales net of raw materials increased from 6.1% to 7.4%.

EBIT was a negative Euro 8.9 million, compared to a positive EBIT of Euro 42.9 million for the same period in 2008.
Net non-recurring expenses were Euro 3.8 million, compared to net non-recurring income of Euro 5.2 million in 2008.

The **consolidated loss before taxes**, restated to eliminate the impact of measuring raw materials inventories at current prices, as required by IFRS, amounted to Euro 20.1 million (profit of Euro 12.3 million in the first half of 2008).

Effect of measuring raw material inventories at current prices (IFRS)

The table below shows the impact on the consolidated after-tax loss for the first half of 2009 of measuring base stocks of raw materials and outstanding buyer and seller physical forward contracts and London Metal Exchange futures contracts as required by IFRS, and provides a comparison with figures for the same period of 2008.

(millions of Euro)

Full year 2008 RECL			1st Half 2009 RECL		1st Half 2008 RECL		Change %
(3.5)	**-0.40%**	**Profit after taxes (non IFRS inventory measurement)**	**(20.1)**	**-6.06%**	**12.3**	**2.68%**	**insig.**
(72.7)		Impact of IFRS measurement of inventories, physical forward and LME futures contracts	(5.8)		35.4		insig.
8.1		Taxes under IFRS measured inventories and physical forward and LME futures contracts	4.3		(6.1)		insig.
(68.1)	**-7.90%**	**Consolidated profit/(loss)**	**(21.6)**	**-6.50%**	**41.6**	**9.07%**	**insig.**
0.6		Non-controlling interests	0.2		0.3		-33.3%
(68.7)	**-7.97%**	**Profit/(loss) attributable to owners of the Parent**	**(21.8)**	**-6.56%**	**41.3**	**9.00%**	**insig.**

Due to the fact that prices are falling, there was a reduction in the undervaluation (LIFO cushion) of raw materials inventories at the end of June 2009, compared to an IFRS compliant measurement. At the end of June 2008, for instance, when prices were rising, the LIFO cushion was Euro 29.3 million, whilst at the end of June 2009 the amount was a negative Euro 1.5 million. At the end of 2008 the LIFO cushion was a negative Euro 64.6 million. Compliance with IFRS requirements during periods of high volatility of raw material prices introduces an exogenous factor into the determination of interim profits, the extreme variability of which could distort income reported by the Company.
As a result of the above, the **consolidated loss after taxes** for the first six months of 2009 (IFRS measured inventories) was Euro 21.8 million, compared to a similarly calculated profit after taxes of Euro 41.3 million for the same period of last year.

Segment information

The Group's industrial production is for the following lines of business.

Revenue before raw material costs

Segment (millions of Euro)	Building materials		Industrial products		Consolidation and sundry		Group total	
1st Half 2009	**305.6**	**34.0%**	**505.2**	**56.2%**	**87.7**	**9.8%**	**898.5**	**100.0%**
1st Half 2008	549.5	33.9%	910.1	56.1%	163.5	10.1%	1,623.1	100.0%
% change	-44.4%		-44.5%		-46.4%		-44.6%	

Revenue net of raw material costs

Segment (millions of Euro)	Building materials		Industrial products		Consolidation and sundry		Group total	
1st Half 2009	**118.4**	**35.6%**	**214.1**	**64.4%**	**-**	**-**	**332.5**	**100.0%**
1st Half 2008	155.6	33.9%	303.2	66.1%	-	-	458.8	100.0%
% change	-23.9%		-29.4%		insig.		-27.5%	

Sales of **industrial products** in the first six months of 2009 less raw material costs were 64.4% of total sales, whereas sales of **building materials** were 35.6%.

Building materials is an important market for the Group's products. Rolled copper products are used for roof coverings, accessories and facades; copper tubes and pipes are used in residential central heating systems; rolled brass and brass or bronze profiles are used to finish residential interiors. Brass rods are frequently used for the production of taps, handles, windows and door fittings, valves and various accessories

After a significant slowdown in 2008, demand for **rolled copper for roofing** became more stable in the first half of 2008. Although the business environment is still decidedly weak, the Group recovered sales volumes in key markets such as Italy and Germany and strengthened its position in Benelux and in emerging markets such as Russia and the Ukraine. The Group has benefited from the new downstream expansion strategy and the opening up to new metals in Germany through the acquisition by the subsidiary, Fricke GmbH & Co. K.G., of the operations of two other German companies that also produce and distribute accessories for roofing and rain water drainage systems. The new company created in conjunction with the acquisition (KME Architectural Metals GmbH & Co. K.G.) is large enough to supply the entire German market. Turning to product innovation, it is important to underline that KME is currently developing new systems that combine the architectural appeal of copper with the need to conserve energy. An example is the TECU® Solar Roof.

The crisis in the construction industry has also led to a decrease in sales of **tubing for water heating systems**, with volumes falling above all in the United Kingdom, Spain and eastern Europe. The fall in prices has been contained.

The fall in sales volumes of brass rods for taps, which was well in excess of 30%, was particularly marked in the Mediterranean. It was, however, partially mitigated by the growth in exports to Anglo Saxon markets.

There are very many uses for copper and copper-alloy products in numerous **industrial sectors** such as the automotive, electric and electronic components, air conditioning and refrigeration as well as the fancy goods industries and mechanical engineering in general.

The fall in demand for industrial rolled products that started in 2008 continued in the first half of the year and particularly affected the automotive, electrical, spare parts and capital goods industries, where the decline was more than 40%. The Group has partially mitigated falling volumes on Italian markets by consolidating its position in the emerging markets of central and eastern Europe and certain major non-European markets, such as India.

Sales of **industrial tubes** also declined where weak demand in the air conditioning segment was only partially offset by demand for fittings and the good performance of the renewable energy sector (solar thermal systems and heat pumps).

Following a very positive 2008, demand for **copper rods for electrical equipment** fell in the first six months of 2009 above all in the low and medium voltage segments. Sales in the high voltage and renewable energy segments improved.

After years of continual growth, **copper steel casting moulds** are declining as a result of the global economic crisis.

EBIT (non IFRS inventory measurement)

(millions of Euro)	Building materials		Industrial products		Consolidation and sundry		Group total	
1st Half 2009	2.8	-31.5%	(10.0)	112.4%	(1.7)	19.1%	(8.9)	100.0%
1st Half 2008	20.7	48.3%	22.1	51.7%	-	-	42.9	100.0%
% change	-86.4%		-145.0%		insig.		-120.8%	

Segment

(millions of Euro)	Building materials		Industrial products		Consolidation and sundry		Group total	
30 June 2009	410.8	27.2%	741.3	49.0%	359.8	23.8%	1,511.9	100.0%
31 December 2008	419.6	25.7%	798.5	48.9%	415.5	25.4%	1,633.6	100.0%
% change	-2.1%		-7.2%		-13.4%		-7.4%	

Liabilities

(millions of Euro)	Building materials		Industrial products		Consolidation and sundry		Group total	
30 June 2009	189.8	17.5%	363.4	33.4%	534.2	49.1%	1,087.3	100.0%
31 December 2008	190.3	16.2%	381.4	32.5%	603.5	51.4%	1,175.2	100.0%
% change	-0.3%		-4.7%		-11.5%		-7.5%	

Amortisation, depreciation and impairment losses

(millions of Euro)	Building materials		Industrial products		Consolidation and sundry		Group total	
1st Half 2009	9.9	34.5%	18.8	65.5%	-	-	28.7	100.0%
1st Half 2008	9.1	34.1%	17.6	65.9%	-	-	26.7	100.0%
% change	8.8%		6.8%		insig.		7.5%	

Investments

(millions of Euro)	Building materials		Industrial products		Consolidation and sundry		Group total	
30 June 2009	4.4	37.0%	7.4	63.0%	-	-	11.8	100.0%
31 December 2008	20.8	35.2%	36.2	61.2%	2.1	3.6%	59.1	100.0%
% change	-79.1%		-79.5%		insig.		-80.1%	

Employees at 30 June

(number of employees)	Building materials		Industrial products		Consolidation and sundry		Group total	
30 June 2009	2,087	31.7%	4,490	68.2%	5	0.1%	6,582	100.0%
31 December 2008	2,065	30.6%	4,672	69.3%	2	-	6,739	100.0%
% change	1.0%		-3.9%		150.0%		-2.3%	

Investments

Investments in production units in the first six months of 2009 were Euro 11.9 million (Euro 21 million in 2008).

Again in 2009, capital expenditure related to the rationalisation of the Group's production structure and the more efficient use of raw materials.

Specific investments were made in the rolled products cutting and finishing lines at Fornaci di Barga, Italy and Osnabrueck, Germany; the commencement of a project for the addition of a new production line for photovoltaic equipment; the optimisation and rationalisation, including the efficient use of raw materials, in the industrial tube production segment and special products located in Germany.
Capital expenditure on health and safety in production units is ongoing, as is capital expenditure regarding environmental protection.

Financial position

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

(millions of Euro)	at 30.06.2009	at 31.12.2008
Share capital	250.0	250.0
Reserves	196.4	277.0
Profit for the period	(21.8)	(68.6)
Total equity	**424.6**	**458.4**

Group **net debt** at 30 June 2009 was Euro 225.4 million.

A breakdown of the **reclassified* analysis of consolidated net debt**** is provided below:

Analysis of consolidated net debt

(thousands of Euro)	30.06.2009 (RECL)	31.12.2008 (RECL)
Short-term debt	101.725	194.126
Medium to long-term debt	313.776	243.688
Borrowings from Group companies	2.685	2.907
(A) Total debt due to financial institutions	**418.186**	**440.721**
Cash and cash equivalents	(78.836)	(38.814)
Short-term financial receivables[1]	(91.792)	(100.692)
Financial receivables due from Group companies	(1.276)	(1.071)
(B) Total cash and cash equivalents and financial receivables due from financial institutions	**(171.904)**	**(140.577)**
Fair value of LME and metal forward contracts	(17.158)	(64.391)
Fair value of other financial instruments	(74)	(4.939)
(C) Financial instruments measured at fair value	**(17.232)**	**(69.330)**
Consolidated net debt (A) + (B) + (C)	**229.050**	**230.814**
Non-current financial receivables due from banks	**(3.661)**	**(3.239)**
Reclassified consolidated net debt	**225.389**	**227.575**

1. The fair value of LME contracts for 2008 includes differentials of Euro 43.0 million (nil for the first six months of 2009) already paid or received prior to expiry of contracts in accordance with the contractual terms and conditions.

The above figures that make up the financial position do not include payments totalling Euro 107 million that could result from contingent liabilities regarding two European Union fines imposed on Group industrial companies in 2003-2004 in relation to antitrust violations. The fines will only result in a cash outflow on the conclusion of an appeal made to the EU courts and only based on the amounts ruled by the courts. Until such time, their payment is guaranteed by security deposits of Euro 17 million and bank guarantees of Euro 90 million. The deferral of the payment will, however, result in financial expense, which has already been recognised in the income statement through provisioning of the total amount of the fines plus accrued interest.

At the beginning of October 2006 KME Group and its main industrial subsidiaries concluded two agreements for the refinancing of Group debt totalling Euro 1.65 billion.

* A description of the reclassifications is provided below in this section.

** This indicator of balance sheet structure is equal to gross borrowings less total liquid assets (cash and cash equivalents), other financial receivables included in "Current financial assets" and a "Non-current financial receivable due from banks" (Euro 3.2 million at 31 December 2008 and Euro 3.7 million at 30 June 2009) relating to a pledged deposit collateralising outstandings under a line of credit extended by Mediocredito Centrale S.p.A. (MCC).

The first agreement is for a five-year line of up to Euro 800 million for the non-recourse sale of trade receivables.

The second is for the following two facilities:

- a loan of up to Euro 200 million, with a duration of five years (including three years grace), secured by the non-current assets of the Group's German industrial subsidiaries. The loan may also be used to finance payment of the EU fines following the appeals that are currently pending;
- a revolving credit line of up to Euro 650 million to finance inventories securing the loan.

The revolving credit has an initial duration of three years (i.e., to October 2009) and can be extended for an additional two years.

The Company was notified by letter dated 12 March 2009 that the majority of the loan syndicate had agreed to extend the maturity of Euro 360 million of the revolving credit to October 2011.

Negotiations with lenders in recent months have so far resulted in the following amendments to the October 2006 loan agreement:

a) suspension throughout 2009 of the minimum EBITDA test required by financial covenants;

b) restatement of the financial covenant regarding the minimum level of consolidated equity in order to offset the effects of measuring inventories as well as outstanding buy and sell contracts hedging open positions as required by IFRS.

Even though the Group is in compliance with its covenants, as restated for the first half of 2009, the fact that confirmation of the amendments was only received by letter after 30 June meant that the Company was required under IFRS to treat the relevant borrowings as short-term debt.

Similar negotiations were also successfully held with respect to suspending the half-year minimum consolidated EBITDA test (the first-half year 2009 test is expected shortly) required by the financial covenants relating to the loan extended by Unicredit-Mediocredito Centrale S.p.A..

The immediately preceding analysis of consolidated net debt has been adjusted below to show the reclassifications of bank borrowings at 30 June 2009 pursuant to the amended covenants.

Consolidated net debt

(thousands of Euro)	at 30.06.2009 (IFRS)	Reclass.	at 30.06.2009 (RECL)	at 31.12.2008 (IFRS)	Reclass.	at 31.12.2008 (RECL)
Short-term debt	384,210	(282,485)	101,725	298,508	(104,382)	194,126
Medium to long-term debt	31,291	282,485	313,776	139,306	104,382	243,688
Borrowings from Group companies	2,685		2,685	2,907		2,907
(A) Total debt due to financial institutions	**418,186**		**418,186**	**440,721**		**440,721**
Cash and cash equivalents	(78,836)		(78,836)	(38,814)		(38,814)
Short-term financial receivables[1]	(91,792)		(91,792)	(100,692)		(100,692)
Financial receivables due from Group companies	(1,276)		(1,276)	(1,071)		(1,071)
(B) Total cash and cash equivalents and financial receivables due from banks	**(171,904)**		**(171,904)**	**(140,577)**		**(140,577)**
Fair value of LME and metal forward contracts	(17,158)		(17,158)	(64,391)		(64,391)
Fair value of other financial instruments	(74)		(74)	(4,939)		(4,939)
(C) Financial instruments measured at fair value	**(17,232)**		**(17,232)**	**(69,330)**		**(69,330)**
Consolidated net debt (A) + (B) + (C)	**229,050**		**229,050**	**230,814**		**230,814**
Non-current financial receivables due from banks	**(3,661)**		**(3,661)**	**(3,239)**		**(3,239)**
Reclassified consolidated net debt	**225,389**		**225,389**	**227,575**		**227,575**

1. The fair value of LME contracts for 2008 includes differentials of Euro 43.0 million (nil for the first six months of 2009) already paid or received prior to expiry of the contracts in accordance with their terms and conditions.

A breakdown of reclassified **net invested capital*** is shown below:

(millions of Euro)	at 30.06.2009	at 31.12.2008
Net non-current assets	774.9	788.2
Net working capital	255.7	294.9
Net provisions	(380.6)	(397.3)
Net invested capital	**650.0**	**685.8**

* Net invested capital is the sum of non-current assets plus current assets less non-current and current liabilities, but excluding any amounts used to compute net debt.

Personnel

The number of employees at 30 June 2009 was 6,582 (6,739 at 31 December 2008).

(period average)	1st half 2009	1st half 2008	Change %
Managers and office employees	1,865	1,812	2.9%
	28.0%	26.8%	
Blue collar and special categories	4,804	4,942	-2.8%
	72.0%	73.2%	
Total employees	**6,669**	**6,754**	**-1.3%**
	100.0%	100.0%	

The ongoing dialogue with Trade Unions and employee representatives continues at both European and Italian companies to find mutually acceptable solutions in response to the changed market conditions and to increase flexibility and organisational efficiency.

Related party transactions

Related party and intercompany transactions were neither atypical nor unusual in that they were part of the Group's day to day business.

Transactions between KME Group S.p.A. and its subsidiaries, as well as transactions among subsidiaries, are eliminated on consolidation.

Resolutions approved by the Shareholders' Meeting of 29 April 2009

The Ordinary General Meeting of 29 April 2009 approved the Company's 2008 financial statements, which reported a profit of Euro 21.0 million; and:

- the distribution of dividends totalling Euro 11.3 million, with Euro 0.04 per share for ordinary shares and Euro 0.1086 per share for savings shares;
- the appropriation of Euro 9.5 million to retained earnings, thereby increasing the retained earnings carried forward.

On the same occasion, the shareholders elected the Board of Directors and Board of Statutory Auditors for a three-year period from 2009 to 2011, based on slates of candidates filed by iNTEk S.p.A., the Company's controlling shareholder.
At a separate meeting held after the General Meeting, the Board of Directors proceeded with the appointment of corporate officers, to whom the necessary powers were delegated.
The composition of corporate bodies is shown at the beginning of this Report.

Pending litigation

New developments regarding pending litigation, as described in the financial statements as at and for the year ended 31 December 2008:

- discussions continue with the petitioner regarding a settlement of the environmental complaint relating to the former site of the Brescia facilities continue. The next hearing has been scheduled for 10 December 2009;
- there is no news to report with respect to the cases pending before the Court of Hannover relating to the merger and squeeze-out regarding German subsidiaries in 2001/2002.

