KME Group

PRESS RELEASE

# KME: THE BOARD OF DIRECTORS APPROVES THE RESULTS FOR THE FIRST QUARTER OF 2007
# THE GROUP'S OPERATING PROFITABILITY CONTINUES TO IMPROVE
# CONSOLIDATED NET INDEBTEDNESS DECREASED TO 440 MILLION EUROS
# PROPOSED A REVERSE STOCK SPLIT ON THE BASIS 1 FOR 3

REVENUES TO €929.6 MILLION ( €742.1 MILLION IN 2006, +25.3%)
REVENUES (NET OF RAW MATERIALS) TO €236.5 MILLION (€208.3 MILLION IN 2006, +13.5%)
EBITDA TO €37.2 MILLION (€27.1 MILLION IN 2006, +37.3%)
OPERATING INCOME BEFORE TAXES (NET OF INVENTORY REVALUATION) TO €15 MILLION (€3.4 MILLION IN 2006)
PROFIT BEFORE TAXES TO €21.1 MILLION (€39.7 MILLION IN 2006)
NET INDEBTEDNESS TO €440.5 MILLION (€534.3 MILLION AT THE END OF 2006)

Florence, May 10, 2007 – The Board of Directors of KME Group S.p.A. approved the Group's results at March 31, 2007.

- Revenues for the first three months of 2007 totaled 929.6 million euros (742.1 million euros in 2006). Net of the value of raw materials, revenues amount to 236.5 million euros, or 28.2 million euros more (+13.5%) than in the same period last year.

- The Group's operating profitability continued to improve, showing the positive trend of the closing quarters of 2006 is continuing.
  EBITDA rose to 37.2 million euros in the first quarter of 2007, for a gain of 10.1 million euros (+37.3%) compared with the same period a year earlier. The ratio of EBITDA to sales (net of the value of raw materials) was 15.7% (13.0% in 2006).
  Income before taxes, net of the revaluation of the raw material inventory, improved from 3.4 million euros to 15.0 million euros.

- Consolidated profit before taxes totaled 21.2 million euros in the first three months of 2007. A smaller revaluation of the raw material inventory caused by a decrease in the average price of copper during the first quarter of 2007 accounts for the decrease from the 39.7 million euros earned in the same period last year.

- Consolidated net indebtedness decreased to 440.5 million euros at March 31, 2007, from 534.3 million euros at December 31, 2006.

- Consolidated Highlights of the First Quarter of 2007

| (in millions of euros) | First quarter of 2007 | First quarter of 2006 |
|---|---|---|
| Revenues | 929.6 | 742.1 |
| Revenues (net of raw materials) | 236.5 | 208.3 |
| EBITDA | 37.2 | 27.1 |
| Income before taxes and stock val. | 15.0 | 3.4 |
| Profit before taxes | 21.1 | 39.7 |
| Net indebtedness | 440.5 (at 3/31/07) | 534.3 (at 12/31/06) |

- The **Group's operating outlook** remains positive, consistent with expectations of continuing favorable economic conditions in Europe.
  Despite the uncertainties that have affected the market due to recent fluctuations in raw material prices, the forecast calls for the Group to report a further improvement in operating results for the rest of 2007, compared with 2006.

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The Group's Report on Operations at March 31, 2007 is attached.

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The Board of Directors also agreed to convene a Shareholders' Meeting fro June 20, 2007, on the first calling, and June 21, on the second calling, to vote on motions to amend the Bylaws, in order to make them consistent with new legislation concerning the protection of financial investments and the regulations governing the financial markets, and to carry out a reverse stock split on the basis of 1 common share or 1 savings share for every 3 shares of the same class.
The same Shareholders' Meeting will be asked to vote on an amendment to the KME Group S.p.A. Stock Option Plan approved in 2006 involving a redistribution to the beneficiaries of the abovementioned Plan (proportionately to the original option grants) of 12,827,988 options that expired pursuant to Plan Regulations. These options include 11,661,807 options awarded to the Company's Chief Executive Officer, who resigned from his executive position at the end of March 2007, and 1,166,181 options awarded to a line executive who has left the Group.
The Plan's beneficiaries, who were selected by the Board of Directors at a meeting on July 31, 2006, are executives (both Directors with executive authority and managers) who perform functions that are of key importance for the achievement of the corporate purpose. In view of the direct interest of the entire management team in the Group's future success, the positive operating results achieved in recent months and the effort required of top management to attain the additional improvements projected in the Group's Industrial Plan, the Board of Directors agreed to put forth a motion to redistribute options granted to other Plan beneficiaries, and subsequently expired, on a basis directly proportional to the allocation approved on July 31, 2006. Since this redistribution will not produce a change in the number of options originally awarded, the total share capital earmarked for option exercise purposes will remain the same.
The motion calls for the 12,827,988 options to be allocated as follows:

