

## **Report of the Board of Directors on the Group's Operations at March 31, 2012**

**May 14, 2012**

Registered office: 2 via dei Barucci, Florence  
[www.kme.com](http://www.kme.com)

Share capital: 297,040,568.04 euros fully paid-in  
Company Register of the Court of Florence and Tax I.D. Number: 00931330583

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# KME Group S.p.A.

## Board of Directors

Chairman  
Deputy Chairman  
Deputy Chairman  
General Manager  
General Manager

Salvatore Orlando  
Vincenzo Manes<sup>B</sup>  
Diva Moriani<sup>B</sup>  
Riccardo Garrè<sup>B</sup>  
Italo Romano<sup>B</sup>

Vincenzo Cannatelli  
Mario d'Urso<sup>A,C,D</sup>  
Marcello Gallo  
Giuseppe Lignana<sup>A,C,D</sup>  
Gian Carlo Losi  
Alberto Pecci<sup>A,D</sup>  
Alberto Pirelli<sup>A,C</sup>

Secretary to the Board of Directors

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

## Board of Statutory Auditors

Chairman

Marco Lombardi

Statutory Auditors

Pasquale Pace  
Vincenzo Pilla

Alternates Auditors

Lorenzo Boni  
Angelo Garcea

## Manager in charge of financial Reporting

Marco Miniati

## Independent Auditors

KPMG S.p.A.

## Common Representative of Savings Shareholders

Romano Bellezza

# Report on Operations in the First Quarter of 2012

Prior to proceeding with a review of the Group’s operating performance, an overview of the Group’s corporate structure, updated as of the date of this Report, showing the investment sectors of KME Group S.p.A. is provided below.

In addition to its traditional activities in the “copper” sector, which encompass the production and distribution of copper and copper-alloy semifinished products (headed by the German subsidiary KME A.G.) and continue to be its core business, the Group’s investments include the new sectors of “renewable energy sources” and energy conservation, headed by ErgyCapital S.p.A., and integrated “services” in the field of risk management in connection with the possession, ownership and use of motor vehicles, headed by Cobra A.T. S.p.A. as of July 1, 2011.

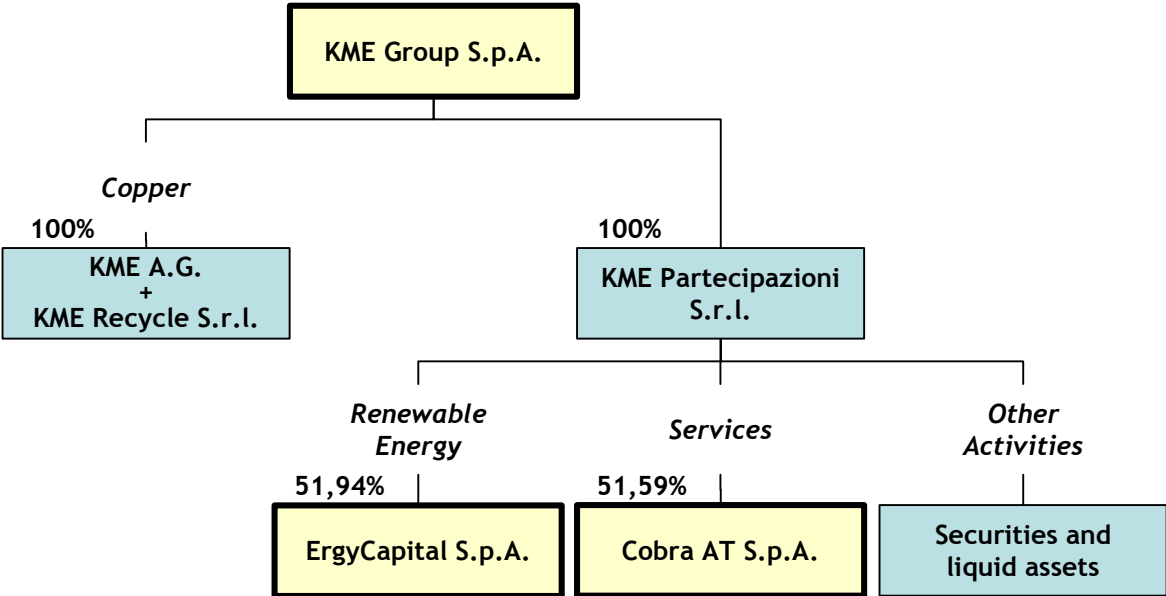
These new investment sectors and sundry assets are held by KME Partecipazioni S.r.l., a wholly-owned subsidiary of the Group.

The carrying amounts of the investments held by KME Group S.p.A. are 389.6 million euros for the “copper” sector, 25.8 million euros for the “renewable energy” sector and 39.8 million euros for the “service” sector.

In the consolidated financial statements of KME Group S.p.A., the results for the period of ErgyCapital S.p.A. are accounted for by the equity method. Those of Drive Rent S.p.A. (a company absorbed by Cobra A.T. S.p.A. effective July 1, 2011) are reflected in the consolidated financial statements at March 31, 2011 under the line item “Discontinued operations.” The results of Cobra A.T. S.p.A. for the period from January 1, 2012 to March 31, 2012 are accounted for by the equity method.

