Reno De Medici

RDM GROUP

Annual report and financial statements at 31 December 2005

Reno De Medici

RDM GROUP

ANNUAL REPORT AND FINANCIAL STATEMENTS AT 31 DECEMBER 2005

77th FISCAL YEAR
RENO DE MEDICI

RENO DE MEDICI

Report of the Board of Directors
and Financial Statements
for the 77th fiscal year
ended 31 December 2005

Ordinary shareholders' meeting
of 30 April (3 May) 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 148,342,940.35 fully paid

Fiscal code and VAT no. 00883670150

CONTENTS

FINANCIAL STATEMENTS OF RENO DE MEDICI S.p.A.

Notice of shareholders' meeting

Notice is hereby given that an ordinary shareholders' meeting will be held in Pontenuovo di Magenta (MI) on 30 April at 10 a.m. in first call and in second call if necessary on 3 May at the same time and place to discuss and resolve on the following

AGENDA

1. **Financial statements at 31 December 2005; Report of the Board of Directors; Reports of the Board of Statutory Auditors and Independent Auditors; resolutions thereon.**

2. **Appointment of the Board of Statutory Auditors and of its Chairman. Resoluntion on their compensation.**

3. **Determination of the number of members of the Board of Directors.**

4. **Appointment of auditors of the financial statements of Reno De Medici S.p.A. and the consolidated financial statements of the Reno De Medici Group for each of the six years ending 31 December 2006 to 31 December 2011 pursuant to Article 155 of Legislative Decree no. 58/98 and of the half-year report at 30 June for the same years.**

COMPANY BODIES

BOARD OF DIRECTORS

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

(*) Member of the executive committee.

On 31 December 2005, Ugo Dell'Aria Burani resigned from the position of deputy chairman and member of the executive committee of Reno De Medici S.p.A.. On 24 January 2006, the board of directors of Reno De Medici S.p.A. resolved not to co-opt a substitute.

BOARD OF STATUTORY AUDITORS

Sergio Pivato	Chairman
Carlo Tavormina	Standing auditor
Gabriele Tosi	Standing auditor
Michele Tosi	Substitute auditor
Gaudenzio Gadda	Substitute auditor

INDEPENDENT AUDITORS

PRICEWATERHOUSECOOPERS S.p.A.

PRINCIPAL FINANCIAL AND ECONOMIC DATA

The Reno De Medici Group ("RDM Group" or "Group") applies International Financial Reporting Standards ("IFRS") in the preparation of its consolidated financial statements.

The principal figures appearing in the consolidated profit and loss account and balance sheet of the RDM Group as at 31 December 2005 and for the year then ended, with comparative data for the prior year, are set out in the following.

RENO DE MEDICI GROUP

(Millions of Euros)	**2005**	**2004**
ECONOMIC DATA		
Net revenues	295	302
Gross operating profit – EBITDA	27	31
Depreciation and amortisation	26	26
Operating result – EBIT	1	5
Result before discontinued operations	(25)	(5)
Discontinued operations	12	(3)
Net result	(13)	(8)
Net result pertaining to the Group	(13)	(8)
BALANCE SHEET DATA		
– *Non-current assets*	*218*	*322*
– *Non-current assets held for sale*	*20*	*9*
– *Non-current liabilities*	*(28)*	*(58)*
– *Current assets (liabilities)*	*(25)*	*(23)*
– *Working capital*	**127**	**153**
Net capital invested (NCI)	312	403
Net financial indebtedness	169	247
Shareholders' funds	143	156
RATIO		
EBITDA/Net revenues	9.3%	10.3%
EBIT/NCI	0.4%	1.3%
Debt ratio	54.2%	61.3%

The financial statements of Reno De Medici S.p.A. ("RDM" or "Parent Company") are prepared in accordance with the provisions of the Italian Civil Code and as a consequence with Italian generally accepted accounting principles.

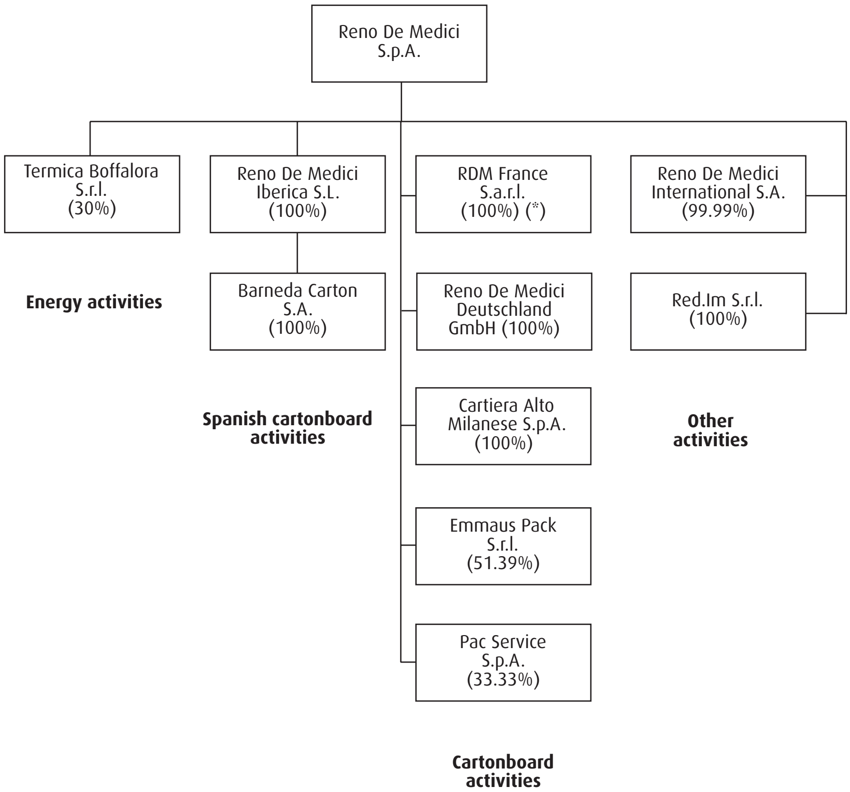
The principal figures appearing in the profit and loss account and balance sheet of the Parent Company as at 31 December 2005 and for the year then ended, with comparative data for the prior year, are set out in the following.

RENO DE MEDICI S.p.A.

(Millions of Euros)	**2005**	**2004**
ECONOMIC DATA		
Net revenues	291	305
Gross operating profit – EBITDA	22	28
Depreciation and amortisation	27	29
Operating result – EBIT	(5)	(1)
Result before taxes	(34)	(18)
Net result	(35)	(16)
BALANCE SHEET DATA		
– *Plant and machinery*	*130*	*146*
– *Land and buildings*	*49*	*51*
– *Financial assets and intangibles*	*114*	*159*
– *Fixed assets, net*	**293**	**356**
– *Provision funds and other net liabilities*	*(38)*	*(30)*
– *Working capital*	*78*	*81*
Net capital invested (NCI)	333	407
Net financial indebtedness	193	232
Shareholders' funds	140	175
RATIO		
EBITDA/Net revenues	7.4%	9.1%
EBIT/NCI	(1.6%)	(0.2%)
Debt ratio	58.0%	57.1%

OPERATING COMPANIES OF THE RENO DE MEDICI GROUP AT 31 DECEMBER 2005

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

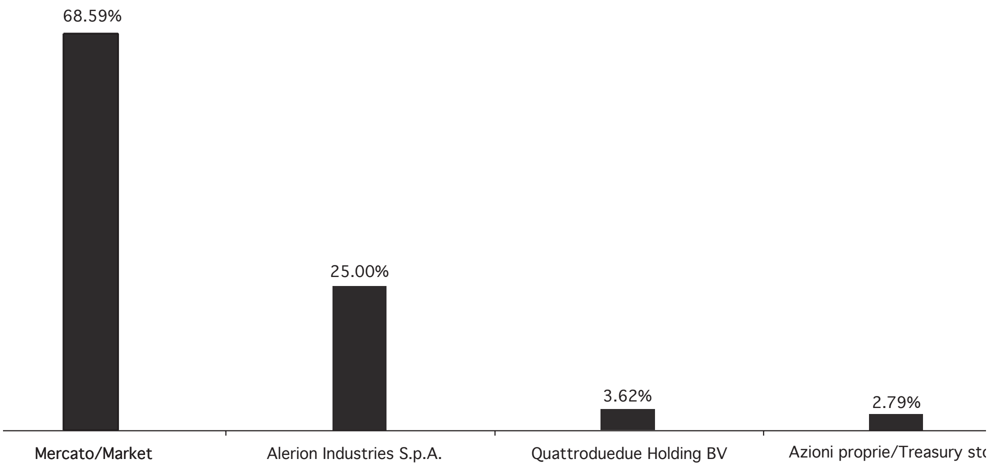


(*) Reno De Medici S.p.A. 99.58% - Cartiera Alto Milanese S.p.A. 0.42%.

SHAREHOLDERS

The shareholders of RDM at 20 March 2006 were as follows:

Azioni ordinarie/ordinary shares	no.	269,200,209
Azioni di risparmio convertibili/convertibles saving shares	no.	514,228
Totale azioni/Total shares	**no.**	**269,714,437**



INTRODUCTION

Substantial changes have taken place in the structure of the RDM Group during 2005.

In particular, the operative and strategic steps taken have on the one hand been directed towards gradually concentrating the Group's resources on its core activity of manufacturing recycled cartonboard, considering also the need to find the funds to repay the debenture loan issued by Reno De Medici International S.A. (the "Debenture Loan") and, on the other, towards a continuous rationalisation of operating and structural costs, the setting of the level of manufacturing capacity as a function of the dynamics of the market and the closure of production units which are unable to demonstrate profitability levels in line with the Group's objectives.

The first steps taken are recalled as follows:

- the sale of 100% of Europoligrafico S.p.A., concluded in June 2005, and of Aticarta S.p.A., completed last December, which taken overall have generated a positive effect of Euro 66.9 million on the financial position of the RDM Group and a consolidated gain of Euro 35.3 million before costs connected with the operation;
- the proportional demerger of the real estate assets of RDM into a newly established company RDM Realty S.p.A.; an application has been made for a listing of the shares of this new company on the Expandi segment of the Milan Stock Exchange. The demerger operation, which remains subject to the approval of Borsa Italiana S.p.A. for the admission of the shares to trading and Consob's authorisation to proceed with the issuing of the listing prospectus, has the dual objective of generating funds of Euro 40 million for RDM and enabling the shareholders of RDM to take part directly in projects to gain real estate value from the former industrial areas located at Magenta and Barcelona;
- the setting up of new financing, the first part of which regarding RDM for an amount of Euro 60 million, with the second part regarding the subsidiary Red.Im S.r.l. for an amount of Euro 40 million (this latter part being connected with the demerger operation referred to above) together having the purpose of repaying the Debenture Loan when taken with the proceeds received for the sale of the Group's non core activities.

The following matters are described in connection with the steps being taken to reorganise the Group's manufacturing sites and in the context of the continuous search for greater efficiency:

- the closure of the facility of Reno De Medici Iberica S.L. ("RDM Iberica") at Prat (Barcelona) in advance of the originally planned date of December 2006, and the cessation of the manufacturing activities relating to a board machine located in the Magenta facility dedicated to the production of virgin fibre cartonboard;
- the decentralisation of certain functions previously performed by the Parent Company to the main factories, the rationalisation of the

workforce at the Magenta, Villa Santa Lucia and, in February 2006, Marzabotto facilities and the renegotiation of important supply contacts, including that with the associate Termica Boffalora S.r.l. (Edison Group) for the provision of steam to the Magenta factory;

- the streamlining of the sales structure, with the reduction of the agency network and the corresponding increase in the customers and volumes handled directly by the Parent Company.

Taking all of these actions together, the RDM Group has considerably altered its features and, as a result, the structure of the consolidated financial statements has undergone a similar change. Once the steps currently being taken are completed and the Debenture Loan is repaid, the RDM Group will act as a pure player in the production of recycled cartonboard, endowed with a financial structure compatible with its business plan and in a position to take advantage of the awaited phase of a gradual but lasting recovery of demand for consumer goods starting from the current year.

MARKET ENVIRONMENT

As regards the Italian market, the figures and estimates made by Assocarta on the basis of data from ISTAT, the Italian national statistical agency, indicate an implicit consumption (production plus imports less exports) of cartonboard for packaging in 2005 of 676 thousand tonnes compared to 699 thousand tonnes in 2004 (down by 3.3%), and a production volume of 600 thousand tonnes compared to 661 thousand tonnes in the previous year (down by 9.2%).

Overall the sector of cartonboard used for packaging was again affected in 2005 by the lack of dynamism in the leading European economies and, in particular, by the unsatisfactory performance of the demand for consumer goods. This situation did not only have its consequences on volumes but also, and especially, led to a gradual reduction in unit sales prices, a factor which has characterised all the geographic markets (although each in a different manner), and did not allow manufacturers to develop the means of recovery needed to compensate for the significant rises in energy costs.

Again, according to Assocarta estimates, prime energy sources (natural gas and electricity) represent the second cost item after fibrous raw materials, accounting for an average of 20% of production costs, and in 2005 recorded increases of up to 26% (for natural gas) over the previous year.

On top of this, the differential between energy prices paid in Italy and those paid by the country's major competitors (20% more for natural gas and 30% more for electricity) represents for Italian manufacturers, called to participate in markets exposed to international competition, a high competitive penalty, and requires careful handling of pricing policies and the continual search for production efficiencies and economies.

MAJOR OPERATIONS OF THE RENO DE MEDICI GROUP IN 2005

The major operations carried out by the Group in 2005 were the following:

SALES AND PURCHASES OF INVESTMENTS

- In June 2005, RDM sold 100% of the share capital of Europoligrafico S.p.A. ("EPG") to a company established especially for the operation, New EPG S.r.l. ("New EPG"). New EPG is owned by two private equity funds, ITEQ SCA and Marina S.r.l. (companies whose main shareholder is the Italian share investment fund Maestrale, administered by BPC Investimenti Sgr), and by a group of Italian businessmen and investors.

  The sales price for this transaction was agreed in Euro 41.3 million and led to the realisation of a gain at a consolidated level of Euro 28 million before costs connected with the operation. The sale of EPG enabled the former subsidiary's interest-bearing debt of Euro 13 million to be removed from consolidation. This sale excluded EPG's wholly owned investment in Aticarta S.p.A. ("Aticarta"), as this had been the subject of a preliminary sale by EPG to RDM at a price equal to Aticarta's carrying value in EPG of Euro 5.5 million.

  As envisaged by the contractual conditions, RDM received Euro 35.8 million from New EPG and granted a vendor loan of Euro 3 million to that company. The balance of the price of Euro 5.5 million will be settled at the same time as RDM pays the agreed price for the purchase of the investment in Aticarta referred to above.

- In the same month of June 2005, a binding contract was signed for the purchase of a controlling interest in Cartiera Alto Milanese S.p.A. ("CAM"), through the acquisition by RDM of the holding company Holcart S.r.l. from Giovanni Dell'Aria Burani (details of this have been provided in reports of previous years). As provided by the contract, the price paid was Euro 1.5 million.

  In the following month of October, CAM carried out an increase in share capital of Euro 2.7 million, which was fully subscribed by RDM, becoming in this way the sole shareholder of CAM. In the same month, Holcart S.r.l. was put into liquidation.

  In the context of a new strategic direction, the activities of CAM today consist in the distribution of recycled fibre cartonboard with its own brand and in 2005 it achieved a turnover of Euro 13 million.

- In December, RDM Iberica sold its 100% interest in Cogeneracion Prat S.A. ("Cogeneracion Prat") to Spanish private businessmen. The sales price was agreed in Euro 1.3 million, of which Euro 1 million is to be paid in two equal instalments in December 2006 and December 2007, guaranteed by a bank surety. In addition, the purchase and sales agreement provides for the repayment before 2007 year end by Cogeneracion Prat to RDM Iberica of a pre-existing intercompany loan of Euro 1.7 million. This loan is secured on the assets of Cogeneracion Prat.

  The sale of Cogeneracion Prat led to a loss at consolidated level of Euro 0.1 million, although it also gave rise to a reduction in the RDM Group's net financial debt of Euro 3 million (of which Euro 1.7 million regards financial receivables).

- In the same month of December, RDM sold 100% of the shares of Aticarta to Colleoni S.A., a Luxembourg company owned by Gastone Colleoni. At the date of the operation, Gastone Colleoni held office as the Chairman of the Board of Directors of Aticarta and ATI Packaging S.r.l. (referred to in the following as "Atipackaging"), a company fully owned by Aticarta. In addition, Gastone Colleoni holds office as Chairman of the Board of Directors of Alerion Industries S.p.A. ("Alerion"), is a shareholder of Alerion with a holding of 3.35% of the company's share capital and is a party to the Alerion shareholders' agreement.

  The 100% holding in Aticarta was sold for Euro 3 million, determined on the basis of the balance sheet of Aticarta at 1 October 2005. In addition, under the purchase and sales agreement, Colleoni S.A. has undertaken to ensure that Aticarta and Atipackaging extinguish their financial debt to RDM at 31 December 2005 by 31 March 2006. On the other side RDM has agreed to take over from Aticarta the plant and machinery and stocks of the Pompeii facility (and, for sake of completeness, the trade receivables resulting from the sale of the stocks still unpaid at 28 February 2006) by the same date. Accordingly, given such undertaking, the plant and machinery and stocks of the Pompeii facility, and the associated debt vs. Aticarta, have been maintained in the balance sheet of the Group.

  The sale of Aticarta led to a gain of Euro 7.3 million at a consolidated level and a positive effect on the Group's net financial debt of 18.4 million (including Euro 3 million in terms of proceeds already received, Euro 3.3 million due to the removal from the consolidated statements of bank debt and Euro 12.1 million in terms of financial receivables).

The contribution of the companies solf in 2005 to the consolidated profit and loss account for the year ended 31 December 2005 (effect of the sale and result for the period) is included in the item "Discontinued operations".

Demerger operation

- In December, the RDM Board of Directors approved the partial and proportional demerger of RDM into a newly established company RDM Realty S.p.A. ("Realty"), through the assignment to the shareholders of RDM of one ordinary share of Realty for each ordinary or savings share of RDM held (the "Demerger"). On 7 and 14 February 2006 respectively, the extraordinary general meeting of shareholders and the special meeting of savings shareholder approved the demerger plan.

  The purpose of the Demerger is to give full value to the real estate assets held by the RDM Group, which do not form part of the Group's industrial assets; these assets consist of the land and buildings relating to a facility in Ciriè (TO) which are no longer in use, non-business areas adjacent to the facility in Magenta (MI) and certain property in Barcelona resulting from the project in progress with the Spanish company Espais Promocions Immobiliaries E.P.I. S.A. (referred to in the following as "Espais").

  The effectiveness of the Demerger is subject to obtaining approval from Borsa Italiana S.p.A. for the admission to trading of the ordinary shares of Realty on one of the markets regulated and administered by Borsa Italiana S.p.A. and the authorisation of Consob for the company to proceed with the issue of the listing prospectus.

  Realty will be a company dedicated to the development of industrial and non-industrial areas undergoing a redefinition of their use under town planning regulations and to the development and administration of properties for the service sector (such as logistics, tourism, commercial activities and entertainment); it will be equipped with a management having financial and property management skills who will coordinate internal resources and a network of technical consultants and partners.

  In more detail, the Demerger regards the land and buildings of the Ciriè facility referred to above, the entire capital of the subsidiary Red.Im. S.r.l. (referred to in the following as "Red.Im.") and an amount of Euro 12.4 Million due by Red.Im. to RDM.

  In order to concentrate those properties not forming part of the Group's cartonboard manufacturing operations in Red.Im., a company already owning non-industrial land and buildings in the Municipality of Magenta (MI), a series of operations between Red.Im. and other Group companies has been carried out.

  In particular, RDM has sold certain non-industrial property assets adjacent to the Magenta factory for a total amount of Euro 3.6 million (compared to a carrying value at 30 September 2005 of Euro 0.5 million) and Red.Im. has signed a preliminary agreement with RDM Iberica for the purchase of properties located in Barcelona (Spain), which will be handed over by Espais to RDM Iberica as a requirement of the agreement signed on 16 December 2003. Red.Im. has undertaken to pay an amount of Euro 32 million to RDM Iberica under the preliminary agreement.

With regard to those operations, short-term and long-term credit lines amounting in total to Euro 40 million in favour of Red.Im. ("Red.Im Loans") are currently being arranged, which will employed to repay the debt to the Group to carry out the transactions described earlier. These funds would be used in full by the Group to repay the Debenture Loan.

In addition, it is envisaged that as part of the conditions for the setting up of the new long-term loan to RDM described in the following paragraph, Alerion will undertake to assume control of Red.Im. if the Demerger has not been effected by 31 December 2006, in order that the RDM Group may deconsolidate the Red.Im. Loans. In this respect, the Board of Directors of RDM has resolved that it will take all the steps necessary to ensure that the Board of Directors of Red.Im. is given the powers to carry out an increase in capital to be set specifically aside for the conversion of a loan of Euro 20 million. This loan, which Alerion has agreed to lend, will be drawn down in the event that the Demerger has not been effected by 15 April 2006 and will be repayable on 31 December 2006.

The terms of this loan will include the mandatory requirement that it be converted into the capital of Red.Im. as the sole alternative if the Demerger has not yet been effected by 31 December 2006. The transfer of powers to the Board of Directors of Red.Im. will include the requirement that the capital increase be carried out at an overall price, including any premium, which is in line with the economic value of the company's capital.

For additional information regarding the Demerger operation and the future plans for Realty, reference should be made to the Demerger Plan and the Report of the Board of Directors on the Demerger which are available on the website www.renodemedici.it.

Restructuring of financial debt

- In December, the Board of Directors of RDM approved the setting up of a new long-term loan of Euro 60 million (the "RDM Loan"). The purpose of the RDM Loan is to repay the Debenture Loan by using in addition the proceeds arising from the sale of the investments in the packaging sector and the Red.Im. Loans described above. In this respect the main terms and conditions of these loans have been agreed with the lending banks and discussions are in course regarding the finalisation of the contractual documentation.

  Accordingly, the sources expected to repay the Debenture Loan of Euro 145 million on May 4th, 2006, are: (i) the RDM Loan of Euro 60 million, (ii) the financial resources resulting from the Demerger for Euro 40 million, and (iii) the proceeds resulting from the sale of EPG and Aticarta for the residual Euro 45 million.

Industrial restructuring

- In July, two agreements were reached with the competent trades union organisations regarding the facilities at Villa Santa Lucia and Magenta.

  Under the Villa Santa Lucia agreement approximately 20 employees will be laid off under the *mobilità* scheme, while under the Magenta agreement approximately 80 employees will be laid off under the *cassa integrazione ordinaria* scheme. The Magenta agreement is connected with the discontinuation of production of the MC1 board machine ("MC1"), which had been dedicated to manufacturing virgin fibre cartonboard, following the weak performance of demand for that type of product which was not sufficient to enable this production unit to reach profitability levels in line with those of the Group's other facilities.

- In September, RDM reached an agreement with Termica Boffalora S.r.l. (a company in which the Edison Group holds a 70% controlling interest and RDM holds the remaining 30%) to revise the terms of contract for the supply of thermal energy to the Magenta facility and to settle the contractual relations between the two companies. In brief, following the renegotiation of the supply contract for Magenta, RDM will have the advantage of an annual benefit of an estimated Euro 2 million and the extension of the contract until December 2009.

- In December, an agreement was finalised between RDM Iberica and the respective Spanish trades union representatives for the termination of the employment contracts of the employees of the Prat factory, at which manufacturing operations had already ceased in November 2005.

  The RDM Group will continue its manufacturing activities solely at the Almazan facility, maintaining however a commercial presence by integrating the sales structures of RDM Iberica and its subsidiary Barneda S.A..

Finally, in February 2006, an agreement was reached with the competent trades union organisations regarding the facilities at the Marzabotto facility, under which the workforce at that site will be reduced by approximately 30 employees (cf. Subsequent events).

The contribution (in terms of net operating result) made by the Prat facility and the Magenta MC1 to the consolidated profit and loss account for the year ended 31 December 2005 have been reclassified to the item "Discontinued operations". In this respect, the Group is currently exploring the opportunities to sell the plant and machineries of these two discontinued production units.

ECONOMIC AND FINANCIAL PERFORMANCE OF THE RENO DE MEDICI GROUP

The results of the RDM Group, the principal items of the balance sheet and the composition of the Group's net financial position are set in the following.

The contributions made to profit and loss by the companies sold during the year, EPG, Aticarta and Cogeneracion Prat in terms of the gain or loss arising on sale and their result for the period are presented under the item "Discontinued operations". Included in the same item are the net operating results of the Prat facility and the Magenta facility MC1, both of which ceased activity in 2005. In order to have a consistent presentation, the 2004 figures have been reclassified in this respect.

PROFIT AND LOSS ACCOUNT

(Millions of Euros)	**2005**	**%**	**2004**	**%**
Net revenues	295.3		302.0	
Operating costs	(272.7)		(275.4)	
Other operating income (expenses)	4.8		4.6	
Gross Operating Profit (EBITDA)	**27.4**	**9.3**	**31.2**	**10.3**
Depreciation, amortisation and write-offs	(26.2)		(26.0)	
Operating Profit (Loss) (EBIT)	**1.2**	**0.4**	**5.2**	**1.7**
Net financial income (expenses) and income from investments	(9.9)		(8.0)	
Other income (expenses)	(16.1)		0.0	
Taxation	(0.1)		(2.3)	
Profit (loss) for the period before discontinued operations	**(24.9)**	**(8.4)**	**(5.1)**	**(1.7)**
Discontinued operations	12.1		(2.5)	
Profit (loss) for the period	**(12.8)**	**(4.3)**	**(7.7)**	**(2.5)**
Profit (loss) for the period attributable to the Group	**(13.3)**	**(4.5)**	**(8.1)**	**(2.7)**

The RDM Group achieved net revenues in 2005 of Euro 295 million compared to Euro 302 million in 2004. The drop of 2% is the result of the combined effects of changes in the dynamics of volumes and variations in unit sales prices.

In particular, volumes reached 606,000 tonnes in 2005, representing an increase of 1.8% over the 595,000 tonnes sold in 2004. These figures exclude volumes sold by the business units discontinued during 2005 (the Prat facility and the Magenta MC1) and as a result correspond to the net revenues as stated above. There has been an upward trend in volumes during the year, compared to the previous period, and in the final quarter there was an increase of 9% over the final quarter of 2004. The production volumes of operating facilities reached 610,000 tonnes compared to 596,000 tonnes in the previous year.

On the other hand, unit sales prices fell on average by around 4% compared to 2004, a year in which there was already a gradual decrease in prices compared to the prior year. In this regard, average unit sales prices in the final quarter of 2005 for the types of cardboard manufactured by the Group suffered a cumulative fall of 9% compared to the first quarter of 2004. This trend, which has been affecting all sale markets (with the exception of overseas markets), although each to a different extent, eased off in the last quarter of the year when the major European producers, one of whom is RDM, announced increases in sales price starting from 2006.

The following table shows the breakdown of net revenues for geographic area:

(Millions of Euros)	**2005**	**%**	**2004**	**%**
Area				
Italy	157.3	53.3	160.0	53.0
UE	103.6	35.1	105.8	35.0
Extra UE	34.5	11.7	36.2	12.0
Net revenues	**295.3**	**100.0**	**302.0**	**100.0**

The drop in net revenues, equal to Euro 6.7 million in absolute terms, was partially compensated by a decrease in operating costs of Euro 2.8 million. This decrease is the result of a additional efficiencies achieved at the Group's factories, which have enabled variable production costs, excluding energy costs, to be reduced by 6% (in unit terms) and fixed and central costs by 7% over 2004 (excluding the fixed costs regarding the Magenta MC1). On the other hand there has been a notable increase in energy costs, in particular the cost of natural gas, which (in unit terms) increased by around 8% compared to those of the previous year.

As a result of the matters discussed above, gross operating profit for the year reached Euro 27.4 million compared to Euro 31.2 million in 2004, with a reduction as a percentage of net revenues of around one percentage point. In addition, EBITDA for 2005 is stated after charges to provisions of Euro 1.3 million (Euro 2.4 million in 2004).

Depreciation, amortisation, write-downs and revaluations for recovery in value remained essentially in line with the figure for 2004, and accordingly the drop in EBITDA leads directly to a similar fall in operating profit, which closed at Euro 1.2 million compared to Euro 5.2 million in 2004.

Net financial expense increased overall by Euro 1.9 million. Despite this, that part of net financial expense relating to interest-bearing debt, which also includes exchange gains and losses and the change in fair value of derivative financial instruments, fell overall by Euro 1.2 million. As a result, the increase arises principally from lower investment income for Euro 1.1 million and the recognition in 2004, in accordance with IFRS, of a capital gain of Euro 1.4 million arising from the repurchase of a part of the Debenture Loan at a price lower than its nominal value. In addition, this item includes the financial effect of discounting the receivable from Grupo Torras S.A. which, in accordance with IFRS, was stated in the transition balance sheet at 1 January 2004 at a present value based on the expected timing of its receipt.

(Millions of Euros)	**2005**	**2004**
Net financial expenses	(12.6)	(13.8)
Gain on purchase of RDM International debentures	0.0	1.4
Present value adjustment of Grupo Torras receivable	0.7	1.2
Income from equity investments	2.0	3.1
Total	**(9.9)**	**(8.0)**

Other non-operating expense of Euro 16.1 million (which did not rise in 2004) is principally due to the non-cash realignment of the carrying value of the receivable from Grupo Torras S.A. to the amount implicit in the first level sentence issued by the Court of Madrid in September 2005. The adjustment for this realignment is classified after the operating result as it is the consequence of a dispute which arose in 1993 from earlier events in the Saffa Group, today part of the RDM Group, which do not pertain to the latter's operations. Other non-operating expense include additionally the legal expenses connected with this dispute and certain expenses incurred as part of the Demerger project (discussed earlier) for a total of Euro 0.8 million.

There is an overall profit of Euro 12.1 million from discontinued operations, which includes the net gains of Euro 32.3 million arising from the sales of EPG, Aticarta and Cogeneracion Prat and the result for the period of those three companies, and the contribution (in terms of net operating result) from the operations at the Prat facility and the Magenta MC1 that were discontinued during the year, which amounted to an overall net loss of Euro 20.2 million.

(Millions of Euros)	**2005**	**2004**
Net gain (loss) from sales	32.3	0.0
Results for the period	(20.2)	(2.5)
Discontinued operations	**12.1**	**(2.5)**

There is a net loss for 2005 of Euro 12.8 million compared to the net loss for 2004 of Euro 7.7 million. The loss for 2005 pertaining to the Group is Euro 13.3 million (Euro 8.1 million in 2004).

Balance sheet

The following table sets out the principal balance sheet items. The balance sheet at 31 December 2005 does not include the balances relating to those companies which left the scope of consolidation during the year, whereas the balance sheet at 31 December 2004 does include such balances.

(Millions of Euros)	31.12.2005	31.12.2004
Trade receivables	106.9	141.8
Stocks	93.0	119.6
Trade payables	(72.6)	(108.0)
Working capital	**127.3**	**153.3**
Other current assets	2.6	6.9
Other current liabilities	(28.0)	(29.8)
Non-current assets	218.2	320.9
Non-current assets held for sale	20.2	8.9
Non-current liabilities	(3.4)	(4.8)
Invested capital	**337.0**	**455.5**
Employees' leaving entitlement and provision funds	(24.7)	(51.9)
Net invested capital	**312.3**	**403.6**
Net financial indebtedness	169.3	247.5
Shareholders' equity	143.0	156.1
Total sources	**312.3**	**403.6**

For the purpose of simplifying a comparison of the items in the Group balance sheet on a like-on-like consolidation scope basis, pro-forma net capital invested at 31 December 2004 has been determined by excluding the balance sheet items regarding EPG, Aticarta and Cogeneracion Prat.

(Millions of Euros)	31.12.2005	31.12.2004 pro-forma
Trade receivables	106.9	113.8
Stocks	93.0	99.3
Trade payables	(72.6)	(83.3)
Working capital	**127.3**	**129.8**
Other current assets	2.6	2.0
Other current liabilities	(28.0)	(18.5)
Non-current assets	218.2	271.5
Non-current assets held for sale	20.2	5.6
Non-current liabilities	(3.4)	(1.5)
Invested capital	**337.0**	**388.9**
Employees' leaving entitlement and provision funds	(24.7)	(36.8)
Net invested capital	**312.3**	**352.1**

The decrease in stocks of approximately Euro 6.3 million occurred mainly in the final quarter of the year and generated trade receivables at year end with due dates in the first few months of 2006. Trading working capital decreased as a result by approximately Euro 2.5 million.

The decrease in non-current assets is principally due to the write-down of the receivable of RDM Iberica from Grupo Torras S.A. and the fact that depreciation and amortisation exceeded the capital expenditures of the year.

The decrease in the Employees' leaving entitlement and other provisions is in the main due to the utilisation of the restructuring provision made by RDM Iberica in connection with the termination of employment of the staff at the Prat facility.

At 2005 year end, net invested capital is financed by net financial indebtedness for 54% and by shareholders' equity for 46% (respectively 61% and 39% at 2004 year end).

Net financial position and cash flow

Net consolidated financial debt at 31 December 2005 amounted to Euro 169 million (this figure includes deposits of Euro 7 million which have been set aside for the liquidation of the staff at the Prat facility) in respect of Euro 248 million at 2004 year end. The reduction is principally due to the sales of EPG, Aticarta and Cogeneracion Prat S.A., which have already been discussed and which led to a benefit of Euro 70 million (of which Euro 36 million relates to proceeds already received and Euro 34 million to the elimination from the consolidated balance sheet of financial debt and the recognition of financial receivables). On the other hand, the RDM Group has incurred non-recurring cash outflows of Euro 16 million, due mainly to the termination settlement with the staff of Prat, which is still in progress, and the purchase of Cartiera Alto Milanese S.p.A. and other businesses dedicated to the maintenance of the Magenta and Marzabotto facilities.

(Millions of Euros)	**31.12.2005**	**31.12.2004**	**Variation**
Cash and cash equivalents and short-term financial receivables	75.3	25.1	50.2
Short-term financial payables	(225.6)	(77.1)	(148.5)
Valuation of current portion of derivatives	4.1	(0.8)	4.8
Short-term financial position	**(146.2)**	**(52.7)**	**(93.5)**
Long-term financial receivables	5.2	0.0	5.2
Long-term financial payables	(28.3)	(198.8)	170.5
Valuation of non-current portion of derivatives	0.0	3.9	(3.9)
Net financial position	**(169.3)**	**(247.5)**	**78.3**

In particular, at 31 December 2005 the item "Cash and cash equivalents and short-term financial receivables" consists of available funds of Euro 44.8 million, restricted deposits of Euro 12 million and current loans receivable of Euro 18.4 million. The latter balances relate mainly to financial receivables from Aticarta and Atipackaging of Euro 12 million and the residual portion of the sales price of EPG of Euro 5,5 million due from New EPG S.r.l..

Short-term interest-bearing debt amounts to Euro 220 million and includes the residual balance of the debenture loan of Euro 145 million, repayable in May 2006, the short-term portion of long-term loans of

Euro 16.7 million and short-term bank debt of 58.3 million euros, principally made up of advances on trade receivables.

The additional short-term debt amounting to Euro 5.5 million is due to EPG and is connected with the purchase by RDM of Aticarta, which took place prior to the sale of EPG to New EPG S.r.l..

Long-term financial receivables relate to the vendor loan of Euro 3 million granted to New EPG S.r.l. and the components of the deferred part of the proceeds for the sale of Cogeneracion Prat and the financial receivables from that company.

Long-term interest-bearing debt amounts to Euro 28.3 million. Repayments of Euro 14 million of long-term debt were made in 2005.

Research and development activities

The research activities carried out with various users of Group products (packaging companies and final customers) were continued in 2005. These are aimed at identifying particular applications needs that are not covered by the materials currently available and the starting up of specific research projects, which are to be carried out in collaboration with external companies and occasionally with the support of the appropriate public authorities.

Capital expenditures

Capital expenditures made in 2005 amounted to Euro 10.1 million (Euro 11.9 million in 2004).

The objective of these investments was to reduce variable costs, improve quality and carry out maintenance of an extraordinary nature on RDM plants. In particular:

- at the Villa Santa Lucia facility, work has been carried out in connection with the preparation of the paste for the cover line (to reduce the cost of the paste and the cost of energy) and on the system for managing scrap from the process;
- at the Magenta facility, work has been carried out on the system for managing scrap from the process;
- at the Santa Giustina facility, work has been carried out in connection with the preparation of paste for the centre and rear lines (to reduce the cost of the paste and the cost of energy) and on the system for managing scrap from the process;
- at the Marzabotto facility, the gas turbine in the cogeneration plant has been replaced;
- at the Ovaro facility, the distribution control system (DCS) of the second board machine has been implemented.

Human resources

The Group's workforce at 31 December 2005 totalled 1,326, of whom 62 temporarily laid off under the state-subsidised *cassa integrazione* scheme. The number of Group employees is lower by 866 over the previous year as the result of the sales of the investments in EPG, Aticarta and Cogeneracion Prat and the restructuring of activities which led to the closure of the Prat facility and the reduction of the workforce at the Magenta and Villa Santa Lucia facilities. At 31 December 2005, the Group's workforce consisted of 22 executives and managers, 359 white-collar employees and 945 blue-collar employees.

CORPORATE GOVERNANCE

The corporate governance system adopted by RDM is based on the principles of the Code of Self Regulation (*Codice di Autodisciplina*) for Listed issued by Borsa Italiana in 1999 and modified in 2002.

This was achieved by creating a model in line with that recommended by the Code of Self Regulation, excluding those provisions of the Code believed unnecessary due to the specific characteristics of the company and its operating practices. In addition, since the company is also listed on the Madrid and Barcelona Stock Exchanges, the recommendations of the Codigo de Buen Governo del las Societadas Cotizadas (the so-called Informe Olivencia) have also been taken into consideration in designing the system of corporate governance.

The corporate governance structure described below will be reviewed by RDM in the current year with the purpose of assessing the adoption of any of the additional recommendations made by Borsa Italiana S.p.A. in the revised Code of Self Regulation issued in March 2006.

The following bodies are responsible for the company's corporate governance and for safeguarding its internal control system.

BOARD OF DIRECTORS

– *Composition of the Board of Directors*

The Board of Directors of RDM is made up of not fewer than seven and not more than 15 members. Under Article 12 of the company's bylaws, the number is determined by shareholders in general meeting.

The current Board of Directors was appointed by shareholders in general meeting on 4 May 2004, at which shareholders resolved that the Board should be composed of 11 members.

At 31 December 2005, the Board of Directors was made up as follows:

- Giuseppe Garofano (Chairman)
- Carlo Peretti (Deputy chairman and independent director)
- Ignazio Capuano (Managing director)
- Marco Baglioni (Independent and non-executive director)
- Giancarlo De Min (Executive director)
- Piergiorgio Cavallera (Non-executive director)
- Mario Del Cane (Executive director)
- Michael Groeller (Non-executive director)
- Ambrogio Rossini (Executive director)
- Vincenzo Nicastro (Independent and non-executive director)

On 31 December 2005, Ugo Dell'Aria Burani resigned from the position of deputy chairman and member of the executive committee of RDM. On 24 January 2006, the Board of Directors of RDM resolved not to co-opt a substitute.

The current directors hold office until the date on which the 2006 financial statements are approved by shareholders.

Given the authority and ability which distinguishes the non-executive directors, their judgement takes on a significant weight in decisions taken by the board.

The three independent directors – Carlo Peretti, Marco Baglioni and Vincenzo Nicastro – are qualified to act as such in respect of Article 3 of the Code of Self Regulation and Article 2.2.3, paragraph 3, subparagraph (h) of the Stock Exchange Regulations as:

(i) they have no economic relationships of either a direct or in direct nature or through third parties, nor have they recently had such relationships, with the company, with its subsidiaries, with any of the executive directors or with the controlling shareholder, of such importance as to affect their independent judgement;

(ii) they do not have shareholdings, either directly, indirectly or through third parties, of a nature such as to be able to exercise control or significant influence over the company, nor are they party to any agreement having as its objective such control;

(iii) they are not the spouse, cohabitant, relative or relation up to the second degree of an executive director of the company or of a shareholder who controls the company, nor are they the spouse, cohabitant, relative or relation up to the first degree of persons who are included in either or both of the situations described in (i) and (ii) above.

The independence of the individual directors has been verified by the Board of Directors on the basis of the criteria established in the Code of Self Regulation and the parameters established in the Stock Exchange regulations and related instructions for companies belonging to the Star segment of the Stock Exchange. The independent directors have provided a written statement to the Board of Directors confirming that they satisfy the independence requirements.

The presence of non-executive directors at the heart of the managing body of RDM is an a *priori* means of ensuring the broadest protection of good corporate governance, carried out through discussion and dialectic with other directors.

– *Office held by directors in other companies*

The following is a list of situations in which the directors hold office in other companies either as director or statutory auditor:

Director	Company	Office held
Giuseppe Garofano	Efibanca S.p.A.	Director
	CBM S.p.A.	Director
	Fondazione Matarelli	Director
	Nelke S.r.l.	Director
	Partecipazioni Italiane S.p.A.	Director
	Solidarietà Nuova Cooperativa Sociale	Director
	Sviluppo del Mediterraneo S.p.A.	Director with specific functions
	Università Campus Bio-Medico di Roma	Director
Carlo Peretti	Risanamento S.p.A.	Director
	Vodafone Omnitel NV	Chairman
	Bull S.p.A.	Director
	Fondo Investimento Equinox	Member of Supervisory Board
	Gancia S.p.A.	Director
	Data Service S.p.A.	Director
	Aster Termo Impianti S.p.A.	Chairman
	B.T.S. S.p.A.	Chairman
	Consorzio Cefriel	Director
	Fondazione Giovanni Lorenzini	Director
	ISPI S.p.A.	Director
Piergiorgio Cavallera	Comieco – Consorzio Nazionale Recupero e Riciclo degli Imballaggi a base Cellulosica	Deputy chairman
Michael Groller	Mayr-Melnhof Karton AG	Chairman of Supervisory Board
	RHI AG	Chairman of Supervisory Board
Ambrogio Rossini	Credito di Romagna S.p.A.	Director
Vincenzo Nicastro	Unicredito S.p.A.	Standing auditor
	Unicredit Banca d'Impresa S.p.A.	Standing auditor
	Schiapparelli 1824 S.p.A.	Standing auditor
	Sintech S.p.A.	Standing auditor
	Schiapparelli Pikenz S.p.A.	Chairman of the Board of Statutory Auditors
	My Way Airlines S.r.l.	Chairman of the Board of Statutory Auditors
	Nutritionals Schiapparelli S.r.l.	Standing auditor
	STIM S.p.A.	Standing auditor
	CHIA INVEST S.p.A.	Standing auditor
	Filati Bertrand S.p.A. in amministrazione straordinaria	Member of Supervisory Board

– *Office held by directors in other companies of the RDM Group*

Certain directors are also directors in other companies of the RDM Group as follows:

Director	Company	Office held
Ignazio Capuano	Reno De Medici Iberica S.L.	Director
	RED. IM S.r.l.	Chairman
	Emmaus Pack S.r.l.	Chairman
Giancarlo De Min	Reno De Medici Iberica S.L.	Director
	Barneda Carton S.A.	Director
	Emmaus Pack S.r.l.	Director
Piergiorgio Cavallera	RED. IM S.r.l.	Director
Mario Del Cane	Reno De Medici Iberica S.L.	Chairman and managing director
	Barneda Carton S.A.	Chairman
	RDM International S.A.	Chairman
	RED. IM S.r.l.	Director
	Reno Logistica S.p.A. in liq.	Liquidator

– *Powers of directors*

In accordance with the provisions of Article 1 of the Code of Self Regulation, the Board of Directors is vigilant over the course taken by operations in general and, in particular, over those operations in which the directors themselves have an interest either for themselves or for third parties, as referred to in Article 14 of the bylaws, and over the Company's more significant economic and financial operations and transactions. In general terms, the Board of Directors operates in such a way as to guarantee the performance of their management functions in an effective and effectual manner, issuing periodic reports thereon to the Board of Statutory Auditors.