- To Directors with executive authority 3,630,562 options
- To 18 managers 9,197,420 options

The options entitle each beneficiary to acquire for consideration an equal number of the Company's shares at a price of 0.343 euros per share, which was computed based on the average stock market closing prices for the trading sessions held between July 31, 2006 (date of the Board of Directors meeting when the original stock grant was made) and the same day of the previous calendar month.
The options are exercisable as follows: 1/3 starting on September 1, 2007, 1/3 starting on September 1, 2008 and 1/3 starting on September 1, 2009. The final option exercise deadline is February 28, 2011.

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

The Board of Directors

Annexes

*For additional information:*
KME Group Investor Relations Office, investor.relations@kme.com +39 055 4411 454

# KME Group S.p.A.

# Consolidated Quarterly Report at March 31, 2007

## (First Quarter of 2007)

*Report of the Board of Directors on Operations in the First Quarter of 2007*

After a surge in manufacturing activity in the closing months of 2006, economic conditions in Europe began to show signs that the rate of expansion was slowing, even though the basic underlying trend remained positive.
A decrease in the momentum provided by exports, attributable to a weaker U.S. economy and a stronger euro, affected economic conditions in Western Europe, which is the region where the Group does most of its business.

Demand for copper and copper-alloy semifinished products remained healthy during the first quarter of 2007, but not all regions or product lines performed equally well. Specifically, demand from industrial users continued to strengthen and shipments to customers in the real estate industry improved in a still highly competitive environment.

The outlook remains positive, even though a recent resurgence of the fluctuations in raw material prices that had abated earlier this year make it harder to forecast future market developments. Specifically, high prices and increased volatility produce uncertainty on the demand size and create the risk of substitution, by encouraging users to turn to alternative materials, particularly in low-tech applications.

At the operating level, a more than satisfactory sales performance — aided by better economic conditions and, more importantly, by a marketing strategy focused on leveraging and developing products with greater value added and entering new markets — and the positive contribution of the programs implemented in accordance with the Industrial Plan to reorganize and streamline the manufacturing organization enabled the Group to report economic results that show a significant increase in operating profitability compared with the first quarter of 2006 and are consistent with the improvement achieved in the second half of 2006.
Net of the value of raw materials, **revenues** totaled 236.5 million euros in the first quarter of 2007, for a year-over-year gain of 13.5%.
**EBITDA**, which grew by 10.1 million euros (+37.3%) to 37.2 million euros, were equal to 15.7% of revenues (13.5% in the first three months of 2006 and 14.9% for all of 2006).
The **income before taxes and stock revaluation** rose from 3.4 million euros to 15 million euros.
A smaller revaluation of the inventory of raw materials (6.1 million euros compared with 36.3 million euros in 2006) caused by a decrease in the average price of copper in the first three months of 2007, reduced profit before taxes to 21.1 million euros (39.7 million euros in the first quarter of 2006).

Insofar as the balance sheet is concerned, the Group's **net indebtedness** at March 31, 2007 amounted to 440.5 million euros (534.3 million euros at December 31, 2006).

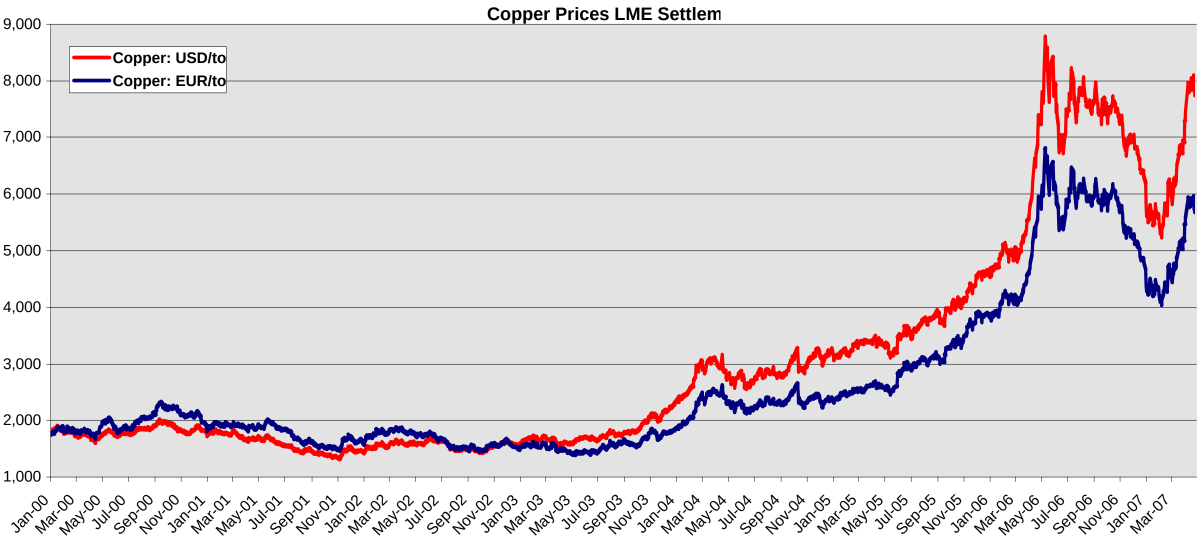
As for **the outlook for the balance of 2007,** the Group's prospects remain positive, consistent with expectations of a continuation of favorable economic conditions in Europe. Despite the uncertainties that have affected the market due to the fluctuations in raw material prices mentioned above, the Group confirms its projections of a further improvement in operating results and profitability for the rest of 2007 compared with 2006.

