KME

2008 Half year report

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

KME

Contents

Company Bodies

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

Board of Statutory Auditors	
Chairman	Marcello Fazzini
Standing Statutory Auditors	Pasquale Pace
	Alessandro Trotter
Alternate Auditors	Marco Lombardi
	Angelo Garcea

Manager responsible for the preparation of corporate accounting documentation	Marco Miniati
Independent Auditors	KPMG S.p.A.
General Representative for 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)

KME Group half-year report

In Europe, the region where the Group maintains its greatest presence, the signs of a slowdown in economic trends during the second half of last year became progressively clearer during the first six months of this year.
The uncertainty over future prospects is also significant. International demand is only being supported by the continued strong development in the emerging economies, while downward pressure on demand comes from the impact on the economy of recent financial turbulence, from increases in the prices of energy and raw materials, which in turn have a negative effect on disposable income and consumption, and from the slow down in investment expenditure arising from entrepreneurs' negative demand forecasts.

Due to their wide range of applications, this short-term trend has had widespread repercussions on the demand for semi-finished products in copper and copper alloys.
Demand for building industry materials suffered a further and generalised slowdown affecting all Western European countries, with troughs occurring in some of the key markets, including Spain and Italy. Persistent pressures on the prices of copper raw material accompanied the crisis in the new residential building industry; the demand from the restructuring and renovation industry has been more stable: it is in this sector that the Group has its largest presence.
The demand for semi-finished products for industrial purposes, which has also been falling, showed geographical variations: despite weakness in the main Mediterranean markets, the Northern European markets showed greater resilience. Considering individual sectors, the most positive signals were seen in the electrical sector, in both the thermal solar and automotive areas.
The Group partially compensated for the decrease in demand in the Western European countries by continuing their efforts to penetrate the most important markets of Central and Eastern Europe and Russia, as well as the markets of high growth potential economies, like China, the Far East and some Middle-Eastern countries.

The market price for copper raw material, which is the most prevalent metal used in the Group's production of semi-finished products, following the decrease at the end of 2007, as of last March returned to over 8,000 US$/tonne in an environment of increased volatility, which for end users creates spending decision uncertainty, causes problems in managing their pricing policies and forces them to minimise their inventory levels.

In this context of significantly weakening demand, the Group faced a strong competitive pressure which led to continuous pressure on prices and sales volumes. Innovation, product diversification and an increase in the quality of our services, together with an increased presence in emerging countries, enabled us to defend our position in the markets.

Consolidated turnover for the first half of 2008 was Euro 1,623.1 million, 12.2% lower than the corresponding period in 2007. Net of the amount of raw materials, it went from Euro 469.3 million to Euro 458.8 million, a decrease of 2.2%. The improved sales mix, thanks to the contribution from the higher added value sectors, largely offset the decrease in volumes (which was 9.6%).
The amount of raw meterials as a percentage of semi-finished products approximated 72%.

Continued measures to rationalise costs and the efficiencies achieved, and the optimisation of the use and supply of raw materials have had positive economic effects, however, these could only partially offset the lower sales and the increasing costs of energy and transport.
The Group's operating profitability in the first half of the year is in line with the trends of the last two quarters of 2007, while it has fallen relative to the same period last year, a period when the market environment was much more favourable.

The **gross operating profit (EBITDA)*** went from Euro 76.5 million in the first half of 2007 to Euro 64.4 million in the first half of 2008. As a percentage of revenue, net of the amount of raw materials, it has decreased from 16.3% to 14.0%. EBITDA for the second half of 2007 was Euro 65.5 million.

The **net operating profit (EBIT)*** went from Euro 51.0 million to Euro 42.9 million, due to the larger positive contribution of extraordinary items.
The **consolidated profit*** amounts to Euro 12.3 million; whereas it was Euro 17.3 million for the half year ended 30 June 2007.
The above-mentioned operating profit and profit are stated without the effect on the financial results of the measurement at current values of raw materials inventories, as required by the IFRS which, owing to the volatility of the relevant prices, introduce an economic component which prevents a homogeneous comparison of data referring to different periods, thus not allowing the correct representation of actual performance. For more information on this issue please refer to the detailed description of the reclassification, which can be found in the later chapter on "Group performance", and the notes to the relevant figures.

The assessment of the inventories of raw materials based on current prices (weighted average cost on a quarterly basis) rather than on an assessment using the LIFO method relating to structural inventories**, led to a reduction in the differential between those LIFO values and those determined according to IFRS, in particular at the end of June 2007 a positive net differential of Euro 48.9 million was recorded, while at the end of June 2008 this differential fell to Euro 29.3 million.

The **consolidated profit** for the first half of 2008, calculated by estimating the inventories according to IFRS, was Euro 41.3 million while in the first half of 2007 it was Euro 66.0 million.

The figures relating to the first half of 2008 further improved the financial strength that was achieved at the end of 2007.
The Group's **net financial debt** at 30 June 2008 fell to Euro 337.3 million, Euro 60.9 million (-15%) less than at 31 December 2007 (Euro 398.2 million). It represents approximately 60% of Equity.
Debt reduction, despite the increase in raw material prices in the second quarter of this year, is due to the further streamlining of the management of the working capital.

* * *

With regard to **the outlook**, the second half of the year started to confirm the widespread weakness in the markets and uncertainty over future prospects, additional risks come from raw material prices which remain at high levels and are highly volatile.
The Group initiated measures required to deal with the unfavourable economic situation which has exacerbated competition pressures on sales volumes and prices; in parallel the Group continues its efforts to strengthen its market position, to implement measures for the optimisation of the use of invested capital and for the containment of risks, with the aim of consolidating the structural conditions for continuing the growth of the profitability demonstrated in the previous two years, fully grasping the opportunities that even a return to a more favourable economic situation may offer.

* Reclassified indicators (see table on page 11).
** The term structural inventories means the portion of inventories not used for sales to customers.

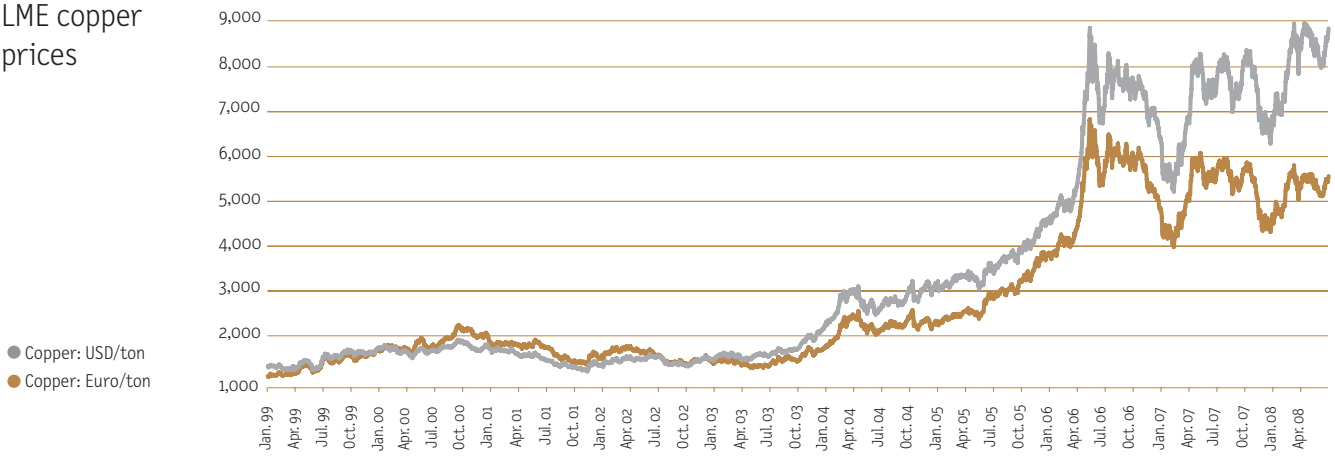
Market and prices of the raw material copper

The average copper price during the first six months of 2008 was higher than the same period the previous year, rising by 19.6% in US dollar terms (increasing from US$ 6,787/tonne to US$ 8,119/tonne) and by 3.9% in euro terms (from Euro 5,100/tonne to Euro 5,300/tonne) due to the appreciation of the European currency during the said six month period.

Considering price trends, the average price in the second quarter of 2008 was higher than that of the first quarter by 8.3% in US dollar terms (from US$ 7,795/tonne to US$ 8,443/tonne) and by 3.8% in euro terms (from Euro 5,200/tonne to Euro 5,400/tonne).

In July the price of copper remained high, the average monthly price was US$ 8,414/tonne (equal to Euro 5,330/tonne).

LME copper prices



Group's performance

The following tables provide a brief overview of the consolidated results for the Group in the first half of financial year 2008 compared with those of the same period in 2007.

Several items[1] were reclassified within the components contributing to the calculation of **Gross Operating Profit (EBITDA), Net Operating Profit (EBIT)** and **Gross and Net Consolidated Profit** so as to better illustrate the actual performance of the Group's industrial operations and ensure better comparison between the results over time.

Specifically:

- turnover is also presented net of the amount of raw materials in order to eliminate the effect of price variability;
- the effect of applying IFRS regarding the measurement of raw materials inventories and the effects caused by the fair value measurement of the relevant hedging transaction on the London Metal Exchange market have been separated from the gross and net operating results and profit before and after taxes. The adoption of IFRS changed the method of measuring metals inventories from the LIFO method, regarding structural** inventories, to a current prices system (weighted average cost on a quarterly basis). Owing to the high volatility of raw material prices, particularly copper, using this method introduces an economic component that risks giving an incorrect representation of financial performance. Therefore, the relevant descriptions hereafter refer to EBITDA and EBIT as well as profit before and after taxes, based on the LIFO method to measure structural inventories (to be consistent, for both 2008 and 2007), which furthermore, is that used for internal management controlling activities. Naturally, the description of performance is completed with financial data based on using the method established by IFRS;
- the non-recurring components are given beneath the line showing gross operating profit.

1. Description of the reclassifications made and reconciliation with IFRS figures:

KME Group S.p.A. reclassified Income Statement

(millions of Euro)	1st Half 2008 IFRS		reclassifications	1st Half 2008 RECL.	
Gross turnover	1,623.1	100%	-	1,623.1	
Raw material cost	-		(1,164.3)	(1,164.3)	
Turnover, not including raw material cost	-		-	458.8	100%
Personnel expense	(182.3)		-	(182.3)	
Other consumption and costs	(1,335.8)		1,123.7	(212.1)	
EBITDA*	105.0	6.47%	-	64.4	14.04%
Non-recurring (Charges)/Income	-		5.2	5.2	
Amortisation and depreciation	(26.7)		-	(26.7)	
EBIT	78.3	4.82%	-	42.9	9.35%
Net finance costs	(14.4)		-	(14.4)	
Gains (losses) recognised in equity	-		-	-	
Profit before taxes (inventories no IFRS)	63.9	3.94%	-	28.5	6.21%
Current taxes	(9.2)		-	(9.2)	
Deferred taxes	(13.1)		6.1	(7.0)	
Profit (inventories no IFRS)	41.6	2.56%	-	12.3	2.68%
Impact of meas. (IFRS) of inventories and LME contracts	-		35.4	35.4	
Tax on meas. (IFRS) of inventories and LME contracts	-		(6.1)	(6.1)	
Consolidated profit	41.6	2.56%	-	41.6	9.07%
Profit attributable to minority interests	0.3		-	0.3	
Profit attributable to Shareholders of the Parent	41.3	2.54%	-	41.3	9.00%

* EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization) is not covered by IFRS. It represents a useful unit of measure for assessing the Group's operating performance. EBITDA is an intermediate economic quantity that derives from EBIT from which depreciation of the property, plant and equipment and amortization of the intangible fixed assets and the non-recurring (charges)/income are omitted.

** The term structural inventories means the portion of stock not used for orders of sale to customers.

KME Group - Consolidated income statement

(millions of Euro)

2007 reclass			1st Half 2008 RECL.		1st Half 20087 RECL.		Change %
3,485.3		Gross turnover	1,623.1		1,847.8		-12.2%
(2,594.4)		Raw material cost	(1,164.3)		(1,378.5)		-15.5%
890.9	**100%**	**Turnover, not including raw material cost**	**458.8**	**100%**	**469.3**	**100%**	**-2.2%**
(349.3)		Personnel expense	(182.3)		(182.9)		-0.3%
(399.6)		Other consumption and costs	(212.1)		(209.9)		1.0%
142.0	**15.94%**	**EBITDA**	**64.4**	**14.04%**	**76.5**	**16.30%**	**-15.8%**
(2.6)		Non-recurring (Charges)/Income	5.2		1.3		insig.
(50.6)		Amortisation and depreciation	(26.7)		(26.8)		-0.4%
88.8	**9.97%**	**EBIT**	**42.9**	**9.35%**	**51.0**	**10.87%**	**-15.9%**
(36.5)		Net finance cost	(14.4)		(16.5)		-12.7%
-		Gains (losses) recognised in equity	-		-		insig.
52.3	**5.87%**	**Profit before taxes (inventories no IFRS)**	**28.5**	**6.21%**	**34.5**	**7.35%**	**-17.4%**
(30.0)		Current taxes	(9.2)		(10.1)		-8.9%
26.0		Deferred taxes	(7.0)		(7.1)		-1.4%
48.3	**5.43%**	**Profit (inventories no IFRS)**	**12.3**	**2.68%**	**17.3**	**7.35%**	**-28.9%**

Turnover in the first half of 2008 was Euro 1,623.1 million, 12.2% less than that of 2007 when it was Euro 1,847.8 million.
It decreased by 2.2% net of the effect of the amount of raw materials, going from Euro 469.3 million to Euro 458.8 million, thanks to an improved mix. The sales volume recorded a 9.6% decrease.

Total **operating costs** increased by 0.4% despite the reduction in the sales volume. This was due to the greater production of products with higher added value and to increased unit cost of production elements, especially energy and transportation.
Only the personnel expense component remained unchanged.

Gross operating profit (EBITDA), amounting to Euro 64.4 million, marked a 15.8% decrease. It represents 14.0% of turnover of 14.0% after raw materials are excluded (it was 16.3% in 2007).

Net operating profit (EBIT) is Euro 42.9 million (Euro 51.0 million in the first half of 2007).
Non-recurring income gave a net positive contribution of Euro 5.2 million (Euro 1.3 million in the first half of 2007). This amount represents the balance between income from the structural reduction of inventories (made possible by the optimisation of the management of flows of raw material utilisation) and the expenses relative to provisions for expenses linked to the reorganisation of the Group's business units (Euro 13.6 million) and estimated expenses for existing legal proceedings (Euro 4.9 million).
Consolidated profit before taxes, without the measurement of raw material inventories at current prices according to IFRS, is Euro 28.5 million (Euro 34.5 million in the first half of 2007).

Consolidated profit during the first half year of 2008, after tax, is Euro 12.3 million (Euro 17.3 million for the first half of 2007).

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

The following table illustrates the consolidated profit for the first half of 2008 before and after tax compared with those of the first half of 2007, determined by including the effects of the measurement of raw material inventories and relevant hedging transactions on the London Metal Exchange market according to IFRS.

KME Group - Consolidated income statement (continued)

(millions of Euro)

2007 reclass			1st Half 2008 RECL.		1st Half 2007 RECL.		Change %
48.3	**5.43%**	**Profit (inventories no IFRS)**	**12.3**	**2.68%**	**17.3**	**7.35%**	**-28.9%**
(15.3)		Impact of meas. (IFRS) of inventories and LME contracts	35.4		62.8		-43.6%
8.2		Tax on meas. (IFRS) of inventories and LME contracts	(6.1)		(13.9)		-56.1%
41.2	**4.62%**	**Consolidated profit**	**41.6**	**9.07%**	**66.2**	**14.11%**	**-37.2%**
0.4		Profit attributable to minority interests	0.3		0.2		50.0%
40.8	**4.58%**	**Profit attributable to Shareholders of the Parent**	**41.3**	**9.00%**	**66.0**	**14.06%**	**-37.4%**

Measurement of raw material inventories resulted in a reduction of the differential of values at the end of June 2008 between the LIFO values and those calculated in compliance with IFRS. In particular, a positive gross differential of Euro 62.8 million was recorded at the end of June 2007, while this differential dropped to Euro 35.4 million at the end of June 2008.
Consequently, the 2008 half-year **consolidated profit** (with IFRS inventories) of Euro 41.6 million (of which Euro 41.3 million pertaining to the period) is obtained after having ascribed the relevant tax burden to the impact of the measurement of raw material inventories, when at the end of June 2007 the consolidated profit in consistent terms was Euro 66.2 million (of which Euro 66.0 million pertaining to the period).

Information by business segment

The Group's industrial production is focussed on the following segments.

Revenue, including raw materials

Business areas (millions of Euro)	Products for construction		Products for industry		Consolid. and misc.		Group Total	
First half of 2008	549.5	33.9%	910.1	56.1%	163.5	10.1%	1,623.1	100.0%
First half of 2007	684.8	37.1%	954.0	51.6%	209.0	11.3%	1,847.8	113.8%
Change %	-19.8%		-4.6%		-21.8%		-12.2%	

Revenue, not including raw materials

Business areas (millions of Euro)	Products for construction		Products for industry		Consolid. and misc.		Group Total	
First half of 2008	155.6	33.9%	303.2	66.1%	-	-	458.8	100.0%
First half of 2007	169.2	36.1%	300.1	63.9%	-	-	469.3	102.3%
Change %	-8.0%		1.0%		insig.		-2.2%	

Revenue in the first half of 2008, net of raw materials of **products for industry applications** was 66% of total sales, and that of **products for construction** was 34%.

Construction is an important market for the Group's production.
Rolled copper products are used for roof coverings, accessories and facades; copper pipes are used in plumbing and heating systems; rolled brass products and brass or bronze profiles are used in home interior fittings. Brass rods are widely used in the production of taps and fittings, handles, locks, valves and various accessories.

Consumption of semi-finished products for the construction industry suffered a further slowdown during the first half of 2008.
The low consumption levels were largely due to the crisis in the new residential construction industry. The building industry suffered a generalised slowdown in Western European countries, with troughs occurring in some of the key markets, including Spain and Italy. Furthermore, in the specific sector of copper semi-finished products and copper alloys, demand continued to suffer due to the existing pressures on the copper raw material market (high prices due to the accentuated volatility of market prices). Demand from the restructuring and renovation industry is stronger and it is in this sector that the Group's products have a significant presence.
Considering main products/markets in detail, sales of **rolled products for roof coverings** registered a particularly unspectacular six-month period. In this case, in addition to the trend of copper prices and the slowdown of investments in the construction industry, the strong pressure on selling prices exerted by the aggressive trade policies of some competitors from Central and Eastern Europe countries also had a negative effect. From a geographical point of view, the loss of business recorded mainly in Italy, Germany, Austria and the Czech Republic were only partially mitigated by the more satisfactory results obtained in some important markets outside Europe such as Russia and the United States. On the contrary the performance of special metal roofing covering with the TECU® brand was undoubtedly more positive. These type of coverings continue to be one of the solutions preferred by designers for works of high architectural merit. Finally, the finalisation of the plan for a copper integrated sun shade by KME Group continues. Its market launch is planned for the end of 2008.
The crisis in the construction sector also impacted heavily on the sales of **pipes for plumbing and heating applications sector** causing a substantial decrease in sales volume in all five main markets of Western Europe where the Group operates. However, decidedly more positive results were achieved in other markets of Central and Northern Europe such as Sweden, Denmark, Austria and the Netherlands. In addition, through targeted trading policies, the Group managed to strengthen its presence in some particularly promising emerging markets such as Poland, Romania, Slovenia and Hungary in Central-Eastern Europe and Algeria, Saudi Arabia, Tunisia and

United Arab Emirates in the area comprising North Africa and the Middle East.
Signs of the slowdown also emerged in the area of **brass rods for taps and fittings** where the dip taking place in the major economies of Western Europe was only partially mitigated by the dynamism of other important consumer markets such as Hungary, Turkey, China and the United States.

The copper and copper alloy products are widely used in a wide variety of industrial sectors: from the automotive industry, electrical and electronic component industry, and air conditioning and cooling systems to the gift and fancy goods industry and mechanics in general.

During the first half of 2008, the European demand for **products for industrial purposes** showed different trends in different geographical areas: despite weakness in the major Mediterranean economies, consumption was basically stable in the Northern European countries and increasing in Central and Eastern European emerging economies (to where some of the main customers are continuing to relocate part of their production).
In terms of individual sectors, the most encouraging signals came from the electrical sector, the thermal solar sector (showing a clear upswing after the slowdown recorded last year in Germany and Austria, which are the first and third largest markets for collectors installed in Europe respectively) and the automotive sector (excluding France and Italy).
Considering main products/markets in details, sales of **rolled products for industrial use**, after an unspectacular first quarter, showed signs of recovery during the second quarter. Geographically speaking, the Group attempted to find a solution to the contraction in sales volume occurring in domestic markets by consolidating its presence in Central and Eastern European markets (as well as by strengthening its sales and distribution structure) and in the Middle-East (including Turkey).
Also in the sector of **pipes for industrial applications**, after a decrease at the beginning of the year, demand showed signs of recovery during the second quarter. Considering trends recorded by the main usage areas, the positive trend in the renewable energies, refrigeration and electrical sectors was partially overshadowed by signs of weakness emanating in particular from the field of connectors, which was linked to the slowdown in the construction industry. Geographically speaking, the loss of business by the Group in some domestic markets (Italy and Germany) was balanced by progress achieved both in other leading economies of Western Europe (United Kingdom, Spain, France and Austria), and in some of the most important markets of Central and Eastern Europe such as Poland and Slovakia.
During the first half of 2008, the demand for **brass rods for industrial applications** continued to grow albeit at a moderate pace, in the wake of lively demand from the electrical industry and, to a lesser extent, from the automotive industry. Geographically speaking, the clearest progress was made by the Group in some Central and Northern European markets such as the Benelux area and Switzerland and in some major emerging economies such as Hungary and Saudi Arabia.
In line with the overall growth of the sector and after a very positive 2007, demand for **copper rods for electrical applications** remained strong during the first half of the year. With regard to individual markets, business slowdowns seen (compared with the previous year) in Germany and the United Kingdom were largely offset by a strengthening of the position in both the key markets of the Mediterranean area (in particular France, Italy and Spain) and in other countries of Central and Northern Europe such as Denmark, Ireland and the Benelux area.
Satisfying signs continue to emanate from the **copper moulds for continuous steel casting** area which, during the first half of 2008, confirmed the positive trend of recent years. Geographically speaking, the Group increased its sales both in some of the major countries of Western Europe such as the United Kingdom and France, and in emerging economies such as Brazil, Russia, the Czech Republic and Malaysia.

Operating profit (EBIT) (inventories no IFRS)

(millions of Euro)	Products for construction		Products for industry		Consolid. and misc.		Group Total	
First half of 2008	20.7	48.3%	22.1	51.7%	-	-	42.9	100.0%
First half of 2007	24.3	47.6%	26.7	52.4%	-	-	51.0	119.0%
Change %	-14.7%		-17.1%		insig.		-16.0%	

Assets by segment

(millions of Euro)	Products for construction		Products for industry		Consolid. and misc.		Group Total	
30 June 2008	547.1	29.7%	992.0	53.8%	305.3	16.6%	1,844.4	100.0%
31 December 2007	543.4	30.1%	972.4	53.9%	288.1	16.0%	1,803.9	97.8%
Change %	0.7%		2.0%		6.0%		2.2%	

Liabilities by segment

(millions of Euro)	Products for construction		Products for industry		Consolid. and misc.		Group Total	
30 June 2008	231.9	18.2%	428.1	33.5%	616.8	48.3%	1,276.8	100.0%
31 December 2007	217.7	17.2%	405.0	32.0%	643.6	50.8%	1,266.3	100.0%
Change %	6.5%		5.7%		-4.2%		0.8%	

Amortisation, depreciation and impairment losses

(millions of Euro)	Products for construction		Products for industry		Consolid. and misc.		Group Total	
First half of 2008	9.1	33.8%	17.8	66.2%	-	-	26.9	100.0%
First half of 2007	8.7	32.5%	18.1	67.5%	-	-	26.8	99.6%
Change %	4.6%		-1.7%		insig.		0.4%	

Investments

(millions of Euro)	Products for construction		Products for industry		Consolid. and misc.		Group Total	
First half of 2008	7.8	38.0%	12.7	62.0%	-	-	20.5	100.0%
31 December 2007	17.3	34.5%	28.7	57.2%	4.2	8.4%	50.2	100.0%
Change %	insig.		insig.		insig.		insig.	

Employees at 30 June

(number of employees)	Products for construction		Products for industry		Consolid. and misc.		Group Total	
30 June 2008	2,043	30.2%	4,710	69.7%	2	-	6,755	100.0%
31 December 2007	2,094	30.8%	4,709	69.2%	3	-	6,806	100.0%
Change %	-2.4%		-		-33.3%		-0.7%	

Investments

In the first half of 2008 production unit investments equalled Euro 21 million (Euro 24 million in the first half of 2007).

Also in 2008 investments were selectively focussed on streamlining the production structure of the Group and on optimising the use of raw materials.

In the foundry field, technological innovations regarding refining capacities were introduced, which are aimed at improving productivity, energy efficiency and the environmental impact. Significant investments were made especially in the foundries of the brass rods division.

