KME Group S.p.A.

Director’s Report on Operations of the Group at 30 September 2010

November 11, 2010

registered office in Florence – via dei Barucci, 2
www.kme.com

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KME Group S.p.A.

Board of Directors

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

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

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 saving Shareholders Romano Bellezza

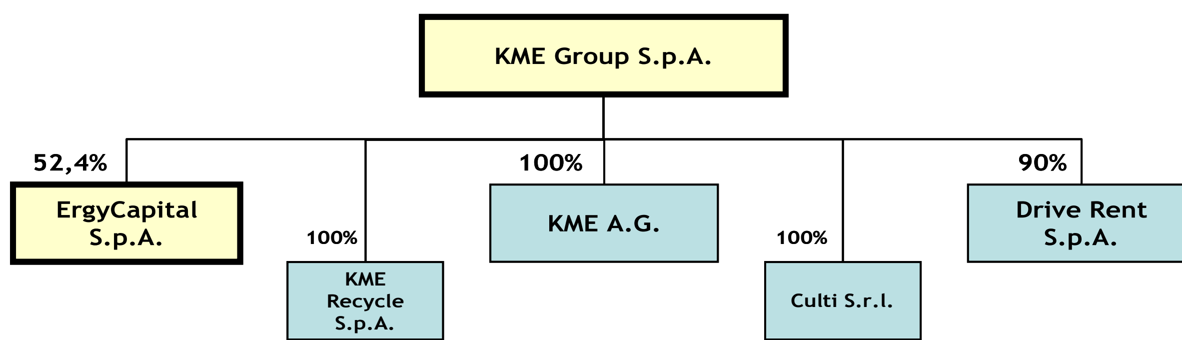
Directors' Report on Operations for the first nine months of 2010

Before illustrating the trend in operations of the KME Group, it is important to note that the partial proportional reverse demerger of iNTEk S.p.A. into KME S.p.A. (the "Demerger"), approved by the Shareholders' Meeting of 2 December 2009 became effective on 22 March 2010.
The Demerger entailed the transfer to KME Group S.p.A. of assets and liabilities of iNTEk S.p.A., primarily comprised of participations.
The participations 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.r.l., a company operating in the furnishings and accessories sector.

Therefore, the illustration of the performance of operations which follows refers to the segments in which the Company has invested; the new sectors of investment above have been added to the traditional "semi-finished copper products and copper alloys" segment, which is overseen by the German subsidiary KME A.G. and which remains the Group's core business.
On an accounting basis, the direct subsidiary Drive Rent S.p.A. and the indirect subsidiaries, Drive Service S.p.A. and Easydriver Car Services Espana S.L.U., are consolidated on a line-by-line basis; the subsidiary ErgyCapital S.p.A. is consolidated with the equity metod.

KME Group S.p.A.'s investment in KME A.G. (which heads the sector of semi-finished copper products and copper alloys) amounts to 307.3 million euro. The investment in ErgyCapital totals 39.0 million euro; the investment in Drive Rent S.p.A. amounts to 30 million euro; the investment in KME Recycle S.p.A. (the scrap trading sector) amounts to 2 million euro; and the investment in Culti S.r.l. totals 3.4 million euro.

Struttura societaria del Gruppo



The most recent figures on the economic trend highlighted signs of a slowdown in growth in economic activity in advanced economies as compared to the first few months of the year.
This was affected by the waning of support for recovery provided by the stock cycle and the measures implemented by public administration. The modest dynamic in consumer spending also has its weight, as individuals are burdened by uncertainties regarding the outlook on the job market and tight conditions for accessing credit.
In Europe, where the Group has its greatest presence, internal demand remains weak. Stimulus for the recovery came from exports, favoured by the expansion of global demand and the gains in competitiveness, aided by the weakness of the Euro in the second quarter of the year, providing a special advantage to Germany, which exploited the benefits of the modernisation of the production system and the increased efficiency of the labour market.
External demand specifically supported assets for investment in machinery and equipment. Though in a weak context, investments for construction recovered from the fall of the first few months of the year, partially attributable to the adverse weather conditions in several countries in Europe and North America.

The rationalisation and reorganisation work carried out by the KME Group in the last few years strengthened its competitiveness and, therefore, enabled the Group to best take advantage of the recovery of the markets.
The first nine months of the current year show better consolidated results than those of the same period of the previous year, both in terms of sales volumes and operating profit.

Consolidated revenues for the first nine months of 2010 amounted to 2,105.9 million euro, or 50.8% ahead of the same period in 2009.
Revenue less raw materials, increased from 490.6 million euro to 607.5 million euro, or 23.8%. The enlargement of the consolidation scope contributed for 43.9 million euro; excluding this effect, increase in net revenues amounted to 14.9%.