*Copper Market and Prices*

During the first three months of 2007, the average price of copper was higher than it was in the same period last year, rising by 20.1% in U.S-dollar terms (from US$4,940 to US$5,933 per metric ton) and 10.1% in euro terms (from 4,107 euros to 4,523 euros per metric ton).

Looking at price trends, in the first quarter of 2007, the average price of copper was lower than it was in the fourth quarter of 2006 by 16% in U.S-dollar terms (from US$7,068 to US$5,933 per metric ton) and 17.5% in euro terms (from 5,487 euros to 4,523 euros per metric ton).

After retreating during the early months of the year, the price of copper began to rise again in April, reaching a monthly average of US$7,766 per metric ton (equal to 5,750 euros per metric ton) and rising past US$8,000 per metric ton during the second half of the month.



## *Operating Performance of the Group*

The table below presents, in summary form, the consolidated results of the KME Group in the first three months of 2007.
The 2006 figures shown in the table below can be compared to the current data because the International Financial Reporting Standards (IAS/IFRSs) were applied to both periods.

In order to present a more meaningful picture of the Group's operating performance and make the data more readily comparable over time, certain components of the items used to compute **EBITDA and income before taxes and stock raw material valuation** were reclassified.(*)
Specifically:

- The impact on revenues of the change in the accounting principle used to value inventory of raw materials and the effect of valuing London Metal Exchange hedging contracts at fair value was derecognized. It is also important to keep in mind that the adoption of the new international accounting principles required a switch in the method used to value the metal inventory, which was changed from the LIFO method to the weighted average cost method. This change, which was made during a period of rising prices, produced a revaluation of the inventory of raw materials.
- Extraordinary items are shown below the EBITDA line

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(*) Breakdown of reclassifications and reconciliation with results stated in accordance with the IAS/IFRSs:

| **(in millions of euros)** | *3/31/07 IAS* | | *Reclassif.* | *3/31/07 reclassified* | |
|---|---|---|---|---|---|
| Gross revenues | 929.6 | | | 929.6 | |
| Raw material costs | 0.0 | | **(693.1)** | -693.1 | |
| **Revenues net of raw material costs** | **929.6** | *100%* | | **236.5** | *100%* |
| Labor costs | (90.9) | | | (90.9) | |
| Other materials and costs | (794.5) | | **686.1** | (108.4) | |
| **EBITDA** | **44.2** | *4.75%* | | **37.2** | *15.73%* |
| Non recurring income (expense) | 0.0 | | **0.9** | 0.9 | |
| Depreciation and amortization | (13.3) | | **-** | (13.3) | |
| **EBIT** | **30.9** | *3.32%* | | **24.8** | *10.49%* |
| Net financial expense | (9.8) | | **0** | (9.8) | |
| Interest in the result of companies valued by the equity method | 0.0 | | | 0.0 | |
| **Income before taxes and stock val.** | **21.1** | *2.27%* | | **15.0** | *6.34%* |
| Impact of IFRS valuation of inventory and LME contracts | 0.0 | | **6.1** | 6.1 | |
| **Profit before taxes** | **21.1** | *2.27%* | | **21.1** | *8.92%* |

