

Consolidated Quarterly Report at March 31, 2008

(First Quarter of 2008)

Registered office: 2 via dei Barucci, Florence

www.kme.com

Share capital: €324,164,741.31 fully paid in
Company Register of the Court of Florence and Tax I.D. Number: 00931330583

Report of the Board of Directors on Operations in the First Quarter of 2008.

The Group's operating results for the first quarter of the current year were in line with those for the last two quarters of the 2007, but lower when compared with those reported in the same period a year ago, when market conditions were significantly more favorable.

Consolidated revenues for the first three months of 2008 totaled 835.8 million euros, or 10.1% less than in the same period last year. Restated net of the value of raw materials, consolidated revenues show a decrease of 1.7%, falling from 236.5 million euros to 232.5 million euros.

A more favorable sales mix, with a greater percentage of products with a higher value added, offset most of the impact of a 12.3% reduction in unit sales.

In a business environment characterized by signs of a slowdown that are becoming increasingly widespread and steadily more pronounced, the Group defended its market position by relying on innovation, diversifying its products and services and expanding its presence in the emerging markets.

Considerable uncertainty about the intensity and duration of the turmoil that is roiling the financial markets continues to have an impact on the overall economy. In the United States, economic activity has slowed considerably. In Europe, the most recent assessments point to a deepening of the business downturn. Only continuing and robust growth in the emerging economies is supporting the expansion of global trade.

Energy and raw material prices posted new, significant increases, with a negative impact on disposable income and consumption. Businesses responded to unfavorable expectations about demand trends by slowing their capital investment programs.

This economic environment had far-ranging repercussions on demand for copper and copper-alloy semifinished products, due to their wide range of applications.

The sales slowdown that occurred during the first quarter of 2008 confirmed a trend that began in the closing months of the past year and affected both products for industrial applications and those used in the construction industry. In the case of the latter, the high prices reached again by copper and their significant volatility continued to be determining factors.

After falling back toward the end of 2007, the price of copper again surged past US\$8,000 per ton, creating uncertainty among end users about spending decisions and providing an incentive to maintaining minimum inventories.

Lower sales affected the Group's profitability during the first three months of 2008. However, programs to optimize the cost structure and gains in efficiency helped manage the steadily rising competitive pressure that affected both prices and sales volumes and the impact of higher unit costs, particularly in the areas of energy and shipping.

EBITDA^(*) totaled 31.1 million euros, or 16.4% less than the 37.2 million euros earned at March 31, 2007. The ratio of EBITDA to revenues, net of the value of raw materials, decreased to 13.4% (it was 15.7% in 2007).

EBIT^(*) declined from 24.8 million euros to 17.2 million euros.

The **consolidated profit before taxes^(*)** amounted to 7.5 million euros, compared with 15 million euros in 2007.

The EBITDA, EBIT and profit before taxes presented above are computed without including the income statement impact of measuring the inventories of raw materials at current value, as required by the IFRS accounting principles, because, due to price volatility, the impact of such valuation would make it impossible to compare homogeneous data for two different periods and provide an accurate presentation of the results from operations. More detailed information about this issue is provided in the detailed description of the reclassification made, which is provided later in this Report in the section entitled "Operating Performance of the Group."

A demonstration of why applying a raw material inventory method based on current prices (weighted average cost for the quarter) instead of the LIFO method to the structural inventory^(**) does not produce truly representative results is readily available in the quarter under review. This is because, during a period of rapidly rising prices, the process of valuing raw materials produced a widening differential between the values determined by the LIFO method and those obtained by applying the IFRS accounting principles. Specifically, this process produced a positive differential of 6.1 million euros at March 31, 2007, but the positive differential grew to 63.6 million euros at the end of March 2008.

Moreover, the **consolidated profit before taxes** for the first quarter of 2008 computed in accordance with the IFRS accounting principles totaled 71.1 million euros, as against 21.1 million euros in the first three months of 2007.

The data for the first quarter of 2008 produced a further improvement in the strong balance sheet position achieved at the end of 2007.

At March 31, 2008, the Group's **net indebtedness** totaled 344.7 million euros, or 53.5 million euros less (-13.4%) than the amount owed at the end of 2007 (398.2 million euros).

The decrease in indebtedness was made possible by further streamlining the management of the working capital's financial cycle.

As for the **business outlook**, during the first quarter of 2008, demand data from the markets in Europe confirmed the presence of continuing signs of widespread weakness and a resulting increase in competitive pressure.

