Quarterly report

Fourth quarter 2006

Reno De Medici S.p.A.
Registered office: Via dei Bossi 4, Milan
Corporate headquarters:
Via G. De Medici 17, Pontenuovo di Magenta (MI)
Share capital: Euro € 132,160,074.13 fully paid
Fiscal code and VAT no. 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

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

(*) member of the executive committee

Board of Statutory Auditors

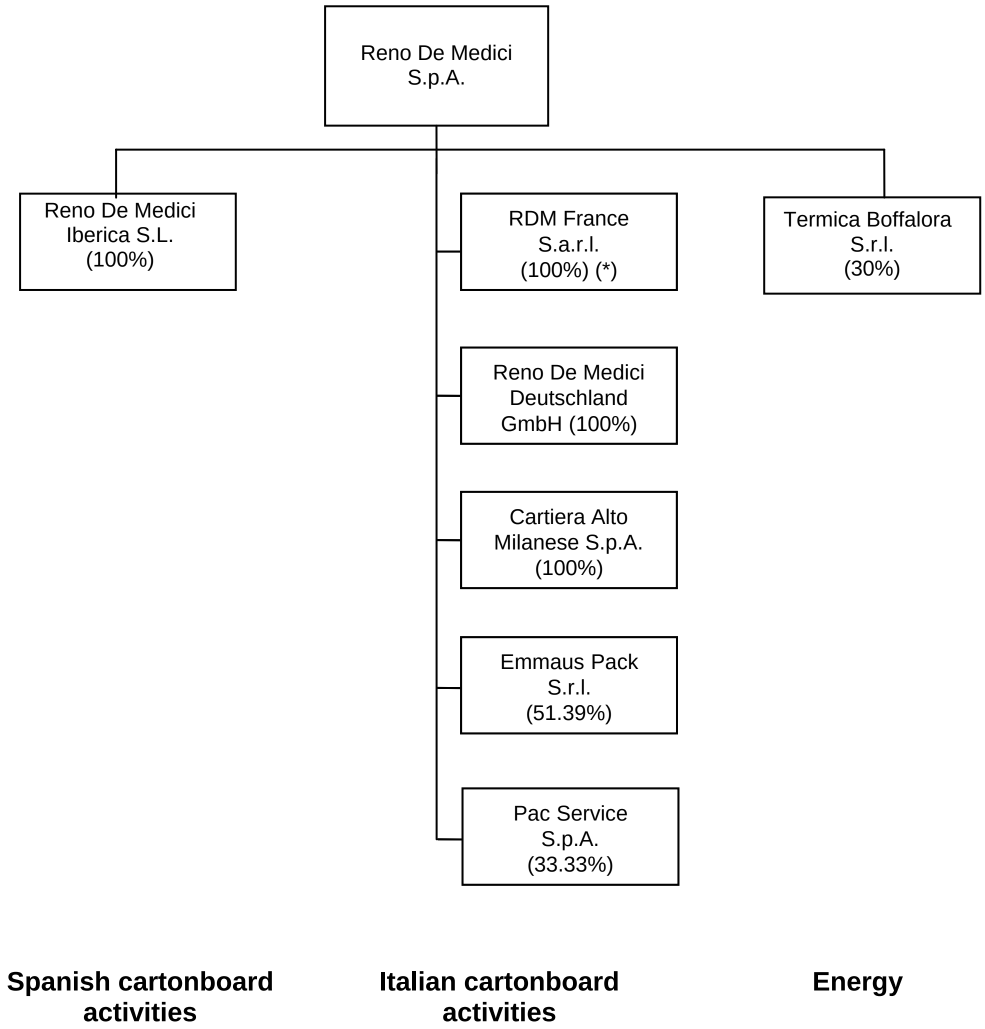
Sergio Pivato	Chairman
Marcello Priori	Standing auditor
Carlo Tavormina	Standing auditor
Giovanni Maria Conti	Substitute auditor
Myrta de' Mozzi	Substitute auditor

Independent Auditors

PricewaterhouseCoopers S.p.A.

OPERATING COMPANIES OF THE RENO DE MEDICI GROUP AT 31 DECEMBER 2006

The following table excludes the companies in liquidation and the non-operating companies of the Reno De Medici Group (the "RDM Group").