Consequently, the accounting data for the period resulting from line-by-line consolidation refer to the companies engaged in Group’s core business, i.e., the sector of copper and copper-alloy semifinished products, and KME Group S.p.A., the Group’s Parent Company. Please consult the individual sections of this Report for additional information.

## Overview of the Group’s Corporate Structure



Notes:

Listed companies

The percentages shown refer to the voting share capital.

In the first quarter of 2012, activity trend indicators in the main advanced economies began to show signs of a mitigation in the deterioration of the economic environment, but within a context in which aggregate demand is held down by measures implemented to rein-in existing debt, both public and private.

In the emerging countries, there was a further slowing of industrial production, triggered by the impact of ongoing weakness in international trade.

The outlook continues to be clouded by numerous causes of uncertainty related to renewed concerns about sovereign debt and the supply of crude oil.

In Europe, which is the area where the Group is most active, the slide in economic activity appears to have stabilized at the levels reached at the end of 2011, with a continuing disparity in the trends prevailing in the individual countries: activity still positive in Germany, holding at average European levels in France, weaker in Spain and Italy.

Manufacturing activity continued to contract, with the largest reductions occurring in the sectors of capital goods and consumer durables.

In such an environment, the operating profitability of businesses has been decreasing, which undermines their self-financing ability, making the effects of the difficulties faced to access bank financing even more burdensome.

As a result of the availability of ample margins of unused manufacturing capacity, investments by businesses are hampered by weak demand and restrictive lending terms. In the real estate sector as well, there are no signs of an upturn in investments in new construction.

In a macroeconomic context that remains challenging and characterized by fragile and uncertain expectations, the KME Group accelerated the implementation of increasingly incisive programs to restructure and develop its companies in the different investment sectors. The goal is to dynamically maximize the value of the investment portfolio, with special emphasis on generating cash flow and increasing value over time.

All of the Group's operations underwent a strategic reassessment that involved evaluating the ratio of generated returns to invested resources, seeking solutions for businesses that fail to deliver an acceptable rate of return, which may even include the divestment of assets that are functional for the new strategic objectives.

The programs launched to streamline the operating units in the **Copper Sector**, which are headed by the KME A.G. subsidiary, continue to pursue the twin objectives of refocusing the manufacturing and distribution operations, together with a highly disciplined approach to investment decisions, and optimizing costs at all levels.

In the **Renewable Energy Source Sector**, ErgyCapital S.p.A. made further progress in implementing the reorganization programs launched in 2010 to reduce overhead and operating expenses and shift the focus of its business strategy on biogas and geothermal energy, identified as two business areas that offer more attractive growth opportunities, while continuing to operate and optimizing the performance of its 20 MWp of photovoltaic capacity currently on stream and launching a contract operation and maintenance service available to also to customers outside the Group. The programs implemented began to bear fruit in 2011 and the Renewable Energy Source Sector is expected to regain full economic and financial balance in 2012, which is a prerequisite for developing

collaboration/aggregation opportunities with other players in the renewable energy industry that could hasten the company's expansion and boost value creation.

In the **Service Sector**, with the merger by absorption of the Drive Rent S.p.A. subsidiary into Cobra Automotive Technologies S.p.A., effective July 1, 2011, the KME Group acquired a 42.7% interest in the new entity resulting from this transaction, consolidating its presence in a company that has become one of the main operators in Europe in its field, capable of providing integrated services to manage the risks associated with the possession, ownership and use of vehicles, through the use of information technology and satellite technology.

In February 2012, the Cobra Group entered into an important binding agreement to sell to bluO Sicav Sif ("bluO"), a private equity investor, its Electronic Systems Division. This divestment will enable Cobra to focus on its telematic business, which has greater value added, offering services to protect vehicle ownership, manage maintenance costs, and monitor driver behavior and safety. Cobra will maintain an important commercial partnership with the divested operations. The closing of this transaction, which is subject to the fulfillment of certain conditions precedent, is expected to take place during the first half of this year. This divestment will result in a more streamlined group, a reorganized structure, an overall cost reduction and an increase in efficiency, which, coupled with the market launch of new products, will be key factors for Cobra's growth in the coming years.

\* \* \*

While the industrial and commercial programs implemented strengthened the competitiveness of the KME Group, they could not offset the effects of an unfavorable market environment and weak demand. Consequently, the Group's profitability in the first quarter of 2012, while in line with the level achieved in the closing quarter of 2011, was down compared with the same period last year.

## Overview of the Group's performance in the first quarter of 2012

<b>Consolidated Financial Highlights</b>		
<i>(in millions of euros)</i>	<i>1<sup>st</sup> quarter 2012</i>	<i>1<sup>st</sup> quarter 2011</i>
Gross revenues	687.4	818.9
Revenues (net of raw materials)	189.4	206.7
EBITDA	15.0	21.5
EBIT	4.5	10.3
Profit (Loss) before non-recurring items	0.2	9.6
<i>Non recurring income/(expense)</i>	<i>(3.7)</i>	<i>(4.6)</i>
Consolidated profit/(loss) before taxes (non-IFRS inventory)	(3.5)	5.0
<i>Impact of IFRS valuation of inventory</i>	<i>10.7</i>	<i>73.9</i>
<i>Shares of loss of equity-accounted investees</i>	<i>(1.5)</i>	<i>(0.8)</i>
Profit attributable to owners of the Parent	5.3	78.0
Reclassified net debt	254.4 (at 3/31/12)	197.6 (at 12/31/11)
Equity attributable to owners of the Parent	436.1 (at 3/31/12)	431.0 (at 12/31/11)

**Consolidated revenues** amounted to 687.4 million euros in the first quarter of 2012, or 16.1% less than the 818.9 million euros reported in the same period last year.

