Press Release

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

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THE BOARD OF DIRECTORS REVIEWED AND APPROVED THE REPORT ON OPERATIONS, AS WELL AS THE STATUTORY AND CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005, BOTH OF WHICH WERE PREPARED IN ACCORDANCE WITH IAS/IFRS ACCOUNTING PRINCIPLES.

- **Weak economic conditions in Western Europe, the Group's main market, depressed demand for copper and alloy semifinished goods. Demand was also constrained by the persistently high and still rising price of copper, which caused customers to postpone spending decisions. In 2005, European production of semifinished goods was at a ten-year low.**

- **In 2005, the Group's consolidated revenues totaled €2,176.1 million.**
  If they are restated to eliminate the impact of changes in the price of copper, revenues show a decrease of 11.1% compared with 2004, falling to €758.2 million, an amount lower than the figure reported in 2003.

- **The efforts made to refocus and enhance the product portfolio and the programs implemented to reorganize and streamline the production facilities enabled the Group to report EBITDA of €92.8 million, which is equal to more than 12% of revenues, net of the impact of raw materials. In 2004 and 2003, when sales were higher, this margin was 12.9% (amounting to €109.6 million) and 7.9%, respectively. This improvement in relative profitability is an indicator that the breakeven level is also being lowered (by about €80 million).**

- **The Group's interest in consolidated net profit amounted to 4.3 million (€22.7 million in 2004) after provisions for extraordinary charges of about €30 million.**

- **At December 31, 2005, consolidated net borrowings totaled €559 million, or €90 million less than at the end of 2004.**

- **With regard to expectations for future operating performance, while the uncertainty caused by the high price of copper will continue to be a factor, if the upturn in demand that began to surface early in 2006 becomes more robust in the coming months, the Group's operating results should show a improvement in profitability in 2006, owing both to healthier sales and the full positive contribution of the programs implemented to increase efficiency and cut costs.**

- **S.M.I. S.p.A., the Group's Parent Company, ended 2005 with net profit of €1.4 million. At the next Shareholders' Meeting, the Board will introduce a motion to distribute a dividend to the savings shares in the amount of €0.023 per share.**

The Group's operating performance in 2005 was affected by weak economic conditions throughout Western Europe, its main market. The weak economy depressed demand for copper and alloy semifinished goods both for industrial applications and for housing construction products. Demand was also constrained by the persistently high and still rising price of copper, which continued to cause customers to postpone spending decisions.
In 2005, European production of semifinished goods contracted by more than 10% compared with 2004, falling to a ten-year low.

Faced with a weak demand environment, the Group was forced to contend with strong competitive pressure as it tried to protect its market positions.
The product portfolio management strategy focused on maximizing the value of products with higher value added and increasing their sales; implementing programs that are designed to develop diversified lines of products that can be offered at competitive prices; and launching specific projects to take advantage of opportunities in new markets, especially in Eastern Europe.
In addition to selling or closing some smaller operations, initiatives carried out to refocus the product portfolio included a detailed project to enhance the value of the brass rod operations in preparation for their possible sale. The brass rod operations have annual revenues of €500 million and employ about 1,000 people at three facilities, which are located in Italy, Germany and France.
The general conditions that exist in the market at this time will not allow the Group to realize its expectations. As a result, negotiations for the sale of these operations have been suspended for the time being.

Management remains committed nevertheless to continuing the process of enhancing the value of these operations by increasing their strategic focus and efficiency (which will be achieved in part by separating the copper rod business from the rest of the Group) while at the same time continuing to seek possible combinations and agreements that could strengthen the leadership position that these operations enjoy in the European market.

In addition to pursuing commercial initiatives, the Group continued to reorganize and streamline its manufacturing facilities, with the goal of achieving a more competitive cost structure and a more flexible organization. Efficiency programs carried out over the last two years helped to reduce costs by more than €90 million (12% of total costs) and to shrink the Group’s payroll by about 1,000 employees (-13%). Three production facilities were closed and capital investments were focused on further increasing the specialization of the remaining facilities.

Over the short-term, the initiatives described above could only partially offset the revenue loss caused by weak market demand. As a result, the Group’s consolidated results at December 31, 2005 show a decrease in profitability that is in contrast with the improvement achieved the previous year.
However, the cost-cutting and marketing programs implemented by the Group succeeded in keeping EBITDA above 12% of revenues, net of the impact of raw materials, compared with 12.9% in 2004 and 7.9% in 2003, when revenues were higher. This improvement in relative profitability is an indicator that the breakeven level is also being lowered.