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

- the European Union Court of First Instance, in its ruling of 6 May 2009, upheld the fine of Euro 39.81 million imposed by the Commission in 2003 for antitrust violations in the industrial tubes sector. Appeal against this decision was subsequently filed with the European Court of Justice on 16 July 2009. There is no news to report with respect to the case on pipes following the hearing before the same Court on 6 November 2008 regarding a settlement;
- as a result of the fact that the two antitrust class action suits brought in the United States were dismissed by the Tennessee Court of Appeals, which had originally heard the cases, all class actions brought to date by direct vendees have all been closed. The class action brought by indirect vendees before the California State Court was adjourned in December 2006 and there have been no further developments. The American attorneys retained by the Group are continually monitoring two other class action suits brought by indirect vendees that are pending before the Federal Courts of Tennessee and California, for which the Company has not yet been served and negotiations have currently either been suspended or postponed;
- the Court has dismissed a civil case brought by Caffaro S.r.l. against KME Italy S.p.A. last February relating to environmental matters in connection with the former site of the Brescia facilities, a ruling which was favourable to the Company, and there have been no further developments.

Events after 30 June 2009

The boards of directors of KME Group S.p.A. and the parent, iNTEk S.p.A., at a joint meeting held today, have approved the guidelines for a corporate reorganisation that entails the partial proportionate reverse merger of iNTEk into the subsidiary KME Group to be based on the financial statements of both companies as at and for the six months ended 30 June 2009.
The purpose is to simplify the structure with respect to the two different lines of business in which the Group operates and to improve operational focus by concentrating iNTEk's activities on financial matters and those of KME Group on industrial matters.
The guidelines entail a reverse merger of iNTEk through the transfer to KME Group of its assets and liabilities, primarily consisting of investments including the shareholding in KME Group.
iNTEk will, in connection with the reverse merger, cancel five of its ordinary shares, savings shares and warrants on Intek ordinary shares 2005-2011 for every eight issued, thus proportionately reducing iNTEk's share capital.

The exchange ratio set out in the plan as determined by the two boards of directors, who were assisted by independent advisers, entails the transfer to Intek shareholders of:

- one ordinary KME Group share for each ordinary iNTEk share cancelled;
- one KME Group savings share for each Intek savings share cancelled;
- one new ordinary KME Group ordinary share warrant 2009-2011 for each ordinary iNTEk share warrant 2005-2011 cancelled.

The plan requires the following resolutions to be approved prior to the date of the legal effectiveness of the reverse merger:

- a KME Group ordinary and savings share split of three new shares for each two held with an adjustment of the savings shareholders' claims on the Company's equity consistent with those of iNTEk savings shares;
- prolongation of the exercise period for KME Group ordinary share warrants 2006-2009;
- the transfer to iNTEk shareholders of KME Group ordinary share warrants 2006-2009 currently held by iNTEk;
- revocation of iNTEk's and KME Group's current stock option plans;
- elimination of the nominal amount of iNTEk's shares.

The plan also requires an increase in KME Group's share capital to strengthen the Company's equity by a maximum of Euro 80 million through the fresh issue of new ordinary and savings shares. This will take the form of a rights issue at a post-split price with a range of Euro 0.30 and Euro 0.37 for each ordinary share (the equivalent of Euro 0.45 and Euro 0.55, pre-split) and between Euro 0.50 and Euro 0.57 for each savings share (the equivalent of Euro 0.75 and Euro 0.85, pre-split). This must be approved at the shareholders' meeting that will be called to approve the reverse merger and executed subsequent to the legal effectiveness of the reverse merger.
Finally, the plan entails new incentive schemes for the management of iNTEk and KME Group to be implemented subsequent to the legal effectiveness of the reverse merger.
It is expected that meetings of the boards of directors of iNTEk and KME Group will be called to approve the planned reverse merger by September 2009, with the relevant extraordinary shareholders' meetings being held by November 2009. The reverse merger, as set out in the plan, will then be completed by the end of the first quarter of 2010.

Additional information is contained in the press release issued jointly by the two companies.

Florence, Italy
6 August 2009

The Board of Directors

Investor information

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

The performance of KME Group shares during the first half of 2009 was as follows:

- KME Group ordinary shares: a high of Euro 0.728 in April; a low of Euro 0.454 in January;
- KME Group savings shares: a high of Euro 1.097 in May; a low of Euro 0.672 in March;
- KME Group 2006-2009 warrants: a high of Euro 0.052 in January; a low of Euro 0.019 in March.

(amounts are expressed in Euro - at the end of 30 June 2009)	
No. of ordinary shares	235,489,347
No. of savings shares	19,072,110
Share capital	250,009,677.85
No. of KME Group 2006-2009 warrants outstanding	67,929,987

Stock Exchange Price (at the end of 30 June 2009 - amounts are expressed in Euro)	
KME Group ordinary shares	0.515
KME Group savings shares	0.797
KME Group warrants	0.029

(amounts are expressed in Euro - at the end of 30 June 2009)	
Ordinary shares - market capitalisation	121,277,014
Savings shares - market capitalisation	15,200,472
Total market capitalisation	**136,477,485**

Shareholders	
No. of ordinary shareholders	8,453
Material shareholders*	
iNTEk	53.58%

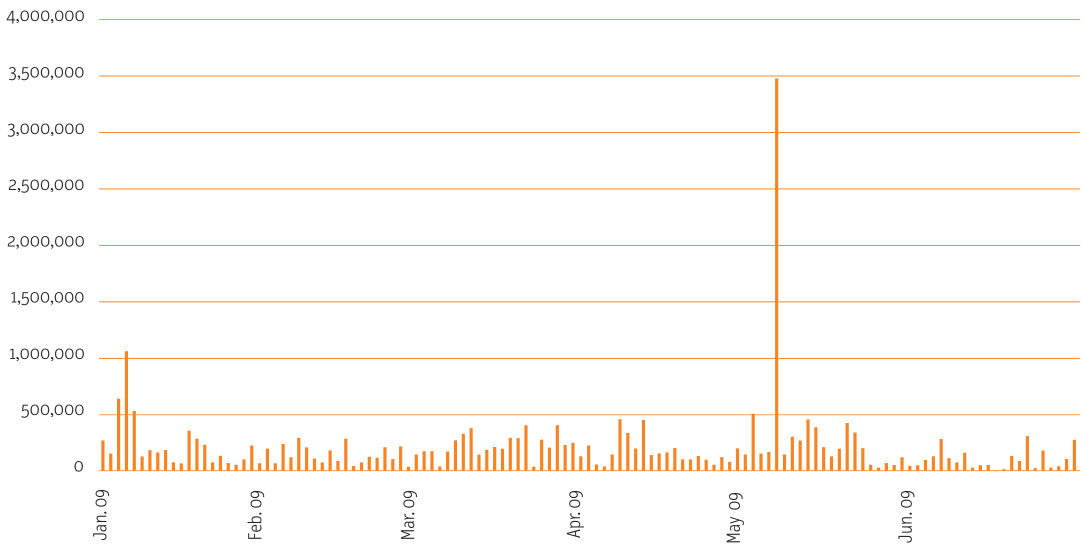
* No shareholder has notified a shareholding in excess of 2%

Dividends per share (amounts are expressed in Euro)	2007	2008
Dividends per ordinary share	0.0400	0.0400
Dividends per savings share	0.1086	0.1086

Stock exchange performance (amounts are expressed in Euro)	31 December 2008	June 2009	Change
KME Group ordinary shares	0.437	0.515	17.8%
KME Group savings shares	0.743	0.797	7.3%
KME Group warrants	0.036	0.029	-19.4%
FTSE MIB	19,460	19,063	-2.0%

Quotations
1st half 2009

Volumes traded KME Group ordinary shares 1st half 2009



Condensed interim consolidated financial statements for the six months ended 30 June 2009

Condensed interim consolidated financial statements

Consolidated statement of financial position

(thousands of Euro)	note	at 30.06.2009	of which with related parties	at 31.12.2008	of which with related parties
Property, plant and equipment	4.1	600,428		616,087	
Investment property	4.2	22,376		22,612	
Goodwill and consolidation differences	4.3	114,897		114,892	
Other intangible assets	4.4	2,998		2,908	
Investments in subsidiaries and associates	4.5	4,919	4,919	5,077	5,077
Investments in other companies	4.5	258	258	258	258
Investments in equity accounted investees	4.5	1,944		-	
Other non-current assets	4.6	27,075		26,342	
Non-current financial assets	4.7	3,661		3,239	
Deferred tax assets	4.20	29,107		45,014	
Non-current assets		**807,663**		**836,429**	
Inventories	4.8	367,034		418,127	
Trade receivables	4.9	101,087	3,543	89,058	3,372
Other receivables and current assets	4.10	25,405		42,962	
Current financial assets	4.11	131,860	1,276	208,216	8,207
Cash and cash equivalents	4.12	78,836		38,814	
Current assets		**704,222**		**797,177**	
Total assets		**1,511,885**		**1,633,606**	
Share capital		250,009		250,009	
Other reserves		173,703		172,276	
Treasury shares		(2,888)		(2,349)	
Retained earnings		14,395		5,910	
Consolidation reserves*		8,296		98,500	
Reserve for deferred taxes		98		131	
Profit/(loss) for the period		(21,758)		(68,651)	
Equity attributable to owners of the Parent	2.11	421,855		455,826	
Equity attributable to non-controlling interests		2,708		2,529	
Total equity	**2.11**	**424,563**		**458,355**	
Employee benefits	4.14	153,834		152,377	
Deferred tax liabilities	4.20	92,261		121,272	
Financial payables and liabilities	4.15	31,291		139,307	
Other non-current liabilities	4.16	13,361	1,356	11,185	1,180
Provisions for risks and charges	4.17	139,907		140,491	
Non-current liabilities		**430,654**		**564,632**	
Financial payables and liabilities	4.18	398,515	2,685	331,402	2,907
Trade payables	4.19	125,867	67	147,669	688
Other current liabilities	4.19	108,596	232	103,429	580
Provisions for risks and charges	4.17	23,690		28,119	
Current liabilities		**656,668**		**610,619**	
Total equity and liabilities		**1,511,885**		**1,633,606**	

* The consolidation reserves consist of prior years' retained earnings or accumulated losses brought forward, the consolidation reserve and the translation reserves.

Consolidated statement of comprehensive income

(thousands of Euro)	note	1st Half 2009	of which with related parties	1st Half 2008	of which with related parties
Revenue	5.1	898,469	5,217	1,623,093	10,678
Change in inventories of finished goods and semi-finished products		(10,744)		1,680	
Capitalised internal work		617		1,107	
Other operating income	5.2	7,098	209	6,249	3
Purchases and change in raw materials		(539,045)		(1,168,924)	(14)
Personnel expense	5.3	(152,257)		(182,292)	
Amortisation, depreciation and impairment losses	5.4	(28,715)		(26,699)	
Other operating costs	5.5	(189,813)	(2,275)	(175,889)	(3,170)
Operating profit (loss)		**(14,390)**		**78,325**	
Financial income	5.6	11,934	907	7,657	1,923
Financial expense	5.6	(18,194)	(343)	(22,054)	(203)
Share of profit of equity-accounted associates		-		-	
Profit before taxes		**(20,650)**		**63,928**	
Current taxes	5.7	(13,504)		(9,224)	
Deferred taxes	5.7	12,630		(13,053)	
Total income taxes		**(874)**		**(22,277)**	
Profit/(loss) from continuing operations		**(21,524)**		**41,651**	
Profit/(loss) from discontinued operations		-		-	
Profit/(loss) for the period		**(21,524)**		**41,651**	
Other components of total comprehensive income:					
Gains/(losses) on translating the financial statements of foreign operations	2.3	(583)		(243)	
Taxes on other components of total comprehensive income					
Other components of total comprehensive income after taxes		**-**		**-**	
Total comprehensive income for the period		**(22,107)**		**41,408**	
Profit/(loss) for the period attributable to:					
non-controlling interests		234		342	
owners of the Parent		(21,758)		41,309	
Profit/(loss) for the period		**(21,524)**		**41,651**	
Total comprehensive income attributable to:					
non-controlling interests		(54)		(7)	
owners of the Parent		(22,053)		41,415	
Total comprehensive income for the period		**(22,107)**		**41,408**	

Earnings per share (Euro):	1st Half 2009	1st Half 2008
basic earnings/(loss) per share	(0.1036)	0.1666
diluted earnings/(loss) per share	(0.1036)	0.1458

* The consolidation reserves consist of prior years' retained earnings or accumulated losses brought forward, the consolidation reserve and the translation reserves.

Statement of changes in consolidated equity of KME Group S.p.A. at 30 June 2009

(thousands of Euro)	Share capital	Other reserves	Treasury shares	Retained earnings	Consolidation reserves	Reserve for deferred taxes	Profit/ (loss) for the period	Total equity	Non-controlling interests	Total equity attributable to owners of the Parent
Equity at 31.12.2007 IFRS	**324,165**	**96,133**	**(37)**	**5,917**	**68,787**	**194**	**40,774**	**535,933**	**1,690**	**537,623**
Equity at 31.12.2008 IFRS	**247,660**	**172,276**	**-**	**5,910**	**98,500**	**131**	**(68,651)**	**455,826**	**2,528**	**458,354**
Appropriation of Parent's profit/(loss)	-	12,539	-	8,485	-	-	(21,024)	-	-	-
Appropriations of subsidiaries' profits	-	-	-	-	(89,675)	-	89,675	-	-	-
Dividends and allocations to the Board of Directors	-	(11,488)	-	-	-	-	-	(11,488)	-	(11,488)
Distribution of ErgyCapital S.p.A. shares	-	-	-	-	-	-	-	-	-	-
Available reserves	-	-	-	-	-	-	-	-	-	-
Issue of new shares (exercise of warrants)	-	-	-	-	-	-	-	-	-	-
(Purchase) sale of treasury shares	-	-	(539)	-	-	-	-	(539)	-	(539)
Deferred taxes recognised in equity	-	-	-	-	-	(33)	-	(33)	-	(33)
Expiry of stock options	-	376	-	-	-	-	-	376	-	376
Other components of total comprehensive income	-	-	-	-	(529)	-	-	(529)	(54)	(583)
Total losses/income recognised in equity	**-**	**-**	**-**	**-**	**(529)**	**-**	**-**	**(529)**	**(54)**	**(583)**
Profit/(loss) for the period	-	-	-	-	-	-	(21,758)	(21,758)	234	(21,524)
Total comprehensive income	**-**	**-**	**-**	**-**	**(529)**	**-**	**(21,758)**	**(22,287)**	**180**	**(22,107)**
Equity at 30.06.2009 IFRS	**250,009**	**173,703**	**(2,888)**	**14,395**	**8,296**	**98**	**(21,758)**	**421,855**	**2,708**	**424,563**
Reclassification of treasury shares	(2,888)	-	2,888	-	-	-	-	-	-	-
Equity at 30.06.2009 IFRS	**247,121**	**173,703**	**-**	**14,395**	**8,296**	**98**	**(21,758)**	**421,855**	**2,708**	**424,563**

At 30 June 2009 the Parent Company directly held 90,555 savings shares and 5,475,170 no nominal amount ordinary shares. The shares were subsequently reclassified and offset against share capital.

Statement of changes in consolidated equity of KME Group S.p.A. at 30 June 2008

(thousands of Euro)	Share capital	Other reserves	Treasury shares	Retained earnings	Consolidation reserves	Reserve for deferred taxes	Profit/ (loss)for the period	Total equity	Non-controlling interests	Total equity attributable to owners of the Parent
Equity at 31.12.2007 IFRS	**324,165**	**96,133**	**(37)**	**5,917**	**68,787**	**194**	**40,774**	**535,933**	**1,690**	**537,623**
Appropriation of Parent's profit/(loss)	-	12,185	-	130	-	-	(12,315)	-	-	-
Appropriations of subsidiaries' profits	-	-	-	-	28,459	-	(28,459)	-	-	-
Dividends and allocations to the Board of Directors	-	(11,569)	-	-	-	-	-	(11,569)	-	(11,569)
Distribution of ErgyCapital S.p.A. shares	-	(1,645)	-	(137)	-	-	-	(1,782)	-	(1,782)
Available reserves	(74,165)	74,165	-	-	-	-	-	-	-	-
(Purchase) sale of treasury shares	-	-	-	-	-	-	-	-	-	-
Deferred taxes recognised in equity	-	-	-	-	-	(33)	-	(33)	-	(33)
Expiry of stock options	-	1,971	-	-	-	-	-	1,971	-	1,971
Other components of total comprehensive income	-	-	-	-	(236)	-	-	(236)	(7)	(243)
Total losses/income recognised in equity	**-**	**-**	**-**	**-**	**(236)**	**-**	**-**	**(236)**	**(7)**	**(243)**
Profit/(loss) for the period	-	-	-	-	0	-	41,309	41,309	342	41,651
Total comprehensive income	**-**	**-**	**-**	**-**	**(236)**	**-**	**41,309**	**41,073**	**335**	**41,408**
Equity at 30.06.2008 IFRS	**250,000**	**171,240**	**(37)**	**5,910**	**97,010**	**161**	**41,309**	**565,593**	**2,025**	**567,618**
Reclassification of treasury shares	(37)	-	37	-	-	-	-	-	-	-
Equity at 30.06.2008 IFRS	**249,963**	**171,240**	**-**	**5,910**	**97,010**	**161**	**41,309**	**565,593**	**2,025**	**567,618**

At 30 June 2008 the Parent Company directly held 21,166 no nominal amount savings shares. The shares were subsequently reclassified and offset against share capital.

