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**Reduction of Share Capital for the Purpose of Creating an  
“Available Reserve”**

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Registered Office in Florence (50127), 2 via dei Barucci  
[www.kmegroup.it](http://www.kmegroup.it)

Share capital: 324,164,741.31 euros fully paid-in  
Registration No. in the Company Register of the Court of Florence  
and Tax I.D. No. 00931330583

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# **KME Group S.p.A.**

## **Board of Directors**

**Chairman**

Salvatore Orlando

**Deputy Chairman**

Vincenzo Manes

**General Manager**

Domenico Cova

**General Manager**

Italo Romano

Vincenzo Cannatelli

Mario d'Urso (1) (2)

Marcello Gallo

Giuseppe Lignana(1) (2)

Gian Carlo Losi

Diva Moriani

Alberto Pecci (2)

Alberto Pirelli (1)

**Secretary to the Board of Directors**

(1) Member of the Compensation Committee

(2) Member of the Internal Control Committee.

## **Board of Statutory Auditors**

**Chairman**

Marcello Fazzini

**Statutory Auditors**

Pasquale Pace

Alessandro Trotter

**Alternates**

Marco Lombardi

Angelo Garcea

## **Corporate Accounting Documents Officer**

Marco Miniati

## **Independent Auditors**

KPMG S.p.A.

## **Common Representative of the Holders of Savings Shares**

Romano Bellezza

## NOTICE OF SHAREHOLDERS' MEETING

*(Published in Milano Finanza on February 1, 2008)*

The shareholders of KME Group S.p.A. are called to an Extraordinary Meeting that will be held in Florence, at 2 Via dei Barucci, at 2:30 PM

- on March 13, 2008 on the first calling, or
- on March 14, 2008 on the second calling;

to vote on the following

### AGENDA

1. Motion to reduce the share capital of KME Group S.p.A. for the purpose of creating an available reserve and amend accordingly Article 4 (Share Capital) of the Company Bylaws; related and required resolutions and granting of the necessary powers.

Pursuant to Article 2445, Section Two, of the Italian Civil Code, the motion to reduce the Company's share capital by 74,164,741.31 euros is consistent with the need to improve the structure of the Company's shareholders' equity, a goal that will be accomplished by creating an available reserve equal in value to the amount of the abovementioned reduction in share capital.

### **Attendance at the Shareholders' Meeting**

Pursuant to law and in accordance with the provisions of Article 11 (Attendance and Representation at Shareholders' Meetings) of the Bylaws, in order to attend the Meeting, shareholders must file at the Company's registered office, at 2 Via dei Barucci, Florence, at least two days prior to the date of each Meeting a communication issued by an authorized intermediary that attests to their ownership of their shares. If the abovementioned deadline falls on a holiday or on a Saturday, it will be extended to the next business day. Each share conveys the right to cast one vote.

Applicable provisions of the proxy collection laws notwithstanding, shareholders may appoint a proxy (who need not be a shareholder) to represent them at the Meeting by means of a simple power of attorney affixed at the bottom of the abovementioned communication.

### **Documents**

The Report of the Board of Directors on the items on the Agenda, the corresponding motions and all other reports and documents pertaining to all of the items on the Agenda that are required pursuant to law will be on file at the Company's registered office, at 2 Via dei Barucci, Florence, and at the offices of Borsa Italiana S.p.A. within the statutory deadline. Shareholders may request free copies of these documents. The documents will also be available on the Company website: [www.kme.com](http://www.kme.com).

**Voting by Mail**

Votes may also be cast by mail. Ballots and voting instructions will be available at the Company's registered office, 2 Via dei Barucci, Florence, at least 15 days before the date of the Meeting's first calling. Ballots must be mailed to the following address: KME Group S.p.A., Ufficio Affari Societari, Via dei Barucci 2, (50127) Florence. Ballots must be received at least 48 hours prior to the Meeting's first calling, together with a copy of the communication required under current regulations governing attendance at Shareholders' Meetings. If the abovementioned deadline falls on a holiday or on a Saturday, it will be extended to the next business day.

