KME

2010 Half year report

Directors' report at 30 June 2010

KME

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Company bodies

Board of Directors	
Chairman	Salvatore Orlando
Deputy Chairman	Vincenzo Manes[B]
Deputy Chairman	Diva Moriani[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
	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 of savings 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

Please note for the purposes of reviewing KME Group's operations, that the partial, proportional reverse demerger of iNTEk S.p.A. into KME Group S.p.A. (the "Demerger") became effective on 22 March 2010.
The Demerger entailed the transfer to KME Group S.p.A. of certain assets and liabilities of iNTEk S.p.A. primarily comprised of investments.
The investments so acquired particularly related to: ErgyCapital S.p.A., specialised in renewable energy and energy conservation; Drive Rent S.p.A., a provider of corporate motor vehicle fleet services; and, Culti S.p.A., a company operating in the furnishings and accessories sector. Information on these companies' operations are contained in the relevant section of this Report.

The following operating review, therefore, relates to the segments in which the Company has invested ranging from its traditional semi-finished copper products and copper alloys, which remain its core business, to the above new segments.
The direct subsidiary, Drive Rent S.p.A., and the indirect subsidiaries, Drive Service S.p.A. and Easydriver Car Services Espana SLU, were consolidated on a line-by-line basis for the first time on 30 June 2010. The equity method, on the other hand, has been used to consolidate the investment in ErgyCapital S.p.A..

* * *

The world economy showed signs of recovery at the beginning of 2010, which were characterised by the mixed performance of countries and world regions.
Benefiting from the support provided by expansionary monetary policies and the gradual relaxation of conditions on the financial markets, growth accelerated in the Unites States, Japan and, to a greater extent, in the emerging Asian economies of China and India. Growth rates, however, were more moderate in Europe where growth was largely derived from export orders predominantly for Germany.

Domestic demand in Europe, where the Group's operations are focused, remains weak as a result of factors that could affect the intensity and timing of the recovery.
Consumer demand is dependent on the economy and the outlook for employment.
Capital expenditure by companies has been affected by the uncertainties concerning demand and the high levels of idle production capacity.

The rationalisation and reorganisation of production in recent years that were accentuated to counter the effects of the recent international recession meant that the Group was able to strengthen its competitiveness and, consequently, better take advantage of the recovery of the markets.
The results for the first half of 2010 were better than those for the same period last year, both in terms of sales volumes and operating profit margins.

Consolidated revenue for the first six months of 2010 totalled Euro 1,399.7 million or 55.8% ahead of the same period in 2009.
Revenue less raw material costs increased from Euro 332.5 million to Euro 404.9 million or 21.8%. Euro 29.8 million of the increase was a result of the enlargement of the consolidation scope. Adjusting for this change, there was a net revenue increase of 12.8%.

EBITDA* for the first half of 2010 was Euro 45.7 million (Euro 42.9 million on a like-for-like basis) compared with Euro 22.3 million for the same period in 2009 and Euro 23.0 million for the second half of 2009.
There was also an improvement in profit percentages with EBITDA on revenue increasing from 6.7% for the first and second half of 2009 to 11.3% for the first half of this year.

* Reclassified indicators, a description of which is contained in "Operating Performance of the Group".

EBIT* for the first half of 2010 was a positive Euro 17.7 million, compared with negative EBIT of Euro 8.9 million for 2009.

Consolidated profit before taxes* totals Euro 5.3 million (comprising of ErgyCapital S.p.A.'s post acquisition loss of Euro 1.8 million). The period closed with a loss of Euro 3.4 million (compared to a loss of Euro 20.1 million for the first six months of 2009).

In this Operating Review, the performance indicators provided above have again been measured and presented in a manner somewhat at variance with the IFRS accounting standards used to prepare the consolidated financial statements. Specifically, they have been presented ignoring the effect of measuring raw material inventories, for semi-finished copper and copper-alloy products, substantially at market value, as required by IFRS, since price volatility introduces an exogenous factor, the variability of which makes it impossible to consistently compare data for two different periods and to provide an accurate picture of actual results of operations.
More detailed information is included in the description of the reclassifications made, which is provided later in this Report under "Operating Performance of the Group".

Prices at 30 June 2010, which had been increasing since the beginning of the year, meant that the determination of the cost of raw materials inventories on a first-in, first-out basis as the first step to measuring closing inventories at the lower of cost and net realisable value, rather than determining cost on a base stock** last-in, first-out basis, resulted in a higher inventory valuation under IFRS than would have been the case if LIFO had been used. The difference was a Euro 4.4 million increase at the end of June 2009 whereas it was a Euro 41.4 million increase at 30 June 2010.
The **consolidated profit** for the first half of 2010, as determined measuring inventories in compliance with IFRS, is therefore Euro 38.0 million, whereas the loss for the same period in 2009 was Euro 15.7 million.

Steps taken to contain working capital requirements, introduced to optimise the management of trade credit granted and, above all, trade credit taken from raw materials suppliers, meant that there was a further reduction in the Group's **net debt** at 30 June 2010 to Euro 173.4 million (Euro 286.6 million at 31 December 2009).
The net debt was held at a level lower than working capital, in demonstration of the Group's sound financial structure and the lack of structural indebtedness.

Equity attributable to owners of the Parent and non-controlling interests at 30 June 2010 was Euro 488.9 million (Euro 422.8 at 31 December 2009).

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

The semi-finished copper and copper-alloy products segment

The demand for the Group's semi-finished copper and copper-alloy products differed between markets and geographical segments.

Building materials is an important market for the Group's products. Copper tubing is used for water heaters, copper and copper-alloy rolled products for roofing and façades, brass and bronze profiles for external fixtures and decorations, and brass rods for taps, handles, windows and door fittings.

The demand for **semi-finished products for the construction industry** (consolidated revenue for these products was 33% of the total), in the first half of this year was adversely affected particularly by cold weather in Europe and North America, which caused a further reduction in construction, and the increase in copper prices which, given high price volatility, created uncertainties in the minds of intending purchasers.

Despite decidedly weak market conditions, the Group continued to develop its new strategy for **rolled copper roofing products** of downstream expansion and the use of new metals. Sales of rolled zinc roofing products that are made at the Cordoba plant in Spain continue to expand, as do turnkey architectural projects through the development of Architectural Solutions activities brought about by the reinforcement of the teams engaged in this work and the employment of sector specialists. The outlook is good for TECU® Solar Roofs, which combine the artistic appearance of copper with energy savings.
The crisis affecting capital expenditure on new construction also touched sales of **tubing for water heating systems**. The Group has reinforced its competitive position in western Europe through continuous improvement of customer service and by increasing its presence in renewable heating systems (particularly solar and geothermal).
There were signs that demand was recovering for **brass rods** for plumbing and heating systems.

There are very many **industrial** uses for copper and copper-alloy products in, for example, the automotive, electric and electronic components, air conditioning and refrigeration, and the fancy goods industries, and mechanical engineering in general. The telecommunications industry incorporates copper tubing in the coaxial cables for mobile telephone transmission towers; the Group also produces continuous casting moulds for the steel industry and intermediate non-ferrous products, blanks for the minting of coins and special tubing for the construction of ships and offshore installations.

There was a good recovery in demand for **industrial semi-finished products** (67% of total consolidated revenue) in the first half of 2010 after the sharp downturn in 2009.
Demand was up for **rolled products for the manufacturing industry,** particularly the automotive, mechanical and white goods segments, above all in Germany.
Demand also recovered for **tubing for industrial applications**, particularly in the air conditioning and refrigeration sectors as well as for components for the production of energy from renewable sources.
There were timid signs that demand was recovering for **copper casting moulds for the steel industry**.
Sales of **copper bars** for electrical applications also picked up.

The **price of copper**, the metal most used for the Group's semi-finished products, for the first half of 2010 were by and large up on the fourth quarter of 2009, as a result of the recovery of emerging economies and the speculation that has resulted from the vast amount of liquidity at international level. The rising trend continued into July and August.

KME Group was able to take advantage of the recovery in demand through offering customers integrated services and solutions, combined with a strengthening of distribution.

Consolidated revenue for the first six months of 2010 was Euro 1,369.9 million or 52.5% ahead of the same period in 2009.
Revenue less raw material costs increased 12.8%, from Euro 332.5 million to Euro 375.1 million whereas sale volumes increased by 21.1% as a result of a different mix.
Raw material costs were approximately 73% of the revenue from sales of semi-finished products (66% on average for 2009).

The increase in sales and the improvement in the competitive position that were a result of the rationalisation of production and the reorganisation, undertaken to meet the challenge of last year's recession, resulted in an improvement in operating profit for the copper segment in the first six months of 2010, with respect to both the same period last year and the second half of 2009.

EBITDA for the segment* in the first half of 2010 was Euro 42.9 million compared with Euro 22.3 million for the same period in 2009 and Euro 23.0 million for the second half of 2009.
There was also a relative improvement in profitability, with the EBITDA margin up from 6.7% for the first six months and second half of 2009 to 11.4% for the first half of this year.

EBIT for the segment* in the first half of 2010 was a positive Euro 17.6 million, against negative EBIT of Euro 8.9 million for 2009.

Investments of the segment's production units in the first six months of 2010 were Euro 12.5 million (Euro 11.9 million in 2009).
Investments continue to be focused on the rationalisation of the Group's production and distribution as well as product development and efficient resource allocation.
The most important investment projects were at the Osnabruck plant in Germany for modification of the rolled products production lines, the combination of two electricity supply lines and work on the foundry heating system. Work on operational excellence is underway at the Fornaci di Barga plant in Italy, whilst the installation of a new scrap metal press is planned for the Boisthorel plant in France.

The segment's workforce at 30 June 2010 totals 6,444 (6,485 at the end of 2009).

* * *

The **outlook** for semi-finished copper and copper-alloy products is expected to reflect the improvement in demand in the first few months of the year, which continued into the following months and which is creating a better environment for the Group's businesses.
The enhancement of the Group's competitiveness brought about by the strengthening of its production and organisational structure means that it is now able to take advantage of the improved environment, thus achieving results that are considerably ahead of last year and enabling it to resume earnings growth and return to an adequate return on capital employed.

* Figures relating to the Parent have been included to ensure comparability.

The renewable energy segment

The subsidiary, **ErgyCapital S.p.A.**, an investment company incorporated in 2007 and listed in 2008 on the stock exchange organised and managed by Borsa Italiana, continued the launch and development of its core businesses in renewable energy plant construction and generation, and in energy saving.
The ErgyCapital Group's **revenue** for the first six months of 2010 was Euro 9.2 million, up 28% on the first six months of 2009 on a like-for-like basis of consolidation. The increase was primarily a result of power generation, the revenues of which more than doubled due to the increase in installed capacity.
Consolidated **EBITDA** from continuing operations was a negative Euro 0.3 million, compared with a negative Euro 3.2 million for the same period in 2009.
The improvement was mainly attributable to the power generation segment, which made a positive contribution to the doubling of the operating profit for the first half of 2009, due to the increase in installed capacity. Plant construction also made a positive contribution.
The **loss** of Euro 3.9 million for the period (a Euro 4.8 million loss for the first half of 2009) was caused by non-recurring expenses, primarily in the form of impairment losses and provisions of Euro 1.2 million, principally in connection with development projects abandoned partly due to expectations of new energy regulations, and costs of Euro 0.5 million relating to the initial public offering of ErgyCapital 2011 warrants, completed in July of this year.
The company's outlook is for significant revenue growth from plant construction, whereas the ability to achieve the objectives for installed power generation capacity by year end are dependent on the time needed to raise the necessary financing, which is currently taking much longer than initially expected, thus resulting in the possibility of delays.
Detailed information on ErgyCapital S.p.A.'s operations and, particularly, the effect of the lengthening of the time needed to raise financing is contained in the interim report approved by the company on 5 August 2010.

Services segment

The subsidiary, **Drive Rent S.p.A.**, is the parent of the Drive Group, which consists of various businesses: long-term car hire, third-party fleet management, the rental of replacement motor vehicles to auto repair businesses, corporate accommodation services and the management of a car park in the centre of Milan.
The long-term car hire business was further reduced in the first six months of 2010 in line with the strategy to exit the sector. It is still intended to discontinue the business by the end of the year.
The management of third-party vehicles continues to be affected by the crisis in the automotive industry, which had a direct effect on corporate vehicles in 2009 and, as a result of the discontinuation of government incentives, will also influence sales of motor vehicles to private consumers in 2010, thus resulting in a fall in new car registrations. Despite this, the Drive Group succeeded in maintaining volumes due to obtaining large contracts with new customers, albeit with revenues below forecast. There was also an obvious fall in contribution margins to levels below expectations as a result of the lack of revenue growth on sales to private individuals. Although the loss of this business was compensated for by new corporate contracts, this was in terms of revenues but not profits due to the slimmer margins on this type of business. Profitability became critical due to a major contract with an important industrial group which, in the first six months of the year, generated significant losses on a high number of special vehicles as a result of non-routine maintenance costs that had not been foreseen in the contract. The company did not terminate the contract because of the strategic and commercial importance of the

client but established a complex method of recovering the additional costs. An agreement was concluded at the beginning of July, with retroactive effect to 1 January 2010, establishing a method for charging the client with these costs. The outcome will be reviewed by September in order to assess their effect on profit or loss.
The progressive introduction of the new information system has subsequently resulted in the containment of fixed costs, thus limiting the effect on profit or loss of the reduced volume of business. It is, therefore, expected that the profitability of the business will improve as soon as the crisis is over and revenue growth has picked up again.
Car hire and the management of replacement vehicles for repair and body shops also saw volumes come in at below expectations due to the ongoing difficulties in the auto repair segment. Despite the fact that the numbers of customers and their vehicles continue to increase, the fact that the vehicles are used less because of the contraction in customers' business volumes means that the related revenues are lower than expected. That notwithstanding, the increase in the number of customers and the consolidation of Drive's market leadership for this business have created the conditions for a pick-up in revenue and profit margins as soon as the market recovers.
The number of apartments managed to provide accommodation for corporate customers has evened out after the fall in 2009 caused by the general economic downturn, whereas intensive marketing efforts have resulted in promising new contacts with large corporations that are expected to show the first concrete results in 2010.
Although revenue and profit margins reported by Elogistique S.r.l., which manages a car park in the centre of Milan, were in line both with forecasts and last year's results, a 68% investment in the company was sold in June 2010, so that it has now become a 30%-owned associate. The disposal of the shares was the first step in Drive's exit from the business, which is no longer considered strategic.
Finally, the results for the period of the subsidiary Easydriver Car Services Espana SLU, which was acquired in 2008, were ahead of expectations due to continuing increases in productivity against a backdrop of stable revenues. The stability of Easydriver's revenues is very positive given the ongoing economic and financial difficulties of the Spanish business community.

The Drive Group's consolidated **revenue** for the first six months of 2010 was Euro 29.8 million, in line with that of the same period in 2009. **EBITDA** was positive at Euro 2.8 million (Euro 3.8 million for the first half of 2009) and there was a loss for the period of Euro 0.8 million (profit of Euro 1.3 million for the first half of 2009).
Net debt at 30 June 2010 was approximately Euro 20.5 million (Euro 18.9 million at 31 December 2009). The increase in net debt was influenced by the decision to reduce reliance on trade credit, despite the increasing period of time needed to collect receivables from customers, large corporations and public entities, in order to consolidate existing relationships with the assistance network, which represents a strategic asset for the future plans of the Drive Group.

* * *

The new business plan for the semi-finished copper and copper-alloy products segment for 2010-2014, approved by KME Group S.p.A.'s Board of Directors on 5 August 2010, has been used for the preparation of these interim consolidated financial statements, particularly in connection with the impairment tests required by IFRS for property, plant and equipment and intangible assets.
The Directors also appreciate the fact that the Company's market capitalisation was considerably below the carrying amount of net assets, duly noting the explanations for this phenomenon already given, in part with respect to the assessment carried out for the presentation to the Shareholders of 2 December 2009 of the planned demerger, which was approved at that meeting. It was specifically confirmed that the severe

instability of financial markets caused by the exceptional economic crisis, the lack of coverage of the Company by analysts and the low trading volumes in the Company's shares, due to market illiquidity, severely penalised market capitalisation, which does not necessarily reflect the underlying value of the Company.

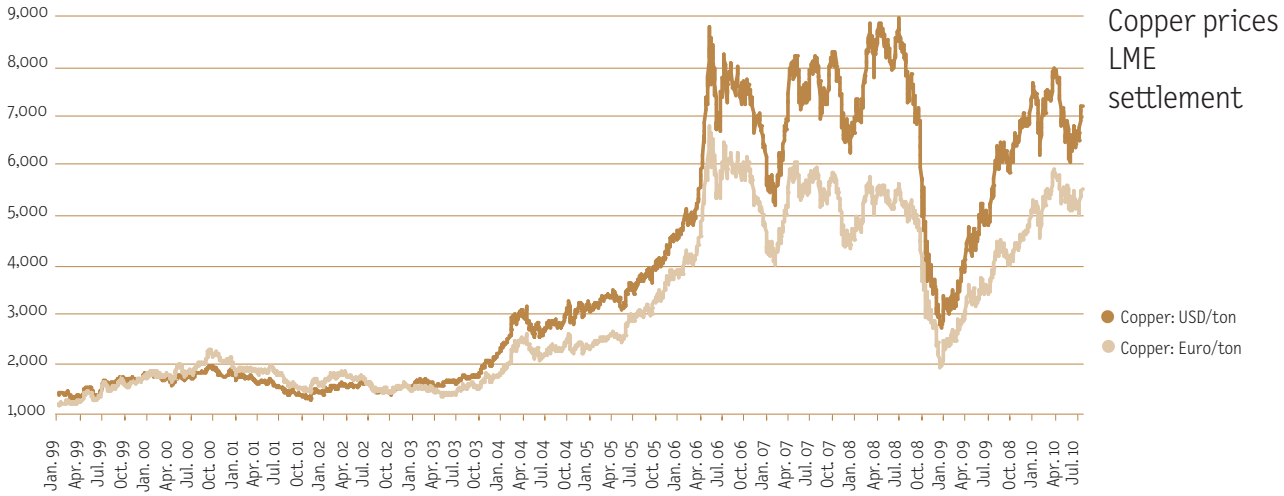
Additional information on the parameters and procedures used for impairment testing is contained in the notes to the condensed interim consolidated financial statements.

Copper market and prices

The average price of copper in the first half of 2010 was ahead of the average price for the same period in 2009, increasing 76.2% in US Dollar terms (from US$4,046 per tonne to US$7,130 per tonne) and by 77.5% in Euro terms (from Euro 3,027 per tonne to Euro 5,374 per tonne).

Looking at price trends, in the second quarter of 2010, the average price of copper was higher than in the fourth quarter of 2009 by 5.6% in US dollar terms (up from US$6,643 per tonne to US$7,013) and 22.7% in Euro terms (up from Euro 4,494 per tonne to Euro 5,514) due to the appreciation of the dollar.

In July 2010, the price of copper was more stable. The average price for the month was US$6,735 per tonne (equal to Euro 5,273 per tonne). These prices were confirmed at the beginning of August.



Partial, proportional reverse demerger of iNTEk S.p.A. into KME Group S.p.A.

The Demerger, which was approved by the Shareholders of both companies on 2 December 2009, became effective on 22 March 2010.
It entailed the transfer to KME Group of certain assets and liabilities of iNTEk, primarily consisting of investments.

