KME Group S.p.A.

Directors' Report
30 June 2012

Registered office: Via dei Barucci, 2, Florence, Italy
www.kme.com

Fully paid-up share capital Euro 297,040,568.04
Florence Company Register and Tax Code 00931330583

Contents

Company Bodies *KME Group S.p.A.*

Board of Directors

Chairman	Salvatore Orlando
Deputy Chairman	Vincenzo Manes[B]
Deputy Chairwoman	Diva Moriani[B]
General Manager	Riccardo Garrè[B]
General Manager	Italo Romano[B]
	Mario d'Urso[A,C,D]
	Marcello Gallo
	Giuseppe Lignana[A,C,D]
Board Secretary	Gian Carlo Losi
	Alberto Pirelli[A,C,D]

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

Board of Statutory Auditors (*)

Chairman	Marco Lombardi
Statutory Auditors	Lorenzo Boni
	Francesca Marchetti

Manager in charge of financial reporting	Marco Miniati
Independent auditors	KPMG S.p.A.
Common Representative of Saving Shareholders	Pietro Greco

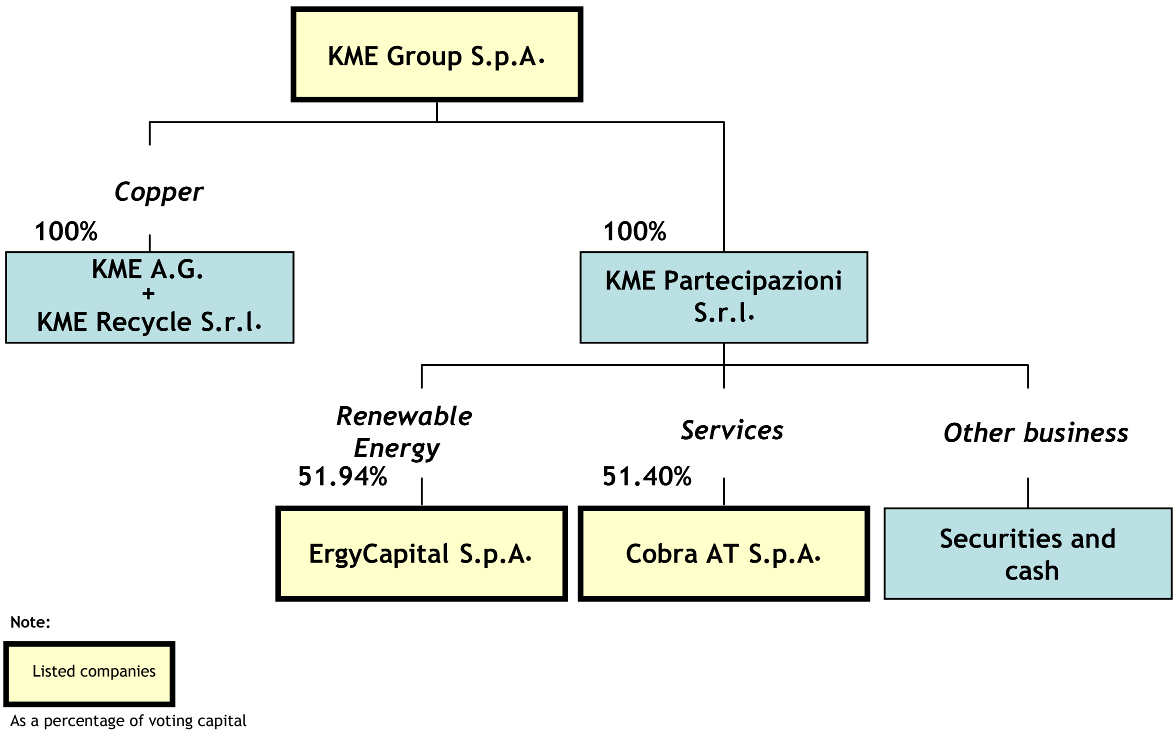
(*) On 30 July 2012, the Chairman of the Board of Statutory Auditors, Riccardo Perotta, and the Alternate Auditor, Luca Bertoli, resigned. The Alternate Auditor Lorenzo Boni took over as Standing Auditor, and the Standing Auditor Marco Lombardi became the Chairman of the Board of Statutory Auditors as the most senior Auditor.

Directors' report for the first half of 2012

Prior to beginning our report on operations, we provide below a summary of the Group's corporate structure updated to the date of this Report, with information on the KME Group S.p.A. investment sectors.
*In addition to the traditional "**copper**" sector, which includes the production and marketing of copper and copper-alloy semi-finished products (by German subsidiary **KME A.G.**), which continues to be the Group's core business, new investment sectors emerged, such as the "**energy from renewable sources**" and energy savings areas handled by **ErgyCapital S.p.A.** and the integrated "**services**" area in the management of risks associated with the ownership, possession and usage of motor vehicles by **Cobra A.T. S.p.A.** as from 1 July 2011.*
*The new investment sectors and other minor activities have been concentrated into the fully owned subsidiary **KME Partecipazioni S.r.l.***
The investment of KME Group S.p.A. in the "copper" sector is recognised at Euro 386,1 million, while its investment in the "renewable energy" sector is of Euro 25.8 million and its investment in the services sector is of Euro 39.8 million.

The ErgyCapital S.p.A. profit for the year is accounted for in the consolidated financial statements of KME Group S.p.A. using the equity method. Drive Rent S.p.A. profit (merged by Cobra A.T. S.p.A. with effect from 1 July 2011) is stated in the consolidated financial statements as at 30 June 2011 under the item "discontinued operations"; the profit for the period of Cobra A.T. S.p.A. between 1 January and 30 June 2012 is accounted for using the equity method.
Therefore the consolidated accounting figures for the year refer to the core business companies of the Group, i.e. those active in the copper and copper alloy semi-finished products business segment, in addition to the Parent KME Group S.p.A. Please refer to the specific sections in this Report for further information.

Summary of the Group's corporate structure



In the first half of 2012, the economic activity in the major advanced economies confirmed the signs of a worsening crisis that arose in second half of 2011.
In the United States, growth slowed despite remaining positive; in Japan, business activity benefited from growing consumption and a recovery in public investments which was linked to the reconstruction activities following the earthquake of the past year. In emerging markets, weakness in international trade resulted in a significant slowdown which was influenced by the restrictive political economy policies that were adopted in the past year.

In Europe - an area in which the Group has a stronger presence – the weakness in economic activity which emerged in the second half of 2011 continued, although with heterogeneous trends across various countries; GDP increased in Germany, remained stable in France, and declined in the UK, Spain and Italy. In the second quarter of the current year, industrial production—which has been decreasing from the summer of 2011 - fell and reached levels which were only slightly above the minimum levels of the spring of 2009.
Short-term prospects are still unfavourable; manufacturing activity continues to decline, particularly in the sectors of capital goods which are affected by the wide margin of unused production capacity, weak demand and the growing tensions and more difficult lending conditions for businesses, which are unable to compensate the reduced self-financing capacity with credit.
The most recent macroeconomic indicators report forecasts that have been modified to reflect downward trends compared to previously presented scenarios; the possibility of a gradual return to growth in the European economy was postponed to 2013. These forecasts reflect the uncertainties related to developments in the sovereign debt crises in some countries and their effects on the less favourable trends in domestic demand, both in terms of investments and consumption, while exports continue to grow in line with international trade and benefit from the recent depreciation of the European currency.

In a macroeconomic environment which remains challenging and characterized by fragile and uncertain prospects, all companies of the KME Group have accelerated and made the restructuring and growth programs within the various investment sectors more incisive.
Also the parent is involved in carrying out a strategic project which aims to bring under a single holding company the corporate structures of KME Group S.p.A. and Intek S.p.A., a company subject to joint control, with the aim of managing the individual businesses that each controls as a single unit so as to develop them, focusing on cash flow generation or creation of value in the long term.
This concentration, which will be implemented by means of the merger of Intek S.p.A. into KME Group S.p.A., as resolved by the respective Shareholders' Meetings of 9 May 2012, will not only result in significant cost savings associated with the fact that KME and Intek are listed companies, but also in a single strategic vision and joint sharing of specific expertise and competences within the various activities.

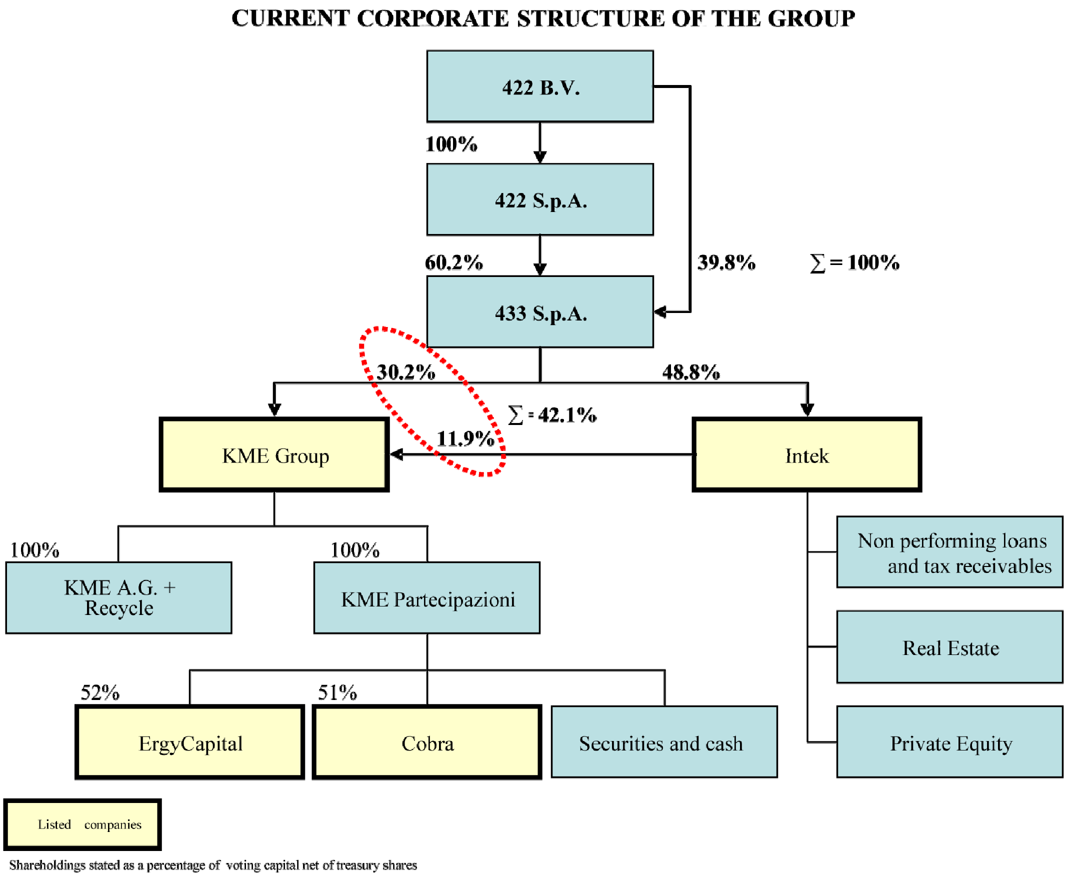
In addition, the merger will diversify the financial sources which are associated with the two individual companies: the cash flow generation of KME – primarily linked to its industrial activity, and strongly associated with trends in the economic cycle – will be combined with cash flows generated from realized gains on Intek assets (real estate properties and receivables) and from its private equity activities, which are less influenced by economic conditions.
As part of the resolved merger, KME Group S.p.A. and Intek S.p.A. have granted their shareholders the possibility - even during the current phase of strong declines in the stock markets - to exchange their shares with listed bonds which are issued by offering companies and characterized by a lower level of risk and significant returns.
Conversely, the shareholders wishing to remain as such and share in the new Group strategies will benefit from the fact that the share purchases forming part of the exchange offering will be carried out at a discount compared to both the unit carrying amount of KME shares under the equity method and the present value of the company's assets.
On 27 July 2012, the Offer period ended; 100,622,389 ordinary KME shares, equal to 22.882% of the voting share capital and 39.481% of the ordinary KME shares subject to the Offer, were offered for a total value – calculated on the basis of the nominal value of the Shareholding Financial Instruments (SFI) offered in exchange - of Euro 42.3 million.
With regard to Intek SpA, 22,003,340 ordinary Intek shares, equal to 17.407% of the voting share capital and 33.969% of the ordinary Intek shares subject to the Offer, were offered for a total value – calculated on the basis of the nominal value of the Bonds offered in exchange - of Euro 11.0 million.
The Boards of Directors of KME Group S.p.A. and Intek S.p.A. decided to waive the vesting condition of the Offer which was set at a minimum offer of 30% given that the level of acceptance was, in any case, significant. On 3 August 2012, the parties accepting the Offer received the SFI and Bonds which, on the same date, became listed on the MOT of Borsa Italiana S.p.A. In the week from 6 to 10 August 2012, the terms of the Offer will be opened again in accordance with Article 40 bis of the Issuers Regulations; subsequently the Mandatory Public Offer will be implemented given that the thresholds pursuant to Articles 106, paragraph 3, letter b) of the TUF (Consolidated Law on Finance) and Art. 46 of the Issuers Regulations were exceeded by the parent Quattroduedue B.V.

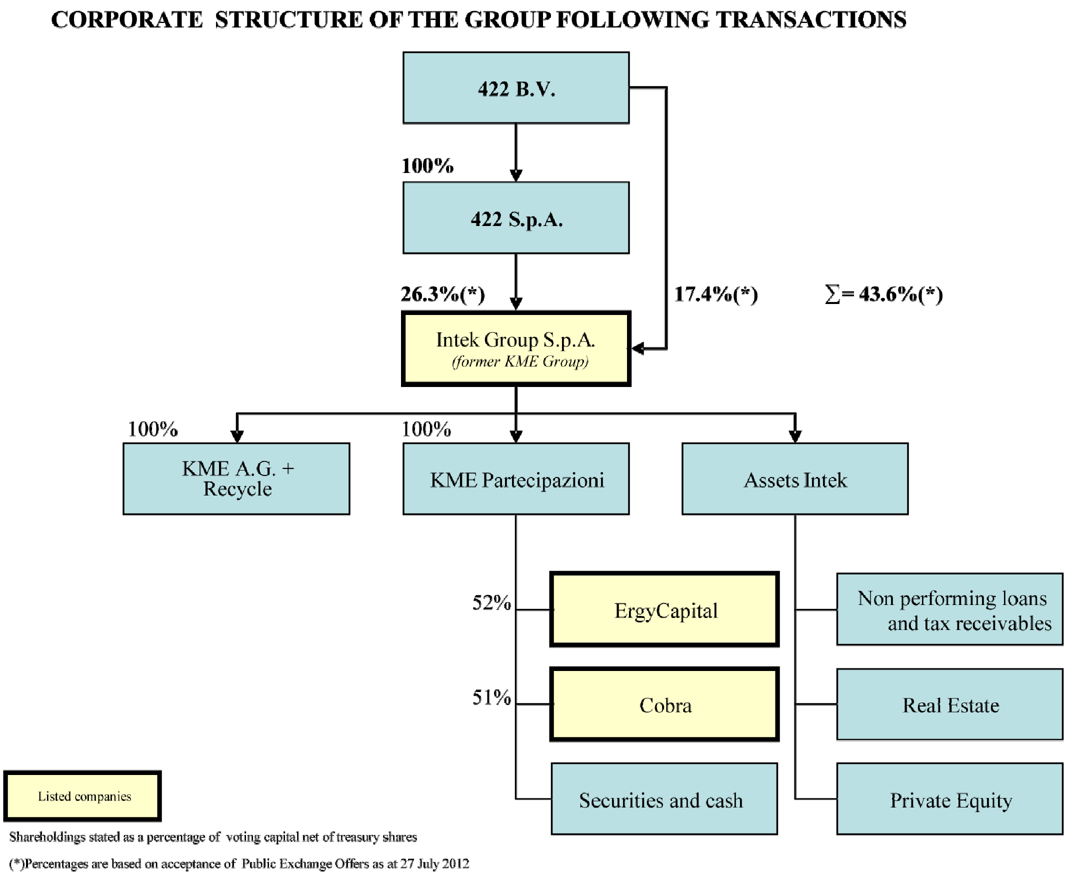
At the end of the procedure for the Public Exchange Offer and the occurrence of the required conditions, the deed for the merger of Intek into KME Group S.p.A will be drafted. It should be noted that the signing of the Intek/KME merger deed is conditioned by the issue of authorizations from the financing institutions of Intek and Quattrotretre - in some cases for the redemption of pledges on securities and in other cases for approval of the merger itself – as well as the issue, on the part of the Bank of Italy, of an authorization for the transfer of the shareholding in I2 Capital Partners SGR S.p.A. (currently held by Intek) to KME.

The merger has the positive effect of strengthening assets in order to meet the financial requirements associated with the reimbursement of the debt securities offered in exchange by KME and Intek. Given this scenario, the Board of Directors of KME Group S.p.A. - having taken into account the completed analyses and the assumptions formulated by an independent advisor, as well as the updates of the cash flows and figures in question – concluded that the objectives of the Exchange Offer are compatible with the assumption of greater debt deriving from the execution of the Offer itself, even after taking into account the effects deriving from the Intek/KME merger and therefore the debt of Intek (following the incorporation of Quattrotretre) which also resulted from the execution of the Intek Exchange Offer. The financial compatibility concerns the capacity to generate sufficient cash flows in order to guarantee the full payment of existing financial payables and of the additional debt resulting from the issue of the debt securities at the time of the Exchange Offer, thereby ensuring the payment of interest and principal instalments on the due dates of the financing agreements in force, as well as compliance with the required contractual covenants in addition to maintaining a general level of financial debt that is consistent with ordinary requirements of continuing operations.
In order to cover the potential financial commitments - both in terms of principal and interest – which derive from the KME and Intek Exchange Offers, the financial flows of KME and Intek were taken into consideration, such as the dividends from the primary subsidiary KME A.G. as well as the cash flows deriving from divestments and/or net cash inflows relative to the primary assets of Intek and the subsidiaries. To complete the analysis, the valuation of non-strategic equity investments held by KME, or other investments of Intek, was taken into account.
With regard to compliance with the covenants required by KME's financing contracts, a simulation was conducted at 31 December 2012 which was based on estimates of the economic trends of KME's 2012-2017 long-term plan – used as reference data – as well as the assumption of full participation in the Offers and the completion of the Intek/KME merger. On the basis of these analyses, it was possible to conclude that the ratio between consolidated debt and equity – which KME is required to comply with, in accordance with currently effective financing contracts – did not exceed the maximum contractual limit although worse than current values.
Additional analyses – based on a simulation yielding economic results for the KME Group which were lower than the Plan forecasts used as a reference (even in light of the most recent trends), or based on a failed completion of the Intek/KME merger (although at this time there is no evidence which could lead to conclude that the conditions linked to the merger would cease to exist) - highlight the fact that the ratio between consolidated financial debt and equity could exceed the maximum amount allowed by the financing contracts for these covenants.
No simulations were implemented after 31 December 2012 given that they were considered less critical with respect to that date.

For further information on the aforementioned corporate transactions, please refer to the documentation made available by the Company on its website *www.kme.com*.

A chart of the corporate structure of the KME and Intek Groups - prior to the execution of the restructuring project, and after its completion – is provided below (percentages are calculated on the basis of the level of acceptance of the Public Exchange Offer as at 27 July 2012).





The new structure of KME Group SpA will therefore play an even more prominent role as a holding company whose objectives involve the management and valorisation of the assets and equity investments held in the portfolio, including through the transfer of assets which are functional to the new growth strategies; this process will involve a broad review of all managed activities with analysis of the ratio between their return and utilized resources while seeking solutions for those which are not satisfactory.

KME – within a macroeconomic environment that is dominated by a heavy recession and widespread factors of uncertainty – has been implementing and coordinating for a few years now important restructuring and growth programs in the companies involved in the various investment sectors, so as to improve their competitiveness and bring profitability back to an adequate level of return on investment.

The streamlining measures, which refer to the "**copper" sector** units controlled by the subsidiary KME A.G., are aimed at focusing production and distribution activities with a view to diversifying the business, as well as increasing operating efficiency and optimising costs at all levels. These measures are accompanied by a rigorous investment policy and an organisational structure designed along operational models that are flexible, rapid in managing change and aimed at fostering innovation, paying utmost attention to the customer and the market.

The companies operating in the other investment sectors are also involved in radical reorganisation programs.

Since the second half of 2010, ErgyCapital S.p.A., operating in the **"renewable energy" sector**, has begun to revise the Group's mission and downsize it by closing certain operating facilities and reducing the number of staff, thus significantly lowering operating costs.
As for business strategy, the company intends to implement the following:

- with regard to the photovoltaic sector, and due to the uncertainty of the changed regulatory framework of reference, maintain efficiency – over the short term - in the management of the photovoltaic plants that are connected to the network and whose overall power is 19.6 MWp;
- with regard to the biogas sector, the second plant became operational in the past July. Business development is directly connected to the profitability margins that are expected from the production plants as well as to the valorisation of certain authorizations resulting from the completion of sales negotiations that are underway with third parties;
- with regard to the geothermal sector – and given the forecasted growth of the low-enthalpy geothermal market in Italy, despite the decrease in activity in the sector of reference (construction) – the division is expanding its commercial structure, also in connection with an expansion of the product offer. An increase in revenue over the long-term is therefore expected due to the positive trend in commercial activities.

The adopted actions have begun to already show their positive effects in 2011, and consolidated themselves in 2012.
The new strategic lines were adopted with the aim of returning ErgyCapital S.p.A. to profitability and financial stability, a condition necessary to effectively develop cooperation/integration with other entities operating in the renewable energy sector so as to boost growth and increase value.

In the **"services" sector**, through the merger which took effect on 1 July 2011 of the subsidiary Drive Rent S.p.A. in Cobra Automotive Technologies S.p.A., a company with offices in Varese and which acts as a holding company for a group listed on the Italian stock exchange, KME Partecipazioni S.r.l., which acquired 42.7% of the new entity, paved the way for the service activities in the automotive management area to be expanded, enhancing value and combining the services, products and specific know-how of the two groups. The new structure has become one of the main operators in Europe and can provide integrated services to manage risks associated with the possession, ownership and use of the vehicles, through the use of computer and satellite technology.
Due to the effectiveness of this merger operation, and within the scope of the programme to bolster the equity base of the new entity, Cobra A.T. S.p.A. increased its share capital, ending up with income of Euro 17 million. KME Partecipazioni participated in the transaction proportional to its investment in the company. As a result, KME Partecipazioni increased its investment in Cobra Automotive Technologies S.p.A. from 42.7% to 51.5%.
In February 2012, Cobra A.T. S.p.A. entered into a contract with a private equity fund for the sale of the Electronic Systems division. As communicated on 1 August 2012, one of the conditions precedent required by the contract did not occur within the required deadlines, and therefore the contract was cancelled. The company, in any case, confirms its strategy of sale of the Electronic Systems division in order to focus on the telecommunications business which has greater added value by offering services in order to preserve ownership of vehicles as well as manage maintenance costs, driving behaviours and the safety of the driver.
Again within the scope of the simplification and rationalization of the Group's structure, Cobra A.T. signed an agreement on 31 July 2012 with Tracker for the transfer – to Cobra Service Network SA, respectively owned by Cobra and Tracker for 80% and 20% - of the service companies Drive Service SpA and Easydriver Car Service Espana SLU, already 100% owned by Cobra A.T. S.p.A. The transfer will be implemented on 31 December 2012, subject to certain precedent.

