

Report on Corporate Governance and shareholding structure pursuant to art. 123 *bis* of Legislative Decree 58 of 24 February 1998 and on the Code of Conduct

Dear Shareholders,

the purpose of this report (the “Report”), which has been prepared in compliance with art. 123 *bis* of the Consolidated Law on Finance (the Testo Unico della Finanza or “TUF”) as amended by Legislative Decree 173 of 2 November 2008 that transposed Directive 2006/49 into Italian law, is to provide the information required by the TUF regarding the structure, organisation and functioning of the Company with respect to the requirements of art. 89 *bis* of Consob Regulation approved by Resolution 11971 of 14 May 1999 (the “Issuers Regulation”) and the Market Regulation of the markets organised and managed by Borsa Italiana S.p.A..

The Report, which is an integral part of the Directors’ report at 31 December 2009, has been subdivided into three parts, six sections and three tables, for the ease of reading and comparison. The Report provides the information required by art. 123 *bis* of the TUF and has, moreover, been prepared in compliance with the March 2006 version of the Code of Conduct model of Borsa Italiana S.p.A. (the “Code of Conduct” or the “Code”) which the Company has adopted. The purpose of the Report is to describe the extent of the Company’s compliance with the Code during the year ended 31 December 2009 by giving the reasons for any departures from the Code and describing the action already taken and action planned to assure conformity.

The Company has continually improved the quality and quantity of the information it has provided on its corporate governance every year ever since the presentation of the financial statements at 30 June 2000. The individual reports and sections of the financial statements starting with those for the year ended 31 December 2006 can be viewed at www.kme.com. There is also a special webpage for these Reports.

1. Regulatory environment

Legislators have introduced a number of changes to corporate governance over the years which, in 2008, was in a transitional phase. The most recent legislation in that respect came into full force on 31 December 2009.

That notwithstanding, last year’s Report was prepared in compliance with the new rules and already contained information on the adoption of the corporate governance code recommended by companies managing regulated markets and sector associations in accordance with the timing and methods required by CONSOB.

CONSOB, in turn, also amended art. 89 *bis* of its Regulation 11971 (the “Issuers Regulation”) in 2009 in conjunction with art. 123 *bis* of the TUF by requiring listed companies to publish information every year on corporate governance, ownership structure and the adoption, where applicable, of a Corporate Governance Code.

CONSOB also required that this information either be an integral part of the Directors’ Report or in the form of a stand-alone report and be made available on the internet. This Report has, therefore, also been made available on the page “Report on Corporate Governance” at www.kme.com as well as on Borsa Italiana S.p.A.’s website (www.borsaitaliana.it) in its capacity as the manager of the market.

The Report has also been prepared in compliance with ASSONIME requirements contained in Borsa Italiana S.p.A.’s guidelines and the Handbook on Corporate Governance Reports published by ASSONIME and Emittenti Titoli S.p.A.. The quantity and quality of information provided was compared with the findings of an analysis on

the state of listed companies' implementation of the Code of Conduct published by ASSONIME and Emittenti Titoli S.p.A. in February 2010.

The tables at the end of the report are based on current information.

As in 2008, the Report based on the experimental format for corporate governance reports published by Borsa Italiana S.p.A. last February for issuers for the second year in row, which, as explained by Borsa Italiana S.p.A., is not intended to be mandatory but rather a tool to assist 1) issuers to assure the report complies with art. 123 *bis* of the TUF and 2) statutory auditors in their examinations.

2. Company profile

KME Group S.p.A. is the Parent of a pan-European group of industrial companies that is the world leader in the manufacture and sale of copper and copper alloy semi-finished products.

The Company has a traditional structure of corporate governance with a Shareholders' Meeting, Board of Directors and Board of Statutory Auditors. The Remuneration and Internal Control Committees were also established both of which consist of only independent and non-executive directors.

The corporate governance structure of other group companies, however, is different with Germany's largest industrial company having a structure which is fully in line with German practice that entails a two tier management structure consisting of a Supervisory Board (Aufsichtsrat) and a Management Board (Vorstand).

On 2 December 2009, the Shareholders' Meeting approved resolutions for:

- the prolongation of the exercise period for KME Group ordinary share warrants 2006-2009 to 30 December 2011;
- an ordinary and savings share split by exchanging three ordinary shares for each two held and three savings shares for each two held thus necessitating a change in the number of shares issued for the exercise KME Group S.p.A. ordinary share warrants 2006/2009;
- the partial, proportionate reverse demerger of iNTEK into KME;
- a cash capital increase of Euro 80 million;
- the authorisation of Directors pursuant to art. 2443 of the Italian Civil Code to increase share capital by an additional Euro 15 million to service the stock option plan approved at the same meeting.

The first three items were all completed by the date of the approval of the Report - the demerger became effective on 22 March 2010 - and, therefore, their effects on the relevant Company bodies are described. Moreover, the Report also contains information on the two items that will be executed in the next few months.

The Directors' Report also contains information on these items.

3. First part: shareholding structure

3.1 Structure of share capital

Share capital at 31 December 2009, which was the last date on which KME Group S.p.A. ordinary share warrants 2006/2011 were exercised before the suspension of the warrants following the Shareholders' Meeting called to approve the financial statements as at and for the year ended 31 December 2009, was Euro 250,021,765.45 consisting of 254,572,969 shares, 235,500,859 of which were ordinary shares and 19,072,110 savings shares, all of which with no nominal value.

Share capital increased by Euro 12,087.69 in 2009 as a result of the exercise of 34,536 KME Group S.p.A. ordinary share warrants 2006/2011 that entailed the issue of 11,512 ordinary shares.

Subsequent to the share split of 8 February 2010 and the demerger of 22 March 2010, share capital at the date of this Report, amounted to Euro 273,761,740.66 consisting of a total of 418,117,631 shares, 381,367,530 of which were ordinary shares and 36,750,101 savings shares, all of which with no nominal value.

The 381,367,530 ordinary shares are 91.21% of share capital and do not entail rights different or additional to the rights pursuant to legislation and the Company Articles of Association.

Each share carries unrestricted voting rights unless otherwise provided by law. Votes may be cast by mail in accordance with the procedure pursuant to article 11 of the Articles of Association.

Similarly, the 36,750,101 savings shares are 8.79% of share capital and do not entail rights different or additional to the rights pursuant to legislation and the Company Articles of Association.

The rights of Savings Shareholders are set out in articles 145 et seq. of the TUF and articles 5, 8 and 28 of the Company Articles of Association. Their Joint Representative, who has a right to actively participate in meetings of ordinary Shareholders as set out in article 26 of the Articles of Association, is Dr. Romano Bellezza who was appointed for 2009/2011 at the Special Meeting of Savings Shareholders held on 24 April 2009.

Savings shares entail the following preferential rights:

- the right to a preferred dividend of a maximum of Euro 0.07241 per share per annum subject to the right to other dividends of Euro 0.020722 per share more than savings share dividends. This, however, is without prejudice to the prorated increase in the preferred dividend in each of the two years following the payment of a preferred dividend of less than Euro 0.07241 per share;
- in the event the Company is wound up, savings Shareholders have a preferred right to the liquidation proceeds of Euro 1.001 per share.

There was also a total of 67,895,451 KME Group S.p.A. ordinary share warrants 2006/2009 outstanding at 31 December 2009 that had been issued under the authorisation given at the Extraordinary Shareholders' Meeting of 19 May 2006.

The Shareholders approved the following resolutions in that connection at the Extraordinary Meeting of 2 December 2009:

- the prolongation of the term of the warrants from 11 December 2009 to 30 December 2011;
- the change of their terms and conditions of exercise from the previous one new ordinary share for each three warrants held at an exercise price of Euro 1.05 per share to the current one new ordinary share for each two warrants held at the exercise price of Euro 0.70 per share.

Due to the fact that the share split had necessitated the cancellation of one warrant to render the split arithmetically possible, there were 67,895,450 KME Group S.p.A. ordinary share warrants 2006/2009 outstanding at the date of this Report, which, if exercised, would result in the issue of a maximum of 33,947,725 ordinary shares of no nominal value with a consequent maximum capital increase of Euro 23,763,407.50.

At that same Extraordinary Meeting of 2 December 2009, Shareholders also approved a resolution in connection with the demerger for the issuance of an additional 73,330,660 KME Group S.p.A. ordinary share warrants 2009/2011 in exchange for INTEK S.p.A. ordinary share warrants 2005/2011. The exercise of the KME Group S.p.A. ordinary share warrants 2009/2011 entails the issuance of one ordinary share for each warrant held at an exercise price of Euro 0.90 per share, including a premium of Euro 0.64. An exercise of the warrants would result in a maximum nominal capital increase of Euro 19,065,971.60 through the issuance of a maximum of 73,330,660 ordinary shares with no nominal value.

The warrants were issued to eligible parties on 22 March 2010 following the effectiveness of the share split of even date.

The rights and obligations entailed by both warrants are contained in their respective terms and conditions, copies of which are available on the relevant web page of the internet site.

All of these instruments are listed in the Standard (Class 1) segment of the Market regulated and managed by Borsa Italiana S.p.A..

Any exercise of the warrants and options as may be granted under the Stock Option Plan described below could entail a change in share capital in the month of exercise. Any change in the composition of share capital is advised to the market by Stock Exchange Notice (see the section below on the processing of company information for details of the NIS system) and also made available on a special page of www.kme.com.

A resolution was also approved at the Extraordinary Shareholders' Meeting of 2 December 2009 for the cash increase in share capital in one or more tranches for a total maximum, including any share premium, of Euro 80 million through the issuance of a maximum of 229,000,000 ordinary and a maximum of 22,500,000 savings shares to be offered to existing Shareholders through a rights issue in accordance with art. 2441, paragraph 1 of the Italian Civil Code. On that occasion, Shareholders authorised the Board of Directors to fix the issue price within a range of:

- for ordinary shares - Euro 0.30 and Euro 0.37 each;
- for savings shares - Euro 0.50 and Euro 0.57 each.

The rights issue is planned for the first six months of 2010.

A resolution was also approved by Shareholders at the same Extraordinary Meeting of 2 December 2009 to authorise the Board of Directors in accordance with art. 2443 of the Italian Civil Code to implement a second cash capital increase in one or more tranches for a maximum amount of Euro 15 million including any premium through the issuance of 31,000,000 ordinary shares reserved for beneficiaries of the Stock Option Plan (Executive Directors and Group Executives of Group companies) as approved in the ordinary session of the same meeting in accordance with the second sentence of art. 2441, para. IV of the Italian Civil Code.

The Shareholders approved a resolution to determine the issue price as the arithmetic mean of the official closing prices for the ordinary share on the Mercato Telematico Azionario organised and managed by Borsa Italiana S.p.A. (the "MTA") during the period between the grant date of the options and the same date of the preceding calendar month with all powers by the Directors to determine, from time to time, the exact

number of ordinary shares to be issued to service the Plan, the exact issue price including any premium in addition to the method and timing of any capital increase.

The Stock Option Plan is described in greater detail in the section on the remuneration of Directors and Group Executives.

As explained in the Directors Report approved by the Shareholders, the second capital increase may not be implemented by the Board of Directors any earlier than 90 days following the effectiveness of the demerger.

Another section of the Directors Report shows the performance of the Companies shares and market capitalisation during the year. Information in that connection is also available in a dedicated section of www.kme.com.

Key data regarding financial instruments issued by the Company is set out in the table below:

Table 1: Information on Shareholding Structure

Structure of Share Capital

	ISIN	number of shares	% of total share capital	Listing
Ordinary shares	IT0004552359	381,367,530	91.211	standard 1
Bearer savings shares	IT0004552367			
Registered savings shares	IT 0004552375	36,750,101	8.789	standard 1

Other financial instruments granting rights to subscribe to fresh issues

	ISIN	in issue	Class of shares issued on exercise	Number of shares issued on exercise	Listing
2006-11 warrants	IT0004077167	67,895,450	Ordinary shares	33,947,725	standard 1
2009-11 warrants	IT0004552383	73,330,660	Ordinary shares	73,330,660	standard 1

3.2 Transferability

The Company Articles of Association impose no restrictions on the transferability of shares or warrants.