In 2005 **consolidated revenues** amounted to €2,176.1 million, or 3.7% more than in the previous year.
Restated to eliminate the impact of changes in the price of copper, revenues show a decrease of 11.1%, falling from €852.5 million to €758.1 million. Unit sales were down 11%, but a less favorable pricing structure was offset by a sales mix with a greater percentage of items that have a higher value added.
The reduction in unit sales caused net revenues for the year to fall below the level of 2003, when they totaled €821 million on a comparable scope of consolidation basis.
Total **operating expenses** decreased by 10.2%.
Labor costs fell by 8.3%, thanks to the positive impact of efficiency measures, which produced a gross benefit quantifiable at about €60 million (after savings of €39 million in 2004). About half of the gross efficiency gain was absorbed by unit cost inflation.
At €92.8 million, **EBITDA** were down 15.3%. EBITDA were equivalent to 12.2% of revenues, net of the impact of raw materials. The ratio was 12.9% in 2004 and 7.9% in 2003, when sales were higher.
EBIT were €44.8 million (€79.1 million in 2004).

The data for 2005 benefited to a significant extent from the revaluation of the raw material inventory that resulted from the adoption of the new IAS accounting principles. These benefits were offset almost entirely by the extraordinary charges incurred in connection with the industrial restructuring plan.
In 2005, the depreciation expense was affected by the adoption of new residual lives for the Group's fixed assets.
At December 31, 2005, the **Group's interest in consolidated net profit**, after taxes and minority interest, amounted to €4.3 million (€22.7 million in 2004).

In the area of financial performance, consolidated **net borrowings** totaled €559.1 million at December 31, 2005, for a decrease of €90 million compared with the end of 2004.
The drop in indebtedness could have been significantly greater had it not been for the rise in the price of raw materials, which increased working capital requirements (and the need for additional funding) by about €120 million. Excluding this factor, the industrial operations generated a positive cash flow of €65 million.
The Group's financial position benefited from the recapitalization approved by the Extraordinary Shareholders' Meeting of G.I.M. S.p.A., the Groups' controlling company, on January 31, 2005, which was carried out by increasing the share capital by €152.4 million and issuing 105.6 million warrants, which, if fully exercised, could cause the share capital increase to amount to €258 million. The recapitalization process was completed on April 15, 2005. All of the shares offered were subscribed without the need for support from the guarantee consortium.
As part of the financial transactions executed to channel the funds generated by the capital increase of G.I.M. S.p.A. to its operating subsidiaries, S.M.I. S.p.A. received from its controlling company a **subordinated shareholder loan** of €130 million. S.M.I., in turn, used these funds to provide KME AG, a German subsidiary the heads the Group's industrial operations, with an advance on future capital contributions.

As for the **outlook for operations in 2006,** the European macroeconomic environment showed signs of an upturn early in the year, but the gains were not uniform. On the heels of this improvement and despite the continued uncertainty caused by high raw material prices, demand for copper and alloy semifinished goods also showed signs of a turnaround.
If these trends are consolidated in the coming months, the Group could show a steady improvement in profitability in 2006, owing both to a more satisfactory sales performance and gains in efficiency and cost reduction.

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S.M.I. S.p.A., the Group's Parent Company, ended 2005 with net profit of €1.4 million, marking S.M.I.'s return to profitability after three years of losses.

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The Shareholders' Meeting, which will be held in Florence on April 27, 2006 on the first calling or on May 19, 2006 on the second calling, will be asked to approve the 2005 Report on Operations and the Company's Financial Statements, as well as a motion for the appropriation of the net profit for the year, which calls for the distribution of a dividend to the savings shares in the amount of €0.023 per share. The dividend will be payable as of June 1, 2006, with Coupon No. 16 due for presentation on May 29, 2006.

Florence, March 15 2006

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.

4 Annexes

Consolidated Financial Statement of SMI SpA at December 31, 2005

Reclassified Income Statement

(in millions of euros)	2005		2004		% change
Gross revenues	2,176.10		2,097.80		*3.70%*
Raw material costs	(1,417.90)		(1,245.20)		
Revenues net of raw material costs	**758.1**	*100.00%*	**852.5**	*100.00%*	*(11.10)%*
Labor costs	(341.8)		(372.6)		
Other materials and costs	(323.5)		(370.3)		
EBITDA	**92.8**	*12.20%*	**109.6**	*12.90%*	*(15.30)%*
Nonrecurring income (expense)	(29.7)		(1.6)		
Impact of IFRS valuation of inventory and LME contracts	36.5		42.6		
Depreciation and amortization	(54.8)		(71.4)		
EBIT	**44.8**	*5.90%*	**79.1**	*9.30%*	*(43.40)%*
Net financial expense	(37.8)		(30.1)		
Income from equity investments	0.3				
Profit (Loss) before taxes	**7.4**	*1.00%*	**49**	*5.70%*	*(84.90)%*
Current taxes	(3.8)		(5.9)		
Deferred taxes	(0.8)		(20.3)		
Net profit (loss)	**4.3**	*0.60%*	**22.7**	*2.70%*	*(81.00)%*

The data provided above have not been certified by the independent auditors.