Research expenditure was aimed at, among other things, technologies for the exploitation of renewable energies, for example solar energy for which, in the coming months, the first prototype solar roof will be installed. It resembles an elegant copper cover with all the functionalities of a large solar panel.
Furthermore, research effort on innovative alloys continues, especially from the chromatic aspect, for example alloys with golden or metallic tones.

Financial position

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

(millions of Euro)	at 30.06.2008	at 31.12.2007
Share capital	250.0	324.2
Reserves	276.3	172.6
Profit for the period	41.3	40.8
Total equity	**567.6**	**537.6**

For a description of the reduction of share capital see the paragraph regarding the Parent's performance.

Group net financial debt at 30 June 2008 was Euro 337.3 million, Euro 60.9 million less than at the end of 2007.

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

(thousands of Euro)	at 30.06.2008	at 31.12.2007
Short-term financial payables	154,013	111,714
Medium and long-term financial payables	318,647	393,077
Financial payables due to Parent Company and non-consolidated subsidiaries	3,097	9,073
Total financial payables	**475,757**	**513,864**
Cash and cash equivalents	(77,038)	(93,936)
Short-term financial receivables	(58,810)	(21,203)
Financial receivables due from non-consolidated Group companies	(511)	(490)
Total cash and cash equivalents and financial receivable	**(136,359)**	**(115,629)**
Total net financial debt	**339,398**	**398,235**
Non-current financial receivables to banks	**(2,105)**	**-**
Total reclassified net financial debt	**337,293**	**398,235**

The figures above regarding the financial position do not include the potential outlays for the two European Community sanctions imposed on the Group's industrial companies for two competition infringements in 2003-2004, amounting to a total of Euro 107 million. These sanctions will generate cash flows only when the entire proceedings come to an end before the EC jurisdictional bodies, with whom appeals have been filed, and only for the amount that will be confirmed.
Until that time the payment is guaranteed by a guarantee deposit (totalling Euro 17 million) and bank sureties (amounting to Euro 90 million); this extension in any case generates financial charges. From a financial viewpoint, both the total amount of the sanctions and the financial charge of the extension have been entirely provided for.

* This indicator of the financial structure is calculated as the result of the gross financial payables reduced by cash and cash equivalents and other financial receivables included in "Current financial assets".

The cash flows for the six-month period are as follows:

Consolidated cash flow statement indirect method

(thousands of Euro)	1st Half 2008	1st Half 2007
(A) Cash and cash equivalents at the beginning of the period/year	**93,936**	**162,098**
Profit before taxes	63,928	97,308
Amortisation and depreciation	26,905	26,610
Impairment losses on current assets	943	133
Impairment losses (reversals of impairment losses) on non-current assets other than financial assets	(206)	167
Impairment losses (reversals of impairment losses) on current/non-current financial assets	-	-
Net interest accrued	13,710	14,577
Losses (gains) on non-current assets	(391)	(1,254)
Share of loss of equity-accounted associates	-	-
Change in pension funds, post-employment benefits and stock options	1,134	130
Change in provisions for risks and charges	8,429	(4,166)
Inventory decreases (increases)	(30,893)	(89,902)
Current receivables decreases (increases)	1,998	4,401
Current payables decreases (increases)	34,671	76,479
Changes from currency translation	(226)	(24)
Net interest paid	(13,710)	(14,577)
Taxes paid during the period/year	(9,224)	(10,072)
(B) Cash flows from operating activities	**97,068**	**99,810**
(Increases) in non-current intangible assets and property, plant and equipment	(20,531)	(23,563)
Decreases in non-current intangible assets and property, plant and equipment	185	7,021
(Increases) decreases in investments	(142)	(70)
(Increases) decreases in available-for-sale financial assets	-	-
Increases/decreases in other non-current assets/liabilities	829	407
Dividends received	2,010	1,511
(C) Cash flows from investing activities	**(17,649)**	**(14,694)**
Increases (decreases) in equity	(1,863)	96
Increases (decreases) in current and non-current financial payables	(39,597)	(169,323)
Increases (decreases) in current and non-current financial receivables	(43,369)	18,901
Dividends paid	(11,488)	(6,543)
(D) Cash flows from financing activities	**(96,317)**	**(156,869)**
(E) Change in cash and cash equivalents (B) + (C) + (D)	**(16,898)**	**(71,753)**
(F) Effect of change in scope of consolidation	**-**	**428**
(G) Cash and cash equivalents at period/year-end (A) + (E) + (F)	**77,038**	**90,773**

The lower debt derived from the cash inflows generated by current operations, in particular from the streamlining of management of the financial cycle, the duration of which was substantially reduced.

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

(millions of Euro)	at 30.06.2008	at 31.12.2007
Net capital assets	782.7	793.9
Net working capital	538.4	539.2
Own funds	(416.2)	(397.2)
Net invested capital*	**904.9**	**935.9**

* Net invested capital is defined as the sum of "Non-current assets", and "Current assets" net of "Non-current liabilities" and "Current liabilities", except for the items previously considered in the calculation of net financial debt.

Personnel

There were 6,755 employees at 30 June 2008 (6,806 at 31 December 2007).

(period/year average)	1st Half 2008	2007	Change %
Managers and office employees	1,812	1,798	0.8%
	26.8%	26.0%	
Blue collars and special categories	4,942	5,115	-3.4%
	73.2%	74.0%	
Total employees	**6,754**	**6,913**	**-2.3%**
	100.0%	100.0%	

Related party transactions

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

Effects from the relationships between KME Group S.p.A. and its subsidiaries are shown in the Parent's accounts and their notes, and are eliminated on consolidation, as are those regarding relationships between the subsidiaries.

The Parent KME Group S.p.A.

In the first half of 2008, **KME Group S.p.A.** recorded a profit after taxes of Euro 22.3 million.

The following **income statement** was reclassified, highlighting the "non-recurring income (expense)" on a separate line.

Income statement

(thousands of Euro)

2007		1st Half 2008	1st Half 2007
-	Dividends from KME Germany A.G.	20,939	-
2,856	Services	1,424	1,468
(6,057)	Overheads	(3,384)	(2,938)
(121)	Stock option cost	(666)	(187)
8,669	Net finance income (expense)	6,804	4,767
5,347	**Profit from ordinary activities**	**25,117**	**3,110**
-	Non-recurring income (expense)	(3,300)	-
5,347	**Profit before taxes**	**21,817**	**3,110**
6,968	Taxes	518	6,329
12,315	**Profit**	**22,335**	**9,439**

Profit from ordinary activities for the six-month period noticeably improved due to the receipt, in March, of dividends totalling Euro 20.9 million on financial year 2007 profits, as per the resolution passed by the subsidiary KME Germany A.G., the head of the Group's industrial partnership.
Besides the benefits deriving from the investment of net liquid assets, the **financial income** includes:

- Euro 3.4 million (Euro 3.3 million in the first half of 2007) in commissions from subsidiaries for guarantees given by the Parent to banks on behalf of the aforementioned companies when obtaining credit lines;
- Euro 1.7 million deriving from the Stock Market price of investments in GreenergyCapital S.p.A. capital.

The **non-recurring expense** is related to provisions for estimated expense from current legal proceedings.

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

Assets

(thousands of Euro)	30.06.2008	31.12.2007
Investment property	3,216	3,216
Investment in KME Germany A.G.	306,561	305,256
Investment in KME Italy S.p.A.	4,519	4,519
Non-current assets	**314,296**	**312,991**
Investment in GreenergyCapital S.p.A.	5,126	3,448
iNTEk S.p.A. savings shares	5,242	5,242
Net other receivables	3,175	6,839
Total Assets	**327,839**	**328,520**

Liabilities

(thousands of Euro)	30.06.2008	31.12.2007
Share capital	250,000	324,165
Reserves	86,401	11,335
Equity	**336,401**	**335,500**
Net financial position	**(30,897)**	**(19,295)**
Profit for the period/year	**22,335**	**12,315**
Total Liabilities	**327,839**	**328,520**

It should be remembered that, on 14 March 2008, by resolution of the Company's extraordinary Shareholders' meeting, the **Corporate capital** was voluntarily reduced by Euro 74,164,741.31, from Euro 324,164,741.31 to Euro 250,000,000.00 to be allocated to an available reserve of the same amount.
Following a period of ninety days from the registration date of the Shareholders' resolution in the Register of companies, pursuant to article 2445, paragraph 3 of the Italian Civil Code, the above-mentioned decision was executed on the 26 June 2008. Accordingly the company's new share capital is equal to Euro 250,000,000.00, divided into 254,552,240 shares, of which 235,480,130 are ordinary shares and 19,072,110 are savings shares, similarly the equity reserves were increased by Euro 74,164,741.31.

The **Reserves** include the reduction of Euro 1,781,714 carried out on 21 January 2008 due to the bonus issue to Company Shareholders of 254,530,574 ordinary shares of GreenergyCapital S.p.A..
On 28 January 2008 GreenergyCapital carried out a share capital increase upon payment of Euro 48.7 million by issuing ordinary shares. Three warrants valid for the subscription of additional company ordinary shares were matched free of charge to every subscribed share. The option offer was successfully concluded on 26 February.
The execution of the free distribution, aimed at spreading the shares amongst the public, and the increase of capital formed the conditions necessary for listing the shares and warrants on the automated stock market - MTF segment - organized by Borsa Italiana S.p.A..
The opening of the listing of GreenergyCapital securities took place on 20 March.
Following the distribution and the share capital increase described above, iNTEk S.p.A. holds 48.1% of GreenergyCapital S.p.A. and Aledia S.p.A. holds 20%. KME Group S.p.A. is left with a holding of 6.85%, corresponding to a value of Euro 5.1 million at 30June.
The KME Group established GreenergyCapital S.p.A. in July 2007 as part of an initiative aimed at investing in enterprises that develop systems for producing energy from renewable sources and in companies that offer products, services and technologies used in the renewable energies and energy savings sector.

The **reclassified net financial position*** **of the Parent** is Euro 30.9 million.

(thousands of Euro)	at 30.06.2008	at 31.12.2007
Short-term financial payables	29,864	24,810
Medium and long-term financial payables	33,585	5,659
Financial payables to Parent	53	6,414
Financial guarantees to subsidiaries	10,963	13,553
Total financial payables	**74,465**	**50,435**
Cash and cash equivalents	(1,390)	(1,739)
Financial receivables from subsidiaries	(63,868)	(54,439)
Current receivables for financial guarantees to subsidiaries	(9,686)	(6,561)
Total cash and cash equivalents and financial receivables	**(74,944)**	**(62,739)**
Total net financial position	**(479)**	**(12,303)**
Non-current receivables for financial guarantees to subsidiaries	(1,277)	(6,992)
Non current financial receivables to subsidiaries	(27,036)	-
Non current financial receivables to banks	(2,105)	-
Total reclassified net financial position	**(30,897)**	**(19,295)**

The reclassification concerns the recognition in the financial position of Payables and corresponding Receivables for financial guarantees in the interest of subsidiaries and of Payables and financial Receivables related to Funding from Mediocredito Centrale (MCC) and transferred to industrial subsidiaries, both under the current and the non-current parts. See the notes to the interim financial statements for further details.

* See note on page 16.

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

Cash flow statement

(thousands of Euro)	1st half 2008	1st half 2007
(A) Cash and cash equivalents at the beginning of the period	**1,739**	**377**
Profit before taxes	21,817	3,110
Amortisation and depreciation	2	1
Net interest accrued	(1,355)	(224)
Loss (gain) on non-current assets	-	-
Provisions for pensions funds and similar	669	201
Accruals to other provisions	3,300	(90)
Decreases (increases) in current receivables	(22,395)	(8,788)
Decreases (increases) in current payables	(239)	(98)
Net interest paid	1,355	224
Current taxes (paid) and reimbursed during the year	(183)	3,262
(B) Cash flows from operating activities	**2,971**	**(2,402)**
Decreases (increases) in non-current intangible assets and property, plant and equipment	-	2,775
Increases/decreases in other non-current assets/liabilities	619	-
Decreases (increases) in investments	-	-
Dividends received	21,361	1,265
(C) Cash flows from investment activities	**21,980**	**4,040**
Increases (decreases) in equity	(1,863)	96
Increases (decreases) in current and non-current financial payables	24,030	(23,402)
Increases (decreases) in current and non-current financial receivables	(35,979)	28,474
Dividends paid	(11,488)	(6,182)
(D) Cash flows from financing activities	**(25,300)**	**(1,014)**
(E) Profit from cash and cash equivalents (B+C+D)	**(349)**	**624**
(F) Cash and cash equivalents at the end of the period (A+E)	**1,390**	**1,001**

Expected future developments

Also during the second half of the year, fees regarding commissions on financial guarantees given on behalf of subsidiaries are expected to accrue.
As far as the performance of investments is concerned, please refer to the forecasts given in the aforementioned pages regarding the development of the Group as a whole.
Given the collection of dividends from the industrial group in March, as described above, it is currently possible to estimate that the Parent's profit for the whole year will be an improvement on the previous year.

Relations with subsidiaries and the Parent

KME Group S.p.A. supplied services and financial support to Group's companies in its role as Parent . These activities generated income and expenses, broken down by company as follows:

(thousands of Euro)	1st half 2008		1st half 2007	
	Income	Expense	Income	Expense
iNTEk S.p.A. [1]		138	1	398
KME Italy S.p.A.	2,045	53	2,710	107
KME Brass Italy S.r.l.	25	-	30	-
KME Germany A.G.	433	-	7,750	-
KME Germany & Co. K.G.	4,068	-	-	-
KME Brass Germany A.G.	29	-	30	-
KME France S.A.S.	464	-	651	-
KME Brass France S.A.S.	49	-	52	-
KME Yorkshire Ltd	25	-	25	-
KME Locsa	15	-	12	-
Immobiliare Agricola Limestre S.r.l.	44	-	364	-
Total	**7,197**	**191**	**11,625**	**505**

[1] On 31 March 2007, G.I.M. Generale Industrie Metallurghiche S.p.A. merged into iNTEk S.p.A..

At 30 June 2008, receivables from subsidiaries were as follows:

(thousands of Euro)	30.06.2008	31.12.2007	Change	Change %
Financial receivables				
KME Italy S.p.A.	28,785	27,636	1,149	4.16%
KME Germany A.G.	9,884	19,867	(9,983)	- 50.25%
KME Germany & Co. K.G.	37,151	-	37,151	insig.
KME Brass Germany A.G.	1,366	-	1,366	insig.
KME France S.A.S.	6,687	5,534	1,153	20.83%
KME Brass France	3,354	-	3,354	insig.
KME Yorkshire Ltd	1,757	-	1,757	insig.
KME Locsa	1,324	-	1,324	insig.
Immob. Agricola Limestre S.r.l.	595	1,402	(807)	- 57.55%
Total	**90,903**	**54,439**	**47,427**	**87.12%**

(thousands of Euro)	30.06.2008	31.12.2007	Change	Change %
Trade receivables				
iNTEk S.p.A.	-	-	-	insig.
KME Italy S.p.A.	-	-	-	insig.
KME Brass Italy S.r.l.	-	-	-	insig.
KME Germany A.G.	-	-	-	insig.
KME Brass Germany A.G.	-	-	-	insig.
KME France S.A.S.	-	-	-	insig.
KME Brass France S.A.S.	-	-	-	insig.
KME Yorkshire Ltd.	19	10	9	47.37%
KME LOCSA S.A.	24	14	10	41.64%

The current account held with the parent iNTEk S.p.A. generated net interest expense totalling Euro 0.1 million.

* * *

For further analysis of the consolidated and parent data, see the notes to the interim financial statements.

Ongoing disputes

An update on that previously reported in the 2007 annual report is provided below.

With reference to two European Community procedures, we report that following the last hearing on 27 February, the Company is awaiting judgement on the procedure relating to industrial pipes. There is no news regarding the procedure relating to pipes for plumbing, for which the date of the hearing with the magistrates' court of the European Community has not yet been communicated.

With regard to the class action pending in the United States, the main update is the decision of the Court of Appeal of Tennessee to permanently close, upon motion of the parties, the two legal appeal proceedings which began in 2007, relating to pipes for plumbing and industrial pipes.

Regarding the dispute related to environmental matters in which the defendant is the subsidiary KME Italy S.p.A., we report that during the hearing of 22 May 2008, the court ordered the filing of a final statement for preliminary issues, considering the litigation, ready for a decision on this issue. It is probable that the judgement will be communicated during the first few months of 2009.

Whereas with regard to the other litigation on environmental matters, directly concerning the Company, the next hearing is scheduled for 23 October 2008.

There is nothing new to report regarding the pending cases before the Court of Hannover regarding mergers and squeezeouts as well as the proposed proceeding against the former Chairman of the company, Luigi Orlando. The next hearing is scheduled for 12 June 2009.

Subsequent events

There are no events to be reported in addition to those previously described.

Investor information

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

During the first six months of 2008, the Group' shares recorded the following changes:

- **KME Group ordinary shares** recorded their maximum unit value of Euro **1.479** in January and their minimum unit value of Euro **0.882** in June;
- **KME Group savings shares** recorded their maximum unit value of Euro **1.509** in January and their minimum unit value of Euro **1.065** in June;
- **KME Group warrants 2006-2009** recorded their maximum unit value of Euro **0.264** in January and their minimum unit value of Euro **0.129** in March.

(at the end of June 2008 – amounts are expressed in Euro)	
No. of ordinary shares	235,480,130
No. of savings shares	19,072,110
Share capital	250,000,000.00
No. of KME Group 2006-2009 warrants outstanding	67,957,638

Stock Exchange Price (at the end of June 2008 – amounts are expressed in Euro)	
KME Group ordinary shares	0.882
KME Group savings shares	1.100
KME Group warrants	0.143

(at the end of June 2008 - amounts are expressed in Euro)	
Capitalization of ordinary shares	207,693,475
Capitalization of savings shares	20,979,321
Capitalization	**228,672,796**

Shareholders	
No. of ordinary shareholders	10,426
Main shareholders*	-
iNTEk	53.58%

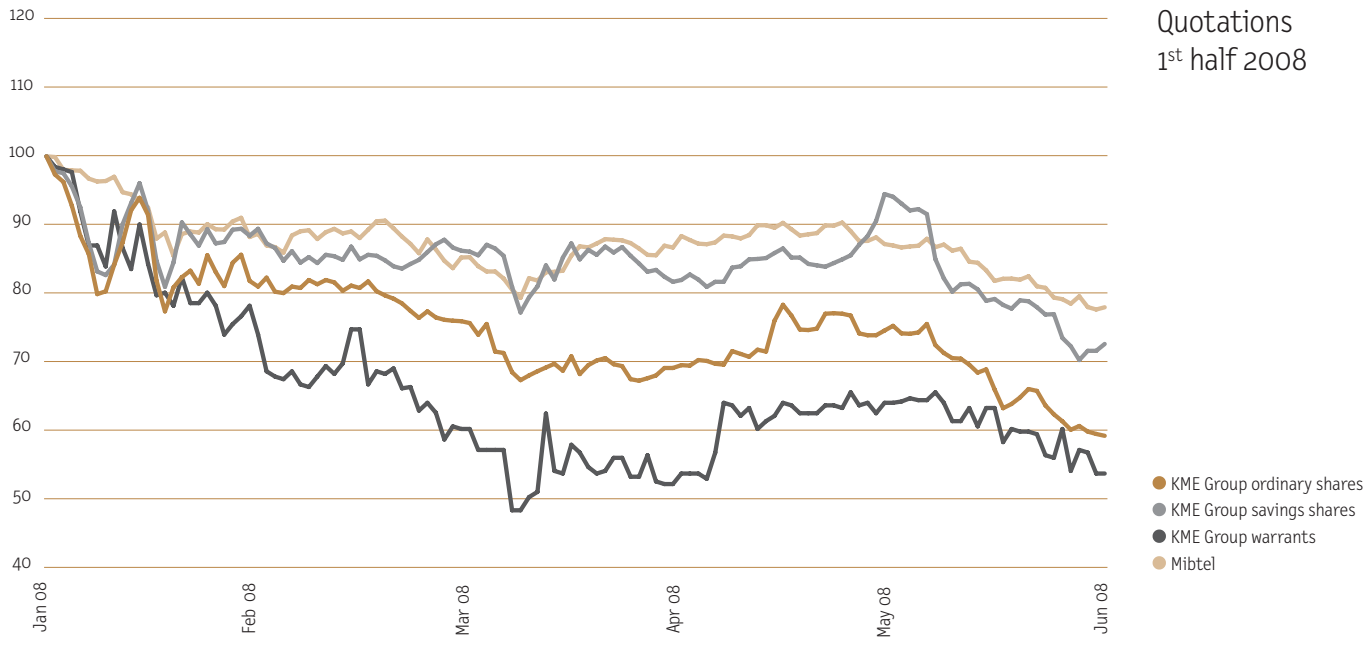
* None of the shareholders communicated that they have a shareholding greater than 2%

Dividend per share (amounts expressed in Euro)	2005	2006	2007
Dividend per ordinary share	-	-	0.0400***
Dividend per savings share	0.0230*	0.1086**	0.1086***

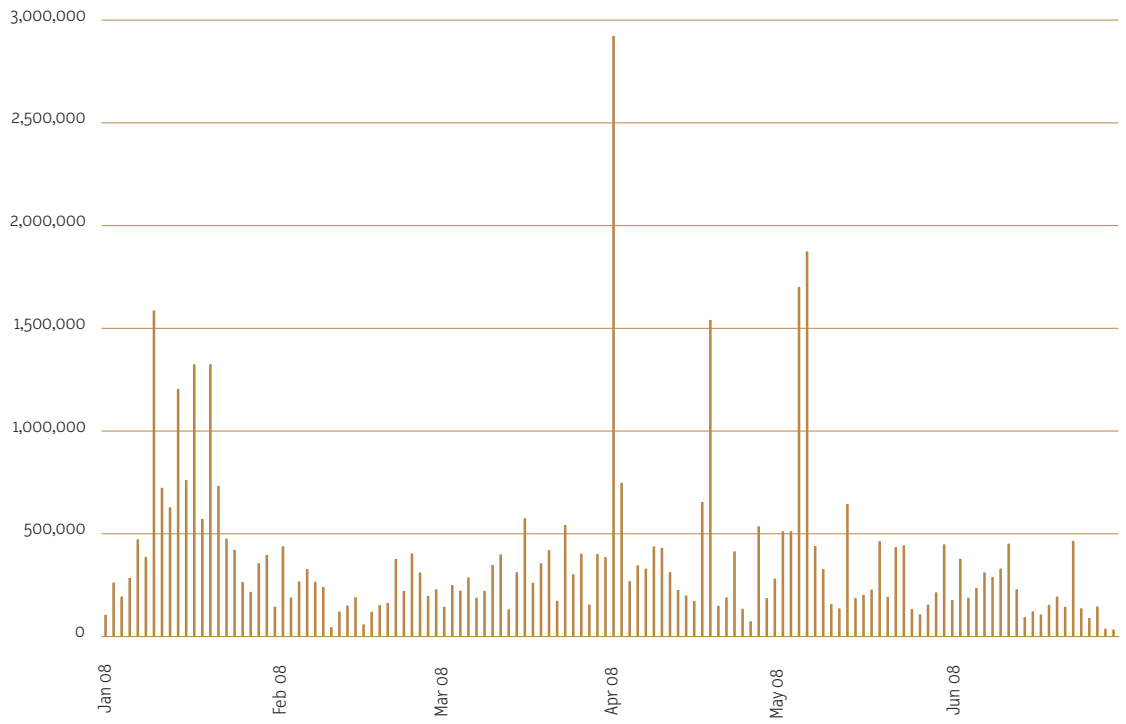
* Preference dividend effective 2003
** Gross unit dividend including preference dividend related to 2006, at Euro 0.0362 and preference dividends related to the two previous years 2005 and 2004
*** Dividend post the July 2007 grouping, effected in the ratio of one new share to every three old shares

Stock Exchange Trend (amounts are expressed in Euro)	End of 2007	June 2008	Change
KME Group ordinary shares	1.491*	0.882	-40.8%
KME Group savings shares	1.524**	1.100	-27.8%
KME Group warrants	0.259	0.143	-44.8%
Mibtel	29,402	22,721	-22.7%

* Values adjusted for bonus issue on 18 January 2008
** Values adjusted for bonus issue on 18 January 2008 and extraordinary dividend of 2 June 2008



Quotations
1st half 2008



Volumes traded
KME Group
ordinary shares
1st half 2008

Interim consolidated financial statements at 30 June 2008

Interim consolidated balance sheet at 30 June 2008

Assets and liabilities

Distinction of items between current/non-current (thousands of Euro)	note	as at 30.06.2008	as at 31.12.2007
Property, plant and equipment	4.1	611,191	619,160
Investment property	4.2	20,514	20,516
Goodwill and consolidation differences	4.3	114,582	114,582
Other intangible assets	4.4	2,761	2,654
Investments in subsidiaries and associates	4.5	5,241	5,279
Investments in other companies	4.5	387	3,693
Investments in equity accounded investees	4.5	-	-
Other non-current assets	4.6	28,089	28,019
Non-current financial assets	4.7	2,104	-
Deferred tax assets	4.20	32,728	36,513
Non-current assets		**817,597**	**830,416**
Inventories	4.8	659,127	628,233
Trade receivables	4.9	135,135	127,843
Other receivables and current assets	4.10	80,185	89,475
Current financial assets	4.11	75,313	34,048
Cash and cash equivalents	4.12	77,038	93,936
Current assets		**1,026,798**	**973,535**
Total assets		**1,844,395**	**1,803,951**
Share capital		250,000	324,165
Other reserves		171,240	96,133
Treasury shares		(37)	(37)
Retained earnings		5,910	5,917
Technical consolidation reserves*		97,010	68,787
Reserve for deferred taxes		161	194
Profit for the period/year		41,309	40,774
Equity attributable to shareholders of the parent	**2.11**	**565,593**	**535,933**
Equity attributable to minority interests		2,025	1,690
Total equity	**2.11**	**567,618**	**537,623**
Employee benefits	4.14	156,207	158,510
Deferred tax liabilities	4.20	128,065	118,290
Financial payables and liabilities	4.15	318,647	393,077
Other non-current liabilities	4.16	8,899	8,000
Provision for risks and charges	4.17	139,295	130,065
Non-current liabilities		**751,113**	**807,942**
Financial payables and liabilities	4.18	162,732	127,899
Trade payables	4.19	215,616	172,592
Other current liabilities	4.19	121,856	131,020
Provision for risks and charges	4.17	25,460	26,875
Current liabilities		**525,664**	**458,386**
Total liabilities and equity		**1,844,395**	**1,803,951**

* The item "Technical consolidated reserves" is made up of retained earnings or losses carried forward, the consolidation reserve and the translation reserves.