3.3 Significant shareholdings in the Company

At 31 December 2009, i.e., before the share split and demerger, iNTEK S.p.A., which is 47.256% held by Quattrodue Holding B.V., held 126,167,569 ordinary shares or 53.574% of shares in issue of the same class. iNTEK S.p.A. also held 896,906 savings shares or 4.703% of shares in issue of the same class. iNTEK S.p.A.'s total shareholding was, therefore, 49.92% of share capital.

Subsequent to the share split, demerger and the acquisition of a shareholding in the *Associazione Cassa Nazionale di Previdenza ed Assistenza a favore dei Ragionieri e dei Periti Commerciali* on 15 March 2010 by Quattrodue Holding B.V., which consequently became a direct Shareholder of the Company, holds 91,220,020 ordinary shares in the Company equal to 23.919% of the shares in issue of the same class.

The Shareholders of Quattrodue Holding B.V. are Vincenzo Manes, through Mapa S.r.l. (Milan) with a shareholding of 35.12%, Ruggero Magnoni, through Likipi Holding S.A. (Luxembourg) with a shareholding of 32.44% and Hanseatic Europe S.a.r.l. (Luxembourg) with a shareholding of 32.44%. None of the Shareholders, all of whom are parties to a Shareholders' agreement, controls the Company pursuant to art. 93 of the TUF.

Furthermore, iNTEkCapital S.p.A., a subsidiary of iNTEK S.p.A., had a portfolio investment in the Company at the date this Report of 29,177,432 KME ordinary shares or 7.650%.

As a result, Quattrodue Holding B.V.'s post demerger interest in KME's ordinary share capital is 31.569%. Quattrodue's interest in the total share capital, on the other hand, is 29.795%, whilst its direct interest is 21.816%¹.

The Company had 7,905 ordinary Shareholders after the share split of February 2010, which, however, has not yet been completed.

Finally, the Company holds 8,212,755 (5,475,170 *pre* split) of its own ordinary shares and 135,831 savings shares (90,555 *pre* split), respectively 2.324% (2.153% *post* demerger) and 0.477% (0.369 *post* demerger) of the shares of the same class.

3.4 Securities conferring special rights

No securities have been issued conferring special rights of control.

3.5 Employee investment, voting rights

There is no system of employee investment.

3.6 Restrictions on voting rights

Apart from statutory requirements and the provisions of the Company Articles of Association, there are no restrictions imposed on voting rights. Each share carries one voting right (art. 11 of the Articles of Association).

In that connection, at their Meeting of 19 May 2006, the Shareholders resolved to vary art. 4 of the Company Articles of Association to permit the Shareholders to authorise a capital increase of up to 10% of existing share capital without rights to existing Shareholders for the intents and purposes of the second sentence of art. 2441, paragraph IV of the Italian Civil Code.

Furthermore, art. 27 of the Company Articles of Association provides that a resolution to extend the duration of the Company (currently 31 December 2050) gives no right of rescission pursuant to art. 2437 of the Italian Civil Code.

3.7 Shareholders' agreements

The Company has not been notified of the existence of a Shareholders' agreement pursuant to art. 122 of the TUF.

3.8 Change of control clause

Neither the Company nor its subsidiaries has entered into arrangements the effectiveness, variation or termination of which are conditional to a change in the control of the Company.

3.9 Authorisations to increase capital and acquire treasury shares

The Board of Directors has not been authorised pursuant to art. 2443 of the Italian Civil Code to issue equity instruments, with the sole exception of the authorisation of the Directors at the Extraordinary Shareholders' Meeting of 2 December 2009 to increase share capital within five years of the date of the Meeting by a total of Euro 15 million to service a Stock Option Plan for Executive Directors and Executives

¹ Dimensional Fund Advisors L.P. notified its holding of 2.25% of ordinary share capital on 30 March 2010.

of the Company and the Group as approved in the ordinary session of the same Meeting, which has, as yet, not been used.

The authorised capital increase entails the issue of a maximum of 31,000,000 ordinary shares without rights to existing Shareholders in accordance with the second sentence of art. 2441, para. IV of the Italian Civil Code.

Further information is contained in the report prepared in compliance with art. 72 of the Issuers Regulation which is available on the relevant page of www.kme.com as well as in section 6 of this Report on the remuneration of the Board of Directors.

Further to the authorisation by the Shareholders at their Meeting of 16 September 2008 to acquire the Company's own ordinary and savings shares which lapsed in March 2010, the holdings of such shares by the Company at the date of this Report, following the suspension on 26 February 2009 of the plans to purchase treasury shares, were respectively 5,475,170 (*post split*: 8,212,755) ordinary shares (2.324% of that class) and 90,555 (*post split*: 135,831) savings shares (0.47% of that class). Total treasury shares were equal to 2.186% of total share capital (*post demerger*: respectively 2.153% and 0.369% and in total 1.996% of total share capital respectively 1.964% and 0.324%).

Following the distribution of free reserves through the free-of-charge conferment of KME Group S.p.A.. Ordinary Share Warrants 2006/2011 approved by iNTEK S.p.A. on 2 December 2009 and executed on 15 February 2010, the Company received a total of 815,493 warrants in connection with the 5,824,990 iNTEK savings shares held by KME at that date which were disposed of prior to the date of effectiveness of the demerger.

One of the agenda items for the Shareholders' Meeting convened to approve the financial statements as at and for the year ended 31 December 2009 will be the approval of a new authorisation of the Board of Directors to acquire treasury shares.

3.10 Management and coordination

Although the Company was originally controlled by iNTEK S.p.A. and is now, as explained above, controlled by Quattrodedue Holding B.V., the Company does not consider that it is subject to management and coordination 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 the 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 either by iNTEK S.p.A. or Quattrodedue Holding B.V. or any other company under the control of iNTEK S.p.A., Quattrodedue Holding B.V. and KME Group S.p.A.;
- 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.

4. Second part: information on corporate governance

4.1 Compliance

It was announced at the Board of Directors' Meeting of 10 November 2006 that the Company had adopted the Code of Conduct of Borsa Italiana S.p.A.'s Corporate Governance Committee and that its relevant principles would be gradually introduced throughout the Company.

The text of the Code of Conduct is available from Borsa Italiana S.p.A. and can also be viewed at <http://www.borsaitaliana.it/borsaitaliana/regolamenti/corporategovernance/corporategovernance.en.htm>.

As required by art. 149, subsection 1, letter c *bis* of the TUF, the Board of Statutory Auditors monitors the actual implementation of the Rules of Corporate Governance contained in the Code.

Due to the number of references made to the Company Articles of Association, a copy has been attached to the end of the Report in addition to which they are also available from www.kme.com.

4.2 Board of Directors

4.2.1 Appointment and replacement

The requirements for the appointment and replacement of members of the Board of Directors are those pursuant to law as amended and supplemented by the Company Articles of Association (art. 17) as are the procedures for their amendment.

Directors' terms may not be longer than three years but they may be re-elected (art. 17 of the Articles of Association). On nomination of a candidate for the position of Director, Shareholders are provided with the candidate's *curriculum vitae* and a list of the positions held by the candidate at other companies as board director or statutory auditor.

The current Board of Directors was appointed by the Shareholders at their Meeting of 29 April 2009 for 2009, 2010 and 2011 with their appointment terminating on the date of the Shareholders' Meeting held to approve the financial statements as at and for the year ending 31 December 2011.

The number of Directors may vary between a minimum of nine and a maximum of twelve.

The Shareholders at their above-mentioned Meeting of 29 April 2009 fixed the number at twelve which was unchanged from the previous Board. The section entitled "Composition of the Board of Directors" contains more detailed information.

A list of nominations for Directorships was presented on time by the then majority shareholder, iNTEK S.p.A. (53.82% Shareholder of ordinary capital) in compliance with the procedure required by art. 17 of the Company Articles of Association. The Shareholders unanimously elected iNTEK's nominees with 57.691% of voting shares in attendance.

No Director was, consequently, selected from a non-controlling Shareholder list for appointment.

The procedure pursuant to art. 17 of the Articles of Association requires:

- the submission of lists of candidates to Shareholders at least 15 days prior to the first convocation;
- the shareholding percentage required for the submission of lists be equal to the highest percentage required by regulation which is currently 2.5% of ordinary capital;
- when counting votes, the lists which have not obtained a percentage of votes equal to one half of the percentage required to submit a list, to be ignored;
- one Director to be appointed from the non-controlling Shareholder list that received the highest number of votes;
- the list to indicate the candidates for appointment as "Independent Directors" and art. 17 of the Articles of Association requires that their number be at least equal to the statutory minimum number of independent Directors and that they be in possession of the attributes required by law;
- the attributes needed for designation as independent to be those set out in art. 148, subsection 3 of the TUF in addition to any other relevant requirements having regard to integrity and professionalism such as those set out in art. 113 of Legislative Decree 385 of 1 September 1993 commonly known as the Consolidated Banking Law (the "Banking Law") and the Code of Conduct.

The procedure pursuant to art. 17 of the Articles of Association is also available on the relevant page of www.kme.com.

4.2.2 Composition of the Board of Directors

The names of the members of the Board of Directors are given below together with a description of their responsibilities including those of constituent Committees and a brief curriculum vitae. This information is also available from the relevant page of www.kme.com.

Their names normally appear at the beginning of the documents prepared for Shareholders' Meetings and in the annual and interim financial statements.

Salvatore Orlando (Chairman)

Salvatore Orlando was born in 1957 and holds a degree in Political Sciences. He joined the Group as an executive in 1984. He was subsequently appointed to the Boards of Directors of the largest industrial companies of the Group. He has been a Director of the Company since 24 April 1991 and of iNTEK S.p.A. since 2007.

Vincenzo Manes (Deputy Chairman)

Vincenzo Manes was born in 1960 and holds a degree in Economics and Business. He is Chairman and Chief Executive Officer of iNTEK S.p.A. and is a Shareholder of Quattrodue Holding B.V. in addition to being a Director of ErgyCapital S.p.A..

He was appointed to the Board of Directors of KME Group S.p.A. on 14 February 2005.

Diva Moriani (Deputy Chairwoman)

Diva Moriani holds a degree in Economics and Business. She joined iNTEK S.p.A. in 1999 and was appointed to the Board of Directors of iNTEK in 2002 and became its Deputy Chairman in 2007. She is Chairman of iNTEKCapital S.p.A., Chief Executive Officer of I2 Capital Partners SGR S.p.A. and Deputy Chairman of ErgyCapital S.p.A.. She was appointed to the Board of Directors of KME Group S.p.A. on 27 April 2005. The Board of Directors resolved to appoint Diva Moriani as Deputy Chairwoman on 25 March 2010 granting full ordinary and extraordinary powers.

Domenico Cova (Director and General Manager)

Domenico Cova was born in 1949 and holds a degree in Electronic Engineering. He joined the Group following the acquisition of Trafileries e Laminatoi di Metalli S.p.A. (TLM) a member of the French Pechiney Group. He was appointed head of rod production at the Serravalle Scrivia plant in 1977 and its Manager in 1983. He was then transferred to the French subsidiary KME France S.A.S. becoming its Chairman in 2000. He became a member of the KME Germany A.G. Management Board in 1995. He was appointed Chief Operating Officer of KME Germany A.G. in 2007 and subsequently Chief Executive Officer in 2010. He was appointed Director by Shareholders' resolution of 3 August 2007.