(*) 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 year 2006 was distinguished by a significant **increase in energy costs, which amounted to 15 million euros** before considering the reduction in consumption achieved as the result of improvements in efficiency.

The improvements in efficiency achieved by the production units and the steps taken to contain variable costs, together with the increases in sales prices during the year, have enabled to offset the negative trend in energy factors. EBITDA reached a figure of 29.3 million euros (27.8 million euros in 2005), representing a rise of 5% over the previous year.

There has been a considerable increase in EBITDA for the last quarter of the year, which climbed to 7.5 million euros over the 4.5 million euros for the fourth quarter of 2005; this improvement is mostly the result of rises in average sales prices over those for the fourth quarter of 2005.

Consolidated results

The RDM Group achieved net revenues of 313.9 million euros for the year, compared to 295.3 million euros in 2005 (up 6.3%)[2]. In particular net revenues in the fourth quarter amounted to 81.6 million euros compared to 76.4 million euros in the fourth quarter of 2005 (up 6.8%).

Sales volumes amounted in total to approximately 645,000 tonnes representing an increase of approximately 6% over 2005[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 in the fourth quarter of 2006 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 and the rise in despatched volumes, which arrived at approximately 170,000 tonnes in the fourth quarter of 2006, an increase of approximately 5% compared to the same quarter of 2005.
Consolidated EBITDA closed at 29.3 million euros for the year compared to 27.8 million euros in 2005 (up by approximately 5%) with sales margins being in line with those of last year.

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[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 for the fourth quarter reached 7.5 million euros compared to 4.5 million euros in the fourth quarter of 2005.

Despite the influence of the significant rise in energy prices which underwent an increase of around 30% in unit terms (euros per tonne), the performance of EBITDA is a positive reflection of the steps taken during the year to recover the price levels last seen in the first part of 2005, as well as of the improvements obtained in production efficiency and the containment of fixed costs during the year.

An operating profit (or EBIT) for the year of 5.9 million euros was achieved (after depreciation and amortisation of 23.3 million euros) compared to 1.8 million euros in 2005 (after depreciation, amortisation and write-downs of 26.0 million euros).

There was a net loss for the year before discontinued operations of 6.5 million euros compared to a net loss of 23.9 million euros last year, which reflects principally net financial expense, including exchange differences, of 10.7 million euros (11.8 million euros in 2005), income from equity investments of 1.2 million euros (2.0 million euros in 2005) and taxation of 3.3 million euros (0.2 million euros in 2005).

Discontinued operations incurred losses of 8.3 million euros for the year compared to a profit of 11.2 million euros in 2005; the 2005 figure includes the gain from the sales of Europoligrafico S.p.A. and Aticarta S.p.A.. In particular, as the following table shows, the result from discontinued operations and non-recurring costs for 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 operations ending up in the recipient company RDM Realty S.p.A. as a result of the demerger operation[4]; the costs of the demerger and the consequent listing of RDM Realty S.p.A.; and certain additional ancillary costs relating to the sales of Europoligrafico S.p.A. and Aticarta S.p.A..

Discontinued operations and non recurrent expenses	**31.12.2006**
	Euro/000
MC1 Magenta	(2,567)
Prat	(2,796)
Demerged operations	(810)
Demerger and listing expenses for RDM Realty	(1,512)
Expenses related to the sale of Europoligrafico and Aticarta	(661)
Total	**(8,346)**

[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.

In the fourth quarter, discontinued operations incurred losses of approximately Euro 3.3 million euros; this figure includes a write-down of 1.2 million euros to its estimated realisable value of the MC1 in Magenta, which is classified as an asset held for sale, and restructuring charges relating to personnel.

Included in the comparative figures for discontinued operations for the year ended 31 December 2005 are the results of the companies sold during that year (Europoligrafico S.p.A., Aticarta S.p.A. and Cogeneracion Prat S.A.).

As a consequence the loss for the year amounts to 14.9 million euros (a loss of 12.8 million euros for the year ended 31 December 2005) after the result of discontinued operations.

The RDM Group made investments in fixed assets of 11 million euros during the year (10.1 million euros in 2005).