Consolidated cash flow statement indirect method

(thousands of Euro)	1st Half 2009	1st Half 2008
(A) Cash and cash equivalents at the beginning of the year	**38,814**	**93,936**
Profit/(loss) before taxes	(20,651)	63,928
Depreciation and amortisation	28,261	26,905
Impairment losses on current assets	1,133	943
Impairment losses (reversals of impairment losses) on non-current assets other than financial assets	454	(206)
Impairment losses (reversals of impairment losses) on current and non-current financial assets	290	-
Losses (gains) on disposal of non-current assets	(358)	(391)
Change in provisions for pensions, post-employment benefits and stock options	119	1,134
Change in provisions for risks and charges	(5,039)	8,429
Decrease (increase) in inventories	52,189	(30,893)
(Increase) decrease in current receivables	3,750	1,998
Increase (decrease) in current payables	(17,118)	34,671
Changes from currency translation	(1,841)	(226)
Decrease (increase) in LME and metals forward contracts	90,308	(1,450)
Current taxes paid during year	(13,503)	(9,224)
(B) Cash flows from operating activities	**117,994**	**95,618**
(Increase) in non-current property, plant and equipment and intangible assets	(11,849)	(20,531)
Decrease in non-current property, plant and equipment and intangible assets	692	185
(Increase) decrease in investments	(2,027)	(142)
(Increase) decrease in available-for-sale financial assets	-	-
Increase/decrease in other non-current assets/liabilities	1,465	829
Dividends received	1,247	2,010
(C) Cash flows from investing activities	**(10,472)**	**(17,649)**
Cash increase in equity	-	(1,863)
(Purchase) sale of treasury shares	(539)	-
Increase (decrease) in current and non-current financial payables	(23,787)	(36,613)
(Increase) decrease in current and non-current financial receivables	(31,686)	(44,903)
Dividends paid and profits distributed	(11,488)	(11,488)
(D) Cash flows from financing activities	**(67,500)**	**(94,867)**
(E) Change in cash and cash equivalents (B)+(C)+(D)	**40,022**	**(16,898)**
(F) Change in scope of consolidation	**-**	**-**
(G) Cash and cash equivalents at the end of the period (A)+(E)+(F)	**78,836**	**77,038**

The cash flow statement does not separately disclose related party accounts or transactions due to their immateriality.

Accounting policies and notes

1. General information

KME Group S.p.A. ("KME") and its industrial subsidiaries (collectively, the "Group") operate in the semi-finished copper and copper alloy sector.
The Group owns industrial plants in various European countries and sells its products in all the major countries of the world.
KME Group is a joint-stock company registered in Italy on the Florence Companies Registrar, no. 00931330583, and its shares are listed on the *Mercato Azionario Telematico* (Borsa Italiana's electronic market) organised and operated by Borsa Italiana S.p.A..
The condensed interim consolidated financial statements as at and for the six months ended 30 June 2009 were approved by the Board of Directors on 6 August 2009.
Although it is controlled by iNTEk S.p.A., the Company does not consider that its operations are managed and coordinated by iNTEk within the meaning of articles 2497 et seq. of the Italian Civil Code and article 37 of the Market Regulations due to the facts that:

a. it has the autonomous powers of negotiation with respect to contractual arrangements with customers and suppliers;
b. it has not been included in any centralised treasury arrangements operated by iNTEk S.p.A. or another company under iNTEk's control;
c. the number of independent Directors (4 out of 12) is such to ensure that their opinions have a material influence on board decisions.

The cash flow statement for the first half of 2008 has been modified to reclassify variations in LME contracts of Euro 1,450 thousand previously shown as cash flows from financing activities rather than cash flows from operating activities.
The income statement and the statement of changes in equity at 30 June 2008 have also been reclassified in compliance with the revised IAS 1 – Presentation of Financial Statements by including components of total comprehensive income.

2. Accounting policies

2.1 Basis of preparation

The condensed interim consolidated financial statements as at and for the six months ended 30 June 2009 have been prepared in compliance with article 154 *ter* of Legislative Decree 58/1998.
The condensed interim consolidated financial statements have been prepared in compliance with the requirements for measurement and recognition under **International Financial Reporting Standards (IFRS)** issued by the **International Accounting Standards Board (IASB)** and endorsed by the European Commission, in accordance with the procedure set forth in article 6 of Regulation (EC) 1606/2002 of the European Parliament and Council of 19 July 2002, and with IAS 34 - Interim Financial Reporting, as well as the requirements in implementation of article 9 of Legislative Decree 38/2005.
In preparing the condensed interim consolidated financial statements, the Directors have applied the concepts of accruals, going concern, clarity, significance, materiality, reliability, neutrality, prudence and comparability and accounting policies are consistent with those used for the consolidated financial statements as at and for the year ended 31 December 2008, with the exception of the company's compliance with revisions and amendments to standards that became effective for the Company on 1 January 2009.
Specifically:

IAS 1 revised – Presentation of Financial Statements

The revision of the standard introduced the term "total comprehensive income" which encompasses non-owner changes in equity during the period. It is permitted either to present a "statement of comprehensive income", which combines the income statement and all non-owner changes in equity into one statement, or an income statement and a separate statement showing the profit or loss of the year plus other components of comprehensive income.

The Group adopted revised IAS 1 on 1 January 2009 and elected to present all non-owner changes in equity in one single statement for the period entitled the "Consolidated Statement of Comprehensive Income". The Group has consequently varied the presentation of the Statement of Changes in Equity.

As part of IASB's Annual Improvements for 2008, moreover, an amendment to IAS 1 Revised was issued requiring all assets and liabilities, relating to derivative financial instruments designated as hedging instruments, to be classified in the Statement of Financial Position, distinguishing between current and non-current assets and liabilities. Compliance with this amendment, however, has not varied the presentation of assets and liabilities relating to derivative financial instruments, insofar as current and non-current assets and liabilities are concerned as applied by the Group and permitted under IAS 1.

IAS 23 Revised – Borrowing Costs

The revision of IAS 23 entailed the removal of the optional accounting treatment of immediately recognising borrowing costs in profit or loss and the requirement that they be capitalised as part of the purchase, construction or production costs of the relevant asset. In agreement with the transitional arrangements for the revised standard, the Group has applied the revisions prospectively from 1 January 2009 by capitalising borrowing costs directly attributable to the purchase, construction or production of qualifying assets for which the initial investment was made, borrowing costs incurred or for which the preparation of the asset for its specific use or for sale commenced on or after 1 January 2009. Application of the revisions, however, did not result in a material variation in the financial statements for the first half of 2009.

IFRS 8 – Operating segments

IFRS 8 has introduced the concept of "management approach" with respect to segment reporting and requires a change in segment presentation and disclosure in line with information that is provided internally to senior operating management of the Group for the assessment of the performance of each segment for the allocation of resources. A full description of the application of IFRS 8 is contained in note 2.20.

Amendment to IFRS 2 – Vesting Conditions and Cancellations

The amendment to IFRS 2 on vesting conditions and cancellations has clarified the term "vesting conditions". Any features, other than performance and service conditions, of share-based payments are not to be treated as vesting conditions and, consequently, should be included in the grant date fair value of share-based payments. The accounting treatment of cancellations was also addressed by the amendment.

The amendments were applied retrospectively by the Group from 1 January 2009 which had no effect on financial statements due to the fact that the current stock option plan's vesting conditions only consist of performance and service conditions as defined in the amendment and there were no cancellations during the relevant periods.

Improvement to IAS 19 – Employee Benefits

The improvement to IAS 19 – Employee Benefits clarifies the definition of past service cost/benefits and requires that, in the event of any reduction of the plan, amounts immediately recognised in profit or loss may only include the reduction in benefits relating to future periods whereas any reductions relating to past service must be treated as a negative past service cost. The amendment also restated the definitions of short and long-term employee benefits in addition to changing the definition of returns on plan assets by requiring this amount be reported net of any administration costs that are not included in the liability. The amendment is required to be applied prospectively to variations in plans occurring on or after 1 January 2009. There was no material effect on the condensed interim consolidated financial statements as at and for the six months ended 30 June 2009 as a result of application of the amendment.

Improvement to IAS 28 – Investments in Associates

The improvement to IAS 28 – Investments in Associates does not permit impairment losses relating to investments accounted for under the equity method to be allocated against individual assets (particularly goodwill) that make up the carrying amount of the investment, but rather against the total value of the investment. Any future reversal of the impairment loss should, consequently, be for the full amount of the recovery of the investment's value. The Group has elected to apply the amendment prospectively to recoveries from 1 January 2009. Application of the amendment to the standard, however, has had no change on accounting for the first half of 2009 due to the fact that the Group did not recognise any reversals of impairment losses on the goodwill components of the carrying amounts of investments.

The Group has not yet applied those standards listed in note 2.23, which, although issued by the IASB, will only become effective after the end of the reporting period.

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

Specific notes contained in the Directors' Report disclose the formulae and significance of the alternative performance measures, where applicable, which although not required by IFRS, are in compliance with recommendation CESR 05 - 178b published on 3 November 2005.
These condensed interim consolidated financial statements are presented in euros (Euro), the functional currency of the Parent.

2.2 Basis of consolidation

(a) Subsidiaries

Subsidiaries are all those companies over which KME exercises control of financial and operating policies, generally accompanied by exercising more than 50% of the voting rights in corporate bodies.
The assets and liabilities, income and expenses of the subsidiaries consolidated on a line-by-line basis have been included in the consolidated financial statements with the investee's equity being reduced by the net carrying amount of the investee's assets and liabilities on the date that control was acquired. Any difference, if positive, is recognised as "goodwill and consolidation differences" and in profit or loss, if negative. The portion of equity and profit attributable to non-controlling interests is recognised under the relevant items. After initial recognition, goodwill is measured at cost less accumulated impairment losses as required by IAS 36 - Impairment of Assets.
On initial adoption of IFRS, KME Group S.p.A. elected not to retrospectively apply IFRS 3 - Business Combinations as permitted under IFRS 1.
At the IFRS transition date, there were no changes in the scope of consolidation, which, therefore, excludes insignificant subsidiaries and companies, the consolidation of which has no material effect. These are generally companies with operations consisting entirely of sales. Excluding such companies has no material effect on the Group's financial statements so that their omission does not influence the business decisions of the financial statements' users.
Material profits on intercompany trading are eliminated unless realised through sale to third parties. Receivables, payables, income, expenses, guarantees, commitments and risks in connection with transactions

between and among consolidated companies are also eliminated. Intercompany losses are not eliminated as they are deemed to represent the impairment loss on the asset transferred. All financial statements of subsidiaries have been adjusted to assure consistency of accounting policies with those of the Group. The financial year of all consolidated subsidiaries corresponds to the calendar year.

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

Summary of line-by-line consolidated companies

Name	Registered office	Currency	Share capital	Business	% owned direct	% owned indirect
KME Group S.p.A.	Italy	Euro	250,009,678	Finance company	Parent	
KME Germany A.G.	Germany	Euro	142,743,879	Holding company	100.00%	
KME Germany A.G. & Co. K.G.	Germany	Euro	200,003,000	Copper products and its alloys		100.00%
KME Italy S.p.A.	Italy	Euro	103,839,000	Copper products and its alloys	3.7%	96.30%
KME France S.A.S.	France	Euro	15,000,000	Copper products and its alloys		100.00%
KME Spain S.A.	Spain	Euro	1,943,980	Trading		100.00%
KME LOCSA S.A.	Spain	Euro	10,040,000	Copper products and its alloys		100.00%
KME Verwaltungs und Dienst. mit beschr.	Germany	Euro	10,225,838	Copper products and its alloys		100.00%
KME Architectural Metals GmbH*	Germany	Euro	25,564	Holding company		100.00%
Kabelmetal Messing Beteiligungsges mbH Berlin	Germany	Euro	4,514,200	Property company		100.00%
KME Architectural Metals GmbH & CO. K.G.*	Germany	Euro	1,329,359	Copper products and its alloys		100.00%
Cuprum S.A.	Spain	Euro	60,910	Trading		100.00%
Bertram GmbH	Germany	Euro	300,000	Service company		100.00%
KME Ibertubos S.A.	Spain	Euro	332,100	Copper products and its alloys		100.00%
KME Yorkshire Ltd.	UK	GBP	10,014,603	Copper products and its alloys		100.00%
Yorkshire Copper Tube	UK	GBP	3,261,000	Holding company		100.00%
Yorkshire Copper Tube (Exports) Ltd.	UK	GBP	100	Holding company		100.00%
KME Brass Germany Gmbh	Germany	Euro	50,000	Copper products and its alloys		100.00%
KME Brass France S.A.S.	France	Euro	7,800,000	Copper products and its alloys		100.00%
Immobiliare Agricola Limestre S.r.l.	Italy	Euro	3,216,000	Property company	100.00%	
Dalian Dashan Chrystallizer Co. Ltd.	China	RMB	10,000,000	Copper products and its alloys		70.00%
Dalian Surface Machinery Ltd.	China	RMB	5,500,000	Copper products and its alloys		70.00%
Dalian Heavy Industry Machinery Co. Ltd.	China	RMB	10,000,000	Copper products and its alloys		70.00%
KME Brass Italy S.r.l.	Italy	Euro	15,025,000	Copper products and its alloys		100.00%
EM Moulds S.r.l.	Italy	Euro	115,000	Trading		100.00%
KME Recycle S.p.A.	Italy	Euro	2,000,000	Finance company	100.00%	

* Company renamed, formerly Fricke GmbH e Fricke GmbH & Co. K.G.

The scope of consolidation did not change during the first six months of 2009.

(b) Associates

Associates are companies in which KME exercises significant influence but not control. Significant influence is deemed to exist when KME holds, directly or indirectly through subsidiaries, 20% or more of the voting rights in the investee. Investments in associates are consolidated using the equity method.

Under the equity method, the investment is initially recognised at cost and subsequently adjusted to recognise the percentage of post acquisition profits or losses attributable to the Group. Dividends received are deducted from the carrying amount of the investment.
A 30% indirect holding in the company Metalbuyer S.p.A. was acquired on 30 June 2009 through the subsidiary, KME Recycle S.p.A.. The investment was recognised at the end of the reporting period for these condensed interim consolidated financial statements at the provisional amount of Euro 1.9 million. The contractual terms and conditions provide that the purchase price will be definitively determined during the next twelve months.

(c) Joint venture

A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control. Joint control is the contractually agreed sharing of control over an economic activity.
Joint ventures are consolidated using the proportionate method pursuant to IAS 31, paragraphs 30-37.
At the end of the reporting period for these condensed interim consolidated financial statements, the Group was not engaged in any commercial activities under joint control within the meaning of IAS 31.

2.3 Transactions in foreign currencies

(a) Functional and presentation currency

All amounts are expressed in euros, which is also the Parent's functional currency.

(b) Translation of financial statements of foreign operations

Financial statements in currencies other than the euro are translated using the average exchange rates for the period for statement of comprehensive income and the relevant closing rate of exchange for statements of financial position.
The exchange rates used for the translation of foreign currencies are those fixed by the European Central Bank at the end of the reporting period, as follows:

Euro 1	equal to GBP	0.9525	31 December 2008
Euro 1	equal to GBP	0.8521	30 June 2009 used for translation of the statement of financial position captions
Euro 1	equal to GBP	0.8955	2009 average used for translation of statement of comprehensive income captions
Euro 1	equal to RMB	9.4956	31 December 2008
Euro 1	equal to RMB	9.6545	30 June 2009 used for translation of the statement of financial position captions
Euro 1	equal to RMB	9.1368	2009 average used for translation of statement of comprehensive income captions

The difference between the profit for the period resulting from translation using the average rates for the year and that which results from the translation using the rates at 30 June 2009, were recognised in the consolidation reserves and in equity attributable to non-controlling interests for the portion attributable to owners of the Parent and non-controlling interests, respectively. These differences, in the event of disposal, will be recognised in profit or loss together with any other gains or losses relating to the disposal of the relevant investment.

2.4 Property, plant and equipment

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

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

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

Depreciation rates are based on the useful life of the relevant class of assets as determined by the firm, American Appraisal. Useful lives were changed with effect from 1 January 2004 and applied to property, plant and equipment for which cost was restated to fair value on the date of transition to IFRS; the useful lives of assets were changed with effect from 1 January 2005.

Depreciation is charged based on the following useful lives:

Buildings	from 25 to 50 years
Plant and machinery	from 10 to 30 years
Other equipment	from 5 to 15 years

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

Replacement parts of significant value are capitalised and depreciated based on the useful life of the asset to which they refer; low value replacement parts are charged to the income statement when the expense is incurred.

The cost of internally produced assets includes material costs and direct labour plus any other directly attributable costs incurred in bringing the asset to its intended location and preparing it for its intended use.

Assets acquired under finance leases are recognised as property, plant and equipment with a balancing entry under payables. The cost of the lease is separated into two components: financial expense, recognised in profit or loss and repayment of principal, recognised as a reduction of borrowings. Assets held under finance leases are recognised at the lower of cost and the present value of minimum lease payments at the inception of the lease. Assets held under finance leases are depreciated over the shorter of the lease term and their useful lives unless there is reasonable certainty that the Company will obtain title to the asset on the end of the lease.

Property, plant and equipment is tested for impairment whenever there is specific objective evidence of impairment. The test involves estimating the recoverable amount of the asset, defined as the higher of fair value less costs to sell and value in use, and comparison of the appropriate value with carrying amount. The recoverable amount is the greater of value in use and fair value less costs to sell. Value in use is determined by discounting projected cash flows at a before tax discount rate that reflects current market estimates of the time value of money and the risks associated with the relevant asset. To the extent that the recoverable amount is less than the carrying amount, the carrying amount is reduced to the recoverable amount with the difference either being recognised in profit or loss or to a revaluation reserve created on the revaluation of the same asset. Subsequent revaluations are treated analogously. Information regarding impairment tests with respect to the preparation of these condensed interim consolidated financial statements is contained in the following note on intangible assets.