* * *

The industrial and commercial measures which were adopted – despite having strengthened the competitiveness of the KME Group – did not manage to compensate the unfavourable market environment and the weakness of demand; as a result, profitability in the first half of 2012, despite being in line with that of the last quarter of 2011, had decreased with respect to the corresponding period of the previous year.

Main consolidated results

(millions of Euro)	*1st half 2012*	*1st half 2011*
Revenue	**1,365.6**	**1,595.7**
Revenue (not including raw materials)	**376.2**	**421.4**
EBITDA	**30.2**	**50.7**
EBIT	**6.8**	**28.3**
Profit (loss) before non-recurring items	**(4.3)**	**23.1**
Non-recurring income/(expense)	***(12.9)***	***(6.4)***
Gross consolidated profit (loss) (non IFRS inventory measurement)	**(17.2)**	**16.7**
Effect of IFRS measurement of inventories	***6.5***	***18.5***
Investees' losses taken to net equity	***(2.8)***	***(1.2)***
Profit (loss) attributable to owners of the Parent	**(17.8)**	**25.4**
Reclassified net financial debt	**229.1 (*at 30.6.2012*)**	**197.6 (*at 31.12.2011*)**
Equity	**413.7 (*at 30.6.2012*)**	**431.0 (at *31.12.2011)***

The **Consolidated Revenue** for the first half of 2012 amounted to a total of Euro 1,365.6 million, down by 14.4% on 2011, when it was Euro 1,595.7 million.
This decrease was influenced by decreased sales volumes (-15.4%) and the lower average prices for raw materials. Net of the latter, revenue decreased from Euro 421.4 million to Euro 376.2 million, down by 10.7%; a comparison with the trend in sales volume confirms the positive effect of the price recovery, in addition to the effect of a production mix with increased added value.

EBITDA (*) for the six months ended 30 June 2012 stood at Euro 30.2 million; down by 40.4% from Euro 50.7 million up to the end of June 2011. EBITDA for the second quarter of 2012 was in line with the results of the two previous quarters.
EBITDA as a percentage of net revenue stood at 12.0 in the first half of 2011, 7.9% in the fourth quarter of 2011, and 8% in the first half of 2012.

EBIT stood at Euro 6.8 million (Euro 28.3 million in 2011).

The **loss before non-recurring items** (*) was Euro 4.3 million (profit of Euro 23.1 million in the first half of 2011).
Net non-recurring expenses amounted to Euro 12.9 million, largely relating to reorganisation and cost-cutting measures involving the industrial units in the copper sector.

The net effect of the measurement of inventories and raw materials forward contracts (*) at current prices, pursuant to IFRS, dropped to Euro 6.5 million (Euro 18.5

million in the first half of 2011) due to the different prices of the raw material (copper) in the two reference periods.

The loss for the period attributable to the owners of the parent, net of taxes, amounted to Euro 17.8 million (profit of Euro 25.4 million in the first half of 2011).
This is net of the Euro 2.8 million in losses of the equity-accounted investees; they regard the loss of ErgyCapital S.p.A., amounting to Euro 0.4 million, and the loss in the first half of 2012 of Cobra A.T. S.p.A., amounting to Euro 2.4 million.

Financially, **net financial debt** (*) as at 30 June 2012 was Euro 229.1 million (Euro 197.6 million as at the end of December 2011).
Financial debt increased by 15.9% since the beginning of the year as a result of rising net working capital, which increased from Euro 210.0 million to Euro 227.4 million. However, it should be noted that financial debt at the end of June was down compared to Euro 254.4 million as at the end of March 2012.

The consolidated **equity(*)** as at 30 June 2012 was equal to Euro 413.7 million (Euro 431.0 million as at 31 December 2011).

(*) Details on these reclassified indicators are included in the sections on the Group's economic performance and financial position.

Copper sector

The demand for **copper and copper-alloy semi-finished products for the construction industry** (the consolidated revenue for this sector is approximately 1/4 of the total revenue of the Group KME) continues to be fundamentally weak and this is also adversely affected by the high level of copper prices and their volatility, which causes uncertainty in spending decisions by users and makes other metals that are less hampered by trends in price more competitive.

In order to deal with this, the KME Group continues to promote integrated and innovative solutions, proposing original and advanced solutions of high architectural value as well as new types of surfaces to interior designers to create coverings and objects in copper or copper alloys in all its myriad forms for applications and aesthetic effects.
Specific attention is given to the contents of the environmental and health plan.
An example includes the production of laminates of “ecological copper” – entirely derived from the transformation of scrap materials – which create positive effects in terms of energy savings as well as the optimization of the management of raw material costs. The same applies for products with the *“KME Plus"* brand which characterize production of finished and semi-finished products composed of copper and allows with proven antimicrobial efficacy (*antimicrobial copper)* and which are primarily allocated to healthcare facilities, schools and public transportation
This initiative has yielded interesting increases in added value and price, even if sales volumes – which fell significantly in the last quarter of 2011 and in the first six months of 2012 – have made the benefits less consistent; the negative effects were particularly noted in the sector of laminates for construction.

After the good recovery of sales volumes in the first quarters of 2011, sales of brass bars dropped sharply, and this trend continued into 2012; the effect of the action on prices has remained positive.

In the first half of 2012, the demand for industrial semi-finished products (the consolidated revenue for this sector is approximately 3/4 of the total) confirmed the slowdown already reported in the second half of the previous year, especially in Italy and Spain. France has been more stable.
With respect to the various sectors, performance in the electrical appliance and air conditioning sectors have remained flat, while the electrical, mechanical components and automotive sectors proved more stable. As a result, sales in both industrial laminates and industrial pipes slumped.

Order for special products, especially for ingot moulds and copper rods, held up in spite of the economic slowdown in emerging markets.

For information on the financial performance and results of the sector, please see the fully consolidated accounting data, as these refer to the copper sector as well as to the Parent KME Group S.p.A. (see introduction).

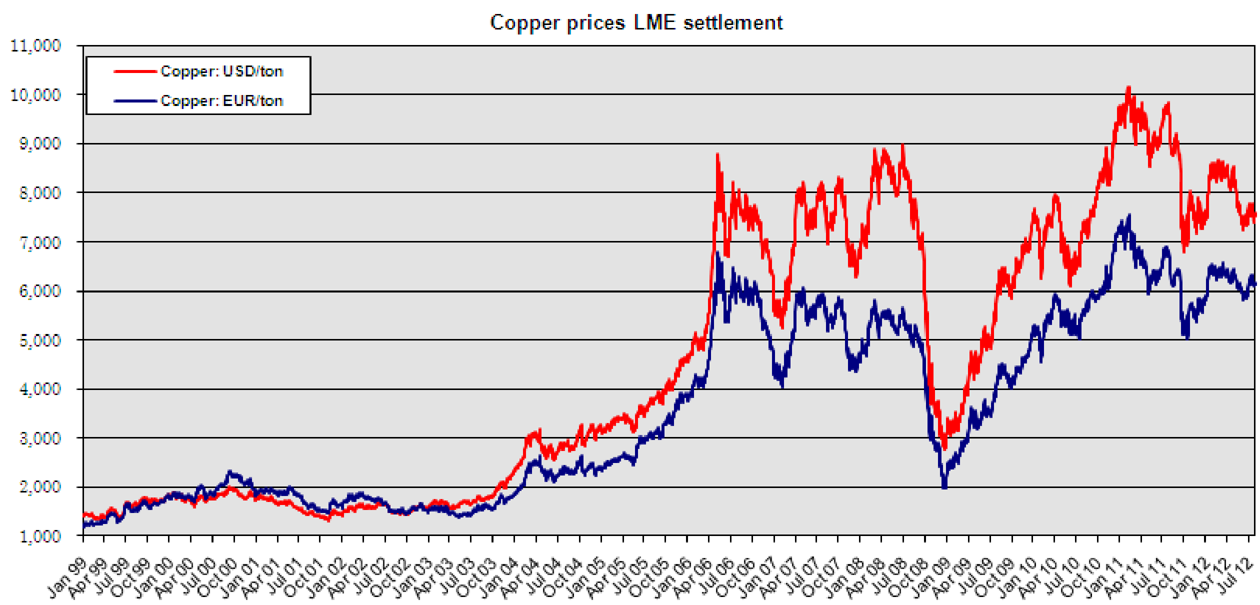
With regard to **business outlook** – and following an initial half-year which confirmed the decrease in sales which had already been reported in the second half of 2011 – the forecasts for the upcoming months do not, at this time, offer signs of improvement.

The adoption of cost-cutting measures in production and organisational structures, including past measures taken and those still in place, will help the Group raise its levels of competitiveness. This is necessary to continue to improve operating profit once the economic framework governing the various business markets recovers.

In the first half of 2012 the **investments** of the segment's production units totalled Euro 18.4 million (Euro 15.7 million in 2011).

The segment's **workforce** as at 30 June 2012 numbered 6,101 (6,248 as at the end of 2011).

The **price of copper as a raw material**, which is the metal most widely used in the production of the Group semi-finished products, decreased by an average of 13.9% in US$ in the first half of 2012 compared to the prior-year period (from US$ 9,400/tonne to US$ 8,097/tonne) and by 7.1% in Euros (from Euro 6,713 to Euro 6,237) due to the appreciation of the dollar during the year.
The average prices of copper in the second quarter of 2012 increased compared to the fourth quarter of 2011 by 5.1% in US$ (from US$ 7,489/tonne to US$ 7,869/tonne) and by 10.4% in Euro (from Euro 5,555 to Euro 6,130).
In July 2012, the average price of copper was US$ 7,589/tonne or Euro 6,176/tonne.



Renewable energy sector

In the first half of 2012, the ErgyCapital Group recognised **Revenue** of Euro 9.4 million, up 6% compared to the first half of 2011.
The consolidated **EBITDA**, which was positive to the tune of Euro 4.4 million, significantly improved compared to the prior-year period (positive to the tune of Euro 2.8 million), due to several factors:

- further corporate restructuring initiatives resulted in a drastic reduction of overheads (over 20% compared to the prior-year period)
- the increase in revenue connected to photovoltaic electricity generation (+21%) as a result of the higher number of operating photovoltaic plants, in addition to the good performance of the plants themselves;
- revenue in the first biogas plant – equal to Euro 1.1 million - which, combined with revenue from the sale of four approved projects, amounted to Euro 0.8 million, caused sector revenue to reach approximately Euro 2.0 million;
- on the other hand, the decline in the construction sector – in which the geothermal segment is located - resulted in a significant decrease in the value of production, which was equal to Euro 0.9 million compared to Euro 2.9 million in the prior-year period.

The **loss** for the period attributable to the owners of the parent was Euro 0.9 million (Euro 1.2 million as at 30 June 2011).
In the second quarter of 2012, the ErgyCapital Group reported a profit before taxes of Euro 0.4 million.

The **Net Financial Position** changed from Euro 85.8 million as at 31 December 2011 to Euro 92.6 million. The change is almost entirely due to the loans received for investments in the biogas sector.

Equity at 30 June 2012 amounted to Euro 14.7 million. On 26 June 2012 the Extraordinary Shareholders' Meeting resolved to grant to the Board of Directors the right to launch a paid share capital increase within twelve months from the date of this resolution for a maximum amount, including any premium, of Euro 15 million, through the issue of ordinary shares to be offered as an option to the Shareholders pursuant to article 2441 of the Italian Civil Code.

For further information on the operating performance of ErgyCapital S.p.A., refer to the documentation made available by the Company.

As mentioned in the introduction, the results of the ErgyCapital Group for the period are shown in the consolidated financial statements of KME Group S.p.A. under the item “Share of profit/(loss) of equity-accounted investees”, as it is a jointly controlled entity.

Services sector

Following the spin-off of the Electronic Systems division, the Cobra Group – in compliance with IFRS 5 – excluded the division from line-by-line consolidation.

The consolidated economic/financial data pertaining to the new scope of consolidation reported **Revenue** for the Cobra Group which totalled Euro 37.2 million, a 67.2% increase with respect to the prior-year period; this was essentially due to the increase in revenues deriving from the merger with Drive Rent.

EBITDA stood at Euro 2.5 million, significantly improving compared to the negative balance of Euro 0.1 million in the first half of 2011. Excluding the non-recurring expenses, adjusted consolidated EBITA stood at Euro 3.9 million, 10.4% as a percentage of revenue.
EBIT was negative to the tune of Euro 3.0 million. Excluding the non-recurring expense, adjusted consolidated EBIT would have improved compared to the first half of 2011, when it was negative to the tune of Euro 2.2 million.
The **Loss** attributable to the owners of the Parent was Euro 5.0 million, an improvement compared to the loss of Euro 6.0 million in the first half of 2011, due to the reduction of the loss of the division to be sold.

The **Consolidated Net Financial Position** as at 30 June 2012 stood at Euro 22.0 million.

The **number of subscribers** (direct and indirect) to the telematic services rose by 12.76% compared to 31 December 2011, exceeding 223,000 units. This increase is especially related to the consolidation of the "Smart Insurance" business, which grew by 72.9% compared to 31 December 2011.

With regard to **business outlook,** the Cobra A.T. Group plans to strengthen its economic margins as well as its competitive position in Italy and in the primary European markets – despite the continuation of still unstable macroeconomic conditions - due to the strengthening of its financial and managerial structure which will allow to build a Group that is solely focused on the business of telecommunications services with high added value.

It should be noted that the Company also presented its *pro-forma* consolidated statement of financial position and income statement on the basis of the previous scope of consolidation before the aforementioned spin-off.

For further information on the operating performance of Cobra A.T. S.p.A., refer to the documentation made available by the Company.

As noted above, the Drive Group results for the period ended 30 June 2011 are reported in the consolidated financial statements of KME Group S.p.A. under the item "discontinued operations". The result of Cobra A.T. S.p.A. for the period 1 January 2012 – 30 June 2012 was recognised using the equity method, as the company is not subject to control.

Group performance

With respect to the notes on the Group performance, and more specifically the "copper" sector, both the IFRS income statement will be used, in addition to the reclassified income statement, known as the "RECL", since it is considered to be more representative of actual performance. The data included on the "RECL" income statement represent a reprocessing of the historical data aimed at showing the economic performance of the Group using operational criteria and information taken from the internal reporting system which therefore differs from the criteria used under the IFRS standards mainly in terms of measurement and presentation.
The main adjustment/reclassification components of the reprocessing in terms of measurement and presentation are shown below, and mainly refer to:

1 *in order to eliminate the impact of fluctuations in raw material prices, revenue is also presented net of raw material costs;*
2 *the cost of the base-stock component (i.e., inventories that will not be sold) of year-end metals inventories in the copper and copper-alloy semi-finished products sector is determined on a last-in, first-out basis. The stock that will be sold, on the other hand, is measured at its contractual selling prices, which are deemed to be their realisable value. Under IFRS, on the other hand, inventories are required to be measured at the lower of purchase cost on a FIFO basis and net realisable value. IFRS also require forward sales and purchase contracts as well as hedging contracts traded on the LME to be separately identified and reported in the financial statements at their fair values, as if they were financial instruments.*
  By not permitting the LIFO measurement of year-end inventories that is used internally for management control purposes, IFRS introduced an exogenous factor, the variability of which makes it impossible to compare homogeneous data for different periods that would give an accurate picture of the results of operations.
3 *Non-recurring items shown in the statement of comprehensive income are reported below EBITDA/EBIT.*

The table below shows the effects of the different methods of measurement and presentation for the first half of 2012.

(Millions of Euro)	1st half 2012 IFRS		Reclass.	Adj.	1st half 2012 RECL	
Gross revenue	1,365.6	100.0%			1,365.6	
Raw material costs	-		(989.4)		(989.4)	
Revenue net of raw material costs	**-**				**376.2**	**100%**
Personnel expense	(167.8)		3.6		(164.2)	
Other consumables and costs	(1,172.9)		997.3	(6.2)	(181.8)	
EBITDA*	**24.8**	**1.8%**			**30.2**	**8.0%**
Amortisation and deprecoation	(24.8)		1.4		(23.4)	
EBIT	**0.1**	**0.0%**			**6.8**	**1.8%**
Net financial expense	(11.1)		-		(11.1)	
Loss before non-recurring items	**(11.0)**	**-0.8%**			**(4.3)**	**-1.1%**
Non-recurring income/(expense)	-		(12.9)		(12.9)	
Impact IFRS measured inventories and forward contracts	-			6.2	6.2	
Taxes under IFRS measured inventories and forward contracts	-			0.3	0.3	
Current taxes	(3.5)		-		(3.5)	
Deferred tax expenses	(0.2)			(0.3)	(0.5)	
Loss after taxes (IFRS inventory measurement)	**(14.7)**	**-1.1%**			**(14.7)**	**-3.9%**
Share of profit/(loss) of equity-accounted investees	(2.8)				(2.8)	
Profit/(loss) from discontinued operations	-				-	
Loss for the period	**(17.4)**	**-1.3%**			**(17.5)**	**-4.6%**
Loss attributable to non-controlling interests	0.3				0.3	
Loss attributable to owners of the Parent	**(17.8)**	***-1.30%***			**(17.8)**	***-4.73%***

The Condensed Consolidated Statement of Comprehensive Income for the Group KME for the first half of 2012 with prior-year comparatives is shown below.
To ensure comparability, data relating to the Drive Group were removed and concentrated in the item “Profit/(loss) from discontinued operations”.

<u>KME Group - Consolidated Income Statement “RECL”</u>

(millions of Euro)	1st half 2012 RECL		1st half 2011 RECL		% Change
Gross revenue	1,365.6		1,595.7		-14.4%
Raw material costs	(989.4)		(1,174.3)		-15.7%
Revenue net of raw material costs	**376.2**	**100%**	**421.4**	**100%**	***-10.7%***
Personnel expense	(164.2)		(173.0)		-5.1%
Other consumables and costs	(181.8)		(197.7)		-8.0%
EBITDA (*)	**30.2**	**8.0%**	**50.7**	**12.0%**	***-40.4%***
Amortisation and depreciation	(23.4)		(22.4)		4.4%

EBIT	**6.8**	**1.8%**	**28.3**	**6.7%**	***-75.8%***
Net financial expense	(11.1)		(5.2)		113.5%
Profit/(loss) before non-recurring items	**(4.3)**	**-1.1%**	**23.1**	**5.5%**	***-118.6%***
Non-recurring income/(expense)	(12.9)		(6.4)		insig.
Impact IFRS measured on inventories and forward contracts	6.2		28.5		-78.2%
Taxes IFRS measured on inventories and forward contracts	0.3		(10.0)		insig.
Current taxes	(3.5)		(4.9)		insig.
Deferred taxes	(0.5)		(4.1)		insig.
Profit/(loss) after taxes (IFRS inventory measurement)	**(14.7)**	**-3.9%**	**26.2**	**6.2%**	***-156.1%***
Share of profit/(loss) of equity-accounted investees	(2.8)		(0.6)		insig.
Profit/(loss) from discontinuing operations	-		(0.6)		insig.
Profit/(loss) for the period	**(17.5)**	**-4.6%**	**25.0**	**5.9%**	**-169.8%**
Profit/(loss) attributable to non-controlling interests	0.3		(0.4)		
Profit/(loss) attributable to owners of the Parent	**(17.8)**	***-4.73%***	**25.4**	***6.03%***	***-170.1%***

(*) EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortisation) is not an IFRS line item. It is a useful indicator of the Group's operating performance. EBITDA is an intermediate economic amount based on EBIT but before depreciation, amortisation and non-recurring items.

The **Consolidated Revenue** for the first half of 2012 amounted to a total of Euro 1,365.6 million, down by 14.4% compared to 2011, when it was Euro 1,595.7 million.
The decrease was due to lower sales volumes and average prices of raw materials; net of the latter, it dropped by 10.7%, from Euro 421.4 million to Euro 376.2 million; in terms of sales volumes, it fell by 15.4%.
The effect of the value of raw materials on total revenue was 72%.

EBITDA for the first half of 2012 totalled Euro 30.2 million, compared to Euro 50.7 million in the first half of 2011 (-40.4%).
In relative terms, as a percentage of revenue, EBITDA fell from 12.0% to 8%.
EBITDA for the second quarter of 2012 amounted to Euro 15.2 million, substantially in line with the results of the first quarter of 2012 and the fourth quarter of 2011.

EBIT stood at Euro 6.8 million (Euro 28.3 million in 2011).

The **Loss before non-recurring items** was Euro 4.3 million (profit of Euro 23.1 million in 2011). This result was affected by losses for the adjustment of positions held in foreign currencies to cover sales and purchase commitments totalling Euro 3.4 million, and which will be recovered in the upcoming months when these commitments are invoiced.

Net non-recurring expense amounted to Euro 12.9 million in the period ended 30 June 2012. They largely refer to reorganisation and cost-cutting measures involving the industrial units in the copper sector.

The effect, net of the tax expense, of the **measurement of inventories and raw materials forward contracts** at current prices, in accordance with the requirements of the IFRSs (compared to their measurement on a LIFO basis), fell from Euro 18.5 million in 2011 to Euro 6.5 million in 2012, due to the difference in raw material prices in the two reference periods.

The loss attributable to the owners of the Parent, net of taxes, amounted to Euro 17.8 million (profit of Euro 25.4 million in 2011).
This is net of the Euro 2.8 million in losses by the investees consolidated with the equity method; they regard the loss of ErgyCapital S.p.A., amounting to Euro 0.4 million, and the loss in the first quarter of Cobra A.T. S.p.A., amounting to Euro 2.4 million.

* * *

At the time of the preparation of the consolidated interim financial statements at 30 June 2012, a procedure was initiated – in compliance with IFRS and applicable provisions – to test the carrying amounts of equity investments as well as of goodwill and other items of invested capital for impairment. In light of the analyses carried out – and given that both external and internal qualitative and quantitative factors which were jointly analyzed and valuated did not reveal significant elements of discontinuity with respect to the tests carried out at the time of preparation of the financial statements at 31 December 2011 - the Board of Directors believes that there is no evidence for a need to update the impairment test of goodwill as at 30 June 2012 for the equity investments in ErgyCapital S.p.A. and Cobra A.T. S.p.A. nor of other assets constituting the invested capital of the KME Group.