EBITDA(*) for the first nine months of 2010 amounted to 69.6 million euro (65.3 million euro on a like-for-like basis), while in the same period of 2009 this amounted to 34.4 million euro. EBITDA for the third quarter totalled 23.9 million euro.
There was also an improvement in profit percentages with EBITDA on revenues increasing increasing from 6.7% for the first and second half of 2009 to 11.3% in the first half of the current year, and to 11.5% in the first nine months of 2010.

EBIT(*) for the first nine months of 2010 is positive for 24.6 million euro, while in 2009 it was negative for 3.2 million euro.

Consolidated profit (*) before taxes totals 9.6 million euro (including the net loss of ErgyCapital S.p.A. for the period, amounting to 4.2 million euro). A loss of 13.0 million euro was recorded at 30 September 2009.

In this report, the performance indicators provided above are calculated on the basis of presentation and measurement criteria which differ partially from the IFRS accounting standards, used to prepare the consolidated financial statement. Specifically, they are given without the impact of the measuring raw material inventories, for semi-finished copper and copper alloys products, substantially at market value, as required by the 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..
Regarding this fact reference should be made to the description of the reclassification carried out, which is contained in the following section on the "Operating Performance of the Group".
In a situation where prices are rising, compared to those at the start of 2010, the valuation of the inventory of raw materials based on the current value of prices, i.e. the lower between FIFO and the realisable value at the end of the period, instead of on a LIFO valuation of the base stock(**), resulted in an increased positive differential in the values between those at LIFO and those calculated in compliance with the IFRS. Specifically, at the end of September 2009 a positive differential of 24.0 million euro was posted, while at the end of September 2010 this differential was positive for 42.0 million euro.
Therefore, **the consolidated profit** for the first nine months of 2010, calculated valuing the inventories according to the IFRS, amounted to 51.6 million euro, while in 2009 it amounted to 11.0 million euro.

(*) 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.

Steps taken to contain working capital requirements introduced to optimise the management of payment extensions in relations with customers and, above all, with suppliers of raw materials, meant that there was a further reduction in the Group's **net debt**, which amounted to 195.5 million euro at 30 September 2010 (286.5 million euro at 31 December 2009).

The net debt is still below the value of working capital, in demonstration of the Group's sound financial structure and the lack of structural indebtedness.

Equity attributable to owner of the parent and non-controlling interests at 30 September 2010, amounted to 523.0 million euro (422.8 million euro at 31 December 2009).

Sector of semi-finished products in copper and copper alloys

The trend in demand in the main sectors that use **semi-finished products in copper and copper alloys** of the Group differed between markets and geographical segments.

Construction is an important market for the Group's products. Copper tubing is used in for water heaters, copper and coppery alloy rolled products for roofing and facades; bronze and brass 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 revenues for these products was about 1/3 of the total), after being adversely affected in the first part of the year by extremely cold weather in Europe and North America, which cause a further slowdown in construction work, showed signs of recovery in the third quarter. The negative effect of the increase in copper prices continued, in a context of high volatility which creates uncertainties in users' purchasing decisions.
For **rolled copper roofing products,** though in a decidedly weak market scenario, the Group continued to develop its new strategies of downstream integration and the use of multiple metals, as well as supplying "turnkey" projects through "Architectural Solutions" projects, created to offer integrated architectural and construction solutions through the design and manufacture of copper, copper alloy and zinc cladding. The outlook is good for TECU"® Solar Roof integrated copper roofing, which combines the artistic quality of copper with the need for energy savings.
Sales of **tubing for heating and plumbing systems** are recovering as a result of the steady improvement in service to customers and the strengthening of the Group's presence in heating systems using renewable energies (specifically solar and geothermal energies).
There was a positive trend in demand in the **brass rods** for taps and fittings and heating systems.

There is extensive use of copper and copper alloy products in a wide range of **industrial sectors**, from the automotive sector to electric and electronic components, from air

conditioning and refrigeration to fancy goods and mechanical engineering in general. The telecommunications industry uses copper tubing in the coaxial cables for mobile telephone transmission towers. The Group also produces moulds for the continuous casting of steel and intermediate non-ferrous products, blanks for the minting of coins and special tubing for the construction of ships and offshore installations.

Demand for **semi-finished products for the industrial sector** (consolidated revenues for this sector represent about 2/3 of the total) continues in its recovery from the sharp downturns in 2009.
Demand was up for **rolled products for the manufacturing industry,** specifically in the automotive, mechanical engineering and home appliances sectors, above all in the German market.
Demand also recovered for **tubing for industrial applications,** specifically in the air conditioning and refrigeration sectors, as well as in components for energy generation plants fuelled by renewable sources.
There were timid signs of recovery in demand for **copper moulds for continuous steel casting.**
Good recovery was also seen in the **copper bars** for electrical applications.

The **price of copper**, which is the metal most used in the production of the semi-finished products of the Group, grew on average in the period in question compared to prices in 2009, driven by the turnaround in the emerging economies and also fuelled by speculative moves, linked to the large amount of international liquidity. In October, prices confirmed the growth trend.

