



PRESS RELEASE

THE BOARD OF DIRECTORS APPROVES THE REPORT ON OPERATIONS  
AT SEPTEMBER 30, 2008

CONSOLIDATED REVENUES TOTAL 2,395.7 MILLION EUROS OVERALL AND 671.2 MILLION EUROS NET OF THE VALUE OF RAW MATERIALS (678.4 MILLION EUROS AT SEPTEMBER 30, 2007)

NINE-MONTH EBITDA AMOUNT TO 94.9 MILLION EUROS (108.9 MILLION EUROS AT SEPTEMBER 30, 2007); THIRD-QUARTER EBITDA (30.5 MILLION EUROS) ARE IN LINE WITH THE AMOUNTS REPORTED IN PREVIOUS QUARTERS

NINE-MONTH CONSOLIDATED PROFIT BEFORE TAXES (WITH INVENTORY NOT VALUED ACCORDING TO THE IFRS) TOTALS 31.3 MILLION EUROS (42.7 MILLION EUROS AT SEPTEMBER 30, 2007)

OPERATING RESULTS LOWER INDEBTEDNESS TO 311.8 MILLION EUROS (48.1 MILLION EUROS LESS THAN AT THE END OF 2007), EQUAL TO LESS THAN 60% OF SHAREHOLDERS' EQUITY

WITH THE INVENTORY VALUED ACCORDING TO THE IFRS, NINE-MONTH CONSOLIDATED PROFIT BEFORE TAXES AMOUNTS TO 35.1 MILLION EUROS (113.4 MILLION EUROS AT SEPTEMBER 30, 2007, WHEN MARKETS WERE SIGNIFICANTLY BETTER)

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Consolidated Financial Highlights at September 30, 2008

(in millions of euros)	Jan.-Sept. 2008	Jan.-Sept. 2007
Revenues	2,395.7	2,686.1
Revenues (net of raw materials)	671.2	678.4
EBITDA	94.9	108.9
EBIT	60.1	69.9
Profit bef. taxes (inventory not IFRS valued)	31.3	42.7
Impact of IFRS valuation of inventory	3.8	70.7
Profit bef. taxes (inventory IFRS valued)	35.1	113.4
Net indebtedness	311.8 (at 9/30/08)	359.9 (at 12/31/07)
Shareholders' equity	562.3 (at 9/30/08)	537.6 (at 12/31/07)

*Note: This press release contains reclassifications of the income statement data (applied consistently for 2007 and 2008) and uses some alternative performance indicators that are not provided in the IFRS accounting principles. The meaning and content of these reclassifications and performance indicators is discussed in the annexes.*

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Florence, November 12, 2008. The Board of Directors of KME Group SpA approved the Group's Report on Operations at September 30, 2008.

- During the January-to-September 2008 period, the Group booked **consolidated revenues** of 2,395.7 million euros (2,686.1 million euros at September 30, 2007). Restated net of the value of raw materials, revenues amount to 671.2 million euros, or 1.1% less than the 678.4 million euros reported at September 30, 2007. Revenues generated by products with a higher value added helped offset most of the impact of lower unit sales.
- **EBITDA** totaled 94.9 million euros in the first nine months of 2008 (108.9 million euros at September 30, 2007). **EBIT** decreased to 60.1 million euros (69.9 million euros at September 30, 2007). Even though conditions in the Group's target markets have deteriorated, consolidated **EBITDA** for the third quarter of 2008 (30.5 million euros) were substantially in line with those reported in the last four quarters (average **EBITDA** of 32 million euros).
- When stated to include the impact of valuing the raw materials inventory in accordance with IFRS accounting principles, which, due to the impact of falling prices, had a positive effect of just 3.8 million euros (down sharply compared with 70.7 million euros in 2007), the consolidated profit before taxes amounts to 35.1 million euros (113.4 million euros at September 30, 2007). With the data restated without the effect of the inventory valuation to provide a more meaningful presentation of the result from operations, the **consolidated profit before taxes** for the first nine months of 2008 totals 31.3 million euros (42.7 million euros at September 30, 2007).
- Insofar as the balance sheet is concerned, **consolidated net indebtedness** amounted to 311.8 million euros at September 30, 2008, for a 13.4% decrease compared with the balance at the end of 2007 (359.9 million euros), and was equal to less than 60% of shareholders' equity.
- With regard to **expectations of the Group's future performance**, the most recent indicators point to a deterioration in economic conditions. The widespread weakness present in most markets is becoming more pronounced and the outlook for the coming months more clouded. Raw material prices, which have been extremely volatile, are an additional risk factor. The Group has been implementing for some time both contingent initiatives to respond to competitive pressure and its effects on sales volumes and prices and structural programs designed to increase manufacturing efficiency, implement a leaner and more focused organization, optimize the use of invested capital and minimize risks. The actions taken thus far have succeeded in minimizing the impact of a weak market demand and created the conditions necessary to return in future years to the path of rising profitability and fully seize the opportunities that will again become available when economic conditions become more favorable.