2.5 Intangible assets

(a) Goodwill

Goodwill is the difference between the acquisition cost of investments and the fair value of the subsidiaries' assets, liabilities and contingent liabilities at the acquisition date. Goodwill and other intangible assets with indefinite useful lives are not normally amortised. Recoverability of their carrying amounts is, however, tested annually and whenever there is objective evidence of impairment. Any impairment losses recognised are not subsequently reversed.

The severe crisis in the real economy and its repercussions on business in the first six months of 2009 are considered impairment indicators. In this environment and for the purposes of the condensed interim consolidated financial statements as at and for the six months ended 30 June 2009 and, more particularly, for the purpose of impairment testing, the Directors have based their tests on expected trends for 2009 and the outlook for subsequent years up to and including 2013. The Directors have prudently modified the 2006-2010 business plan to adjust for the radical economic, financial and market changes that led to the crisis. Based on the modified plans as approved by the Board of Directors, there is no need to recognise impairment losses due to the fact that consolidated equity is within the base case range of values that emerged even by using process simulation second sensitivity analyses. The impairment tests were based on a gross discount rate of 13.6% and perpetuity growth rate of 2.0%. The discount rate has been affected by the changed economic environment as a result of the increased risk premium.

(b) Other intangible assets with indefinite lives

An intangible asset is an identifiable asset without physical substance that is controlled by an entity and is capable of producing future economic benefits.

Intangible assets can be acquired by the Company through:

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

In the first two instances, intangible assets are recognised initially at cost or fair value, including directly attributable expenses. They are then systematically amortised over their residual useful life, which is the period over which the assets will be used by the Company, generally between 3 and 5 years. In addition, these assets are carried net of any impairment losses, in line with the accounting treatment for property, plant and equipment. The residual value of intangible assets at the end of their useful life is assumed to be zero.

Internally produced assets are capitalised only if the conditions established by IAS 38, paragraph 57 are met.

2.6 Investment property

Investment property is land and buildings held to generate rental income or for capital appreciation or for both, rather than being held for sale in the normal course of the Company's business. Such property is not held for the production or supply of the goods and services relating to the Company's core business. These assets are initially recognised at fair value with any subsequent changes recognised in profit or loss and scheduled depreciation, consequently, is not charged.

The fair value of investment property was appraised last year by recognised and suitably qualified professionals with recent experience in the location and with the type of investment property being appraised.

At the end of the reporting period for these condensed interim consolidated financial statements, on the other hand, fair value was internally appraised.

2.7 Financial assets and liabilities

For the reasons explained in note 2.2, investments in unconsolidated subsidiaries are carried at cost less accumulated impairment losses.
Other investments are recognised at fair value through equity. When fair value cannot be reliably determined, the investments are measured at cost adjusted for accumulated impairment losses.
Non-derivative financial assets with fixed or determinable payments or payments which have a specific due date, that the company intends and has the ability to hold until maturity, are designated as "assets held to maturity". The assets included in this category are measured under the amortised cost method based on the effective interest method pursuant to IAS 39.
Financial assets and liabilities acquired or held mainly to be sold or repurchased in the short term and derivative financial instruments not designated as hedging instruments are classified as "financial assets recognised at fair value through profit or loss" with indication of those that were classified as such on their initial recognition (fair value option). These assets are measured at fair value through profit or loss. This category also includes LME contracts and all metal forward buyer and seller contracts used to hedge raw material price risk less contracts used to estimate the realisable value of inventories.

Non-derivative financial assets and liabilities, with the exception of equity instruments, with fixed or determinable payments, not listed on an active market which are not included in any of the above categories, are classified as "loans and receivables" and are carried at amortised cost using the effective interest method. The amortised cost of current loans and receivables and all trade and current payables and receivables, for which the passage of time has little effect, is deemed to correspond to their fair value.
All other non-derivative financial assets which are not classified in one of the three categories above are classified as "available-for-sale financial assets" and measured at fair value directly in equity with the exception of any impairment losses.
Treasury shares are measured at historical cost and recognised as a reduction of consolidated equity. In the event of sale, reissue or cancellation, the consequent gains and losses are recognised directly in equity.

Determination of impairment losses

All financial assets and liabilities, with the exception of "financial assets and liabilities through profit or loss at fair value", are tested for impairment in accordance with IAS 39, paragraphs 58-70.
A financial asset is impaired when there is objective evidence that one or more events have had an adverse effect on the estimated future cash flows deriving from that asset.

An impairment loss on a financial asset carried at amortised cost is the difference between the carrying amount and the present value of projected future cash flows discounted at the original effective interest rate. An impairment loss on an available-for-sale financial asset is determined with reference to the fair value of the asset.

All impairment losses are recognised in profit or loss. Any cumulative losses on available-for-sale financial assets previously recognised in equity are eliminated from equity on realisation and recognised in profit or loss.

Impairment losses are reversed to the extent that the fair value of an asset increases and the increase can be objectively related to an event occurring after recognition of the impairment loss in profit or loss. Reversals of impairment losses on assets carried at amortised cost and available-for-sale assets, which are debt instruments, are recognised in profit or loss.

Measurement at fair value

The fair value of financial assets and liabilities at fair value through profit or loss and available-for-sale assets on initial recognition is determined on the basis of the transaction price and is, therefore, equal to the amount paid or received.

Subsequently, and at the end of each reporting period, the fair value of financial instruments listed on an active market is based on market prices. The market prices used for derivatives are the bid prices, whereas ask prices are used for financial liabilities. The fair value of instruments that are not listed on an active market is determined using measurement techniques, based on a series of methods and assumptions relating to market conditions at the end of the reporting period. The fair value of interest rate swaps is calculated with reference to the present value of expected future cash flows. The fair value of forward currency contracts is determined with reference to the forward exchange rate at the end of the reporting period.

Fair value adjustments of derivative instruments not classified as hedging instruments are immediately recognised in profit or loss.

The fair value of non-derivative financial instruments is determined by discounting future cash flows at the market interest rate of the end of the reporting period.

The fair value of price fixing copper buyer and seller contracts is determined with reference to the market price at the end of the reporting period of the contract's metal component compared to the contract price. Fair value also reflects counterparty risk and the time value of money through discounting.

2.8 Factoring of receivables

KME Group sells a significant portion of its trade receivables to factoring companies. These sales can be either with or without recourse. Non-recourse factoring of receivables by the Group are made as required by IAS 39 for the derecognition of assets, since essentially all risks and benefits have been transferred. Factorage on non-recourse sales of receivables is reported under "other operating costs". In the event that transactions do not fulfil the requirements of IAS 39, for example receivables sold with recourse, the receivables remain on the face of the Group's balance sheet even though title has legally passed, and a liability of equal amount is recognised in the consolidated balance sheet. Factorage for receivables sold with recourse is reported under financial expenses.

2.9 Inventories

Goods for resale are measured at the lower of purchase or production cost, including incidental expenses, and estimated realisable value. The cost of inventories generally includes costs incurred to bring the inventories to their current place and condition.

The carrying amount of metals and production costs are treated differently:

- Metal (including the metal recorded under work in progress and finished goods) is measured at the average weighted cost for each quarter. That amount is written down at the end of the period to realisable value. Realisable value is the estimated price in the normal course of business of the asset and is based on the most reliable information to hand when estimations of realisable value are made. Estimations take the reason inventories are held into account. Inventories, consequently, held for resale are determined with reference to resale prices agreed with customers. The realisable value of inventories that, on the other hand, are not held for resale but are permanently held in inventories as strategic metal reserves is estimated with reference to current selling prices. The Group is of the opinion that the best estimate of current selling price is the LME official average price plus incidentals for June or, if lower, the official average price for July.

- Production cost of work in progress and finished goods, measured at weighted average cost on a quarterly basis, includes directly attributable incidental expenses and the portion of any indirect costs that can reasonably be allocated to the product, which, however, exclude administrative and selling expenses and financial expense. The absorption of general expenses in production costs is based on normal production capacity.

The services content of contract work in progress is measured with respect to the agreed sales price less selling costs.
Supplies and consumables are measured at weighted average cost.

2.10 Cash and cash equivalents

Cash and cash equivalents include cash, demand deposits and highly liquid short-term financial investments that are readily convertible into cash and which are subject to an insignificant risk of changes in value (IAS 7, paragraph 45).

2.11 Equity

The share capital consists of ordinary and savings shares with no nominal amount, fully subscribed and paid up at the end of this reporting period, reduced by any unpaid calls on capital. As required by IAS 32, the value of treasury shares is reported as a reduction of subscribed share capital, whilst any premium or discount on the nominal amount is recognised as an adjustment to other components of equity. Such adjustments are reported in the notes, whilst the historical cost of treasury shares is reported on the face of the consolidated statement of financial position with a minus sign as a reduction of equity.
The reserve for treasury shares is no longer held due to the change in presentation introduced by IFRS. The existing balance of the reserve was, consequently, reclassified to the relevant, specific reserves that had been used to create it.
Costs of equity transactions have been charged directly to equity reserves with preference given to the share premium reserve.

2.12 Receivables and payables

Receivables and payables are recognised at amortised cost. When the difference between present and nominal amount is insignificant such as for current trade receivables and payables, they are recognised at their nominal amount.

2.13 Current and deferred taxes

Tax expense for the period includes both current and deferred taxation. Income taxes are recognised in profit or loss unless relating to transactions recognised directly in equity in which case the relevant tax is also recognised directly in equity.
Current taxes are the estimated tax payable computed on taxable income for the period as determined with reference to current tax rates and those substantially in effect at the end of the reporting period.

Deferred taxes are provisioned on temporary differences between the carrying amounts of the assets and liabilities and the corresponding amounts recognised for tax purposes. Deferred taxes are not provided for the following temporary differences: initial recognition of assets and liabilities for transactions other than business combinations that have no effect on either on accounting profit or loss or tax profit or loss; differences relating to investments in subsidiaries and joint ventures to the extent that the difference is not likely to reverse in the foreseeable future. The Group also does not recognise deferred tax liabilities arising on the initial recognition of goodwill. Deferred tax assets and liabilities are measured with reference to tax rates that it is believed will be in effect in the period in which the underlying asset will be recovered or liability paid, based on tax rates in effect or substantially in effect at the end of the reporting period. There is an offset of deferred tax assets and liabilities whenever there is a legal right of offset of current tax assets and liabilities, and if the deferred tax asset or liability relates to income taxes assessed by the same tax authority on the same tax paying entity, or differing tax paying entities intending to settle the current tax asset or liability on a net basis or to simultaneously recover the asset and pay the liability.
Deferred tax assets are recognised to the extent that it is likely that there will be sufficient future taxable income to use the related tax credit. The carrying amounts of deferred tax assets are tested at the end of each reporting period and are reduced to the extent that the underlying tax asset is not likely to be recoverable.

2.14 Employee benefits

Post-employment benefits are payable under plans which, depending on their terms and conditions, are classified either as "defined contribution" or "defined benefit plans". The Company's liability under defined contribution plans is limited to the payment of contributions to a separate legal entity (including the Government or a fund), and consists of contributions due at the end of the reporting period. Liabilities under defined benefit plans, such as post-employment benefits, pursuant to article 2120 of the Italian Civil Code, less any plan assets, is determined on the basis of actuarial assumptions and accrued with reference to the length of service required for benefits to become vested. Actuarial gains and losses relating to defined benefit plans deriving from changes in actuarial assumptions or plan terms and conditions are prorated to profit or loss using the corridor method, which entails recognition of the net amount of actuarial gains and losses not recorded at the end of the previous period exceeding the greater of 10% of the present value of the obligation and 10% of the fair value of any plan assets.
Law 296 of 27 December 2006 and subsequent decrees and orders promulgated in 2007 to reform the pension system introduced significant changes to the identity of institutions holding post-employment benefit plan assets prior to the payment of benefits. Employees may now elect either for contributions to be paid to supplementary pension plans or to be held in the company (companies with less than 50 employees) or transferred to INPS (companies with more than 50 employees). Based on the generally held interpretation of these rules, the Group believes that:

- post-employment benefits vested at 31 December 2006 but not yet paid at the end of the reporting period are to be classified as defined benefit plans and measured by actuarial methods without, however, including the component relating to future pay increases;

- contributions payable both to supplementary pension schemes and INPS for post-employment benefits vesting subsequent to that date are to be classified as defined contribution plans excluding, however, for the purposes of accruing the liability, the actuarial component.

The measurement of defined benefits plans has been carried out by independent actuaries.

2.15 Provisions for risks and charges

Provisions for risks and charges are liabilities the amount or timing of which are uncertain. Such provisions are only recognised to the extent that:

1. the Group has a current (legal or constructive) obligation as a result of a past event;
2. it is probable that resources will be needed to produce economic benefits to meet the obligation;
3. it is possible to make a reliable estimate of the amount of the obligation.

The amounts provided are, therefore, the best estimates of the expenses needed to settle the obligation or transfer it to third parties at the end of the reporting period. Where the difference between the present and future value of the provision is significant, the provision is stated at the present value of the payment required to settle the obligation.
Provisions for restructuring costs are recognised only if the Group has a formal detailed plan showing at a minimum: the operations and main operating units concerned, the costs to be incurred, the approximate number of employees involved and to the extent that interested third parties reasonably expect that the entity will restructure because it has already commenced or because a public announcement in that regard has been made.

2.16 Revenue recognition

Revenue from the sale of goods and services is measured at the fair value of the consideration received or receivable, adjusting for any returns, rebates and sales or volume discounts. Revenue is recognised when the significant risks and rewards of ownership of the goods have been transferred to the buyer, when the recoverability of the consideration is probable and the relevant costs or any returned goods can be reliably estimated.
Although transfer of the risks and rewards of ownership vary depending on terms and conditions of contract, it normally occurs on the physical delivery of the goods. Service revenues, such as work performed for customers, are recognised on the basis of the stage of completion of such work at the end of the reporting period, which is then measured with respect to the amount of work performed.

2.17 Leases

Leases are arrangements by which the lessor transfers the right to use an asset for an agreed period of time to the lessee in exchange for payment or a series of payments. Lease arrangements that essentially transfer all risks and rewards deriving from ownership of the asset are defined as "finance leases" even if title does not pass at the end of the lease. Finance leases are recognised as required by IAS 17, paragraphs 20-32.
Operating leases are defined as any arrangement for the lease of assets that is not a finance lease.

2.18 Financial income and expense

Financial income includes interest income from cash invested, exchange rate gains, dividends, guarantee fees received, gains on disposal of available-for-sale financial assets, increases in the fair value of assets held for trading and derivatives, except for increases in the fair value of LME contracts and metals forwards,

which are reported under "other operating costs". Dividends are recognised only when the shareholders' right to receive payment has been established.
Financial expense includes loan interest expense, exchange rate losses, guarantee fees expense, losses on the disposal of available-for-sale financial assets, factorage paid with respect to factoring of receivables with recourse, decreases in the fair value of assets held for trading and derivatives except for the increase in fair value of LME contracts and metals forwards which are reported under "other operating costs".

2.19 Stock options

Personnel expense includes stock options awarded to executive members of KME Group S.p.A., board directors and certain other group executives, consistent with the nature of compensation paid. The fair value of stock options has been determined by the option value at the award date by applying the Black & Scholes model which includes variables relating to the conditions of exercise, current share value, exercise price, duration of the option, dividends and expected volatility and the risk-free interest rate. The cost of stock options is recognised together with a balancing entry in equity under "Reserve for stock options".

2.20 Segment information

KME Group only operates in one segment. The Group, however, provides information by line of business (construction and industrial materials), which do not conform with IFRS 8 operating segments. This is the reason that the note is not entitled "operating segments".
The Group's lines of business can be aggregated by:

a) the nature of products and services;
b) the nature of the production processes;
c) type or class of customers for the Group's products and services;
d) the methods used to distribute products;
d) the nature of the regulatory environment,

and are, therefore, one operating segment within the meaning of IFRS 8.

The Directors of the Company believe that the similarity of its products and the facts listed above, including the nature of the Company's products (semi-finished products for industry and construction), a significant proportion of production (foundry, extrusion and rolling), the market and distribution methods are all common to the segment in which the KME Group operates.

2.21 Earnings/(loss) per share

Basic and diluted earnings/(loss) per ordinary share are calculated in the following manner:

1. the numerator is equal to profit attributable to owners of the Parent, adjusted by the profit or loss that is to be set aside, for the current period, for savings shares in issue less any treasury shares held directly or through subsidiaries;

2. the denominator of "basic earnings per share" is the weighted average of the ordinary shares in issue during the period less ordinary treasury shares;
3. the denominator of "diluted earnings per share" is the weighted average of the ordinary shares adjusted by adding the maximum number of any new shares that could be issued through:
   - conversion of all outstanding warrants;
   - exercise of all stock options outstanding.

For this calculation, it was assumed that warrants were converted and stock options exercised at the beginning of the period and that the conversion and exercise did not result in increased income or decreased expenses.
Basic loss per share at 30 June 2009 was calculated by taking the net loss of the Group of Euro 21.7 million (Euro 68.6 million for 2008) less any amounts owing to savings shareholders, attributable to ordinary shareholders and the weighted average of ordinary shares outstanding of 230,014,175 (235,483,822 for 2008). Diluted loss per share was calculated as required by IAS 33, paras. 36 *et seq.*

2.22 Use of estimates

The preparation of the condensed interim consolidated financial statements and notes in accordance with IFRS required the Directors to make estimates and assumptions which influenced the amounts reported under balance sheet assets and liabilities.
Estimates are primarily made to determine the fair value of investment property, LME contracts and price fixing metal buyer and seller contracts recognised as financial instruments, the useful lives of non-current assets, provisions for impairment, to determine any impairment losses, the cost of employee benefits, the estimated current and deferred tax charge, estimated restructuring provisions, the indefinite useful lives of intangible assets and other provisions and allowances.
These estimates and assumptions are periodically reviewed and any variations are immediately recognised in profit or loss. At the end of the reporting period, the Directors were of the opinion that the estimates and assumptions used were the best indicators of the actual amounts given the information to hand. In addition, the Directors believed that the estimates and assumptions adopted did not imply any material adjustments to carrying amounts of assets and liabilities.

