

Press Release

SMI – Società Metallurgica Italiana S.p.A

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THE BOARD OF DIRECTORS APPROVES THE REPORT ON OPERATIONS AND THE DRAFT FINANCIAL STATEMENTS FOR THE 2004 FISCAL YEAR

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- **2004 ended with significantly better operating results than in 2003.**
 - **EBITDA were 90.7% higher than in 2003, rising from €63.4 million to €120.9 million.**
 - **Income before taxes and extraordinary items amounted to €0.8 million, compared with a loss of €42 million in 2003.**
 - **The consolidated net loss totaled €8.2 million, due mainly to the amortization of goodwill related to the investment in KME, which amounted to €9.0 million in 2004, the last year in which this charge was booked.**
 - **At December 31, 2004, net indebtedness was €584 million, or €7.7 million more than at the end of 2003.**
 - **The agreement signed on February 1, 2005 with the Group's lender banks has been implemented, resulting in a restructuring of the Group's indebtedness and a rescheduling of the existing debt to medium-term maturities.**
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Operating and Financial Performance in 2004

In 2004, the S.M.I. Group reached an important turning point both in terms of its industrial operations and its financial and organizational structure.

The measures that were designed to increase the efficiency of the manufacturing and sales organizations and of the corporate staff functions and which are being implemented within the framework of a portfolio repositioning strategy, are beginning to bear fruit. The year-end consolidated data show a clear improvement in operating performance, despite the fact that the overall European economy is still experiencing only limited growth.

The **Group's revenues** totaled €2,097.7 million, or 8.1% more than in the previous year. Net of the impact of the value of raw materials, the increase amounts to 6.4%.

On a comparable consolidation basis, unit sales show a gain of 4.8%, while revenues (net of the impact of the value of raw materials) climbed by 6.8%. A marginal increase in prices was virtually offset by a change in sales mix and a decrease in value added.

In 2004, **operating costs** decreased despite a rise in unit sales. The efficiency gains realized in 2004 can be quantified at a gross amount of about €39 million (after the reductions of €20 million and €28 million already achieved in 2002 and 2003, respectively).

EBITDA were 90.7% higher than in 2003, rising to €120.9 million, or 14.2% of net revenues (net of the impact of the value of raw materials), up from 7.9% in 2003.

EBIT were positive by €44.4 million, compared with negative EBIT of €12 million in 2003.

Income before taxes and extraordinary items amounted to €0.8 million. While this amount is not large, it is an improvement over the loss of €42 million booked in 2003.

The **consolidated net loss** totaled €8.2 million, due mainly to the amortization of goodwill related to the investment in KME, which amounted to €9 million in 2004, the last year in which this charge was booked. Extraordinary items had virtually no effect.

With regard to financial data, the Group's **net indebtedness** totaled €584.0 million at December 31, 2004, or €7.7 million more than at the end of 2003, but €71.6 million lower than at June 30, 2004. The above amounts are after deducting advances on receivables discounted with recourse amounting to €107 million (€105 million at December 31, 2003).

The cash flow generated by the Group's operations and the sale of nonstrategic investments and other assets was absorbed in full by an increase in working capital requirements, which reflected a rise in the price of copper, one of the Group's raw materials.

The fines levied by the EC Commission on the Group's manufacturing companies, which total €107 million, will have an impact on cash flow only when the proceedings that are currently before the EU authorities come to an end and only for the amount that will ultimately be confirmed. Until that time, payment is being secured by bank guarantees and sureties (guarantees totaling €90.4 million have been provided for this purpose). However, the fines accrue interest while the process is ongoing.

The 2004 financial statements of **S.M.I. SpA, the Group's Parent Company**, show a loss of €0.1 million.

Financial Restructuring

In 2004, in view of the heavy losses incurred the previous year and of the significant destabilizing effect that a steady increase in copper prices had on the Company's financial structure, the Group entered into negotiations with its main lender banks for the purpose of restructuring the Group's indebtedness and rescheduling the existing debt to medium-term maturities. These negotiations resulted in the signing of a comprehensive agreement on February 1, 2005.