The Group's Report on Operations at September 30, 2008 is annexed to this press release.

\* \* \*

Marco Miniati, the Company's Corporate Accounting Documents Officer, acting in accordance with the requirements of Article 154 *bis*, Section 2, of the Uniform Financial Code (Legislative Decree No. 58/1998), declares that the accounting information contained in this press release is consistent with the data in the supporting documents and in the Company's other documents and accounting records.

\* \* \*

The Board of Directors

This press release is available at the Company website, [www.kme.com](http://www.kme.com) Additional information may also be obtained directly from the Company (telephone number +39 055.4411454; e-mail [investor.relations@kme.com](mailto:investor.relations@kme.com)).

**Report on Operations  
at September 30, 2008**

**(Third Quarter of 2008)**

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Registered office: 2 via dei Barucci, Florence  
[www.kme.com](http://www.kme.com)

Share capital: €250,009,508.80 fully paid in  
Company Register of the Court of Florence and Tax I.D. Number: 00931330583

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Board of Directors

Chairman  
Deputy Chairman

Salvatore Orlando  
Vincenzo Manes<sup>B</sup>

General Manager  
General Manager

Domenico Cova<sup>B</sup>  
Italo Romano<sup>B</sup>

Secretary to the Board of Directors

Vincenzo Cannatelli  
Mario d'Urso<sup>A,C,D</sup>  
Marcello Gallo  
Giuseppe Lignana<sup>A,C,D</sup>  
Gian Carlo Losi  
Diva Moriani<sup>B</sup>  
Alberto Pecci<sup>A,D</sup>  
Alberto Pirelli<sup>A,C</sup>

A. Independent Director

B. Director with executive authority

C. Member of the Compensation Committee (Alberto Pirelli, Chairman)

D. Member of the Audit Committee (Mario d'Urso, Chairman)

Board of Statutory Auditors

Chairman

Marcello Fazzini

Statutory Auditors

Pasquale Pace  
Marco Lombardi<sup>E</sup>

Alternate Auditors

Angelo Garcea

E. The Statutory Auditor Alessandro Trotter resigned on August 30, 2008 and was replaced by the Alternate Auditor Marco Lombardi.

Corporate Accounting Documents Officer

Marco Miniati

Independent Auditors

KPMG S.p.A.

Common Representative of Savings Shareholders

Romano Bellezza

## *Report of the Board of Directors on Operations at the Third Quarter of 2008*

The overall outlook for the economy continues to be conditioned by uncertainty about the intensity and duration of the severe problems that have engulfed international financial markets and by concerns about the repercussions that these problems may have on the real economies of the developed countries, Europe and the United States above all. The emerging economies, while experiencing weakness in some areas, are continuing to grow at a satisfactory rate.

In Europe, a rapidly slowing economy is affecting all components of demand, from consumer spending to investments.

The correction of the construction market, which has spread from the United States to Europe, with an especially pronounced impact on Spain and the U.K., could turn out to be deeper than originally anticipated.

Decisions to invest in plant and equipment are being conditioned by weak demand projections and, more recently, by difficulties in obtaining financing.

Slowing global demand is reducing exports.

The deterioration of the economic framework is having profound repercussions on the businesses that are the main users of the Group's copper and copper-alloy semifinished products, with a negative effect on demand.

In addition to new residential housing, the most affected areas include the automotive industry, manufacturers of appliances and boilers and the air conditioning business. Conditions appear to be more stable in the building restructuring area and in the electrical and renewable energy industries. Nevertheless, the short-term outlook remains uncertain.

The diversification of its product line, the growing strength of its brands, its ability to innovate and its expanded presence in the emerging markets enabled the Group to defend its market position.

Starting in September, the price of copper, which is the metal that is used in the vast majority of the Group's semifinished products, began to trend downwards. The price fell further in October, but was still historically high and continued to show high volatility.

**Consolidated turnover** for the first nine months of 2008 totaled 2,395.7 million euros, or 10.8% less than in the same period last year. Restated net of the value of raw materials, consolidated revenues show a decrease of 1.1%, falling from 678.4 million euros to 671.2 million euros.

A more favorable sales mix, with a greater percentage of products with a higher value added, offset most of the impact of a 7.2% reduction in unit sales.

The value of raw materials accounted for about 72% of the revenues from sales of semifinished products.

Further progress in implementing programs to boost the efficiency and competitiveness of the Group's organization and optimize the procurement and use of raw materials had a positive effect on the income statement, but were not sufficient to fully offset the impact of lower unit sales and of the higher unit costs paid for energy and transportation.