The KME Group was able to take advantage of the recovery in demand through sales actions offering customers integrated solutions and by strengthening it distribution chain.
Specific attention was focused on sales: the new “SYNCHRO” project aims at synchronising the entire distribution chain, from procurement of raw materials to delivery of products to customers, using a transversal benchmarking approach by production unit and division, in order to achieve higher levels of efficiency in this service.

Consolidated revenues of the sector for first nine months of 2010 amounted to 2,062.0 million euro, up by 47.6% on those of the same period of 2009.
Revenue less raw material costs increased from 490.6 million euro to 563.6 million euro, an increase of 14.9%, while sales volumes increased by 21.3%, due to the different mix.
Raw materials costs were approximately 72% of the revenue from sales of semi-finished products (f 66% on average for 2009).

The improved performance of sales and the strengthened competitive position resulted in an improvement in operating profit in the copper sector in the first nine months of 2010, compared to the same period of the previous year. The measures for rationalising the production and organisational structures were aimed at identifying and implementing the

Group's operating best practices in the various areas of intervention and reducing implementation times for all processes, in a context of environmental protection and the utmost respect for workers' health and safety.

EBITDA for the segment(*) for the first nine months of 2010 amounted to 65.3 million euro, while in the same period of 2009 it amounted to 34.4 million euro.
The profitability improvement is also evident in relative terms. The EBITDA on revenues went from 6.7% in the first and second halves of 2009 to 11.4% in the first half of the current year, and to 11.6% in the first nine months of 2010.

EBIT for the segment (*) for the first nine months of 2010 is positive for 24.3 million euro, while in 2009 it was negative for 3.2 million euro.

Consolidated profit before taxes for the segment amounted to 14.5 million euro (loss before taxes of 13 million euro in 2009).

The number of **employees** for the segment as at 30 September 2010 totals to 6,516 (6,485 at the end of 2009).

The **outlook** for the segment confirms that as a result of the competitive conditions achieved through the implementation of measures aimed at strengthening the production and organisational structures, the Group can benefit from the more favourable situation in its various business markets and thus achieve significantly better results over the entire year than those of the previous year.

Renewable energy segment

In the first nine months of 2010, the **ErgyCapital Group** recorded **revenues** of 12.6 million euro, up 34% on the first nine months of 2009 on a like-for-like basis, and 3.4 million in the third quarter, +54% compared to the third quarter of 2009. The increase was primarily due to power generation, whose revenues more than doubled as a result of the increase in installed capacity.
In the first nine months of the year, consolidated **EBITDA** was negative, but improving, from – 4.8 million euro to -1.5 million euro, and was positively influenced by the profit of the power generation division (5.0 million), which almost doubled compared to the same period of the previous year (2.6 million). The slowdown in development and the resulting slowdown in plant activities, mainly due to the extension of timeframes for resolving loans, negatively affected the profit of the two divisions (Holding and Development: negative EBITDA of 4.4 million – Systems: negative EBITDA of 1.4 million).

(*) for homogeneous comparison with 2009, this also includes the figures for the parent company.

In light of the new provisions regarding the *Centro Energia 2011* ErgyCapital has revised its project portfolio, assessing the financial feasibility of the projects in relation to the new tariffs. As a result of this assessment, in the quarter write-downs were made amounting to about 1 million euro, for projects considered as no longer economically viable. Moreover, in light of this new element, the company organisation and the use of internal resources of the Group on projects were reviewed. In the third quarter, this resulted in a more prudent policy for capitalisation of development costs, with total costs capitalised of 0.3 million euro, compared to an average of 0.8 million per quarter for the period January-June 2010.
In this context personnel costs decreased by about 36% compared to the same period of the previous year, mainly due to the reduction in workers in the systems sector and as a result of the benefits deriving from the revision of the incentive plans.
Amortisation, depreciation and impairment losses, amounting to 4.6 million euro comprise 2.0 million euro in amortisation and depreciation, and a total of 2.6 million euro in impairment losses and provisions mainly relating to development projects abandoned.
The **net loss** amounted to 7.5 million euro (loss of 4.6 million at 30 September 2009), following payment of other non-recurring charges of 0.9 million euro.
The increase in capital invested, up to 95.4 million euro from 80.3 million euro at 31 December 2009, is mainly due to the increase in investments in the Energy Generation and Development and Holding sectors in relation to the construction of photovoltaic plants and the development of projects and opportunities, respectively.
The **net financial debt** of 61.7 million euro (negative for 64.0 million at 30 June 2010) decreased following collections from the share capital increase, net of investments realised and the cash flow from operating activities for the period. Cash and cash equivalents (6.9 million euro) increased by 0.3 million euro compared to 30 June 2010.
As regards the **outlook**, while the results are growing compared to those of the first few months of 2010, they will be negatively effected, different to plans, by the slowdown in the disbursement of bank loans and the obtaining of authorisations illustrated in the half year report at 30 June 2010.
Regarding the **plant construction** sector, revenues are expected to improve compared to the first nine months of 2010, though at a level lower than that planned.
Positive effects will derive from the reduction in personnel costs of Energetica Solare.
In geothermal systems, the revenue development trend is expected to continue.
In the **power development, holding and generation** area, plants connected to the grid at the end of the year will most likely stand at about 20 MW, provided by the current 16.2 MW plus a share of 5.5 MW from plants currently under construction, which shall be completed at the beginning of 2011. As a result, revenues from power generation are expected to improve, and will be joined by the initial revenues from the biogas plant under construction, which is expected to be completed in the first part of 2011. The results of this area will be positively affected by the reduction of costs implemented in the third and fourth quarters of 2010.