As stated in Article 15 of the bylaws, the Board of Directors has the widest powers of ordinary and extraordinary management and, accordingly, holds all the powers necessary and required to achieve the Company's objects, excluding specifically those powers reserved for the shareholders in general meeting.

As stated in Article 17 of the bylaws and in accordance with the provisions of Article 1.2, paragraph (b) of the Code of Self Regulation and within the bounds of the law, the Board of Directors may appoint one or more managing directors, for whom the Board may delegate specific powers within those of the Board itself.

In the light of the foregoing discussion, the Board of Directors of RDM unanimously resolved on 7 May 2004 the appointments to company office.

The Board has granted to the chairman Giuseppe Garofano the power as legal representative of the Company and all those powers necessary for the ordinary and extraordinary management of the Company, with the authority as sole signatory for payments or withdrawals that singly do not exceed Euro 10 million, excluding intragroup transfers for which there is no limit.

The Board has granted to the managing director Ignazio Capuano the power as legal representative of the Company and the same powers granted to the chairman, namely all those powers necessary for the ordinary and extraordinary management of the Company, with the authority as sole signatory for payments or withdrawals that singly do not exceed Euro 10 million, excluding intragroup transfers for which there is no limit.

The Board has granted to Mario Del Cane all those powers necessary for the ordinary management of the following activities: administration, finance, cost control, systems and equity investments, with the authority as sole signatory for commitments for expenses that do not exceed Euro 0.5 million, for payments or withdrawals that do not exceed Euro 1.5 million and for internal and intragroup transfer without limit; and as joint signatory with either Mario del Cane or Giancarlo De Min for payments or withdrawals up to an amount of Euro 5 million for each single operation.

The Board has granted to Giancarlo De Min all those powers necessary for the ordinary management of the following activities: production, research, development, safety and environmental, technological innovation, investments in plant, equipment and systems of an innovative, modifying or preventive nature, with the authority as sole signatory for commitments for expenses that do not exceed Euro 0.5 million and as joint signatory with either Ignazio Capuano or Mario del Cane for payments or withdrawals up to an amount of Euro 5 million for each single operation. These powers must be exercised through agreement with the managing director in order that he may be in a position to coordinate all the Company's activities.

The Board has delegated Ambrogio Rossini with the responsibility for strategic coordination, the supervision and the general control of all those activities carried out in relation to purchases made by the Company or Group companies, with the authority as sole signatory for commitments for expenses that do not exceed Euro 0.5 million. These powers must be exercised through agreement with the managing director in order that he may be in a position to coordinate all the Company's activities.

There is no minimum frequency of meetings of the Board of Directors under the bylaws. The Board met eight times in 2005 with an average attendance of 92%. The Board has met three times from 1 January 2006 to the date of the present Report and a further four meetings have been planned to approve the first three quarterly reports and the half-yearly report for 2006.

It is the Company's practice for all such meetings to provide members of the Board at a reasonable time in advance with all the necessary documentation needed for them to be able to come to decisions in an informed manner on the questions placed before them.

In line with the matters indicated in the Code of Self Regulation and with those required by the controlling authority, the Chairman reports the activities carried out in the performance of his duties to the Board of

Directors and to the Board of Statutory Auditors at the periodic meetings of the Board of Directors, with particular reference to atypical or unusual operations or those carried out with related parties.

An Executive Committee of the Board of Directors has been established in accordance with Article 16 of the bylaws and with Article 2381 of the Civil Code. Following the meeting of the Board of Directors on 7 May 2004, and after the resignation of one of its members, Ugo Dell'Aria Burani, this Committee is made up as follows:

- Giuseppe Garofano;
- Ignazio Capuano;
- Carlo Peretti;
- Giancarlo De Min,

The Executive Committee meets whenever the Chairman, or his substitute, believes that this is appropriate. The Executive Committee met once in 2005, with all its members in attendance.

The Executive Committee is attributed with all the powers needed for the ordinary and extraordinary management of the Company, limited to amounts not exceeding Euro 20 million, other than for those matters reserved by law to the Board of Directors. The Executive Committee may make any resolution, of an ordinary or extraordinary nature, and with no limit to the amounts committed, if the members of the Executive Committee deem this necessary for specific operative requirements for which urgent action must be taken.

The Executive Committee provides the Board of Directors with thorough details of the resolutions made.

– *Appointment and emoluments of directors*

The Company does not have a formal procedure to prepare a list of candidates for appointment as Director, but it is established practice for the shareholders to file the names and curricula vitae of candidates for the Board at the Company's registered office prior to the general meeting. The Company did not establish an appointments committee.

However, a Remuneration Committee was established, consisting of Giuseppe Garofano, Carlo Peretti and Vincenzo Nicastro. This Committee may be assisted by internal personnel or external consultants.

The Committee's activities in 2005 related in particular to putting into effect the incentive scheme for top management, availing itself of the services of a specialist firm in this respect.

The Board of Directors is responsible for the determination of the Chairman's emoluments and those of Directors holding Company office, following consultation with the Board of Statutory Auditors. The Board is also responsible for the allocation to individual directors of the total emoluments due to Board members, if this decision has not already been taken by shareholders in general meeting.

THE INTERNAL CONTROL SYSTEM

As described in Article 9.1 of the Code of Self Regulation, an internal control system is a set of procedures established to monitor the efficiency of a company's operations, the reliability of its financial information, the respect of the law and other regulations and the safeguarding of its assets. The internal control system should meet the needs of pursuing a sound and efficient management and identifying, preventing and dealing with financial and operating risks and fraud, to the extent that this is possible.

The internal control framework of RDM is made up of an organisational structure, operative empowerment and procedures having the following objectives:

- the identification and assessment of business risks;
- an assessment of the reliability of accounting and operational information;
- the safeguarding of the Company's assets;
- an assessment of the effectiveness and efficiency of the Company's operating processes;
- an assessment of the conformity of business conduct with laws and other regulations;
- an assessment of the conformity of business conduct with the Company's directives and procedures.

In this framework, the Board of Directors has the responsibility for the main issues encountered and for setting up the more important projects relating to internal control matters, for appointing internal control bodies and for selecting the name of the auditing firm to propose to shareholders in general meeting for appointment to the audit and accounting control engagements.

– *Internal control committee*

In conformity with Article 10 of the Code of Self Regulation and with Article 2.2.3, paragraph 3, subparagraph (i) of the Stock Exchange Regulations, the Board of Directors has established an Internal Control Committee to which has been assigned the responsibility for initiating the more important schemes regarding the control of business activities.

This Committee made up of the chairman, Carlo Peretti, and Marco Baglioni and Vicenzo Nicastro, all of whom are independent directors.

The following functions have been assigned to the Internal Control Committee:

- to provide assistance to the Board of Directors in establishing the guidelines of the internal control system and in ensuring periodically that the system continues to be suitable and is working effectively;

- to assess the work programme prepared by the internal control officer and to receive the periodic reports prepared by him;
- to assess together with the Company's administrative heads and with the independent auditors the suitability of the accounting principles and policies adopted by the Company and the consistency of their application in the preparation of the consolidated financial statements;
- to assess the proposals made by the independent auditors for their engagement and the audit work programme and to consider the comments made in the independent auditors' report;
- to report to the Board of Directors on the work performed by the Committee and the adequacy of the internal control system. This report is to be made out at least once every six months, on the approval of the financial statements for the year and for the half-year;
- to perform any additional duties which the Board of Directors may assign from time to time, in particular in connection with relations with the independent auditors.

The Committee met eight times during 2005 and has followed the work performed by the specialist firm mentioned above relating to the identification and analysis of business risks. The managing director, the members of the Board of Statutory Auditors, at least one of whom was always present at the 2005 meetings, and the internal control officer are all invited to attend the meetings of the Committee; such attendance also forms part of the Committee's operative regulations.

– *Internal control officer*

The internal control officer (the "Preposto") is appointed by the Board of Directors on the proposal of the Internal Control Committee.

In conformity with Article 9.4 of the Code of Self Regulation, the internal control officer does not respond directly to the head of any operating area, but reports directly to the Chairman, presenting the results of his activity to the Board of Directors, the Internal Control Committee and the Board of Statutory Auditors.

The internal control officer has the responsibility to support the managing director and management in identifying the major business risks and to present these for consideration to the Internal Control Committee and, on agreement with the managing director, to the Board of Directors, who decide on the priority under which action will be taken. In addition, he has the responsibility to establish a programme for the Internal Auditing Function and to ensure that the procedures put into place to manage significant risks are being respected.

On 26 June 2005, the Company's Board of Directors appointed Alfredo Andreoli as internal control officer, to take the place of Federico Navotti who had handed in his resignation.

During the first half of 2005, the project to document the main business processes continued and was taken to completion, with the assistance of a consulting firm and the coordination of the internal control officer. The risk assessment procedures carried out enabled the areas of potential business risk to be identified and priorities to be established for the design and implementation of the related controls.

In the second part of the year, steps were begun to adapt the internal control system to one based on the dual objectives of effectiveness and compatibility in terms of deployment and cost, leading to an extensive programme of restructuring and change which concerned and continues to concern at the present the way in which the Company is organised.

The main stages realised in this process are as follows:

- the approval and adoption of an Ethical Code, as the authoritative reference source for the principles of conduct for all those who interact with the Company;
- the approval and adoption of an Organisational, Management and Control Model pursuant to Legislative Decree no. 231/2001 and subsequent regulations, discussed in the following paragraph;
- an analysis of the organisational structure of the Company, the system of delegation and the procedures in place whose purpose is to revise, update and modify on the basis of the underlying rules of internal control adopted;
- the definition of the executory programme which will take up more or less the whole of 2006.

– *The organisational and administrative model as per Legislative Decree no. 231/2001*

In the context of strengthening the internal control system and integrating its own needs from this system with those of Legislative Decree no. 231/2001 regarding the administrative responsibilities of companies, on 28 September 2005 the Board of Directors approved the adoption of an Organisational, Management and Control Model (the "231 Model") envisaged under this law, and has established a Supervisory Body which is responsible for ensuring its effective implementation, proper functioning and updating as necessary.

The independent director Carlo Peretti, the internal control officer Alfredo Andreoli and the executive Alessandro Passaro, chief financial officer of RDM, have been appointed to make up the Supervisory Board. Each of these three has signed an individual statement that he is fully compatible with the requirements for holding this specific office.

The 231 Model adopted by the Company has been prepared from the bottom up by a process of documenting those activities and areas which are the most sensitive in relation to the offences envisaged by the law. The introduction of this model, which is considered wholly complementary to the objectives of the internal control system in their broadest sense, has led to the need to define certain testing standards, to which business procedures will have to conform during the revision stage mentioned above if they already exist, or which will have to be added if not yet adopted. The changes which are required regarding market abuse are currently being implemented.

RELATED PARTY TRANSACTIONS

In consideration of the special importance that related party transactions hold within the activities of a listed company, not only does the Company adhere to the principals of the Code of Self Regulation and comply with Article 11 thereof, but it is also established practice that transactions with related parties be authorised solely by the Board of Directors.

In addition to these principles and without changing them in any way, the Company has also deemed it necessary to supplement its internal regulatory measures by adopting a specific procedure, approved by the Board of Directors on 24 January 2006, for the approval of “Significant transactions and transactions with related parties”, defining the means by which they are to be identified, the way in which they are to be carried out and documented and, in the event that there are matters of a particular importance, governing the manner in which resort is made to professionals and consultants for suitable support during the technical and evaluation stages.

TREATMENT OF PRIVILEGED INFORMATION

The Company has for some time adopted specific confidentiality and privacy guidelines for the classification and administration of its own business information, being aware that this information is a strategic component of the Company’s assets and a fundamental resource for the success of all the organisations which work with the RDM Group.

In this context, on 30 March 2006 the Board of Directors RDM approved new internal organisational procedures regarding market abuse which are in line with the new legislative and regulatory provisions in effect from 1 April 2006.

INTERNAL DEALING

Again on 30 March 2006, the Board of Directors of RDM approved new internal organisational procedures regarding internal dealing which are in line with the new legislative and regulatory provisions in effect from 1 April 2006.

RELATIONS WITH SHAREHOLDERS

The highest level of management is entrusted with meetings with shareholders, with whom relations are taken care of by the Investor Relator, Guido Vigorelli, who reports directly to the managing director.

As a rule, the Company takes part in the events organised by the Star segment of the Stock Exchange and updates its website on a timely basis with the information required by legislative and regulatory provisions, simultaneously providing information to all its shareholders and to the various markets on which it is listed.

GENERAL MEETINGS

In compliance with Article 13.2 of the Code of Self Regulation, all the Company's directors attend the general meetings of shareholders. The Company has deemed it unnecessary to establish a set of rules for these meetings.

One shareholders' meeting was held in 2005 for the approval of the financial statements.

BOARD OF STATUTORY AUDITORS

The Board of Statutory Auditors of RDM consists of three standing auditors, Sergio Pivato (Chairman), Carlo Tavormina and Gabriele Tosi and two substitute auditors, Michele Tosi and Gaudenzio Gadda. In addition, Carlo Tavormina is the Chairman of the Board of Statutory Auditors of Emmaus Pack S.r.l. and Reno Logistica S.p.A. in liquidation and a standing auditor of the associate Termica Boffalora S.p.A..

Article 19 of the Company's bylaws require the shareholders to appoint a Board of Statutory Auditors composed of three standing members and two substitutes, who may be reappointed. The shareholders determine the fees of the Board. The responsibilities, duties and term of office are determined by law.

The current Board holds office until the date on which the 2005 financial statements are approved.

The appointment to the Board of Statutory Auditors is based on a list of candidates, in numerical order, presented by shareholders. The list is divided into two parts: one for the office of standing member and one for that of substitute member. Minority interests have the right to elect one standing member and one substitute under the second paragraph of Article 19 of the bylaws.

Only those shareholders who, either individually or in party with others, represent at least three per cent of share capital with voting rights, may present lists. Each shareholder or shareholders belonging to the same group or to the same voting party of shareholders may present only one list, and may not vote for different lists, not even through a representative or trust company. Each candidate may be included in only one list, otherwise he will be considered ineligible. Persons may not stand as candidates if they already hold office as statutory auditor in five or more other listed companies, excluding Group companies, or if they do not possess the characteristics of respectability and professionalism required by the law.

The lists of candidates must be deposited at the Company's registered office at least ten days prior to the date of the first call of the shareholders' meeting and this information must be provided in the notice convening the meeting. Each list must include a statement by each candidate that they accept the nomination and declare under their own responsibility that there are no reasons why they may be considered ineligible or for which they are incompatible, and that they hold the requisites for office required by law and by the Company's bylaws. These statements must also be deposited within the same date. Any list which does not respect these conditions is considered as not deposited.

The procedure for the election of the statutory auditors is as follows:

1. Two standing members and one substitute are elected from the list which obtains the highest number of votes on the basis of the order in which they appear on that list.
2. One standing member and one substitute are elected from the list which obtains the highest number of votes after the first list on the basis of the order in which they appear on that list.

The first candidate on the list which has obtained the highest number of votes becomes Chairman of the Board. If only one list is presented, all the candidates included in that list are appointed as standing or substitute members

If a statutory auditor no longer holds the requisites for office required by law and by the Company's bylaws, he is automatically excluded from office and his place is taken by the substitute belonging to the same list as the excluded member.

The preceding regulations for election are not applicable in situations where the shareholders are required to appoint standing members, substitute members or the Chairman when it is necessary to bring the numbers of the Board back to the normal level as a consequence of the replacement of a member or on expiry (except that the principle described in paragraph two of Article 19 of the bylaws must be followed).

INVESTMENTS HELD BY DIRECTORS AND STATUTORY AUDITORS

The following information regarding the investments held by directors and statutory auditors in the Company and its subsidiaries is presented as a requirement of Consob Regulation no. 11971 of 14 May 1999, in accordance with format 3) of attachment 3 C) of that Regulation:

Person	Investee Company	Number of shares held at 31.12.2004	Number of shares purchased	Number of shares sold	Number of shares held at 31.12.2005
De Min Giancarlo	Reno De Medici S.p.A.	12,000 Owned			12,000 Owned

OTHER INFORMATION

DISPUTES IN COURSE

Amongst the current legal and arbitration proceedings, details are provided of the following:

– *Dispute with Grupo Torras S.A.*

The dispute with Grupo Torras S.A. relates to an accumulation of situations which go back to February 1991 and regard the former Saffa Group, which today is part of the RDM Group.

Details as to the origins and evolution of the dispute may be found in the reports included with the financial statements of previous years. In summary, it is recalled that in 2001 arbitrators found in favour of the RDM Group and required Grupo Torras S.A. to pay an amount of approximately Euro 48 million plus interest; on the appeal of the counterparty, the Appeals Court of Madrid overturned such decision in 2003 on the basis that the arbitrators did not have judicial competence in the matter without, however, providing its opinion on the merits of the case. As a result, the RDM Group took the decision to initiate civil proceedings at the Court of Madrid.

On 8 September 2005, the Court of Madrid lodged its sentence in which it only partially upheld the RDM Group's claim. In particular, Grupo Torras S.A. was sentenced to purchase from RDM Iberica 1,115,400 shares of Torraspapel S.A. for which it was obliged to pay an amount of Euro 50.7 million, excluding the dividends received by RDM Iberica from these shares.

However, the Court of Madrid of the first level deemed it necessary to reduce the above amount by the percentage employed in the creditors' arrangement (suspensiòn de pagos) for 1992 to 1998 in which Grupo Torras S.A. was the debtor. As a consequence, as the effect of the reduction due to the creditors' arrangement to which the counterparty was bound in connection with operations with the Saffa Group at a subsequent date, the Court of Madrid of the first level required that the creditors' agreement rate of approximately 11% be applied to the amount of Euro 50.7 million originally recognised.

As a result of these events, the carrying amount of the receivable from Grupo Torras S.A. has been prudently aligned to that implicit in the sentence of the Court of Madrid of the first level, both in the separate financial statements of RDM Iberica and in the consolidated financial statements.

All the same, RDM e RDM Iberica have appealed against the sentence of the Court of Madrid of the first level. Procedures for the appeal are under way and the parties are at the stage of lodging the petitions supporting their respective cases.

– *Disputes with road hauliers*

RDM and Reno Logistica in liquidation have been summonsed to appear in court following claims made by certain transport hauliers on the premise that the two Group companies did not respect the minimum transportation tariffs pursuant to Law no. 298/74.

In their appearance in court, RDM and Reno Logistica in liquidation raised a series of exceptions of both a preliminary nature and in regard to the merits of the case. These cases have only just begun and are consequently at a very early stage.

The RDM Group has made provision deemed suitable in respect of these disputes.

– *Criminal proceedings*

The Public Prosecutor of the Republic of Italy at the Court of Turin informed the successive managers in charge of the Ciriè facility from 1977 to 1993 by means of a formal "Notification to a Person Under Investigation pursuant to articles 369 and 369 bis of the Italian Criminal Code Procedure", issued on 10 March 2005, as to the commencement of criminal proceedings against them (Number 5110/05 R.G. notification of a criminal act), which have the purpose of ascertaining any possible responsibilities on their behalf for the decease through alleged illness of two former employees at the Ciriè facility during the performance of their professional duties from 1971 to 1993.

At the present date one single proceeding remains pending, for which a preliminary hearing was held in January 2006.

RATING

In June 2005, Standard & Poor's Rating Services lowered its rating of RDM's long-term debt from "B+" to "B". The same decision was taken for the Debenture Loan. In addition, Standard & Poor's Rating Services confirmed its "B" credit rating of RDM's short-term debt. The rating outlook was changed from stable to negative.

In November 2005, Standard & Poor's Rating Services maintained its rating of RDM's long-term debt and the debenture loan at "B", but at the same time put such ratings on "credit watch" with negative implications.

Finally, in December 2005 Standard & Poor's Rating Services confirmed these ratings on RDM.

RELATED PARTY TRANSACTIONS

As discussed earlier, in December 2005 RDM sold 100% of the share capital of Aticarta to Colleoni S.A., a Luxembourg company owned by Gastone Colleoni. At the date of the operation, Gastone Colleoni held office as Chairman of the Board of Directors of Aticarta and Atipackaging, a fully owned subsidiary of Aticarta. Gastone Colleoni is additionally the Chairman of the Board of Directors of Alerion and a shareholder in Alerion with a 3.35% holding in its share capital and moreover is a party to the shareholders' agreement of the company. Reference should be made to the paragraph entitled "Major operations of the RDM Group in 2005" for further details and to the press release of 20 December 2005.

It is hereby stated that there have been no transactions with related parties of an atypical or unusual nature, outside the normal course of business or such as to prejudice the Group's economic or financial situation.

Transactions carried out with related parties are part of ordinary business activities and within the normal course of business of those parties involved and are carried out on an arm's length basis.

The following transactions are described which form part of those carried out with related parties:

- services received by RDM from IBI S.p.A. (a company controlled by the shareholder Alerion) regarding an engagement for assistance in carrying out operations in 2005 of an extraordinary nature. Under this arrangement, total fees of Euro 900 thousand are due to IBI S.p.A. for 2005 in connection with the sale of the entire holding in Europoligrafico, the sale of the entire holding in Aticarta; and the Demerger plan. In addition, in 2006 other fees of Euro 900 thousand are payable to IBI S.p.A. on the completion of the Demerger and on the completion of the new financing agreements and the full repayment of the Debenture Loan;
- services received by RDM from IBI S.p.A. (a company controlled by the shareholder Alerion S.p.A.) regarding a consultancy engagement aimed at rationalising manufacturing costs, for Euro 355 thousand;
- trading relations of RDM with Kolicevo Karton d.o.o., for the purchase of cartonboard for Euro 2,766 thousand, net of quantity rebates received during the year. The company is owned by the Mayr-Melnhof Karton A.G. Group, of which the director Michael Groller is chairman of the supervisory board;
- trading relations between the subsidiary Emmaus Pack S.r.l. and the companies Immobiliare ANSTE S.r.l. and ANSTE Autotrasporti S.r.l., both of which relate to the Oldani family which owns 49% of Emmaus Pack S.r.l.. The transactions consist of rental instalments of Euro 208 thousand and transportation and ancillary services of Euro 521 thousand.

For purposes of completeness, it is noted that on 29 June 2005 a binding purchase contract was signed for the purchase of a controlling share in CAM, through the acquisition of its holding company Holcart S.r.l. owned by Giovanni Dell'Aria Burani; details of this were provided in the Reports of the Board of Directors of previous years. As envisaged, the price paid amounted to Euro 1,500 thousand.

"PROGRAMME SAFETY DOCUMENT"

RDM has defined the "Programme safety document" in compliance with Legislative Decree no. 196/2003.

SUBSEQUENT EVENTS

Events of importance occurring after 31 December 2005 are set out in the following.

In connection with the action being taken at an industrial level aimed at reducing manufacturing costs, an agreement was reached in February 2006 with the trades union representatives at the Marzabotto facility to make a reduction of 40 employees in the workforce. Around 50% of these jobs, which relate to the management of stocks, will be outsourced in the future.

In March 2006, RDM made a formal application to Consob and Borsa Italiana S.p.A. respectively, for authorisation to proceed with the issuing of the listing prospectus of RDM Realty and approval for the admission of the ordinary shares of that company to trading.

With reference to the sale of Aticarta, it is expected that on 31 March 2006, RDM's outstanding receivable and payable balances with Aticarta and its subsidiary Atipackaging be settled, in accordance with the provisions of the agreement for the sale of Aticarta. As a result RDM will be repaid the loans that it had granted to those companies prior to the sale and will acquire the plant, machinery and stocks of Aticarta. Furthermore, it is expected that RDM and Aticarta will agree the rental by RDM of the entire mill of Pompeii up to 31 June 2007, as to allow RDM to remove and sell all plant and machinery in a more suitable period of time.

As regards the sale of the assets of the Prat facility (owned by RDM Iberica), approximately 140 employees had been terminated by the end of March 2006 out of a total of 190. The facility will cease activities altogether during the second half of 2006 with the disposal of its stocks.

Work is in progress with the arranger banks to formalise and settle the contractual documentation regarding the RDM Loan of Euro 60 million and the Red.Im. Loans of Euro 40 million. It is expected that this will be completed by the end of April and, as a result, within the timetable laid down for the repayment of the Debenture Loan, to be made using in addition the funds received from the sales of EPG and Aticarta.

FORECAST

There has been an appreciable increase in the volumes (in tonnes) sold and ordered during the first few weeks of 2006 compared to the corresponding period in 2005.

In particular, by 13 March there were increases of approximately 15% in volumes sold and 17% in orders compared to the previous year, with positive effects on machine load and the level of plant utilisation.

These orders, moreover, are the first which reflect the increases in sales prices announced by the Group at the end of 2005 and being taken forward into the current year.

On the other hand the concerns and uncertainties expressed over the trends in energy costs (relating to electricity and natural gas) continue, and by the end of February 2006 there had been an increase of approximately 13% in unit terms on the cost of the product (euro per produced tonne) compared to that at the end of February 2005. The trends in these costs and in petroleum-based raw materials will need to be constantly monitored in order to evaluate whether additional action is required to be taken on unit sales prices.

As a result, prospects for the current year remain linked to a confirmation of a gradual pick-up in the demand for consumer goods and, more generally, of steady growth in industrial production in the leading European economies, which would then reinforce the positive trend detected at the beginning of the year and enable higher industrial margins to be generated as a consequence of the increased efficiency achieved by the Group's production set up.

CONSOLIDATED FINANCIAL STATEMENTS RENO DE MEDICI GROUP

PROFIT AND LOSS ACCOUNT

(Thousands of Euros)	Note	31.12.2005	31.12.2004
Revenues from sales	A	295,310	302,013
Other revenues	B	5,094	3,853
Changes in stocks of finished goods		247	1,429
Cost of raw materials and services	C	(215,637)	(218,353)
Staff costs	D	(52,750)	(51,333)
Other operating costs	E	(4,286)	(5,746)
Income (expense) from non-current assets held for sale		(179)	(154)
Unusual income (expense)		(371)	(555)
Gross Operating Profit (EBITDA)		**27,428**	**31,154**
Depreciation and amortisation	F	(24,632)	(25,971)
Recovery of value and write-downs of assets	F	(1,588)	0
Operating Profit (EBIT)		**1,208**	**5,183**
Net financial expense		(12,587)	(13,771)
Gain on repurchase of Bond		0	1,430
Effect of discounting receivable from Grupo Torras S.A.		722	1,168
Financial income (expense), net	G	(11,865)	(11,173)
Income from investments	H	1,982	3,127
Other income (expense)	I	(16,077)	0
Taxation	Z	(111)	(2,258)
Profit (loss) for the year before discontinued operations		**(24,863)**	**(5,121)**
Gains (losses) from disposals, net		32,328	0
Loss for the period		(20,235)	(2,548)
Discontinued operations	J	12,093	(2,548)
PROFIT (LOSS) FOR THE YEAR		**(12,770)**	**(7,669)**
Attributable to:			
Profit (loss) for the year pertaining to the group		(13,261)	(8,084)
Profit (loss) for the year pertaining to minority interests		491	415
Earnings (loss) per share (Euros)		(0.05)	(0.03)
Earnings (loss) per share before discontinued operations (Euros)		(0.09)	(0.02)

BALANCE SHEET
ASSETS

(Thousands of Euros)	Note	31.12.2005	31.12.2004
Non-current assets			
Tangible fixed assets	K	193,174	267,193
Investment property	L	1,284	1,284
Goodwill	M	146	1,297
Other intangible assets	N	3,309	4,739
Investments accounted for under the equity method	O	14,216	17,825
Deferred tax assets	Z	577	0
Derivative financial instruments	U	0	5,183
Financial assets held for sale		219	256
Trade receivables	S	193	262
Other receivables	P	10,272	28,086
		223,390	**326,125**
Other non-current assets held for sale	Q	20,208	8,883
Total non-current assets		**243,598**	**335,008**
Current assets			
Stocks	R	92,979	119,613
Trade receivables	S	106,899	141,755
Other receivables	T	21,168	7,059
Derivative financial instruments	U	5,321	2,105
Financial assets held for sale		10	10
Financial assets at fair value		0	0
Liquid funds	W	56,779	25,003
Total current assets		**283,156**	**295,545**
TOTAL ASSETS		**526,754**	**630,553**

LIABILITIES AND SHAREHOLDERS' EQUITY

(Thousands of Euros)	Note	31.12.2005	31.12.2004
Shareholders' equity attributable to the group		142,251	155,512
Minority interests		759	560
Shareholders' equity	V	**143,010**	**156,072**
Non-current liabilities			
Bank loans and other financial liabilities	W	28,270	198,751
Derivative financial instruments	U	0	1,247
Other payables	AD	1,064	553
Deferred tax liabilities	Z	2,293	3,285
Employees' leaving entitlement	AA	17,324	29,823
Non-current provisions for contingencies and charges	AB	7,425	22,098
Liabilities directly associated with non-current assets held for sale		0	981
Total non-current liabilities		**56,376**	**256,738**
Current liabilities			
Bank loans and other financial liabilities	W	220,056	71,979
Derivative financial instruments	U	1,242	2,859
Trade payables	AC	72,552	108,024
Other payables	AD	33,247	33,461
Current taxation	Z	271	1,420
Total current liabilities		**327,368**	**217,743**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**526,754**	**630,553**

CASH FLOW STATEMENT

(Thousands of Euros)	**31.12.2005**	**31.12.2004**
Profit (loss) for the year before discontinued operations and before taxation	(24,752)	(2,863)
Depreciation and amortisation	24,632	25,971
Write-downs	16,906	0
(Gains) losses from investments	(1,982)	(3,127)
Financial (income) expense	11,865	11,173
Gains (losses) on the disposal of fixed assets	(246)	(54)
Change in trade receivables	6,970	14,631
Change in stocks	1,609	7,731
Change in trade payables	(10,766)	(5,476)
Change in other receivables	6,121	3,278
Change in other payables	7,185	(12,410)
Change in the employees' leaving entitlement	259	(4,936)
Change in other provisions and deferred taxation	(12,830)	(13,967)
Gross cash flows	**24,971**	**19,951**
Interest paid in the year	(13,511)	(14,379)
Taxes paid in the year	(2,358)	(2,070)
Cash flows from operating activities (1)	**9,102**	**3,502**
Sale (purchase) of financial assets held for sale	43	8,918
Investments	(10,507)	(14,638)
Divestments	860	1,050
Financial income	1,757	2,847
Dividends received	1,320	70
a. Gains on disposal of discontinued operations	*32,328*	*0*
b. Result for the period of discontinued operations	*(20,235)*	*11,424*
c. Change in assets and liabilities of discontinued operations	*24,361*	*0*
d. Change in other receivables/other payables of disposals	*(4,354)*	*0*
Cash flows from discontinued operations (a + b + c + d)	32,100	11,424
Change in scope of consolidation	4,577	(2,237)
Cash flows from investing activities (2)	**30,150**	**7,434**
Draw-down (repayment) of short-term bank borrowings and long-term loans	(5,684)	(20,299)
Dividends paid	(292)	(155)
Change in other financial liabilities	(1,500)	(3,845)
Cash flows from financing activities (3)	**(7,476)**	**(24,299)**
Change in restricted liquid funds (4)	**7,055**	**3,973**
Change in unrestricted liquid funds (1 + 2 + 3 + 4)	**38,831**	**(9,390)**
Unrestricted liquid funds at beginning of year	**5,976**	**15,366**
Unrestricted liquid funds at end of year	**44,807**	**5,976**
Liquid funds at end of year		
Unrestricted liquid funds	44,807	5,976
Restricted liquid funds	11,972	19,027
TOTAL LIQUID FUNDS AT END OF YEAR	**56,779**	**25,003**

STATEMENT OF CHANGES SHAREHOLDERS' EQUITY

Statement of changes in consolidated shareholders' equity (Thousands of euros)	**Share capital**	**Share premium reserve**	**Legal reserve**	**Other reserves**	**Retained earnings (losses) brought forward**	**Profit (loss) for the year**	**Own shares**	**Total shareholders' equity**
Shareholders' equity at 1 January 2004	**148,343**	**20,636**	**6,462**	**117,385**	**(24,204)**	**(100,026)**	**(5,374)**	**163,222**
Increase in share capital								
Distribution of dividends								
Change in accounting principle								
Reclassifications								
Changes in the scope of consoldation					374			374
Value adjustments recognised directly in equity								
Cover of 2003 losses		(11,752)		(90,066)	1,792	100,026		0
Profit (loss) for the year						(8,084)		(8,084)
Shareholders' equity at 31 December 2004	**148,343**	**8,884**	**6,462**	**27,319**	**(22,038)**	**(8,084)**	**(5,374)**	**155,512**
Increase in share capital								
Distribution of dividends								
Change in accounting principle								
Reclassifications								
Changes in the scope of consoldation								
Value adjustments recognised directly in equity								
Cover of 2004 losses		(1,087)		(15,362)	8,365	8,084		0
Profit (loss) for the year						(13,261)		(13,261)
Shareholders' equity at 31 December 2005	**148,343**	**7,797**	**6,462**	**11,957**	**(13,673)**	**(13,261)**	**(5,374)**	**142,251**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Form and content

Reno De Medici S.p.A. (“RDM” or the “Parent Company”) is a company which is established as a corporate person under the legislation of the Republic of Italy. RDM and its subsidiaries (the “RDM Group” or the “Group”) carry out their activities principally in Europe. These activities consist in the production and distribution of cartonboard for packaging made mainly of recycled fibre, performed either directly or through a network of agents, by the Parent Company, the subsidiary Reno De Medici Iberica S.L. (“RDM Iberica”) and by subsidiaries whose sole activity consists in cutting and selling.

RDM has its registered office in Milan, Italy.

RDM’s shares are listed on the Star segment of Borsa Italiana S.p.A. and on the Madrid and Barcelona stock exchanges.

The consolidated financial statements of the RDM Group were approved by the Board of Directors of RDM on 30 March 2006.

The consolidated financial statements of the RDM Group are presented in Euros (rounded to the nearest thousand), as this is the prevailing currency in the countries in which the Group principally operates. Subsidiary companies are included in the consolidated financial statements on the basis of the principles described in the paragraph Accounting principles and policies.

The annual consolidated financial statements for 2005 have been prepared in accordance with the International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board and adopted by the European Union. By IFRS is also intended all the revised accounting principles (International Accounting Standards or IAS), all the interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”), and those of its predecessor, the Standing Interpretations Committee (“SIC”).

The preparation of the consolidated financial statements in accordance with IFRS requires the use of specific estimates and valuations, as well as management’s reasonable judgement in applying accounting policies. Those matters requiring higher levels of complexity or a greater use of assumptions and estimates are discussed in the paragraph Specific estimates and valuations.

Prior year data prepared in accordance with IFRS are presented for reasons of comparability. Certain reclassifications have been made to specific items of the balance sheet as of 31 December 2004 and the profit and loss account for the year then ended, in order that a homogeneous comparison may be made between the two years.

Revenues and seasonal factors

The trend of revenues for the sale of cartonboard for packaging is a function of the general tendency of the economies of the markets in which sales are made and in particular of the trend in the demand for consumer goods; it is not affected by specific seasonal factors during the year.

There are, however, seasonal effects in the production and sale of products as a result of factors connected with the calendar, such as for example if there is a high number of public holidays or periods of vacation in one month or accounting period rather than other (such as for example in August and December).

Scope of consolidation

The consolidated financial statements include the financial statements of all subsidiary companies from the date on which control is acquired until the date that such control is lost.

Investments in associates are accounted for in the consolidated financial statements using the equity method. Associates are those companies in which the RDM Group holds at least 20% of the voting rights or has significant influence, but not control, over the company's financial and management policies.

Company name	Registered office	Activity	Share capital	Shareholding 31.12.2005 Direct	Shareholding 31.12.2005 Indirect	Shareholding 31.12.2004 Direct	Shareholding 31.12.2004 Indirect
Cartonboard sector							
Reno De Medici Iberica S.L.	Prat de Llobregatt (E)	Industrial	138,284	100.00%	–	100.00%	–
Cartiera Alto Milanese S.p.A.	Milan (I)	Commercial	200	100.00%	–		100.00%
RDM France S.a r.l.	Tramblay en France (F)	Commercial	96	99.58%	0.42%	99.58%	0.42%
Reno De Medici Deut. GmbH	Bad Homburg (D)	Commercial	473	100.00%	–	100.00%	–
Beobarna S.A.	Prat de Llobregatt (E)	Industrial	180	–	–	–	100.00%
Emmaus Pack S.r.l.	Milan (I)	Industrial	200	51.39%	–	51.39%	–
Barneda Carton S.A.	Ripollet (E)	Industrial	1,200	–	100.00%	–	100.00%
Packaging sector							
Europoligrafico S.p.A.	Milan (I)	Industrial	6,020	–	–	100.00%	–
Aticarta S.p.A.	Milan (I)	Industrial	10,062	–	–	–	100.00%
Other sectors							
Reno De Medici Intern. S.A.	Luxembourg (L)	Financial	14,000	99.99%	–	99.99%	–
Cogeneracion Prat S.A.	Prat de Llobregatt (E)	Energy	6,611	–	–	–	90.00%
Red. Im S.r.l.	Milan (I)	Real estate	50	100.00%	–	100.00%	–

In the presentation of the consolidated financial statements for 2005 and the comparative figures for the previous year, the following have been considered to be "Discontinued operations": the operations of the company Europoligrafico S.p.A. (sold in June 2005) and those of the companies Cogereracion Prat S.A. and Aticarta S.p.A. (sold in December 2005);

and the activities relating to (i) the board machine at the Magenta facility dedicated exclusively to the manufacture of virgin fibre cartonboard ("MC1) and (ii) the Prat facility (owned by RDM Iberica), which ceased respectively in July and November 2005 (both now planned for divestment).

Changes in the scope of consolidation, other than those regarding discontinued operations, are not significant in terms of their effects on the result or the Group's financial situation or financial position. These changes relate to the sale of Beobarna S.A. by RDM Iberica in June 2005 and the winding up of Holcart S.r.l. in October 2005.

Accounting principles and policies

Consolidation principles

The consolidated financial statements consist of the financial statements of Reno De Medici S.p.A. and those enterprises over which the Parent Company has the right to exercise control. The definition of control is not based solely on the concept of legal ownership. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain the related benefits. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The equity and result attributable to minority interests are shown separately in the consolidated balance sheet and profit and loss account, respectively.

Subsidiaries in liquidation and insignificant enterprises are not consolidated on a line by line basis, as their effect on the Group's total assets, total liabilities, financial position and result is immaterial, being overall less than 2%.

Subsidiaries which are excluded from the scope of consolidation are accounted for using the equity method and are included in the item "Investments accounted for under the equity method".

The more significant consolidation policies adopted are as follows:

- The carrying value of investments consolidated on a line by line basis is eliminated against the corresponding equity. The assets, liabilities, costs and revenues of the subsidiaries are fully consolidated independent of the Group's holding.
- All significant balances and transactions with group companies are eliminated, as are any gains or losses arising from intra-group transactions of commercial or financial nature not yet realised with third parties; unrealised losses are eliminated only to the extent that they do not represent an actual lower value of the asset sold.
- Acquisitions of subsidiaries are accounted for by the Group using the cost method. The cost of an acquired company is considered to be the

fair value of the assets transferred by the seller, the fair value of the liabilities assumed and the fair value of instruments representing issued capital, at the date on which control is transferred, in exchange for gaining control of the company acquired. All directly attributable costs of acquisition are added to cost obtained in this way. The excess of the cost of acquisition over the fair value of the identifiable assets and liabilities acquired is recognised as goodwill. If the cost of acquisition is lower than the identifiable net assets acquired, the difference is recognised in the profit and loss account;

- The share of the investee's equity held by minorities is determined on the basis of the current values of assets and liablilities at the date on which control was obtained, excluding any related goodwill.
- Any increases or decreases of a subsidiary's equity arising from its post-acquisition results are recorded on consolidation in an equity reserve denoted "Retained earnings (losses) brought forward".
- Dividends distributed by Group enterprises are eliminated from the profit and loss account on consolidation.

Investments accounted for under the equity method

This item includes investments in unconsolidated subsidiaries and associates, which are accounted for under the equity method. Losses in excess of equity are accounted for to the extent to which the investor has a commitment to the investee to abide by legal or constructive requirements or in any other way to cover its losses.

Associates refer to those companies in which the Group exercises a significant influence over the company, but does not hold control or joint control over its financial and operating policies. The consolidated financial statements include the share pertaining to the Group of the results of associates, accounted for under the equity method, from the date that significant control commences until the date that it ceases. The Group's share of intragroup profits as yet unrealised with third parties is eliminated. The Group's share of unrealised losses is eliminated only to the extent that they do not represent an actual lower value of the asset sold.

Tangible fixed assets

Tangible fixed assets are stated at their original cost of purchase, production or contribution, including those direct accessory purchase costs required to bring an asset into a condition for use. Cost is reduced by accumulated depreciation and any write-downs in value.

Borrowing costs relating to investments in assets are fully recognised in the profit and loss account in the year in which they are incurred.

Ordinary maintenance and repair costs are charged to profit and loss in the year in which they are incurred; these costs are capitalised if they increase the value or economic life of the asset to which they relate.

Assets acquired under finance leases, which assign to the Group substantially all the risks and rewards of ownership, are recognised as tangible assets at their fair value or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as financial debt.

Depreciation is calculated on a straight-line basis over the estimated useful lives of assets, determined on the basis of the period during which the asset will be used by the Group. Land is not depreciated, even if acquired together with buildings.