In the third quarter of 2008, the profitability of the Group's industrial operations was in line with the levels achieved in the first two quarters of this year and in the closing quarter of 2007. On the other hand, the data for the first nine months of 2008 show a reduction in profitability compared with the same period in 2007, when, however, market conditions were markedly more favorable.

EBITDA(\*) decreased from 108.9 million euros in the first nine months of 2007 to 94.9 million euros in the same period this year. Net of the value of raw materials, the ratio of EBITDA to revenues decreased from 16.3% to 14.1%.

In the third quarter of 2008, EBITDA totaled 30.5 million euros, compared with 32.4 million euros in the same quarter last year and average EBITDA of 32 million euros for the last four quarters.

EBIT(\*) for the January-to-September period declined from 69.9 million euros in 2007 to 60.1 million euros in 2008

Consolidated profit before taxes(\*) totaled 31.3 million euros in the first nine months of 2008, compared with 42.7 million euros at September 30, 2007.

In this Report on Operations, the EBITDA, EBIT and profit before taxes presented above were again computed without including the income statement impact of measuring the inventories of raw materials at current value, as required by the IFRS accounting principles, because, due to price volatility, the income statement impact of such valuations would make it impossible to compare homogeneous data for two different periods and provide an accurate presentation of the results from operations. More detailed information about this issue is provided in the detailed description of the reclassification made, which is provided later in this Report in the section entitled "Operating Performance of the Group."

The use of a raw material inventory valuation method based on current prices (weighted average cost for the quarter) instead of the LIFO method to value the structural inventory(\*\*) during a period of falling prices resulted in a reduction of the differential between the values determined by the LIFO method and those obtained by applying the IFRS accounting principles. Specifically, this process produced a net positive differential of 70.7 million euros at September 30, 2007, but the positive differential narrowed to 3.8 million euros at September 30, 2008.

Consequently, the consolidated profit before taxes for the first nine months of 2008 computed valuing the inventory in accordance with the IFRS accounting principles totaled 35.1 million euros, as against 113.4 million euros in the same period last year.

Turning to the balance sheet, the Group's net indebtedness totaled 311.8 million euros at September 30, 2008, or 48.1 million euros less (-13.4%) than the amount owed at the end of 2007 (359.9 million euros) but 18.7 million euros more than at June 30, 2008. Net indebtedness was equal to less than 60% of shareholders' equity.

\* \* \*

With regard to expectations of the Group's future performance, the most recent indicators point to a deterioration in economic conditions. The widespread weakness present in most markets is becoming more pronounced and the outlook for the coming months is more clouded. Raw material prices, which have been extremely volatile, are an additional risk factor.

The Group has been implementing for some time both contingent initiatives to respond to competitive pressure and its effects on sales volumes and prices and structural programs designed to increase manufacturing efficiency, implement a leaner and more focused organization, optimize the use of invested capital and minimize risks.

The actions taken thus far have succeeded in minimizing the impact of a weak market demand and created the conditions necessary to return in future years to the path of rising

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\* Reclassified indicators (see table on page 8).

\*\* The structural inventory is the inventory that is not set aside to fill customer orders.



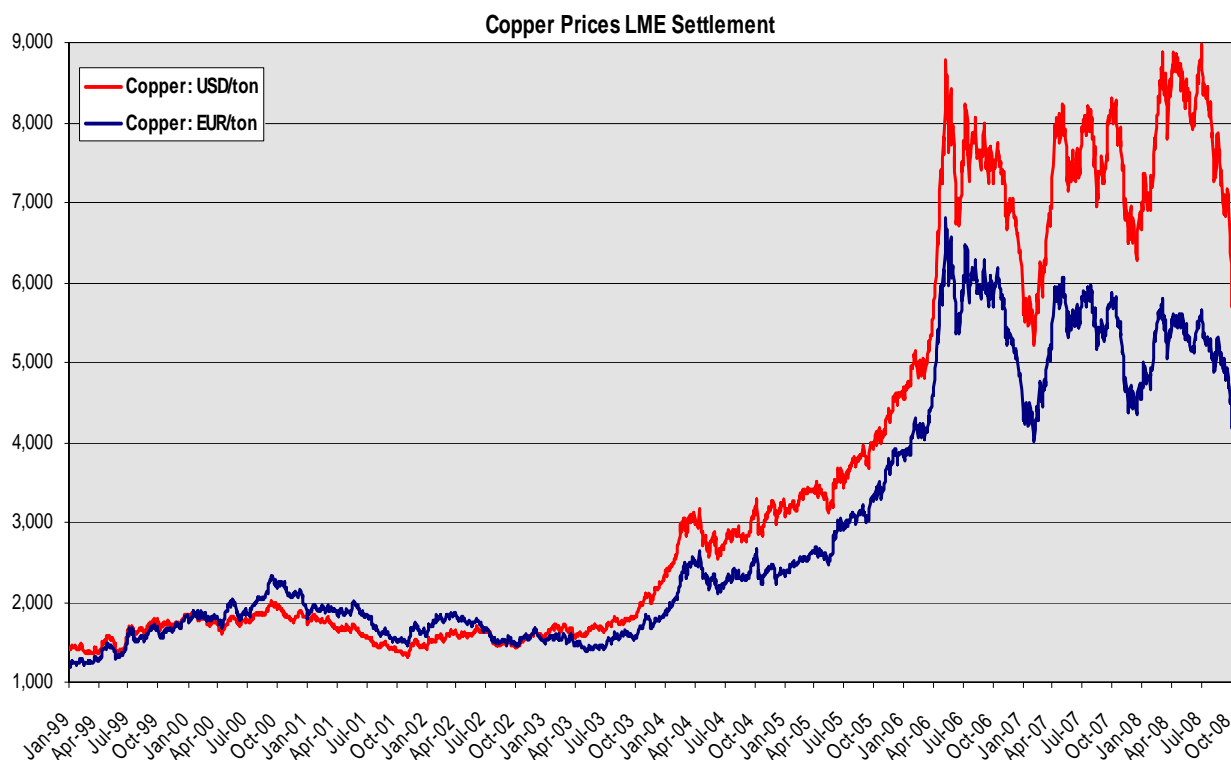
profitability and fully seize the opportunities that will again become available when economic conditions become more favorable.