## KME Group – Consolidated Income Statement

| 2006 full year reclassified | | (in millions of euros) | March 31, 2007 | | March 31, 2006 | | | % change |
|---|---|---|---|---|---|---|---|---|
| 3,556.8 | | Gross revenues | 929.6 | | 742.1 | | | 25.27% |
| (2,709.5) | | Raw material costs | (693.1) | | (533.8) | | | 29.84% |
| **847.3** | *100%* | **Revenues net of raw material costs** | **236.5** | *100%* | **208.3** | | *100.00%* | *13.54%* |
| (347.4) | | Labor costs | (90.9) | | (88.3) | | | 2.94% |
| (373.4) | | Other materials and costs | (108.4) | | (92.9) | (*) | | 16.68% |
| **126.5** | *14.93%* | **EBITDA** | **37.2** | *15.73%* | **27.1** | | *13.01%* | *37.27%* |
| (26.5) | | Nonrecurring income (expense) | 0.9 | | (0.4) | | | n.m. |
| (53.7) | | Depreciation and amortization | (13.3) | | (14.0) | | | -5.00% |
| **46.3** | *5.46%* | **EBIT** | **24.8** | *10.49%* | **12.7** | | *6.10%* | *95.28%* |
| (41.6) | | Net financial expense | (9.8) | | (9.3) | (*) | | 5.38% |
| 0.2 | | Interest in the result of companies valued by the equity method | 0.0 | | 0.0 | | | n.m. |
| **4.9** | *0.58%* | **Income before taxes and stock val.** | **15.0** | *6.34%* | **3.4** | | *1.63%* | *341.18%* |
| 79.1 | | Impact of IFRS valuation of inventory and LME contracts | 6.1 | | 36.3 | | | -83.20% |
| **84.0** | *9.91%* | **Profit before taxes** | **21.1** | *8.92%* | **39.7** | | *19.06%* | *-46.85%* |

(*) For comparison purposes, 1.0 million euros in costs incurred in connection with factoring transactions previously shown as financial expense have been reclassified.

In the first three months of 2007, **revenues** totaled 929.6 million euros, or 25.3% more than the 742.1 million euros reported in the same period last year.
Restated to eliminate the impact of the value of raw materials, revenues show an increase of 13.5%, rising from 208.3 million euros to 236.5 million euros. Unit sales were up 2.0%.

**Operating costs** increased by 9.9% overall, reflecting an increase in the output of products with a greater value added and a rise in unit prices paid for the means of production, particularly energy and transportation.
Taken separately, labor costs increased by 2.9%.

**EBITDA** grew by 37.3% to 37.2 million euros, an amount equal to 15.7% of revenues, net of raw material costs, compared with 13.0% at March 31, 2006.

**EBIT** amounted to 24.8 million euros (12.7 million euros in the first quarter of 2006).

**Income before taxes and stock valuation** roses to 15 million euros, up from 3.4 million euros in the first three months of 2006.

At March 31, 2007, the **Group's consolidated profit before taxes** totaled 21.1 million euros. A smaller revaluation of the inventory of raw materials, caused by a reduction in the average price of copper in the first three months of 2007, accounts for the decrease from the 39.7 million euros earned in the same period last year.

## Financial Position of the Group

The table below provides a breakdown of the **consolidated net financial position.**

| (in thousands of euros) | **3/31/07** | **12/31/06** |
|---|---|---|
| Short-term indebtedness | 53,328 | 182,723 |
| Long-term debt | 435,581 | 487,353 |
| Loans payable to unconsolidated Group companies | 48,700 | 80,688 |
| **Total indebtedness** | **537,609** | **750,764** |
| Liquid assets | (43,058) | (162,098) |
| Short-term loans receivable | (53,093) | (53,425) |
| Loans receivable from unconsolidated Group companies | (915) | (915) |
| **Total liquid assets and loans receivable** | **(97,066)** | **(216,438)** |
| | | |
| **Net financial position** | **440,543** | **534,326** |

The net financial position at March 31, 2007 shows **net indebtedness** of 440.5 million euros. The optimization of working capital requirements and a reduction in the average price of raw materials during the period account for the decrease of 93.8 million euros compared with the first three months of 2006.

The financial position data shown above do not reflect the potential outlays that may be required for the fines imposed by the European Commission on the Group's manufacturing companies for two alleged antitrust violations. These fines, which total 107 million euros, will have an impact on cash flow only at the end of the judicial process before the various EU entities with jurisdiction over such issues and only for the amount adjudicated. Until such time, payment is being guaranteed by security deposits (17 million euros) and bank sureties (90 million euros). However, this payment deferral will cause the Group to incur finance charges.
From an operating standpoint, the impact of these fines has been fully recognized by means of a provision set aside in 2003.