Group financial position

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

(Euro / million)	At 30 June 2012	At 31 December 2011
Share Capital	*297.0*	*297.0*
Reserves	*134.6*	*148.3*
Loss for the period	*(17.9)*	*(14.3)*
Equity attributable to non-controlling interests	*5.8*	*6.1*
Total Equity	**419.5**	**437.1**

The **share capital**, at the date of this Report, was Euro 297,040,568.04 divided into 491,047,066 shares, of which 447,347,650 were ordinary shares and 43,699,416 savings shares, both without any indication of their par value.

The **Reserves** have decreased due to the coverage of the consolidated loss recorded in 2011.

The Group's **reclassified net financial debt** as at 30 June 2012 was Euro 229.1 million (Euro 197.6 million at 2011 year end).
Financial debt increased by 15.9% since the beginning of the year as a result of rising net working capital, which increased from Euro 210.0 million to Euro 227.4 million.
The level of "Liquidity" varies in relation to the temporary cash surpluses in the Group's ordinary operations.

The table below gives a breakdown of **Consolidated net financial debt**:

Net Financial Position (*)

(thousands of Euro)		30.06.2012 (RECL)	31.12.2011 (RECL)
Short-term financial payables		117,869	228,524
Medium to long term financial payables		327,985	266,669
Financial payables due to Group companies		2,676	2,418
(A) Total loans and borrowing		**448,530**	**497,611**
Cash and cash equivalents		(74,219)	(66,483)
Other financial assets		-	-
Short-term financial receivables		(105,413)	(201,742)
Financial receivables due from Group companies		(10,419)	(7,182)
(B) Total cash and current financial assets		**(190,051)**	**(275,407)**
Fair value of LME and metals forward contracts		(20,622)	(9,280)
Fair vaue of other financial instruments		(4,571)	(10,690)
(C) Financial intruments measured at fair value		**(25,193)**	**(19,970)**
Consolidated net financial position (A)+(B)+(C)	**(1)**	**233,286**	**202,234**
Non-current financial assets		**(4,154)**	**(4,589)**
Total Net Financial Debt		**229,132**	**197,645**

(1) Definition pursuant to CONSOB communication DEM/6064293 of 28.07.06 in application of the CESR recommendations of 10 February 2005.

(*) This is an indicator of financial structure and is equal to gross financial payables reduced by cash and cash equivalents and financial receivables.

Cash flows for the first half of 2012 are summarized as follows:

KME Group - Consolidated statement of cash flows

(thousands of Euro)	Half year ended 30.06.2012	Half year ended 30.06.2011
A) Cash and cash equivalents at the beginning of the year	**66,483**	**39,751**
Profit/(loss) before taxes	(13,752)	44,536
Depreciation and amortisation	23,375	22,781
Impairment losses on current assets	1,814	3,795
Impairment losses (reversals of impairment losses) on non-current assets other than financial assets	1,413	(338)
Impairment losses (reversals of impairment losses) on current and non-current financial assets	607	-
Losses (gains) on disposal of non-current assets	(3)	137
Change in provisions for pensions, post-employment benefits and stock options	172	178
Change in provisions for risks and charges	(4,967)	13,005
Decrease (increase) in inventories	21,961	(19,870)
Share of profit/(loss) of equity-accounted investees	2,750	580
(Increase) decrease in current receivables	3,303	(13,485)
Increase (decrease) in current payables	(45,613)	122,631
Changes from currency translation	(51)	682
Decrease (increase) in LME and metals forward contracts	(11,331)	(60,409)
Paid taxes	(3,509)	(5,247)
(B) Cash flows from operating activities	**(23,832)**	**108,976**
(Increase) in non-current intangible assets and property, plant and equipment	(18,395)	(15,411)
Decrease in non-current intangible assets and property, plant and equipment	325	621
(Increase) decrease in investments	(1,405)	(3,339)
(Increase) decrease in available-for-sale financial assets	-	-
Increase/decrease in other non-current assets/liabilities	1,028	(316)
Dividends received	194	271
(C) Cash flows from investing activities	**(18,254)**	**(18,174)**
Equity cash variations	-	-
(Purchase) sale of treasury shares	-	226
Increase (decrease) in current and non-current financial payables	(49,167)	5,399
(Increase) decrease in current and non-current financial receivables	99,683	(44,131)
Dividends paid and profits distributed	(694)	(7,990)
(D) Cash flows from financing activities	**49,822**	**(46,496)**
(E) Change in cash and cash equivalents (B)+(C)+(D)	**7,736**	**44,306**
(F) Change in scope of consolidation	**-**	**-**
(G) Total cash flows used in discontinued operations	**-**	**154**
(H) Cash and cash equivalents at the end of the year (A)+(E)+(F)+(G)	**74,219**	**84,211**

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

(Euro / million)	At 30 June 2012	At 31 December 2011
Net non-current assets	*795.3*	*804.1*
Net working capital	*227.4*	*210.0*
Other liabilities	*(104.2)*	*(105.2)*
Provisions	*(269.9)*	*(274.1)*
Net invested capital	***648.6***	***634.7***

(*) "Net invested capital" is a financial indicator which is not envisaged by the IFRS and should not be considered as an alternative to the indicators envisaged by the IFRS. Its components are given here below:

- *"Net non-current assets" consists of the sum of the items "Property, plant and equipment and intangible assets", "Investments" and "Other non-current assets".*
- *"Net working capital" consists of the sum of the items "Inventories" and "Trade receivables" net of "Trade payables".*
- *"Other liabilities" are net of items previously included in "Net financial debt".*
- *"Net provisions" includes the item "Employee benefits", "Net deferred taxes" and other "Provisions for risks and charges".*

Pending litigation

Update on the Directors' Report to the financial statements as at and for the year ended 31 December 2011:

- With regard to the lawsuit claiming damages which was brought in February 2010 by **Toshiba Carrier UK Ltd** and another 15 companies belonging to the same group before the English High Court of Justice - Chancery Division against KME Yorkshire Ltd, KME A.G., KME France S.A.S. and KME Italy S.p.A., and another five producers of LWC pipes, again in relation to anti-trust violations sanctioned by the European Commission in 2003 and which became definitive at the end of 2011, it should be noted that on 4 January 2011 the companies concerned in the KME Group filed an appeal for removal from the proceedings and for lack of jurisdiction. In October 2011 there was a hearing following which the High Court rejected the appeal of the KME Group companies, which therefore presented a request to authorise an appeal presentation. On 31 January 2012 the Court of Appeal issued the preliminary authorisation order for the appeal presentation by the KME Group companies. The hearing was held on 26 June 2012 and the decision on the preliminary issue will be issued in the upcoming months.
  On the basis of available information, the Company believes that the risk relative to a potential unfavourable outcome of the dispute is not probable and is not, in any case, quantifiable; as a result, no provisions were recognised to cover potential liabilities which could result from these proceedings.

- It should also be noted that in late July, the attorneys of the companies IMI plc and IMI Kynoch sent pre-action correspondence to KME Yorkshire Limited as well as to KME AG, KME Italy S.p.A. and KME France SAS; this correspondence consisted in a letter in which they informed these companies of their intention to summon them as jointly liable co-debtors in the legal proceedings initiated in the UK by certain companies of the Travis Perkins Group against IMI plc and IMI Kynoch These proceedings involve a request for compensation of alleged damages which the plaintiff companies sustained as a result of their purchase of plumbing and sanitary tubes from the companies sanctioned by the decision of 3 September 2004 of the European Commission relative to anti-trust violations. The attorneys of KME are reviewing the issue in order to verify if the abovementioned claims are grounded and to provide an evaluation on potential legal risk and any actions to take

Updates concerning "Corporate Governance, shareholding structure and application of the Code of Conduct"

The last chapter of the Report on "Corporate Governance, shareholding structure and application of the Code of Conduct" – relative to the financial statements as at and for the year ended 31 December 2011 – focused on the changes following the end of that year, including an explicit reference to the extraordinary transaction approved by the Extraordinary Shareholders' Meeting of 9 May 2012. This transaction is described in another part of this Report and is currently being implemented.
While waiting to adopt the modifications that are directly connected to this operation, an update on other significant events pertaining to corporate governance – for the period in question – is provided below.

Appointment of company bodies and relevant measures

The Shareholders' Meeting of 28 June 2012 – which approved the financial statements for the year 2011 – appointed the Board of Directors and Board of Statutory Auditors for the upcoming three years 2012, 2013 and 2014, in accordance with the lists presented by the majority shareholder Quattrotretre S.p.A. which owns 29.66% of the ordinary share capital of the company.
On the same date, the Board of Directors met to assign the corporate offices.
As a result, the Board of Directors is composed of the following members:

- Salvatore Orlando – **Chairman**;
- Vincenzo Manes – **Deputy Chairman;**
- Diva Moriani **- Deputy Chairwoman**;
- Riccardo Garrè – **General Manager**;
- Italo Romano – **General Manager**;
- Mario d'Urso (Independent Director);
- Marcello Gallo (Director);
- Giuseppe Lignana (Independent Director;)
- Gian Carlo Losi (Director / Secretary of the Board of Directors);
- Alberto Pirelli (Independent Director);

Given the powers attributed to them, the Directors Vincenzo Manes, Diva Moriani, Riccardo Garrè and Italo Romano are Executive Directors.
All members were re-elected, with the exception of those of the Directors Vincenzo Cannatelli and Alberto Pecci.
The following were also appointed:

- the **Remuneration Committee**, comprised of Alberto Pirelli (Chairman), Mario d'Urso e Giuseppe Lignana;
- the **Control and Risk Committee**, comprised of Mario d'Urso (Chairman), Giuseppe Lignana and Alberto Pirelli;
- Marco Miniati as the "Manager in charge of financial reporting".

For the **Board of Statutory Auditors**, the following individuals were appointed:

- Riccardo Perotta (**Chairman**);
- Marco Lombardi and Francesca Marchetti (Standing Auditors);

- Luca Bertoli and Lorenzo Boni (Alternate Auditors).

The Standing Auditors Pasquale Pace and Vincenzo Pilla, as well as the Alternate Auditor Angelo Garcea, were not re-elected.

The composition of the Board of Statutory Auditors is already in compliance with the provisions of Law no. 120 of 12 July 2011 in relation to the so-called "gender quotas" given that the presence of the Standing Auditor Francesca Marchetti ensures compliance with this law.

The résumés of the two new Standing Auditors and of the new Alternate Auditor are reported below:

- Riccardo Perotta was born in 1949 and graduated in Economics and Business at Bocconi University. He is a Registered Certified Accountant and Auditor, an associate professor at the aforementioned University and has a professional practice in Milan. He holds and has held positions in the Boards of Statutory Auditors of listed companies, including but not limited to Eni, Fiat, Mediaset, Snam Rete Gas and Mediolanum. He is a scholar and author of numerous books and articles pertaining to extraordinary management and corporate governance operations;
- Francesca Marchetti holds a degree in Economics and Business and is a Registered and Certified Accountant and Auditor with a professional practice in Milan and Brescia. She serves as Auditor for companies not belonging to the Group as well as ErgyCapital S.p.A.;
- Luca Bertoli was born in 1980 and graduated in Law and Business Administration at Bocconi University. He is a Registered Certified Accountant and Auditor, an assistant at the aforementioned University and has a professional practice in Milan. He serves as Standing Auditor for other companies.

Subsequently, and effective as of 30 July 2012, the Chairman of the Board of Statutory Auditors, Prof. Riccardo Perotta, and the Alternate Auditor Luca Bertoli resigned from their respective positions.

On the same date, pursuant to and in application of Article 3401 of the Italian Civil Code, the Alternate Auditor Lorenzo Boni took over as Standing Auditor and the Standing Auditor Mr. Marco Lombardi – as the most senior Standing Auditor – became the Chairman of the Board of Statutory Auditors.

Lorenzo Boni was born in 1968 and holds a degree in Economics and Business, has a professional practice in Florence, working also at the local university, and is the author of publications and papers on corporate and tax matters. On 29 April 2009 he was appointed Alternate Auditor for the first time.

The terms of office of Mr. Lombardi and Mr. Boni will end with the next Shareholders' Meeting to be convened. This Meeting will resolve in order to integrate the composition of the Board of Statutory Auditors.

Additional resolutions of the Board of Directors during its meeting of 28 June 2012

Verification of the prerequisites of independence

The Board of Directors, even on the basis of the declaration made by its members at the time of presentation of its candidates, believes that the Directors Mario d'Urso, Giuseppe Lignana and Alberto Pirelli possess the prerequisite of independence pursuant to the joint provisions of Article 147 ter, paragraph IV and Article 148, paragraph III, of the Consolidated Law on Finance. In addition, it concluded that these directors also fulfilled the independence prerequisite on the basis of that identified in paragraph no. 3.C.1 of the Code of Conduct (2011 revision).

With regard to this point, the Board of Directors referred to the previous analogous evaluations that were made, in particular, with respect to the Director Alberto Pirelli and which were initially contained in the "Corporate Governance Report" of 2008 (presence within the Board of Directors for more than nine consecutive years – participation in previous Shareholders' Agreements – significant member of prior important shareholders) and therefore periodically verified.

The Board of Statutory Auditors approved the evaluations made by the Board of Directors.

Verification of possession of the prerequisites of integrity and professionalism on the part of the Directors and Auditors.

The Board of Directors, even on the basis of the declarations made by its members at the time of presentation of the candidacies, believed that its members possess the prerequisite of integrity pursuant to the joint provisions of Article 147 *quinquies* and Article 148, paragraph IV, of the Consolidated Financial Act and of Decree of the Ministry of Justice no. 162 of 30 March 2000.

The Board of Directors, even on the basis of the declarations made by the Auditors at the time of presentation of the candidacies, believed that its members of the Board of Statutory Auditors possess the prerequisites of professionalism and integrity required by Decree of the Ministry of Justice no. 162 of 30 March 2000.

The Board of Statutory Auditors approved the evaluations made by the Board of Directors.

Verification of possession of the prerequisite of independence of the Auditors pursuant to paragraph 8.C.1 of the Code of Conduct (2011 revision).

In compliance with paragraph 8.C.1 of the Code of Conduct (2011 revision), the Board of Statutory Auditors, even on the basis of the declarations made by its members at the time of presentation of the candidacies, believed that its members possess the prerequisite of independence pursuant to paragraph 3.C.1 of the aforementioned Code.

In particular, the Board of Statutory Auditors believes that the positions held by the Auditors Lombardi, Marchetti and Boni – within the KME Group - do not constitute violations of the criterion required by paragraph 3.C.1, letter c) of the Code of Conduct and relative to the "significance" of relations of professional nature.

The Board of Directors approved these evaluations.

<u>Verification of possession of the prerequisite of integrity on the part of the Executive Responsible for Financing Reporting.</u>

In compliance with Article 16 of the Articles of Association, the Board of Directors – having noted the declarations made by Mr. Marco Miniati at the time of assignment of the mandate - believes that the latter, acting in his capacity of Manager in Charge of Financing Reporting, possesses the prerequisite of integrity, as identified above for the Directors.

The Board of Statutory Auditors shared the evaluations provided by the Board of Directors.

<u>Appointment of Committees</u>

<u>Remuneration Committee</u>

The Board of Directors, in its meeting of 28 June 2012, provided for the appointment of the Remuneration Committee with the following members, all in possession of the qualifications of non-executive and independent Directors: Mr. Alberto Pirelli (Chairman), Mario d'Urso and Giuseppe Lignana. The Board of Directors believed that all three of its members possess adequate knowledge and experience in the field of finance and remuneration policies.

The Committee retains the mandate to prepare the proposals to present to the Board of Directors in order to determine the remuneration policy for Directors in general as well as that of the Chairman, the two Deputy Chairmen and the Directors and executives with strategic responsibilities; it is also responsible for preparing general recommendations for determining the criteria for remunerating the top management of the company and the Group.

The determination of this compensation can be implemented at any time during the course of the three years of duration of the office.

The standing members of the Board of Statutory Auditors participate in its meetings in order to improve coordination between the two bodies. From the same perspective, the Remuneration Committee and the Control and Risk Committee maintain a close level of operational coordination, particularly in terms of operations with related parties.

<u>Control and Risk Committee</u>

The new Code of Conduct (2011 revision) assigned this new name to the previous Internal Control Committee; the Board of Directors appointed Mario d'Urso (Chairman), Giuseppe Lignana and Alberto Pirelli as the members of this committee, all in possession of the qualifications of non-executive and independent directors.

Its functions are as follows:

a) defining the guidelines for the internal control and risk management system for the Company and its subsidiaries;
b) assessing on a yearly basis the adequacy of the internal control and risk management system;
c) examining and orienting the work plan which is prepared and implemented by the internal audit department;

d) describing in the Report on Corporate Governance the main characteristics of the internal control and risk management system, commenting on its adequacy;
e) evaluating, after having consulted with the Board of Statutory Auditors, the results presented by the Independent Auditors.

The Committee has access to the information required for its work and reports on its activities to the Board of Directors at least once every six months.

In its meetings, the Chairman, the Deputy Chairman responsible for the internal control and risk management system, Vincenzo Manes, the General Manager with responsibilities related to Internal Control and the members of the Board of Statutory Auditors are all called upon to participate.

The functions and composition of the supervisory board pursuant to Legislative Decree no. 231/2001 will be determined by the Deputy Chairman Vincenzo Manes while informing the Board of Directors and after consulting with the Chairman of the Board of Statutory Auditors.

Appointments Committee

The new text of the Code of Conduct (2011 revision) provides for the establishment of this Committee with functions other than those which were previously required; more specifically:

- advising the Board of Directors on the size and composition of the Board and provide recommendations on the professionals whose presence is deemed appropriate;
- propose candidates to the Board of Directors in cases of cooption and when it is necessary to replace independent Directors;
- evaluation the adoption of a so-called "succession plan".

At this time, the Board of Directors has decided to approve the choice of the previous Board of Directors and therefore not to establish this committee in the presence of a controlling shareholder, taking upon itself any relative decisions and dedicating, in any case, adequate time for the discussion of the topics mentioned within their own meetings.

Lead Independent Director

Even in this case, the Board of Directors has decided to still postpone the appointment of the Lead Independent Director because there are no conditions which would require this position in order to comply with the Code of Conduct; these conditions, it should be noted, are: (i) if the Chairman of the Board of Directors is primary party responsible for company management, and (ii) if the Chairman of the Board of Directors is held by a person who controls the Issuer.

Corporate Bodies

The Board of Directors, in the aforementioned meeting of 28 June 2012, provided for the following appointments.

Chairman: Salvatore Orlando

Pursuant to art. 20 of the Company's Articles of Association, the Chairperson is the legal representative of the Company and has full powers to represent the Company in dealings with third parties and in legal proceedings.

Deputy Chairman: Vincenzo Manes

Pursuant to art. 16 of the Articles of Association, the Deputy Chairperson has the same powers as the Chairperson in order to deal with urgent matters or to substitute the Chairperson in the event of his absence and/or other impediment.

The Deputy Chairman Vincenzo Manes has the following powers:

- coordination and guidance of the activities of other Executive Directors;
- guidance, coordination and control of external communications including communications with Shareholders;
- in particular, including, but not limited to, and consistent with instructions and guidelines decided by the Board of Directors, all matters regarding the management of the Company’s administrative, financial, control, legal, tax, insurance, human resources and information technology affairs in addition to industrial and commercial matters and services. The Deputy Chairman has the powers to guide and coordinate all such activities by Group companies through the relevant operational designees and always within the limits of the Board of Directors strategic policies.

In exercising such powers, the Deputy Chairman may determine rules for the various internal departments, assign responsibilities, appoint attorneys-in-fact with single or joint signing authorities in addition to issuing orders and requirements for the organisation and functioning of the Company. Such powers may be delegated with respect to amounts between Euro 5 million and Euro 30 million.

Executive Deputy Chairwoman: Diva Moriani

The Deputy Chairwoman, Diva Moriani, was assigned the task of managing and coordinating – in agreement with the Deputy Chairman Vincenzo Manes – the activities of extraordinary nature which aim to acquire and sell companies as well as the trading and attainment of alliances and agreements for the strategic development of the Company, the Group or its specific productive segments.

The Board of Directors assigned to the Deputy Chairwoman Diva Moriani the powers for the management of the Company’s administrative, financial, control, legal, tax, insurance and information technology affairs in addition to industrial and commercial matters and services and also human resources and internal communication; the Deputy Chairwoman has the powers to guide and coordinate all such activities by Group companies through the relevant operational designees and always within the limits of the strategic policies decided by the Board of Directors and by the Deputy Chairman Vincenzo Manes.

In exercising such powers, the Deputy Chairwoman may determine rules for the various internal departments, assign responsibilities, appoint attorneys-in-fact with single or joint signing authorities in addition to issuing orders and requirements for the

organisation and functioning of the Company. Such powers may be delegated with respect to amounts between Euro 2 million and Euro 15 million.
It should be noted that, in the past month of July, Diva Moriani joined the *Vorstand* of KME A.G., in which the two Directors and General Managers Riccardo Garrè and Italo Romano, as well as Roelf Evert Reins, are also members.
General Managers:
- Director Riccardo Garrè has the powers for the management of the Company's and the Group's industrial, commercial and procurement operations in the copper sector, within the limits and pursuant to the guidelines established by the Board of Directors and the Deputy Chairpersons;
- Director Italo Romano has the powers for the management of the Company's and the Group's administration, finance, planning, control, internal communication and information technology areas, within the limits and pursuant to the guidelines established by the Board of Directors and the Deputy Chairpersons.

Other appointments
- On 27 June 2012, the Special Savings Shareholders' Meeting met for the appointment of its Common Representative for the years ending 31 December 2012, 2013 and 2014; Mr. Pietro Greco was appointed.

New corporate governance regulations and amendments to the Articles of Association
The Articles of Association must be amended soon due to the new provisions relative to "gender quotas" (Law no. 120 of 12 July 2011).
Other amendments will have to be introduced due to the very recent so-called "Corrective Decree" which modified certain provisions relative to the regulation of shareholder rights for the purposes of providing even greater incentives for their participation in the life of the Company. Particular attention must, for instance, be directed towards the norms which provides for ordinary convocation modalities for the Meeting in a single location.
In addition, the extraordinary transaction in progress will result in innovative and important changes to the Articles of Association with particular reference to the composition of the share capital and the appointment of members of the Board of Directors. The most important change is the one that provides for the reservation of a position within the Board of Directors for a Director appointed by the owners of the (SFI) Shareholding Financial Instruments which will be issued upon delivery of the ordinary shares of the Company.
Finally, the effectiveness of the merger of iNTEk S.p.A. into KME Group S.p.A. will result in the change of the company name to iNTEk Group S.p.A.

Subsequent events

There is no additional information to report, other than that reported above; with regard to the executive process relative to corporate operations approved by the Shareholders during the meeting of 9 May 2012, please refer to the relative paragraph.

Florence, 3 August 2012

Board of Directors (signed on the original)

Condensed interim consolidated financial statements as at and for the six months ended 30 June 2012.

