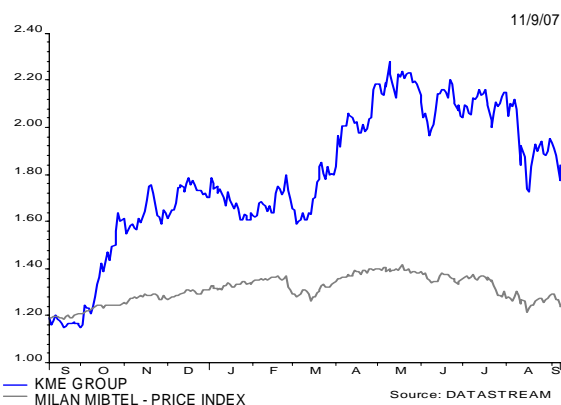


**1H07 Results &
Change in view**

KME GROUP

BUY

Market price (ord): EUR 1.8338


Company Key Data	2006A	2007E	2008E	2009E
Revenues (EUR M)	847.3	870.0	887.4	900.7
EBITDA (EUR M)	126.5	145.1	157.7	164.5
EBIT (EUR M)	125.4	90.1	103.2	109.7
Net Income (EUR M)	51.7	32.4	39.9	45.8
Dividend Ord. (EUR)	0.00	0.01	0.02	0.02
EPS adj (EUR)	0.03	0.13	0.15	0.17
EV/EBITDA (x)	15.1	6.7	6.7	6.0
P/E adj (x)	71.2	14.4	11.9	10.6

A: actual, data taken from 2006 financial statements and Intesa Sanpaolo Equity Research calculations
E: expected, Intesa Sanpaolo Equity Research estimates

See Pages 4 and 5 for Analyst Certification and Full Disclosures

Company Data	Saving	Ords
N. of Shares (M):	19	236
Market Price (EUR):	1.84	1.83
Target Price (EUR):		2.30
Target Upside:		25%
Previous Target (EUR):		2.30

Market Data

Market Cap (EUR M)	467.7
Free Float (%)	44.1
12 m Hi/Lo (EUR)	2.2805/1.1462
Average Volumes ('000)	443.4

Other Info

Sector	Capital Goods
Reuters Code	KME.MI
Bloomberg Code	SMI IM
Mibtel Index	30,058

Performance (%)	Abs	Rel
1 month	-0.5	0.7
3 months	-7.7	0.1
12 months	54.5	50.9

11 September 2007

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Positive 1H07 Results

- 1H07 results.** The BoD meeting approved the 1H07 results, which reported improved operating revenues vs.1H06, confirming that the growth trend started in 2H06 is continuing. The 1H07 consolidated revenues, net of the raw materials value, rose by 9.1% to EUR 469.3M (our estimate EUR 470.5M) The increase in revenues was due to marketing programmes implemented by the Group to improve the product mix and raise prices. These programmes helped strengthen the Group's market position by enhancing the value of products with greater value added and expanding into new markets in Eastern Europe and Asia. The profitability improvement benefited from the production restructuring and reorganisation process implemented in the last few years. We highlight that EBIT EUR 113.8M (EUR 117.2M in 1H06) was heavily affected by the write-up/down in the market values of copper stocks. In 1H07 the write-up of the stock amounted to EUR 62.1M (our estimate EUR 56.1M) compared to EUR 101.1M for the same period last year. The EBIT adj. rose by +52.5% YOY to EUR 49.7M. Thanks to a more efficient stock management, net financial debt at end-June was EUR 455M, slightly above EUR 440M at end-March, despite the increased price of raw materials. The average copper price in 2Q07 was USD 7578/ton vs. USD 5933/ton in 1Q07 and USD 7156/ton in 2Q06. The group net profit was EUR 66M, up from EUR 56.3M in 1H06, even though the contribution provided by the revaluation of the raw material inventory was significantly lower.

