

Consolidated Quarterly Report at March 31, 2007

(First Quarter of 2007)

Registered office: 2 via dei Barucci, Florence

www.kmegroup.it

Share capital: €319,738,841.95 fully paid in

Company Register of the Court of Florence and Tax I.D. Number: 00931330583

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).

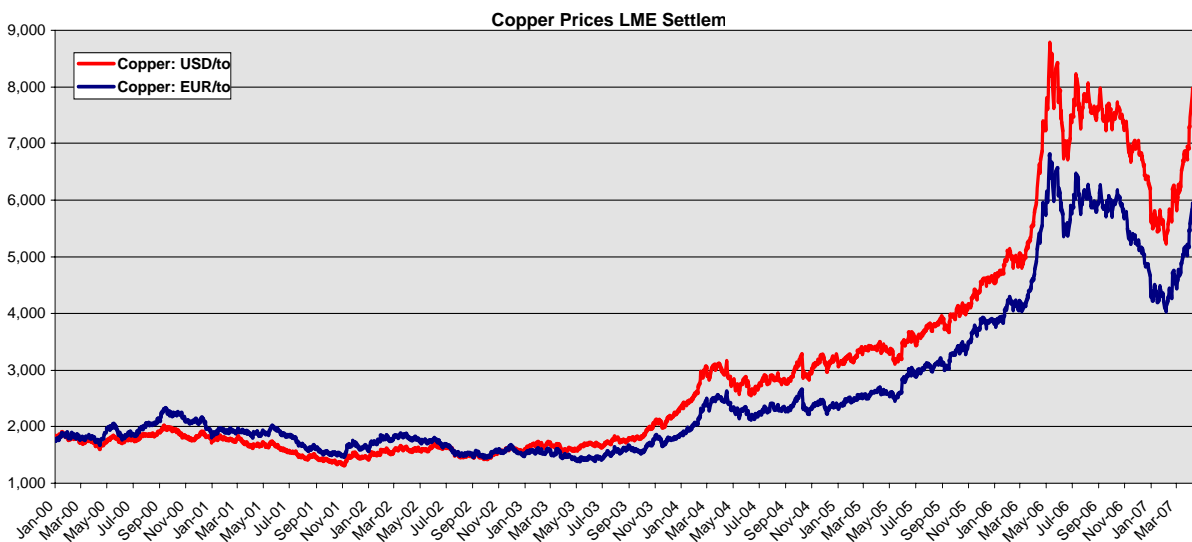
As for **the outlook for the balance of 2007**, the Group's prospects remain positive, consistent with expectations of a continuation of favorable economic conditions in Europe. Despite the uncertainties that have affected the market due to the fluctuations in raw material prices mentioned above, the 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

 (*) 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

<i>2006 full year reclassified</i>	(in millions of euros)	<i>March 31, 2007</i>	<i>March 31, 2006</i>	<i>% change</i>
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	208.3	100.00%
(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	27.1	13.01%
(26.5)	Nonrecurring income (expense)	0.9	(0.4)	<i>n.m.</i>
(53.7)	Depreciation and amortization	(13.3)	(14.0)	-5.00%
46.3	5.46% EBIT	24.8	12.7	6.10%
(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	<i>n.m.</i>
4.9	0.58% Income before taxes and stock val.	15.0	3.4	1.63%
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	39.7	19.06%

(*) 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 <i>(amounts in thousands of euros)</i>	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 items classified as current and non-current <i>(amounts in thousands of euros)</i>	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