

Letter to Shareholders
March 2001

Dear Shareholders,

The year 2000 was another successful one for the KM Europa Metal Group (KME). KME was able to maintain its global market position and to expand in some markets.

Group pre-tax profits increased by 9,6 % from €91,7 m. (1999) to €100,5 m. The result after tax rose by 10,5 % from €48,6 m. (1999) to €53,7 m. It has to be considered that the 1999 pre-tax result included an extraordinary currency gain of €17,9 m because of the EURO Introduction Law. The evaluation of those inventories covered by firm sales price commitments by customers was done on group level on the basis of the related purchasing prices. By application of this evaluation method the balance sheet results reflect much closer the operating result of the period. This method follows international standards.

The 2000 result enables the Board of Managing Directors to once again propose an increased dividend of €3,50 (previous year €3,07) from current business with appropriate provision for risks. If this proposal is accepted, the gross dividend for shareholders in Germany with unlimited tax liability will increase by 14,2 % to € 5,00 (previous year €4,38).

The reason for the increase in profits was the lively demand for our industrial products, and in particular a further increase in exports to the USA and Asia. Our products for the construction industry also maintained their position in the market, especially in the redevelopment and renovation sector. Furthermore KME was able to increase its competitiveness by means of Group-wide cost management and extensive optimisation measures concerning the structure of administration, production and distribution.

At the end of 1999 our majority shareholder, Società Metallurgica Italiana S.p.A. (SMI), indicated that within the framework of a voluntary public tender offer for KME shares via its German holding company, Finmetal Investitions GmbH & Co. KG, it is pursuing the aim of integrating KME more closely into the SMI Group. Therefore SMI intends to further increase its share in KME and to have the listing and quotation of KME shares withdrawn from all stock exchanges.

The tender offer was taken up at that time by the vast majority of the shareholders. With additional purchases, SMI's share in KME via its German holding company today amounts to 99,2 %.

Therefore, at the end of 1999 the Board of Managing Directors of KME applied for the shares of KM Europa Metal AG to be delisted from the relevant German stock exchanges. The Munich stock exchange already delisted the KME share in December, and the listing offices in Berlin, Düsseldorf, Frankfurt, Hamburg and Hanover issued an announcement on 2nd February 2001 revoking the admission of KM Europa Metal AG shares to trading on the stock exchange with official quotation. In accordance with the announcement, the official quotation of KME shares was planned to be discontinued at the end of 28th February 2001. A shareholder has filed a protest against this. However, we assume that the delisting will come into effect in the near future. In fact the stock exchanges suspended official quotation of KME shares as from 1st March 2001 .

In accordance with other measures for closer integration, KME's Board of Managing Directors was authorised by a resolution passed by the Shareholders' Meeting of 30th May 2000 to purchase the company's own shares up to 29th November 2001. In total, up to 10 % of the company's capital stock was allowed to be acquired on the basis of this authorisation. On 6th June 2000 the Board of Managing Directors decided to make partial use of this authorisation and publicly offered to purchase up to 823,408 individual share certificates, which means 6,4 % of the capital, at a price of €47.00.

These shares were bought back by KME entirely until October 2000. The shares acquired were withdrawn by KME. KME's capital stock was thereby reduced from €165.700.000 to €155.172.322,10.

As part of the aforementioned increasing integration of KME into the SMI Group, the German "Europa Metalli" Investitions-Beteiligungs-Aktiengesellschaft (EM AG), a wholly owned subsidiary of SMI, informed KME that, as a further integration measure, it intends to enter into negotiation with KME about a possible merger between KME and EM AG in order to further strengthen the Group, also against the background of the change due to the tax legislation.

KME has decided to engage in such discussions. In particular to protect the outside shareholders, a joint valuation of KME and EM AG will be carried out by independent auditors. The Board of Managing Directors of KME assumes that a resolution will be proposed at the Ordinary Shareholders' Meeting on 8th June 2001. In addition to the exchange of shares it is intended to also offer alternatively a cash compensation for minority shareholders.

Business Performance

Following a phase of expansion during the year 2000, the economy experienced a slackening growth towards the end of the year. Nevertheless, the gross national product rose considerably in the western industrial countries and, with few exceptions, throughout the world.

After long years of boom conditions, the economy of the United States slowed down significantly at the end of the year. In spite of this, the USA remained the driving force behind world economic development. The firm US- dollar supported exports from Euroland. In Asia the economy recovered in the important countries after a considerable decline in recent years. This demand also boosted exports from Europe. But Japan remains uncertain, its economy is still being in a fragile state.

In Euroland exports continue to be the engine of growth for economic development, while the rising dollar exchange rate promoted demand in the eurozone. But corporate investment in machinery and equipment, and also private consumption also increased. The overall economic development was negatively influenced in particular by high energy prices and increased interest rates. The economic situation in the single European countries was similar. The revival in Italy and Germany, which began later, was essentially based on exports, whereas in France and Spain domestic demand was strong. In the United Kingdom, following a first six months marked by buoyant economic growth, the strength of sterling increasingly caused exports to decline.