- Our FY07 estimates unchanged.** Management states that consistent with expectations of continuing favourable economic conditions in Europe, the group's operating outlook remains positive. Despite uncertainties caused by rising raw material prices, the Group expects to report a continuing improvement in profitability for all 2007, compared with 2006. We thus leave our FY07E estimates unchanged, which discount a more conservative 2H07E vs. 1H07.

- Valuation.** We confirm our target price of EUR 2.3/share (based on a DFC Model with a WACC of 6.2%) and **revise our recommendation from HOLD to BUY in view of the high up-side.**

- Key risks.** The strong increase in copper prices, which has had a negative impact on net working capital and sales volumes; the economic slowdown in Europe which is the reference market for the KME group; interest rate rises and changes in the penalty inflicted by the European Commission on the Group in 2003, for which payment is not expected before 2008.

1H07 Results

Table 1: KME – 1H07 Results

EUR M	2Q06A	2Q07A	yoy %	1H06A	1H07A	07/06 %	2006A	2007E
Net revenues	221.7	234.0	5.5	430.0	469.3	9.1	847.3	870.0
EBITDA	32.8	39.0	18.9	59.9	76.5	27.7	126.5	145.1
% of sales	14.8	16.7		13.9	16.3		14.9	16.7
EBIT adj.	19.5	25.5	30.8	32.6	49.7	52.5	72.8	91.1
% of sales	8.8	10.9		7.6	10.6		8.6	10.5
EBIT	68.2	75.0	10.0	117.2	113.8	-2.9	125.4	90.1
% of sales	30.8	32.1		27.3	24.2		14.8	10.4
Pre-tax profit	58.8	66.0	12.2	98.5	97.3	-1.2	84.0	52.3
Net profit	NA	NA		56.3	66.0		51.7	32.4

NA - Not Available A: Actual, data taken from 2006 financial statements and 1Q07 company report, and Intesa Sanpaolo Equity Research calculations E: Expected, Intesa Sanpaolo Equity Research estimates

