KME Group *S.p.A*

Press Release

THE BOARD OF DIRECTORS REVIEWED AND APPROVED THE REPORT ON OPERATIONS IN THE FIRST HALF OF 2006.

- **The Group's profitability increased considerably in the first six months of 2006. Further improvement is expected in the coming months. Full-year updating results for 2006 exceed the targets of the Industrial Plan.**

- **Consolidated net profit for the first half of 2006 totaled 56.3 million euros, compared with a loss of 3.5 million euros in the same period last year.**
  This positive performance was made possible by an increase in operating margins and the significant revaluation of the raw material inventory recognized to reflect a rise in raw material prices.

- **EBITDA, which rose to 61.9 million euros or 16.2 million euros more (+35%) than in the first six months of 2005, were equal to 14.4% of revenues (11.6% in 2005).**

- **The revaluation of the raw material inventory, offset in part by provisions for the restructuring of the manufacturing operations, boosted EBIT to 119.2 million euros higher than the 23 million euros earned in the same period in 2005.**

- **The rise in raw material prices caused the value of working capital to increase to 850 million euros. As a result, the Group's net indebtedness at June 30, 2006 widened to 668.7 million euros, or 109.6 million euros more than at December 31, 2005.**

- **The 129.9-million-euro capital increase carried out by KME Group S.p.A. early in August brought the Company's share capital to 319.6 million euros and enabled it to repay all of the interest-bearing loans owed to its Parent Company. At June 30, 2006, liquid assets totaled 8.9 million euros.**

- **After the capital increase, the Group net equity is grown up to 500 million euros, strengthening the financial structure of the Group.**

Driven by the vigorous growth that the global economy is continuing to enjoy, economic conditions in Western Europe, which is the Group's primary market, began to show signs of a turnaround in the first half of 2006.

This improvement in the economic environment had an increasingly positive effect on demand for copper and copper-alloy semifinished products, but the upturn did not benefit all geographic regions or product lines equally. Demand from the manufacturing sector continued to trend steadily upward, while demand from the construction sector remained tentative, particularly in Germany and Italy, except for plumbing applications.

Raw material prices had a direct impact on market dynamics during the first half of 2006.
The rises recorded earlier in the year drove the prices of raw materials – particularly copper, the material most used by the Group – to record levels: prices jumped by 80% between January and May. and stabilizing in the following months This trend was reversed in June, but the continuing high level and extreme volatility of raw material prices unsettled the market, making it more difficult to forecast demand and plan production.

The improving European economy, coupled with the marketing initiatives implemented by the Group to enhance the value of its product line (developing innovative products with greater value added and entering new markets) caused **revenues** to increase by 62% in the first half of 2006, rising to 1,705.6 million euros, up from 1,052.4 million euros in the first six months of 2005. When the impact of the value of raw materials is excluded, revenues were up 9.3% (from 393.5 million euros to 430.0 million euros).

This gratifying sales performance and the positive contribution provided by the programs introduced to reorganize and streamline the manufacturing organization in accordance with the guidelines of the Industrial Plan enabled the Group to report a significant improvement in profitability.

Consolidated net profit for the first half of 2006 totaled 56.3 million euros, compared with a loss of 3.5 million euros in the same period last year.
This positive performance was made possible by an increase in operating margins and a significant revaluation of the raw material inventory to reflect a rise in raw material prices.
Insofar as profitability is concerned, **EBITDA,** which rose to 61.9 million euros, or 16.2 million euros more (+35%) than in the first six months of 2005, were equal to 14.4% of revenues (11.6% in 2005).
Among operating expenses, labor costs decreased by 1.1%, even though production increased by 8.8%. At June 30, 2006, the Group had 347 fewer employees on its payroll than a year earlier. The other materials and costs increased due to the expansion in business volume and the higher unit prices paid for the means of production, energy and transportation in particular.