The annual depreciation rates used are as follows:

Category		**Rate %**
Buildings	Factory buildings	3% - 5.50%
	Small constructions	5% - 10%
Plant and machinery	General plant and machinery	5% - 10%
	Specific plant and machinery	5.75% - 15.5%
Industrial and commercial equipment	Sundry equipment	10% - 25%
Other assets	Furniture and ordinary office machinery	8% - 12%
	Electronic office machinery	16.67% - 25%
	Internal vehicles	20%
	Motor vehicles	16.67% - 25%

The Group reviews, at least annually, if there is any indication that assets have suffered impairment. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of any impairment loss.

Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.
The recoverable amount of an asset is the higher of the fair value less disposal costs and its value in use. In assessing its value in use, the estimated future cash flows generated from the use of the asset and its disposal at the end of its useful life are discounted to their present value. The discount rate used reflects the implicit risk of the specific sector in which the asset operates. An impairment loss is recognised when the recoverable amount is lower than the carrying amount. When an impairment loss subsequently reverses, the carrying value of an asset is restated to the lower of its recoverable amount and its preceding carrying value, and the adjustment is accounted for in the profit and loss account.

Non-current assets held for sale

Non-current assets held for sale consist of non-current assets whose carrying value will be recovered principally through a sale transaction rather than through continuing use. Assets held for sale are stated at the lower of their carrying amount and their fair value less disposal costs and are not depreciated.

Investment property

Investment property consists of land, buildings and parts of buildings which are not business assets, but which are held to earn rentals, for capital appreciation or both. Investment property is stated at cost less accumulated depreciation and impairment losses.

Goodwill

Goodwill is not amortised but is tested annually for impairment or more frequently if events or changes in circumstances indicate that it might be impaired, in accordance with IAS 36, Impairment of Assets. After initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Other intangible assets

Other intangible assets consist of identifiable assets not having physical substance, controlled by the Group and from which future economic benefits are expected.

Intangible assets are recognised when the cost of an asset can be measured reliably, in accordance with IAS 38 - Intangible Assets.

Other intangible assets having a finite life are measured at cost and amortised on a straight-line basis over their useful lives, estimated on the basis of the period during which the asset will be used by the Group.

The annual amortisation rates used are as follows:

Category		**Rate %**
Concessions, licences, trade marks and similar rights	Software licences	20%
Other intangible assets	Non-competition agreement	20%
	Market share	20%
	Sundry deferred charges	8% - 20%

Derivative financial instruments

Derivative financial instruments consist of assets and liabilities measured at fair value.

In accordance with IAS 39, derivative financial instruments only qualify for hedge accounting if all of the following apply:
- at the inception of the hedge, there is formal designation and documentation of the hedging relationship;
- the hedge is expected to be highly effective;
- effectiveness can be reliably measured;
- the hedge is highly effective throughout the financial reporting periods for which it is designated.

When derivative financial instruments qualify for hedge accounting, the following accounting treatment applies:
- Where a derivative financial instrument is designated as a hedge of the exposure to changes in fair value of the hedged item (a fair value hedge; an example is the hedging of the fair value of assets or liabilities yielding or bearing a fixed rate), the instrument is measured at fair value and any gain or loss on remeasurement is recognised in the profit and loss account. In a consistent manner, any gain or loss on the hedged item attributable to the hedged risk adjusts the carrying value of the hedged item.
- Where a derivative financial instrument is designated as a hedge of the exposure to variability in the cash flows of the hedged item (a cash flow hedge; an example is the variation in cash flows of assets or liabilities due to variations in exchange rates), the changes in fair value of the instrument are initially recognised in equity and are subsequently recognised in the profit and loss account in a manner consistent with the recognition in the profit and loss account of the effects of the hedged transaction.

If hedge accounting cannot be applied, the gains or losses from the fair value measurement of derivative financial instruments are recognised immediately in the profit and loss account.

Own shares

Own shares are measured at cost and shown as a reduction in equity.

Financial assets held for sale

Financial fixed assets held for sale consist of investments in other companies and other non-current financial assets, which are measured at fair value; changes in the measurement of fair value are recognised in equity. When fair value cannot be reliably measured, investments are measured at cost as adjusted for any impairment losses.

Financial assets held for sale shown as current assets consist of securities with short-term maturities or marketable securities which represent a temporary investment of liquid funds.

Trade receivables and other receivables

Trade receivables and other receivables are initially recognised at the fair value of the consideration to be received in exchange. Subsequent adjustments are made to account for any write-downs. Non-current trade receivables and other receivables are measured at amortised cost.

Stocks

Stocks are stated at the lower of purchase or production cost, determined on a weighted average basis, and estimated realisable value, determined from market trends.

In the case of raw materials, market value means replacement cost; for finished goods and semi-finished goods, market value means net realisable value, representing the amount that the Group would expect to obtain from the sale of these goods in its normal activities.

Liquid funds

Liquid funds consist of available cash on hand and bank deposits, shares in liquid funds and other highly liquid investments which can be readily converted into cash and which are subject to an insignificant risk of changes in value.

Employee benefits

The Group maintains certain post-employment benefit plans which, depending on their terms and conditions, are either defined contribution plans or defined benefit plans. Under the defined contribution plans, the Group's obligation is limited to the payment of contributions to the state, to a fund or to a legally separate entity, which are determined on the basis of specific amounts due less amounts already paid in.

Defined benefit plans are post-employment plans which differ from defined contribution plans. The Italian employees' leaving entitlement ("TFR") is included amongst the defined benefit plans.

The liability for defined benefit plans, stated net of the fair value of any plan assets, is determined on the basis of actuarial assumptions and accounted for on an accruals basis, such that the cost of providing employee benefits is recognised in the period in which the benefit is earned by the employee; the liability is measured by independent actuaries using the projected credit method.

Actuarial gains and losses relating to defined benefit plans and arising from changes in actuarial estimates or from amendments to the terms of the plan, are recognised on a pro-rata basis as an expense over the expected average remaining working lives of the participating employees, to the extent to which the net amount not recognised at the end of the previous year exceeds the greater of 10% of the present value of the defined benefit obligation and 10% of the fair value of plan assets at that date ("corridor approach").

Provisions for contingencies and charges

The Group records provisions when it has an obligation, legal or constructive, arising from a past event, for which it is probable that a cost will be incurred to satisfy that obligation and when a reliable estimate of the amount can be made. Provisions are measured at the best estimate of the amount that at the balance sheet date the Group would rationally pay to settle the obligation or transfer it to a third party.

The amount provided for the agents' termination liability is determined using actuarial techniques, measured by independent actuaries.

Changes in estimates are recognised in the profit and loss account of the period in which the change occurs.

The costs which the Group expects to incur to carry out restructuring programmes are recognised in the period in which the Group formally defines the programme and in which it has created a valid expectation in interested parties that the restructuring will take place.

Bank loans and other financial liabilities

This item consists of financial liabilities made up of bank loans, debenture loans and financial amounts due to others, including amounts due to lessors in respect of finance leases, all of which are measured at amortised cost.

Trade payables and other payables

This item consists of trade payables and other liabilities, excluding financial liabilities shown under bank loans and other financial liabilities. These liabilities are initially recognised at the fair value of the consideration to pay. Afterwards, trade payables and other payables are measured using the amortised cost method, resulting from the application of the interest approach.

Revenues and costs

Revenues from sales and from the provision of services is recognised when the risks and rewards characteristic of the ownership of the goods or the fulfilment of the services are effectively transferred.

Costs are recognised at the time of recognition of the corresponding goods or services sold or used during the period; costs having use over more than one period are deferred and attributed to the different periods on a systematic basis.

Revenues and costs are stated net of returns, discounts, allowances and settlement discounts.

Taxation

Current income taxes are determined on the basis of an estimate of taxable income for the period. Income tax liabilities are recognised in "Current taxation" in the balance sheet, net of the corresponding amounts paid on account and withholding taxes. Current tax assets and liabilities are determined using tax rates and tax legislation and regulations in force at the balance sheet date.

Deferred tax assets and liabilities reflect the effect of temporary differences between the accounting value and tax value of assets and liabilities.

The item "Deferred tax liabilities" represents liabilities to taxation arising from temporary differences which give rise to taxation in future periods in accordance with prevailing tax legislation.

The item "Deferred tax assets" represents taxation which, although relating to the accounting income or expense of future periods, refers for fiscal purposes to the current period for and which it is believed probable that sufficient taxable income will be generated in future periods for its recovery.

The effect in the profit and loss account of these balance sheet captions is recognised in the item "Taxation".

Deferred tax assets relating to the carry forward of tax losses are recognised to the extent that it is probable that sufficient taxable income will be generated in future periods against which they can be utilised.

Discontinued operations

Discontinued operations consist of important autonomous parts of the Group's activities – in a business or geographical sense or which are part of a coordinated single divestment programme – discontinued or held for sale, and subsidiaries acquired exclusively for resale.

The results of discontinued operations, which are represented by the total profits or losses of the operations themselves together with any gains or losses on sale, are reported in a separate line in the profit and loss account, net of the tax effect. For comparative purposes, the results of these activities in prior years have been similarly reclassified

Exchange differences

Transactions in foreign currencies are recorded at the exchange rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are converted into Euros at the balance sheet date at the exchange rate prevailing at that date; exchange differences arising in this way are recognised in the profit and loss account.

Dividends

Dividends are recognised at the date on which their distribution is approved by shareholders.

Use of estimates

The preparation of financial statements and related disclosures that conform to International Accounting Standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates. Estimates are used in many areas, including accounting for bad debts provisions for accounts receivable, inventory obsolescence, depreciation, asset impairment, employee benefits, restructuring provisions, taxation, other accruals and provisions and the valuation of derivative instruments. Estimates and assumptions are reviewed periodically and the effects of any changes are reflected immediately in the profit and loss account.

Risk management

As part of its activities, the RDM Group is exposed to various market risks, and in particular the risk of fluctuations in foreign exchange rates, in interest rates and in the price of commodities, liquidity risk and customer credit risk.

In order to minimise part of these market risks, the RDM Group enters arrangements to hedge specific operations (such as those affected by interest rate fluctuations) and to hedge the overall exposure (for example to foreign exchange rate fluctuations), using financial instruments offered by primary national or international banks.

The RDM Group does not enter hedging arrangements for speculative reasons. It may however occur that certain arrangements entered into for hedging purposes do not satisfy the criteria for hedge accounting under IFRS, and as a result are formally accounted for as derivative financial instruments acquired for speculative purposes

Exchange rates

In 2005, the RDM Group generated revenues in currencies other than the euro, principally the U.S. dollar and the British pound, for respective amounts of USD 22.7 million and £ 5.6 million and made purchases in U.S. dollars of 12 million, thereby taking a long position in these currencies during the year. In order to reduce the exchange rate risk arising from this, the RDM Group often entered forward currency sales contracts. These arrangements are always set up with the notional amount and maturity date equal to those of the expected cash flows (if the amounts are significant), in order that every change in the cash flows resulting from the forward sales due to the rise or fall in the value of the euro compared to other currencies is substantially balanced by a corresponding change in the cash flows expected from the underlying business operations.

Interest rates

The risks connected with fluctuations in interest rates derive principally from the RDM Group's financial debt. At 31 December 2005, the Company's gross financial debt amounted to Euro 248.3 million, of which Euro 58.3 million relating to short-term credit facilities (mainly advances on credit receivables), Euro 45 million relating to long-term loans and Euro 145 million regarding the Debenture Loan.

Floating rate debt, such as short-term credit facilities, exposes the RDM Group to changes in cash flows, whereas fixed rate debt, such as the vast majority of long-term debt and the Debenture Loan, exposes the RDM Group to changes in the fair value of the underlying liability.

The RDM Group's policy is to maintain around 75% of its long-term financial debt at fixed rates of interest, also by using interest rate swap derivative instruments arranged with primary Italian banks.

Liquidity

Under the RDM Group's management policies, liquidity risk is monitored on a continuous basis. The Company's objective is to mitigate this risk both by holding sufficient liquid funds or short-term deposits in primary institutions and by employing short-term credit facilities backed by the trade receivables of Italian and foreign customers.

Trade receivables

At 31 December 2005 the RDM Group had net trade receivables of Euro 107.1 million. In particular, receivables from the top 5 customers amounted to Euro 9.6 million, equivalent to 9% of the total, whereas those from the first 10 customers amounted to Euro 15.8 million, equivalent to 14.7%.

As a general rule, foreign trade receivables are insured with specialised insurance companies, while any uninsured or only partially insured balances require the specific authorisation of the RDM Group's management, depending on the amount. There are specific credit control procedures for Italian customers, again depending on the amount, under which approval must be obtained from the Company's various levels of management. Under the RDM Group's management policies, Italian and foreign trade receivables are monitored on a continuous basis and the appropriate recovery procedures are put into action in the event of non-payment.

Supplies

As a result of the structure and type of its costs, the RDM Group is mainly exposed to fluctuations in energy prices (natural gas and electricity), fluctuations in the price of certain chemical products, including those petroleum-based (such as latex), and changes in the price of fibrous raw materials. the RDM Group incurred the following costs in 2005: Euro 40 million for natural gas and electricity, Euro 25.2 million for chemical products and Euro 58.7 million for fibrous raw materials.

The RDM Group's management policies require that annual supply agreements for natural gas and electricity contain clauses under which prices are determined on the basis of moving averages of market prices or indices that are revised on a quarterly basis and linked to a basket of fossil fuels or their derivatives.

For the purchase of chemical products and fibrous raw materials, the RDM Group aims at having the widest possible range of suppliers and supply markets with the dual purpose of being able to monitor the various purchase terms on a constant basis and to encourage competition between suppliers. It is not practicable to formalise framework supply agreements for these types of purchases.

Specific estimates and valuations

Estimates and valuations are made on the basis both of past experience and a reasonable expectation of the occurrence of future events. The RDM Group makes and uses assumptions as to future events in the preparation of its consolidated financial statements. Estimates and valuations of an accounting nature obtained on the basis of assumptions about future events may differ from the results that actually occur or from the amounts actually recovered from assets. Estimates and valuations are mainly employed in the following situations.

Estimating the recoverable amount (impairment test)

The Group assesses at least annually whether there is any indication that tangible fixed assets and intangible assets may have suffered an impairment loss compared to their carrying amount in the balance sheet. If any such indication exists, the Group estimates the recoverable amount of the asset concerned. The recoverable amount of an asset is the higher of its current realisable value less costs to sell and its value in use. Value in use is determined as the present value of the future cash flows expected to be derived from the cash-generating unit to which the asset belongs through the use of the asset and its possible disposal at the end of its useful life.

The calculation of expected cash flows requires the use of estimates and valuations which may also be based on the expectations of future events relating to the cash-generating unit. Moreover, the present value of future cash flows is highly sensitive to the discount rates used, which reflect precise market figures and risk premiums which may undergo significant and unpredictable changes.

Fair value of derivative contracts and financial instruments

The fair value of financial instruments which are not quoted on a regulated active market is determined by employing various valuation techniques. In this respect, the RDM Group uses those techniques which it believes are the most reasonable in connection with the specific financial instruments that have to be valued and adopts assumptions and makes estimates based on market conditions at the balance sheet date.

Taxation

The RDM Group is subject to the legislation and regulations of various tax jurisdictions in the countries in which it operates. The overall determination of the tax charge for the year requires the use of estimates and valuations, including those relating to any specific tax liabilities which may not be determinable at the date on which the related individual operation is carried out. In addition, in order to calculate deferred tax assets, the RDM group employs estimates and valuations which also take into account expectations of future events.

Discontinued operations

The item Discontinued operations also includes the economic result (in terms of net operating margin) of certain discontinued production units which are part of the Parent Company and its subsidiaries. In order to determine the amounts of certain types of costs which relate to those discontinued units, the RDM Group has employed management data and assumptions resulting from the cost accounting system, which utilises specific methodologies of separating and allocating costs on the basis of variables depending on production and size.

Descriptive notes and commentary

A. Sectorial information

The following tables set out the profit and loss accounts for 2005 and 2004 and the balance sheets at 31 December 2005 and 2004 analysed by geographical area, indicating the investments made in the business. The geographic areas employed for this analysis 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., the German subsidiary RenoDeMedici Deutschland GmbH and the Luxembourg subsidiary Reno De Medici International S.A.. This latter subsidiary is the company which issued the debenture loan and on the basis of the size of its assets should merit a category of its own. Nonetheless, these assets consist principally of the receivable from Reno De Medici S.p.A. connected with the issue of the debenture loan which is accordingly eliminated on consolidation.

Profit and loss account for the year ended 31 December 2005	**Italy**	**Spain**	**Other countries**	**Eliminations**	**Consolidated**
Revenues from sales	273,372	29,778	1,666	(9,506)	295,310
Other revenues	4,029	1,178	143	(256)	5,094
Changes in stocks of finished goods	659	(412)	–	–	247
Cost of raw materials and services	(199,810)	(24,479)	(868)	9,520	(215,637)
Staff costs	(47,003)	(4,898)	(849)	–	(52,750)
Other operating costs	(3,948)	(288)	(45)	(5)	(4,286)
Income (expense) from non-current assets held for sale	(179)	–	–	–	(179)
Unusual income (expense)	(357)	(19)	(149)	154	(371)
Gross Operating Profit (EBITDA)	**26,763**	**860**	**(102)**	**(93)**	**27,428**
Depreciation and amortisation	(22,521)	(2,096)	(15)	–	(24,632)
Recovery of value and write-downs of assets	(2,233)	645			(1,588)
Operating Profit (EBIT)	**2,009**	**(591)**	**(117)**	**(93)**	**1,208**
Financial income (expense), net	(12,580)	177	445	93	(11,865)
Income from investments	(32,447)	5	–	34,424	1,982
Other income (expense)	(377)	(15,700)			(16,077)
Taxation	53	–	(164)	–	(111)
Profit (loss) for the year before discontinued operations	**(43,342)**	**(16,109)**	**164**	**34,424**	**(24,863)**
Discontinued operations	21,500	(9,407)	–	–	12,093
Profit (loss) for the year	**(21,842)**	**(25,516)**	**164**	**34,424**	**(12,770)**
Attributable to:					
Profit (loss) for the year pertaining to the group	**(22,333)**	**(25,516)**	**164**	**34,424**	**(13,261)**
Profit (loss) for the year pertaining to minority interests	**491**	**–**	**–**	**–**	**491**

Profit and loss account for the year ended 31 December 2005	**Italy**	**Spain**	**Other countries**	**Elimina-tions**	**Consoli-dated**
Revenues from sales	278,800	27,472	1,909	(6,168)	302,013
Other revenues	3,822	7	19	5	3,853
Changes in stocks of finished goods	945	484	–	–	1,429
Cost of raw materials and services	(201,737)	(21,789)	(960)	6,133	(218,353)
Staff costs	(45,340)	(5,093)	(900)	–	(51,333)
Other operating costs	(4,419)	(1,172)	(155)	–	(5,746)
Income (expense) from non-current assets held for sale	(154)	–	–	–	(154)
Unusual income (expense)	(278)	(277)	–	–	(555)
Gross Operating Profit (EBITDA)	**31,639**	**(368)**	**(87)**	**(30)**	**31,154**
Depreciation and amortisation	(24,183)	(1,771)	(17)	–	(25,971)
Recovery of value and write-downs of assets	–	–	–	–	–
Operating Profit (EBIT)	**7,456**	**(2,139)**	**(104)**	**(30)**	**5,183**
Financial income (expense), net	(12,795)	799	791	32	(11,173)
Income from investments	434	(661)	68	3,286	3,127
Other income (expense)				–	–
Taxation	(1,981)	(65)	(212)	–	(2,258)
Profit (loss) for the year before discontinued operations	**(6,886)**	**(2,066)**	**543**	**3,288**	**(5,121)**
Discontinued operations	(2,670)	122			(2,548)
Profit (loss) for the year	**(9,556)**	**(1,944)**	**543**	**3,288**	**(7,669)**
Attributable to:					
Profit (loss) for the year pertaining to the group	**(9,970)**	**(1,945)**	**543**	**3,288**	**(8,084)**
Profit (loss) for the year pertaining to minority interests	**414**	**1**	**–**	**–**	**415**

Balance sheet at 31 December 2005	Italy	Spain	Other countries	Elimina-tions	Consoli-dated
ASSETS					
Non-current assets					
Tangible fixed assets	184,094	9,064	16	–	193,174
Investment property	1,284	–	–	–	1,284
Goodwill	–	63	83	–	146
Other intangible assets	3,304	5	–	–	3,309
Investments accounted for under the equity method	91,746	3	–	(77,533)	14,216
Deferred tax assets	577	–	–	–	577
Derivative financial instruments	–	–	–	–	–
Financial assets held for sale	219	–	–	–	219
Trade receivables	193	–	–	–	193
Other receivables	3,706	6,566	–	–	10,272
Other non-current assets held for sale	14,578	5,630	–	–	20,208
Total non-current assets	**299,701**	**21,331**	**99**	**(77,533)**	**243,598**
Current assets					
Stocks	85,917	39,062	–	(32,000)	92,979
Trade receivables	98,057	46,693	340	(38,191)	106,899
Other receivables	19,126	1,450	159,668	(159,076)	21,168
Derivative financial instruments	–	–	5,321	–	5,321
Financial assets held for sale	–	–	1,410	(1,400)	10
Financial assets at fair value adjusted in income	–	–	–	–	–
Liquid funds	43,210	13,329	240	–	56,779
Totale attività correnti	**246,310**	**100,534**	**166,979**	**(230,667)**	**283,156**
TOTALE ATTIVO	**546,011**	**121,865**	**167,078**	**(308,200)**	**526,754**

LIABILITIES AND SHAREHOLDERS' EQUITY					
Shareholders' equity attributable to the group	143,113	61,531	15,138	(77,531)	142,251
Minority interests	759				759
Shareholders' equity	**143,872**	**61,531**	**15,138**	**(77,531)**	**143,010**
Non-current liabilities					
Bank loans and other financial liabilities	28,270	–	–	–	28,270
Derivative financial instruments	–	–	–	–	–
Other payables	650	414	–	–	1,064
Deferred tax liabilities	2,289	–	4	–	2,293
Employees' leaving entitlement	17,324	–	–	–	17,324
Non-current provisions for contingencies and charges	3,883	3,464	78	–	7,425
Liabilities directly associated with non-current assets held for sale	0	0	0	0	0
Total non-current liabilities	**52,416**	**3,878**	**82**	**0**	**56,376**
Current liabilities					
Bank loans and other financial liabilities	75,162	–	144,894	–	220,056
Derivative financial instruments	1,242	–	–	–	1,242
Trade payables	256,309	46,118	553	(230,428)	72,552
Other payables	16,980	10,338	6,170	(241)	33,247
Current taxation	30	–	241	–	271
Total current liabilities	**349,723**	**56,456**	**151,858**	**(230,669)**	**327,368**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**546,011**	**121,865**	**167,078**	**(308,200)**	**526,754**

MANUFACTURING INVESTMENTS	**9,798**	**291**	**0**	**2**	**10,091**

Balance sheet at 31 December 2004	Italy	Spain	Other countries	Elimina-tions	Consoli-dated
ASSETS					
Non-current assets					
Tangible fixed assets	248,505	18,661	27	–	267,193
Investment property	1,284	–	–	–	1,284
Goodwill	1,151	63	83	–	1,297
Other intangible assets	4,732	7	–	–	4,739
Investments accounted for under the equity method	125,221	2	4,559	(111,957)	17,825
Deferred tax assets	–	–	–	–	–
Derivative financial instruments	–	–	5,183	–	5,183
Financial assets held for sale	256	–	–	–	256
Trade receivables	262	–	–	–	262
Other receivables	7,394	20,692	–	–	28,086
Other non-current assets held for sale	8,883	–	–	–	8,883
Total non-current assets	**397,688**	**39,425**	**9,852**	**(111,957)**	**335,008**
Current assets					
Stocks	77,817	41,796	–	–	119,613
Trade receivables	127,072	20,169	268	(5,754)	141,755
Other receivables	5,656	1,072	662	(331)	7,059
Derivative financial instruments	–	–	2,105	–	2,105
Financial assets held for sale	3,571	–	156,227	(159,788)	10
Financial assets at fair value adjusted in income	–	–	–	–	–
Liquid funds	3,523	21,108	372	–	25,003
Total current assets	**217,639**	**84,145**	**159,634**	**(165,873)**	**295,545**
TOTAL ASSETS	**615,327**	**123,570**	**169,486**	**(277,830)**	**630,553**

LIABILITIES AND SHAREHOLDERS' EQUITY					
Shareholders' equity attributable to the group	163,244	86,430	17,795	(111,957)	155,512
Minority interests	560				560
Shareholders' equity	**163,804**	**86,430**	**17,795**	**(111,957)**	**156,072**
Non-current liabilities					
Bank loans and other financial liabilities	204,131	–	144,620	(150,000)	198,751
Derivative financial instruments	1,247	–	–	–	1,247
Other payables	2	551	–	–	553
Deferred tax liabilities	3,019	–	266	–	3,285
Employees' leaving entitlement	29,823	–	–	–	29,823
Non-current provisions for contingencies and charges	7,368	14,652	78	–	22,098
Liabilities directly associated with non-current assets held for sale	981	0	0	0	981
Total non-current liabilities	**246,571**	**15,203**	**144,964**	**(150,000)**	**256,738**
Current liabilities					
Bank loans and other financial liabilities	71,979	–	–	–	71,979
Derivative financial instruments	2,859	–	–	–	2,859
Trade payables	105,593	17,728	259	(15,556)	108,024
Other payables	24,138	3,313	6,327	(317)	33,461
Current taxation	383	896	141	–	1,420
Total current liabilities	**204,952**	**21,937**	**6,727**	**(15,873)**	**217,743**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**615,327**	**123,570**	**169,486**	**(277,830)**	**630,553**

MANUFACTURING INVESTMENTS	**13,399**	**485**	**15**	**0**	**13,899**

B. Other revenues and income

Other revenues and income	31.12.2005	31.12.2004	Variation
Grants	964	771	193
Rental income	61	–	61
Ordinary capital gains	88	131	(43)
Recharge of costs	562	390	172
Increase in fixed assets	329	31	298
Other revenues	3,090	2,530	560
Total	**5,094**	**3,853**	**1,241**

Other revenues and income include ordinary grants received mostly from Comieco in connection with the use of waste paper collected as part of urban waste differentiation schemes and miscellaneous revenues.

Included in other revenues is an indemnification of approximately Euro 1 million received by RDM Iberica for costs incurred to free a part of the Prat area for work on the construction of the high speed train line, prior year items of Euro 0.4 million made up principally of creditors' agreement procedures and VAT recoveries on the completion of winding up procedures, and of income from sale of tangible assets.

C. Cost of raw materials and services

Cost of raw materials and services	31.12.2005	31.12.2004	Variation
Cost of raw materials	**112,714**	**112,492**	**222**
Purchase of raw materials	113,139	113,217	(78)
Changes in stocks of raw materials	(425)	(725)	300
Services regarding sales	**32,871**	**32,060**	**811**
Transport	27,705	27,080	625
Commissions and agents' costs	5,166	4,980	186
Services regarding manufacturing	**57,077**	**58,040**	**(963)**
Energy	40,023	36,636	3,387
Maintenance	4,935	10,710	(5,775)
Waste disposal	4,321	3,427	894
Other manufacturing services	7,798	7,267	531
General services	**11,868**	**14,543**	**(2,675)**
Legal, notarial, administrative and external collaboration	3,556	3,390	166
Board of directors	1,891	2,280	(389)
Statutory auditors	158	158	–
Insurance	2,298	2,498	(200)
Postal and telephone	386	424	(38)
Other	3,579	5,793	(2,214)
Use of third party assets	**1,107**	**1,218**	**(111)**
Rental and leasing	1,107	1,218	(111)
Total	**215,637**	**218,353**	**(2,716)**

The cost of raw materials refers mainly to the purchase of waste paper, wood paste, cellulose, chemicals, technical purchases for the factories and packaging materials. These costs have increased from 36,9% to 38.2% of revenues from sales, due to the increase in price during the year of certain raw materials based on petroleum derivatives.

Service costs (sales, manufacturing and general) have fallen in absolute terms (Euro 101.8 million in 2005 compared to Euro 104.6 million in 2004) and remain stable as a percentage of revenues from sales at 34.5%, despite the significant increase in energy costs (which rose by Euro 3.4 million).

D. Staff costs

Staff costs	**31.12.2005**	**31.12.2004**	**Variation**
Salaries and wages	36,617	35,412	1,205
Social security contributions	13,907	14,423	(516)
Employees' leaving entitlement	2,221	1,493	728
Other costs	5	5	–
Total	**52,750**	**51,333**	**1,417**

As discussed earlier, staff costs relating to the companies which have left the scope of consolidation have been classified in discontinued operations, both in 2005 and 2004, with the result that a comparison of these costs may be made on a homogeneous basis.

In order to disclose the effect of the disposals of these companies and the manner in which the Group's restructuring programme which began in 2003 is progressing, the following table sets out the changes in the number of employees at the end of the year and in the average number of employees during the year, analysed by category:

Employees by category	**31.12.2005**	**31.12.2004**	**Variation**
Executives and managers	22	31	(9)
White-collar	359	550	(191)
Blue-collar	945	1,611	(666)
Total	**1,326**	**2,192**	**(866)**

Average employees by category	**2005**	**2004**	**Variation**
Executives and managers	24	37	(13)
White-collar	410	596	(186)
Blue-collar	1,046	1,721	(675)
Total	**1,480**	**2,353**	**(873)**

E. Other operating costs

Other operating costs	**31.12.2005**	**31.12.2004**	**Variation**
Write-down of working capital receivables	490	2,353	(1,863)
Accruals to provisions	803	–	803
Other operating costs	2,993	3,393	(400)
Total	**4,286**	**5,746**	**(1,460)**

Accruals to provisions relate mostly to amounts accrued by the Parent Company in connection with the difference between the estimate of CO_2 emissions made by the factories of Italian Group companies for 2005 and those authorised by the National Assignment Plan, and to disputes in progress with road hauliers.

Other operating costs are made up principally of indirect taxes and subscriptions to trade associations paid by the Parent Company and by the subsidiary RDM Iberica.

F. Depreciation, amortisation and recovery of value and write-downs of assets

Depreciation, amortisation, recovery of value and write down of assets	31.12.2005	31.12.2004	Variation
Amortisation of intangible assets	1,352	1,337	15
Depreciation of tangible fixed assets	23,280	24,634	(1,354)
Write-downs	2,620	–	2,620
Recovery of value	(1,032)	–	(1,032)
Total	**26,220**	**25,971**	**249**

The fall in the charge for the depreciation of tangible fixed assets is attributable to the depreciation schedule.

An amount of Euro 2.2 million of write-downs regards the board machine of the subsidiary Cartiera Alto Milanese S.p.A. and its ancillary plant and machinery; the remaining Euro 0.4 million relates to the write-down of plant at the subsidiary Barneda S.A.. The write-down at Cartiera Alto Milanese S.p.A. arises from the change in the subsidiary's strategic orientation; the company will in future have exclusively a sales and distribution role.

The recovery of value regards certain cutters owned by the subsidiary RDM Iberica.

G. Financial income (expense), net

Financial income (expense)	31.12.2005	31.12.2004	Variation
Financial income	**2,479**	**4,015**	**(1,536)**
Bank interest	431	167	264
Interest from receivables	119	59	60
Interest receivable from others	1,207	1,191	16
Gain on repurchase of bond	–	1,430	(1,430)
Effect of discounting the receivable from Grupo Torras	722	1,168	(446)
Financial expense	**(14,694)**	**(14,999)**	**305**
Interest on bond	(8,700)	(8,750)	50
Bank interest	(3,801)	(4,237)	436
Swaps	(83)	177	(260)
Interest payable to others	(507)	(723)	216
Financial discounts to customers	(273)	(211)	(62)
Interest on financing the employees' leaving entitlement	(833)	(809)	(24)
Bank commissions and other expense	(497)	(446)	(51)
Exchange differences	**350**	**(189)**	**539**
Exchange gains	1,912	1,057	855
Exchange losses	(1,562)	(1,246)	(316)
Total	**(11,865)**	**(11,173)**	**(692)**

Interest receivable from others in 2005 consists of interest earned on intra-group current accounts with companies sold during the year (Europoligrafico S.p.A. and Aticarta S.p.A.) and interest of Euro 0.6 million received following a reimbursement of Irpeg taxation received in 2005 and relating to 1993.

The gain on the repurchase of the bond refers to the capital gain realised on the purchase by the Parent Company in the first half of 2004 of Reno De Medici International S.A. bonds having a nominal value of Euro 5 million at a price of Euro 3.6 million.

The amount relating to the Grupo Torras receivable relates to the financial effect of discounting the receivable which, as required by IFRS, was determined on transition by calculating the present value on the basis of the expected date of receipt.

The decrease in bank interest payable is essentially the result of in the decrease of the average net financial debt which offset the increase in interest rates which took place during the year.

The item swaps refers to the net effect of agreements entered into with primary banks to hedge the risk of fluctuations in interest rates, with particular reference to the debenture loan issued by Reno De Medici International S.A..

Interest on financing the employees' leaving entitlement regards the financial component of the accrual for the year (the so-called interest cost), calculated as envisaged by IAS 19.

H. Income from investments

Income from investments of Euro 2 million results from the adjustment of the carrying value of the investments in the associates Termica Boffalora S.r.l. (revalued by Euro 2.1 million) and Pac Service S.p.A. (revalued by Euro 0.2 million) and in the subsidiary Reno Logistica S.p.A. in liquidation (written down by Euro 0.3 million) to the equity of those companies at year end.

I. Other income (expense)

Net other expense of Euro 16.1 million relates to the partial write-off of the receivable due from Grupo Torras S.A. to adjust it to the amount implicit in the first level sentence of the Court of Madrid issued in September 2005. The item also includes the legal expenses connected with that dispute and certain costs incurred for the demerger in progress (for a total of Euro 0.8 million).

J. Discontinued operations

The economic contribution made by the companies Europoligrafico S.p.A., Aticarta S.p.A. and Cogeneracion Prat S.A. sold during the year, consisting of the result for the period and the capital gains (losses) arising on disposal, net of the costs relating to these transactions, is included in Discontinued operations.

In particular, it has been taken into account the result of these three companies up to the date of the sale: for Europoligrafico S.p.A. up to 30 June 2005, for Aticarta S.p.A. up to 30 September 2005 and for Cogeneracion Prat S.A. up to 30 November 2005.

The net operating results of the Prat facility and of the Magenta MC1 line are also included in this item; both of these ceased activities during the year and are now planned for divestment.

The results of discontinued items analysed by individual activity are made up as follows:

Discontinued operations	**31.12.2005**	**31.12.2004**
Europoligrafico S.p.A.	29,565	3,874
Aticarta S.p.A.	(4,943)	(4,394)
Cogeneracion Prat S.A.	2,465	3,555
El Prat facility	(11,872)	(3,433)
MC1 Magenta	(3,122)	(2,150)
Total	**12,093**	**(2,548)**

The following tables provide details of the profits and losses of these operations and of the gains or losses resulting from their disposal, as applicable, net of selling costs:

Discontinued operations	**31.12.2005**	**31.12.2004**
Profit and loss account – EUROPOLIGRAFICO		
Revenues	34,082	74,065
Costs	(31,512)	(70,542)
Operating profit (EBIT)	**2,570**	**3,523**
Profit (loss) before taxation	**5,799**	**2,333**
Taxation	(2,486)	1,541
Profit (loss) for the period	**3,313**	**3,874**
GAIN ON DISPOSAL	**28,009**	**n.a.**
ESTIMATED COSTS CONNECTED WITH THE DISPOSAL	**(1,757)**	**n.a.**
Total	**29,565**	**3,874**

Discontinued operations	**31.12.2005**	**31.12.2004**
Profit and loss account – ATICARTA		
Revenues	17,398	40,278
Costs	(27,570)	(40,785)
Operating profit (EBIT)	**(10,172)**	**(507)**
Profit (loss) before taxation	**(11,099)**	**(3,879)**
Taxation	(55)	(515)
Profit (loss) for the period	**(11,154)**	**(4,394)**
GAIN ON DISPOSAL	**7,327**	**n.a.**
ESTIMATED COSTS CONNECTED WITH THE DISPOSAL	**(1,116)**	**n.a.**
Total	**(4,943)**	**(4,394)**

Discontinued operations	**31.12.2005**	**31.12.2004**
Profit and loss account – COGENERACION PRAT		
Revenues	18,832	18,165
Costs	(16,117)	(14,404)
Operating profit (EBIT)	**2,715**	**3,761**
Profit (loss) before taxation	**2,600**	**3,557**
Taxation	–	(2)
Profit (loss) for the period	**2,600**	**3,555**
LOSS ON DISPOSAL	**(131)**	**n.a.**
ESTIMATED COSTS CONNECTED WITH THE DISPOSAL	**(4)**	**n.a.**
Total	**2,465**	**3,555**

Discontinued operations	**31.12.2005**	**31.12.2004**
Profit and loss account – PRAT FACILITY		
Revenues	20,355	27,682
Costs	(32,227)	(31,115)
Operating profit (EBIT)	**(11,872)**	**(3,433)**
Profit (loss) before taxation	**(11,872)**	**(3,433)**
Taxation		
Profit (loss) for the period	**(11,872)**	**(3,433)**
GAIN ON DISPOSAL	**n.a.**	**n.a.**
ESTIMATED COSTS CONNECTED WITH THE DISPOSAL	**n.a.**	**n.a.**
Total	**(11,872)**	**(3,433)**

Discontinued operations	31.12.2005	31.12.2004
Profit and loss account – MC1 Magenta		
Revenues	25,270	32,613
Costs	(28,392)	(34,763)
Operating profit (EBIT)	**(3,122)**	**(2,150)**
Profit (loss) before taxation	**(3,122)**	**(2,150)**
Taxation	–	
Profit (loss) for the period	**(3,122)**	**(2,150)**
GAIN ON DISPOSAL	**n.a.**	**n.a.**
ESTIMATED COSTS CONNECTED WITH THE DISPOSAL	**n.a.**	**n.a.**
Total	**(3,122)**	**(2,150)**

K. Tangible fixed assets

Tangible fixed assets	Land	Buildings	Plant and machinery	Industrial and commercial equipment	Other assets	Assets in course of construction	Total
Cost	26,538	107,671	704,839	7,319	18,839	2,268	867,474
Accumulated depreciation/ write-downs	–	(45,711)	(530,585)	(6,966)	(17,019)	–	(600,281)
Net book value at 31.12.04	**26,538**	**61,960**	**174,254**	**353**	**1,820**	**2,268**	**267,193**
Change in consolidation scope (cost)	(2,491)	(35,660)	(203,370)	(5,355)	(5,807)	(569)	(253,252)
Change in consolidation scope (acc. dep.)	–	20,829	175,243	5,235	5,119	–	206,426
Increases	–	558	8,172	86	151	1,124	10,091
Decreases	–	(265)	(7,433)	(112)	(934)	–	(8,744)
Reclassification of cost	(409)	96	(93,945)	7	13	(1,648)	(95,886)
Recovery of value and write-downs	–	–	645	–	–	–	645
Depreciation for the year	–	(2,242)	(22,630)	(94)	(307)	–	(25,273)
Other changes (cost)	–	–	201	–	(201)	–	–
Other changes (acc. dep.)	–	–	–	–	–	–	–
Utilisation of accumulated depreciation	–	198	6,950	105	877	–	8,130
Reclassification of accumulated depreciation	–	–	83,844	–	–	–	83,844
Cost	23,638	72,400	408,464	1,945	12,061	1,175	519,683
Accumulated depreciation/ write-downs	–	(26,926)	(286,533)	(1,720)	(11,330)	–	(326,509)
Net book value at 31.12.05	**23,638**	**45,474**	**121,931**	**225**	**731**	**1,175**	**193,174**

Land includes the areas relating to the manufacturing facilities of the Parent Company located at Magenta (MI), Santa Giustina (BL), Ovaro (UD), Villa Santa Lucia (FR) and Marzabotto (BO) and those of the subsidiary RDM Iberica S.L. at Almazan. The reclassification regards the sale by the Parent Company of industrial land at Magenta to the real estate company Red.Im., as a result of which this is now classified as stocks.

Buildings consist mainly of those regarding the manufacturing facilities and the Group's administrative headquarters. The increases for the year relate to improvements to buildings owned by the Group. In addition, certain non-industrial buildings no longer used by the Parent Company were sold during the year.

Plant and machinery consists of specific and general manufacturing plant and machinery. The increases for the year relate prevalently to extraordinary work carried out by the Parent Company to improve efficiency. In particular, investments of Euro 1.9 million were made to optimise the system of managing production discards at the Magenta facility; investments of Euro 3,2 million were made at the Villa Santa Lucia facility, whose aim is principally to improve the stage of preparing the paste mixture for the cover line and improve the management of production discards; investments of Euro 1,8 million were made at the Santa Giustina facility mainly to improve the stage of preparing the paste mixture for the centre and rear lines and improve the management of production discards; investments of Euro 0,5 million were made at the Ovaro facility with the main purpose of implementing the distributed control process for the second board machine and investments of Euro 0,4 million were made at the Marzabotto facility.

The lines "reclassification of cost" and "reclassification of accumulated depreciation" relate mainly to the Magenta MC1 plant and machinery for an amount of Euro 7.1 million and to the Prat facility for an amount of Euro 5.6 million; following the cessation of activities during the year, these have been reclassified to assets held for sale. Included additionally in this reclassification is the effect resulting from the transfer from assets in course of construction to their respective categories during the year on becoming available for use, and the transfer of part of the plant at the Ciriè facility, classified as assets held for sale, to other Group manufacturing sites.

The line "recovery of value and write-downs" includes the net effect of recognising the recovery of value of Euro 1 million of certian cutters owned by the subsidiary RDM Iberica and the write-down during the year of same equipments by the subsidiary Barneda S.A..

Decreases in this item regard principally the disposal of the plant at Cartiera Alto Milanese S.p.A. resulting from the change in its strategic orientation; the company will in future have exclusively a role as a distributor of recycled fibre cartonboard.

Industrial and commercial equipment is mainly made up of assets used in the manufacturing process carried out at the various factories. The increases arise mainly from the purchase of laboratory instruments and various equipment of insignificant individual amounts.

"Other assets" are principally composed of electronic office machines, office fixtures and fittings and motor cars. The increases are mostly attributable to the purchase of information systems equipment. The decreases relate to the disposal of company cars. The disposals did not have a significant economic effect.

The effects resulting from changes in the scope of consolidation refer to the tangible fixed assets owned by Europoligrafico S.p.A, Aticarta S.p.A., Cogeneracion Prat S.A. and Beobarna S.A. which were sold during the year.

There are third party charges (mortgages and privileges) amounting to a total of Euro 271 million on owned properties and plant and machinery in favour of banks as security on loans, whose outstanding balance at 31 December 2005 amounted to Euro 35 million.

L. Investment property

Investment property consists of land for agricultural use located at Magenta having a carrying value of Euro 1.3 million, unchanged from 31 December 2004.