Consolidated statement of financial position

(thousands of Euro)	note	30.06.2012	of which related parties	31.12.2011	of which related parties
Property, plant and equipment	*4.1*	574,009		580,114	
Investment property	*4.2*	30,830		30,812	
Goodwill and goodwill arising on consolidation	*4.3*	118,364		118,367	
Other intangible assets	*4.4*	3,033		2,982	
Investments in subsidiaries and associates	*4.5*	15,953	*15,953*	15,152	*15,152*
Investments in other companies	*4.5*	258	*258*	258	*258*
Investments in equity-accounted investees	*4.5*	45,015	*45,015*	47,826	*47,826*
Other non-current assets	*4.6*	7,828		8,560	
Non-current financial assets	*4.7*	4,154		4,589	
Deferred tax assets	*4.20*	28,028		31,491	
NON-CURRENT ASSETS		**827,472**		**840,151**	
Inventories	*4.8*	586,203		607,483	
Trade receivables	*4.9*	125,671	*7,520*	129,489	*6,835*
Other current receivables and assets	*4.10*	30,699		31,980	
Current financial assets	*4.11*	153,885	*10,419*	251,902	*7,182*
Cash and cash equivalents	*4.12*	74,219		66,483	
CURRENT ASSETS		**970,677**		**1,087,337**	
TOTAL ASSETS		**1,798,149**		**1,927,488**	
Share capital		297,041		297,041	
Other reserves		177,016		186,674	
Treasury shares	*2.11*	(2,680)		(2,680)	
Retained earnings		72,188		72,188	
Consolidation reserves	*4.13*	(111,729)		(107,852)	
Reserve for other items of comprehensive income	*4.13*	(491)		(80)	
Loss for the year/period		(17,785)		(14,292)	
Equity attributable to owners of the Parent	*2.11*	**413,560**		**430,999**	
Equity attributable to non-controlling interests		5,806		6,062	
TOTAL EQUITY	*2.11*	**419,366**		**437,061**	
Employee benefits	*4.14*	153,926		153,439	
Deferred tax liabilities	*4.20*	115,704		119,133	
Financial payables and liabilities	*4.15*	327,985		266,669	
Other non-current liabilities	*4.16*	20,616	*2,279*	20,320	*2,133*
Provisions for risks and charges	*4.17*	15,298		17,128	
NON-CURRENT LIABILITIES		**633,529**		**576,689**	
Financial payables and liabilities	*4.18*	127,405	*2,676*	247,776	*2,417*
Trade payables	*4.19*	484,506	*931*	526,938	*701*
Other current liabilities	*4.19*	120,318	*491*	123,009	*563*
Provisions for risks and charges	*4.17*	13,025		16,015	
CURRENT LIABILITIES		**745,254**		**913,738**	
TOTAL EQUITY AND LIABILITIES		**1,798,149**		**1,927,488**	

Consolidated statement of comprehensive income

(thousands of Euro)	Notes	Six months ended 30.06.2012	*of which related parties*	Six months ended 30.06.2011	*of which related parties*
Revenue from sales and services	*5.1*	1.365.562	*10.105*	1.595.738	*12.092*
Change in inventories of finished goods and semi-finished products		(913)		3.788	
Capitalised internal work		1.852		1.471	
Other operating income	*5.2*	6.911	*53*	8.781	*23*
Purchases and change in raw materials	5.3	(1.019.059)	*(21)*	(1.171.542)	*(2.456)*
Personnel expense	*5.4*	(167.769)	*(227)*	(177.226)	*(518)*
Amortisation, depreciation and impairment losses	*5.5*	(24.788)		(22.443)	
Other operating costs	*5.6*	(161.737)	*(1.651)*	(190.378)	*(1.968)*
Operating profit		**59**		**48.189**	
Financial income	*5.7*	7.512	*599*	10.831	*379*
Financial expenses	*5.7*	(18.573)	*(301)*	(13.904)	*(42)*
Share of profit (loss) of equity-accounted investees	*5.8*	(2.750)	*(2.750)*	(580)	*(580)*
Profit/(loss) before taxes		**(13.752)**		**44.536**	
Current taxes	*5.9*	(3.526)		(4.898)	
Deferred taxes	*5.9*	(160)		(14.116)	
Total income taxes		**(3.686)**		**(19.014)**	
Profit/(loss) from continuing operations		**(17.438)**		**25.522**	
Profit /(loss) from discontinued operations	*5.10*	-	-	(573)	*(573)*
Profit/(loss) for the period		**(17.438)**		**24.949**	
Other components of total comprehensive income:					
Gains/(losses) on translation of financial statements of foreign operations		368		(797)	
Net change in the cash flow hedge reserve		(400)		475	
Revaluation of real estate assets (IAS 40)		-		-	
Taxes on other components of total comprehensive income		-		-	
Other components of totsl comprehensive income after taxes		**(32)**		**(322)**	
Total comprehensive income/(loss) for the period		**(17.470)**		**24.627**	
Profit/(loss) for the period attributable to:					
non-controlling interests		347		(446)	
owners of the Parent		(17.785)		25.395	
Profit/(loss) for the period		**(17.438)**		**24.949**	
Total comprehensive income/(expense) attributable to:					
non-controlling interests		104		(202)	
owners of the Parent		(17.574)		24.829	
Total comprehensive income/(expense) for the period		**(17.470)**		**24.627**	

Earnings per share (Euro):	Six months ended 30.06.2012	Six months ended 30.06.2011
basic earnings/(loss) per share	(0,0468)	0,0506
diluted earnings/(loss) per share	(0,0468)	0,0478

Statement of changes in consolidated equity at 30 June 2012

(thousands of Euro)	Share capital	Other reserves	Treasury shares	Retained earnings	Consolidation reserve	Other comprehensive income	Profit/(loss) for the year/period	Total equity attributable to owners of the Parent	Equity attributable to non-controlling interests	Total equity
Equity at 31.12.2011	**297,041**	**186,674**	**(2,680)**	**72,188**	**(107,852)**	**(80)**	**(14,292)**	**430,999**	**6,062**	**437,061**
Allocation of Parent's profit/(loss) for the year		(9,885)		-			9,885	-		-
Allocation of subsidiaries' profit for the year					(4,407)		4,407	-		-
Dividends and allocations to the Board of Directors		-						-	(694)	(694)
Issue of new shares (exercise of warrants)	-	-						-		-
(Purchase) sale of treasury shares		-	-					-		-
Deferred taxes recognised in equity						(11)		(11)		(11)
Expiry of stock option		227						227		227
Other changes		-		-	266	-		266	(13)	253
Other components of total comprehensive income					264	(400)		(136)	104	(32)
Total losses/income recognised in equity	**-**	**-**	**-**	**-**	**264**	**(400)**	**-**	**(136)**	**104**	**(32)**
Profit/(loss) for the period							(17,785)	(17,785)	347	(17,438)
Total comprehensive income	**-**	**-**	**-**	**-**	**264**	**(400)**	**(17,785)**	**(17,921)**	**451**	**(17,470)**
Equity at 30.06.2012	**297,041**	**177,016**	**(2,680)**	**72,188**	**(111,729)**	**(491)**	**(17,785)**	**413,560**	**5,806**	**419,366**
Reclassification of treasury shares	(2,680)		2,680					-		-
Equity at 30.06.2012	**294,361**	**177,016**	**-**	**72,188**	**(111,729)**	**(491)**	**(17,785)**	**413,560**	**5,806**	**419,366**

At 30.06.12 the Parent directly held 135,831 savings shares and 7,602,700 ordinary shares with no par value. Their historical cost has been fully reclassified, thus reducing the share capital.

Statement of changes in consolidated equity at 30 June 2011

(thousands of Euro)	Share capital	Other reserves	Treasury shares	Retained earnings	Consolidation reserve	Other comprehensive income	Profit/(loss) for the year/period	Total equity attributable to owners of the Parent	Equity attributable to non-controlling interests	Total equity
Equity at 31.12.2010	**297,014**	**189,572**	**(2,888)**	**15,191**	**(29,267)**	**794**	**(18,351)**	**452,065**	**4,952**	**457,017**
Allocation of Parent's profit/(loss) for the year		11,045		50,056			(61,101)	-	-	-
Allocation of subsidiaries' profit for the year					(79,452)		79,452	-	-	-
Dividends and allocations to the Board of Directors		(7,990)						(7,990)	-	(7,990)
Issue of new shares (exercise of warrants)								-	-	-
Share capital increase								-	-	-
(Purchase) sale of treasury shares		18	208					226	-	226
Deferred taxes recognised in equity						(11)		(11)	-	(11)
Expiry of stock option		517						517	-	517
Other changes (*)		(6,941)		6,941	(428)			(428)	(3)	(431)
Other components of total comprehensive income					(595)	475		(120)	(202)	(322)
Total losses/income recognised in equity	**-**	**-**	**-**	**-**	**(595)**	**475**	**-**	**(120)**	**(202)**	**(322)**
Profit/(loss) for the period							25,395	25,395	(446)	24,949
Total comprehensive income/(loss)	**-**	**-**	**-**	**-**	**(595)**	**475**	**25,395**	**25,275**	**(648)**	**24,627**
Equity at 30.06.2011	**297,014**	**186,221**	**(2,680)**	**72,188**	**(109,742)**	**1,258**	**25,395**	**469,654**	**4,301**	**473,955**
Reclassification of treasury shares	(2,680)		2,680					-		-
Equity at 30.06.2011	**294,334**	**186,221**	**-**	**72,188**	**(109,742)**	**1,258**	**25,395**	**469,654**	**4,301**	**473,955**

(*) The negative change in consolidation reserves is due largely to the initial consolidation of the Drive Group.

At 30.06.11 the Parent directly held 135,831 savings shares and 7,602,700 ordinary shares with no par value. Their historical cost has been fully reclassified, thus reducing the share capital.

Consolidated statement of cash flow, indirect method

(thousands of Euro)	Six months ended 30.06.2012	Six months ended 30.06.2011
(A) Cash and cash equivalents at the beginning of the year	**66,483**	**39,751**
Profit (loss) before taxes	(13,752)	44,536
Depreciation and amortisation	23,375	22,781
Impairment losses on current assets	1,814	3,795
Impairment losses (reversal of impairment losses) on non-current assets other than financial assets	1,413	(338)
Impairment losses (reversal of impairment losses) on current and non-current financial assets	607	-
Losses (gains) on disposal of non-current assets	(3)	137
Changes in provisions for pensions, post-employment benefits and stock options	172	178
Changes in provisions for risks and charges	(4,967)	13,005
Decrease (increase) in inventories	21,961	(19,870)
Share of profit of equity-accounted investees	2,750	580
(increase) decrease in current receivables	3,303	(13,485)
Increase (decrease) in current payables	(45,613)	122,631
Changes from currency translation	(51)	682
Decrease (increase) in LME and metals forward contracts	(11,331)	(60,409)
Paid taxes	(3,509)	(5,247)
(B) Cash flows from operating activities	**(23,832)**	**108,976**
(increase) in non-current intangible assets and property, plant and equipment	(18,395)	(15,411)
Decrease in non-current intangible assets and property, plant and equipment	325	621
(increase) decrease in investments	(1,405)	(3,339)
(increase) decrease in available-for-sale financial assets	-	-
Increase/decrease in other non-current assets/liabilities	1,028	(316)
Dividends received	194	271
(C) Cash flows from investing activities	**(18,254)**	**(18,174)**
Equity cash variations	-	-
(Purchase) sale of treasury shares	-	226
Increase (decrease) in current and non-current financial payables	(49,167)	5,399
(increase) decrease in current and non-current financial receivables	99,683	(44,131)
Dividends paid and profits distributed	(694)	(7,990)
(D) Cash flows from financing activities	**49,822**	**(46,496)**
(E) Change in cash and cash equivalents (B)+(C)+(D)	**7,736**	**44,306**
(F) Change in scope of consolidation	**-**	**-**
(G) Total cash flows used in discontinued operations	**-**	**154**
(H) Cash and cash equivalents at the end of the year (A)+(E)+(F)+(G)	**74,219**	**84,211**

Positions or transactions with related parties are not separately recorded in the statement of cash flows since their amount is negligible.

Accounting standards applied and notes

1. General information

KME Group S.p.A. ("KME") and its subsidiaries (that together make up the "Group") operate mainly in the copper and copper-alloy semi-finished products, services and renewable energy sectors.
The Group owns industrial plants in various European countries and sells its products in all the major countries of the world.
KME Group is a joint stock company (*Società per Azioni*) registered in Italy with the Florence Company Register, no. 00931330583, and its shares are listed on the Mercato Azionario Telematico (Borsa Italiana's electronic market) organised and managed by Borsa Italiana S.p.A.
The condensed interim consolidated financial statements as at and for the six months ended 30.06.12 were approved by the Board of Directors on 03.08.12 and will be published in accordance with legal requirements.
Although it is owned by Quattroduedue B.V., the Company is not subject to the management and coordination of Quattroduedue pursuant to articles 2497 *et seq.* of the Italian Civil Code and article 37 of the Market Regulations due to the fact that:

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

For further information relative to the extraordinary operations proposed by the Board of Directors and deliberated by the Shareholders' Meeting, please refer to the Report on Operations contained in this file as well as the documentation made available by the companies.

2. Accounting policies

2.1 Basis of presentation

The condensed interim consolidated financial statements as at and for the six months ended 30.06.12 have been prepared pursuant to article 154 *ter* paragraph 2 of Italian Legislative Decree no. 58/1998 as subsequently amended and added to.
The condensed interim consolidated financial statements were prepared in compliance with the requirements for measurement and recognition under International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and endorsed by the European Commission in accordance with the procedure set forth in article 6 of Regulation (EC) 1606/2002 of the European Parliament and Council of 19 July 2002 and with requirements in implementation of article 9 of Legislative Decree 38/2005, where applicable.

In particular, the condensed consolidated interim financial statements as at 30 June 2012 - included in the interim financial report – were prepared in compliance with IAS 34 "Interim Financial Reporting", as issued by the IASB, and consist of the consolidated statement of comprehensive income, the consolidated statement of financial position, the condensed consolidated cash flow statement, the statement of changes in consolidated equity as well as the relative explanatory notes.
In preparing these condensed interim consolidated financial statements, the Directors have applied the concepts of accruals, going concern, clarity, significance, materiality, reliability, neutrality, prudence and comparability and applied the same accounting standards as those used for the consolidated financial statements as at and for the year ended 31 December 2011.
The explanatory notes, in accordance with IAS 34, are reported in summary form and do not include all the information required during the drafting of the annual financial statements given that they exclusively refer to those components which – by amount, composition or changes – are essential for understanding the financial position, financial performance and cash flows of the Group. As a result, this report must be read in conjunction with the 2011 consolidated financial statements.

It should be noted that IASB has not published amendments and new accounting standards during the first six months of 2012.

The Group has not yet applied the accounting standards which are listed below in paragraph 2.22 and which, although already issued by the IASB, become effective after the date of these separate condensed financial statements as at 30.06.12.

Events and transactions affecting the Company are recognised and presented with respect to their economic substance rather than legal form.

Specific notes contained in the Directors' Report disclose the content and meaning of the alternative performance measures, where applicable, which, although not required by IAS-IFRS, are in compliance with CESR recommendation 05 - 178b published on 3 November 2005.

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

2.2 Basis of Consolidation

(a) Subsidiaries

Subsidiaries are all those companies over which KME exercises control of financial and operating policies, which is generally accompanied by exercising more than 50% of the voting rights in corporate bodies.
The assets and liabilities, income and expenses of the subsidiaries consolidated on a line-by-line basis are recognised in the condensed interim consolidated financial statements at their full value;

the carrying amount of the investments is eliminated by offsetting it against the underlying interest in the respective equity, and the individual assets and liabilities are measured at their fair value at the date when control of the investee was established. Any difference, if positive, is recognised as “goodwill and goodwill arising on consolidation” and in the income statement, if negative. The portion of equity and profit attributable to non-controlling interests is recognised under the relevant items. After initial recognition, “goodwill” is measured at cost less accumulated impairment losses as required by IAS 36 - *Impairment of Assets*.
Non-significant subsidiaries and companies the consolidation of which does not produce significant effects are not included in the scope of the consolidation. These are generally companies with operations consisting entirely of sales. Ignoring such companies has no material effect on the Group’s financial statements and will have no influence on the business decisions of the financial statements’ users.
Unrealised profits on intragroup transactions, if material, are eliminated. Receivables, payables, income, expenses, guarantees, commitments and contingencies in connection with transactions between and among consolidated companies are also eliminated. Intragroup losses are not eliminated as they are deemed to represent an impairment loss on the asset sold. All financial statements of subsidiaries have been adjusted to ensure consistency of accounting policies and standards with those of the Group.
The reporting year of all consolidated subsidiaries is the calendar year.
In the case of the sale or transfer of an investee company, the removal from the consolidation area is accounted for from the date of effective loss of control.
In the case of the transfer of a subsidiary to a jointly controlled company or an associate, the recognition of the profit or loss from the loss of control is reflected in the income statement.
In particular, it should be noted that, in some circumstances, the company has chosen to adopt as its accounting standard that envisaged by IAS 27 which provides for the profit or loss to be recognised in full on the income statement at the time of the loss of control; the alternative treatment, which the company has chosen not to adopt, is that envisaged by IAS 28, IAS 31 and SIC 13 which provides for the elimination to be applied solely for the share of the equity investment being disposed of.

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

List of subsidiaries consolidated on a line-by-line basis						
Company name	**Country**	**Currency**	**Share/ quota Capital**	**Activity**	**% control**	
					direct	**indirect**
KME Group S.p.A. (*)	Italy	Euro	297,040,568	Finance	Parent	
KME A.G.	Germany	Euro	142,743,879	Holding	100.00%	
KME Germany A.G. & Co. K.G.	Germany	Euro	180,001,000	Copper and copper-alloy		100.00%
KME Italy S.p.A.	Italy	Euro	103,839,000	Copper and copper-alloy		100.00%
KME France S.A.S.	France	Euro	15,000,000	Copper and copper-alloy		100.00%
KME Spain S.A.	Spain	Euro	1,943,980	Trade		100.00%
KME LOCSA S.A.	Spain	Euro	10,040,000	Copper and copper-alloy		100.00%
KME Verwaltungs und Dienst. mit beschr.	Germany	Euro	10,225,838	Non-operating		100.00%
KME Architectural Metals GmbH	Germany	Euro	25,564	Holding		100.00%
Kabelmetal Messing Beteiligungsges mbH Berlin	Germany	Euro	4,514,200	Real estate		100.00%
KME Architectural Metals GmbH & CO KG	Germany	Euro	1,329,359	Copper and copper-alloy		100.00%
Cuprum S.A.	Spain	Euro	60,910	Services		100.00%
Bertram GmbH	Germany	Euro	300,000	Services		100.00%
KME Ibertubos S.A.	Spain	Euro	332,100	Copper and copper-alloy		100.00%
KME Yorkshire Ltd	UK	GBP	10,014,603	Copper and copper-alloy		100.00%
Yorkshire Copper Tube	UK	GBP	3,261,000	Non-operating		100.00%
Yorkshire Copper Tube (Exports) Ltd.	UK	GBP	-	Non-operating		100.00%
KME Brass Germany Gmbh	Germany	Euro	50,000	Copper and copper-alloy		100.00%
KME Brass France S.A.S.	France	Euro	7,800,000	Copper and copper-alloy		100.00%
KME Moulds Mexico S.A. de C.V.	Mexico	MXN	7,462,226	Trade		100.00%
Dalian Dashan Chrystallizer Co. Ltd	China	RMB	40,000,000	Copper and copper-alloy		70.00%
Dalian Surface Machinery Ltd	China	RMB	5,500,000	Copper and copper-alloy		70.00%
Dalian Heavy Industry Machinery Co. Ltd.	China	RMB	20,000,000	Copper and copper-alloy		70.00%
KME Brass Italy S.r.l.	Italy	Euro	15,025,000	Copper and copper-alloy		100.00%
KME Service S.r.l.	Italy	Euro	115,000	Finance		100.00%
EM Moulds S.r.l.	Italy	Euro	115,000	Trade		100.00%
KME Recycle S.r.l.	Italy	Euro	2,000,000	Finance	100.00%	
KME Partecipazioni S.r.l.	Italy	Euro	47,900,000	Holding	100.00%	
Immobiliare Agricola Limestre S.r.l.	Italy	Euro	110,000	Real estate		100.00%
KME Moulds Service Australia Pty Limited	Australia	AUD	100	Trade		65.00%
KME Service Russland Ltd	Russia	RUB	10,000	Trade		70.00%
Metalbuyer S.r.l.	Italy	Euro	500,000	Metal Trade		100.00%
Valika S.A.S.	France	Euro	200,000	Metal Trade		51.00%

(*) Share capital on the date of these condensed interim consolidated financial statements.

At the date of these condensed interim consolidated financial statements there have been no changes to the scope of the consolidation since 31 December 2011.

(b) Associates

Associates are all those companies over which KME exercises significant influence but not control. Significant influence is deemed to exist when KME holds, directly or indirectly through subsidiaries, 20% or more of the voting rights in the investee. Investments in associates are consolidated using the equity method.

Under the equity method, the investment is initially recognised at cost and then adjusted to recognise the percentage of post-acquisition profits or losses attributable to owners of the Parent. Dividends received are deducted from the carrying amount of the investment.
At the date of these condensed interim consolidated financial statements there were no associates consolidated through the equity method.

(c) Joint ventures

A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control. Joint control is the contractually agreed sharing of control over an economic activity.
Joint ventures are equity accounted as required by IAS 31, paragraphs 38-41.
At the date of these condensed interim consolidated financial statements, the Group owned entities arising from the equity investment of 43,981,434 ordinary shares or 46.38% of the share capital of ErgyCapital S.p.A. Despite the absence of an equal proportion of voting rights, control of the economic activity and strategic guidelines of this investee is divided with the partner Aledia S.p.A. by virtue of the contracts that pledge 25,412,895 ordinary shares of ErgyCapital S.p.A. or 26.80% of the share capital held, following the conferral to KME Partecipazioni S.r.l. which took place in 2011, by the Parent KME Group S.p.A.
Furthermore the Group continues to hold, with the same objectives, purposes and for a short term period, 5,277,893 ordinary shares or 5.6% of the share capital of ErgyCapital S.p.A. classified, as in previous years, under financial assets held for trading.
Therefore effective from 29 June 2011, KME Partecipazioni S.r.l. is to be considered as having all the rights and obligations provided by the contractual agreements which previously bound KME Group S.p.A. directly.
Effective as of 1 July 2011, the Group also retains - through the subsidiary KME Partecipazioni S.r.l. following a transfer from the parent KME Group S.p.A. – jointly-controlled economic assets deriving from an equity investment of 41,425,750 ordinary shares, or 42.68% of the share capital, of Cobra A.T. S.p.A. In addition, the Group owns 8,595,918 ordinary shares, or 8.86% of the share capital, of Cobra A.T. S.p.A.; the latter are classified under financial assets held for trading given that they are solely owned for short-term purposes. In this case too the control over the economic activity and the strategic direction of the investee is shared with Cobra A.T. SA by virtue of contractual agreements which contain commitments for the stable regulation of corporate governance and reciprocal dealings as shareholders, under which the company does not have the power to appoint the majority of the members of the Board of Directors and only has minority voting rights on the Board since two-fifths of the members appointed to it must have the prerequisites for independence pursuant to art. 147-*ter*, TUF.