The revaluation of the raw material inventory (which amounted to 101.1 million euros, reduced to 68 million euros by the applicable tax consequences), offset in part by provisions for the restructuring of the manufacturing operations (16.5 million euros), boosted **EBIT** to 119.2 million euros, higher than the 23 million euros earned in the same period in 2005.

At the balance sheet level, the rise in raw material prices caused the value of working capital to increase, reflecting a higher level of trade receivables and inventory values, which, in turn, required additional financial coverage.

As a result, the Group's **net indebtedness** at June 30, 2006 increased to 668.7 million euros (net of 75 million euros in liquid assets), or 109.6 million euros more than the 559.1 million euros owed at December 31, 2005, while working capital reached 850 million euros.

Net of the impact of changes in raw material prices, the Group's operations generated a cash flow of about 20 million euros during the first half of 2006.

As for the outlook for the balance of the year, a consolidation of the recovery that is benefiting the European economy and the contribution of programs implemented to increase efficiency and reduce costs make it likely that the Group's profitability will continue to improve in the coming months.

The operating results projected for the full 2006 fiscal year exceed the objectives of the Industrial Plan. Consequently, barring extraordinary events that cannot be anticipated at this time, if the European economy continues to grow, the structural initiatives launched to streamline the manufacturing organization and the marketing programs that are being planned should continue to produce results in excess of those forecast in the Plan nest year as well.

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KME Group S.p.A., the Group's Parent Company, closed its income statement for the first half of 2006 with a loss of 3.7 million euros. At June 30, 2005, the Company showed a profit of 3.6 million euros due to unusually large extraordinary gains.

During the second half of the year, the income statement will be positively affected by a reduction in financial expense made possible by the recent capital increase.

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The 130-million-euro **capital increase** carried out by KME Group S.p.A. in accordance with a resolution approved by the Extraordinary Shareholders' Meeting of May 19, 2006 got under way on July 3, 2006 and was completed in early August.

The share capital of KME Group S.p.A. now amounts to 319,643,223 euros, divided into 750,602,046 shares with no par value, comprising 693,385,714 common shares and 57,216,332 savings shares. A total of 74,209,605 warrants were issued in combination with the new shares. An application has been filed to list these warrants.

The capital increase carried out by KME Group S.p.A. marks the completion of the recapitalization of the group controlled by G.I.M. S.p.A.. The recapitalization began last year when G.I.M. S.p.A. increased its share capital by 152 million euros. Since the KME Group S.p.A. capital increase was offered to all shareholders, it provided them with an opportunity to participate in the Group's recapitalization.

G.I.M. S.p.A. underwrote its pro rata share of the capital increase (56.1 million euros) and subscribed the shares covered by unexercised rights (34.2 million euros) through the partial conversion of a subordinated shareholder loan provided to KME Group S.p.A. in 2005. The balance of the loan was repaid in full with proceeds from the portion of the capital increase subscribed by the market (39.6 million euros). G.I.M. S.p.A. increased its interest in the voting shares of KME Group S.p.A. from slightly more than 50% to 60.4%.

The two abovementioned capital increase transactions had the following effects:

- When the capital increase carried out by G.I.M. S.p.A. is combined with the portion of the capital increase of KME Group S.p.A. subscribed by the market, the total recapitalization of the Group amounts to 192 million euros.
- KME Group S.p.A. simplified its balance sheet, repaying in full the 130-million-euro subordinated loan it owed to G.I.M. S.p.A., thereby repaying all of the interest-bearing loans owed to its Parent Company. At June 30, 2006, liquid assets totaled 8.9 million euros.

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This press release is available at the Company website, www.kmegroup.it, where additional information may also be obtained.