Florence, January 31, 2008

KME Group S.p.A.

**Explanatory Report Prepared by the Board of Directors Pursuant to Article 72, Section One, of Consob Regulation No. 11971 of May 14, 1999, as Amended**

*Dear Shareholders:*

The transaction submitted for your approval entails reducing the Company's share capital by 74,164,741.31 euros, i.e., from 324,164,741.31 euros to 250,000,000.00 euros, for the purpose of creating a special shareholders' equity reserve, which we propose to call "*Available Reserve*."

The purpose of creating an available reserve is to improve the structure of the Company's shareholders' equity, which currently does not include significant earnings reserves or other available reserves, and optimize its efficiency in term of operational potential.

In the future, in addition to creating a better structured shareholders' equity, the reserve created by reducing the share capital could be used, if required, to carry out stock buyback plans or other transactions, the timing and method of which will be determined by the relevant corporate governance bodies in accordance with the laws in force.

With regard to the implementation process, in accordance with Article 2445, Section III, of the Italian Civil Code, the proposed share capital reduction may be carried out only after ninety days have passed from the date the resolution approved by the Extraordinary Shareholders' Meeting is recorded in the Company Register, provided no creditor of the Company with a claim dated earlier than the recording date challenges the recording of the resolution within the ninety day deadline.

Pursuant to Article 2445, Section IV, of the Italian Civil Code, if challenges are filed within the abovementioned deadline, a court may still allow the transaction to take place if it finds that the danger of injury to creditors is unjustified or if the company provides adequate guarantees.

The reduction in share capital will not produce any change in the Company's total shareholders' equity and in the total number of issued shares, since no shares will be cancelled.

The proposed transaction does not have to be submitted for approval to the Special Meeting of Savings Shareholders because the privileges granted to the savings shares pursuant to the Bylaws are not indexed to the portion of the share capital's par value represented by the savings shares.

Because of the manner in which it will be carried out, the share capital reduction will have no impact on the rights of the holders of "2006-2009 KME Group S.p.A. common share warrants" that are outstanding or on those of the beneficiaries of options awarded pursuant to the "2006-2011 Stock Option Plan."

The table that follows provides a pro forma accounting breakdown of the shareholders' equity of KME Group S.p.A. and shows the impact of the proposed share capital reduction.

The data used as a reference reflect the composition of the Company's shareholders' equity at June 30, 2007, as approved by the Board of Directors on September 10, 2007, updated to reflect the impact of:

- the exercise of outstanding “2006-2009 KME Group S.p.A. common share warrants” and stock options between July 1, 2007 and January 31, 2008;
- the implementation of the reverse stock split approved by the Extraordinary Shareholders’ Meeting on June 21, 2007;
- the implementation on January 21, 2008 of the distribution of available reserves through the allocation of the Company’s investment in GreenergyCapital S.p.A. approved by the Ordinary Shareholders’ Meeting on August 3, 2007.

**Shareholders’ Equity**  
**(amounts in euros)**

	<u>Before the proposed share capital reduction</u>	<u>After the proposed share capital reduction (pro forma)</u>
<b>Share capital</b>	<b>324,164,741</b>	<b>250,000,000</b>
Statutory reserve	430,049	430,049
<b>Available reserve</b>	-----	<b>74,164,741</b>
Other reserves	313,666	313,666
Treasury shares	(37,161)	(37,161)
Reserves not available covering treasury shares and Controlling Company shares	5,279,658	5,279,658
Stock option reserve	1,840,962	1,840,962
Retained earnings	<u>501,745</u>	<u>501,745</u>
	<b>332,493,660</b>	<b>332,493,660</b>

The table below contains the text of Article 4 of the Bylaws that we are asking you to amend, showing side by side the current text and the proposed text.