For more information on the performance of operations of ErgyCapital S.p.A., see the Quarterly Report approved by the Company on November 10, 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 courtesy cars to auto repair companies, corporate accommodation services and the management of a car park in the centre of Milan.
The long-term car hire business continued to decrease in the first nine months of 2010, in line with the strategy to almost completely exit the sector during the current year.
The management of third-party vehicles continues to be affected by the crisis in the automotive sector. Nonetheless, the Drive Group succeeded in keeping their business volumes stable, as a result of new contracts acquired, even though the performance of revenues remains below forecast. Contribution margins fell as a result of the lack in development of sales of services to private individuals. This was offset, in terms of revenues but not profitability, by contracts acquired from corporate customers. The criticality of profitability is mainly attributable to a major contract with a leading industrial group which generated losses on a high number of special vehicles on which extraordinary maintenance costs were incurred which had not been foreseen in the contract. The agreement concluded redefined the methods for charging these costs to the customer. Nonetheless, it is taking longer than initially forecast to introduce the operating procedures required for the full effectiveness of the agreements reached.
Car hire and the management of courtesy cars for repair and body shops continue to record volumes below expectations, due to the difficulties in the auto repair sector. However, the number of customers and vehicles managed continues to grow: the increase in the customer portfolio and the consolidation of leadership in this sector create the conditions for a recovery in revenues and margins as soon as the economic trend of the market shows signs of recovery, presumably even in 2011.
Housing activity – the management of corporate accommodation services - remained substantially stable in terms of the number of apartments managed, after a fall in 2009. The intensive marketing efforts resulted in the launch of promising contacts with large corporations and the acquisition of two new contracts with a leading Italian industrial group.
The revenues and margins of Elogistique S.r.l., which manages a car park in the centre of Milan, were in line with forecasts. Note that from June 2010, the Group holds a 30% share in this company.
Finally, the subsidiary Easydriver Car Services Espana S.L.U., acquired in 2008, continues to record better results for the period than forecast, even against the backdrop of continuing difficulties in the Spanish economic and financial system.

In the first nine months of 2010 the Drive Group's **consolidated revenues** amounted to 43.9 million, in line with those of the same period of 2009 if you consider the failure to exactly charge back the costs incurred on behalf of a customer in relation to the contractual issue described above. **EBITDA** was positive for 4.3 million euro (6.1 million at

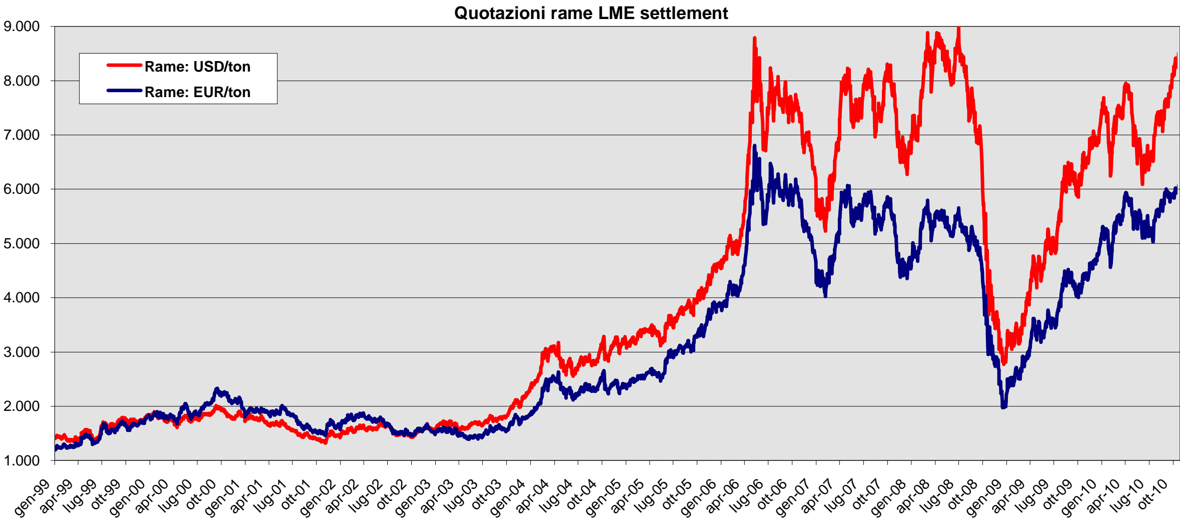
30 September 2009). **EBIT** was positive for 0.3 million euro. The **loss** before taxes for the segment for the first nine months of 2010, was 0.6 million euro (profit of 0.2 million euro in the first nine months of 2009).
The net financial position at 30 September 2010 showed total **debt** of 21.7 million euro (18.9 million euro at 31 December 2009). The evolution of net debt is influenced by the decision to reduce exposure to suppliers, also in relation to the continuing delays in collections from customers, large companies and public institutions, in order to consolidate existing relationships with the assistance network, which constitutes a strategic asset for the Group's future development plans.
The number of **employees** of the Drive Group totalled 271.