KME GROUP						
Sector:	Capital Goods		Mkt Price (EUR)		Target Price	Rating
Datatype:	Industrial		Ordinary	1.8	2.3	BUY
REUTERS CODE	KME.MI		Saving	1.84	2.30	
Values per Share (EUR)	2004	2005	2006A	2007E	2008E	2009E
No. Ordinary Shares (M)	322	322.3	693.5	236.0	240.9	245.7
No. NC Saving/Preferred Shares (M)	57	57.2	57.2	19.1	19.1	19.1
Total No. of Equivalent Shares (M)	380	379.6	750.7	255.1	259.9	264.8
EPS Adjusted	(0.09)	0.00	0.03	0.13	0.15	0.17
CFPS	0.18	0.14	0.07	0.34	0.36	0.38
BVPS	0.49	0.82	0.66	2.06	2.19	2.42
Dividend Ord	-	-	-	0.01	0.02	0.02
Dividend SAV Nc	-	0.023	0.109	0.023	0.025	0.028
Income Statement (EUR M)	2004	2005	2006A	2007E	2008E	2009E
Sales	852.5	758.1	847.3	870.0	887.4	900.7
EBITDA	120.9	92.8	126.5	145.1	157.7	164.5
EBIT	44.4	44.8	125.4	90.1	103.2	109.7
Pretax Income	2.3	7.4	84.0	52.3	64.4	73.9
Net Income	(8.2)	4.3	51.7	32.4	39.9	45.8
Adj. Net Income	(33.2)	0.3	19.3	32.4	39.9	45.8
Cash Flow (EUR M)	2004	2005	2006A	2007E	2008E	2009E
Net Income before Minorities	(8.2)	4.3	51.7	32.4	39.9	45.8
Depreciation and Provisions	76.5	48.0	1.1	55.0	54.5	54.8
Change in Working Capital	(50.8)	(78.6)	(49.4)	(7.0)	(10.2)	(6.5)
Operating Cash Flow	17.5	(26.4)	3.4	80.4	84.2	94.2
Capital Expenditure	(11.2)	(55.0)	(46.7)	(45.0)	(45.0)	(45.0)
Other (uses of Funds)	(6.1)	9.8	16.7	(3.4)	(107.7)	(2.3)
Free Cash Flow	0.2	(71.6)	(26.6)	32.0	(68.6)	46.9
Dividends and Equity Changes	(16.7)	(3.7)	128.8	(1.2)	2.2	26.9
Net Cash Flow	(16.5)	(75.3)	102.2	30.8	(66.4)	73.8
Balance Sheet (EUR M)	2004	2005	2006A	2007E	2008E	2009E
Net Capital Employed	770.6	1,002.9	1,031.5	1,032.9	1,141.3	1,140.3
of which Associates	-	-	-	-	-	-
Net Debt (Cash)	583.8	689.1	534.3	506.4	572.8	499.0
Minorities	-	-	-	-	-	-
Net Equity	186.8	311.5	495.3	526.5	568.6	641.3
Market Cap	696	696	1,376.5	467.7	476.6	472.3
Enterprise Value (*)	1,280	1,385	1,911	974	1,049	971
Stock Market Ratios	2004	2005	2006A	2007E	2008E	2009E
P/E adj	-21.0x	2147.8x	71.2x	14.4x	11.9x	10.3x
P/CEPS	10.2x	13.3x	26.1x	5.4x	5.0x	4.7x
P/BVPS	3.7x	2.2x	2.8x	0.9x	0.8x	0.7x
Dividend Yield (%ord)	0.0%	0.0%	0.0%	0.5%	0.8%	1.0
Dividend Yield (%sav)	0.0%	1.2%	5.9%	1.2%	1.4%	1.5
EV/Sales	1.5x	1.8x	2.3x	1.1x	1.2x	1.1x
EV/EBITDA	10.6x	14.9x	15.1x	6.7x	6.7x	5.9x
EV/EBIT	28.8x	30.9x	15.2x	10.8x	10.2x	8.9x
EV/CE	1.7x	1.4x	1.9x	0.9x	0.9x	0.9x
D/EBITDA	4.8x	7.4x	4.2x	3.5x	3.6x	3.0x
D/EBIT	13.1x	15.4x	4.3x	5.6x	5.6x	4.5x
Profitability & Financial Ratios	2004	2005	2006A	2007E	2008E	2009E
EBITDA Margin (%)	14.2%	12.2%	14.9%	16.7%	17.8%	18.3
EBIT Margin (%)	5.2%	5.9%	14.8%	10.4%	11.6%	12.2
Tax Rate (%)	456.5%	42.1%	38.4%	38.0%	38.0%	38.0
Net Income Margin (%)	-1.0%	0.6%	6.1%	3.7%	4.5%	5.1
ROE (%)	-4.4%	1.4%	10.4%	6.2%	7.0%	7.1
Debt/Equity Ratio	3.1x	2.2x	1.1x	1.0x	1.0x	0.8x
Growth		2005	2006A	2007E	2008E	2009E
Sales (%)		-11.1%	11.8%	2.7%	2.0%	1.5%
EBITDA (%)		-23.2%	36.3%	14.7%	8.7%	4.4%
EBIT (%)		0.9%	179.9%	-28.2%	14.5%	6.4%
Pretax Income (%)		220.0%	1041.4%	-37.8%	23.2%	14.9%
Net Income (%)		152.0%	1113.8%	-37.3%	23.2%	14.9%
Adj. Net Income (%)		101.0%	5863.8%	67.6%	23.2%	14.9%

(*) Note : EV = Mktcap + Net Debt + Minorities * P/BV - Associates A: actual, data taken from the 2004-2006 financial statements and Intesa Sanpaolo Equity Research calculations; E: expected, Intesa Sanpaolo Equity Research estimates

APPENDIX 1

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- (2) No direct or indirect compensation has been or will be received in exchange for any views expressed.