<b>Current Text</b>	<b>Proposed Text</b>
<b>Article 4 Share Capital</b>	<b>Article 4 Share Capital</b>
The Company’s share capital amounts to €324,164,741.31 (three hundred twenty-four million one hundred sixty-four thousand seven hundred forty-one and thirty-one cents), represented by 254,552,240 (two hundred fifty-four million five hundred fifty-two thousand two hundred forty) shares without par value, which include 235,480,130 (two hundred thirty-five million four hundred eighty thousand one hundred thirty) common shares and 19,072,110 (nineteen million seventy-two thousand one hundred ten) savings shares.	The Company’s share capital amounts to €324,164,741.31 (three hundred twenty-four million one hundred sixty-four thousand seven hundred forty-one and thirty-one cents), represented by 254,552,240 (two hundred fifty-four million five hundred fifty-two thousand two hundred forty) shares without par value, which include 235,480,130 (two hundred thirty-five million four hundred eighty thousand one hundred thirty) common shares and 19,072,110 (nineteen million seventy-two thousand one hundred ten) savings shares.
<i>omitted</i>	<i>The remaining paragraphs do not change</i>
	<b>The Extraordinary Shareholders’ Meeting of</b>

<p>The amount of the share capital and the breakdown between common and savings shares referred to in this article could change as a result of the transactions discussed in Article 7 below and the exercise of conversion rights held by the holders of convertible bonds and of any issued warrants.</p>	<p><b>March [13/14], 2008 voluntarily resolved to reduce the Company’s share capital from €24,164,741.31 (three hundred twenty-four million one hundred sixty-four thousand seven hundred forty-one and thirty-one cents) to €250,000,000.00 (two hundred fifty million), attributing the reduction amount to an available reserve of €74,164,741.31 (seventy-four million one hundred sixty-four thousand seven hundred forty-one and thirty-one cents). This reduction shall be carried out in accordance with Article 2445, Section III, of the Italian Civil Code.</b></p> <p style="text-align: center;"><i>Unchanged</i></p>
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Based on the foregoing, we ask you to approve the following motion:

“The Extraordinary Shareholders’ Meeting of KME Group S.p.A., having reviewed the explanatory report of the Board of Directors and being cognizant of the favorable opinion of the Board of Statutory auditors:

*resolves*

- 1) to reduce the Company’s share capital from €24,164,741.31 (three hundred twenty-four million one hundred sixty-four thousand seven hundred forty-one and thirty-one cents) to €250,000,000.00 (two hundred fifty million), for a decrease of €74,164,741.31 (seventy-four million one hundred sixty-four thousand seven hundred forty-one and thirty-one cents);
- 2) to order that the €74,164,741.31 (seventy-four million one hundred sixty-four thousand seven hundred forty-one and thirty-one cents) deducted from the share capital be used to create an Equity reserve of the same amount that shall be called “Available reserve;”
- 3) to amend accordingly the text of Article 4 (Four) of the Bylaws as follows:

**“Article 4 Share Capital**

The Company’s share capital amounts to €24,164,741.31 (three hundred twenty-four million one hundred sixty-four thousand seven hundred forty-one and thirty-one cents), represented by 254,552,240 (two hundred fifty-four million five hundred fifty-two thousand two hundred forty) shares without par value, which include 235,480,130 (two hundred thirty-five million four hundred eighty thousand one hundred thirty) common shares and 19,072,110 (nineteen million seventy-two thousand one hundred ten) savings shares.

A resolution to increase the Company’s share capital that is adopted with the majorities required by Articles 2368 and 2369 of the Italian Civil Code can suspend the preemptive rights of



shareholders with respect to a number of shares equal to not more than 10% of the preexisting share capital, provided the shares' issue price is consistent with the shares' market price and that such conclusion is supported by a special report issued by the independent auditors.