The balance sheet, income statement and cash flow statement do not distinctly show the amounts relating to positions or transactions with related parties as they were not considered to contribute significantly to understanding the financial, reteined earnings or losses carried forward position and results of the Group.

Consolidated income statement

Classification of costs by nature (thousands of Euro)	note	1st Half 2008	1st Half 2007
Revenue	5.1	1,623,093	1,847,816
Change in inventories of finished and semi-finished products		1,680	8,804
Capitalised internal work		1,107	677
Other operating revenue		6,249	8,265
Purchases and change in raw materials		(1,168,924)	(1,384,309)
Personnel expense	5.2	(182,292)	(182,957)
Amortisation, depreciation and impairment charges	5.3	(26,699)	(26,777)
Other operating costs	5.4	(175,889)	(157,719)
Operating Profit		**78,325**	**113,800**
Financial income	5.5	4,743	4,618
Financial expense	5.5	(19,140)	(21,109)
Share of profit of equity - accounted associates		-	-
Profit before taxes		**63,928**	**97,309**
Current taxes	5.6	(9,224)	(10,070)
Deferred taxes	5.6	(13,053)	(20,976)
Total income taxes		**(22,277)**	**(31,046)**
Profit from continuing operations		**41,651**	**66,263**
Profit/(loss) from discontinued operations		-	-
Profit for the period		**41,651**	**66,263**
Profit attributable to minority interests		**342**	**246**
Profit attributable to shareholders of the parent		**41,309**	**66,017**

Earnings per share (figures in Euro):	1st Half 2008	1st Half 2007
basic earnings per share	0.1666	0.2766
diluted earnings per share	0.1458	0.2365

The balance sheet, income statement and cash flow statement do not distinctly show the amounts relating to positions or transactions with related parties as they were not considered to contribute significantly to understanding the financial, reteined earnings or losses carried forward position and results of the Group.

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

(thousands of Euro)	Share capital	Other reserves	Treasury shares	Parent's retained earnings	Consolidation reserves	Reserve for deferred taxes	Profit for the year/ period	Total equity
Equity at 31.12.2005 IFRS	**189,775**	**93,658**	**(37)**	**5,165**	**22,292**	**-**	**4,343**	**315,196**
Equity at 31.12.2006 IFRS	**319,643**	**93,654**	**(37)**	**5,176**	**25,044**	**-**	**51,785**	**495,265**
Equity at 31.12.2007 IFRS	**324,128**	**96,133**	**-**	**5,917**	**68,787**	**194**	**40,774**	**535.933**
Allocation of Parent's profit	-	12,185	-	130	-	-	(12,315)	-
Allocation of subsidiaries' profit	-	-	-	-	28,459	-	(28,459)	-
Dividends and allocations to the Board of Directors	-	(11,569)	-	-	-	-	-	(11,569)
Distribution of GreenergyCapital S.p.A. shares	-	(1,645)	-	(137)	-	-	-	(1,782)
Available reserves	(74,165)	74,165	-	-	-	-	-	-
Granting of stock options	-	1,971	-	-	-	-	-	1,971
Recognised in equity with no impact on the income statement	-	-	-	-	-	(33)	-	(33)
Change in technical consolidation reserves	-	-	-	-	(236)	-	-	(236)
Total income/expense recognised directly in equity	**-**	**-**	**-**	**-**	**(236)**	**(33)**	**-**	**(269)**
Profit for the period	-	-	-	-	-	-	41,309	41,309
Total recognised income and expense	**-**	**-**	**-**	**-**	**(236)**	**(33)**	**41,309**	**41,040**
Equity at 30.06.2008 IFRS	**250,000**	**171,240**	**(37)**	**5,910**	**97,010**	**161**	**41,309**	**565,593**
Reclassification of treasury shares	(37)	-	37	-	-	-	-	-
Equity at 30.06.2008 IFRS	**249,963**	**171,240**	**-**	**5,910**	**97,010**	**161**	**41,309**	**565,593**

At 30 June 2008, the Parent directly held 21,666 savings shares, with no nominal value. These were entirely reclassified as a decrease in the share capital. The change in the "technical consolidation reserves" is mainly attributable to the translation into Euro of those financial statements items, expressed in a currency other than the presentation currency of these financial statements.

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

(thousands of Euro)	Share capital	Other reserves	Treasury shares	Parent's retained earnings	Consolidation reserves	IFRS FTA reserve	Profit for the year/ period	Total equity
Equity at 31.12.2005 IFRS	**189,775**	**-**	**(37)**	**5,165**	**22,292**	**93,658**	**4,343**	**315,196**
Allocation of previous year's profits	-	70	-	11	4,262	-	(4,343)	-
Distribution of dividends	-	-	-	-	(1,314)	-	-	(1,314)
Share capital increase net of charges	129,868	(1,033)	-	-	-	-	-	128,835
Granting of stock options	-	959	-	-	-	-	-	959
Change in technical consolidation reserves	-	-	-	-	(196)	-	-	(196)
Profit for the year	-	-	-	-	-	-	51,785	51,785
Equity at 31.12.2006 IFRS	**319,643**	**(4)**	**(37)**	**5,176**	**25,044**	**93,658**	**51,785**	**495,265**
Allocation of Parent Company profit	-	1,398	-	6,948	-	(1,140)	(7,206)	-
Allocation of subsidiaries' profit	-	-	-	-	44,579		(44,579)	-
Distribution of dividends	-	-	-	(6,207)	-	-	-	(6,207)
Share capital increase net of charges	96	-	-	-	-	-	-	96
Granting of stock options	-	882	-	-	-	-	-	882
Recognised in equity with no impact on the income statement	-	309	-	-	-	-	-	309
Change in technical consolidation reserves	-	-	-	-	(527)	-	-	(527)
Profit for the year	-	-	-	-	-	-	66,017	66,017
Equity at 30.06.2007 IFRS	**319,739**	**2,585**	**(37)**	**5,917**	**69,096**	**92,518**	**66,017**	**555,835**
Reclassification of treasury shares	(37)	-	37	-	-	-	-	-
Equity at 30.06.2007 IFRS	**319,702**	**2,585**	**-**	**5,917**	**69,096**	**92,518**	**66,017**	**555,835**

At 30 June 2007, the Parent directly held, before the grouping, 65,000 savings shares, with no nominal value. These were entirely reclassified as a decrease in the share capital. The change in the "technical consolidation reserves" is mainly attributable to the first consolidation of the Chinese companies and, to a lesser extent, to the translation into Euro of those financial statements items, expressed in a currency other than the presentation currency of these financial statements.

Consolidated cash flow statement KME Group S.p.A. at 30 June 2008

Consolidated cash flow statement indirect method (thousands of Euro)	1st Half 2008	1st Half 2007
(A) Cash and cash equivalents at the beginning of the year	**93,936**	**162,098**
Profit before taxes	63,928	97,308
Amortisation and depreciation	26,905	26,610
Impairment charges on current assets	943	133
Impairment charges (reversals of impairment charges) on non-current assets other than financial assets	(206)	167
Impairment charges (reversals of impairment charges) on current/non-current financial assets	-	-
Net interest accrued	13,710	14,577
Losses (gains) on disposal of non-current assets	(391)	(1,254)
Shares of income (loss) in equity - accounted associates	-	-
Change in pension funds, post-employment benefits and stock options	1,134	130
Change in provisions for risks and charges	8,429	(4,166)
Decreases (increases) in inventories	(30,893)	(89,902)
Decreases (increases) in current receivables	1,998	4,401
Decreases (increases) in current payables	34,671	76,479
Changes from foreign currency translation	(226)	(24)
Net interest paid	(13,710)	(14,577)
Taxes paid during the period	(9,224)	(10,072)
(B) Cash flows from operating activities	**97,068**	**99,810**
(Increases) in non-current intangible assets, property, plant, equipment and investment property	(20,531)	(23,563)
Decreases in non-current intangible assets, property, plant, equipment and investment property	185	7,021
(Increases) decreases in investments	(142)	(70)
(Increases) decreases in available for sale financial assets	-	-
(Increases) decreases in other non-current assets/liabilities	829	407
Dividends received	2,010	1,511
(C) Cash flows from investing activities	**(17,649)**	**(14,694)**
Increases (decreases) in equity	(1,863)	96
Increases (decreases) in current and non-current financial payables	(39,597)	(169,323)
Increases (decreases) in current and non-current financial receivables	(43,369)	18,901
Dividends paid	(11,488)	(6,543)
(D) Cash flows from financing activities	**(96,317)**	**(156,869)**
(E) Change in cash and cash equivalents (B) + (C) + (D)	**(16,898)**	**(71,753)**
(F) Effect of change in consolidation scope	**-**	**428**
(G) Cash and cash equivalents at the end of period (A) + (E) + (F)	**77,038**	**90,773**

The balance sheet, income statement and cash flow statement do not distinctly show the amounts relating to positions or transactions with related parties as they were not considered to contribute significantly to understanding the financial, reteined earnings or losses carried forward position and results of the Group.

Accounting policies and Notes to the interim consolidated financial statements

1. General information

KME Group S.p.A. (KME) and its industrial subsidiaries (that together make up the "Group") operate in the semi-finished copper products and copper alloys sector.
The Group owns industrial plants in various European countries and markets its products in all the main countries throughout the world.
KME Group is a Joint-Stock Company registered in Italy in the Florence Companies Register, no. 00931330583, and its shares are listed on the electronic equity market organised and managed by Borsa Italiana S.p.A. (Italian Stock Exchange).
The half-year report at 30 June 2008 was approved by the Board of Directors on 7 August 2008.
Although it is controlled by iNTEk S.p.A., as explained above, the Company does not consider itself subject to management and coordination activities as set forth in articles 2497 et seq. of the Italian Civil Code and article 37 of the Markets' Regulations since:

a. it has an autonomous negotiating capacity in customer and supplier relations;
b. no centralised treasury exists with iNTEk S.p.A. or other companies;
c. the number of independent Directors (4 out of 12) is such to ensure that their judgement has significant weight in board decisions.

2. Accounting policies

2.1 Preparation criteria

The interim consolidated financial statements at 30 June 2008 were prepared pursuant to article 154 (iii) of Legislative Decree no. 58/1998.
The interim consolidated financial statements were prepared in accordance with the measurement and recognition criteria set forth in the **International Financial Reporting Standards (IFRS)** issued by the **International Accounting Standards Board (IASB)** and adopted by the European Commission in accordance with the procedure set forth in article 6 of Regulation (CE) no. 1606/2002 of the European Parliament and Council of 19 July 2002 and especially from IAS 34 *"Interim financial reporting"*, as well as the measures implementing article 9 of Legislative Decree no. 38/2005.
In preparing these financial statements, the Directors took into consideration the accruals principle, the going concern assumption, understandability, relevance, materiality, reliability, neutrality, prudence and comparability and they applied the same principles adopted in the consolidated financial statements at 31 December 2007.
The Group has still not applied those standards which, although issued by the IASB, are effective following the date of these financial statements. In particular, IFRS 8, IAS 23, IFRIC 12, IFRIC 13, IFRIC 14 and IAS 1.
The future adoption of these standards is not however expected to have a significant impact on the Group's financial position and result of operations.
Company events and operations are recorded and represented according to their economic substance and not just their legal form.
This report contains notes illustrating the content and significance of the alternative performance indicators which are not required by IFRS, in line with recommendation 178b of the CESR 05, published on 3 November 2005.

2.2 Basis of Consolidation

(a) Subsidiaries
The subsidiaries are all companies over which KME exercises control, insofar as financial and operational policies, is generally accompanied by the possibility of exercising more than 50% of the voting rights within the corporate bodies.

The assets and liabilities, income and expenses of the subsidiaries consolidated on a line-by-line basis have been included in the consolidated financial statements; the carrying amount of these investments has been offset against the portion of equity of the investees by attributing to the individual them of the balance sheet assets and liabilities their present value on the date control was acquired. Any residual difference, if positive, is recorded under "amortisation and consolidation differences" and in profit or loss if negative. The portion of equity and profit attributable to minority interests is recognised under the relevant items. After initial recognition, "goodwill" is measured at cost less accumulated impairment losses according to IAS 36 *"Impairment of assets"*.
During the first adoption of IFRS, KME Group S.p.A. decided not to retrospectively apply IFRS 3 (Business combinations) as provided for by IFRS 1.
At the date of transition to IFRS there were no changes in the scope of the consolidation, which exclude non-significant subsidiaries and companies, whose consolidation does not produce material effect. These are generally companies that carry out sales activities. The effects of this exclusion are not material and therefore their omission does not influence the decisions of the financial statements users.
The profits deriving from intercompany transactions with third parties that have not yet been realised are derecognised if they are significant. Receivables, payables, income, expenses, guarantees, commitments and risks between consolidated companies are also eliminated. Intercompany losses are not derecognised as they are considered to be representative of a lower actual value than the carrying amount of the asset that has been disposed of. All financial statements of subsidiaries have been adjusted in order to achieve uniformity in the principles and valuation criteria adopted at the Group level.
The financial year of all the subsidiaries included in the scope of the consolidation coincides with the calendar year.

Following are the subsidiaries which are consolidated on a line-by-line basis.

Summary of companies consolidated according on a line-by-line method

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

* At the beginning of 2008 all operating activities of the subsidiary KME Germany A.G. were transferred to KME Germany A.G. & Co. K.G.. This operation had no effect on the consolidated financial statements as it was a reorganisation as per IFRS 3 para. 2 sub para (C) (combination of entities under common control).

During the first half of 2008 there were no changes in the consolidation scope.

(b) Associates

Associates are all the companies in which KME exercises considerable influence but over which it does not have control. Significant influence exists 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.

With the equity method, the investment is initially recognised at cost and then adjusted in order to show the portion of profits or losses that occurred after the acquisition date pertaining to the parent. Dividends reduce the carrying amount of the investment.

There were no associates consolidated using the equity method at the balance sheet date.

(c) Joint ventures

A joint venture is a contract agreement under which two or more parties undertake an economic activity subject to joint control. Joint control is the sharing, contractually established, of control over economic activities.

Joint ventures are consolidated with the proportionate method as defined by IAS 31 paragraphs 30-37.

As of the date of these financial statements there were no economic activities under joint control as defined by IAS 31.

2.3 Transactions in a foreign currency

(a) Functional and presentation currency

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

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

The financial statements prepared in a foreign currency were translated into Euro by applying to each item of the income statement the average exchange rates for the period and to the balance sheet items the exchange rate on the date the balance sheet was closed.

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

1 Euro	equal to 0.7334 GBP	31.12.2007
1 Euro	equal to 0.7923 GBP	30.06.2008 used for the translation of the balance sheet
1 Euro	equal to 0.7751 GBP	average for 2008 used for the translation of the income statement
1 Euro	equal to 10.7524 RMB	31.12.2007
1 Euro	equal to 10.8051 RMB	30.06.2008 used for the translation of the balance sheet
1 Euro	equal to 10.8204 RMB	average for 2008 used for the translation of the income statement

The difference between the profit for the period resulting from the translation using the average rates for the year and that which results from the translation using the rates at the end of June, flowed into the technical consolidation reserves and equity attributable to shareholders of the parent and minority interests. These differences, in the event of disposal, will be taken to the income statement as part of the gains or losses relating to the disposal of these investments.

2.4 Property, plant and equipment

Property, plant and equipment are recorded at acquisition or production cost, including additional charges that are directly recognised.
They are measured at cost, net of depreciation and accumulated impairment losses, with the exception of land which is not depreciated and is measured at cost net of accumulated impairment losses.
Depreciation is accounted for starting from the month that the asset was available for use, or when it is in a position to provide the economic benefits associated with it. Depreciation is charged on a monthly basis on a straight line basis until the end of their useful lives or, in the event of disposal, up to the last month of use.
Depreciation rates take into account the useful life of the various plants according to the calculations of the American Appraisal firm. The new useful lives have been applied starting from 1 January 2004 to property, plant and equipment for which fair value as a deemed cost has been adopted on the date of transition to the IFRS and for other assets the new useful life started from 1 January 2005.

The depreciation is calculated according to 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

Financial charges relating to the purchase of non-current assets are recognised in the income statement unless they are directly attributable to the acquisition, construction or production of an asset which justifies its capitalisation.
Replacement parts with a significant value are capitalised and depreciated based on the useful life of the asset to which they refer; others are charged to the income statement when the expense occurs.
Assets acquired through finance leases are recognised as items of property, plant and equipment with a balancing entry under payables. The cost of the lease is separated into the following components: financial charges, recognised in the income statement and capital repayment, recorded by reducing the financial debt. Assets under finance lease are recognised at cost or at the present value of minimum lease payments due at the start date of the contract, whichever is the lower.
In the presence of specific impairment indicators, property, plant and equipment are subject to impairment testing. The test involves estimating the recoverable amount of the asset, defined as the higher between the fair value less costs to sell and the value in use, and in comparison with the relative carrying amount. If the recoverable amount is less than the carrying amount, the latter is reduced to the recoverable amount; this reduction is charged to the income statement, i.e. to the fair value reserve which was set up previously during revaluation of the asset concerned. Any subsequent revaluations follow the opposite path.

2.5 Intangible assets

(a) Goodwill
Goodwill is the difference between the acquisition cost of investments and the present value of the subsidiaries' assets, liabilities and contingent liabilities on the acquisition date. Goodwill and other intangible assets which have an indefinite useful life are not amortised; the recoverability of their initially recognized carrying amount is confirmed each year or whenever events occur that could indicate an impairment loss. Impairment losses are not reversed.

(b) Other intangible assets with definite useful lives
Intangible assets refer to assets without physical consistency, which are identifiable, controlled by the company and capable of producing future economic benefits.

Intangible assets can be acquired by the Company through:

- purchases from third parties;
- business combinations;
- internally generated production.

In the first two cases, intangible assets are measured initially at cost and at fair value respectively, including charges that are directly recognised. They are then systematically amortised based on their residual useful life given by the expected period in which the assets are used by the company, generally between 3 and 5 years. In addition, these assets are expressed net of any impairment losses by adopting the same criteria used for property, plant and equipment. Their residual value at the end of their useful life is assumed to be zero.
Internally generated assets are capitalised only if the conditions dictated by IAS 38, paragraph 57 exist.

2.6 Investment property

Investment property is land and buildings owned for the obtainment of rental income or for capital appreciation, or both. These assets are measured at fair value and are thus not amortised. At the date of transition to IFRS the aforementioned assets were measured at fair value and this value was used as deemed cost. Subsequent variations in fair value were recognised directly in the income statement.
In the event of a change of use from investment property to one involving property, plant and equipment, the fair value on the date of the change of use is considered as a deemed cost in the subsequent accounting.

2.7 Financial assets

In the individual financial statements of the subsidiaries, all investments in subsidiaries, associates and joint ventures are measured at cost.
Pursuant to the reasons set forth in paragraph 2.2, the investments in subsidiaries that are not part of the scope of consolidation are measured at cost and adjusted for accumulated impairment losses.
The other investments are measured at fair value with the effects recognised in equity. When the fair value cannot be reliably determined, the investments are measured at cost adjusted for accumulated impairment losses.
Non-derivative financial assets with fixed or set payments or payments which have a specific maturity, that the company intends and as the ability to hold until maturity, are designated as *"assets held to maturity"*. The assets which belong to this category are measured using the amortised cost method based on the effective interest method as defined in IAS 39.
Financial assets acquired or held mainly for the purpose of sale or repurchase in the short term and derivative financial instruments not designated as hedging instruments are classified in the category *"financial assets recognised at fair value through profit or loss"* with separate indication of those that are designated in this category at the moment of their initial recognition (fair value option). These assets are measured at fair value with the effects recognised in the income statement.
Non-derivative financial instruments, with the exception of equity instruments, with fixed or determinable payments, not listed on an active market which do not belong to the preceding categories, are classified as *"loans and receivables"* and are measured at amortised cost using the effective interest method. For current *loans* and *receivables* and for all trade and short-term payables and receivables, for which the time component has little relevance, it is presumed that the amortised cost corresponds with the carrying amount.
All remaining non-derivative financial assets which are not classified among the previous three categories are classified as *"available-for-sale-financial assets"* and measured at fair value with the effects recognised directly in equity except for impairment losses.
Treasury shares are measured at historical purchase cost and recognised as a reduction in consolidated equity. In the event of sale, re-issue or cancellation, the subsequent profits and losses are recorded in equity.

Accounting for hedging activities

The Group uses derivative financial instruments for hedging financial risks that are connected to changes in the prices of raw materials, interest rates and exchange rates. The use of derivative financial instruments, mainly LME (London Metal Exchange) contracts, Interest Rate swaps (IRS) and forward currency contracts is governed by explicit strategic risk management policies that have been approved by the Board of Directors. The Group does not use derivative financial instruments for speculation. In any case, the Group does not account for the aforementioned financial instruments according to hedge accounting rules as these transactions do not fulfil the official requirements set forth in IAS 39.

Standard purchases and sales of the aforementioned financial instruments are accounted for at the trading date.

Calculation of impairment losses

All financial assets, with the exception of *"financial assets and liabilities at fair value through profit or loss"*, are subject to impairment testing pursuant to IAS 39, paragraphs 58-70.

A financial asset is said to have become impaired when there is objective evidence that one or more events have had a negative impact on the estimated cash flows expected from that asset.

An impairment loss on financial asset measured at amortised cost corresponds to the difference between the carrying amount and the present value of expected estimated cash flows discounted at the original effective interest rate. An impairment loss on an available-for-sale financial asset is calculated according to the fair value of said asset.

All impairment losses are recorded in the income statement. Any accumulated impairment loss on a financial asset available for sale previously recognised in equity is transferred to the income statement upon realisation.

Impairment losses are reversed if the subsequent value increase can be objectively linked to an event which took place after the impairment loss. In the case of assets measured at amortised cost and assets available for sale corresponding to debt securities, the reversal is recorded in the income statement.

Measurement of fair value

The fair value of financial assets and liabilities recognised in the income statement and of those available for sale at the time of initial recognition is determined on the basis of the transaction price and is therefore equal to the amount paid or received.

Subsequently and at each balance sheet date, 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 linked to market conditions at the balance sheet date. The fair value of interest rate swaps is calculated based on the present value of expected future cash flows. The fair value of forward currency contracts is determined using the forward exchange rate at the balance sheet date.

Derivatives not classified as hedging instruments. Fair value adjustments of derivative instruments not classified as hedging instruments are recognised directly in the income statement.

The fair value of non-derivative financial instruments is determined by discounting future cash flows based on the market interest rate at the balance sheet date.

2.8 Factoring of receivables

The KME Group transfers a significant portion of its trade receivables through factoring transactions. These transactions can take place with or without recourse. Factoring of receivables without recourse by the Group takes place according to the requirements set forth in IAS 39 for derecognition of assets, since essentially all risks and benefits have been transferred. The amounts of receivables without recourse owed to the assignee are included in

"other operating costs". For transactions that do not fulfil the requirements set forth in IAS 39, for example receivables with recourse, the receivables remain in the Group's balance sheet even though they have been lawfully transferred, while they are offset by a liability of an equal amount in the consolidated financial statements. The amounts of receivables with recourse owed to the assignee are included in financial expense.

2.9 Inventories

Inventories are measured at the lower of purchase or production cost and estimated realisable value.
The value of metals and the cost of production are handled in specific ways:

- Metal (including the metal container in work in progress and in finished products) is measured at the average weighted cost each quarter. This value can be reduced at the end of the period in order to align it with 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 charges and the portion of the indirect expenses that can reasonably be assigned to the product, not including administrative expenses, selling expenses and financial charges.

Work in progress is measured, insofar as the services rendered, according to the consideration agreed less marketing costs.
Supplies and consumables are measured at the average cost.

2.10 Cash and cash equivalents

This includes cash, demand deposits and high liquidity short-term financial investments that are readily convertible to cash and which are subject to risk regardless of the change in value (IAS 7 paragraph 45).