2.3 Foreign currency transactions

(a) Functional and presentation currency

All amounts are expressed in Euros which is also the Parent’s functional currency.

(b) Translation of foreign currency financial statements

Financial statements in currencies other than the Euro are translated using the average exchange rates for the period for statement of comprehensive income items and the relevant closing exchange rates for statement of financial position items.

The exchange rates used for the translation of foreign currencies are those set by the European Central Bank at the end of the reporting period:

1 Euro	0.8353 GBP	31.12.2011
1 Euro	0.8068 GBP	30.06.12 used for translation of the statement of financial position
1 Euro	0.8232 GBP	2012 average used for translation of the statement of comprehensive income

1 Euro	8.1588 RMB	31.12.2011
1 Euro	8.0011 RMB	30.06.12 used for translation of the statement of financial position
1 Euro	8.2106 RMB	2012 average used for translation of the statement of comprehensive income

1 Euro	18.0512 MXN	31.12.2011
1 Euro	16.8755 MXN	30.06.12 used for translation of the statement of financial position
1 Euro	17.2190 MXN	2012 average used for translation of the statement of comprehensive income

1 Euro	1.2723 AUD	31.12.2011
1 Euro	1.2339 AUD	30.06.12 used for translation of the statement of financial position
1 Euro	1.2577 AUD	2012 average used for translation of the statement of comprehensive income

1 Euro	41.7650 RUB	31.12.2011
1 Euro	41.3700 RUB	30.06.12 used for translation of the statement of financial position

1 Euro	39.8437 RUB	2012 average used for translation of the statement of comprehensive income

The difference between the profit for the period resulting from translation using the average rates for the period and that which results from the translation using the rates at end December, is recognised in the consolidation reserves (Group portion) and in Equity attributable to non-controlling interests (non-controlling interests portion). These differences, in the event of disposal, will be recognised in profit or loss together with any other gains or losses relating to the disposal of the relevant investment.

2.4 Property, plant and equipment

Investments in operating assets

Property, plant and equipment are recorded at purchase or production cost, including direct accessory costs, and are shown net of accumulated depreciation and any impairment determined in accordance with the methods set out below. Any item of property, plant and equipment consisting of different components with varying useful lives, is separately accounted for.

Property, plant and equipment are measured at cost, net of accumulated depreciation and impairment losses, with the exception of land which is not depreciated and is carried at cost net of accumulated impairment losses.

Ordinary maintenance costs are charged to the income statement, while the costs to replace parts of fixed assets and extraordinary maintenance costs are capitalised when it is possible that future measureable economic benefits will arise from them.

Depreciation is accounted for from the month the asset becomes available for use, or when it is potentially able to provide the economic benefits associated with it. Depreciation is charged monthly on a straight line basis until the end of the useful life of the relevant asset or, in the event of disposal, until the last month of use.

The useful life is constantly checked taking into account any changes in the frequency of use of the assets and any changes in depreciation plans are applied prospectively.

Should events occur which indicate possible impairment of property, plant and equipment, or when there are marked reductions in the market value of these assets, significant technological changes or significant obsolescence, the residual value is subject to verification on the basis of the estimated present value of forecast future cash flows and, if necessary, is adjusted. This impairment is subsequently eliminated when the conditions which caused it to be recorded no longer exist.

Land, whether it is unoccupied or is connected to ancillary and industrial buildings, is not amortised since it is considered to have an indefinite useful life.

Depreciation is charged based on the following useful lives:

Property	from 25 to 50 years
Plant and machinery	from 10 to 40 years
Other equipment	from 5 to 15 years

Borrowing costs relating to the purchase of property, plant and equipment have been capitalised in compliance with IAS 23.
Replacement parts of significant value are capitalised and depreciated based on the useful life of the asset to which they refer; low value replacement parts are recognised in profit or loss when the expense is incurred.
The cost of internally produced assets includes material costs and direct labour plus any other directly attributable costs incurred in bringing the asset to its intended location and preparing it for its intended use.

Assets under finance leases
Assets acquired under finance leases are recognised as property, plant and equipment together with the corresponding liability. The cost of the lease is separated into two components: financial expense, recognised in profit or loss, and repayment of principal, recognised as a reduction of financial liabilities. Assets held under finance leases are recognised at the lower of cost and the present value of minimum lease payments at the inception of the lease. Assets held under finance leases are depreciated over the shorter of the lease term and their useful lives unless there is reasonable certainty that the company will obtain title to the asset at the end of the lease.

Property, plant and equipment are tested for impairment whenever there is specific objective evidence thereof. The test involves estimating the recoverable amount of the asset, defined as the higher of fair value less costs to sell and value in use, and comparison of the appropriate value with the net carrying amount. The recoverable amount is the greater of value in use and its fair value less costs to sell. Value in use is determined by discounting projected cash flows at a pre-tax discount rate that reflects current market estimates of the time value of money and the risks associated with the relevant asset. To the extent that the recoverable amount is less than the carrying amount, the carrying amount is reduced to the recoverable amount with the difference either being recognised in profit or loss or in a revaluation reserve previously created on the revaluation of the relevant asset. Subsequent revaluations are treated analogously. For information on the impairment test refer to the indications in the following paragraph.

2.5 Intangible assets

(a) Goodwill

Goodwill is the difference between the acquisition cost of investments and the current value of the subsidiaries' assets, liabilities and contingent liabilities on the acquisition date. Goodwill and other intangible assets with indefinite useful lives are not amortised. Recoverability of their carrying amounts is, however, tested annually and whenever there is objective indication of impairment. Any impairment losses recognised are not subsequently reversed.
In particular, for the purposes of the impairment test conducted on 31 December 2011, for the segment of semi-finished products in copper and copper-alloys consisting of the subsidiaries KME AG and KME Recycle and their subsidiaries, the Plan for 2012-2017 was used, as approved by the Board of Directors in January 2012.

Even though the Group's business primarily relates to products for industry and construction, these areas are not considered operating segments pursuant to IFRS 8 due to the fact that the nature of the products, production processes, assets used for the production processes and the methods of distribution are substantially the same. As a result, goodwill subject to this impairment has been allocated to the "copper and copper-alloy semi-finished products" segment, which is substantially in line with the scope of consolidation in the condensed interim consolidated financial statements of the subsidiary KME AG and KME Recycle.

The impairment tests were carried out to determine the value in use of the assets subject to impairment testing and therefore through the present value of the expected future operational cash flows over two time periods, the first defined on the basis of the aforementioned new business plan compiled by the management and the second on the basis of the terminal value.
As of 30 June 2012, and in accordance with IAS 36, certain qualitative and quantitative indicators were monitored in order to verify the existence or non-existence of the conditions required to conduct an impairment test on a more frequent basis compared to the ordinary annual frequency.
As part of this test – approved by the Board of Directors on 3 August 2012 – the potential presence of both internal and external qualitative and quantitative indicators was analyzed, both with reference to the sector of semi-finished products in copper and copper-alloys as well as with reference to the carrying amount of equity investments in Cobra Automotive Technologies S.p.A. and Ergy Capital S.p.A..
In carrying out this review – and particularly with reference to the sector of semi-finished products in copper and copper-alloys – a sensitivity analysis of the impairment test conducted on 31 December 2011 was implemented in order to take into account the performances of the first half year of 2012 as well as the consequent actions implemented by the directors.
In light of the implemented analyses and the conclusions approved by the Board of Directors - and after taking into account both internal and external qualitative and quantitative indicators, jointly analyzed and evaluated – no elements emerged which indicated that the assets could have been subject to impairment, both with reference to the sector of semi-finished products in copper and

copper-alloys as well as with reference to the carrying amount of equity investments in Cobra Automotive Technologies S.p.A. and Ergy Capital S.p.A..

(b) Other intangible assets with finite useful lives

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

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

In the first two instances, intangible assets, including directly attributable expenses, are initially recognised at cost or fair value, respectively. They are then systematically amortised based on their useful life, which is the period over which the assets will be used by the company, generally between three and five years. In addition, they are carried net of any impairment losses, in line with the accounting treatment for “property, plant and equipment”. The residual value of intangible assets at the end of their useful life is assumed to be zero.
Internally generated assets are capitalised only to the extent they meet the requirements of IAS 38, paragraph 57.

2.6 Investment property

These are two building complexes, one located in Limestre and the other in Campo Tizzoro, consisting of land and buildings which are held for lease or for appreciation of the invested capital or both, and they are not held for sale as part of the normal operations of the company. Such properties are not held for the production or supply of the goods and services relating to the company’s core business. These assets are initially recognised at fair value with any subsequent changes recognised in profit or loss and are, consequently, not systematically depreciated. The fair value of investment property was appraised, at the end of the year 2010, on the basis of an assessment prepared by a recognised and suitably qualified professional. It should be noted that, as of 30 June 2012, an internal update on the fair value measurement of investment property was implemented and an independent third party has been entrusted with the task of updating the fair value measurement; the latter will complete this detailed assessment for the purposes of preparing the financial statements as of 31 December 2012.

2.7 Financial assets and liabilities

For the reasons explained in paragraph 2.2, investments in unconsolidated subsidiaries are carried at fair value or cost less accumulated impairment losses pursuant to IAS 27 par. 38
Other investments are recognised at fair value through equity. When fair value cannot be reliably

determined, the investments are measured at cost adjusted for accumulated impairment losses.
Non-derivative financial assets with fixed or determinable payments or payments which have a specific due date, that the company intends and has the ability to hold until maturity, are designated as "*Held-to-maturity assets*". The assets included in this category are measured at amortised cost using the effective interest method pursuant to IAS 39.
Financial assets and liabilities acquired or held primarily to be sold or repurchased in the short term and derivative financial instruments not designated as hedging instruments are classified as "*Financial assets or liabilities at fair value through profit or loss*" separately indicating those that were classified as such on initial recognition (*fair value option*). These assets are measured at fair value through profit or loss. This category also includes LME contracts and all metal forward sales/purchase contracts used to hedge raw material price risk.

Non-derivative financial assets and liabilities, except for equity instruments, with fixed or determinable payments, not listed on an active market and not included in any of the above categories, are classified as "*Loans and receivables*" and are carried at amortised cost using the effective interest method. The amortised cost of current *loans and receivables* and all short-term trade payables and receivables, for which the time value of money is immaterial, is deemed to correspond to their fair value.
All other non-derivative financial assets which are not classified in one of the three categories above are classified as "*Available-for-sale financial assets*" and measured at fair value with changes recognised directly in equity, with the exception of any impairment losses.
Treasury shares are measured at historical cost and recognised as a reduction of consolidated equity. In the event of sale, reissue or cancellation, the consequent profit and losses are recognised directly in equity.

Determination of impairment losses

All financial assets and liabilities, with the exception of "*Financial assets and liabilities at fair value through profit or loss*", are tested for impairment in accordance with IAS 39, paragraphs 58-70.
A financial asset is impaired when there is objective evidence that one or more events have had an adverse effect on estimated future cash flows generated by that asset.

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

For investments in equity-accounted investees, pursuant to IAS 28 par. 31 *et seq.*, IAS 39 is applied to determine the need to recognise any further impairment losses relating to the net investment. The entire carrying amount of the investment is however tested for impairment under IAS 36 by comparing its recoverable amount whenever application of IAS 39 indicates a possible impairment of the investment.

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

Impairment losses are reversed if the subsequent increase in recoverable amount can be objectively related to an event occurring after recognition of the impairment loss. Reversals of impairment losses on assets carried at amortised cost and available-for-sale assets, which are debt instruments, are recognised in profit or loss.

Measurement at fair value

The fair value of financial assets and liabilities at fair value through profit or loss and available-for-sale financial assets, on initial recognition, is determined on the basis of the transaction price and is, therefore, equal to the amount paid or received.
Subsequent, and at the end of each reporting period, the fair value of financial instruments listed on an active market is based on market prices. The market prices used for derivatives are the bid prices, whereas ask prices are used for financial liabilities. The fair value of instruments that are not listed on an active market is determined using measurement techniques, based on a series of methods and assumptions relating to market conditions at the end of the reporting period. The fair value of interest rate swaps is calculated with reference to the present value of expected future cash flows. The fair value of currency forward contracts is determined with reference to the forward exchange rate at the end of the reporting period.
Fair value adjustments of derivative instruments not classified as hedging instruments are immediately recognised in profit or loss.
The fair value of non-derivative financial instruments is determined by discounting future cash flows at the market interest rate for the end of the reporting period.
The fair value of price fixing sales and purchase contracts is determined with reference to the market price at the end of the reporting period of the contract's metal component compared to the contract price. Fair value also reflects counterparty risk and the time value of money through discounting, when this is significant.

2.8 Factoring of receivables

KME Group sells a significant portion of its trade receivables to factors. These assignments can be either with or without recourse. Non-recourse assignments of receivables by the Group are made as required by IAS 39 for the derecognition of assets, since essentially all risks and rewards have been transferred. Factorage on non-recourse assignments of receivables is reported under "Other operating costs". In the event that transactions do not fulfil the requirements of IAS 39, for example receivables assigned with recourse, the receivables remain on the face of the Group's statement of financial position even though title has legally passed, and a contra liability of equal amount is recognised in the condensed interim consolidated statement of financial position. Factorage for receivables assigned with recourse is reported under financial expense.

2.9 Inventories

Goods for resale are measured at the lower of purchase or production cost, including incidental expenses, and estimated realizable value. The cost of inventories generally includes costs incurred to bring the inventories to their current place and condition.
The value of metals and production costs are treated differently:

- Metal (including the metal content of work in progress and finished goods) is measured at cost on a first-in, first-out basis. If necessary, this value is reduced at the end of the period so that it becomes aligned with its estimated realisable value, which is the official price at the end of the reporting period recorded on the LME market.

- The cost of production of work in progress and finished goods includes incidental expenses plus the amount of indirect costs that can reasonably be allocated to the product, excluding administrative expenses, costs to sell and financial expense. The absorption of general expenses in production costs is based on normal production capacity.

Contract work in progress is measured on the basis of the stage of completion and the contractual consideration price less contractual costs.

Supplies and consumables are measured at weighted average cost.

2.10 Cash and cash equivalents

Cash and cash equivalents include cash, demand deposits and highly liquid short-term financial investments that are readily convertible into cash and which are subject to an insignificant risk of changes in value (IAS 7 paragraph 7).

2.11 Equity

Share capital consists of ordinary and savings shares of no par value, fully subscribed and paid up at the end of the reporting period, reduced by any share capital to be received. As required by IAS 32, repurchased treasury shares are recognised as a reduction of subscribed share capital, whilst any premium or discount to par value is recognised as an adjustment to other components of equity. Such adjustments are reported in the notes, whilst the historical cost of owned treasury shares is reported on the face of the statement of financial position as a reduction of equity.

The reserve for treasury shares is no longer used due to the change in presentation introduced by IFRS. The existing balance of the reserve was, consequently, reclassified to the relevant, specific reserves that had been used to create it.
Costs of equity transactions have been charged directly to equity-related reserves with preference given to the share premium reserve.

2.12 Receivables and payables

Receivables and payables are recognised at amortised cost. When the difference between present and par value is insignificant, such as for short-term trade receivables and payables, they are recognised at their par value.

2.13 Current and deferred taxes

Tax expense for the period includes both current and deferred taxation. Income taxes are recognised in profit or loss unless relating to transactions recognised directly in equity in which case the relevant tax is also recognised directly in equity.
The current tax burden represents the estimated tax payable computed on taxable income for the period as determined with reference to current tax rates or those substantially in effect at the end of the reporting period.
Deferred taxes are recognised on temporary differences between the carrying amounts of the assets and liabilities and the corresponding amounts recognised for tax purposes. Deferred taxes are not recognised for the following temporary differences: initial recognition of assets and liabilities for transactions other than business combinations that have no effect on either accounting profit (or loss) or tax profit (or loss); differences relating to investments in subsidiaries and joint ventures to the extent that the difference is not likely to reverse in the foreseeable future. The Group also does not recognise deferred tax liabilities arising on the initial recognition of goodwill. Deferred tax assets and liabilities are measured with reference to tax rates that it is believed will be in effect in the period in which the underlying asset will be recovered or liability paid based on tax rates in effect or substantially in effect at the end of the reporting period. There is an offset of deferred tax assets and liabilities whenever there is a legal right to offset current tax assets and liabilities and if the deferred tax asset or liability relates to income taxes assessed by the same tax authority on the same taxpaying entity or differing taxpaying entities intending to settle the current tax asset or liability on a net basis or to simultaneously recover the asset and pay the liability.
Deferred tax assets are recognised to the extent that it is likely that there will be sufficient future taxable income to absorb them. The carrying amounts of deferred tax assets are tested for impairment at the end of each reporting period and are reduced to the extent that they are not likely to be recoverable.

2.14 Employee benefits

Post-employment benefits are payable under plans which, depending on their terms and conditions, are classified either as “defined contribution plans” or “defined benefit” plans. The Group’s

liability under defined contribution plans is limited to the payment of contributions to a separate legal entity (including the Government or a fund), and consists of contributions due at the end of the reporting period. Liabilities under defined benefit plans, such as post-employment benefits pursuant to article 2120 of the Italian Civil Code, less any plan assets, are determined on the basis of actuarial assumptions and accrued with reference to the length of service required for benefits to become vested. Actuarial gains and losses relating to defined benefit plans deriving from changes in actuarial assumptions or plan terms and conditions are recognised pro-quota in profit or loss using the corridor method, which entails recognition of the net amount of actuarial gains and losses not recorded at the end of the previous period exceeding the greater of 10% of the present value of the obligation and 10% of the fair value of any plan assets.
Italian Law no. 296 of 27 December 2006 and subsequent decrees and regulations enacted during 2007 introduced – as part of pension reform – significant changes concerning the allocation of the portions accruing of post-employment benefits plan. As a result of these changes, the new flows of post-employment benefits can be directed by workers towards forms of supplementary pension provision or retained in the company (in the case of companies with fewer than 50 employees) or transferred to the INPS, the government pension & welfare agency (in the case of companies with more than 50 employees). Basing itself on the generally accepted interpretation of the new rules, the Group decided that:
- post-employment benefits vested at 31 December 2006 but not yet paid at the end of the reporting period are to be classified as defined benefit plans to be measured according to actuarial methods without, however, including the component relating to future pay increases;
- contributions payable both to supplementary pension schemes and INPS for post-employment benefits vesting subsequent to that date are to be classified as defined contribution plans with exclusion, in calculation of the cost of the period, of components relating to actuarial estimates.

The valuation of defined benefit plans was carried out by independent actuaries.

2.15 Provisions for risks and charges

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

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

The amounts provided are, therefore, the best estimates of the expenses needed to settle the obligation or transfer it to third parties at the end of the reporting period. Where the difference between the present and future value of the provision is significant, the provision is discounted to the present value of the payment required to settle the obligation.
Provisions for restructuring costs are recognised only if the Group has a formal detailed plan

showing at a minimum: the operations and main operating units concerned, the costs to be incurred, the approximate number of employees involved and if interested third parties reasonably expect that the entity will restructure because it has already commenced or because a public announcement in that regard has been made.

2.16 Revenue recognition

Revenue from the sale of goods and services is recognised to the extent that it is probable that the Group will obtain economic benefits and the amounts thereof can be reliably determined. It is measured at the fair value of the consideration received or which is expected to be received, with account taken of any returns, rebates, discounts and premiums relating to quantity. Revenue is recognised when the significant risks and rewards of ownership of the goods have been transferred to the buyer, when the recoverability of the consideration is probable and the relevant costs or any returned goods can be reliably estimated.
Although transfer of the risks and rewards of ownership vary depending on conditions of contract, it normally occurs on the physical delivery of the goods. Service revenue, such as work performed for customers, is recognised on the basis of the stage of completion of such work at the end of the reporting period. The progress is then measured with respect to the amount of work performed.

2.17 Leases

Leases are arrangements by which the lessor transfers the right to use an asset for an agreed period of time to the lessee in exchange for payment or a series of payments. Lease arrangements that essentially transfer all risks and rewards deriving from ownership of the asset are defined as “finance leases” even if title does not pass at the end of the lease. Finance leases are recognised as required by IAS 17, paragraphs 20-32.
“Operating leases” are defined as any arrangement for the lease of assets that is not a finance lease.

2.18 Financial income and expenses

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

2.19 Segment reporting

At the operational level, the KME Group is organised in business units according to the products and services it offers and has three operating segments for which information is provided, as follows:

- Copper products: a sector consisting of an industrial grouping which is a leader in the international global production of copper and copper-alloy semi-finished products;
- Energy from renewable sources: a sector consisting of a grouping of companies belonging to the ErgyCapital S.p.A. Group which is active in the area of plant and energy generation from renewable sources, especially in the field of photovoltaic energy;
- Services: through the merger of the subsidiary Drive Rent S.p.A., with effect as from 1 July 2011, the services sector is represented by the COBRA Automotive Technologies S.p.A. group, a company based in Varese and which is the parent company of a group listed on the Italian stock market. It is a leader in the car anti-theft and vehicle safety sector through the use of computer-based and satellite technology.

The management monitors the operating results of the business units separately in order to define the allocation of resources; the results in each sector are assessed on the basis of the operating profit or loss.

There are no transfers of resources between the three major sectors.
Segment information is provided under paragraph 7 of the notes.

2.20 Earnings/(loss) per share

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

1) the numerator is equal to profit attributable to owners of the Parent, adjusted by the profit or loss that is to be set aside, for the current year, for outstanding savings shares less any savings treasury shares held directly or through subsidiaries;
2) the denominator of "basic earnings/(loss) per share" is the weighted average of the outstanding ordinary shares during the year less ordinary treasury shares;
3) the denominator of "diluted earnings/(loss) per share" is the weighted average of the ordinary shares adjusted by adding the number of any new ordinary shares that could be issued through:

- conversion of all outstanding warrants
- exercise of all stock options granted.

For this calculation, it was assumed that stock options were exercised at the beginning of the year and that the conversion and exercise did not result in increased income or decreased expenses.
The calculation at 30.06.12 of the basic loss per share considers the net loss of Euro 17.8 million

(net profit attributable to the parent of Euro 25.4 million for the six months ended 30 June 2011), net of the share due to savings shares, attributable to holders of issued ordinary shares and the weighted average number of ordinary shares (447,347,650), taking account of any stock splits and/or reverse-stock splits and any increases/reduction in share capital pursuant to IAS 33 par. 64. In addition, the potentially diluting effect arising from the conversion of all the stock options was not calculated.