M. Goodwill

Goodwill arises from the acquisition of Barneda Carton S.A. and of a French sales company.

The decrease for the year results from the fact that Aticarta S.p.A (Euro 0.6 million) and Europoligrafico S.p.A. (Euro 0.5 million) were no longer included in the scope of consolidation at 31 December 2005.

N. Other intangible assets

Other intangible assets	Concessions, licences, trade marks and similar rights	Other	Total
Net book value at 31.12.2004	**250**	**4,489**	**4,739**
Change in consolidation scope	(15)	(454)	(469)
Increases	334	59	393
Decreases			
Reclassification of cost			
Recovery of value and write-downs			
Amortisation for the year	(273)	(1,081)	(1,354)
Utilisation of accumulated amortisation			
Reclassification of amortisation			
Net book value at 31.12.2005	**296**	**3,013**	**3,309**

Concessions, licences, trade marks and similar rights regard the costs incurred to acquire software licences. The increase for the year relates mainly to the purchase of software used to manage plant maintenance activities by the Parent Company.

The column other is mostly made up of the value of Euro 1.5 million (net of accumulated amortisation of Euro 1 million) attributed to the customer portfolio of the subsidiary Cartiera Alto Milanese S.p.A. on acquisition and an amount of Euro 1.5 million regarding the non-competition agreement signed with Dr. Giovanni Dell'Aria Burani in 2003. Both of these assets have an estimated residual useful life of three years.

There have been no revaluations, recoveries of value or write-downs in intangible assets during the year.

O. Investments accounted for under the equity method

	Carrying value at 31.12.2004	Acquisitions	Disposals and reimbursements	Changes in consolidation scope	Elimination of dividends from associates	Write-downs/ revaluations	Carrying value at 31.12.2005
Subsidiary companies	**4,597**	**23**	**(4,559)**	**–**	**–**	**(47)**	**14**
Trentino Ricerca in liquidazione S.r.l.	–	20		–		(9)	11
Cogeneracion Baix Llobregat S.A.	–	3		–			3
Ceres Prat in liquidazione S.A.	3,309		(3,309)				–
RDM RE in liquidazione S.A.	1,250		(1,250)				–
Reno Logistica in liquidazione S.p.A.	38			–		(38)	–
Associates	**13,228**	**–**	**(18)**	**–**	**(1,320)**	**2,312**	**14,202**
Termica Boffalora S.r.l.	11,864				(1,170)	2,078	12,772
Pac Service S.p.A.	1,346				(150)	234	1,430
ABB RDM Service S.r.l.	16		(16)				–
A.R.S.P.C.C.	2		(2)				–
Total	**17,825**	**23**	**(4,577)**	**–**	**(1,320)**	**2,265**	**14,216**

The carrying value of unconsolidated subsidiaries has been adjusted to the equity of those companies at the balance sheet date.

The subsidiary Reno Logistica in liquidazione S.p.A. has a shareholders' deficit, and as a result a provision of Euro 0.3 million for losses on investments has been recognised as a liability at 31 December 2005.

The decreases in the investments in Ceres Prat S.A. and RDM RE S.A. are due to the completion during the year of the process of winding up these two companies.

Revaluations refer to the adjustment at the balance sheet date of the carrying value of the investments in the associates Termica Boffalora S.r.l. (30% holding) and Pac Service S.p.A. (33.3% holding) to the equity of these two companies.

A summary of the key economic and balance sheet data of these companies as of and for the year ended 31 December 2005 is set out in the following table:

	Termica Boffalora S.r.l.	**Pac Service S.p.A.**
Total assets	68,964	9,837
Shareholders' equity	42,573	4,291
Liabilities	26,391	5,546
Revenues from sales	60,245	14,788
Profit (loss) for the year	6,252	646

The investment in ABB RDM Service S.r.l. was sold during the year at a price corresponding to its carrying value, while a gain of Euro 0.3 million was realised on the sale of the investment held by the subsidiary RDM Iberica in A.R.S.P.C.C..

P. Other non-current receivables

Other non-current receivables	31.12.2005	31.12.2004	Variation
Grupo Torras S.A.	3,875	20,635	(16,760)
Vendor loan New EPG	3,054	–	3,054
Receivables from the sale of Cogeneracion Prat S.A.	2,200	–	2,200
Tax credits	895	7,227	(6,332)
Guarantee deposits	139	177	(38)
Miscellaneous receivables	109	47	62
Total	**10,272**	**28,086**	**(17,814)**

The estimated present value of the receivable from Grupo Torras S.A. takes into account the provision recognised as a result of the first level sentence of the Court of Madrid on 8 September 2005, net of the dividends on the Torraspapel S.A. shares. It is recalled that on transition to IFRS, the nominal value of the receivable from Grupo Torras S.A. was discounted to its present value on the basis of the estimate on the date of receipt that it was possible to make at 1 January 2004.

Receivables from New EPG S.r.l. relate to the agreement for the sale of Europoligrafico S.p.A., whose terms also envisage a vendor loan of Euro 3 million, due for repayment on 30 June 2012, but which has a mandatory repayment clause whose effects depends on the results achieved by Europoligrafico S.p.A..

Receivables from the sale of Cogeneracion Prat S.A. consist an intragroup loan of Euro 1.7 million granted by RDM Iberica to the sold company prior to its sale and of the deferred portion of Euro 0.5 million of the sales price. Both of these amounts are due for payment by the end of 2007.

Tax credits relate mostly to IRPEG tax reimbursements relating to prior years. The decrease in this balance is mainly due to the reimbursement during the year to the Parent Company by the tax authorities of amounts relating to 1993, carried at Euro 5.1 million and recovered together with interest at the end of 2005. The remaining change for the year regards the fact that Aticarta S.p.A. and Europoligrafico S.p.A. are no longer in the scope of consolidation.

Q. Other non-current assets and liabilities held for sale

Assets held for sale	31.12.2005	31.12.2004	Variation
Properties	2,850	4,657	(1,807)
Plant	17,358	4,226	13,132
Total	**20,208**	**8,883**	**11,325**

Properties consist of land and buildings at the Ciriè (TO) facility. The change during the year is principally due to the fact that the assets held for sale owned by the subsidiary Europoligrafico S.p.A. and located at its facility at Verderio (LC) are no longer in the scope of consolidation.

Plant consists of specific and general manufacturing plant and machinery held for sale and relating to the facilities at Ciriè (TO), Prat (Spain) and Pompeii (NA) and to the MC1 line at Magenta (MI). The increase for the year is the result of the cessation of activities at the Prat facility and those of the MC1 line at the Magenta factory; it also includes the plant and machinery of the Pompeii mill (owned by Aticarta S.p.A.) which are still reported in the consolidated balance sheet pursuant to the undertaking of RDM to buy these assets at a defined price. These changes have been partially offset by the redeployment at other Group facilities of some equipments of the Ciriè (TO) factory and the fact that the plant located at Verderio (LC) is no longer in the scope of consolidation.

There were no liabilities at 31 December 2005 directly associated with non-current assets held for sale; the balance of this item at 31 December 2004 refers to the liabilities pertaining to the Verderio (LC) factory.

R. Stocks

Stocks amount to Euro 93 million at 31 December 2005, decreasing by Euro 26.6 million over 31 December 2004.

Stocks	**31.12.2005**	**31.12.2004**	**Variation**
Raw materials and consumables	24,431	36,750	(12,319)
Provision for obsolesence	*(1,657)*	*(2,126)*	*469*
Work in progress and semi-finished goods	–	2,707	(2,707)
Provision for obsolesence	*–*	*(81)*	*81*
Finished goods and goods for resale	35,880	50,236	(14,356)
Provision for obsolesence	*(2,262)*	*(3,489)*	*1,227*
Properties for sale	33,939	33,486	453
Other stocks and supplies for sale	2,648	2,130	518
Total	**92,979**	**119,613**	**(26,634)**

The decrease in stocks reflects the fact that Europoligrafico S.p.A. and Aticarta S.p.A. have left the Group, with an overall effect of Euro 20.3 million, and the action taken to reduce stock levels, carried out in particular during the final quarter of the year.

Properties for sale mostly include the right to receive completed properties from Espais Promocions Immobiliaries E.P.I. S.A. in Barcelona (following the sale by RDM Iberica to Espais of the land at Prat, executed in 2003 and discussed in the previous financial reports), stated at Euro 30 million, and the industrial land and buildings located in Magenta and owned by the subsidiary Red.Im S.r.l., which do not form part of the activities for the production of recycled cartonboard and which are stated at Euro 3.9 million. The change in the year is due to the reclassification from tangible assets, following the sale by the Parent Company of a part of the industrial land at Magenta to Red.Im S.r.l..

Other stocks and supplies for sale relate to the value, stated net of a provision, of technical supplies relating to the plant and machinery of the Ciriè (TO) factory and the estimated value of the stocks of the Pompeii factory that is still reported in the consolidated balance sheet pursuant to the undertaking of RDM to buy such assets at a defined price. The change for the year reflects in addition the sale of the board machine which was owned by the subsidiary Cartiera Alto Milanese S.p.A..

S. Trade receivables

Trade receivables amount to a total of Euro 107.1 million (Euro 142.0 million at 31 December 2004); the following table sets out an analysis of these between current and non-current balances:

Trade receivables	**31.12.2005**	**31.12.2004**	**Variation**
Trade receivables with customers	193	262	(69)
Non-current trade receivables	**193**	**262**	**(69)**
Trade receivables with customers	105,941	141,581	(35,640)
Receivables from unconsolidated subsidiaries	–	13	(13)
Receivables from associates	958	161	797
Current trade receivables	**106,899**	**141,755**	**(34,856)**

Trade receivables with customers amount to Euro 106.1 million (Euro 141.8 million at 31 December 2004); the decrease over the year is principally the result of the change in the scope of consolidation, which has an effect of Euro 28 million.

Trade receivables are stated net of a provision for bad and doubtful debts of Euro 6.7 million (Euro 10.8 million al 31 December 2004). Changes over the year are set out in the following table, highlighting separately the effects resulting from the change in the scope of consolidation, the charge for the year and the utilisation of the provision:

Provision for bad and doubtful debts	**31.12.2004**	**Change in scope**	**Charge**	**Utilisation**	**31.12.2005**
Provision for bad and doubtful debts	10,749	(2,098)	789	(2,804)	6,636
Total	**10,749**	**(2,098)**	**789**	**(2,804)**	**6,636**

Receivables from associates relate to trade balances due from Pac Service S.p.A..

An analysis of trade receivables by geographical area is set out in the following table:

Trade receivables by geographical area	
Italy	74,450
Rest of European Union	25,509
Rest of Europe	2,424
Rest of the World	3,558
Total	**105,941**

T. Other current receivables

Other current receivables	31.12.2005	31.12.2004	Variation
Due from Aticarta S.p.A.	10,829	–	10,829
Due from Ati Packaging S.r.l.	1,267	–	1,267
Due from the sale of Europoligrafico	5,552	–	5,552
Due from the sale of Cogeneracion Prat S.A.	800	–	800
Tax receivables	730	1,443	(713)
Miscellaneous receivables	716	2,504	(1,788)
Accrued income	484	691	(207)
Dividend receivable from Torraspapel S.A.	435	–	435
Prepayments	252	1,740	(1,488)
Receivables from unconsolidated subsidiaries	103	134	(31)
Insurance reimbursements	–	547	(547)
Total	**21,168**	**7,059**	**14,109**

The balances due from Aticarta S.p.A. and from its subsidiary Ati Packaging S.r.l., relate to current accounts held with these two companies at the balance sheet date amounting in total to Euro 17.4 million. The combined balance for the two companies of Euro 12.1 million above is stated net of the undertaking, discussed above, to purchase the plant, machinery and stocks at Aticarta's Pompeii facility at an amount estimated in Euro 5.3 million. The receivables are due by 31 March 2006.

The amount receivable from the sale of Europoligrafico represents the residual balance due from New EPG S.r.l. in connection with the sale of that investment.

The amount receivable from the sale of Cogeneracion Prat represents the portion of the price payable by the purchasers by the end of 2006.

Tax receivables relate mostly to VAT balances and income tax credits.

Miscellaneous receivables comprise a series of minor balances; the decrease is principally the result of the change in the scope of consolidation.

The decreases in the items accrued income and prepayments are due to an alignment of the payment dates for subscriptions to trade associations and insurance premiums to the balance sheet date and to the sale of companies which took place during the year.

The decrease in insurance reimbursements is the result of the settlement of the dispute between the Parent Company and an insurance company in connection with a fire in 2001 in which the Magenta facility was involved. The completion of this matter led to the utilisation of a provision of Euro 0.5 million which had been recognised as a liability.

U. Derivative financial instruments

Derivative financial instruments	**31.12.2005**	**31.12.2004**	**Variazione**
Non-current assets			
Derivative financial instruments	–	5,183	(5,183)
Current assets			
Derivative financial instruments	5,321	2,105	3,216
Non-current liabilities			
Derivative financial instruments	–	1,247	(1,247)
Current liabilities			
Derivative financial instruments	1,242	2,859	(1,617)

Derivative instruments outstanding at the balance sheet date were not acquired for speculative purposes. Despite this, certain arrangements entered into for hedging purposes do not satisfy the criteria for hedge accounting under IFRS.

Derivative instruments classified as assets include the fair value of cross currency swaps in Yen entered into by the Parent Company and the subsidiary RDM International S.A. with a primary bank in connection with an intragroup loan in Yen between the two companies linked to the debenture loan. At a consolidated level, the two corresponding fair values of the Yen loan have been offset as they relate to one single contract; the valuation of the derivative instruments at 31 December 2005 amounts in total to Euro 5.3 million (Euro 7.3 million at 31 December 2004). A part of the cross currency swap contract having a nominal value of Euro 5 million was cancelled during the year in order to align the nominal value of the derivative with the residual nominal value of the debenture loan.

Derivative instruments classified as liabilities include the value of two interest rate swap arrangements, entered into by the Parent Company and again connected with the debenture loan, for a total of Euro 1.2 million (Euro 3.5 million at 31 December 2004) and an additional interest rate swap arrangement having a value of Euro 39 thousand (Euro 149 thousand at 31 December 2004) relating to a long term loan maturing in 2006.

The arrangements for the derivative instruments connected with the debenture loan will be terminated on the repayment of this loan on 4 May 2006.

The following table sets out the main characteristics of the derivative instruments outstanding at 31 December 2005:

Type	Company	Counterparty	Currency	Maturity	Nominal value	Interest	Payment of interest	Fair value of the derivative (euro/000)
CCS	RDM International S.A.	San Paolo S.A.	Euro (Asset) Yen (Liability)	04.05.2006	145.000.000 15.776.000.000	6% fixed Libor Yen + 1.25%	Annual	38.049
CCS	Reno De Medici S.p.A.	San Paolo S.A.	Yen (Asset) Euro (Liability)	04.05.2006	15.776.000.000 145.000.000	Libor Yen + 1.25% 6.2% fixed (Euro 45 m) Euribor 6M + 1.43% (Euro 100 m)	Six monthly	(32.728)
IRS	Reno De Medici S.p.A.	Banca Caboto S.p.A.	Euro	04.05.2006	50.000.000	Euribor 6M + 1.43% 6.2% fixed	Six monthly	(614)
IRS	Reno De Medici S.p.A.	Banca Caboto S.p.A.	Euro	04.05.2006	50.000.000	Euribor 6M + 1.43% 6.3025% fixed	Six monthly	(589)
IRS	Reno De Medici S.p.A.	Interbanca S.p.A.	Euro	31.10.2006	5.533.472	Euribor 6M 3.5% fixed	Six monthly	(39)
Total								**4,079**

V. Shareholders' equity

Changes in shareholders' equity for the year are set out in the following table:

Description	Shareholders' equity at 31.12.2004	Change in the year			Shareholders' equity at 31.12.2005
		Loss cover 2004	Reclassification	Profit (loss) for the year	
Share capital	148,343				148,343
Share premium reserve	8,884	(1,087)			7,797
Legal reserve	6,462				6,462
Reserve for own shares	5,373		(77)		5,296
Other reserves:					
– Reserve for the purchase of own shares	6,584				6,584
– Extraordinary reserve	15,362	(15,362)	77		77
– Reserve from contribution of assets					–
– Merger surplus reserve and share exchange reserve					–
– Reserve as per Article 67 of the consolidated tax law					–
– Dividend fluctuation reserve					–
Profit (loss) brought forward	(22,038)	8,365			(13,673)
Profit (loss) for the year	(8,084)	8,084		(13,261)	(13,261)
Own shares	(5,374)				(5,374)
Total	**155,512**	**–**	**–**	**(13,261)**	**142,251**

On 9 May 2005, shareholders resolved in general meeting to cover the 2004 losses of the Parent Company, amounting to Euro 16.4 million, as stated in its separate statutory accounts prepared in accordance with Italian accounting principles, through the utilisation of the share premium reserve for Euro 1.0 million and the extraordinary reserve for Euro 15.4 million.

The reserve for own shares is a restricted reserve pursuant to Article 2357-*ter* of the Civil Code.

In accordance with the requirements of Article 5 of the Parent Company's bylaws, the bearers of savings shares may convert their shares into ordinary shares during February and September of each year. A total of 5,928 savings shares were converted into ordinary shares during 2005. As a consequence of this, share capital at 31 December 2005, fully subscribed and paid, is made up as follows:

	Quantity	**Par value** (Euro)	**Total** (Euro)
Ordinary shares	269,200,159	0.55	148,060,087
Savings shares	514,278	0.55	282,853
Total	**269,714,437**		**148,342,940**

RDM's bylaws provide that if in any year a dividend per share is distributed to savings shareholders which is equal to less than 5% of the nominal value of the savings share (being Euro 0.55), the difference is transferred as an increase in the privileged dividend of the following two years. In this respect, it is recalled that no dividends were distributed in 2003 and 2004.

Own shares consist of 7,513,443 ordinary shares, equal to 2.79% of the Parent Company's share capital.

Minority interests amount to Euro 0.8 million (Euro 0.6 million at 31 December 2004) and regard third party holdings in the subsidiary Emmaus Pack S.r.l..

W. Net financial position

Net financial position	31.12.2005	31.12.2004	Variation
CURRENT PORTION			
Assets			
Bank deposits and cash	44,807	5,976	38,831
Restricted bank deposits	11,972	19,027	(7,055)
Liquid funds	**56,779**	**25,003**	**31,776**
Receivables from unconsolidated subsidiaries	103	134	(31)
Other financial receivables	18,448	–	18,448
Derivative financial instruments	5,321	2,105	3,216
Liabilities			
Due to banks	(75,142)	(71,481)	(3,661)
Debenture loan	(144,914)	–	(144,914)
Due to other lenders	–	(498)	498
Due to banks and other lenders	**(220,056)**	**(71,979)**	**(148,077)**
Other financial payables	(5,552)	(5,113)	(439)
Derivative financial instruments	(1,242)	(2,859)	1,617
Current financial position	**(146,199)**	**(52,709)**	**(93,490)**
NON-CURRENT PORTION			
Assets			
Other financial receivables	5,200	–	5,200
Derivative financial instruments	–	5,183	(5,183)
Liabilities			
Due to banks	(28,270)	(51,171)	22,901
Debenture loan	–	(144,620)	144,620
Due to other lenders	–	(2,960)	2,960
Due to banks and other lenders	**(28,270)**	**(198,751)**	**170,481**
Derivative financial instruments	–	(1,247)	1,247
Non-current financial position	**(23,070)**	**(194,815)**	**171,745**
NET FINANCIAL POSITION	**(169,269)**	**(247,524)**	**78,255**

Consolidated net financial debt at 31 December 2005 amounted to Euro 169 million compared to Euro 248 million at 31 December 2004. The reduction is principally due to the sales of Europoligrafico S.p.A., Aticarta S.p.A. and Cogeneracion Prat S.A., which have already been discussed, and which led to a benefit of Euro 70 million (of which Euro 36 million relates to proceeds already received and Euro 34 million to the elimination from the consolidated balance sheet of financial debt and the recognition of financial receivables). On the other hand, there have been non-recurring cash outflows of Euro 16 million for the RDM Group in 2005, due mainly to the termination settlement with the staff of Prat, which is still in progress, and the purchase of Cartiera Alto Milanese S.p.A. and other businesses dedicated to the maintenance of the Magenta and Marzabotto facilities. Liquid funds at 31 December 2005 consist of bank deposits of Euro 44.8 million and restricted deposits of Euro 12.0 million, of which Euro 7 million is set aside to settle termination payments with the personnel at Prat and Euro 5 million is in respect of a surety requested by the Court of Madrid regarding the dispute with Grupo Torras.

Receivables from unconsolidated subsidiaries consist of financial receivables from the companies in liquidation Reno Logistica S.p.A and Trentino Ricerca S.r.l..

The current portion of other financial receivables relates to a total of Euro 12.1 million due from Aticarta S.p.A. and ATI Packaging S.r.l., Euro 5.5 million representing the residual portion of sales price of Europoligrafico S.p.A., due from New EPG S.r.l., and a current receivable of Euro 0.8 million due from a group of Spanish private businessmen for the sale of Cogeneracion Prat S.A..

The current portion of the balance due to banks and other lenders, which amounts to Euro 220 million, includes the residual balance of the debenture loan of Euro 145 million, repayable in May 2006, the portion of long-term loans of Euro 16.7 million due within one year and short-term bank debt of Euro 58.3 million, principally made up of advances on trade receivables.

The additional short-term debt included in other financial payables and amounting to Euro 5.5 million is due to Europoligrafico S.p.A. and is connected with the purchase by RDM of Aticarta S.p.A., which took place prior to the sale of Europoligrafico S.p.A. to New EPG S.r.l..

The non-current portion of other financial receivables relates to the vendor loan of Euro 3 million granted to New EPG S.r.l., for Euro 0.5 million to the components of the deferred part of the proceeds for the sale of Cogeneracion Prat S.A. and for Euro 1.7 million to the financial receivables from that company.

The non-current portion of balances due to banks and other lenders consists of interest-bearing long-term debt amounting to Euro 28.3 million.

An analysis of long-term loans outstanding at 31 December 2005 by due date is set out as follows, with details of the lending banks:

Long-term loans	**Due within one year**	**Due after more than one year**	**Due after more than five years**	**Total**
M.I.C.A. - due 13 February 2016		502	904	1,406
M.I.C.A. - due 16 October 2013	133	562	454	1,149
San Paolo Imi - due 15 June 2011	1,831	8,316	1,164	11,311
San Paolo Imi - due 15 December 2011	2,694	12,092	3,387	18,173
M.I.C.A. - due 28 May 2008	50	106		156
Interbanca - due 31 October 2006	5,533			5,533
Banca Pop.Emilia Romagna - 29 December 2006	6,200			6,200
Unicredit - due 1 June 2009	133	333		466
Unicredit - due 2 November 2009	150	450		600
Total	**16,724**	**22,361**	**5,909**	**44,994**

The loans granted by San Paolo IMI and Interbanca are secured by mortgages on land and buildings and a privileged charge on plant and machinery, as described in the note on tangible fixed assets.

Z. Current and deferred taxation

Taxation	31.12.2005	31.12.2004	Variation
Profit and loss account			
Deferred taxation	2,147	82	2,065
Current taxation	(2,258)	(2,340)	82
Total	**(111)**	**(2,258)**	**2,147**
Balance sheet			
Non-current assets			
Deferred tax assets	577	–	577
Non-current liabilities			
Deferred tax liabilities	2,293	3,285	(992)
Current liabilities			
Current taxation	271	1,420	(1,149)

The following table provides a summary of the determination of deferred taxation, based on temporary differences at 31 December 2005:

Deferred taxation	2005			2004			Difference in tax effect
	Temporary differences	Average tax rate %	Tax effect	Temporary differences	Average tax rate %	Tax effect	
Recognised deferred tax assets	**115,147**		**37,164**	**132,671**		**42,786**	**(5,622)**
Write-down of investments	6,958	33.00%	2,296	11,206	33.00%	3,698	(1,402)
Tax loss for the year	11,948	34.84%	4,163	15,752	34.68%	5,463	(1,300)
Tax losses to carry forward	17,949	34.47%	6,188	18,985	22.04%	4,185	2,003
Write-downs for permanent losses in value	6,990	4.25%	297	561	4.25%	24	273
Stock provision	322	4.25%	14	2,063	4.25%	88	(74)
Provision for future charges	2,329	4.69%	109	280	4.25%	12	97
Differences deductible in future years	774	33.07%	256	714	33.00%	236	20
Agents' termination indemnity	245	16.91%	41	88	37.25%	33	9
Deferred taxation for deconsolidated companies	–		–	6,988	32.08%	2,242	(2,242)
Deferred tax assets on consolidation entries	67,632	35.19%	23,800	76,034	35.26%	26,807	(3,007)
Recognised deferred tax liabilities	**112,189**		**38,880**	**129,988**		**46,071**	**(7,191)**
Gain on the disposal of Espais	24,204	35.00%	8,471	24,204	35.00%	8,471	–
Book depreciation exceeding tax depreciation	19,674	37.24%	7,328	24,122	37.25%	8,985	(1,658)
Deferred tax liabilities on consolidation entries	68,311	33.79%	23,081	81,662	35.04%	28,614	(5,533)
Recognised deferred tax (assets) liabilities, net			**1,716**			**3,285**	**(1,569)**
– of which deferred tax liabilities			*2,293*			*3,285*	
– (of which deferred tax assets)			*(577)*				*(2,147)*
– of which deferred tax liabilities for the change in consolidation scope							*578*
Unrecognised deferred tax assets	**191,397**		**64,380**	**158,016**		**52,724**	**11,656**
Write-down of investments (2005-2007)	12,549	33.00%	4,141	18,865	33.00%	6,225	(2,084)
Write-downs for permanent losses in value	6,990	33.00%	2,307	8,000	33.00%	2,640	(333)
Stock provision	322	33.00%	106	561	33.00%	185	(79)
Bad and doubtful debts	1,958	33.00%	646	4,319	33.00%	1,425	(779)
Provision for future charges (IRES)	2,461	33.00%	812	4,002	33.00%	1,321	(509)
Agents' termination indemnity	151	33.00%	50	280	33.00%	92	(43)
Differences deductible in future years	10	37.25%	4	13	37.25%	5	(1)
Tax losses to carry forward	114,715	33.50%	38,427	83,347	33.39%	27,834	10,594
Tax loss for the year	50,458	34.21%	17,262	27,320	33.08%	9,038	8,224
Deferred tax assets on consolidation entries	1,783	35.00%	624	11,309	35.00%	3,958	(3,334)
Unrecognised deferred tax assets			**64,380**			**52,724**	**11,656**

Deferred tax assets and liabilities at 31 December 2005 have been offset when the conditions in IAS 12 are satisfied, and in particular when these balances relate to income taxes levied by the same taxation authority and there is a legally enforceable right of set off.

Non-current deferred tax assets in the balance sheet relate to deductible temporary differences and unused tax losses to carry forward of the subsidiary Cartiera Alto Milanese S.p.A.. The assets are recognised to the extent that it is probable that this company will have taxable profit in the future against which the temporary differences and tax losses can be utilised.

The differences in the various average tax rates are due to the different fiscal legislation prevailing in the European countries in which the Reno De Medici Group operates.

Unrecognised deferred tax assets relate principally to tax losses for 2005 and prior years; in view of the restructuring taking place within the Group and the current situation in sales markets, these assets have not been recognised.

The following table provides details of the accumulated tax losses of Group companies at 31 December 2005, with details of the year in which the related benefit expires:

Accumulated tax losses	**2006**	**2007**	**2008**	**2009**	**2010**
Reno De Medici S.p.A.	107,922	107,922	87,312	39,413	18,292
Cartiera Alto Milanese S.p.A.	3,113	3,113	2,386	2,386	2,386
Red.Im S.r.l.	691	682	681	500	176
Barneda Carton S.A.	6,177	6,177	6,177	6,177	6,177
RDM Iberica S.L.	75,974	75,974	75,974	65,591	53,957
RDM Deutschland GmbH	1,194	1,194	1,194	1,194	1,194
Total tax losses to carry forward	**195,071**	**195,062**	**173,724**	**115,261**	**82,182**

The losses relating to RDM Deutschland GmbH have no expiry date, while those relating to RDM Iberica S.L. and Barneda Carton S.A. may be utilised until 2020.

Current taxation refers to income tax payable in the short term. The following table sets out a reconciliation between the theoretical and actual tax charge of the Reno De Medici Group:

Current taxation	**Result before taxes**	
	Negative	**Positive**
Profit (loss) before taxation	(86,207)	2,386
Theoretical tax charge (%)	n.a.	32.0%
Theoretical tax charge	**–**	**763**
Differences deductible in future years	13,394	651
Reversal of prior year temporary differences	(22,060)	(594)
Permament differences which will not reverse in future years	30,603	(368)
Tax losses from prior years	–	(86)
Total differences	**21,937**	**(397)**
Taxable income (loss)	(64,270)	1,989
Taxable income from companies taking part in the fiscal consolidation	1,804	(1,804)
Current tax income (loss)	(62,466)	185
Actual tax charge	**–**	**55**
IRAP		
Difference between value and cost of production (excluding B9, B10 c), d) and B12)	(1,903)	49,018
Financial statement reclassifications	(156)	(1,652)
Costs for apprentices, disabled persons and compulsory insurance	(14)	(2,286)
Total	**(2,073)**	**45,080**
Theoretical tax charge (%)	n.a.	4.25%
Theoretical tax charge	**–**	**1,916**
Differences deductible in future years	–	169
Reversal of prior year temporary differences	(8)	(2,927)
Permament differences which will not reverse in future years	322	6,647
Total differences	**314**	**3,889**
Taxable income (loss)	(1,759)	48,969
Actual tax charge	**–**	**2,081**
Other taxation		
Other income tax	–	114
Current income tax for the year	**–**	**2,250**

Other income tax of Euro 0.1 million is indicated separately as it relates to the tax charge of the subsidiary RDM International S.A., which is not based directly on income.

AA. Employees' leaving entitlement

Employees' leaving entitlement	**31.12.2005**	**31.12.2004**	**Variation**
Employees' leaving entitlement	17,324	29,823	(12,499)

The actuarial valuation of the employees' leaving entitlement at 31 December 2005 as required by IAS 19 was carried out by an independent actuary using information provided to him by the Group.

The following demographic assumptions were used by the actuary:

- mortality rates: ISTAT data for 2002 relating to the Italian population and separated by sex;
- incapacity from working: the INPS model for forecasts up until 2010;
- pensionable age: it has been assumed that active workers will reach the first of the pension requisites valid for the Assicurazione Generale Obbligatoria (Compulsory General Insurance);
- employees leaving for reasons other than death in service: an annual turnover frequency of 5.00% has been assumed;
- advances of the entitlement: an annual figure of 3.00% has been assumed.

The economic and financial assumptions used were as follows:

Economic and financial assumptions	
Annual discount rate	4.25%
Annual inflation rate	2.00%
Annual increase in overall salaries and wages	2.50%
Annual increase in employees' leaving entitlement	3.00%

Movements in the actuarial value of the liability for the year were as follows:

Movements in the actuarial value of the liability	
Actuarial value at 31.12.2004	**29,823**
Change in scope of consolidation	(12,758)
Service cost	1,586
Interest cost	833
Services rendered	(3,015)
Other movements	855
Actuarial value at 31.12.2005	**17,324**

Unrecognised actuarial losses at 31 December 2005 resulting from the application of the corridor approach amounted to Euro 1.9 million; the part exceeding 10% of this liability will be recognised from 1 January 2006 on a systematic basis.

The accuracy of these figures depends upon the prevailing legislative and regulatory framework, trends in interest rates on the financial markets, variations in salaries in wages, the timing of payments made to leavers and the frequency with which employees request advances of the amount due, all of which must on average be compatible with the economic and financial assumptions made.

AB. Provisions

The balance at 31 December 2005 may be analysed as follows:

Provisons for contingencies and charges	31.12.2004	Charge	Utilisation	Other changes	31.12.2005
Agents' termination indemnity	829	436	(133)	(55)	1,077
Provision for future charges	21,188	4,304	(17,147)	(2,303)	6,042
Taxation	29	–	–	–	29
Provision for losses on investments	52	277	(52)	–	277
Total	**22,098**	**5,017**	**(17,332)**	**(2,358)**	**7,425**

The liability for the agents' termination indemnity is determined on the basis of actuarial techniques.

The provision for future charges consists mostly of accruals for future costs linked to contractual commitments regarding the Prat facility, disputes in progress and an accrual for the difference between the estimate of CO2 emissions made in 2005 by the Italian factories and the quantities authorised by the National Assignment Plan.

The utilisation of Euro 17.1 million of the provision for future charges regards the costs incurred during the year for the Group's restructuring programme, and principally relate to the cessation of activities at the Prat facility in Spain for Euro 14 million, the costs incurred for the reorganisation process taking place at the Parent Company and the settlement of disputes. The charge for the year relates future costs of Euro 3.5 million to be incurred regarding rental agreements connected with the Prat area and amounts totalling Euro 0.8 million accrued by the Parent Company regarding the CO2 quotas referred to above and disputes with road hauliers.

The provision for losses on investments has decreased as the result of the completion of the winding up of C.T.M. Centro Taglio Magenta in liquidation and increased as a consequence of an accrual for the losses incurred by the subsidiary Reno Logistica in liquidation.

AC. Trade payables

Trade payables	31.12.2005	31.12.2004	Variation
Trade payables to third parties	71,605	102,367	(30,762)
Due to subsidiary companies	–	4,577	(4,577)
Due to associates	947	1,080	(133)
Total	**72,552**	**108,024**	**(35,472)**

Trade payables to third parties amount to Euro 71.6 million (Euro 102.3 million at 31 December 2004); the decrease mostly reflects the effect of the companies sold during the year, amounting to Euro 24.7 million, and the reduction in the volume of activity connected with the industrial reorganisation taking place.

No amounts were due to subsidiary companies at 31 December 2005 following the completion of the winding up of Ceres Prat and RDM RE.

Balances due to associates amounting to Euro 0.9 million (Euro 1.1 million at 31 December 2004) regard trade payables for the purchase of steam from Termica Boffalora S.r.l..

AD. Other payables

Other payables	**31.12.2005**	**31.12.2004**	**Variation**
Miscellaneous payables	414	553	(139)
Deferred income	650	–	650
Other non-current payables	**1,064**	**553**	**511**
Payable to tax authorities	3,842	3,493	349
Payable to social security authorities	3,556	4,971	(1,415)
Payable to EPG for the purchase of Aticarta	5,552	–	5,552
Payable to ATI for the purchase of Aticarta	–	5,113	(5,113)
Payable for the purchase of CAM	–	1,500	(1,500)
Personnel	10,979	4,948	6,031
Company bodies	866	787	79
Torraspapel S.A. dividend	–	1,729	(1,729)
Miscellaneous payables	2,242	3,843	(1,601)
Accrued interest payable on debenture loan	5,704	5,900	(196)
Accrued expenses on mortgages	127	282	(155)
Miscellaneous accrued expenses	325	519	(194)
Deferred income	54	376	(322)
Other current payables	**33,247**	**33,461**	**(214)**

The current balance payable to tax authorities refers to tax withheld from December salaries and wages, VAT payable and miscellaneous tax liabilities.

The amount payable to social security authorities relates mainly to contributions paid in January 2006 regarding salaries and wages paid to employees in December 2005, and accruals of contributions due in respect of deferred remuneration (holidays, additional months' salaries and overtime).

The balance payable to EPG for the purchase of Aticarta regards the purchase of the investment in Aticarta S.p.A. by the Parent Company, which took place prior to the sale of Europoligrafico S.p.A..

The decrease in the balance payable to ATI for the purchase of Aticarta is the result of the removal of that item from the consolidated financial statements following the sale of Europoligrafico S.p.A. (which was the debtor of ATI).

The decrease in the balance payable for the purchase of CAM is the consequence of the payment due for the acquisition of its holding company Holcart S.r.l..

The balance due to personnel includes liabilities for deferred remuneration and indemnities. The increase during the year is essentially the result of the indemnity payable to the Prat employees not yet paid at 31 December 2005, for which a restricted bank deposit of Euro 7 million is held.

Deferred income regards state grants under law no. 488 which are divided into a current portion, to be credited to income within one year, and a non-current portion, to be credited after one year.

AE. Commentary on the Consolidated cash flow statement

The consolidated cash flow statement for the year ended 31 December 2005 has been prepared by classifying the changes in the balance sheet items of the companies sold (Europoligrafico S.p.A., Aticarta S.p.A. and Cogeneracion Prat S.A.) in the item “Cash flows from discontinued items”. This item also includes the gain (loss) on sale and the economic contribution of the companies sold and the production units for which operations have been discontinued, namely the Prat facility and the Magenta MC1 line.

Included in the item “Gross cash flows” for 2004 are the changes in the balance sheet items of the sold companies referred to above, while the economic contribution of these companies and of the two production units for which activities have ceased is included in the item “Cash flows from discontinued operations”.

The item “Gross cash flows”, which includes the result for the year and changes in working capital items, amounts to Euro 25 million. Cash flows from operating activities, stated after payments of interest and of tax (respectively for Euro 13.5 million and Euro 2.4 million), amount to Euro 9.1 million.

Cash flows from investing activities of Euro 30.1 million include, among other items, net investments of Euro 9.6 million and cash flows from discontinued items of Euro 32.1 million.

There were positive cash flows of Euro 38.8 million from changes in unrestricted liquid funds; this amount includes negative flows of Euro 7.5 million from financing activities and the positive change of Euro 7.1 million in restricted liquid funds.

Total liquid funds at the end of the year amount as a result to Euro 56.8 million, consisting of unrestricted funds and deposits of Euro 44.8 million and restricted deposits of Euro 12.0 million.

Contingent liabilities and commitments

Disputes in course

Amongst the current legal and arbitration proceedings, details are provided of the following:

– *Dispute with Grupo Torras S.A.*

The dispute with Grupo Torras S.A. relates to an accumulation of situations which go back to February 1991 and regard the former Saffa Group, which today is part of the RDM Group.

Details as to the origins and evolution of the dispute may be found in the reports included with the financial statements of previous years. In summary, it is recalled that in 2001 arbitrators found in favour of the RDM Group and required Grupo Torras S.A. to pay an amount of approximately Euro 48 million plus interest; on the appeal of the counterparty, the Appeals Court of Madrid overturned such decision in 2003 on the basis that the arbitrators did not have judicial competence in the matter without, however, providing its opinion on the merits of the case. As a result, the RDM Group took the decision to initiate civil proceedings at the Court of Madrid.

On 8 September 2005, the Court of Madrid lodged its sentence in which it only partially upheld the RDM Group's claim. In particular, Grupo Torras S.A. was sentenced to purchase from RDM Iberica 1,115,400 shares of Torraspapel S.A. for which it was obliged to pay an amount of Euro 50.7 million, excluding the dividends received by RDM Iberica from these shares.

However, the Court of Madrid of the first level deemed it necessary to reduce the above amount by the percentage employed in the creditors' arrangement (suspensiòn de pagos) for 1992 to 1998 in which Grupo Torras S.A. was the debtor. As a consequence, as the effect of the reduction due to the creditors' arrangement to which the counterparty was bound in connection with operations with the Saffa Group at a subsequent date, the Court of Madrid of the first level required that the creditors' agreement rate of approximately 11% be applied to the amount of Euro 50.7 million originally recognised.

As a result of these events, the carrying amount of the receivable from Grupo Torras S.A. has been prudently aligned to that implicit in the sentence of the Court of Madrid of the first level, both in the separate financial statements of RDM Iberica and in the consolidated financial statements.

All the same, RDM e RDM Iberica have appealed against the sentence of the Court of Madrid of the first level. Procedures for the appeal are under way and the parties are at the stage of lodging the petitions supporting their respective cases.

– *Disputes with road hauliers*

RDM and Reno Logistica in liquidation have been summonsed to appear in court following claims made by certain transport hauliers on the premise that the two Group companies did not respect the minimum transportation tariffs pursuant to Law no. 298/74.

In their appearance in court, RDM and Reno Logistica in liquidation raised a series of exceptions of both a preliminary nature and in regard to the merits of the case. These cases have only just begun and are consequently at a very early stage.

The RDM Group has made provision deemed suitable in respect of these disputes.

– *Criminal proceedings*

The Public Prosecutor of the Republic of Italy at the Court of Turin informed the successive managers in charge of the Ciriè facility from 1977 to 1993 by means of a formal "Notification to a Person Under Investigation pursuant to articles 369 and 369 bis of the Italian Criminal Code Procedure", issued on 10 March 2005, as to the commencement of criminal proceedings against them (Number 5110/05 R.G. notification of a criminal act), which have the purpose of ascertaining any possible responsibilities on their behalf for the decease through alleged illness of two former employees at the Ciriè facility during the performance of their professional duties from 1971 to 1993.

At the present date one single proceeding remains pending, for which a preliminary hearing was held in January 2006.

Commitments and guarantees given to third parties

Details of commitments and guarantees given to third parties are set out in the following table:

Commitments and guarantees	31.12.2005	31.12.2004	Variation
Contingencies			
Sureties in favour of third parties	10,587	5,959	4,628
Commitments			
Forward sales of foreign currency		2,340	(2,340)
Other			
Goods held in group warehouses	1,764	859	906
Total	**12,351**	**9,157**	**3,193**

Sureties given to third parties include the following:

- sureties of Euro 2.3 million provided in favour of the Region of Veneto and the Province of Belluno regarding the landfill located at the Santa Giustina (BL) facility;
- sureties of Euro 100 thousand provided in favour of the customs authorities;
- a surety of Euro 1.5 million provided in favour of the tax authorities in respect of VAT reimbursements;
- a surety of Euro 100 thousand provided in favour of Agea S.p.A. relating to the recovery of starch;
- a surety of Euro 3.3 million provided in favour of Banca Popolare dell'Emilia Romagna to guarantee a loan granted to Aticarta S.p.A.;
- a surety of Euro 3.0 million provided in favour of insurance companies to guarantee advance supplies made by BAT Italia S.p.A. to Aticarta S.p.A.;
- a surety of Euro 72 thousand provided to Cogeneracion Prat S.A. by Banca Intesa.

Colleoni S.A., the acquirer of Aticarta S.p.A., has undertaken to free Reno De Medici S.p.A. from the guarantees previously provided to third parties on behalf of Aticarta S.p.A. and Atipackaging S.r.l..

"Other" relates to third party goods held at the warehouses of Group companies.

Other information

Investments in subsidiary companies and associates at 31 December 2005 (pursuant to Article 38, paragraph 2, of Legislative Decree no. 127/91) were as follows.