2.23 Accounting standards not yet applied

Certain new standards, revisions to standards and interpretations in issue at 30 June 2009 that are relevant to the Group had not yet become effective and were not used to prepare this condensed interim consolidated financial statements.

The most important included:

1. **IFRS 3 Business Combinations** (revised 2008) has introduced the following changes which are expected to be relevant to the Group:
- the definition of "business" has been widened so that an increased number of acquisitions will be required to be treated as business combinations;
- it will be necessary to recognise contingent consideration at fair value and subsequent changes in fair value in profit or loss;
- unlike the cost of issuing shares or debt certificates, acquisition-related costs for business combinations

will be required to be recognised in profit or loss when incurred;

- in the event that control of a company is acquired in which a minority shareholding was previously held, it will be necessary to re-measure the previously-held equity interest in the acquiree at acquisition date fair value and recognise any resulting gain or loss in profit or loss;
- any minority equity interests held will be required to be recognised, depending on the nature of the equity interest, either at fair value or proportionate to the identifiable assets and liabilities acquired.

IFRS 3 (revised), which will become mandatory for the Group from 1 July 2009, will be applied prospectively.

2. **IAS 27 Consolidated and Separate Financial Statements** (revised 2008) requires changes in a parent's ownership interests in a subsidiary that do not result in a loss of control to be accounted for within equity. In the event control is lost but an equity interest in the company is maintained, the remaining equity interest must be recognised at fair value from the date control is lost and any gain or loss must be recognised in profit or loss. It is not anticipated that the revision to IAS 27, which will become mandatory for the Group from the consolidated financial statements as at and for the year ending 31 December 2010, will have a material effect on the Group's consolidated financial statements.

3. **IFRS 7 Financial instruments: disclosures.** The IASB issued an amendment to IFRS 7 in March 2009 to enhance disclosures on fair value measurements and liquidity risk. At the date of presenting these condensed interim consolidated financial statements, the European Union had not yet endorsed the amendment.

4. As part of IASB's Annual Improvements for 2008, **IFRS 5 – Non-current Assets Held for Sale and Discontinued Operations** was modified to require companies with committed plans to dispose of equity interests that will result in the loss of control of an investee to reclassify all of the subsidiary's assets and liabilities as available-for-sale, notwithstanding the fact that the company will still have a minority equity interest in the subsidiary subsequent to the planned disposal. The modification will be applied prospectively from 1 January 2010.

5. On 27 November 2008, the IFRIC issued interpretation **IFRIC 17 – Distributions of Non-cash Assets to Owners** in order to assure the uniformity of the accounting treatment of non-cash distributions to shareholders. The interpretation clarifies that a dividend payable should be recognised when the dividend is appropriately authorised and should be measured at the fair value of the assets to be distributed. In addition, an entity should recognise the difference between the dividend paid and the carrying amount of the net assets distributed in profit or loss. The interpretation is required to be applied prospectively from 1 January 2010. At the date of presentation of these condensed interim consolidated financial statements, the relevant bodies of the European Union had not yet completed the procedures required for the endorsement of the interpretation.

6. **IFRS 2 – Share-based Payment (improvement)**: the amendment which must be applied from 1 January 2010 (earlier adoption is permitted) clarified that as a result of the change to the definition of business combinations under IFRS 3, contributions of a business on formation of a joint venture and common control transactions are not within the scope of IFRS 2.

7. **IFRS 5 – Non-current Assets Held for Sale and Discontinued Operations (improvement)**: the amendment, which is required to be applied prospectively from 1 January 2010 clarified that IFRS 5 and other IFRS specifically referring to non-current assets (or disposal groups) classified as available-for-sale or discontinued operations should contain all of the disclosures required for these types of assets and transactions.

8. **IAS 7 – Statement of Cash Flows**: the amendment, which is required to be applied from 1 January 2010, requires that expenditure resulting in a recognised asset can be classified as cash flow from investing

activities, whereas expenditure not resulting in a recognised asset (as could be the case for advertising and personnel training expenditure) must be classified as cash flow from operating activities.

9. **IAS 17 – Leases**: as a result of a revision to IAS 17, leasehold landed property will also be subject to the test under IAS 17 for the purposes of classifying the lease either as an operating or a finance lease, regardless of whether title passes on the expiry of the lease. Prior to these changes, the standard required that if the land title to leasehold property did not pass on expiry of the lease, the lease would be classified as an operating lease with an indefinite useful life. The amendment is required to be applied from 1 January 2010. All existing land held under leases which have not expired at the date of adoption are required to be separately measured with any retrospective recognition of a new lease accounted for as if the lease was a finance lease.

10. **IAS 36 – Impairment of Assets**: the amendment, which is required to be applied prospectively from 1 January 2010, requires that all operating segments or aggregations of operating units to which goodwill is attributed for the purposes of impairment testing may not be larger than an operating segment as defined by paragraph 5 of IFRS 8, before the aggregation permitted under paragraph 12 of IFRS 8 for segments engaging in similar business activities or having other similarities.

11. **IAS 38 - Intangible assets**: the 2008 revisions to IFRS 3 require, subject to the availability of sufficient information, the measurement at fair value of an intangible asset that was acquired in a business combination, to the extent that the intangible asset is separately identifiable or was derived from rights under contract or law. IAS 38 was consequently amended to reflect the revision of IFRS 3. The amendment also clarified the description of measurement techniques commonly used by entities when measuring the fair value of intangible assets acquired in a business combination that are not traded in active markets. Specifically, the measurement techniques can either include the net present value of projected cash flows generated by the asset, estimated avoided costs through possession of the asset which is not required to be used under licence or the costs required to recreate or replace the asset (similar to the cost method). The amendment is required to be applied prospectively from 1 January 2010. If, however, IFRS 3 revised is applied at an earlier date, application of this amendment should also be brought forward.

12. **IAS 39 - Financial instruments**: recognition and measurement: this amendment clarifies the standard's definition of an underlying that is hedged in certain circumstances. The amendment is required to be applied prospectively from 1 January 2010.

At the date of presentation of these condensed interim consolidated financial statements, the relevant bodies of the European Union had not yet completed the procedures required for the endorsement of the above improvements.

The other standards and interpretations (IFRIC 9 "Reassessment of Embedded Derivatives, IFRIC 17 Distribution of Non-cash Assets to Owners, IFRIC 18 "Transfers of Assets from Customers", IFRIC 13 "Customer Loyalty Programmes", IFRIC 15 "Agreements for the Construction of Real Estate", IFRIC 16 "Hedges of a Net Investment in a Foreign Operation") that have been issued or amended are either not applicable to the Group, or relate to matters that were irrelevant at the date of presentation of these condensed interim consolidated financial statements.

3. Financial risk management policy

The Group is subject to a number of operating and financial risks in the normal course of its business. Group policy is to eliminate or at least minimise such risks through hedging strategies. The Group, therefore, has formal procedures for the determination of objectives and procedures for hedging: credit, liquidity, currency, interest rate risks and above all raw materials price risk.

Types of risk:

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

b) liquidity risk: liquidity risk can arise from the inability to raise working capital financing as and when required. All inflows and outflows and cash balances of Group companies are centrally monitored and managed by Group Treasury;

c) currency risk: the Group operates internationally and it engages in transactions in a number of currencies and interest rates. The exposure to currency risk arises primarily from the geographic location of the markets on which the Group sells its products. It is Group policy to hedge all of the above risks through derivative financial instruments such as cross currency swaps and forward contracts;

d) interest rate risk: interest rate risk to which the Group is exposed arises primarily in connection with long-term loans. Variable rate loans expose the Group to a cash flow risk, while fixed rate loans imply assumption of the risk of a change in fair value. The Group manages part of the interest rate risk through IRS (interest rate swaps) which convert variable into fixed interest rates;

e) raw materials (particularly copper) price risk: this is the most significant and strategic of the risks to which the Group is exposed. The objective is to fully hedge this risk through trading in physicals or forward contracts on the London Metal Exchange (LME). Specifically, all metal price fixing buyer and seller contracts are netted daily and the change in the net open position is generally hedged by LME contracts so that the company is not exposed to overnight price risk. LME contracts are normally paper deals (i.e., settled through the payment of differentials), whereas trading in physicals may require delivery of the actual commodity, finished goods or semi-finished product. In fact, both types of transaction are considered to be trading in physical goods which, however, may be settled through: cash payments of differentials, writing another contract or trading in financial instruments. This is also the case for price fixing seller and buyer contracts with customers and suppliers which, although normally settled by physical delivery, may also be settled prior to the delivery date by squaring positions and can also be used to take advantage of opportunities on the market which would otherwise have to be ignored without, however, making physical delivery of the commodity. The concept of similarity and neutrality for LME and physical goods trading is supported by:
- having analogous methods of execution (physical or payment of differentials);
- the fact that they both have the same reference price (LME quotation);
- the fact that they are managed through only one risk management position, changes in which are linked to operational factors, and only one administrative and accounting system;
- reliably determining fair value.

The fact that both LME contracts and customer and supplier contracts may both be settled through payment of differential market prices means that, in accordance with paragraph 6b of IAS 39, metals buyer and seller contracts can, like financial instruments, be accounted for at fair value with changes in fair value recognised in profit or loss under "other operating costs".

All derivative financial instruments used by the Group are designated as hedging instruments within the meaning of IAS 39, even though they were acquired to manage the aforementioned risks (please refer to paragraph 2.7).

In any case, the Group does not trade in financial derivatives for speculative purposes, even though it does not account for the financial instruments in accordance with hedge accounting rules, as these transactions do not meet the conditions set out in IAS 39.

4. Notes to the condensed interim consolidated financial statements

4.1 Property, plant and equipment

(thousands of Euro)	Land	Buildings	Plant and equipment	Other assets	Assets under construction	Total
31 December 2008						
Closing historical cost	56,906	196,821	925,227	154,794	26,310	1,360,058
Accumulated depreciation and impairment losses	130	102,576	527,752	113,513	-	743,971
Closing net carrying amount	56,776	94,245	397,475	41,281	26,310	616,087
30 June 2009						
Opening historical cost	56,906	196,821	925,227	154,794	26,310	1,360,058
Translation differences	320	286	5,981	182	98	6,867
Change in scope of consolidation					-	-
Increases		939	1,958	525	7,837	11,259
Reclassifications		1,324	5,367	494	(7,185)	-
Decreases	(18)	(236)	(2,689)	(1,129)	(66)	(4,138)
Closing historical cost	57,208	199,134	935,844	154,866	26,994	1,374,046
30 June 2009						
Accumulated depreciation and impairment losses	130	102,576	527,752	113,513	-	743,971
Translation differences	(1)	24	5,273	171	-	5,467
Change in scope of consolidation					-	-
Depreciation	5	3,697	21,161	3,450	-	28,313
Impairment losses/(reversals of impairment losses)					-	-
Reclassifications					-	-
Decreases		(170)	(2,910)	(1,053)	-	(4,133)
Accumulated depreciation and impairment losses	134	106,127	551,276	116,081	-	773,618
30 June 2009						
Closing historical cost	57,208	199,134	935,844	154,866	26,994	1,374,046
Accumulated depreciation and impairment losses	134	106,127	551,276	116,081	-	773,618
Closing net carrying amount	57,074	93,007	384,568	38,785	26,994	600,428
of which finance leases:	**1,300**	**3,597**		**71**		**4,968**

Property, plant and equipment by geographical segment:

Geographical segment (millions of Euro)	June 2009		2008	
		%		%
Germany	281.0	46.8	287.9	46.7
Italy	232.0	38.7	237.3	38.5
France	50.0	8.3	53.4	8.8
United Kingdom	16.0	2.7	12.6	2.0
Spain	19.0	3.2	20.4	3.3
China	2.0	0.3	4.4	0.7
Total	**600.0**	**100.0**	**616.0**	**100.0**

Property, plant and equipment with a net carrying amount of Euro 272,3 million were used as security under the terms of a loan agreement signed in 2006.

The most significant investments during the period are contained in the Directors' Report.

Assets held under finance leases include the "Firenze Novoli" building, which houses the Group's headquarters (Euro 5.0 million) and certain equipment and telephone installations (Euro 0.1 million) held by the subsidiary, KME Germany A.G. & Co. K.G.. The lease for this building contains two purchase options exercisable on 30 September 2009 and 30 September 2016.

Future minimum payments under finance leases at the end of the reporting period and the relevant present value are shown below:

(thousands of Euro)	within 1 year	between 1 and 5 years	due after 5 years	Total at 30.06.2009
Minimum lease payments	480	1,594	2,900	4,974
Interest	9	230	905	1,144
Present value	471	1,364	1,995	3,830

previous year:

(thousands of Euro)	within 1 year	between 1 and 5 years	due after 5 years	Total at 30.06.2008
Minimum lease payments	508	1,621	3,099	5,228
Interest	10	231	1,007	1,248
Present value	498	1,390	2,092	3,980

4.2 Investment property

(thousands of Euro)	Investment property measured at fair value
Carrying amount at 01.01.2009	**22,612**
Acquisitions	-
Capitalised expenditure	-
Business combinations	-
Disposals	-
Changes in fair value	(236)
Changes of use	-
Other changes	-
Carrying amount at 30.06.2009	**22,376**

Investment property consists of land and buildings belonging to Immobiliare Agricola Limestre S.r.l. and KME Italy S.p.A.. The properties are held to either to earn rental income or for the appreciation of invested capital and are carried at fair value. Changes in fair value recognised during the six months relate to a revaluation of land and buildings based on an in-house appraisal.
The following amounts were recognised in profit or loss during the six months:

- rental income of Euro 0.1 million;
- operating costs directly relating to the properties of Euro 0.3 million.

4.3 Goodwill and consolidation differences

This amount consists of:

- the carrying amount of goodwill equal to Euro 315 thousand relating to the acquisition by the German subsidiary KME Architectural Metals GmbH & Co. K.G. in the previous year of two copper divisions, consisting of plant and equipment, trade receivables and inventories;
- consolidation differences of Euro 114,582 thousand.

During the first half of 2009 consolidation differences remained unchanged. Goodwill and consolidation differences are tested for impairment based on the recoverable amount determined by estimating value in use.

Even though the Group's business primarily relates to products for industry and construction, these areas are not considered operating segments within the meaning of IFRS 8 due to the fact that the nature of the products, production processes, the assets used for the production processes and the methods of distribution are substantially the same. As a result, goodwill has been allocated to the Company's only operating segment, which is substantially in line with the scope of consolidation of the subsidiary, KME Germany A.G..

Information on impairment testing at 30 June 2009 is contained in note 2.5.

4.4 Other intangible assets

(thousands of Euro)	Other assets	Assets under development	Total
31 December 2008			
Closing historical cost	10,767	59	10,826
Closing accumulated amortisation	7,918	-	7,918
Closing net carrying amount	2,849	59	2,908
30 June 2009			
Opening historical cost	10,767	59	10,826
Translation differences	-	-	-
Change in scope of consolidation	-	-	-
Increases	49	541	590
Reclassifications	31	(31)	-
Decreases	(129)	-	(129)
Closing historical cost	10,718	569	11,287
30 June 2009			
Opening accumulated amortisation	7,918	-	7,918
Translation differences	-	-	-
Change in scope of consolidation	-	-	-
Amortisation	500	-	500
Reclassifications	-	-	-
Decreases	(129)	-	(129)
Closing accumulated amortisation	8,289	-	8,289
30 June 2009			
Closing historical cost	10,718	569	11,287
Closing accumulated amortisation	8,289	-	8,289
Closing net carrying amount	2,429	569	2,998

Research and development expenditure is recognised directly in profit or loss. During the period, research and development expenditure amounted to Euro 0.7 million.