Italo Romano (Director and General Manager))

Italo Romano was born in 1958 and holds a degree in Economics and Business. He joined the Group in 1988 with responsibilities in the administrative area and controlling. He was appointed Corporate Group Controller in 2001 in-charge of studying the restructuring of the entire IT and administrative sector of the Group. He was appointed General Manager of Administration, Control & Corporate Planning in 2004. He became a member of the Board of Directors of KME Italy S.p.A. in 2005, later becoming Executive Deputy Chairman. He also joined the Management Board of KME Germany A.G. and was appointed Chief Financial Officer of KME Group S.p.A. in the same year. He was appointed Director by Shareholders' resolution of 3 August 2007.

Vincenzo Cannatelli

Vincenzo Cannatelli was born in 1952 and holds a degree in Mechanical Engineering. He also has important international experience and began his career in the Stet and Elsag Bayle Groups to then move to ENEL where he held important positions in the operating companies as Chief Operating Officer in the Infrastructure & Networks as well as the Market Divisions.

He was coopted as Director by resolution of the Board of Directors on 11 April 2006 and confirmed by the Shareholders at their Meeting of 19 May 2006 for the next three years. He was also appointed by the

Board of Directors on the same date to the position of Chief Executive Officer, which he held until 31 March 2007, after which he continued to hold the position of Director. He is Chairman of ErgyCapital S.p.A..

Mario d'Urso (independent)

Mario d'Urso was born in Naples in 1940 and holds a degree in Law. He has held positions in the finance sector and government and was Senator of the Republic and an under-secretary in one of the past governments.

He was appointed to the Board of Directors of KME Group S.p.A. on 14 February 2005.

Marcello Gallo

Marcello Gallo was born in Siracusa in 1958 and holds a degree in Political Economics. He is Chief Executive Officer of iNTEKCapital S.p.A., which is a subsidiary of iNTEK S.p.A. where he is currently Deputy Chairman after having served as General Manager from 1998 to 2003. He is a member of the Boards of Directors of companies controlled by iNTEK S.p.A..

He was appointed to the Board of Directors of KME Group S.p.A. on 14 February 2005.

Giuseppe Lignana (independent)

Giuseppe Lignana was born in 1937 and holds a degree in Electronic Engineering. He was Chief Executive Officer of CEAT Cavi S.p.A. and Director at Banca Commerciale Italiana S.p.A. and SIRTI S.p.A.. He joined Cartiere Burgo S.p.A. in 1984 where he served as General Manager, Chief Executive Officer and finally Chairman in 2004 and is currently Honorary Chairman.

He was appointed to the Board of Directors on 12 January 2005.

Gian Carlo Losi

Gian Carlo Losi was born in 1947 and holds a degree in Economics and Business. He joined the Group in 1973 after having been a university assistant in the Faculty of Business Administration at the University of Florence. He became an Executive in 1977 and was then made Head of Group Finance and Controlling. He was appointed General Manager of G.I.M - Generale Industrie Metallurgiche S.p.A. in 1990. After having served as director and statutory auditor in Italian and international companies of the Group, he is currently secretary of the Company's Board of Directors responsible for Corporate Affairs & Internal Control and was appointed Director by Shareholders' resolution of 3 August 2007.

Alberto Pecci (independent)

Alberto Pecci was born in 1943 and holds a degree in Political Sciences. He has been a member of the Boards of Directors of the Company and the Group for many years. He was Chairman of the Boards of Directors of Pecci Industrial Group Companies, which operates in the textile sector, and is a member of the Boards of Directors of El.En. S.p.A. and Alleanza Assicurazioni S.p.A.. He served as Chairman of Fondiaria S.p.A. and as Director at Assicurazioni Generali S.p.A., Mediobanca S.p.A. and Banca Intesa S.p.A..

He joined the Board of Directors on 28 June 1996.

Alberto Pirelli (independent)

Alberto Pirelli was born in 1954 and obtained a degree in Ichthyology and Aquaculture in the United States. He has held operating positions in the Pirelli Group and is currently Deputy Chairman of Pirelli & C. S.p.A. and is a Director of Camfin S.p.A. and Olimpia S.p.A.. He is Deputy Chairman of Gruppo Partecipazioni Industriali S.p.A..

He joined the Board of Directors on 27 October 2000.

Set out below is a table showing positions as director or statutory auditor held by each Director at 31 December 2009 in joint-stock companies, limited partnerships and private limited companies.

Name	Company	Position
Salvatore Orlando	KME Italy S.p.A. ¹	Chairman of the Board of Directors
	KME Germany A.G. ¹	Member of the Supervisory Board
	iNTEK S.p.A. ³	Member of the Board of Directors
Vincenzo Manes	iNTEK S.p.A. ³	Chairman/Chief Executive Officer
	iNTEKCapital S.p.A. ²	Member of the Board of Directors
	Fondazione Dynamo	Chairman of the Board of Directors
	I2 Capital Partners SGR S.p.A. ²	Deputy Chairman of the Board of Directors
	ErgyCapital S.p.A. ^{1,3}	Member of the Board of Directors
	Fondazione Laureus Sport for Good Italia	Member of the Board of Directors
	Fondazione W.W.F. Italia	Member of the Board of Directors
	Fondazione Vita	Chairman
	Fondazione Umana Mente	Member of the Steering Committee
	Società italiana di Filantropia	Deputy Chairman
	Progetto 10Decimi	Member of the Advisory Committee
	Quattrodue Holding B.V.	Member of the Supervisory Board
	KME Germany A.G. ¹	Member of the Supervisory Board
Domenico Cova	KME Germany A.G. ¹	Member of the Supervisory Board
	KME Italy S.p.A. ¹	Member of the Board of Directors
Italo Romano	KME Italy S.p.A. ¹	Executive Deputy Chairman of the Board of Directors
	KME Germany A.G. ¹	Member of the Supervisory Board
	Editoriale Fiorentina S.r.l.	Director
Vincenzo Cannatelli	Istituto Italiano del Rame S.r.l.	Chairman
	Aledia S.p.A.	Chairman of the Board of Directors
	ErgyCapital S.p.A. ^{1,3}	Chairman of the Board of Directors
Mario d'Urso	Ntv S.p.A.	Executive Deputy Chairman of the Board of Directors
	Fondi Gabelli (Gruppo Gamco)	Member of the Board of Directors
Marcello Gallo	iNTEK S.p.A. ³	Deputy Chairman of the Board of Directors
	iNTEKCapital S.p.A. ²	Chief Executive Officer
	I2 Capital Partners SGR S.p.A. ²	Chief Executive Officer
	Fondazione Dynamo	Member of the Board of Directors
	ISNO 3 ²	Sole Director
	ISNO 4	Sole Director
	FEI S.r.l.	Sole Director
FEB S.p.A.	Chairman and Chief Executive Officer	
Giuseppe Lignana	Museo Nazionale del Risorgimento Italiano	Member of the Board of Directors
Gian Carlo Losi	none	
Diva Moriani	iNTEK S.p.A. ³	Deputy Chairwoman
	iNTEKCapital S.p.A. ²	Chairwoman of the Board of Directors
	I2 Capital Partners SGR S.p.A. ¹	Chief Executive Officer
	ErgyCapital S.p.A. ^{1,3}	Deputy Chairwoman of the Board of Directors
	Fondazione Dynamo	Member of the Board of Directors
	Associazione Dynamo	Member of the Board of Directors
	I2 Capital Portfolio ²	Chairwoman of the Board of Directors
	Franco Vago S.p.A.	Member of the Board of Directors
KME Germany A.G. ¹	Member of the Supervisory Board	
Alberto Pecci	Gruppo Industriale Pecci	Chairman of the Board of Directors
	El.En. S.p.A. ³	Member of the Board of Directors
Alberto Pirelli	Pirelli & C. S.p.A. ³	Deputy Chairman of the Board of Directors
	Gruppo Partecipazioni Industriali S.p.A.	Deputy Chairman of the Board of Directors
	Camfin S.p.A. ²	Member of the Board of Directors
	Pirelli Tyre S.p.A.	Member of the Board of Directors
	FIN.AP di Alberto Pirelli & C. S.a.p.a.	Chairman of the Board of Directors

1. company controlled by KME.

2. company controlled by iNTEK.

3. company listed in a regulated market.

As far as the Company is aware, none of the members of the Board of Directors or Group Executives have, in the past five years, been found guilty of fraud nor, in the performance of their duties, been associated with bankruptcy, composition or liquidation proceedings nor, finally, have been formally indicted or sanctioned by public or regulatory authorities (including professional associations) nor prohibited by a court from membership of a board of directors, management board or supervisory board or engaging in the management of any issuer.

The Board of Directors does not limit the number of positions any of its members may hold in other companies with respect to:

- the personal attributes and professional qualifications of its members;
- the number and importance of the above-listed positions;
- the high number of Board of Directors meetings attended by its members.

4.2.3 Role of the Board of Directors

The Board of Directors has all of the broadest powers for the organisation and management as well as the ordinary and extraordinary administration of the Company for the achievement of its objects (art. 14 of the Company Articles of Association). It determines strategic guidelines and monitors implementation, assures management continuity and determines the powers of executive Directors (arts. 15 and 16 of the Company Articles of Association). The examination and approval of the Company's and the Group's strategic, business and financial planning, the Company's corporate governance and the Group structure are responsibilities reserved solely for the Board of Directors.

The Board of Directors financial reporting responsibilities are to present:

- the separate and consolidated financial statements at 31 December;
- the interim financial statements at 30 June;
- interim reports on operations at 31 March and 30 September.

4.2.4 Delegations

The Board of Directors has appointed a Chairman and two Deputy Chairpersons and has appointed two Directors to also act as General Managers with non-conflicting specific responsibilities. This functional and operational policy avoids the concentration of responsibilities in one person and is in compliance with the Code of Conduct.

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

Art. 16 of the Articles of Association provides that the Deputy Chairpersons have the same powers as the Chairman in order to deal with urgent matters or to substitute the Chairman in the event of his absence and/or other impediment.

The Board of Directors has, furthermore, delegated, solely to Deputy Chairman Vincenzo Manes, the powers of:

- 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 and information technology affairs in addition to industrial and commercial matters. It 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, responsibilities and 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.

The General Managers have single signing authority powers with respect to the following responsibilities:

- Director Domenico Cova: management of the Company's and the Group's industrial and commercial operations within the limits established by the Board of Directors and the Deputy Chairpersons;
- Director Italo Romano: management of the Company's and the Group's administration, finances, planning, control and legal affairs in addition to procurement, marketing and information technology within the limits established by the Board of Directors and the Deputy Chairpersons.

Limits are applied to the authorities of both Directors, when acting in their capacity as General Manager, ranging from Euro 1 million to Euro 10 million per transaction depending on its nature.

Due to the nature of their powers, the Deputy Chairpersons and the Directors Domenico Cova, Italo Romano and, because of the duties described below, Diva Moriani are considered Executive Directors.

Due to the fact that the two Executive Directors, who also hold the position of General Manager, are also members of the Management Board of KME Germany A.G., which is a controlled intermediate holding company of the industrial Group manufacturing semi-finished products in copper and copper alloy, they are under an obligation to provide quarterly reports to the Boards of Directors and Statutory Auditors on the operations, outlook and significant transactions of the Company and its subsidiaries.

The Board of Directors is satisfied that its composition, both with respect to the number of its members and their professional attributes, is adequate for the size of the Company and is in compliance with the provisions of art. 147 *ter*, subsection 4 of the TUF due to the presence of four independent Directors (1/3 of its members) and is thus able to adequately handle the problems it confronts. The same reasoning is also applicable to its constituent Committees. Directors are required to provide prompt notice in the event that they no longer meet the requirement for integrity pursuant to art. 147 *quinquies* of the TUF.

The Board of Directors is also satisfied that the organisational, administrative and accounting structure of the Company and its strategically important subsidiaries are adequate particularly as a result of system of internal control and the manner in which conflicts of interest are handled.

The presence of executive Directors with specific, thorough, multidisciplinary professional experience in financial, industrial and administrative matters means that all of the most important aspects of the Company's affairs are satisfactorily covered.

