Quarterly report

Third quarter 2006

Reno De Medici S.p.A.
Sede Legale in Milano – Via dei Bossi, 4
Direzione Generale e Amministrativa:
Pontenuovo di Magenta (MI) – Via G. De Medici, 17
Capitale sociale interamente versato € 132,160,074.13
Codice fiscale e Partita IVA 00883670150

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[1] This document is an English translation from Italian. The Italian original shall prevail in case of difference in interpretation and/or factual errors.

CORPORATE BODIES

Board of Directors

Giovanni Dell'Aria Burani	Honorary Chairman
Giuseppe Garofano (*)	Chairman
Carlo Peretti (*)	Deputy Chairman
Ignazio Capuano (*)	Managing Director
Marco Baglioni	Director
Mario Del Cane	Director
Giancarlo De Min (*)	Director
Michael Groller	Director
Vincenzo Nicastro	Director
Ambrogio Rossini	Director

(*) member of the executive committee

Board of Statutory Auditors

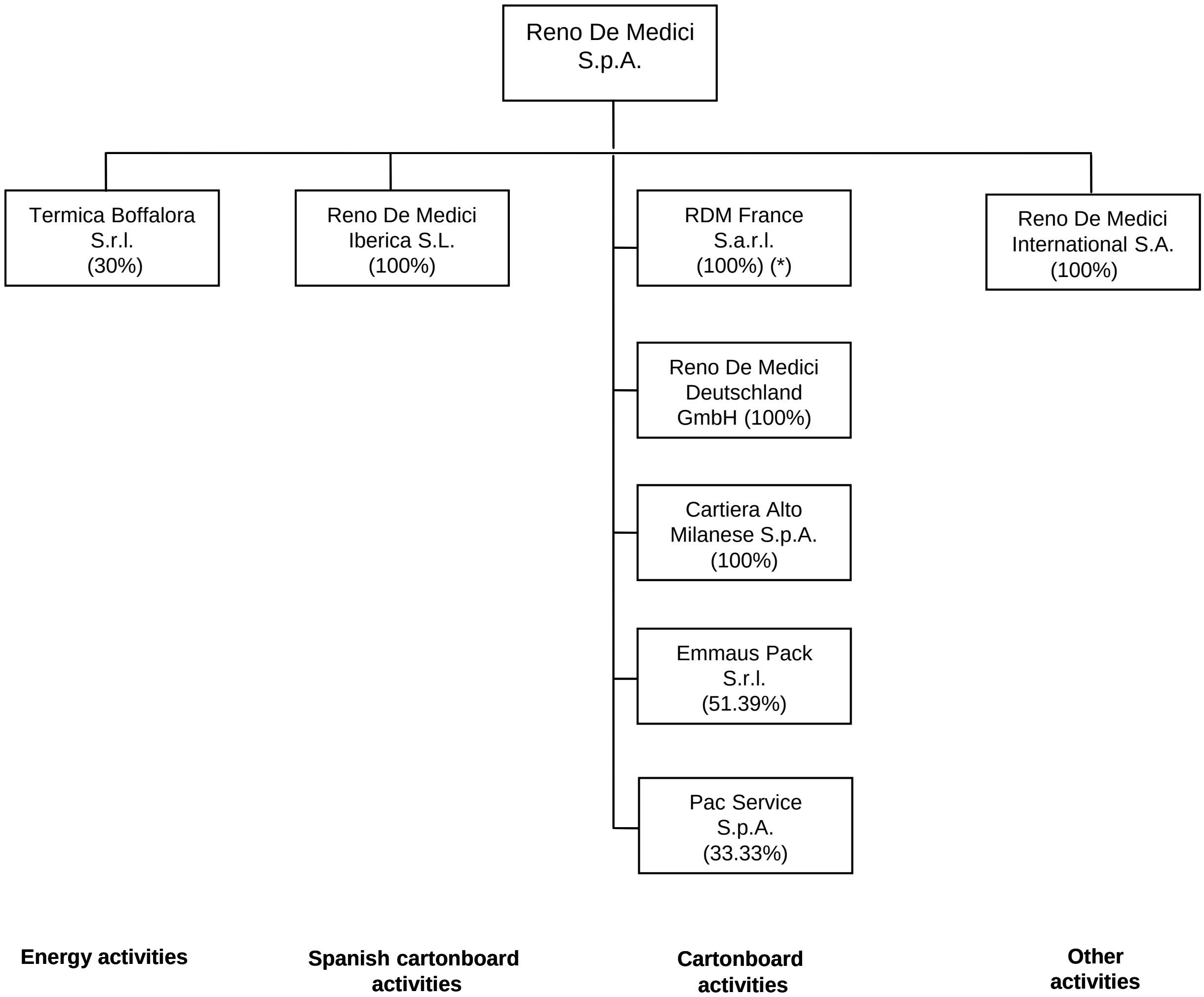
Sergio Pivato	Chairman
Marcello Priori	Standing auditor
Carlo Tavormina	Standing auditor
Giovanni Maria Conti	Substitute auditor
Myrta de' Mozzi	Substitute auditor