2.21 Use of estimates

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

2.22 Accounting standards not yet applied

At 30 June 2012, certain new standards, revisions to standards and interpretations applicable to the Company had not yet become effective and were not used to prepare these financial statements.

The most important included:

IAS 1 - Presentation of financial statements (Improvement): in the month of June 2012, the process for publication in the Official Journal of the European Union was completed. The document introduces a clarification with regard to the minimum information that must be reported as well as how to present the other components of the “statement of comprehensive income”. The application of the new standard is mandatory from 1 January 2013.

IAS 16 – Property, Plant And Equipment (Classification): the amendment clarifies that maintenance equipment can be capitalised under “property, plant and equipment” rather than under inventory if they have been used for a period longer than one year, regardless of whether they are specifically related to a specific plant or machine or not. On the date of these financial statements, the competent bodies of the European Union had not concluded the endorsement process required for application.

IAS 19 Employee benefits: in the month of June 2012, the process for publication in the Official Journal of the European Union of the new amendment issued on 16 June 2012 - which eliminates the option of deferring the recognition of actuarial profits and losses with the 'corridor method' - was completed. Consequently, it will be necessary to show the total deficit or surplus on the statement of financial position and in cash flows. In the statement of comprehensive income it will be necessary to show the cost components linked to the work performed and the net financial expense; the other components on the statement of comprehensive income, on the other hand, must include the actuarial gains and losses arising from the annual recalculation of assets and liabilities. The application of the new standard is mandatory from 1 January 2013.

IAS 27 – Separate Financial Statements: On 12 May 2011 the IASB issued IFRS 10 – Consolidated Financial Statements which will replace SIC-12 Consolidation – Special Purpose Entities and parts of IAS 27 – Consolidated and Separate Financial Statements. It will establish the accounting treatment for investments in the separate financial statements. The new standard defines the existence of control, for the purposes of consolidation, in various ways and not only as the result of the power to direct financial and operational policies. Therefore, an investor controls an entity when he/she is exposed or is entitled to changes in results arising from his/her involvement with the company and has the possibility of influencing these results through exercise of his/her power over the company. At the date of these separate financial statements, the competent bodies of the European Union had not concluded the endorsement process required for application of the aforementioned amendment. The application of the new standard is mandatory from 1 January 2013.

IAS 32 - Financial instruments (Improvement): introduces clarification in the application of some criteria for the offset of financial assets and liabilities. At the date of these separate financial statements, the competent bodies of the European Union had not concluded the endorsement process required for application of the aforementioned amendment. The application of the new standard is mandatory from 1 January 2013.

IFRS 7 - Financial Instruments: Disclosures: the amendment requires further disclosure on the effects or potential effects of agreements to offset financial assets and liabilities on the statement of financial position and in cash flows, when legally possible.

IFRS 11 – Joint Arrangements: in May 2011 IFRS 11 was published which will replace IAS 31 – Interests in Joint Ventures and SIC – 13 – Jointly Controlled Entities – Non-monetary contributions by venturers. The previous standard envisaged the identification of a joint controller entity and the possibility of choosing the consolidation method from between the equity method and proportionate consolidation. The new standard distinguishes joint ventures (if the entity has rights and obligations connected to the overall net assets covered by the agreement) from joint operations (if the entity has rights and/or obligations related to specific assets and liabilities) as opposed to IAS 31 which required identification of joint venture entities. Participants in a joint venture have contractual rights and obligations deriving from the agreement and which are based on substance over form. The participants in a joint venture must measure the investment using the equity method. Proportionate consolidation is no longer allowed. The assets and liabilities of a joint operation will be recognised both in the consolidated financial statements as well as in the separate financial statements according to the applicable International Accounting Standards. At the date of these condensed interim consolidated financial statements, the competent bodies of the European Union had not concluded the endorsement process required for application of the aforementioned amendment. The application of the new standard is mandatory from 1 January 2013.

IFRS 12 – Disclosure of Interests in Other Entities: this standard mainly aims to define the criteria for determining control and to provide a uniform disclosure that is able to highlight the risks associated with the relations, regardless of the nature of the relation itself. IFRS 12 focuses on disclosure regarding interests in other entities such as joint ventures, investments in subsidiaries, and investments in associates, joint ventures or interests in companies that are not included in the scope of consolidation. At the date of these separate financial statements, the competent bodies of the European Union had not concluded the endorsement process required for application of the aforementioned amendment. The application of the new standard is mandatory from 1 January 2013.

IFRS 13 – Fair-value Measurement: on 12 May 2011, the IASB published IFRS 13 which provides guidance for measurement at fair value. It mainly introduces the definition of fair value, a guide for the determination thereof and a series of minimum disclosures that are common to all items measured at fair value. Essentially the new standard will define how to determine the fair value and will apply to all the IFRS which require or allow the measurement of fair value. The board has defined fair value as the price that should be paid to extinguish a liability in an arm's length transaction on the date on which the measurement is made. Essentially the new definition brings the concept of fair value close to that of an exit price. In addition, the standard established criteria to use to determine the fair value of assets and liabilities that cannot be directly observed on the market, including: the market approach, cost approach or according to discounted future cash flows.

The disclosure must make clear to the reader the measurement techniques, the effect on profit or loss and on other components of comprehensive income deriving from the measurements made using non-observable data to a significant extent. The application of the new standard is mandatory from 1 January 2013.

3. Financial risk management

The Group is subject to a number of operating and financial risks in the normal course of its business. Group policy is to eliminate or at least minimise such risks through hedging strategies. The Group, therefore, has formal procedures to define the objectives and processes to cover the following risks: credit, liquidity, currency, interest rate and, above all, fluctuations in commodity prices.

Types of risk:

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

b) liquidity risk: liquidity risk can arise from the inability to raise working capital financing as and when required. All inflows and outflows and cash balances of Group companies are centrally monitored and managed by Group Treasury. The Group intends to meet its cash requirements for the repayment of short-term financial payables and capital expenditure through cash from operating activities, cash on hand and fresh bank borrowings or the roll-over of existing bank credit. Given the current environment, the Group intends to maintain sufficient operating cash flow generation capacity through measures designed to control the level of working capital and, in particular, cash needs arising from inventories of raw materials;

c) currency risk: the Group operates internationally and it engages in transactions in a number of currencies and interest rates. The exposure to currency risk arises primarily from the geographic location of the markets on which the Group sells its products. It is Group policy to hedge all of the above risks through derivative financial instruments such as cross currency swaps and forward contracts;

d) interest rate risk: interest rate risk, to which the Group is exposed, arises primarily in connection with non-current financial liabilities. Variable rate payables expose the Group to a cash flow risk, while fixed rate liabilities entail assumption of the risk of a change in fair value. The Group currently has no IRS (interest rate swaps) on the books which convert variable into fixed interest rates;

e) commodity price risk (particularly copper): this is the most significant and strategic of the risks to which the Group is exposed. The objective is to fully hedge this risk through trading in physical goods or forward contracts on the London Metal Exchange (LME). Specifically, all metal price fixing sales and purchase contracts are netted daily and the change in the net open position is generally hedged by LME contracts so that the company is not exposed to overnight price risk. LME contracts are normally paper deals (i.e., settled through the payment of differentials), whereas trading in physical goods may require delivery of the actual commodity, finished goods or semi-finished products. In reality, both transactions are physical in nature which, however, can also be settled through: cash payment of differentials, issue of another financial instrument or swapping of financial instruments. This is also the case for price fixing sales and purchase contracts with customers and suppliers which, although normally settled by physical delivery, may also be settled prior to the delivery date by squaring positions and can also be used to take advantage of opportunities on the market which would otherwise have to be ignored without, however, making physical delivery of the commodity. The concept of similarity and neutrality for LME and physical goods trading is supported by:

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

The fact that both LME contracts and customer and supplier contracts may both be settled through payment of differential market prices means that, in accordance with paragraph 6b of IAS 39, metal price fixing sales and purchase contracts can, similarly to financial instruments, be accounted for at fair value with changes in fair value recognised in profit or loss under “Purchases and change in raw materials”.

All derivative financial instruments used by the Group are not designated as hedging instruments within the meaning of IAS 39, even though they were acquired to manage the aforementioned risks (please refer to paragraph 2.7).

In any case, the Group does not trade in financial derivatives for speculative purposes, even though it does not account for the financial instruments in accordance with hedge accounting rules, as these transactions do not meet the conditions set out in IAS 39.

4. Notes to the condensed interim consolidated financial statements

4.1 Property, plant and equipment:

(thousands of Euro)	Land	Buildings	Plant and equipment	Other assets	Assets under construction	Total
At 31.12.2011						
Closing historical cost	55,872	209,604	1,049,699	95,430	28,151	1,438,756
Closing accumulated depreciation and impairment losses	228	117,447	675,189	65,778	-	858,642
Closing net carrying amount	**55,644**	**92,157**	**374,510**	**29,652**	**28,151**	**580,114**
At 30.06.2012						
Opening historical cost	**55,872**	**209,604**	**1,049,699**	**95,430**	**28,151**	**1,438,756**
Translation differences	146	255	1,749	82	30	2,262
Change in scope of consolidation	-	-	-	-	-	-
Increases	-	40	3,101	1,024	12,276	16,441
Reclassifications	-	788	17,052	938	(18,778)	-
Decreases	(56)	16	(4,967)	(645)	-	(5,652)
Closing historical cost	**55,962**	**210,703**	**1,066,634**	**96,828**	**21,680**	**1,451,807**
At 30.06.2012						
Opening accumulated depreciation and impairment losses	**228**	**117,447**	**675,189**	**65,778**	**-**	**858,642**
Translation differences	3	45	1,469	70	-	1,588
Change in scope of consolidation	-	-	-	-	-	-
Increases	17	3,424	16,262	3,167	-	22,870
Impairment losses/(reversals of impairment losses)	-	-	98	-	-	98
Decreases	-	(17)	(4,738)	(573)	-	(5,328)
Reclassifications	-	(69)	-	(3)	-	(72)
Closing accumulated depreciation and impairment losses	**248**	**120,829**	**688,280**	**68,440**	**-**	**877,798**
At 30.06.2012						
Closing historical cost	55,962	210,703	1,066,634	96,828	21,680	1,451,807
Closing accumulated depreciation and impairment losses	248	120,829	688,280	68,440	-	877,798
Closing net carrying amount	**55,714**	**89,874**	**378,354**	**28,389**	**21,680**	**574,009**
of which finance leases:	1,240	3,416	1,959	-	-	6,615

Following is the distribution by geographic segment of property, plant and equipment:

Geographical segment (millions of Euro)	30.06.2012		31.12.2011	
		%		%
Germany	266.8	46.5%	270.1	46.6%
Italy	219.1	38.2%	220.5	38.0%
France	52.7	9.2%	54.8	9.4%
United Kingdom	13.0	2.3%	13.0	2.2%
Spain	9.6	1.7%	9.6	1.6%
China	10.0	1.7%	10.1	1.7%
Other	2.9	0.5%	2.1	0.4%
Total	574.0	100%	580.2	100%

A portion of the aforementioned assets worth Euro 200.3 million (Euro 201.1 million at the end of last year) is used as guarantees of credit lines granted to the Group.

The most significant investments during the period are detailed in the Directors' Report.

Property, plant and equipment under finance leases include:

- Euro 4.7 million for the "Firenze Novoli" real estate property, which houses the Group's headquarters. The lease for this building contains a purchase option exercisable on 30 September 2016;
- Euro 1.96 million for a new furnace installed in the foundry department within the plant of Fornaci di Barga.

Future minimum payments under finance leases at the end of the reporting period and the relevant present value are shown below:

(thousands of Euro)	1 year or less	from 1 to 5 years	over 5 years	Total
Minimun lease payments	703	4,522	555	5,780
of which interest	61	850	18	929
Present value	**642**	**3,672**	537	**4,851**

previous year:

(thousands of Euro)	1 year or less	from 1 to 5 years	over 5 years	Total
Minimun lease payments	398	3,498	-	3,896
of which interest	8	664	-	672
Present value	**390**	**2,834**	-	**3,224**

4.2 Investment property

(thousands of Euro)	Land	Buildings	Total
Carrying amount at 31.12.2011	**7,361**	**23,451**	**30,812**
Increase	-	-	-
Capitalised expenditure	-	18	18
Business combination	-	-	-
Disposals	-	-	-
Change in fair value	-	-	-
Changes of use	-	-	-
Other changes	-	-	-
Carrying amount at 30.06.2012	**7,361**	**23,469**	**30,830**

The "Investment Property" item consists of investments in lands and buildings belonging to Immobiliare Agricola Limestre S.r.l. and KME Italy S.p.A.

Investment property, which is held in order to generate lease income or to appreciate the invested capital, is recorded at fair value on the basis either of valuations made by independent external experts with recognised and relevant professional qualifications that are confirmed by the directors or valuations made by technical staff from within the company.

The following amounts were recognised in profit or loss in the first half of 2012:

- rental income of Euro 218 thousand;
- operating costs directly relating to the investment properties of Euro 346 thousand.

It should be noted that, as of 30 June 2012, an internal update of the fair value measurement of investment property was implemented and an independent third party has been entrusted with the task of updating the fair value measurement; the latter will complete this detailed assessment for the purposes of preparing the financial statements at 31 December 2012.

4.3 Goodwill and goodwill arising on consolidation

The amount is composed of goodwill arising on consolidation of Euro 118,364 thousand concerning the segment of copper and copper-alloy semi-finished products.

Goodwill and goodwill arising on consolidation are tested for impairment based on the recoverable amount determined by estimating value in use as described in note 2.5.

4.4 Other intangible assets

(thousands of Euro)	Other assets	Assets under development	Total
At 31.12.2011			
Closing historical cost	12,338	365	12,703
Closing accumulated amortisation and impairment losses	9,721	-	9,721
Closing net carrying amount	**2,617**	**365**	**2,982**
At 30.06.2012			
Opening historical cost	**12,338**	**365**	**12,703**
Translation differences	-	-	-
Change in scope of consolidation	-	-	-
Increases	179	342	521
Reclassifications	359	(359)	-
Decreases	(220)	-	(220)
Closing historical cost	**12,656**	**348**	**13,004**
At 30.06.2012			
Opening accumulated amortisation and impairment losses	**9,721**	**-**	**9,721**
Translation differences	-	-	-
Change in scope of consolidation	-	-	-
Increases	472	-	472
Reclassifications	-	-	-
Decreases	(222)	-	(222)
Closing accumulated amortisation and impairment losses	**9,971**	**-**	**9,971**
At 30.06.2012			
Closing historical cost	12,656	348	13,004
Closing accumulated amortisation and impairment losses	9,971	-	9,971
Closing net carrying amount	**2,685**	**348**	**3,033**

The intangible assets shown above primarily relate to software and have finite useful lives. Research and development expenditure is recognised directly in profit or loss. During the first half of 2012 research costs of Euro 1.0 million (Euro 0.8 million in the first half of 2011) were incurred.

4.5 Investments in subsidiaries, associates and other companies

The Group's investments are listed below:

Name	Registered address	Operations	% owned by KME direct	% owned by KME indirect	30.06.2012 thousands of Euro	31.12.2011 thousands of Euro
Subsidiares and associates measured at cost						
Accumold AG	Switzerland	In liquidation		100,00%	-	-
AMT - Advanced Mould Technology India Private Ltd.	India	Trading		99,60%	1.500	1.500
Culti S.r.l.	Italy	Trading		100,00%	3.800	3.800
Europa Metalli Trèfimétaux UK Ltd.	U.K.	Non-operating		100,00%	496	479
Evidal Schmole Verwaltungsges mbH	Germany	Non-operating		50,00%	-	-
Il Post S.r.l.	Italy	Publishing		31,54%	400	400
Irish Metal Industrial Ltd.	Ireland	Trading		100,00%	-	-
KME - Hungaria Szinesfem Kft.	Hungary	Trading		100,00%	8	8
KME (Suisse) S.A.	Switzerland	Trading		100,00%	1.000	1.000
KME America Inc.	United States	Trading		100,00%	7	7
KME Asia Pte Ltd.	Singapore	Trading		100,00%	99	99
KME Austria Vertriebgesellschaft mbH	Austria	Trading		100,00%	-	-
KME Beteiligungsgesellschaft mbH	Germany	Non-operating		100,00%	-	-
KME Chile Lda	Chile	Trading		100,00%	18	18
KME China Limited	China	Non-operating		100,00%	-	-
KME Czech Republic	Czech Republic	Trading		100,00%	3	3
KME Engineering S.r.l.	Italy	Non operating		100,00%	10	-
KME India Private Ltd.	India	Trading		100,00%	92	91
KME Kalip Servis Sanayi	Turkey	Trading		85,00%	350	25
KME metal GmbH	Germany	Non-operating		100,00%	511	511
KME Metals (Shanghai) Trading Ltd.	China	Trading		100,00%	81	81
KME Polska Sp. Zo.o.	Poland	Trading		100,00%	64	64
KME Solar Italy S.r.l.	Italy	Energy Sector		96,00%	307	305
Metal Center Danmark A/S	Denmark	Trading		30,00%	134	134
N.V. KME Benelux SA	Belgium	Trading		100,00%	883	883
P.H.M. Pehamet Sp.Zo.o	Poland	Trading		59,79%	1.213	802
Societe Haillane de Partecipations	France	Non-operating		99,99%	40	40
Warrant ErgyCapital S.p.A.	Italy	Energy Sector		n.a.	4.833	4.833
XT Limited	U.K.	Non-operating		100,00%	-	-
Zahner KME GmbH	Germany	Trading		50,00%	104	69
Total					**15.953**	**15.152**
Other Investments measured at cost						
Editoriale Fiorentina S.r.l.	Italy	Publishing		7,13%	142	142
Other investments of KME France SAS	France	Various	n.a.	n.a.	116	116
Total					**258**	**258**
Equity-accounted investees						
ErgyCapital S.p.A.	Italy	Energy Sector		46,38%	14.760	15.600
Cobra A.T. S.p.A.	Italy	Services		42,68%	30.255	32.226
Total					**45.015**	**47.826**

Compared to the previous period, the increase of Euro 0.8 million in “Investments in Subsidiaries and Associates” is broken down as follows:

- an increase to 96% - for a total of Euro 2 thousand - of the equity investment in KME Solar Italy S.r.l. of KME Germany A.G. & Co. K.G.;
- an increase to 59.79% - for a total of Euro 411 thousand - of the equity investment in PHM Pehamet Sp.Zo.o. of KME Germany A.G. & Co. K.G.;
- an increase of Euro 35 thousand relative to KME Zahner GmbH.;
- an increase of Euro 325 thousand relative to Kalip Servus Sanasyi;
- an increase to Euro 10 thousand following the establishment of the company KME Engineering Srl by KME Germany A.G. & Co. K.G.;
- translation differences relating to the investment in Europa Metalli Trèfimétaux UK Ltd. (a Euro 17 thousand increase);

“Other KME France S.A.S. investments” include small investments (generally less than 1%) in companies operating in the construction sector. French companies are, in fact, required to pay a certain percentage of the personnel expense as contributions, loans or investments to assist their staff in purchasing real estate.

The decrease in “equity-accounted investees” of Euro 2,811 thousand is due to:
- the decrease of Euro 840 thousand following application of the equity method to ErgyCapital S.p.A.;
- the decrease of Euro 1,971 thousand following application of the equity method to Cobra S.p.A.;

4.6 Other non-current assets

(thousands of Euro)	Balance at 31.12.2011	Changes for the period	Balance at 30.06.2012
Guarantee deposits	1,056	(265)	791
Other receivables	7,504	(467)	7,037
Total	**8,560**	**(732)**	**7,828**

None of the above mentioned amounts are due within twelve months.

4.7 Non-current financial assets

The amount of Euro 4.1 million relates to a deposit at Unicredit Banca d’Impresa S.p.A. that has been pledged to Unicredit Mediocredito Centrale S.p.A. (MCC). The balance must always be equal to 1/16 (one sixteenth) of the loan outstanding from time to time, in addition to accrued interest due and payable on the next payment date. Any amounts on the account in excess of that amount are immediately available. For further details regarding the amount and the nature of the loan please refer to paragraph 4.15.

4.8 Inventories

(thousands of Euro)	Opening balances	Changes for the period	Closing balances
Raw materials, consumables and supplies	535,170	(20,474)	514,696
Work in progress and semi-finished products	33,498	1,269	34,767
Finished goods	38,815	(2,075)	36,740
Total	**607,483**	**(21,280)**	**586,203**

At the end of the first half of 2012, the value of several metals (mainly copper, silver, zinc and nickel) as they resulted from the application of the FIFO method was higher compared to their realisable value as determined according to note 2.9, by Euro 21.7 million (Euro 7.4 million in the previous year). An allowance for impairment of this same amount was recognised.

Quantity comparative chart

Property stock	30.06.2012	31.12.2011	% Change
Total tonnes	85,553	95,022	9.97%

Of the above amount 66.7 thousand tonnes (87.3 thousand tonnes for the previous year), consisting mainly of copper, have been pledged as collateral for credit lines extended to the Group.

4.9 Trade receivables

(thousands of Euro)	Balance at 31.12.2011	Changes for the period	Balance at 30.06.2012
Due from customers	136,786	(3,374)	133,412
(Allowance for impairment)	(13,522)	(888)	(14,410)
Net trade receivables due from customers	**123,264**	**(4,262)**	**119,002**
Due from subsidiaries	5,427	(1,049)	4,378
Due from associates	677	1,614	2,291
Due from parents	121	(121)	-
Total	**129,489**	**(3,818)**	**125,671**

"Receivables due from customers" include Euro 54.5 million (Euro 41.8 million in the previous year) that have been factored with recourse.

An amount equal to Euro 1.1 million (Euro 1.6 million in the previous year) of trade receivables is pledged as collateral for the credit lines granted to the Group.

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

4.10 Other current receivables and assets

(thousands of Euro)	Balance at 31.12.2011	Changes for the period	Balance at 30.06.2012
Tax assets	5,844	(1,245)	4,599
Advance payments to suppliers	6,580	1,445	8,025
Prepayments and accrued income	1,927	1,421	3,348
Other receivables	17,629	(2,902)	14,727
Total	**31,980**	**(1,281)**	**30,699**

The "Other receivables" item consists mainly of:

- Receivables due from insurance companies of Euro 0.4 million;
- Receivables due from personnel and social security agencies of Euro 2.9 million;
- Receivables due from local authorities, essentially referring to the German companies, for refunds relating to energy costs of Euro 8.3 million.