Non-executive Directors, in turn, make an important contribution to the Board of Directors and the Committees to which they belong in terms of their professionalism and experience.

4.2.5 Other executive Board Directors

Operational responsibility was given to the Director Diva Moriani having regard to the financial restructuring of the Company and the Group which included powers to conclude transactions of a non-routine nature relating to the acquisition and disposal of companies and the negotiation and conclusion of agreements of strategic importance to the Company and the Group.

The Board of Directors resolved to appoint Diva Moriani as Deputy Chairwoman on 25 March 2010 granting full ordinary and extraordinary powers.

4.2.6 Independent Directors

In compliance with the requirements of art. 3.C.1. of the Code of Conduct, arts. 147 *ter*, subsection 4 and 148, subsection 3 of the TUF and CONSOB communication DEM/9017893 of 26 February 2009, the Directors Mario d'Urso, Giuseppe Lignana, Alberto Pecci and Alberto Pirelli each confirmed that they continue to qualify as Independent Directors and both the Boards of Directors and Statutory Auditors are in agreement. Although the meetings pursuant to art. 3.C.6. of the Code are not held, they have been appointed to two Committees that consist solely of non-executive and independent Directors and hold separate meetings during the year.

With respect to the independence of Alberto Pecci, it should be noted that he was appointed Director by resolution of the Shareholders at their Meeting of 28 June 1996 for the years ending 31 December 1996 and 1997 and has, therefore, held the position continuously for over nine years in apparent contradiction with the criterion for independence pursuant to art. 3.C.1. letter e) of the Code of Conduct. Similarly, there is an apparent conflict of interest in violation of the same letters b) and a) of the same article with respect to Alberto Pirelli, who was a non-executive Director of the former Parent G.I.M. - Generale Industrie Metallurgiche S.p.A. until its merger with iNTEk S.p.A. and the Deputy Chairman of Pirelli & C. S.p.A. which is a member of the shareholding syndicate in G.I.M. - Generale Industrie Metallurgiche S.p.A. and KME Group S.p.A.. Alberto Pecci could also be considered to have a conflict of interest because he too is, personally, a member of the same GIM - Generale Industrie Metallurgiche S.p.A. Syndicate.

As a result of the same reasoning applied to two members of the Board of Statutory Auditors, the Board of Directors, in agreement with the Board of Statutory Auditors, do not believe that the independence of the of Alberto Pecci and Alberto Pirelli is diminished by their membership, even in varying capacities, of the Shareholding Syndicate first because of their long-term service as Director of the Company and, secondly, because they were also directors of the former parent thereby indicating their full autonomy of reasoning and decision making.

4.2.7 Lead Independent Director

The Board of Directors is satisfied that it is not necessary to appoint a "lead independent director" for the coordination of requests and contributions made by non-executive and, particularly, independent Directors because of the division of corporate responsibilities among four executive Directors and the existence of the two Committees that consist solely of independent Directors.

4.2.8 Internal procedures of the Board of Directors

The Board of Directors holds at least four meetings a year (art. 18 of the Company Articles of Association) which made also be held in the form of teleconferences or video conferences (art. 19 of the Company Articles of Association) and which are convened with sufficient advance notice of the agenda for the meeting (art. 18 of the Articles of Association). The relevant documentation is forwarded with due regard to the confidentiality of each of the agenda items.

Resolutions are validly approved when a majority of serving Directors are in attendance and there is an absolute majority of votes in favour cast by the attendees. In the event of a tie, the Chairman casts the deciding vote (art. 19 of the Company Articles of Association).

In the exercise of its powers to establish Committees and to determine their responsibilities and powers (art. 14 of the Company Articles of Association), the Board of Directors has created the following Committees which, pursuant to the Code of Conduct, must consist of non-executive Board Directors:

- Internal Control Committee;
- Remuneration Committee,

their composition and functioning are described below.

The Board of Directors, on the other hand, is satisfied that it is not necessary to establish an Executive Committee because it gave preference to the appointing two Directors as General Managers with specific and separate responsibilities with a Deputy Chairman coordinating their activities as well as the activities of the other executive Director.

An Appointments Committee was not created due to the presence of the controlling Shareholder on the Board of Directors.

The Board of Directors held six meetings in 2009 compared to the five of 2008. Four meetings are planned for 2010, as shown below:

- 25 March (examination of draft financial statements);
- 12 May (examination of the 31 March interim directors' report);
- 5 August (examination of the interim financial statements at 30 June);
- 11 November (examination of the 30 September directors' report).

Meetings scheduled for the year are advised in January of each year and published on the Company's website.

Although the number of meetings attended by each Director are analysed in the table at the end of this Report, you are advised that attendance record for Directors and Statutory Auditors was 93% and 90%, respectively; all absences were excused.

4.2.8.1 Processing of company information

In order to demonstrate that markets must be promptly, fully, adequately and not selectively notified of corporate actions, the Company adopted the "Code of Conduct regarding Information on Important Corporate Actions" in 2002 as recommended by the Code of Conduct and in compliance with the principles of Borsa Italiana's guidelines for market information.

The subsequent amendments introduced by legislation in connection with the TUF and by CONSOB and, therefore, Borsa Italiana S.p.A. rules led to its revision in March and November 2006 and again in November 2007. As a result of the reworded art. 114 of the TUF and in compliance with the art. 115 *bis* of the TUF, the so-called "relevant persons" identified with access to so-called "privileged information" are recorded in an electronic register created on 1 April 2006.

The procedure requires first and foremost that Directors and Statutory Auditors observe the confidentiality of privileged information which is also required of other persons with access to such information and ensuring that such information is only processed by persons aware of the nature and need for compliance and who have knowledge of the procedures required by CONSOB and Borsa Italiana S.p.A..

The role of an investor relations manager is performed by the individual company units for their respective areas. This decision takes account of the actual internal resources and structures of the Company and ensures that information is provided as and when required.

4.2.8.2 Related party transactions

Directors holding delegated powers notify transactions entailing potential conflicts of interest to the Board of Directors and the Board of Statutory Auditors as required by art. 14 of the Company Articles of Association.

The Internal Rules adopted in March 2003 and first revised in November of the same year and then again in September 2005 and November 2006 implement statutory requirements regarding the criteria for the identification of related parties and related party transactions.

The procedures entail audits and quarterly meetings attended by the Head of Internal Control with respect to specific matters as recommended by the Code of Conduct with the Board of Statutory Auditors also being invited to attend.

The definition of related parties contained in IAS 24, as provisionally in force, has been fully adopted.

The list of related parties is revised on 31 December and 30 June of each year.

The Rules require Directors and Statutory Auditors must fully and promptly disclose any transactions in which they could potentially have an interest to the Board of Directors, which may avail itself of the services of independent professionals in deciding how to proceed.

The Shareholders have not approved any waiver to the prohibition of competition pursuant to art. 2390 of the Italian Civil Code.

Members of the Management Board (the equivalent of a Board of Directors) of the subsidiary KME Germany A.G. that include the Directors Domenico Cova and Italo Romano are required to ensure that information on intercompany and related party transactions by Group companies are reported to the Company's senior management.

The Board of Directors are satisfied that the procedures required by the Rules, which may be viewed on the relevant page of www.kme.com are sufficient to safeguard against conflicts of interest.

4.2.9 Composition and functioning of Board of Directors constituent Committees

4.2.9.1 Remuneration Committee

The members of the Remuneration Committee are Alberto Pirelli (Chairman), Mario d'Urso and Giuseppe Lignana, all of whom are non-executive, independent Directors. Due to the fact that Directors' remuneration is determined by the Shareholders on their appointment (see section on the remuneration of Directors and Group Executives), no specific formal procedure is required with respect to decisions made by the Remuneration Committee having regard to any additional compensation payable.

The Committee submits proposals to the Board of Directors for the remuneration of the Chairman, the Deputy Chairpersons, Chief Executive Officers and Directors with specific responsibilities and then monitors the application and relevant decisions.

It also assesses the criteria used for the determination of pay of executives with key responsibilities and makes general recommendations thereon to the Board of Directors and then monitors application.

Its meetings, which are minuted, are attended by the regular members of the Board of Statutory Auditors thus assuring the coordination required by art. 21 of the Company Articles of Association. Although the Committee has the requisite powers, it has not deemed it necessary to obtain information in addition to that brought to its attention with respect to specific decisions.

Two meetings were held in 2009, which is one more than 2008, that were attended by all members. The recommendations for the remuneration of the Chairman, Deputy Chairwoman and the Director, Diva Moriani, for the three-year period 2009-2011 were formulated at these meetings in addition to the variable component of the Deputy Chairwoman's remuneration.

The Committee also considered the criteria used to determine the remuneration of the senior Group Executives based on information provided by the Deputy Chairwoman.

4.2.9.2 Internal Control Committee

The Internal Control Committee is appointed by the Board of Directors and is responsible for the system of internal control. The members of the Committee are the Directors Mario d'Urso (Chairman), Giuseppe Lignana and Alberto Pecci.

All three members are non-executive, independent Directors with professional experience including accounting and finance deemed by the Board of Directors to be appropriate.

Further information regarding the Committee's activities is contained in the section entitled "Proceedings of the Internal Control Committee".

4.3 Board of Statutory Auditors

The Board of Statutory Auditors oversees compliance with the law and the Company Articles of Association with respect to the propriety of administration and, particularly, the adequacy of the organisational, administration and accounting structure of the Company as it actually functions.

4.3.1 Composition of the Board of Statutory Auditors

The current Board of Statutory Auditors were nominated by iNTEK S.p.A. (the then majority shareholder of the Company with 53.58% of voting capital) and appointed by the Shareholders at their Meeting on 29 April 2009 for 2009, 2010 and 2011 meaning that their term of office will expire on 31 December 2011.

Shareholders resolved to unanimously elect the nominees with 55.42% of voting capital in attendance.

None of the Statutory Auditors, therefore, were appointed from a list submitted by a non-controlling Shareholder, which, pursuant to art. 22 of the Articles of Association, would be the highest non-controlling shareholding in accordance with arts. 147 *ter* and 144 *quater* of the Issuers Regulation, currently 2.5%.

The Board is comprised of three Standing Auditors and two Alternates. As with the Directors, their names are included in the documentation provided by the Company. A brief *curriculum vitae* follows for each of Statutory Auditors which is also available at www.kme.com:

Marco Lombardi (Chairman)

Marco Lombardi was born in 1959 and holds a degree in Political Sciences and is a registered Dottore Commercialista and Auditor with a professional practice in Florence. He also holds positions on other Boards of Statutory Auditors and acts at times on behalf of the courts and has also published several papers on taxation.

He joined the Board of Statutory Auditors on 1 September 2008.

Pasquale Pace (Standing Auditor)

Pasquale Pace was born in 1938 and holds a degree in Business Administration and is a registered Dottore Commercialista and Auditor with a professional practice in Bari. He also holds positions on other Boards of Statutory Auditors and, moreover, acts on behalf of the courts. He is a registered court technical expert with respect to administrative and criminal law.

He joined the Board of Statutory Auditors on 19 May 2006.

Vincenzo Pilla (Standing Auditor)

Vincenzo Pilla was born in 1961 and holds a degree in Economics and Business and is a registered Auditor with a professional practice in Florence. He is the author of publications and papers on company and tax matters. He also holds positions on other Boards of Statutory Auditors, including Group companies and acts on behalf of the courts.

He joined the Board of Statutory Auditors on 29 April 2009.

Lorenzo Boni (Alternate Auditor)

Lorenzo Boni was born in 1968 and holds a degree in Economics and Business and is a registered auditor with a professional practice in Florence. He is the author of publications and papers on company and tax matters and also engaged in activities at the University of Florence.

He was appointed for the first time as Alternate Auditor on 29 April 2009.