Independent Auditors

PricewaterhouseCoopers S.p.A.

OPERATING COMPANIES OF RENO DE MEDICI GROUP AT 30 SEPTEMBER 2006

The following table excludes non-operating Group companies and companies in liquidation.



(*) Reno De Medici S.p.A. 99.58% - Cartiera Alto Milanese S.p.A. 0.42%

COMMENTS OF THE DIRECTORS ON OPERATIONS

Operational performance for the first nine months of 2006 was distinguished by the considerable increase of over 11 million euros in energy costs during the period, a figure that excludes the reduction in consumption achieved as the result of improvements in efficiency.

This increase was partially set-off by an increase in sales prices, by the higher level of efficiency achieved at the individual facilities and by the steps taken to contain manufacturing variable costs.

EBITDA is substantially stable when compared to the level of the prior year, despite the rise in energy costs.

Consolidated results

The RDM Group achieved net revenues of 232.3 million euros in the period from January to September 2006, compared to 218.9 million euros in the corresponding period of last year (up 6.1%)[2]. In particular, net revenues in the third quarter of the year amounted to 69.0 million euros compared to 67.7 million euros in the third quarter of 2005 (up 1.9%).

Sales volumes for the first three quarters of 2006 amounted to approximately 471,000 tonnes compared to the figure of approximately 451,000 tonnes for the same period of last year[3], with unit selling prices being slightly higher than those of the corresponding period of 2005 when there was a gradual fall in prices right up to the end of the year.

Considering the trends in prices in 2005, average unit sales prices have been notably higher than those for the corresponding period of last year.

The increase in net revenues in the quarter reflects the improvement in prices, although this was partly set-off by a decrease in despatched volumes which arrived at approximately 140,000 tonnes in the third quarter of 2006 compared to approximately 143,000 tonnes in the third quarter of 2005.

Gross operating profit (or EBITDA) at a consolidated level closed at 21.8 million euros for the nine months in 2006, compared to 23.3 million euros for the same period of 2005 (down 6.9%).

[2] See the consolidated financial statements of the RDM Group.
[3] These figures do not include the volumes despatched by those production units whose results are presented as ‘Discontinued operations’.

EBITDA amounted to 5 million euros in the third quarter of 2006 compared to 7.2 million euros in the third quarter of 2005. In order for this change to be understood better, it should be remembered that a total of non-recurring income of 2.5 million euros was recognised in the third quarter of 2005 in connection with the revision of the energy supply contract with Termica Boffalora S.r.l. and the grants received by the subsidiary RDM Iberica S.L..

The performance of EBITDA incorporates the positive effects of price increases, greater efficiencies in production and the steps taken in 2006 to contain fixed costs. The resulting improvement in margins was however absorbed by increased energy supply charges which, in unit terms (measured in euros per tonne), rose by 32% when compared to the first nine months of 2005.