This decrease reflects the impact of lower sales volumes (-15.5%) and a reduction in average raw material prices. Restated net of the value of raw materials, revenues show a decrease of 8.4%, falling from 206.7 million euros to 189.4 million euros. A comparison of unit sales trends shows the positive impact of the price adjustments implemented by the Group and the effect of a sales mix with a greater percentage of products with a higher value added.

**EBITDA(\*)** totaled 15.0 million euros at March 31, 2012, in line with the amount earned in the fourth quarter of 2011, but down compared with the first three months of 2011, when EBITDA amounted to 21.5 million euros (-30.2%).

The ratio of EBITDA to net revenues contracted from 10.4% in the first quarter of 2011 to 7.9% in the fourth quarter of 2011 and the first three months of 2012.

**EBIT(\*)** amounted to 4.5 million euros (10.3 million euros in 2011).

The **profit before non-recurring items(\*)** totaled 0.2 million euros (9.6 million euros in 2011).

**Net non-recurring expense** (3.7 million euros at March 31, 2012) refers almost exclusively to additional programs to restructure and streamline the Group's industrial operations in the Copper Sector.

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 (\*) Reclassified indicators the computation of which is explained in the section of this Report entitled "Operating Performance of the Group."

The **gross effect of the measurement of inventories and the raw material forward contracts** at current prices, as required by IFRS accounting principles, decreased to 10.7 million euros (73.9 million euros at March 31, 2011), reflecting the impact of the difference in raw material prices between the two periods under comparison.

The **consolidated profit** before taxes amounted to 5.3 million euros (78.0 million euros in 2011).

This amount is after losses from investee companies consolidated by the equity method totaling 1.5 million euros, representing the Group's interest in the loss reported by ErgyCapital S.p.A. (0.5 million euros) and in the loss incurred by Cobra A.T. S.p.A. in the first quarter of 2012 (1.0 million euros).

On the balance sheet side, **consolidated net debt**(\*) totaled 254.4 million euros at March 31, 2012 (consolidated net debt of 197.6 million euros at December 31, 2011).

The increase in net debt since the beginning of the year reflects the impact of a steady rise in raw material prices.

**Consolidated equity**(\*) amounted to 436.1 million euros at March 31, 2012 (431.0 million euros at December 31, 2011).

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(\*) *Reclassified indicators the computation of which is explained in the section of this Report entitled "Operating Performance of the Group."*



## Copper Sector

Demand for copper and copper-alloy semifinished products in the construction industry (the consolidated revenues generated in this area account for about one-fourth of the total revenues of the KME Group) continues to be characterized by an underlying weakness, fueled by the ongoing negative effect of the high level and volatility of raw copper prices, which cause uncertainty affecting spending decisions by customers and makes other metals that are less penalized by price trends more competitive.

In response to this scenario, the KME Group continued to promote innovative solutions, offering original, cutting-edge options for metal exterior-wall coverings and making available to designers in the interior furnishings business next-generation surfaces that can be used for coverings and objects made of copper or copper alloys in a number of variations for different applications and aesthetic effects.

Projects launched in these areas produced substantial increases in value added and prices, but sharply lower sales volumes in the fourth quarter of 2011 and the first three months of 2012 reduced their beneficial effect, particularly in the construction sheet-metal area.

In the market segment of brass bars, the trend of healthy gains in sales volumes recorded in the early quarters of 2011 suffered a considerable loss of momentum that continued in 2012. However, price adjustment programs are continuing to have a positive effect.

The slowdown in demand for semifinished products in the industrial sector (the consolidated revenue generated in this area account for about three-quarters of total revenues) that started in last year's second half continued in the first quarter of 2012. The downturn was particularly pronounced in Italy and Spain, with greater stability in the French market.

An analysis by market segments shows that demand remained stagnant in the home appliance and air conditioning areas, but was more stable in the electrical, mechanical components and automotive industries. As a result, sales of industrial sheet-metal products and tubing for industrial applications were down sharply in the first three months of 2012.

Orders for specialty products held relatively steady, particularly for ingot molds and copper bars, but did feel the impact of slower economic activity in the emerging countries.

For a review of the Copper Sector's operating and financial performance, please see the accounting data resulting from line-by-line consolidation, the entire amount of which, as explained at the beginning of this Report, refers to the copper sector and KME Group S.p.A., the Group's Parent Company.