List of subsidiary companies included in the scope of consolidation

Financial companies

Reno De Medici International S.A.
Luxembourg
Direct ownership 99.99%
Consolidation method: line-by-line

Cartonboard sector

Reno De Medici Iberica S.L.
Prat de Llobregat - Barcelona - Spain
Direct ownership 100%
Consolidation method: line-by-line

Emmaus Pack S.r.l.
Milan - Italy
Direct ownership 51.39%
Consolidation method: line-by-line

RDM France S.à.r.l.
Tremblay en France – Paris – France
Direct ownership 99.58%
Indirect ownership 0.42% (through Cartiera Alto Milanese S.p.A.)
Consolidation method: line-by-line

RenoDeMedici Deutschland GmbH
Bad Homburg - Germany
Direct ownership 100%
Consolidation method: line-by-line

Barneda Carton S.A.
Llica de Vail - Barcelona - Spain
Indirect ownership 100% (through Reno De Medici Iberica S.L.)
Consolidation method: line-by-line

Real estate sector

RED. IM. S.r.l.
Milan - Italy
Direct ownership 100%
Consolidation method: line-by-line

List of equity investments accounted for using the equity method

Cartonboard sector

Pac Service S.p.A.
Vigonza - Padua - Italy
Direct ownership 33.33%
Associate

Energy sector

Termica Boffalora S.r.l.
Sesto S. Giovanni - Milan - Italy
Direct ownership 30%
Associate

Service sector

Reno Logistica S.p.A. in liquidation
Milan - Italy
Direct ownership 100%
Unconsolidated subsidiary

Cogeneration Baix De Llobregat S.L.
Prat de Llobregat - Barcelona - Spain
Direct ownership 100%
Unconsolidated subsidiary

List of other equity investments

Cartonboard sector

Cartonnerie Tunisienne S.A.
Les Berges Du Lac - Tunis
Direct ownership 5.274%

Consortia

Conai
Milan - Italy
Consortium share

Comieco
Milan - Italy
Consortium share

Gas Intensive S.c.r.l.
Milan - Italy
Consortium share

C.I.A.C. S.c.r.l.
Valpenga (TO) - Italy
Consortium share

Idroenergia S.c.r.l.
Aosta - Italy
Consortium share

Università Carlo Cattaneo
Castellanza (VA) – Italy
Consortium share

RELATED PARTY TRANSACTIONS

As discussed earlier, in December 2005 RDM sold 100% of the share capital of Aticarta to Colleoni S.A., a Luxembourg company owned by Gastone Colleoni. At the date of the operation, Gastone Colleoni held office as Chairman of the Board of Directors of Aticarta and Atipackaging, a fully owned subsidiary of Aticarta. Gastone Colleoni is also the Chairman of the Board of Directors of Alerion and a shareholder in Alerion with a 3.35% holding in its share capital and in addition is a party to the shareholders' agreement of the company. Reference should be made to the paragraph entitled "Major operations of the Reno De Medici Group in 2005" (in the Report of Board of Directors to the Consolidated Financial Statements) for further details and to the press release of 20 December 2005.

It is hereby stated that there have been no transactions with related parties of an atypical or unusual nature outside the normal course of business or such as to prejudice the Group's economic or financial situation.

Transactions carried out with related parties are part of ordinary business activities and within the normal course of business of those parties involved and are carried out on an arm's length basis.

The following transactions are described which form part of those carried out with related parties:

- services received by RDM from IBI S.p.A. (a company controlled by the shareholder Alerion) regarding an engagement for assistance in carrying out operations in 2005 of an extraordinary nature. Under this arrangement, total fees of Euro 900 thousand are due to IBI S.p.A. for 2005 in connection with the sale of the entire holding in Europoligrafico, the sale of the entire holding in Aticarta; and the Demerger plan. In addition, in 2006 other fees of Euro 900 thousand are payable to IBI S.p.A. on the completion of the Demerger and on the completion of the new financing agreements and the full repayment of the Debenture Loan;
- services received by RDM from IBI S.p.A. (a company controlled by the shareholder Alerion) regarding a consultancy engagement aimed at rationalising manufacturing costs for Euro 355 thousand;
- trading relations of RDM with Kolicevo Karton d.o.o., for the purchase of cartonboard for Euro 2.766 thousand, net of quantity rebates received during the year. The company is owned by the Mayr-Melnhof Karton A.G. Group, of which the director Michael Groller is chairman of the supervisory board.

For purposes of completeness, it is noted that on 29 June 2005 a binding purchase contract was signed for the purchase of a controlling share in CAM through the acquisition of its holding company Holcart S.r.l. owned by Giovanni Dell'Aria Burani; details of this have been provided in the

Reports of the Board of Directors of previous years. As envisaged by the contract, the price paid amounted to Euro 1,500 thousand.

Transactions between RDM and its associates relate to the following:

- purchases of steam from Termica Boffalora S.r.l.;
- sales of cartonboard to PAC Service S.p.A..

SUBSEQUENT EVENTS

Events of importance occurring after 31 December 2005 are set out in the following.

In connection with the action being taken at an industrial level aimed at reducing manufacturing costs, an agreement was reached in February 2006 with the trades union representatives at the Marzabotto facility to make a reduction of 40 employees in the workforce. Around 50% of these jobs, which relate to the management of stocks, will be outsourced in the future.

In March 2006, RDM made a formal application to Consob and Borsa Italiana S.p.A. respectively, for authorisation to proceed with the issuing of the listing prospectus of RDM Realty and approval for the admission of the ordinary shares of that company to trading.

With reference to the sale of Aticarta, it is expected that on 31 March 2006, RDM's outstanding receivable and payable balances with Aticarta and its subsidiary Atipackaging be settled, in accordance with the provisions of the agreement for the sale of Aticarta. As a result RDM will be repaid the loans that it had granted to those companies prior to the sale and will acquire the plant, machinery and stocks of Aticarta. Furthermore, it is expected that RDM and Aticarta will agree the rental by RDM of the entire mill of Pompeii up to 31 June 2007, as to allow RDM to remove and sell all plant and machinery in a more suitable period of time.

As regards the sale of the assets of the Prat facility (owned by RDM Iberica), approximately 140 employees had been terminated by the end of March 2006 out of a total of 190. The facility will cease activities altogether during the second half of 2006 with the disposal of its stocks.

Work is in progress with the arranger banks to formalise and settle the contractual documentation regarding the RDM Loan of Euro 60 million and the Red.Im. Loans of Euro 40 million. It is expected that this will be completed by the end of April and, as a result, within the timetable laid down for the repayment of the Debenture Loan, to be made using in addition the funds received from the sales of EPG and Aticarta.

REPORT OF THE INDEPENDENT AUDITORS

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers SpA

AUDITORS' REPORT IN ACCORDANCE WITH ARTICLE 156 OF LEGISLATIVE DECREE N° 58 OF 24 FEBRUARY 1998

To the shareholders of
Reno De Medici SpA

1 We have audited the consolidated financial statements of Reno De Medici SpA and its subsidiaries ("Reno De Medici Group") as of 31 December 2005, constituted by the balance sheet, income statement, cash flow statement, changes in shareholders' equity and related notes. These consolidated financial statements are the responsibility of Reno De Medici SpA's directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The aforementioned consolidated financial statements are the first to be prepared in compliance with the International Financial Reporting Standards as adopted by the European Union.

2 We conducted our audit in accordance with the auditing standards and criteria recommended by CONSOB, the Italian Commission for listed Companies and the Stock Exchange. Those standards and criteria require that we plan and perform the audit to obtain the necessary assurance about whether the consolidated financial statements are free of material misstatement and, taken as a whole, are presented fairly. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the directors. We believe that our audit provides a reasonable basis for our opinion.

The consolidated financial statements show as comparatives the corresponding amounts of the prior year prepared in accordance with the same accounting principles. Moreover, the Appendix "Transition to International Financial Reporting Standards (IFRS)" to the consolidated financial statements illustrates the effects of the transition to the International Financial Reporting Standards as adopted by the European Union and includes the disclosure related to the reconciliation schedules required by IFRS 1, which have been approved by the Board of Directors and published with the interim consolidated financial report for the six months ended 30 June 2005, which we audited and on which we issued our report dated 28 September 2005.

Sede legale e amministrativa: Milano 20149 Via Monte Rosa 91 Tel 0277851 Fax 027785240 Cap Soc. 3.754.400,00 Euro i.v., C.F e P. IVA e Reg. Imp Milano 12979880155 Iscritta al n 43 dell Albo Consob – Altri Uffici: **Bari** 70125 Viale della Repubblica 110 Tel. 0805429863 – **Bologna** 40122 Via delle Lame 111 Tel. 051526611 – **Brescia** 25124 Via Cefalonia 70 Tel. 0302219811 – **Firenze** 50129 Viale Milton 65 Tel 0554627100 – **Genova** 16121 Piazza Dante 7 Tel. 01029041 – **Napoli** 80121 Piazza dei Martiri 30 Tel. 0817644441 – **Padova** 35137 Largo Europa 16 Tel. 0498762677 – **Palermo** 90141 Via Marchese Ugo 60 Tel. 091349737 – **Parma** 43100 Viale Tanara 20/A Tel. 0521242848 – **Roma** 00154 Largo Fochetti 29 Tel 06570251 – **Torino** 10129 Corso Montevecchio 37 Tel. 011556771 – **Trento** 38100 Via Manzoni 16 Tel. 0461237004 – **Treviso** 31100 Viale Felissent 90 Tel. 0422696911 – **Trieste** 34125 Via Cesare Battisti 18 Tel 0403480781 – **Udine** 33100 Via Poscolle 43 Tel 043225789 – **Verona** 37122 Corso Porta Nuova 125 Tel 0458002561

PRICEWATERHOUSECOOPERS

3 In our opinion, the consolidated financial statements of Reno De Medici SpA as of 31 December 2005 comply with the International Financial Reporting Standards as adopted by the European Union; accordingly, they have been drawn up clearly and give a true and fair view of the financial position, results of operations, cash flows and changes in shareholders' equity of Reno De Medici Group for the year then ended.

Milan, 11 April 2006

PricewaterhouseCoopers SpA

Signed by

Fabrizio Piva
(Partner)

"This report has been translated from the original which was issued in accordance with Italian legislation. References in this report to the Financial Statement refer to the Financial Statement in original Italian and not to their translation"

(2)

FINANCIAL STATEMENTS RENO DE MEDICI S.p.A.

PROFIT AND LOSS ACCOUNT

The financial statements of Reno De Medici S.p.A. ("RDM" or the "Parent Company") have been prepared in accordance with the requirements of the Italian Civil Code and the accounting principles issued by the National Councils of the Dottori Commercialisti and Ragionieri, the Italian accounting profession.

The economic performance and balance sheet and financial changes of the Parent Company are described in the following.

Profit and loss account

(Millions of Euros)	**31.12.2005**	**%**	**31.12.2004**	**%**
Net revenues	290.5		304.8	
Operating costs	266.8		280.1	
Other income (expense)	(2.1)		3.2	
Gross operating profit	**21.6**	**7.4**	**27.9**	**9.1**
Depreciation, amortisation and write-downs	26.9		28.9	
Operating result	**(5.3)**	**(1.8)**	**(1.0)**	**(0.3)**
Financial income and expense	(8.6)		(12.5)	
Value adjustments to financial assets	(35.4)		(3.6)	
Extraordinary income and expense	15.4		(0.9)	
Result before taxation	**(33.9)**	**(11.7)**	**(18.0)**	**(5.9)**
Taxation	(0.7)		1.5	
Profit (loss) for the year	**(34.7)**	**(11.9)**	**(16.4)**	**(5.4)**

RDM achieved net revenues in 2005 of Euro 290.5 million compared to Euro 304.8 million in 2004, with the drop of 4.7% mainly being due to a decrease in unit sales prices.

In particular, volumes sold reached 608,000 tonnes, in line with those of the previous year. These figures include the sales resulting from the Magenta MC1 line and as a consequence correspond to the net revenues stated above (while the economic contribution of that production unit is classified under "Discontinued operations" in the consolidated profit and loss account). Excluding those sales relating to the Magenta MC1 line, volumes sold by RDM in 2005 amounted to 575,000 tonnes compared to 568,000 tonnes in 2004, representing an increase of 1.25%.

On the other hand unit sales prices of sold goods fell on average by around 4% compared to 2004, a year in which there was already a gradual decrease in prices compared to the prior year. In this regard, average unit sales prices in the final quarter of 2005 suffered a cumulative fall of 9% compared to the first quarter of 2004.

The drop in net revenues, equal to Euro 14.3 million in absolute terms, was partially compensated by the decrease in operating costs of Euro 13.3 million. This decrease is the result of additional efficiencies achieved at the various factories which have enabled variable production costs, excluding energy costs, to be reduced by 6% (in unit terms) and fixed and central costs by 10% over 2004. On the other hand there has been a notable increase in energy costs, in particular the cost of natural gas, which (in unit terms) increased by around 8% compared to those of the previous year.

The item "Other income (expense)", which in 2005 consists of net other expense of Euro 2.1 million, consisted of net other income of 3.2 million in 2004. In 2005, the item also includes the negative change of around Euro 4 million in the stocks of finished goods, mainly resulting from the decrease in stocks regarding the Magenta MC1 line.

As the result of the matters discussed above, gross operating profit for the year reached Euro 21.6 million compared to Euro 27.9 million earned in 2004, with a reduction as a percentage of net revenues of 1.7 percentage points. Gross operating profit is stated after charges to provisions of Euro 1.2 million in 2005 (substantially in line with the figure for 2004).

There was an operating loss of Euro 5.3 million (a loss of Euro 1.0 million in 2004) after depreciation, amortisation, write-downs and revaluations for recovery in value of Euro 26.9 million (Euro 28.9 million in 2004).

The decrease in net financial expense, which fell from Euro 12.5 million in 2004 to Euro 8.6 million in 2005, is mainly the result of increased dividends received from associates, interest rates on IRPEG tax credits received in connection with prior years and the gain from the sale to Reno De Medici International S.A. of a part of the Debenture Loan held in portfolio (carried at Euro 3.6 million compared to its nominal value of Euro 5 million); the purpose of this sale was the cancellation of that portion. It is recalled that in accordance with IFRS this gain is recognised in 2004 income in the consolidated financial statements, this being the year in which the repurchase took place. The decrease of net financial expense is also the result of lower interest payable on interest-bearing debt and increased foreign exchange gains amounting overall to appoximately Euro 1 million.

Value adjustments to financial assets relate mainly to the write-down of Euro 34.4 million of the investment in RDM Iberica, of which Euro 24.5 million regards the write-down of the Grupo Torras S.A. receivable following the issue of the first level sentence by the Court of Madrid.

Net extraordinary income amounts to Euro 15.4 million, resulting from capital gains of Euro 28 million, the majority of which deriving from the sale of EPG (Euro 24.9 million) and the sale of properties to the subsidiary Red.Im. (Euro 3.1 million), from capital losses of Euro 10.1 million arising principally from the sale of Aticarta (Euro 2.5 million) and the liquidation of Holcart S.r.l. (Euro 7.5 million), and extraordinary costs of Euro2.5 million connected with carrying out extraordinary operations in 2005.

There is a net loss for the year of Euro 34.7 million compared to the loss of Euro 16.4 million in 2004.

BALANCE SHEET

The principal items of the balance sheet are set out in the following table.

(Millions of Euros)	**31.12.2005**	**31.12.2004**
Trade receivables	98.1	100.7
Stocks	49.5	50.9
Trade payables	(66.0)	(71.1)
Trading working capital	**81.6**	**80.5**
Other assets (liabilities), net	(10.9)	(1.6)
Fixed assets, net	289.0	355.9
Invested capital	**359.7**	**434.8**
Employees' leaving entitlement and other provisions	(26.8)	(28.1)
Net capital invested	**332.9**	**406.7**
Net financial position	193.0	232.1
Shareholders' equity	139.9	174.6
Total sources	**332.9**	**406.7**

The evolution of working capital is mainly a reflection of the reduction of finished goods in stocks (in particular those that regard the Magenta MC1 line), which took place mostly in the final quarter of the year and which generated trade receivables at the end of the year which become due for payment in the first few months of 2006. In addition, "Stocks" at 31 December 2005 also include held for sale plant and machinery of Euro 2 million, previously included in fixed assets.

The notable decrease in net fixed assets and as a consequence in invested capital reflects the write-down of the investments referred to above, the sale of those in EPG and Aticarta and the fact that depreciation and amortisation charges exceeded the investments made during the year.

Net capital invested of Euro 332.9 million at 31 December 2005 is financed as to 58% by net debt and 42% by shareholders' equity, proportions which are substantially in line with those at the end of the previous year.

NET FINANCIAL POSITION

RDM's net financial debt of RDM at 31 December 2005 has fallen by Euro 39.1 million over that at the end of 2004.

(Millions of Euros)	**31.12.2005**	**31.12.2004**
Liquid funds and current financial receivables	70.2	30.5
Current financial payables	(238.7)	(74.9)
Current financial position	**(168.5)**	**(44.4)**
Non-current financial receivables	3.0	
Non-current financial payables	(27.5)	(187.7)
Net financial position	**(193.0)**	**(232.1)**

This decrease is principally due to the sales of EPG and Aticarta, which have brought an overall benefit of Euro 72 million, of which Euro 36 million relates to proceeds already received, Euro 16 million to the removal of debt from the consolidated balance sheet and Euro 20 million to the recognition of financial receivables.

In respect of the sale of Aticarta, RDM made an undertaking on sale to the purchaser to acquire the plant, machinery and stocks at 31 December 2005 of the sold company. This commitment is currently estimated in Euro 5.3 million.

On the other hand RDM suffered non-recurring cash outflows of Euro 9 million in 2005 due principally to the acquisition of CAM and other businesses dedicated to the maintenance of the Magenta and Marzabotto facilities.

"Liquid funds and current financial receivables" at 31 December 2005 consist of liquid funds of Euro 43.2 million, financial receivables from subsidiary companies of Euro 4.1 million, financial receivables from Aticarta and Atipackaging of Euro 17.3 million and financial receivables from New EPG S.r.l. of Euro 5.5 million regarding the balance from the sale of EPG.

Current financial payables include the Debenture Loan of Euro 145 million, the current portion of long-term loans of Euro 16.4 million and short-term bank debt of Euro 55.7 million (mainly made up of advances on trade receivables).

The remaining current financial payables consist of short-term loans of Euro 16.1 million received from subsidiary companies and a payable of Euro 5.5 million to EPG regarding the purchase by RDM of Aticarta, which took place prior to the sale of EPG to New EPG S.r.l..

Non-current financial receivables relate to the vendor loan granted to New EPG S.r.l., while non-current financial payables regard the residual balances of long-term loans payable after more than one year. Capital repayments of Euro 13.9 million on long-term loans were made in 2005.

RESEARCH AND DEVELOPMENT ACTIVITIES

Research activities carried with the various users of Group products (packaging companies and final customers) continued in 2005. These are aimed at identifying particular needs that are not covered by the materials currently available and the starting up of specific research projects, which are to be carried out in collaboration with external companies and occasionally with the support of the appropriate public authorities.

TECHNICAL INVESTMENTS

Technical investments made in 2005 amounted to Euro 9.6 million (Euro 10.8 million in 2004).

The objective of these investments was to reduce variable costs, improve quality and carry out maintenance of an extraordinary nature on RDM plant. In particular:

- at the Villa Santa Lucia facility, work has been carried out in connection with the preparation of the paste for the cover line (to reduce the cost of the paste and the cost of energy) and on the system for managing scrap from the process;
- at the Magenta facility, work has been carried out on the system for managing scrap from the process;
- at the Santa Giustina facility, work has been carried out in connection with the preparation of paste for the centre and rear lines (to reduce the cost of the paste and the cost of energy) and on the system for managing scrap from the process;
- at the Marzabotto facility, the gas turbine in the cogeneration plant has been replaced;
- at the Ovaro facility, the distribution control system (DCS) of the second board machine has been implemented.

HUMAN RESOURCES

At 31 December 2005 RDM had 1,111 employees, lower by 42 over the previous year as the result of the reorganisation activities carried out at the main facilities and at the Parent Company's headquarters. The workforce at that date consisted of 18 executives and managers, 284 white-collar employees and 809 blue-collar employees.

RISK MANAGEMENT

The following information is provided also pursuant to Article 2428, paragraph 2, no. 6-*bis* of the Civil Code. Reference should be made to the Notes to the Financial Statements for the estimates of the fair value of derivative financial instruments.

As part of its activities, RDM is exposed to various market risks, and in particular the risk of fluctuations in foreign exchange rates, in interest rates and in the price of commodities, liquidity risk and customer credit risk.

In order to minimise part of these market risks, RDM enters arrangements to hedge specific operations (such as those affected by interest rate fluctuations) and to hedge the overall exposure (for example to foreign exchange rate fluctuations), using financial instruments offered by primary national or international banks. RDM does not enter hedging arrangements for speculative reasons.

Exchange rates

In 2005, RDM generated revenues in currencies other than the euro, principally the U.S. dollar and the British pound, for respective amounts of USD 20.8 million and £ 5.6 million and made purchases in U.S. dollars of 11.5 million, thereby taking a long position in these currencies during the year. In order to reduce the exchange rate risk arising from this, RDM often entered forward currency sales contracts. These arrangements are always set up with the notional amount and maturity date equal to those of the expected cash flows (if the amounts are significant), in order that every change in the cash flows resulting from the forward sales due to the rise or fall in the value of the euro compared to other currencies is substantially balanced by a corresponding change in the cash flows expected from the underlying business operations.

Interest rates

The risks connected with fluctuations in interest rates derive principally from RDM's financial debt. At 31 December 2005, the Company's gross financial debt amounted to Euro 244.6 million euros, of which Euro 55.7 million relating to short-term credit facilities (mainly advances on credit receivables), Euro 43.9 million relating to long-term loans and Euro 145 million regarding the Debenture Loan.

Floating rate debt, such as short-term credit facilities, exposes RDM to changes in cash flows, whereas fixed rate debt, such as the vast majority of long-term debt and the Debenture Loan, exposes RDM to changes in the fair value of the underlying liability.

RDM's policy is to maintain around 75% of its long-term financial debt at fixed rates of interest, also by using interest rate swap derivative instruments arranged with primary Italian banks.

Liquidity

Under RDM's management policies, liquidity risk is monitored on a continuous basis. The Company's objective is to mitigate this risk both by holding sufficient liquid funds or short-term deposits in primary institutions and by employing short-term credit facilities backed by the trade receivables of Italian and foreign customers.

Trade receivables

At 31 December 2005 RDM had net non-Group trade receivables of Euro 76.7 million. In particular, receivables from the top 5 customers amounted to Euro 9.0 million, equivalent to 11.7% of the total, whereas those from the first 10 customers amounted to Euro 14.9 million, equivalent to 19.4%.

As a general rule, foreign trade receivables are insured with specialised insurance companies, while any uninsured or only partially insured balances require the specific authorisation of RDM's management, depending on the amount. There are specific credit control procedures for Italian customers, again depending on the amount, under which approval must be obtained from the Company's various levels of management. Under RDM's management policies, Italian and foreign trade receivables are monitored on a continuous basis and the appropriate recovery procedures are put into action in the event of non-payment.

Supplies

As a result of the structure and type of its costs, RDM is mainly exposed to fluctuations in energy prices (natural gas and electricity), fluctuations in the price of certain chemical products, including those petroleum-based (such as latex), and changes in the price of fibrous raw materials. RDM incurred the following costs in 2005: Euro 41.1 million for natural gas and electricity, Euro 24.2 million for chemical products and Euro 63.7 million for fibrous raw materials. These costs include those relating to the Magenta MC1 line, for which operations ceased in July 2005.

RDM's management policies require that annual supply agreements for natural gas and electricity contain clauses under which prices are determined on the basis of moving averages of market prices or indices that are revised on a quarterly basis and linked to a basket of fossil fuels or their derivatives.

For the purchase of chemical products and fibrous raw materials, RDM aims at having the widest possible range of suppliers and supply markets with the dual purpose of being able to monitor the various purchase terms on a constant basis and to encourage competition between suppliers. It is not practicable to formalise framework supply agreements for these types of purchases.

RELATED PARTY TRANSACTIONS

As discussed earlier, in December 2005 RDM sold 100% of the share capital of Aticarta to Colleoni S.A., a Luxembourg company owned by Gastone Colleoni. At the date of the operation, Gastone Colleoni held office as Chairman of the Board of Directors of Aticarta and Atipackaging, a fully owned subsidiary of Aticarta. Gastone Colleoni is also the Chairman of the Board of Directors of Alerion and a shareholder in Alerion with a 3.35% holding in its share capital and in addition is a party to the shareholders' agreement of the company. Reference should be made to the paragraph entitled "Major operations of the Reno De Medici Group in 2005" (in the Report of Board of Directors to the Consolidated Financial Statements) for further details and to the press release of 20 December 2005.

It is hereby stated that there have been no transactions with related parties of an atypical or unusual nature outside the normal course of business or such as to prejudice the Group's economic or financial situation.

Transactions carried out with related parties are part of ordinary business activities and within the normal course of business of those parties involved and are carried out on an arm's length basis.

The following transactions are described which form part of those carried out with related parties:

- services received by RDM from IBI S.p.A. (a company controlled by the shareholder Alerion) regarding an engagement for assistance in carrying out operations in 2005 of an extraordinary nature. Under this arrangement, total fees of Euro 900 thousand are due to IBI S.p.A. for 2005 in connection with the sale of the entire holding in Europoligrafico, the sale of the entire holding in Aticarta; and the Demerger plan. In addition, in 2006 other fees of Euro 900 thousand are payable to IBI S.p.A. on the completion of the Demerger and on the completion of the new financing agreements and the full repayment of the Debenture Loan;
- services received from IBI S.p.A. (a company controlled by the shareholder Alerion) regarding a consultancy engagement aimed at rationalising manufacturing costs for Euro 355 thousand;
- trading relations with Kolicevo Karton d.o.o., for the purchase of cartonboard for Euro 2.766 thousand, net of quantity rebates received during the year. The company is owned by the Mayr-Melnhof Karton A.G. Group, of which the director Michael Groller is chairman of the supervisory board.

For purposes of completeness, it is noted that on 29 June 2005 a binding purchase contract was signed for the purchase of a controlling share in CAM through the acquisition of its holding company Holcart S.r.l. owned by Giovanni Dell'Aria Burani; details of this have been provided in the Reports of the Board of Directors of previous years. As envisaged by the contract, the price paid amounted to Euro 1,500 thousand.

Intercompany relationship are detailed in the Notes to the financial statements.

Transactions between RDM and its subsidiaries relate mainly to the following:

- sales of cartonboard to CAM, Emmaus Pack S.r.l. and RDM Iberica;
- services provided to Emmaus Pack S.r.l.;
- purchases of cartonboard from CAM;
- purchases of discards from Emmaus Pack S.r.l.;
- commissions payable to RDM France S.a.r.l. and to Reno De Medici Deutschland GmbH;
- rental payments to Red.Im.;
- interest receivable on current accounts with CAM, Emmaus Pack S.r.l., Red.Im. S.r.l., and Reno Logistica S.p.A. in liquidation;
- interest payable on current accounts with RDM France S.a.r.l., Reno De Medici Deutschland GmbH and Reno De Medici International S.A.;
- interest payable on a five year loan (due date May 2006) granted by Reno De Medici International S.A..

As part of the Demerger plan described in the Report of the Board of Directors included with the financial statements of the RDM Group, a series of operations preliminary to the Demerger was carried out between RDM and its subsidiary Red.Im.. In particular, in order to concentrate properties not relating to the manufacture of cartonboard in Red.Im., a company which already owns non-business land and buildings located in the Municipality of Magenta (MI), RDM sold certain non-business properties (land having agricultural use, land having industrial use and properties having residential use) adjacent to the Magenta (MI) site for an amount of Euro 3.6 million (compared to a carrying value of Euro 0.5 million at 30 September 2005).

For the purposes of completeness it is recalled that in June 2005 RDM sold the debentures of Reno De Medici International S.A., which it held in its portfolio, to the issuer for the purposes of cancellation. These debentures, having a nominal value of Euro 5 million, were carried at Euro 3.6 million and were sold for Euro 4.8 million.

Transactions between RDM and its associates relate to the following:

- purchases of steam from Termica Boffalora S.r.l.;
- sales of cartonboard to PAC Service S.p.A..

OWN SHARES

No purchases of own shares were made during the year.

Own shares in hand at 31 December 2005 consist of 6,476,330 ordinary shares, equal to 2.4% of share capital, which have a total carrying value of Euro 4,587 million and which are classified as fixed assets, and 1,037,113 ordinary shares, equal to 0.38% of share capital, which have a total carrying value of Euro 709 thousand and which are classified as working capital. Each single share classified in fixed assets has a carrying value of Euro 0.708. Each single share classified in working capital has a carrying value of Euro 0.684, in line with the weighted average of the official price of the share in December 2005 on the telematic share market.

SUBSEQUENT EVENTS

Events of importance occurring after 31 December 2005 are set out in the following.

In connection with the action being taken at an industrial level aimed at reducing manufacturing costs, an agreement was reached in February 2006 with the trades union representatives at the Marzabotto facility to make a reduction of 40 employees in the workforce. Around 50% of these jobs, which relate to the management of stocks, will be outsourced in the future.

In March 2006, RDM made a formal application to Consob and Borsa Italiana S.p.A. respectively, for authorisation to proceed with the issuing of the listing prospectus of RDM Realty and approval for the admission of the ordinary shares of that company to trading.

With reference to the sale of Aticarta, it is expected that on 31 March 2006, RDM's outstanding receivable and payable balances with Aticarta and its subsidiary Atipackaging be settled, in accordance with the provisions of the agreement for the sale of Aticarta. As a result RDM will be repaid the loans that it had granted to those companies prior to the sale and will acquire the plant, machinery and stocks of Aticarta. Furthermore, it is expected that RDM and Aticarta will agree the rental by RDM of the entire mill of Pompeii up to 31 June 2007, as to allow RDM to remove and sell all plant and machinery in a more suitable period of time.

Work is in progress with the arranger banks to formalise and settle the contractual documentation regarding the RDM Loan of Euro 60 million and the Red.Im. Loans of Euro 40 million. It is expected that this will be completed by the end of April and, as a result, within the timetable laid down for the repayment of the Debenture Loan, to be made using in addition the funds received from the sales of EPG and Aticarta.

FORECAST

There has been an appreciable increase in the volumes (in tonnes) sold and ordered during the first few weeks of 2006 compared to the corresponding period in 2005.

In particular, by 13 March there were increases of approximately 15% in volumes sold and 17% in orders compared to the previous year, with positive effects on machine load and the level of plant utilisation.

These orders, moreover, are the first which reflect the increases in sales prices announced by the Group at the end of 2005 and being taken forward into the current year.

On the other hand the concerns and uncertainties expressed over the trends in energy costs (relating to electricity and natural gas) continue, and by the end of February 2006 there had been an increase of approximately 13% in unit terms on the cost of the product (euro per produced tonne) compared to that at the end of February 2005. The trends in these costs and in petroleum-based raw materials will need to be constantly monitored in order to evaluate whether additional action is required to be taken on unit sales prices.

As a result, prospects for the current year remain linked to a confirmation of a gradual pick-up in the demand for consumer goods and, more generally, of steady growth in industrial production in the leading European economies, which would then reinforce the positive trend detected at the beginning of the year and enable higher industrial margins to be generated as a consequence of the increased efficiency achieved by the RDM production set up.

PROPOSED RESOLUTION

1. Approval of the Report of the Board of Directors and financial statements

To the shareholders,

We are certain that you will agree with the principles and policies adopted for the preparation of the financial statements at 31 December 2005 and invite you to approve:

- The Report of the Board of Directors and the Company's financial situation and operations.
- The Balance Sheet, the Profit and Loss Account and the Notes to the Financial Statements at 31 December 2005 and relative attachments of Reno De Medici S.p.A., as presented by the Board of Directors, both as a whole and as single items.
- The cover of losses for the year of Euro 34,670,296 through the utilisation of the following reserves:
  - Extraordinary reserve for Euro 77,234;
  - Reserve for the purchase of own shares for Euro 6,583,868;
  - Share premium reserve for Euro 7,797,218;
  - Legal reserve for Euro 6,461,775;

carring forward the residual loss for Euro 13,750,201.

FINANCIAL STATEMENTS
RENO DE MEDICI S.p.A.

BALANCE SHEET
ASSETS

(Euros)	31.12.2005		31.12.2004	
A) Unpaid share capital due from shareholders	–		–	
Total due from shareholders (A)		–		–
B) Fixed assets				
I - Intangible assets				
1) Start-up and capital costs	1,545,899		2,331,349	
4) Concessions, licences, trade marks and similar rights	289,642		223,645	
7) Other assets	1,606,689		2,132,052	
Total intangible assets		**3,442,230**		**4,687,046**
II - Tangible assets				
1) Land and buildings	48,670,330		50,729,874	
2) Plant and machinery	128,008,586		143,056,795	
3) Industrial and commercial equipment	218,486		234,352	
4) Other assets	552,698		730,290	
5) Assets in course of construction and payments on account	1,175,163		1,699,186	
Total tangible assets		**178,625,263**		**196,450,497**
III - Financial fixed assets				
1) Investments in:				
a) Subsidiary companies	80,280,416		128,590,011	
b) Associates	7,742,970		7,759,370	
d) Other companies	190,715		399,644	
2) Financial receivables:				
a) Subsidiary companies	13,031,603		13,331,603	
d) Other companies				
due within one year	82,098		77,178	
due after more than one year	3,053,707			
4) Own shares (total par value Euro 3,561,982)	4,586,790		4,586,790	
Total financial fixed assets		**108,968,299**		**154,744,596**
Total fixed assets (B)		**291,035,792**		**355,882,139**

(Euros)	31.12.2005		31.12.2004	
C) Working capital assets				
I - Stocks				
1) Raw materials and consumables	17,426,721		17,219,601	
4) Finished goods and goods for resale	30,020,884		33,681,007	
6) Plant held for sale	2,067,623			
Total stocks		**49,515,228**		**50,900,608**
II - Receivables				
1) Trade receivables				
due within one year	76,569,062		85,335,891	
due after more than one year	103,679		161,243	
2) Subsidiary companies				
due within one year	20,493,071		15,075,541	
due after more than one year				
3) Associates				
due within one year	958,363		160,973	
due after more than one year				
4-bis) Tax credits				
due within one year	238,855		993,312	
due after more than one year	894,631		6,286,954	
5) Other receivables				
due within one year	5,832,886		953,991	
due after more than one year	111,648		46,666	
Total receivables		**105,202,195**		**109,014,571**
III - Financial assets not of a fixed nature				
5) Own shares (total par value Euro 570,412)	709,377		786,611	
6) Other securities			3,569,625	
7) Receivables from subsidiary companies	4,057,575		23,713,067	
8) Receivables from other companies	17,353,562			
Total financial assets		**22,120,514**		**28,069,303**
IV - Liquid funds				
1) Bank and postal accounts	43,199,279		3,251,966	
3) Cash and valuables in hand	9,024		11,036	
Total liquid funds		**43,208,303**		**3,263,002**
Total working capital (C)		**220,046,240**		**191,247,484**
D) Prepayments and accrued income (of which discount on loans € 0)	452,800		1,560,724	
Total prepayments and accrued income (D)		**452,800**		**1,560,724**
TOTAL ASSETS	**511,534,832**		**548,690,347**	

BALANCE SHEET
LIABILITIES AND SHAREHOLDERS' EQUITY

(Euros)	31.12.2005		31.12.2004	
A) Shareholders' equity				
I) Share capital	148,342,940		148,342,940	
II) Share premium reserve	7,797,218		8,883,544	
III) Revaluation reserve				
IV) Legal reserve	6,461,775		6,461,775	
V) Reserve for own shares	5,296,167		5,373,401	
VI) Reserves provided by the bylaws				
VII) Other reserves				
Reserve for the purchase of own shares	6,583,868		6,583,868	
Extraordinary reserve	77,234		15,362,360	
Reserve from contribution of assets				
Merger surplus reserve and share exchange reserve				
Dividend fluctuation reserve				
Reserve as per article 67 of the consolidated tax law				
VIII) Retained earnings (losses) brought forward				
IX) Profit (loss) for the year	(34,670,296)		(16,448,686)	
Total shareholders' equity (A)		**139,888,906**		**174,559,202**
B) Provisions for contingencies and charges				
1) Termination provisions	1,330,461		1,045,623	
2) Taxation	3,297,339		3,913,834	
3) Other provisions	2,738,591		4,093,914	
Total provisions for contingencies and charges (B)		**7,366,391**		**9,053,371**
C) Employees' leaving entitlement	19,430,332		19,050,421	
Total employees' leaving entitlement (C)		**19,430,332**		**19,050,421**

(Euros)	31.12.2005	31.12.2004
D) Payables		
4) Due to banks		
due within one year	72,084,745	63,820,672
due after more than one year	27,486,870	37,727,844
7) Trade payables		
due within one year	63,058,799	66,854,562
due after more than one year		
9) Due to subsidiary companies		
due within one year	163,093,928	14,304,230
due after more than one year		150,000,000
10) Due to associates		
due within one year	947,264	1,080,459
due after more than one year		
12) Due to tax authorities		
due within one year	3,169,779	2,438,989
due after more than one year		
13) Due to social security authorities		
due within one year	3,144,224	3,247,410
due after more than one year		
14) Other payables		
due within one year	9,357,008	4,507,975
due after more than one year		
Total payables (D)	**342,342,617**	**343,982,141**
E) Accrued expenses and deferred income (of which premium on loans € 0)	2,506,586	2,045,212
Total accrued expenses and deferred income (E)	**2,506,586**	**2,045,212**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**511,534,832**	**548,690,347**

MEMORANDUM ACCOUNTS

(Euros)	31.12.2005	31.12.2004
Contingencies		
sureties provided in favour of subsidiaries	44,425,971	16,966,808
sureties received in favour of third parties	2,685,125	4,127,375
sureties provided in favour of third parties	6,378,248	
Commitments		
forward sales of foreign currency	–	2,319,385
commitments to purchase goods and fixed assets	5,257,740	
Other		
goods held in Company warehouses	1,764,370	858,733
TOTAL MEMORANDUM ACCOUNTS	**60,511,454**	**24,272,301**

PROFIT AND LOSS ACCOUNT

(Euros)	31.12.2005		31.12.2004	
A) Value of production				
1) Revenues from sales and services	290,520,357		304,812,115	
2) Changes in stocks of work-in-progress, semi-finished goods and finished goods	(4,029,404)		3,397,657	
4) Own work capitalised	328,992		31,160	
5) Other revenues and income	3,988,085		3,625,311	
Total value of production (A)		**290,808,030**		**311,866,243**
B) Cost of production				
6) Purchase of raw materials and consumables	113,489,922		120,921,625	
7) Services	101,821,526		108,616,399	
8) Use of third party assets	702,042		854,326	
9) Staff costs:	50,835,672		49,757,409	
a) Wages and salaries	35,175,228		34,308,772	
b) Social security contributions	12,624,512		12,855,433	
c) Employees’ leaving entitlement	3,034,381		2,589,202	
e) Other costs	1,551		4,002	
10) Depreciation, amortisation and write-downs of assets:	27,240,261		30,116,078	
a) Amortisation of intangible assets	1,641,870		2,794,927	
b) Depreciation of tangible fixed assets	25,223,418		26,092,096	
d)Write-downs of receivables included in working capital and liquid funds	374,973		1,229,055	
11) Changes in raw materials, consumables and goods for resale	(1,095,317)		(171,401)	
12) Accruals for contingencies	802,646			
14) Other operating costs	2,284,376		2,808,064	
Total cost of production (B)		**296,081,128**		**312,902,500**
DIFFERENCE BETWEEN VALUE AND COST OF PRODUCTION (A – B)		**(5,273,098)**		**(1,036,257)**

(Euros)	31.12.2005		31.12.2004	
C) Financial income and expense				
15) Income from equity investments	1,686,299		592,881	
a) Subsidiary companies	344,190		522,948	
b) Associates	1,319,985		69,933	
d) Other companies	22,124			
16) Other financial income	3,194,418		1,428,492	
c) From securities included in working capital which are not equity interests	1,405,174		249,126	
d) Other income				
– from subsidiary companies	208,352		889,512	
– other	1,580,892		289,854	
17) Interest payable and other financial charges	13,850,526		14,372,598	
a) Payable to subsidiary companies	1,875,239		2,068,392	
e) Other interest payable and financial charges	11,975,287		12,304,206	
17-bis) Foreign exchange gains (losses)	331,161		(152,407)	
Total financial income and expense (15+16-17+17 bis)		**(8,638,648)**		**(12,503,632)**
D) Value adjustments to financial assets				
18) Revaluations	–		155,524	
a) Equity interests			155,524	
19) Write-downs	35,446,693		3,723,293	
a) Equity interests	35,369,459		3,723,293	
b) Non-current investments other than equity interests	77,234			
Total value adjustments to financial assets (18 – 19)		**(35,446,693)**		**(3,567,769)**
E) Extraordinary income and expense				
20) Income	28,002,838		26,403	
a) Capital gains	3,112,023			
b) Other income	24,890,815		26,403	
21) Expense	12,570,964		912,000	
a) Capital losses	10,111,395			
b) Prior year taxation	9,594			
c) Other expense	2,449,975		912,000	
Total extraordinary items (20-21)		**15,431,874**		**(885,597)**
PROFIT (LOSS) BEFORE TAXATION (A-B+C+D+E)		**(33,926,565)**		**(17,993,255)**
22) Income taxes	(743,731)		1,544,569	
a) Tax on profit or loss for the year	(1,360,228)		(1,655,491)	
b) Deferred taxation	616,497		3,200,060	
PROFIT (LOSS) FOR THE YEAR		**(34,670,296)**		**(16,448,686)**

NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2005

Basis of preparation

The financial statements have been prepared in accordance with the requirements of article 2423 and following of the Civil Code as described in these notes prepared pursuant to article 2427 of the Civil Code. As established by article 2423, these notes form an integral part of the financial statements. Amounts in the balance sheet and profit and loss account are stated in euros in accordance with article 16 of Legislative Decree no. 213/98 and in compliance with Accounting Standard no. 27 of the National Councils of *Dottori Commercialisti* and *Ragionieri*; amounts are stated in the notes in thousands of Euros unless indicated otherwise. Accounting data expressed in euro cents are rounded down in the balance sheet and profit and loss account for amounts less than 50 cents and rounded up for amounts equal to or greater than 50 cents.

Sub-items "7" Receivables from subsidiary companies" and 8 "Receivables from other companies" have been added under the item "Financial assets not of a fixed nature" pursuant to the third paragraph of article 2423-ter of the Civil Code.

In addition, all supplementary information is provided as necessary in order for the financial statements to give a true and fair view of the Company's financial position and result for the year, even if such information is not specifically required by law.

The financial statements have been audited as required by Legislative Decree no. 58 of 24 February 1998 and the report of the auditors is attached to these financial statements.

In addition, as required by article 25 of Legislative Decree 127/91, the Group has prepared consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) and these are presented together with the financial statements of the Parent Company.

Accounting principles and policies

The accounting principles and policies used in the preparation of the financial statements at 31 December 2005 are unchanged from those used for the preparation of the financial statements for the previous year.