Consolidated Financial Statement of SMI SpA at December 31, 2005

Balance Sheet *(in thousands of euros)*	12/31/05	12/31/04
Property, plant and equipment	624,305	659,944
Investment property	9,272	8,960
Goodwill and consolidation difference	109,840	109,840
Other intangible assets	1,631	2,616
Investments in associates	5,564	7,990
Investments in other companies	245	245
Investments valued by the equity method	2,573	-
Other non-current assets	28,960	19,307
Deferred-tax assets	40,651	29,587
NON-CURRENT ASSETS	**823,041**	**838,489**
Inventories	444,361	387,164
Trade receivables	358,270	331,569
Other receivables and current assets	50,141	56,382
Current financial assets	14,404	10,373
Cash and cash equivalents	151,992	74,035
CURRENT ASSETS	**1,019,168**	**859,523**
TOTAL ASSETS	**1,842,209**	**1,698,012**
Share capital	189,775	189,775
Other reserves	-	-
Treasury stock	(37)	(37)
Retained earnings (Loss carryforward)	5,165	5,548
Consolidation reserves	22,292	(314)
Reserve for first adoption of the IAS-IFRS	93,658	93,658
Net profit (loss) for the period	4,343	22,748
Group interest in shareholders' equity	**315,196**	**311,378**
Minority interest in shareholders' equity	-	-
TOTAL SHAREHOLDERS' EQUITY	**315,196**	**311,378**
Provisions for employee benefits	166,663	168,823
Deferred-tax liabilities	128,977	118,889
Borrowings and other financial liabilities	589,379	200,215
Other non-current liabilities	7,257	-
Provisions for risks and charges	128,668	119,306
NON-CURRENT LIABILITIES	**1,020,944**	**607,233**
Borrowings and other financial liabilities	260,924	527,291
Trade payables	122,575	105,339
Other current liabilities	94,767	121,269
Provisions for risks and charges	27,803	25,502
CURRENT LIABILITIES	**506,069**	**779,401**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**1,842,209**	**1,698,012**

The data provided above have not been certified by the independent auditors.

Income Statement of the Group's Parent Company

(in thousands of euros)	2005	2004
Sales and service revenues	1,289	2,854
Other revenues	396	378
Labor costs	(1,591)	(2,351)
Depreciation, amortization and writedowns	(143)	(147)
Other operating costs:		
- nonfinancial expense	(2,379)	(3,691)
- use of property not owned	(248)	(205)
- sundry operating charges	(260)	(795)
Extraordinary income (expense)	6,701	581
EBIT	**3,765**	**(3,376)**
Financial income (expense)	(3,325)	3,005
Profit (Loss) before taxes	**440**	**(371)**
Current taxes	(307)	1,660
Deferred taxes	1,262	(1,671)
Net profit (loss)	**1,395**	**(382)**

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Balance Sheet of the Group's Parent Company

(in thousands of euros)	2005	2004
Assets		
Property, plant and equipment	-	143
Investment property	1,250	8,960
Investments in associates	310,405	190,842
Other equity investments	129	129
Other financial assets	14	13
Deferred-tax assets	33	67
Non-current assets	**311,831**	**200,154**
Trade receivables	140	1,674
Other receivables and current assets	9,916	16,709
Current financial assets	21,475	47,896
Cash and cash equivalents	9,378	8,434
Current assets	**40,909**	**74,713**
Total assets	**352,740**	**274,867**
Liabilities and shareholders' equity		
Share capital	189,775	189,775
Treasury stock	-37	-37
Retained earnings (Loss carryforward)	5,167	5547
Reserve for first adoption of the IAS-IFRS	2,784	2,784
Net profit (loss) for the period	1,395	-382
Shareholders' equity	**199,084**	**197,687**
Subordinated GIM loan	130,000	-
Provisions for employee benefits	374	501
Deferred-tax liabilities	-	1,296
Borrowings and other financial liabilities	685	783
Provisions for risks and charges	4,861	2,514
Non-current liabilities	**135,920**	**5,094**
Borrowings and other financial liabilities	15,918,00	66,132
Trade payables	1,117	866
Other current liabilities	701	5088
Current liabilities	**17,736**	**72,086**
Total liabilities and shareholders' equity	**352,740**	**274,867**

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