Florence, May 10, 2007

The Board of Directors

## Financial Statements

The Quarterly Report at March 31, 2007, which has not been audited, was prepared in accordance with Article 82 of Resolution No. 11971 issued by the National Commission on Companies and the Securities Markets (CONSOB) on May 14, 1999, as amended.
The Quarterly Report is being presented in accordance with the guidelines provided in Annex 3D of CONSOB Regulation No. 11971/99.

The data in the consolidated balance sheet are those at March 31, 2007 and at December 31, 2006.
Consolidated income statement data are provided for the first quarter of 2007. They are also compared with the data for the same period in 2006. The presentation of the financial statements is consistent with the presentation used in the Semiannual and Annual Reports.

The Quarterly Report at March 31, 2007 was prepared in accordance with the valuation and measurement criteria set forth in the International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB) and adopted by the European Commission in accordance with the procedure set forth in Article 6 of Regulation (CE) No. 1606/2002 of the European Parliament and Council of July 19, 2002.

There were no changes in the scope of consolidation in the first three months of 2007.

## Consolidated Financial Statements of KME Group Spa at March 31, 2007

| **Consolidated Income Statement costs classified by type** *(amounts in thousands of euros)* | **First quarter of 2007** | **First quarter of 2006** |
|---|---|---|
| Sales revenues | 929,593 | 742,149 |
| Change in inventory of finished products and semifinished goods | 6,208 | 5,598 |
| Capitalization of Company-produced assets | 421 | 602 |
| Other operating revenues | 4,254 | 2,810 |
| Purchases of and changes in inventory of raw materials | (721,104) | (522,909) |
| Labor costs | (90,853) | (88,273) |
| Depreciation, amortization, impairment losses and writedowns | (13,305) | (14,051) |
| Other operating expenses | (84,285) | (75,974) |
| **EBIT** | **30,929** | **49,952** |
| Financial income | 670 | 426 |
| Financial expense | (10,464) | (10,708) |
| Interest in the results of associates valued by the equity method | - | - |
| **Profit before taxes** | **21,135** | **39,670** |

## Consolidated Financial Statements of KME Group Spa at March 31, 2007

| Balance Sheet<br>items classified as current and non-current<br>*(amounts in thousands of euros)* | At 3/31/07 | At 12/31/06 |
|---|---|---|
| Property, plant and equipment | 610,088 | 619,923 |
| Investment property | 9,385 | 10,591 |
| Goodwill and consolidation difference | 109,840 | 109,840 |
| Other intangible assets | 1,562 | 955 |
| Investments in associates | 4,898 | 4,906 |
| Investments in other companies | 245 | 245 |
| Investments valued by the equity method | 2,634 | 2,634 |
| Other non-current financial assets | 27,907 | 29,143 |
| Deferred-tax assets | 44,600 | 44,710 |
| **NON-CURRENT ASSETS** | **811,159** | **822,947** |
| Inventories | 699,560 | 683,627 |
| Trade receivables | 230,857 | 230,693 |
| Other receivables and current assets | 70,618 | 67,791 |
| Current financial assets | 73,203 | 75,347 |
| Cash and cash equivalents | 43,058 | 162,098 |
| **CURRENT ASSETS** | **1,117,296** | **1,219,556** |
| **TOTAL ASSETS** | **1,928,455** | **2,042,503** |
| Share capital | 319,739 | 319,643 |
| Other reserves | 571 | (4) |
| Treasury stock | (37) | (37) |
| Retained earnings (Loss carryforward) | 12,382 | 5,176 |
| Consolidation reserves | 69,605 | 25,044 |
| Reserve for first adoption of the IAS-IFRSs | 93,658 | 93,658 |
| Net profit (loss) for the period | 21,135 | 51,785 |
| **Group interest in shareholders' equity** | **517,053** | **495,265** |
| Minority interest in shareholders' equity | - | - |
| **TOTAL SHAREHOLDERS' EQUITY** | **517,053** | **495,265** |
| Provisions for employee benefits | 167,287 | 166,904 |
| Deferred-tax liabilities | 160,285 | 160,289 |
| Borrowings and other financial liabilities | 435,581 | 487,353 |
| Other non-current liabilities | 7,593 | 7,721 |
| Provisions for risks and charges | 140,979 | 143,137 |
| **NON-CURRENT LIABILITIES** | **911,725** | **965,404** |
| Borrowings and other financial liabilities | 115,981 | 279,175 |
| Trade payables | 234,491 | 164,575 |
| Other current liabilities | 116,444 | 108,080 |
| Provisions for risks and charges | 32,761 | 30,004 |
| **CURRENT LIABILITIES** | **499,677** | **581,834** |
| **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY** | **1,928,455** | **2,042,503** |