The principle of prudence and the accruals concept are the general criteria underlying the determination of the captions of the financial statements, which have been prepared on the assumption that the Company will continue as a going concern and by taking into consideration the economic function of each asset or liability.

The application of the principles of prudence, clarity and transparency has called for the evaluation of the components of the separate asset or liability captions on an individual basis, in order to avoid the compensation of losses which should be recognised with unrealised profits which should not be recognised.

In order to comply with the accruals concept, the effects of operations and other events are recognised for accounting purposes in the year to which such operations and events relate and not in that in which the respective cash movements (receipts and payments) occur.

Any deviations from the accounting principles and policies are described in the note referring to the item for which the deviation is made, with a description of the amounts involved and the reasons for which a valuation has been used which deviates from the general principles and policies.

In particular, the main accounting principles and policies adopted in the preparation of the financial statements are as follows.

Intangible fixed assets
Intangible assets are stated at purchase cost net of accumulated amortisation.
The annual amortisation rates used are as follows:

Category		Rate %
Start-up and capital costs	Costs for increases in share capital	20%
Concessions, licences, trade marks and similar rights	Software licences	20%
Other intangible assets	Non-competition agreements	20%
	Sundry deferred charges	from 8% to 20%

Assets which at year end have a permanent loss of value in comparison with their book value are written down to the lower value. Such assets are written up again if the reasons for the write-down no longer subsist.

Start-up and capital costs are recognised and amortised in agreement with the Company’s controlling bodies, in accordance with prevailing legislation.

Interest charges incurred in connection with investments are fully expensed in the period in which they are incurred.

Tangible fixed assets
Tangible fixed assets are stated at purchase cost, including any accessory costs, and are adjusted by accumulated depreciation.

Depreciation is charged on the basis of annual rates believed suitable to write off the value of the assets over their useful lives. Depreciation on assets acquired during the year is charged on the basis of the month in which they are first used.

Assets which at year end have a permanent loss of value in comparison with their book value are written down to the lower value. Such assets are written up again if the reasons for the write-down no longer subsist.

The following annual depreciation rates are used for tangible fixed assets, which represent their economic useful lives:

Category		**Rate %**
Land and buildings	Factory buildings	3.0%
	Small constructions	5.0%
Plant and machinery	General plant and machinery	9.0%
	Specific plant and machinery	9.5%
	Specific machinery at Villa Santa Lucia (FR)	5.75%
Industrial and commercial equipment	Sundry equipment	20.0%
Other assets	Furniture and ordinary office equipment	12.0%
	Electronic office machinery	20.0%
	Internal vehicles	20.0%
	Motor vehicles	25.0%

Tangible fixed assets acquired in leasing are recognised as assets in the year in which the purchase option is exercised. Lease instalments are charged against income. The commitment in respect of future instalments is recorded in the memorandum accounts. Information is provided in the respective notes as to the effect on shareholders' equity, if appreciable, if finance leases had been accounted for as such rather than as operating leases.

Ordinary maintenance and repair costs are charged against income in the year in which they are incurred; such costs are capitalised if they are of an extraordinary nature and improve the efficiency of the asset to which they relate.

No discretional or voluntary revaluations of assets have been made. Revaluations made pursuant to law are described in the appropriate note.

Interest charges incurred in connection with capital expenditures are fully expensed in the period in which they are incurred.

Financial fixed assets

Equity investments are stated at purchase or subscription cost, reduced as appropriate in the case of a permanent loss of value. Such write-downs are recorded as a provision directly reducing the carrying value of the investment. If a write-down is required which exceeds the carrying value of the investment at cost in order to recognise any capital deficiency of the subsidiary, such excess is recorded in the liability caption “Provision for losses on investments”. Write-downs do not exceed the value of the subsidiary’s shareholders’ equity determined under group accounting principles. Such assets are written up again to a maximum of historic cost if the reasons for the write-down no longer subsist.

Dividends are recognised at the date of the respective shareholders’ resolution.

Receivables are stated at nominal value, which represents their estimated recoverable value.

Own shares

Own shares held for trading are classified as working capital and are stated at the lower of cost and their average market value during the last month of the year. Own shares for which disposal is not expected during the short term are classified as financial fixed assets and are stated at cost, adjusted as necessary for any permanent loss in value.

An equity reserve “Reserve for the purchase of own shares” has been created for an identical amount in accordance with prevailing legislation.

Stocks

Stocks are stated at the lower of purchase cost or production cost determined using a weighted average method and their net realisable value is determined on the basis of market trends.

In particular, market value is considered as replacement cost for raw materials and net realisable value for finished goods and semi-finished goods.

Receivables and payables

Receivables are stated at their estimated realisable value, determined as the difference between their nominal value and a provision for bad and doubtful debts, based on an estimate of the risk of their non recovery. Payables are stated at nominal value.

Receivables and payables denominated in foreign currency are recorded using the exchange rates ruling at the date on which the relative transaction took place. Receivables and payables at the balance sheet date denominated in foreign currency are converted into euros using the exchange rates ruling at that date.

Financial assets not of a fixed nature

Financial fixed assets not of a fixed nature are stated at the lower of average purchase cost and their net realisable value determined on the basis of market trends.

Liquid funds
Liquid funds are stated at nominal value.

Prepayments, accruals and deferred income
Prepayments, accruals and deferred income regard income and expense which relates to the year but whose effect will occur in subsequent years or that incurred by year end but which relates to subsequent years.

Verification is made to ensure that conditions still exist at the balance sheet date for the continuing recognition of any prepayments, accruals and deferred income of a non-current duration recorded in prior years and adjustments are made where necessary.

Provisions for contingencies and charges
Provision is made for any losses or liabilities of a certain or probable nature, for which the amount or the date at which they will be incurred cannot be determined at the balance sheet date.

The general principal of prudence and the accruals concept are adopted in determining provisions; provisions of a general nature without economic substance are not made.

Contingent liabilities are recognised and included in these provisions when they are of a probable nature and their amount may be reasonably estimated.

Employees’ leaving entitlement
The employees’ leaving entitlement represents those amounts due to personnel employed at the balance sheet date and is determined in accordance with the requirements of Law no. 297 of 29 May 1982 and in conformity with prevailing employment legislation.

The liability corresponds to the sum of the individual entitlements due to employees at the balance sheet date, net of any advances made, and is equal to the amount which would be payable to employees should they terminate their employment at that date.

Income tax
The accrual for current income tax is based on the estimated tax charge or tax credit relating to the year and is included, as appropriate, in the caption “Due to tax authorities” or “Tax Credits”, net of any advance payments or withholding tax incurred.

Deferred tax assets and liabilities reflect any temporary differences between the book value and tax value of assets and liabilities, determined using the tax rates reasonably estimated for future years.

The provision for tax liabilities and charges consists of those accruals made for deferred taxation based on income whose taxation is deferred to subsequent years in accordance with prevailing legislation.

Deferred tax assets consist of that taxation which although relating to subsequent years has been incurred in the year in course and are recognised if there is the reasonable certainty that there will be future taxable income of an amount sufficient to absorb such amount.

The counterentry in the profit and loss account to the accrual for deferred tax liabilities or assets is recognised under the item "Income taxes".

Furthermore, deferred tax assets are recognised for tax losses available for carryforward only if there is a reasonable certainty that there will be future taxable income of an amount sufficient to absorb such losses.

Income and expense

Income and expense are recognised in accordance with the principal of prudence and the accruals concept through the recognition of prepayments, accruals and deferred income as appropriate.

Revenues, income, costs and expenses are stated net of returns, discounts, rebates and premiums and net of any sales tax on goods or services.

Revenue from the sales of goods is recognised when title passes, which generally occurs on despatch.

Revenue from services is recognised on the completion of the service rendered.

Derivative contracts

Rate differences to pay or receive on interest rate swaps are charged against or credited to income over the duration of the contract on an accruals basis. The premium or discount on derivative exchange rate contracts hedging specific payables is recognised in profit and loss over the duration of the contract on an accruals basis.

Derivative contracts hedging foreign exchange risks are valued at the spot rate at the balance sheet date and gains or losses are recognised in profit and loss.

A detail of off-balance sheet financial instruments held at year end is provided as part of the individual captions to which they relate.

In relation to the information requested by article 2427 bis, subparagraph 1, no.1), of Italian Civil Code, reference should be made to paragraph "Information on fair value of derivative contracts" included in the following section.

Guarantees, commitments, third party assets and contingencies
This caption encompasses commitments made, guarantees granted and third party assets held on deposit for various reasons.

Contingencies for guarantees granted in favour of other parties are stated in the memorandum accounts at an amount equal to the guarantee.

Commitments are stated in the memorandum accounts at their nominal value as indicated in the related documentation.

Third party assets held by the Company are stated at the value indicated in the underlying documentation.

BALANCE SHEET

ASSETS

Fixed assets

Intangible assets

	Start-up costs and capital costs	Concessions, licences, trade marks	Other intangible assets	Total
Cost	7,399	1,460	3,119	11,978
Accumulated amortisation	(5,068)	(1,236)	(987)	(7,291)
Net book value at 31.12.2004	**2,331**	**224**	**2,132**	**4,687**
Increases		333	64	397
Decreases				
Reclassification of cost				
Write-down/revaluation of cost				
Amortisation for the year	(785)	(268)	(589)	(1,642)
Utilisation of accumulated amortisation				
Reclassification of amortisation				
Cost	7,399	1,793	3,183	12,375
Accumulated amortisation	(5,853)	(1,504)	(1,576)	(8,933)
Net book value at 31.12.2005	**1,546**	**289**	**1,607**	**3,442**

The residual balance of “Start-up and capital costs” comprises principally costs incurred in 2003 relating to the increase in share capital.

“Concessions, licences and trade marks” relate to costs incurred for the purchase of software licences. The increase for the year mainly regards to the costs incurred for the purchase of software used to manage the maintenance of plant.

“Other intangible assets” are made up principally of the residual balance of Euro 1.5 million arising from the non-competition agreement stipulated in 2003 with Dr. Giovanni Dell’Aria Burani.

There have been no revaluations or write-downs made during the year in intangible assets.

Tangible fixed assets

	Land and buildings	Plant and equipment	Industrial and commercial equipment	Other assets	Assets in course of construction	Total
Cost	85,421	464,711	2,138	9,772	1,699	563,741
Accumulated depreciation	(34,691)	(321,654)	(1,904)	(9,042)	–	(367,291)
Net book value at 31.12.2004	**50,730**	**143,057**	**234**	**730**	**1,699**	**196,450**
Increases	518	7,867	81	65	1,124	9,655
Decreases	(1,096)	(733)		(215)		(2,044)
Reclassification of cost	149	(42,698)	(284)	5	(1,648)	(44,476)
Write-down/revaluation of cost						
Depreciation for the year	(2,084)	(22,827)	(91)	(222)		(25,224)
Utilisation of accumulated depreciation	453	702		190		1,345
Reclassification of depreciation		42,641	278			42,919
Cost	84,992	429,147	1,935	9,627	1,175	526,876
Accumulated depreciation	(36,322)	(301,138)	(1,717)	(9,074)	–	(348,251)
Net book value at 31.12.2005	**48,670**	**128,009**	**218**	**553**	**1,175**	**178,625**

“Land and buildings” consist almost exclusively of those regarding the manufacturing facilities located at Magenta (MI), Santa Giustina (BL), Ovaro (UD), Villa Santa Lucia (FR), Marzabotto (BO) and Ciriè (TO). The increases for the year relate to improvements to owned assets.
Decreases relate in the main to the sale of agricultural and industrial land located in Magenta and not used for manufacturing activities. This sale was a preliminary to the more extensive demerger plan, as described in the Report of the Board of Directors, and was made to the subsidiary Red.Im. S.r.l.. The operation generated a gain of Euro 3.1 million which is classified as an extraordinary item.
In addition the civil buildings in Lanzo Torinese e Marzabotto, no longer used by the Company, were also sold during the year, generating a gain of Euro 0.2 million.

“Plant and machinery” refers to specific and general manufacturing plant and machinery. The increases arise from the extraordinary actions taken to improve efficiency. In particular, investments of Euro 1.9 million were made mainly to optimise the system of managing production discards at the Magenta facility; investments of Euro 3.2 million were made at the Villa Santa Lucia facility, whose aim is principally to improve the stage of preparing the paste mixture for the cover line and improve the management of production discards; investments of Euro 1.8 million were made at the Santa Giustina facility principally to improve the stage of preparing the paste mixture for the centre and rear lines and improve the management of production discards; investments of Euro 0.5 million were made at the Ovaro facility with the main purpose of implementing the distributed control process for the second board machine and other minor expenditures were sustained at Marzabotto for Euro 0.4 million.

The lines "reclassification of cost" and "reclassification of depreciation" relate mainly to the finalisation of the agreement for the sale of the plant at the Ciriè facility, following which the assets were reclassified from fixed assets to stocks.
It is recalled that as a consequence of the closure of the Ciriè factory, the plant and machinery at that site were written down by Euro 8 million in 2003 to their estimated recovery value.
At 31 December 2005, the provision created for this amounted to Euro 6.9 million after utilisations for the year, and this too has been reclassified to stocks.
Decreases for the year relate to the sale of fully depreciated internal vehicles which were no longer in use.

There are third party charges (mortgages and privileges) amounting to a total of Euro 271 million on owned property and plant and machinery in favour of banks as security on loans, whose outstanding balance at 31 December 2005 amounts to Euro 35 million.

Commercial and industrial equipment is mainly made up of assets used in the manufacturing process carried out at the various factories. The increases arise from the purchase of laboratory instruments and various equipment of insignificant individual balances.

"Other assets" are principally composed of electronic office machines, office fixtures and fittings and motor cars. The increases are mostly attributable to the purchase of information systems equipment. The decreases relate to the disposal of company cars.
The disposals did not have a significant economic effect.

The following table provides a summary of the revaluations carried out in prior years of assets still owned, as required by article 10 of Law no. 72/83:

	Revaluations as per			Merger of Ovaro	Merger of Sarriò	Total
	Law 575/75	Law 72/83	Law 413/91			
Land and buildings	763	2,461	10,644	2,376	13,944	30,188
Plant and Equipment	2,286	9,294		8,548	31,018	51,146

FINANCIAL FIXED ASSETS

Investments in subsidiary companies

The following table shows the investments held in subsidiary companies:

Company name	Registered office	Shareholding	Share capital at 31.12.2005	Shareholders' equity at 31.12.2005	Result for 2005
Reno De Medici Iberica S.L.	Prat de Llobregatt (E)	100%	138,284	63,252	(34,424)
RDM International S.A.	Luxembourg (Lux)	99.99%	14,000	14,162	583
Cartiera Alto Milanese S.p.A.	Milan (I)	100%	200	1,008	(1,788)
Reno De Medici Deutschland GmbH	Bad Homburg (D)	100%	473	469	8
RDM France S.a.r.l.	Tremblay en France (F)	99.58%	96	622	(62)
Red.Im. S.r.l.	Milan (I)	100%	50	186	(254)
Emmaus Pack S.r.l.	Milan (I)	51.39%	200	1,521	1,016
Reno Logistica in liquidation S.p.A.	Milan (I)	100%	150	(277)	(314)
Trentino Ricerca S.r.l. in liquidation	Rovereto (I)	100%	10	11	(9)

The amounts stated refer to the 2005 financial statements of the subsidiaries as approved by their respective boards of directors.

The carrying value of these investments, shown net of the provision against cost and the provision for risks, the latter recorded as a liability, is as follows:

Investment	Cost	Provision against cost	Net book value	Provision for contingencies	Carrying value after write-down
Reno De Medici Iberica S.L.	138,284	(75,032)	63,252	–	63,252
RDM International S.A.	14,000	–	14,000	–	14,000
Reno De Medici Deutschland GmbH	150	–	150	–	150
RDM France S.a.r.l.	67	–	67	–	67
Red.Im. S.r.l.	1,129	(944)	185	–	185
Emmaus Pack S.r.l.	108	–	108	–	108
Cartiera Alto Milanese S.p.A.	2,864	(356)	2,508	–	2,508
Reno Logistica in liquidation S.p.A.	150	(150)	–	(277)	(277)
Trentino Ricerca S.r.l. in liquidation	20	(9)	11	–	11
Total	**156,772**	**(76,491)**	**80,281**	**(277)**	**80,004**

The variations in investments during the year is summarised in the following table:

Investment	Cost at 31.12.2004	Increases	Decreases	Cost at 31.12.2005
Reno De Medici Iberica S.L.	138,284			138,284
Europoligrafico S.p.A.	29,294		(29,294)	–
RDM International S.A.	14,000			14,000
Reno De Medici Deutschland GmbH	150			150
RDM France S.a.r.l.	67			67
Red.Im. S.r.l.	829	300		1,129
Emmaus Pack S.r.l.	108			108
Cartiera Alto Milanese S.p.A. (*)	200	2,664		2,864
Aticarta S.p.A.	–	5,552	(5,552)	–
Holcart S.r.l. in liquidation	–	7,575	(7,575)	–
Reno Logistica in liquidation S.p.A.	150			150
CTM Centro Taglio Magenta in liquidation S.r.l.	52		(52)	–
Trentino Ricerca S.r.l. in liquidation	–	20		20
Total	**183,134**	**16,111**	**(42,473)**	**156,772**

(*) Included among the investments in other companies.

On 29 June 2005, Reno De Medici S.p.A. sold 100% of the share capital of Europoligrafico S.p.A. to New EPG S.r.l., a company owned by two private equity funds, ITEQ SCA and Marina S.r.l., and by a group of Italian businessmen and investors.

The sales price for this transaction was agreed in Euro 41.3 million and led to the realisation of a gain of Euro 24.9 million. The sale of Europoligrafico S.p.A. enabled its interest-bearing debt of Euro 13 million to be removed from consolidation.

This sale excluded the wholly owned investment held by Europoligrafico S.p.A. in Aticarta S.p.A., as this had been the subject of a previous, preliminary sale by Europoligrafico S.p.A. to Reno De Medici S.p.A. at a price equal to the carrying value of Aticarta S.p.A. in Europoligrafico S.p.A. of Euro 5.5 million.

Subsequently, in December 2005, Reno De Medici S.p.A. sold 100% of the shares of Aticarta S.p.A. to Colleoni S.A., a Luxembourg company owned by Gastone Colleoni. The sales price of Euro 3 million generated a loss of Euro 2.5 million. In addition, under the purchase and sales agreement, Colleoni S.A. has undertaken to ensure that Aticarta S.p.A. and Atipackaging S.r.l. extinguish their financial debt to Reno De Medici S.p.A. at 31 December 2005 of Euro 17,4 million by 31 March 2006. In addition, Reno De Medici S.p.A. has agreed to take over from Aticarta S.p.A. the plant, machinery and stocks of the Pompeii facility by the same date. This undertaking is estimated in Euro 5.3 million at the balance sheet date.

The increase relating to Red.Im. S.r.l. is connected with the waiver by Reno De Medici S.p.A. of part of its financial receivables due from that company.

In June 2005 a binding contract was signed for the purchase of a controlling interest in Cartiera Alto Milanese S.p.A., through the acquisition of the holding company Holcart S.r.l. from Giovanni Dell'Aria Burani. As envisaged by the contract, the price paid was Euro 1.5 million.
In October, Cartiera Alto Milanese S.p.A., carried out an increase in share capital of Euro 2.7 million, which was fully subscribed by Reno De Medici S.p.A., which in this way became the sole shareholder of Cartiera Alto Milanese S.p.A.. Following this operation, Holcart S.r.l. was put into liquidation and definitively wound up in November 2005.

In the context of a new strategic direction, the activities of CAM today consist in the distribution of recycled fibre cartonboard with its own brand and in 2005 it achieved a turnover of Euro 13 million.

In December 2005 the liquidation of C.T.M. Centro Taglio Magenta in liquidazione S.r.l. was completed.

Movements in the provision against cost and the provision for risks are summarised in the following table:

Investment	**Provision against cost at 31.12.2004**	**Increases**	**Decreases**	**Provision against cost at 31.12.2005**
Reno De Medici Iberica S.L.	40,607	34,425		75,032
Europoligrafico S.p.A.	12,883		(12,883)	–
RDM International S.A.	–			–
Reno De Medici Deutschland GmbH	–			–
RDM France S.a.r.l.	–			–
Red.Im. S.r.l.	690	254		944
Emmaus Pack S.r.l.	–			–
Cartiera Alto Milanese S.p.A.	–	356		356
Reno Logistica in liquidation S.p.A.	112	38		150
CTM Centro Taglio Magenta in liquidation S.r.l.	52		(52)	–
Trentino Ricerca S.r.l. in liquidation	–	9		9
Total	**54,344**	**35,082**	**(12,935)**	**76,491**

Investment	**Provision for contingencies at 31.12.2004**	**Increases**	**Decreases**	**Provision for contingencies at 31.12.2005**
Reno De Medici Iberica S.L.				–
Europoligrafico S.p.A.				–
RDM International S.A.				–
Reno De Medici Deutschland GmbH				–
RDM France S.a.r.l.				–
Red.Im. S.r.l.				–
Emmaus Pack S.r.l.				–
Cartiera Alto Milanese S.p.A.				–
Reno Logistica in liquidation S.p.A.		277		277
CTM Centro Taglio Magenta in liquidation S.r.l.	52		(52)	–
Trentino Ricerca S.r.l. in liquidation				–
Total	**52**	**277**	**(52)**	**277**

The increases in the provision against cost and the provision for risks relate to the adjustment of these provisions required to align them to the equities of the investee companies at 31 December 2005, in accordance with the Company's accounting principles.

A comparison between the carrying value of each single investment and the respective equity values at 31 December 2005 is shown in the following table:

Investment	**Carrying value before write-down 31.12.2005**	**Shareholders' equity**	**(Increase) decrease in provision against cost**	**(Increase) decrease in prov. against contingencies**	**Carrying value after write-down 31.12.2005**
Reno De Medici Iberica S.L.	97,677	63,252	(34,425)	–	63,252
RDM International S.A.	14,000	14,162	–	–	14,000
Reno De Medici Deutschland GmbH	150	469	–	–	150
RDM France S.a.r.l.	67	622	–	–	67
Red.Im. S.r.l.	439	186	(254)	–	185
Emmaus Pack S.r.l.	108	1,521	–	–	108
Cartiera Alto Milanese S.p.A.	2,864	1,008	(356)	–	2,508
Reno Logistica in liquidation S.p.A.	38	(277)	(38)	(277)	(277)
Trentino Ricerca S.r.l. in liquidation	20	11	(9)	–	11
Total	**115,363**	**80,954**	**(35,082)**	**(277)**	**80,004**

The principal reasons for writing down a particular investment or reversing a previous write-down are as follows:

- Reno De Medici Iberica S.L.: bringing forward the timetable for its restructuring programme, which began in 2003, the company reached an agreement with the trades union organisations in December 2005 to terminate the employment contracts of the employees at the manufacturing facility located at Prat (Barcelona), at which operations had already ceased in November 2005. Again in December 2005, Reno De Medici Iberica S.L. sold its 100% interest in Cogeneracion Prat S.A. to Spanish private businessmen. In addition, the purchase and sales agreement provides for the repayment by Cogeneracion Prat S.A. to RDM Iberica of a pre-existing intercompany loan of Euro 1.7 million. This loan is secured on the assets of Cogeneracion Prat S.A.. As a consequence of these events, Reno De Medici Iberica S.L. will continue its manufacturing operations solely in the Almazan facility, continuing its commercial activities by integrating its sales structure with that of its subsidiary Barneda S.A.. On account of the restructuring programme described earlier, the carrying value of Reno De Medici Iberica S.L. has been written down to the amount of its equity, considering the 2005 loss as a permanent loss in value.
- Red.Im S.r.l.: this company operates in the property sector and has as its the objective the creation of value from a part of its owned land located mainly in the Municipality of Magenta and the management of the properties rented to Reno De Medici S.p.A. and to third parties. On account of the high costs of maintaining certain of the buildings which are particularly old, and the time required to create adequate value, the carrying value of this subsidiary has been prudently written down to the amount

of its equity at year end, considering the 2005 loss as a permanent loss in value.

- Cartiera Alto Milanese S.p.A.: following the restructuring programme completed in 2005, which led to the closure of manufacturing operations at the Fagnano Olona facility, at the present the company carries out the distribution of recycled fibre cartonboard under its own brand. The write-down recognised in 2005 results from aligning its carrying value in Reno De Medici S.p.A. according to the equity method which takes into account the value of the market share attributed to the company in the consolidated financial statements of the Reno De Medici Group of Euro 1.5 million.
- Reno Logistica S.p.A. in liquidation and Trentino Ricerca S.r.l. in liquidation: the carrying value of these two companies has been adjusted to the amount of their equity at year end, which corresponds to the expected liquidation value.

Investments in associates

Movements during the year in investments in associates are shown in the following table:

Investment	Registered office	Shareholding	Cost at 31.12.2004	Increases	Decreases	Cost at 31.12.2005
Termica Boffallora S.r.l.	Milan - Italy	30%	7,356			7,356
Pac Service S.p.A.	Vigonza (PD) - Italy	33.33%	387			387
ABB RDM Service S.r.l.	Milan - Italy	40%	16		(16)	–
Total			**7,759**		**(16)**	**7,743**

The decrease of the investment in ABB RDM Service S.r.l. is the result of its sale in February 2005.

Investments in other companies

Investments in other companies are shown in the following table:

Investment	Registered office	Shareholding	Carrying value at 31.12.2004	Increases (decreases)	Carrying value at 31.12.2005
Cartonnerie Tunisienne S.A.	Les Berges Du Lac (Tunisi)	5.274%	121		121
Primakem S.r.l.	Gorla Minore (VA) - Italy	10.00%	10	(10)	–
Comieco	Milan - Italy	Quota consortile	43	1	44
Conai	Milan - Italy	Quota consortile	23		23
Gas Intensive S.c.r.l.	Milan - Italy	Quota consortile	1		1
C.I.A.C. S.c.r.l,	Valpenga (TO) - Italy	Quota consortile	1		1
Idroenergia S.c.r.l.	Aosta - Italy	Quota consortile	1		1
Total			**200**	**(9)**	**191**

The decrease in the investment in Primakem S.r.l. is connected with the losses incurred by that company in 2004, which led in 2005 to the cancellation of its quota capital and simultaneous reinstatement. Reno De Medici S.p.A. took the decision not to subscribe to the newly issued capital and as a result has written its investment down to zero.

Financial receivables

The balance is made up as follows:

Financial receivables	31.12.2005	31.12.2004	Variation
Subsidiary companies	**13,032**	**13,332**	**(300)**
Red.Im. S.r.l.	13,032	13,332	(300)
Other companies	**3,136**	**77**	**3,059**
Due within one year	82	77	5
ENEL guarantee deposit	21	21	–
Municipality of Cassino guarantee deposit	11	11	–
Various guarantee deposits	50	45	5
Due after more than one year	3,054	–	3,054
Vendor loan New EPG	3,054	–	3,054
Total	**16,168**	**13,409**	**2,759**

Receivables from New EPG S.r.l. relate to the agreement for the sale of Europoligrafico S.p.A., whose terms also envisage an interest bearing vendor loan of Euro 3 million, due for repayment on 30 June 2012 but which has a mandatory repayment clause whose effects depend on the results achieved by Europoligrafico S.p.A..

Own shares

Own shares consist of 6,476,330 ordinary shares, equal to 2.4% of share capital. Each single share has a carrying value of Euro 0.708.

WORKING CAPITAL ASSETS

Stocks

Stocks	31.12.2005	31.12.2004	Variation
Raw materials and consumables	17,749	17,781	(32)
Provision for obsolesence	(322)	(561)	239
Finished goods and goods for resale	30,021	33,681	(3,660)
Plant and technical supplies held for sale	9,058		9,058
Provision for obsolesence	(6,991)		(6,991)
Total	**49,515**	**50,901**	**(1,386)**

Raw materials are stated at the lower of their average purchase price for the year and replacement cost. Finished goods are stated at the lower of purchase cost or production cost and their net realisable value determined on the basis of market trends.
"Plant and technical supplies held for sale" regards plant, machinery and technical supplies at the Ciriè facility which are to be sold. The corresponding obsolescence provision for these assets consists of a plant and machinery provision of Euro 8 million, previously classified in tangible fixed assets, and a provision for the obsolescence of raw materials and consumables of Euro 0.2 million, previously classified under that item. The

balance at 31 December 2005 represents the residual amount after utilisations made during the year for sold assets.

Receivables

Receivables in working capital	31.12.2005	31.12.2004	Variation
Trade receivables	76,673	85,497	(8,824)
Receivables from subsidiary companies	20,493	15,076	5,417
Receivables from associates	958	161	797
Tax credits	1,134	7,280	(6,146)
Other receivables	5,944	1,001	4,943
Total	**105,202**	**109,015**	**(3,813)**

The following tables provide an analysis of receivables at 31 December 2005 by due date and by geographical area:

Receivables in working capital	Due within one year	Due after more than one year	Due after more than five years	Total
Trade receivables	76,569	104		76,673
Receivables from subsidiary companies	20,493	–		20,493
Receivables from associates	958	–		958
Tax credits	239	895		1,134
Other receivables	5,833	111		5,944
Total	**104,092**	**1,110**	**–**	**105,202**

Receivables in working capital	Italy	Rest of EU	Rest of Europe	Rest of the World	Total
Trade receivables	57,622	12,965	2,425	3,661	76,673
Receivables from subsidiary companies	16,843	3,650			20,493
Receivables from associates	958	–			958
Tax credits	1,128	6			1,134
Other receivables	5,944	–			5,944
Total	**82,495**	**16,621**	**2,425**	**3,661**	**105,202**

Trade receivables

Trade receivables of Euro 76.7 million (of which Euro 76.6 million due within one year) mainly relate to Italian customers (around 75%) and customers residing in other countries of the European Union (around 17%). The decrease at 31 December 2005 over the balance at 31 December 2004 is the result of the Company's lower turnover and an improvement in the average collection period. Trade receivables are stated net of a provision for bad and doubtful debts. The following table shows the movements during the year in the provision, identifying separately charges and utilisations.

Provision for bad and doubtful debts	31.12.2004	Charge	Utilisation	31.12.2005
Provision for bad and doubtful debts	5,145	375	(2,667)	2,853
Total	**5,145**	**375**	**(2,667)**	**2,853**

The utilisation of the provision during the year mainly arises from losses incurred on receivables which were already considered doubtful in previous years and accordingly already provided for.

Receivables from subsidiary companies

Receivables from subsidiary companies amount to Euro 16.5 million and regard the Italian and Spanish subsidiaries.

Receivables from subsidiary companies	31.12.2005	31.12.2004	Variation
Reno De Medici Iberica S.L.	3,344	2,613	731
Europoligrafico S.p.A.	–	3,933	(3,933)
Emmaus Pack S.r.l.	6,391	6,129	262
Cartiera Alto Milanese S.p.A.	6,469	–	6,469
RDM France S.a.r.l.	156	–	156
Barneda Carton S.A.	150	150	–
Aticarta S.p.A.	–	1,887	(1,887)
Red. Im. S.r.l.	3,983	351	3,632
Reno Logistica S.p.A. in liquidation	–	13	(13)
Total	**20,493**	**15,076**	**5,417**

Receivables from subsidiary companies relate principally to trading with Group companies which is carried out under normal market conditions. The receivable from Red. Im. S.r.l. is the consequence of the sale of the land and buildings located in the Municipality of Magenta which are not employed in manufacturing activities. This operation took place in December 2005 and is a preliminary to the much broader demerger plan presented in the Report of the Board of Directors.

Receivables from associates

Receivables from associates amount to Euro 958 thousand and refer to Pac Service S.p.A..

Tax credits

Tax credits amount to Euro 1.1 million and relate principally to reimbursements of IRPEG tax for previous years.
The decrease over 31 December 2004 is the result of a reimbursement received for 1993 IRPEG tax.

Tax credits	31.12.2005	31.12.2004	Variation
Due within one year	**239**	**993**	**(754)**
Income tax credits	233	311	(78)
VAT credits	6	682	(676)
Due after more than one year	**895**	**6,287**	**(5,392)**
Reimbursements due from the tax authorities	713	5,796	(5,083)
Advanced withholding tax on employees' leaving entitlement	182	491	(309)
Total	**1,134**	**7,280**	**(6,146)**

Other receivables

Other receivables amount to Euro 5.9 million and are made up as follows:

Other receivables	31.12.2005	31.12.2004	Variation
Insurance reimbursements	–	525	(525)
Due from the sale of Europoligrafico	5,552	–	5,552
Due from companies in liquidation	112	66	46
Other	280	410	(130)
Total	**5,944**	**1,001**	**4,943**

The decrease in "Insurance reimbursements" is due to the finalisation of the claim made to an insurance company regarding a fire at the Magenta facility in 2001. The completion of that dispute also led to the utilisation of a provision of Euro 0.5 million recognised in liabilities for this matter.

The receivables relating to the sale of Europoligrafico S.p.A. regard a balance due from New EPG S.r.l. in connection with this sale.

Receivables due from companies in liquidation relate to the completion of the liquidation process and arise from the allotment of the companies' assets. These balances are classified as due after more than one year as in certain cases the funds needed to pay a shareholder are dependent upon the reimbursement of receivables from the tax authorities, whose recovery is certain as to amount but for which the timing is uncertain.

FINANCIAL ASSETS NOT OF A FIXED NATURE

Financial assets not of a fixed nature	31.12.2005	31.12.2004	Variation
Own shares	709	787	(78)
Debentures	–	3,569	(3,569)
Due from subsidiary companies	4,058	23,713	(19,655)
Due from other companies	17,354	–	17,354
Total	**22,121**	**28,069**	**(5,948)**

Own shares in hand consist of 1,037,113 ordinary shares (0.38% of share capital). Each single share has a carrying value of Euro 0.684, which is in line with the average quoted value of the share in December 2005 on the telematic exchange.

Receivables from subsidiary companies

This caption relates to current accounts with Group companies which form part of the cash pooling arrangement and for which interest is charged at market rates.

Due from subsidiary companies	31.12.2005	31.12.2004	Variation
Europoligrafico S.p.A.	–	6,822	(6,822)
Emmaus Pack S.r.l.	865	865	–
CTM Centro Taglio Magenta S.r.l. in liquidation	–	74	(74)
Aticarta S.p.A.	–	13,629	(13,629)
Red. Im. S.r.l.	3,091	2,262	829
Reno Logistica S.p.A. in liquidation	100	61	39
Trentino Ricerca S.r.l. in liquidation	2	–	2
Total	**4,058**	**23,713**	**(19,655)**

Receivables from other companies

This balance represent the current account with Aticarta S.p.A. (and its fully owned subsidiary Ati Packaging S.r.l.) which was sold in December 2005. As envisaged in the purchase and sales agreement, the balance will be paid by 31 March 2006.

LIQUID FUNDS

Liquid funds	31.12.2005	31.12.2004	Variation
Bank and postal accounts	43,199	3,252	39,947
Cash and valuables in hand	9	11	(2)
Total	**43,208**	**3,263**	**39,945**

These balances represent liquid funds and valuables at the balance sheet date.

The balance at 31 December 2005 is influenced by receipts connected with the sale of the investments held in Europoligrafico S.p.A. and Aticarta S.p.A. and the receipt of the tax credits referred to earlier.

PREPAYMENTS AND ACCRUED INCOME

There were no prepayments or accrued income at 31 December 2005 relating to periods exceeding five years. The caption may be analysed as follows:

Prepayments and accrued income	31.12.2005	31.12.2004	Variation
Accrued income			
Swap contracts	239	244	(5)
Interest income	46	197	(151)
Foreign exchange contracts	–	99	(99)
Prepayments			
Insurance premiums	63	458	(395)
Rentals	30	29	1
Subscriptions to trade asociations	–	368	(368)
Other	75	166	(91)
Total	**453**	**1,561**	**(1,108)**

The decrease in prepayments for subscriptions to trade associations and for insurance premiums is due to an alignment of the payment dates for these costs to the Company's balance sheet date.

LIABILITIES AND SHAREHOLDERS' EQUITY

SHAREHOLDERS' EQUITY

Description	Shareholders' equity at 31.12.2004	Changes in the year			Shareholders' equity at 31.12.2005
		Loss cover	Reclassification	Profit (loss) for the year	
Share capital	148,343				148,343
Share premium reserve	8,884	(1,087)			7,797
Legal reserve	6,462				6,462
Reserve for own shares	5,373		(77)		5,296
Other reserves:					
– Reserve for the purchase of own shares	6,584				6,584
– Extraordinary reserve	15,362	(15,362)	77		77
– Reserve from contribution of assets					–
– Merger surplus reserve and share exchange reserve					–
– Reserve as per article 67 of the consolidated tax law					–
– Dividend fluctuation reserve					–
Retained earnings (losses) brought forward					–
Profit (loss) for the year	(16,449)	16,449		(34,670)	(34,670)
Total	**174,559**	**–**	**–**	**(34,670)**	**139,889**

On 9 May 2005, shareholders resolved in general meeting to cover the losses for 2004 through the utilisation of the share premium reserve for Euro 1.0 million and the extraordinary reserve for Euro 15.4 million.

The "Reserve for own shares" is a restricted reserve pursuant to article 2357-ter of the Civil Code.

In accordance with article 5 of the Company's bylaws, the bearers of savings shares may convert their shares into ordinary shares during February and September of each year. A total of 5,928 savings shares were converted into ordinary shares during 2005. As a consequence of this, share capital at 31 December 2005, fully subscribed and paid, is made up as follows:

	Quantity	Par value (Euro)	Total (Euro)
Ordinary shares	269,200,159	0.55	148,060,087
Savings shares	514,278	0.55	282,853
Total	**269,714,437**		**148,342,940**

Each caption of shareholders' equity is analysed in the following table on the basis of the use to which it may be put, its origin and its utilisation in prior years, as required by article 2427 no. 7-bis of the Civil Code.

Description	Balance at 31.12.2004	Utilisation possibilities (*)	Available portion	Summary of utilisation in the years 2005-2004-2003	
				For loss cover perdite	For other purposes
Share capital	148,343				
Share premium reserve	7,797	A, B, C	–	12,839	
Legal reserve	6,462	A, B	–		
Reserve for own shares	5,296		–		14,042
Other reserves:					
– Reserve for the purchase of own shares	6,584	A, B, C	6,584		24,644
– Extraordinary reserve	77	A, B, C	77	45,380	
– Reserve from contribution of assets	–			13,492	
– Merger surplus reserve and share exchange reserve	–			84,207	1,626
– Reserve as per article 67 of the consolidated tax law	–			1,644	
– Dividend fluctuation reserve	–			9,725	
Profit (loss) for the year	(34,670)				
Total	**139,889**		**6,661**		
Non-distributable portion			1,546		
Distributable portion remaining			**5,115**		

(*)
A) For increases in share capital
B) To cover losses
C) For distribution to shareholders

The utilisation of reserves "for other purposes" in the three year period under consideration regards principally internal reclassifications of reserves as a consequence of the various resolutions regarding the purchase of own shares.

PROVISIONS FOR CONTINGENCIES AND CHARGES

The balance at 31 December 2005 is made up as follows:

Provisions for contingencies and charges	31.12.2004	Charge	Utlisation	31.12.2005
Termination provisions	**1,045**	**394**	**(109)**	**1,330**
Agents' termination indemnity	1,045	394	(109)	1,330
Taxation	**3,914**	**(494)**	**(123)**	**3,297**
– Deferred tax liability - IRES	7,894		(1,402)	6,492
– Deferred tax asset - IRES	(4,534)	(484)	1,402	(3,616)
– Deferred tax liability - IRAP	1,017		(181)	836
– Deferred tax asset - IRAP	(463)	(10)	58	(415)
Other provisions	**4,094**	**1,080**	**(2,435)**	**2,739**
Provision for future charges	4,042	803	(2,383)	2,462
Provision for losses on investments	52	277	(52)	277
Total	**9,053**	**980**	**(2,667)**	**7,366**

The amount accrued for the agents' termination indemnity represents the Company's estimate, based also on historical trends, of the amount payable on the cessation of the agreements with its agents.
The provision for deferred taxation amounting to Euro 3.3 million has been determined on the basis of the temporary differences at 31 December 2005. These differences may be analysed as follows:

Taxation	31.12.2005			31.12.2004		
	Temporary differences	Tax rate %	Tax effect	Temporary differences	Tax rate %	Tax effect
Recognised deferred tax assets	**20,717**		**4,032**	**24,643**		**4,997**
Write-down of investments (2006-2007)	6,958	33.00%	2,296	11,206	33.00%	3,698
Avaialable tax losses	4,003	33.00%	1,321	2,533	33.00%	836
Write-downs for permanent losses in value	6,990	4.25%	297	8,000	4.25%	340
Stock provision	322	4.25%	14	561	4.25%	24
Provision for future charges (IRAP)	2,293	4.25%	97	2,063	4.25%	88
Agents' termination indemnity	151	4.25%	6	280	4.25%	12
Provision for future charges (IRES)		33.00%	–		33.00%	–
Recognised deferred tax liabilities	**19,674**		**7,329**	**23,922**		**8,911**
Book depreciation exceeding tax depreciation	19,674	37.25%	7,329	23,922	37.25%	8,911
Recognised deferred tax (assets) liablities, net			**3,297**			**3,914**
Unrecognised deferred tax assets	**128,349**		**42,355**	**127,855**		**42,192**
Write-down of investments (2006-2007)	12,549	33.00%	4,141	18,865	33.00%	6,225
Write-downs for permanent losses in value	6,990	33.00%	2,307	8,000	33.00%	2,640
Stock provision	322	33.00%	106	561	33.00%	185
Bad and doubtful receivables	1,958	33.00%	646	4,319	33.00%	1,425
Provision for future charges (IRES)	2,461	33.00%	812	4,002	33.00%	1,321
Agents' termination indemnity	151	33.00%	50	280	33.00%	92
Provision for future charges (IRAP)	–	4.25%	–	–	4.25%	–
Avaialable tax losses	85,626	33.00%	28,257	65,976	33.00%	21,772
Tax losses for the year	18,292	33.00%	6,036	25,852	33.00%	8,531
Unrecognised deferred tax assets			**42,355**			**42,192**

Deferred tax liabilities of Euro 7.3 million (of which Euro 6.5 million relates to IRES tax and Euro 0.8 million to IRAP tax) arise from the taxable temporary differences which will reverse in future years. These differences arise from the allocation of the 1998 merger difference to certain tangible fixed assets, for which the depreciation is not fiscally deductible. The deferred tax liability therefore represents the future tax charge which will be incurred by the Company due to the fact that the annual book depreciation expense will not be fully deductible for IRES and IRAP taxation; the non-deductible part arises from the portion of the merger difference allocated to tangible fixed assets.
Deferred tax assets are recognised up to the amount for which it is probable that the Company will realise future taxable income against which the deductible temporary differences and carried forward tax losses may be utilised.
As over the past years the Company has always had taxable income for IRAP purposes, deferred tax assets amounting to Euro 415 thousand have been recognised in this respect, which represent the benefit which will be realised in terms of lower IRAP tax payments in future years when the

temporary differences reverse. The temporary differences arise from provisions for the write down of assets and provisions for future charges.
As, however, the Company has on the other hand had tax losses for IRES purposes in previous years, deferred tax assets of only Euro 3.6 million have been recognised for IRES purposes, being the amount corresponding to the deferred tax liabilities for which the reversal of the above-mentioned taxable temporary differences will occur by 31 December 2012.
These deferred tax assets are presented by setting them off directly against deferred tax liabilities, firstly since the conditions for such a presentation exist but also in order to present the financial statements in a better and clearer manner.
The remaining deferred tax assets have not been recognised for reasons of prudence, given the restructuring process currently taking place and the present market situation.