The investments transferred were:

- **ErgyCapital S.p.A.** (55% investment at 30 June 2010, 46.4% of which obtained through the Demerger, with a total carrying amount, shares plus warrants, of Euro 34.4 million, and 8.7% already directly held by KME Group prior to the Demerger): an investment company, specialised in the renewable energy and energy saving sectors, the shares of which are traded on the Electronic Market for Investment Vehicles (MIV) organised and managed by Borsa Italiana. The company's strategy is to diversify its investments across different power generation technologies (e.g., photovoltaic, biomass, wind power) and different segments of the industry from the basic technology through to plant construction and generation.
  After the Demerger, KME Group replaced iNTEk S.p.A. as a party to the Shareholder Agreement, which was originally signed on 10 December 2007, between iNTEk S.p.A. and Aledia S.p.A., with respect to the ordinary shares of ErgyCapital S.p.A..
  The Agreement, which is consultative in nature in addition to regulating voting, also restricts the transfer of restricted financial instruments. This effectively ensures the joint control over the Company. At 30 June 2010, agreement covered 39,328,835 ordinary shares of ErgyCapital or 51.85% of the share capital, 25,412,895 of which, or 33.50% of share capital, held by KME Group and 13,915,940, or 18.35% of the share capital, held by Aledia.
  Subsequent to 30 June 2010, ErgyCapital increased its share capital in July by Euro 9.9 million. KME Group subscribed to a total of 8,796,287 shares for a total of Euro 4.6 million. On completion of the capital increase, KME Group's total investment in ErgyCapital was 53.3%, with 46.4% being held as a non-current investment and 6.9% as a current investment held for trading.

- **Drive Rent S.p.A.** (90% investment with a carrying amount of Euro 30 million): a service company involved in the management of corporate fleets of motor vehicles. It is engaged in a variety of businesses: long-term car hire, third-party fleet management, the rental of replacement motor vehicles to auto repair businesses, corporate accommodation services and the management of a car park in the centre of Milan.
  The remaining 10% of Drive Rent's share capital is held by three individuals, one of whom, Ludovico Maggiore, is the managing director of Drive Rent S.p.A..
  Drive Rent S.p.A. operates independently, determining its own operating and financial policies.

- **Culti S.r.l.** (investment of 40% with a carrying amount of Euro 1.0 million, which increased to 100% following the Demerger to total Euro 3.4 million): the company is engaged in residential interior design and household goods in the furnishings and life style sector.
  The company is managed by a Sole Director and operates independently, determining its own operating and financial policies.

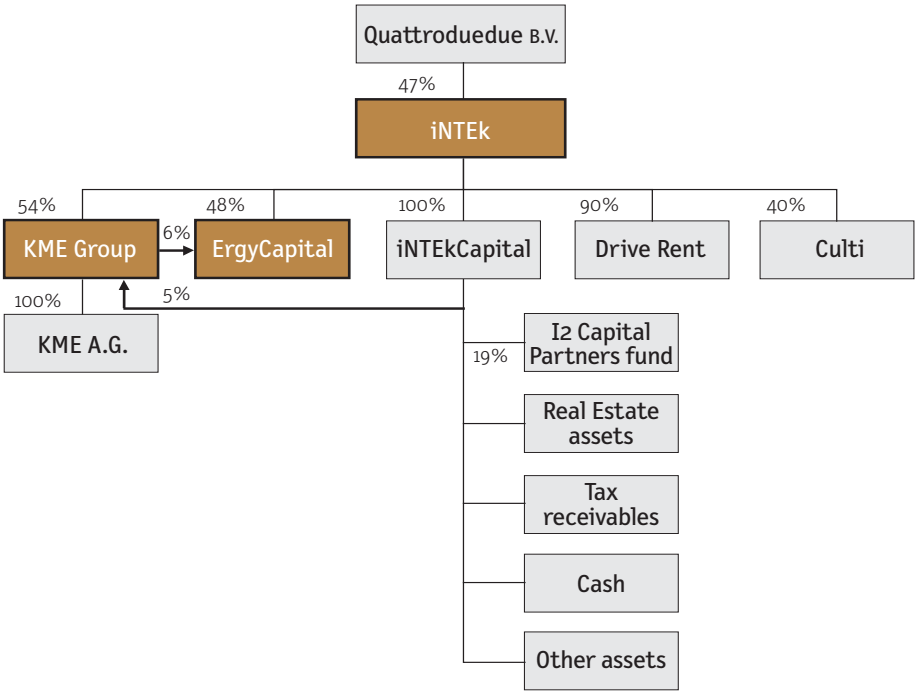
In addition to the demerged net assets transferred to KME Group, there were also a financial liability to Intesa Sanpaolo S.p.A. of Euro 31.1 million and loans and receivables of Euro 3.9 million.

As a result of the receipt of the demerged assets, KME Group increased its net assets by Euro 38.8 million, Euro 23.7 million of which through a capital increase of Euro 250,021,765.45 to Euro 273,761,740.66, through the issuance of 28,116,243 new ordinary shares and 8,141,936 new savings shares, and Euro 15.1 million by recognised negative goodwill in equity.

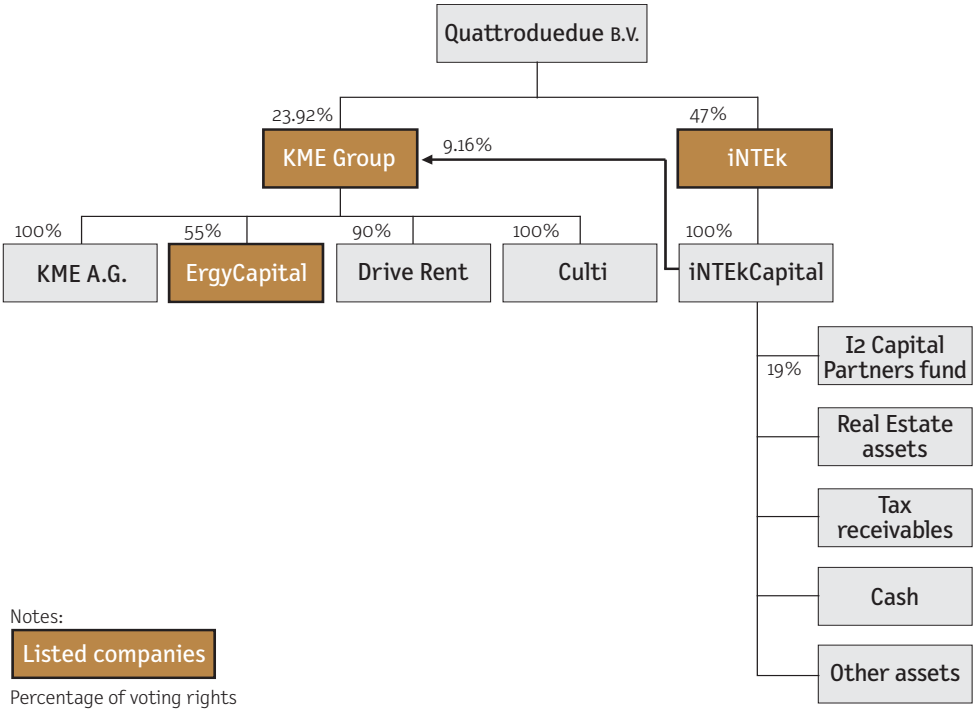
Because of the warrants exercised, KME Group S.p.A.'s share capital at 30 June 2010 was Euro 273,767,892.26, consisting of 418,126,419 shares, 381,376,318 of which are ordinary shares and 36,750,101 savings shares.

The following charts depict the Group's pre- and post-Demerger structure. The post-Demerger structure also includes any changes between 22 March and 30 June 2010.

Pre-demerger Group structure



Post-demerger Group structure at 30 June 2010



Notes:

Listed companies

Percentage of voting rights

The Demerger also required KME Group to carry out a capital increase of up to Euro 80 million to strengthen the Company's capital base. This entailed the issue of new ordinary and savings shares to be offered in option to elegible parties at a price in the range for each ordinary share of between Euro 0.30 and Euro 0.37 and, for each savings share, of between Euro 0.50 and Euro 0.57.

The final terms and conditions of the issue were determined at the Board of Directors' meeting of 16 June 2010. The options offering consisted of a divisible, capital increase against consideration of a maximum of Euro 59,207,365.00 through the issue of up to 169,619,800 ordinary and 16,642,850 savings shares.

The subscription price was fixed at Euro 0.30 for each newly issued ordinary share and Euro 0.50 for each savings share 5 new ordinary and savings shares were offered for each 11 ordinary or savings shares held.

The first day of the options exercise period was 21 June 2010.

When the options exercise period expired on 9 July 2010, 65,721,410 new ordinary shares (38,8% of the issue) had been subscribed, yielding Euro 19.7 million (Euro 17.2 million of which related to shares subscribed by the controlling shareholder, Quattroduedue S.p.A.), and 6,705,315 new savings shares (40.3% of the issue), yielding Euro 3.4 million.

Unexercised options were offered on the Stock Exchange for the trading sessions from 16 July to 23 July 2010, resulting in the subscription of a further 180,000 ordinary shares and 244,000 savings shares.

By the end of both options exercise periods, therefore, 65,901,410 ordinary shares (38.85% of the total issue) had been issued, yielding Euro 19.8 million, in addition to 6,949,315 savings shares (41.76% of the total issue), yielding Euro 3.5 million.

The total cash contributions of Euro 23.2 million were used to replenish KME Group's capital, which had been eroded by the liabilities arising on the Demerger, needed for portfolio investments and to fund the Parent's ordinary operations.

The Company's increased share capital at the reporting date totalled 297,012,972.76 shares, subdivided into 447,277,728 no par value ordinary and 43,699,416 savings shares.

At the conclusion of the capital increase described above, the parent, Quattroduedue S.p.A., held 41.03% of the ordinary share capital, 29.7% of which is held directly and 11.3% indirectly through an indirect subsidiary (held through iNTEk S.p.A.), IntekCapital S.p.A.. The investment has subsequently increased to 41.3% as a result of further acquisitions.

Operating performance of the Group

As explained above, by not permitting the LIFO cost of year-end inventories of semi-finished copper and copper-alloy products that is used internally for management purposes, IFRS introduced an external factor, the variability of which makes it impossible to compare data of two different periods to give an accurate picture of the results of operations.
Some of the following comments on the income statement and cash flows are, consequently, based on accounting policies that are at variance with IFRS, primarily with respect to presentation and measurement. Specifically:

1 revenue is also presented **net of raw material costs** in order to eliminate the impact of fluctuations in raw material prices;
2 the cost of the base-stock component of **year-end metals inventories of semi-finished copper and copper-alloy products** (i.e., inventories that will not be sold) is determined on a last-in, first-out basis. Metals that will be sold, on the other hand, are measured at their contractual selling prices, which are deemed to be their realisable value. Under IFRS, on the other hand, inventories are required to be measured at the lower of cost, as determined on a FIFO basis, and net realisable value. IFRS also require forward sales and purchase contracts as well as hedging contracts traded on the LME to be separately identified and recognised as financial instruments at fair value;
3 **non-recurring items** are reported in the below gross operating profit.

The following table shows the effects in 2010 of the different methods of measurement and presentation.

Reclassified income statement (millions of Euro)	1st Half 2010 IFRS		Reclassifications	Adjustments	1st Half 2010 Reclassified	
Gross revenue	1,399.7	100.0%			1,399.7	
Raw material costs	-		(994.8)		(994.8)	
Revenue net of raw material costs	**-**				**404.9**	**100%**
Personnel expense	(176.5)		0.6		(175.9)	
Other consumables and costs	(1,118.5)		991.1	(55.9)	(183.3)	
Gross operating profit (EBITDA)	**104.7**	**7.5%**			**45.7**	**11.3%**
Non-recurring income (expenses)	-		2.6		2.6	
Amortisation and depreciation	(30.9)		0.3		(30.6)	
Operating profit (EBIT)	**73.8**	**5.3%**			**17.7**	**4.4%**
Net financial expense	(15.1)		0.2	4.3	(10.6)	
Share of profit/(loss) of equity-accounted investees	(1.8)				(1.8)	
Profit before taxes (non IFRS inventory valuation)	**56.9**	**4.1%**			**5.3**	**1.3%**
Current taxes	(8.1)		-		(8.1)	
Deferred taxes	(10.8)		-	10.2	(0.6)	
Profit/(loss) after taxes (non-IFRS inventory valuation)	**38.0**	**2.7%**			**(3.4)**	**-0.8%**
IFRS impact on invent. and forward contracts	-			51.6	51.6	
Taxes under IFRS compliant inventories and forward contracts	-			(10.2)	(10.2)	
Consolidated profit	**38.0**	**2.7%**			**38.0**	**9.4%**
Profit attributable to non-controlling interests	0.5				0.5	
Profit attributable to the owners of the Parent	**37.5**	**2.68%**			**37.5**	**9.27%**

The above reclassified performance indicators assist in the analysis of the Group's performance because they provide a better approximation of actual profitability. Comments on the Group's operating performance are, naturally, also supplemented by figures taken from the financial statements with an IFRS compliant measurement of inventories.

An overview of the Group's consolidated results for the first half of 2010 with comparatives for the first six months of 2009 and 2009 is shown below.

KME Group - Consolidated income statement

(millions of Euro)

2009 Reclassified		1st Half 2010 Reclassified		1st Half 2009 Reclassified		% change
1,949.4	Gross revenue	1,399.7		898.5		55.8%
(1,285.9)	Raw material costs	(994.8)		(566.0)		75.8%
663.5	**Revenue net of raw material costs**	**404.9**	**100%**	**332.5**	**100%**	**21.8%**
(300.8)	Personnel expense	(175.9)		(151.2)		16.4%
(317.4)	Other consumables and costs	(183.3)		(159.0)		15.3%
45.3	**Gross operating profit (EBITDA*)**	**45.7**	**11.3%**	**22.3**	**6.7%**	**insig.**
2.9	Non-recurring income (expense)	2.6		(3.8)		insig.
(53.6)	Amortisation and depreciation	(30.6)		(27.4)		11.7%
(5.4)	**Operating profit (EBIT)**	**17.7**	**4.4%**	**(8.9)**	**-2.7%**	**insig.**
(14.6)	Net financial expense	(10.6)		(6.0)		76.8%
-	Share of profit/(loss) of equity-accounted investees	(1.8)		-		insig.
(20.0)	**Profit/(loss) before taxes (non IFRS inventory valuation)**	**5.3**	**1.3%**	**(14.9)**	**-4.5%**	**insig.**
(10.2)	Current taxes	(8.1)		(13.5)		-40.3%
0.7	Deferred taxes	(0.6)		8.3		insig.
(29.5)	**Loss after taxes (non-IFRS inventory valuation)**	**(3.4)**	**-0.8%**	**(20.1)**	**-6.0%**	**insig.**

* 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 equal to operating profit (EBIT) but before depreciation, amortisation and non-recurring items.

Revenue for the first half of 2010 totalled Euro 1,399.7 million, 55.8% ahead of the Euro 898.5 million for the first six months of 2009.
The increase was the result of raw materials price trends. Net of raw material costs, revenues increased 21.8% from Euro 332.5 million to Euro 404.9 million (Euro 375.1 million on a like-for-like basis). Sales volumes were up 21% as a result of a change in mix.

EBITDA of Euro 45.7 million is double the figure for 2009. On a like-for-like basis, EBITDA is Euro 42.9 million (up 92.4% on 2009), representing an EBITDA margin of 11.3% net of raw material costs (6.7% in 2009). EBITDA for the second quarter of 2010, on a comparable basis, was Euro 28.2 million, which was up significantly on the previous quarter (Euro 14.7 million in the first quarter of 2010 and Euro 11.0 million in the fourth quarter of 2009).

EBIT was a positive Euro 17.7 million, compared to negative EBIT of Euro 8.9 million in 2009.

The **Consolidated profit/(loss) after taxes**, restated to eliminate the effect of determining the cost of raw materials inventories at current prices as required by IFRS, was Euro 3.4 million (loss of Euro 20.1 million for 2009).
The tax charge relates to taxable profits of certain companies operating outside Italy in addition to current taxes in Italy that increase personnel expense (IRAP). Losses incurred by equity-accounted investees are the pro-rate amount of the first half-year losses of ErgyCapital S.p.A..

Effect of measuring raw materials at market prices (IFRS)

The table below shows the effect on the consolidated after tax profit for the first half of 2010 of determining the cost of base stocks of raw materials and outstanding physical buyer and seller contracts and London Metal Exchange forward contracts, as required by IFRS, and provides a comparison with the after tax loss for the first half of 2009:

(millions of Euro)

	1st Half 2010 Reclassified		1st Half 2009 Reclassified		% change
Loss for the period (non-IFRS inventory valuation)	**(3.4)**	**-0.8%**	**(20.1)**	**-6.0%**	**insig.**
IFRS impact on invent. and forward contracts	51.6		2.8		insig.
Taxes under IFRS compliant inventories and forward contracts	(10.2)		1.6		insig.
Consolidated profit/(loss)	**38.0**	**9.4%**	**(15.7)**	**-4.7%**	**insig.**
Profit attributable to non-controlling interests		0.5		0.2	
Profit/(loss) attributable to the owners of the Parent	**37.5**	**9.27%**	**(15.9)**	**-4.78%**	**insig.**

As a result of increasing prices, IFRS measured raw materials were higher than the corresponding figure for the LIFO valuation at the end of June 2010. At the end of June 2009, when prices were falling, the LIFO inventory valuation resulted in inventories that were Euro 4.4 million higher than would have been the case if measured as required by IFRS, whereas at the end of June 2010 the difference had risen to Euro 41.4 million. Compliance with IFRS during periods of highly volatile raw material prices introduces an exogenous factor for the determination of profits, the extreme variability of which can distort income reported by the Company.

As a result, the **Consolidated profit** (IFRS measured inventories) for the first half of 2010 is Euro 38 million (Euro 37.5 million after non-controlling interests), whereas the loss for the same period in 2009, on a like-for-like basis, was Euro 15.7 (Euro 15.9 million after non-controlling interests).

Financial position

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

(millions of Euro)	at 30.06.2010	at 31.12.2009
Share capital	273.8	250.0
Reserves	177.6	196.7
Profit/(Loss) for the period	37.5	(23.9)
Total equity	**488.9**	**422.8**

The increase in **Share capital** is the result of the issuance of new shares to accommodate the net assets that had been demerged from the iNTEk S.p.A.. Share capital at 30 June 2010 does not include the shares issued on 23 July 2010, yielding Euro 23.2 million.
Details are included in the section if this Report describing the Demerger.

The decrease in **Reserves** was due to coverage of losses for 2009. Reserves were subsequently increased by approximately Euro 15 million through recognition of negative goodwill.

Group **Net debt** at 30 June 2010 was Euro 173.4 million (Euro 286.6 million at 30 June 2009).
The decrease was a result of reducing working capital requirements, particularly through the improvement in managing trade credit extended to customers and, above all, through taking full advantage of deferred payment terms offered by suppliers.
"Cash and cash equivalents" varied as a result of temporary cash excesses during the normal course of the Group's business.
Net debt was held at a level lower than working capital, providing evidence of the Group's sound financial structure and the lack of structural indebtedness.

A breakdown of the **Consolidated net debt*** is provided below:

Net debt

(thousands of Euro)		30.06.2010	31.12.2009
Current bank loans and borrowings		162,418	186,700
Non-current bank loans and borrowings		343,380	363,075
Financial liabilities due to Group companies		11,310	2,432
(A) Total financial liabilities to financial institutions		**517,108**	**552,207**
Cash and cash equivalents		(60,167)	(108,964)
Other financial assets		(17,913)	-
Short-term financial receivables		(128,395)	(64,609)
Financial receivables due from Group companies		(1,242)	(1,283)
(B) Total cash and cash equivalents and current financial assets		**(207,717)**	**(174,856)**
Fair value of LME and metal forward contracts		(21,032)	20,771
Fair value of other financial instruments		(533)	351
(C) Financial instruments at fair value		**(21,565)**	**21,122**
Consolidated net financial position (A)+(B)+(C)	(1)	**287,826**	**398,473**
Non-current financial assets	(2)	**(114,387)**	**(111,923)**
Total net debt		**173,439**	**286,550**

1. Definition pursuant to CONSOB Communication DEM/6064293 of 28 July 2006 in application of the CESR recommendations of 10 February 2005.
2. Euro 108.5 million of these assets are guarantee deposits in connection with two fines imposed by the European Community in 2003-2004 on Group manufacturing companies for violations of anti-trust rules. The fines will obviously only result in cash outflows on the conclusion of the proceedings before the relevant authorities with which an appeal has been filed and only for those amounts upheld by those authorities.