Florence, September 12, 2006

The Board of Directors

Annexes

KME Group S.p.A. – Consolidated Income Statement (*)

2005 full year		(in millions of euros)	*First half 2006*		*First half 2005*		*Change*
2,176.1		Gross revenues	1,705.6		1,052.4		*62.1%*
(1,417.9)		Raw material costs	(1,275.6)		(658.9)		*93.6%*
758.1	***100%***	**Revenues net of raw mat. costs**	**430.0**	***100%***	**393.5**	***100%***	***9.3%***
(341.8)		Labor costs	(177.7)		(179.6)		*(1.1%)*
(323.5)		Other materials and costs	(190.4)		(168.2)		*13.2%*
92.8	***12.24%***	**EBITDA**	**61.9**	***14.40%***	**45.7**	***11.60%***	***35.4%***
(29.7)		Extraordinary income (expense)	(16.5)		3.1		*n.m*
36.5		Impact of IFRS valuation of inventory and LME contracts	101.1		2.1		*n.m*
(54.8)		Depreciation and amortization	(27.3)		(27.8)		*(1.9%)*
44.8	***5.91%***	**EBIT**	**119.2**	***27.72%***	**23.0**	***5.85%***	***n.m***
(37.8)		Net financial expense	(20.7)		(22.5)		*(8.2%)*
0.3		Income from equity investments	0.0		0.1		*n.m*
7.4	***0.98%***	**Profit before taxes**	**98.5**	***22.91%***	**0.6**	***0.16%***	
(3.8)		Current taxes	(4.1)		(5.5)		*(26.0%)*
0.8		Deferred taxes	(38.1)		1.4		*n.m*
4.3	***0.57%***	**Net profit**	**56.3**	***13.09%***	**(3.5)**	***(0.90%)***	*n.m*

(The data provided above are currently being audited by the independent auditors.)

(*) Breakdown of reclassifications:

In order to present the result from operations more clearly, certain components of **EBITDA** have been reclassified (*). Specifically:

- The impact of the change in the accounting principle applied to value the inventory of raw materials and the effect of measuring at fair value hedging transactions executed on the London Metal Exchange have been derecognized. The introduction of the new international accounting principles required that the method used to value inventory change from LIFO to average weighted cost. When prices are rising, this change causes a revaluation of the raw materials inventory, which is not reflected in the reclassified EBITDA for the period.
- Nonrecurring items were also reclassified, so that they now appear below the EBITDA line. As a result, they have no impact on EBITDA.

The **EBIT** figure is the same as the one shown in the consolidated income statement included in the Notes and is consistent with the new IAS/IFRS accounting principles.

(in millions of euros)	*1st half 2006 IAS*		*Reclassific.*	*1st half 2006 reclass.*	
Gross revenues	1,705.6			1,705.6	
Raw material costs	0.0		**(1,275.6)**	(1,275.6)	
Revenues net of raw mat. costs	**1,705.6**	*100%*		**430.0**	*100%*
Labor costs	(177.7)			(177.7)	
Other materials and costs	(1,381.4)		**1.191.0**	(190.4)	
EBITDA	**146.5**	*34.07%*		**61.9**	***14.40%***
Extraordinary income (expense)	0.0		**(16.5)**	(16.5)	
Impact of IFRS valuation of inventory and LME contracts	0.0		**101.1**	101.1	
Depreciation and amortization	(27.3)			(27.3)	
EBIT	**119.2**	*27.72%*		**119.2**	*27.72%*

(Unaudited data.)

