Società Metallurgica Italiana S.p.A.

Press Release

SMI – Società Metallurgica Italiana S.p.A

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- **The slowdown that affected the European economy depressed demand for copper and copper alloy semifinished goods. Demand was already under pressure due to the persistently high and still rising price of copper, the Group's main raw material. As a result, customers continued to delay spending commitments.**

- **The transition to the IAS/IFRS accounting standards produced an improvement in the consolidated net result for 2004 (from a loss of €8.2 million to a profit of €22.7 million). At the same time, shareholders' equity increased by €124.7 million and net borrowings grew by €65.2 million (+11%) due to the recognition on the balance sheet of leases and some pro-soluto factoring operations on commercial credits, that under a formal point of view have not been considered fully IAS compliant; consequently the cancellation of the relevant credits from the balance sheet has not been possible.**
  Also the data for the first half of 2005 and those for the periods used for comparison purposes were computed in accordance with the IAS/IFRS international accounting standards.

- **During the first half of 2005, revenues totaled €1,052 million.**
  If they are restated to eliminate the impact of changes in the price of copper, revenues show a decrease of 12.7%. Unit sales were down 12.6%.

- **The Group's ability to contain costs enabled it to report EBITDA in excess of 11.5% of sales revenues (12.8% at June 30, 2004), even though the euro amount decreased by 20.2% in absolute terms, falling from €57.3 million to €45.7 million.**

- **SMI's interest in the consolidated net result was a loss of €3.5 million, compared with net profit of €12.2 million at June 30, 2004.**

- **Indebtedness declined by €115.6 million, contracting from €649.1 million to €533.5 million. The net financial position is covered in its entirety by medium-term borrowings.**
  The decrease in net bank borrowings reflects the successful recapitalization of the Group by its parent company, G.I.M. S.p.A. Upon completing the recapitalization process, G.I.M. S.p.A. provided S.M.I. S.p.A. with a subordinated shareholder

loan in the amount of €130 million.

- **The negative trend that characterizes the European market still shows no sign of reversing itself. If the current environment fails to improve, the goal of reporting year-end results that are in line with those of 2004 will be difficult to achieve.**
  The Group nevertheless remains committed to and is continuing to pursue the medium-term objective of its Industrial Plan, which calls for EBITDA to rise steadily to between 16% and 18% of revenues, net of the value of raw materials.

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The Board of Directors of S.M.I. - Società Metallurgica Italiana S.p.A. reviewed and approved the Report on the Operations of the Company and the Group in the First Half 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 first half of 2005.
This weakness depressed demand for copper and copper alloy semifinished goods. Demand was already under pressure due to the uncertainty caused by the persistently high and still rising price of copper, the Group's main raw material. As a result, customers continued to delay spending commitments.

Faced with a contraction in demand and an environment characterized by structural overcapacity in the industry in which it operates, the Group responded to an increase in competitive pressure by taking action to defend its position in the market.
It accelerated and made more incisive the implementation of the initiatives outlined in its Industrial Plan. These initiatives are designed to make the Group's cost structure more competitive and drastically lower the breakeven point, while at the same time making the organization and production facilities of its industrial operations more flexible and therefore able to respond more quickly to changes in the marketplace.

Operating Performance

The data for the first half of 2005 and those for the periods used for comparison purposes were computed in accordance with the IAS/IFRS international accounting standards.

In the first six months of 2005, **revenues** amounted to €1,052.4 million (€1,072.9 million in same period last year). Restated to eliminate the impact of changes in the price of copper, revenues show a decrease of 12.4% (€393.5 million, compared with €449.3 million last year). Unit sales were down 12.6% and prices held relatively steady.

Thanks to a successful effort to contain **costs, EBITDA** totaled more than 11.5% of sales revenues (12.8% in the first half of 2004 and 8.4% in the same period in 2003). However, revenues were down 20.2% in absolute terms, falling from €57.3 million to €45.7 million.
EBIT amounted to €23.0 million, compared with €48.8 million at June 30, 2004.

The **Group's consolidated net loss** totaled €3.5 million in the first six months of 2005.

Financial Performance

The Group's financial position at June 30, 2005, shows consolidated indebtedness of €533.5 million, or €115.6 million less than at December 31, 2004.
The decrease in net bank borrowings reflects the impact of the Group's recapitalization, which was approved by the Extraordinary Shareholders' Meeting of GIM S.p.A. on January 31, 2005 and completed on April 15, 2005. The stock issue was fully subscribed, and the intervention of the guaranteeing underwriters was not required. S.M.I. S.p.A. received from its parent company, G.I.M. S.p.A., a subordinated shareholder loan in the amount of €130 million.

