S.M.I. – Società Metallurgica Italiana S.p.A

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Press Release

Before beginning the Board meeting today, the Company's Directors and Statutory Auditors paused to honor the memory of Luigi Orlando, who passed away on Saturday, May 7.
Luigi Orlando served as Chief Executive Officer, Chairman and, since 2004, Honorary Chairman of the controlling company G.I.M. S.p.A., which he led for over 40 years, serving as a model of entrepreneurial spirit and ethical behavior for everyone.

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- The Board of Directors reviewed and approved the Report on the Group's Operations in the First Quarter of 2005.

- The signs of weakness in the European economy that began to surface in the closing quarter of 2004 became more pronounced in the early months of 2005, with a negative impact on the demand for copper and alloy semifinished goods. In this environment, prices again came under pressure, given the structural overcapacity that characterizes this industry in Europe.
  The Group responded to these developments by defending its position in the market and accelerating the implementation of increasingly incisive measures to make its organization more competitive and lower its breakeven point even more.

- During the first quarter of 2005, **revenues** totaled €497.8 million. If they are restated to eliminate the impact of changes in the price of copper, revenues show a decrease of €24.4 million, or 11.2%, compared with the same period last year. Unit sales were down 12% and prices improved only slightly.

- **EBITDA** of €18.7 million were €7.9 million less than in the first three months of 2004. The **loss before extraordinary items and taxes** amounted to €8.9 million (income of €0.7 million at March 31, 2004).

- The **outlook for 2005** is predicated on the condition of the European market, which at present is not showing any signs that the current downward trend is about to turn around. Weak demand, in addition to causing revenues to decrease, would make it increasingly difficult to pass on to sales prices another sharp rise in the cost of such factors of production as energy and transportation.
  Another source of instability comes from the continuing high price of copper, the Group's main raw material, which rose even more in the first quarter of 2005, causing customers to delay purchase commitments.
  The ability to achieve the goal of reporting operating results that are in line with those for 2004 will depend on how demand patterns evolve in the coming months.
  Nevertheless, the Group will continue to pursue the medium-term objective stated in its Industrial Plan of raising EBITDA to 16% to 18% of revenues, net of the impact of changes in the price of copper. In 2004, this ratio stood at 14.2%.

- Turning to the balance sheet, the Group's net indebtedness totaled €492.3 million euros at April 30, 2005.
  The financial position reflects the impact of the Group's recapitalization, which was approved by the Stockholders' Meeting of the controlling company G.I.M. S.p.A. on January 31, 2005. The recapitalization was carried out by increasing the Company's capital stock by €152.4 million and concurrently issuing 105.6 million warrants. The capital increase was completed on April 15, 2005. The issue was fully subscribed, and the intervention of the guaranteeing underwriters was not required.

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The consolidated Quarterly Report at March 31, 2005 is attached.

Florence, May 11, 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 Quarterly Report at March 31, 2005

(First Quarter of 2005)

Report of the Board of Directors on Operations in the First Quarter of 2005

The programs implemented under the Group's Industrial Plan to increase the efficiency of the manufacturing and sales organizations produced a clear improvement in operating performance in 2004.

This achievement was made possible in part by more favorable business conditions in Europe, which, however, began to deteriorate in the final quarter of 2004. This shift was the result of inventory reduction efforts and weaker demand from customers in such industries as automobile manufacturing and mechanical engineering. These trends continued early in 2005, causing demand for copper and alloy semifinished products to falter. In addition, sales of construction products were hurt by unfavorable weather conditions.
Another source of instability is the continuing high price of copper, the Group's main raw material, which rose even more in the first quarter of 2005, causing customers to delay purchase commitments or switch to alternative materials in low-tech applications.

In this environment, prices again came under pressure, given the structural overcapacity that characterizes this industry in Europe.