Operating profit (or EBIT) of 4.4 million euros was achieved for the first nine months of 2006 (after depreciation, amortisation and write-downs of 17.3 million euros), compared to 3.0 million euros (after depreciation, amortisation and write-downs of 20.3 million euros) in the corresponding period of last year.

There was a net loss before discontinued operations of 6.3 million euros compared to a net loss of 23.4 million euros for the same period last year, which reflects principally net financial expense, including exchange differences, of 8.2 million euros (9.2 million euros for the first nine months of 2005), income from equity investments of 1.0 million euros (1.4 million euros for the first nine months of 2005) and taxation of 3.5 million euros (2.7 million euros for the first nine months of 2005).

Discontinued operations incurred a loss of 5 million euros compared to a gain of 16.3 million euros for the first nine months of 2005; the 2005 figure includes the gain from the sale of Europoligrafico S.p.A.. In particular as the following table shows, the result from discontinued operations and non-recurring costs for the first nine months of 2006 includes the results for the period (the net operating result) of the Prat facility and the Magenta MC1 line, both of which ceased activities in 2005; the net economic contribution of Red.Im S.r.l. (which became part of the recipient company RDM Realty S.p.A. as a result of the demerger operation[4]); the demerger costs and the consequent listing of RDM Realty S.p.A.; and certain additional accessory costs relating to the sales of Europoligrafico S.p.A. and Aticarta S.p.A..

[4] Reference should be made to the notes included in the Half-Year Report of the RDM Group at 30 June 2006 for more detailed information on the partial and proportional demerger into the recipient company RDM Realty S.p.A. which took place on 21 June 2006.

Discontinued operations and non recurrent expenses	30.09.2006
	Euro/000
MC1 Magenta	(882)
Prat	(1.728)
Demerged operations	(410)
Demerger and listing expenses for RDM Realty	(1.448)
Expenses related to the sale of Europoligrafico and Aticarta	(529)
Total	**(4.997)**

Discontinued operations made a loss of Euro 0.8 million euros in the third quarter of 2006, principally attributable to the Prat facility. These costs, which for the most part are connected with the dismantling of plant and establishing and maintaining security at the site, will gradually diminish over the coming months.

The comparative figures for the nine months ended 30 September 2005 also include in discontinued operations the result for the period of the companies sold in 2005 (Europoligrafico S.p.A., Aticarta S.p.A. and Cogeneracion Prat S.A.).

As a consequence the loss for the period becomes 11.3 million euros (a loss of 7.0 million euros for the nine months ended 30 September 2005) if the contribution made by discontinued operations is included.

The RDM Group made investments in fixed assets of 8.6 million euros during the first nine months of 2006 (6.1 million euros for the first nine months of 2005).

Consolidated net financial debt at 30 September 2006 amounts to 137.9 million euros, showing an improvement over the balances of 140.1 million euros at 30 June 2006 and 169.3 million euros at 31 December 2005.

The decrease compared to last year is principally due to the transfer of the interest-bearing debt of Red.Im S.r.l. of 40 million euros to the recipient company RDM Realty S.p.A. following the finalisation of the demerger. In addition, the RDM Group incurred non-recurring cash outflows of 10 million euros in 2006 principally as a result of the payments made to the former employees of the Prat facility as settlement following the termination of their employment contracts, and the costs connected with setting up new loans, the demerger and the listing of RDM Realty S.p.A..

In addition, it should be noted that net financial debt at 31 December 2005 also included the positive effect (amounting overall to 4.1 million euros) resulting from the valuation of derivative instruments linked to the Reno De Medici International S.A. bond; the agreements for these instruments were terminated in May 2006 on the redemption of the bond. A liability of 0.9 million euros was recognised at 30 September 2006 from the remeasurement of the cash flow hedge derivative instruments held by the RDM Group.