Pursuant to a resolution approved by the Shareholders' Meeting held on May 19, 2006, the Company issued a total of 74,209,605 (seventy-four million two hundred nine thousand six hundred five) warrants, thereby increasing the share capital by up to €25,973,361.75 (twenty-five million nine hundred seventy-three thousand three hundred sixty-one and seventy-five cents) in par value, which will be carried out through the issuance, in one or more installments, of up to 74,209,605 (seventy-four million two hundred nine thousand six hundred five) common shares without par value, regular ranking for dividends, reserved exclusively and irrevocably for the exercise of the abovementioned warrants at a price of €0.35 (zero point thirty-five), which is equal to the issue price per share of the shares without par value issued by the abovementioned Shareholders' Meeting on the basis of 1 (one) share for 1 (one) warrant held, exercisable from January 1, 2007 until December 11, 2009, in accordance with the Warrant Regulations approved at the same Shareholders' Meeting.

On June 28, 2006, acting pursuant to the powers it was awarded by the Shareholders' Meeting on May 19, 2006, the Board of Directors set at €25,973,640.00 (twenty-five million nine hundred seventy-three thousand six hundred forty) the maximum amount of the share capital increase reserved for the exercise of any issued warrants, setting in advance the number of such warrants at 74,210,400 (seventy-four million two hundred ten thousand four hundred).

As a result of the abovementioned transaction and a subsequent reverse split of the common and savings shares, carried out on the basis of 1 (one) new share for each group of 3 (three) shares of the same class held, and of subsequent resolutions approved by the Extraordinary Shareholders' Meeting on June 21, 2007, a total of 73,899,627 (seventy-three million eight hundred ninety-nine thousand six hundred twenty-seven) warrants were outstanding at July 16, 2007. The exercise of these warrants will result in the issuance of up to 24,633,209 (twenty-four million six hundred thirty-three thousand two hundred nine) KME Group S.p.A. common shares without par value, causing the Company's share capital to increase by up to €25,864,869.45 (twenty-five million eight hundred sixty-four thousand eight hundred sixty-nine and forty-five cents).

As of October 31, 2007, a total of 6,251,965 (six million two hundred fifty-one thousand nine hundred sixty-five) warrants had been exercised, causing the issuance of 2,290,639 (two million two hundred ninety thousand six hundred thirty-nine) common shares, leaving outstanding 67,957,638 (sixty-seven million nine hundred fifty-seven thousand six hundred thirty-eight) warrants exercisable on the basis of 1 new share for every 3 warrants held at a price of €1.05 (one point zero five).

On July 31, 2006, acting pursuant to the powers it was awarded by the Shareholders' Meeting on May 19, 2006, as referred to in Article 7, Sections I and II, below, and based on the resolutions approved by the Shareholders' Meeting on June 21, 2007, the Board of Directors agreed to increase the share capital by up to €7,999,999.60 (seven million nine hundred ninety-nine thousand nine hundred ninety-nine and sixty cents) through the issuance of up to 7,774,538 (seven million seven hundred seventy-four thousand five hundred thirty-eight) common shares, regular ranking for dividends, at a price of €1.029 (one point zero two nine) each, reserved exclusively for the Stock Option Plan available to managers of the Company, its subsidiaries

and their subsidiaries in Italy and abroad.

On June 21, 2007, the Ordinary Shareholders' Meeting amended the powers awarded to the Board of Directors by the abovementioned Extraordinary Shareholders' Meeting of May 19, 2006, as referred to in Article 7, Section IV, of these Bylaws.