The other provisions comprise the provision for future charges, made up principally of accruals in connection with accruals for disputes in course, the accrual regarding CO2 and the provision for losses on investments.

The utilisation of the provision for future charges during the year of Euro 2.4 million is mostly due to the costs incurred during the year regarding the business restructuring programme and the finalisation of disputes. The charge for the year regards the amount related to the difference between the tonnes of CO2 produced by the Parent’s mills and the quotas assigned to them pursuant to the National Distribution Plan (*Piano Nazionale delle Assegnazioni*).

The decrease in the “Provision for losses on investments” arises from the alignment of this provision to the negative equity of the investee, in accordance with the Company’s accounting principles.

The provision for losses on investments has decreased as a result of the completion of the liquidation of C.T.M. Centro Taglio Magenta S.r.l. in liquidation and increased as a consequence of the accrual for the losses incurred by the subsidiary Reno Logistica S.p.A. in liquidation.

EMPLOYEEES’ LEAVING ENTITLEMENT

The balance represents the Company’s actual liability at 31 December 2005 to personnel employed at that date, net of advances made. The decrease for the year is due to employee resignations in 2005.

Employeees’ leaving entitlement	**31.12.2004**	**Charge**	**Utilisation**	**31.12.2005**
Employees' leaving entitlement	19,050	3,034	(2,654)	19,430
Total	**19,050**	**3,034**	**(2,654)**	**19,430**

PAYABLES

Payables	31.12.2005	31.12.2004	Variation
Due to banks	99,572	101,549	(1,977)
Trade payables	63,059	66,855	(3,796)
Due to subsidiary companies	163,094	164,304	(1,210)
– RDM International S.A.	155,931	159,129	(3,198)
– CAM S.p.A.	3,809		3,809
– Reno De Medici Iberica S.L.	2,341	3,104	(763)
– RDM France S.a.r.l.	522	204	318
– Reno De Medici Deutschland GbmH	462	443	19
– Emmaus Pack S.r.l.	27	23	4
– Red.Im S.r.l.	2		2
– RDM RE S.A. in liquidation		1,300	(1,300)
– Europoligrafico S.p.A.		18	(18)
– Aticarta S.p.A.		83	(83)
Due to associates	947	1,080	(133)
– Termica Boffalora S.r.l.	947	923	24
– ABB RDM Service S.r.l.		157	(157)
Due to tax authorities	3,170	2,439	731
Due to social security authorities	3,144	3,247	(103)
Other payables	9,357	4,508	4,849
Total	**342,343**	**343,982**	**(1,639)**

The following tables provide an analysis of payables at 31 December 2005 by due date and by geographical area:

Payables	Due within one year	Due after more than one year	Due after more than five years	Total
Due to banks	72,085	21,578	5,909	99,572
Trade payables	63,059			63,059
Due to subsidiary companies	163,094			163,094
Due to associates	947			947
Due to tax authorities	3,170			3,170
Due to social security authorities	3,144			3,144
Other payables	9,357			9,357
Total	**314,856**	**21,578**	**5,909**	**342,343**

Payables	Italy	UE	Rest of Europe	Rest of the World	Total
Due to banks	99,572				99,572
Trade payables	47,424	10,755	2,213	2,667	63,059
Due to subsidiary companies	3,838	159,256			163,094
Due to associates	947				947
Due to tax authorities	3,064	106			3,170
Due to social security authorities	3,144				3,144
Other payables	9,357				9,357
Total	**167,346**	**170,117**	**2,213**	**2,667**	**342,343**

Due to banks

Short-term payables to banks at 31 December 2005 amount to Euro 72.1 million, of which Euro 53.2 million relates to trading lines of credit, Euro 2.5 million to short-term loans and Euro 16.4 million to the current portion of long-term loans. Payables due to banks due after one year of Euro 27.5 million represent the long-term portion of bank loans.
The following table provides an analysis of long-term loans by due date and by lending bank:

Loans	Due within one year	Due after more than one year	Due after more than five years	Total
M.I.C.A. - due 13 February 2016		502	904	1,406
M.I.C.A. - due 16 October 2013	133	562	454	1,149
San Paolo Imi - due 15 June 2011	1,831	8,316	1,164	11,311
San Paolo Imi - due 15 December 2011	2,694	12,092	3,387	18,173
M.I.C.A. - due 28 May 2008	50	106		156
Interbanca - due 31 October 2006	5,533			5,533
Banca Pop. Emilia Romagna - 29 December 2006	6,200			6,200
Total	**16,441**	**21,578**	**5,909**	**43,928**

The loans from San Paolo IMI and Interbanca are secured by mortgages on properties owned by the Company and by a privileged charge on plant and machinery, as described in the note on tangible fixed assets.

The Company has entered an agreement to hedge the risk of interest rate fluctuations on the Interbanca loan, swapping floating rates for fixed rates. This agreement may be summarised as follows at 31 December 2005:

Counterparty	Type	Notional value	Maturity
Interbanca - 31 October 2006	IRS	5,533	31.10.2006

Trade payables

Trade payables amount to Euro 63.1 million, all due within one year, and relate principally to Italian suppliers (75%) and suppliers of other European Union countries (17%). Trade payables are stated net of trade discounts; cash discounts are only recognised on payment. The nominal value of these payables is adjusted for returns or rebates (invoice adjustments) for the amount agreed with the counterparty.

Due to subsidiary companies

The balance of Euro 163.1 million consists of loans of Euro 161.1 million and trade payables of Euro 2.0 million. The loan balance consists principally of an amount of Euro 145 million regarding a loan of from Reno De Medici International S.A., denominated in Yen and due in May 2006. The remaining loans relate to funds deposited with the Parent Company within the framework of a centralised treasury function by Reno De Medici International S.A. for Euro 10.9 million, Cartiera Alto Milanese S.p.A. for Euro 3.9 million, Reno De Medici Iberica S.L. per Euro 0.5 million, Reno De Medici Deutschland GmbH for Euro 0.4 million and RDM France S.a.r.l. for Euro 0.4 million.

Due to associates
The balance of Euro 0.9 million represents trade payables to Termica Boffalora S.r.l. for the purchase of steam and energy.

Due to tax authorities
The balance consists principally of tax withheld on the salaries and wages of employees or amounts paid to self-employed persons amounting to Euro 1.6 million and paid in January 2006, a VAT liability of Euro 1.3 million and liabilities for refuse charges of Euro 0.1 million.

Due to social security authorities
The balance is made up principally of amounts deriving from the salaries and wages of December 2005 and paid to the authorities in January 2006 and accruals for contributions on deferred remuneration such as holidays, additional months' pay and overtime.

Other payables
Other payables consist of an amount of Euro 5.5 million due to Europoligrafico S.p.A. for the purchase of Aticarta S.p.A., Euro 2.8 million payable to employees for deferred remuneration, Euro 0.4 million for water charges, Euro 0.2 to members of the Company's boards and Euro 0.5 million for minor payables.

Information on fair value of derivative contracts

Derivative contracts at 31 December 2005 relate to foreign exchange hedging instruments (Cross Currency Swap – CCS) and interest rate hedging instruments (Interest Rate Swap – IRS) linked to loans granted to Reno De Medici S.p.A. by banks and by its subsidiary Reno De Medici International S.A..
Such derivative contracts have hedging purposes although they do not qualify as hedging transactions under IAS 39.
With reference to the provisions of article article 2427 bis, subparagraph 1, no.1), of Italian Civil Code, information on derivative contracts of Reno De Medici S.p.A. outstanding at 31 December 2005 are set out in the following table. It is noted that, in order to estimate the fair value of deriv-

ative contracts, models commonly in use and based on future cash flow discounting have been utilised.

Type	Counterparty	Scope	Currency	Notional value	Financial risk	Fair value	Covered liability
CCS	San Paolo S.A.	trading	Yen	15,776,000,000	currency/rate	(32,728,186)	RDM International financing
IRS	Banca Caboto S.p.A.	trading	Eur	50,000,000	rate	(614,389)	RDM International financing
IRS	Banca Caboto S.p.A.	trading	Eur	50,000,000	rate	(588,847)	RDM International financing
IRS	Interbanca S.p.A.	trading	Eur	5,533,472	rate	(38,992)	Interbanca financing

The first three derivative contracts relate to the intercompany loan, of YEN 15.7 billion, outstanding at 31 December 2005 and granted by Reno De Medici International S.A. to Reno De Medici S.p.A., which is hedged through a CCS – expiring on 4 May 2006 – providing a fixed exchange YEN/Euro of 108.8 which in turn gives an Euro amount of 145 million.
Such intercompany loan, which was initially regulated at floating interest rates, is also hedged through IRS and thus is fixed rate denominated. In particular, two IRS have been put in place: the first with SanPaolo Bank S.A. for Euro 45 million and the second with Banca Caboto S.p.A. for Euro 100 million.
It is noted that Reno De Medici International S.A. has also put in place another IRS, having opposite flows, with SanPaolo Bank S.A. for Euro 145 million. Accordingly, no potential liabilities have been considered from these two contracts.
It is worth to mention that, at 2005 year end, the fair value relating to the YEN intercompany loan is about Euro 114.3 million (vs. the book value of Euro 145 million).
CCS, it is worth to mention that the Euro value of the intercompany loan, at the YEN/Euro exchange rate prevailing on the last working day of 2005, would have been about Euro 113.6 million vs. the book value of Euro 145 million.

ACCRUED EXPENSES AND DEFERRED INCOME

Accrued expenses and deferred income	31.12.2005	31.12.2004	Variation
Accrued expenses			
– Swaps and forward contracts	1,442	1,507	(65)
– Interest on RDM International S.A. loan	239	272	(33)
– Interest on loans from subsidiary companies		52	(52)
– Loan interest	122	214	(92)
Deferred income			
– Law 488 grants	703		703
Total	**2,506**	**2,045**	**461**

These items represent entries made in order to respect the accruals concept. The accruals for swaps and forward contracts principally relate to contracts with primary banks to hedge the risk of fluctuations in interest rates and regard in particular the loan of Euro 145 million from Reno De Medici International S.A..

The accruals related to subsidies pursuant to L. 488 result from the upgrading of the board machine at Villa Santa Lucia mill in 2001 and are distributed over a 17 year period (2002-2019). The yearly accrual amount recorded in the profit and loss account is Euro 52 thousand while the accruals beyond 5 years amount to Euro 443 thousand.

MEMORANDUM ACCOUNTS

Memorandum accounts	**31.12.2005**	**31.12.2004**	**Variation**
Contingencies			
– Sureties provided in favour of subsidiaries	44,426	16,967	27,459
– Sureties received in favour of third parties	2,685	4,127	(1,442)
– Sureties provided in favour of third parties	6,378		6,378
Commitments			
– Purchase of Aticarta stocks and plant	5,258		5,258
– Forward sales of foreign currency		2,319	(2,319)
Other			
– Goods held in Company warehouses	1,764	859	905
Total	**60,511**	**24,272**	**36,239**

Contingencies consist of sureties provided by the Company in favour of subsidiary companies and sureties provided by third parties on behalf of the Company in favour of other third parties.
Sureties provided by the Company in favour of other Group companies include the following:

- a surety of Euro 1.4 million provided by the Company on behalf of Red.Im. S.r.l. in respect of the issue of a surety policy by insurance companies;
- a guarantee of Euro 43 million in favour of Red.Im. S.r.l. in relation to the fulfilment of certain conditions connected with the preliminary agreement for the sale of property assets signed by Reno De Medici Iberica S.L. and Red.Im. S.r.l. on 19 December 2005;

Sureties given to third parties include the following:

- sureties of Euro 2.3 million provided in favour of the Region of Veneto and the Province of Belluno regarding the landfill located at the Santa Giustina (BL) facility;
- sureties of Euro 100 thousand provided in favour of the customs authorities;
- a surety of Euro 137 thousand provided in favour of the tax authorities;
- sureties of Euro 3 thousand provided in connection with the rental of property;
- a surety of Euro 20 thousand provided in favour of the Region of Lombardy;
- a surety of Euro 100 thousand provided in favour of Agea S.p.A. relating to the recovery of starch.

Sureties provided by Reno De Medici S.p.A. in favour of third parties include the following:

- a surety of Euro 3.3 million provided in favour of Banca Popolare dell'Emilia Romagna to guarantee a loan granted to Aticarta S.p.A.;

- a surety of Euro 3.0 million provided in favour of insurance companies to guarantee advance supplies made by BAT Italia S.p.A. to Aticarta S.p.A.;
- a surety of Euro 72 thousand provided to Cogeneracion Prat S.A. by Banca Intesa to guarantee that company's credit.

Colleoni S.A., the acquirer of Aticarta S.p.A., has undertaken to free Reno De Medici S.p.A. from the guarantees previously provided to third parties on behalf of Aticarta S.p.A. and Atipackaging S.r.l.. In addition, the agreement for the sale of that company requires that Reno De Medici S.p.A. repurchase the plant, machinery and stocks of the Pompeii facility by 31 March 2006. The amount envisaged for that transaction has been recognised as a commitment.

"Other" relates to third party goods held at the Company's warehouses.

PROFIT AND LOSS ACCOUNT

VALUE OF PRODUCTION

Value of production	**31.12.2005**	**31.12.2004**	**Variation**
Revenues from sales and services	290,520	304,812	(14,292)
Changes in stocks of goods	(4,029)	3,398	(7,427)
Own work capitalied	329	31	298
Other revenues and income	3,988	3,625	363
Total	**290,808**	**311,866**	**(21,058)**

Revenues from sales and services

Sales revenues may be analysed by business and geographical area as follows:

Business area	**31.12.2005**	**31.12.2004**	**Variation**	**%**
Sales of cartonboard	290,341	302,439	(12,098)	–4.0%
Services provided	179	2,373	(2,194)	–92.5%
Total	**290,520**	**304,812**	**(14,292)**	**–4.7%**

Geographical area	**31.12.2005**	**31.12.2004**	**Variation**	**%**
Italy	171,741	175,734	(3,993)	–2.3%
Rest of European Union	84,343	92,904	(8,561)	–9.2%
Rest of the World	34,436	36,174	(1,738)	–4.8%
Total	**290,520**	**304,812**	**(14,292)**	**–4.7%**

Sales revenues arise almost exclusively from sales of cartonboard, whereas service revenues mostly arise from services rendered to subsidiary companies.
Sales in Italy account for 59% of the total in comparison with 58% in the previous year; sales to other European Union countries amount to 29% of the total (compared to 30%) and sales to the rest of the world remained stable at 12%.
Reference should be made to the Directors' Report for an analysis of sales trends for 2005.

Other revenues and income

Other revenues and income	31.12.2005	31.12.2004	Variation
Grants	686	771	(85)
Rental income	61	74	(13)
Ordinary capital gains	263	21	242
Recharge of costs	188	205	(17)
Indemnification	375	732	(357)
Miscellaneous revenues	2,415	1,822	593
Total	**3,988**	**3,625**	**363**

Other revenues and income consist mainly of grants received from Comieco relating to the utilisation of waste paper arising from the collection of local community differentiated waste and from miscellaneous revenues.
The main items included in miscellaneous revenues are prior year items of Euro 0.4 million, composed mostly of proceeds from creditors' arrangements and VAT recoveries following the completion of insolvency procedures, revenues of Euro 0.4 million which arose on the sale of part of the Ciriè plant and machinery and income of Euro 0.215 million earned with the subsidiary RDM France S.a.r.l. by applying the star del credere clause provided in the agency contract in respect of a customer handled by that company which was declared insolvent.

COST OF PRODUCTION

Cost of production	31.12.2005	31.12.2004	Variation
Purchase of raw materials and consumables	113,490	120,922	(7,432)
Cost of services	101,822	108,616	(6,794)
Use of third party assets	702	854	(152)
Wages and salaries	35,175	34,309	866
Social security costs	12,625	12,856	(231)
Employees' leaving entitlement	3,034	2,589	445
Other staff costs	1	4	(3)
Amortisation of intangible assets	1,642	2,795	(1,153)
Depreciation of tangible fixed assets	25,223	26,092	(869)
Write-downs of working capital assets	375	1,229	(854)
Changes in raw material stocks	(1,095)	(171)	(924)
Accruals for contingencies	803	–	803
Other operating costs	2,284	2,808	(524)
Total	**296,081**	**312,903**	**(16,822)**

Purchase of raw materials and consumables

Purchases relate principally to raw materials (waste paper, wood-pulp, cellulose and chemicals), technical items for factories and packaging.
These costs represent 39% of the value of production, a figure which has essentially remained stable.

Services

The following table provides an analysis of the cost of services:

Services	31.12.2005	31.12.2004	Variation
Services regarding sales	**32,476**	**33,615**	**(1,139)**
Transport	26,454	27,074	(620)
Commissions and agents' costs	5,365	5,676	(311)
Other	657	865	(208)
Services regarding manufacturing	**59,642**	**63,138**	**(3,496)**
Energy	41,080	38,627	2,453
Subcontractors	4,774	4,856	(82)
Maintenance	4,416	11,730	(7,314)
Waste disposal	4,359	3,532	827
Outsourcing	3,259	3,165	94
Other	1,754	1,228	526
General services	**9,704**	**11,863**	**(2,159)**
Legal and notarial	807	885	(78)
Consultancy	938	329	609
Insurance	1,915	2,205	(290)
Postal and telephone	286	351	(65)
General and administrative services	490	1,102	(612)
IT services	364	483	(119)
Board of directors	1,596	1,507	89
Board of statutory auditors	152	156	(4)
Travelling expenses	427	872	(445)
Auditing costs	164	141	23
Other	2,565	3,832	(1,267)
Total	**101,822**	**108,616**	**(6,794)**

Service costs have decreased by Euro 6.8 million over those of the prior year in absolute terms; in relative terms they have remained stable at 35% of the value of production, despite the fall in this latter amount. This has been achieved as the result of the Company's policy to seek increased manufacturing efficiency and a stricter control over its costs.
The following variations on the previous year may in particular be noted. The increase in energy costs represented by natural gas and electricity: the price of electricity is linked to the cost of oil (Brent oil prices increased by an average of 42% over 2004); the notable reduction in maintenance costs, due to improvements in the control of maintenance policies and the return to insourcing maintenance at the Magenta and Marzabotto facilities, previously carried out by the associate ABB RDM Service S.r.l.; and the increase of waste disposal costs, mainly connected with the need to use landfills to a greater extent instead of incinerators, with the consequent increase in the costs of disposal.

Use of third party assets

The reduction of the costs incurred for the use of third party assets is mostly due to the termination of the rental contract for the former headquarters in via Tucidide in Milan, which still led to costs for a few months in 2004.

Staff costs

The following table provides details as to the number of employees at year end and the average for the year, analysed by category:

At year end by employee category	31.12.2005	31.12.2004	Variation
Executives and managers	18	20	(2)
White-collar	284	307	(23)
Blue-collar	809	826	(17)
Total	**1,111**	**1,153**	**(42)**

Average by employee category	2005	2004	Variation
Executives and managers	20	22	(2)
White-collar	304	330	(26)
Blue-collar	839	891	(52)
Total	**1,163**	**1,243**	**(80)**
Temporary lay-offs	220	370	(150)
Permanent manpower	**943**	**873**	**70**

The reduction in the workforce is mostly due to the reorganisation programme set up during 2003. As a result of the insourcing of maintenance activities at the Magenta and Marzabotto facilities, effective from 1 January 2005, 51 employees formerly with ABB RDM Service S.r.l. were hired.
The increase in staff costs in 2005, by about Euro 1.1. million, is due to the higher average number of employees in force during the year.

Amortisation of intangible assets

The decrease in this cost is principally due to the completion in 2004 of the amortisation of the start-up costs relating to the Villa Santa Lucia facility.

Depreciation of tangible fixed assets

The decrease in this cost is mainly attributable to the natural asset depreciation process.

Other operating costs

Other operating costs may be analysed as follows:

Other operating costs	31.12.2005	31.12.2004	Variation
Subscriptions to trade associations	656	673	(17)
Indirect taxes and dues	987	1,209	(222)
Bad debts	155		155
Sundry prior year costs	256	843	(587)
Ordinary capital losses	7	16	(9)
Other operating costs	223	67	156
Total	**2,284**	**2,808**	**(524)**

Losses on bad debts are strictly linked to the income earned from the recharge of the amount relating to the star del credere clause in the agency contract discussed under other revenues and income. The decrease in other taxes and dues is mostly due to the reduction in the property tax *Imposta Comunale sugli Immobili* as the result of new taxable values determined by the local authorities; previously this tax was payable on the accounting value of the properties.

FINANCIAL INCOME AND EXPENSE

Financial income and expense	31.12.2005	31.12.2004	Variation
Financial income	**4,880**	**2,021**	**2,859**
Income from equity investments:			
– Subsidiary companies	344	523	(179)
– Associates	1,320	70	1,250
– Other companies	22	–	22
Income from securities included in working capital that are not equity interests	1,405	249	1,156
Miscellaneous income:			
– Subsidiary companies	208	890	(682)
– Other income	1,581	289	1,292
Financial expense	**(13,850)**	**(14,373)**	**523**
Other interest and expense:			
– Subsidiary companies	(1,875)	(2,068)	193
– Other expense	(11,975)	(12,305)	330
Foreign exchange gains (losses)	**331**	**(152)**	**483**
Realised foreign exchange gains (losses):			
– Realised gains	1,860	874	986
– Realised losses	(1,514)	(869)	(645)
Unrealised foreign exchange gains (losses):			
– Unrealised gains		167	(167)
– Unrealised losses	(15)	(324)	309
Total financial income (expense)	**(8,639)**	**(12,504)**	**3,865**

Income from equity interests arises from dividends from subsidiary companies and associates. Those from subsidiary companies regard Emmaus Pack S.r.l. (Euro 308 thousand) and RDM France S.a.r.l. (Euro 36 thousand); those from associates regard Pac Service S.p.A. (Euro 150 thousand) and Termica Boffalora S.r.l. (Euro 1.2 million). Income from "other companies" relates to dividends from Cartonnerie Tunisienne S.A..

Income from securities included in working capital that are not equity investments regard Euro 0.1 million of interest matured on the Reno De Medici International S.A. debentures held in portfolio and a gain of Euro 1.3 million from the sale of these to the issuer for cancellation; the debentures had a nominal value of Euro 5 million and a carrying value of Euro 3.6 million.

Miscellaneous financial income relates to interest matured on current accounts held with other companies of the Reno De Medici Group; the decrease results from the fact that Europoligrafico S.p.A. and Aticarta S.p.A. were sold in 2005. The increase in miscellaneous income from third parties is attributable to the sale of these two subsidiaries and the interest of Euro 0.6 million received following the reimbursement of the Irpeg tax credit relating to 1993.

Financial expense payable to subsidiary companies relates almost exclusively to the loan from Reno De Medici International S.A..

The following table provides an analysis of other financial expense:

Other financial expense	**31.12.2005**	**31.12.2004**	**Variation**
Swap contracts	8,012	8,133	(121)
Mortgage loan interest	2,269	2,769	(500)
Bank interest	1,354	1,092	262
Interest payable to other businesses	49	24	25
Other financial expense	291	287	4
Other financial expense	**11,975**	**12,305**	**(330)**

The decrease in interest payable is principally due to the improvement in the Company's average net debt exposure, which compensates the increase in interest rates and bank commissions. Expense incurred for swap contracts relates mainly to contracts with primary banks to hedge the risk of fluctuations in interest rates and regard in particular the loan from Reno De Medici International S.A. of Euro 145 million.

VALUE ADJUSTMENTS TO FINANCIAL ASSETS

Write-downs of investments

Write-downs of investments relate to the adjustment of the investments in RDM Iberica S.L. (for Euro 34.4 million), Cartiera Alto Milanese S.p.A. (for Euro 0.4 million), Red.Im. S.r.l. (for Euro 0.3 million) and Reno Logistica S.p.A. in liquidation (for Euro 0.3 million) to the equity of those companies.

Write-downs of securities included in working capital

These write-downs regard the adjustment to the carrying value of own shares included in working capital to the average market price of the share in December 2005.

EXTRAORDINARY INCOME AND EXPENSE

The following table provides details of extraordinary income and expense:

Extraordinary income and expense	31.12.2005	31.12.2004	Variation
Extraordinary income	**28,003**	**26**	**27,977**
Gains on the sale of investments	24,891		24,891
Gains on the sale of fixed assets	3,112		3,112
Other income	–	26	(26)
Extraordinary expense	**(12,571)**	**(912)**	**(11,659)**
Losses on the sale of investments	(10,111)		(10,111)
Prior year taxes	(10)		(10)
Other expense	(2,450)	(912)	(1,538)
Total extraordinary income (expense)	**15,432**	**(886)**	**16,318**

Extraordinary income comprises the gain realised on the sale of Europoligrafico S.p.A. and that realised on the sale of agricultural and industrial land at the Magenta facility to Red.Im S.r.l.. These gains are classified as extraordinary as they relate to the much broader reorganisation programme being carried out by the Reno De Medici Group, whose purpose is to redefine the focus of the Group in connection with its cartonboard manufacturing activities, including as part of this the need to obtain funds for the repayment of the debentures issued by Reno De Medici International S.A. maturing on 4 May 2006 and guaranteed by Reno De Medici S.p.A..

Extraordinary expense relates principally to the loss of Euro 7.5 million incurred following the closure of Holcart S.r.l., the loss of Euro 2.5 million on the sale of Aticarta S.p.A. and the costs of Euro 2.5 million incurred during the year in connection with the reorganisation and restructuring of the Reno De Medici Group described before.

INCOME TAXES

Current and deferred taxation	31.12.2005	31.12.2004	Variation
Current taxation	**(1,360)**	**(1,656)**	**296**
IRES	595	468	127
IRAP	(1,955)	(2,124)	169
Deferred taxation	**616**	**3,200**	**(2,584)**
IRES	484	2,737	(2,253)
IRAP	132	463	(331)
Total	**(744)**	**1,544**	**(2,288)**

Reconciliation between the theoretical tax charge and the actual tax charge (IRES):

IRES	31.12.2005	
Profit (loss) before taxation	(33,927)	
Theoretical tax charge	33%	–
Temporary differences taxable in future years	–	
Differences deductible in future years	1,300	
Reversal of prior year temporary differences	(16,657)	
Permanent differences which will not reverse in future years	29,189	
Tax losses from prior years	–	
Total differences	**13,832**	
Taxable income (loss)	(20,095)	
Taxable income from companies included in the tax consolidation	1,804	
Current tax (loss)	**(18,291)**	
Current income tax - IRES	**33.0%**	–

Reconciliation between the theoretical tax charge and the actual tax charge (IRAP):

IRAP	31.12.2005	
Difference between value and cost of production (excluding B9, B10 c), d) and B12))	46,740	
Financial statement reclassifications	(1,641)	
Costs for apprentices, disabled persons and compulsory insurance	(2,273)	
Total	**42,826**	
Theoretical tax charge	4.25%	1,820
Temporary differences taxable in future years		
Differences deductible in future years	153	
Reversal of prior year temporary differences	(2,905)	
Permanent differences which will not reverse in future years	5,937	
Total differences	**3,185**	–
Taxable income	46,011	–
Current tax - IRAP	**4.25%**	**1,955**

ATTACHMENTS

The following information, which forms part of these notes, is attached:

Attachment A – Intercompany transactions and balances

Attachment B – Cash flow statement and net financial position

Attachment C – Remuneration of members of the board of directors, members of the board of statutory auditors and general managers

Attachment D – List of investments in subsidiary companies and associates

Attachment A - Intercompany transactions and balances

Transactions between Reno De Medici S.p.A. and other Group companies of a manufacturing, financial and services nature are carried out at market rates, taking into consideration the quality of the goods and services provided.

Intercompany receivables and payables

The following table provides details of receivables and payables with direct and indirect subsidiaries and associates at 31 December 2005:

Intercompany balances	Receivables		Payables		Accrued income and expense	
	Trade	Financial	Trade	Financial	Trade	Financial
Reno De Medici Iberica S.L.	3,344		1,875	465		
Barneda Carton S.A.	150					
Cartiera Alto Milanese S.p.A.	6,469			3,809		
Reno De Medici International S.A.				155,931		239
RDM France S.a.r.l.	156		92	430		
Reno De Medici Deutschland Gmbh			19	444		
Red. Im. S.r.l.	3,983	16,123	2			
Emmaus Pack S.r.l.	6,391	865	27			
Reno Logistica S.p.A. in liquidation		100				
Trentino Ricerca S.r.l. in liquidation		1				
Pac Service S.p.A.	958					
Termica Boffalora S.r.l.			947			
Total	**21,451**	**17,089**	**2,962**	**161,079**	**–**	**239**

Intercompany revenues

The following table provides details of revenues earned by Reno De Medici S.p.A. from direct and indirect subsidiaries and associates in 2005:

Revenues	Sales and services	Other revenues	Financial income
Reno De Medici Iberica S.L.	8,258	89	
Barneda Carton S.A.			
Cartiera Alto Milanese S.p.A.	10,475		
Reno De Medici International S.A.			
RDM France S.a.r.l.		154	
Reno De Medici Deutschland Gmbh			
Red. Im. S.r.l.			80
Emmaus Pack S.r.l.	14,430		55
Reno Logistica S.p.A. in liquidation			2
Trentino Ricerca S.r.l. in liquidation			
Pac Service S.p.A.	2,182		
Termica Boffalora S.r.l.	279		
Total	**35,624**	**243**	**137**

Intercompany costs

The following table provides details of the costs incurred by Reno De Medici S.p.A. with direct and indirect subsidiaries and associates in 2005:

Costs	Purchases	Services	Commissions	Rentals	Financial expense
Reno De Medici Iberica S.L.					
Barneda Carton S.A.					
Cartiera Alto Milanese S.p.A.	414				6
Reno De Medici International S.A.					1,849
RDM France S.a.r.l.			685		7
Reno De Medici Deutschland Gmbh			411		9
Red. Im. S.r.l.				340	
Emmaus Pack S.r.l.	74				
Reno Logistica S.p.A. in liquidation					
Trentino Ricerca S.r.l. in liquidation					
Pac Service S.p.A.					
Termica Boffalora S.r.l.		6,976			
Total	**488**	**6,976**	**1,096**	**340**	**1,871**

Attachment B – Cash flow statement and net financial position

Cash flow statement	2005		2004	
A. Opening net financial position		**(232,091)**		**(228,833)**
B. Cash from operating activities		**20,199**		**8,664**
Profit (loss) for the year	(34,670)		(16,449)	
Depreciation and amortisation	26,866		28,887	
Write-downs (revaluations) of equity investments	35,092		4,138	
Write-downs (revaluations) of own shares	77		–	
(Gains) losses on the sale of fixed assets	(18,132)		(5)	
Charge for the employees' leaving entitlement	3,034		2,589	
Utilisation of the employees' leaving entitlement	(2,654)		(3,979)	
Net change in the provision for taxation	(616)		(3,200)	
Net change in other provisions	(1,070)		(5,541)	
Total		**7,926**		**6,440**
Change in working capital:				
Stocks	2,942		(3,569)	
Trade receivables	6,211		169	
Trade payables	(5,130)		1,707	
Other assets	(3,241)		2,054	
Other liabilities	11,490		1,862	
Total		**12,273**		**2,223**
C. Cash flows from investing activities		**18,914**		**(11,922)**
Investments in fixed assets:				
Intangible	(397)		(142)	
Tangible	(9,655)		(10,844)	
Financial	(15,818)		(1,552)	
Total		**(25,870)**		**(12,538)**
Sale of fixed assets		44,784		616
Sale (purchase) of own shares		–		–
D. Cash flows from capital accounts		**–**		**–**
Increase in share capital			–	
Payments by shareholders into the account for capital increases				
Other changes in shareholders' equity		–		
E. Net financial cash flows (B + C + D)		**39,113**		**(3,258)**
F. Closing net financial position (A + E)		**(192,978)**		**(232,091)**

Changes in net financial position	31.12.2005	31.12.2004
Liquid funds and short-term financial receivables	70,171	30,546
Short-term financial payables	(238,716)	(74,909)
Short-term financial position	**(168,545)**	**(44,363)**
Long-term financial payables	3,054	–
Long-term financial position	(27,487)	(187,728)
Net financial position	**(192,978)**	**(232,091)**

Attachment C – Remuneration of members of the board of directors, members of the board of statutory auditors and general managers

The following tables provide details of the remuneration of members of the Board of Directors and Board of Statutory Auditors received by the Company and its subsidiaries, in accordance with article 78 of Consob Regulation no. 11971 of 14 May 1999 and subsequent supplements and amendments:

Family name/first name	Description of office in Reno De Medici S.p.A.		
	Office held	Period of the year in which office held	Expiry of office
Dell'Aria Burani Giovanni	Presidente d'onore	01.01- 31.12.2005	31.12.2006
Garofano Giuseppe (1)	Presidente C,d,A,	01.01- 31.12.2005	31.12.2006
Dell'Aria Burani Ugo (1)	Vice presidente C,d,A,	01.01- 31.12.2005	31.12.2006
Peretti Carlo (1)	Vice presidente C,d,A,	01.01- 31.12.2005	31.12.2006
Capuano Ignazio (1)	Amministratore Delegato	01.01- 31.12.2005	31.12.2006
Rossini Ambrogio	Consigliere	01.01- 31.12.2005	31.12.2006
De Min Giancarlo (1)	Consigliere	01.01- 31.12.2005	31.12.2006
Del Cane Mario	Consigliere	01.01- 31.12.2005	31.12.2006
Groller Michael	Consigliere	01.01- 31.12.2005	31.12.2006
Cavallera Piergiorgio	Consigliere	01.01- 31.12.2005	31.12.2006
Baglioni Marco	Consigliere	01.01- 31.12.2005	31.12.2006
Nicastro Vincenzo	Consigliere	01.01- 31.12.2005	31.12.2006
Pivato Sergio	Presidente Collegio Sindacale	01.01- 31.12.2005	31.12.2005
Tavormina Carlo	Sindaco	01.01- 31.12.2005	31.12.2005
Tosi Gabriele	Sindaco	01.01- 31.12.2005	31.12.2005

Family name/first name	Fees			
	Emoluments for office	Non-monetary benefits	Bonuses and other incentives	Other remu-neration (2)
Dell'Aria Burani Giovanni	454,482			
Garofano Giuseppe (1)	10,000			
Dell'Aria Burani Ugo (3)	70,000	3,478	402,858	264,584
Peretti Carlo (1)	120,000			
Capuano Ignazio (1)	310,000		500,000	
Rossini Ambrogio	10,000			
De Min Giancarlo (1)	10,000	5,780		231,501
Del Cane Mario	10,000	2,978	204,807	163,450
Groller Michael	10,000			
Cavallera Piergiorgio	10,000			150,000
Baglioni Marco	30,000			
Nicastro Vincenzo	50,000			40,000
Pivato Sergio	65,000			
Tavormina Carlo	43,281			6,954
Tosi Gabriele	44,000			

(1) Member of the executive committee.
(2) Includes remuneration for fees for office held in subsidiary companies, for remuneration as employee and/or for consultancy fees.
(3) Resigned on 31 December 2005.

Attachment D – List of investments in subsidiary companies and associates

Investments at 31 December 2005 in unlisted share capital companies or companies with limited liability and exceeding 10% of capital are as follows (pursuant to article 126 of Consob Resolution no. 11971 of 14 May 1999 and subsequent supplements and amendments):

Financial companies

Reno De Medici International S.A.
Luxembourg
Direct ownership diretto 99.99%

Cartonboard sector

Reno De Medici Iberica S.L.
Prat de Llobregat - Barcelona - Spain
Direct ownership 100%

Cartiera Alto Milanese S.p.A.
Milan – Italy
Direct ownership 100%

Emmaus Pack S.r.l.
Milan - Italy
Direct ownership 51.39%

RDM France S.à.r.l.
Tremblay en France – Paris - France
Direct ownership 99.58%
Indirect ownership 0.42% (through Cartiera Alto Milanese S.p.A.)

RenoDeMedici Deutschland GmbH
Bad Homburg - Germany
Direct ownership 100%

Pac Service S,p,A,
Vigonza - Padova - Italy
Direct ownership 33.33%

Barneda Carton S.A.
Llica de Vail - Barcelona - Spain
Indirect ownership 100% (through Reno De Medici Iberica S.L.)

Real estate sector

RED. IM. S.r.l.
Milan - Italy
Direct ownership 100%

Energy sector

Termica Boffalora S.r.l.
Sesto S. Giovanni - Milan - Italy
Direct ownership 30%

Service sector

Reno Logistica S.p.A. in liquidation
Milan - Italy
Direct ownership 100%

Trentino Ricerca S.r.l. in liquidation
Rovereto – Trento – Italy
Direct ownership 100%

These financial statements, consisting of the balance sheet, profit and loss account and notes, provide a true and fair view of the financial situation and result for the year and correspond to the accounting records.

Milan, 30 March 2006

On behalf of the Board of Directors

The Managing Director

(Ignazio Capuano)

REPORT OF THE BOARD OF STATUTORY AUDITORS TO THE GENERAL MEETING OF SHAREHOLDERS PURSUANT TO ARTICLE 153 OF LEGISLATIVE DECREE NO. 58/98 AND ARTICLE 2429 OF THE ITALIAN CIVIL CODE

To the General Meeting of Shareholders of Reno De Medici S.p.A..

We have performed the vigilance activities provided in Legislative Decree no. 58 of 24 February 1998 during the year ended 31 December 2005, in accordance with the principles of conduct for the Board of Statutory Auditors recommended by the National Councils of Dottori Commercialisti and Ragionieri (the Italian accounting profession).

In particular, and in conformity with the indications provide by Consob (the public authority responsible for regulating the Italian securities market) in a release of 6 April 2001, we report as follows.

We have carried out vigilance activities to ensure that the law and the Company's memorandum of association have been observed.

The Company's directors have provided us with extensive information, on at minimum a quarterly basis, on the activities carried out by the Company and its subsidiaries and on their most significant operations of an economic or financial nature or involving their assets and liabilities, and have supplied us with details of performance and of the events that have had the most importance influence in determining the result for the year.

On our part, we have continuously ascertained that any resolutions taken and put into effect comply with the law and the bylaws of the Company and were not manifestly imprudent, of a risky nature, in conflict of interest with the resolutions taken by shareholders in general meeting, or of such a type as to compromise the integrity of the Company's equity.

As part of our functions, we have vigilated over the adequacy of the Company's organisational structure, the respect of principles of good administration and the adequacy of the instructions transmitted by the Company to its subsidiaries pursuant to article 114, paragraph 2, of Legislative Decree no. 58/98, by gathering information from the heads of the organisational functions and through meetings with the Auditing Company, with the purpose of a reciprocal exchange of any relevant data or information; we have no particular observations to report in this respect.

We have assessed and carried out vigilance over the system of internal control and the administrative and accounting system, as well as over the reliability of such to be capable of correctly representing operations, by obtaining information from the heads of the respective functions, examining the Company's records and analysing the results of the work performed by the Auditing Company, carrying out vigilance over the activities of the internal control officer and attending meetings of the Internal Control Committee. We have no particular observations to report in this respect.

As provided by articles 165 and 155 of Legislative Decree no. 58 of 24 February 1998, the Auditing Company has performed the following exclusively:

- verification of the proper maintenance of the Company's accounting records and the correct recognition of operations in these records;
- verification as to the correspondence between the financial statements and the accounting records and as to compliance with the regulations which govern the financial statements.

We have held regular meetings with members of the Auditing Company pursuant to article 150, paragraph 2, of Legislative Decree no. 58/98 and no significant data or information has emerged which should be described in this report.

On 11 April 2006 the Auditing Company issued a report with a favourable opinion on the financial statements at 31 December 2005, without qualifications or paragraphs containing emphases of matter.

In the Report of the Board of Directors, the directors list and adequately discuss the operations which have taken place with Group companies and other related parties, describing the ordinary or in any case functional to the company's programmes, nature of these transactions, their characteristics and the amounts involved. These operations respond to principles of congruence and do not appear to be contrary to the interests of the Company.

In addition, suitable tables are provided in the notes to the financial statements of the Parent Company in which the nature and economic and financial effects of these intragroup operations are summarised.

We have not received any denouncements pursuant to article 2408 of the Italian civil code nor any statements from third parties.

The system of Corporate Governance adopted by the Company is described in the Report of the Board of Directors (the description also includes the requirements of membership of the STAR segment of Borsa Italiana), as well as the extent to which the Company adheres to the code of self-discipline of listed companies.

In the Report of the Board of Directors, the directors provide extensive information on the Company's performance and the events that have characterised the year, describing the activities performed in the various sectors in which the Company operates, including those carried out through investee companies. On our part, we bring to your attention the information provided by the directors in the following order:

- the sale of the investments held in Europoligrafico S.p.A. and Aticarta S.p.A., as the result of which the Company has left the packaging sector;
- the partial and proportional demerger of non-business property activities into RDM Realty S.p.A., the newly established recipient company for which an application has been made for admission to listing;

- the setting up of new loans for a total amount of Euro 100 million which, together with the proceeds resulting from the disposal of the packaging activities, will be used for the purpose of repaying the debenture loan of Euro 145 million which becomes due on 4 May 2006;
- the evolution of the dispute with Grupo Torras (KIO).

At the express request of the directors, as confirmed by the company appointed to carry out the audit, we disclose that the Auditing Company was also appointed to perform the following engagements:

a) assistance in connection with the introduction of IFRS, for a residual fee of Euro 97,850;
b) audit of the IFRS consolidation schedules, for a fee of Euro 53,400;
c) audit of the balance sheet of Europoligrafico S.p.A. at 31 July 2005, for a fee of Euro 38,350;
d) audit of the demerger balance sheets of Reno de Medici S.p.A. and Red.Im. S.r.l. at 30 September 2005, for a fee of Euro 54,900.

At the express request of the directors, as confirmed by the company appointed to carry out the audit, we state that no engagements of a continuous nature have been given to subjects connected with the Auditing Company.

Neither the Board of Directors nor the Auditing Company has issued any opinions during the year that are envisaged by the law.

During the course of performing our vigilance activities and on the basis of the information received from the Auditing Company, we have not identified any omissions or illegal or improper acts, or in any case any events of such significance so as to require communication to the Company's controlling body or to require mention in this report.