The agreement resulted in the consolidation, on the books of the KME subsidiary, of €454.5 million in seven-year loans and the consolidation of €150 million in credit lines provided to KME and the operating subsidiaries, which can be used as revolving lines for a period of five years. The agreement also provided for an unsecured line of credit of €62.5 million that was used to provide the surety required by the EC Commission in connection with the second fine it levied. This surety is in addition to an earlier surety of €27.9 million provided to secure payment of the first fine.

As part of the negotiations with the lender banks, the Group agreed to carry out an adequate recapitalization.

Accordingly, the Extraordinary Stockholders' Meeting of G.I.M. SpA, the Group's controlling company, approved a capital increase of €152.4 million, to be carried out concurrently with the issuance of 105.6 million warrants. If all of the warrants are exercised, the total capital increase will amount to €258 million.

Intek SpA, a publicly traded company that supports the objectives of the Group's Industrial Plan, agreed to participate in the recapitalization process, committing €64.7 million, which could increase to €126.4 million if it exercises the warrants available to it. As a result, Intek has become a major stockholder of G.I.M. and, as such, is expected to play a leading role in the Group's restructuring and development, working with the support and the ongoing commitment of other large stockholders.

The portion of the recapitalization process that involves Intek has been completed. The portion of the capital increase that will be carried out through a rights offering available to all stockholders got under way on March 14, 2005 and will end on April 4, 2005.

The proceeds generated by G.I.M.'s recapitalization will be transferred to the operating subsidiaries by means of a subordinated stockholder loan that G.I.M. will grant to its S.M.I. subsidiary and through an advance on future capital increases provided by S.M.I. to its

KME subsidiary. Additional information about these transactions is provided in the relevant document that has been communicated to the financial markets in accordance with Article 71 *bis* of the Issuer Regulations and which is available on S.I.M.'s website.

Outlook

The outlook for the current year calls for a consolidation of the level of profitability achieved in 2004, despite a deterioration in market conditions that occurred early in 2005. The objective of the Group's medium-term plan continues to be the achievement of EBITDA equal to about 16% to 18% of revenues (net of the impact of the value of raw materials).

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During the course of the meeting, the Directors discussed the transition to the new IFRS international accounting standards for preparing the consolidated financial statements. A work team established within the Group is handling this process, with the technical support of outside consultants, and expects to complete its assignment by June 30, 2005.

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As was announced in the published schedule of corporate meetings for 2005, the Stockholders' Meeting will be held in Florence on April 26, 2005, on the first calling, or April 27, 2005, on the second calling.

Florence, March 15, 2005

The Board of Directors

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This press release is available at the Company website, www.smi.it, where additional information may also be obtained.

Consolidated Statement of Income

(in millions of euros)	2004		2003		% change
Gross revenues	2,097.7		1,941.1		8.1%
Raw material costs	(1,245.2)		(1,139.9)		9.2%
Net revenues	852.5	<i>100.0 %</i>	801.2	<i>100.0 %</i>	6.4%
Personnel	(365.4)		(367.9)		-0.7%
Other materials and costs	(366.2)		(369.9)		-1.0%
EBITDA	120.9	<i>14.2%</i>	63.4	<i>7.9%</i>	90.7%
Depreciation and amortization	(73.4)		(72.4)		1.4%
Provisions and writedowns of receivables	(3.1)		(3.0)		3.3%
EBIT	44.4	<i>5.2%</i>	(12.0)	<i>-1.5%</i>	n.m.
Dividends and tax credits	0.1		2.6		-96.2%
Foreign exchange gains (losses)	2.5		6.8		-63.2%
Net financial expense	(35.7)		(23.9)		49.4%
Income before extraordinary items and taxes	11.3	<i>1.3%</i>	(26.5)	<i>-3.3%</i>	n.m.
Amortization and writedown of KME goodwill	(9.0)		(47.5)		n.m.
Changes in reserve for EU fines	12.4		(119.8)		n.m.
Gain on Pirelli warrants	3.6		0.0		n.m.
Restructuring charges	(16.1)		(25.5)		-36.9%
Asset writedowns	0.0		(4.6)		n.m.
Extraordinary consulting fees and legal costs	(7.7)		0.0		n.m.
Charges for extraordinary corporate transactions	(1.1)		0.0		n.m.
Other extraordinary income (expense), net	10.9		5.4		n.m.
Interest in the results of subsidiaries, net of utilizations of reserves	(2.0)		(2.4)		-16.7%
Income (Loss) before taxes	2.3	<i>0.3%</i>	(220.9)	<i>-27.6%</i>	n.m.
Current taxes	(5.9)		(9.0)		-34.4%
Deferred taxes	(4.6)		(6.2)		-25.8%
Net income (loss)	(8.2)	<i>-1.0%</i>	(236.1)	<i>-29.5%</i>	n.m.