Copper market and prices

The average price of copper in the first nine months of 2010 was higher than that of the same period of 2009 by 53.7% in US$ (increasing from US$ 4,663/tonne to US$ 7,169/tonne) and by 61% in Euro, from 3,389 euro/tonne to 5,455 euro/tonne), as a result of the appreciation in the US currency.

Regarding the trend the average price for the third quarter 2010, compared to the second quarter, was 3.3% higher in US$ (from US$ 7,013/tonne to US$ 7,243/tonne) and 1.7% higher in Euro (from 5,512 euro/tonne to 5,608 euro/tonne). Compared to the fourth quarter of 2009, this was 9% higher in US$ (from US$ 6,643/tonne to US$ 7,243/tonne) and 24.8% higher in Euro (from 4,494 euro/tonne to 5,608 euro/tonne).

In October 2010 the price of copper confirmed the growth trend, recording a monthly average of US$ 8,292/tonne (equal to 5,967 euro/tonne).



Operating performance of the Group

As described previously, by not allowing the valuation of the closing inventories of the segment of semi-finished products in copper and copper alloys using LIFO, which, on the other hand, is used internally for management purposes, IFRS introduced an exogenous financial element whose variability prevents homogenous comparison of data of different periods, thus not permitting an accurate representation of the results of operations.
Therefore, in the comments that follow, financial information based on accounting standards that differ from the IFRS is also used, mainly in terms of measurement and presentation, for the following aspects:

1 revenue is also presented net of raw materials costs, in order to eliminate the impact of the fluctuations in raw material prices;
2 closing inventories for the segment of semi-finished products in copper and copper alloys, for the metal part, are valued at LIFO for the portion that refers to the structural stock, which means the part of inventories not committed to customers' sales orders. Metals that will be sold , on the other hand, are measured at their contractual selling prices, which are considered to be their realisable value. Under IFRS, on the other hand, inventories are required to be measured at the lower between the cost calculated using the FIFO method and the net realisable value. IFRS also requires forward sales and purchase contracts for inventories, as well as the related hedging contracts traded on the LME market to be separately identified and recognised in the financial statements at their *fair value*, as financial instruments;
3 The non-recurring components are shown under the gross operating profit.

The table below shows the effects on 2010 of using these different measurement and presentation criteria.

Reclassified Income statement (millions of Euros)	30/09/2010 IFRS		Reclassification	Adjustments	30/09/2010 RECL.
Gross Revenue	2,105.9	**100.0%**			2,105.9
Raw material costs	-		(1,498.4)		(1,498.4)
Revenues net of raw materials costs	**-**				**607.5**
Personnel expense	(259.2)		0.7		(258.5)
Other consumables and costs	(1,728.8)		1,495.7	(46.3)	(279.4)
Gross Operating profit (EBITDA)	**117.9**	**5.6%**			**69.6**
Non-recurring (Expenses)/Income	-		(0.1)		(0.1)
Amortisation, depreciation	(46.8)		1.9		(44.9)
Operating Profit (EBIT)	**71.1**	**3.4%**			**24.6**
Net financial expense	(15.3)		0.2	4.3	(10.8)
Profit (loss) of subsidiaries at equity	(4.2)				(4.2)
Profit before taxes (non IFRS inventory)	**51.6**	**2.4%**			**9.6**

For the purposes of the comments on the Group financial trend and progress that follow, the reclassified indicators as described above are used, as they are considered to be more representative of the real economic and financial performance of the Group. Obviously the description of the performance of operations is also completed with the financial data based on the use of the method laid down by the IFRS for the valuation of the inventories of raw materials.

The table that follows shows the summarised consolidated income statement results of the Group for the first nine months of 2010, compared to those for the same period of the previous year.