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

(millions of Euro)	30.06.2010	31.12.2009
Net non-current assets	843.7	776.0
Net working capital	218.4	325.6
Net provisions	(399.7)	(392.2)
Net invested capital	**662.4**	**709.4**

* * *

It was previously reported that KME Group S.p.A. had, for some time, been engaged in ongoing negotiations with the Group's lenders to restructure credit facilities in order to assure a sufficient flexibility for the Group's needs and, additionally, to extend the related maturities. At the end of June 2010 an agreement was concluded with the lenders (Mandated Lead Arrangers: Deutsche Bank A.G., Banca Nazionale del Lavoro S.p.A., Unicredit Corporate Banking S.p.A.; Lead Arrangers: Mediobanca S.p.A., Intesa San Paolo S.p.A., Commerzbank Aktiengeselleschaft, Banca Popolare di Milano Società Cooperativa a.r.l.; First Additional Lenders: Banca Monte dei Paschi di Siena S.p.A.) to extend the final maturity of credit facilities in the form of a revolving credit line, totalling Euro 475 million, from September 2011 to 31 January 2015.

* This is an indicator of financial structure and is equal to gross financial liabilities reduced by cash and cash equivalents and financial assets. The composition of "non-current financial assets" is given in note 2.

** Net invested capital is equal to "current assets" less "non-current liabilities" and "current liabilities" but excluding any amounts already used in the net debt computation.

The agreement relates to two tranches: Tranche A (for the working capital requirements of the Group's industrial companies, particularly to finance inventories) and Tranche B (for other Group financing requirements). These tranches were agreed in 2006 and were still committed in an amount approximating the original amount made available. The agreement ensures the availability of facilities that are sufficiently flexible for the Group's financing needs.

In addition to extending the final maturity, the revised agreement provides for a significant reduction in the security package granted to the banks and for the simplification of financial covenants that are in line with the Group's business plan. The new covenants only relate to the ratios of EBITDA to Financial expenses, and Total financial indebtness to Consolidated tangible net worth. The financial covenant ratios, moreover, are in line with the existing covenants of the extended term credit facilities. The covenants test will be every six months commencing on 30 June 2010.
The financial costs are substantially in line with the existing one of the extended facilities.

Pending litigation

The following information on pending litigation supplements the information provided in the financial statements as at and for the year ended 31 December 2009:

- the case pending before the Court of Hanover relating to the merger of the German companies has been settled through the payment by KME Germany A.G. & Co. K.G. of Euro 125,000. The case regarding the subsequent squeeze out, on the other hand, is still pending.

With respect to material litigation brought against the Group's industrial companies:

- the European Court of Justice has scheduled a hearing for 6 October 2010 with respect to the appeal of the case regarding industrial tubing. By its ruling of 19 May 2010, the Court of First Instance of the European Communities upheld the fine imposed by the Commission with respect plumbing and sanitary tubes. The KME Group companies involved consequently appealed against the decision to the European Court of Justice on 28 July 2010;
- following the dismissal of the class action in the United States brought by direct customers, which also related to anti-trust violations, the class action brought by indirect customers was also dismissed;
- three of the parties involved in the claim for damages of February 2010 brought by Toshiba Carrier UK and another fifteen companies of the same group before the English High Court of Justice, Chancery Division, against KME Yorkshire Ltd., KME A.G., KME France S.A.S., KME Italy S.p.A., and another five producers of LWC, again with respect to anti-trust violations, have withdrawn their petitions.

Subsequent events

Information with respect to the capital increase of 23 July 2010 is contained in the section describing the Demerger.

There were no other material subsequent events.

Florence, 5 August 2010

The Board of Directors

Information for investors

KME Group S.p.A. has been listed since 1897.

The performance of KME Group's shares and warrants during the first half of 2010 is shown below:

- **KME Group ordinary shares** peaked in March at Euro **0.363** per share dropping to a minimum of Euro **0.261** in May.
- **KME Group savings shares** peaked in May at Euro **0.682** per share dropping to a minimum of Euro **0.503** in June.
- **KME Group warrants 2006-2011** peaked in January at Euro **0.040** per warrant dropping to a minimum of Euro **0.015** in June.
- **KME Group warrants 2009-2011** peaked in April at Euro **0.026** per warrant dropping to a minimum of Euro **0.012** in June.

(amounts in Euro - 30 June 2010)[1]	
No. of ordinary shares	381,376,318
No. of savings shares	36,750,101
Share capital	273,767,892.26
No. of KME Group 2006-2011 warrants outstanding	67,877,874
No. of KME Group 2009-2011 warrants outstanding	73,330,660

1. Figures prior to June 2010 capital increase.

Stock Exchange Price (30 June 2010)	
KME Group ordinary shares	0.292
KME Group savings shares	0.504
KME Group warrants 2006-2011	0.015
KME Group warrants 2009-2011	0.012

(amounts in Euro - Capitalisation at 30 June 2010)	
Ordinary shares market capitalisation	111,361,885
Savings shares market capitalisation	18,522,051
Total market capitalisation	**129,883,936**

Shareholders	
No. of ordinary shareholders	7,905
Top ordinary shareholders[1]	
Quattroduedue S.p.A.[2]	33.08%
Baggi Sisini Francesco[3]	3.30%
Dimensional Fund Advisors LP (USA)	2.25%

1. No other shareholder has notified an investment in excess of 2%.
2. 9.17% indirectly held through IntekCapital S.p.A..
3. Indirect parent of Arbus S.r.l., a direct shareholder of KME.

Dividends per share (amounts in Euro)	2008	2009
Dividends per ordinary share	0.0400[1]	-
Dividends per savings share	0.1086[1]	0.07241

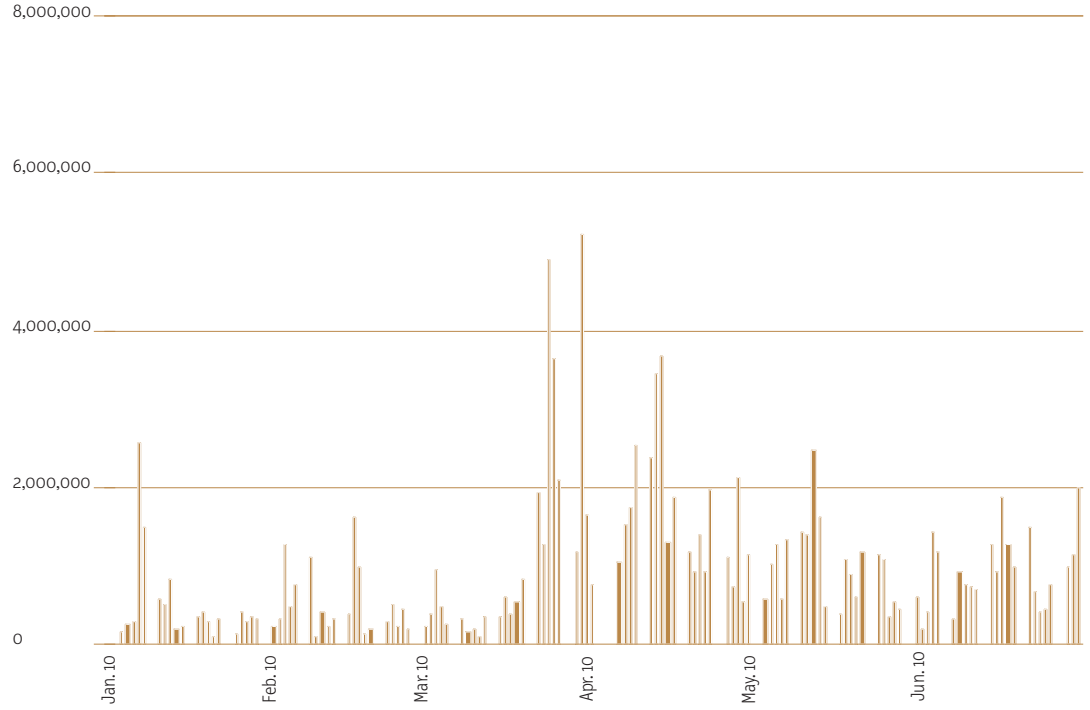
1. Gross dividends per share based on the pre-split number of shares.

Stock exchange price (amounts in Euro)	31 December 2009	30 June 2010	Change
KME Group ordinary shares	0.305	0.292	-4.3%
KME Group savings shares	0.547	0.504	-7.9%
KME Group warrants 2006-2011	0.030	0.015	-50.0%
KME Group warrants 2009-2011[1]	0.025	0.012	-52.0%
FTSE MIB	23,248	19,312	-16.9%

1. Listed since 22 March 2010.

Share price 2010

KME Group ordinary shares
KME Group savings shares
FTSE MIB



Trading volumes KME Group's ordinary shares 2010

Condensed interim consolidated financial statements as at and for the six months ended 30 June 2010

Consolidated statement of financial position

(thousands of Euro)	note	30.06.2010	of which with related parties	31.12.2009	of which with related parties
Property, plant and equipment	4.1	591,202		594,217	
Investment property	4.2	23,762		23,728	
Goodwill and consolidation differences	4.3	140,994		114,897	
Other intangible assets	4.4	10,438		3,528	
Investments in subsidiaries and associates	4.5	20,171	20,171	6,526	6,526
Investments in other companies	4.5	258	258	258	258
Investments in equity-accounted investees	4.5	24,798	24,798	3,958	3,958
Other non-current assets	4.6	32,057		28,878	
Non-current financial assets	4.7	114,387		111,923	
Deferred tax assets	4.20	29,613		34,867	
Non-current assets		**987,680**		**922,780**	
Inventories	4.8	518,255		469,512	
Trade receivables	4.9	216,700	14,735	140,129	21,802
Other current receivables and assets	4.10	35,590		27,186	5
Current financial assets	4.11	183,868	1,242	100,912	1,283
Cash and cash equivalents	4.12	60,167		108,964	
Current assets		**1,014,580**		**846,703**	
Total assets		**2,002,260**		**1,769,483**	
Share capital		273,768		250,015	
Other reserves		189,728		174,082	
Treasury shares	2.11	(2,888)		(2,888)	
Retained earnings		15,191		14,395	
Consolidation reserves	4.13	(28,779)		8,135	
Reserve of other components of total comprehensive income	4.13	(795)		65	
Profit/(Loss) for the period/year		37,521		(23,929)	
Equity attributable to the owners of the Parent	**2.11**	**483,746**		**419,875**	
Equity attributable to non-controlling interests		5,196		2,928	
Total equity	**2.11**	**488,942**		**422,803**	
Employee benefits	4.14	154,319		152,382	
Deferred tax liabilities	4.20	115,731		111,550	
Financial payables and liabilities	4.15	343,380		363,075	
Other non-current liabilities	4.16	17,698	1,629	14,266	1,446
Provisions for risks and charges	4.17	137,817		136,113	
Non-current liabilities		**768,945**		**777,386**	
Financial payables and liabilities	4.18	181,457	11,310	237,980	2,432
Trade payables	4.19	400,383	5,784	209,657	14,064
Other current liabilities	4.19	141,096	796	94,714	160
Provisions for risks and charges	4.17	21,437		26,943	
Current liabilities		**744,373**		**569,294**	
Total equity and liabilities		**2,002,260**		**1,769,483**	

Consolidated statement of comprehensive income

(thousands of Euro)	note	1st Half 2010	of which with related parties	1st Half 2009	of which with related parties
Revenue from sales and services	5.1	1,399,651	6,228	898,469	5,217
Change in inventories of finished and semi-finished products		10,056		(10,744)	
Capitalised internal work		876		617	
Other operating income	5.2	10,162	331	7,098	209
Purchases and change in raw materials	5.3	(967,922)	(13,899)	(585,016)	
Personnel expense	5.4	(176,527)		(152,257)	
Amortisation, depreciation and impairment losses	5.5	(30,895)		(28,715)	
Other operating costs	5.6	(171,622)	(1,164)	(135,283)	(2,275)
Operating profit (loss)		**73,779**		**(5,831)**	
Financial income	5.7	9,086	284	11,934	907
Financial expense	5.7	(24,193)	(18)	(18,194)	(343)
Share of profit/(loss) of equity-accounted investees	5.8	(1,820)		-	
Profit/(Loss) before taxes		**56,852**		**(12,091)**	
Current taxes	5.9	(8,064)		(16,192)	
Deferred taxes	5.9	(10,793)		12,630	
Total income taxes		**(18,857)**		**(3,562)**	
Profit/(Loss) from continuing operations		**37,995**		**(15,653)**	
Profit/(Loss) from discontinued operations		-		-	
Profit/(Loss) for the period		**37,995**		**(15,653)**	
Other components of total comprehensive income:					
Gains/(losses) on translation of foreign currency financial statements	2.3	2,019		(583)	
Net change in cash flow hedge reserve		(827)		-	
Taxes on other components of total comprehensive income		-		-	
Other components of total comprehensive income after taxes		**1,192**		**(583)**	
Total of total comprehensive income/(expense) for the period		**39,187**		**(16,236)**	
Profit/(Loss) for the period attributable to:					
non-controlling interests		474		234	
owners of the Parent		37,521		(15,887)	
Profit/(Loss) for the period		**37,995**		**(15,653)**	
Total comprehensive income/(expense) attributable to:					
non-controlling interests		583		(54)	
owners of the Parent		38,604		(16,182)	
Total comprehensive income/(expense) for the period		**39,187**		**(16,236)**	

Earnings per share (Euro):	1st Half 2010	1st Half 2009
basic earnings/(loss) per share	0.0945	(0.0503)
diluted earnings/(loss) per share	0.0945	(0.0503)

Statement of changes in consolidated equity for the six months ended 30 June 2010

(thousands of Euro)	Share capital	Other reserves	Treasury shares	Retained earnings	Consolidation reserves	Other comprehensive income	Profit/ (Loss) for the period	Total equity attributable to owners of the Parent	Equity attributable to non-controlling interests	Total equity
Equity at 31 December 2009	**250,015**	**174,082**	**(2,888)**	**14,395**	**8,135**	**65**	**(23,929)**	**419,875**	**2,928**	**422,803**
Appropriation of Parent's loss		2,833		796			(3,629)	-		-
Appropriations of subsidiaries' profits					(27,558)		27,558	-		-
Dividends and allocations to the Board of Directors		(2,651)						(2,651)		(2,651)
Issue of new shares (exercise of warrants)	13							13		13
(Purchase) sale of treasury shares								-		-
Deferred taxes recognised in equity						(33)		(33)		(33)
iNTEk S.p.A. reverse demerger	23,740	15,464						39,204		39,204
Other changes*					(10,792)	-		(10,792)	1,211	(9,581)
Comprehensive income					1,436	(827)		609	583	1,192
Total income/expense recognised in equity	**-**	**-**	**-**	**-**	**1,436**	**(827)**	**-**	**609**	**583**	**1,192**
Profit for the period							37,521	37,521	474	37,995
Total comprehensive income/loss	**-**	**-**	**-**	**-**	**1,436**	**(827)**	**37,521**	**38,130**	**1,057**	**39,187**
Equity at 30 June 2010	**273,768**	**189,728**	**(2,888)**	**15,191**	**(28,779)**	**(795)**	**37,521**	**483,746**	**5,196**	**488,942**
Reclassification of treasury shares	(2,888)		2,888					-		-
Equity at 30 June 2010	**270,880**	**189,728**	**-**	**15,191**	**(28,779)**	**(795)**	**37,521**	**483,746**	**5,196**	**488,942**

* The decrease in consolidation reserves was primarily brought about by the first-time consolidation of the Drive Group.

At 30 June 2010 the Parent directly held 135,831 savings shares and 8,212,755 no par value ordinary shares after the stock split entailing the allotment of three shares for each two shares held on 8 February 2010. The shares were subsequently reclassified and offset against share capital.

Statement of changes in consolidated equity for the six months ended 30 June 2009

(thousands of Euro)	Share capital	Other reserves	Treasury shares	Retained earnings	Consolidation reserves	Other comprehensive income	Profit/ (Loss) for the period	Total equity attributable to owners of the Parent	Equity attributable to non-controlling interests	Total equity
Equity at 31 December 2008	**247,660**	**172,276**	**-**	**5,910**	**98,500**	**131**	**(68,651)**	**455,826**	**2,528**	**458,354**
Appropriation of Parent's 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
Comprehensive losses					(529)			(529)	(54)	(583)
Total income/expense recognised in equity	**-**	**-**	**-**	**-**	**(529)**	**-**	**-**	**(529)**	**(54)**	**(583)**
Profit/(Loss) for the period							(15,887)	(15,887)	234	(15,653)
Total comprehensive income (loss)	**-**	**-**	**-**	**-**	**(529)**	**-**	**(15,887)**	**(16,416)**	**180**	**(16,236)**
Equity at 30 June 2009	**247,660**	**173,703**	**(539)**	**14,395**	**8,296**	**98**	**(15,887)**	**427,726**	**2,708**	**430,434**
Reclassification of treasury shares	(2,888)		2,888					-		-
Equity at 30 June 2009	**244,772**	**173,703**	**2,349**	**14,395**	**8,296**	**98**	**(15,887)**	**427,726**	**2,708**	**430,434**

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

Consolidated statement of cash flow, indirect method

(thousands of Euro)	Note	1st Half 2010	1st Half 2009
(A) Cash and cash equivalents at beginning of period		**108,964**	**38,814**
Profit/(Loss) before taxes		56,852	(12,091)
Amortisation and depreciation		31,163	28,261
Impairment losses on current assets		2,041	1,133
Impairment (reversals of impairment losses) on non-current assets other than financial assets		(268)	454
Impairment losses (reversals of impairment losses) on current and non-current financial assets		367	290
Losses (gains) on disposal of non-current assets		(353)	(358)
Changes in provisions for pensions, post-employment benefits and stock options		(126)	119
Change in provisions for risks and charges		(5,562)	(5,039)
Decrease (increase) in inventories		(46,519)	61,871
Share of (profit)/loss of equity-accounted investees		1,820	-
(Increase) decrease in current receivables		(41,550)	3,750
Increase (decrease) in current payables		184,982	(17,118)
Translation differences		(1,135)	(1,841)
Decrease (increase) in LME and metals forward contracts		(41,779)	72,066
Current taxes paid during year		(8,664)	(13,503)
(B) Cash flows from operating activities		**131,269**	**117,994**
(Increase) in property, plant and equipment and intangible assets	4.22	(20,685)	(11,849)
Decrease in property, plant and equipment and intangible assets		1,314	692
(Increase) in investements		(34,485)	(2,027)
(Increase) decrease in available-for-sale financial assets		-	-
Increase/decrease in other non-current assets/liabilities		935	1,465
Dividends received		258	1,247
(C) Cash flows from investing activities		**(52,663)**	**(10,472)**
Change in equity	4.22	38,901	-
(Repurchase) of treasury shares		-	(539)
Increase (decrease) in current and non-current financial liabilities		(60,546)	(23,787)
(Increase) decrease in current and non-current financial assets		(84,056)	(31,686)
Dividends paid and profits distributed		(2,651)	(11,488)
(D) Cash flow from financing activities		**(108,352)**	**(67,500)**
(E) Change in cash and cash equivalents (B)+(C)+(D)		**(29,746)**	**40,022**
(F) Change in consolidation scope	**4.22**	**(19,051)**	**-**
(G) Cash and cash equivalents at end of period (A)+(E)+(F)		**60,167**	**78,836**

The cash flow statement does not separately report amounts in connection with related party balances and transactions due to the fact that such amounts are not material with the exception of the iNTEk S.p.A. reverse demerger, the most relevant effects of which are described in note 4.22.