The Group has taken the actions required to respond to this business environment. At the same time, it is continuing to work on strengthening its market position, optimizing the use of invested capital and minimizing risk, with the goal of consolidating the structural conditions necessary to continue on the path to rising profitability that it pursued during the past two years and seize the opportunities that will be available in a more favorable economic environment.

() Reclassified indicators (see table on page 6).*

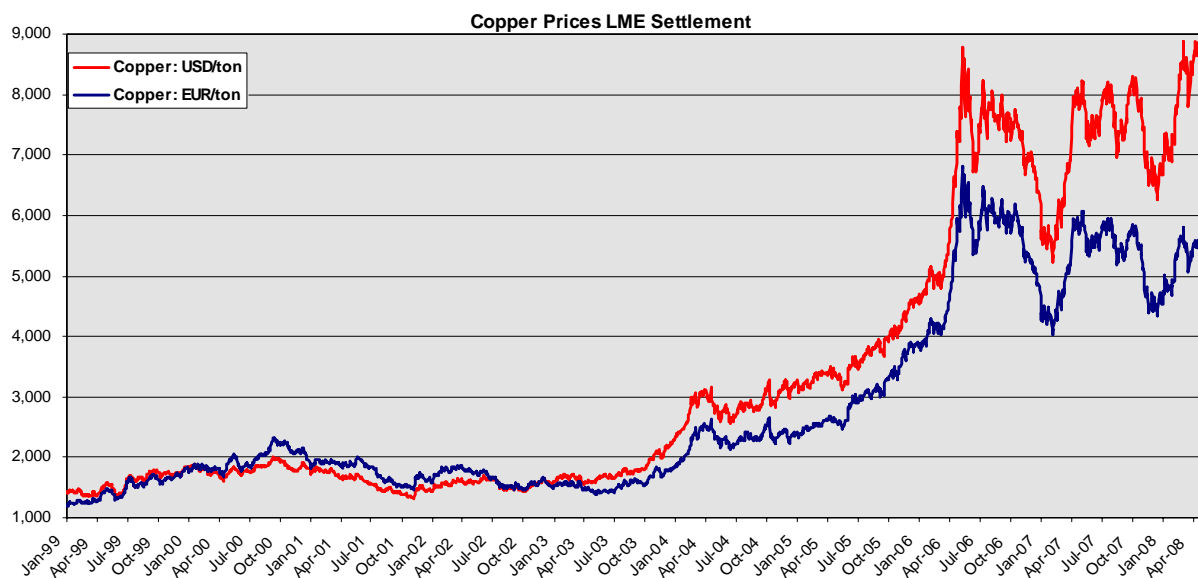
*(**) The structural inventory is the inventory that is not set aside to fill customer orders.*

Copper Market and Prices

During the first three months of 2008, the average price of copper was higher than in the same period last year, rising by 31.4% in U.S-dollar terms (from US\$5,933 per metric ton to US\$7,795 per metric ton). The increase in euro terms was 14.9% (from €4,523 per metric ton to €5,196 per metric ton), reflecting the appreciation of the European currency.

Looking at price trends, in the first quarter of 2008, the average price of copper was higher than in the fourth quarter of 2007 by 8.4% in U.S-dollar terms (from US\$7,187 per metric ton to US\$7,795 per metric ton) and 4.6% in euro terms (from €4,967 per metric ton to €5,196 per metric ton). Compared with the average for December 2007, the increase was 15% in euro terms (from €4,520 per metric ton to €5,196 per metric ton).

In April 2008, the price of copper remained high, reaching US\$8,685 per metric ton (equal to €5.510 per metric ton).



Operating Performance of the Group

The table below presents, in summary form, the consolidated results of the KME Group in the first three months of 2008 and provides a comparison with the data for the corresponding period in 2007.