The reduction in indebtedness would have been even larger had it not been for the further rise in the price of raw materials, which increased working capital and, consequently, funding requirements by €49 million.

The structure of the Group's indebtedness reflects the rescheduling of the existing debt to medium-term maturities, which was made possible by the agreements signed on February 1, 2005 with the Group's lender banks. The Group's net financial position is covered in its entirety by medium-term borrowings.

Outlook for the Balance of 2005

The outlook for the balance of 2005 is predicated on the performance of the European market, which, at this point, continues to show no sign that the current negative trend is ready to bottom out.
If the existing environment fails to improve, the objective of reporting year-end results that are in line with those of 2004 will be difficult to achieve. The full benefit of the measures adopted to turn this situation around will be felt in the coming months, but will not be able to offset the impact of lower revenues over the short term.
In any event, the Group is committed to and is continuing to pursue the medium-term objective of its Industrial Plan, which calls for EBITDA to rise steadily to between 16% and 18% of revenues, net of the value of raw materials.

Impact of the Transition to the IAS/IFRS International Accounting Standards

The main changes caused by the transition to the IAS/IFRS accounting standards are reviewed below:

- **EBITDA** increased by €29.6 million (from €120.9 million to €150.5 million) as the net result of a revaluation of metal inventories (+€34.5 million), an increase in the provisions for pensions (-€8.1 million) and other sundry items and reclassifications (+€3.2 million).

- The **consolidated net result** went from a net loss of €8.2 million to a net profit of €22.7 million. This improvement reflects the increase in EBITDA discussed above (+€29.6 million), a change in the accounting principle applied when computing the amortization of goodwill and the depreciation of property, plant and equipment (+€11.0 million), the recognition of the deferred-tax liability accrued on the IAS/IFRS adjustments (-€15.8 million), and other sundry items and reclassifications (+€6.1 million).

- The Group's interest in **shareholders' equity** grew by €124.7 million, rising from €186.7 million to €311.4 million, due to the following items:
  - Net impact of the adoption of the IAS/IFRS accounting standards (+€93.7 million), broken down as follows:
    - Adoption of the fair-value principle in lieu of cost when determining the carrying value of certain items of property, plant and equipment (+€117.3 million);
    - Writedowns of certain intangible assets and other assets (-€6.8 million);
    - Increase in the provisions for pensions in accordance with the requirements of the IAS/IFRS principles (-€22.3 million);
    - Restatement of the value of metal inventories (+€5.5 million).
  - Improvement of the consolidated net result (+€30.9 million).

  - **Net borrowings** went from €584 million to €649.1 million. The increase of €65.2 million is due almost entirely to the recognition on the balance sheet of leases and some pro-soluto factoring operations on commercial credits, that under a formal point of view have not been considered fully IAS compliant; consequently the cancellation of the relevant credits from the balance sheet has not been possible.

Another significant change has to do with the valuation of the portion of the raw materials inventory that is not encumbered by sales commitments. In the past, this inventory was valued by the LIFO method. The new valuation at average weighted cost produced a revaluation of the existing inventory because it was performed during a period of rising prices.
This new valuation criterion, which is required as part of the transition to IAS standards, is does not present the operating performance of the Group's manufacturing operations fairly. Consequently, the impact of this change was eliminated when discussing the EBITDA for the first half of 2005.

The use of the fair-value method instead of the cost method to value certain classes of property, plant and equipment, which is allowed by IFRS 1, was chosen to take advantage of the opportunity provided by the transition to the new accounting principles to achieve consistency in the carrying values of these assets at various industrial companies that the Group acquired at the beginning of the 1990s.

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

The Board of Directors

Florence, September 9, 2005

Consolidated Balance Sheet
(unaudited data)

(in millions of euros)	At 6/30/05	At 12/31/04
Invested capital		
Non-current assets		
KME goodwill	110.3	109.8
Intangible assets	2.3	2.6
Property, plant and equipment	657.7	668.9
Financial non-current assets	35.6	27.5
Total non-current assets	**806.0**	**808.9**
Working capital		
Inventory	371.6	387.2
Trade and other receivables	449.8	423.6
Trade and other payables	(348.5)	(345.5)
Total working capital	**472.9**	**465.2**
Provisions for employee benefits	**(166.9)**	**(168.8)**
Other provisions	**(140.4)**	**(144.8)**
Total invested capital	**971.5**	**960.5**
Covered by:		
Shareholders' equity		
Share capital	189.8	189.8
Reserves	121.8	98.9
Net profit (loss) for the period	(3.5)	22.7
Total shareholders' equity	**308.0**	**311.4**
Subordinated shareholder loan	**130.0**	**-**
Net borrowings	**533.5**	**649.1**
Total coverage	**971.5**	**960.5**