Angelo Garcea (Alternate Auditor)

Angelo Garcea was born in 1969 and holds a degree in Economics and Business and is a registered Dottore Commercialista and Auditor with a professional practice in Florence. He is the author of numerous papers on taxation.

He was appointed for the first time as Alternate Auditor on 28 October 1999.

As far as the Company is aware, none of the members of the Board of Statutory Auditors has, in the past five years, been found guilty of fraud nor, in the performance of their duties, has been associated with bankruptcy, composition or liquidation proceedings nor, finally, has been formally indicted or sanctioned by public or regulatory authorities (including professional associations) nor has been prohibited by a court from membership of a board of directors, management board or supervisory board or engaging in the management of any issuer.

For completeness sake, we mention that Marcello Fazzini was the Chairman of the Board of Statutory Auditors until the Shareholders' Meeting of 29 April 2009, when the Board of Statutory Auditors was appointed for the three year period 2009/2011. At that Meeting, Fazzini, who had been a member of the Board of Statutory Auditors since 1999, expressed a desire to withdraw his candidacy for a new term of office because of his desire to reduce his professional commitments.

Art. 22 of the Company Articles of Association, which is entirely dedicated to the Board of Statutory Auditors, sets out the requirements in addition to the procedure for their appointment which includes:

- the submission of a list for the appointment and the *curriculum vitae* of each candidate at least fifteen days prior to the Shareholders' resolution;
- the addition to the list of one alternate auditor designated by non-controlling Shareholders as a substitute, if required, for the standing auditor also selected from a non-controlling Shareholder list;
- in the event of a tie in the votes for two or more lists, the auditors in the list submitted by the Shareholder with the largest shareholding or, if this is not possible, the highest number of Shareholders, shall be deemed elected.

In accordance with arts. 144 *bis* of the TUF and 144 *terdecies* of the Rules, Statutory Auditors may not hold more than five positions as Statutory Auditor in issuers.

The requirements of the Company Articles of Association with respect to the appointment of Statutory Auditors are available at www.kme.com.

On appointment to the Board of Statutory Auditors, each member represents to be in possession of the prerequisites of professionalism and integrity required by regulation and the Company Articles of Association

and to not be subject to any of the impediments listed in art. 148 of the TUF and undertakes to notify the Company within thirty days of any changes. The Board of Statutory Auditors periodically verifies that each of its members still qualifies as independent in accordance with law and arts. 10.C.2. and 3.C.1., letter c) of the Code.

This verification was of particular relevance to the Chairman of the Board of Statutory Auditors, Marco Lombardi, and the Standing Auditor, Vincenzo Pilla due to the fact that they are members of other boards of Statutory Auditors.

The Board of Statutory Auditors, with the abstention of the interested parties, was of the opinion that their situation did not limit their independence because of their personal attributes and due to the fact that the memberships were not material seen within the overall context of their professional activities.

The Board of Statutory Auditors consequently announced the findings of the verification that was also conducted for the purposes of art. 149, subsection 1, letter c *bis* of the TUF requiring verification of the actual implementation of the Code of Conduct.

Other positions as board directors and statutory auditors held by the Company's Statutory Auditors held at other companies or in the Group are shown below and were provided to Shareholders when the Statutory Auditors were appointed.

The Board of Statutory Auditors conducts its activities as required, attends meetings of the Board of Directors and other constituent Committees and maintains an ongoing, fully independent direct relationship with all units of the Company.

Its relationship with the independent auditors is collaborative and entails the exchange of information.

In that connection, furthermore, the Board of Statutory Auditors oversees the independence of the independent auditors and confirmed in its Reports on the separate and consolidated Financial Statements that no other mandates had been concluded with the independent auditors either by the Company or the Group with the exception of the "Expert opinion on the exchange ratio" pursuant to arts. 2501 *sexies* and 2506 *ter* of the Italian Civil Code with respect to the demerger of iNTEK into KME.

The remuneration of the Board of Statutory Auditors is disclosed in the following table as required by CONSOB:

Name (in Euro)	Position	Term of office	Expiry of the position	Emoluments	Non- monetary benefits	Bonuses and other incentives	Other compensation ¹
Marcello Fazzini ²	Chairman	01.01.09 - 29.04.09	29.04.09	10,528	-	-	25,104
Marco Lombardi ³	Chairman	01.01.09 - 31.12.09	31.12.11	29,270	-	-	17,209
Pasquale Pace	Standing auditor	01.01.09 - 31.12.09	31.12.11	25,187	-	-	-
Vincenzo Pilla ⁴	Standing auditor	29.04.09 - 31.12.09	31.12.11	15,592	-	-	22,956

1. emoluments paid by subsidiaries.

2. term expired on 29 April 2009.

3. previously a standing auditor, was appointed Chairman on 29 April 2009.

4. appointment as standing auditor on 29 April 2009.

The Board of Statutory Auditors met seven times during the year as it did in 2008. Its members' rate of attendance was 93%.

Set out below is a table showing the positions held by each Statutory Auditor as director or statutory auditor at 31 December 2009 in joint-stock companies, limited partnerships and private limited companies.

Name	Company	Position
Marcello Fazzini	KME Italy S.p.A. ¹	Chairman of the Board of Statutory Auditors
	InChiaro Assicurazioni S.p.A.	Regular auditor
Marco Lombardi	RECS S.r.l.	Sole Director
	Brandini S.p.A.	Chairman of the Board of Statutory Auditors
	D&D La Certosa Firenze S.p.A.	Chairman of the Board of Statutory Auditors
	Fattoria dei Barbi S.r.l.	Chairman of the Board of Statutory Auditors
	KME Italy S.p.A. ¹	Standing auditor
	Grifoni & Masini S.p.A.	Standing auditor
	SAIF Servizi Ass.ni Industriali Firenze S.r.l.	Standing auditor
	B. e C. Speakers S.p.A.	Alternate auditor
	Cabel Ass. Fin. Co. Leasing S.p.A.	Alternate auditor
	Vianse S.p.A.	Alternate auditor
	Fondazione Cinelli Colombini	Internal auditor
	Associazione Partners Palazzo Strozzi	Internal auditor
Pasquale Pace	Baia San Giorgio - Villaggio turistico sportivo San Giorgio S.r.l.	Chairman of the Board of Statutory Auditors
	Primiceri S.p.A.	Chairman of the Board of Statutory Auditors
	Fidanzia Sistemi S.r.l.	Standing auditor
	Marzocca S.r.l.	Standing auditor
Vincenzo Pilla	KME Recycle S.p.A. ¹	Chairman of the Board of Statutory Auditors
	EL.EN. S.p.A. ²	Chairman of the Board of Statutory Auditors
	Deka Mela S.r.l.	Chairman of the Board of Statutory Auditors
	Lasit S.p.A.	Chairman of the Board of Statutory Auditors
	Affitto Firenze S.p.A.	Chairman of the Board of Statutory Auditors
	Cut Lite Penta S.r.l.	Standing auditor
	Geikos S.p.A.	Standing auditor
KME Italy S.p.A. ¹	Standing auditor	
Lorenzo Boni	no other positions held	
Angelo Garcea	no other positions held	

1. company controlled by KME.

2. company listed in a regulated market.

4.4 Shareholders' Meetings: powers, procedures and rights other than those provided by law

The Shareholders' Meeting is attended by all ordinary Shareholders and its powers and responsibilities are those set out in the Italian Civil Code and the TUF. Moreover, as required by Directive 2007/36/EC, no distinction is made between Shareholders of equal status with respect participating and voting in Shareholders' Meetings.

The Company Articles of Association (arts. 2 and 14) empower the Board of Directors to determine the registered and any secondary offices, to approve mergers and demergers of subsidiaries, to reduce share capital in the event of a withdrawal by a Shareholder and to adjust share capital as a result of any changes in law.

Shareholders' Meetings are convened by the publication of an announcement in a newspaper (currently: "Il Sole 24 Ore" - "Milano Finanza" - "Italia Oggi") in addition to the announcement appearing in the Official Gazette. The constitution of and voting at Shareholders' Meetings are regulated by arts. 2368 *et seq.* of the Italian Civil Code and art. 126 of the TUF.

The Company does not require ownership of a block of shares as a prerequisite for attending a Shareholders' Meeting. Shareholders are required to deposit shares, i.e., instruct intermediaries holding the relevant accounts to notify the Company two days prior to the Meeting.

The other methods of participating in Shareholders' Meetings are contained in arts. 10 (Calling of Shareholders' Meetings) and 11 (Participating in Shareholders' Meetings and proxies) of the Company Articles of Association, particularly with reference to the protection of non-controlling Shareholders with respect to the appointment of Directors and Statutory Auditors. In particular, art. 11 (Participating in Shareholders' Meetings and proxies) of the Articles of Association requires advance notice for participating in the Meeting, which is to be issued by an authorised intermediary, to be received at least two days before the date of the relevant meeting. This deadline will be prolonged to the next business day in the event the original deadline falls on a Saturday, Sunday or public holiday. The same article sets out the provisions for voting by mail.

No transactions in the shares held by the party notifying participation in the Shareholders' Meeting may be made until the Meeting is held without, prejudice however, to the Shareholder's ability to transact in the shares in the event the Meeting is not held on the Meeting's first calling date. In such cases, however, the Shareholder is required to provide a second notice to be received by the Company no later than two days prior to the date of the second calling of the Meeting.

In a departure from the Code, the Company has decided to dispense with Shareholder Meeting Rules and Regulations due to the existence of the provisions of Chapter III of the Company Articles of Association.

In that connection, art. 12 of the Articles of Association expressly requires the Chairman of the Shareholders' Meeting to assure the propriety of the proceedings by directing and regulating deliberations and limiting the length of individual contributions.

Savings Shareholders are not permitted to participate in meetings of ordinary Shareholders.

Each share carries unrestricted voting rights unless otherwise provided by law. Votes may be cast by mail in accordance with the procedure pursuant to article 11 of the Articles of Association.

Two ordinary sessions of Shareholders' Meetings (29 April and 2 December) and one Extraordinary session (2 December) were held in 2009 and, as previously mentioned, a Special Savings Shareholders' Meeting was held on 24 April 2009.

4.4.1 Company Articles of Association and protection of non-controlling Shareholders

Unless otherwise provided by law or the Articles of Association, the Company Articles of Association may not be amended unless approved by Shareholders' resolution in the manner and with the majority prescribed by legislation.

The Company Articles of Association contain provisions for the protection of non-controlling Shareholders with respect to the calling of Shareholders' Meetings, inclusion of agenda items (art. 10) and appointment of the Boards of Directors and Statutory Auditors (art. 22) the appointment of proxies, voting by mail (art. 11), the Board of Statutory Auditors reporting requirements (arts. 14 and 18) and the Joint Representative of Savings Shareholders (art. 24).

In particular, arts. 17 (Appointment and Composition of the Board of Directors, term of office of members) and 22 (Board of Statutory Auditors) of the Company Articles of Association were amended in 2007 through the introduction of non-controlling Shareholders' voting lists.

The requirements for the non-controlling Shareholders' lists are contained in arts. 147 *ter et seq.* of the TUF.

4.5 System of Internal Controls

4.5.1 Proceedings of the Internal Control Committee

The Internal Control Committee is responsible for fixing the guidelines and areas of internal controls for the identification and management of the principal risks to which the Company is exposed. It consequently:

- assists the Board of Directors in the execution of its duties with respect to internal control;
- assesses, together with the Manager Responsible for Financial Reporting and the internal auditors, the correct application of accounting policies and their consistency for the purposes of presenting financial statements;
- opines, at the request of the executive Director responsible for the system of internal control, on specific aspects of the identification of the principal risks to which the Company is exposed in addition to planning, implementing and managing the system of internal control;
- examines the internal audit plans and the periodic reports prepared by the internal control officers;
- assesses the independent audit plan and the findings reported and any letters of recommendations;
- oversees the effectiveness of the process of auditing the accounts.

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.