In order to present a more meaningful picture of the performance of the Group's industrial operations and make the data more readily comparable over time, certain components of the items used to compute EBITDA, EBIT and consolidated profit before taxes were reclassified.⁽¹⁾

Specifically:

- In order to eliminate the impact of fluctuations in raw material prices, revenues are shown net of the value of raw materials;
- The impact on EBITDA, EBIT and profit before taxes of the adoption of the IFRS accounting principle to value the inventory of raw materials and the effect of valuing London Metal Exchange hedging contracts at fair value was derecognized. It is also important to keep in mind that the adoption of the IFRS international accounting principles required a switch in the method used to value the metal inventory, which,

(1) Breakdown of reclassifications and reconciliation with results stated in accordance with IFRS accounting principles:

(in millions of euros)	3/31/08 IFRS	Reclassif.	3/31/08 reclassified	
Gross revenues	835.8		835.8	
Raw material costs	0.0	(603.3)	-603.3	
Revenues net of raw material costs	835.8	100%	232.5	100%
Labor costs	(90.4)		(90.4)	
Other materials and costs	(651.6)	540.6	(111.0)	
EBITDA (*)	93.8	11.22%	31.1	13.38%
Nonrecurring income (expense)	0.0	(0.9)	(0.9)	
Depreciation and amortization	(13.0)	-	(13.0)	
EBIT	80.8	9.67%	17.2	7.38%
Net financial expense	(9.7)	0	(9.7)	
Interest in the result of companies valued by the equity method	0.0		0.0	
Profit before taxes (invent. not IFRS valued)	71.1	8.51%	7.5	3.21%
Impact of IFRS valuation of inventory and LME contracts	0.0	63.6	63.6	
Profit before taxes	71.1	8.51%	71.1	30.58%

(*) EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization) are not used as a reporting item in the IAS/IFRS accounting principles. They provide a useful gauge to assess the Group's operating performance. EBITDA represent an intermediate amount based on EBIT that does not include depreciation, amortization and nonrecurring income (expense).

for the structural inventory^(*) was changed from the LIFO method to a method based on current prices (weighted average cost for the quarter). Because of the extreme volatility of raw material prices (copper in particular), the use of this method introduces an income statement factor that creates the risk of providing an incorrect presentation of the results from operations. Consequently, the comments that follow refer to operating results (EBITDA and EBIT) and profit before taxes that are based on the LIFO method to value the structural inventory (applied consistently in 2008 and 2007), which is also the method used internally for management control purposes. Obviously, the review of the Group's operating performance also includes financial results computed in accordance with the IFRS method.

- Extraordinary items are shown below the EBITDA line.

^(*) *The structural inventory is the inventory that is not set aside to fill customer orders.*

KME Group - Consolidated Income Statement

2007 full year reclass.	(in millions of euros)	3/31/08 reclassified	3/31/07 reclassified	% change
3.485,3	Gross revenues	835,8	929,6	-10,09%
-2.594,4	Raw material costs	-603,3	(693,1)	-12,96%
890,9	100% Revenues net of raw material costs	232,5	236,50	100,00%
(349,3)	Labor costs	(90,4)	(90,9)	-0,55%
(399,6)	Other materials and costs	(111,0)	(108,4)	2,41%
142,0	15,94% EBITDA (*)	31,1	37,20	15,73%
-2,6	Nonrecurring income (expense)	(0,9)	0,9	n.m.
(50,6)	Depreciation and amortization	(13,0)	(13,3)	-2,26%
88,8	9,97% EBIT	17,2	24,80	10,49%
(36,5)	Net financial expense	(9,7)	(9,8)	-1,02%
0,0	Interest in the result of companies valued by the equity method	0,0	0,0	n.m.
52,3	5,87% Profit before taxes (invent. not IFRS valued)	7,5	15,00	6,34%
				-50,23%

In the first three months of 2008, Group revenues totaled 835.8 million euros, or 10.1% than the 929.6 million euros reported in the same period last year.

Restated to eliminate the impact of the value of raw materials, revenues show a decrease of 1.7%, falling from 236.5 million euros to 232.5 million euros, as an improved sales mix, with a greater percentage of products with a higher value added, helped cushion the impact of a 12.3% reduction in unit sales.

Operating costs grew by 1% overall, reflecting an increase in the output of products with a greater value added and a rise in unit prices paid for the means of production, particularly energy and transportation. In addition, the decrease in unit sales provided a narrower base for the allocation of fixed costs.

Taken separately, labor costs show a decrease of 0.6%.

EBITDA declined by 16.4% to 31.1 million euros, an amount equal to 13.4% of revenues, net of raw material costs, compared with 15.7% at March 31, 2007.

EBIT amounted to 17.2 million euros, compared with 24.8 million euros in 2007.

The consolidated profit before taxes, restated to eliminate the impact of valuing the inventory of raw materials at current prices, as required by the IFRS accounting principles, totaled 7.5 million euros (15 million euros in the first quarter of 2007).