Consolidated net financial debt at 31 December 2006 amounts to 127.1 million euros, showing an improvement over the balances of 137.9 million euros at 30 September 2006 and 169.3 million euros at 31 December 2005.

The decrease over 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 completion of the demerger. In addition, the RDM Group incurred cash outflows in 2006 relating to non-recurring operations which, net of the proceeds deriving from the disposal of the assets held for sale at the Ciriè and Prat facilities, amounted in total to approximately 5 million euros. This figure is mostly the result of payments made to the former employees of the Prat facility and the costs relating to 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 gain (amounting overall to 4.1 million euros) resulting from the remeasurement at fair value of the 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 loss of 0.2 million euros was recognised at 31 December 2006 from the remeasurement of the cash flow hedge derivative instruments held by the RDM Group.

In particular, gross financial debt at 31 December 2006, measured at amortised cost, amounts to 138.8 million euros (compared to 253.9 million euros at 31 December 2005), a figure which includes long-term loans of 80.8 million euros, the portion of long-term loans falling due within 12 months of 10.5 million euros and bank facilities of approximately 47 million euros, mostly consisting of advances on invoices issued to customers.

Liquidity and short-term financial receivables at 31 December 2006 amount to 11.4 million euros (compared to 75.3 million euros at 31 December 2005), a figure which includes 5 million euros of balances restricted in connection with the Grupo Torras dispute.

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 segments that have been identified are Italy and Spain.

Included in the segment denoted Italy are also the activities headed by the French subsidiary RDM France S.a.r.l. and by the German subsidiary RenoDeMedici Deutschland GmbH, whose operations consist of the distribution and sales of goods produced in the Italian factories, and the economic contribution made by the Luxembourg subsidiary Reno De Medici International S.A. up until the date it was put into liquidation.

For ease of comparability the 2005 figures have been reclassified, as until this year there was also a segment called “Other” which consisted of the activities headed by RDM France S.a.r.l., RenoDeMedici Deutschland GmbH and 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 years ended 31 December 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 factories of the Parent Company Reno De Medici S.p.A..

Profit and loss account 2006	**Italy**	**Spain**	**Eliminations**	**Consolidated**
Euro/000				
Revenues from sales	292,061	36,718	(14,890)	313,889
Other revenues	3,486	483	(133)	3,836
Changes in stocks of finished goods	5,696	85	-	5,781
Cost of raw materials and services	(224,885)	(30,005)	15,023	(239,867)
Staff costs	(46,605)	(4,939)	-	(51,544)
Other operating costs	(2,621)	(125)	-	(2,746)
Income (expense) from non-current assets held for sale	(363)	-	-	(363)
Unusual income (expense)	270	-	-	270
Gross Operating Profit (EBITDA)	**27,039**	**2,217**	**-**	**29,256**

Profit and loss account 2005	Italy	Spain	Eliminations	Consolidated
Euro/000				
Revenues from sales	273,765	29,778	(8,268)	295,275
Other revenues	4,157	1,178	(241)	5,094
Changes in stocks of finished goods	659	(412)	-	247
Cost of raw materials and services	(199,686)	(24,479)	8,422	(215,743)
Staff costs	(47,852)	(4,898)	-	(52,750)
Other operating costs	(3,479)	(288)	-	(3,767)
Income (expense) from non-current assets held for sale	(179)	-	-	(179)
Unusual income (expense)	(352)	(19)	-	(371)
Gross Operating Profit (EBITDA)	**27,033**	**860**	**-**	**27,806**

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

Profit and loss account 4th quarter 2006	Italy	Spain	Eliminations	Consolidated
Euro/000				
Revenues from sales	76,111	11,445	(5,936)	81,620
Other revenues	1,586	500	(138)	1,948
Changes in stocks of finished goods	(3,654)	656	-	(2,998)
Cost of raw materials and services	(55,016)	(10,105)	5,941	(59,180)
Staff costs	(12,053)	(1,203)	-	(13,256)
Other operating costs	(668)	(79)	-	(747)
Income (expense) from non-current assets held for sale	(5)	-	-	(5)
Unusual income (expense)	100	(116)	133	117
Gross Operating Profit (EBITDA)	**6,401**	**1,098**	**-**	**7,499**