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We obtain a fair value using a number of valuation methodologies including: discounted cash flow method (DCF), dividend discount model (DDM), embedded value methodology, return on allocated capital, break-up value, asset-based valuation method, sum-of-the-parts, and multiples-based models (for example PE, P/BV, PCF, EV/Sales, EV/EBITDA, EV/EBIT, etc.). The financial analysts use the above valuation methods alternatively and/or jointly at their discretion.

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BUY: if the target price is 20% higher than the market price.

ADD: if the target price is 10%-20% higher than the market price.

HOLD: if the target price is 10% below or 10% above the market price.

REDUCE: if the target price is 10%-20% lower than the market price.

SELL: if the target price is 20% lower than the market price.

TARGET PRICE: the market price that the analyst believes that the share may reach within a one-year time horizon.

MARKET PRICE: closing price on the day before the issue date of the report, as indicated on the first page.

RATING SUSPENDED: The rating and target price have been suspended temporarily to comply with applicable regulations and/or firm policies in certain circumstances, including when Intesa Sanpaolo Group is acting in an advisory capacity in a merger or strategic transaction involving the company.

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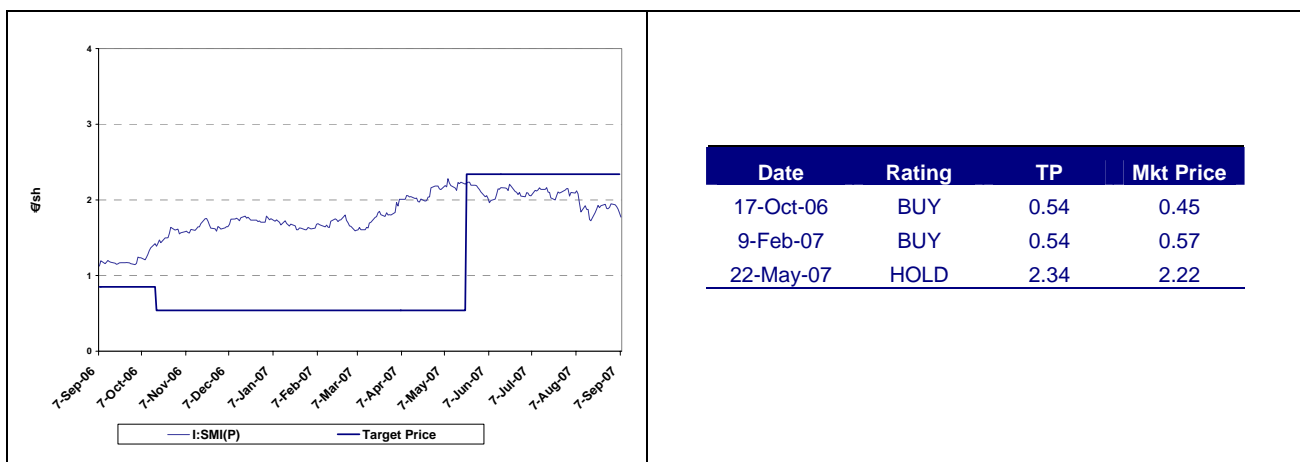
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We provide the following information on Intesa Sanpaolo Group's conflicts of interest:

1 - The Intesa Sanpaolo Group has a conflict of interest in as much as it plans to solicit investment banking business or intends to seek compensation from the Company in the next three months: the Intesa Sanpaolo Group is one of the main financial lenders of KME GROUP and its parent and group companies.

Historical recommendations and target price



INTESA SANPAOLO RESEARCH RATING DISTRIBUTION (July 07)

<i>Number of companies covered: 68</i>	BUY	ADD	HOLD	REDUCE	SELL
Equity research Coverage relating to the last rating	13.0%	37.0%	46.0%	3.0%	1.0%
Intesa Sanpaolo's Clients (*)	56.0%	16.0%	13.0%	0%	0%

(*) Companies on behalf of whom Intesa Sanpaolo and the other companies of the Intesa Sanpaolo Group have provided corporate and investment banking services in the last 12 months.

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