Impact of Valuing the Inventory of Raw Materials at Current Prices (IFRS principles)

The table below shows the impact on the consolidated profit before taxes for the first quarter of 2008 of valuing the inventory of raw materials and the corresponding London Metal Exchange hedging contracts in accordance with IFRS principles, and provides a comparison with homogeneous data for 2007:

<i>2007 full year reclass.</i>		(in millions of euros)	<i>3/31/08 reclassified</i>		<i>3/31/07 reclassified</i>		<i>% change</i>
52.3	5.87%	Profit before taxes (invent. not IFRS valued)	7.5	3.21%	15.00	6.34%	-50.23%
-15.3		Impact of IFRS valuation of inventory and LME contracts	63.6		6.1		943.18%
37.0	4.15%	Profit before taxes	71.1	30.58%	21.10	8.92%	236.97%

In the first quarter of 2008, a period during which prices were rising, the valuation of the inventory of raw materials produced a widening differential between the values determined by the LIFO method and those obtained by applying the IFRS accounting principles. Specifically, this process produced a positive differential of 6.1 million euros at March 31, 2007 and a larger positive differential of 63.6 million euros at the end of March 2008.

(*) *The structural inventory is the inventory that is not set aside to fill customer orders.*

Information About the Balance Sheet and Financial Position

The table below provides a breakdown of consolidated shareholders' equity:

(in millions of euros)	at 3/31/08	at 12/31/07
Share capital	324.2	324.2
Reserves	212.4	172.6
Profit for the period (for 2008, amount before taxes)	70.9	40.8
Total shareholders' equity	607.5	537.6

The increase in the carrying amount of the reserves reflects the appropriation of the 2007 net profit.

It is important to keep in mind that, on March 14, 2008, the Shareholders' Meeting agreed to voluntarily reduce the share capital by 74.1 million euros, lowering it from 324.2 million euros to 250.0 million euros, and to use the reduction amount to establish a special shareholders' equity reserve. The share capital reduction will have no impact on the total amount of shareholders' equity or on the number of issued shares, as no shares are being cancelled.

With regard to implementation procedures, pursuant to Article 2445, Section 3, of the Italian Civil Code, the share capital reduction can be carried out only after 90 days have passed from the date when the corresponding resolution of the Shareholders' Meeting is recorded in the appropriate register.

At March 31, 2008, the Group's net indebtedness^(*) totaled 344.7 million euros, showing decreases of 53.5 million euros compared with December 31, 2007.

The table below provides a breakdown of the consolidated net financial position:

(in thousands of euros)	at 3/31/08	at 12/31/07
Short-term indebtedness	175,083	111,714
Long-term debt	321,501	393,077
Loans payable to unconsolidated subsidiaries	9,142	9,073
Total indebtedness	505,726	513,864
Liquid assets	(79,416)	(93,936)
Short-term loans receivable	(81,003)	(21,203)
Loans receivable from unconsolidated subsidiaries	(557)	(490)
Total liquid assets and loans receivable	(160,976)	(115,629)
Net financial position	344,750	398,235

^(*) This financial structure indicator is equal to gross indebtedness less cash and cash equivalents and other loans receivable included in "Current financial assets."

The financial position data shown above do not reflect the potential outlays that may be required for the fines that the European Commission imposed on the Group's manufacturing companies in 2003 and 2004 for two alleged antitrust violations. These fines, which total 107 million euros, will have an impact on cash flow only at the end of the judicial process before the various EU entities where appeals have been filed and only for the amount adjudicated.

Until such time, payment is being guaranteed by security deposits (17 million euros) and bank sureties (90 million euros). However, this payment deferral will cause the Group to incur finance charges.

From an income statement standpoint, provisions have already been established covering both the total amount of the fines and the corresponding accrued interest.

A breakdown of reclassified net invested capital is as follows:

(in millions of euros)	at 3/31/08	at 12/31/07
Net capital invested in non-current assets	788.0	793.9
Net working capital	555.7	539.2
Net provisions	(391.4)	(397.2)
Net invested capital⁽¹⁾	952.3	935.9

The change in net working capital (which consists of the carrying value of inventories and trade receivables, less trade payables) is due to the increase in the value of raw materials.

* * *

Marco Miniati, the Company's Corporate Accounting Documents Officer, acting in accordance with the requirements of Article 154 *bis*, Section 2, of the Uniform Financial Code, declares that the accounting information contained in this press release is consistent with the data in the supporting documents and in the Company's other documents and accounting records.