As for the outlook for 2005, macroeconomic data and other available information are still sending mixed signals.
The economy is continuing to expand at a healthy pace in Asia and the United States, but appears to have weakened in Japan. In Europe, the prospects are for modest growth, barely above stagnation levels. Germany and Italy, which are the countries where most of the Group's business is concentrated, are expected to experience lower levels of activity than the rest of the region.

The Group has responded to this unfavorable demand pattern by defending its position in the market and accelerating the implementation of increasingly incisive measures to make its organization more competitive and to lower its breakeven point even more. The full positive impact of these measures will be felt in the coming months and, consequently, will not be sufficient to counter the effect of a decrease in revenues over the short term. As a result, the achievement of the economic targets that had been set for the current year may have to be delayed.

The Group is continuing to implement the strategic and operational realignment of the product portfolio as outlined in the Industrial Plan, focusing its resources on those products and market segments in which it is the market leader, with the goals of reducing the risk of cyclical swings, generating a satisfactory return and reducing invested capital.
Progress is being made in this direction thanks to a project designed to maximize the value of the brass-rod business by combining KME's operations in this area with those of Outokumpu, a

Finnish group, to create a new entity that will be the European market leader and an attractive candidate for divestiture.
Some institutional investors have already expressed an interest, and the process of assessing, in concrete terms, all of the available options and evaluating the terms of the different proposals is currently under way. If these proposals are in fact consistent with expectations, the resources generated by a sale of the brass-rod operations would be used to further strengthen the Group's balance sheet and expand operations in areas of strategic interest.

Copper Market and Prices

During the first three months of 2005, the average price of copper was higher than in the preceding quarter (October to December 2004) by 5.6%, both in U.S-dollar terms (from US$3,093 to US$3,267 per metric ton) and in euro terms (from €2,320 to €2,450 per metric ton). Compared with the same period last year (January to March 2004), the increase was 19.7% in U.S-dollar terms (from US$2,730 to US$3,267 per metric ton) and 12.4% in euro terms (from €2,180 to €2,450 per metric ton). The increase in the value of the euro accounts for this disparity.

Operating Performance of the Group

The table on the following page presents the consolidated results of the SMI Group in the first quarter of 2005.

2004 (full year)	SMI Group *(amounts in millions of euros)*	First quarter 2005		First quarter 2004		2005-2004 change
2,097.7	**Gross revenues**	497.8		597.0		***- 16.6%***
(1,245.2)	Raw material costs	(304.0)		(378.8)		
852.5	**Net revenues**	**193.8**	*100.0%*	**218.2**	*100.0%*	***- 11.2%***
(365.4)	Personnel	(91.7)		(99.3)		
(366.2)	Other materials and costs	(83.4)		(92.3)		
120.9	**EBITDA**	**18.7**	*9.6%*	**26.6**	*12.2%*	***- 29.7%***
(73.4)	Depreciation and amortization	(18.9)		(19.4)		
(3.1)	Provisions	(0.1)		(0.2)		
44.4	**EBIT**	**(0.3)**	*- 0.2%*	**7.0**	*3.2%*	
0.1	Income from investment securities	1.4		0.0		
2.5	Foreign exchange gains (losses)	0.0		1.0		
(35.7)	Net financial expense	(10.0)		(7.3)		
11.3	**Income (Loss) before extraordinary items and taxes**	**(8.9)**	*- 4.6%*	**0.7**	*0.3%*	
(9.0)	Amortization of KME goodwill	(2.3)		(2.3)		
(0.5)	Interest on EU fines	(0.5)		0.0		
0.5	Other extraordinary income (expense)	1.3		0.1		
2.3	**Income (Loss) before taxes**	**(10.4)**	*- 5.4%*	**(1.7)**	*-0.8%*	

In the first quarter of 2005, **revenues** decreased by 16.6% compared with the same period in 2004 (-3.0% net of transactions involving sales of raw materials with a buyback commitment). If the impact of changes in the price of raw materials is eliminated, revenues and unit sales show decreases of 11.2% and 12%, respectively. Prices improved only modestly.