2.11 Equity

Share capital is comprised of ordinary shares and savings shares, with no nominal value, fully subscribed and paid up at the reporting date, less any share capital proceeds to be received. The value of treasury shares repurchased, according to IAS 32, is shown as a reduction of the share capital issued, whilst the premium or the discount with respect to the nominal value adjusts the other components of equity. This representation however, is shown solely in the notes, whilst in the schedules the historical cost of treasury shares held is shown separately with a minus sign, reducing equity.
The reserve for treasury shares is no longer recorded due to the different presentation introduced by IFRS. The balance of the already existing reserve has therefore been reclassified to the specific reserves which had already been used to create it.
Costs for equity transactions have been charged directly against equity-related reserves preferably using the share premium reserve. These charges were subsequently covered during the period through a reduction in available reserves, as resolved by the Shareholders' Meeting of 23 May 2007.

2.12 Payables

Payables are recognised at amortised cost. When the effect of the discount is not significant, as in short-term trade payables, they are recorded at their nominal value.

2.13 Current and deferred taxes

Current income taxes are calculated based on the estimated taxable income, taking into consideration the rates and the tax legislation in force or essentially approved at the balance sheet date.
Deferred tax assets and liabilities are measured on the temporary differences between the carrying amount of the assets and liabilities recognised in the financial statements and the corresponding amounts recognised for tax purposes according to the so-called "balance sheet liability method". Deferred tax assets are recognised only when their recovery is probable. The carrying amount of deferred tax assets is reviewed at each balance sheet date in order to confirm maintenance or occurrence of the probability of future use condition.
Deferred taxes are not discounted and recognised in non-current assets and liabilities. Deferred tax assets and liabilities are paid to each individual subsidiary when the conditions in accordance with IAS 12 exist.

2.14 Employee benefits

Post-employment benefits are defined on the basis of plans which, according to their characteristics are distinguished as defined contribution and defined benefit plans. With defined contribution plans the obligation of the company, limited to the payment of contributions to a separate legal entity (this may also be the State or a fund), is composed of contributions due at the balance sheet date. Liabilities relating to defined benefit plans, such as post-employment benefits defined by article 2120 of the Italian Civil Code, net of any plan assets, is determined on the basis of actuarial assumptions and recorded on an accruals basis consistent with the length of service required to obtain the benefits. Actuarial profits and losses relating to defined benefit plans deriving from changes in the actuarial assumptions or from modifications to the conditions of the plans are recorded proportionately in the income statement using the so-called "corridor method", i.e. recorded only when the net amount of actuarial profits and losses not recorded at the end of the previous period exceeds the greater of 10% of the present value of the obligation and 10% of the fair value of any plan asset.

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

2.15 Provisions

Provisions are liabilities with uncertain maturities or amounts. Provisions have been recorded only when:
1. the Group has a current (legal or implicit) obligation owing to a past event;
2. it is probable that resources will be needed to produce economic benefits to meet the obligation;
3. it is possible to make a reliable estimate of the amount of the obligation.

The amounts provided for are therefore the best estimates of the expenses needed to settle the obligation or transfer it to third parties at the balance sheet date. If the effect of the present value of money is significant, the provision is represented by the present value of the expenses that will be needed to settle the obligation.
Provisions for restructuring costs are recognised only if the Group has a formal detailed plan which at least shows: the activity and main operating units concerned, the costs to be incurred, the approximate number of employees involved and when interested third parties have a valid expectation that the entity will implement said restructuring because it has already begun implementation or has communicated it publicly.

2.16 Recognition of revenue

Revenue from the sale of goods and from the rendering of services is measured at the fair value of the consideration received or expected, taking into account any returns, rebates, sales discounts or volume discounts. Revenue is recognised when the significant risks and rewards connected to the ownership of the goods have been

transferred to the buyer, when the recoverability of the consideration is probable and the relative costs or any returns of goods can be reliably estimated.
The transfer of risks and rewards vary according to the conditions of each agreement.

2.17 Leases

Leases are contracts in which the lessor transfers to the lessee, in exchange for payment or a series of payments, the right to use an asset for an agreed period of time. Contracts that essentially transfer all risks and rewards deriving from ownership of the asset are defined as "finance leases" even when ownership is not transferred at the end of the contract. Finance leases are recognised according to the terms of IAS 17, paragraphs 20-32.
Operating leases are defined by exclusion, as those that are not considered to be finance leases.

2.18 Financial income and expense

Financial income includes interest income from investments, gains on exchange, dividends, commissions on guarantees given, gains on disposal of available-for-sale financial assets, positive changes in the fair value of assets held for trading and derivatives except for positive changes in the fair value of LME contracts as these are included in the "other operating costs" item. Dividends are recorded only when the shareholders' right to receive payment has been established.
Financial expense includes interest expense on financing transactions, exchange rate losses, commissions on guarantees given, losses on disposal of available-for-sale financial assets, the amount of trade receivables with recourse owed to the assignee, fair value losses on of assets held for trading and derivatives except for fair value losses on of LME contracts as these are included in the "other operating costs" item.

2.19 Stock options

As shown in the financial statements at 31 December 2006, personnel expense includes the stock options granted to executive members of the KME Group S.p.A. Board of Directors and some Group Executives, consistent with the nature of compensation paid. The fair value of stock options has been determined by the option value at the grant date by applying the Black & Scholes model which takes into consideration the conditions relating to the exercising of the right, the current share value, and the exercise price, duration of the option, dividends and the expected volatility and the risk-free interest rate. The relative cost of the stock options is recorded as a balancing entry in Equity under "Reserve for stock options". The fair value of rights assigned to executives of KME Group S.p.A. subsidiaries is charged to companies in which the executives are on the permanent staff, by applying IFRIC interpretation 11 in advance as allowed by paragraph 12 of the same interpretation.

2.20 Earnings per share

The following criteria are applied to the calculation of the basic and diluted earnings per ordinary share:

1) for the numerator, the profit attributable to shareholders of the Parent, adjusted by the result that is to be attributed, for the current period, to the outstanding savings shares minus the treasury shares held directly or through subsidiaries;
2) for the denominator of the "basic earnings per share" indicator, the weighted average of the ordinary shares outstanding during the period minus any ordinary treasury shares;

3) for the denominator of the "diluted earnings per share" indicator, the weighted average of the ordinary shares was adjusted by including the issue of new ordinary shares following:

- the conversion of all outstanding warrants;
- the exercise of all stock options assigned.

For this calculation, it was assumed that the conversions of the warrants and the exercise of the stock options took place at the beginning of the year and that no additional income or lower expenses ensued from these events. The calculation at 30 June 2008 of the basic earnings per share was carried out considering the Group's profits net of the portion for savings shares, which is attributable to the holders of outstanding ordinary shares, amounting to Euro 41.3 million (Euro 40.8 million in 2007) and the average weighted number of outstanding ordinary shares which is 235,480,128 (231,989,955 in 2007). The calculation of the diluted earnings per share takes into account the potential conversion, at a ratio of 3 to 1 ordinary shares, of 67,957,638 warrants and 33,144,471 stock options.

2.21 Use of estimates

The preparation of these consolidated financial statements and the notes there to under IFRS required the Directors to make estimates and assumptions which affected the reported amounts of balance sheet assets and liabilities.

The estimates were mainly used to determine the useful lives of fixed assets, provisions for bad debts, the measurement of impairment, employee benefits, taxes, restructuring provisions, intangible assets with an indefinite life and other accruals and provisions.

These estimates and assumptions are periodically reviewed and any effects are reflected immediately in the income statement. At the balance sheet date the Directors deemed that the estimates and assumptions used reflected the best assessment possible given the information available. In addition, the Directors deemed that the estimates and assumptions adopted did not involve any material adjustments to the carrying amounts of assets and liabilities before the next period.

3. Financial risk management policy

In carrying out its activities, the Group is subject to a variety of operating and financial risks. The Group's policy is to eliminate or at least minimize such risks through established hedging strategies that have been approved by the Board of Directors. The Group therefore has in place formal procedures for the definition of objectives and procedures for hedging risks involving: credit, liquidity, currency, interest rates and above all fluctuations in the price of raw materials.

Types of risks:

a) credit risk: the Group does not have significant geographic concentrations for this type of risk. The applicable guidelines focus on ensuring appropriate assessment of customers' creditworthiness. This is achieved by developing customers' portfolios on the basis of historical experience, equity and/or financial information, the lines of credit given, insurance and factoring without recourse of most of the trade receivables;

b) liquidity risk: this could arise due to difficulty in obtaining financing for working capital at the appropriate time. The inflows and outflows and the liquidity of Group companies are monitored and coordinated centrally by the Group's Treasury;

c) currency risk: the Group operates internationally and its transactions are conducted in various currencies and at various rates of interest. The exposure to currency risk derives mainly from the geographic placement of the various productive activities and the geographic distribution of the markets in which the Group sells its products. The policy of the Group is to cover all the aforementioned risks using derivative financial instruments such as crisis currency swaps and forward contracts;

d) interest rate risk: the interest rate risk to which the Group is exposed ensues mainly from long-term loans. Variable rate loans expose the Group to a cash flow risk, while fixed rate loans imply assumption of a risk that fair value will change. The Group manages part of the interest rate risk through IRSs (interest rate swaps) which transform the variable interest rates into fixed ones;

e) the risk of fluctuations in the prices of raw materials (particularly copper): is the most significant and strategic risk. To this end, the Group uses hedges with physical transactions or forward contracts on the LME (London Metal Exchange), in order to hedge the entire risk. Forward purchases or sales are therefore agreed with top level counterparties.

All derivative financial instruments used by the Group are designated as hedging instruments pursuant to IAS 39, though they have been set up in order to manage the aforementioned risks (please refer to paragraph 2.7).

4. Notes to the interim consolidated financial statements

4.1 Property, plant and equipment

(thousands of Euro)	Land	Buildings	Plant and equipment	Other assets	Assets under construction	Total
As at 31 December 2006						
Historical closing cost	57,970	187,882	882,553	151,567	29,757	1,309,729
Accumulated depreciation and impairment losses	80	94,392	482,459	112,875	-	689,806
Net closing carrying amount	**57,890**	**93,490**	**400,094**	**38,692**	**29,757**	**619,923**
As at 31 December 2007						
Historical closing cost	56,506	190,999	912,046	158,279	27,104	1,344,934
Accumulated depreciation and impairment losses	117	99,465	510,260	115,932	-	725,774
Net closing carrying amount	56,389	91,534	401,786	42,347	27,104	619,160
As at 30 June 2008						
Historical closing cost	56,506	190,999	912,046	158,279	27,104	1,344,934
Exchange differences	(271)	(274)	(4,918)	(209)	(13)	(5,685)
Change in scope of consolidation					-	-
Increases	-	83	3,637	1,033	15,263	20,016
Reclassifications	27	1,154	19,379	3,347	(23,907)	-
Decreases	(7)	(36)	(3,443)	(1,982)	-	(5,468)
Historical closing cost	56,255	191,926	926,701	160,468	18,447	1,353,797
As at 30 June 2008						
Accumulated depreciation and impairment losses	117	99,465	510,260	115,932	-	725,774
Exchange differences	-	(25)	(4,487)	(200)	-	(4,712)
Change in scope of consolidation					-	-
Depreciation	4	2,975	20,128	3,389	-	26,496
Losses/releases of impairment losses	-	-	(206)	-	-	(206)
Decreases	-	(28)	(2,797)	(1,921)	-	(4,746)
Depreciation and write-down fund	121	102,387	522,898	117,200	-	742,606
As at 30 June 2008						
Historical closing cost	56,255	191,926	926,701	160,468	18,447	1,353,797
Accumulated depreciation and impairment losses	121	102,387	522,898	117,200	-	742,606
Net closing carrying amount	56,134	89,539	403,803	43,268	18,447	611,191
of which under finance leases:	**1,300**	**3,707**	**-**	**166**	**-**	**5,173**

Part of the aforementioned assets, amounting to Euro 282.9 million, were granted as a guarantee for the refinancing agreement signed in 2006.

The most significant investments of the period are set forth in the directors' report.

Assets under finance leases include the "Firenze Novoli" building which houses the Group's headquarters (Euro 5.1 million) and some equipment and telephone installations (Euro 0.2 million) of the subsidiary KME Germany AG & Co. KG. The lease for this building contains two purchase options on 30 September 2009 and 30 September 2016.

A break down 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 30.06.2008
Minimum lease payments	508	1,676	3,299	5,483
Interest	10	236	1,114	1,360
Present value	498	1,440	2,185	4,123

previous year:

(thousands of Euro)	within 1 year	between 1 and 5 years	due after 5 years	Total 31.12.2007
Minimum lease payments	508	1,731	3,498	5,737
Interest	10	241	1,221	1,472
Present value	498	1,490	2,277	4,265

4.2 Investment property

(thousands of Euro)	Investment property measured at fair value
Carrying amount as at 01.01.2008	**20,516**
Increases due to acquisitions	-
Increases due to capitalised expenses	-
Increases due to business combinations	-
Disposals	(2)
Changes in fair value	-
Changes of use	-
Other changes	-
Carrying amount as at 30.06.2008	**20,514**

The "investment property" item consists of investments in land and buildings that belong to Immobiliare Agricola Limestre S.r.l. and KME Italy S.p.A.. This investment property is held to earn rental income or for the appreciation of invested capital and is measured at fair value. During the period, no rental income or operating costs directly related to the aforementioned investment property were recognised in profit and loss.
The decreases during the period, equal to Euro 2 thousand, are due to the sale of a small piece of land.

4.3 Goodwill and consolidation differences

(thousands of Euro)	KME Germany A.G.	DD Chystall.	DD Surface	DD H. Machinery	Total
Opening net balance	**109,840**	**2,741**	**678**	**1,323**	**114,582**
Change in the scope of consolidation and reclassification	-	-	-	-	-
Changes in the period	-	-	-	-	-
Changes due to impairment losses	-	-	-	-	-
Closing net balance	**109,840**	**2,741**	**678**	**1,323**	**114,582**

During the first half of 2008 consolidation differences remained unchanged. The value of "goodwill and consolidation differences" is impairment tested, during the drafting of the annual financial statements, comparing it with the recoverable amount obtained by estimating the "value in use".
Though the group is mainly active in products for industry and construction, these areas are not to be considered business segments according to the description set forth in IAS 14; this is based on the fact that the nature of the products, the productive processes, the assets used in these productive processes and the methods of distribution are essentially consistent. Therefore, goodwill was allocated to the only segment in which the company operates and which is essentially in line with the scope of consolidation of the subsidiary KME Germany A.G..
The recoverable amount of this segment is determined at the end of every financial year by calculating the value in use.

4.4 Other intangible assets

(thousands of Euro)	Other assets	Assets under development	Total
At 31 December 2006			
Historical closing cost	14,976	11	14,987
Closing accumulated amortisation	14,032	-	14,032
Closing net carrying amount	**944**	**11**	**955**
At 31 December 2007			
Historical closing cost	15,966	176	16,142
Closing accumulated amortisation	13,488	-	13,488
Closing net carrying amount	**2,478**	**176**	**2,654**
At 30 June 2008			
Historical opening cost	15,966	176	16,142
Exchange differences	-	-	-
Change in scope of consolidation			-
Increases	130	386	516
Reclassifications	272	(272)	-
Decreases	(6,863)		(6,863)
Historical closing cost	**9,505**	**290**	**9,795**
At 30 June 2008			
Opening accumulated amortisation	13,488	-	13,488
Exchange differences	-	-	-
Change in scope of consolidation	-	-	-
Increases	409	-	409
Reclassifications			-
Decreases	(6,863)	-	(6,863)
Closing accumulated amortisation	**7,034**	**-**	**7,034**
At 30 June 2008			
Historical closing cost	9,505	290	9,795
Closing accumulated amortisation	7,034	-	7,034
Closing net carrying amount	**2,471**	**290**	**2,761**

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

4.5 Investments in subsidiaries, associates and other investments

Following is a list of the Group's investments:

Name	Registered office	Activity	% owned by KME directly	indirectly	Jun. 08 thousands of Euro	Dec. 07
Subsidiaries measured at cost						
Accumold AG	Switzerland	In liquidation		100.00%	-	-
KME Beteiligungsgesellschaft mbH	Germany	non-operating		100.00%	-	-
Europa Metalli Trèfimétaux UK Ltd.	UK	non-operating		100.00%	505	545
Evidal Schmole Verwaltungsges mbH	Germany	non-operating		50.00%	-	-
KME Austria Vertriebgesellschaft mbH	Austria	Commercial		100.00%	168	168
KM - Hungaria Szinesfem Kft.	Hungary	Commercial		100.00%	8	8
KME metal GmbH	Germany	non-operating		100.00%	511	511
KM Polska Sp. Zo.o.	Poland	Commercial		100.00%	64	64
KME (Suisse) S.A.	Switzerland	Commercial		100.00%	1,000	1,000
KME America Inc.	United States	Commercial		100.00%	7	7
KME Asia Pte Ltd.	Singapore	Commercial		100.00%	99	99
KME Chile Lda	Chile	Commercial		100.00%	18	18
KME China Limited	China	Commercial		100.00%	657	657
KME Czech Republic	Czech Republic	Commercial		100.00%	3	3
KME Danmark A/S	Denmark	Commercial		100.00%	134	134
KME Messing Beteiligungs GmbH Norib.	Germany	non-operating		100.00%	511	511
Irish Metal Industrial Ltd.	Ireland	Commercial		100.00%	-	-
YIM Scandinavia A.B.	Sweden	Commercial		100.00%	-	-
KME Moulds Mexico SA de CV	Mexico	Commercial		100.00%	528	528
Luebke GmbH	Germany	In liquidation		100.00%	102	102
N.V. KME Benelux SA	Belgium	Commercial		100.00%	884	884
Societe Haillane de Partecipations	France	non-operating		99.99%	40	40
XT Limited	UK	non-operating		100.00%	-	-
KME Metals (Dongguan) Ltd.	China	Commercial		100.00%	-	-
KME Metals (Shanghai) Trading Ltd.	China	Commercial		100.00%	2	-
Total					**5,241**	**5,279**
Other investments measured at cost						
Greenergy Capital S.p.A.	Italy	Industrial	6.85%		-	3,448
Editoriale Fiorentina S.r.l.	Italy	Publishing		7.13%	142	-
Consorzio Italmun	Italy	In liquidation	50.00%		129	129
Other KME France S.A.S. equity investments	France	various	n.a.	n.a.	116	116
Total					**387**	**3,693**

The total change of Euro 38 thousand compared to the preceding year in the "Investments in subsidiaries and associate" item consists of:

- an increase of Euro 2 thousand is due to the preparatory transfer due to the constitution of Chinese KME Metals (Shanghai) Trading Ltd.;
- the effect of the change in value of the investment in Europa Metalli Trèfimétaux UK Ltd (a decrease of Euro 40 thousand).

The item "other investments in KME France S.A.S." includes small investments (generally less than 1%) in companies that operate in the construction sector. Indeed, the French companies must pay a certain percentage of the personnel expense as contributions, loans or investments in order to assist their staff in purchasing real estate. During the period, through the subsidiary KME Italy S.p.A., a minority shareholding in the company Editoriale Fiorentina S.r.l. was acquired. It is the publishing company which is responsible for issuing "Corriere Fiorentino" distributed in Tuscany as an attachment to the newspaper "Il Corriere della Sera".

The investment in GreenergyCapital S.p.A., implementing the Shareholders' resolution of 3 August 2007, was attributed to the Parent's Shareholders in the form of the distribution of reserves in January 2008. Following the abovementioned transaction and on completion of the grouping which took place on 26 May 2008 KME Group S.p.A.

had 5,001,932 ordinary shares in portfolio equal to approximately 6.85 % of the share capital and 14,291,235 warrants classified as financial assets held for trading.
Furthermore, the Group no longer holds investments in "associates accounted for using the equity method" because they have been consolidated following acquisition of control in the previous financial year, as per IAS 27 para. 13.

4.6 Other non-current assets

This item is mainly composed of guarantee deposits of KME Italy (Euro 0.2 million) and KME France (Euro 0.5 million), receivables from insurance companies due to KME Germany AG & Co. KG (Euro 2.3 million), loans to employees, mainly extended by the French subsidiaries in implementation of a provision of the law that allows employees to obtain loans from the company that employs them in order to purchase real estate (Euro 2.3 million) and the amounts paid to a bank, which amounted to Euro 18.3 million, as a guarantee deposit partially covering the penalty that may be imposed by the European Commission for contravening article 81 of the EU Treaty. This deposit can subsequently be offset against the amount of the penalty that may be set at the end of the currently court procedure. The unpaid difference is covered through the release of bank guarantees.

None of the abovementioned amounts is due before the next financial year.

4.7 Non-current financial assets

The amount of non-current financial assets is Euro 2.1 million, deposited with Unicredit Banca d'Impresa S.p.A. and in favour of Mediocredito Centrale S.p.A. (MCC). The positive balance of the abovementioned account must always be equal to 1/16 (one sixteenth) of the loan amount outstanding at that moment, over and above the interest accrued in the six month period and due at the following deadline. If necessary, the excess amounts deposited will be released and made immediately available. For further details regarding the amount and the nature of the loan we refer to paragraph 4.15.

4.8 Inventories

(thousands of Euro)	Initial amounts	Changes in the period	Closing amounts
1) Raw materials, consumables and supplies	553,779	29,358	583,137
2) Work in progress and semi-finished products	33,059	1,982	35,041
3) Finished products and goods	41,395	(446)	40,949
Total	**628,233**	**30,894**	**659,127**

The inventories were measured at the lower of cost and realisable value.

At the end of last year, a write-down of Euro 98.7 million was recognised in the income statement in order to account for the lower realisable value compared to the cost determined according to the weighted average cost criterion each quarter.
At the end of the year, the events and circumstances that led to such a write-down only partially continued to exist, and as a result the value adjustment was released leaving Euro 13.6 million outstanding.

The increase in the value of raw material inventories can be attributed entirely to the change in purchase prices that occurred during the period. The decrease in the quantity, without the price effect, resulted in a decrease in the value of the inventories by approximately Euro 60.0 million.

Comparative table of quantities

Inventories owned	31.12.2007	30.06.2008	Change %
Total tonnes	121,581	111,018	-8.7%

An amount of 102.3 thousand tonnes of owned inventories consisting mainly of copper was given as a guarantee for the credit lines granted to the Group.

4.9 Trade receivables

(thousands of Euro)	Balance at 31.12.2007	Changes in the period	Balance at 30.06.2008
1) due from customers	131,487	6,515	138,002
(Bad debt provision)	(7,033)	(474)	(7,507)
Net total	**124,454**		**130,495**
2) Due from subsidiaries	3,360	1,228	4,588
3) Due from associates	23	19	42
4) Due from parents	6	4	10
Total	**127,843**	**7,292**	**135,135**

The item "due from customers" includes receivables assigned with recourse of Euro 23.3 million.
The Directors consider that the carrying amount of trade receivables approximates their fair value.

4.10 Other receivables and current assets

(thousands of Euro)	Balance at 31.12.2007	Changes in the period	Balance at 30.06.2008
1) Tax assets	20,593	(3,806)	16,787
2) Advances to suppliers	15,218	(11,259)	3,959
3) Prepayments and accrued income	2,026	748	2,774
4) Receivables due from factoring companies	38,306	5,848	44,154
5) Other receivables	13,332	(821)	12,511
Total other current assets	**89,475**	**(9,290)**	**80,185**

The carrying amount of other receivables approximates their fair value. The receivables due from the factoring company concern the amount given as a deposit for the credit lines granted.

4.11 Current financial assets

(thousands of Euro)	Balance at 31.12.2007	Changes in the period	Balance at 30.06.2008
Financial assets held for trading	5,243	5,127	10,370
LME contracts	5,762	(1,534)	4,228
Interest rate swaps (IRS) / forward exchange contracts	1,349	45	1,394
Receivables due from factoring companies	20,956	37,778	58,734
Other current financial assets	248	(172)	76
Financial receivables due from subsidiaries	490	21	511
Total	**34,048**	**41,265**	**75,313**

Financial assets held for trading, owned by the Parent, are:

- 5,824,990 iNTEk S.p.A. reporting savings shares. The savings shares are recorded at unit value of Euro 0.90 equal to their official price at the reporting date. The unit price of Euro 0.90 represents the exercise price of the call option granted to the banks, which provided the previous banking agreement signed in February 2005

which is no longer in existence. This option will expire in 2012.

- 5,001,932 GreenergyCapital S.p.A. ordinary shares, without nominal value, as valued according to their official price at the date of these financial statements (Euro 0.625 per share);
- GreenergyCapital S.p.A. warrants are valued at Euro 0.14 each. The Directors believe that this value expresses the fair value of the aforementioned securities compared to their listing pursuant to IAS 39 para. AG 74. The Stock Exchange price at the date of these half-year financial statements is equal to Euro 0.20.

The "LME contracts" item refers to the counter value of the potential income from the fair value measurement of the relations outstanding at the date this report was drafted.

The receivables due from factoring companies consist of the amounts factored which have not yet been collected at the balance sheet date.

4.12 Cash and cash equivalents

(thousands of Euro)	Balance at 31.12.2007	Changes in the period	Balance at 30.06.2008
Bank and postal accounts	93,823	(16,949)	76,874
Cash on hand	113	51	164
Total	**93,936**	**(16,898)**	**77,038**

The "cash and cash equivalents" item consists of bank and postal accounts and cash on hand.

4.13 Equity

Please see the "statement of changes in equity" for a breakdown of these changes.

4.14 Employee benefits

(thousands of Euro)	Balance at 31.12.2007	Increases	Decreases	Balance at 30.06.2008
Defined benefit plans	139,610	4,910	(6,352)	138,168
Post-employment benefits	18,900	433	(1,294)	18,039
Total	**158,510**	5,343	(7,646)	156,207

Defined benefits plans are expressed net of any plan assets. The defined benefit plans relate to the German subsidiaries for Euro 119.9 million and KME Yorkshire Ltd. for Euro 18.3 million.