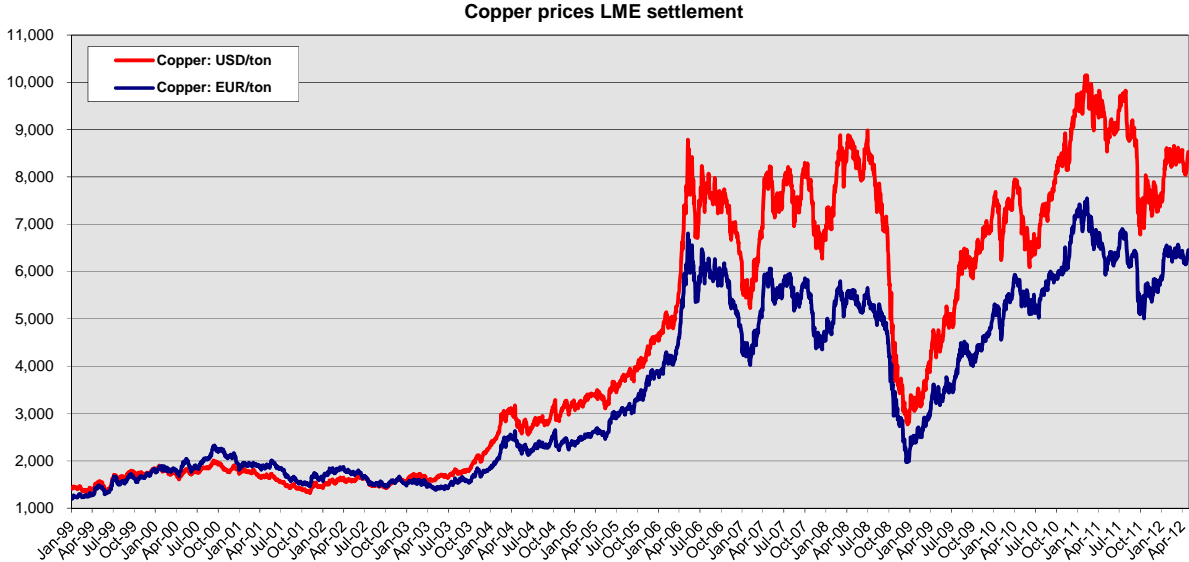
As for the **business outlook**, the beginning months of 2012 showed that the downward sales trend that characterized the second half of 2011 is continuing and projections provide no indication of an upturn throughout the first half of 2012.

The adoption of programs to streamline the manufacturing and administrative organization, including those already implemented and those currently under way, will enable the Group to increase its competitiveness level, which is a prerequisite for resuming a path to improved operating results, once more favorable business conditions are restored in the various markets in which the Group operates.

In the first three months of 2012, the price of raw copper, which is the main metal used in the Group’s semifinished products, was lower on average than in the same period last year, showing a decrease of 13.9% when stated in U.S. dollars (from US\$9,651/ton to US\$8,310/ton) and of 10.1% when stated in euros (from €7,053/ton to €6,337/ton), with the appreciation of the U.S. dollar during the period accounting for this disparity.

Looking at price trends, average copper prices were higher the first quarter of 2012 than in the fourth quarter of 2011, increasing by 11.0% in US dollars (from US\$7,489/ton to US\$8,310/ton) and by 14.1% in euros (from €5,555/ton to €6,337/ton).

In April 2012, the price of copper averaged US\$8,260/ton, equal to €6,275/ton.



## Renewable Energy Source Sector

In the first quarter of 2012, the **ErgyCapital Group** reported **revenues** of 3.3 million euros, compared with 3.1 million euros in the first three months of 2011.

Consolidated **EBITDA**, positive by 1.2 million euros, were up compared with the same period last year (when EBITDA were basically at the breakeven level). Two main factors account for most of this improvement:

- A gain in revenues from electric power production (+82% compared with the same period in 2011) due to an increase in the number of photovoltaic and biogas systems brought on stream (+5.0 MWp and +1 MWe, respectively) and an improved performance by those facilities;
- A substantial reduction in overhead (-40% compared with the first quarter of 2011) resulting from the organizational restructuring program launched in the second half of 2010, the full benefits of which were realized in the first quarter of 2012.

The consolidated **net loss** totaled 0.9 million euros at March 31, 2012 (loss of 1.3 million euros March 31, 2011).

The **net financial position** totaled 89.7 million euros at March 31, 2012, compared with 85.8 million euros at December 31, 2011. This change is the result of an increase in liabilities resulting from financing received to fund investments in the biogas area.

The consolidated **shareholders' equity** amounted to 15.3 million euros. Please note that the company's Board of Directors convened a Shareholders' Meeting to vote on a resolution to increase the company's share capital by up to 15.0 million euros, carried out by means of a rights offering available to eligible parties, pursuant to Article 2441 of the Italian Civil Code. KME Group S.p.A. indicated that it was willing to underwrite its pro rata share of the capital increase, possibly using for this purpose receivables owed by ErgyCapital.

As for the **business outlook** for the balance of 2012, ErgyCapital expects to report a further significant improvement in its consolidated operating results compared with 2011, made possible by the full utilization of its commissioned photovoltaic systems, the operation at full capacity of a second biogas facility and a steady reduction in overhead resulting from the ongoing implementation of corporate restructuring programs.

Prospectively, the company intends to follow an opportunistic approach for its activities in the biogas area, consistent with the evolution of the regulatory framework, while continuing to implement programs to increase the efficiency of its photovoltaic activities and pursuing a controlled expansion in the geothermal area.

In addition, the company is actively engaged in exploring strategic options with other industrial entities aimed at fostering their development for the benefit of its shareholders.

For additional information about the operating performance of ErgyCapital S.p.A., please consult the documents published by this company.

As explained at the beginning of this Report, the results of the ErgyCapital Group for the period are shown in the consolidated income statement of KME Group S.p.A. under the heading “Result of companies valued by the equity method.”