4.5 Investments in subsidiaries, associates and other investments

The Group's investments are listed below:

Name	Registered office	Operations	% owned by KME direct	indirect	June 2009	Dec. 2008
					thousands of Euro	
Subsidiaries and associates measured at cost						
Accumold A.G.	Switzerland	In liquidation		100.00%	-	-
KME Beteiligungsgesellschaft mbH	Germany	Holding company		100.00%	-	-
Europa Metalli Trèfimétaux UK Ltd.	UK	Holding company		100.00%	469	420
Evidal Schmole Verwaltungsges mbH	Germany	Holding company		50.00%	-	-
KME Austria Vertriebgesellschaft mbH	Austria	Trading		100.00%	168	169
KM - Hungaria Szinesfem Kft.	Hungary	Trading		100.00%	8	8
KME metal GmbH	Germany	Holding company		100.00%	511	511
KM Polska Sp. Zo.o.	Poland	Trading		100.00%	64	64
KME (Suisse) S.A.	Switzerland	Trading		100.00%	1,000	1,000
KME America Inc.	United States	Trading		100.00%	7	7
KME Asia Pte Ltd.	Singapore	Trading		100.00%	99	99
KME Chile Lda	Chile	Trading		100.00%	18	18
KME China Limited	China	Trading		100.00%	367	657
KME Czech Republic	Czech Republic	Trading		100.00%	3	3
KME Messing Beteiligungs GmbH Norib.	Germany	Holding company		100.00%	-	511
Irish Metal Industrial Ltd.	Ireland	Trading		100.00%	-	-
KME Moulds Mexico SA de CV	Mexico	Trading		100.00%	528	528
N.V. KME Benelux S.A.	Belgium	Trading		100.00%	884	883
Societe Haillane de Partecipations	France	Holding company		99.99%	40	40
XT Limited	UK	Holding company		100.00%	-	-
KME Metals (Shanghai) Trading Ltd.	China	Trading		100.00%	16	16
KME Service Russland Ltd.	Russia	Trading		100.00%	4	4
KME Mould Service Australia Pty Ltd.	Australia	Trading		100.00%	599	5
KME Danmark A/S	Denmark	Trading		100.00%	-	134
Metal Center Danmark A/S	Denmark	Trading		30.00%	134	-
Total					**4,919**	**5,077**
Investments measured at cost						
Editoriale Fiorentina S.r.l.	Italy	Publishing		7.13%	142	142
Other investments of KME France S.A.S.	France	Various	n.a.	n.a.	116	116
Total					**258**	**258**
Equity accounted investments						
Metalbuyer S.p.A.	Italy	Trading		30%	1,944	-
Total					**1,944**	**-**

The total decrease of Euro 158 thousand compared to the previous year in investments in subsidiaries and associates refers to:

- an increase of Euro 134 thousand due to the acquisition of 30% of the Danish Metalcenter Danmark contributed by the subsidiary KME Danmark A/S, which, in turn, decreased by Euro 134 thousand;
- a decrease of Euro 511 thousand recognised on the conclusion of the liquidation of Kabelmetal Messing Beteiligungsgesellschaft mbh of Nuremberg;
- the Euro 594 thousand increase in the capital of the subsidiary, KME Mould Service Australia Pty Ltd.;
- a Euro 290 thousand impairment loss on the investment in the subsidiary, KME China Limited;
- translation differences relating to the investment in Europa Metalli Trèfimétaux UK Ltd.(a Euro 49 thousand increase).

The increase in equity-accounted investments of Euro 1,944 thousand is due to the acquisition of 30% of Metalbuyer S.p.A. by the subsidiary KME Recycle S.r.l..

Other investments held by KME France S.A.S. include small investments (generally less than 1%) in companies operating in the construction sector. French companies are, in fact, required to pay a certain percentage of the personnel expense as contributions, loans or investments to assist their staff in purchasing real estate.

4.6 Other non-current assets

Other non-current assets predominantly consist of the guarantee deposits of KME Italy (Euro 0.3 million), KME France (Euro 0.4 million) and KME Germany A.G. & Co. K.G., insurance claims payable to KME Germany A.G. & Co. K.G. (Euro 2.3 million), loans to employees, mainly extended by French subsidiaries as required by French law to promote the purchase of property by employees (Euro 2.8 million), and guarantee deposits at banks of Euro 16.5 million (Euro 8.6 million of which relates to KME Germany A.G. Co., Euro 4.8 million to KME France and Euro 3.1 million to KME Italy) partially securing the payment of fines that could be imposed by the European Commission for violation of article 81 of the EU Treaty. These deposits may subsequently be used to pay any fines imposed following the court proceedings currently underway. The amount of the fines not covered by the deposits is covered by a bank guarantee.
None of the above-mentioned amounts are payable within twelve months.

4.7 Non-current financial assets

Non-current financial assets total Euro 3.7 million and related to a deposit at Unicredit Banca d'Impresa S.p.A. that has been pledged to Mediocredito Centrale S.p.A. (MCC): the balance on this account must always be equal to 1/16 (one sixteenth) of loan outstandings at the same point in time, in addition to accrued six-month interest due and payable on the next interest payment date. Any amounts on the account in excess of that amount are immediately available. For further details regarding the amount and the nature of the loan please refer to paragraph 4.15.

4.8 Inventories

(thousands of Euro)	Opening balances	Changes for the period	Closing balances
1) Raw materials, consumables and supplies	337,788	(40,504)	297,284
2) Work in progress and semi-finished products	38,201	(4,559)	33,642
3) Finished goods	42,138	(6,030)	36,108
Total	**418,127**	**(51,093)**	**367,034**

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

At the end of last year, impairment losses of Euro 105.0 million were recognised due to the fact that realisable value was less than weighted average cost determined on a quarterly basis.
At the end of the first six months of 2009, the events and circumstances that gave rise to the impairment only continued to apply to a small fraction of the impaired items and all but Euro 1.2 million was reversed.

The decrease in raw material inventory levels was due to improvements in production, distribution and logistics.

Comparative inventory levels

Inventories owned by the Company	31.12.2008	30.06.2009	Change %
Total tonnes	100,588	80,269	-20.2%

Of the above amount, 75.2 thousand tonnes consisting mainly of copper has been pledged as collateral for credit lines extended to the Group.

4.9 Trade receivables

(thousands of Euro)	Balance at 31.12.2008	Changes for the period	Balance at 30.06.2009
1) due from customers	93,737	13,089	106,826
(Provision for impairment)	(7,696)	(768)	(8,464)
Net trade receivables due from customers	**86,041**		**98,362**
2) due from subsidiaries	2,974	(315)	2,659
3) due from associates	43	23	66
4) due from parents	-	-	-
Total	**89,058**	**12,029**	**101,087**

Trade receivables due from customers include receivables of Euro 19.7 million that have been factored with recourse.
The Directors are of the opinion that the carrying amount of trade receivables approximates their fair value.

4.10 Other receivables and current assets

(thousands of Euro)	Balance at 31.12.2008	Changes for the period	Balance at 30.06.2009
1) Tax assets	17,968	(12,588)	5,380
2) Advance payments to suppliers	14,305	(11,632)	2,673
3) Prepayments and accrued income	1,749	827	2,576
4) Other receivables	8,940	5,836	14,776
Total other current assets	**42,962**	**(17,557)**	**25,405**

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

4.11 Current financial assets

(thousands of Euro)	Balance at 31.12.2008	Changes for the period	Balance at 30.06.2009
Financial assets held for trading	7,136	2,804	9,940
LME and metal buyer/seller contracts	135,647	(108,185)	27,462
Interest rate swaps (IRS)/forward foreign exchange contracts	6,709	(5,319)	1,390
Receivables due from factoring companies	57,534	33,431	90,965
Other current financial assets	119	708	827
Financial receivables due from subsidiaries	1,071	205	1,276
Total	**208,216**	**(76,356)**	**131,860**

Financial assets held for trading by the Parent are:

- 5,824,990 iNTEk S.p.A. savings shares. The savings shares are carried at Euro 0.74 each, which was their official price at the end of the reporting period. The Parent gave call options on these shares, valued at Euro 0.90 each, to credit institutions that extended a loan in February 2005 that is no longer outstanding. The options will expire in 2012;
- 5,001,932 ErgyCapital S.p.A. ordinary shares with no nominal amount, which are carried at their official price at the end of the reporting period for these condensed interim consolidated financial statements (Euro 0.62 per share);
- 14,291,235 ErgyCapital S.p.A. warrants carried at Euro 0.177 each. The carrying amount corresponds to the stock market price at the end of the reporting period.

LME and metal buyer/seller contracts are carried at the fair value of the contracts outstanding at the end of the reporting period.

Receivables due from factoring companies of Euro 59.7 million are carried at the amounts of receivables sold but not yet collected at the end of the reporting period for the condensed interim consolidated financial statements, plus the amount of the pledged deposit securing credit lines of Euro 31.2 million.

4.12 Cash and cash equivalents

(thousands of Euro)	Balance at 31.12.2008	Changes for the period	Balance at 30.06.2009
Bank and post office accounts	38,690	40,004	78,694
Cash on hand	124	18	142
Total	**38,814**	**40,022**	**78,836**

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

4.13 Equity

Please see the "Statement of changes in equity" for an analysis of changes in equity.

4.14 Employee benefits

(thousands of Euro)	Balance at 31.12.2008	Increases	Decreases	Balance at 30.06.2009
Defined benefit plans	134,695	6,689	(4,765)	136,619
Post-employment benefits	17,682	433	(900)	17,215
Total	**152,377**	**7,122**	**(5,665)**	**153,834**

Defined benefits plans are carried net of any plan assets. Euro 120.4 of defined benefit plans relate to the German subsidiaries and Euro 16.2 million relate to KME Yorkshire Ltd..

Actuarial assumptions:

	31.12.2008	30.06.2009
Discount rate	4.6% - 6.5%	4.6% - 6.5%
Rate of return on plan assets	6.1%	6.1%
Rate of increase in future salaries	1.0% - 2.7%	1.0% - 2.7%
Future increase in services	2.0% - 2.7%	2.0% - 2.7%
Average remaining working life	14 years	14 years

Net carrying amount of liabilities:

	31.12.2008	30.06.2009
Present value of partially or fully funded obligations	42,495	49,030
Fair value of defined benefit plan assets	(37,656)	(43,617)
Deficit	4,839	5,413
Present value of unfunded obligations	144,291	144,121
Actuarial gains (losses) not yet recognised	3,247	4,300
Past service cost not yet recognised	-	-
Amount not recognised as assets pursuant to IAS 19, para. 58 (b)	-	-
Net liability reported in the statement of financial position	**152,377**	**153,834**

Income statement changes (thousands of Euro)	**1st Half 2008**	**1st Half 2009**
Current service cost	1,768	1,419
Interest expense	5,373	5,791
Expected return on plan assets	(1,798)	(1,800)
Recognised actuarial (gains) and losses	-	-
Past service cost	-	-
Effect of any curtailment or settlement	-	-
Total cost reported in the financial statement	**5,343**	**5,410**

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

Other information:

Present value of obligation (thousands of Euro)	**2008**	**1st Half 2009**
Opening balance of obligation	217,431	186,785
Current service cost	2,873	1,419
Interest on obligation	10,715	5,607
Plan participants' contributions	348	205
Actuarial (gains) losses	(17,769)	(106)
Settlements and curtailments	-	-
Translation differences on foreign plans	(15,419)	4,917
Benefits provided and paid	(11,394)	(5,670)
Effect of any curtailment or settlement		(36)
Past service cost	-	-
Closing balance of obligation	**186,785**	**193,121**

Fair value of plan assets (thousands of Euro)	2008	1st Half 2009
Opening balance of fair value of plan assets	63,403	37,656
Expected return on plan assets	3,247	1,800
Actuarial gains (losses)	(15,166)	(282)
Translation differences on non Euro plan assets	(14,251)	4,284
Employer contributions	1,377	763
Plan participants' contributions	348	205
Settlements	-	-
Benefits provided and paid	(1,302)	(809)
Closing balance of fair value of plan assets	**37,656**	**43,617**

At 30 June 2009, 60% of plan assets were equity instruments and 40% were fixed rate securities.

Present value of plans and adjustments based on past experience (thousands of Euro)	2008	1st Half 2009
Present value of defined benefit obligation	186,785	193,121
Plan assets	(37,656)	(43,617)
Surplus (deficit)	**149,129**	**149,504**
Adjustments to plan liabilities based on past experience	(756)	(617)
Adjustments to plan assets based on past experience	235	235

4.15 Non-current financial payables and liabilities

(thousands of Euro)	Balance at 31.12.2008	Changes for the period	Balance at 30.06.2009
1) Due to banks	134,190	(107,917)	26,273
2) Due to Parent	-	-	-
3) Due to lease companies	3,631	(126)	3,505
4) Due to others	1,486	27	1,513
Total	**139,307**	**(108,016)**	**31,291**

At the beginning of October 2006, KME Group and its main industrial subsidiaries concluded two loan agreements to refinance Group debt totalling Euro 1.65 billion.
The first agreement is for a five-year line of up to Euro 800 million for factoring of receivables without recourse. At the end of the reporting period, such sales amounted to Euro 249.4 million.

The second was for the following two facilities:

- a revolving credit (Tranche A) of up to Euro 650 million to finance inventories on which the loan is secured;
- a loan of up to Euro 200 million (Tranche B), with a duration of five years (of which three years grace), secured by the non-current assets of the Group's German industrial subsidiaries. The loan may also be used to finance payments of the EU fines as may be ruled under appeals that are currently pending.

The revolving credit had an initial duration of three years (i.e., to October 2009) and can be extended for an additional two years.
The Company was notified by letter dated 12 March 2009 that the majority of the loan syndicate had agreed to extend the maturity of Euro 360 million of the revolving credit to October 2011.
Negotiations with lenders in recent months have so far resulted in the following amendments to the October 2006 loan agreement:
a) suspension throughout 2009 of the minimum EBITDA test required by financial covenants;
b) restatement of the financial covenant regarding the minimum level of consolidated equity.

Even though the figures for the first half of 2009 are in compliance with the restated covenants, the fact that this was confirmed by letter subsequent to 30 June means that the Company was required under IFRS to treat the relevant borrowings as short-term debt in accordance with IAS 1, paragraph 74.
Similar negotiations were also successfully held with respect to suspending the half-year minimum EBITDA test required by the financial covenants of the loan extended by Unicredit-Mediocredito Centrale S.p.A. described below. The letter confirming suspension of the test regarding the annual covenant, on the other hand, is expected shortly.

The following has been given to collateralise repayment of tranche A:

- pledge of the shares in the subsidiaries, KME Italy S.p.A., KME Brass Italy S.p.A., KME France S.A.S. and KME France Brass S.A.S., with retention of voting rights;
- pledge of inventories of the manufacturing companies, except for the Spanish subsidiaries;
- a lien on factoring and insurance contracts;
- a lien on accounts held at Deutsche Bank A.G., where the proceeds from the factored receivables are deposited. The balance on these accounts is brought to nil every day as the amounts factored are used immediately in order to support the Group's financial transactions.

The following has been given to collateralise repayment of tranche B:

- a first, preferred mortgage on properties and other non-current assets of KME Germany A.G..

During the previous year a new agreement was signed with Mediocredito Centrale S.p.A. (MCC) for a loan of up to Euro 103,000,000.00 (one hundred and three million euros), to finance capital expenditure on production that has been or will be made by non-Italian subsidiaries plus KME Group S.p.A.'s acquisitions of foreign companies. The loan will be disbursed in 3 tranches by March 2010. Each tranche will have a duration of 8 years from drawdown.
The agreement requires SACE S.p.A. (SACE) to issue a first call guarantee in favour of MCC and a negative pledge on the Group's consolidated assets of a maximum of Euro 200 million, excluding goodwill and cash and cash equivalents, during the term of the loan.

In addition, all the above lines of credit and loans require compliance with financial covenants relating to consolidated equity, debt, EBITDA and ratio of EBITDA, calculated on the basis of management reporting to net consolidated interest expense. At the date of publication of these condensed interim consolidated financial statements the Group was in compliance with all covenants contained in the original agreements, as subsequently amended, which are described above in detail.

All lines of credit and loans have variable interest rates based on Euribor plus a spread. The loans are carried at amortised cost using the effective interest method. The carrying amount includes commission and margins paid that are an integral part of interest and transaction costs.

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

All non-current payables and liabilities have maturities between twelve months and 5 years except for Euro 3.0 million due to lease companies.

4.16 Other non-current liabilities

Other non-current liabilities primarily relate to payables to employees of German subsidiaries (Euro 10.7 million) and post-employment benefits of a Director of the Parent (Euro 1.4 million).

4.17 Provisions for risks and charges

A summary of the movements relating to the provisions for risks and charges is as follows:

(thousands of Euro)	Balance at 31.12.2008	Translation differences	Increases	Decreases and reversals	Current portion	Balance at 30.06.2009
Provision for restructuring	16,015	5	6,289	(11,600)	(8,479)	2,230
EU fines	120,033		1,597			121,630
Other provisions for risks and charges	32,562	21	2,263	(3,588)	(15,211)	16,047
Total	**168,610**	**26**	**10,149**	**(15,188)**	**(23,690)**	**139,907**

The current portion and the balance at 31 December 2008 show movements in the portion of provisions for risks and charges reported in the current liabilities section of the statement of financial position.

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

The increase in the provision for EU fines relates to interest expense on the nominal amount of the fines levied by the European Commission.

With respect to these fines, on May 6, 2009, the Court of First Instance of the European Community handed down a decision upholding the Commission's decision in the appeal filed by the Group's manufacturing subsidiaries, KME Germany A.G., KME France S.A. and KME Italy S.p.A. against the fine imposed by the Commission with respect to infringements of antitrust regulations in the pipes market.
The Group subsequently, through its subsidiaries, appealed to the European Court of Justice on 15 July 2009 for a reversal of the ruling of the Court of First Instance. The Group's argument is that the ruling of the Court of First Instance is a misapplication of the law and has petitioned the European Court of Justice for its reversal. The decision by the Court of First Instance with respect to the second fine regarding piping is still pending.

Other provisions for risks and charges include, but are not limited to, contingent liabilities of Euro 8.6 million with respect to environmental damage, Euro 0.5 million for storm damage, Euro 8.7 million for legal and tax contingencies and Euro 5.5 million for product warranties.

With respect, on the other hand, to the pending class action suit in the United States there have been no new developments as explained in the "Directors' Report".

With respect to the action brought in connection with environmental damage at the former site of the Brescia facilities, discussions with the plaintiff regarding a settlement are continuing. The next hearing has been scheduled for 10 December 2009.
Pre-trial investigations are in progress with respect to the disputes pending before the Court of Hannover relating to squeeze outs and mergers.

Two settlement proposals were signed with respect to the tax audit of the subsidiary, KME Italy S.p.A., for 2003 and 2004 which, in fact confirm the legitimacy of the company's actions with the exception of errors in the computation of IRAP for absolutely immaterial amounts. It is expected that a satisfactory settlement can also be achieved for 2002, 2005 and 2006 before year end due to the similarity of the facts of these cases and the case already settled by the tax authorities.

At the time of writing, the outcome of the disputes and assessments described above are not expected to be of significance.

At the publication date of these condensed interim consolidated financial statements there were no other significant potential liabilities.