Accounting policies and notes

1. General information

KME Group S.p.A. ("KME") and its subsidiaries (together, the "Group") primarily operate in the semi-finished copper and copper-alloy products, services and renewable energy sectors.
The Group owns industrial facilities 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 with the Florence Company's Registrar at, no. 00931330583, and its shares are listed on the *Mercato Azionario Telematico* (Borsa Italiana's electronic market) organised and managed by Borsa Italiana S.p.A..
The condensed interim consolidated financial statements as at and for the period ended 30 June 2010 were approved by the Board of Directors on 5 August 2010.
Although it is controlled by Quattroduedue S.p.A., the Company does not consider that its operations are subject to management and coordination within the meaning of articles 2497 et seq. of the Italian Civil Code and article 37 of the Market Regulations in that:

a. it has the autonomous powers of negotiation with respect to contractual arrangements with customers and suppliers;
b. it does not participate in centralised treasury arrangements operated by the Parent Company or another company under the Parent control;
c. the number of independent Directors (4 out of 12) is such as to ensure that their opinions have a material influence on board decisions.

A partial, proportional reverse demerger of iNTEk S.p.A. into KME Group S.p.A. was carried out during the first six months of 2010 (the "Demerger").
The Demerger entailed the transfer to KME Group of certain assets and liabilities of iNTEk, primarily comprised of investments.

The investments transferred were:

- **ErgyCapital S.p.A.** (55.06% investment, 46.38% of which obtained through the Demerger, with a total carrying amount, shares plus warrants, of Euro 34.4 million, and 8.68% already directly held by KME Group prior to the Demerger): an investment company, specialised in the renewable energy and energy saving sectors, the shares of which are traded on the Electronic Market for Investment Vehicles (MIV) organised and managed by Borsa Italiana. The company's strategy is to diversify its investments across different power generation technologies (e.g., photovoltaic, biomass, wind power) and different segments of the industry from the basic technology through to plant construction and generation.
  After the Demerger, KME Group replaced iNTEk S.p.A. as a party to the Shareholder Agreement, which was originally signed on 10 December 2007, between iNTEk S.p.A. and Aledia S.p.A., with respect to the ordinary shares of ErgyCapital S.p.A..
  The Agreement, which is consultative in nature in addition to regulating voting, also restricts the transfer of restricted financial instruments. This effectively ensures the joint control of influence over the Company.
  At 30 June 2010, the Agreement covered 39,328,835 ordinary shares of ErgyCapital or 51.85% of the share capital, 25,412,895 of which, or 33.50% of share capital, held by KME Group and 13,915,940, or 18.35% of the share capital, held by Aledia S.p.A..
  Subsequent to 30 June 2010, ErgyCapital increased its share capital in July by Euro 9.9 million. KME Group subscribed to a total of 8,796,287 shares for a total of Euro 4.6 million. On completion of the capital increase, KME Group's total investment in ErgyCapital was 53.3%, with 46.38% being held as a non-current investment and the remainder as a current investment held for trading.

- **Drive Rent S.p.A.** (90% investment with a carrying amount of Euro 30 million): a service company involved in the management of corporate fleets of motor vehicles. It is engaged in a variety of businesses: long-term car hire, third-party fleet management, the rental of replacement motor vehicles to auto repair businesses, corporate accommodation services and the management of a car park in the centre of Milan.
  The remaining 10% of Drive Rent's share capital is held by three individuals, one of whom, Ludovico Maggiore, is the Managing Director of Drive Rent S.p.A..
  Drive Rent S.p.A. operates independently, determining its own operating and financial policies.
- **Culti S.r.l.** (investment of 40%, with a carrying amount of Euro 1.0 million, which increased to 100% following the Demerger to total Euro 3.4 million): the company is engaged in residential interior design and household goods in the furnishings and life style sector. The company is managed by a Sole Director and operates independently, determining its own operating and financial policies.

In addition to the demerged net assets transferred to KME Group, there was also a financial liability to Intesa Sanpaolo S.p.A. of Euro 31.1 million and loans and receivables of Euro 3.9 million. Detailed information on the Demerger is contained in the "Information Document" which is also available on the internet at www.kme.com.

2. Accounting policies

2.1 Basis of presentation

The condensed interim consolidated financial statements as at and for the period ended 30 June 2010 have been prepared in accordance with art. 154 *ter* of Legislative Decree 58/1998 and in compliance with the requirements for measurement and recognition of the **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 requirements in implementation of article 9 of Legislative Decree 38/2005. These condensed interim consolidated financial statements have also been prepared in conformity with IAS 34 "Interim Financial Reporting". It is possible that these condensed interim consolidated financial statements do not contain all the information required for annual financial statements and should, consequently, be read together with the financial statements as at and for the year ended 31 December 2009.
In preparing these condensed interim consolidated financial statements, the Directors took into consideration the accruals principle, the going concern assumption, clarity, relevance, materiality, reliability, neutrality, prudence and comparability and have applied the same accounting policies used for the consolidated financial statements at 31 December 2009. The Group has changed the method used to determine the cost of raw materials from the weighted quarterly average cost method to FIFO. The reason for the change to determining cost on a FIFO basis is because FIFO entails the use of costs at or near the reporting date which is a better representation of current cost and, consequently, improves the statement of financial position presentation of the effects on carrying amounts of the Group's hedging metals price risk through entering into buyer and seller forward and LME contracts (as described in paragraph 3) all of which are recognised at their reporting date fair value.

Moreover, in compliance with IAS 8 and IAS 34, paragraph 43, if the Group had also applied the FIFO method for the preparation of the condensed interim consolidated financial statements as at and for the six months ended 30 June 2009, the loss for that period and equity at 30 June 2009 would have improved by Euro 8.6 million before taxes, or Euro 5.9 million after taxes, for the following reasons: the overall carrying amount of forward seller contracts recognised as Current Financial Assets would have been Euro 18.2 million higher

due to the method of accounting for financial assets described in note 2.7, whereas the total carrying amount of inventories at 30 June 2010 would have been Euro 9.6 million lower.
As a result, comparatives contained in statements of comprehensive income and cash flows for the six months ended 30 June 2009 have been restated in order to retroactively adjust for the measurement of inventories on a FIFO basis. The effect of the restatements were, respectively:

- in the statement of comprehensive income for the six months ended 30 June 2009, to reduce "Purchases and change in raw materials" by Euro 8.6 million and "Current taxes" by Euro 2.7 million;
- in the statement of cash flows for the six months ended 30 June 2009, a Euro 9.6 million increase in "(Decrease) increase of inventories", an Euro 18.2 million reduction in "Decrease (increase) in LME and metals forward contracts" and an Euro 8.6 million improvement in "Profit before taxes".

Moreover, from this year, the fair value of "LME and metal buyer/seller contracts" and "(Gains)/losses on LME trading", which were previously included in "Other operating costs" are now grouped and reported under "Purchases of and change in raw materials". This classification improves the comparability of "Other operating costs" and "Purchases of and change in raw materials" since both amounts are now reported net of raw materials price risk hedges (above all for copper). It is not permitted by IAS 39 to report these financial instruments as hedging instruments even though they are acquired to manage price risks.
The comparative "Purchases of and change in raw materials" reported in the Statement of comprehensive income for the six months ended 30 June 2009 includes a reclassification in this connection of Euro 54.5 million.

In addition, the following standards, amendments and interpretations, including revisions as part of the IASB's annual improvements for 2009, which are mandatory from 1 January 2010, have been adopted for the first time:

1. **IAS 27 Consolidated and Separate Financial Statements (revised 2008)** requires changes in a parent's controlling interests in a subsidiary that do not result in a loss of control to be accounted for in equity. In the event control is lost but an investment in the company is maintained, the remaining investment must be recognised at fair value from the date control is lost and any gain or loss must be recognised in profit or loss. The revisions to IAS 27 have had no effect on the condensed interim consolidated financial statements as at and for the six months ended 30 June 2010.

2. As part of the 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 investments, which 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 non-controlling interest in the subsidiary subsequent to the planned disposal. The amendment, which was 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. Application of the revisions, however, did not result in any changes for the first half of 2010.

3. **IFRS 2 – Share-Based Payments (improvement)**: the amendment, which was required to be applied from 1 January 2010, 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. There was no material variation of the financial information reported at 30 June 2010 as a result of the adoption of the improvement.

4. **IAS 7 – Statement of cash flows**: the amendment, which is required to be applied prospectively from 1 January 2010, permits expenditure resulting in a recognised asset to be classified as cash flows

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 flows from operating activities.

5. **IAS 36 – Impairment of Assets**: the amendment 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. There was no material variation of the financial information reported at 30 June 2010 as a result of the adoption of the amendment.

6. **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 valuation 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 valuation 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).

7. **IAS 39 – Financial Instruments:** recognition and measurement. This amendment clarifies the standard's definition of an underlying transaction that is hedged in certain circumstances. There was no material variation of the financial information reported at 30 June 2010 as a result of the adoption of the amendment.

8. **IAS 17 – Leases**: as a result of a revision to IAS 17, leased land 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 ownership 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. All existing land held under leases which had not expired on the date of adoption are now required to be separately measured with any retrospective recognition of a new lease accounted for as if the lease were a finance lease.

9. **IFRS 3 (2008) – Business Combinations**: the revised version of IFRS 3 contained important changes, described below, primarily regarding the accounting treatment of acquiring subsidiaries in stages; the ability to recognised any non-controlling interests in a partial acquisition at fair value; the recognition in profit or loss of costs incurred as a result of the business combination; and, the recognition on the acquisition date of contingent consideration. There was no material variation of the financial information reported at 30 June 2010 as a result of the adoption of the amendment.
The Group has not yet applied those standards listed in note 2.23, which, although issued by the IASB, will only become effective subsequent to the reporting date.

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 financial statements are presented in Euro (€), the functional currency of the Parent.

2.2 Basis of Consolidation

(a) Subsidiaries

Subsidiaries are all those companies over which KME exercises control of financial and operational policies, which is generally accompanied by exercising more than 50% of the voting rights in corporate bodies.

The assets and liabilities, income and expenses of the consolidated subsidiaries have been included in the condensed interim consolidated financial statements with the investee's equity being reduced by the investee's net asset on the date that control was acquired. Any difference, if positive, is recognised as "goodwill and consolidation difference" and in profit or loss, if negative. The portion of equity and profit or loss 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 consolidation scope, except for insignificant subsidiaries and companies, the consolidation of which has no material effect. These are generally companies with operations consisting entirely of sales. Ignoring such companies has no material effect on the Group's financial statements and will have no influence on the business decisions of the financial statements' users.

Unrealised profits on intragroup transactions, if material, are eliminated. Receivables, payables, income, expenses, guarantees, commitments and contingencies in connection with transactions between and among consolidated companies are also eliminated. Intragroup losses are not eliminated as they are deemed to be representative of a decrease in the value of the goods sold. All financial statements of subsidiaries have been adjusted to ensure consistency of accounting policies with those of the Group.

The reporting year of all consolidated subsidiaries is the calendar year.

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

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

Name	Registered Office		Share capital	Business	% held direct	% held indirect
KME Group S.p.A.*	Italy	EURO	297,012,973	Financial	Parent	
KME A.G.**	Germany	EURO	142,743,879	Holding	100.00%	
KME Germany A.G. & Co. K.G.	Germany	EURO	200,003,000	Copper and copper-alloy prods.		100.00%
KME Italy S.p.A.	Italy	EURO	103,839,000	Copper and copper-alloy prods.		100.00%
KME France S.A.S.	France	EURO	15,000,000	Copper and copper-alloy prods.		100.00%
KME Spain S.A.	Spain	EURO	1,943,980	Trading		100.00%
KME LOCSA S.A.	Spain	EURO	10,040,000	Copper and copper-alloy prods.		100.00%
KME Verwaltungs und Dienst. mit beschr.	Germany	EURO	10,225,838	Copper and copper-alloy prods.		100.00%
KME Architectural Metals GmbH	Germany	EURO	25,564	Holding		100.00%
Kabelmetal Messing Beteiligungsges mbH Berlin	Germany	EURO	4,514,200	Real Estate		100.00%
KME Architectural Metals GmbH & CO. K.G.	Germany	EURO	1,329,359	Copper and copper-alloy prods.		100.00%
KME Cuprum S.A.	Spain	EURO	60,910	Trading		100.00%
KME Bertram GmbH	Germany	EURO	300,000	Services		100.00%
KME Ibertubos S.A.	Spain	EURO	332,100	Copper and copper-alloy prods.		100.00%
KME Yorkshire Ltd.	UK	GBP	10,014,603	Copper and copper-alloy prods.		100.00%
Yorkshire Copper Tube	UK	GBP	3,261,000	Non-operating		100.00%
Yorkshire Copper Tube (Exports) Ltd.	UK	GBP	100	Non-operating		100.00%
KME Brass Germany Gmbh	Germany	EURO	50,000	Copper and copper-alloy prods.		100.00%
KME Brass France S.A.S.	France	EURO	7,800,000	Copper and copper-alloy prods.		100.00%
Immobiliare Agricola Limestre S.r.l.	Italy	EURO	110,000	Real Estate	100.00%	
Dalian Dashan Chrystallizer Co. Ltd.	China	RMB	10,000,000	Copper and copper-alloy prods.		70.00%
Dalian Surface Machinery Ltd.	China	RMB	5,500,000	Copper and copper-alloy prods.		70.00%
Dalian Heavy Industry Machinery Co. Ltd.	China	RMB	10,000,000	Copper and copper-alloy prods.		70.00%
KME Brass Italy S.r.l.	Italy	EURO	15,025,000	Copper and copper-alloy prods.		100.00%
KME Service S.r.l.	Italy	EURO	115,000	Non-operating		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 Comp.	100.00%	
Drive Rent S.p.A.	Italy	EURO	2,500,000	Services	90.00%	
Drive Service S.p.A.	Italy	EURO	1,000,000	Services		90.00%
Easydriver Car Services Espana S.L.U.	Spain	EURO	232,880	Services		90.00%

* Share capital on the publication date of these condensed interim consolidated financial statements.
** KME Germany A.G. changed its name to KME A.G. on 18 June 2010.

As a result of the partial, proportional reverse demerger of the former parent, iNTEk S.p.A. into KME Group S.p.A., the following changes were made to the consolidation scope at the reporting date of these condensed interim consolidated financial statements:

1) line-by-line consolidation of the Drive Group consisting of Drive Rent S.p.A. and its subsidiaries, Drive Service S.r.l. and Easydriver Car Services Espana S.L.U.;
2) equity accounting of the investment in ErgyCapital S.p.A., due to the fact that it is jointly controlled.

The results of these companies were consolidated for the period 1 January 2010 to 30 June 2010, notwithstanding the effective date of the partial, proportional reverse demerger of the former parent, iNTEk S.p.A. into KME Group S.p.A. being 22 March 2010. The effect of the demerger on profit or loss for the first eighty-one days of their consolidation has been negligible.

(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 then 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.

Associates include Metalbuyer S.p.A., which was acquired on 30 June 2009 by the subsidiary, KME Recycle S.p.A..

(c) Joint ventures

A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control. Joint control is the contractually agreed sharing of control over an economic activity.

Joint ventures are measured using the equity method pursuant to IAS 31, paragraphs 38-41.

As a result of the partial, proportional reverse demerger of iNTEk S.p.A., at the reporting date, the Group was engaged in the following jointly controlled businesses arising from the possession of 35,185,147 ordinary shares or 46.38% of the share capital of ErgyCapital S.p.A.. Notwithstanding the fact that the ErgyCapital's shares are not held 50:50, its operations and strategies are jointly controlled by KME and Aledia S.p.A. as a result of contractual arrangements regarding the 25,412,895 ordinary shares, or 33.50% of ErgyCapital's share capital held by KME Group S.p.A.. Furthermore, the Group continues, in the short-term, to hold, for the same objectives and purposes, 6,548,650 ordinary shares, or 8.68% of ErgyCapital S.p.A.'s share capital, classified, as in previous periods, as financial assets held for trading.

The Group also holds 101,743,509 ErgyCapital S.p.A. share warrants as part of its non-current investment in ErgyCapital, which are therefore reported as "Investments in subsidiaries and associates" and carried at cost, and 12,141,235 ErgyCapital share warrants held for sale. The second package of warrants is, consequently, reported as "current financial assets" and carried at fair value, as are the underlying shares.

2.3 Foreign currency transactions

(a) Functional and presentation currency

All amounts are expressed in Euro which is also the Parent functional currency.

(b) Translation of the financial statements of foreign operations

Statements of comprehensive income in currencies other than the Euro are translated at the average exchange rates for the period whilst foreign currency statements of financial position were translated at the relevant closing rate.

The exchange rates used for the translation of foreign currencies are those fixed by the European Central Bank at the reporting date, as shown below:

1 Euro	= GBP 0.8881	31 December 2009
1 Euro	= GBP 0.8175	30 June 2010 exchange rate used for translation of the statement of financial position
1 Euro	= GBP 0.8716	2010 average exchange rate used for translation of the statement of comprehensive income
1 Euro	= RMB 9.8350	31 December 2009
1 Euro	= RMB 9.3215	30 June 2010 exchange rate used for translation of the statement of financial position
1 Euro	= RMB 9.0939	2010 average exchange rate used for translation of the statement of comprehensive income

The difference between the profit for the period resulting from translation using the average rates for the period and profit or loss for the period using the rates at 30 June 2010, were recognised in the consolidation reserves and in equity attributable to owners of the Parent and non-controlling interests. These differences will, in the event of disposal, 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 measured at cost, net of accumulated depreciation and impairment losses, with the exception of land, which is not depreciated and is carried at cost net of accumulated impairment losses.
Depreciation is provided from the month the asset becomes available for use or when it is potentially able to provide the economic benefits associated with it. Depreciation is charged monthly on a straight line basis until the end of the useful life of the relevant asset or, in the event of disposal, until the last month of use.
Depreciation rates are based on the useful life of the relevant class of assets as determined by the firm American Appraisal. Useful lives were varied with effect from 1 January 2004 and applied to property, plant and equipment for which cost was restated to fair value as deemed cost on the date of transition to IFRS; the useful lives of assets were varied 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 profit or loss when the expense is incurred.
The cost of internally produced assets includes material costs and direct labour plus any other directly attributable costs incurred in bringing the asset to its intended location and preparing it for its intended use.
Assets acquired under finance leases are recognised as property, plant and equipment together with the corresponding liability. The cost of the lease is separated into two components: financial expenses, recognised in profit or loss, and repayment of principal, recognised as a reduction of the liability. 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 their lease term and useful life unless there is reasonable certainty that the Company will obtain title to the asset at the end of the lease.
Property, plant and equipment is tested for impairment whenever there is specific objective evidence of an 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 the carrying amount. The recoverable amount is the greater of value in use and fair value less costs to sell. Value in use is determined by discounting projected cash flows at a pre-tax discount rate that reflects current market

estimates of the time value of money and the risks associated with the relevant asset. If greater than the recoverable amount, the carrying amount is reduced to the recoverable amount with the difference either being recognised in profit or loss or in a revaluation reserve created on the revaluation of the asset. Subsequent reversals of impairment losses are treated reversely. Information regarding impairment tests with respect to the preparation of these condensed interim consolidated financial statements are 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 on the acquisition date. Goodwill and other intangible assets with indefinite useful lives are not amortised. Recoverability of their carrying amounts is, however, tested annually and whenever there is objective indication of impairment. Any impairment losses recognised are not subsequently reversed.

For the purposes of preparing these condensed interim consolidated financial statements as at and for the six months ended 30 June 2010 and more particularly for the impairment tests required by the IFRS, Management have prepared a new business plan for the period 2010-2014, which has been approved by the Board of Directors, for the semi-finished copper and copper-alloy segment which consists of KME A.G. and its subsidiaries. The business plan does not suggest the occurrence of events or the existence of any factors that could indicate the impairment of any asset.