### Service Sector

In view of the binding agreement to sell its Electronic Systems Division to the bluO Fund executed in February 2012 (with closing expected to take place during the first half of this year, subject to the fulfillment of certain conditions precedent), **Cobra A.T. S.p.A.**, acting in accordance with IFRS international accounting principles, stopped consolidating its Electronic Systems Division on a line-by-line basis, presenting its income statement and balance sheet data consistent with the new scope of consolidation.

The **revenues** of the Cobra Group, stated in accordance with the new scope of consolidation, grew to 18.6 million euros, or 76% more than in the same period last year, due mainly to the additional revenues generated by the merger with Drive Rent in July 2011.

Consolidated **EBITDA** increased to 1.7 million euros, up sharply compared with the 0.3 million euros earned in the first three months of 2011. Adjusted EBITDA, restated without extraordinary charges, totaled 2.0 million euros.

**EBIT** were negative by 1.0 million euros. However, with data restated without extraordinary charges, EBIT are substantially in line with the loss of 0.8 million euros reported in the first quarter of 2011.

The consolidated **net loss** widened to 2.2 million euros, compared with a net loss of 1.7 million euros in the first three months of 2011, due mainly to the impact of a higher net financial expense. The net loss for the period includes a loss of 0.3 million euros (0.5 million euros at March 31, 2011) attributable to discontinued operations.

The **net financial position** totaled 22.9 million euros at March 31, 2012, improving by 11 million euros compared with the balance at March 31, 2011 (33.9 million euros).

Insofar as the **business outlook** is concerned, the company believes that the reorganization process currently under way (which includes finalizing the sale of its Electronic Systems Division and simplifying its corporate organization), coupled with the implementation of a stronger financial and management structure, will result in the creation of an entity focused exclusively on the provision of telematics services with a high value added. This process will enable the Group to strengthen its competitive position and deliver improved operating margin by the end of this year, despite the ongoing instability of macroeconomic conditions.

For additional information about the operating performance of Cobra A.T. S.p.A., please consult the documents published by this company.

Please note that the company also published pro forma consolidated income statement and balance sheet data based on the old scope of consolidation, i.e., before the potential divestment of its Electronic Systems Division.

As explained at the beginning of this Report, the results of the Drive Group at March 31, 2012 are shown in the consolidated financial statements of KME Group S.p.A. under the heading “discontinued operations.” The economic result of Cobra A.T. S.p.A. for the period from January 1, 2012 to March 31, 2012 is accounted for by the equity method.

## **Operating Performance of the Group**

The review of the Group's operating results provided below, particularly in the case of the Copper Sector, include, in addition to an IFRS income statement, a reclassified ("RECL.") income statement that is deemed to be more representative of the actual results from operations. The data included in the "RECL." income statement constitute a restatement of historical data aimed at presenting the Group's economic results consistent with an operational approach and using information taken from alternative internal reporting systems that differ from those of the IFRSs, mainly in terms of measurement and presentation.

The main items subject to recomputation, restatement and reclassification for measurement and presentation purposes, are reviewed below:

- 1 Revenues are shown net of the value of raw materials to eliminate the impact of fluctuations in raw material prices.
- 2 When valuing the ending inventory of the Copper and Copper-Alloy Semifinished Product Sector, the portion representing the structural inventory (i.e., the portion of the inventory that was not set aside to fill customer orders) was valued by the LIFO method. The portion of inventory set aside for customer orders was valued based on the value of the corresponding orders, which is deemed to be the realizable value. Under the IFRS method, the inventory is valued at the lower of the cost computed by the FIFO method or net realizable value. The IFRS principles also require that inventory buy and sell commitments and the corresponding hedges executed on the LME be disclosed separately and shown in the financial statements as financial instruments measured at fair value.

The IFRS, by not allowing the measurement of the Sector's ending inventory by the LIFO method, which is the method used for internal management controlling activities, introduced an exogenous economic component the variability of which makes it impossible to compare homogeneous data for different periods and does not allow an accurate presentation of the actual results from operations.

- 3 Extraordinary items are shown below the EBITDA line.

The table that follows shows the impact of the different measurement and presentation criteria used on the data for the first quarter of 2012.

(in millions of euros)	1 <sup>st</sup> quarter 2012 IFRS		Reclassifi- cations	Restate- ments	1 <sup>st</sup> quarter 2012 RECL.	
Gross revenues	687.4	100.0%			687.4	
Raw material costs	-		(498.0)		(498.0)	
<b>Revenues net of raw material costs</b>	<b>-</b>				<b>189.4</b>	<b>100%</b>
Personnel expenses	(85.2)		1.6		(83.6)	
Other materials and costs	(580.2)		500.1	(10.7)	(90.8)	
<b>Gross operating profit (EBITDA)(*)</b>	<b>22.0</b>	<b>3.2%</b>			<b>15.0</b>	<b>7.9%</b>
Depreciation and amortization	(10.5)		-		(10.5)	
<b>Operating profit (EBIT)</b>	<b>11.5</b>	<b>1.7%</b>			<b>4.5</b>	<b>2.4%</b>
Net financial expense	(4.3)		-		(4.3)	
<b>Result before non recurring items</b>	<b>7.1</b>	<b>1.0%</b>			<b>0.2</b>	<b>0.1%</b>
Non recurring income (expense)	-		(3.7)		(3.7)	
Impact IFRS measured inventories and forward contracts	-			10.7	10.7	
Taxes under IFRS measured inventories and forward contracts	-			-	-	
Current taxes	-		-		-	
Deferred taxes	-			-	-	
<b>Profit for the period IFRS inventories measured</b>	<b>7.1</b>	<b>1.0%</b>			<b>7.2</b>	<b>3.8%</b>
Shares of loss of equity - accounted investees	(1.5)				(1.5)	
Result from discontinued operations	-				-	
<b>Consolidated net profit</b>	<b>5.6</b>	<b>0.8%</b>			<b>5.7</b>	<b>3.0%</b>
Minority interest in net profit	0.4				0.4	
<b>Group interest in net profit</b>	<b>5.3</b>	<b>0.77%</b>			<b>5.3</b>	<b>2.82%</b>