KME Group – Consolidated Income Statement

Year 2009 RECL		Reclassified Income statement (millions of Euros)	30/09/2010 RECL.		30/09/2009 RECL.		% Change
1,949.4		Gross Revenue	2,105.9		1,396.6		50.8%
(1,285.9)		Raw material costs	(1,498.4)		(906.0)		65.4%
663.5	**100%**	**Revenue net of raw materials costs**	**607.5**	**100%**	**490.6**	**100%**	***23.8%***
(300.8)		Personell cost	(258.5)		(223.5)		15.7%
(317.4)		Other consumables and costs	(279.4)		(232.7)		20.1%
45.3	**6,8%**	**Gross operating profit (EBITDA*)**	**69.6**	**11.5%**	**34.4**	**7.0%**	***insig.***
2.9		Non-recurring (Expenses)/Income	(0.1)		2.4		insig.
(53.6)		Amortisation, depreciation	(44.9)		(40.0)		12.3%
(5.4)	**-0,8%**	**Operating profit (EBIT)**	**24.6**	**4.0%**	**(3.2)**	**-0.7%**	***insig.***
(14.6)		Net financial expense	(10.8)		(9.8)		10.5%
-		Profit (loss) of subsidiaries at equity	(4.2)		-		insig.
(20.0)	**-3,0%**	**Profit before taxes (non IFRS inventory)**	**9.6**	**1.6%**	**(13.0)**	**-2.6%**	***insig.***

(*) EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization) is not an IFRS line item. *It is a useful indicator of the Group's operating performance. EBITDA is an intermediate financial indicator equal to operating profit(EBIT) but before depreciationand amortisation of tangible and intangible assets, and non-recurringitems.*

In the first nine months of 2010, **revenues** amounted to 2,105.9 million euro, up by 50.8% on those of the same period of 2009, which amounted to 1,396.6 million euro.
This increase is impacted by raw materials price trends. In fact, net of raw material costs, revenues increased by 23.8%, from 490.6 million euro to 607.5 million euro (563.6 million euro on a like-for-like basis). The growth in the sales volumes was 21.3% due to the different mix.

EBITDA, of 69.6 million euro, almost doubled compared to 2009. On a like-for-like basis, it amounts to 65.3 million euro (+ 89.8% on 2009). This is 11.5% on revenues, net of raw materials (in 2009 it was 7.0%).

EBIT was positive for 24.6 million euro (negative for 3.2 million euro in 2009).

Consolidated profit/(loss) before taxes, without the valuation of inventories of raw materials at current prices according to the IFRS, amounted to 9.6 million euro (loss of 13.0 million euro in 2009).
The loss of the subsidiaries consolidated at equity regards the loss for the period of ErgyCapital S.p.A. (4.2 million).

Effect of measuring raw materials at market (IFRS)

The following table shows the consolidated profit for the first nine months of 2010 compared to that for the same period of 2009, calculated including the impacts of the valuation according to the IFRS of the structural stocks of the raw materials, outstanding physical buyer and seller contracts and London Metal Exchange forwards contracts.

(million of Euros)	30/09/2010 RECL.		30/09/2009 RECL.		% *Change*
Profit/(loss) before taxes (non IFRS inventory)	**9.6**	**1.6%**	**(13.0)**	**-2.6%**	***insig.***
IFRS impact on stock and financial instruments	42.0		24.0		insig.
Profit before taxes (IFRS inventory)	**51.6**	**8.5%**	**11.0**	**2.2%**	**insig.**

In the context of the growth in the related prices, the valuation of the inventory of raw materials brought about, at the end of September 2010, a positive differential in the values between those at LIFO and those calculated according to the IFRS. At the end of September 2009, with prices dropping, a negative differential of 24.0 million euro was recorded, while at the end of September 2010 this differential was positive for 42 million euro. As can be seen, the use of the IFRS, in a context of high volatility of raw materials prices, introduces an exogenous financial component into the periodic reports whose extreme variability risks giving a distorted view of the financial results of operations.
Consequently, this results in **Gross consolidated profit** (inventory valued according to IFRS), for the first nine months of 2010 of 51.6 million euro, when, on a like-for-like basis, a loss of 11.0 million euro was recorded in 2009.

Information on the financial position

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

(Millions of Euros)	At 30 September 2010	At 31 December 2009
Share Capital	*297.0*	*250.0*
Reserves and minority interests	*175.1*	*196.7*
Profit (Loss) for the period	*50.9 (*)*	*(23.9)*
Total equity	**523.0**	**422.8**

(*) gross of taxes

Share capital increased as a result of the following:

- the demerger, for 23.7 million euro, from 250.0 million euro to 273.7 million euro;
- the increase in share capital against payment, offered as an option to Shareholders and carried out in June-July 2010, for 23.2 million euro, from 273.7 million euro to 297.0 million euro.

The new share capital of the Company, at the date of this Report, amounts to 297,013,585.26 euro, divided into 490,978,019 shares, of which 447,278,603 ordinary shares and 43,699,416 savings shares, both categories without indication of nominal value.