The Chairman, Deputy Chairmen and Director - General Manager Italo Romano (the last two with respect to their specific responsibilities for internal control) and the Chairman of the Board of Statutory Auditors (or any other standing auditor designated by that Chairman) are invited to attend the Committee's meetings.

The Committee held two meetings in 2009 as it did in 2008. The acting Chairman of the Board of Statutory Auditors attended both meetings which were minuted.

The Board of Directors is satisfied that the Company's system of internal control is, as required by art. 8 of the Code, adequate for the types of risks typical of the Company's business and is sufficient to safeguard the Company's assets, the efficiency and effectiveness of its operations, the reliability of financial information and compliance with laws and regulations.

4.5.2 Executive director responsible for the system of internal control

The Deputy Chairman, Vincenzo Manes, is responsible for overseeing the system of internal control.

4.5.3 Head of Internal Control

The appointment of the Head of Internal Control has been delegated by the Board of Directors to the Deputy Chairman to whom the Head reports. Organisationally, the Head of Internal Control is independent of all operational units and, in turn, has no operational responsibilities. The Head of Internal Control also reports to the Internal Control Committee and is responsible for the conduct of all internal audits.

The Head of Internal Control has direct access to all information required for the performance of his duties which are the verification and assessment of the adequacy and effectiveness of the Company's system of internal control and the compliance of the operations of the various units of the Company with procedures, corporate policy, statute and regulations as may be in force from time to time, particularly with respect to the reliability and integrity of information processed, the safeguard of the Company's assets and, together with the Manager Responsible for Financial Reporting, the adequacy and consistency of accounting policies for the purposes of presenting financial statements.

4.5.4 Internal Control

The Head of Internal Control is responsible for internal controls as well as internal audit.

4.5.5 Role of the Board of Directors with respect to the system of internal control

As required under criterion 8.C.1 of the Code, the Board of Directors defines the guidelines for the system of internal control in such a manner as to assure the principal risks to which the Company is exposed are correctly identified and monitored in accordance with sound management practices.

4.5.6 Manager Responsible for Financial Reporting

At its meeting of 29 April 2009 and in accordance with the procedure required under art. 17 of the Company Articles of Association and after having ascertained the possession of the necessary professional and personal attributes and the individual's integrity, the Board of Directors, with the agreement of the Board of Statutory Auditors, re-appointed Marco Miniati as the Manager Responsible for Financial Reporting who was originally appointed on 21 June 2007. Mr. Miniati was made responsible for the performance of the relevant duties and was given all necessary powers for which he is separately remunerated.

Marco Miniati was born in 1960 and has been a Group Executive since 1997. His activities have been focused on the control of operations of the French and German companies. He became the General Manager Administration, Controlling & Planning in 2005.

The term of the appointment is the same as that for the Board of Directors, in other words to the date of the approval of the financial statements as at and for the year ending 31 December 2011.

The first declaration pursuant to art. 154 *bis*, subsection 2 of the TUF was made by the then Manager Responsible with respect to the quarterly Review of Operations of 30 September 2007, with the first declaration pursuant to subsection 5 of the same article having been made with respect to the financial statements as at and for the year ended 31 December 2007.

The Manager Responsible provides periodic reports to the Internal Control Committee and the Board of Statutory Auditors on his work and has an ongoing relationship with the independent auditors.

4.5.7 Risk management system with respect to financial reporting

To assure compliance with art. 123 *bis*, subsection 2, letter b) regarding the reliability of separate and consolidated financial statements, the Company had the internal control department undertake a project under the supervision of the Internal Control Committee and with the assistance of Ernst & Young to verify the system of internal control for the Group's financial reporting in order to assure consistence with international financial reporting standards and compliance with the requirements of the "Law on investment" 262/05. The project was fully completed and implementation verified for the 2008 financial statements.

KME's risk management system should not be seen in isolation from the System of Internal Control since both are components of the same system.

The purpose of the system is to assure the reliability, accuracy and timeliness of financial reporting. The Company's guidelines for the development, implementation, monitoring and updating of the system over time are based on recognised international best practice (Committee of Sponsoring Organisations of the Treadway Commission - COSO Report) that defines Systems of Internal Control as the combination of rules and procedures, techniques and tools used to manage the company to assure the achievement of its objectives.

The principles followed in accordance with the COSO Report are those to assure: a) the efficiency and effectiveness of operations; b) accuracy of financial reporting; and, c) compliance with laws and regulations.

The COSO Report also sets out the essential components of an effective System of Internal Control:

- *control environment*: the basis of the System of Internal Control characterised by the sensitivity of the Company's senior management to procedures and structure (formalisation of job descriptions, responsibilities, internal communication systems and the timeliness of information) consistent with corporate strategies and objectives;
- *risk assessment*: management's identification and analysis of risks inherent in the achievement of predefined objectives as well as the determination of risk management methods;
- *control activities*: the methods, procedures and practices used to define and implement the organisation's controls for the purposes of mitigating risks and assuring the achievement of targets set by management;
- *information and communication*: the provision of support for all other aspects of control by communicating control responsibilities to personnel and by providing information in the form and at the time required for individuals to continue their work;
- *monitoring*: the activity performed by various parties in the company for the ongoing control of the propriety of the System of Internal Control in order to overcome critical contingencies and to prepare for the maintenance, updating and improvement of the System.

4.5.7.1 Description of the key aspects of the existing risk management and internal control systems in connection with financial reporting

a) Steps of the existing risk management and internal control systems in connection with financial reporting

- *Identification of financial reporting risks*: KME Group S.p.A. has determined the units and processes at risk in terms of the potential impact on financial reporting in addition to the consequent risk of not achieving control objectives (e.g., the assertions of financial statements and other objectives of financial reporting). These risks relate to unintentional or fraudulent errors that are likely to have a significant impact on financial reporting.
- *Prioritisation of financial reporting risks*: KME has identified the key criteria to be used for the assessment of the previously identified risks inherent in financial reporting.
- *Identification of controls addressing risks identified*: this entails KME marshalling data on the internal control system over financial reporting as actually implemented and the key characteristics of the controls identified mitigating financial reporting risks.
- *Assessment of controls addressing the risks identified*: in this step, KME evaluates the key characteristics of its monitoring process or the manner in which controls over risks identified are periodically prioritised (both in terms of purpose as well as effectiveness).

In order to assure that the financial reporting System of Internal Control is highly reliable, the Company:

- implements and continually updates the combined administrative and accounting procedures (accounting policies, rules regarding the presentation of Consolidated Financial Statements and interim reports, etc.) by which the Parent ensures that information is efficiently exchanged with subsidiaries under its direct coordination. Subsidiaries, moreover, are given detailed operational instructions with respect to the Parent's guidelines;
- evaluates, monitors and continually revises the System of Internal Control over financial reporting risks taking a top-down risk-based approach consistent with the COSO Framework that focuses attention on the key risks of unintentional or fraudulent errors in the financial statements and notes;
- classifies controls used in the Group into two principal categories in accordance with best international practice:
 - *entity level controls* at group or individual subsidiary level (assignment of responsibilities, inherent and delegated powers, separation of duties and assignment of privileges and rights of access to IT applications);

- *process level controls*, (authorisations, reconciliations, verifications of consistency, etc.), with respect to operational processes, closing the books and so-called “transversal” processes relating to the Groups IT services.

The controls can be either preventive or detective in nature depending on whether they are intended to prevent or detect unintentional or fraudulent irregularities in the financial statements; and either manual or automatic such as the validations run by software on the business systems;

- has the effectiveness of the design and implementation of controls verified by internal audit or dedicated units at subsidiary-level using random sampling techniques in accordance with best international practice;
- identifies any backup controls, remedial action or planned improvements in the monitoring of controls.

The findings are periodically examined by the Manager Responsible for Financial Reporting and notified to senior management and the Internal Control Committee, which in turn reports them to the Parent’s Boards of Directors and Statutory Auditors.

b) Related roles and company units

KME clearly identifies roles and the units involved in the design, implementation, monitoring and revision of the System of Internal Control particularly with respect to the staff (Manager Responsible, Head of Internal Control, Process Owner, Control Owner, Testers).

4.5.8 Independent auditors

KPMG S.p.A. has been appointed to perform the audit, pursuant to arts. 155 *et seq.* of the TUF, of the separate and consolidated financial statements for the year and for the half-yearly separate and consolidated financial statements of KME Group S.p.A.. KPMG S.p.A. is the “principal auditor”.

The current mandate was approved by Shareholders on 23 May 2007 on the recommendation of and for the reasons cited by the Board of Statutory Auditors and will terminate with the presentation of the financial statements as at and for the year ending 31 December 2015.

Riccardo Cecchi has headed the audit for KPMG since 25 October 2007 for the interim financial statements as at and for the six months ended 30 June 2007.

Total fees paid to KPMG were Euro 371,000. Total fees paid by the Group were Euro 1,655,000. The relevant details have been annexed to the notes of the separate financial statements.

The only additional services KPMG was engaged to provide during the year have been included in the schedule pursuant of art. 149 *duodecies* of the Issuers Regulation shown below:

- presentation of the “Expert opinion on the exchange ratio” pursuant to arts. 2501 *sexies* and 2506 *ter* of the Italian Civil Code with respect to the demerger of iNTEk into KME;
- verification of the financial ratios relating to the medium to long-term loan agreement;
- other services in connection with administrative and tax returns.

As part of its duties, the Board of Statutory Auditors is also responsible for monitoring the independence of Auditors.

4.5.9 The Oversight Body and “Model 231”

The Company has adopted the organisational and management model pursuant to Legislative Decree 231/01 which has been revised in accordance with the amendments to the Decree. An Oversight Body comprising multiple Company and Group units which, in addition to assuring that the model is continually up to date, monitors its effectiveness through specific verifications of those corporate segments considered to be the most sensitive. The Chairman of the Board of Statutory Auditors participates in its meetings.

4.6 Investor relations

To underline the importance of Shareholders' Meetings as the best method for the Board of Directors to provide information to Shareholders on the Company's performance and outlook, a set of relevant documents, in addition to those required by law and regulation, is sent to Shareholders who have attended the last three Shareholders' Meetings or who have so requested at least one week prior to the Meeting. A set of the relevant documents together with a copy of the Company Articles of Association are also provided to attendees of Shareholders' Meetings.

The quality and timeliness of public announcements, which are fundamental for the provision of information to Shareholders and the market, have been assured through the development and use of the website **www.kme.com** which has, since 2008, contained all information on the industrial companies of the Group which was previously available from a separate site through links. There is unrestricted access to the site and all information can be easily found with the most recent being highlighted.

The site is updated as and when information is released through the electronic NIS (Network Information System) managed by Borsa Italiana S.p.A.. NIS was developed for the dissemination to the public of Companies' press releases to media companies tied into the system, to Borsa Italiana S.p.A., which replicates them as stock market notifications, and to CONSOB.

The site not only contains archived documentation, accounting and financial documents (annual, half-year and quarterly financial statements, share performance with graphs) and information on corporate actions (annual schedule, corporate governance reports, exercise of rights, callings of Shareholders' Meetings and methods of participating, procedures for the appointment of the Board of Directors and the Board of Statutory Auditors), but also information and data on the range of products, their application and information of interest to suppliers and customers.

An ample section of the site is dedicated to corporate governance (bodies, Company Articles of Association, Warrant Terms and Conditions, Procedures and Internal Codes, minutes), with special pages dedicated to any pending, non-routine matters. The site also contains the annual information documents from 2005 required by art. 54 of the Issuers Regulation.

A considerable amount of the information is now also available in English particularly press releases, financial statements and interim reports.

The various language versions of **www.kme.com** were accessed over a million times in 2009 by 420 thousand visitors. In particular, the interactive version of the 2008 financial statements had over 20,000 visits both in Italian (60%) and in English (40%).