The table that follows provides an overview of the consolidated operating results of the KME Group in the first quarter of 2012 and shows a comparison with the corresponding data for the same period in 2011.

In order to allow a comparison between homogeneous data, those for the first quarter of 2011 were restated without the data for the Drive Group, which are concentrated in a single line item called "Result from discontinued operations."

## KME Group - RECL. Consolidated Income Statements

(in millions of euros)	1 <sup>st</sup> quarter 2012 RECL.		1 <sup>st</sup> quarter 2011 RECL.		% change
Gross revenues	687.4		818.9		-16.1%
Raw material costs	(498.0)		(612.2)		-18.7%
<b>Revenues net of raw material costs</b>	<b>189.4</b>	<b>100%</b>	<b>206.7</b>	<b>100%</b>	<b>-8.4%</b>
Personnel expenses	(83.6)		(83.5)		0.1%
Other materials and costs	(90.8)		(101.7)		-10.7%
<b>Gross operating profit (EBITDA)(*)</b>	<b>15.0</b>	<b>7.9%</b>	<b>21.5</b>	<b>10.4%</b>	<b>-30.1%</b>
Depreciation and amortization	(10.5)		(11.2)		-5.8%
<b>Operating profit (EBIT)</b>	<b>4.5</b>	<b>2.4%</b>	<b>10.3</b>	<b>5.0%</b>	<b>-56.6%</b>
Net financial expense	(4.3)		(0.7)		514.3%
<b>Result before non-recurring items</b>	<b>0.2</b>	<b>0.1%</b>	<b>9.6</b>	<b>4.6%</b>	<b>-97.9%</b>
Non-recurring income (expense)	(3.7)		(4.6)		n.s.
Impact of IFRS valuation of inventory and forward contracts	10.7		73.9		-85.5%
Taxes under IFRS measured inventories and forward contracts	-		-		n.s.
Current taxes	-		-		n.s.
Deferred taxes	-		-		n.s.
<b>Profit for the period IFRS inventories measured</b>	<b>7.2</b>	<b>3.8%</b>	<b>78.9</b>	<b>38.2%</b>	<b>-90.9%</b>
Shares of loss of equity - accounted investees	(1.5)		(0.8)		n.s.
Result from discontinued operations	-		-		n.s.
<b>Consolidated net profit</b>	<b>5.7</b>	<b>3.0%</b>	<b>78.1</b>	<b>37.8%</b>	<b>-92.7%</b>
Minority interest in net profit	0.4		0.1		
<b>Group interest in net profit</b>	<b>5.3</b>	<b>2.82%</b>	<b>78.0</b>	<b>37.74%</b>	<b>-93.2%</b>

(\*) EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization) is an indicator that is not mentioned in the IFRS accounting principles. However, it provides a useful yardstick to assess the Group's operating performance. It is an intermediate income statement item equal to EBIT before deducting depreciation and amortization and extraordinary items.

**Consolidated revenues** amounted to 687.4 million euros in the first quarter of 2012, or 16.1% less than the 818.9 million euros reported at March 31, 2011.

The decrease in revenues reflects in part the impact of higher raw material prices. Restated net of the value of raw materials, revenues show a decrease of 8.4%, falling from 206.7 million euros to 189.4 million euros. Sales volumes were also down, contracting by 15.5%.

The value of raw materials accounted for 72% of total revenues.

**EBITDA** totaled 15.0 million euros at March 31, 2012, in line with the amount earned in the fourth quarter of 2011, but down 30.2% compared with the first three months of 2011, when EBITDA amounted to 21.5 million euros

On a relative basis, the ratio of EBITDA to net revenues contracted from 10.4% to 7.9%.

**EBIT** totaled 4.5 million euros (10.3 million euros in 2011).



The **profit before non-recurring items** amounted to 0.2 million euros (9.6 million euros in 2011).

**Non-recurring expense**, which totaled 3.7 million euros at March 31, 2012, refers almost exclusively to additional programs to restructure and streamline the Group's industrial operations in the Copper Sector.

The **loss before taxes and after non-recurring items (non-IFRS inventory measurement)** totaled 3.5 million euros (profit of 5.0 million euros at March 31, 2011).

The impact, before tax effect, of **valuing the raw material inventory and commitments** at current prices, in accordance with IFRS accounting principles (instead of using a LIFO valuation), decreased from 73.9 million euros in 2011 to 10.7 million euros in 2012, reflecting the impact of the difference in raw material prices between the two periods under comparison.

