PRESS RELEASE

S.M.I. – SOCIETA' METALLURGICA ITALIANA S.p.A.

- **Revenues to €742 million: +49.1% compared with the first quarter of 2005 (+7.5% net of the value of raw materials).**
- **EBITDA of €28.1 million: +49.5% compared with the first quarter of 2005.**
- **Consolidated profit before taxes of €39.7 million (loss of €8.1 million in the first quarter of 2005). This improvement of €47.8 million reflects a €36-million revaluation of the raw materials inventory.**
- **Consolidated net borrowings total €663.7 million at March 31, 2006.**

The Board of Directors reviewed and approved the **Report on the Group's Operations in the First Quarter of 2006.**

During the first three months of 2005, **revenues** totaled €742 million. The gain of 49.1% over the amount reported in the same period last year reflects an increase in the value of raw materials. Net of this component, revenues show an improvement of 7.5%, rising from €193.8 million to €208.3 million.

EBITDA, which increased by 49.5% to €28.1 million, were equal to 13.5% of revenues, net of the value of raw materials (9.7% at March 31, 2005).

Consolidated profit before taxes rose to €39.7 million, as against a loss of €8.1 million in 2005. This improvement of €47.8 million reflects the impact of a €36-million revaluation of the raw materials inventory, which became necessary to account for the sharp rise in their prices in the first quarter, and the adoption of the valuation methods required by the IFRS/IAS accounting principles.

At the end of March 2006, the **Group's net indebtedness** totaled €663.7 million (+€105 million over the balance owed at December 31, 2005) The rise in the price of raw materials caused an increase in the working capital of the manufacturing companies, with a corresponding expansion in funding requirements.

The operating results showed a measurable improvement in the first quarter of 2006. This positive development reflects a healthy increase in sales, made possible by better economic conditions in Europe, as well as the success of marketing programs implemented by the Group and the full beneficial impact of the measures carried out to reorganize and streamline the manufacturing organization in accordance with the guidelines of the Industrial Plan.

The Group's operating **outlook** remains positive, even though tensions in the raw materials markets make it difficult to provide a reliable forecast. The continuing high, and still rising, price of copper is causing customer to delay further their purchase commitments and creates uncertainty in the marketplace.

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The Consolidated Quarterly Report at March 31, 2006 is attached.

Florence, May 11, 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.

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Consolidated Quarterly Report at March 31, 2006

(First Quarter of 2006)

Registered office: 2 via dei Barucci, Florence
www.smi.it
Share capital: €189,775,023.00 fully paid in
Company Register of the Court of Florence and Tax I.D. Number: 00931330583

Report of the Board of Directors on Operations in the First Quarter of 2006

After undergoing virtual stagnation in 2005, the European economy showed signs of a turnaround at the beginning of 2006, though the magnitude and staying power of the recovery are unclear.
As for the outlook, the macroeconomic data and other available information seem to indicate that Europe, which is the region in which the Group has the greatest presence, will experience only a modest, export-driven economic expansion, but sufficient to at least narrow the gap with the rate of growth experienced by the global economy, which has hovered around 5% annually over the last two years.

These new economic conditions gradually had a beneficial impact on the demand for copper and copper-alloy semifinished products, but the signs of improvement were not evenly reflected in all regions and product lines.
Demand from **manufacturers** strengthened steadily, particularly in the areas of electrical products, electronics, air conditioning, valves and fittings, home appliances and automobiles.
Demand from the **construction industry** was still relatively sluggish at the beginning of the year, particularly in Germany and Italy, due in part to inclement weather conditions. While the overall picture was not encouraging, conditions were favorable in the area of pipes for plumbing applications, and unit sales increased, even though aggressive competition pushed prices lower.

The outlook remains positive, but tensions in the raw materials area, which have become more pronounced in recent weeks, make forecasting market trends difficult. The continuing high, and still rising, price of copper is causing customers to further delay their purchase commitments and increases uncertainty.

An increase in sales, made possible by an improving economy and by marketing programs designed to focus on and develop products with higher value added and enter new markets, coupled with the full positive contribution of the industrial reorganization and streamlining programs implemented in accordance with the guidelines of the Industrial Plan, enabled the Group to report operating results that show a significant improvement in profitability.

During the first quarter of 2006, **revenues** increased by 7.5%, net of the effect of changes in the value of raw materials. **EBITDA,** which totaled €28.1 million or 49.5% more than in the first three months of 2005, were equal to 13.5% of revenues (9.7% in the first quarter of 2005).

In the financial area, the Group's **net indebtedness** totaled €663.7 million at March 31, 2006.
The increase of €105 million over the balance owed at December 31, 2005 is due entirely to the rise in the prices of raw materials, which continues to cause increases in the working capital of the manufacturing companies, with a corresponding expansion in funding requirements.

With regard to **expectations for the rest of 2006**, the Group's operating outlook remains positive, even though the tensions in the raw materials area mentioned above create uncertainty in the marketplace and make it difficult to provide a reliable forecast. Specifically, the continuing high, and still rising, price of copper is causing customer to delay further their purchase commitments.