In particular, gross financial debt at 30 September 2006, measured at amortised cost, amounts to 152.7 million euros (compared to 253.9 million euros at 31 December 2005), which includes non current portion of long-term loans of 83.9 million euros, the current portion of long-term loans of approximately 13 million euros and bank facilities of 56.4 million euros, mostly consisting of advances on invoices issued to customers.

Liquidity and financial receivables at 30 September 2006 amount to 15.7 million euros, which include 4.7 million due after more than one year.

Segment information

The Group has adopted a geographical format as the means of reporting segment information, based on the location in which activities are carried out. The separate geographical areas identified are Italy, Spain and the residual category "Other". Included in the residual category are the activities headed by the French subsidiary RDM France S.a.r.l., by the German subsidiary RenoDeMedici Deutschland GmbH and by the Luxembourg subsidiary Reno De Medici International S.A..

The following tables set out the profit and loss account, down to gross operating profit, on a geographical basis for the first nine months of 2006 and 2005.

The contribution made by Spain relates to operations at the Almazan facility (owned by RDM Iberica) and the marketing of cartonboard manufactured in the Parent Company's factories.

Profit and loss account for the nine months ended 30 September 2006	**Italy**	**Spain**	**Other**	**Eliminations**	**Consolidated**
Euro/000					
Revenues from sales	215,611	25,273	1,308	(9,923)	232,269
Other revenues	1,891	(17)	11	3	1,888
Changes in stocks of finished goods	9,350	(571)	-	-	8,779
Cost of raw materials and services	(170,216)	(19,900)	(624)	10,053	(180,687)
Staff costs	(33,856)	(3,736)	(696)	-	(38,288)
Other operating costs	(1,929)	(46)	(24)	-	(1,999)
Income (expense) from non-current assets held for sale	(358)	-	-	-	(358)
Unusual income (expense)	(95)	116	265	(133)	153
Gross Operating Profit (EBITDA)	**20,398**	**1,119**	**240**	**-**	**21,757**

Profit and loss account for the nine months ended 30 September 2005	**Italy**	**Spain**	**Other**	**Eliminations**	**Consolidated**
Euro/000					
Revenues from sales	201,662	22,312	1,345	(6,455)	218,864
Other revenues	2,308	957	38	(69)	3,234
Changes in stocks of finished goods	480	193	-	-	673
Cost of raw materials and services	(142,764)	(18,757)	(567)	6,449	(155,639)
Staff costs	(35,012)	(3,574)	(633)	-	(39,219)
Other operating costs	(3,834)	(267)	(31)	9	(4,123)
Income (expense) from non-current assets held for sale	(243)	-	-	-	(243)
Unusual income (expense)	(115)	(135)	(3)	-	(253)
Gross Operating Profit (EBITDA)	**22,482**	**104**	**149**	**(66)**	**23,294**

The following tables provide an analysis of economic data by geographical area for the third quarters of 2006 and 2005.

Profit and loss account for the 3rd quarter 2006	Italy	Spain	Other	Eliminations	Consolidated
Euro/000					
Revenues from sales	63,823	8,008	371	(3,206)	68,996
Other revenues	765	(17)	1	27	776
Changes in stocks of finished goods	3,741	21	-	-	3,762
Cost of raw materials and services	(52,910)	(6,260)	(164)	3,309	(56,025)
Staff costs	(10,553)	(1,075)	(240)	-	(11,868)
Other operating costs	(552)	(17)	-	-	(569)
Income (expense) from non-current assets held for sale	13	-	-	-	13
Unusual income (expense)	(3)	60	2	(130)	(71)
Gross Operating Profit (EBITDA)	**4,324**	**720**	**(30)**	**-**	**5,014**