The **Group's interest in consolidated profit before taxes** amounted to 5.3 million euros (profit of 78.0 million euros in 2011).

This amount is after losses from investee companies consolidated by the equity method totaling 1.5 million euros, representing the Group's interest in the loss reported by ErgyCapital S.p.A. (0.5 million euros) and in the loss incurred by Cobra A.T. S.p.A. in the first quarter of 2012 (1.0 million euros).

## **Balance Sheet and Financial Position of the Group**

The table below provides a breakdown of consolidated equity:

(in millions of euros)	At March 31, 2012	At December 31, 2011
Share capital	297.0	297.0
Reserves	133.8	148.3
Profit for the period	5.3(*)	(14.3)
Minority interest	6.3	6.1
<b>Total equity</b>	<b>442.4</b>	<b>437.1</b>

(\*) Profit before taxes.

At March 31, 2012, the Company's **share capital** amounted to 297,040,568.04 euros, divided into 491,047,066 shares, including 447,347,650 common shares and 43,699,416 savings shares, both classes of shares being without par value.

The **reserves** decreased due to the coverage of the consolidated loss reported in 2011.

The Group's **net debt** totaled 254.4 million euros at March 31, 2012 (consolidated net debt of 197.6 million euros at December 31, 2011).

The increase in net debt since the beginning of the year reflects the impact of higher raw material prices.

The level of liquidity varies, reflecting temporary end-of-period surpluses of liquid assets in the Group's regular operating activity.

A breakdown of **consolidated net debt** is provided below:

## Net Debt(\*)

	3/31/12	12/31/11
(in thousands of euros)	(RECL.)	(RECL.)
Short-term financial payables	97,638	228,524
Medium to long-term financial payables	341,552	266,669
Financial payables due to Group companies	2,463	2,417
<b>(A) Total loans and borrowings</b>	<b>441,653</b>	<b>497,610</b>
Cash and cash equivalents	(54,112)	(66,483)
Other financial assets	-	-
Short-term financial receivables	(113,965)	(201,741)
Financial receivables from Group companies	(8,657)	(7,182)
<b>(B) Total cash and cash equivalents and current financial assets</b>	<b>(176,734)</b>	<b>(275,406)</b>
Fair value of LME and metal forward contracts	(9,708)	(9,280)
Fair value of other financial instruments	3,375	(10,690)
<b>(C) Financial instruments measured at fair value</b>	<b>(6,333)</b>	<b>(19,970)</b>
<b>Consolidated net financial position (A)+(B)+(C)</b>	<b>(1) 258,586</b>	<b>202,234</b>
<b>Non-current financial assets</b>	<b>(4,163)</b>	<b>(4,589)</b>
<b>Total net debt</b>	<b>254,423</b>	<b>197,645</b>

(1) As defined in Consob Communication DEM/6064293 issued on July 28, 2006 to implement the CESR recommendations of February 10, 2005.

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 (\*) This financial structure indicator is equal to gross indebtedness less cash and cash equivalents and loans receivable.

A breakdown of reclassified net invested capital(\*) is as follows:

(in millions of euros)	At March 31, 2012	At December 31, 2011
Net non-current assets	800.3	804.1
Net working capital	167.7	104.8
Net provisions	(271.1)	(274.2)
<b>Net invested capital</b>	<b>696.9</b>	<b>634.7</b>

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 (\*) "Net invested capital" is a financial measurement not provided in the IFRSs and should not be treated as an alternative to those provided in the IFRSs. It is comprised of the following components:

- "Capital invested in net non-current assets", which is the sum of "Property, plant and equipment and intangible assets," "Investments in associates" and "Other non-current assets."
- "Net working capital," which is the sum of "Inventories" and "Trade receivables," net of "Trade payables" and "Other current assets/liabilities," but excluding the amounts already used to compute "Net financial debt."
- "Net provisions," which include "Provisions for employee benefits," "Net deferred-tax liabilities" and other "Provisions for risks and charges."

## Significant Events Occurring After March 31, 2012

The Boards of Directors of iNTEK S.p.A. and KME Group S.p.A., meeting on January 27, 2012 and March 28, 2012, further to a plan disclosed to the market on October 25, 2011, approved a structured corporate transaction aimed at combining into a single holding company the organizations of the abovementioned companies, with the objective of managing the individual businesses operated by each company consistent with a uniform approach that can dynamically optimize their contribution, with special emphasis on generating cash flow and/or maximizing their value over time.

The implementation of the merger transaction, which, in accordance with the approved plan, will result in the absorption of iNTEK by KME, will be preceded by the launch of two voluntary public exchange offers by the two abovementioned companies, each for its own common shares, for a consideration consisting of debt securities issued by the offeror companies and for which they will apply for listing.

On May 9, 2012, the Extraordinary Shareholders' Meetings of iNTEK S.p.A. and KME Group S.p.A. approved the merger of the two companies and the corporate transactions necessary to launch the voluntary public exchange offers.

Subsequent to the adjournment of the Shareholders' Meetings, the Boards of Directors of iNTEK S.p.A. and KME Group S.p.A. agreed to launch public exchange offers for all outstanding common shares, in accordance with Articles 102 and following of the Uniform Financial Code, and disclosed this decision to the market.

For additional information about the corporate transactions described above, please consult the documents made available by both companies.