Even though the Group's operations primarily relate 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, assets used for the production processes, and the methods of distribution are substantially the same. Any impairment of goodwill is, for this reason, allocated to the semi-finished copper and copper-alloy segment which is by and large the same as KME A.G.'s basis of consolidation.

The Directors also considered the fact that the Parent market capitalisation was considerably below the carrying amount of net assets and duly noted the detailed explanations of this phenomenon with respect to the valuations made for the presentation to the Shareholders' Meeting of 2 December 2009 of the planned demerger approved at that meeting. It was, in particular, confirmed that the high volatility of financial markets caused by the unprecedented depth of the economic crisis and low market liquidity had severely penalised stock market prices so that they no longer necessarily reflected the economic value of the Parent.

The impairment test entailed the determination of the value in use of assets tested and then the computation of the present value of expected operating cash flows for two periods of time: the first using the same time horizon as the new business plans prepared by Management with the second corresponding to the terminal value determined by an internal rate of return with a perpetual growth rate of 1.5%. The growth rate is intentionally conservative because of the sector's maturity.

The resultant cash flows were discounted at the before tax WACC (weighted average cost of capital) of 11.17%. WACC is the risk free rate of 4.82% plus a market risk premium of 5.40% and an additional premium of 1.75% to reflect the degree of uncertainty with respect to the depth of the current economic downturn. The use of a high discount rate and an additional premium is a further demonstration of the conservative nature of the approach.

Impairments are also sensitivity tested which, again, did not indicate a need to recognise impairment losses at an assumed growth rate of 1.4% and increases in the cost of capital of up to 11.25%.

(b) Other intangible assets with finite lives

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

Intangible assets are either:

- acquired from third parties;
- acquired through business combinations; or
- internally generated.

In the first two instances, intangible assets, including directly attributable expenses, are recognised initially at cost or fair value. They are then systematically amortised based on 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, they are carried net of any impairment losses, in line with the accounting treatment for property, plant and equipment. The residual value of intangible assets at the end of their useful life is assumed to be zero.

Internally produced assets are capitalised only to the extent they meet the requirements of IAS 38, paragraph 57.

2.6 Investment property

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

The fair value of investment property was appraised last year by recognised and suitably qualified professionals. The fair values determined at 31 December 2009 have also been used for these condensed interim consolidated financial statements since there have been no new events or factors that could have had a material effect on the fair values of these assets.

2.7 Financial assets and liabilities

For the reasons explained in note 2.2, investments in unconsolidated subsidiaries are measured at fair value or cost less accumulated impairment losses as required by IAS 27, paragraph 38.

Other investments are recognised at fair value through equity. When fair value cannot be reliably determined, the investments are measured at cost adjusted for accumulated impairment losses.

Non-derivative financial assets with fixed or determinable payments or payments which have a specific due date, that the Group intends and has the ability to hold until maturity, are designated as "assets held to maturity". The assets included in this category are measured at amortised cost method using the effective interest method pursuant to IAS 39.

Financial assets and liabilities acquired or held primarily to be sold or repurchased in the short term and derivative financial instruments not designated as hedging instruments are classified as *"financial assets recognised at fair value through profit or loss"* separately indicating those that were classified as such on initial recognition (fair value option). These assets are measured at fair value through profit or loss. This category also includes LME contracts and all metal forward buyer and seller contracts used to hedge raw material price risk.

Non-derivative financial assets and liabilities, except for equity instruments, with fixed or determinable payments, not listed on an active market and not included in any of the above categories, are classified as "Loans and receivables" and are carried at amortised cost using the effective interest method. The amortised cost of current loans and receivables and all trade and current payables and receivables, for which the time value of money is immaterial, is deemed to be their fair value.
All other non-derivative financial assets which are not classified in one of the three categories above are classified as "Available-for-sale financial assets" and measured at fair value with charges recognised directly in equity with the exception of any impairment losses.
Treasury shares are measured at historical cost and recognised as a reduction of consolidated equity. In the event of sale, reissue or cancellation, the consequent 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 at fair value through profit or loss", are tested for impairment in accordance with IAS 39, paragraphs 58-70.
A financial asset is impaired when there is objective evidence that one or more events have had an adverse effect on estimated future cash flows generated by that asset.

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

As required by IAS 28, paras. 31 *et seq.*, IAS 39 has been applied to determine the need to recognise any additional impairment losses on investments in equity-accounted investees due to the reduction in value of the relevant net assets. The full carrying amount of the investment, however, is impairment tested in accordance with IAS 36 by comparing it with the investment's recoverable amount as and when the application of IAS 39 indicates the possibility of an impairment of the investment.

All impairment losses are recognised in profit or loss. Any accumulated fair value losses relating to an available-for-sale financial asset previously recognised through equity, if considered material and permanent, are transferred to profit or loss even if the financial asset has not been derecognised.

Impairment losses are reversed 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. Reversals of impairment losses on assets carried at amortised cost and available-for-sale assets, which are debt instruments, are recognised in profit or loss.

Measurement at fair value
The fair value of financial assets and liabilities at fair value through profit or loss and available-for-sale financial assets on initial recognition is determined on the basis of the transaction price and is, therefore, equal to the consideration 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 valuation techniques, based on a series of methods and assumptions relating to market conditions at the reporting date. 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 reporting date.
Fair value adjustments of derivative instruments not classified as hedging instruments are immediately recognised in profit or loss.

The fair value of non-derivative financial instruments is determined by discounting future cash flows at the market interest rate for the end of the reporting period.
The fair value of price fixing copper buyer and seller contracts is determined with reference to the market price on the reporting date 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 factors. Such sales can be either with or without recourse. Without recourse sales of receivables by the Group are made as required by IAS 39 for the derecognition of assets, since essentially all risks and benefits are 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 statement of financial position even though title has legally passed, and a contra liability of equal amount is recognised in the consolidated statement of financial position. Factorage for receivables 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 value of metals and production costs are treated differently:

- Metal (including the metal content of work in progress and finished products) is measured at cost on a first-in, first-out basis. For the preparation of these condensed interim consolidated financial statements, the Group measured cost on the basis of average weighted cost for each quarter. The effect of the change in accounting policy is described in the notes. This value can be reduced at year-end to align it with its assumed realisable value as represented by the official average price, with any charges added, for June as listed by the LME, or the official price in July, if lower.
- The cost of production of work in progress and finished goods includes direct costs plus the amount of indirect costs that can reasonably be allocated to the product, excluding administrative expenses, selling expenses and financial charges. The absorption of general expenses in production costs is based on normal production capacity.

Contract work in progress is measured on the basis of the stage of completion and the 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

Share capital consists of no par value ordinary and savings shares, fully subscribed and paid at the end of the reporting period, reduced by any share capital proceeds to be received. As required by IAS 32, treasury shares are recognised as a reduction of subscribed share capital, whilst any premium or discount on 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 statement of financial position as a reduction of equity.

The reserve for treasury shares is no longer used due to the change in presentation introduced by international accounting standards. The existing balance of the reserve was, consequently, reclassified to the relevant, specific reserves that had been used to create it.

Costs of equity transactions have been charged directly to equity related reserves with preference given to the share premium reserve.

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 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 estimated based on taxable income for the period as determined with reference to current tax rates and those substantially in effect at the reporting date. 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 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 reporting date. 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 taxpaying entity or differing taxpaying entities intending to settle the current tax asset or liability on a net basis or to simultaneously recover the asset and pay the liability.

Deferred tax assets are recognised to the extent that it is likely that there will be sufficient future taxable income to absorb them. The carrying amounts of deferred tax assets are tested for impairment at the end of each reporting period and are reduced to the extent that they are not likely to be recoverable.

2.14 Employee benefits

Post-employment benefits are payable under plans which, depending on their terms and conditions, are classified either as "defined contribution plans" or "defined benefit plans". The 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 unpaid contributions at the reporting date. 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 the vesting of benefits. 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 approach, 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 regarding the institutions permitted to hold 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 reporting date 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 valuation of defined benefits plans was carried out by independent actuaries.

2.15 Provisions for risks and charges

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

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

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

2.16 Revenue recognition

Revenue from the sale of goods and services is recognised 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, the recoverability of the consideration is probable and the relevant costs or any returned goods can be reliably estimated.
Although transfer of the risks and rewards of ownership vary depending on conditions of contract, it normally occurs on the physical delivery of the good. Service revenues, such as work performed for customers, are recognised on the basis of the stage of completion of such work at the reporting date, 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 expenses

Financial income includes interest income from cash invested, exchange rate gains, dividends, guarantee fees received, gains on disposal of available-for-sale financial assets, fair value gains on assets held for trading and derivatives except for fair value gains on LME contracts and metals forwards which are reported under "Purchases and change in raw materials". Dividends are recognised only when the shareholders' right to receive payment has been established.
Financial expenses include loan interest paid or payable, exchange losses, guarantee fees paid or payable, losses on the disposal of available-for-sale financial assets, factorage paid with respect to sales of trade receivables with recourse, decreases of the fair value of assets held for trading and derivatives except for the decreases in fair value of LME contracts and metals forwards which are reported under "Purchases and change in raw materials".

2.19 Segment information

KME Group's operations reported here are organised into business units based on the products and services offered with respect to the three following operating segments:

- **Copper products**: the industrial grouping which is an international leader in the global production of semi-finished copper and copper-alloy products;
- **Services**: the Drive Group companies acquired by KME Group S.p.A. as part of the partial, proportional reverse demerger of iNTEk S.p.A. into KME Group S.p.A.. Its operations consist of long-term car hire, the management of private vehicles, the hiring out of replacement vehicles to auto repair shops, corporate accommodation services and the management of a car park in the centre of Milan;
- **Renewable energy**: the companies belonging to the ErgyCapital S.p.A. Group which is engaged in renewable energy plant construction and generation with particular emphasis on photovoltaic energy.

Management monitors the operating results of the business units separately for the purposes of resource allocation. The performance of each segment is based on operating profit or loss.
There is no transfer of resources between the three main segments.
Segment information is contained in Note 7.

2.20 Earnings/(Loss) per share

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

1) the numerator is equal to profit attributable to the owners of the Parent, less the profit or loss that is to be set aside, for the current period, for outstanding 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 outstanding ordinary shares 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.

It was assumed for this calculation 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 earnings per share at 30 June 2010 were calculated in accordance with IAS 33, paragraph 64 using profit attributable to the owners of the Parent of Euro 37.5 million (net loss of Euro 21.7 million for 2009), less any distributions to savings shareholders, divided by the average number of outstanding ordinary shares, being 368,874,313 after adjusting for the stock split of 8 February 2010 and the capital increase of 23 July 2010. The potential dilution that would result by the conversion of all warrants has been ignored in accordance with IAS 33, paragraph 47.

2.21 Use of estimates

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

2.22 Accounting standards not yet applied

Certain new standards, revisions to standards and interpretations issued at 30 June 2010 that are relevant to the Group had not yet become effective and were not used to prepare these condensed interim consolidated financial statements.

The most important included:

a. **Amendment to IAS 24 - related parties**: the amendment simplifies the disclosure requirements for government-related entities and clarifies the definition of "related party". The amendment was issued in November 2009 and is applicable for annual periods commencing on or after 1 January 2011. At the date of presenting the condensed interim consolidated financial statements as at and for the six months ended 30 June 2010, the relevant authorities had not yet completed the procedures for the endorsement of the standard.

b. **IFRS 9 - Financial instruments, which covers the classification and measurement of financial assets**: the new standard specifies a consistent approach for the classification and measurement of financial assets based on how the assets are managed and the characteristics of the contractual cash flows of the financial asset and replaces the numerous categories of financial assets in IAS 39. The new standard also provides for one method of measuring impairments of financial assets. Application of IFRS 9 will be mandatory from 2013.

c. **IAS 32 - Financial instruments: presentation and classification of rights issues**. The IASB issued an amendment in October 2009 of the classification of rights issues (rights, options and warrants) denominated in a currency other than the issuer's functional currency and which were previously required to be reported as derivative financial instruments. The amendment, however, requires that, in certain circumstances, rights issues are to be classified as equity regardless of the currency in which the exercise price is denominated. The amendment must be applied retrospectively from 1 January 2011. It is not believed that the adoption of the amendment will have a significant effect on the Group's financial statements.

d. **IFRIC 19 - Extinguishing financial liabilities with equity instruments**: the new amendment provides guidance on extinguishing financial liabilities with equity instruments. The interpretation clarifies the requirements of International Financial Reporting Standards (IFRS) when an entity renegotiates the terms of a financial liability and the creditor agrees to accept shares in full or partial settlement of the financial liability. In such cases the shares become part of the consideration paid to extinguish the financial liability and must be measured at their fair value. The difference between the carrying amount of the financial liability and the equity instruments issued is included in profit or loss for the period. The amendment is required to be applied from 1 January 2011. At the date of presenting the condensed interim consolidated financial statements as at and for the six months ended 30 June 2010, the relevant bodies had not yet completed the procedures for the endorsement of the standard.

e. **IFRS 3 (2008) - Business combinations**: the amendment clarifies that any non-controlling interest not entitled to a proportionate share of an acquiree's net assets must be measured at fair value or in accordance with the relevant accounting standard. This means, for example, that a stock option plan granted to employees must be measured for business combinations in accordance with the requirements of IFRS 2 and the equity component of a convertible bond must be measured in accordance with IAS 32. It is not believed that the adoption of the amendment will have a significant effect on the Group's financial statements.

f. **IFRS 7 - Financial instruments: disclosures**. The revision emphasises the interaction between the qualitative and quantitative disclosures required by the standard regarding the nature and effect of financial instruments' inherent risks. It is intended to help users of financial statements to understand the interrelationships of disclosures and provide a general description on the nature and effect of the risks of financial instruments. Moreover, the requirement for information on financial instruments, which have expired but have been renegotiated or written down or those measured at the fair value of collateral, has been eliminated

g. **IAS 1 - Presentation of financial statements**: the improvement requires a reconciliation of all changes in each component of equity to be presented either in the notes or on the face of the financial statements. The improvement is required to be applied from 1 January 2011.

h. **IAS 34 - Interim financial reporting**: the improvement clarified additional information required to be included in Interim Financial Statements. The improvement is required to be applied from 1 January 2011.

At the reporting date, the relevant bodies of the European Union had not yet completed the procedures required for the endorsement of the above improvements.

3. Financial risk management

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

Types of risk:

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

b) liquidity risk: liquidity risk can arise from the inability to raise working capital financing as and when required. All inflows and outflows and cash balances of Group companies are centrally monitored and managed by Group Treasury. The Group intends to meet its cash requirements for the repayment of borrowings and capital expenditure through cash from operating activities, cash on hand and fresh bank borrowings or the roll-over of existing bank borrowings. Given the current environment, the Group intends to maintain sufficient operating cash flow generation capacity through measures designed to control the level of working capital, in particular, cash needs arising from maintaining stocks of raw materials. Any significant and sudden reduction in sales volumes could have an adverse effect on operating cash flow generation. The current financial crisis means that it is not possible to ignore the possibility that circumstances in the banking and money markets could lead to difficult and costly negotiations with lenders;

c) currency risk: the Group operates internationally and 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 in which the Group sells its products. It is Group policy to hedge all of the above risks through derivative financial instruments such as cross currency swaps and forward contracts;

d) interest rate risk: interest rate risk, to which the Group is exposed, arises primarily in connection with non-current financial liabilities. Variable rate loans expose the Group to a cash flow risk, while fixed rate loans entail assumption of the risk of a change in fair value. The Group currently does not have IRS (interest rate swaps) that transform 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 thus avoiding exposure 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 or semi-finished product. In reality, both transactions are physical in nature which, however, can also be settled through: cash payment 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 physicals trading is supported by:

- analogous methods of execution (physical or payment of differentials);
- the same reference price (LME quotation);
- management through only one risk management position, changes in which are linked to operational factors, and only one administrative and accounting system;
- reliable determination of fair value.

The fact that both LME contracts and customer and supplier contracts may both be settled through payment of market price differentials means that, in accordance with paragraph 6b of IAS 39, metals buyer and seller contracts can, similar to financial instruments, be accounted for at fair value with changes in fair value recognised in profit or loss under "Purchases and change in raw materials".

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

The Group never trades 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

The partial, proportional reverse demerger of iNTEk S.p.A. into KME Group S.p.A. became effective on 22 March 2010. Following the Demerger, which has been described in detail in the Directors' Report, the Drive Group was consolidated for the first time. The analysis of the statement of financial position contained in the following notes describes variations caused by the Demerger as "Change in consolidation scope".

4.1 Property, plant and equipment

(thousands of Euro)	Land	Buildings	Plant and equipment	Other assets	Assets under construction	Total
At 31.12.2009						
Closing historical cost	58,415	202,989	951,384	155,729	18,805	1,387,322
Closing accumulated depreciation and impairment losses	146	108,270	568,058	116,631	-	793,105
Closing carrying amount	**58,269**	**94,719**	**383,326**	**39,098**	**18,805**	**594,217**
At 30.06.2010						
Opening historical cost	**58,415**	**202,989**	**951,384**	**155,729**	**18,805**	**1,387,322**
Translation differences	516	930	5,339	241	261	7,287
Change in consolidation scope	-	0	105	20,596	-	20,701
Increases	6	548	1,472	1,294	8,661	11,981
Reclassifications	(1,411)	7,912	8,892	666	(16,059)	-
Decreases	(10)	(3)	(1,940)	(1,778)	-	(3,731)
Closing historical cost	**57,516**	**212,376**	**965,252**	**176,748**	**11,668**	**1,423,560**
At 30.06.2010						
Opening accumulated depreciation and impairment losses	**146**	**108,270**	**568,058**	**116,631**	**-**	**793,105**
Translation differences	14	122	4,519	189	-	4,845
Change in consolidation scope	-	0	54	7,826	-	7,880
Increases	15	3,538	21,291	4,722	-	29,566
Impairment losses/(reversals of impairment losses)	-	-	(120)	-	-	(120)
Decreases	-	(2)	(1,622)	(1,146)	-	(2,769)
Reclassifications	-	(30)	-	(118)	-	(148)
Closing accumulated depreciation and impairment losses	**175**	**111,899**	**592,181**	**128,105**	**-**	**832,359**
At 30.06.2010						
Closing historical cost	57,516	212,376	965,252	176,748	11,668	1,423,560
Closing accumulated depreciation	175	111,899	592,181	128,105	-	832,359
Closing carrying amount	**57,341**	**100,478**	**373,071**	**48,643**	**11,668**	**591,202**
of which finance leases:	**1,300**	**3,487**	**-**	**9,731**	**-**	**14,518**

Property, plant and equipment by geographical segment:

By geographical segment (millions of Euro)	30.06.2010		31.12.2009	
		%		%
Germany	270.2	45.7	277.3	46.7
Italy	233.0	39.4	228.0	38.4
France	46.9	7.9	49.5	8.3
United Kingdom	13.2	2.2	12.6	2.1
Spain	18.8	3.2	19.3	3.3
China	9.1	1.5	7.5	1.3
Total	**591.2**	**100.0**	**594.2**	**100.0**

Property, plant and equipment with a carrying amount of Euro 206.7 million (Euro 267.5 million for the previous year) was given as security under the terms of a loan agreement revised on 29 June 2010.

The most significant investments during the period are detailed in the Directors' Report.
Land and buildings held under finance leases primarily relate to the "Firenze Novoli" building that houses the Group's headquarters. The building lease contains a purchase option exercisable on 30 September 2016. Other leased property, plant and equipment, on the other hand, relates to the Drive Group's equipment used to manage fleets of motor vehicles. The lease for each motor vehicle may be terminated.