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

4.11 Current financial assets

(thousands of Euro)	Balance at 31.12.2011	Changes for the period	Balance at 30.06.2012
Financial assets held for trading	6,174	(174)	6,000
LME and metal buyer/seller contracts	24,801	853	25,654
Interest rate swaps and currency forward contracts	12,004	(5,605)	6,399
Receivables due from factoring companies	68,557	35,307	103,864
Other current financial assets	133,184	(131,635)	1,549
Loans to subsidiaries	7,142	3,233	10,375
Loans to associates	40	4	44
Total	**251,902**	**(98,017)**	**153,885**

"Financial assets held for trading" consist of:

- 2,184,369 Intek S.p.A. savings shares, of a par value of Euro 0.675, recognised at their official listed price at the end of the reporting period of these condensed financial statements.
- 5,277,893 ErgyCapital S.p.A. ordinary shares, which are carried at their official price at the end of the reporting period (Euro 0.168 per share) of these condensed financial statements;
- 5,775,550 ErgyCapital S.p.A. warrants, which are carried at their official rate at the end of the reporting period (Euro 0.066 per warrant) of these condensed financial statements.
- 8,595,918 Cobra A.T. S.p.A. ordinary shares, which are carried at their official price at the end of the reporting period (Euro 0.379 per share) of these condensed financial statements;

"LME and metal sales/purchase contracts" are recognised at the fair value of contracts outstanding at the end of the reporting period.

Receivables due from factoring companies include receivables assigned without recourse but not yet collected at the end of the reporting period (Euro 84.4 million) and the revolving amount of the consideration which will be collected upon the due dates of the related invoices assigned of Euro 19.5 million.

The decrease in current financial assets largely relates to the payment (of Euro 126.8 million) of the EU fine which became definitive in February 2012.

4.12 Cash and cash equivalents

(thousands of Euro)	Balance at 31.12.2011	Changes for the period	Balance at 30.06.2012
Bank and post office accounts	66,369	4,654	71,023
Cash on hand	114	3,082	3,196
Total	**66,483**	**7,736**	**74,219**

"Cash and cash equivalents" consist of bank and post office accounts and cash on hand.

4.13 Equity

For an illustration of the changes in consolidated equity please see the "statement of changes in equity" (the "technical consolidation reserves" item includes the subsidiaries' profit from previous years net of consolidation adjustments, the consolidation reserve and the translation reserve).

We note in particular the net negative change (against the proportional amount of Euro 400 thousand) in the cash flow hedge reserve recognised in equity by the investee ErgyCapital S.p.A.

During 2010 the parent implemented the new KME group S.p.A. Stock Option Plan 2010–2015.” On 7 October 2010, the Parent’s Board of Directors identified the Plan beneficiaries and determined the number of options assigned to each of them, for a total of 25,500,000 options (the maximum number of options authorised at the Shareholders’ Meeting is 31,000,000). The decision was assumed, upon proposal of the Remuneration Committee, with the favourable vote of the independent Directors and the favourable opinion of the Board of Statutory Auditors; the Directors who are beneficiaries of the Plan abstained from voting.
The options give the beneficiaries the right to subscribe or purchase from the Company an equivalent number of KME Group S.p.A. ordinary shares at the unit price of Euro 0.295:

- 1/3 starting from 10 October 2011;
- 1/3 starting from 8 October 2012;
- 1/3 starting from 8 October 2013.

The final exercise date was set at 31 December 2015; refer to section 5.4 for the details.

4.14 Employee benefits

(thousands of Euro)	Balance at 31.12.2011	Increase	Decrease	Balance at 30.06.2012
Defined benefit plans	137,914	5,198	(4,336)	138,776
Post-employment benefits	15,525	349	(724)	15,150
Total	**153,439**	**5,547**	**(5,060)**	**153,926**

“Defined benefit plans” are recognised net of any plan assets. Euro 122.9 million of defined benefit plans relate to the German subsidiaries and Euro 15.8 million relate to the subsidiary KME Yorkshire Ltd.

General Criteria

	31.12.2011	30.06.2012
Discount rate	4.3% - 5.0%	4.3% - 5.0%
Rate of return on plan assets	6.0%	6.0%
Rate of increase in future salaries	2.0% - 2.6%	2.0% - 2.6%
Future increase in services	2.0% - 3.0.0 %	2.0% - 3.0.0 %
Average remaining working life	14 years	14 years

Liability net value (thousands of Euro)	31.12.2011	30.06.2012
Present value of partially or fully funded obligations	75,800	79,797
Fair value of defined benefits plan assets	(56,662)	(60,248)
Deficit	**19,138**	**19,549**
Present value of unfunded obligations	164,636	164,367
Actuarial gains (losses) not yet recognised	(30,335)	(30,165)
Past service cost not yet recognised	-	
Amount not recognised as assets pursuant to IAS 19, para. 58	-	175
Net liability reported in statement of financial position	**153,439**	**153,926**

Income statement changes (thousands of Euro)	Year 2011	30.06.2012
Current service cost	3,151	1,797
Interest expense	11,263	5,421
Expected return on plan assets	(3,361)	(1,771)
Recognised actuarial gains (losses)	660	101
Past service cost	-	
Effect of any curtailment or settlement	-	(1)
Total cost reported in statement of comprehensive income	11,713	5,547

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

Other information:

Present value of obligation (thousands of Euro)	31.12.2011	30.06.2012
Opening balance of obligation	223,409	240,559
Current service cost	3,151	1,797
Interest on obligation	11,263	5,421
Plan participants' contribution	478	253
Actuarial (gains) losses	12,363	(182)
Expired or reduced liabilities	-	-
Translation differences on foreign plans	2,309	2,683
Benefits provided and paid	(12,560)	(6,220)
Effect of any curtailment or settlement	146	1
Past service cost	-	(24)
Closing balance of obligation	**240,559**	**244,288**

Fair value of plan assets (thousands of Euro)	31.12.2011	30.06.2012
Opening balance of fair value of plan assets	53,981	56,662
Expected return on plan assets	3,361	1,771
Actuarial gains (losses)	(1,775)	138
Translation differences on non-Euro plan assets	1,643	1,990
Employer contributions	1,690	892
Plan participants' contribution	478	253
Benefits provided and paid	(2,716)	(1,458)
Settlements	-	-
Closing balance of fair value of plan assets	**56,662**	**60,248**

At the end of 2012, the plan assets consisted of equity instruments (50.1%), fixed rate securities (42.2%) and property assets (7.7%).

Present value of plans and adjustments based on past experience (thousands of Euro)	31.12.2011	30.06.2012
Present value of defined benefit obligation	240,559	244,288
Plan assets	(56,662)	(60,248)
(Surplus) deficit	**183,897**	**184,040**
Adjustments to plan liabilities based on past experience	919	919
Adjustments to plan assets based on past experience	95	95

4.15 Non-current financial payables and liabilities

(thousands of Euro)	Balance at 31.12.2011	Changes for the period	Balance at 30.06.2012
Due to banks	263,576	59,882	323,458
Due to lease companies	2,966	1,497	4,463
Due to others	127	(63)	64
Total	**266,669**	**61,316**	**327,985**

At the end of June 2010, KME Group S.p.A. and its major subsidiaries operating in the copper and copper-alloy semi-finished products sector obtained from a pool of banks an extension of the expiration of credit lines amounting to Euro 475 million from September 2011 to January 2015, increased to Euro 565 million last April.

The agreement, which refers to the two lines named “tranche A” (in the form of a revolving credit line used to cover the inventory needs of industrial companies) and “tranche B” (a revolving credit line used to cover intra-month inventory needs of industrial companies), was stipulated in 2006 and is currently used for an amount approximating the extended amount, represents a facility characterised by broad flexibility of use in relation to the Group’s financing needs.

In addition to the extension of the expirations, the revised agreement provides for a substantial reduction in collateral provided to banks and simplification of the covenants, rendering the latter more in line with the Group's business plans. The new covenants refer only to the EBITDA/Financial Expense ratio and the Gross Financial Indebtedness/Consolidated Equity and the measure thereof is in line with the parameters that the covenants of the extended loans referred to. The verification of compliance with the aforementioned covenants shall take place on a bi-annual basis; at 30.06.12 all were complied with.
Refer to the Directors' Report at 30 June 2012 for commentary relative to potential developments in covenants after the exchange offer and the expected merger with Intek SpA described above.

The financing cost has remained essentially in line with the extended one.

To guarantee repayment of the aforementioned credit lines, the following was agreed:

- a pledge, with reservation of the voting right, of the shares and quotas of KME A.G. subsidiaries: KME Italy S.p.A. and KME Brass Italy S.r.l.;
- a first-level mortgage on the real estate and industrial equipment belonging to the *Osnabrück* plant of KME Germany A.G. & CO. K.G.;
- a pledge of the inventory of the industrial companies, except for non-European subsidiaries;
- a lien on some factoring and insurance contracts;
- a pledge of a portion of the receivables of KME Ibertubos S.A. and Locsa S.A.

The agreement signed with GE Commercial Finance was renewed in May 2011 and consists of a credit line for up to Euro 600 million usable for factoring without recourse. This agreement which expires in June 2014, provides for covenants in line with those of the banking pool.

Furthermore, at the end of April 2011, some French and Italian affiliates of the Group signed with Mediofactoring an agreement for a credit line of up to Euro 250 million to be used for factoring. This agreement which expires in June 2014, provides for covenants in line with those of the banking pool.
On the date of these condensed interim consolidated financial statements, the aforementioned transactions without recourse amounted to Euro 377.8 million (Euro 313.2 million at the end of the previous year).

The group also has a loan from Mediocredito Centrale S.p.A. (residual amount: Euro 66.5 million) guaranteed by SACE S.p.A., for the financing of costs relating to industrial investments, i.e., the acquisition of foreign entities.

The granting (for a total of Euro 103 million) of the loan by tranches was completed in 2010; expiration is set at eight years from the date of the actual usage. The loan agreement provides for compliance with the covenants, to be verified at the end of each half year, which are also in line with those of the banking pool and which were complied with in full as at 30.06.12.

Payables due to leasing companies include the recognition, in accordance with IAS 17, of the finance lease contract for the real estate property in Florence, which houses the Group's headquarters, as well as a new plant installed at the end of the first half-year of 2012 within the plant of Fornaci di Barga.

All the non-current payables and liabilities fall due after more than 12 months and less than 5 years, except for a bank loan of Euro 2.4 million.

4.16 Other non-current liabilities

Other non-current liabilities primarily relate to payables due to employees of German subsidiaries (Euro 14.3 million) and post-employment benefits of the Deputy Chairman of the Parent (Euro 2.3 million).

4.17 Provisions for risks and charges

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

(thousands of Euro)	Balance 31.12.2011	Translation differences	Increases	Decreases and reversals	Current portion	Balance 30.06.2012
Provision for restructuring	10,382	3	133	(3,717)	(2,850)	3,951
Other provisions for risks and charges	22,761	(7)	2,311	(3,543)	(10,175)	11,347
Total	**33,143**	**(4)**	**2,444**	**(7,260)**	**(13,025)**	**15,298**

The “Current portion” and the balance at 30.06.12 take into account the movements in “provisions for risks and charges” reported under current liabilities.

The provision for restructuring mainly relates to the cost of downsizing operations in France, Spain and Italy.

“Other provisions for risks and charges” include, but are not limited to, contingent liabilities of Euro 7.4 million with respect to environmental risks, Euro 0.8 million for legal and tax risks and Euro 3.0 million for product warranties.

With respect to main litigation brought against the Group’s industrial companies, please be advised that:

- With regard to the lawsuit claiming damages which was brought in February 2010 by Toshiba Carrier UK Ltd and another 15 companies belonging to the same group before the English

High Court of Justice - Chancery Division against KME Yorkshire Ltd, KME AG, KME France S.A.S. and KME Italy S.p.A., and another five producers of LWC pipes, again in relation to anti-trust violations that were sanctioned by the European Commission in 2003 and which became definitive at the end of 2011, it should be noted that on 4 January 2011 the companies concerned in the KME Group filed an appeal for removal from the proceedings and for lack of jurisdiction. In October 2011 there was a hearing following which the High Court rejected the appeal of the KME Group companies, which therefore presented a request to authorise an appeal presentation. On 31 January 2012 the Court of Appeal issued the preliminary authorisation order for the appeal presentation by the KME Group companies. The hearing was held on the past 26 June and the decision on the preliminary issue will be issued in the upcoming months. On the basis of available information, the company believes that the risk relative to a potential unfavourable outcome of the dispute is not probable and is not, in any case, quantifiable; as a result, no provisions were recognised to cover potential liabilities which could result from these proceedings.

- It should also be noted that in late July, the attorneys of the companies IMI plc and IMI Kynoch sent pre-action correspondence to KME Yorkshire Limited as well as to KME AG, KME Italy S.p.A. and KME France SAS; this correspondence consisted in a letter in which they informed these companies of their intention to summon them as jointly liable co-debtors in the legal proceedings initiated in the UK by certain companies of the Travis Perkins Group against IMI plc and IMI Kynoch. These proceedings involve a request for compensation of alleged damages which the plaintiff companies sustained as a result of their purchase of plumbing and sanitary tubes from the companies sanctioned by the decision of 3 September 2004 of the European Commission relative to anti-trust violations. The attorneys of KME are reviewing the issue in order to verify if the abovementioned claims are grounded and to provide an evaluation on potential legal risk and any actions to take.

On the date of these condensed interim consolidated financial statements, there were no other significant contingent liabilities.

4.18 Current financial payables and liabilities

(thousands of Euro)	Balance at 31.12.2011	Changes for the period	Balance at 30.06.2012
Due to banks	35,797	26,764	62,561
Due to subsidiaries	2,417	259	2,676
Due to lease companies	269	268	537
Due to factoring companies	54,520	(12,741)	41,779
Interest rate swaps (IRS) and currency forward contracts	1,314	514	1,828
LME and metal buyer/seller contracts	15,521	(10,489)	5,032
Due to others	137,938	(124,946)	12,992
Total	**247,776**	**(120,371)**	**127,405**

The "Due to factoring companies" item relates to the factoring of receivables with recourse at the end of the reporting period.

The "LME and metal sales/purchase contracts" item is carried at the fair value of the contracts outstanding on the date of these condensed interim consolidated financial statements.

Payables relative to EU fines - that became definitive and were paid in February 2012 - were reclassified under the item "Current financial payables due to others" as of 31.12.2011.

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 "R*ecommendations for the consistent implementation of the European Commission's Regulation on* Prospectuses" is presented in the "Directors' Report" rather than in these notes.

4.19 Trade payables and other current liabilities

(thousands of Euro)	Balance at 31.12.2011	Changes for the period	Balance at 30.06.2012
Due to suppliers	526,358	(42,688)	483,670
Due to associates	-	3	3
Due to subsidiaries	580	253	833
Total	**526,938**	**(42,432)**	**484,506**

The carrying amount of trade payables is believed to approximate their fair value.

(thousands of Euro)	Balance at 31.12.2011	Changes for the period	Balance at 30.06.2012
Due to employees	41,055	4,757	45,812
Due to social security institutions	12,241	(1,821)	10,420
Tax payables	36,168	(458)	35,710
Accrued expenses and deferred income	3,022	(77)	2,945
Other payables	30,523	(5,092)	25,431
Total	**123,009**	**(2,691)**	**120,318**

The amount due to employees includes accrued obligations that were unpaid at the end of the reporting period.

Tax payables primarily relate to value added tax payable and direct taxes.

Other payables include the amount due to customers (Euro 18.6 million) for advance payments received and credit notes issued.

This item also includes the payable, equal to Euro 1.4 million, due to the transferor for the investment in Valika SAS as integration of the purchase price. The amount has already been paid as of the date of this report.

4.20 Deferred tax assets and liabilities

(thousands of Euro)	Balance at 31.12.2011	Changes for the period	Balance at 30.06.2012
Deferred tax assets	31,491	(3,463)	28,028
Deferred tax liabilities	(119,133)	3,429	(115,704)
Total	**(87,642)**	**(34)**	**(87,676)**

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

At the end of the reporting period of these condensed interim consolidated financial statements, the Group did not recognise deferred tax assets on tax losses carried forward (Euro 184.6 million).

At 30.06.12 “recognised” and “unrecognised” deferred tax assets on tax losses carried forward are shown below, broken down by company:

(thousands of Euro)	31.12.2011	30.06.2012
a) recognised tax losses carried forward		
KME Group S.p.A.	1,675	1,702
KME AG	-	-
KME Germany AG & Co. KG	-	-
KME Verwaltungs- u. Dienstleistungs-GmbH	1,481	1,220
KME Italy S.p.A.	16,000	16,000
KME Locsa SA	930	930
KME Yorkshire Ltd	4,438	3,758
Total (1)	**24,524**	**23,610**
b) unrecognised tax losses carried forward		
KME France S.A.	61,986	69,375
KME Spain SA	39,671	40,730
KME Italy S.p.A.	41,483	19,498
KME Locsa SA	19,498	42,461
KME Architectural Metals GmbH & Co. KG	9,940	10,489
Other companies	1,699	2,086
Total (2)	**174,277**	**184,639**
Total (1) + (2)	**198,801**	**208,249**

Deferred tax assets and liabilities by financial statements item are shown below:

(thousands of Euro)	Deferred tax assets		Deferred tax liabilities	
	31.12.2011	30.06.2012	31.12.2011	30.06.2012
Property, plant and equipment	248	283	57,224	54,803
Intangible assets	59	43	-	
Investment property	170	-	-	
Other non-current assets	-	-	-	
Inventories	405	372	52,810	54,298
Trade receivables	1,722	1,706	122	103
Other current receivables and assets	-	-	140	52
Current financial assets	456	242	7,939	5,548
Current assets for sale or distribution	-	-	-	-
Employee benefits	9,255	8,742	564	606
Non-current financial liabilities	3	969	-	-
Other non-current liabilities	4,276	4,058	-	-
Provisions for risks and charges	2,296	2,167	35	13
Current financial liabilities	4,026	1,267	74	166
Trade payables	679	713	-	-
Other current liabilities	661	454	225	115
Deferred tax assets on equity items	67	55	-	-
Deferred tax assets on tax losses carried forward	7,168	6,957	-	-
Total	**31,491**	**28,028**	**119,133**	**115,704**

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

4.21 Transactions with related parties

During the period, the Group traded with unconsolidated related parties. The related amounts were insignificant, as shown in the condensed interim consolidated financial statements.
All such transactions, however, were at arm's length.

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

(thousands of Euro)			1st half 2011								Year 2010
Short-term benefits	Post-employment benefits	Other-long term benefits	Termination benefits	Share-based benefits	Total	Short-term benefits	Post-employment benefits	Other-long term benefits	Termination benefits	Share-based benefits	Total
2,359	9	-	560	227	3,155	5,441	20	-	2,619	941	9,021

5. Income Statement

Pursuant to Consob Communication no. 6064293/06 it is hereby specified that the Group did not carry out any "atypical and/or unusual transactions" in the first half of 2012.

5.1 Revenue from sales and services

An analysis of revenue by geographical segment is shown below:

Geographical segment (millions of Euro)	1st half 2011	1st half 2012
Germany	388	315
Italy	261	211
France	202	168
United Kingdom	117	110
Spain	69	44
Other European countries	376	341
Total Europe	**1,413**	**1,190**
Rest of the world	182	176
Total	**1,595**	**1,366**

Revenue from sales, net of the influence of the cost of raw materials, as reported in the Directors' Report, decreased by Euro 45.2 million, from Euro 421.4 million in the first half of 2011 to Euro 376.2 million in the first half of 2012.

No single customer accounted for more than 10% of Group revenue (IFRS 8, par. 34).

5.2 Purchases and change in raw materials

(thousands of Euro)	1st half 2011	1st half 2012	Change
Purchase of raw materials and consumables	(1,238,746)	(994,299)	-19.73%
(Gains)/losses on LME trading	(9,287)	(15,043)	n.s.
Fair value on LME and metal buyer/seller contracts	60,409	11,331	n.s.
Change in raw materials and consumables	16,082	(21,048)	n.s.
Total	**(1,171,542)**	**(1,019,059)**	**-13.02%**

5.3 Other operating income

(thousands of Euro)	1st half 2011	1st half 2012	Change
Government grants	862	1,167	35.38%
Gains on sale of non-current assets	233	339	45.49%
Rental income	615	691	12.36%
Cafeteria	314	331	5.41%
Insurance claim	146	70	-52.05%
Other	6,611	4,313	-34.76%
Total	**8,781**	**6,911**	**-21.30%**

The overall amount (Euro 0.3 million) of “Gains on sale of non-current assets” has been reported under “Non-recurring income/(expense)” in the “Reclassified Consolidated Income Statement " shown in the Directors’ Report.

5.4 Personnel expense

(thousands of Euro)	1st half 2011	1st half 2012	Change
Wages and salaries	135,583	126,426	-6.75%
Social security charges	32,353	31,183	-3.62%
Cost of stock option	518	227	-56.18%
Other personnel expense	8,772	9,933	13.24%
Total	**177,226**	**167,769**	**-5.34%**

“Other personnel expense” includes provisions for “defined benefit pension plans” and “post-employment benefits” of Euro 5.5 million.
Euro 3.6 million of the above personnel expense relating to the cost of decreasing personnel and reducing hours worked (special temporary government-sponsored lay-off scheme, solidarity agreements and similar arrangements) have been reported under “Non-recurring income/(expense)” in the “Reclassified Consolidated Income Statement" shown in the Directors’ Report.

Average number of employees:

year average	1st half 2011	1st half 2012	% Change
Executives and clerical	1,784	1,772	*-0.7%*
	27.8%	*28.7%*	
Blue collar and special categories	4,632	4,404	*-4.9%*
	72.2%	*71.3%*	
Total employees	**6,416**	**6,176**	*-3.7%*
	100.0%	***100.0%***	

During 2010, the "KME Group S.p.A. 2010–2015 Stock Option Plan" (the "Plan") was activated, in place of the previous one which was implemented in 2006 and revoked in 2009 on account of the new corporate structure/organisation of the Group.
In its meeting on 7 October 2010, the Board of Directors identified the Plan beneficiaries and determined the number of options assigned to each of them, for a total of 25,500,000 options (the maximum number of options authorised by the Shareholders is 31,000,000).
The options give the beneficiaries the right to subscribe or purchase from the Company an equivalent number of KME Group S.p.A. ordinary shares at the unit price of Euro 0.295:

- 1/3 starting from 10 October 2011;
- 1/3 starting from 8 October 2012;
- 1/3 starting from 8 October 2013.

The final exercise date is 31 December 2015.

The fair value of stock options (Euro 0.73/option) has been determined by an independent actuary on the award date by application of the Black & Scholes model which includes variables regarding the conditions of exercise, current share value, expected volatility (estimated through projection of actual volatility for the past year), the risk free interest rate for the Euro zone, expected dividend yield, and the probability that option holders will meet the requirements to exercise their rights at the end of the vesting period.

The evolution of the stock option plan at 30.06.12 is as follows:

Situation at	31/12/2011 no. of options	30/06/2012 no. of options
Options outstanding at 1 January	**25,500,000**	**25,500,000**
New options awarded		
Options re-awarded	-	-
Options exercised during the period	-	-
Options expired during the period	-	-
Options outstanding at end of the period	**25,500,000**	**25,500,000**
of which eligible for exercise:	8,500,000	8,500,000

More details regarding the Plan are provided in the section "Remuneration of Directors and Group Managers" and in the "Information Document" which has been prepared and is available on the Company's website.