4.18 Current financial payables and liabilities

(thousands of Euro)	Balance at 31.12.2008	Changes for the period	Balance at 30.06.2009
1) Due to banks	258,511	99,016	357,527
2) Due to Parent	17	(17)	-
3) Due to subsidiaries	2,890	(208)	2,682
4) Due to lease companies	347	(21)	326
5) Due to factors	23,862	1,349	25,211
6) Interest rate swaps (IRS) forward foreign exchange contracts	1,769	(453)	1,316
7) LME and metal buyer/seller contracts	28,218	(17,914)	10,304
8) Due to others	15,788	(14,639)	1,149
Total	**331,402**	**67,113**	**398,515**

The increase in financial payables due to banks is explained in note 4.15.
LME and metal buyer/seller contracts are carried at the fair value of contracts outstanding at the end of the reporting period.
Interest rate swaps were entered into to hedge interest rate risk on the part of the existing bank exposure, through swapping 6-month Euribor for a fixed rate.

Euro 19.7 million of the payables to factors relate to factoring of receivables with recourse outstanding at the end of the reporting period and Euro 5.5 million awaiting transfer to factors with respect to funds received from customers for receivables that had been factored.

The analysis of net debt, with the details of its main components pursuant to CONSOB Ruling 6064293 and the CESR Recommendation of 10 February 2005 "Recommendations for the consistent implementation of the European Commission regulation on information memoranda", is presented in the "Directors' Report" rather than in these notes.

4.19 Trade payables and other current liabilities

(thousands of Euro)	Balance at 31.12.2008	Changes for the period	Balance at 30.06.2009
1) Due to suppliers	146,984	(21,734)	125,250
2) Due to subsidiaries	685	(68)	617
2) Due to Parent	-	-	-
Total trade payables	**147,669**	**(21,802)**	**125,867**

The carrying amount of trade payables approximates their fair value.

(thousands of Euro)	Balance at 31.12.2008	Changes for the period	Balance at 30.06.2009
1) Due to employees	40,969	1,881	42,850
2) Due to Parent	-	-	-
3) Due to social security institutions	12,312	(2,218)	10,094
4) Tax payables	16,494	11,120	27,614
5) Accrued expenses and deferred income	2,969	1,423	4,392
6) Other payables	30,685	(7,039)	23,646
Total other current liabilities	**103,429**	**5,167**	**108,596**

The amount due to employees include accrued amounts that were unpaid at the end of the reporting period.

Tax payables primarily relate to value added tax payable and Euro 13 million for direct taxes.

Other payables include a Euro 19.9 million liability to customers for advance payments received and credit notes issued.

4.20 Deferred tax assets and liabilities

(thousands of Euro)	Balance at 31.12.2008	Changes for the period	Balance at 30.06.2009
1) Deferred tax assets	45,014	(15,907)	29,107
2) Deferred tax liabilities	(121,272)	29,011	(92,261)
Net	**(76,258)**	**13,104**	**(63,154)**

Deferred tax assets and liabilities are computed on temporary differences between carrying amounts of assets and liabilities recognised in the financial statements and the corresponding amounts recognised for tax purposes.
Deferred tax assets are only recognised to the extent their recovery is highly probable and for which it is believed that there will be sufficient future taxable income for their recovery.
The Parent Company did not recognise deferred tax on the temporary difference relating to the financial investment in the subsidiary, KME Germany A.G., in compliance with paragraph 39 of IAS 12.

Deferred taxation is presented under non-current assets and liabilities and offset for each individual subsidiary in compliance with IAS 12.
At the date of these financial statements, the Group has not recognised deferred tax assets on the carry forward of tax losses of Euro 160.4 million.

Details, at 30 June 2009, of recognised and unrecognised deferred taxes on tax losses carried forward by the Company are shown below:

(thousands of Euro)	31.12.2008	30.06.2009
a) recognised tax losses carried forward		
KME Group S.p.A.	3,519	3,519
KME Verwaltungs- u. Dienstleistungs-GmbH	3,127	2,911
KME Architectural Metals GmbH & Co. K.G.	1,812	1,822
KME Italy S.p.A.	13,571	11,964
KME Locsa S.A.	4,073	930
KME Yorkshire Ltd.	-	-
Total (1)	**26,102**	**21,146**
b) unrecognised tax losses carried forward		
KME Group S.p.A.	11,507	5,003
KME France S.A.	81,071	73,249
KME Brass France S.A.S.	9,234	2,827
KME Spain S.A.	27,158	30,468
KME Italy S.p.A.	14,754	21,032
KME Yorkshire Ltd.	7,862	6,882
KME Locsa S.A.	17,745	20,888
Other companies	516	90
Total (2)	**169,847**	**160,439**
Grand total (1) + (2)	**195,949**	**181,585**

Deferred tax assets and liabilities by balance sheet item are shown below.

(thousands of Euro)	Deferred tax assets		Deferred tax liabilities	
	31.12.2008	30.06.2009	31.12.2008	30.06.2009
Property, plant and equipment	187	380	65,809	64,618
Intangible assets	141	103	134	141
Investment property	-	-	-	-
Other non-current assets	1	-	-	5
Inventories	-	-	24,488	20,095
Trade receivables	707	892	102	146
Other receivables and current assets	44	44	295	224
Current financial assets	1,519	73	29,611	5,996
Employee benefits	8,814	9,051	803	803
Non-current financial liabilities	74	1,227	28	18
Other non-current liabilities	1,998	2,499	-	-
Provisions for risks and charges	5,881	5,548	-	-
Current financial liabilities	17,288	2,406	2	215
Trade payables	92	117	-	-
Other current liabilities	507	458	-	-
Deferred taxes on equity items	131	98	-	-
Deferred taxes on tax loss carry forwards	7,630	6,211	-	-
Total	**45,014**	**29,107**	**121,272**	**92,261**

Deferred tax assets recognised in equity primarily refer to costs associated with the capital increase incurred by the Parent.

4.21 Information on transactions with related parties

During the period, the Group traded with unconsolidated related parties. The related amounts were insignificant, as explained in the notes.
All such transactions are, however, conducted on an arm's length basis.

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

(thousands of Euro)

					1st Half 2009						2008
Short-term benefits	Post-employment benefits	Other long-term benefits	Termination benefits	Share-based payments	Total for period	Short-term benefits	Post-employment benefits	Other long-term benefits	Termination benefits	Share-based payments	Total for year
3,141	13	207	216	396	3,973	6,565	26	396	1,273	1,863	10,123

5. Statement of comprehensive income

The Group did not engage in "atypical and/or unusual transactions", within the meaning of CONSOB Ruling 6064293/06, in the first six months of 2009.

5.1 Revenue from sales

An analysis of revenue by geographical segment is shown below:

Geographical segment (millions of Euro)	1st Half 2008		1st Half 2009	
		%		%
Germany	382	23.5	212	23.6
Italy	330	20.3	178	19.8
France	187	11.5	98	10.9
United Kingdom	144	8.9	89	9.9
Spain	86	5.3	35	3.9
Other European countries	359	22.1	191	21.3
Total Europe	**1,488**	**91.7**	**803**	**89.4**
Rest of the world	135	8.3	95	10.6
Total	**1,623**	**100.0**	**898**	**100.0**

Revenue, net of raw material costs, as shown in the Directors' Report, decreased by Euro 126.3 million from the Euro 458.8 million of the first six months of 2008 to Euro 332.5 million for the first six months of 2009.
No single customer accounted for more than 10% of Group revenue (IFRS 8, para. 34).

5.2 Other operating income

(thousands of Euro)	1st Half 2008	1st Half 2009	Change %
Government grants	745	522	-29.93%
Gains on sale of non-current assets	671	579	-13.71%
Rental income	670	855	27.61%
Cafeteria	336	256	-23.81%
Insurance claims	258	307	18.99%
Other	3,569	4,579	28.30%
Total	**6,249**	**7,098**	**13.59%**

5.3 Personnel expense

(thousands of Euro)	1st Half 2008	1st Half 2009	Change %
Wages and salaries	140,675	114,215	-18.81%
Social security charges	33,924	31,805	-6.25%
Cost of stock options	1,971	375	-80.97%
Other personnel expense	5,722	5,862	2.45%
Total	**182,292**	**152,257**	**-16.48%**

Other personnel expense includes provisions for defined benefit pension funds and post-employment benefits of Euro 5.4 million.

Euro 1.1 million of those expenses relating to costs in connection with the reduction of working hours (special redundancy fund, solidarity agreements, and similar types of arrangements for countries other than Italy) has been reported as non-recurring expenses in the reclassified income statement shown in the Directors' Report.

Average number of employees:

(period average)	1st Half 2009	1st Half 2008	Change %
Executives and clerical	1,865	1,812	2.9%
	28.0%	26.8%	
Blue collar and special categories	4,804	4,942	-2.8%
	72.0%	73.2%	
Total employees	**6,669**	**6,754**	**-1.3%**
	100.0%	100.0%	

The cost of stock options relates to the inception of an incentive plan for executive members of the Board of Directors and key managers within the Group. The plan involves the free-of-charge award of options on KME Group S.p.A. shares, in a ratio of 1:3, from 1 September 2007 for exercise by 28 February 2011. The strike price has been fixed at Euro 1.029 per share calculated on the average of official stock market prices during the month preceding the option award (31 July 2006) incorporating the effects of share capital reorganisation of 16 July 2007. The fair value of services received for the period was, consequently, determined indirectly through the fair value of the equity instruments awarded.
The fair value of stock options (Euro 0.1 for the initial award and Euro 0.38 for the 2007 awards) has been determined by an independent actuary on the award date by application of the Black & Scholes model, which includes variables regarding the conditions of exercise, current share value, expected volatility (estimated through projection of actual volatility for the past year), the risk free interest rate for the

Euro zone, expected dividend yield, and the probability that option holders will meet the requirements to exercise their rights at the end of the vesting period.

The evolution of the stock option plan at 30 June 2009 is as follows:

Status at	31.12.2006 number of options	31.12.2007 number of options	31.12.2008 number of options	30.06.2009 number of options
Options outstanding at 1 January	**nil**	**43,731,776**	**33,144,453**	**33,144,453**
New options awarded	43,731,776	-	-	-
Options re-awarded	-	12,827,982	-	-
Options exercised during period	-	6,802,713	-	-
Options expired during period	-	16,612,592	-	1,650,255
Options outstanding at end of period	**43,731,776**	**33,144,453**	**33,144,453**	**31,494,198**
of which eligible for exercise:	nil	3,498,540	18,321,498	17,302,008

The third tranche of awards of 14,855,955 options will be exercisable from 1 September 2009.

5.4 Amortisation, depreciation and impairment losses

(thousands of Euro)	1st Half 2008	1st Half 2009	Change %
Depreciation	26,496	27,766	4.79%
Amortisation	409	495	21.03%
Reversals of prior period impairment losses	-	-	insig.
Impairment losses	(206)	454	insig.
Total	**26,699**	**28,715**	**7.55%**

During the period, Directors recognised impairment losses totalling Euro 454 thousand relating to assets located in France.

Euro 1.3 million of the depreciation charge relating to the closure of production facilities in France was reported as non-recurring expenses in the "Reclassified income statement" presented in the Directors' Report.

5.5 Other operating costs

(thousands of Euro)	1st Half 2008	1st Half 2009	Change %
Energy	39,525	34,463	-12.81%
Maintenance and repairs	19,925	13,226	-33.62%
Insurance premiums	6,619	5,644	-14.73%
Rent paid and operating leases	4,913	5,267	7.21%
(Gains)/losses on LME trading	(16,909)	7,288	insig.
Fair value on LME and metal buyer/seller contracts	(1,450)	47,242	insig.
Outsourced production	15,409	10,232	-33.60%
Sales logistics and transport	31,581	21,828	-30.88%
Commissions	10,660	8,373	-21.45%
Factoring funding fees	9,833	3,102	-68.45%
Other operating costs	55,783	33,148	-40.58%
Total	**175,889**	**189,813**	**7.92%**

(Gains)/losses on LME trading is the difference between the notional value of sales and purchases expiring during the period.

Factoring funding fees regard the factorage on the factoring without recourse of trade receivables.

Other operating costs include:

1. provisions for risks and charges less releases totalling Euro 2.5 million. Euro 1.6 million of these provisions relating to accrued interest on EU antitrust fines and Euro 2 million relating to the estimated cost of pending legal and environmental litigation have been reported as non-recurring costs in the "Reclassified income statement" presented Directors' Report;
2. bank fees of Euro 0.6 million;
3. losses on disposal of Euro 0.2 million;
4. provisions for impairment of Euro 1 million;
5. legal consultancy and administrative costs plus compensation for corporate officers of Euro 7.2 million.

5.6 Financial income and expense

(thousands of Euro)	1st Half 2008	1st Half 2009	Change %
Interest income	1,188	776	-34.68%
Exchange rate gains/(losses)	2,675	7,095	insig.
Dividends	2,010	1,247	-37.96%
Other financial income	1,784	2,816	57.85%
Total financial income	**7,657**	**11,934**	**55.86%**
Interest expense	(14,897)	(7,024)	-52.85%
Exchange rate losses	(2,914)	(1,661)	-43.00%
Other financial expense	(4,243)	(9,509)	124.11%
Total financial expense	**(22,054)**	**(18,194)**	**-17.50%**
Net financial expense	**(14,397)**	**(6,260)**	**129.98%**

The reduction in interest expense was due to the decrease in interest rates (Euribor) and the lower amount of interest bearing debt, which, ignoring the fair value of financial instruments, decreased from Euro 341.2 million at 30 June 2008 to Euro 246.3 million at the end of the current reporting period.

5.7 Current and deferred taxes

(thousands of Euro)	1st Half 2008	1st Half 2009	Change
Current taxes	(9,224)	(13,504)	insig.
Deferred taxes	(13,053)	12,630	insig.
Total	**(22,277)**	**(874)**	**insig.**

In December 2007, KME Group S.p.A. and its Italian subsidiaries elected to be assessed under a tax consolidation arrangement, so that IRES is computed on assessable income equal to the net taxable profit/tax loss of each company participating in the arrangement. Financial relationships, responsibilities and reciprocal obligations are set out in the related agreement and terms and conditions regarding the tax consolidation arrangement, by which the Parent and/or subsidiaries with tax losses receive a payment equal to the relevant tax savings realised by the Parent and/or subsidiaries declaring taxable income. During the period tax benefits arising in connection with pooled tax losses and the tax loss of KME Italy S.p.A., used to reduce the current tax charge, amounted to Euro 0.5 million.

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

5.8 Other information

Financial instruments by category

(thousands of Euro)	31.12.2008	30.06.2009	Change
Fin. assets recognised at fair value through profit or loss	149,492	39,619	(109,873)
Held-to-maturity assets	-	-	-
Loans and receivables	230,482	305,476	74,994
Available-for-sale financial assets	-	-	-
Fin. liabilities carried at fair value through profit or loss	29,987	11,619	(18,368)
Fin. liabilities carried at amortised cost	588,391	538,530	(49,861)

Financial instruments by statement of financial position presentation

Financial instruments and reconciliation with statement of financial position items at 30 June 2009:

Statement of financial position item (thousands of Euro)	Total	Carried at amortised cost	Carried at fair value	Outside the scope of IFRS 7
Financial asset:				
Investments in subsidiaries and associates	4,919			4,919
Investments in other companies	258			258
Investments in equity accounted investees	1,944			1,944
Non-current financial assets	3,661	3,661		
Other non-current assets	27,075	27,075		
Trade receivables	101,087	101,087		
Other receivables and current assets				
Tax	5,380			5,380
Suppliers	2,576	2,576		
Other non-financial assets	17,449			17,449
	25,405			
Cash and cash equivalents	78,836	78,836		
Current financial assets				
Factoring	90,965	90,965		
Receivables	1,276	1,276		
Financial instruments	28,852		28,852	
Other instruments	10,767	-	10,767	
	131,860			
		305,476	39,619	29,950

Statement of financial position (thousands of Euro)	Total	Carried at amortised cost	Carried at fair value	Outside the scope of IFRS 7
Financial Liabilities:				
Current and non-current financial liabilities				
Due to banks	383,800	383,800		
With recourse factoring	19,688	19,688		
Without recourse factoring	5,523			
Payable to lease companies	3,831	3,831		
Other financial liabilities	5,344	5,344		
Financial instruments	11,619		11,619	
	429,805	412,663	11,619	-
Trade payables	125,867	125,867		
	555,672	538,530	11,619	-

Notional value of derivative instruments

The following table shows a summary of the notional values and terms of derivative financial instruments outstanding at the end of the reporting period:

Description (thousands of Euro)	Term			Total at	
	1 year or less	from 1 to 5 years	over 5 years	30.06.2009	31.12.2008
LME commodity and metal buyer/seller contracts	506,505	991	-	507,496	684,392
Foreign exchange forward contracts	83,454	-	-	83,454	131,260
Cross-currency swaps	426	-	-	426	856
Interest rate swaps (IRS)	45,000	-	-	45,000	45,000
Total	**635,385**	**991**	**-**	**636,376**	**861,508**

The net change in the first six months of 2009 of LME transactions and metal buyer and seller contracts carried at fair value through profit or loss was a negative Euro 47.2 million. In the first half of the previous financial year the amount was a positive Euro 1.5 million.
The notional value of LME commodities and metals buyer/seller contracts is the aggregate of sales and purchases.

Exposure to credit risk and impairment losses

The carrying amount of financial assets is the Group's maximum exposure to credit risk.