Profit and loss account for the 3rd quarter 2005	Italy	Spain	Other	Eliminations	Consolidated
Euro/000					
Revenues from sales	62,512	6,855	378	(2,011)	67,734
Other revenues	476	957	3	(18)	1,418
Changes in stocks of finished goods	(1,613)	(71)	-	-	(1,684)
Cost of raw materials and services	(41,814)	(5,825)	(170)	2,070	(45,739)
Staff costs	(11,199)	(1,059)	(193)	-	(12,451)
Other operating costs	(1,607)	(164)	(14)	(10)	(1,795)
Income (expense) from non-current assets held for sale	(189)	-	-	-	(189)
Unusual income (expense)	12	(68)	(4)	-	(60)
Gross Operating Profit (EBITDA)	**6,578**	**625**	**-**	**31**	**7,234**

Finally, the following table provides an analysis by geographical area of net revenues generated by sales of cartonboard.

Geographic areas	30 September 2006	%	30 September 2005	%
Euro/000				
Italy	128,353	55.3%	121,443	55.5%
European Union - other	80,966	34.8%	73,829	33.7%
Outside the European Union	22,950	9.9%	23,592	10.8%
Total sales revenues	**232,269**	**100%**	**218,864**	**100%**

Significant events

The agreement for the sale of the board MC 3 machine located at the Prat facility was finalised in July 2006. The agreed price, which includes the related parts and supplies, is in line with the carrying value of the assets. The disposal operation is expected to be completed by the beginning of 2007.

With reference to the dispute with Grupo Torras S.A. on 18 September 2006 the Madrid Appeals Court notified its decision in sentence no. 114 on the appeal made by Reno De Medici S.p.A. and Reno De Medici Iberica S.L. against sentence no. 43 issued by the Court of Madrid of the first level and notified on 8 September 2005. Sentence no. 114 rejected the appeals of both parties and confirmed the sentence of the first level.

As the Reno De Medici Group had already adjusted its financial statements following the sentence at the first level, to align these with the decision pronounced by the court on that occasion, there will be no negative accounting effects on the consolidated financial statements as the result of the rejection of the appeal.

Reno De Medici S.p.A. and Reno De Medici Iberica S.L. reserve the right, after further evaluation of the grounds of the judgement, to appeal at the Court of Third Instance.

Outlook

Figures for operations at 31 October 2006 indicate that there was an increase in orders acquired in the month of about 9%, with average sales prices higher by 4% than the same period of the prior year. With these market conditions, and on the assumption that this trend will be confirmed, it is likely that the RDM Group will achieve higher margins in the final quarter of 2006 than those obtained in the corresponding quarter of 2005.

CONSOLIDATED FINANCIAL STATEMENTS OF RENO DE MEDICI GROUP AT 30 SEPTEMBER 2006

Consolidated profit and loss account		1 Jan - 30 Sept 2006	1 Jan - 30 Sept 2005
	Euro/000		
Revenues from sales		232,269	218,864
Other revenues		1,888	3,234
Changes in stocks of finished goods		8,779	673
Cost of raw materials and services		(180,687)	(155,639)
Staff costs		(38,288)	(39,219)
Other operating costs		(1,999)	(4,123)
Income (expense) from non-current assets held for sale		(358)	(243)
Unusual income (expense)		153	(253)
Gross Operating Profit (EBITDA)		**21,757**	**23,294**
Depreciation and amortisation		(17,314)	(18,099)
Recovery of value and write-downs of assets		-	(2,233)
Operating Profit (EBIT)		**4,443**	**2,962**
	Financial expense	*(8,860)*	*(11,112)*
	Exchange differences	*(139)*	*152*
	Financial income	*795*	*1,797*
Financial income (expense), net		(8,204)	(9,163)
Income from investments		975	1,365
Other income (expense)		-	(15,906)
Taxation		(3,472)	(2,656)
Profit (loss) for the year before discontinued operations		**(6,258)**	**(23,398)**
	Gains (losses) from disposals, net	-	*27,259*
	Loss for the period	*(4,997)*	*(10,911)*
Discontinued operations		(4,997)	16,348
Profit (loss) for the year		**(11,255)**	**(7,050)**
Attributable to:			
Profit (loss) for the year pertaining to the group		(11,460)	(7,412)
Profit (loss) for the year pertaining to minority interests		205	362
Earnings (loss) per share (Euros)		(0.043)	(0.027)
Diluted earnings (loss) per share (Euros)		(0.043)	(0.027)