## Copper Market and Prices

During the first nine months of 2008, the average price of copper was higher than in the same period last year, rising by 22.7% in U.S-dollar terms (from US\$7,095 per metric ton to US\$7,973 per metric ton). Stated in euros, the price was little changed (from €5,266 per metric ton to €5,230 per metric ton), reflecting the appreciation of the European currency during the reporting period.

Looking at price trends, in the third quarter of 2008, the average price of copper was lower than in the second quarter of the year by 9% in U.S-dollar terms (from US\$8,443 per metric ton to US\$7,680 per metric ton) and 5.6% in euro terms (from €5,400 per metric ton to €5,100 per metric ton).

In October 2008, the price of copper continued to decline, causing the average for the month to fall to US\$4,926 per metric ton (equal to €3,680 per metric ton).



## Operating Performance of the Group

The table below presents, in summary form, the consolidated results of the KME Group in the first nine months of 2008 and provides a comparison with the data for the corresponding period in 2007.

In order to present a more meaningful picture of the performance of the Group's industrial operations and make the data more readily comparable over time, certain components of the items used to compute EBITDA, EBIT and consolidated profit before taxes were reclassified.<sup>(1)</sup>

Specifically:

- In order to eliminate the impact of fluctuations in raw material prices, revenues are shown net of the value of raw materials;
- The impact on EBITDA, EBIT and profit before taxes of the adoption of the IFRS accounting principles to value the 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 IFRS international accounting principles required a switch in the method used to value the metal inventory, which, for the structural inventory,<sup>\*</sup> was changed from the LIFO method to a method based on current prices (weighted average cost for the quarter or average for the last month, whichever is lower). Because of the extreme volatility of raw material prices (copper in

*(1) Breakdown of reclassifications and reconciliation with results stated in accordance with IFRS accounting principles*

(in millions of euros)	9/30/08 IFRS		Reclassif.	9/30/08 reclassified	
Gross turnover	2,395.7	100%		2,395.7	
Raw material costs	0.0		(1,724.5)	(1,724.5)	
<b>Turnover net of raw material costs</b>	<b>2,395.7</b>			<b>671.2</b>	<b>100%</b>
Labor costs	(269.1)			(269.1)	
Other consumption and costs	(2,023.9)		1,716.7	(307.2)	
<b>EBITDA</b>	<b>102.7</b>	<b>4.29%</b>		<b>94.9</b>	<b>14.14%</b>
Non-recurring income (expense)	-		4.0	4.0	
Amortisation and depreciation	(38.8)			(38.8)	
<b>EBIT</b>	<b>63.9</b>	<b>2.67%</b>		<b>60.1</b>	<b>8.95%</b>
Net financial cost	(28.8)			(28.8)	
Gain (losses) recognised in equity	0.0			0.0	
<b>Profit bef. taxes (inventory not IFRS)</b>	<b>35.1</b>	<b>1.47%</b>		<b>31.3</b>	<b>4.66%</b>
Impact of IFRS valuat. of invent. & LME contracts	0.0		3.8	3.8	
<b>Profit before taxes</b>	<b>0.0</b>	<b>0.00%</b>	<b>0.0</b>	<b>35.1</b>	<b>5.23%</b>

*(\*) EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization) are not used as a reporting item in the IAS/IFRS accounting principles. They provide a useful gauge to assess the Group's operating performance. EBITDA represent an intermediate amount based on EBIT that does not include depreciation, amortization and nonrecurring income (expense).*

\* The structural inventory is the inventory that is not set aside to fill customer orders.

particular), the use of this method introduces an income statement factor that creates the risk of providing an incorrect presentation of the results from operations. Consequently, the comments that follow refer to operating results (EBITDA and EBIT) and profit before taxes that are based on the LIFO method to value the structural inventory (applied consistently in 2008 and 2007), which is also the method used internally for management control purposes. Obviously, the review of the Group's operating performance also includes financial results computed in accordance with the IFRS method.