4,000 pdf files of the financial statements alone were downloaded in 2009. The presentation of the Group, which is updated whenever quarterly figures are published, was downloaded, primarily in English, over 1,700 times in 2009.

There is also a continual dispatch service of announcements and documents issued by the Company to persons on a mailing list. Over 34,000 items were sent during the year (1,221 names on the mailing list compared to 1,170 for 2008). It is also possible to e-mail requests to the Company for such literature.

The Board of Directors is satisfied that the website has improved and incremented the quality and quantity of information available on the Company, the Group, their industrial operations and that it is increasingly facilitating the timely dissemination of information to Shareholders and financial and other markets.

4.7 Other Corporate Governance issues

4.7.1 Internal Dealing Code

As of 1 April 2006 following the entry into force of the requirements in connection with internal dealing introduced by Law 62 of 18 April 2005 and the consequent amendments to CONSOB's Issuers Regulation by Resolution 15232 of 29 November 2005, the Board of Directors decided at its meetings of November 2006 and then in November 2007 to amend and subsequently maintain up to date the initial procedure regarding internal dealing for the purposes of:

- assuring the dissemination to and facilitating the awareness of “relevant persons” with respect to the amended requirements;
- maintaining the procedure's efficiency and currency.

As an aside, the black-out periods with respect to trading in the Company's financial instruments by “relevant persons” has been maintained.

Investments in the Company and its subsidiaries held by Directors and Statutory Auditors are set out below (NB.: figures are pre-split to facilitate comparison):

First and last names	Investee company	Number held at the end of 2008	Number acquired in 2009	Number sold in 2009	Number held at the end of 2009
Vincenzo Cannatelli	Kme Group S.p.A.	97,663 ords. 104,218 warrants	== ==	== ==	97,663 ords. 104,218 warrants
Alberto Pecci	Kme Group S.p.A.	7,166 sav. shares ¹ 65,317 sav. shares ² 1,399 ords. ³ 24,176 warrants ²	==	==	7,166 sav. shares ¹ 65,317 sav. shares ² 1,399 ords. ³ 24,176 warrants ²
Domenico Cova	Kme Group S.p.A.	75,000 ords. ³	==	==	75,000 ords.
Italo Romano	Kme Group S.p.A.	75,000 ords. ³	==	==	75,000 ords.
Gian Carlo Losi	Kme Group S.p.A.	64,788 ords. ³	==	==	64,788 ords.

1. direct holdings.

2. 100% indirect holdings through subsidiaries.

3. shares obtained through the exercise of stock options.

A description of the procedure is available in a separate section of www.kme.com which also includes a list of transactions by name that are subject to reporting.

4.7.2 Protection of personal data

A Data Security Planning Document has been adopted for the protection of personal data in accordance with art. 26 of Annex B - Minimum Specifications for Data Security of Legislative Decree 196 of 30 June 2003 (the Personal Data Protection Code). The relevant unit is headed by Lorenzo Cantini.

4.8 Changes after the end of the reporting period

Subsequent to the end of the reporting period, certain non-routine transactions approved at the Extraordinary Shareholders' Meeting of 2 December 2009 were executed as explained in the relevant sections of the Report.

The capital increases of Euro 80 million and Euro 15 million, on the other hand, had not yet been implemented; the timing of the capital increases is given in the Report.

Whereas the reviews of the efficiency and current status of Company rules and procedures are ongoing, the changes in the requirements for statutory audits and the participation of Shareholders in the Company's day to day business will necessitate certain amendments to the structure of the Company's corporate governance.

In particular, the transposition into Italian law of Directive 2006/43/EC concerning the statutory audit of accounts will result in the addition of a new "Internal Control and Audit" to be identified with the Board of Statutory Auditors to oversee:

- financial reporting;
- the effectiveness of systems of internal control, internal audit and risk management;
- the statutory audit of annual and consolidated accounts;
- the independence of Auditors.

Amendments arising in connection with Directive 2007/36/EC (the "Shareholders' Rights Directive"), on the other hand, will substantially affect the participation of Shareholders in Meetings and will first be applied to the Shareholders' Meeting call notice which will be published after 31 October 2010.

Finally, CONSOB adopted a new rule in March 2010 with respect to related party transactions which will become effective during the year.

5. Third part: remuneration of Directors and other Group senior management

5.1 Involvement of the Shareholders' Meeting and the Boards of Directors and Statutory Auditors in the remuneration system

Art. 8 of the Company Articles of Association requires the distribution of 2% of earnings after allocation to the Legal Reserve to the Directors. Art. 21 empowers the Shareholders' Meeting to determine a fixed payment to Directors whereas an additional payment to those Directors with additional specific powers may be authorised by the Board of Statutory Auditors.

The annual fixed payment to Directors, to be divided equally among the Directors subject to a 50% increase payable to Directors who are members of the Board of Directors' constituent committees was set at Euro 195,000.00 by the Shareholders' Meeting of 29 April 2009. The fixed payment, however, shall be treated as payment on account of the amount pursuant to art. 8 of the Articles of Association.

A variable payment is made to the Deputy Chairman, as determined by the Board of Directors, which is computed with reference to the achievement of targets.

The responsibilities of the Remuneration Committee were described in the previous section.

5.2 Directors' remuneration

A schedule of total remuneration paid to Directors in 2009, as required by CONSOB and including directors of subsidiaries, is shown below. The remuneration paid to Roelf-Evert Reins, who is a member of the Management Board of the German subsidiary, KME Germany S.A., was with respect to his services as a "key Executive". All amounts are stated in Euros.

Directors							
Name	2009 Position	Term of office	Expiry of the position	Emoluments	Non-monetary benefits	Bonuses and other incentives	Other compensation ¹
Salvatore Orlando	Chairman	01.01.09-31.12.09	31.12.2011	353,000	4,867		125,104
Vincenzo Manes	Deputy Chairman	01.01.09-31.12.09	31.12.2011	738,000	9,958		80,104
Domenico Cova	Director/Gen. Man.	01.01.09-31.12.09	31.12.2011	13,000			606,648
Italo Romano	Director/Gen. Man.	01.01.09-31.12.09	31.12.2011	13,000			603,449
Vincenzo Cannatelli	Director	01.01.09-31.12.09	31.12.2011	14,800			
Mario d'Urso	Director	01.01.09-31.12.09	31.12.2011	26,600			
Marcello Gallo	Director	01.01.09-31.12.09	31.12.2011	15,400			25,052
Giuseppe Lignana	Director	01.01.09-31.12.09	31.12.2011	27,800			
Gian Carlo Losi	Director	01.01.09-31.12.09	31.12.2011	47,170			283,291
Diva Moriani	Director	01.01.09-31.12.09	31.12.2011	113,000	4,034		25,052
Alberto Pecci	Director	01.01.09-31.12.09	31.12.2011	20,100			
Alberto Pirelli (2)	Director	01.01.09-31.12.09	31.12.2011	19,500			
Key Executive							
Roelf-Evert Reins							494,504

1. Emoluments paid by subsidiaries in 2009.

2. Alberto Pirelli is paid by Pirelli & C. S.p.A..

5.3 Directors post-employment benefits and termination benefits paid on resignation, dismissal or separation following a take-over bid (pursuant to art. 123 *bis*, subsection 1, letter i) of the TUF)

At their Meeting of 14 March 2008, the Board of Directors resolved to pay Directors' post-employment benefits to the Deputy Chairman, Vincenzo Manes, on vacating his position, of an amount equal to total average remuneration for each three year period of his service. This marked the finalisation of the Deputy Chairman's total remuneration package that in 2007 was treated as the first phase of the restructuring of the Group that entailed the implementation of the most urgent of the measures to reinstate the Group's financial soundness following the severe downturn of 2004.

The Directors' service contracts with the Company do not provide for payments in the event of resignation or dismissal without cause or in the event of separation following a takeover bid.

5.4 Stock option plan

The "KME Group S.p.A. Stock Option Plan 2006-2011", which was established in July 2006 for executive Directors of the Company and Group Executives and amended in 2007 (following resignations and new appointments of Directors and Executives and the regrouping of share capital, which, however, was not tantamount to a restructuring of capital), was revoked by resolutions of the Board of Directors of 7 October 2009 and by the Shareholders' Meeting of 2 December 2009.

The options gave the right to the Beneficiary to subscribe to shares at a price of Euro 1.029 each (the price prior to the regrouping of share capital was Euro 0.343 each, which was the average official market price for the month of July 2006) in accordance with the terms and conditions of the Plan in the ratio of 1 ordinary share for each 3 options held. The option period was to have expired on 28 February 2011.

10,301,253 of the options originally granted (39,947,166 less 3,784,585 that expired last year and were not renewed) would have been eligible for exercise from 1 September 2007, 14,822,958 from 1 September 2008 and 14,822,955 from 1 September 2009.

As a result of the above-mentioned changes in 2007 (additional grants and expiries)¹:

- a total of 21,453,318 options, corresponding to 7,151,106 shares valued at Euro 7.3 million, were granted to 5 Directors;
- a total of 17,327,667 options, corresponding to 5,775,889 shares valued at Euro 6.3 million, were granted to 14 Group Executives.

Due to the fact that no stock options were exercised in 2008 or 2009, 6,802,713 options were exercised before the revocation (leaving a remainder of 33,144,453 unexercised options).

Directors have, therefore, exercised 2,137,998 options resulting in the issue of 712,666 shares valued at Euro 733,333.31, whereas Executives have exercised 4,664,715 options corresponding to 1,554,905 shares valued at Euro 1,599,997.25.

In total, therefore, 2,267,571 ordinary shares were issued resulting in a capital increase of Euro 2.3 million.

One of the 14 Executives was Roelf Evert Reins, who, in 2008, had been the Chairman of the Management Board of KME Germany A.G. and, consequently, deemed a relevant person pursuant to art. 152 *sexies*, para. 1, letter c.3 of the Issuers Regulation.

A detailed analysis of the Plan in the format required by CONSOB for the 5 Directors and 1 Key Executive plus combined figures for 13 Executives are shown below:

Annex 3C - Issuers Regulation 11971 of 14 May 1999

Stock options granted to members of the Board of Directors, General Managers and Key Executives

First and last names	Position	Number of options held at beginning of year			Options granted during year			Options exercised during year			Options expired during year ⁴		Options held at end of year	
		Number of options	Average exercise price ²	Average expiry date ³	Number of options	Average exercise price ³	Average expiry date ⁴	Number of options	Average exercise price	Market price on exercise date	Number of options	Number of options	Average exercise price	Average expiry date
Vincenzo Manes	Deputy Chairman	10,726,659	1.029	28.02.2011	-	-	-	-	-	-	10,726,659	-	-	-
Diva Moriani	Director	1,650,255	1.029	28.02.2011	-	-	-	-	-	-	1,650,255	-	-	-
Domenico Cova	Director & CEO	3,153,822	1.029	28.02.2011	-	-	-	-	-	-	3,153,822	-	-	-
Italo Romano	Director & CEO	3,153,822	1.029	28.02.2011	-	-	-	-	-	-	3,153,822	-	-	-
Gian Carlo Losi	Director	630,762	1.029	28.02.2011	-	-	-	-	-	-	630,762	-	-	-
Roelf-Evert Reins	Key Exec. ¹	825,126	1.029	28.02.2011	-	-	-	-	-	-	825,126	-	-	-
13 Executives		13,004,007	1.029	28.02.2011	-	-	-	-	-	-	13,004,007	-	-	-
Total		33,144,453			-			-			33,144,453	-		

1. Appointed to KME Germany A.G. Management Board on 22 June 2007.

2. Post regrouping price of 16 July 2007 with a new exercise ratio of 1 share for each 3 options at Euro 1.029 per share.

3. Final date for the exercise of options.

4. The Company's Shareholders' Meeting of 2 December 2009 approved the definitive revocation of the Stock Option Plan 2006-2011 with the consent of the beneficiaries.