It should be noted that, as part of the ongoing extraordinary merger operation and the public offering described in the Directors' Report, rights holders have waived exercise of their options until the end date of the extraordinary operation.

5.5 Amortisation, depreciation and impairment losses

(thousands of Euro)	1st half 2011	1st half 2012	Change
Depreciation	22,229	22,867	2.87%
Amortisation	552	508	-7.97%
Reversals of prior year impairment losses	(338)	(974)	n.s.
Impairment losses	-	2,387	n.s.
Total	**22,443**	**24,788**	**10.45%**

Part of the "Amortisation of intangible assets" and "Impairment" of Euro 1.4 million, which mainly regards the write-down of part of the consolidation difference relating to the subsidiary Metalbuyer S.r.l., have been indicated as "Non-recurring income/(expense)" in the "Reclassified Consolidated Income Statement" presented in the "Directors' Report".

5.6 Other operating costs

(thousands of Euro)	1st half 2011	1st half 2012	Change
Energy	38,574	41,132	6.63%
Maintenance and repairs	19,775	15,227	-23.00%
Insurance premiums	7,351	7,145	-2.80%
Rent paid and operating leases	5,693	5,801	1.90%
Outsourced production	17,587	14,106	-19.79%
Sales logistics and transport	30,649	28,110	-8.28%
Commissions	9,623	7,979	-17.08%
Factoring funding fees	3,280	2,848	-13.17%
Other operating costs	57,846	39,115	-32.38%
Total	**190,378**	**161,463**	**-15.19%**

"Factoring funding fees" are the fees on the factoring without recourse of trade receivables.
"Other operating costs" include:

1. "provisions for risks and charges" less releases, if any, totalling Euro 0.4 million;
2. bank fees of Euro 1.8 million;
3. losses on disposal of Euro 0.3 million;
4. accruals to allowance for impairment of Euro 1.8 million;
5. advertising and other business expenses of Euro 2.3 million;
6. external staff expenses of Euro 2.1 million;
7. legal consultancy and administrative costs plus fees for company bodies and independent auditors of Euro 8.0 million;
8. waste disposal costs of Euro 2.5 million;
9. travel and company cafeterias of Euro 4.1 million;
10. security costs of Euro 0.8 million;
11. information technology consulting of Euro 1.3 million;
12. membership fees of Euro 1.2 million.

A part of the aforementioned costs (Euro 8.2 million) has been reported under "Non-recurring income/(expense)" in the "Reclassified Consolidated Income Statement " shown in the Directors' Report.

The decrease in "Other operating costs" was essentially due to provisions made last year for industrial restructuring (Euro 14.1 million) and reported as "non-recurring income/(expense)" in the "Reclassified Consolidated Income Statement".

5.7 Financial income and expense

(thousands of Euro)	1st half 2011	1st half 2012	Change
Interest income	604	625	3.48%
Exchange rate gains	8,041	5,824	-27.57%
Dividends	678	194	-71.39%
Other financial income	1,508	869	-42.37%
Total financial income	**10,831**	**7,512**	**n.s.**
Interest expense	(6,454)	(6,261)	-2.99%
Exchange rate losses	(3,304)	(9,245)	n.s.
Other financial expense	(4,146)	(3,067)	-26.03%
Total financial expense	**(13,904)**	**(18,573)**	**33.58%**
Net financial expense	**(3,073)**	**(11,061)**	**259.94%**

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

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

The amount of Euro -2.7 million relates to the pro-quota results of the losses for the year of the following investees.

- ErgyCapital S.p.A. for Euro 0.4 million
- Cobra A.T. S.p.A. for Euro 2.3 million.

5.9 Current and deferred taxes

(thousands of Euro)	1st half 2011	1st half 2012	Change
Current taxes	(4,898)	(3,526)	-28.01%
Deferred taxes	(14,116)	(160)	-98.87%
Total	**(19,014)**	**(3,686)**	**-80.61%**

Since 2007, KME Group S.p.A. and most of its Italian subsidiaries elected to apply the “tax consolidation arrangement”, so that IRES (Italian corporate income tax) is computed on a tax base equal to the algebraic sum of the taxable profit/loss of each company participating in the arrangement. Financial relationships, responsibilities and reciprocal obligations are set out in the agreement and terms and conditions regarding the national tax consolidation arrangement by which the Parent and/or subsidiaries with tax losses receive a payment equal to the relevant tax savings realised by the Parent and/or subsidiaries with taxable income.

Reconciliation of theoretical tax charge and the effective charge:

(thousands of Euro)	30.06.2012	30.06.2011
Profit (loss) before taxes	(13,752)	44,536
Tax charge at theoretical rate	4,318	(13,984)
(tax rate used: 31.4%)		
Reconciliation:		
Use of different tax rates	207	180
Other items:		
Non-deductible (expenses) and non-taxable income	(1,695)	(3,565)
Losses on which deferred tax assets are not recognised	(4,386)	(1,139)
Use of tax losses	(215)	-
Impairment losses on investments and certificates	-	(129)
Current taxes for previous years	(712)	-
Taxes on profits of equity-accounted investees	(864)	(182)
Other	(339)	(195)
Total taxes recognised in the statement of comprehensive income	**(3,686)**	**(19,014)**

5.10 Loss from discontinued operations

This item includes the reclassification of the result of the first half of 2011 relative to the Drive Group.

6 Other information

Financial instruments by category

(thousands of Euro)	31.12.2011	30.06.2012	Change
Fin. assets recognised at fair value through profit or loss	176,163	39,602	(136,561)
Held-to-maturity assets	-	-	-
Loans and receivables	291,400	334,136	42,736
Available-for-sale financial assets	-	-	-
Fin. liabilities carried at fair value through profit or loss	16,835	6,860	(9,975)
Fin. liabilities carried at amortised cost	1,024,548	933,036	(91,512)

Financial instruments by financial statements presentation

Financial instruments and reconciliation with condensed interim consolidated financial statements items at 30.06.12:

Financial statements item (thousands of Euro)	Total	Carried at amortised cost	Carried at fair value	Outside the scope of IFRS 7
Financial assets:				
Investments in subsidiaries and associates	15,953			15,953
Investments in other companies	258			258
Investments in equity-accounted investees	45,015			45,015
Non-current financial assets	4,154	4,154		
Other non-current assets	7,828	7,828		
Trade receivables	125,671	125,671		
Other current receivables and assets:				
Tax	4,599			4,599
Suppliers	8,025	8,025		
Other non-financial assets	18,075			18,075
	30,699			
Cash and cash equivalents	74,219	74,219		
Current financial assets:				
Factoring	103,864	103,864		
Receivables	10,375	10,375		
Financial instruments	32,053		32,053	
Other instruments	7,549		7,549	
	153,841			
Total		**334,136**	**39,602**	**83,900**

Financial statements item (thousands of Euro)	Total	Carried at amortised cost	Carried at fair value	Outside the scope of IFRS 7
Finncial liabilities:				
Current and non-current financial liabilities:				
Due to banks	386,019	386,019		
With recourse factoring	36,236	36,236		
Without recourse factoring	5,543	5,543		
Payables to lease companies	5,000	5,000		
Other financial liabilities	15,732	15,732		
Financial instruments	6,860		6,860	
Subtotal	**455,390**	**448,530**	**6,860**	
Trade payables	484,506	484,506		
Total	**939,896**	**933,036**	**6,860**	

Notional value of financial instruments and derivatives

The following table shows a summary of notional values and terms of derivative financial instruments outstanding at the end of the reporting period:

(thousands of Euro)	Expiry			Total at	
	1 year or less	from 1 to 5 years	over 5 years	30.06.2012	31.12.2011
LME commodity contracts Purchase/sale metal contracts	679,641	5,659		685,300	673,575
Foreign exchange foward contracts	335,216	2,574		337,790	314,728
Cross-currency swaps				-	-
Interest rate swaps (IRS)				-	-
Total	**1,014,857**	**8,233**		**1,023,090**	**988,303**

The net change in the first half of 2012 of the fair value recognised in the Statement of Comprehensive Income for LME transactions and metal sales/purchase contracts was positive by Euro 11.3 million (positive by Euro 60.4 million in the first half of 2011).

The notional amount of “LME commodity contracts and metal sales/purchase contracts” is the aggregate of sales and purchases.

Exposure to credit risk and impairment losses

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

The ageing of trade receivables due from third parties at the date of these condensed interim consolidated financial statements was as follows:

(thousands of Euro)	Gross carrying amount	Impairment losses 30.06.2012	Net carrying amount
not yet due	83,783	1,412	82,371
less than 60 days past due	22,829	153	22,676
61 to 120 days past due	4,244	50	4,194
121 days to 1 year past due	6,792	1,864	4,928
over 1 year past due	15,764	10,931	4,833
Total	**133,412**	**14,410**	**119,002**

Changes in the allowance for impairment during the year are shown below:

(thousands of Euro)	
31.12.2011	13,522
Translation differences	24
Change in scope of consolidation	0
Impairment losses of the year	1,498
Uses	(111)
Releases	(523)
30.06.2012	**14,410**

Currency exposure

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

30.06.2012	USD	GBP	CHF	SEK	EUR
Non-current financial assets	-	-	-	-	-
Other non-current assets	-	-	-	-	-
Trade receivables	15,923	956	153	1,381	836
Other current receivables and assets	68	-	1	-	-
Current financial assets	12,170	2,432	2,026	6,407	450
Cash and cash equivalents	5,501	879	2,386	10,660	1,846
Financial liabilities	53	279	36	935	-
Trade payables	254,467	342	28	2,747	162
Other current liabilities	707	90	79	6,819	-
Gross statement of financial position exposure	**(221,565)**	**3,556**	**4,423**	**7,947**	**2,970**
Projected sales	35,289	8,626	1,580	41,247	155
Projected purchases	13,745	247	279	2,439	1,248
Gross exposure	**(200,021)**	**11,935**	**5,724**	**46,755**	**1,877**
Currency forward contracts	(180,774)	12,133	5,381	52,980	(9,414)
Net exposure	**(19,247)**	**(198)**	**343**	**(6,225)**	**11,291**

Currency risk exposure for the previous financial year:

31.12.2011	USD	GBP	CHF	SEK	EUR
Non-current financial assets	-	-	-	-	-
Other non-current assets	-	-	-	-	-
Trade receivables	14,165	1,317	26	11,630	273
Other current receivables and assets	33	50	-	-	-
Current financial assets	11,049	1,447	1,610	13,748	845
Cash and cash equivalents	8,812	3,629	3,598	4,742	436
Financial liabilities	150	1	144	6,474	273
Trade payables	302,241	397	78	6,504	579
Other current liabilities	301	158	-	8,756	-
Gross statement of financial position exposure	**(268,633)**	**5,887**	**5,012**	**8,386**	**702**
Projected sales	35,803	8,826	2,440	45,030	497
Projected purchases	41,836	589	292	1,038	1,520
Gross exposure	**(274,666)**	**14,124**	**7,160**	**52,378**	**(321)**
Currency forward contracts	(298,860)	8,070	3,300	44,550	(2,668)
Net exposure	**24,194**	**6,054**	**3,860**	**7,828**	**2,347**

The “EUR” column expresses the exchange risk of foreign subsidiaries that did not have the Euro as their functional currency.

Sensitivity analysis

A 10% appreciation (depreciation) of the Euro against the currencies in the above table would have caused an increase (decrease), at 30.06.12, in equity and an improvement (deterioration) of the net results for the period of Euro 3.6 million. The analysis was made assuming that all other variables remained constant, in particular interest rates. The same analysis for 31.12.11 would have increased (decreased) results and equity by Euro 3.2 million.

Interest rate exposure

The Group's interest rate structure of interest-bearing financial instruments at 30.06.12 was as follows:

(thousands of Euro)	**Carrying amount**	
	31.12.2011	**30.06.2012**
Fixed rate instruments:		
Financial assets	7,670	891
Financial liabilities	74,123	5,640
Total	**(66,453)**	**(4,749)**
Variable rate instruments		
Financial assets	70,430	84,661
Financial liabilities	421,623	437,347
Total	**(351,193)**	**(352,686)**

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

The Group had no fixed rate financial assets or liabilities at fair value through profit or loss or any derivatives (interest rate swaps) designated as hedges. As a result, any changes in the interest rates at the end of the reporting period for these condensed interim consolidated financial statements would not have had an effect on the statement of comprehensive income.

The Group uses LME contracts (commodities forward contracts traded on the London Metal Exchange) to hedge against fluctuations in the raw materials prices, particularly copper. These instruments are measured at fair value through profit or loss. A Euro 100 per tonne increase in the price of copper at the end of the reporting period for these condensed interim consolidated financial statements would have resulted in a decrease in equity and profit for the period of Euro 6.1 million. The same effect on financial statements figures at 31.12.11 would have had a negative impact of Euro 6.6 million.

Sensitivity analysis of the cash flows of variable rate financial instruments

An increase (or decrease) of 50 interest rate basis points (bps) at the end of the reporting period for these condensed interim consolidated financial statements would have produced a decrease (increase) in equity and results of approximately Euro 1.6 million (Euro 1.1 million in the 2011). 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 2011.

Exposure to liquidity risk

Liquidity risk can arise from the inability to raise working capital financing as and when required. The inflows and outflows and the liquidity of Group companies are monitored and coordinated by Group Treasury. The flexibility of existing credit lines meant that the Group was able resolve problems relating to covering the temporary cash shortfalls caused by increased raw materials prices.

Fair value and carrying amount

Pursuant to IFRS 7 par. 25 we declare that the carrying amount of the financial assets and liabilities recognised in these condensed interim consolidated financial statements do not diverge from their fair value.

Fair value hierarchy

IFRS 7, par. 27A requires financial instruments recognised at fair value in the statement of financial position to be classified with reference to a hierarchy of levels, based on the significance of the input used to determine fair value.

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

Financial instruments recognised at fair value in the statement of financial position (see reconciliation table), except for “financial assets held for trading” pertaining to Level 1, are all classified as Level 2 of the hierarchy, due to the fact that they all relate to either physical transactions with customers and suppliers, or forward contracts concluded at prices listed on the London Metal Exchange (LME) for the purposes of hedging commodity price risk.
There were no transfers between Levels 1 and 2.
The Group does not use financial instruments that would be classified as Level 3.

Other financial obligations

Below is a summary showing the minimum irrevocable payment obligations under operating leases at the end of the reporting period:

(thousands of Euro)	31.12.2011	30.06.2012
within 1 year	5,342	5,657
between 1 and 5 years	9,796	9,228
due after 5 years	1,907	211
	17,045	**15,096**

Purchase commitments relating to property, plant and equipment at the end of the reporting period amounted to Euro 10.2 million. These purchase commitments will lapse within one year.

7 Segment reporting

Pursuant to IFRS 8 the following segment reporting is provided. At the operational level, the KME Group is organised in business units according to the products and services it offers and has three operating segments for which information is provided, as follows:

- **Copper products**: a sector consisting of an industrial grouping which is a leader in the international global production of copper and copper-alloy semi-finished products;
- **Energy from renewable sources**: a sector consisting of a grouping of companies belonging to the ErgyCapital S.p.A. Group which is active in the area of plant and energy generation from renewable sources, especially in the field of photovoltaic energy;
- **Services**: sector with group of companies belonging to the Cobra AT Group. Through the merger, effective as from 1 July 2011, of the subsidiary Drive Rent S.p.A. into COBRA Automotive Technologies S.p.A., a company based in Varese and the holding company of a group listed on the Italian stock market, KME Partecipazioni S.r.l., which bought 42.7% of the new entity, laid the foundations for an expansion of its services into the field of vehicle management and greater creation of value by combining the services, products, and distinctive know-how of the two groups. The new corporate structure has become one of the main operators in Europe in the provision of integrated services for the management of risks associated with the possession, ownership and use of vehicles, through the use of information and satellite-based technology.

As at and for the six months ended 30 June 2012

(Amounts in €/000)	Operating segments				
	Copper and copper-alloy semi-finished goods	**Services**	**Energy from renewable sources**	**Consolidated and various**	**Total**
Revenue	1,365,449		-	113	1,365,562
Financial income	6,515		-	997	7,512
Financial expense	(19,347)			594	(18,753)
Amortisation, depreciation and impairment losses	(24,776)		-	(12)	(24,788)
Segment profit before taxes	(10,326)	(2,353)	(397)	(676)	(13,752)
Non-current financial assets					
Investments in subsidiaries and associates	7,178	-	4,833	4,200	16,211
Investments in equity-accounted investees	-	30,256	14,759	-	45,015
Goodwill arising on consolidation	118,364	-	-	-	118,364
Other non-current assets	635,420	-	-	12,462	647,882
Current assets	953,500	-	-	17,177	970,677
Current and non-current liabilities	1,339,009	-	-	39,774	1,378,783

The comparative data with the same period of the previous year are shown below:

As at and for the six months ended 30 June 2011

(Amounts in €/000)	Operating segments				
	Copper and copper-alloy semi-finished goods	**Services**	**Energy from renewable sources**	**Consolidated and various**	**Total**
Revenue	1,595,774		-	(36)	1,595,738
Financial income	9,659		-	1,172	10,831
Financial expense	(15,428)		-	1,524	(13,904)
Amortisation, depreciation and impairment losses	(22,429)		-	(14)	(22,443)
Segment profit before taxes	44,686	(2)	(580)	430	44,536
Non-current financial assets					
Investments in subsidiaries and associates	6,377	-	4,833	4,200	15,410
Investments in equity-accounted investees	-	32,226	15,600	-	47,826
Goodwill arising on consolidation	118,367	-	-	-	118,367
Other non-current assets	645,593	-	-	12,955	658,548
Current assets	1,073,742	-	-	13,595	1,087,337
Current and non-current liabilities	1,455,065	-	-	35,362	1,490,427

(1) At 30 June 2011 the services sector, wholly attributable to the Drive Group, was recognised as "Discontinued operations". For reclassifications and relevant information reference should be made to the notes to the consolidated financial statements at 30 June 2011.

(2) The net loss for the period of the Drive Group amounting to Euro 0.6 milion is recognised in the Statement of Comprehensive Income under "Profit/(loss) from discontinued operations".

Annexes to the notes to the condensed interim consolidated financial statements:

Reconciliation statement of the net loss of the Parent KME Group S.p.A. and the consolidated net loss for the period ended 30.06.12

(thousands of Euro)

Net loss for the period of KME Group S.p.A. separate financial statements	(3,188)
Net loss for the period of subsidiaries (1) (2)	(16,726)
Consolidation adjustments (3)	4,879
Share of equity-accounted investees (4)	(2,750)
Net loss attributable to owners of the Parent	**(17,785)**
Net losses of subsidiaries 1.1.2012 - 30.06.2012	
(1) KME A.G. consolidated loss	(11,114)
(2) Share of losses of other subsidiaries of KME Group S.p.A.	(5,612)
(3) Derecognition impairment losses (reversal of impairment losses) on investments	7,000
(3) Netting of intercompany dividends	(734)
(3) Other consolidation adjustments	(1,387)
(4) Investees contribution to equity	(2,750)
Total	**(20,209)**

Reconciliation statement of the equity of the Parent KME Group S.p.A and the consolidated equity as at 30 June 2012

(thousands of Euro)

Parent's Equity including net loss for the period	**449,559**
Consolidation reserves	(21,402)
Difference between consolidated loss and Parent's loss for the period	(14,597)
Group Equity including loss for the period	**413,560**
Breakdown of consolidation reserves:	
1) Netting of investments	(131,106)
2) Netting of intercompany dividends	-
3) KME A.G. goodwill arising on consolidation	109,840
4) Effect of the translation of the financial statements of foreign operations	264
5) Total comprehensive income	(400)
Total	**(21,402)**

STATEMENT ABOUT THE CONSOLIDATED FINANCIAL STATEMENTS PURSUANT TO ART. 154 BIS, PARAGRAPH 5 OF LEGISLATIVE DECREE 58/98, AS SUBSEQUENTLY AMENDED AND ADDED TO

1. Having regard to the requirements of article 154 *bis,* paragraphs 3 and 4, of Legislative Decree 58 of 24 February 1998, the undersigned Vincenzo Manes, Deputy Chairman, and Marco Miniati, the Manager Responsible for Financial Reporting at KME Group S.p.A., hereby certify:
   - the adequacy with respect to the characteristics of the Company and
   - the effective application,

   of administrative and accounting procedures in the preparation of the condensed consolidated financial statements as at and for the six months ended 30 June 2012.

2. No material findings emerged in this regard.

3. Moreover, they state that:

   3.1 the condensed consolidated financial statements:

   a. were prepared in compliance with International Financial Reporting Standards as endorsed by the European Community pursuant to Regulation (EC) no. 1606/2002 of the European Parliament and of the Council of 19 July 2002;
   b. reflect the balances recorded in the companies' books and accounting records;
   c. are suitable to provide a true and fair view of the financial position and results of operations of the issuer and all the consolidated companies;

   3.2 the Directors' Report contains a reliable analysis of the relevant events that have occurred in the first six months of the year and their impact on the condensed consolidated financial statements, together with a description of the principal risks and uncertainties for the remaining six months year. The interim report also includes a reliable analysis of the information on transactions with related parties

Florence, 28 March 2012

Deputy Chairman	Manager in charge of financial reporting
signed Vincenzo Manes	*Signed Marco Miniati*

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

Auditors' report on review of condensed interim consolidated financial statements

To the shareholders of
KME Group S.p.A.

1 We have reviewed the condensed interim consolidated financial statements of the KME Group as at and for the six months ended 30 June 2012, comprising the statement of financial position, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes thereto. The parent's directors are responsible for the preparation of these condensed interim consolidated financial statements in accordance with the International Financial Reporting Standard applicable to interim financial reporting (IAS 34), 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 about the captions of the condensed interim consolidated financial statements and the consistency of application of the accounting policies through discussions with company directors and analytical procedures applied to the financial data presented in such condensed interim consolidated financial statements. The review excluded such audit procedures as tests of controls and substantive procedures on assets and liabilities and is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards. As a consequence, contrary to our report on the annual consolidated financial statements, we do not express an audit opinion on the condensed interim consolidated financial statements.

With regard to the corresponding figures included in the condensed interim consolidated financial statements, reference should be made to our reports on the annual consolidated and condensed interim consolidated financial statements of the previous year dated 20 April 2012 and 9 August 2011, respectively.

3 Based on our review, nothing has come to our attention that causes us to believe that the condensed interim consolidated financial statements of the KME Group as at and for the six months ended 30 June 2012 have not been prepared, in all material respects, in conformity with the International Financial Reporting Standard applicable to interim financial reporting (IAS 34), endorsed by the European Union.

Florence, 10 August 2012

KPMG S.p.A.

(signed on the original)

Riccardo Cecchi
Director of Audit