Profit and loss account 4th quarter 2005	Italy	Spain	Eliminations	Consolidated
Euro/000				
Revenues from sales	71,679	7,466	(2,734)	76,411
Other revenues	1,811	221	(172)	1,860
Changes in stocks of finished goods	179	(605)	-	(426)
Cost of raw materials and services	(56,202)	(5,722)	2,894	(59,030)
Staff costs	(12,207)	(1,324)	-	(13,531)
Other operating costs	(688)	(21)	(9)	(718)
Income (expense) from non-current assets held for sale	64	-	-	64
Unusual income (expense)	(234)	116	-	(118)
Gross Operating Profit (EBITDA)	**4,402**	**131**	**-**	**4,512**

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

Geographic areas	31 December 2006	%	31 December 2005	%
Euro/000				
Italy	170,110	54.2%	157,223	53.2%
European Union - other	111,528	35.5%	103,553	35.1%
Outside the European Union	32,251	10.3%	34,499	11.7%
Total sales revenues	**313,889**	**100%**	**295,275**	**100%**

Significant events

Dismantling of the MC3 line at Prat began during the fourth quarter and by the end of the year a large proportion of the plant had already been removed. It is expected that this work and the completion of the delivery of the machine will come to an end during the first part of 2007.

Two sales agreements were signed in November relating to the MC1 and MC2 lines at Pompeii. Dismantling operations will probably be completed by June. The sale price, higher than book value, will generate a gain that should be able to offset the ancillary costs.

The subsidiary RDM International S.A. was permanently closed in December as it had no further activities to perform following the repayment of the bond in May.

Outlook for operations

At the end of January 2007 the orders average sales price show an increase of approximately 3% compared to the fourth quarter of 2005, with sales volumes in line with January 2006.

CONSOLIDATED FINANCIAL STATEMENTS OF THE RDM GROUP AT 31 DECEMBER 2006

Consolidated profit and loss account	31 december 2006	31 december 2005
Euro/000		
Revenues from sales	313,889	295,275
Other revenues	3,836	5,094
Changes in stocks of finished goods	5,781	247
Cost of raw materials and services	(239,867)	(215,743)
Staff costs	(51,544)	(52,750)
Other operating costs	(2,746)	(3,767)
Income (expense) from non-current assets held for sale	(363)	(179)
Unusual income (expense)	270	(371)
Gross Operating Profit (EBITDA)	**29,256**	**27,806**
Depreciation and amortisation	(23,332)	(24,439)
Recovery of value and write-downs of assets	-	(1,588)
Operating Profit (EBIT)	**5,924**	**1,779**
Financial expense	(11,573)	(14,694)
Exchange differences	(187)	350
Financial income	1,076	2,559
Financial income (expense), net	(10,684)	(11,785)
Income from investments	1,204	1,982
Other income (expense)	281	(15,700)
Taxation	(3,270)	(223)
Profit (loss) for the year before discontinued operations	**(6,545)**	**(23,947)**
Gains (losses) from disposals, net	-	32,328
Loss for the period	(8,346)	(21,151)
Discontinued operations	(8,346)	11,177
Profit (loss) for the year	**(14,891)**	**(12,770)**
Attributable to:		
Profit (loss) for the year pertaining to the group	(15,149)	(13,261)
Profit (loss) for the year pertaining to minority interests	258	491
Earnings (loss) per share (Euros)	(0.057)	(0.049)
Diluted earnings (loss) per share (Euros)	(0.057)	(0.049)