Copper Market and Prices

During the first three months of 2006, the average price of copper was higher than in the same period last year, rising by 51.2% in U.S-dollar terms (from US$3,267 to US$4,940 per metric ton). Due to the appreciation of the greenback versus the European currency, the increase was 64.7% in euro terms (from €2,493 to €4,107 per metric ton).

Looking at price trends, in the first quarter of 2006 the average price of copper was higher than it was in the fourth quarter of 2005 by 14.9% in U.S-dollar terms (from US$4,301 to US$4,940 per metric ton) and 13.4% in euro terms (from €3,620 to €4,107 per metric ton).

In April 2006, the price of copper continued to increase, reaching a monthly average of US$6,387 (equal to €5,200) per metric ton. During the first 10 days of May, it rose further, almost reaching an all-time high of US$8,000 per metric ton.

Operating Performance of the Group

The table below presents, in summary form, the consolidated results of the S.M.I. Group in the first three months of 2006.

The figures shown in the table below for 2005 can be compared to the current data because the new International Financial Reporting Standards (IAS/IFRSs) were applied both to the data for all of 2005 and to those for the first quarters of 2005 and 2006.

Reclassifications were made only to certain components of the data used to compute **EBITDA**. The purpose of these reclassifications was to present a more meaningful picture of the Group's operating performance.

Specifically:

- The revenue figure, net of the value of raw materials, was adjusted to eliminate the impact of the change in the accounting principle used to value inventory of raw materials, and also to eliminate the effect of valuing London Metal Exchange hedging contracts at fair value. It is also important to keep in mind that the adoption of the new international accounting principles required a switch in the method used to value the metal inventory, which was changed from the LIFO method to the weighted average coast method. This change, which was made during a period of rising prices, produced a revaluation of the inventory of raw materials.
- Extraordinary items were reclassified below the EBITDA line in the income statement.

The amount shown for **EBIT** is the same as the figure used in the annexed consolidated income statement, which is consistent with the IAS/IFRSs.

S.M.I. – Consolidated Income Statement

2005 full year		*(in millions of euros)*	*1st quarter 2006*		*1st quarter 2005*		**% change**
2,176.1		Gross revenues	742.1		497.8		49.08%
(1,417.9)		Raw material costs	(533.8)		(304.0)		75.59%
758.2	*100%*	**Revenues net of raw material costs**	**208.3**	*100%*	**193.8**	*100%*	**7.48**%
(341.8)		Labor costs	(88.3)		(91.5)		-3.50%
(323.5)		Other materials and costs	(91.9)		(83.5)		10.06%
92.8	*12.2%*	**EBITDA**	**28.1**	*13.49%*	**18.8**	*9.70%*	**49.47%**
(29.7)		Nonrecurring income (expense)	(0.4)		0.8		n.m.
36.5		Impact of IFRS valuation of inventory and LME contracts	36.3		(4.6)		n.m.
(54.8)		Depreciation and amortization	(14.0)		(14.7)		-4.76%
44.8	*5.9%*	**EBIT**	**50.0**	*24.00%*	**0.3**	*0.15%*	**n.m.**
(37.8)		Net financial expense	(10.3)		(8.4)		22.62%
0.3		Income from equity investments	0.0		0.0		n.m.
7.4	*1.0%*	**Profit before taxes**	**39.7**	*19.06%*	**(8.1)**	*-4.18%*	**n.m.**

In the first three months of 2006, **revenues** totaled €742.1 million, or 49.1% more than in the same period last year, when they totaled €497.8 million.
Restated to eliminate the impact of changes in the price of copper, revenues show an increase of 7.5% (€208.3 million, compared with €193.8 million last year). Unit sales were up 9.7%.

Operating costs increased 3% overall, but the labor cost component decreased by 3.5%.

EBITDA grew by 49.5% to €28.1 million, an amount equal to 13.5% of revenues, net of raw material costs, compared with 9.7% at March 31, 2005.

EBIT amounted to €50.0 million, compared with €0.2 million at March 31, 2005.
The figure for the first three months of 2006 reflects the significant beneficial impact of a revaluation of the raw materials inventory, which became necessary to account for the sharp rise in their prices, and the adoption of a new IFRS/IAS accounting principle. The combined impact of these factors was €36.3 million.

At March 31, 2006, the **Group's consolidated profit** before taxes totaled €39.7 million, as against a loss of €8.1 million in the first quarter of 2005.

Financial Position of the Group and of the Parent Company

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

(in thousands of euros)	at 3/31/06	at 12/31/05	at 12/31/04
Short-term bank debt	*263,622*	*234,146*	*516,482*
Medium- and long-term bank debt	*459,206*	*459,379*	*202,319*
Loans payable to unconsolidated Group companies	*17,549*	*18,472*	*6,289*
Total indebtedness	*740,377*	*711,997*	*725,090*
Liquid assets	*(75,754)*	*(151,992)*	*(74,443)*
Loans receivable from unconsolidated Group companies	*(920)*	*(920)*	*(1,539)*
Total liquid assets and loans receivable	*(76,674)*	*(152,912)*	*(75,982)*
Net financial position	*663,703*	*559,085*	*649,108*

The above amounts are net of factoring transactions that involved the assignment, without recourse, of receivables totaling €81 million at March 31, 2006, €60.3 million at the end of December 2005 and €46.6 million at the end of December 2004.