1. Computation of the total number in the preceding paragraph, it was necessary to include the exercise of 1,166,181 options exercised by Executive Albert Scherger corresponding to 388,727 shares whereas his residual holdings of 3,784,585 options were lost.

The new incentive and loyalty plan was approved at the Shareholders' Meeting of 2 December 2009 and is exclusively for the executives and managers of KME and its direct and indirect subsidiaries.

The new plan is for the grant of options to subscribe or acquire, as the case may be:

- ordinary KME shares out of a capital increase by the Board of Directors as authorised pursuant to art. 2443 of the Italian Civil Code without rights pursuant to the second sentence of art. 2441, para. 4 of the Italian Civil Code; or
- ordinary shares held in portfolio by the Company.

The information document on the Plan required by art. 84 *bis* of the Issuers Regulation has been made available to the public in accordance with the timing and in the manner required by law and is also available on the relevant web page of www.kme.com.

The role of the Remuneration Committee with respect to the implementation of the Plan is to propose and advise in accordance with the Code of Conduct of Borsa Italiana S.p.A..

The purpose of the new stock option plan is to incentivate the senior management of the Company and its subsidiaries in conjunction with the reorganisation of the Group. It entails the grant of options to its beneficiaries only after ninety days from the date of effectiveness of the iNTEK/KME demerger.

The Plan entails the free grant of options to each of the beneficiaries to subscribe to or acquire, as the case may be, ordinary shares on the exercise of options in the ratio of 1 share for each option exercised at a price equal to the arithmetic mean of the official MTA closing prices of ordinary KME shares during the period between the grant and the same date of the preceding calendar month.

The total maximum number of KME ordinary shares to be granted to the beneficiaries under the Plan may be no more than 31,000,000 out of, at the Board of Directors sole discretion, either a fresh issue or shares held in portfolio by the Company or partly out of a fresh issue and partly out of shares held in portfolio in the proportion as may be established from time to time by the Board of Directors in the best interests of the Company.

It was approved at the extraordinary session of the Shareholders' Meeting held on 2 December 2009 to authorise the Board of Directors, pursuant to art. 2443 of the Italian Civil Code, to increase capital for payment by a maximum, including any premium, of Euro 15 million, without rights pursuant to the second sentence of art. 2441, para. 4 of the Italian Civil Code through a fresh issue of a maximum of 31,000,000 ordinary KME shares without nominal value solely for subscription by Plan beneficiaries at a subscription price equal to the arithmetic mean of the official MTA closing prices of ordinary KME shares during the period between the grant to the same date of the preceding calendar month. More information on the proposed increase in capital to service the Plan is contained in the Report presented in accordance with art. 72 of the Issuers Regulation made available to the public in accordance with the timing and in the manner required by the law.

At the date of this Report, the Company held 8,212,755 ordinary ex-split shares (equal to 5,475,170 pre-split shares), or 2.325% of ordinary share capital, acquired under the share buy-back scheme approved at the Shareholders' Meeting of 16 September 2008 for the purposes, among other things, to service any stock option plans for the directors and/or executives of the Company and/or its direct and indirect subsidiaries. The Plan is intended for parties who, at the grant date, were:

- (i) executives under permanent employment by the Company or its Subsidiaries;
- (ii) executive directors of the Company.

At the grant date, the Board of Directors will select the beneficiaries from the above groups and determine the number of options to grant to each beneficiary with the professional expertise and responsibilities of each within the organisational structure of the Group.

The Plan specifically provides that in the event of a separation from the Company by bad leavers all options granted to such persons will be cancelled and will be without effect and validity. Bad leavers are persons who separate from the Company in the following circumstances:

- (i) dismissal, revocation of appointment as director and/or of the beneficiary's powers, non-renewal of the appointment as director and/or the beneficiary's powers each for cause;
- (ii) resignation of the beneficiary for reasons other than those of a good leaver.

In the event of a separation of a good leaver, the beneficiary or their heirs shall maintain the right to exercise the options granted subject to the obligations, methods and timing of Plan.

The options may be exercised, in one or more tranches, at any time between the first date and last date (31 December 2015) of the exercise period as shown below:

"First date" means:

- (a) for the number of options equal to 1/3 of the options granted, the first business day following the first year from the grant date;
- (b) for the number of options equal to 1/3 of the options granted, the first business day following the second year from the grant date;
- (c) for the number of options equal to 1/3 of the options granted, the first business day following the third year from the grant date.

Any shares obtained through the exercise of options prior to the first date as defined herein are subject to a twenty-four month lock-up period from the subscription date (for fresh issues) or the acquisition date (for shares held in portfolio by the Company).

"Lock-up" means the requirement that the Beneficiary be restricted from transferring shares obtained from the Company under the Plan to incentivate and promote loyalty through subscription or acquisition on exercise of the Options pursuant to the previous point. "Transfer" means any transaction in the shares, including gratuitous transactions, (including but not limited to the sale, donation, contango, exchange, contribution to companies, disposal, forced sale and any other form of total or partial disposal) resulting in the direct or indirect passing of title, including the provisional or at a forward date passing of title (e.g., swaps and repurchase agreements) or the possession in whole or in part of the shares subject to the lock-up to a third party.

Shares subscribed or acquired on the exercise of an option pursuant to (ii), above, and consequently subject to lock-up will remain in the custody of the Company (or other entity acting for the Company) at the Company's expense for the entire duration of the lock-up period.

The Plan requires the suspension of the exercise of the options by beneficiaries every year for the period between the date of the meeting of the Board of Directors convening the Shareholders' Meeting for the approval of the annual financial statements and the date of the Meeting itself (both dates inclusive) or the relevant ex-dividend date, without, however, prejudice to the Board of Directors' right to suspend, at certain times of the year in the interests of the Company or if apparently needed for the protection of the market, the beneficiaries' exercise of options.

It is, however, possible for beneficiaries to exercise options prior to the above exercise period in the event of a change in control, or:

- 1) the occurrence of any transaction or event entailing the acquisition of a shareholding in KME exceeding the thirty per cent threshold pursuant to art. 106 of the TUF (a) by one party, or (b) by persons acting in concert as defined in art. 101 *bis* of the TUF;
- 2) the promotion of a takeover bid or exchange tender offering pursuant to art. 102 *et seq.* of the TUF to the extent that the Board of Directors has received the notification pursuant to art. 102 of the TUF from the offerer.

Any lock-up obligations are cancelled in the event of a change in control and may not be enforced by the Company and the beneficiary may transfer shares without restriction from that date.

Options are granted to and may only be exercised by the named beneficiary except in the event of the decease of the beneficiary. Options granted may not be transferred for any reason except mortis causa or subject to any encumbrance or other security interest and/or pledged by the beneficiary or by deed inter vivos or through the operation of law.

Any restrictions on the transfer of ordinary KME shares shall be subject to the same provisions as those in connection with lock-ups as described above.

Performance-related incentives have also been introduced at Group level for senior management.

Table 1 - Structure of the Board of Directors and its constituent Committees

Position	Member	Board of Directors				Internal Control Committee-		Remuneration Committee**	
		Executive	Non-executive	Independent	****	***	****	***	****
						Number of other positions**			
Chairman	Salvatore Orlando				100	1			
Deputy Chairman	Vincenzo Manes	x			100	2			
Director Gen. Man.	Domenico Cova	x			80	--			
Director Gen. Man.	Italo Romano	x			100	--			
Director	Vincenzo Cannatelli				100	1			
Director	Mario d'Urso		x	x	100	--	x	100	x 100
Director	Marcello Gallo		x		100	1			
Director	Giuseppe Lignana		x	x	100	--	x	100	x 100
Director	Gian Carlo Losi		x		100	--			
Director	Diva Moriani	x			100	2			
Director	Alberto Pecci		x	x	60	1	x	50	
Director	Alberto Pirelli		x	x	80	1			x 100
Chairman of the Board of Statutory Auditors	Marco Lombardi				80	--			
	Marcello Fazzini				100	--			
Standing auditor	Pasquale Pace				80	--			
Standing auditor	Vincenzo Pilla				100	1			

• Reasons for the lack of an Internal Control Committee or composition other than that recommended by the Code:

=

••Reasons for the lack of a Remuneration Committee or composition other than that recommended by the Code:

=

Reasons for the lack of an Executive Committee:

The Committee was not formed due to the appointment of an executive Deputy Chairman and two Directors acting as General Managers.

Reasons for the lack of an Appointments Committee:

The Committee was not formed due to the fact that one Shareholder holds the majority of the Company's voting shares.

Number of meetings held during the year Board of Directors: six Internal Control Committee: two Remuneration Committee: two

LEGEND

* Director nominated by non-controlling Shareholder list.

** Number of positions as Director or Statutory Auditor held in other finance, banking, insurance or other companies of considerable size listed in regulated markets in Italy or abroad.

*** "x" indicates membership of the Board Director of the Committee.

**** Percentage of Board of Directors and Committee meetings attended by the Director.

Table 2 - Board of Statutory Auditors

Position	Member	Percentage of meetings of the board of statutory auditors attended	Number of other positions**
Chairman/Standing Auditor ¹	Marco Lombardi	86	--
Standing auditor	Pasquale Pace	86	--
Standing auditor	Vincenzo Pilla	100	3
Chairman ²	Marcello Fazzini	100	--

Number of meetings held during calendar year: seven

Quorum for the presentation of lists by non-controlling Shareholders for the election of one or more standing auditors (art. 148, TUF): 2.5%

LEGEND

* Statutory auditor nominated by non-controlling Shareholder list.

** Number of positions as Director or Statutory Auditor held in other finance, banking, insurance or other companies of considerable size listed in regulated markets in Italy or abroad.

1. The Board of Statutory Auditors mandate ceased with the Shareholders' Meeting of 29 April 2009. Marco Lombardi held the position of standing auditor in 2009.

2. The Board of Statutory Auditors mandate ceased with the Shareholders' Meeting of 29 April 2009. Marcello Fazzini held the position of Chairman in 2009.

Table 3 - Other requirements of the Code of Conduct

	Yes	No	Reasons for any non-compliance with the Code's recommendations
Powers and related party transactions			
Has the Board of Directors delegated powers stipulating:			
a) limits?	x		
b) methods of exercise?	x		
c) frequency of reporting?	x		
Has the Board of Directors has retained the power to examine and approve transactions of significant relevance for financial position and results of operations (including related party transactions)?	x		
Has the Board of Directors given guidelines and criteria for the identification of "significant" transactions?	x		
Have the above guidelines and criteria been described in the Report?	x		
Has the Board of Directors established specific procedures for the examination and approval of related party transactions?	x		
Have the procedures for the approval of related party transactions been described in the Report?	x		They are fully available on the internet
Procedure of the most recent appointments as Directors and Statutory Auditors			
Were nominations for the position of Director submitted at least fifteen days in advance?	x		
Were nominations for the position of director accompanied by exhaustive information?	x		
Were nominations for the position of director accompanied by a statement of the eligibility of the nominee as an independent?	x		
Were nominations for the position of Statutory Auditor submitted at least fifteen days in advance?	x		
Were nominations for the position of Statutory Auditor accompanied by exhaustive information?	x		
Shareholders' Meetings			
Has the Company approved a set of Shareholder Meeting Rules and Regulations?	x		See Chapter III of the Company Articles of Association a full copy of which is available on the internet
Have the Rules and Regulations been annexed to the Report (or is there information as to where it is available or can be downloaded)?	x		See Chapter III of the Company Articles of Association a full copy of which is available on the internet
Internal Control			
Has the Company appointed internal control officers?	x		
Are the internal control officers organisationally independent of operational department heads?	x		
Organisational unit in charge of internal control (art. 9-3 of the Code)	x		Head of Internal Control
Investor relations			
Has the Company appointed a head of investor relations?		x	Day to day activities supported by the relevant corporate units
Organisational unit and contacts (address/telephone/fax/e-mail) for the head of investor relations	x		All contact details are in the Directors' Report and on the internet