General criteria adopted:

	31.12.2007	30.06.2008
Discount rate	4.8% - 5.8%	4.8% - 5.8%
Rate of return on assets	6.6%	6.6%
Rate of increase in future salaries	2.5% - 3.2%	2.5% - 3.2%
Future increase in services	2.0% - 3.2 %	2.0% - 3.2%
Average remaining working life	14 years	14 years

Net carrying amount of liabilities:

	31.12.2007	30.06.2008
Present value of partially or fully funded obligations	67,916	64,765
Fair value of defined benefit plan assets	(63,403)	(54,881)
Deficit	**4,513**	**9,884**
Present value of non-financed obligations	149,515	148,737
Actuarial gains (losses) not yet recognised	4,482	(2,414)
Cost of past services not yet recognised	-	-
Amount not recognised as assets pursuant to IAS 19 par. 58 (b)	-	-
Net liabilities shown in the balance sheet	**158,510**	**156,207**

Income statement changes (thousands of Euro)	1st Half 2007	1st Half 2008
Current service cost	2,913	1,768
Interest expense	5,075	5,373
Expected return on plan assets	(1,809)	(1,798)
Actuarial gains (losses) recognised	(114)	-
Past service cost	-	-
Effect of any curtailment or settlement	(1,550)	-
Total cost recognised in the income statement	4,515	5,343

All the amounts recognised in profit or loss are included in the "Personnel expense" item.

Other information:

Present value of the obligation (thousands of Euro)	2007	1st half 2008
Opening balance of the obligation	238,255	217,431
Current service cost	4,096	1,746
Interest on the obligation	10,622	5,375
Participants' contributions to the plan	363	199
Actuarial gains (losses)	(13,141)	(251)
Settled liabilities or liability reductions	-	-
Exchange differences on foreign plans	(6,263)	(4,982)
Benefits provided and paid	(11,872)	(5,938)
Effect of any curtailment or settlement	(4,629)	(78)
Past service cost	-	-
Closing balance of the obligation	**217,431**	**213,502**

Fair value of plan assets (thousands of Euro)	2007	1st half 2008
Opening balance of fair value of plan assets	65,499	63,403
Expected return on plan assets	4,169	1,798
Actuarial gains (losses)	(1,422)	(6,056)
Exchange differences on plans not in Euro	(5,400)	(4,605)
Employer contributions	1,752	825
Participants' contributions to the plan	363	199
Settlements	-	-
Benefits provided and paid	(1,558)	(683)
Closing balance of fair value of plan assets	**63,403**	**54,881**

Present value of plans and experience adjustments (thousands of Euro)	2007	1st half 2008
Present value of defined benefit obligation	217,431	213,502
Plan assets	(63,403)	(54,881)
Surplus (deficit)	154,028	158,621
Experience adjustments on plan liabilities	4,931	(251)
Experience adjustments on plan assets	(1,422)	(6,056)
Closing balance of fair value of plan assets	**311,565**	**310,935**

4.15 Non-current financial payables and liabilities

(thousands of Euro)	Balance at 31.12.2007	Changes in the period	Balance at 30.06.2008
1) Due to banks	387,507	(74,261)	313,246
2) Due to Parent	-	-	-
3) Due to lease companies	3,926	(145)	3,781
4) Due to others	1,644	(24)	1,620
Total	**393,077**	**(74,430)**	**318,647**

At the end of 2006, KME Group S.p.A. signed two new refinancing contracts for a total value of Euro 1.65 billion. These agreements involve GE Commercial Finance (GE Corporate Finance Bank SA) and Deutsche Bank, each for its own facility.

The first agreement, signed with GE Commercial Finance, consists of a credit line of up to Euro 800 million, usable as factoring without recourse of trade receivables, for a duration of five years. At the balance sheet date, the abovementioned transactions amounted to Euro 427.6 million.

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

- one revolving credit line (tranche A) for up to Euro 650 million for an initial duration of 3 years which can be extended for a further 2 years, for the coverage of the financing requirements of inventories which are guaranteed by this credit line;
- a loan of Euro 200 million (tranche B) to cover other financial needs, of a five year duration (of which 3 years are the grace period and the next two years are repaid on a straight-line basis), guaranteed by the non-current assets of the Group's German industrial firms.

The following was granted to guarantee the repayment of tranche A:

- the shares of the subsidiaries KME Italy S.p.A., KME Brass Italy S.p.A., KME France S.A.S. and KME France Brass S.A.S. will be pledged, with voting rights withheld;
- the inventories of the industrial companies, except for the Spanish subsidiaries, will be pledged;
- a lien on the factoring and insurance contracts;
- a lien on the accounts held at Deutsche Bank AG, where the revenue from the factored receivables are deposited. These accounts have a daily balance of zero as the amounts factored are used immediately in order to support the Group's operations.

The following was granted to guarantee the repayment of tranche B:

- a first-level mortgage on the real estate and other non-current assets of KME Germany A.G..

During the first half of 2008 a new loan with Mediocredito Centrale S.p.A. (MCC) was signed up to an amount of Euro 103,000,000 (one hundred and three million), to be allocated to the financing of charges related to the industrial investments held and/or to be held by the non-Italian subsidiaries or KME Group S.p.A. acquisitions of foreign companies.. The loan will be distributed during the period June 2008 - March 2010, in 3 tranches. Each tranche will have a duration of 8 years from the utilisation date.
The agreement provides for the intervention of SACE S.p.A. (SACE) for the issuing of a guarantee at first request in favour of MCC and the granting of a negative pledge on assets included in the Group's consolidated asset item up to Euro 200 million, excluding goodwill and cash and cash equivalents, during the term of the loan.

In addition, all the abovementioned credit lines and loans require compliance with financial covenants, which refer to consolidated equity, debt and EBITDA, as well as the relationship between EBITDA and net consolidated financial charges. At the date of these financial statements all agreed-upon covenants were observed.

All credit lines and loans were negotiated at a variable market rate, with a spread on the Euribor rate. The amount in the financial statements is measured at amortised cost using the effective interest method. The calculation includes commission and margins paid that are an integral part of the interest and transaction costs.

The amounts due to lease companies mainly involve recognition, as per IAS 17, of the finance lease for the Florence property in which the Group has its headquarters.

All the non-current payables and liabilities have maturities that exceed 12 months but are less than 5 years except for Euro 3.0 million due to the lease companies and Euro 6.2 million due to MCC after 5 years.

4.16 Other non-current liabilities

These mainly regard payables to employees of German subsidiaries (Euro 8.2 million) and post-employment benefits due to a Director of the Parent (Euro 0.6 million).

4.17 Provisions for risks and charges

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

(thousands of Euro)	Balance at 31.12.2007	Exchange effect	Increases	Decreases and releases	Current component	Balance at 30.06.2008
Provision for restructuring	9,147	(10)	10,173	(4,849)	(9,612)	4,849
EU sanctions	116,803	-	1,606	-	-	118,409
Other provisions for risks and charges	30,990	(30)	4,927	(4,002)	(15,848)	16,037
Total	**156,940**	**(40)**	**16,706**	**(8,851)**	**(25,460)**	**139,295**

The "current component" item and the balance at 31 December 2007, take account of the movement of the summarized current liability component in the "Provisions for risks and charges" item.

The restructuring provision involves interventions aimed at reducing activities in France and in Germany.
The increase in the "EU Sanction Provision" involves interest expense on the nominal amount of the sanctions levied by the European Commission.

With regard to that communicated in the financial statements at 31 December 2007 on the two European Community procedures, the hearing for the procedure regarding industrial piping was held on 27 February 2008 before the Magistrates' Court of the European Community, and the decision is expected within the year. Regarding the pipes for plumbing procedure, the hearing date has not yet been set.

With regard to the class action pending in the United States, please refer to the details in the financial statements at 31 December 2007. Regarding these class actions the main update is the decision of the Court of Appeal of Tennessee to permanently close, upon motion of the parties, the two legal appeal proceedings which began in 2007, relating to pipes for plumbing and industrial pipes.

With regard to the two environmental disputes relative to the industrial area housing the Brescia plant, disputes which involve the Company and its subsidiary KME Italy S.p.A. separately, there were no new developments as regards KME Italy S.p.A..
Whereas with regard to the other litigation on environment matters, directly concerning the Company, the next hearing is scheduled for 23 October 2008.
It is not possible to predict the expected outcomes of both disputes.

For disputes pending before the Court of Hannover relative to squeezeouts and mergers, an investigatory evaluation is in progress.

There are no updates regarding the action filed against former Company Chairman, Luigi Orlando. The next hearing is set for 12 June 2009.

The 2007 tax assessments concerning the subsidiary KME Italy S.p.A., have already been concluded with the serving of the preliminary assessment reports. In relation to these reports, the subsidiary is certain that its actions were correct and are corroborated by the opinions of its tax consultants. For this reason, no provisions were made, except for legal expenses.

As of today, the aforementioned disputes and assessments are not expected to have any significant impact.

At the publication date of these financial statements there are no other significant contingent liabilities.

4.18 Current financial payables and liabilities

(thousands of Euro)	Balance at 31.12.2007	Changes in the period	Balance at 30.06.2008
1) Due to banks	72,717	(6,455)	66,262
2) Due to Parent	6,414	(6,361)	53
3) Due to subsidiaries	2,659	385	3,044
4) Due to lease companies	280	8	288
5) Due to factoring companies	32,129	(8,854)	23,275
6) Interest rate swaps (IRS)/forward currency contracts	849	(259)	590
7) LME contracts	6,078	(2,984)	3,094
8) Due to others	6,773	59,353	66,126
Total	**127,899**	**34,833**	**162,732**

The "LME contracts" item refers to the counter value of the potential charges from the fair value measurement of the relations outstanding at the date these financial statements were drafted.

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

The amounts "due to factoring companies" represent the amount of the receivables factored sold with recourse at the balance sheet date.

The net financial position with the details of its main components pursuant to Consob communication no. 6064293 and the CESR recommendation of 10 February 2005 "Recommendations for the consistent implementation of the European Commission regulation on information memoranda" is indicated in the "Directors' Report" rather than in these notes.

The increase in "due to others" is due essentially to the use of assignment and repurchase operations of available inventories. At the date of these interim financial statements there is Euro 7 million consisting of amounts received from customers that were transferred and are in the sole property of factoring companies.

4.19 Trade payables and other current liabilities

(thousands of Euro)	Balance at 31.12.2007	Changes in the period	Balance at 30.06.2008
1) Due to suppliers	171,201	43,526	214,727
2) Due to subsidiaries	1,391	(502)	889
2) Due to Parent	-	-	-
Total trade payables	**172,592**	**43,024**	**215,616**

The carrying amount of trade payables approximates their fair value.

(thousands of Euro)	Balance at 31.12.2007	Changes in the period	Balance at 30.06.2008
1) Due to employees	42,720	8,894	51,614
2) Due to Parent	-	-	-
3) Due to social security institutions	13,329	(2,785)	10,544
4) Tax payables	45,521	(12,584)	32,937
5) Accrued expenses and deferred income	1,062	(223)	839
6) Other payables	28,388	(2,466)	25,922
Total other current liabilities	**131,020**	**(9,164)**	**121,856**

The amounts due to employees include the obligations that have matured but have not been paid at the balance sheet date.

The tax payables concern Euro 11.2 million in direct taxes on the company's income.

The other payables include Euro 21.8 million to customers for advances and credit notes issued.

4.20 Deferred tax assets and liabilities

(thousands of Euro)	Balance at 31.12.2007	Changes in the period	Balance at 30.06.2008
1) Deferred tax assets	36,513	(3,785)	32,728
2) Deferred tax liabilities	(118,290)	(9,775)	(128,065)
Difference	**(81,777)**	**(13,560)**	**(95.337)**

Deferred tax assets and liabilities are measured on the temporary differences between the carrying amounts of the assets and liabilities recognised in the financial statements and the corresponding amounts recognised for tax purposes.
Deferred tax assets are recognised only when their recovery is highly probable, this occurs when it is estimated that future sufficient taxable income will be available for their recovery.
The Parent has not recognised any deferred tax on the temporary difference relative to the financial investment in the subsidiary KME Germany AG according to the terms of paragraph 39 of IAS 12.

Deferred taxation is recognised in non-current assets and liabilities and offset for each individual subsidiary if the conditions in accordance with IAS 12 exist.
At the date of these financial statements, the Group did not recognise deferred tax assets on previous tax losses, equal to Euro 109.1 million. A part of the aforementioned losses, totalling Euro 21.0 million, will expire during the year.

The details at 30 June 2008, of tax losses on which deferred tax assets broken down by company were recognised and not recognised, are shown below:

(thousands of Euro)	30.06.2008
a) previous tax losses recognised	
KME Group S.p.A.	7,720
KME Verwaltungs- u. Dienstleistungs-GmbH	3,459
Fricke GmbH & Co. K.G.	565
KME Italy S.p.A.	15,878
KME Locsa S.A.	3,710
KME Yorkshire Ltd	3,140
Total (1)	**34,472**
b) previous tax losses unrecognised	
KME Group S.p.A.	22,629
KME France S.A.	49,316
KME Spain S.A.	19,434
KME Locsa S.A.	17,745
Other companies	-
Total (2)	**109,124**
Total (1) + (2)	**143,596**

Below are the details of deferred tax assets and liabilities broken down by balance sheet item.

(thousands of Euro)	Deferred tax assets		Deferred tax liabilities	
	31.12.2007	30.06.2008	31.12.2007	30.06.2008
Property, plant and equipment	-	121	67,434	67,487
Intangible assets	-	171	118	126
Investment property	-	-	-	-
Other non-current assets	-	1	1,042	1,082
Inventories	-	-	44,582	53,875
Trade receivables	671	661	156	98
Other receivables and current assets	429	716	89	31
Current financial assets	86	150	1,802	2,146
Employee benefits	10,498	9,619	821	847
Non-current financial liabilities	1,248	1,248	136	81
Other non-current liabilities	1,788	1,894	-	-
Provisions for risks and charges	6,622	6,533	1,876	1,925
Current financial liabilities	2,100	932	232	343
Trade payables	489	240	-	-
Other current liabilities	1,191	734	-	22
Deferred taxes on Equity components	196	163	2	2
Deferred taxes on previous tax losses	11,195	9,545	-	-
Total	**36,513**	**32,728**	**118,290**	**128,065**

Deferred tax assets allocated to equity refer mainly to charges due to the increase in share capital incurred by the Parent.

4.21 Information on transactions with related parties

During the period, the Group engaged in commercial transactions with related parties not included in the scope of consolidation which resulted in modest and consequently insignificant amounts.
These transactions, however, were carried out at market prices and values. Given the insignificance, details on their impact on the Group's financial position and result have been omitted according to the terms of Consob (National Commission for Companies and the Stock Exchange) Communication no. 6064293.

Information regarding the salaries of Managers and Directors with strategic responsibilities is shown below:

(thousands of Euro)					FY 2007						1st Half 2008
Short-term benefits	Post-employment benefits	Other long-term benefits	Termination benefits	Share-based payments	Year total	Short-term benefits	Post-employment benefits	Other long-term benefits	Termination benefits	Share-based payments	Period total
7,081	28	944	1,827	1,690	11,570	3,825	120	58	619	1,178	5,800

5. Income statement

According to CONSOB Communication no. 6064293/06 it should be noted that the Group did not carry out any atypical and/or unusual transactions in the first six months of 2008.

5.1 Revenue from sales

The breakdown of revenue from sales by geographical area is shown below:

Breakdown by geographical area (millions of Euro)	1st Half 2007	%	1st Half 2008	%
Germany	443	24.0	382	23.5
Italy	407	22.0	330	20.3
France	192	10.4	187	11.5
UK	156	8.4	144	8.9
Spain	108	5.8	86	5.3
Other European countries	388	21.0	359	22.1
European total	**1,694**	**91.7**	**1,488**	**91.7**
Rest of world	153	8.3	135	8.3
Total	**1,847**	**100.0**	**1,623**	**100.0**

Revenue from sales, net of the cost of raw materials, decreased by Euro 10.5 million from Euro 469.3 million (first half 2007) to Euro 458.8 million (first half 2008).

5.2 Personnel expense

(thousands of Euro)	1st Half 2007	1st Half 2008	Change %
Wages and salaries	142,299	140,675	-1.14%
Social security charges	34,389	33,924	-1.35%
Charges for stock options	883	1,971	insig.
Other personnel expense	5,386	5,722	6.24%
Total	**182,957**	**182,292**	**0.36%**

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

Charges for stock options concern the launch of an incentive plan, reserved for executive members of the Board of Directors and Group managers who hold positions which are more directly responsible for the operating results, which involves the free granting of rights on KME Group S.p.A. shares, in a ratio of 1:3 as of 1 September 2007, and to be exercised by 28 February 2011. The strike price has been set at Euro 1.029 per share calculated on the basis of the average official Stock Exchange prices recorded in the month preceding the grant date (31 July 2006), and taking into consideration the grouping of ordinary and savings shares that took place on 16 July 2007. The charge in the year and therefore, the fair value of services received, was determined indirectly by referring to the fair value of granted equities.

The fair value of the stock options (equal to Euro 0.1 for the first granting and Euro 0.38 for the options re-granted during 2007) was calculated by an independent actuary at the moment of granting by applying the Black & Scholes model, which takes into consideration the conditions relating to the exercising of the right, the current share value, the expected volatility (estimated according to the historical trend at one year of the underlying), the risk-free interest rate in the Euro area, the expected rate of dividends and the probability that those with the rights are, at the end of the vesting period, in a position to exercise the aforementioned right.

The evolution of the stock option plan existing at 30 June 2008 is as follows:

Situation at	31.12.2006 no. of options	31.12.2007 no. of options	30.06.2008 no. of options
Existing rights 1 January	**zero**	**43,731,776**	**33,144,453**
New rights granted	43,731,776	-	-
Rights re-granted	-	12,827,982	-
Rights exercised in the year/period	zero	6,802,713	-
Rights expired in the year/period	zero	16,612,592	-
Rights existing at the end of the year/period	**43,731,776**	**33,144,453**	**33,144,453**
of which exercisable:	zero	3,498,540	3,498,540

The second tranche of granted rights will be exercisable from 1 September 2008.

5.3 Amortisation/Depreciation and impairment losses

(thousands of Euro)	1st Half 2007	1st Half 2008	Change %
Depreciation	26,223	26,496	1.04%
Amortisation	387	409	5.68%
Impairment losses	167	(206)	insig.
Total	**26,777**	**26,699**	**-0.29%**

During the period, the Directors recognised impairment losses totalling Euro 206 thousand relative to assets in France.

5.4 Other operating costs

(thousands of Euro)	1st Half 2007	1st Half 2008	Change %
Energy requirements	35,576	39,525	11.10%
Maintenance and repairs	19,953	19,925	-0.14%
Insurance premiums	7,252	6,619	-8.73%
Rentals and operating leases	4,658	4,913	5.47%
Difference on LME transactions	(18,456)	(16,909)	-8.38%
Fair value on LME contracts	2,752	(1,450)	insig.
Outsourcing	14,729	15,409	4.62%
Logistics and transport on sales	25,755	31,581	22.62%
Commission	11,395	10,660	-6.45%
Funding fees on factoring	9,460	9,833	3.94%
Other operating costs	44,645	55,783	24.95%
Total	**157,719**	**175,889**	**11.52%**

The item "difference on LME transactions" includes the difference between the notional value of sales and purchases carried out in the period. The abovementioned amount, following the transactions described in paragraph 3 has a balancing item in "Purchase and change in raw materials".

The item "funding fees on factoring" comprises the amount of the assignment without recourse of trade receivables pertaining to assignee companies.

In other operating costs, the following have been included:

1. provisions, net of any releases, to "Provisions for risks and expenses" totalling Euro 15.6 million. A portion of these provisions, amounting to Euro 14.6 million of which Euro 9.7 million relate to the reorganization of the Group's industrial units and Euro 4.9 million relate to estimated costs related to outstanding disputes, are included in "non-recurring charges" in the schedule "Reclassified income statement" presented in the "Directors' Report";
2. banking services totalling Euro 0.8 million;
3. losses on disposals for Euro 0.3 million;
4. provisions for bad debts amounting to Euro 0.9 million;
5. legal and administrative consultancy and remuneration for corporate officers totalling Euro 11.2 million. A portion of these provisions, amounting to Euro 3.9 million relates to the reorganization of the Group's industrial units, are included in "non-recurring charges" in the schedule "Reclassified income statement" presented in the "Directors' Report".

5.5 Financial income and expense

(thousands of Euro)	1st Half 2007	1st Half 2008	Change %
Interest income	1,126	1,188	5.51%
Translation gains (losses)	1,367	(239)	insig.
Dividends	1,511	2,010	33.02%
Other financial income	614	1,784	190.55%
Total financial income	**4,618**	**4,743**	**2.71%**
Interest expense	(15,807)	(14,897)	-5.76%
Other financial expense	(5,302)	(4,243)	-19.97%
Total financial expense	**(21,109)**	**(19,140)**	**-9.33%**
Total net financial expense	**(16,491)**	**(14,397)**	**-12.70%**

The item "interest expense" includes Euro 0.6 million in interest on with recourse factoring.

The reduction in net financial expense was due to lower debt, which fell from Euro 455.2 million on 30 June 2007 to Euro 339.4 million at the date of these interim financial statements, despite the increase in interest rates (Euribor).

5.6 Current and deferred taxes

(thousands of Euro)	1st Half 2007	1st Half 2008	Change
Current taxes	(10,070)	(9,224)	insig.
Deferred taxes	(20,976)	(13,053)	insig.
Total	**(31,046)**	**(22,277)**	**insig.**

As of last year KME Group S.p.A. and its Italian subsidiaries have exercised the option of the "national consolidated tax" regime, calculating IRES on a taxable basis corresponding to the algebraic sum of positive and negative taxable incomes of each individual company. Financial relations, as well as responsibilities and reciprocal obligations, are set out in the agreement and regulation relative to the national consolidated tax option according to which the

Parent and/or subsidiaries with negative taxable income receive a payment equal to the relative tax savings realised by the Parent and/or subsidiaries with positive taxable income.
During the period tax benefits amounting to Euro 2.0 million were recorded, deriving from the assignment of tax losses and the negative tax of KME Italy S.p.A., and used to reduce the current tax charge.

Deferred tax assets and liabilities are measured on the temporary difference between the carrying amounts of the assets and liabilities recognised and the corresponding amounts recognised for tax purposes. Temporary differences originated from consolidation adjustments which changed the carrying amounts in the consolidated financial statements with respect to the tax amounts.

Below is a summary table which shows the relationship between the tax charges in the period and effect on the financial result and the tax rate applicable according to the terms of IAS 12 para. 81.

Correlation between tax charges and the financial result

(thousands of Euro)	30.06.2007	30.06.2008
Pre-tax result	97,309	63,928
Theoretical tax charge	36,248	20,073
(tax rate used 31.4 %)[1]	-	-
Reconciliation:		
Effect of different tax rates	472	469
Other effects:		
Non-deductible charges	6,446	4,253
Non-taxable income	(4,443)	(2,223)
Tax losses for the period not recognised as deferred tax assets	489	62
Income tax offset by unrecognised previous tax losses	(3,894)	(1,831)
Income tax offset by recognised previous tax losses	-	3
Recognition of deferred taxes according to the terms of IAS 12 par. 37	(3,381)	-
Other	(891)	1,471
Taxes recognised in the income statement	**31,046**	**22,277**

1 The rate used for the calculation at 30 June 2007 was 37.25%

The significant amount, relative to the first half of 2007, shown in the item "Effect of different tax rates" is essentially due to the effect of deferred taxes already set aside following the reduction in tax rates in Germany and in Italy.

5.9 Other information

Financial instruments by category

(thousands of Euro)	31.12.2007	30.06.2008	Change
Fin. assets recognised at fair value through profit or loss	12,354	15,992	3,638
Assets held to maturity	-	-	-
Loans and receivables	360,967	349,800	(11,167)
Financial assets available for sale	8,972	-	(8,972)
Fin. liabilities recognised at fair value through profit or loss	6,927	3,684	(3,243)
Fin. liabilities at amortised cost	686,461	693,311	6,850

Financial instruments by balance sheet item

Financial instruments and reconciliation with balance sheet items at 30 June 2008:

Balance sheet item (thousands of Euro)	Total	Measured at amortised cost	Measured at fair value	Outside the scope of IFRS 7
Financial asset				
Investments in subsidiaries and associates	5,241	-	-	5,241
Investments in other companies	387	-	-	387
Investments in equity	-	-	-	-
Non-current financial assets	2,104	2,104	-	-
Other non-current assets	28,089	28,089	-	-
Trade receivables	135,135	135,135	-	-
Other receivables and current assets				
Factoring	44,154	44,154	-	-
Receivables from suppliers	3,959	3,959	-	-
Other non-financial assets	32,072	-	-	-
	80,185	-	-	-
Cash and cash equivalents	**77,038**	**77,038**	**-**	**-**
Current financial assets				
Factoring	58,734	58,734	-	-
Receivables	587	587	-	-
Derivative financial instruments	5,622	-	5,622	-
Other financial instruments	10,370	-	10,370	-
	75,313	**-**	**-**	**-**
	-	**349,800**	**15,992**	**5,628**

Balance sheet item (thousands of Euro)	Total	Measured at amortised cost	Measured at fair value	Outside the scope of IFRS 7
Financial Liabilities				
Current and non-current financial liabilities				
Payables due to social security institutions	379,508	379,508	-	-
With recourse factoring	23,275	23,275	-	-
Payables due to lease companies	4,069	4,069	-	-
Other financial liabilities	70,843	70,843	-	-
Derivative financial instruments	3,684	-	3,684	-
	481,379	**477,695**	**3,684**	**-**
Trade payables	215,616	215,616	-	-
	696,995	**693,311**	**3,684**	**-**

Notional amount of derivative financial instruments

A summary of the notional amounts and the expiry of derivative financial instruments existing at the date of these financial statements is shown below:

Description (thousands of Euro)	Expiry due within 1 year	Expiry between 1 and 5 years	Expiry due after 5 years	Total at 30.06.2008	Total at 31.12.2007
LME commodity contracts	197,363	2,496	-	199,859	161,028
Forward exchange contracts	125,193	-	-	125,193	126,820
Cross-currency swaps	-	1,259	-	1,259	1,688
Interest rate swaps (IRS)	-	45,000	-	45,000	45,000
Total	**322,556**	**48,755**	**-**	**371,311**	**334,536**

The net change of the fair value of LME transactions recognised in the income statement in the first half of 2008, totalled Euro 1.5 million. In the first half of the last financial year it was Euro 2.8 million.
The notional "LME contracts on commodities" indicated is the sum of sale and purchase transactions. At 30 June 2008 the net value "for sale" of the abovementioned transactions was Euro 60.4 million.