A breakdown of the future minimum payments due for finance leases at the reporting date and the present value thereof is as follows:

(thousands of Euro)	Within 1 year	Between 1 and 5 years	Due after 5 years	Total
Minimum lease payments	3,103	5,714	2,502	11,319
of which: interest	8	925	709	1,642
Present value	3,095	4,789	1,793	9,677

previous year:

(thousands of Euro)	Within 1 year	Between 1 and 5 years	Due after 5 years	Total
Minimum lease payments	398	1,594	2,701	4,693
of which: interest	8	230	805	1,043
Present value	390	1,364	1,896	3,650

4.2 Investment property

(thousands of Euro)	Land	Buildings	Total
Carrying amount at 31.12.2009	**4,816**	**18,912**	**23,728**
Increase	-	-	-
Capitalised expenditure	-	34	34
Business combinations	-	-	-
Disposals	-	-	-
Fair value gains or losses	-	-	-
Changes of use	-	-	-
Other changes	-	-	-
Carrying amount at 30.06.2010	**4,816**	**18,946**	**23,762**

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 either to earn rental income or for appreciation and are recognised at fair value.
The following amounts were recognised in profit or loss during the year:
- rental income of Euro 112 thousand;
- operating costs directly relating to the investment properties of Euro 449 thousand.

4.3 Goodwill and consolidation differences

This amount consists of:
- goodwill of Euro 3,939 thousand;
- consolidation differences of Euro 137,055 thousand.

Consolidation differences increased by Euro 22.5 million in the first six months of 2010 and goodwill by Euro 3.6 million due to the inclusion of the Drive Group in the consolidation scope.
The Drive Group was included in the consolidation scope with assets and liabilities recognised at their current carrying amount due to the fact that the partial, proportional reverse demerger of iNTEk S.p.A. is an under common control transaction.
Goodwill and consolidation differences were tested for impairment based on the recoverable amount determined by estimating value in use.
Information on impairment testing at 30 June 2010 is contained in note 2.5.

4.4 Other intangible assets

(thousands of Euro)	Other assets	Assets under development	Total
At 31.12.2009			
Closing historical cost	12,029	340	12,369
Closing accumulated amortisation and impairment losses	8,841	-	8,841
Closing carrying amount	**3,188**	**340**	**3,528**
At 30.06.2010			
Opening historical cost	**12,029**	**340**	**12,369**
Translation differences	-	-	-
Change in consolidation scope	12,676	1,245	13,921
Increases	767	506	1,273
Reclassifications	1,391	(1,391)	-
Decreases	(229)	-	(229)
Closing historical cost	**26,634**	**700**	**27,334**
At 30.06.2010			
Opening accumulated amortisation and impairment losses	**8,841**	**-**	**8,841**
Translation differences	-	-	-
Change in consolidation scope	6,683	-	6,683
Increases	1,601	-	1,601
Reclassifications	-	-	-
Decreases	(229)	-	(229)
Closing accumulated amortisation and impairment losses	**16,896**	**-**	**16,896**
At 30.06.2010			
Closing historical cost	26,634	700	27,334
Closing accumulated amortisation	16,896	-	16,896
Closing carrying amount	**9,738**	**700**	**10,438**

The intangible assets shown above, including Drive Group assets obtained under the terms of the iNTEk S.p.A. demerger, primarily relate to software and have finite useful lives.
Research and development expenditure is recognised directly in profit or loss. Research and development expenditure for the first six months of 2010 amounted to Euro 0.5 million (Euro 0.7 million for the corresponding period of the previous year).

4.5 Investments in subsidiaries, associates and other investments

The Group's investments are listed below:

Name	Registered Office	Business	% held by KME direct	% held by KME indirect	June 2010 thousands of Euro	Dec. 2009 thousands of Euro
Subsidiaries and associates measured at cost						
Accumold A.G.	Switzerland	In liquidation		100.00%	-	-
AMT - Advanced Mould Technology India Private Ltd.	India	Trading		99.62%	1,500	1,500
Europa Metalli Trèfimétaux UK Ltd.	UK	Non-operating		100.00%	489	450
Evidal Schmole Verwaltungsges mbH	Germany	Non-operating		50.00%	-	-
Irish Metal Industrial Ltd.	Ireland	Trading		100.00%	-	-
KM - Hungaria Szinesfem Kft.	Hungary	Trading		100.00%	8	8
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 Austria Vertriebgesellschaft mbH	Austria	Trading		100.00%	168	168
KME Beteiligungsgesellschaft mbH	Germany	Non-operating		100.00%	-	-
KME Chile Lda	Chile	Trading		100.00%	18	18
KME China Limited	China	Trading		100.00%	-	367
KME Czech Republic	Czech Rep.	Trading		100.00%	3	3
KME Messing Beteiligungs GmbH Norib.	Germany	Non-operating		100.00%	-	-
KME metal GmbH	Germany	Non-operating		100.00%	511	511
KME Metals (Shanghai) Trading Ltd.	China	Trading		100.00%	81	16
KME Mould Service Australia Pty Ltd.	Australia	Trading		65.00%	676	676
KME Moulds Mexico SA de CV	Mexico	Trading		100.00%	528	528
KME Service Russland Ltd.	Russia	Trading		60.00%	54	54
Metal Center Danmark A/S	Denmark	Trading		30.00%	134	134
N.V. KME Benelux SA	Belgium	Trading		100.00%	883	883
Societe Haillane de Partecipations	France	Non-operating		99.99%	40	40
XT Limited	UK	Non-operating		100.00%	-	-
KME Service S.r.l.	Italy	Non-operating		100.00%	-	-
KME India Private Ltd.	India	Trading		100.00%	-	-
Culti S.r.l.	Italy	Trading		100.00%	3,385	-
VALIKA S.A.S.	Francia	Trading		10.00%	550	-
Il Post S.r.l.	Italy	Publishing		31.54%	200	-
Elogistique S.r.l.	Italy	Trading		30.00%	6	-
Warrant Ergycapital S.p.A.	Italy	Energy		n.a.	9,767	-
Total					**20,171**	**6,526**
Other 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		30.00%	1,925	1,958
Sigimet S.p.A.	Italy	Trading		0%	-	2,000
ErgyCapital S.p.A.	Italy	Energy		46.38%	22,873	-
Total					**24,798**	**3,958**

The total increase of Euro 13,645 thousand over the previous year in Investments in subsidiaries and associates is the net of:

- an increase of Euro 3,385 thousand following the acquisition of 100% of Culti S.r.l. 40% of Culti was acquired through the reverse demerger of iNTEk, with the remainder having been acquired subsequently;
- a Euro 550 thousand increase following the acquisition of 10% of Valika S.r.l. by the subsidiary, KME Recycle S.p.A.;

- a Euro 200 thousand increase following the acquisition of 31.537% of Post S.r.l. by the Parent, KME Group S.p.A.;
- an increase of Euro 6 thousand relating to the acquisition of 100% of the Elogistique S.r.l. following the reverse demerger of iNTEk S.p.A.;
- translation differences relating to the investment in Europa Metalli Trèfimétaux UK Ltd. (a Euro 39 thousand increase);
- a Euro 367 thousand decrease as a result of the impairment of the investment in KME China Limited;
- a Euro 65 thousand increase relating to KME Metals (Shanghai) Trading Ltd.;
- a Euro 9,767 thousand increase relating to 101,743,509 ErgyCapital S.p.A. warrants, 49.4% of the warrants outstanding, acquired under the terms of the reverse demerger of iNTEk S.p.A..

Other investments of 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 property.

The Euro 20,840 thousand net increase in "Equity-accounted investments" was due to:
- a Euro 33 thousand decrease in the carrying amount of the investment in Metalbuyer on finalisation of the cost of the investment, as contractually agreed;
- a Euro 2,000 thousand decrease due to the disposal of the investment in Sigimet S.p.A.;
- an increase of Euro 22,873 thousand relating to the acquisition of 100% of the ErgyCapital S.p.A. following the reverse demerger of iNTEk S.p.A.. This amount was the result of the following movements:
  - the Euro 24,654 thousand cost of the investment (equal to the amount at which the investment was carried in iNTEk S.p.A.'s last financial statements);
  - a prorated loss for the period of Euro 1,820 thousand;
  - a prorated increase of Euro 867 thousand relating to changes in equity principally having regard to the capital increase of the acquiree of Euro 1,866 thousand. The increase was reflected in the increase in the consolidation reserve;
  - a prorated decrease of Euro 827 thousand in the acquiree's hedging reserve of Euro 1,783 thousand.

4.6 Other non-current assets

This item primarily consists of:
- guarantee deposits made by KME Italy (Euro 0.2 million) and KME France (Euro 0.4 million);
- amounts receivable by KME Germany A.G. & Co. K.G. from insurance companies (Euro 2.4 million);
- employee loans (Euro 2.2 million) predominantly made by the French subsidiaries in accordance with legislation ensuring that employees can obtain financing from employers to purchase property;
- deposits with banks of Euro 16.5 million (of which Euro 8.6 million relating to KME A.G. Germany A.G. & Co. K.G., Euro 4.8 million to KME France and Euro 3.1 million to KME Italy) as cash collateral for any fines imposed by the European Commission with respect to violations of art. 81 of the EC Treaty. These deposits may subsequently be used to pay fines imposed following the court proceedings currently underway. The amount of the fines not cash collateralised are covered by a bank guarantee.
- other deposits pledged to banks (Euro 2.5 million).

None of the above amounts falls due within twelve months.

4.7 Non-current financial assets

Euro 108.5 million (Euro 107.7 million for the previous year) of the total relates to pledged deposits with the following banks in connection with unpaid EU fines:

- La Caixa: Euro 34.2 million;
- Banca Nazionale del Lavoro: Euro 17.9 million;
- Deutsche Bank: Euro 56.4 million.

The increase relates to interest accrued to 30 June 2010.

Non-current financial assets of Euro 5.8 million relate to a deposit at Unicredit Banca d'Impresa S.p.A. that has been pledged to Mediocredito Centrale S.p.A. (MCC). The balance must always be equal to 1/16 (one sixteenth) of loan outstandings at any particular point in time, in addition to accrued interest due and payable on the next interest payment date. Any balance on the account in excess of that amount is immediately available. For further details regarding the amount and the nature of the loan please refer to note 4.15.

4.8 Inventories

(thousands of Euro)	Opening balance	Changes for the period	Closing balance
Raw materials, consumables and supplies	412,196	38,228	450,424
Work in progress and semi-finished products	24,818	8,524	33,342
Finished goods	32,498	1,991	34,489
Total	**469,512**	**48,743**	**518,255**

The cost of metals, as determined on a FIFO basis at 30 June 2010, was greater than the realisable value of Euro 7.1 million determined as explained in note 2.9. An allowance has been made in the same amount.

Comparative quantities

Inventories owned by Company	31.12.2009	30.06.2010	% change
Total tonnes	88,267	81,122	-8.1%

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

Of the above amount 77.9 thousand tonnes (85.9 thousand tonnes for the previous year), consisting mainly of copper, have been pledged as collateral for credit lines extended to the Group.

4.9 Trade receivables

(thousands of Euro)	Balance at 31.12.2009	Changes for the period	Change in consolidation scope	Balance at 30.06.2010
Due from customers	128,367	46,377	39,463	214,207
(Allowance for impairment)	(9,230)	(936)	(1,060)	(11,226)
Net trade receivables due from customers	119,137	45,441	38,403	202,981
Due from subsidiaries	2,435	638		3,073
Due from associates	18,527	(7,881)		10,646
Due from parents	30	(30)		-
Total	**140,129**	**38,168**	**38,403**	**216,700**

Trade receivables due from customers include Euro 66.2 million (Euro 33.4 million in the previous year end) that has been factored with recourse.

The increase in "Trade receivables" was primarily due to the increase in volumes and prices of raw materials.

The Directors are of the opinion that the carrying amount of trade receivables approximates their fair value.

4.10 Other current receivables and assets

(thousands of Euro)	Balance at 31.12.2009	Changes for the period	Change in consolidation scope	Balance at 30.06.2010
Tax assets	8,719	(5,408)	227	3,538
Advances payments to supplies	6,302	4,391	2,911	13,604
Prepayments and accrued income	2,597	(2,469)	6,451	6,579
Other receivables	9,568	2,297	4	11,869
Total	**27,186**	**(1,189)**	**9,593**	**35,590**

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

4.11 Current financial assets

(thousands of Euro)	Balance at 31.12.2009	Changes for the period	Balance at 30.06.2010
Financial assets held for trading	7,294	17,643	24,937
LME and metal sale/purchase contracts	27,049	(1,032)	26,017
Interest rate swaps/currency forward contracts	677	2,601	3,278
Receivables due from factoring companies	61,738	59,850	121,588
Other current financial assets	2,871	3,935	6,806
Financial receivables due from subsidiaries	1,283	(41)	1,242
Total	**100,912**	**82,956**	**183,868**

Financial assets held for trading by the Parent, are:

- 2,184,369 iNTEk S.p.A. savings shares. The savings shares are carried at Euro 0.73 each, which was their market price at the reporting date. The Parent gave call options on these shares, valued at Euro 0.90 each, to banks that extended a loan in February 2005, which is no longer outstanding. The options will expire in 2012.
- 6,584,650 ErgyCapital S.p.A. no par value ordinary shares, which are carried at their market price at the reporting date (Euro 0.658 per share);
- 12,141,235 ErgyCapital S.p.A. warrants, carried at their market price at the reporting date of Euro 0.09 each;
- 500,000 Aurubis shares, carried at their market price at the reporting date of Euro 35.82 each, which have been hedged through an equity swap with Morgan Stanley & CO. International PLC, London. The negative fair value of Euro 314 thousand of the hedging derivative has been recognised in "Current financial liabilities".

LME and metal sale/purchase contracts are recognised at the fair value of contracts outstanding at the reporting date.

Factoring receivables of Euro 85.1 million include the receivables sold but not yet collected at the reporting date and the pledged deposit securing credit lines of Euro 36.5 million.

4.12 Cash and cash equivalents

(thousands of Euro)	Balance at 31.12.2009	Changes for the period	Change in consolidation scope	Balance at 30.06.2010
Bank and post office accounts	108,850	(55,540)	5,361	58,671
Cash on hand	114	1,380	2	1,496
Total	**108,964**	**(54,160)**	**5,363**	**60,167**

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. The following movements were recorded during the period:

- the first-time consolidation of the Drive Group resulted in a reduction in consolidation reserves of Euro 11.6 million;
- the capital increase carried out by ErgyCapital S.p.A., totalling Euro 1,866 thousand, led to a prorated increase in the consolidation reserve of Euro 867 thousand;
- a prorated decrease of Euro 827 thousand in ErgyCapital S.p.A.'s cash flow hedge reserve of Euro 1,783 thousand.

4.14 Employee benefits

(thousands of Euro)	Balance at 31.12.2009	Increase	Decrease	Change in consolidation scope	Balance at 30.06.2010
Defined benefit pension plans	135,673	5,214	(3,551)	-	137,336
Post-employment benefits	16,709	531	(1,030)	773	16,983
Total	**152,382**	**5,745**	**(4,581)**	**773**	**154,319**

Defined benefit pension plans are recognised net of plan assets. Euro 121.1 million of defined benefit pension plans relates to the German subsidiaries and Euro 16.2 million relates to KME Yorkshire Ltd..

Actuarial assumptions:

	31.12.2009	30.06.2010
Discount rate	3.8% - 5.8%	3.8% - 5.8%
Rate of return on plan assets	6.7%	6.7%
Rate of increase in future salaries	2.0% - 3.0 %	1.0% - 3.0 %
Future increase in services	2.0% - 3.0 %	2.0% - 3.0 %
Average remaining working life	14 years	14 years

Carrying amount of net liabilities:

	31.12.2009	30.06.2010
Present value of partially or fully funded obligations	58,668	61,806
Fair value of defined benefit plan assets	(48,397)	(51,361)
Deficit	10,271	10,445
Present value of unfunded obligations	154,279	155,695
Actuarial gains (losses) net yet recognised	(12,168)	(11,821)
Past service cost not yet recognised	-	-
Amount not recognised as assets pursuant to IAS 19, para. 58 (b)	-	-
Net liability reported in statement of financial position	**152,382**	**154,319**

Statement of comprehensive income changes (thousands of Euro)	1st Half 2009	1st Half 2010
Current service cost	1,419	1,230
Interest expense	5,791	5,739
Expected return on plan assets	(1,800)	(1,311)
Recognised actuarial gains (losses)	-	87
Past service cost	-	-
Effect of any curtailment or settlement	-	-
Total cost reported in statement of comprehensive income	**5,410**	**5,745**

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

Other information:

Present value of obligation (thousands of Euro)	31.12.2009	30.06.2010
Opening balance of obligation	186,661	212,947
Current service cost	2,371	1,230
Interest on obligation	10,930	5,739
Plan participants' contributions	437	237
Actuarial gains (losses)	20,730	(2,583)
Settlements and curtailments	-	-
Translation differences on foreign plans	3,026	5,004
Benefits provided and paid	(11,205)	(5,599)
Effect of any curtailment or settlement	(3)	(31)
Past service cost	-	-
Closing balance of obligation	**212,947**	**216,944**

Fair value of plan assets (thousands of Euro)	31.12.2009	30.06.2010
Opening balance of fair value of plan assets	37,656	48,397
Expected return on plan assets	2,420	1,311
Actuarial gains (losses)	4,995	(2,617)
Translation differences on non-Euro plan assets	2,637	4,061
Employer contributions	1,725	799
Plan participants' contributions	437	237
Settlements	-	-
Benefits provided and paid	(1,473)	(827)
Closing balance of fair value of plan assets	**48,397**	**51,361**

At 30 June 2010, 58.5% of plan assets were equity instruments and 41.5% were fixed rate instruments.

Present value of plans and adjustments based on past experience (thousands of Euro)	31.12.2009	30.06.2010
Present value of defined benefit obligation	212,947	216,944
Plan assets	(48,397)	(51,361)
Surplus	**164,550**	**165,583**
Adjustments to plan liabilities based on past experience	(8,329)	-
Adjustments to plan assets based on past experience	(9)	-

4.15 Non-current financial payables and liabilities

(thousands of Euro)	Balance at 31.12.2009	Changes for the period	Change in consolidation scope	Balance at 30.06.2010
Due to bank	358,415	(28,565)	5,218	335,068
Due to lease companies	3,403	(997)	5,707	8,113
Other	1,257	(1,058)	-	199
Total	**363,075**	**(30,620)**	**10,925**	**343,380**

KME Group S.p.A. and its larger industrial subsidiaries signed two financing agreements in 2006 totalling Euro 1.65 billion with GE Commercial Finance (GE Corporate Finance Bank S.A.) and Deutsche Bank, each for its own facility.

The first financing agreement with GE Commercial Finance was for a five-year credit line of up to Euro 800 million for the non-recourse factoring of trade receivables.
At the reporting date, these factoring transactions amounted to Euro 380.6 million.

With regard to the second financing agreement, the notes to the financial statements for the year ended 31 December 2009 explained that KME Group S.p.A. had, for some time, been engaged in negotiations with the Group's lenders to restructure the credit lines made available to the Group in order to ensure that they were sufficiently flexible for the Group's needs, and to extend maturities. At the end of June 2010, an agreement was concluded with the lenders (Mandated Lead Arrangers: Deutsche Bank A.G., Banca Nazionale del Lavoro S.p.A., Unicredit Corporate Banking S.p.A.; Lead Arrangers: Mediobanca S.p.A., Intesa San Paolo S.p.A., Commerzbank Aktiengeselleschaft, Banca Popolare di Milano Società Cooperativa arl; First Additional Lenders: Banca Monte dei Paschi di Siena S.p.A.) to extend the final maturity of revolving credit lines facilities totalling Euro 475 million from September 2011 to 31 January 2015.

The agreement encompasses the following two facilities:
- a revolving credit line of up to Euro 343 million to provide working capital finance to the Group's industrial companies particularly with respect to inventories on which the credit is secured (Tranche A);
- a loan of Euro 132 million to finance any other cash requirements including any payments of fines to the European Community with respect to pending court cases (Tranche B).