- Extraordinary items are shown below the EBITDA line.

## KME Group - Consolidated Income Statement

2007 full year reclassified		(in millions of euros)	9/30/08 reclassified	9/30/07 reclassified	Change
3,485.3		Gross turnover	2,395.7	2,686.1	(10.8%)
(2,594.4)		Raw material costs	(1,724.5)	(2,007.7)	(14.1%)
<b>890.9</b>	<b>100%</b>	<b>Turnover net of raw material costs</b>	<b>671.2</b>	<b>678.4</b>	<b>(1.1%)</b>
(349.3)		Labor costs	(269.1)	(265.1)	1.5%
(399.6)		Other consumption and costs	(307.2)	(304.4)	0.9%
<b>142.0</b>	<b>15.9%</b>	<b>EBITDA</b>	<b>94.9</b>	<b>108.9</b>	<b>(12.9%)</b>
(2.6)		Non -recurring income (expense)	4.0	(1.1)	n.m.
(50.6)		Amortization and depreciation	(38.8)	(37.9)	2.4%
<b>88.8</b>	<b>10.0%</b>	<b>EBIT</b>	<b>60.1</b>	<b>69.9</b>	<b>(14.0%)</b>
(36.5)		Net financial cost	(28.8)	(27.2)	5.9%
0.0		Gain (losses) recognised in equity	0.0	0.0	n.m.
<b>52.3</b>	<b>5.9%</b>	<b>Profit before taxes (inventory not IFRS)</b>	<b>31.3</b>	<b>42.7</b>	<b>(26.7%)</b>

In the first nine months of 2008, **Group revenues** totaled 2,395.7 million euros, or 10.8% less than the 2,686.1 million euros reported in the same period last year.

Changes in raw material prices account for most of this decrease. Restated to eliminate the impact of the value of raw materials, revenues show a decrease of 1.1% (from 678.4 million euros to 671.2 million euros), showing the positive contribution of an improvement in the sales mix, which helped offset to a large extent the impact of a 7.2% reduction in sales volumes.

Even though unit sales were lower, **operating costs** grew by 1.2% 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 show an increase of 1.5%.

**EBITDA** declined by 12.9% to 94.9 million euros, an amount equal to 14.1% of revenues, net of raw material costs, compared with 16.3% at September 30, 2007.

In the third quarter of 2008, EBITDA totaled 30.5 million euros, roughly in line with the amount earned in the same period last year (32.4 million euros) and average EBITDA of 32 million euros for the last four quarters (October 2007-September 2008).

**EBIT** amounted to 60.1 million euros, compared with 69.9 million euros in 2007.

Nonrecurring items had a net positive effect of 4.0 million euros (negative effect of 1.1 million euros in 2007). This amount is the net result of the gains generated by a structural reduction of Company-owned inventories (23.9 million euros, made possible by optimizing raw material utilization flows), less the charges incurred for provisions established in connection with the reorganization of the Group's manufacturing units (13.6 million euros) and the amounts set aside to cover the estimated costs of pending litigation (5.7 million euros).

The **consolidated profit before taxes**, restated to eliminate the impact of valuing the inventory of raw materials at current prices, as required by the IFRS accounting principles, totaled 31.3 million euros (42.7 million euros in the first quarter of 2007).

The increase in net financial expense, which occurred despite a reduction in indebtedness, is due to the recognition in the third quarter of 2008 of accounting losses (4.5 million euros) on foreign currency contracts (mainly US dollar and British pound) executed to hedge commercial positions (order portfolio), to which the corresponding benefits will be allocated.