Exposure to credit risk and impairment losses

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

The age of trade receivables due to third parties at the balance sheet date was as follows:

Description (thousands of Euro)	Gross carrying amount	Write-downs 30.06.2008	Net carrying amount
not yet due	112,157	1,476	110,681
overdue by zero to 60 days	15,506	31	15,475
overdue by 61 to 120 days	2,216	16	2,200
overdue by 121 days to 1 year	1,625	142	1,483
overdue by more than 1 year	6,498	5,842	656
Total	**138,002**	**7,507**	**130,495**

Movements in the bad debt provision in the year are shown below:

31.12.2007	**7,033**
Currency exchange difference	-11
Scope of consolidation	-
Impairment losses of the year	940
Usage	407
Release	48
30.06.2008	**7,507**

Foreign exchange exposure

The following table shows the Group's exposure to exchange rate risk according to the notional amount indicated in the different currencies:

30.06.2008	USD	GBP	CHF	SEK	EUR
Non-current financial assets	-	-	-	-	-
Other non-current assets	-	-	-	-	-
Trade receivables	11,068	548	978	45,977	968
Other receivables and current assets	4,176	1,131	1,002	1,720	839
Current financial assets	9,144	777	5,325	11,580	157
Cash and cash equivalents	1,093	2,069	2,639	3,981	199
Financial liabilities	354	98	178	-	-
Trade payables	4,197	211	741	6,085	22
Other current liabilities	-	-	-	6,614	-
Gross balance sheet exposure	**20,930**	**4,216**	**9,025**	**50,559**	**2,141**
Estimated sales forecast	54,110	12,981	8,396	41,298	622
Estimated purchases forecast	50,316	26	338	3,843	1,754
Gross exposure	**24,724**	**17,171**	**17,083**	**88,014**	**1,009**
Forward exchange contracts	39,051	23,551	20,249	51,959	(8,791)
Net exposure	**(14,327)**	**(6,380)**	**(3,166)**	**36,055**	**9,800**

Analysis of sensitivity

An appreciation of the Euro by 10% (or a depreciation of the same percentage) against the currencies mentioned above would have led to an increase (decrease), at 30 June 2008, in equity and the profit for the year totalling Euro 0.3 million. The aforementioned analysis was carried out in the assumption that all other variables remained constant, in particular, interest rates. The same analysis for 2007 would have produced an increase of Euro 0.8 million in the profit for the year and equity.

Values for the previous financial year:

31.12.2007	USD	GBP	CHF	SEK	EUR
Non-current financial assets	-	-	-	-	-
Other non-current assets	-	-	-	-	-
Trade receivables	6,851	9,050	2,539	47,260	5,632
Other receivables and current assets	2,720	774	505	339	-
Current financial assets	3,303	2,519	5,122	1,791	-
Cash and cash equivalents	3,729	3,476	163	6,522	291
Financial liabilities	-	21	21	-	-
Trade payables	8,127	188	116	173	10,640
Other current liabilities	-	-	-	2,078	-
Gross balance sheet exposure	**8,476**	**15,610**	**8,192**	**53,661**	**(4,717)**
Estimated sales forecast	37,752	10,501	17,665	18,397	1,297
Estimated purchases forecast	68,254	-	-	-	417
Gross exposure	**(22,026)**	**26,111**	**25,857**	**72,058**	**(3,837)**
Forward exchange contracts	(31,875)	15,230	23,950	45,000	-
Net exposure	**9,849**	**10,881**	**1,907**	**27,058**	**(3,837)**

Interest rate exposure

The interest rate profile applied to the interest-bearing financial instruments of the Group at the balance sheet date was as follows:

(thousands of Euro)	Carrying amount	
	31.12.2007	30.06.2008
Fixed rate instruments:		
Financial assets	3,671	3,599
Financial liabilities	55,134	45,998
Total	**(51,463)**	**(42,399)**
Variable rate instruments:		
Financial assets	97,720	74,100
Financial liabilities	450,955	423,824
Total	**(353,235)**	**(349,724)**

Analysis of the sensitivity of the fair value of fixed rate instrument and of LME contracts

The Group did not account for any fixed rate financial asset or liability recorded at fair value through profit or loss and did not designate derivatives (interest rate swaps) as fair value hedges. As a result, any changes in the interest rates at the balance sheet date would not have any effect on the income statement.

The Group uses LME contracts (forward contracts on commodities on the London Metal Exchange) to cover fluctuations in the price of raw materials, copper in particular. These instruments are measured at fair value through profit or loss. An increase in the price of copper by Euro 100 per tonne at the balance sheet date would

result in decrease in profit for the period and equity of Euro 0.4 million. The same effect on financial statements figures at 31 December 2007 would have produced an increase of Euro 3.2 million.

Analysis of the sensitivity of the cash flows of variable rate financial instruments

An increase (or decrease) of 50 interest rate basis points (BPS) at the balance sheet date would produce a decrease (increase) in equity and profit of approximately Euro 1.9 million (Euro 1.8 million in the first half of 2007). The analysis was carried out assuming that the other variables, in particular exchange rates, remained constant and was carried out using the same assumptions for 2007.

Exposure to liquidity risk

The liquidity risk could arise due to difficulty in obtaining financing for working capital at the appropriate time. Inflows and outflows and the liquidity of Group companies are monitored and coordinated under the control of the Group Treasury. The flexibility of credit lines in place allowed the Group to resolve problems relating to the raising of the resources necessary to temporarily cover the cash requirements due to the increase in the price of raw materials.

Fair value and carrying amount

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

Other financial commitments

Below is a summary showing the minimum payments that cannot be cancelled, due for operating leases at the date of these financial statements:

(thousands of Euro)	31.12.2007	30.06.2008
Within 1 year	4,919	4,902
Between 1 and 5 years	8,959	8,257
Beyond 5 years	184	310
	14,062	**13,469**

At the date of these interim financial statements, there are Euro 11.3 million in purchase commitments on property, plant and equipment. These purchase commitments will expire next year.

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

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

3. The consolidation adjustments consist essentially of the elimination of dividends received by the subsidiary KME Germany A.G..

KME Group S.p.A.

Statement about the condensed interim consolidated financial statements pursuant to Article 81 (iii) of CONSOB Regulation no. 11971 of 14 May 1999 and subsequent additions and amendments.

1. The undersigned Vincenzo Manes, acting as Deputy Chairman and Marco Miniati, as the Manager responsible for the preparation of the accounting documents of KME Group S.p.A. having considered the requirements of article 154 (ii), paragraphs 3 and 4, of Legislative Decree no. 58 of 24 February 1998, certify:
   - the adequacy in relation to company characteristics and
   - the effective application of administrative and accounting procedures in the preparation of the condensed interim financial statements, during the period 1 January 2008 – 30 June 2008.
2. Assessment of the adequacy of the administrative and accounting procedures for the preparation of the condensed interim consolidated financial statements at 30 June 2008 was carried out based on methodologies generally accepted at international level (Committee of Sponsoring Organisations of the Treadway Commission – COSO report).
3. In addition, it is stated, that

   3.1. the condensed interim consolidated financial statements:

   a) were prepared in accordance with the applicable IFRS endorsed by the European Community as set forth in article 6 of Regulation (CE) no. 1606/2002 of the European Parliament and Council of 19 July 2002;

   b) correspond with the books and accounting records;

   c) were prepared in accordance with International Financial Reporting Standards endorsed by the European Union as well as regulations issued pursuant to article 9 of Legislative Decree no. 38/2005, and give a true and fair view of the financial position and results of operations of the issuer and of the companies included in the consolidation scope.

3.2. The Directors' report includes references to important events which took place during the first six months of the year and their effect on the condensed interim financial statements, together with a description of the main risks and uncertainties for the remaining six months of the year. The Directors' report also contains information regarding significant transactions with related parties.

Florence, 7 August 2008

The Deputy Chairman	Manager Responsible
(signed on the original)	(signed on the original)
(Vincenzo Manes)	(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 interim consolidated financial statements comprising the balance sheet, income statement, statement of changes in equity, cash flow statement and notes thereto of the KME Group as at and for the six months ended 30 June 2008. The parent's directors are responsible for the preparation of these 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 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 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 interim consolidated financial statements.

With regard to the corresponding figures included in the interim consolidated financial statements, reference should be made to our reports on the annual consolidated and interim consolidated financial statements of the previous year dated 10 April 2008 and 25 October 2007, respectively.

3 Based on our review, nothing has come to our attention that causes us to believe that the interim consolidated financial statements of the KME Group as at and for the six months ended 30 June 2008 have not been prepared, in all material respects, in conformity with IAS 34, "Interim Financial Reporting", endorsed by the European Union.

Florence, 27 August 2008

KPMG S.p.A.

(Signed on the original)

Riccardo Cecchi
Director of Audit

Interim separate financial statements at 30 June 2008

Balance sheet

(Euro)	note	as at 30.06.2008	of which related parties	as at 31.12.2007	of which related parties
Property, plant and equipment	4.1	27,660	-	29,671	-
Investment property	4.2	-	-	-	-
Investments in subsidiaries	4.3	314,295,839	314,295,839	312,991,149	312,991,149
Other equity investments	4.3	129,114	-	3,577,559	3,448,445
Other financial assets	4.4	30,417,643	28,312,432	6,992,026	6,992,026
Deferred tax assets	4.5	4,863,000	-	3,748,000	-
Non-current assets		**349,733,256**	**342,608,271**	**327,338,405**	**323,431,620**
Trade receivables	4.6	44,344	44,344	23,496	23,496
Other receivables and current assets	4.7	9,510,730	2,303,737	10,176,116	2,192,504
Current financial assets	4.8	83,923,295	83,923,295	66,241,884	66,241,884
Cash and cash equivalents	4.9	1,390,050	-	1,739,163	-
Current assets		**94,868,419**	**86,271,376**	**78,180,660**	**68,457,885**
Total assets		**444,601,675**	**428,879,647**	**405,519,065**	**391,889,505**
Share capital	4.10	250,000,000	-	324,164,741	-
Other reserves	4.10	75,376,205	-	628,715	-
Treasury shares	4.10	(37,161)	-	(37,161)	-
Retained earnings	4.10	5,910,828	-	5,918,502	-
IFRS reserve	4.10	-	-	1,644,616	-
Stock option reserve	4.10	5,151,350	-	3,180,428	-
Profit for the year/period	4.10	22,334,821	-	12,314,967	-
Equity		**358,736,043**	**-**	**347,814,808**	**-**
Employee benefits	4.11	146,671	-	143,900	-
Deferred tax liabilities	4.12	506,000	-	59,000	-
Financial payables and liabilities	4.13	34,861,771	1,276,585	12,651,323	6,992,026
Other payables	4.14	619,177	619,177	-	-
Provision for risks and charges	4.15	7,297,613	-	3,997,613	-
Non-current liabilities		**43,431,232**	**1,895,762**	**16,851,837**	**6,992,026**
Financial payables and liabilities	4.16	39,603,453	9,739,846	37,784,008	12,974,295
Trade payables	4.17	445,450	29,750	328,834	1,240
Other current liabilities	4.18	2,385,497	1,140,692	2,739,578	1,707,855
Current liabilities		**42,434,400**	**10,910,288**	**40,852,420**	**14,683,389**
Total liabilities and equity		**444,601,675**	**12,806,050**	**405,519,065**	**21,675,416**

Income statement

(Euro)	note	1st Half 2008	of which related parties	1st Half 2007	of which related parties
Revenue	6.1	1,419,500	1,419,500	1,436,447	1,419,500
Other revenue	6.2	15,610	2,198	261,029	26,780
Personnel expense	6.3	(771,459)	(666,232)	(748,710)	(442,000)
Amortisation, depreciation and impairment charges	6.4	(2,011)	-	(1,089)	-
Other operating expenses	6.5	(6,589,380)	(1,844,408)	(2,604,242)	(1,251,510)
Operating loss		**(5,927,740)**	**(1,088,942)**	**(1,656,565)**	**(247,230)**
Financial income	6.6	29,190,077	27,135,830	5,505,975	5,433,550
Financial expense	6.6	(1,445,806)	(138,348)	(738,865)	(715,088)
Profit before taxes		**21,816,531**	**25,908,540**	**3,110,545**	**4,471,232**
Current taxes	6.7	(182,709)	-	3,258,646	3,481,000
Deferred taxes	6.7	701,000	-	3,070,000	-
Total income taxes		**518,291**	**-**	**6,328,646**	**3,481,000**
Profit for the period		**22,334,822**	**25,908,540**	**9,439,191**	**7,952,232**

Statement of changes in equity

(Euro)	Share capital	Other reserves	Treasury shares	Returned earnings	IFRS reserve	Stock Option reserve	Profit for the period	Total equity
Equity at 31.12.2007	**324,164,741**	**628,715**	**(37,161)**	**5,918,502**	**1,644,616**	**3,180,428**	**12,314,967**	**347,814,808**
Distribution of reserves	-	-	-	(137,098)	(1,644,616)	-	-	(1,781,714)
Breakdown of profit for the period:	-	-	-	-	-	-	-	-
- Legal reserves	-	615,749	-	-	-	-	(615,749)	-
- carried forward	-	-	-	129,424	-	-	(129,424)	-
- distribution of dividends	-	-	-	-	-	-	(11,488,083)	(11,488,083)
- Allocation to the members of the Board of Directors [1]	-	-	-	-	-	-	(81,711)	(81,711)
Available reserves	(74,164,741)	74,164,741	-	-	-	-	-	-
Release of deferred taxes	-	(33,000)	-	-	-	-	-	(33,000)
Granting of stock options	-	-	-	-	-	1,970,922	-	1,970,922
Profit for the period	-	-	-	-	-	-	22,334,821	22,334,821
Equity at 30.06.2008	**250,000,000**	**75,376,205**	**(37,161)**	**5,910,828**	**-**	**5,151,350**	**22,334,821**	**358,736,043**
IFRS reclassification of treasury shares	(37,161)	-	37,161	-	-	-	-	-
Equity at 30.06.2008	**249,962,839**	**75,376,205**	**-**	**5,910,828**	**-**	**5,151,350**	**22,334,821**	**358,736,043**

1. The members of the Board of Directors decided to donate their portion of the year's profit to charity.

(Euro)	Share capital	Other reserves	Treasury shares	Returned earnings	IFRS reserve	Stock Option reserve	Profit for the period	Total equity
Equity at 31.12.2006	**319,643,223**	**(963,499)**	**(37,161)**	**5,178,100**	**2,784,099**	**958,537**	**7,205,770**	**334,769**
Breakdown of profit for the period:	-	-	-	-	-	-	-	-
- Legal reserves	-	360,289	-	-	-	-	(360,289)	-
- carried forward	-	-	-	638,844	-	-	(638,844)	-
- distribution of dividends	-	-	-	-	-	-	(6,206,637)	(6,206,637)
- use of IFRS first time adoption reserve	-	1,037,925	-	101,558	(1,139,483)	-	-	-
Share capital increase	95,619	-	-	-	-	-	-	95,619
Granting of stock options	-	-	-	-	-	882,425	-	882,425
Deferred taxes recognised in equity	-	309,000	-	-	-	-	-	309,000
Profit for the period	-	-	-	-	-	-	9,439,554	9,439,554
Equity at 30.06.2007	**319,738,842**	**743,715**	**(37,161)**	**5,918,502**	**1,644,616**	**1,840,962**	**9,439,554**	**339,289,030**

Separate cash flow statement

(thousands of Euro)	1st half 2008	1st half 2007
(A) Cash and cash equivalents at the beginning of the period	**1,739**	**377**
Profit before taxes	21,817	3,110
Amortisation and depreciation	2	1
Net interest accrued	(1,355)	(224)
Loss (gain) on disposal of non-current assets	-	-
Provisions for pensions funds and similar	669	201
Accruals to other provisions	3,300	(90)
Decreases (increases) in current receivables	(22,395)	(8,788)
Decreases (increases) in current payables	(239)	(98)
Net interest paid	1,355	224
Current taxes paid and reimbursed during the year	(183)	3,262
(B) Cash flows from operating activities	**2,971**	**(2,402)**
Decreases (increases) in non-current intangible assets and property, plant and equipment	-	2,775
(Increases) decreases in other non-current assets/liabilities	619	-
Decreases (increases) in investments	-	-
Dividends received	21,361	1,265
(C) Cash flows from investment activities	**21,980**	**4,040**
Increases (decreases) in equity	(1,863)	96
Increases (decreases) in current and non-current financial payables	24,030	(23,402)
Increases (decreases) in current and non-current financial receivables	(35,979)	28,474
Dividends paid	(11,488)	(6,182)
(D) Cash flows from financing activities	**(25,300)**	**(1,014)**
(E) Profit from cash and cash equivalents (B+C+D)	**(349)**	**624**
(F) Cash and cash equivalents at the end of the period (A+E)	**1,390**	**1,001**

2. General information

KME Group S.p.A. (hereinafter KME) and its industrial subsidiaries (that together make up the "Group") operate in the sector of semi-finished copper products and its alloys.
The Group owns industrial plants in various European countries and markets its products in all the main countries throughout the world.
KME is a Joint-Stock Company registered in Italy in the Florence Companies Register, no. 00931330583, and its shares are listed on the automated stock market organised and managed by Borsa Italiana S.p.A. (Italian Stock Exchange).
The half-year report at 30 June 2008 was approved by the Board of Directors on 7 August 2008 and will be published according to legal requirements.
Although it is controlled by iNTEk S.p.A., as explained above, the Company does not consider itself subject to management and coordination activities as set forth in articles 2497 et seq. of the Italian Civil Code and article 37 of the Markets' Regulations since:

a. it has an autonomous negotiating capacity in customer and supplier relations;
b. no centralised treasury exists with iNTEk S.p.A. or other companies;
c. the number of Independent Directors (4 out of 12) is such to ensure that their judgement has significant weight in board decisions.

2.1 Preparation criteria

The interim separate financial statements were prepared in accordance with the measurement and recognition criteria set forth in the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and adopted by the European Commission in accordance with the procedure set forth in article 6 of Regulation (CE) no. 1606/2002 of the European Parliament and Council of 19 July 2002 and especially from IAS 34 *"Interim financial reporting"*, as well as the measures implementing article 9 of Legislative Decree no. 38/2005.
In preparing these financial statements, the Directors took into consideration the accruals principle, the going concern assumption, understandability, relevance, materiality, reliability, neutrality, prudence and comparability and they applied the same principles adopted in the separate financial statements at 31 December 2007.
The Company has still not applied those principles which, issued by the IASB, are effective following the date of the present financial statements. In particular, IFRS 8, IAS 23, IFRIC 12, IFRIC 13, IFRIC 14 and IAS 1.
The future adoption of these standards is not however expected to have a significant impact on the Group's financial position and result of operations.
Company events and transactions are recorded and represented according to their economic substance and situation and not just their legal form.

2.2 Property, plant and equipment

Property, plant and equipment are recorded at acquisition or production cost, including additional charges that are directly recognised.
They are measured at cost, net of depreciation and accumulated impairment losses, with the exception of land which is not depreciated and is measured at cost net of accumulated impairment losses.
Depreciation is calculated from the month the asset is available for use, or when it is potentially able to provide the economic benefits associated with it; it is recognised on a monthly straight-line basis until the end of their useful life, or, if sold, up to the last month of use.

Financial charges relating to the purchase of property, plant and equipment is recognised in the income statement unless they are directly attributable to the acquisition, construction or production of an asset which justifies its capitalisation.
Replacement parts with a significant value are capitalised and depreciated based on the useful life of the asset to which they refer; others are charged to the income statement when the expense occurs.
Assets acquired through finance leases are recognised as property, plant and equipment with a balancing entry under payables. The cost of the lease is separated into the following components: financial expense, recognised in the income statement and principal repayment, recorded as a reduction of the financial debt. Assets under finance lease are recognised at the lower of cost or the present value of minimum lease payments due at the start date of the contract.
In the presence of specific impairment indicators, property, plant and equipment are subject to impairment testing. The test involves estimating the recoverable amount of the asset, defined as the higher of the fair value less costs to sell and value in use, and in comparison with the relative carrying amount. If the recoverable amount is less than the carrying amount, the latter is reduced to the recoverable amount; this reduction is charged to the income statement, i.e. to the fair value reserve which was set up previously during revaluation of the asset concerned. Any subsequent revaluations employ the reverse procedure.

2.3 Intangible assets

Intangible assets refer to assets without physical consistency, which are identifiable, controlled by the company and capable of producing future economic benefits.
Intangible assets can be acquired by the company through:

- purchases from third parties;
- business combinations;
- internally generated production.

In the first two cases, intangible assets are measured initially at cost and at fair value respectively, including charges that are directly recognised. They are then systematically amortised based on their residual useful life given by the expected period in which the assets are used by the company, generally between 3 and 5 years. In addition, these assets are expressed net of any impairment losses by adopting the same criteria used for property, plant and equipment. Their residual value at the end of their useful life is assumed to be zero.
Internally generated assets are capitalised only if the conditions dictated by IAS 38, paragraph 57 exist.

2.4 Investment property

Investment property is land and buildings owned for the obtainment of lease payments or for the appreciation of invested capital or both. These assets are measured at fair value and are thus not amortised. At the date of transition to IFRS the aforementioned assets were measured at fair value and this value was used as deemed cost. The subsequent variations in fair value were recognised directly in the income statement.
In the event of a change of use from investment property to one involving property, plant and equipment, the fair value on the date of the change of use is considered as a deemed cost in the subsequent accounting.

2.5 Financial assets

All investments in subsidiaries, associated companies and joint ventures are measured at cost.
Financial assets acquired or held mainly for the purpose of sale or repurchase in the short term and derivative financial instruments not designated as hedging instruments are classified in the category *"financial assets recognised at fair value through profit or loss"* with separate indication of those that are designated in this

category at the moment of their initial recognition (fair value option). These assets are measured at fair value with the effects recognised in the income statement. Financial guarantees issued to subsidiaries are measured according to the terms of IAS 39. The amounts presented in the financial statements represent the present value of charges to be received in future financial years. The balance sheet value, determined according to the abovementioned methods, expresses the fair value.
Non-derivative financial instruments, with the exception of equity instruments, with fixed or determinable payments, not listed on an active market which do not belong to the preceding categories, are classified as *"loans and receivables"* and are measured at amortised cost using the effective interest method. For current *loans and receivables* and for all trade and short-term payables and receivables, for which the time component has little relevance, it is presumed that the amortised cost corresponds with the carrying amount.
Treasury shares are measured at historical purchase cost and recognised as a reduction in equity. In the event of sale, re-issue or cancellation, the subsequent profits and losses are recorded in equity.

Calculation of impairment losses
All financial assets and liabilities, with the exception of *"financial assets and liabilities through profit or loss at fair value"*, are subject to impairment testing pursuant to IAS 39, paragraphs 58-70.
A financial asset is said to have become impaired when there is objective evidence that one or more events have had a negative impact on the estimated cash flows expected from that asset.
An impairment loss on financial asset measured at amortised cost corresponds to the difference between the carrying amount and the present value of expected estimated cash flows discounted at the original effective interest rate. An impairment loss on an available-for-sale financial asset is calculated according to the fair value of said asset.
All impairment losses are recorded in the income statement. Any accumulated impairment loss on a financial asset available for sale previously recognised in equity is transferred to the income statement upon realisation.
Impairment losses are reversed if the subsequent value increase can be objectively linked to an event which took place after the impairment loss. In the case of assets measured at amortised cost and assets available for sale corresponding to debt securities, the reversal is recorded in the income statement.

Measurement of fair value
The fair value of financial assets and liabilities recognised in the income statement and of those available for sale at the time of initial recognition is determined on the basis of the transaction price and is therefore equal to the amount paid or received.
Subsequently and at each balance sheet date, 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 linked to market conditions at the balance sheet date. The fair value of interest rate swaps is calculated based on the present value of expected future cash flows. The fair value of forward currency contracts is determined using the forward exchange rate at the balance sheet date.
Fair value adjustments of derivative instruments not classified as hedging instruments are recognised directly in the income statement.
The fair value of non-derivative financial instruments is determined by discounting future cash flows based on the market interest rate at the balance sheet date. For finance leases, interest rates are used which refer to similar contracts.