Consolidated profit and loss account	4th quarter 2006	4th quarter 2006
Euro/000		
Revenues from sales	81,620	76,411
Other revenues	1,948	1,860
Changes in stocks of finished goods	(2,998)	(426)
Cost of raw materials and services	(59,180)	(59,030)
Staff costs	(13,256)	(13,531)
Other operating costs	(747)	(718)
Income (expense) from non-current assets held for sale	(5)	64
Unusual income (expense)	117	(118)
Gross Operating Profit (EBITDA)	**7,499**	**4,512**
Depreciation and amortisation	(6,018)	(6,340)
Recovery of value and write-downs of assets	-	645
Operating Profit (EBIT)	**1,481**	**(1,183)**
Financial expense	(2,713)	(3,582)
Exchange differences	(48)	198
Financial income	281	762
Financial income (expense), net	(2,480)	(2,622)
Income from investments	229	617
Other income (expense)	281	206
Taxation	202	2,433
Profit (loss) for the year before discontinued operations	**(287)**	**(549)**
Gains (losses) from disposals, net	-	5,069
Loss for the period	(3,349)	(10,240)
Discontinued operations	(3,349)	(5,171)
Profit (loss) for the year	**(3,636)**	**(5,720)**
Attributable to:		
Profit (loss) for the year pertaining to the group	(3,689)	(5,849)
Profit (loss) for the year pertaining to minority interests	53	118
Earnings (loss) per share (Euros)	(0.014)	(0.022)
Diluted earnings (loss) per share (Euros)	(0.014)	(0.022)

Consolidated balance sheet	31 December 2006	31 December 2005
Euro/000		
ASSETS		
Non-current assets		
Tangible fixed assets	178,078	193,174
Investment property	-	1,284
Goodwill	146	146
Other intangible assets	2,338	3,309
Investments accounted for under the equity method	14,011	14,216
Deferred tax assets	947	577
Derivative financial instruments	83	-
Financial assets held for sale	471	219
Trade receivables	76	193
Other receivables	4,889	10,272
Total non-current assets	**201,039**	**223,390**
Current assets		
Stocks	89,775	92,979
Trade receivables	102,026	106,899
Other receivables	7,313	21,168
Derivative financial instruments	77	5,321
Financial assets held for sale	8	10
Liquid funds	9,536	56,779
Total current assets	**208,735**	**283,156**
Other non-current assets held for sale	**11,392**	**20,208**
TOTAL ASSETS	**421,166**	**526,754**
LIABILITIES AND SHAREHOLDERS' EQUITY		
Shareholders' equity attributable to the group	118,927	142,251
Minority interests	579	759
Shareholders' equity	**119,506**	**143,010**
Non-current liabilities		
Bank loans and other financial liabilities	80,789	28,270
Derivative financial instruments	14	-
Other payables	32,202	1,064
Deferred tax liabilities	7,925	2,293
Employees' leaving entitlement	17,235	17,324
Non-current provisions for contingencies and charges	5,107	7,425
Total non-current liabilities	**143,272**	**56,376**
Current liabilities		
Bank loans and other financial liabilities	57,507	220,056
Derivative financial instruments	350	1,242
Trade payables	86,900	72,552
Other payables	13,615	33,247
Current taxation	16	271
Total current liabilities	**158,388**	**327,368**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**421,166**	**526,754**

Consolidated net financial position	31 Dec 2006	30 Sept 2006	31 Dec 2005
Euro/000			
Cash and cash equivalents and short term financial receivables	11,389	11,049	75,330
Short term financial payables	(57,507)	(68,855)	(225,608)
Valuation of current portion of derivatives	(273)	(594)	4,079
Short-term financial position	**(46,391)**	**(58,400)**	**(146,199)**
Long term financial receivables	0	4,700	5,200
Long term financial payables	(80,789)	(83,916)	(28,270)
Valuation of non-current portion of derivatives	69	(256)	0
Net financial position	**(127,111)**	**(137,872)**	**(169,269)**

COMMENTARY

The quarterly report of the Reno De Medici Group at 31 December 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 31 December 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 partial and proportional demerger of Reno De Medici S.p.A. into RDM Realty S.p.A. was completed on 21 June 2006, with the result that Red.Im S.r.l. left the scope of consolidation;

(ii) Barneda S.A. was sold by Reno De Medici Iberica S.L. on 17 May 2006;

(iii) RDM International S.A. was put into liquidation on 5 December 2006.

As a consequence the results of Red.Im S.r.l. for the years ended 31 December 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.. 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 year ended 31 December 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, both of which ceased activities in 2005, have also been classified as ‘Discontinued operations’ for 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.

The consolidated financial statements are prepared in accordance with the IFRS issued by the International Accounting Standards Board and adopted 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 consolidated financial statements are prepared in thousands of euros.

Workforce

The Group had 1,198 employees at 31 December 2006 and 1,326 employees at 31 December 2005.