KME Group S.p.A. – Balance Sheet

Broken down between current and non-current items *(in thousands of euros)*	**6/30/06**	**12/31/05**
Property, plant and equipment	616,914	624,305
Investment property	9,607	9,272
Goodwill and consolidation difference	109,840	109,840
Other intangible assets	1,246	1,631
Investments in associates	5,381	5,564
Other equity investments	245	245
Investments valued by the equity method	2,447	2,573
Other non-current assets	27,414	28,960
Other non-current financial assets	6,400	-
Deferred-tax assets	36,274	40,651
NON-CURRENT ASSETS	**815,768**	**823,041**
Inventories	648,890	444,361
Trade receivables	483,500	358,270
Other receivables and current assets	36,836	50,141
Current financial assets	27,728	14,404
Cash and cash equivalents	75,059	151,992
CURRENT ASSETS	**1,272,013**	**1,019,168**
TOTAL ASSETS	**2,087,781**	**1,842,209**
Share capital	189,775	189,775
Other reserves	45	-
Treasury stock	(37)	(37)
Retained earnings (Loss carryforward)	5,176	5,165
Consolidation reserves	25,129	22,292
Reserve for first adoption of the IAS-IFRS	93,658	93,658
Net profit (loss) for the period	56,345	4,343
Group interest in shareholders' equity	**370,091**	**315,196**
Minority interest in shareholders' equity	-	-
TOTAL SHAREHOLDERS' EQUITY	**370,091**	**315,196**
Provisions for employee benefits	165,468	166,663
Deferred-tax liabilities	162,729	128,977
Borrowings and other financial liabilities	567,207	589,379
Other non-current liabilities	7,281	7,257
Provisions for risks and charges	130,559	128,668
NON-CURRENT LIABILITIES	**1,033,244**	**1,020,944**
Borrowings and other financial liabilities	329,948	260,924
Trade payables	197,506	122,575
Other current liabilities	119,114	94,767
Provisions for risks and charges	37,878	27,803
CURRENT LIABILITIES	**684,446**	**506,069**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**2,087,781**	**1,842,209**

(The data provided above are currently being audited by the independent auditors.)

KME Group S.p.A. – Income Statement of the Group's Parent Company

The **income statement** has been reclassified using a separate line to show extraordinary income (expense).

2005 full year	Income Statement	First half 2006	First half 2005
	(in thousands of euros)		
0	Dividends from KME A.G.	0	0
1,289	Service revenues	1,553	818
(4,225)	Operating expenses	(1,686)	(2,539)
(3,325)	Net financial income (expense)	(2,354)	(1,774)
(6,261)	**Profit before extraordinary items**	**(2,487)**	**(3,495)**
6,701	Extraordinary income (expense)	(1,211)	7,137
440	**Profit before taxes**	**(3,698)**	**3,642**
955	Income taxes	0	(40)
1,395	**Net profit**	**(3,698)**	**3,602**

(The data provided above are currently being audited by the independent auditors.)

KME Group S.p.A. – Balance Sheet of the Group's Parent Company

Broken down between current and non-current items *(in thousands of euros)*	June 30, 2006		December 31, 2005
Property, plant and equipment	-		-
Investment property	1,250		1,250
Investments in associates	310,405		310,405
Other equity investments	129		129
Other non-current financial assets	21		14
Deferred-tax assets	33		33
NON-CURRENT ASSETS	**311,838**		**311,831**
Trade receivables	7		140
Other receivables and current assets	5,869		9,916
Current financial assets	30,188		21,475
Cash and cash equivalents	398		9,379
CURRENT ASSETS	**36,462**		**40,910**
TOTAL ASSETS	**348,300**		**352,741**
Share capital	189,775		189,775
Statutory reserve	70		
Treasury stock	(37)		(37)
Other reserves	(25)		
Retained earnings (Loss carryforward)	5,176		5,165
Reserve for first adoption of the IAS-IFRS	2,785		2,785
Net profit (loss) for the period	(3,698)		1,395
SHAREHOLDERS' EQUITY	**194,046**		**199,083**
Subordinated loan from G.I.M. S.p.A.	130,000		130,000
Provisions for employee benefits	331		374
Deferred-tax liabilities	-		-
Borrowings and other financial liabilities	686		684
Provisions for risks and charges	3,886		4,862
NON-CURRENT LIABILITIES	**134,903**		**135,920**
Borrowings and other financial liabilities	16,740		15,671
Trade payables	1,808		1,288
Other current liabilities	803		779
CURRENT LIABILITIES	**19,351**		**17,738**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**348,300**		**352,741**

(The data provided above are currently being audited by the independent auditors.)