Operating costs were down 8.6% overall in the first three months of 2005. The gross savings generated by efficiency measures can be quantified at €6.9 million.

EBITDA decreased by 29.7% to €18.7 million, an amount equal to 9.6% of revenues net of raw material costs, compared with 14.2% for the full 2004 fiscal year.

EBIT were negative by €0.3 million, compared with positive EBIT of €7.0 million in the first quarter of 2004.

Financial expense increased, reflecting a higher average exposure and more onerous bank terms.

The **loss before extraordinary items and taxes** amounted to €8.9 million (income of €0.7 million in 2004).

The **loss before taxes**, which widened to €10.4 million (loss of €1.7 million at March 31, 2004), is after deducting the amortization of goodwill attributed to the KME AG subsidiary. This charge will not be recognized in the future, when the IFRS principles are adopted.

The **outlook for 2005** is predicated on the condition of the European market, which at present is not showing any signs that the current downward trend is about to turn around. Weak demand, in addition to causing revenues to decrease, makes it increasingly difficult to pass on to sales prices another sharp rise in the cost of such factors of production as energy and transportation.
In this environment, the ability to achieve the goal of reporting operating results that are in line with those for 2004 will depend on how demand patterns evolve in the coming months.
In any event, the Group will continue to pursue the medium-term objective stated in its Industrial Plan of raising EBITDA to 16% to 18% of revenues, net of the impact of changes in the price of copper. In 2004, this ratio stood at 14.2%.

Financial Position of the Group

The table below provides a breakdown of the consolidated financial position.

(in thousands of euros)	**4/30/05 (*)**	**3/31/05**	**12/31/04**
Short-term bank debt	*122,481*	*80,818*	*456,980*
Medium- and long-term bank debt	*502,210*	*502,542*	*195,492*
Loans payable to unconsolidated Group cos.	*12,546*	*13,479*	*6,580*
Total indebtedness	*637,237*	*596,839*	*659,052*
Liquid assets	*(144,005)*	*(25,015)*	*(74,035)*
Loans receivable from unconsolid. Group cos.	*(970)*	*(1,065)*	*(1,065)*
Total liquid assets and loans receivable	*(144,975)*	*(26,080)*	*(75,100)*
Net financial position	***492,262***	***570,759***	***583,952***
Subordinated stockholder loan from GIM SpA	*130,000*	*76,600*	*0*

(*) Preliminary data.

The above amounts are net of factoring transactions that involved the assignment with recourse of receivables totaling €102.6 million at the end of April 2005, €103.6 million at the end of March 2005 and €107.0 million at the end of December 2004.

At March 31, 2005, **the Group's net indebtedness** totaled €570.7 million, or €13.1 million less than at December 31, 2004. At April 30, 2005 (preliminary data), net indebtedness amounted to €492.3 million, for a decrease of 91.6 million compared with the end of 2004.

A significant factor was the rise in raw material prices, which increased working capital and, consequently, funding requirements by about €28 million as of April 30, 2005.

The financial position reflects the impact of the Group's recapitalization, which was approved by the Stockholders' Meeting of the controlling company G.I.M. S.p.A. on January 31, 2005. The recapitalization was carried out by increasing the Company's capital stock by €152.4 million and concurrently issuing 105.6 million warrants. If all of the warrants are exercised, the capital increase could reach €258 million.

Intek S.p.A., 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 ongoing commitment of other large stockholders, who have underwritten their share of the capital increase, amounting to €34.3 million.

The portion of the recapitalization process reserved for Intek (€29.4 million) was completed successfully on February 4, 2005. The portion that will be carried out through a rights offering available to all stockholders, including Intek, (€123.0 million) got under way on March 14, 2005 and was completed on April 15, 2005. The issue was fully subscribed, and the intervention of the guaranteeing underwriters was not required.
On February 8, 2005, the stockholders who are members of the "G.I.M. Stockholder Agreement" provided advances on future subscriptions of the second half of the capital increase totaling €69.7 million.