In addition to extending final maturity, the new agreement provides for a significant reduction in collateral granted to the banks and the simplification of financial covenants more in line with the Group's business plan. The new covenants only relate to the ratios of EBITDA to Financial Expenses, and total financial indebtness to consolidated tangible net worth. The covenanted ratios, moreover, are in line with the covenants of the extended term credit lines. Compliance with covenants will be verified once every six months, commencing on 30 June 2010.
The Group was in compliance with all of the covenants at the reporting date.

Collateral for the two facilities consists of:
- a pledge, without voting rights, of the shares in the subsidiaries of KME Germany A.G., KME Italy S.p.A., KME Brass Italy S.r.l.;
- a first level, preferred mortgage on properties and the manufacturing equipment located at the KME Germany A.G. & Co. K.G. plant at Osnabrueck;
- a pledge of inventories of the manufacturing companies, except for non-European subsidiaries;
- a lien on factoring and insurance contracts;
- a pledge of receivables of KME Architectural Metals GmbH, KME Ibertubos S.A. and LOCSA S.A..

The credit lines and loans have been restructured as floating rate on the basis of Euribor plus a spread, substantially in line with the previous conditions. The loans are carried at amortised cost using the effective interest method. Effective interest includes commissions and margins that are additional to the interest rate and transaction costs.
Renegotiated borrowings costs are substantially in line with the previous facilities.

The decrease in bank loans and borrowings was due to a further reduction in working capital requirements that was achieved by making greater use of trade credit provided by suppliers of raw materials.

Lease payables primarily relate to the recognition, under IAS 17, of a Euro 3.3 million finance lease payable for the Group's headquarters in Florence, and a Euro 4.8 million lease payable to motor vehicles by Drive Service S.p.A..

All non-current financial liabilities have maturities of between twelve months and 5 years except for a Euro 3.7 million bank loan and lease payables of Euro 2.3 million falling due after five years.

4.16 Other non-current liabilities

Other non-current liabilities primarily relate to amounts payable to employees of German subsidiaries (Euro 12.7 million), the term of office entitlement of a Director of the Parent (Euro 1.6 million) and guarantee deposits relating to the long-term leases of Drive Service S.p.A. (Euro 3.3 million), a company acquired through the reverse demerger of iNTEk S.p.A..

4.17 Provisions for risks and charges

A summary of movements in provisions for risks and charges is as follows:

(thousands of Euro)	Balance at 31.12.2009	Translation differences	Increases	Decreases and reversals	Change in consolidation scope	Current portion	Balance at 30.06.2010
Provision for restructuring	9,348	1	673	(4,234)	-	(4,250)	1,538
EU fines	123,253	-	1,597	-	-	-	124,850
Other provisions for risks and charges	30,455	423	1,623	(5,222)	1,337	(17,187)	11,429
Total	**163,056**	**424**	**3,893**	**(9,456)**	**1,337**	**(21,437)**	**137,817**

The "current portion" and the balance at 31 December 2009, show movements in the current portion of provisions for risks and charges reported under current liabilities in 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 EU Fines provision relates to interest expense on the nominal amount of the fines levied by the European Commission on certain industrial companies of the KME Group and for which a hearing regarding the appeal in connection with industrial tubing has been scheduled by the European Court of Justice. By its ruling of 19 May 2010, the Court of First Instance of the European Communities had upheld the fine imposed by the Commission with respect to drinking water piping. The KME Group companies involved consequently appealed against the decision to the European Court of Justice on 28 July 2010.

"Other provisions for risks and charges" include contingent liabilities of Euro 8.0 million with respect to environmental damage, Euro 1.3 million for legal and tax costs and Euro 3.5 million for product warranties.

Following the dismissal of the class action in the United States brought by direct customers, also in connection with anti-trust violations, the class action brought by indirect customers was also dismissed.

There have been no new developments with respect to the disputes pending before the Court of Hanover relating to squeeze-outs and mergers. Details of the case are contained in the Directors' Report.

The dispute regarding the tax audits of the subsidiaries, KME Italy S.p.A. and KME Brass Italy S.r.l., has been substantially resolved through upholding the legitimacy of the companies' actions, with the exception of a few number of cases for absolutely immaterial amounts, which were covered by the relevant provisions.

Three of the parties involved in the claim for damages of February 2010 brought by Toshiba Carrier UK and another fifteen companies of the same group before the English High Court of Justice, Chancery Division, against KME Yorkshire Ltd., KME A.G., KME France S.A.S., KME Italy S.p.A., and another five producers of leather wound coils, again with respect to anti-trust violations, have withdrawn their petitions. Based on information currently to hand, the Directors currently continue to be of the opinion that it is unlikely that there will be any serious economic consequences for the Group.

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 31.12.2009	Changes for the period	Change in consolidation scope	Balance at 30.06.2010
Due to bank	148,141	(71,712)	9,894	86,323
Payables to the Parent	-	9,140	-	9,140
Payables to subsidiaries	2,432	(262)	-	2,170
Payables to associates	-	-	-	-
Due to lease companies	281	(883)	3,562	2,960
Due to factoring companies	33,425	31,158	1,624	66,207
Interest rate swaps (IRS) forward foreign exchange contracts	1,027	1,718	-	2,745
LME and metal sale/purchase contracts	47,820	(42,836)	-	4,984
Other	4,854	2,001	73	6,928
Total	**237,980**	**(71,676)**	**15,153**	**181,457**

"Payables to the Parent" relate to a loan disbursed by Banca Intesa that was acquired as part of a business demerged by iNTEk S.p.A. and which has been partly assumed by the parent, Quattroduedue S.p.A..

"Due to factoring companies" represent the unpaid amount of the receivables factored with recourse at the end of the reporting period.
Interest rate swaps were agreed to hedge the interest rate risk on certain outstanding bank borrowings through the swapping Euribor for fixed rate.

"LME and metal sale/purchases contracts" are measured at the fair value of contracts outstanding at the reporting date.

The 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 31.12.2009	Changes for the period	Change in consolidation scope	Balance at 30.06.2010
Due to suppliers	195,638	174,053	24,908	394,599
Due to associaties	13,370	(8,309)	-	5,061
Due to subsidiaries	649	74	-	723
Due to the Parent	-	-	-	-
Total	**209,657**	**165,818**	**24,908**	**400,383**

The increase in "Trade payables" was caused by the longer payment terms obtained from the main suppliers of raw materials.

The carrying amount of trade payables approximates their fair value.

(thousands of Euro)	Balance at 31.12.2009	Changes for the period	Change in consolidation scope	Balance at 30.06.2010
Payables to employees	32,958	16,285	-	49,243
Due to social security institutions	10,564	121	562	11,247
Tax liabilities	18,229	16,700	403	35,332
Accured expenses and deferred income	3,714	1,778	19,079	24,571
Other payables	29,249	(17,267)	8,721	20,703
Total	**94,714**	**17,617**	**28,765**	**141,096**

The payables due to employees include accrued obligations that were unpaid at the reporting date.

Tax liabilities primarily relate to value added tax payable and Euro 10.9 million in direct taxes.
"Accrued expenses and deferred income" relate to the servicing of motor vehicles by Drive Service S.p.A. which was invoiced prior to the servicing of the vehicles as contractually agreed.

Other payables include a Euro 16.3 million liability to customers for advance payments received and credit notes issued.

4.20 Deferred tax assets and liabilities

(thousands of Euro)	Balance at 31.12.2009	Changes for the period	Change in consolidation scope	Balance at 30.06.2010
Deferred tax assets	34,867	(6,292)	1,038	29,613
Deferred tax liabilities	(111,550)	(3,234)	(947)	(115,731)
Total	**(76,683)**	**(9,526)**	**91**	**(86,118)**

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

At the reporting date, the Group did not recognise deferred tax assets on tax losses of Euro 137.7 million carried forward.

The details at 30 June 2010 of recognised and unrecognised deferred tax assets on tax losses carried forward by company, are shown below:

(thousands of Euro)	31.12.2009	30.06.2010
a) recognised tax losses carried forward		
KME Group S.p.A.	-	2,540
KME A.G.	135	-
KME Verwaltungs- u. Dienstleistungs-GmbH	2,586	2,350
KME Architectural Metals GmbH & Co. K.G.	1,704	5,259
KME Italy S.p.A.	16,000	16,000
KME Locsa S.A.	930	930
KME Yorkshire Ltd.	4,222	1,826
Total (1)	25,577	28,905
b) unrecognised tax losses carried forward		
KME Group S.p.A.	4,297	-
KME France S.A.	69,629	74,248
KME Brass France S.A.S.	1,156	2,827
KME Spain S.A.	24,377	27,633
KME Italy S.p.A.	17,725	10,881
KME Locsa S.A.	20,888	20,888
Other companies	927	1,196
Total (2)	138,999	137,673
Total (1) + (2)	**164,576**	**166,578**

Deferred tax assets and liabilities by statement of financial position item are shown below:

(thousands of Euro)	Deferred tax assets		Deferred tax liabilities	
	31.12.2009	30.06.2010	31.12.2009	30.06.2010
Property, plant and equipment	216	262	64,481	63,668
Intangible assets	132	338	8	489
Investment property	324	324	-	-
Other non-current assets	-	-	-	-
Inventories	139	319	42,360	45,529
Trade receivables	934	1,723	287	232
Other current assets	13	5	10	8
Current financial assets	941	1,057	2,874	4,702
Employee benefits	9,186	9,240	648	633
Non-current financial liabilities	1,140	6	-	134
Other non-current liabilities	2,472	2,220	-	-
Provisions for risks and charges	4,800	4,085	-	-
Current financial liabilities	6,174	1,922	881	302
Trade payables	823	553	1	34
Other current liabilities	871	432	-	-
Equity items	65	33	-	-
Taxes on tax losses carried forward	6,637	7,094	-	-
Total	**34,867**	**29,613**	**111,550**	**115,731**

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

4.21 Related party transactions

In addition to the demerger described in the introduction, the Group entered into commercial transactions with unconsolidated related parties during the period. The related amounts were insignificant, as explained in the condensed interim consolidated financial statements.
All such transactions, however, were conducted at arm's length.

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

(thousands of Euro)											
					1st Half 2010						2009
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 period
3,195	17	198	239	-	3,649	5,072	26	428	353	557	6,436

4.22 Statement of cash flows

The statement of cash flows for the six months ended 30 June 2010 includes the effects of the proportional reverse demerger of iNTEk S.p.A. into KME Group S.p.A. as analysed in the Directors' Report. The most significant effects of the demerger were on:

- "(Increase) in property, plant and equipment and intangible assets". The amount includes the consolidation difference relating to the Drive Group, totalling Euro 7.4 million, which was previously recognised in the consolidated financial statements of iNTEk S.p.A.;
- the "Change in equity" relates to the increase in share capital and reserves (including negative goodwill) of the Parent in connection with the reverse demerger;
- "Change in consolidation scope" relates to the Euro 11.6 million reduction in consolidated equity due to the first time consolidation of the Drive Group and the offset of the increase in intangible assets due to the Drive Group consolidation difference of Euro 7.4 million accounted for under assets.

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 2010, with the exception of the demerger which had been announced to the market in accordance with CONSOB regulations in force at the time of the demerger.

5.1 Revenue from sales and services

An analysis of revenue by geographical segment is shown below:

Geographical segment (millions of Euro)	1st Half 2009	1st Half 2010
	%	%
Germany	212	321
Italy	178	293
France	98	155
United Kingdom	89	145
Spain	35	57
Other European countries	191	290
Total Europe	**803**	**1,261**
Rest of the world	95	140
Total	**899**	**1,400**

Revenue, net of raw material costs, as shown in the Directors' Report increased by Euro 72.4 million from Euro 332.5 million for the first six months of 2009 to Euro 404.9 million for the first six months of 2010. No single customer accounted for more than 10% of Group revenue (IFRS 8, paragraph 34).

Euro 4.5 million of "Revenue" is included in "non-recurring income (expenses)" in the "Reclassified statement of comprehensive income" shown in the Operating Review in the Directors' Report. This amount relates primarily to income generated by the reduction in base stock made possible by the improvement in production processes.

5.2 Purchases of and change in raw materials

(thousands of Euro)	1st Half 2009	1st Half 2010	Change
Purchases of raw materials and consumables	(497,600)	(1,021,243)	insig.
Differentials on LME transactions	7,288	(24,960)	insig.
Fair value gains (losses) on LME and metals buyer/seller contracts	(53,259)	41,818	insig.
Changes in raw materials and consumables	(41,445)	36,463	insig.
Total	**(585,016)**	**(967,922)**	**65.45%**

"Purchases of and change in raw materials" for the period ended 30 June 2009 has been adjusted following the replacement of the average cost method by FIFO for the measurement of inventories. The change resulted in a decrease in inventories of Euro 9.6 million and in increase in the fair value of sales contracts previously used to measure inventories of Euro 18.2 million.

5.3 Other operating income

(thousands of Euro)	1st Half 2009	1st Half 2010	Change
Government grants	522	1,069	insig.
Gains on sale of non-current assets	579	775	33.85%
Rental income	855	605	-29.24%
Cafeteria	256	285	11.33%
Insurance compensation	307	1,788	insig.
Other	4,579	5,640	23.17%
Total	**7,098**	**10,162**	**43.17%**

5.4 Personnel expense

(thousands of Euro)	1st Half 2009	1st Half 2010	Change
Wages and salaries	114,215	136,858	19.82%
Social security charges	31,805	31,667	-0.43%
Cost of stock options	375	-	-100.00%
Other personnel expense	5,862	8,002	36.51%
Total	**152,257**	**176,527**	**15.94%**

"Other personnel expense" include provisions for defined benefit pension funds and post-employment benefits of Euro 5.7 million.

Euro 0.6 million of other personnel expense relating to the cost of reducing hours worked (special redundancy fund, solidarity agreements and similar arrangements) has been reported under "non-recurring income (expenses)" in the Reclassified income statement shown in the Directors' Report.

Average number of employees:

(average for the period)	1st Half 2010	1st Half 2009	change %
Managers and white-collars	2,096	1,865	12.4%
	31.1%	28.0%	
Blue collars and special categories	4,635	4,804	-3.5%
	68.9%	72.0%	
Total employees	**6,731**	**6,669**	**0.9%**
	100.0%	100.0%	

The increase in "Managers and white-collars" was a result of the first-time consolidation of the Drive Group. The average number of "Managers and white-collars" of the Drive Group for the period ended 30 June 2010 was 277.

5.5 Amortisation, depreciation and impairment losses

(thousands of Euro)	1st Half 2009	1st Half 2010	Change
Depreciation	27,766	29,562	6.47%
Amortisation	495	1,601	insig.
Reversals of prior period impairment losses	(329)	(362)	10.03%
Impairment losses	783	94	-87.99%
Total	**28,715**	**30,895**	**7.59%**

Euro 0.3 million of the depreciation charge and impairment losses is reported under "Non-recurring income (expenses)" in the Reclassified income statement shown in the Operating Review of the Directors' Report.

5.6 Other operating costs

(thousands of Euro)	1st Half 2009	1st Half 2010	Change
Energy	34,463	36,578	6.14%
Maintenance and repairs	13,226	16,177	22.31%
Insurance premiums	5,644	7,564	34.02%
Rent and operating leases	5,267	8,259	56.81%
Outsourced production	10,232	29,491	insig.
Sales logistics and transport	21,828	27,675	26.79%
Commissions	8,373	8,874	5.98%
Factoring funding fees	3,102	1,789	-42.33%
Other operating costs	33,148	35,215	6.24%
Total	**135,283**	**171,622**	**26.86%**

Factoring funding fees are the factorage on the assignment without recourse of trade receivables.

"Other operating costs" include:

1. provisions for risks and charges, less releases, totalling Euro 3.7 million. Euro 1.6 million of the provisions related to accrued interest on the EU fines for anti-trust violations and is reported under "non-recurring income (expenses)" in the Reclassified income statement shown in the Operating Review of the Directors' Report.
2. bank fees of Euro 0.9 million;
3. losses on disposals of Euro 0.3 million;

4. accruals to allowances for impairment of Euro 1.9 million;
5. advertising and other business expenses of Euro 3.0 million;
6. external staff expenses of Euro 1.4 million;
7. legal consultancy and administrative costs, including the remuneration of company bodies, of Euro 4.9 million;
8. waste disposal fees of Euro 2.2 million;
9. business travel and canteen costs of Euro 4.1 million.

5.7 Financial income and expenses

(thousands of Euro)	1st Half 2009	1st Half 2010	Change
Interest income	776	250	-67.78%
Exchange rate gains	7,095	6,991	-1.47%
Dividends	1,247	258	-79.31%
Other financial income	2,816	1,587	-43.64%
Total financial income	**11,934**	**9,086**	**-23.86%**
Interest expense	(7,024)	(7,209)	2.63%
Exchange rate losses	(1,661)	(12,773)	insig.
Other financial expense	(9,509)	(4,211)	-55.72%
Total financial expense	**(18,194)**	**(24,193)**	**32.97%**
Net financial expense	**(6,260)**	**(15,107)**	**141.33%**

Interest expense includes Euro 0.4 million relating to interest on the factoring of receivables with recourse.

The reduction of interest expense is due to the fall in interest rates (Euribor) and the decrease in interest bearing debt, which, excluding "Financial instruments at fair value" and "Other financial assets (that are comprised of securities)", decreased from Euro 246.3 million for the period ended 30 June 2009 to Euro 212.9 million for the six months ended 30 June 2010.

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

The Euro 1.8 million relates to the prorated (46.38%) share of ErgyCapital S.p.A.'s losses (Euro 3.9 million) for the period.

5.9 Current and deferred taxes

(thousands of Euro)	1st Half 2009	1st Half 2010	Change
Current taxes	(16,192)	(8,064)	-50.20%
Deferred taxes	12,630	(10,793)	insig.
Total	**(3,562)**	**(18,857)**	**insig.**

A significant part of the approximately Euro 5.3 million in current taxes payable for the period was due to the temporary effect of the reduction in inventories in Germany during the first six months and the consequent release of the oldest level of LIFO cushion. LIFO is still used in Germany in accordance with tax rules there.

In December 2007, KME Group S.p.A. and most of its Italian subsidiaries elected to be assessed under a tax consolidation arrangement so that IRES is computed on assessable income equal to the sum of the taxable profit/tax loss of each company participating in the arrangement. Financial relationships, responsibilities and reciprocal obligations are set out in the agreement and terms and conditions regarding the national consolidated tax scheme by which the Parent and/or subsidiaries with tax losses receive a payment equal to the relevant tax savings realised by the Parent and/or subsidiaries with taxable income.
During the 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 0.25 million.