The ageing of trade receivables due from non-Group companies at the end of the reporting period was as follows:

Description (thousands of Euro)	Gross carrying amount	Impairment losses 30.06.2009	Net carrying amount
Current	71,604	991	70,613
Less than 61 days past due	14,287	116	14,171
61 to 120 days past due	8,195	149	8,046
121 days to 1 year past due	7,035	2,097	4,938
Over 1 year past due	5,706	5,111	595
Total	**106,827**	**8,464**	**98,363**

Movements in provisions for impairment in the period are shown below:

31.12.2008	**7,696**
Translation differences	(7)
Change in scope of consolidation	-
Impairment losses during year	1,055
Usage	213
Released	67
30.06.2009	**8,464**

Foreign exchange rate risk exposure

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

30.06.2009	USD	GBP	CHF	SEK	EUR
Non-current financial assets	-	-	-	-	-
Other non-current assets	-	-	-	-	-
Trade receivables	3,919	400	375	44,553	1,988
Other receivables and current assets	-	32	-	-	505
Current financial assets	6,168	1,766	2,221	1,473	-
Cash and cash equivalents	461	64	223	5,877	130
Financial liabilities	(369)	405	98	-	-
Trade payables	7,939	414	92	804	20
Other current liabilities	15	1,328	-	5,996	-
Gross statement of financial position exposure	**2,963**	**115**	**2,629**	**45,103**	**2,603**
Projected sales	43,486	7,818	4,822	22,804	456
Projected purchases	33,076	127	2,042	2,587	3,290
Gross exposure	**13,373**	**7,806**	**5,409**	**65,320**	**(231)**
Forward foreign exchange contracts	32,052	10,070	5,455	39,496	(9,192)
Net exposure	**(18,679)**	**(2,264)**	**(46)**	**25,824**	**8,961**

Sensitivity analysis

A 10% appreciation (depreciation) of the euro against the currencies in the above table would have caused an increase (decrease), at 30 June 2009, in equity and an improvement (deterioration) in the loss for the period of Euro 5.3 million. The analysis was made assuming that all other variables remained constant, in particular interest rates. The same analysis for 30 June 2008 would have improved the loss for the period and increased equity by Euro 0.3 million.

Foreign exchange risk exposure for the previous financial year:

31.12.2008	USD	GBP	CHF	SEK	EUR
Non-current financial assets	-	-	-	-	-
Other non-current assets	-	-	-	-	-
Trade receivables	4,857	519	607	26,157	322
Other receivables and current assets	-	40	1	-	-
Current financial assets	3,260	810	1,390	1,556	668
Cash and cash equivalents	(956)	865	496	(363)	175
Financial liabilities	(4,169)	(252)	(1,957)	1,186	221
Trade payables	12,863	179	277	2,473	106
Other current liabilities	42	1,356	-	5,144	-
Gross statement of financial position exposure	**(1,575)**	**951**	**4,174**	**18,547**	**838**
Projected sales	62,963	11,293	8,485	27,030	262
Projected purchases	34,767	135	2,852	189	459
Gross exposure	**26,621**	**12,109**	**9,807**	**45,388**	**641**
Forward foreign exchange contracts	40,766	18,231	13,491	57,981	(9,343)
Net exposure	**(14,145)**	**(6,122)**	**(3,684)**	**(12,593)**	**9,984**

Interest rate exposure

The Group's interest rate structure of interest-bearing financial instruments at the end of the reporting period was as follows:

(thousands of Euro)	Carrying amount	
	31.12.2008	30.06.2009
Fixed rate instruments:		
Financial assets	6,205	2,219
Financial liabilities	38,419	33,966
Total	**(32,214)**	**(31,747)**
Variable rate instruments:		
Financial assets	24,223	63,096
Financial liabilities	386,404	419,285
Total	**(362,181)**	**(356,189)**

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

The Group had no fixed rate financial assets or liabilities carried at fair value through profit or loss or any derivatives (interest rate swaps) designated as fair value hedges. As a result, any changes in the interest rates at the end of the reporting period would not have had an effect on the statement of comprehensive income.

The Group uses LME contracts (commodities futures traded on the London Metal Exchange) to hedge fluctuations in the price of raw materials, particularly copper. These instruments are measured at fair value through profit or loss. A Euro 100 per tonne increase in the price of copper at the end of the reporting period would have resulted in a decrease in equity and a deterioration of loss for the period of Euro 2.1 million. The same increase at 30 June 2008 would have resulted in an improvement of Euro 2.0 million.

Sensitivity analysis of the cash flows of floating rate financial instruments

An increase (decrease) of 50 interest basis points (bps) at the end of the reporting period would have resulted in a decrease (increase) in equity and a deterioration (improvement) of loss for the period of approximately Euro 1.8 million (Euro 2.0 million in the first half of 2008). The analysis was made assuming that other variables, in particular exchange rates, remained constant as was the analysis for the first half of 2009.

Exposure to liquidity risk

Liquidity risk can arise from the inability to raise working capital financing as and when required. The inflows and outflows and the liquidity of Group companies are monitored and coordinated by Group Treasury. The flexibility of existing credit lines meant that the Group was able resolve problems relating to cover the temporary cash shortfalls caused by increased raw materials prices.

Fair value and carrying amount

Pursuant to IFRS 7 paragraph 25, the fair value of financial assets and liabilities recognised in the balance sheet is equal to their carrying amount.

Other financial commitments

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

(thousands of Euro)	31.12.2008	30.06.2009
Within 1 year	6,098	6,019
1 to 5 years	9,572	8,389
After 5 years	283	518
	15,953	**14,926**

Purchase commitments relating to property, plant and equipment at the end of the reporting period amounted to Euro 6.6 million. These purchase commitments will lapse next year.

Reconciliation table between the profit of the Parent KME Group S.p.A. and consolidated loss for the period ended 30 June 2009

(thousands of Euro)	
Profit of KME Group S.p.A.'s separate financial statements	6,267
Loss of subsidiaries (1) (2)	(27,283)
Consolidation adjustments (3)	(742)
Consolidated loss attributable to owners of the Parent	**(21,758)**
Loss of subsidiaries 01.01.2009-30.06.2009	
(1) Consolidated loss of KME Germany A.G. Group	(26,910)
(2) Loss of Immobiliare Agricola Limestre S.r.l.	(81)
(2) Loss of KME Recycle S.r.l.	(292)
(3) Elimination of intercompany dividends	-
(3) Other consolidation adjustments	(742)
Total	**(28,025)**

Reconciliation table between the profit of the Parent KME Group S.p.A. and consolidated profit for the period ended 30 June 2008

(thousands of Euro)	
Profit of KME Group S.p.A.'s separate financial statements	22,335
Profit of subsidiaries (1) (2)	41,239
Consolidation adjustments (3)	(21,923)
Consolidated profit attributable to owners of the Parent	**41,651**
Profit of subsidiaries 01.01.2008-30.06.2008	
(1) Consolidated profit of KME Germany A.G. Group	41,371
(2) Loss of Immobiliare Agricola Limestre S.r.l.	(132)
(3) Consolidation adjustments	(21,923)
Total	**19,316**

Reconciliation of KME Group S.p.A.'s equity and consolidated equity attributable to owners of the Parent at 30 June 2009

(thousands of Euro)	
Parent's equity, including profit for the period	350,711
Consolidation reserves*	99,169
Difference between consolidated loss and the Parent's profit	(28,025)
Consolidated equity attributable to owners of the Parent	**421,855**
Analysis of consolidation reserves*:	
(1) Elimination of investments	(10,168)
(2) Elimination of intercompany dividends	-
(3) KME Germany A.G. consolidation differences	109,840
(4) Translation and other differences	(503)
Total	**99,169**

Statement of the manager in charge for financial reporting

Statement about the condensed interin consolidated financial statements pursuant to art. 81 ter of CONSOB Regulation 11971 of 14 May 1999 as subsequently amended

1. Having regard to the requirements of article 154*bis*, paragraphs 3 and 4, of Legislative Decree 58 of 24 February 1998, the undersigned Vincenzo Manes, Deputy Chairman, and Marco Miniati, the Manager Responsible for Financial Reporting at KME Group S.p.A., hereby certify:
   - the adequacy with respect to the characteristics of the Company and
   - the actual application of administrative and accounting procedures in the preparation of the condensed interim consolidated financial statements as at and for the period 1 January 2009 to 30 June 2009.

2. Assessment of the adequacy of the administrative and accounting procedures for the preparation of the condensed interim consolidated financial statements at 30 June 2008 was made in accordance with generally accepted international methods (the Committee of Sponsoring Organisations of the Treadway Commission – COSO report).
   No material findings were made in this regard.

3. It is also certified that:
   3.1. the condensed interim consolidated financial statements:
      a) were prepared in compliance with International Financial Reporting Standards as endorsed by the European Community pursuant to Regulation (EC) 1606/2002 of the European Parliament and of the Council of 19 July 2002;
      b) correspond to the Company's underlying accounting records;
      c) are suitable to provide a true and fair view of the issuer's assets, income and cash flows and of its consolidated companies;
   3.2. the Directors' Report contains a reliable analysis of significant events that occurred during the first six months of the year and of their effect on the condensed interim consolidated financial statements, together with a description of principle risks and uncertainties for the remaining six months of the year. The Directors' Report also includes a reliable analysis of information on related party transactions.

Florence, Italy
6 August 2009

The Deputy Chairman
signed Vincenzo Manes

Manager Responsible
signed Marco Miniati

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

Review report

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

1 We have reviewed the condensed interim consolidated financial statements comprising the statement of financial position, statement of comprehensive income, statement of changes in equity, cash flow statement and notes thereto of the KME Group as at and for the six months ended 30 June 2009. The parent company's directors are responsible for the preparation of these condensed interim consolidated financial statements conformity with the International Financial Reporting Standard applicable to Interim Financial Reporting (IAS 34), endorsed by the European Union. Our responsibility is to prepare this report based on our review.

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

With regard to the corresponding figures included in the condensed interim consolidated financial statements, reference should be made to our reports on the annual consolidated and condensed interim consolidated financial statements of the previous year dated 9 April 2009 and 27 August 2008, respectively. The corresponding figures have been reclassified in order to reflect the changes to the financial statements schedules introduced by IAS 1 (revised 2007).

3 Based on our review, nothing has come to our attention that causes us to believe that the condensed interim consolidated financial statements of the KME Group as at and for the six months ended 30 June 2009 have not been prepared, in all material respects, in conformity with the International Financial Reporting Standard applicable to Interim Financial Reporting (IAS 34), endorsed by the European Union.

Florence, 26 August 2009

KPMG S.p.A.

(signed on the original)

Riccardo Cecchi
Director of Audit

Condensed information on the results as at and for the first six months of 2009 of the Parent, KME Group S.p.A.

The Parent KME Group S.p.A.*

KME Group S.p.A. profit for the first six months of 2009 after taxes was Euro 6.3 million.

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

(thousands of Euro)

2008	Income statement	1st Half 2009	1st Half 2008
20,939	Dividends received from KME Germany A,G.	-	20,939
2,839	Service income	1,420	1,424
(6,385)	Operating costs	(2,363)	(3,384)
(1,167)	Stock option costs	(240)	(666)
8,219	Net financial income (expense)	7,665	6,804
24,445	**Profit before non-recurring items**	**6,482**	**25,117**
(3,300)	Non-recurring income (expense)	-	(3,300)
21,145	**Profit before tax**	**6,482**	**21,817**
(121)	Taxation	(215)	518
21,024	**Profit for the period**	**6,267**	**22,335**

Profit before non-recurring items decreased significantly due to the lack of dividends from the German subsidiary, KME Germany A.G., due to the reorganisation of the Group's manufacturing companies in 2008.

Financial income, in addition to income earned on the investment of net cash holdings, includes:

- Euro 3.5 million (2008: Euro 3.4 million) in fee income from subsidiaries for guarantees issued by the Parent to financial institutions on behalf of the subsidiaries to obtain lines of credit;
- Euro 2.8 million (2008: Euro 1.7 million) in gains on listed securities held in portfolio as a result of increased stock market prices at 30 June 2009.

* The balance sheet, income statement and cash flow statement of KME Group S.p.A. as at and for the first six months of the year have not been independently audited.

The following table shows a summary of key aspects of the **balance sheet** of KME Group S.p.A.:

(thousands of Euro)	30.06.2009	31.12.2008
Assets		
Investment property	3,216	3,216
Investment in KME Germany A.G.	307,232	307,096
Investment in KME Italy S.p.A.	4,519	4,519
Investment in KME Recycle S.p.A.	2,000	2
Non-current assets	**316,967**	**314,833**
Investment in ErgyCapital S.p.A.	5,641	3,058
iNTEk S.p.A. savings shares	4,299	4,077
Treasury shares	2,888	2,349
Net assets (liabilities)	(4,508)	59
Current assets	**8,320**	**9,543**
Net financial position	**28,312**	**34,102**
Total assets	**353,599**	**358,478**

(thousands of Euro)	30.06.2009	31.12.2008
Liabilities		
Share capital	250,010	250,010
Reserves	97,322	87,444
Profit for the period	6,267	21,024
Total equity	**353,599**	**358,478**

The changes in current asset values relate to:

- the measurement of 5,001,932 **ErgyCapital** shares at Euro 0.622 each (Euro 0.38 at 31 December 2008) and 14,291,235 of that company's warrants at Euro 0.177 each (Euro 0.08 at 31 December 2008);
- the measurement of 5,824,990 iNTEk savings shares at Euro 0.738 each (Euro 0.70 at 31 December 2008).

There is a decrease in **net assets** due to the collection of tax receivables of Euro 5.2 million in June.

Reserves have increased by approximately Euro 10 million due to the appropriation of undistributed 2008 profits.

Shareholders, at their meeting of 16 September 2008, approved the **authorisation to purchase and sell both ordinary and savings treasury shares** in accordance with articles 2357 and 2357 ter of the Italian Civil Code and art. 132 of the Consolidated Finance Act.
Trading in treasury shares, which commenced on 22 September 2008, may entail the purchase of a maximum amount of treasury shares that does not exceed 10% of the share capital, calculated as the number of ordinary and savings shares held in portfolio by the Company, in addition to ordinary and savings shares of the Company held by subsidiaries.
The authorisation to acquire trading shares is valid for a maximum of 18 months from the date of the Meeting, i.e., 16 March 2010.
Treasury shares must be purchased on markets regulated by Borsa Italian S.p.A. and in accordance with trading in compliance with the organisation and operating requirements of the stock markets that do not permit the direct matching of buy orders with predetermined sell orders and, furthermore, in compliance with Regulation (EC) 2273 of 2003.
The purpose of acquiring treasury shares is: (i) to create a portfolio of the treasury shares so acquired which can then be used for operational transactions or projects consistent with KME strategy on share exchanges including using the shares for convertible bonds and/or warrants; (ii) to use the treasury shares so acquired for any stock options for the Directors and/or Executives of the Company or of companies directly or indirectly under its control.

The acquisition of treasury shares, however, was suspended on 26 February 2009. At that date the Company held 5,475,170 of its own ordinary shares or 2.33% of shares of the same class with a carrying amount of Euro 0.509 each, in addition to 90,055 of its own savings shares or 0.47% of shares of the same class. Total treasury shares currently held equal 2.19% of total share capital. The investment was Euro 2.9 million.
At their meeting of 16 September 2008, shareholders also authorised the use of all or part of the treasury shares acquired at any time without limit for any purpose and in any manner permitted by law, with the ability to determine timing, methods and conditions at the time of using the shares considered to be in the best interests of the Company.

The Parent reclassified **net financial position** at 30 June amounts to Euro 28.3 million:

(thousands of Euro)	at 30.06.2009	at 31.12.2008
Short-term borrowings	28,592	29,699
Medium to long-term borrowings	53,121	47,867
Financial payables due to parent	-	17
Financial payables due to subsidiaries	5,491	3,882
Payables for financial guarantees due to subsidiaries	9,433	7,297
Total borrowings	**96,637**	**88,762**
Cash and cash equivalents	(1,836)	(661)
Financial receivables due from subsidiaries	(63,314)	(69,901)
Current receivables for financial guarantees due from subsidiaries	(4,097)	(5,962)
Total liquid assets and financial receivables	**(69,247)**	**(76,524)**
Total net debt	**27,390**	**12,238**
Non-current receivables for financial guarantees due from subsidiaries (1,335)		(5,336)
Non-current financial receivables due from subsidiaries	(46,705)	(41,766)
Non-current financial receivables due from credit institutions	(3,661)	(3,239)
Reclassified total net financial position	**(28,312)**	**(34,102)**

The reclassification relates to the inclusion in the net financial position of the payables and corresponding receivables with respect to financial guarantees issued on behalf of subsidiaries and financial payables and receivables relating to the loan from Mediocredito Centrale S.p.A., with the current and non-current portions having been lent on to industrial subsidiaries.
Additional information with respect to the reclassification of short-term and medium/long-term borrowings is contained in the section on the consolidated financial position.
The Company's net financial position amounts to Euro 28.3 million. The decrease of Euro 5.8 million since 31 December 2008 is due to the payment on 14 May 2009 of dividends for 2008, totalling Euro 11.3 million. This was partially offset by the collection in June 2009 of tax receivables of Euro 5.2 million.

Outlook

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

Florence, Italy
6 August 2009

The Board of Directors

Statement by the Manager Responsible for Financial Reporting pursuant to art. 154 bis, paragraph 2 of Legislative Decree 58/1998 (Consolidated Finance Act)

I, Marco Miniati, the Manager Responsible for Financial Reporting, hereby state, pursuant to art. 154 bis, paragraph 2 of the Consolidated Finance Act (Legislative Decree 58/1998), that the accounting information contained in this KME Group S.p.A. Directors' Report at 30 June 2009 corresponds with the underlying accounting records.

The Manager Responsible
(signed Marco Miniati)

KME Group S.p.A.

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