Florence, May 14, 2012

The Board of Directors

## ***Financial Statements of the Interim Report on Operations at March 31, 2012***

The Interim Report on Operations at March 31, 2012, which was not audited, was prepared in accordance with Article 154 *ter* of the Uniform Financial Code, enacted with Legislative Decree No. 195/2007.

The data in the consolidated statement of financial position are those at March 31, 2012 and at December 31, 2011.

Consolidated income statement data are provided for the first three months of 2012. They are also compared with the data for the corresponding period in 2011. The presentation of the financial statements is consistent with the presentation used in the semiannual consolidated financial statements and the annual financial statements.

The Interim Report on Operations at March 31, 2012 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 (EC) No. 1606/2002 of July 19, 2002 of the European Parliament and Council, and the legislation enacted to implement Article 9 of Legislative Decree No. 38/2005, if applicable.

## Consolidated Statement of Financial Position

(in thousands of euros)	3/31/12	12/31/11
Property, plant and equipment	578,356	580,114
Investment property	30,812	30,812
Goodwill and consolidation difference	118,367	118,367
Other intangible assets	2,862	2,982
Investments in subsidiaries and associates	15,202	15,152
Investments in other companies	258	258
Investments valued by the equity method	46,326	47,826
Other non-current assets	8,085	8,560
Non-current financial assets	4,163	4,589
Deferred-tax assets	31,491	31,491
<b>NON-CURRENT ASSETS</b>	<b>835,922</b>	<b>840,151</b>
Inventories	647,196	607,483
Trade receivables	120,822	129,489
Other current receivables and assets	38,952	31,980
Current financial assets	149,139	251,902
Cash and cash equivalents	54,112	66,483
<b>CURRENT ASSETS</b>	<b>1,010,221</b>	<b>1,087,337</b>
<b>TOTAL ASSETS</b>	<b>1,846,143</b>	<b>1,927,488</b>
Share capital	297,041	297,041
Other reserves	186,788	186,674
Treasury shares	(2,680)	(2,680)
Retained earnings	62,303	72,188
Technical consolidation reserves	(112,354)	(107,852)
Reserve for other components of the Comprehensive Income Statement	(261)	(80)
Net profit (loss) for the period	5,256	(14,292)
<b>Equity attributable to owners of the Parent</b>	<b>436,093</b>	<b>430,999</b>
Equity attributable to non controlling interests	6,283	6,062
<b>TOTAL EQUITY</b>	<b>442,376</b>	<b>437,061</b>
Employee benefits	153,725	153,439
Deferred-tax liabilities	119,136	119,133
Financial payables and liabilities	341,552	266,669
Other non-current liabilities	20,363	20,320
Provisions for risks and charges	16,480	17,128
<b>NON-CURRENT LIABILITIES</b>	<b>651,256</b>	<b>576,689</b>
Financial payables and liabilities	112,199	247,776
Trade payables	500,778	526,938
Other current liabilities	126,173	123,009
Provisions for risks and charges	13,361	16,015
<b>CURRENT LIABILITIES</b>	<b>752,511</b>	<b>913,738</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>1,846,143</b>	<b>1,927,488</b>

## Consolidated Comprehensive Income Statement

(in thousands of euros)	3/31/12	3/31/11
Revenue from sales and service	687,401	818,899
Change in inventories of finished goods and semifinished products	769	(2,278)
Capitalization internal work	1,793	637
Other operating income	3,234	4,516
Purchases and change in inventory of raw materials	(505,225)	(558,498)
Personnel expenses	(85,182)	(85,512)
Amortization, depreciation and impairment losses	(10,547)	(11,227)
Other operating expenses	(80,774)	(87,002)
<b>Operating profit</b>	<b>11,469</b>	<b>79,535</b>
Financial income	15,617	12,372
Financial expense	(19,948)	(13,067)
Result of companies valued by the equity method	(1,521)	(794)
<b>Result before taxes from continuing operations</b>	<b>5,617</b>	<b>78,046</b>
Net result of discontinued operations	-	7
<b>Result before taxes for the period</b>	<b>5,617</b>	<b>78,053</b>
<b>Other components of total comprehensive income:</b>		
Gains/(Losses) on the conversion of foreign financial statements	(399)	(789)
Net change in cash flow hedge reserve	(181)	670
<b>Other components of total comprehensive income before tax effect</b>	<b>(580)</b>	<b>(119)</b>
<b>Total comprehensive income for the period</b>	<b>5,037</b>	<b>77,934</b>
<b>Result attributable to:</b>		
Non controlling interests	361	107
Owners of the Parent	5,256	77,946
<b>Result for the period</b>	<b>5,617</b>	<b>78,053</b>
<b>Total comprehensive income for the period attributable to:</b>		
Non controlling interests	(130)	(91)
Owners of the Parent	5,167	78,025
<b>Total comprehensive income for the period</b>	<b>5,037</b>	<b>77,934</b>

***Declaration by the Corporate Accounting Documents Officer  
Pursuant to Article 154 bis, Section 2, of Legislative Decree No.  
58/1998 (Uniform Financial Code)***

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 (Legislative Decree No. 58/1998), declares that the accounting information contained in this Report on Operations at March 31, 2012 is consistent with the data in the supporting documents and in the Company's books of accounts and accounting records.

Florence, May 14, 2012

*(signed: Marco Miniati)*

Corporate Accounting Documents Officer