2.6 Cash and cash equivalents

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

2.7 Equity

Share capital is comprised of ordinary shares and savings shares, with no nominal value, fully subscribed and paid up at the balance sheet date, reduced by any share capital proceeds to be received. The value of treasury shares repurchased, according to IAS 32, is shown as a reduction of the share capital issued, whilst the premium or the discount with respect to the nominal value adjusts the other components of equity. This representation however, is shown solely in the notes, whilst in the schedules the historical cost of treasury shares held is shown separately with a minus sign, reducing equity.
The balance of the already existing reserves has therefore been reclassified to the specific reserves which had already been used to create it.
Costs for equity transactions have been charged directly against equity-related reserves, preferably using the share premium reserve. These charges were subsequently covered during the period through a reduction in available reserves, as resolved by the Shareholders' Meeting of 23 May 2007.

2.8 Payables

Payables are recognised at amortised cost. When the effect of the discount is not significant, as in short term trade payables, they are recorded at their nominal value.

2.9 Current and deferred taxes

Current income taxes are calculated based on the estimated taxable income, taking into consideration the rates and the tax legislation in force or essentially approved at the balance sheet date.
Deferred tax assets and liabilities are measured on the temporary differences between the carrying amount of the assets and liabilities recognised in the financial statements and the corresponding amounts recognised for tax purposes according to the balance sheet liability method. Deferred tax assets are recognised only when their recovery is probable, this occurs when it is estimated that future sufficient taxable income will be available for their recovery. The carrying amount of deferred tax assets is reviewed at each balance sheet date in order to confirm maintenance or occurrence of the probability of the future use condition.

2.10 Employee benefits

Post-employment benefits are defined on the basis of plans which, according to their characteristics are distinguished as "defined contribution" and "defined benefit plans". With defined contribution plans the obligation of the company, limited to the payment of contributions to a separate legal entity (this may also be the Government or a fund), is composed of contributions due at the balance sheet date. Liabilities relating to defined benefit plans, such as post-employment benefits defined by article 2120 of the Italian Civil Code, net of any plan assets, is determined on the basis of actuarial assumptions and recognised on an accruals basis consistent with the length of service required to obtain the benefits. Actuarial gains and losses relating to defined benefit plans deriving from changes in the actuarial assumptions or from modifications to the conditions of the plans are recognised proportionately in the income statement using the corridor method, i.e. recognised only when the net amount of actuarial gains and losses not recorded at the end of the previous period exceeds the greater of 10% of the present value of the obligation and 10% of the fair value of any plan asset.
The measurement of "Post-employment benefits" was carried out by an independent actuary.

2.11 Provisions

Provisions are liabilities with uncertain maturities or amounts. Provisions have been recorded only when:
1. the Company has a present (legal or implicit) obligation owing to a past event;
2. it is probable that on outflow of economic benefits will be needed to settle the obligation;
3. it is possible to make a reliable estimate of the amount of the obligation.

The amounts provided for are therefore the best estimates of the expenses needed to settle the obligation or transfer it to third parties at the balance sheet date. If the effect of the time value of money is significant, the provision is represented by the present value of the expenses that are expected to be necessary to settle the obligation.
Provisions for restructuring costs are recognised only if the Group has a formal detailed plan which at least shows: the activity and main operating units concerned, the costs to be incurred, the approximate number of employees involved and when interested third parties have a valid expectation that the entity will implement the said restructuring because it has already begun implementation or has communicated it publicly.

2.12 Recognition of revenue

Revenue from the sale of goods and from the rendering of services is measured at the fair value of the consideration received or expected, taking into account any returns, rebates, sales discounts or volume discounts. Revenue is recognised when the significant risks and rewards connected to the ownership of the goods have been transferred to the buyer, when the recoverability of the consideration is probable and the relative costs or any returns of goods can be reliably estimated.
The transfer of risks and rewards varies according to the conditions of each agreement.

2.13 Leases

Leases are contracts in which the lessor transfers to the lessee, in exchange for payment or a series of payments, the right to use an asset for an agreed period of time. Contracts that essentially transfer all risks and rewards of ownership of the asset are defined as *"finance leases"* even when ownership is not transferred at the end of the contract. Finance leases are recognised according to the terms of IAS 17, paragraphs 20-32.
Operating leases are defined by exclusion, as those that are not considered to be finance leases.

2.14 Dividends

Dividends to be paid are recognised as liabilities only in the period in which they were approved by the Shareholders' Meeting. Dividends to be received are recorded only when the Shareholders' right to receive payment has been established.

2.15 Stock options

As shown in the financial statements at 31 December 2006, personnel expense includes the expense relative to stock options granted to executive members of the KME Group S.p.A. Board of Directors and some Group Executives, consistent with the nature of compensation paid. The fair value of stock options has been determined by the option value at the grant date by applying the Black & Scholes model which takes into consideration the conditions relating to the exercising of the right, the current share value, and the exercise price, duration of the option, dividends and the expected volatility and the risk-free interest rate. The relative cost of the stock options, distributed over the entire vesting period, is recorded as a balancing entry in equity under the item "Reserve for stock options". The fair value of rights assigned to Executives of KME Group S.p.A. subsidiaries is charged to companies in which the Executives are on the permanent staff, by applying IFRIC interpretation 11 in advance as allowed by paragraph 12 of the same interpretation.

2.16 Earnings per share

For a calculation of the basic and diluted earnings per share, refer to the notes to the consolidated financial statements included in this report. According to the terms of IAS 33 paragraph 4, this information must only be presented on the basis of consolidated data.

2.17 Use of estimates

The preparation of these consolidated financial statements and the notes thereto under IFRS required the Directors to make estimates and assumptions which affected the reported amounts of balance sheet assets and liabilities.
The estimates were mainly used to determine the useful lives of fixed assets, provisions for bad debts, the measurement of impairment, employee benefits, taxes, restructuring provisions, intangible assets with an indefinite life and other accruals and provisions.
These estimates and assumptions are periodically reviewed and any effects are reflected immediately in the income statement. At the balance sheet date the Directors deemed that the estimates and assumptions used reflected the best assessment possible given the information available. In addition, the Directors deemed that the estimates and assumptions adopted shall not involve any material adjustments to the carrying amounts of assets and liabilities within next period.

3. Financial risk management policy

For this information refer to the notes to the consolidated financial statements.

4. Notes to the separate financial statements

4.1 Property, plant and equipment

(thousands of Euro)	Plant and machinery	Other assets	Total
At 31 December 2007			
Historical cost	170	652	822
Accumulated depreciation and impairment losses	169	623	792
Net carrying amount	1	29	30
At 30 June 2008			
Historical opening cost	170	652	822
Increases	-	-	-
Reclassifications	-	-	-
Decreases	-	-	-
Historical closing cost	170	652	822
At 30 June 2008			
Accumulated depreciation and impairment losses	169	623	792
Depreciation	-	2	2
Reclassifications	-	-	-
Decreases	-	-	-
Accumulated depreciation and impairment losses	169	625	794
At 30 June 2008			
Historical closing cost	170	652	822
Accumulated depreciation and impairment losses	169	625	794
Net closing carrying amount	**1**	**27**	**28**

During the period there were no purchases or sales.

4.2 Investment property

At the balance sheet date there were no amounts to be included in this category.

4.3 Investments

Below is a list of equity investments in subsidiaries recorded under non-current financial assets.

Company name (Euro)	Registered office	Share/quota capital	Equity at 30.06.2008	Profit (loss) for the period ended 30.06.2008	Investment held	Carrying amount (item: investments)
Subsidiaries						
KME Germany A.G.	Osnabrueck	142,743,879	365,004,000[1]	41,200,000[1]	100%	306,560,839
Immobiliare Agricola Limestre S.r.l.	Pistoia	3,216,000	2,090,925	(132,304)	100%	3,216,000
KME Italy S.p.A.	Florence	103,839,000	-	-	3.700%	4,519,000
						314,295,839

1. Equity at 30 June 2008 and IFRS consolidated profit for the period than ended.

Investments breakdown as follows:

(thousands of Euro)	Investments in subsidiaries	Other investments	Total
Historical cost	533,169	3,578	536,747
Revaluations	-	-	-
Impairment losses	(220,178)	-	(220,178)
Previous year amounts	**312,991**	**3,578**	**316,569**
Increases	1,305	-	1,305
Decreases	-	(3,448)	(3,448)
Revaluations	-	-	-
Impairment losses	-	-	-
Changes during the period	**1,305**	**129**	**(2,144)**
Historical cost	534,474	129	534,603
Revaluations	-	-	-
Impairment losses	(220,178)	-	(220,178)
Final amounts	**314,296**	**129**	**314,425**

The item "investments in subsidiaries" includes the wholly-owned investments in KME Germany A.G. (Euro 306,560,839) and in Immobiliare Agricola Limestre S.r.l. (Euro 3,216,000), and a 3.7% direct investment in KME Italy S.p.A. (Euro 4,519,000).
The net increase in the item investments in subsidiaries, equal to Euro 1.3 million, is due to the measurement in the period of inventories as part of the 2006-2011 Plan in favour of Executives of the subsidiaries, recognised directly in equity.

The item "other investments" refers to the 50% investment in "Consorzio Italmun 25 in liquidation" (Euro 129,000), resulting from the merger of Europa Metalli SEDI S.p.A.;
The Euro 3.4 million decrease derives from the allocation to Shareholders of GreenergyCapital S.p.A. shares through the distribution of available reserves which took place during the period.

4.4 Other non-current financial assets

(thousands of Euro)	31.12.2007	of which related parties	Change	30.06.2008	of which related parties
Receivables from Group companies for MCC loan	-	-	27,036	27,036	27,036
Receivables from Unicredito	-	-	2,105	2,105	-
Receivables for commissions on guarantee contracts	6,992	6,992	(5,715)	1,277	1,277
Total	**6,992**	**6,992**	**23,426**	**30,418**	**28,312**

During the first half of 2008 a new loan with Mediocredito Centrale S.p.A. (MCC) was signed up to an amount of Euro 103,000,000.00 (one hundred and three million), to be allocated to the financing of charges related to industrial investments incurred and/or to be incurred by the non-Italian subsidiaries or KME Group S.p.A. acquisitions of foreign companies. The loan will be distributed during the period June 2008 - March 2010, in 3 tranches. Each tranche will have a duration of 8 years from the utilisation date.
The agreement provides for the intervention of SACE S.p.A. (SACE) for the issuing of a guarantee at first request in favour of MCC and the granting of a negative pledge on assets included in the Group's consolidated asset item up to Euro 200 million, excluding goodwill and cash and cash equivalents, during the term of the loan.
On 12 June 2008 the first tranche, of Euro 33 million, was distributed by MCC to KME Group S.p.A.; the change of Euro 27 million in "Receivables from Group Companies" represents the non-current amount transferred to the individual subsidiaries.
"Receivables from Unicredito", equal to Euro 2.1 million, refer to the amount deposited in the current account in name of KME Group S.p.A. at Unicredit Banca d'Impresa S.p.A. and pledged as guarantee in favour of Mediocredito Centrale. The positive balance of the abovementioned account must always be equal to 1/16 (one sixteenth) of the loan amount outstanding at that moment, over and above the interest accrued in the six month period and due

at the following deadline. If necessary, the excess amounts deposited will be released and made immediately available.

Receivables for commission on guarantee contracts represent the present value of commission to be received in future financial periods, referring to those due after 12 months, for guarantees given by the Company for loans obtained by Group companies, in favour of banks and in the interest of the aforementioned companies. The balance sheet value, determined according to the abovementioned methods, expresses the fair value.

4.5 Deferred tax assets

(thousands of Euro)	31.12.2007	Change	30.06.2008
Deferred tax assets:			
on previous losses	2,123	-	2,123
on temporary differences between trade and other receivables	301	-	301
on temporary differences post-employment benefits as per IAS 19	4	-	4
on temporary differences in Payables to Directors	-	265	265
on temporary differences in provisions for risks and charges	1,099	907	2,006
on tax losses for 2007	24	(24)	-
on charges for share capital increase recognised in equity	196	(33)	163
Total	**3,748**	**1,115**	**4,863**

At the date of these financial statements, the company did not record deferred tax assets on previous tax losses, equal to Euro 22.6 million. A part of the abovementioned losses, totalling Euro 15.3 million, will expire at the end of the current financial year.

The details at 30 June 2008, of tax losses on which deferred tax assets broken down by company were recognised and not recognised, are shown below:

(thousands of Euro)	30.06.2008	31.12.2007
a) tax losses recognised		
KME Group S.p.A.	7,720	7,807
Total (1)	7,720	7,807
b) previous tax losses unrecognised		
KME Group S.p.A.	22,629	26,787
Total (2)	22,629	26,787
Total (1) + (2)	**30,349**	**34,594**

"Previous tax losses unrecognised" decreased by Euro 4.1 million subsequent to their use for covering the taxable total obtained for the period.

4.6 Trade receivables

(thousands of Euro)	31.12.2007	of which related parties	Change	30.06.2008	of which related parties
Trade receivables	933	-	1	935	-
Provisions for bad debts	(933)	-	-	(933)	-
Total trade receivables	-	-	1	1	-
Due from subsidiaries	23	23	19	43	43
Total	**23**	**23**	**21**	**44**	**43**

The carrying amount of trade receivables approximates their fair value.

4.7 Other receivables and current assets

(thousands of Euro)	31.12.2007	of which related parties	Change	30.06.2008	of which related parties
Tax receivables	7,843	-	(1,580)	6,262	-
Prepayments and accrued income	140	-	915	1,055	111
Due from others	1	-	-	1	-
Due from subsidiaries	2,193	2,193	-	2,193	2,193
Total	**10,176**	**2,193**	**(665)**	**9,511**	**2,304**

Tax receivables refer mainly to receivables due from the Tax Authorities for direct taxes for which reimbursement has been requested (Euro 5.7 million) and for the advance payment of consolidated IRES (corporate income tax) of the Group (Euro 0.5 million) net of any drawdowns that occurred during the period.
Receivables due from subsidiaries (Euro 2.2 million) essentially refer to the benefit deriving from the use of the Parent's tax loss by Italian subsidiaries companies that exercised the "national consolidated tax" regime option.

"Due from others" according to maturity are broken down as follows:

(thousands of Euro)	Due within 12 months	Due within 5 years	Due after 5 years	Total
Due from subsidiaries	2,193	-	-	2,193
Tax receivables	6,262	-	-	6,262
Prepayments and accrued income	1,055	-	-	1,055
Sundry receivables	1	-	-	1
Total	**9,511**	**-**	**-**	**9,511**

4.8 Current financial assets

(thousands of Euro)	31.12.2007	of which related parties	Change	30.06.2008	of which related parties
Financial assets held for trading:					
- iNTEk S.p.A. saving shares 5,824,990	5,242	5,242	-	5,242	5,242
- GreenergyCapital S.p.A. shares 5,001,932	-	-	3,126	3,126	3,126
- GreenergyCapital S.p.A. warrants 14,291,235	-	-	2,001	2,001	2,001
Financial receivables due from subsidiaries	54,439	54,439	9,429	63,868	63,868
Receivables for commissions on guarantees	6,561	6,561	3,125	9,686	9,686
Total	**66,242**	**66,242**	**17,681**	**83,923**	**83,923**

The item "Financial assets held for trading" comprises:

- iNTEK S.p.A. savings shares, with nominal value of Euro 0.26, are recorded at unit value of Euro 0.90 equal to their official price at the date of these interim financial statements. The unit value of Euro 0.90 also represents the exercise price of the call option granted to the banks, which provided the previous banking agreement signed in February 2005 and no longer in existence. This option will expire in 2012.
- GreenergyCapital S.p.A. ordinary shares, without nominal value, are valued according to their official price at the date of these interim financial statements (Euro 0.625 per share).
- GreenergyCapital S.p.A. warrants are valued at Euro 0.14 each. The Directors believe that this value expresses the fair value of the abovementioned securities compared to their listing pursuant to IAS 39 para. AG 74. The Stock Exchange price at the date of these half-year financial statements is equal to Euro 0.20.

The amount recorded in financial receivables due from subsidiaries represents the balance of the current accounts the Parent holds with subsidiaries KME Germany A.G., KME Germany A.G.& Co. K.G., KME Italy S.p.A., KME France S.A.S. and Immobiliare Agricola Limestre S.r.l..

Receivables for commission on guarantees represent the present value of commissions to be received within the next 12 months for guarantees given by KME Group S.p.A., for loans obtained by Group companies, in favour of Banks and in the interest of the abovementioned companies.
Also taking into consideration receivables for commission on guarantees due after 12 months, previously commented on, the overall amount of these receivables amounts to Euro 10.9 million.

4.9 Cash and cash equivalents

(thousands of Euro)	31.12.2007	of which related parties	Change	30.06.2008	of which related parties
Bank and postal accounts	1,737	-	(349)	1,388	-
Cash on hand	2	-	-	2	-
Total	**1,739**	**-**	**(349)**	**1,390**	**-**

4.10 Equity

Share capital is composed of the following number of shares:

	Ordinary shares with no nominal value		Savings shares with no nominal value	
	30.06.2008	31.12.2007	30.06.2008	31.12.2007
Issued at 1 January	235,480,130	693,385,714	19,072,110	57,216,332
Issued through cash contributions	-	309,976	-	-
Grouping carried out on 16.07.07	-	(462,463,794)	-	(38,144,222)
Issued through cash contributions	-	4,248,234	-	-
Issued at Balance sheet date	235,480,130	235,480,130	19,072,110	19,072,110

Equity underwent the following changes:

(Euro)	Share capital	Other reserves	Treasury shares	Retained earnings	IFRS reserve	Stock Options reserve	Profit for the year/ period	Total equity
Equity at 31.12.2007	**324,164,741**	**628,715**	**(37,161)**	**5,918,502**	**1,644,616**	**3,180,428**	**12,314,967**	**347,814,808**
Distribution of reserves	-	-	-	(137,098)	(1,644,616)	-	-	(1,781,714)
Breakdown of profit for the year/period	-	-	-	-	-	-	-	-
- Legal reserves	-	615,749	-	-	-	-	(615,749)	-
- carried forward	-	-	-	129,424	-	-	(129,424)	-
- distribution of dividends	-	-	-	-	-	-	(11,488,083)	(11,488,083)
- Allocation to the members of the Board of Directors (1)	-	-	-	-	-	-	(81,711)	(81,711)
Available reserves	(74,164,741)	74,164,741	-	-	-	-	-	-
Release of deferred taxes	-	(33,000)	-	-	-	-	-	(33,000)
Granting of stock options	-	-	-	-	-	1,970,922	-	1,970,922
Profit for the period	-	-	-	-	-	-	22,334,821	22,334,821
Equity at 30.06.2008	**250,000,000**	**75,376,205**	**(37,161)**	**5,910,828**	**-**	**5,151,350**	**22,334,821**	**358,736,043**
IFRS reclassification of treasury shares	(37,161)	-	37,161	-	-	-	-	-
Equity at 30.06.2008	**249,962,839**	**75,376,205**	**-**	**5,910,828**	**-**	**5,151,350**	**22,334,821**	**358,736,043**

1. The members of the Board of Directors decided to donate their portion of the year's profit to charity.

In implementing the Shareholders' Meeting resolution, on 5 June 2008 the payment of a nominal gross dividend of Euro 0.04 per ordinary share and Euro 0.1086 for savings share was approved.

The distribution of reserves is due to the bonus issue, resolved by the Shareholders' Meeting of 3 August 2007 and implemented on 21 January 2008, to the Company Shareholders of 254,530,574 ordinary shares of Greenergy-Capital S.p.A. of unit value equal to Euro 0.007.

Treasury shares refer to 21,666 savings shares, recorded at purchase cost, totalling Euro 37,161.

The item "other reserves" includes:

• legal reserves totalling	Euro	1,045,798
• deferred tax assets recorded in Equity	Euro	161,000
• share premium reserve (sale of unopted rights)	Euro	4,666
• available reserve	Euro	74,164,741
	Euro	**75,376,205**

Regarding the creation of the available reserve, by resolution of the extraordinary Shareholders' Meeting on 14 March 2008, the voluntary reduction of share capital by Euro 74,164,741.31 (from Euro 324,164,741.31 to Euro 250,000,000.00) was allocated to the creation of the said available reserve of the same amount. The resolution was executed on 26 June 2008.

Retained earnings is available with the exception of amounts allocated to cover:

- a balancing entry reserve of 5,824,990 savings shares of the Parent iNTEk S.p.A. for an amount of Euro 5,242,497, pursuant to article 2359, (ii) Italian Civil Code;
- a balancing entry reserve of 21,666 treasury savings shares for an amount of Euro 37,161, pursuant to article 2357, (iii) Italian Civil Code.

The item "Stock Option reserve" (share of Euro 958,537 in 2006, of Euro 2,221,891 in 2007 and of Euro 1,970,922 in the first six months of 2008) deriving from the measurement of stock options granted to the company's Executive Directors (totalling Euro 1,260,392) and to Group Executives (totalling Euro 3,890,958).

4.11 Employee benefits

This amount is determined based on dues accrued at the end of the period for all employees, in compliance with law, employment contracts and accounting standard IAS 19.

(thousands of Euro)	31.12.2007	Increases	Decreases	30.06.2008
Post-employment benefits	128	4	-	132
Discounting and recognition as per IAS 19	16		(1)	15
Total	**144**	**4**	**(1)**	**147**

4.12 Deferred tax liabilities

(thousands of Euro)	31.12.2007	Change	30.06.2008
on the difference of the tax amount of assets held for trading	57	447	504
on the difference of the tax amount of treasury shares	2	-	2
Total	**59**	**447**	**506**

4.13 Non-current financial payables and liabilities

(thousands of Euro)	31.12.2007	of which related parties	Change	30.06.2008	of which related parties
Loans as per Law 46/1982	474	-	-	474	-
Loans from Mediocredito Centrale	-	-	28,574	28,574	-
Loans from BNP Paribas	5,185	-	(648)	4,537	-
Payables for financial guarantees issued	6,992	6,992	(5,715)	1,277	1,277
Total	**12,651**	**6,992**	**22,211**	**34,862**	**1,277**

The amount of the loan as per law 46/1982, deriving from the merger of Europa Metalli SE.DI. S.p.A., and the amount of the loan from BNP Paribas refer to the portion due after 12 months.

The amount of the loan from Mediocredito Centrale, totalling Euro 28 million, represents the non-current amount of the first tranche distributed to the Parent, for more regarding this please refer to paragraph 4.4.
In addition, the abovementioned loan requires compliance with economic-financial covenants, which refer to consolidated equity, debt and EBITDA, as well as the relationship between EBITDA and net consolidated financial charges. At the date of these financial statements all agreed-upon covenants were observed.

The item "Payables for financial guarantees issued" is the balancing entry of the item recorded in non-current financial assets with the same origin and represents the fair value of liabilities incurred relating to guarantees issued, having assessed any risk situations and consequently contingent liabilities, according to the terms of IAS 37. Since the item refers totally to guarantees issued due to the loans obtained by subsidiaries, the present value of commissions to be received, recorded under current and non-current financial assets, represents the best estimate of the fair value of contingent liabilities in relation to the guarantees issued.

4.14 Other payables

This item comprises the charges related to the post-employment benefit that the Board of Directors approved on 14 March 2008 in favour of the executive Deputy Chairman.

(thousands of Euro)	31.12.2007	of which related parties	Change	30.06.2008	of which related parties
Post-employment benefits for Directors	-	-	619	619	619
Total	**-**	**-**	**619**	**619**	**619**

4.15 Provisions for risks and charges

(thousands of Euro)	31.12.2007	of which related parties	Change	30.06.2008	of which related parties
Provisions for product warranties	2,702	-	-	2,702	-
Provisions for legal risks	1,296	-	3,300	4,596	-
Total	**3,998**	**-**	**3,300**	**7,298**	**-**

The "Provision for product warranties" was recognised following the merger of the subsidiary Europa Metalli SE.DI. S.p.A. to cover product warranties sold by the latter to the Defence Department.

The increase in the "Provisions for legal risks" was due to the accrual for ongoing disputes.

As previously described in the paragraph "Ongoing disputes", with regard to the litigation relating to environmental matters, directly concerning the Company, the next hearing is scheduled for 23 October 2008.

There is nothing new to report regarding the pending cases before the Court of Hannover regarding mergers and squeezeouts as well as the proposed proceeding against the former Chairman of the company, Luigi Orlando. The next hearing is scheduled for 12 June 2009.

As of today, the aforementioned disputes are not expected to have any significant impact over and above the amounts already set aside. At the date of these financial statements, there were no other significant contingent liabilities or information which could have a major bearing on the provisions set aside.

4.16 Current financial payables and liabilities

They are broken down as follows:

(thousands of Euro)	31.12.2007	of which related parties	Change	30.06.2008	of which related parties
Payables due to banks	24,809	-	5,055	29,864	-
Payables due to Parent	6,414	6,414	(6,361)	53	53
Payables for financial guarantees issued	6,561	6,561	3,125	9,686	9,686
Total	**37,783**	**12,974**	**1,819**	**39,603**	**9,739**

"Payables due to banks" relate to the use of the available credit lines and comprises the amount of the current loan from Mediocredito Centrale, equal to Euro 4.2 million, for further information see paragraph 4.4.