Once the recapitalization has been completed, the resulting inflow of funds will cause stockholders' equity to increase to about €330 million, compared with the €180 million shown in the consolidated financial statements of G.I.M. S.p.A. at December 31, 2004.
The capital increase and the other initiatives included in the Industrial Plan will provide the Group with a stronger and more manageable balance sheet structure.

The financial position data discussed above do not reflect the potential impact of two fines levied by the EC Commission on the Group's manufacturing companies for antitrust violations. These fines, 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 assessed. Until that time, payment is being secured by bank guarantees (€17 million) and sureties (€90 million). However, the fines accrue interest while the process continues.

The abovementioned data also do not reflect the impact of any proceeds that could be generated by the exercise of outstanding warrants.

At the end of March, the structure of the Group's indebtedness reflected the rescheduling of the existing debt to medium-term maturities, which was made possible by the agreement signed on February 1, 2005 with the Group's lender banks. The agreement resulted in the consolidation, on the books of the KME AG subsidiary, of €454.5 million in seven-year loans and the consolidation of €150 million in credit lines, which can be used as revolving lines for a period of five years.

The companies of the Group carried out a series of financial transactions designed to channel the funds generated by the G.I.M. S.p.A. capital increase to the operating companies and to consolidate individual bank-debt positions with the indebtedness of KM Europa Metal AG, a wholly owned German subsidiary that heads the Group's manufacturing units. Within the framework of these transactions, which are described in a special Prospectus that should be consulted for additional information, G.I.M. S.p.A. allocated the €152.4 million it raised through a capital increase in the following manner:

- €14.5 million to transfer its bank debt to KME AG;
- €130.0 million to provide a subordinated stockholder loan to its S.M.I. S.p.A. subsidiary on the following terms:
  - repayment obligation that is junior and subordinated to the bank indebtedness of S.M.I.;
  - seven-year maturity (due in 2012);
  - interest payable semiannually at the Euribor plus a spread of 1.5% per annum (same terms as those applied to bank debt);
- €7.9 million to meet operating needs.

S.M.I. used the €130-million stockholder loan it received from G.I.M. as follows:

- €18.2 million to transfer its net bank debt to KME AG;
- €111.8 million to provide an advance on future capital contributions to KME AG.

KME AG:

- assumed the bank indebtedness of its controlling companies, G.I.M. and S.M.I., amounting to €32.7 million, and received the corresponding amounts from the two controlling companies;
- assumed the bank indebtedness of its subsidiaries (Europa Metalli: €95.0 million; Tréfimetaux: €20 million; KME UK: €21.6 million), which totaled €136.6 million, and, in exchange, recognized receivables of the same amounts from those subsidiaries;
- increased its stockholders' equity by €111.8 million, reflecting the advance on future capital contributions it received from S.M.I.

Financial Position of S.M.I. S.p.A., the Group's Parent Company

(in thousands of euros)	4/30/05 (*)	3/31/05	12/31/04
Short-term bank debt	*109*	*95*	*62,242*
Medium- and long-term bank debt	*783*	*783*	*783*
Loans payable to the controlling company	*9,759*	*10,762*	*3,620*
Total indebtedness	*10,651*	*11,640*	*66,645*
Liquid assets	*(82)*	*(1,440)*	*(8,443)*
Loans receiv. from subsidiaries and affiliates	*(12,155)*	*(12,155)*	*(42,437)*
Total liquid assets and loans receivable	*(12,237)*	*(13,595)*	*(50,880)*
Net financial position	***(1,586)***	***(1,955)***	***15,765***
Subordinated stockholder loan from GIM SpA	***130,000***	***76,600***	***0***

(*) Preliminary data.

The change in the financial position of the Group's Parent Company reflects the impact of the inflow of funds provided by G.I.M. S.p.A., as described above.