The financial position data shown above do not reflect the potential outlays that may be required for fines imposed by the European Commission on the Group's manufacturing companies for two alleged antitrust violations. These fines, which total €107 million will have an impact on cash flow only at the end of the judicial process before the various EU entities with jurisdiction over such issues and only for the amount adjudicated. Until such time, payment is being guaranteed by security deposits (€17 million) and bank sureties (€90 million). However, this payment deferral will cause the Group to incur finance charges.

The table below provides a breakdown of the **financial position of S.M.I. S.p.A., the Group's Parent Company**

(in thousands of euros)	at 3/31/06	at 12/31/05	at 12/31/04
Short-term bank debt	*101*	*123*	*62,242*
Medium- and long-term bank debt	*684*	*684*	*783*
Short-term loans payable to the controlling company	*15,094*	*15,440*	*3,620*
Total indebtedness	*15,879*	*16,247*	*66,645*
Liquid assets	*(5,525)*	*(9,378)*	*(8,443)*
Loans receivable from subsidiaries and affiliate	*(21,309)*	*(16,854)*	*(42,437)*
Total liquid assets and loans receivable	*(26,834)*	*(26,232)*	*(50,880)*
Net financial position	*(10,955)*	*(9,985)*	*15,765*
Subordinated stockholder loan from G.I.M. S.p.A.	*130,000*	*130,000*	*0*

Following a recapitalization of the controlling company, G.I.M. S.p.A., which was carried out by increasing the share capital by €152.4 million, the companies of the Group executed a series of financial transactions designed to channel the funds generated by the G.I.M. capital increase to the operating subsidiaries. Within the framework of these transactions, S.M.I. received from G.I.M. a subordinated shareholder loan in the amount of €130 million. S.M.I. then used the shareholder loan to provide an advance on future capital contributions of €111.8 million to KME AG, a German subsidiary that heads the Group's industrial operations.

Florence, May 11, 2006

The Board of Directors

Financial Statements

The Quarterly Report at March 31, 2006, which has not been audited, was prepared in accordance with the guidelines provided by the National Commission on Companies and the Securities Markets (CONSOB) in Issuers' Regulations and in Annex 3D.

Consolidated income statement data are provided for the first three months of 2006 and 2005. The presentation of the financial statements is consistent with the presentation used in the Semiannual and Annual Reports.

The Quarterly Report at March 31, 2006 was prepared in accordance with the valuation and measurement criteria set forth in the International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB) and adopted by the European Commission in accordance with the procedure set forth in Article 6 of Regulation (CE) No. 1606/2002 of the European Parliament and Council of July 19, 2002.

In order to allow comparisons among homogeneous information, the financial data for the first three months of 2005 have been restated in accordance with the IAS/IFRSs.
The adoption of the international accounting principles in restating the income statement data for the first quarter of 2005 caused EBIT to increase by about 2.1 million euros.
This improvement is chiefly the result of the following changes:

- Change in the method used to value the metal inventory and adoption of the average cost weighted on a quarterly basis, which added 2.7 million euros;
- Use of new useful lives and new asset values, in accordance with the findings of a study carried out by American Appraisal. The new useful lives were applied as of January 1, 2004 to property, plant and equipment that were measured using their fair value as their deemed cost. For other assets, the new useful lives were applied as of January 1, 2005. The overall positive effect was 3.9 million euros.
- Derecognition of the amortization of the consolidation difference allocated to the KME AG subsidiary (positive change of 2.3 million euros).
- Adoption of the fair value criterion to measure potential losses on London Metal Exchange (LME) contracts that were outstanding on the reference date of this Quarterly Report (negative change of 7.2 million euros).
- Other changes that had a combined positive impact of 0.4 million euros.

More detailed information about the impact of the transition to the IAS/IFRSs is provided in the notes to the Semiannual Report at June 30, 2005 and the Annual Report at December 31, 2005.

There have been no changes in the scope of consolidation, except for the inclusion of Immobiliare Agricola Limestre Srl. As explained in detail in the Consolidated Annual Report at December 31, 2005, the real estate assets of the Group's Parent Company were transferred to Immobiliare Agricola Limestre Srl. As a result, its inclusion in the scope of consolidation did not raise any comparability issues.

Consolidated Income Statement Classification of costs by type *(amounts in thousands of euros)*	**1st quarter of 2006**	**1st quarter of 2005**
Sales revenues	742,149	497,764
Change in inventory of finished products and semifinished goods	5,598	2,692
Capitalization of Company-produced assets	602	373
Other operating revenues	2,810	4,711
Purchases of and change in inventory of raw materials	(522,909)	(323,211)
Labor costs	(88,273)	(91,513)
Depreciation, amortization, impairment losses and writedowns	(14,051)	(14,718)
Other operating expenses	(75,974)	(75,849)
EBIT	**49,952**	**249**
Financial income (expense)	(10,282)	(8,360)
Interest in the results of associates valued by the equity method		-
Profit before taxes	**39,670**	**(8,111)**