Consolidated profit and loss account	3rd quarter 2006	3rd quarter 2005
Euro/000		
Revenues from sales	68,996	67,734
Other revenues	776	1,418
Changes in stocks of finished goods	3,762	(1,684)
Cost of raw materials and services	(56,025)	(45,739)
Staff costs	(11,868)	(12,451)
Other operating costs	(569)	(1,795)
Income (expense) from non-current assets held for sale	13	(189)
Unusual income (expense)	(71)	(60)
Gross Operating Profit (EBITDA)	**5,014**	**7,234**
Depreciation and amortisation	(5,699)	(5,957)
Recovery of value and write-downs of assets	-	(60)
Operating Profit (EBIT)	**(685)**	**1,217**
Financial expense	*(2,535)*	*(3,684)*
Exchange differences	*13*	*(238)*
Financial income	*153*	*688*
Financial income (expense), net	(2,369)	(3,234)
Income from investments	(21)	184
Other income (expense)	-	-
Taxation	(787)	(873)
Profit (loss) for the year before discontinued operations	**(3,862)**	**(2,706)**
Gains (losses) from disposals, net	-	-
Loss for the period	*(817)*	*(4,029)*
Discontinued operations	(817)	(4,029)
Profit (loss) for the year	**(4,679)**	**(6,735)**
Attributable to:		
Profit (loss) for the year pertaining to the group	(4,714)	(6,853)
Profit (loss) for the year pertaining to minority interests	35	118
Earnings (loss) per share (Euros)	(0.018)	(0.026)
Diluted earnings (loss) per share (Euros)	(0.018)	(0.026)

Consolidated balance sheet	30 September 2006	31 December 2005
Euro/000		
ASSETS		
Non-current assets		
Tangible fixed assets	181.832	193.174
Investment property	-	1.284
Goodwill	146	146
Other intangible assets	2.594	3.309
Investments accounted for under the equity method	13.918	14.216
Deferred tax assets	583	577
Derivative financial instruments	19	-
Financial assets held for sale	454	219
Trade receivables	90	193
Other receivables	9.457	10.272
Total non-current assets	**209.093**	**223.390**
Current assets		
Stocks	86.825	92.979
Trade receivables	97.173	106.899
Other receivables	4.225	21.168
Derivative financial instruments	18	5.321
Financial assets held for sale	8	10
Financial assets at fair value	-	-
Liquid funds	10.137	56.779
Total current assets	**198.386**	**283.156**
Other non-current assets held for sale	**16.492**	**20.208**
TOTAL ASSETS	**423.971**	**526.754**
LIABILITIES AND SHAREHOLDERS' EQUITY		
Shareholders' equity attributable to the group	122.278	142.251
Minority interests	526	759
Shareholders' equity	**122.804**	**143.010**
Non-current liabilities		
Bank loans and other financial liabilities	83.916	28.270
Derivative financial instruments	274	-
Other payables	32.817	1.064
Deferred tax liabilities	8.391	2.293
Employees' leaving entitlement	17.208	17.324
Non-current provisions for contingencies and charges	4.957	7.425
Liabilities directly associated with non-current assets held for sale	-	-
Total non-current liabilities	**147.563**	**56.376**
Current liabilities		
Bank loans and other financial liabilities	68.855	220.056
Derivative financial instruments	613	1.242
Trade payables	70.070	72.552
Other payables	12.944	33.247
Current taxation	1.122	271
Total current liabilities	**153.604**	**327.368**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**423.971**	**526.754**