Florence, May 14, 2008

The Board of Directors

⁽¹⁾ Net invested capital is defined as the sum of "Non-current assets" and "Current assets" less "Non-current liabilities" and "Current liabilities," but excluding the amounts already used to compute net indebtedness.

Financial Statements

The Quarterly Report at March 31, 2008, which has not been audited, was prepared in accordance with Article 154 *ter* of the Uniform Financial Code, enacted with Legislative Decree No. 195/07.

The data in the consolidated balance sheet are those at March 31, 2008 and at December 31, 2007.

Consolidated income statement data are provided for the first quarter of 2008. They are also compared with the data for the same period in 2007. The presentation of the financial statements is consistent with the presentation used in the Semiannual and Annual Reports.

The Quarterly Report at March 31, 2008 was prepared in accordance with the valuation and measurement criteria set forth in the International Financial Reporting Standards (IFRSs) 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 July 19, 2002.

Consolidated Financial Statements of KME Group Spa		
at March 31, 2008		
Balance Sheet		
Items classified as current and non-current	At	At
<i>(amounts in thousands of euros)</i>	3/31/08	12/31/07
Property, plant and equipment	612,875	619,160
Investment property	20,516	20,516
Goodwill and consolidation difference	114,582	114,582
Other intangible assets	2,551	2,654
Investments in associates	5,624	5,524
Investments in other companies	-	3,448
Investments valued by the equity method	-	-
Other non-current financial assets	28,334	28,019
Deferred-tax assets	35,996	36,513
NON-CURRENT ASSETS	820,478	830,416
Inventories	661,620	628,233
Trade receivables	146,484	127,843
Other receivables and current assets	83,545	89,475
Current financial assets	97,416	34,048
Cash and cash equivalents	79,416	93,936
CURRENT ASSETS	1,068,481	973,535
TOTAL ASSETS	1,888,959	1,803,951
Share capital	324,165	324,165
Other reserves	95,478	96,133
Treasury stock	(37)	(37)
Retained earnings (Loss carryforward)	18,096	5,917
Technical consolidation reserves	96,847	68,787
Reserve for deferred taxes	194	194
Net profit (loss) for the period	70,881	40,774
Group interest in shareholders' equity	605,624	535,933
Minority interest in shareholders' equity	1,854	1,690
TOTAL SHAREHOLDERS' EQUITY	607,478	537,623
Provisions for employee benefits	156,244	158,510
Deferred-tax liabilities	118,270	118,290
Borrowings and other financial liabilities	321,501	393,077
Other non-current liabilities	8,278	8,000
Provisions for risks and charges	130,798	130,065
NON-CURRENT LIABILITIES	735,091	807,942
Borrowings and other financial liabilities	191,336	127,899
Trade payables	197,584	172,592
Other current liabilities	135,333	131,020
Provisions for risks and charges	22,137	26,875
CURRENT LIABILITIES	546,390	458,386
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	1,888,959	1,803,951

Consolidated Income Statement Costs classified by type <i>(amounts in thousands of euros)</i>	First quarter of 2008	First quarter of 2007	Change
Sales revenues	835,820	929,593	(93,773)
Change in inventory of finished products and semifinished goods	(4,233)	6,208	(10,441)
Capitalization of Company-produced assets	492	421	71
Other operating revenues	1,410	4,254	(2,844)
Purchases of and changes in inventory of raw materials	(577,362)	(721,104)	143,742
Labor costs	(90,356)	(90,853)	497
Depreciation, amortization, impairment losses and writedowns	(13,028)	(13,305)	277
Other operating expenses	(71,909)	(84,285)	12,376
EBIT	80,834	30,929	49,905
Financial income	2,593	670	1,923
Financial expense	(12,324)	(10,464)	(1,860)
Interest in the results of associates valued by the equity method	-	-	-
Profit before taxes	71,103	21,135	49,968
Current income taxes			-
Deferred income taxes			-
Total income taxes	-	-	-
Net profit (loss) from continuing operations	71,103	21,135	49,968
Net profit (loss) from discontinuing operations	-	-	-
Total net profit (loss)	71,103	21,135	49,968
Minority interest in net profit (loss)	222	-	-
GROUP INTEREST IN NET PROFIT (LOSS)	70,881	21,135	49,968