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

Reconciliation of the theoretical and effective tax charge:

(thousands of Euro)	1st Half 2010	1st Half 2009
Profit/(Loss) before taxes	56,852	(20,650)
Tax charge at theoretical rate	(17,852)	6,484
(tax rate of 31.4%)		
Reconciliation:		
Effect of using different tax rates	420	909
Other effects:		
Non-deductible (expenses)	(669)	(7,889)
Current taxes for previous years	(757)	-
Other	1	(378)
Effective tax charge recognised in the statement of comprehensive income	**(18,857)**	**(874)**

6. Other information

Financial instruments by category

(thousands of Euro)	31.12.2009	30.06.2010	Change
Financial assets at fair value through profit or loss	34,378	54,232	19,854
Held-to-maturity investments	-	-	-
Loans and receivables	318,586	566,550	247,964
Available-for-sale financial assets	-	-	-
Financial liabilities at fair value through profit or loss	48,401	7,729	(40,672)
Financial liabilities at amortised cost	762,311	517,108	(245,203)

Financial instruments by statement of financial position item

Financial instruments and reconciliation with statement of financial position items at 30 June 2010:

Statement of financial position item (thousands of Euro)	Total	Amortised cost	Fair value	Outside the scope of IFRS 7
Financial assets:				
Investments in subsidiaries and associates	20,171			20,171
Investments in other companies	258			258
Equity-accounted investments	24,798			24,798
Non-current financial assets	114,387	114,387		
Other non-current assets	32,057	32,057		
Trade receivables	216,700	216,700		
Other receivables and current assets				
Tax	3,538			3,538
Suppliers	13,604	13,604		
Other non-financial assets	18,448			18,448
	35,590			
Cash and cash equivalents	60,167	60,167		
Current financial assets				
Factoring	121,588	121,588		
Receivables	8,048	8,048		
Financial instruments	29,295		29,295	
Other instruments	24,937		24,937	
	183,868			
		566,551	54,232	67,213
Financial liabilities:				
Current and non-current financial liabilities				
Due to bank	421,391	421,391		
Factoring with recourse	66,207	66,207		
Factoring without recourse	5,547	5,547		
Lease payables	11,073	11,073		
Other financial liabilities	12,890	12,890		
Financial instruments	7,729		7,729	
	524,837	517,108	7,729	-
Trade payables	400,383	400,383		
	925,220	917,491	7,729	-

Notional amount of financial instruments and derivatives

The following table shows a summary of notional amounts and terms of derivative financial instruments outstanding at the reporting date:

Description (thousands of Euro)	Term			Total at	
	within 1 year	between 1 and 5 years	due after 5 years	30.06.2010	31.12.2009
LME commodity contracts and metal sale/purchase contracts	568,991	-	-	568,991	489,537
Foreign exchange forward contracts	217,122	3,046	-	220,168	101,987
Cross-currency swaps	-	-	-	-	-
Interest rate swaps (IRS)	-	1,571	-	1,571	-
Total	**786,113**	**4,617**	**-**	**790,730**	**591,524**

The net fair value gain in the first six months of 2010 on LME contracts and metal sale/purchase contracts at fair value through profit or loss was Euro 41.8 million.

The notional amount of "LME commodities and metals sale/purchase contracts" is the aggregate of sales and purchases.

Exposure to credit risk and impairment losses

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

The ageing of trade receivables due from third parties at the reporting date was as follows:

Description (thousands of Euro)	Gross carrying amount	Impairment losses 30.06.2010	Carrying amount
Not yet due	156,900	1,221	155,679
Less than 61 days past due	24,577	7	24,570
61 to 120 days past due	4,475	635	3,840
121 days to 1 year past due	7,136	804	6,332
Over 1 year past due	21,118	8,559	12,559
Total	**214,206**	**11,226**	**202,980**

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

31.12.2009	**9,230**
Translation differences	217
Change in consolidation scope	1,060
Impairment losses for the period	1,666
Uses	(632)
Reversals	(315)
30.06.2010	**11,226**

Exposure to currency risk

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

30.06.2010	USD	GBP	CHF	SEK	EUR
Non-current financial assets	-	-	-	-	-
Other non-current assets	-	-	-	-	-
Trade receivables	9,465	910	659	47,702	66
Other receivables and current assets	(49)	32	1	-	531
Current financial assets	12,213	2,900	1,484	6,449	379
Cash and cash equivalents	3,676	2,200	1,203	10,361	859
Financial liabilities	(31)	1	11	50	38
Trade payables	176,506	51	83	1,603	63
Other current liabilities	345	1,327	-	8,857	-
Gross statement of financial position exposure	**(151,515)**	**4,663**	**3,253**	**54,002**	**1,734**
Expected sales	57,386	13,794	6,648	32,246	731
Expected purchases	37,942	163	43	170	4,707
Gross exposure	**(132,071)**	**18,294**	**9,858**	**86,078**	**(2,242)**
Forward foreign exchange contracts	(135,116)	18,494	7,178	76,448	(7,673)
Net exposure	**3,045**	**(200)**	**2,680**	**9,630**	**5,431**

Sensitivity analysis

A 10% appreciation (depreciation) of the Euro against the currencies in the above table would have caused an increase (decrease), in equity at 30 June 2010 and in the profit for the period of Euro 1.7 million. The analysis was made assuming that all other variables remained constant, in particular, interest rates. The same analysis for 2009 would have decreased (increased) the loss for that year and increased (decreased) equity at 31 December 2009 by Euro 0.2 million.

Exposure to currency risks for the previous year:

31.12.2009	USD	GBP	CHF	SEK	EUR
Non-current financial assets	-	-	-	-	-
Other non-current assets	-	-	-	-	-
Trade receivables	11,187	(646)	326	28,974	(59)
Other receivables and current assets	21	37	6	-	-
Current financial assets	6,248	530	1,979	2,075	708
Cash and cash equivalents	6,341	1,767	987	11,240	182
Financial liabilities	253	62	106	-	236
Trade payables	50,947	121	52	1,488	53
Other current liabilities	(12)	1	-	5,963	-
Gross statement of financial position exposure	**(27,391)**	**1,504**	**3,140**	**34,838**	**542**
Projected sales	37,180	5,559	5,242	21,675	116
Projected purchases	48,485	197	317	2,450	709
Gross exposure	**(38,696)**	**6,866**	**8,065**	**54,063**	**(51)**
Forward foreign exchange contracts	(35,572)	7,560	7,491	50,029	(8,208)
Net exposure	**(3,124)**	**(694)**	**574**	**4,034**	**8,157**

Exposure to interest rate risk

The Group's interest rate structure of interest-bearing financial instruments at 30 June 2010 was as follows:

(thousands of Euro)	Carrying amount	
	31.12.2009	30.06.2010
Fixed rate instruments:		
Financial assets	40,950	36,911
Financial liabilities	7,196	6,639
Total	**33.754**	**30,272**
Variable rate instruments		
Financial assets	177,244	144,195
Financial liabilities	539,756	504,922
Total	**(362,512)**	**(360,727)**

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

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

The Group uses LME contracts (commodities forwards 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 reporting date would have resulted in a decrease in equity and profit for the period of Euro 4.7 million. The same effect on financial statements figures at 31 December 2009 would have had a negative impact of Euro 4.6 million.

Sensitivity analysis of the cash flows of variable rate financial instruments

An increase (or decrease) of 50 basis points (bps) in interest rates at the reporting date would have produced a decrease (increase) in equity and the profit for the period of approximately Euro 1.6 million (Euro 2.0 million in 2009). The analysis was made assuming that the other variables, in particular exchange rates, remained constant and was carried out using the same assumptions as used for 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, it is noted that the fair value of financial assets and liabilities is consistent with their carrying amount.

Fair value hierarchy

IFRS 7, paragraph 27A requires that financial instruments recognised at fair value be classified with reference to a hierarchy of levels based on the significance of the inputs used to determine fair value.

The standard stipulates three levels:
Level 1 - quoted prices for the asset or liability to be measured;
Level 2 - directly (prices) or indirectly (derived from prices) observable market inputs other than Level 1 inputs;
Level 3 - inputs not based on observable market data.

Financial instruments recognised at fair value (see reconciliation) are all, with the exception of Level 1 "financial assets held for trading", classified as Level 2 of the hierarchy due to the fact that they all relate to either physical transactions with customers and suppliers, or forward contracts concluded at prices quoted on the London Metal Exchange (LME) for the purposes of hedging fluctuating commodities prices. There were no transfers between Levels 1 and 2 during the first six months of 2010.
The Group does not use derivative financial instruments classifiable as Level 3.

Other financial obbligation

Below is a summary showing the minimum irrevocable payment obbligations under operating leases at the reporting date:

(thousands of Euro)	31.12.2009	30.06.2010
Within 1 year	5,213	6,034
Between 1 and 5 years	6,873	7,545
Over 5 years	166	270
	12,252	13,849

At the reporting date, purchase commitments for property, plant and equipment amount to Euro 12.6 million. These purchase commitments will lapse next year.

7. Segment reporting

The following information is presented by operating segment as required by IFRS 8. The KME Group's operations reported here are organised into business units based on the products and services offered with respect to the three following reportable segments:

- **Copper products**: the industrial grouping which is an international leader in the global production of semi-finished copper and copper-alloy products;
- **Services**: the Drive Group companies acquired by KME Group S.p.A. as part of the partial, proportional reverse demerger of iNTEk S.p.A. into KME Group S.p.A.. Its operations consist of long-term car hire, third-party fleet management, the rental of replacement motor vehicles to auto repair businesses, corporate accommodation services and the management of a car park in the centre of Milan;
- **Renewable energy**: the companies belonging to the ErgyCapital S.p.A. Group which is engaged in renewable energy plant construction and generation, with particular emphasis on solar energy.

30.06.2010 (thousands of Euro)	Segments				
	Semi-finished copper and copper-alloy products	Services	Renewable energy	Consolidation and sundry	Total
Revenue	1,369,924	29,760	-	(33)	1,399,651
Financial income	2,191	2	-	6,893	9,086
Financial expense	(19,067)	(622)	-	(4,504)	(24,193)
Amortisation, depreciation and impairment losses	(28,216)	(2,667)	-	(12)	(30,895)
Segment profit/(loss) before taxes	58,245	(486)	(1,820)	913	56,852
Non-current assets:					
Investments in subsidiaries and associates	6,521	6	9,767	4,135	20,429
Equity-accounted investments	-	-	22,873	1,925	24,798
Consolidation differences	114,897	26,097	-	-	140,994
Other non-current assets	771,386	22,879	-	7,194	801,459
Current assets	960,556	39,912	-	14,111	1,014,579
Liabilities	1,423,546	70,088	-	19,684	1,513,318

The comparatives for the corresponding period of the previous year are shown below:

30.06.2009 (thousands of Euro)	Segments				
	Semi-finished copper and copper-alloy products	Services	Renewable energy	Consolidation and sundry	Total
Revenue	898,503	N/A	N/A	(34)	898,469
Financial income	5,961	N/A	N/A	5,973	11,934
Financial expense	(19,903)	N/A	N/A	1,709	(18,194)
Amortisation, depreciation and impairment losses	(28,685)	N/A	N/A	(30)	(28,715)
Segment profit/(loss) before taxes	(18,200)	N/A	N/A	6,109	(12,091)
31 December 2009:					
Non-current assets:					
Investments in subsidiaries and associates	6,784	N/A	N/A	-	6,784
Equity-accounted investments	-	N/A	N/A	3,958	3,958
Other non-current assets	791,672	N/A	N/A	120,366	912,038
Current assets	852,105	N/A	N/A	(5,402)	846,703
Liabilities	1,378,435	N/A	N/A	(31,755)	1,346,680

The figures for "Services" and "Renewable energy" only relate to 2010, due to the fact that those two segments were acquired by the Group as part of the proportional reverse demerger of iNTEk S.p.A..

Annexes to the notes to the condensed interim consolidated financial statements

Reconciliation of the profit of the Parent, KME Group S.p.A., to consolidated profit attributable to the owners at at the Parent for the six months ended 30 June 2010

(thousands of Euro)	
Profit as per KME Group S.p.A.'s condensed interim separate financial statements	210
Profit/(Loss) of consolidated companies (1) (2)	39,169
Consolidation adjustments (3)	(38)
Share of profit/(loss) of equity-accounted investees (4)	(1,820)
Consolidated profit attributable to the owners of the Parent	**37,521**
Profit/(loss) of subsidiaries 1.1.2010 - 30.06.2010	
(1) KME A.G. Group consolidated profit	40,240
(2) Immobiliare Agricola Limestre S.r.l. loss	(50)
(2) Drive Rent S.p.A. Group	(680)
(2) KME Recycle S.r.l. loss	(341)
(3) Elimination of intercompany dividends	-
(3) Other consolidation adjustments	(38)
(4) Share of profit/(loss) of equity-accounted investees	(1,820)
Total	**37,311**

Reconciliation of KME Group S.p.A.'s equity to consolidated equity attributable to the owners of the Parent at 30 June 2010

(thousands of Euro)	
Equity of Parent including profit for the period	385,168
Consolidation reserves	61,267
Profit attributable to the owners of the Parent and the separate profit of the Parent	37,311
Difference between the consolidated equity attributable to the owners of the Parent, including profit/(loss) for the period	**483,746**
Analysis of consolidation reserves:	
1) elimination of investments	(72,482)
2) elimination of intragroup dividends	-
3) KME A.G. consolidation difference	109,840
4) Drive Rent S.p.A. Group goodwill arising on consolidation	22,473
5) translation and other differences	1,436
Total	**61,267**

Statement of the Deputy Chairman and the Manager in charge of Financial Reporting

Statement relating to the condensed interim consolidated financial statements, pursuant to art. 81 *ter* of CONSOB Regulation 11971 of 14 May 1999 as subsequently amended

1. Having regard to the provisions 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, Manager in charge of Financial Reporting of KME Group S.p.A., hereby confirm:
   - the adequacy with respect to the characteristics of the company; and,
   - the effective application of administrative and accounting procedures for the preparation of the condensed interim consolidated financial statements during the period 1 January 2010 to 30 June 2010.

2. Assessment of the adequacy of the administrative and accounting procedures for the preparation of the condensed interim consolidated financial statements at 30 June 2010 was made in accordance with generally accepted international practice (Committee of Sponsoring Organisations of the Treadway Commission – COSO report).
   No material findings emerged in this regard.

3. Moreover they state that:
   3.1. the condensed interim consolidated financial statements:
      a) were prepared in compliance with International Financial Reporting Standards as endorsed by the European Community pursuant to Regulation (EC) 1606/2002 of the European Parliament and of the Council of 19 July 2002;
      b) are consistent with to the underlying accounting ledgers and records;
      c) are suitable to provide a true and fair view of the financial position, results of operations and cash flows of the issuer 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 their effect on the condensed interim consolidated financial statements, together with a description of the principal risks and uncertainties for the remaining six months of the year. The interim Directors' Report also includes a reliable analysis of information on related party transactions.

Florence, 5 August 2010

Deputy Chairman
(signed Vincenzo Manes)

Manager in charge of Financial Reporting
(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 of the KME Group as at and for the six months ended 30 June 2010, comprising the statement of financial position, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes thereto. The parent company's directors are responsible for the preparation of these condensed interim consolidated financial statements in accordance with IAS 34, "Interim Financial Reporting", 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 relating to the annual consolidated financial statements, reference should be made to our report dated 12 April 2010. As disclosed in the notes, the parent company's directors restated some of the corresponding figures related to the prior year condensed interim consolidated financial statements, as previously presented. We reviewed such condensed interim consolidated financial statements and issued our report thereon on 26 August 2009. We have examined the methods used to restate the corresponding figures and related disclosures for the purposes of preparing this report.

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 2010 have not been prepared, in all material respects, in conformity with IAS 34, "Interim Financial Reporting", endorsed by the European Union.

Florence, 27 August 2010

KPMG S.p.A.

(signed on the original)

Riccardo Cecchi
Director of Audit

Condensed information on the results of KME Group S.p.A.

Condensed information on the results of KME Group S.p.A.*

KME Group S.p.A.'s profit for the first six months of 2010 was Euro 0.2 million.

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

(thousands of Euro)

2009	Income statement	1st Half 2010	1st Half 2009
---	Dividends received from KME A.G.	---	---
2,839	Revenue from service	1,420	1,420
(4,270)	Operating costs	(2,459)	(2,363)
(501)	Stock option costs	-	(240)
8,617	Net financial income (expense)	2,418	7,665
6,685	**Profit (Loss) from ordinary activities**	**1,379**	**6,482**
(1,345)	Non-recurring income (expenses)	(38)	-
5,340	**Profit before taxes**	**1,341**	**6,482**
(3,050)	Current taxes	(308)	(185)
1,339	Deferred taxes	(823)	(30)
3,629	**Profit for the period/year**	**210**	**6,267**

There was a reduction in **profit from ordinary activities** due to lower financial income caused by the lower cash balances as a result of the demerged liabilities received. Net cash was replenished by the capital increase at the end of July 2010.

Financial income includes:

- Euro 2.1 million (2009: Euro 3.5 million) in fee income from subsidiaries for guarantees issued to financial institutions on behalf of the subsidiaries to obtain credit lines;
- Euro 0.5 million (2009: Euro 2.8 million) in fair value gains on securities held in portfolio as a result of increases in stock market prices at 30 June 2010.

Financial expenses increased because of the increase in liabilities following the demerger.

* The statement of financial position, income statement and statement of cash flows of KME Group S.p.A. as at and for the first six months of 2010 have not been audited or reviewed by the independent auditors.

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

(thousands of Euro)	30.06.2010	31.12.2009
Assets		
Investment property	3,216	3,216
Investment in KME A.G.	307,350	307,350
Investment in KME Recycle S.p.A.	2,000	2,000
Investment in Drive Rent S.p.A.	30,000	---
Investment in Culti S.r.l.	3,385	---
Investment in ErgyCapital S.p.A.	24,654	---
ErgyCapital S.p.A. warrants 2011	9,767	---
Other assets	2,050	---
Non-current assets	**382,422**	**312,566**
ErgyCapital S.p.A. ordinary shares	4,333	2,366
ErgyCapital S.p.A. warrants 2011	1,093	1,386
iNTEk S.p.A. savings shares	1,599	3,541
Other assets (liabilities)	(4,871)	(4,790)
Current assets	**2,154**	**2,503**
Net financial position	592	33,356
Total assets	**385,168**	**348,425**

(thousands of Euro)	30.06.2010	31.12.2009
Liabilities		
Share capital	273,768	250,015
Treasury shares	(2,888)	(2,888)
Reserves	114,078	97,669
Profit for the period/year	210	3,629
Total equity	**385,168**	**348,425**

The changes in the statement of financial position between 31 December 2009 and 30 June 2010 were primarily caused by the recognition of assets and liabilities received on the 22 March 2010 demerger of iNTEk S.p.A.. Details are contained in the section of this report dealing with the Demerger.
Share capital at 30 June 2010 is reported before the option offer against consideration concluded on 23 July 2010.

At their meeting of 29 April 2010, shareholders renewed the authorisation to acquire and hold 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.
The Company did not buy or sell treasury shares during the six months under review and it is, therefore, confirmed that the Company held of 8,212,755 ordinary treasury shares, being 1.84% of that class, and 135,831 savings trasury shares, being 0.31% of that class at the reporting date. Total treasury shares held at that date were 1.70% of total share capital. The investment was Euro 2.9 million.

The Company's reclassified **net financial position** at 30 June 2010 were Euro 0.6 million:

(thousands of Euro)	30.06.2010	31.12.2009
Current financial liabilities	70,815	29,470
Non-current financial liabilities	80,522	61,466
Loans from subsidiaries	23,933	24,067
Payables to subsidiaries for financial guarantees	15,124	5,588
Total financial liabilities	**190,394**	**120,591**
Cash and cash equivalents	(8,247)	(403)
Financial receivables due to subsidiaries and others	(105,356)	(90,896)
Current receivables from subsidiaries for financial guarantees	(3,916)	(3,767)
Total cash and cash equivalents and financial assets	**(117,519)**	**(95,066)**
Total net debt	**72,875**	**25,525**
Non-current receivables from subsidiaries for financial guarantees	(11,208)	(1,821)
Non-current financial receivables due from subsidiaries	(56,492)	(52,814)
Non-current financial receivables due from bank	(5,767)	(4,246)
Reclassified net financial position	**(592)**	**(33,356)**

The reduction in the net financial position was due to liabilities of Euro 30 million received on the Demerger. The capital increase of 23 July 2010 contributed approximately Euro 17 million in cash.

Outlook

Fees relating to the issuance of financial guarantees in the interest 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, 5 August 2010

The Board of Directors

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

Marco Miniati, the Manager in charge of Financial Reporting, hereby certifies pursuant to art. 154 *bis*, paragraph 2 of the Consolidated Finance Act (Legislative Decree 58/1998), that the financial information contained in the condensed information on the results of KME Group S.p.A. as at and for the six months ended 30 June 2010 is consistent with the underlying accounting documents, ledgers and records.

The Manager in charge of Financial Reporting
(signed Marco Miniati)

KME Group S.p.A.

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