Consolidated net financial position	30 Sept 2006	30 Jun 2006	31 Dec 2005
Euro/000			
Cash and cash equivalents and short term financial receivabl	11.049	15.687	75.330
Short term financial payables	(68.855)	(74.049)	(225.608)
Valuation of current portion of derivatives	(594)	(398)	4.079
Short-term financial position	**(58.400)**	**(58.760)**	**(146.199)**
Long term financial receivables	4.700	2.200	5.200
Long term financial payables	(83.916)	(83.757)	(28.270)
Valuation of non-current portion of derivatives	(256)	211	-
Net financial position	**(137.872)**	**(140.106)**	**(169.269)**

NOTES

The quarterly report of Reno De Medici Group at 30 September 2006 has been prepared on the basis of article 82, first paragraph, of the Regulations for Issuers adopted by Consob in resolution no. 11971 of 14 May 1999 and subsequent amendments and supplements.

This quarterly report has not been audited by the Independent Auditors.

The consolidated balance sheet at 30 September 2006 and the consolidated profit and loss account for the quarter then ended are presented in a format that is consistent with that used in the consolidated financial statements at 31 December 2005.

The scope of consolidation has changed with respect to that at 31 December 2005 as the result of the following:

(i) the finalisation of the partial and proportional demerger of RDM into RDM Realty on 21 June 2006, with the result that Red.Im S.r.l. has left the scope of consolidation;

(ii) the sale of Barneda Carton S.A. by Reno De Medici Iberica S.L. on 17 May 2006.

As a consequence, the results of Red.Im S.r.l. for the periods ended 30 September 2006 and 2005 have been classified under the item “Discontinued operations”, together with the costs connected with the demerger operation and the listing of RDM Realty S.p.A.. It should be noted that following the sales of Europoligrafico S.p.A., Aticarta S.p.A. and Cogeneracion Prat S.A. in 2005, the results of these companies for the period ended 30 September 2005 have also been classified as “Discontinued operations”.

The results (meaning by this the net operating result) of the Prat facility and the Magenta MC1 line, which both ceased activities in 2005, have also been classified as ‘Discontinued operations’ for the first half of both 2005 and 2006. The non-current assets (plant and machinery) of those facilities are presented separately in the consolidated balance sheet under the item “Non-current assets held for sale”.

Accounting principles

The quarterly report has been prepared on the basis of the same accounting principles used in preparing the consolidated financial statements at 31 December 2005.

These principles are the International Accounting Standards adopted by the European Commission, and could differ from the International Financial Reporting Standards (IFRS) that will be effective at 31 December 2006 as the result of new or changed positions taken by the Commission or due to the issue of new accounting standards or new interpretations by the International Accounting Standards Board (IASB) or the International Financial Reporting Interpretations Committee (IFRIC).

The consolidated financial statements are prepared in accordance with the IFRS issued by the International Accounting Standards Board and ratified by the European Union. IFRS also include all the previous International Accounting Standards revised by the Board (referred to as “IAS”) and all the interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”), previously known as the Standing Interpretations Committee (“SIC”).

The preparation of financial statements in accordance with International Financial Reporting Standards requires the use of estimates and assumptions which affect the carrying values of the assets and liabilities in the consolidated balance sheet and the disclosures relating to contingent assets and liabilities at the balance sheet date. The actual results could differ from these estimates. In particular, estimates are used to determine the result contributed by discontinued operations, in the making of provisions for the collection risk for receivables and inventory obsolescence, in the calculation of depreciation, amortisation, impairment, employee benefits, restructuring provisions, taxation and other accruals and provisions and in the measurement of derivative instruments. Estimates and assumptions are reviewed periodically and the effects of any changes are recognised immediately in the profit and loss account.

The financial and economic position is presented in thousands of euros.

Workforce

The Group had 1,224 employees at 30 September 2006 compared to 1,462 employees at 30 September 2005 (this figure excludes the personnel of the companies sold in 2005).