We were able to further expand our worldwide sales of industrial products. In terms of value, industrial products accounted for 54 % of total sales. A particularly pleasing result was achieved in the sectors of telecommunications, the electrical/electronics industry, the automobile industry and also the production of blanks for euro coins. We were able to significantly expand our market position in some areas. There was a considerable upswing in exports to Asia with products for the computer industry as well as cooling and air conditioning systems. The industrial sector was the main contributor to KME's significantly increased result.

Demand for building products, which accounted for 31 % of total sales, was also satisfactory, even though residential construction, especially in Germany, decreased significantly. Our building products are used not only in new buildings but also, for the main part, in the field of modernisation and refurbishing. The expansion of our sales activities in eastern Europe in recent years proved successful, with encouraging sales growth in these countries.

The trade sector accounted for 15 % of the total sales.

Earnings

Result before Taxes on revenue (€ m.)	Financial year 1999	Financial year 2000	Change %
KME Group	91,7 *	100,5	+ 9,6
KME AG	74,5 *	70,5	- 5,4

* The result for 1999 includes an extraordinary gain of 17,9 m. €

The result of the AG before taxes on revenue from current business was higher than in 1999. The reported decrease in the result of the AG is exclusively attributable to extraordinary influences in 1999; the previous year's results included a currency gain of € 17,9 m. in connection with the Euro Introduction Law coming into force.

Result after Taxes on revenue (€ m.)	Financial year 1999	Financial year 2000	Change %
KME Group	48,6	53,7	+ 10,5
KME AG	39,6	42,4	+7,1

Orders and Sales

The pleasing level of business in industrial products combined with continuing stable demand for building products meant that orders received as well as sales increased. The increase is also attributable to higher metal prices.

Orders Received (tonnes)	Financial year 1999	Financial year 2000	Change %
KME Group	810.328	871.689	+7,6
KME AG	296.929	349.803	+17,8

Sales (€ m.)	Financial year 1999	Financial year 2000	Change %
KME Group	1.845,0	2.359,2	+27,9
KME AG	665,7	838,2	+25,9

Employees

As a result of the significantly higher demand, the number of employees rose.

Employees	31.12.1999	31.12.2000	Change %
KME Group			
Total	7.937	8.258	+4,0
Germany	3.851	4.036	+4,8
Other countries of Europe	4.086	4.222	+3,3
KME AG	3.296	3.452	+ 4,7

The increase of costs is partially also due to extraordinary influences.

Personnel Costs (€ m.)	Financial year 1999	Financial year 2000	Change %
KME Group	355,1	372,2	+4,8
KME AG	171,3	183,5	+ 7,1

Copper

The healthy state of industry worldwide with higher consumption of copper led to copper prices well above the previous year.

Copper Prices in € per 100 kg	DEL ^{*)}	MK ^{**)}
Average for 1999 financial year	158,52	172,27
Average for 2000 financial year	209,49	226,71
Price at end of financial year 29.12.2000	206,69	224,48

*) DEL: German quotation for electrolyte copper

***) MK: Metal prices (copper)

Outlook

How the US economy will continue to develop is the great uncertainty factor for world economic growth in 2001. After the sharp downturn in growth over the last few weeks, it is increasingly questionable whether the US economy will experience a soft landing or slide into recession.

In addition to the downward trend originating in the USA, there are also risks for the world economy in Japan and on the oil markets and the associated high energy prices, amplified by national tax policies.

These factors will also lead to reduced growth rates in the eurozone countries. Domestic demand in Europe is nevertheless expected to remain strong even if there are some risks coming from the actual uncertainties. Higher levels of available income may boost private consumption while high utilisation of capacity under still favourable financing conditions may stimulate investment. However, weak exports may slow down economic growth overall.

KME has prepared itself for this development. Demand for our industrial products will develop positively for the most part, but the individual markets will vary. In spite of the restrained prospects for the building industry, we expect there to be stable demand for our products because they are predominantly supplied to the more buoyant sector of redevelopment and renovation.

We are faced with increasingly global demand for some of our industrial products and generally intensified competitive pressure. We are responding to this situation by systematically implementing Group-wide integration of all activities through structural changes in the administration, with corresponding cost reductions, and permanent specialisation and optimisation of production as well as market-oriented organisation of distribution, including offering of e-services to our customers.

On the basis of this development, we expect the result from current business in 2001 to be comparable to the 2000 financial year, provided there are no unforeseen events.

The Ordinary Shareholders' Meeting will take place in Osnabrück on 8th June 2001 at 10 a.m.

Yours sincerely,

KM Europa Metal Aktiengesellschaft
The Board of Managing Directors