Payables due to the Parent decreased due to the repayment of a large part of the loan received.

"Payables for financial guarantees issued" represents the balancing entry of the item with the same origin recognised in current financial assets; see comments in paragraph 4.8.

4.17 Trade payables

(thousands of Euro)	31.12.2007	of which related parties	Change	30.06.2008	of which related parties
Suppliers	328	-	87	415	-
Suppliers - Parent	1	1	(1)	-	-
Suppliers - subsidiaries	-	-	30	30	30
Total	**329**	**1**	**116**	**445**	**30**

The carrying amount of trade payables approximates their fair value.

4.18 Other current liabilities

(thousands of Euro)	31.12.2007	of which related parties	Change	30.06.2008	of which related parties
Other current liabilities	2,740	1,708	(355)	2,385	1,140
Total	**2,740**	**1,708**	**(355)**	**2,385**	**1,140**

This item refers mainly to amounts due to members of company bodies (Euro 381,000), for remuneration accrued but still not settled, tax payables, amounts owed to social security institutions and employees (Euro 611,000) and amounts due to subsidiaries (Euro 759,000) for taxes paid in advance.

5. Guarantees and commitments

Under the banking agreements signed in September 2006, KME Group S.p.A. is committed, jointly with its industrial subsidiaries, up to a maximum amount of Euro 650 million with a duration of 3 years (tranche A) and Euro 200 million with duration of 5 years (tranche B), to be repaid in monthly instalments from the beginning of the fourth year.

At 30 June 2008 the amounts utilised totalled:
- Euro 244.2 million for tranche A,
- Euro 158.5 million for tranche B.

Tranche B also covers the loan from the European Investment Bank, of Euro 37,5 million, and guarantees given to the European Community, against penalties imposed on some of the Group's industrial Companies, of Euro 101.9 million.

In addition, KME Group S.p.A. has issued other guarantees in favour of its subsidiaries for a nominal amount of approximately Euro 57.4 million.

In addition, the banking agreements require compliance with financial covenants, which refer to consolidated equity, debt and EBITDA, as well as the relationship between EBITDA and net consolidated financial charges. At the date of this report all agreed-upon covenants were observed.

KME Group S.p.A. maintained its obligation to make a sale option on 5,704,444 GIM savings shares available to Banks participating in the banking agreement signed in February 2005, which is no longer in existence, exercisable at the unit price of Euro 1; at the end of 2006, following the exercising of this option by a Bank, the number of shares fell to 5,242,497.
Following the merger of GIM – Generale Industrie Metallurgiche S.p.A. into iNTEk S.p.A., which took place at the end of March 2007, this amount increased to 5,824,990 shares, considering the merger ratio which involved the allocation of 10 Intek shares for every 9 GIM savings shares owned. Consequently, the unit value fell from Euro 1 to Euro 0.9.

Regarding compliance with financial covenants relating to the credit line granted by Mediocredito Centrale see paragraph 4.13.

6. Information on the income statement

6.1 Revenue from sales and services

(thousands of Euro)	1st Half 2008	of which related parties	1st Half 2007	of which related parties	Change %
Revenue from sales and services	1,420	1,420	1,436	1,420	-1.1%
Total	**1,420**	**1,420**	**1,436**	**1,420**	**-1.1%**

The item "Revenue from sales and services" includes amounts invoiced to Group Companies for financial, insurance, tax and administrative support services.

6.2 Other revenue

(thousands of Euro)	1st Half 2008	of which related parties	1st Half 2007	of which related parties	Change %
Recovery of expenses incurred also in the interest of Group companies	-	-	25	25	-100%
Sundry income	16	2	232	2	-93%
Gains on the sale of non-current assets	-	-	4	-	-100%
Total	**16**	**2**	**261**	**27**	**-94%**

6.3 Personnel expense

(thousands of Euro)	1st Half 2008	of which related parties	1st Half 2007	of which related parties	Change %
Wages and salaries	77	-	410	185	-81.2%
Social security charges	25	-	133	70	-81.2%
Stock option costs	666	666	187	187	256.1%
Post-employment benefits	3	-	19	-	-84.2%
Total	**771**	**666**	**749**	**442**	**2.9%**

Stock option costs concern charges for the period. The fair value of services received was determined indirectly by referring to the fair value of granted equities.

For more information regarding calculation methods please refer to the financial statements at 31 December 2007.

The decrease in total salaries is due to the fact that two Executives left the Company during the second half of 2007.

6.4 Amortisation, depreciation and impairment losses

(thousands of Euro)	1st Half 2008	1st Half 2007	Change %
Furniture	2	1	-50.0%
Plant, machinery and equipment	-	-	insig.
Total	**2**	**1**	**-50.0%**

6.5 Other operating costs

This item is broken down as follows:

(thousands of Euro)	1st Half 2008	of which related parties	1st Half 2007	of which related parties	Change %
Directors' and Statutory Auditors' fees	1,754	1,754	1,200	1,200	46%
Employee services	660	35	459	-	44%
Travel expenses	404	-	310	-	30%
Fees owed to subsidiaries/parents for services	2	2	2	2	insig.
Legal and corporate announcements and advertising	25	-	96	-	-74%
Electricity, heating, postage and telephone fees	23	-	17	-	insig.
Sundry insurance	25	-	20	-	25%
Sundry maintenance	2	-	-	-	insig.
External services and listing of shares	33	-	102	-	-68%
Training and seminars	4	3	13	-	-69%
Lease payments - real-estate	78	20	87	20	-10%
Condominium charges	42	30	28	28	52%
Lease and rental payments	38	-	21	-	81%
Sundry tax charges	6	-	2	-	197%
Undeductable VAT	102	-	55	-	85%
Membership fees	12	-	10	-	20%
Sundry costs	37	-	24	1	54%
Charity	35	-	225	-	-84%
Bank service fees	6	-	5	-	20%
Release of provisions	-	-	(71)	-	-100%
Accruals to provisions for risks and charges	3,300	-	-	-	insig.
Total	**6,589**	**1,844**	**2,605**	**1,251**	**153%**

The "Accruals to provisions for risks" concerns estimates of expenses for ongoing disputes.

6.6 Financial income and expense

(thousands of Euro)	1st Half 2008	of which related parties	1st Half 2007	of which related parties	Change %
Financial income:					
Interest income from Group companies	2,373	2,373	2,084	2,084	14%
Dividends received	21,360	21,360	1,265	1,265	insig.
Other financial income	5,457	3,403	2,157	2,083	153%
Financial expense:					
Interest due to Group companies	(138)	(138)	(715)	(715)	-80.7%
Interest due to banks for loans	(932)	-	(24)	-	insig.
Other financial expense	(376)	-	-	-	insig.
Total	**27,744**	**26,998**	**4,767**	**4,717**	**482.0%**

Financial income consists of: interest on intercompany current accounts at market rates totalling Euro 2.3 million, Euro 0.4 million from dividends gained due to ownership of iNTEk S.p.A. savings shares; Euro 20.9 million from dividends received by the subsidiary KME Germany A.G.; Euro 2.0 million from value adjustment of 14,291,235 GreenergyCapital S.p.A. warrants; and Euro 3.4 million from commissions due from Group companies for guarantees given, already commented on.

Financial expense consists of: Euro 0.1 million in interest due to Group companies on intercompany current accounts at market rates; Euro 0.9 million from interest due to banks for short, middle and long-term loans; Euro 0.3 million from carrying value adjustment of 5,001,932 GreenergyCapital S.p.A. shares.

6.7 Current and deferred taxes

(thousands of Euro)	1st Half 2008	of which related parties	1st Half 2007	of which related parties	Change %
Current taxes	(183)	-	(222)	-	-17.57%
Income (charges) from consolidated tax	-	-	3,481	3,481	insig.
Deferred taxes	701	-	3,070	-	insig.
Total	**518**	**-**	**6,329**	**3,481**	**insig.**

Current taxes refer to IRAP (regional income tax) calculated at the date of these financial statements.

Below is a summary which shows the relationship between the tax charges in the period and the product between the financial result and the tax rate applicable according to the terms of IAS 12 para. 81.

Correlation between tax charges and the accounting result

(thousands of Euro)	30.06.2008
Profit before tax	21,816
Theoretical tax charge (tax rate used: 31.4%)	6,850
Reconciliation:	
Effect due to different tax rates	-
Other effects:	
Undeductible charges	8,766
Untaxable income (95% of dividends received)	(20,292)
Tax losses for the period not recognised as deferred tax assets	-
Income taxable offset by unrecognised previous tax losses	4,158
Recognition of deferred taxes pursuant to IAS 12 par. 37	-
Other	-
Taxes recognised in the income statement	(518)

7. Other information

Average number of employees

	1st Half 2008	1st Half 2007	Change %
Executives	1	3	-66.7%
Office workers	1	1	0.0%
Factory workers	-	1	-100.0%
Total	**2**	**5**	**-60.0%**

Financial instruments by category

(thousands of Euro)	30.06.2008	31.12.2007	Change
Fin. assets at fair value through profit or loss	20,055	18,794	1,261
Assets held to maturity	-	-	-
Loans and receivables	105,231	66,377	38,854
Fin. liabilities at fair value through profit or loss	10,963	13,552	(2,589)
Fin. liabilities at amortised cost	63,502	37,211	26,291

Financial instruments by item

Financial instruments and reconciliation with balance sheet items at 30 June 2008:

Balance sheet item (thousands of Euro)	Total	Measured at amortised cost	Measured at fair value	Outside the scope of IFRS 7
Financial assets:				
Investments in subsidiaries and associates	314,296	-	-	314,296
Investments in other companies	129	-	-	129
Investments in equity	-	-	-	-
Non-current financial assets	30,418	30,418	-	-
Other non-current assets	-	-	-	-
Trade receivables	44	44	-	-
Other receivables and current assets	-	-	-	-
Tax receivables	6,262	6,262	-	-
Bank and postal accounts	-	-	-	-
Receivables due from subsidiaries	2,304	2,304	-	-
Other non-financial assets	945	945	-	-
	9,511	**-**	**-**	**-**
Cash and cash equivalents	1,390	1,390	-	-
Current financial assets				
Guarantees issued	9,686	-	9,686	-
Loans	63,868	63,868	-	-
GreenergyCapital S.p.A. shares	3,126	-	3,126	-
GreenergyCapital S.p.A. warrants	2,001	-	2,001	-
iNTEk S.p.A. saving shares	5,242	-	5,242	-
	83,923	-	**-**	**-**
		105,231	**20,055**	**314,425**

(thousands of Euro)	Total	Measured at amortised cost	Measured at fair value	Outside the scope of IFRS 7
Financial liabilities:				
Non-current and current financial liabilities				
Due from banks	63,449	63,449	-	-
Guarantees issued	10,963	-	10,963	-
Due from lease companies	-	-	-	-
Other financial liabilities	53	53	-	-
Derivative financial instruments	-	-	-	-
	74,465	**63,502**	**10,963**	**-**
Trade payables	445	445	-	-
	74,910	**63,947**	**10,963**	**-**

Notional amount of derivative financial instruments

At the date of these financial statements KME Group S.p.A. had no any derivative financial instruments.

Exposure to credit risk and impairment losses

The carrying amount of financial assets represents the maximum exposure to credit risk of KME Group S.p.A..

The age of trade receivables at the half-year balance sheet date was as follows:

(thousands of Euro)	Gross carrying amount	Write-downs 30.06.2008	Net carrying amount
not yet due	1	-	1
overdue by zero to 60 days	29	-	29
overdue by 61 to 120 days	-	-	-
overdue by 121 days to 1 year	14	-	14
overdue by more than 1 year	933	933	-
Total	**977**	**933**	**44**

Movements in the bad debt provision in the period are shown below:

31.12.2007	**933**
Currency exchange difference	-
Impairment losses of the period	-
Usage	-
Release	-
30.06.2008	**933**

Foreign exchange exposure

At the date of these financial statements KME Group S.p.A. had no any balance sheet items or sale or purchase commitments estimated in foreign currency.

Interest rate exposure

The interest rate profile applied to the interest-bearing financial instruments of the Group at the balance sheet date was as follows:

(thousands of Euro)	30.06.2008	31.12.2007
Fixed rate instruments:		
Financial assets	-	-
Financial liabilities	581	581
Total	**(581)**	**(581)**
Variable rate instruments:		
Financial assets	65,255	69,731
Financial liabilities	62,921	49,854
Total	**2,334**	**19,877**

Analysis of the sensitivity of the fair value of fixed rate instrument

KME Group S.p.A. did not account for any fixed rate financial asset or liability recorded at fair value in the income statement.

Analysis of the sensitivity of the cash flows of variable rate financial instruments

An increase (or decrease) of 50 basis points (BPS) in interest income and expense at the date of these financial statements would produce an insignificant decrease (increase) in equity.

Fair value and carrying amount

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

Other financial commitments

Below is a summary showing the minimum payments that cannot be cancelled, due for rentals and operating leases at the date of these financial statements:

(thousands of Euro)	30.06.2008	31.12.2007
Due within 1 year	179	173
Between 1 and 5 years	301	309
Beyond 5 years	-	-
Total	**480**	**482**

List of investments at 30.06.2008 and changes that took place compared with 31.12.2007 (also according to the terms of article 126 of CONSOB regulation no. 11971/99)

Investments (Euro)	Nominal value	Existing a 31.12.2007		Changes in the year (+/-)		Value adjustments	Existing at 30.06.2008				Stock Exchange value 30.06.2008		Differences
	Euro	Quantity	Value	Quantity	Value		Quantity	%	Average carrying amount	Carrying amount value	Unit value	Counter-value	
Subsidiaries and other investments (recognised in non-current financial assets)													
KME Germany A.G.	without nominal value	27,918,276	305,256,149	-	1,304,690	-	27,918,276	100.00	-	306,560,839	-	-	-
Immobiliare Agricola Limestre S.r.l.			3,216,000	-	-	-		100.00	-	3,216,000	-	-	-
KME Italy S.p.A.	1	3,839,000	4,519,000	-	-	-	3,839,000	3.697	-	4,519,000	-		
Consorzio Italmun		1	129,114	-	-	-	1	50.00	129,114	129,114	-	-	-
Total			**313,120,263**	**-**	**1,304,690**	**-**	**-**	**-**	**-**	**314,424,953**	**-**	**-**	**-**
Subsidiaries and other investments (recognised in current assets)													
iNTEk S.p.A.- az. risp.	0.26	5,824,990	5,242,497	-	-	-	5,824,990	38.37	0.90	5,242,497	0.900	5,242,491	(6)
GreenergyCapital S.p.A.	without nominal value	278,349,300	3,448,445	-273,347,368[1]	52,908	(375,047)	5,001,932	6.845	0.70	3,126,306	0.625	3,126,208	(98)
	Warrant	-	-	14,291,235[2]	0.00	2,000,773	14,291,235	-	0.14	2,000,773	0.200	2,858,247	857,474
Total		**-**	**8,690,942**	**-**	**52,908**	**1,625,726**	**-**	**-**	**-**	**10,369,576**	**-**	**-**	**857,370**
Treasury shares (recognised to reduce Equity)													
KME Group S.p.A. saving shares	without nominal value	21,666	37,161	-	-	-	21,666	-	1.72	37,161	1.10	23,832	(13,329)
Total		**-**	**37,161**	**-**	**-**	**-**	**-**	**-**	**-**	**37,161**	**-**	**-**	**(13,329)**
Total		**-**	**321,848,366**	**-**	**1,357,598**	**1,625,726**	**-**	**-**	**-**	**324,831,690**	**-**	**-**	**844,041**

1. On 21/01/2008 KME Group SpA proceeded with the bonus issue of 254,530,574 ordinary shares to all Company Shareholders, as per the resolution of the Shareholders' Meeting of 3/8/2007, in the ratio of 1 GreenenergyCapital S.p.A. share to every ordinary or savings share owned. On 26/02/08 the subscription of 476,374,520 shares took place to increase share capital. On 26/05/08 500,193,246 were grouped in the ratio of 1 to 100.
2. On data 26/02/2008 the subscription of 476,374,520 ordinary shares was matched with 1,429,123,560 warrants in the ratio of 3 warrants to every subscribed shared. On 26/05/08 the grouping operation took place in the ratio of 1 to 10 warrants which total 14,291,235.

List of investments in subsidiaries controlled indirectly (also according to the terms of articles 125 and 126 of CONSOB regulation no. 11971/99)

	Registered office	Activity	Share/quota capital Currency	Amount	Indirect investments at 30.06.2008 %	Company	% Total Investments
KME Germany A.G. & Co. K.G.	Germany	Industrial	Euro	200,003,000	99.99	KME Germany A.G.	100.00
					0.01	KME Beteiligungs mbH	
Kabelmetal Messing Bet. GmbH, Berlin	Germany	Property	Euro	4,514,200	100.00	KME Germany A.G.	100.00
Kabelmetal Messing Bet. GmbH, Nbg.	Germany	in liquidation	Euro	511,291	100.00	KME Germany A.G.	100.00
KME Metal GmbH	Germany	non-operating	Euro	511,292	100.00	KME Germany A.G.	100.00
KME Verwaltungs - und Dienstleistungsgesellschaft mit beschraenkter Haftung	Germany	non-operating	Euro	10,225,838	100.00	KME Germany A.G.	100.00
Evidal Schmoele Verwaltungsgesellschaft mbH	Germany	non-operating	Euro	30,000	50.00	KME Germany A.G.	50.00
Fricke GmbH	Germany	Holding	Euro	25,564	100.00	KME Germany A.G.	100.00
Fricke GmbH & Co. K.G.	Germany	Industrial	Euro	1,329,359	100.00	KME Germany A.G.	100.00
KME Brass Germany GmbH	Germany	Industrial	Euro	50,000	100.00	KME Germany A.G.	100.00
Luebke GmbH	Germany	in liquidation	Euro	102,258	100.00	KME Germany A.G.	100.00
KME Beteiligungsgesellschaft mbh	Germany	Holding	Euro	1,043,035	100.00	KME Germany A.G.	100.00
KME France S.A.S.	France	Industrial	Euro	15,000,000	100.00	KME Germany A.G.	100.00
Accumold A.G.	Switzerland	in liquidation	FS	200,000	100.00	KME Germany A.G.	100.00
KME Yorkshire Ltd.	UK	Industrial	LST	10,014,603	100.00	KME Germany A.G.	100.00
KME Italy S.p.A	Italy	Industrial	Euro	103,839,000	96.303	KME Germany A.G.	100.00
KME Moulds Mexico S.A. de C.V.	Mexico	Commercial	MXN	7,642,226	99.00	KME Germany A.G.	100.00
					1.00	Kabelmetal Messing Bet. GmbH, Berlin	
Dalian Dashan Chrystallizer Co. Ltd.	China	Industrial	RMB	10,000,000	70.00	KME Germany A.G.	70.00
Dalian ETDZ Surface Machinery Co. Ltd.	China	Industrial	RMB	5,500,000	70.00	KME Germany A.G.	70.00
Dalian Dashan Heavy Machinery Co. Ltd	China	Industrial	RMB	10,000,000	70.00	KME Germany A.G.	70.00
KME China Ltd.	China	Holding	$HK	27,095,000	100.00	KME Germany A.G.	100.00
Bertram's GmbH	Germany	Services	Euro	300,000	100.00	KME Germany A.G. & Co. K.G.	100.00
KME Czech Republic S.r.o.	Czech Republic	Commercial	CZK	100,000	100.00	KME Germany A.G. & Co. K.G.	100.00
KME Chile Lda.	Chile	metal acquisitions	PSC	9,000,000	99.00	KME Germany A.G. & Co. K.G.	100.00
					1.00	KME Metal GmbH	
KME Asia Pte. Ltd.	Singapore	Commercial	$SG	200,000	100.00	KME Germany A.G. & Co. K.G.	100.00
KME Danmark A/S	Denmark	Commercial	DKK	1,000,000	100.00	KME Germany A.G. & Co. K.G.	100.00
KME America Inc.	United States	Commercial	$US	5,000	100.00	KME Germany A.G. & Co. K.G.	100.00
KME Austria Vertriebsgesellschaft mbH	Austria	Commercial	Euro	72,673	100.00	KME Germany A.G. & Co. K.G.	100.00
KM – Hungaria Szinesfem Kft.	Hungary	Commercial	HUF	3,000,000	100.00	KME Germany A.G. & Co. K.G.	100.00
KME (Suisse) S.A.	Switzerland	Commercial	FS	250,000	100.00	KME Germany A.G. & Co. K.G.	100.00
KM Polska Sp.zo.o.	Poland	Commercial	PLZ	250,000	100.00	KME Germany A.G. & Co. K.G.	100.00
N.V. KME Benelux	Belgium	Commercial	Euro	62,000	84.70	KME Germany A.G. & Co. K.G.	100.00
					15.30	KME France S.A.S.	
KME Brass France S.A.S.	France	Industrial	Euro	7,800,000	100.00	KME France S.A.S.	100.00
Société Haillane de Participations S.A.	France	non-operating	Euro	40,000	99.76	KME France S.A.S.	99.76
KME Brass Italy S.r.l.	Italy	Industrial	Euro	15,025,000	100.00	KME Italy S.p.A.	100.00
EM Moulds S.r.l.	Italy	Commercial	Euro	115,000	100.00	KME Italy S.p.A.	100.00
Editoriale Fiorentina S.r.L.	Italy	Publishing	Euro	1,000,000	7.13	KME Italy S.p.A.	7.13
KME Spain S.A.	Spain	Commercial	Euro	1,943,980	99.86	Kabelmetal Messing Bet. GmbH, Berlin	99.86
KME Ibertubos S.A.	Spain	Industrial	Euro	332,100	100.00	KME Spain S.A.	100.00
Cuprum S.A.	Spain	Services	Euro	60,910	100.00	KME Spain S.A.	100.00
KME LOCSA S.A.	Spain	Industrial	Euro	10,040,000	100.00	KME Spain S.A.	100.00
Yorkshire Copper Tube	UK	non-operating	LST	3,261,000	100.00	KME Yorkshire Ltd.	100.00
Europa Metalli - Tréfimétaux U.K. Ltd.	UK	non-operating	LST	500,000	100.00	KME Yorkshire Ltd.	100.00
XT Ltd.	UK	non-operating	LST	430,000	100.00	KME Yorkshire Ltd.	100.00
Irish Metal Industries Ltd.	Ireland	Commercial	Euro	127	100.00	KME Yorkshire Ltd.	100.00
Yorkshire Copper Tube (Exports) Ltd.	UK	non-operating	LST	100	100.00	Yorkshire Copper Tube	100.00
YIM Scandinavia A.B.	Sweden	Commercial	SEK	100,000	100.00	KME Danmark A/S	100.00
KME Metals (Dongguan) Ltd.	China	Commercial	USD	1,989,039	100.00	KME China Ltd.	100.00

KME Group S.p.A.

Statement about the interim separate financial statements pursuant to Article 81 (iii) of CONSOB Regulation no. 11971 of 14 May 1999 and subsequent additions and amendments.

1. The undersigned Vincenzo Manes, acting as Deputy Chairman and Marco Miniati, as the Manager responsible for the preparation of the accounting documents of KME Group S.p.A. having considered the requirements of article 154 (ii), paragraphs 3 and 4, of Legislative Decree no. 58 of 24 February 1998, certify:
   - the adequacy in relation to company characteristics and
   - the effective application of administrative and accounting procedures in the preparation of the condensed interim financial statements, during the period 1 January 2008 – 30 June 2008.
2. Assessment of the adequacy of the administrative and accounting procedures for preparation of the interim financial statements of the Company at 30 June 2008 was carried out based on methodologies generally accepted at international level (Committee of Sponsoring Organisations of the Treadway Commission – COSO report).
3. In addition, it is stated, that
   3.1. the Company's condensed interim financial statements:
   a) were prepared in accordance with the applicable IFRS endorsed by the European Community as set forth in article 6 of Regulation (CE) no. 1606/2002 of the European Parliament and Council of 19 July 2002;
   b) correspond with the books and accounting records;
   c) were prepared in accordance with International Financial Reporting Standards endorsed by the European Union as well as provisions issued pursuant to article 9 of Legislative Decree no. 38/2005, and give a true and fair view of the financial position and results of operations of the issuer.

3.2. The Directors' report includes references to important events which took place during the first six months of the year and their effect on the condensed interim financial statements, together with a description of the main risks and uncertainties for the remaining six months of the year. The Directors' report also contains information about significant transactions with related parties.

Florence, 7 August 2008

The Deputy Chairman	Manager Responsible
(signed on the original)	(signed on the original)
(Vincenzo Manes)	(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 interim separate financial statements comprising the balance sheet, income statement, statement of changes in equity, cash flow statement and notes thereto of KME Group S.p.A. as at and for the six months ended 30 June 2008. The company's directors are responsible for the preparation of these interim separate 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 interim separate 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 interim separate 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 separate financial statements, we do not express an audit opinion on the interim separate financial statements.

With regard to the corresponding figures included in the interim separate financial statements, reference should be made to our reports on the annual separate and interim separate financial statements of the previous year dated 10 April 2008 and 25 October 2007, respectively.

3 Based on our review, nothing has come to our attention that causes us to believe that the interim separate financial statements of KME Group S.p.A. as at and for the six months ended 30 June 2008 have not been prepared, in all material respects, in conformity with IAS 34, "Interim Financial Reporting", endorsed by the European Union.

Florence, 27 August 2008

KPMG S.p.A.

(Signed on the original)

Riccardo Cecchi
Director of Audit

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