### ***Impact of Valuing the Inventory of Raw Materials at Current Prices (IFRS Principles)***

The table below shows the impact on the consolidated profit before taxes for the first nine months of 2008 of valuing the inventory of raw materials and the corresponding London Metal Exchange hedging contracts in accordance with IFRS principles, and provides a comparison with homogeneous data for 2007:

#### ***KME Group - Consolidated Income Statement (continued)***

<i>2007 full year reclassified</i>		(in millions of euros)	<i>9/30/08 reclassified</i>		<i>9/30/07 reclassified</i>		<i>Change</i>
52.3	5.9%	Profit before taxes (inventory not IFRS)	31.3	4.7%	42.7	7.3%	(26.7%)
(15.3)		Impact of IFRS valuation on inventory and LME contracts	3.8		70.7		(94.6%)
37.0	4.1%	Profit before taxes	35.1	5.2%	113.4	14.1%	(69.0%)

At September 30, 2008, because commodity prices had been falling, the valuation of the inventory of raw materials produced a decrease in the differential between the values determined by the LIFO method and those obtained by applying the IFRS accounting principles. Specifically, this process produced a gross positive differential of 70.7 million euros at September 30, 2007 and a smaller gross positive differential of 3.8 million euros at September 30, 2008.

As a result, the consolidated profit before taxes (inventory IFRS valued) for the first nine months of 2008 amounted to 35.1 million euros, as against a profit before taxes of 113.4 million euros at September 30, 2007, computed on the same basis.

## Information about the Balance Sheet and Financial Position

The table below provides a breakdown of consolidated shareholders' equity:

(in millions of euros)	at 9/30/08	at 9/30/07	at 12/31/07
Share capital	250.0	250.0	324.2
Reserves	277.8	276.3	172.6
Profit for the period	34.5*	41.3**	40.8**
<b>Total shareholders' equity</b>	<b>562.3</b>	<b>567.6</b>	<b>537.6</b>

\* before taxes and after minority interest

\*\* after taxes and after minority interest

The reduction in **share capital** is consistent with the terms of a resolution approved by the Extraordinary Shareholders' Meeting on March 14, 2008, authorizing a voluntary reduction of 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) and the establishment of a reserve of the same amount. Pursuant to Article 2445, Section 3, of the Italian Civil Code, the share capital reduction became effective on June 26, 2008, after 90 days had passed from the day the corresponding Shareholders' Meeting resolution was entered into the Company Register.

On September 16, 2008, the Ordinary Shareholders' Meeting approved a resolution **authorizing the purchase and disposal of common and savings treasury shares**, in accordance with the provisions of Articles No. 2357 and No. 2357 *ter* of the Italian Civil Code and Article 132 of the Uniform Financial Code.

The program, which went into effect on September 22, 2008, can be used to purchase common and/or savings shares up to a maximum number that, counting the shares held from time to time by the Company and its subsidiaries, does not cause the total number of common and savings shares held to exceed the ceiling of 10% of the Company's share capital.

The authorization to purchase treasury shares is valid for a period of up to 18 months from the date of the abovementioned Shareholders' Meeting (i.e., until March 16, 2010).

Treasury shares will be acquired through purchases on the regulated market operated by Borsa Italiana S.p.A., in accordance with the operating procedures set forth in regulations governing the establishment and operations of such markets, which do not allow the direct coupling of offers to buy and offers to sell, and consistent with the provisions of Regulation (CE) No. 2273 of 2003.

The main purpose of the program is to enable the Company to (i) acquire a portfolio of treasury shares that can be used in connection with transactions executed as part of the Company's regular business operations or projects that are consistent with the strategies that KME intends to pursue and which may result in the need for an exchange of shares, including using the abovementioned shares in connection with the issuance of convertible bonds and/or bonds with warrants attached; and (ii) use the treasury shares it purchased to implement stock option plans reserved for Directors and/or executives of the Company and/or its direct or indirect subsidiaries.

At October 31, 2008, the Company held 2,339,487 treasury common shares, equal to 0.99% of the shares of the same class, and 59,526 treasury savings shares, equal to 0.31% of the shares of the same class. As of the date of this Report, the total number of treasury shares held by the Company was equal to 0.94% of its entire share capital.

The Shareholders' Meeting of September 16, 2008 also authorized the disposal, at any time and without time restrictions, of all or part of the treasury shares purchased by the

Company for any of the purposes and in accordance with the methods allowed pursuant to law, empowering the Board to determine the contractual sales terms, methods and conditions that are deemed to be most appropriate in the Company's interest.

At September 30, 2008, the Group's net indebtedness decreased to 311.8 million euros, or 48.1 million euros less than at December 31, 2007. However, it was higher by 18.7 million euros compared with June 30, 2007, reflecting the temporary impact of higher outlays for industrial investments.