Consolidated Income Statement
(unaudited data)

(in millions of euros)

2004 full year			**First half 2005**		**First half 2004**		***% change***
1,980.3		Gross revenues	1,052.4		1,072.9		*-1.9%*
(1,127.8)		Raw material costs	(658.9)		(623.5)		
852.5	***100.0%***	**Revenues net of raw material costs**	**393.5**	***100.0%***	**449.3**	***100.0%***	***-12.4%***
(372.6)		Labor costs	(179.6)		(198.2)		
(370.3)		Other materials and costs	(168.2)		(193.8)		
109.6	***12.9%***	**EBITDA**	**45.7**	***11.6%***	**57.3**	***12.8%***	***-20.3%***
(1.6)		Nonrecurring income (expense)	3.1		0.1		
42.6		Impact of IFRS valuation of inventory and LME contracts	2.1		28.7		
(71.4)		Depreciation and amortization	(27.8)		(37.3)		
79.1	***9.3%***	**EBIT**	**23.0**	***5.9%***	**48.8**	***10.9%***	***-52.8%***
(30.1)		Net financial expense	(22.5)		(15.1)		
		Income from equity investments	0.1				
49.0	***5.7%***	**Profit before taxes**	**0.6**	***0.2%***	**33.7**	***7.5%***	***n.m.***
(5.9)		Current taxes	(5.5)		(3.5)		
(20.3)		Deferred taxes	1.4		(18.0)		
22.7	***2.7%***	**Net profit (loss)**	**(3.5)**	***-0.9%***	**12.2**	***2.7%***	***n.m.***

Balance Sheet of the Group's Parent Company *(unaudited data)*		
(in thousands of euros)	**at June 30, 2005**	**at December 31, 2004**
Property, plant and equipment	84	143
Investment property	8,960	8,960
Investments in associates	302,695	190,842
Other equity investments	129	129
Other financial assets	12	12
Deferred-tax assets	91	68
NON-CURRENT ASSETS	**311,971**	**200,154**
Trade receivables	1,689	1,675
Other receivables and current assets	17,915	16,709
Current financial assets	20,003	47,890
Cash and cash equivalents	220	8,443
CURRENT ASSETS	**39,827**	**74,717**
TOTAL ASSETS	**351,798**	**274,871**
Share capital	189,775	189,775
Additional paid-in capital		28
Treasury stock	(37)	(37)
Retained earnings (Loss carryforward)	5,165	5,519
Reserve for first adoption of the IAS-IFRS	2,785	2,785
Net profit (loss) for the period	3,602	(382)
Shareholders' equity	**201,290**	**197,688**
TOTAL SHAREHOLDERS' EQUITY	**201,290**	**197,688**
Subordinated GIM loan	130,000	-
Provisions for employee benefits	444	501
Deferred-tax liabilities	1,361	1,298
Borrowings and other financial liabilities	783	783
Provisions for risks and charges	2,514	2,514
NON-CURRENT LIABILITIES	**135,102**	**5,096**
Borrowings and other financial liabilities	13,980	66,133
Trade payables	1,081	866
Other current liabilities	345	5,088
CURRENT LIABILITIES	**15,406**	**72,087**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**351,798**	**274,871**

Income Statement of the Group's Parent Company *(unaudited data)*			
(in thousands of euros)	**First half 2005**	**First half 2004**	**2004 full year**
Sales and service revenues	818	1,679	3,814
Other revenues from operations	5,631		
Labor costs	(917)	(844)	(2,350)
Depreciation, amortization and writedowns	(59)	(102)	(147)
Other operating costs:			
- nonfinancial expense	(1,160)	(2,394)	(3,691)
- use of property not owned	(98)	(119)	(205)
- sundry operating charges	(305)	(298)	(796)
EBIT	**3,910**	**(2,078)**	**(3,375)**
Financial income (expense)	(268)	1,866	3,004
Profit before taxes	**3,642**	**(212)**	**(371)**
Current taxes		-	1,660
Deferred taxes	(40)	(1,599)	(1,671)
Total income taxes	**(40)**	**(1,599)**	**(11)**
Net profit (loss)	**3,602**	**(1,811)**	**(382)**