Reserves decreased due to coverage of losses recorded in 2009, and increased by an amount of about 15 million euro as a result of the recognition of the Demerger accounting surplus in equity.

The **net financial debt** of the Group at 30 September 2010 amounted to 195.5 million euro (286.5 million euro at the end of 2009).
The reduction in debt was achieved through measures for keeping the needs of working capital under control, and specifically by optimising management of payment extensions in relations with customers and, above all, with suppliers of raw materials.
The level of “Cash and cash equivalent” varied as a result of temporary cash excesses during the normal course of the Group's business.
Net debt is still below the value of working capital, providing evidence of the Group’s sound of financial structure and the lack of structural indebtedness.

The **Consolidated net financial debt(*)** is detailed below:

(*) This is an indicatorof financial structure and is equal to gross financial liabilities reduced by cash and cash equivalents and financial assets. For information on the contents of “non-current financial assets” refer to Note (2).

Net financial debt		**30.09.2010**	**31.12.2009**
(Thousands of Euros)		**(RECL)**	**(RECL)**
Short-term financial payables		126,603	186,700
Medium/long term financial payables		362,045	363,075
Financial payables to Group companies		2,135	2,432
(A) Total financial liabilities to financial institutions		**490,783**	**552,207**
Cash and cash equivalents		(54,628)	(108,964)
Other financial assets		(11,360)	-
Short-term financial receivables		(122,758)	(64,609)
Financial receivables due from Group companies		(1,636)	(1,283)
(B) Total cash and cash equivalents and current financial assets		**(190,382)**	**(174,856)**
Fair value of LME and metal forward contracts		6,054	20,771
Fair value of other financial instruments		4,358	351
(C) Financial instruments valued at fair value		**10,412**	**21,122**
Consolidated net financial position (A)+(B)+(C)	**(1)**	**310,813**	**398,473**
Non-current financial assets	**(2)**	**(115,335)**	**(111,923)**
Total net debt		**195,478**	**286,550**

(1) Definition pursuant to Consob Communication DEM/6064293 of 28 July 2006 in application of the CESR recommendation of 10 February 2005.
(2) These receivables refer, for 108.5 million euro, to guarantee deposits for two fines from the European Community, imposed in 2003-2004 on the industrial companies of the Group for two antitrust violations. Obviously, these fines will only generate definitive cash flows on conclusion of the entire process before the competent legal bodies to which the appeals have been submitted and only for the amount that may be confirmed.

The table below summarises the reclassified **Net invested capital (*)**:

(Millions of euro)	**At 30 September 2010**	**At 31 December 2009**
Net non-current assets	*838.3*	*776.0*
Net working capital	*266.9*	*325.6*
Net provisions	*(386.8)*	*(392.2)*
Net invested capital	***718.4***	***709.4***

(*) "Net invested capital" is a financial indicator not envisaged by the IFRS and not to be considered alternative to those envisaged by the IFRS. The content of its components is shown below:

- *"Net non-current assets" is comprised of the sum of the items "Tangible and intangible assets", "Investments" and "Other non-current assets".*
- *"Net working capital" is comprised of the sum of the items "inventories" and "trade receivables" net of "trade payables" and "other current assets/liabilities", except for items previously included in the definition of "net financial debt".*
- *"Net provisions" include the items "employee benefits", "allocations for EU fines", "net deferred taxes" and other "Allocations for risks and charges".*

Significant events after 30 September 2010

No significant events occurred.

Consolidated financial statements at 30 September 2010

The interim report on operations at 30 September 2010, which has not been audited, was prepared in accordance of article 154-*ter*, of the Consolidated Finance Act introduced by the Legislative Decree n° 195/2007.

The interim report on operations at 30 September 2010 was drawn up in compliance with the valuation and measurement criteria laid down by the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and adopted by the European Commission according to the procedure referred to in article 6 of EC Regulation no. 1606/2002 of the European Parliament and Council of 19 July 2002, as well as the measures implementing article 9 of Legislative Decree no. 38/2005, where applicable.

The statement of financial position is provided with reference to 30 September 2010 and 31 December 2009.
The consolidated income statement information is provided for the first nine months of 2010. It is also compared with the data for the same period of the previous year. The format of the accounting statements is the same as that of statements contained in the half-yearly and annual financial reports.

The interim report on operations at 30 September 2010 considers the impact of the partial proportionate reverse demerger of Intek S.p.A. into KME Group S.p.A., which took effect from 22 March of this year.

Starting from this year the fair value of “LME contracts and the metal purchase/sales contracts” and the “(Gains)/Losses on LME operations”, which were previously included in the item “Other operating costs” are now summarised in the item “Purchases and changes in inventories of raw materials”.
This classification makes the items “Other operating costs” and “Purchases and changes in inventories of raw materials” more comparable. The latter includes the effects of transactions hedging the risk of fluctuation in prices of raw materials (above all copper). Note that these financial instruments, even if they are implemented in order to manage the aforesaid risk, are not designated as hedging instruments, pursuant to the IAS 39.
The item “Purchases and changes in inventories of raw materials” of the Comparative Income Statement at 30 September 2009 also includes the positive effect, gross of taxes, of the adoption of the FIFO method in place of the weighted average cost for the valuation of inventories, amounting to 24.6 million euro.