The above data have not been certified by independent auditors or verified by the Board of Statutory Auditors

Consolidated Balance Sheet

(in millions of euros)	12/31/04	12/31/03	% change
Invested capital			
Fixed assets			
KME goodwill	100.8	109.8	
Intangibles	2.1	2.6	
Property, plant and equipment	481.4	492.8	
Long-term investments	24.6	60.9	
Total fixed assets	608.9	666.1	-8.6%
Working capital			
Inventory	344.0	325.9	
Trade and other receivables	334.2	290.8	
Trade and other payables	(214.3)	(203.8)	
Total working capital	463.9	412.9	12.4%
Reserve for employee benefits	(121.0)	(118.6)	2.0%
Other reserves	(181.0)	(189.3)	-4.4%
Total invested capital	770.8	771.1	0.0%
Covered by:			
Stockholders' equity			
Capital stock	189.8	350.9	
Equity reserves	5.2	80.0	
Net income (loss) for the period	(8.2)	(236.1)	
Total stockholders' equity	186.8	194.8	-4.1%
Financial indebtedness	584.0	576.3	1.3%
Total coverage	770.8	771.1	0.0%

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Statement of Income of the Group's Parent Company

(in thousands of euros)	2004	2003
Dividends from KME	0	0
Dividends from other equity investments	0	1,960
Other revenues from operations	3,232	1,983
Operating expenses	(6,986)	(8,026)
Depreciation, amortization and provisions	(147)	(219)
Financial income (expense), net	(1,691)	(1,271)
Income (Loss) before extraordinary items and taxes	(5,592)	(5,573)
Upward adjustments on the value of securities held as current assets	2	0
Writedown of KME shares	0	(220,178)
Writedowns of securities held as current assets	(285)	(234)
Net gains on fixed assets and equity investments	3,603	196
Net out-of-period income	511	1,665
Income (Loss) before taxes	(1,761)	(224,124)
Current taxes	0	0
Deferred taxes	0	(1,387)
Credit from consolidated tax return	1,660	0
Net income (loss)	(101)	(225,511)

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Balance Sheet of the Group's Parent Company

(in thousands of euros)	12/31/04	12/31/03	% change
Assets			
Property, plant and equipment	5,440	5,711	
Equity investments in subsidiaries	190,842	190,842	
Equity investments in other companies	129	39,845	
Total fixed assets	196,411	236,398	20.4%
Net intra-Group receivables	1,660	262	
Deferred-tax assets	0	0	
GIM savings shares	5,191	5,522	
SMI savings shares	28	25	
Other receivables	16,717	23,885	
Accrued income and prepaid expenses	19	37	
Total current assets	23,615	29,731	25.9%
Total assets	220,026	266,129	21.0%
Liabilities and stockholders' equity			
Capital stock	189,775	350,942	
Equity reserves	5,547	69,891	
Net income (loss) for the period	(101)	(225,511)	
Stockholders' equity	195,221	195,322	0.1%
Miscellaneous payables	6,077	4,694	
Reserves for risks	2,514	2,645	
Accrued expenses and deferred income	449	394	
Total nonfinancial liabilities	9,040	7,733	-14.5%
Net financial position	15,765	63,074	
Total liabilities and stockholders' equity	220,026	266,129	21.0%

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