A breakdown of the consolidated net financial position(\*\*) is provided below:

(in thousands of euros)	at 9/30/08	at 6/30/08	at 12/31/07
Short-term financial payables	203,185	154,013	111,714
Medium and long-term financial payables	309,444	318,647	393,077
Financial payables due to unconsolidated Group companies	3,092	3,097	9,073
<b>Total indebtedness</b>	<b>515,721</b>	<b>475,757</b>	<b>513,864</b>
Cash and cash equivalents	(97,256)	(77,038)	(93,936)
Short-term financial receivables (*)	(103,437)	(102,964)	(59,509)
Financial receivable from unconsolidated Group companies	(764)	(511)	(490)
<b>Total liquid assets and loans receivable</b>	<b>(201,457)</b>	<b>(180,513)</b>	<b>(153,935)</b>
<b>Net financial position</b>	<b>314,264</b>	<b>295,244</b>	<b>359,929</b>
Non-current financial receivables owed by credit institutions	(2,467)	(2,105)	0
<b>Reclassified net financial position</b>	<b>311,797</b>	<b>293,139</b>	<b>359,929</b>

(\*) "Short-term financial receivables" includes a deposit held by a factoring company, which is equal to 10% of the value of the trade receivables that the Company factors on a regular basis.

This deposit, which previously was included among "Other receivables and current assets," totaled 38.3 million euros at December 31, 2007, 44.1 million euros at June 30, 2008 and 42.2 million euros at September 30, 2008.

The financial position data shown above do not reflect the potential outlays that may be required for the fines that the European Commission imposed on the Group's manufacturing companies in 2003 and 2004 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 where appeals have been filed 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 income statement standpoint, provisions have already been established covering both the total amount of the fines and the corresponding accrued interest.

\*\* This financial structure indicator is equal to gross indebtedness less cash and cash equivalents, other loans receivable included in "Current financial assets" and a "non-current financial receivable owed by a credit institution" (amounting to 2.5 million euros at September 30, 2008) that stems from a term deposit that secures amounts drawn on a credit line provided by Mediocredito Centrale SpA (MCC).



A breakdown of reclassified net invested capital is as follows:

(in millions of euros)	at 9/30/08	at 6/30/08	at 12/31/07
Net capital invested in non-current assets	788.5	782.7	793.9
Net working capital	488.0	494.3	500.9
Net provisions	(402.4)	(416.2)	(397.2)
<b>Net invested capital(*)</b>	<b>874.1</b>	<b>860.8</b>	<b>897.6</b>

*(\*) Net invested capital is defined as the sum of "Non-current assets" and "Current assets" less "Non-current liabilities" and "Current liabilities," but excluding the amounts already used to compute net indebtedness.*

\* \* \*

#### Disclosure Pursuant to the Provisions of the Consob Market Regulations (Regulation No. 16191/2007).

Pursuant to the provisions of Article 36 of the Consob Market Regulations, the Company declares that none of the subsidiaries established and operating pursuant to the laws of countries that are not members of the European Union are deemed to be materially significant for the purposes referred to in Article 36, Section 2, of the abovementioned Regulations, and, consequently, the Company is exempt from the corresponding compliance requirements.

As for Article 37 of the abovementioned Regulations, the Company has already explained in its Report on Operations for the Year Ended December 31, 2007 the reasons why it does not believe that it is subject to the oversight and coordination authority of another company.

Florence, November 12, 2008

The Board of Directors

## *Financial Statements*

The Interim Financial Report at September 30, 2008, which has not been audited, was prepared in accordance with Article 154 *ter* of the Uniform Financial Code, enacted with Legislative Decree No. 195/2007.

The data in the consolidated balance sheet are those at September 30, 2008 and at December 31, 2007.

Consolidated income statement data are provided for the third quarter of 2008 and for the period between the end of the previous reporting year and the closing date of the current period. They are also compared with the data for the same period in 2007. The presentation of the financial statements is consistent with the presentation used in the Semiannual and Annual Financial Reports.

The Interim Financial Report at September 30, 2008 was prepared in accordance with the valuation and measurement criteria set forth in the International Financial Reporting Standards (IFRS) 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.