Transition to the New IFRS Accounting Principles

As was mentioned in the 2004 Annual Report, the transition to the new accounting principles is proving to be a challenging task, given the Group's multinational presence. As a result, and considering that the development of the requisite regulatory framework was completed only in December 2004, when the international accounting principles were published in the Official Gazette of the European Union, the process of making the necessary adjustments to the Group's accounting systems and procedures has been delayed.

Nevertheless, G.I.M. is working hard on the transition to the IAS/IFRS principles, since this process must be completed within the first half of 2005. Specifically, it has established a team that will work, with the technical support of Pricewaterhouse Coopers, to achieve the following objectives:

1) Identify the differences between the existing accounting principles and the international standards and quantify their impact on the Group's stockholder's equity and earnings;
2) Implement a new information system for the annual and interim consolidation of accounting data;
3) Update the Group's accounting manual and make it consistent with IFRS principles;
4) Train the employees who will be involved in producing and using the data.

Florence, May 11, 2005

The Board of Directors

Financial Statements

- The data for the first quarter of 2005 are presented in accordance with the laws currently in force, using the same accounting principles as those used in the preparation of the statutory financial statements.

- Changes in the scope of consolidation: the subsidiary KM Iberica S.L. and the affiliates Dalian Dashan Chrystallizer Co. Ltd. and Dalian Surface Machinery Ltd. were added during the first quarter of 2005. As of January 1, KM Iberica S.L. is consolidated line by line, and the affiliates Dalian Dashan Chrystallizer Co. Ltd. and Dalian Surface Machinery Ltd. are valued by the equity method. The inclusion of these companies did not have a material impact on the Group's balance sheet or statement of income.

SMI GROUP
Consolidated Statement of Income

(amounts in thousands of euros)			1st quarter 2005	1st quarter 2004	*% change*
A)	**Production value**				
	1)	Sales and service revenues	497,764	596,985	*-16.6%*
	2)	Change in inventory of work in progress and semifinished goods	2,907	19,349	*-85.0%*
	3)	Changes in contract work in process	(215)	(144)	*49.3%*
	4)	Increase in Company-produced additions to fixed assets	373	769	*-51.5%*
	5)	Other revenues and income	2,180	2,506	*-13.0%*
	Total production value		**503,009**	**619,465**	***-18.8%***
B)	**Cost of production**				
	6)	Raw materials, auxiliaries, supplies and merchandise	(354,496)	(427,374)	*-17.1%*
	7)	Outside services	(61,831)	(69,137)	*-10.6%*
	8)	Use of property not owned	(1,852)	(2,267)	*-18.3%*
	9)	Personnel	(91,716)	(99,319)	*-7.7%*
	10)	Depreciation, amortization and writedowns	(18,919)	(19,479)	*-2.9%*
	10a)	Amortization of KME AG goodwill	(2,251)	(2,251)	*0.0%*
	11)	Change in inventory of raw materials and auxiliaries	31,489	10,715	*n.m.*
	12)	Provisions for risks	(625)	(178)	*n.m.*
	14)	Miscellaneous operating costs	(6,000)	(5,487)	*9.3%*
	Total cost of production (B)		**(506,201)**	**(614,777)**	***-17.7%***
	Net production value (A + B)		**(3,192)**	**4,688**	***n.m.***
C)	**Financial income and expense**				
	16)	Financial income	1,669	445	*n.m.*
	17)	Interest and other financial expense	(10,239)	(7,666)	*33.6%*
	17-*bis*)	Currency translation gains (losses)	(12)	971	*n.m.*
	Total net financial expense (C)		**(8,582)**	**(6,250)**	***37.3%***
	Income before extraordinary items and taxes (A + B + C)		**(11,774)**	**(1,562)**	***n.m.***
D)	Value adjustments on financial assets		0	(4)	*n.m.*
E)	Extraordinary income and expense		1,298	(91)	*n.m.*
	Income before taxes		**(10,476)**	**(1,657)**	***n.m.***