At meetings held on July 31, 2006 and July 18, 2007, acting pursuant to the powers it was awarded by the Extraordinary Shareholders' Meeting on May 19, 2006, as referred to in Article 7, Sections VI and VII, of these Bylaws and consistent with the resolutions approved by the Extraordinary Shareholders' Meeting on June 21, 2007, the Board of Directors agreed to increase the share capital by up to €4,245,282.53 (four million two hundred forty-five thousand two hundred eighty two and fifty-three cents) through the issuance of up to 4,125,639 (four million one hundred twenty-five thousand six hundred thirty-nine) common shares, regular ranking for dividends, at a price of €1.029 (one point zero two nine) each, reserved exclusively for the Stock Option Plan available to Directors of the Company, its subsidiaries and their subsidiaries in Italy and abroad, who serve in an executive capacity or perform operational functions.

On June 21, 2007, the Ordinary Shareholders' Meeting amended the powers awarded to the Board of Directors by the Extraordinary Shareholders' Meeting on May 19, 2006, as referred to in Article 7, Section IX, of these Bylaws.

On July 18, 2007, in implementation of the powers awarded to the Board of Directors by the Extraordinary Shareholders' Meeting on June 21, 2007, as referred to in Article 7, Sections IV and V of these Bylaws, and consistent with the resolutions approved by the abovementioned Shareholders' Meeting of June 21, 2007, the Company's Board of Directors approved a resolution increasing the Company's share capital by up to €2,754,714.29 (two million seven hundred fifty-four thousand seven hundred fourteen and twenty-nine cents) through the issuance of up to 2,677,079 (two million six hundred seventy-seven thousand seventy-nine) common shares, regular ranking for dividends, at a price of €1.029 (one point zero two nine) each, reserved exclusively for the Stock Option Plan available to executives of the Company, its subsidiaries and their subsidiaries in Italy and abroad.

As of October 31, 2007, a total of 6,802,713 (six million eight hundred two thousand seven hundred thirteen) options had been exercised, causing the issuance of 2,267,571 (two million two hundred sixty-seven thousand five hundred seventy-one) common shares.

The Extraordinary Shareholders' Meeting of March [13/14], 2008 voluntarily resolved to reduce the Company's share capital from €324,164,741.31 (three hundred twenty-four million one hundred sixty-four thousand seven hundred forty-one and thirty-one cents) to €250,000,000.00 (two hundred fifty million), attributing the reduction amount to an available reserve of €74,164,741.31 (seventy-four million one hundred sixty-four thousand seven hundred forty-one and thirty-one cents). This reduction shall be carried out in accordance with Article 2445, Section III, of the Italian Civil Code.

The amount of the share capital and its breakdown into common shares and savings shares, as referred to in this Article, are subject to change as a result of the transactions referred to in Article 7 below and the exercise of conversion rights by the holders of any convertible bonds or warrants that the Company may have issued.”

- 4) to acknowledge that, in accordance with Article 2445, Section III, of the Italian Civil Code, the motion to reduce the Company's share capital may be carried out only after ninety days have

passed from the date the resolution is recorded in the Company Register, unless the circumstances set forth in Article 2445, Section IV, of the Italian Civil Code become applicable;

- 5) to authorize the Board of Directors to carry out the foregoing motion, granting to the Chairman of the Board of Directors and to the Deputy Chairman when serving as acting Chairman, who may also carry out this assignment separately but with full and equal powers and may appoint individually and use special representatives, all of the powers needed to perform any task that may be necessary or useful for the purpose of recording these resolutions in the Company Register of venue, including the power to accept and make, including by a unilateral act, any amendment and/or addition affecting the form but not the substance of the resolutions that may become necessary in the recording process or may be otherwise demanded by the relevant authorities and, in general, take whatever actions may be required to implement fully these resolutions, using all powers that may be necessary or useful for this purpose, none excluded;
- 6) to authorize the Board of Directors and the Deputy Chairman when serving as acting Chairman, who may carry out this assignment separately but with full and equal powers, to deposit and publish, pursuant to law and as part of the process of implementing the share capital reduction, an updated version of the Bylaws that contains the changes to the numerical data set forth in Article 4 (Share Capital) of the Bylaws caused by the new computation of the amounts of the Company's share capital.

Florence, January 31, 2008

The Board of Directors