SMI Società Metallurgica Italiana S.p.A.

Press release

SMI – Società Metallurgica Italiana S.p.A

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- **Approved the 2003-2007 Group Plan. An important profitability recovery has forseen, even in a contest of soft demand and pressure on prices.**
- **Strong action on the costs: efficency improvement of more than € 60 million and break-even reduction by 18%.**
- **Financial debt reduction by 20%.**
- **Refocusing of product portfolio with the aim to concentrate the resources in the strategic sectors.**

The SMI – Società Metallurgica Italiana SpA Board of Directors, under the chairmanship of Luigi Orlando, today reviewed and approved the 2003 – 2007 Plan of the Group, presented by Executive Vice President, Salvatore Orlando, and C.F.O., Pier Luigi De Angelis.

In the last two years the earning performance of the Group was affected by the negative overall economic trend; moreover, the latest forecasts don't show sufficient improvements to indicate a significant recovery in the near future.
In Europe and particularly in Germany, France and Italy, where the Group is mainly present, this negative trend has been stronger and more prolonged than previously estimated.

Demand has been weak in both the field of copper semi-finished products for industrial end – uses and in the field of building applications, even if the latter has been more resistant.
Markets' uncertainty and the productive over-capacities have exacerbated the competition, with a strong general downward pressure on prices.

During 2002 - 2003 the Group suffered a 9% decrease of sale volumes and an average price reduction of 10%, as well as a worse mix due to a stronger contraction of industrial product sales characterized by a higher added value.

In light of this situation the Group reacted with the protection of its market positions and implementing a series of cost reduction and operational improvement initiatives, in order to achieve significant efficiency enhancements.

The economic frame described and the changes in the competitive scenario also required the adoption of a new long term plan aiming at an improvement of economic results and strengthening of financial structure, even in a context of soft demand and strong pressure on prices.

The base plan, approved by the Board of Directors, which rests on maintaining the present product portfolio without significant increases of sale quantities and prices, is founded on internal measures directed to reach a highly competitive cost structure and obtain a break-even point reduction of 14% by 2005 and 18% by 2007.

The actions, detailed for each of the Business Units, are directed to the improvement of manufacturing organization efficiency through its optimization, rationalization, specialization, together with carefully focused investments. The actions relative the four Production Divisions will determine efficiency of € 45 million (on the average 2003 costs), of which 60% by 2005.

Attention is paid to the development of professional staff competencies also in the “corporate” areas (accounting, finance, controlling and information technology departments), with changes in organisational models aimed at centralising the functions and a more efficient and synergic utilization of human resources.
These projects will lead to cost savings of about € 18 million, to be reached almost entirely by 2005.

The main economic target of the plan is to enable the Group to achieve already at the end of 2005, even if the demand remains weak, the profitability average levels registered during 2001-2002 and further improvements in the years 2006 and 2007; obviously if the general economic trend will not suffer new worsening.

Under the financial profile, considering investments of about € 230 million and the charges required to carry on the foreseen restructuring and cost-cutting programmes, the target is to decrease net indebtedness by 20% in the four years 2004-2007, with internally generated resources.

The plan also contains the guidelines to be pursued for a strategic management of product portfolio: the main objectives are to concentrate resources in those products/sectors in which the Group is market leader, to decrease the risk profile of cyclicity and guarantee suitable profitability as well as the reduction of employed capital. The effects of such a strategy are not calculated in the base plan.

The Board of Directors

Florence, 16th October 2003