<b>Consolidated Financial Statements of KME Group S.p.A.</b>		
<b>at September 30, 2008</b>		
<b>Consolidated Balance Sheet</b>		
<b>Items classified as current and non-current</b> <i>(amounts in thousands of euros)</i>	<b>At</b> <b>9/30/08</b>	<b>At</b> <b>12/31/07</b>
Property, plant and equipment	617.097	619.160
Investment property	20.514	20.516
Goodwill and consolidation difference	114.582	114.582
Other intangible assets	2.781	2.654
Investments in associates	5.266	5.279
Investments in other companies	387	3.693
Investments valued by the equity method	-	-
Other financial assets	27.896	28.019
Non-current financial assets	2.467	-
Deferred-tax assets	36.049	36.513
<b>NON-CURRENT ASSETS</b>	<b>827.039</b>	<b>830.416</b>
Inventories	602.667	628.233
Trade receivables	133.831	127.843
Other receivables and current assets (*)	45.518	51.169
Current financial assets (*)	123.059	72.354
Cash and cash equivalents	97.256	93.936
<b>CURRENT ASSETS</b>	<b>1.002.331</b>	<b>973.535</b>
<b>TOTAL ASSETS</b>	<b>1.829.370</b>	<b>1.803.951</b>
Share capital	250.009	324.165
Other reserves	171.923	96.133
Treasury stock	(226)	(37)
Retained earnings	5.910	5.917
Technical consolidation reserves (**)	97.577	68.787
Reserve for deferred taxes	194	194
Net profit (loss) for the period	34.479	40.774
<b>Group interest in shareholders' equity</b>	<b>559.866</b>	<b>535.933</b>
Equity attributable to minority interest	2.473	1.690
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>562.339</b>	<b>537.623</b>
Employee benefits	156.220	158.510
Deferred-tax liabilities	118.272	118.290
Borrowings and other financial liabilities	309.444	393.077
Other non-current liabilities	9.124	8.000
Provisions for risks and charges	139.682	130.065
<b>NON-CURRENT LIABILITIES</b>	<b>732.742</b>	<b>807.942</b>
Borrowings and other financial liabilities	216.046	127.899
Trade payables	175.662	172.592
Other current liabilities	118.235	131.020
Provisions for risks and charges	24.346	26.875
<b>CURRENT LIABILITIES</b>	<b>534.289</b>	<b>458.386</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>1.829.370</b>	<b>1.803.951</b>
(*) "Short-term financial receivables" includes a deposit held by a factoring company to secure the credit lines it provided. The amount of the deposit is equal to 10% of the value of the trade receivables that the Company factors on a regular basis. This deposit, which previously was included among "Other receivables and current assets," totaled 38.3 million euros at December 31, 200 and 42.2 million euros at September 30, 2008.		
(**)"Technical consolidation reserves" includes "Retained earnings (Loss carryforward)," the "Consolidation reserve" and the "Currency translation reserve."		

Consolidated Financial Statements of KME Group S.p.A.  
at September 30, 2008

<b>Consolidated Income Statement Costs classified by type</b> <i>(amounts in thousands of euros)</i>	<b>9/30/08 (9 months)</b>	<b>First half 2008</b>	<b>9/30/07 (9 months)</b>	<b>First half 2007</b>	<b>% change</b>	<b>3<sup>rd</sup> quarter 2008</b>	<b>3<sup>rd</sup> quarter 2007</b>	<b>% change</b>
Sales and service revenues	2,395,665	1,623,093	2,686,108	1,847,816	(10.81%)	772,572	838,292	(7.84%)
Change in inventory of finished products and semifinished goods	(33)	1,680	1,568	8,804	(102.10%)	(1,713)	(7,236)	n.m.
Capitalization of Company-produced assets	1,877	1,107	1,247	677	50.52%	770	570	35.09%
Other operating revenues	8,127	6,249	10,940	8,265	(25.71%)	1,878	2,675	(29.79%)
Purchases and changes in raw material inventory	(1,776,196)	(1,168,924)	(2,030,938)	(1,384,309)	(12.54%)	(607,272)	(646,629)	(6.09%)
Labor costs	(269,093)	(182,292)	(265,090)	(182,957)	1.51%	(86,801)	(82,133)	5.68%
Depreciation, amortization, impairment losses and writedowns	(38,835)	(26,699)	(37,927)	(26,777)	2.39%	(12,136)	(11,150)	8.84%
Other operating expenses	(257,691)	(175,889)	(225,279)	(157,719)	14.39%	(81,802)	(67,560)	21.08%
<b>EBIT</b>	<b>63,821</b>	<b>78,325</b>	<b>140,629</b>	<b>113,800</b>	<b>(54.62%)</b>	<b>(14,504)</b>	<b>26,829</b>	<b>n.m.</b>
Financial income	6,335	4,743	4,750	4,618	33.37%	1,592	132	n.m.
Financial expense	(35,110)	(19,140)	(31,967)	(21,109)	9.83%	(15,970)	(10,858)	47.08%
Interest in the results of associates valued by the equity method	-	-	-	-	n.m.	-	-	n.m.
<b>Profit before taxes</b>	<b>35,046</b>	<b>63,928</b>	<b>113,412</b>	<b>97,309</b>	<b>(69.10%)</b>	<b>(28,882)</b>	<b>16,103</b>	<b>n.m.</b>

***Declaration Provided by the Corporate Accounting Documents Officer Pursuant to Article 154 bis, Section 2, of Legislative Decree No. 58/1998 (Uniform Financial Code)***

Marco Miniati, the Company's Corporate Accounting Documents Officer, acting in accordance with the requirements of Article 154 *bis*, Section 2, of the Uniform Financial Code (Legislative Decree No. 58/1998), declares that the accounting information contained in this Report is consistent with the data in the supporting documents and in the Company's other documents and accounting records.

Florence, November 12, 2008

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(Marco Miniati)  
Corporate Accounting Documents Officer