KME Group – Consolidated
Consolidated Statement of Financial Position

(Thousands of Euros)	30/09/2010	31/12/2009
Property, plant and equipment	584,798	594,217
Investments property	23,775	23,728
Goodwill and consolidation differences	140,995	114,897
Other intangible fixed assets	9,963	3,528
Investments in subsidiaries and associates	20,147	6,526
Investments in other companies	258	258
Investments in equity-accounted invetees	25,875	3,958
Other non-current assets	32,486	28,878
Non-current financial assets	115,335	111,923
Deferred tax assets	37,031	34,867
NON-CURRENT ASSETS	**990,663**	**922,780**
Inventories	576,139	469,512
Trade receivables	201,376	140,129
Other current receivables and assets	29,494	27,186
Current financial assets	152,370	100,912
Cash and cash equivalents	54,628	108,964
CURRENT ASSETS	**1,014,007**	**846,703**
TOTAL ASSETS	**2,004,670**	**1,769,483**
Share Capital	297,014	250,015
Other reserves	189,397	174,082
Treasury shares	(2,888)	(2,888)
Retained earnings	15,191	14,395
Consolidation reserves	(30,009)	8,135
Reserve of other components of comprehensive income	(1,639)	65
Profit/ (Loss) for the period	50,863	(23,929)
Equity attributable to the owners of the Parent	**517,929**	**419,875**
Equity attributable to non –controlling interests	5,064	2,928
TOTAL EQUITY	**522,993**	**422,803**
Employee Benefits	153,493	152,382
Deferred tax liabilities	112,675	111,550
Financial payables and liabilities	362,045	363,075
Other non-current liabilities	17,739	14,266
Provisions for risks and charges	140,212	136,113
NON-CURRENT LIABILITIES	**786,164**	**777,386**
Financial payables and liabilities	150,054	237,980
Trade Payables	393,291	209,657
Other current liabilities	134,760	94,714
Provisions for risks and charges	17,408	26,943
CURRENT LIABILITIES	**695,513**	**569,294**
TOTAL LIABILITIES AND EQUITY	**2,004,670**	**1,769,483**

KME Group – Consolidated

Consolidated Income Statement

(Thousands of Euros)	30/09/2010 (9 months)	30/09/2009 (9 months)	Diff.	3rd Qtr. 2010 (3 months)	3rd Qtr. 2009 (3 months)	Diff.
Revenues from sales and services	2,105,944	1,396,570	709,374	706,293	498,101	208,192
Changes in inventories of finished and semi-finished products	13,778	(14,046)	27,824	3,722	(3,302)	7,024
Internal work capitalised	2,082	1,204	878	1,206	587	619
Other operating income	15,360	10,842	4,518	5,198	3,744	1,454
Purchases and change in inventories of raw materials(*)	(1,499,003)	(908,375)	(590,628)	(531,081)	(323,359)	(207,722)
Personnel expense	(259,213)	(224,593)	(34,620)	(82,686)	(72,336)	(10,350)
Amortisation, depreciation and impairment losses	(46,828)	(41,330)	(5,498)	(15,933)	(12,615)	(3,318)
Other operating costs	(261,047)	(199,139)	(61,908)	(89,425)	(63,856)	(25,569)
Operating Profit (Loss)	**71,073**	**21,133**	**49,940**	**(2,706)**	**26,964**	**(29,670)**
Financial Income	6,396	13,170	(6,774)	(2,690)	1,236	(3,926)
Financial Expense	(21,723)	(23,270)	1,547	2,470	(5,076)	7,546
Profit (loss) of subsidiaries at equity	(4,172)	-	(4,172)	(2,352)	-	(2,352)
Profit (loss) before taxes	**51,574**	**11,033**	**40,541**	**(5,278)**	**23,124**	**(28,402)**

(*) The item "Purchases and changes in inventories of raw materials" of the Income Statement at 30 September 2010 includes the impact due to using the FIFO method in place of the weighted average cost for the valuation of inventories, amounting to 24.6 million euro.

Florence, 11 November 2010

The Board of Directors

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

The Manager in charge of Financial Reporting, Marco Miniati, hereby certifies, pursuant to article 154-*bis*, paragraph 2 of the Consolidated Finance Act (Legislative Decree 58/1998) that the accounting information contained in this Report on Operations at 30 September 2010 is consistent with the underlying accounting documents, ledgers and accounting records.

Florence, 11 November 2010

The Manager in charge of
Financial Reporting

(Signed Marco Miniati)