The vigilance activity referred to above was carried out at seven meetings of the Board of Statutory Auditors (including individual interventions) and by attending eight meetings of the Board of Directors and one of the Executive Committee.

On the basis of the matters referred to above, the Board of Statutory Auditors, within its sphere of competence, has not identified any matters that could prevent the approval of the financial statements as at 31 December 2005 and for the year then ended, nor in respect of the proposal made by the directors to cover the Company's loss for the year.

Pontenuovo di Magenta (MI), 13 April 2006

THE BOARD OF STATUTORY AUDITORS

Prof. SERGIO PIVATO
(Chairman)

Dott. GABRIELE TOSI
(Standing auditor)

Dott. CARLO TAVORMINA
(Standing auditor)

REPORT OF THE INDEPENDENT AUDITORS

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers SpA

AUDITORS' REPORT IN ACCORDANCE WITH ARTICLE 156 OF LEGISLATIVE DECREE N° 58 OF 24 FEBRUARY 1998

To the Shareholders of
Reno De Medici SpA

1 We have audited the financial statements of Reno De Medici SpA (hereinafter also as "the Company") as of 31 December 2005. These financial statements are the responsibility of Reno De Medici SpA's directors. Our responsibility is to express an opinion on these financial statements based on our audit.

2 We conducted our audit in accordance with the auditing standards and criteria recommended by CONSOB, the Italian Commission for listed Companies and the Stock Exchange. Those standards and criteria require that we plan and perform the audit to obtain the necessary assurance about whether the financial statements are free of material misstatement and, taken as a whole, are presented fairly. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the directors. We believe that our audit provides a reasonable basis for our opinion.

For the opinion on the financial statements of the prior period, which are presented for comparative purposes as required by law, reference is made to our report dated 11 April 2005.

3 In our opinion, the financial statements of Reno De Medici SpA as of 31 December 2005 comply with the Italian laws governing the criteria for their preparation; accordingly, they give a true and fair view of the financial position and of the results of operations of the Company.

Milan, 11 April 2006

PricewaterhouseCoopers SpA

Signed by

Fabrizio Piva
(Partner)

"This report has been translated from the original which was issued in accordance with Italian legislation. References in this report to the Financial Statement refer to the Financial Statement in original Italian and not to their translation"

Sede legale e amministrativa: Milano 20149 Via Monte Rosa 91 Tel. 0277851 Fax 027785240 Cap Soc. 3.754.400,00 Euro i.v., C.F. e P. IVA e Reg. Imp Milano 12979880155 Iscritta al n 43 dell Albo Consob – Altri Uffici: **Bari** 70125 Viale della Repubblica 110 Tel. 0805429863 – **Bologna** 40122 Via delle Lame 111 Tel. 051526611 – **Brescia** 25124 Via Cefalonia 70 Tel. 0302219811 – **Firenze** 50129 Viale Milton 65 Tel 0554627100 – **Genova** 16121 Piazza Dante 7 Tel. 01029041 – **Napoli** 80121 Piazza dei Martiri 30 Tel. 0817644441 – **Padova** 35137 Largo Europa 16 Tel. 0498762677 – **Palermo** 90141 Via Marchese Ugo 60 Tel 091349737 – **Parma** 43100 Viale Tanara 20/A Tel. 0521242848 – **Roma** 00154 Largo Fochetti 29 Tel. 06570251 – **Torino** 10129 Corso Montevecchio 37 Tel 011556771 – **Trento** 38100 Via Manzoni 16 Tel. 0461237004 – **Treviso** 31100 Viale Felissent 90 Tel 0422696911 – **Trieste** 34125 Via Cesare Battisti 18 Tel 0403480781 – **Udine** 33100 Via Poscolle 43 Tel 043225789 – **Verona** 37122 Corso Porta Nuova 125 Tel 0458002561

SELECTED DATA FROM THE MOST RECENT FINANCIAL STATEMENTS OF THE SUBSIDIARY COMPANIES AND ASSOCIATES OF THE RENO DE MEDICI GROUP

Selected financial data of subsidiary companies and associates of the Reno De Medici Group as of and for the year ended 31 December 2005 are set out below in accordance with the third and fourth paragraphs of article 2429 of the Civil Code.

Subsidiary companies

Included in the scope of consolidation

- Barneda Carton S.A.
- Cartiera Alto Milanese S.p.A.
- Emmaus Pack S.r.l.
- Red.Im S.r.l.
- RDM France S.a.r.l.
- Reno De Medici Deutschland Gmbh
- Reno De Medici Iberica S.L.
- Reno De Medici International S.A.

Excluded from the scope of consolidation

- Reno Logistica S.p.A. in liquidation
- Trentino Ricerca S.r.l. in liquidation

Associates

- Termica Boffalora S.r.l.
- Pac Service S.p.A.

Selected data from the most recent financial statements of the subsidiary companies and associates of the Reno de Medici Group

Barneda Carton S.A.
Registered office in Moli d'en xech S/N 08291 Ripollet (Barcelona)
Share capital Euro 1,200,000

thousands of euros

Balance Sheet

Assets	31.12.2005	31.12.2004
Fixed assets	275	773
Working capital	3,682	4,411
Prepayments and accrued income	12	66
TOTAL ASSETS	**3,969**	**5,250**

Liabilieties and shareholders' funds	31.12.2005	31.12.2004
Shareholders' funds	(4,635)	(3,469)
Provisions for contingencies and charges	–	–
Employees' leaving entitlement	–	–
Payables	8,604	8,719
Accrued expenses and deferred income	–	–
TOTAL LIABILIETIES AND SHAREHOLDERS' FUNDS	**3,969**	**5,250**

Profit and loss account

	31.12.2005	31.12.2004
Value of production	6,338	5,810
Cost of production	(6,915)	(6,664)
Operating profit	**(577)**	**(854)**
Financial income and (expense)	(205)	(169)
Value adjustments to financial assets	–	–
Extraordinary income and (expenses)	(384)	23
Profit (loss) before taxation	**(1,166)**	**(1,000)**
Income taxes	–	–
Profit (loss) for the year	**(1,166)**	**(1,000)**

Selected data from the most recent financial statements of the subsidiary companies and associates of the Reno de Medici Group

Cartiera Alto Milanese S.p.A.
Registered office in Milan – Via dei Bossi 4
Share capital Euro 200,000

thousands of euros

Balance Sheet

Assets	**31.12.2005**	**31.12.2004**
Fixed assets	121	646
Working capital	11,934	8,073
Prepayments and accrued income	5	12
TOTAL ASSETS	**12,060**	**8,731**

Liabilieties and shareholders' funds	**31.12.2005**	**31.12.2004**
Shareholders' funds	1,008	132
Provisions for contingencies and charges	159	314
Employees' leaving entitlement	229	351
Payables	10,659	7,882
Accrued expenses and deferred income	5	53
TOTAL LIABILIETIES AND SHAREHOLDERS' FUNDS	**12,060**	**8,732**

Profit and loss account

	31.12.2005	**31.12.2004**
Value of production	9,908	4,362
Cost of production	(12,197)	(4,199)
Operating profit	**(2,289)**	**163**
Financial income and (expense)	(39)	(28)
Value adjustments to financial assets	–	–
Extraordinary income and (expenses)	(113)	(99)
Profit (loss) before taxation	**(2,441)**	**36**
Income taxes	652	(24)
Profit (loss) for the year	**(1,789)**	**12**

Selected data from the most recent financial statements of the subsidiary companies and associates of the Reno de Medici Group

Emmaus Pack S.r.l.
Registered office in Milan – Via dei Bossi 4
Share capital Euro 200,000

thousands of euros

Balance Sheet

Assets	**31.12.2005**	**31.12.2004**
Fixed assets	184	189
Working capital	10,200	9,279
Prepayments and accrued income	60	61
TOTAL ASSETS	**10,444**	**9,529**

Liabilieties and shareholders' funds	**31.12.2005**	**31.12.2004**
Shareholders' funds	1,521	1,104
Provisions for contingencies and charges	115	123
Employees' leaving entitlement	119	111
Payables	8,689	8,191
Accrued expenses and deferred income	–	–
TOTAL LIABILIETIES AND SHAREHOLDERS' FUNDS	**10,444**	**9,529**

Profit and loss account

	31.12.2005	**31.12.2004**
Value of production	19,076	17,445
Cost of production	(17,294)	(16,268)
Operating profit	**1,782**	**1,177**
Financial income and (expense)	(63)	(48)
Value adjustments to financial assets	–	–
Extraordinary income and (expenses)	–	174
Profit (loss) before taxation	**1,719**	**1,303**
Income taxes	(702)	(458)
Profit (loss) for the year	**1,017**	**845**

Selected data from the most recent financial statements of the subsidiary companies and associates of the Reno de Medici Group

Red.Im S.r.l.
Registered office in Milan – Via dei Bossi 4
Share capital Euro 50,000

thousands of euros

Balance Sheet

Assets	31.12.2005	31.12.2004
Fixed assets	5,126	5,304
Working capital	47,296	10,979
Prepayments and accrued income	6	10
TOTAL ASSETS	**52,428**	**16,293**

Liabilieties and shareholders' funds	31.12.2005	31.12.2004
Shareholders' funds	186	140
Provisions for contingencies and charges	–	–
Employees' leaving entitlement	–	–
Payables	52,242	16,153
Accrued expenses and deferred income	–	–
TOTAL LIABILIETIES AND SHAREHOLDERS' FUNDS	**52,428**	**16,293**

Profit and loss account

	31.12.2005	31.12.2004
Value of production	375	370
Cost of production	(549)	(720)
Operating profit	**(174)**	**(350)**
Financial income and (expense)	(80)	(60)
Value adjustments to financial assets	–	–
Extraordinary income and (expenses)	–	–
Profit (loss) before taxation	**(254)**	**(410)**
Income taxes	–	–
Profit (loss) for the year	**(254)**	**(410)**

Selected data from the most recent financial statements of the subsidiary companies and associates of the Reno de Medici Group

RDM France S.a.r.l.

12 Rue Chardonnerets – Z.A.C. Paris Nord II Tremblay en France
Share capital Euro 96,000

thousands of euros

Balance Sheet

Assets	**31.12.2005**	**31.12.2004**
Fixed assets	652	469
Working capital	562	655
Prepayments and accrued income	14	15
TOTAL ASSETS	**1,228**	**1,139**

Liabilieties and shareholders' funds	**31.12.2005**	**31.12.2004**
Shareholders' funds	622	719
Provisions for contingencies and charges	78	79
Employees' leaving entitlement	–	–
Payables	528	341
Accrued expenses and deferred income	–	–
TOTAL LIABILIETIES AND SHAREHOLDERS' FUNDS	**1,228**	**1,139**

Profit and loss account

	31.12.2005	**31.12.2004**
Value of production	1,366	1,470
Cost of production	(1,284)	(1,428)
Operating profit	**82**	**42**
Financial income and (expense)	5	16
Value adjustments to financial assets	–	–
Extraordinary income and (expenses)	(149)	(1)
Profit (loss) before taxation	**(62)**	**57**
Income taxes	–	(21)
Profit (loss) for the year	**(62)**	**36**

Selected data from the most recent financial statements of the subsidiary companies and associates of the Reno de Medici Group

Reno De Medici Deutschland GmbH
Bad Homburg, Hohestrasse 46
Share capital Euro 472,950

thousands of euros

Balance Sheet

Assets	**31.12.2005**	**31.12.2004**
Fixed assets	5	6
Working capital	509	518
Prepayments and accrued income	3	2
TOTAL ASSETS	**517**	**526**

Liabilieties and shareholders' funds	**31.12.2005**	**31.12.2004**
Shareholders' funds	469	461
Provisions for contingencies and charges	–	–
Employees' leaving entitlement	–	–
Payables	48	65
Accrued expenses and deferred income	–	–
TOTAL LIABILIETIES AND SHAREHOLDERS' FUNDS	**517**	**526**

Profit and loss account

	31.12.2005	**31.12.2004**
Value of production	421	458
Cost of production	(422)	(513)
Operating profit	**(1)**	**(55)**
Financial income and (expense)	9	9
Value adjustments to financial assets	–	–
Extraordinary income and (expenses)	–	–
Profit (loss) before taxation	**8**	**(46)**
Income taxes	–	–
Profit (loss) for the year	**8**	**(46)**

Reno De Medici Iberica S.L.
Prat De Llobregatt (Barcellona) Nicolas M. Urgoiti 42
Share capital Euro 138,284,023

thousands of euros

Balance Sheet (*)

Assets	**31.12.2005**	**31.12.2004**
Fixed assets	50,577	107,156
Working capital	76,813	61,033
Prepayments and accrued income	379	188
TOTAL ASSETS	**127,769**	**168,377**

Liabilieties and shareholders' funds	**31.12.2005**	**31.12.2004**
Shareholders' funds	63,252	97,676
Provisions for contingencies and charges	4,635	49,474
Employees' leaving entitlement	–	–
Payables	56,417	20,875
Accrued expenses and deferred income	3,465	352
TOTAL LIABILIETIES AND SHAREHOLDERS' FUNDS	**127,769**	**168,377**

Profit and loss account

	31.12.2005	**31.12.2004**
Value of production	47,429	58,782
Cost of production	(54,054)	(63,030)
Operating profit	**(6,625)**	**(4,248)**
Financial income and (expense)	(267)	(199)
Value adjustments to financial assets	1,365	1,604
Extraordinary income and (expenses)	(28,897)	(442)
Profit (loss) before taxation	**(34,424)**	**(3,285)**
Income taxes	–	–
Profit (loss) for the year	**(34,424)**	**(3,285)**

(*) Financial statements in accordance with italian accounting principles.

Selected data from the most recent financial statements of the subsidiary companies and associates of the Reno de Medici Group

Reno De Medici International S.A.
Luxembourg – Avenue de la Liberte 62
Share capital Euro 14,000,000

thousands of euros

Balance Sheet

Assets	31.12.2005	31.12.2004
Fixed assets	159,247	154,577
Working capital	193	9,303
Prepayments and accrued income	6,110	6,217
TOTAL ASSETS	**165,550**	**170,097**

Liabilieties and shareholders' funds	31.12.2005	31.12.2004
Shareholders' funds	14,162	13,604
Provisions for contingencies and charges	–	–
Employees' leaving entitlement	–	–
Payables	145,402	150,180
Accrued expenses and deferred income	5,986	6,313
TOTAL LIABILIETIES AND SHAREHOLDERS' FUNDS	**165,550**	**170,097**

Profit and loss account

	31.12.2005	31.12.2004
Value of production	23	–
Cost of production	(451)	(343)
Operating profit	**(428)**	**(343)**
Financial income and (expense)	1,179	315
Value adjustments to financial assets	–	–
Extraordinary income and (expenses)	–	–
Profit (loss) before taxation	**751**	**(28)**
Income taxes	(168)	–
Profit (loss) for the year	**583**	**(28)**

Selected data from the most recent financial statements of the subsidiary companies and associates of the Reno de Medici Group

Reno Logistica S.p.A. in liquidation
Registered office in Milan – Via dei Bossi 4
Share capital Euro 150,000

thousands of euros

Balance Sheet

Assets	**31.12.2005**	**31.12.2004**
Fixed assets	–	–
Working capital	126	123
Prepayments and accrued income	–	–
TOTAL ASSETS	**126**	**123**

Liabilieties and shareholders' funds	**31.12.2005**	**31.12.2004**
Shareholders' funds	(278)	37
Provisions for contingencies and charges	285	–
Employees' leaving entitlement	–	–
Payables	119	86
Accrued expenses and deferred income	–	–
TOTAL LIABILIETIES AND SHAREHOLDERS' FUNDS	**126**	**123**

Profit and loss account

	31.12.2005	**31.12.2004**
Value of production		193
Cost of production	(307)	(33)
Operating profit	**(307)**	**160**
Financial income and (expense)	(8)	(5)
Value adjustments to financial assets	–	–
Extraordinary income and (expenses)	–	–
Profit (loss) before taxation	**(315)**	**155**
Income taxes	–	–
Profit (loss) for the year	**(315)**	**155**

Selected data from the most recent financial statements of the subsidiary companies and associates of the Reno de Medici Group

Trentino Ricerca S.r.l. in liquidation
Registered office in Rovereto – Viale del Lavoro 2/4
Share capital Euro 10,000

thousands of euros

Balance Sheet (*)

Assets	**31.12.2005**
Fixed assets	
Working capital	9
Prepayments and accrued income	6
TOTAL ASSETS	**15**

Liabilieties and shareholders' funds	**31.12.2005**
Shareholders' funds	11
Provisions for contingencies and charges	
Employees' leaving entitlement	
Payables	4
Accrued expenses and deferred income	
TOTAL LIABILIETIES AND SHAREHOLDERS' FUNDS	**15**

Profit and loss account

	31.12.2005
Value of production	
Cost of production	(9)
Operating profit	**(9)**
Financial income and (expense)	
Value adjustments to financial assets	
Extraordinary income and (expenses)	
Profit (loss) before taxation	**(9)**
Income taxes	
Profit (loss) for the year	**(9)**

(*) company incorporated in 2005.

Selected data from the most recent financial statements of the subsidiary companies and associates of the Reno de Medici Group

Termica Boffalora S.r.l.
Registered office in Sesto San Giovanni (MI) – Viale Italia 592
Share capital Euro 14,220,000

thousands of euros

Balance Sheet

Assets	**31.12.2005**	**31.12.2004**
Fixed assets	2,560	2,768
Working capital	28,367	27,628
Prepayments and accrued income	159	1,356
TOTAL ASSETS	**31,086**	**31,752**

Liabilieties and shareholders' funds	**31.12.2005**	**31.12.2004**
Shareholders' funds	18,947	19,346
Provisions for contingencies and charges	–	–
Employees' leaving entitlement	–	–
Payables	12,139	12,406
Accrued expenses and deferred income	–	–
TOTAL LIABILIETIES AND SHAREHOLDERS' FUNDS	**31,086**	**31,752**

Profit and loss account

	31.12.2005	**31.12.2004**
Value of production	61,323	64,263
Cost of production	(55,820)	(51,410)
Operating profit	**5,503**	**12,853**
Financial income and (expense)	200	79
Value adjustments to financial assets	–	–
Extraordinary income and (expenses)	(6)	–
Profit (loss) before taxation	**5,717**	**12,932**
Income taxes	(2,216)	(4,898)
Profit (loss) for the year	**3,501**	**8,034**

Pac Service S.p.A.
Registered office in Vigonza (PD) – Via Julia 47
Share capital Euro 1,000,000

thousands of euros

Balance Sheet

Assets	**31.12.2005**	**31.12.2004**
Fixed assets	1,372	1,512
Working capital	8,392	8,812
Prepayments and accrued income	73	120
TOTAL ASSETS	**9,837**	**10,444**

Liabilieties and shareholders' funds	**31.12.2005**	**31.12.2004**
Shareholders' funds	4,291	4,094
Provisions for contingencies and charges	185	152
Employees' leaving entitlement	131	147
Payables	5,230	6,051
Accrued expenses and deferred income	–	–
TOTAL LIABILIETIES AND SHAREHOLDERS' FUNDS	**9,837**	**10,444**

Profit and loss account

	31.12.2005	**31.12.2004**
Value of production	14,845	15,914
Cost of production	(13,739)	(14,973)
Operating profit	**1,106**	**941**
Financial income and (expense)	(7)	(35)
Value adjustments to financial assets	–	–
Extraordinary income and (expenses)	9	35
Profit (loss) before taxation	**1,108**	**941**
Income taxes	(462)	(388)
Profit (loss) for the year	**646**	**553**

APPENDIX: TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) ([1])

Under Regulation (EC) No. 1606/2002 of the European Parliament dated 19 July 2002 on the application of international accounting standards, European companies whose securities are admitted to trading on a regulated market of any Member State are required to prepare their consolidated financial statements in conformity with international accounting standards (International Financial Reporting Standards, referred to in the following as "IFRS" or "International Accounting Standards") for each financial year starting on or after 1 January 2005, applicable for the first time to Reno De Medici S.p.A. from the financial year ending 31 December 2005.

On 14 April 2005, Consob, issued resolution no. 14990, thereby amending and supplementing Regulation No. 11971 of 14 May 1999 (referred to in the following as the "Consob Regulation"); this resolution incorporates the requirements of the European regulation and governs, amongst other matters, the application of International Accounting Standards to interim financial reporting for 2005.

In particular, the adoption of IFRS is compulsory starting from the third quarter of 2005 (for Reno De Medici starting from the interim accounts for the quarter ending 30 September 2005). Under articles 81 bis and 82 bis of the Consob Regulation, interim accounts for quarters preceding that ending on 30 September 2005 may be prepared by following a transition procedure. Reno De Medici Group (referred to in the following as the "Group") has adopted this transition procedure in reporting its first quarter, in which detailed information is provided regarding the procedures put into place for the transition to IFRS and their status, in accordance with article 82 bis, no. 1, paragraph a) of the Consob Regulation.

There are two alternatives available for the second quarter:

1. Continuing use of Italian accounting principles (referred to in the following as "Italian GAAP" or "Italian Accounting Principles") and preparation of reports for both the second quarter and the first half year of 2005

   Under this alternative, reporting for the second quarter and for the half year are both prepared in compliance with Italian GAAP, with formal approval by 14 August 2005 and 30 September 2005 respectively and with the requirement to present reconciliations between IFRS and Italian GAAP and notes to the financial statements referring to the year ended 31 December 2004 and the six months ended 30 June 2005 as an appendix to the reporting for the second quarter and that for the half year.

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

2. <u>Application of IFRS in the half-year report but no requirement to prepare a report for the second quarter</u>

   Under this alternative, the half-year report is prepared with the full application of IFRS, with formal approval required by 30 September 2005. In this situation, under the Consob Regulation and the Regulation Instructions of markets organised and managed by Borsa Italiana S.p.A. (article IA.2.12.6) (referred to in the following as the "Stock Exchange Regulation Instructions") companies are permitted not to prepare a report for the second quarter, given the time and effort required for a complete application of IFRS. The presentation of reconciliations between IFRS and Italian GAAP is also required in this case as an appendix to the half-year IFRS report, together with notes to the financial statements referring to the year ended 31 December 2004 and a reconciliation at 30 June 2004.

As a consequence of the requirements of the Consob Regulation and the Stock Exchange Regulation Instructions, on 20 July 2005 the Board of Directors of Reno De Medici S.p.A. (referred to in the following as "RDM" or the "Company") took the decision to make use of the possibility not to issue a report for the second quarter of 2005, pursuant to article 82 bis of the Consob Regulation, and to issue a half-year report on a consolidated basis prepared under International Accounting Standards, in compliance with article 81 of the mentioned Consob Regulation. The accounts of RDM, as parent company, have been prepared in accordance with Italian Accounting Principles.

As a result of the decision of the Board of Directors and in accordance with the rules and regulations referred to previously, the following are presented:

1. The Group's accounting principles and policies as supplemented and amended as a consequence of adopting International Accounting Standards.
2. A schedule summarising the effects of the transition to IFRS on the balance sheet at 31 December 2004.
3. A reconciliation of equity at 31 December 2004 between Italian Accounting Principles and IFRS.
4. A schedule summarising the effects of the transition to IFRS on the balance sheet at 30 June 2004.
5. A reconciliation of equity at 30 June 2004 between Italian Accounting Principles and IFRS.
6. A schedule summarising the effects of the transition to IFRS on the balance sheet at 1 January 2004.
7. A reconciliation of equity at 1 January 2004 between Italian Accounting Principles and IFRS.
8. Details of the effects of the transition to IFRS on the balance sheets at 31 December 2004, 30 June 2004 and 1 January 2004.
9. A schedule summarising the effects of the transition to IFRS on the 2004 profit and loss account.

10. A reconciliation of the net result for 2004 between Italian Accounting Principles and IFRS.
11. A schedule summarising the effects of the transition to IFRS on the profit and loss account for the six months ended 30 June 2004.
12. A reconciliation of the net result for the six months ended 30 June 2004 between Italian Accounting Principles and IFRS.
13. Details of the effects of the transition to IFRS on the 2004 profit and loss account and on that for the six months ended 30 June 2004.
14. A commentary on the principal reconciling items between Italian Accounting Principles and IFRS.
15. The auditor's report on the reconciliation schedules pursuant to IFRS 1 (1 January to 31 December 2004).

For purposes of completeness, it is recalled that the consolidated profit and loss account 2004 presented in the appendix differs from that presented as a comparative statement for the consolidated profit and loss account 2005. As described previously, in consolidated profit and loss 2004, the contributions made to profit and loss by the companies sold during the year, Europoligrafico S.p.A., Aticarta S.p.A. and Cogeneracion Prat S.A. and the net operating results of the Prat facility and the Magenta facility MC1, both of which ceased activity in 2005, are presented, to improve comparability, under the item "Discontinued operations".

1. Accounting principles and policies

The accounting principles and policies used in the preparation of the financial statements presented in the appendix are the same as those used in the preparation of the consolidated financial statements of 2005. Reference should therefore be made to paragraph "Accounting principles and policies" of the consolidated financial stetements report.

2. Effects of the transition to IFRS on the balance sheet at 31 December 2004

(euro/000)	Italian GAAP	Reclassifica-tions	Adjustments	IFRS
ASSETS				
Non-current assets				
Tangible fixed assets	241,547	(9,963)	35,609	267,193
Investment property	0	1,284	0	1,284
Goodwill	684	0	613	1,297
Other intangible assets	5,584	(204)	(641)	4,739
Investments accounted for under the equity method	17,825	0	0	17,825
Deferred tax assets	9,594	0	(9,594)	0
Derivative financial instruments	0	0	5,183	5,183
Financial assets held for sale	427	0	(171)	256
Own shares	4,587	0	(4,587)	0
Trade receivables	161	0	101	262
Other receivables	99,395	(60,000)	(11,309)	28,086
Other non-current assets held for sale	0	8,883	0	8,883
Total non-current assets	**379,804**	**(60,000)**	**15,204**	**335,008**
Current assets				
Stocks	86,044	30,000	3,569	119,613
Trade receivables	142,949	0	(1,194)	141,755
Other receivables	12,701	0	(5,776)	6,925
Derivative financial instruments	0	0	2,105	2,105
Financial assets held for sale	22,740	(19,027)	(3,569)	144
Own shares	787	0	(787)	0
Financial assets at fair value adjusted in income	0	0	0	0
Liquid funds	5,729	19,027	247	25,003
Total current assets	**270,950**	**30,000**	**(5,405)**	**295,545**
TOTAL ASSETS	**650,754**	**(30,000)**	**9,799**	**630,553**

(euro/000)	Italian GAAP	Reclassifica-tions	Adjustments	IFRS
LIABILITIES AND SHAREHOLDERS' EQUITY				
Shareholders' equity	**152,748**	**0**	**3,324**	**156,072**
Non-current liabilities				
Bank loans and other financial liabilities	197,018	0	1,733	198,751
Derivative financial instruments	0	0	1,247	1,247
Other payables	553	0	0	553
Deferred tax liabilities	29	0	3,285	3,314
Employees' leaving entitlement	32,897	0	(3,074)	29,823
Non-current provisions for contingencies and charges	53,970	(30,981)	(920)	22,069
Liabilities directly associated with non -current assets held for sale	0	981	0	981
Total non-current liabilities	**284,467**	**(30,000)**	**2,271**	**256,738**
Current liabilities				
Bank loans and other financial liabilities	71,283	0	696	71,979
Derivative financial instruments	0	0	2,859	2,859
Trade payables	107,521	0	503	108,024
Other payables	34,735	(1,420)	146	33,461
Current taxation	0	1,420	0	1,420
Current provisions for contingencies and charges	0	0	0	0
Total current liabilities	**213,539**	**0**	**4,204**	**217,743**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**650,754**	**(30,000)**	**9,799**	**630,553**

3. Reconciliation of shareholders' equity at 31 December 2004

(euro/000)	Note	31.12.2004
Shareholders' equity under Italian GAAP		**152,748**
Separation of land and buildings	A	8,080
Revaluation of land and buildings	B, E	24,211
Scope of consolidation	C	(5,437)
Start-up costs Villa Santa Lucia	D	2,843
Elimination of costs for increases in share capital	F	(2,285)
Amortised cost debenture loan	G	30
Measurement of derivative financial instruments at fair value	I	(1,157)
Own shares in hand	L	(5,374)
Discounting of Grupo Torras receivable	N	(11,309)
Remeasurement of employees' leaving entitlement	Q	3,394
Remeasurement of agents' termination provision	R	553
Restructuring provision	S	601
Elimination of goodwill amortisation	T	613
Purchase of RDM International debenture loans	U	1,410
Other minor items		(48)
Deferred taxation on IFRS adjustments	H	(12,801)
Shareholders' equity under IFRS		**156,072**

4. Effects of the transition to IFRS on the balance sheet at 30 June 2004

(euro/000)	Italian GAAP	Reclassifica-tions	Adjustments	IFRS
ASSETS				
Non-current assets				
Tangible fixed assets	257,782	(8,372)	35,972	285,382
Investment property	0	1,284	0	1,284
Goodwill	765	0	305	1,070
Other intangible assets	6,992	(243)	(1,558)	5,191
Investments accounted for under the equity method	15,569	0	0	15,569
Deferred tax assets	5,466	0	(5,466)	0
Derivative financial instruments	0	0	1,085	1,085
Financial assets held for sale	227	0	29	256
Own shares	4,587	0	(4,587)	0
Trade receivables	185	0	0	185
Other receivables	99,026	(60,000)	(11,807)	27,219
Other non-current assets held for sale	0	5,935	0	5,935
Total non-current assets	**390,599**	**(61,396)**	**13,973**	**343,176**
Current assets				
Stocks	93,660	31,396	3,859	128,915
Trade receivables	161,482	0	76	161,558
Other receivables	11,993	0	(1,348)	10,645
Derivative financial instruments	0	0	2,001	2,001
Financial assets held for sale	23,348	(19,720)	(3,569)	59
Own shares	734	0	(734)	0
Financial assets at fair value adjusted in income	0	0	0	0
Liquid funds	3,435	19,720	298	23,453
Total current assets	**294,652**	**31,396**	**583**	**326,631**
TOTAL ASSETS	**685,251**	**(30,000)**	**14,556**	**669,807**

(euro/000)	Italian GAAP	Reclassifica-tions	Adjustments	IFRS
LIABILITIES AND SHAREHOLDERS' EQUITY				
Shareholders' equity	**161,431**	**0**	**910**	**162,341**
Non-current liabilities				
Bank loans and other financial liabilities	206,165	0	1,667	207,832
Derivative financial instruments	0	0	1,815	1,815
Other payables	5,803	0	0	5,803
Deferred tax liabilities	(1,842)	0	7,113	5,271
Employees' leaving entitlement	34,236	0	(2,713)	31,523
Non-current provisions for contingencies and charges	60,230	(33,707)	(1,028)	25,495
Liabilities directly associated with non -current assets held for sale	0	3,707	0	3,707
Total non-current liabilities	**304,592**	**(30,000)**	**6,854**	**281,446**
Current liabilities				
Bank loans and other financial liabilities	72,259	0	1,021	73,280
Derivative financial instruments	0	0	2,962	2,962
Trade payables	113,018	0	1,616	114,634
Other payables	33,951	(1,727)	1,193	33,417
Current taxation	0	1,727	0	1,727
Current provisions for contingencies and charges	0	0	0	0
Total current liabilities	**219,228**	**0**	**6,792**	**226,020**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**685,251**	**(30,000)**	**14,556**	**669,807**

5. Reconciliation of shareholders' equity at 30 June 2004

(euro/000)	Note	30.06.2004
Shareholders' equity under Italian GAAP		**161,431**
Separation of land and buildings	A	8,068
Revaluation of land and buildings	B,E	24,453
Scope of consolidation	C	(5,946)
Start-up costs Villa Santa Lucia	D	2,385
Elimination of costs for increases in share capital	F	(2,666)
Amortised cost debenture loan	G	50
Measurement of derivative financial instruments at fair value	I	(1,550)
Own shares in hand	L	(5,321)
Discounting of Grupo Torras receivable	N	(11,902)
Remeasurement of employees' leaving entitlement	Q	3,134
Remeasurement of agents' termination provision	R	445
Restructuring provision	S	659
Elimination of goodwill amortisation	T	305
Purchase of RDM International debenture loans	U	1,410
Other minor items		(156)
Deferred taxation on IFRS adjustments	H	(12,458)
Shareholders' equity under IFRS		**162,341**

6. Effects of the transition to IFRS on the balance sheet at 1 January 2004

(euro/000)	Italian GAAP	Reclassifica-tions	Adjustments	IFRS
ASSETS				
Non-current assets				
Tangible fixed assets	271,005	(8,611)	36,160	298,554
Investment property	0	1,284	0	1,284
Goodwill	1,070	0	0	1,070
Other intangible assets	8,566	(297)	(2,479)	5,790
Investments accounted for under the equity method	9,752	0	0	9,752
Deferred tax assets	5,466	0	(5,466)	0
Derivative financial instruments	0	0	5,958	5,958
Financial assets held for sale	231	0	29	260
Own shares	4,587	0	(4,587)	0
Trade receivables	190	0	0	190
Other receivables	99,135	(60,000)	(12,212)	26,923
Other non-current assets held for sale	0	6,228	0	6,228
Total non-current assets	**400,002**	**(61,396)**	**17,403**	**356,009**
Current assets				
Stocks	91,335	31,396	3,648	126,379
Trade receivables	155,129	0	1,185	156,314
Other receivables	16,796	0	(5,773)	11,023
Derivative financial instruments	0	0	2,107	2,107
Financial assets held for sale	32,058	(23,000)	0	9,058
Own shares	787	0	(787)	0
Financial assets at fair value adjusted in income	0	0	0	0
Liquid funds	15,245	23,000	121	38,366
Total current assets	**311,350**	**31,396**	**501**	**343,247**
TOTAL ASSETS	**711,352**	**(30,000)**	**17,904**	**699,256**

(euro/000)	Italian GAAP	Reclassifica-tions	Adjustments	IFRS
LIABILITIES AND SHAREHOLDERS' EQUITY				
Shareholders' equity	**166,224**	**0**	**(2,242)**	**163,982**
Non-current liabilities				
Bank loans and other financial liabilities	218,032	0	6,597	224,629
Derivative financial instruments	0	0	2,619	2,619
Other payables	5,888	0	0	5,888
Deferred tax liabilities	0	0	5,651	5,651
Employees' leaving entitlement	36,577	0	(1,818)	34,759
Non-current provisions for contingencies and charges	64,106	(34,070)	(898)	29,138
Liabilities directly associated with non -current assets held for sale	0	4,070	0	4,070
Total non-current liabilities	**324,603**	**(30,000)**	**12,151**	**306,754**
Current liabilities				
Bank loans and other financial liabilities	65,749	0	651	66,400
Derivative financial instruments	0	0	3,089	3,089
Trade payables	110,638	0	2,862	113,500
Other payables	44,138	(1,150)	1,393	44,381
Current taxation	0	1,150	0	1,150
Current provisions for contingencies and charges	0	0	0	0
Total current liabilities	**220,525**	**0**	**7,995**	**228,520**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**711,352**	**(30,000)**	**17,904**	**699,256**

7. Reconciliation of shareholders' equity at 1 January 2004

(euro/000)	Note	01.01.2004
Shareholders' equity under Italian GAAP		**166,224**
Separation of land and buildings	A	7,867
Revaluation of land and buildings	B,E	24,694
Scope of consolidation	C	(5,728)
Start-up costs Villa Santa Lucia	D	1,928
Elimination of costs for increases in share capital	F	(3,047)
Amortised cost debenture loan	G	54
Measurement of derivative financial instruments at fair value	I	(2,096)
Own shares in hand	L	(5,374)
Discounting of Grupo Torras receivable	N	(12,477)
Remeasurement of employees' leaving entitlement	Q	2,219
Remeasurement of agents' termination provision	R	291
Restructuring provision	S	736
Other minor items	T	(271)
Deferred taxation on IFRS adjustments	H	(11,038)
Shareholders' equity under IFRS		**163,982**

8. Details of the effects of the transition to IFRS on the balance sheets at 31 December 2004, 30 June 2004 and 1 January 2004

Details are set out below by individual balance sheet item of the adjustments and reclassifications between the balance sheets prepared under Italian Accounting Principles and those prepared under IFRS. By the side of each item is a reference to the note which describes the matter which has generated the entry. These notes are provided in the present document in the paragraph entitled "Commentary on the reconciliation between Italian Accounting Principles and IFRS".

Non-current assets

Tangible fixed assets

Land (euro/000)	**Note**	**31.12.2004**	**30.06.2004**	**01.01.2004**
Adjustments				
Separation of land and buildings	A	17,273	17,391	16,268
Revaluation of land at the Santa Giustina facility	B	11,267	11,267	11,267
Revaluation of agricultural land at the Magenta facility	E	991	991	991
Total adjustments		**29,531**	**29,649**	**28,526**
Reclassifications				
To investment property	E	(1,284)	(1,284)	(1,284)
To non-current assets held for sale	O	(1,709)	(638)	(638)
Total reclassifications		**(2,993)**	**(1,922)**	**(1,922)**

Buildings (euro/000)	**Note**	**31.12.2004**	**30.06.2004**	**01.01.2004**
Adjustments				
Separation of land and buildings	A	(9,193)	(9,323)	(8,401)
Revaluation of buildings at the Santa Giustina facility	B	11,953	12,195	12,436
Total adjustments		**2,760**	**2,872**	**4,035**
Reclassifications				
To non-current assets held for sale	O	(2,948)	(2,288)	(2,288)
To stocks (buildings held for sale)		0	(1,396)	(1,396)
From other intangible assets		204	243	297
Total reclassifications		**(2,744)**	**(3,441)**	**(3,387)**

Plant and machinery (euro/000)	**Note**	**31.12.2004**	**30.06.2004**	**01.01.2004**
Adjustments				
Scope of consolidation	C	432	453	488
Start-up costs Villa Santa Lucia	D	2,843	2,941	3,039
Total adjustments		**3,275**	**3,394**	**3,527**
Reclassifications				
To non-current assets held for sale	O	(4,131)	(2,977)	(3,270)
Total reclassifications		**(4,131)**	**(2,977)**	**(3,270)**

Commercial and industrial equipment (euro/000)	**Note**	**31.12.2004**	**30.06.2004**	**01.01.2004**
Adjustments				
Scope of consolidation	C	8	10	12
Total adjustments		**8**	**10**	**12**
Reclassifications				
To non-current assets held for sale	O	(23)	(13)	(13)
Total reclassifications		**(23)**	**(13)**	**(13)**

Other assets (euro/000)	**Note**	**31.12.2004**	**30.06.2004**	**01.01.2004**
Adjustments				
Scope of consolidation	C	35	47	60
Total adjustments		**35**	**47**	**60**
Reclassifications				
To non-current assets held for sale	O	(72)	(19)	(19)
Total reclassifications		**(72)**	**(19)**	**(19)**

Investment property

(euro/000)	**Note**	**31.12.2004**	**30.06.2004**	**01.01.2004**
Reclassifications				
From tangible fixed assets (land)	E	1,284	1,284	1,284
Total reclassifications		**1,284**	**1,284**	**1,284**

Goodwill

(euro/000)	**Note**	**31.12.2004**	**30.06.2004**	**01.01.2004**
Adjustments				
Business combinations-elimination of goodwill amortisation	T	105	39	0
Business combinations-elimination of goodwill amortisation (Europoligrafico and Aticarta)	T	508	266	0
Total adjustments		**613**	**305**	**0**

Other intangible assets

(euro/000)	Note	31.12.2004	30.06.2004	01.01.2004
Adjustments				
Start-up costs Villa Santa Lucia	D	0	(556)	(1,111)
Elimination of costs for increases in share capital	F	(2,285)	(2,666)	(3,047)
Elimination of issue costs for debenture loan	G	(370)	(508)	(646)
Scope of consolidation	C	62	78	96
Valuation of CAM market share	C	2,000	2,250	2,500
Start-up costs El Prat		0	(87)	(174)
Other minor items		(48)	(69)	(97)
Total adjustments		**(641)**	**(1,558)**	**(2,479)**

Reclassifications			
Tangible fixed assets	(204)	(243)	(297)
Total reclassifications	**(204)**	**(243)**	**(297)**

Deferred tax assets

(euro/000)	Note	31.12.2004	30.06.2004	01.01.2004
Adjustments				
Deferred taxation on IFRS adjustments	H	(9,594)	(5,466)	(5,466)
Total adjustments		**(9,594)**	**(5,466)**	**(5,466)**

Derivative financial instruments

(euro/000)	Note	31.12.2004	30.06.2004	01.01.2004
Adjustments				
Measurement of derivative financial instruments at fair value	I	5,183	1,085	5,958
Total adjustments		**5,183**	**1,085**	**5,958**

Financial assets held for sale

(euro/000)	Note	31.12.2004	30.06.2004	01.01.2004
Adjustments				
Scope of consolidation	C	(171)	29	29
Total reclassifications		**(171)**	**29**	**29**

Own shares

(euro/000)	Note	31.12.2004	30.06.2004	01.01.2004
Adjustments				
Own shares in hand	L	(4,587)	(4,587)	(4,587)
Total adjustments		**(4,587)**	**(4,587)**	**(4,587)**

Trade receivables

(euro/000)	Note	31.12.2004	30.06.2004	01.01.2004
Adjustments				
Scope of consolidation	C	101	0	0
Total adjustments		**101**	**0**	**0**

Other receivables

(euro/000)	Note	31.12.2004	30.06.2004	01.01.2004
Adjustments				
Scope of consolidation	C	0	95	265
Discounting of Grupo Torras receivable	N	(11,309)	(11,902)	(12,477)
Total adjustments		**(11,309)**	**(11,807)**	**(12,212)**
Reclassifications				
To stocks (buildings held for sale)	M	(30,000)	(30,000)	(30,000)
From contingencies for provisions and charges (risks on Grupo Torras receivables)	N	(30,000)	(30,000)	(30,000)
Total reclassifications		**(60,000)**	**(60,000)**	**(60,000)**

Non-current assets held for sale

(euro/000)	Note	31.12.2004	30.06.2004	01.01.2004
Reclassifications				
From tangible fixed assets	O	8,883	5,935	6,228
Total reclassifications		**8,883**	**5,935**	**6,228**

Current assets

Stocks

(euro/000)	Note	31.12.2004	30.06.2004	01.01.2004
Adjustments				
Scope of consolidation	C	3,569	3,859	3,648
Total adjustments		**3,569**	**3,859**	**3,648**

Reclassifications				
From tangible fixed assets (buildings)		0	1,396	1,396
From other receivables (receivable from Espais)	M	30,000	30,000	30,000
Total reclassifications		**30,000**	**31,396**	**31,396**

Trade receivables

(euro/000)	Note	31.12.2004	30.06.2004	01.01.2004
Adjustments				
Scope of consolidation	C	(1,194)	76	1,185
Total adjustments		**(1,194)**	**76**	**1,185**

Other receivables

(euro/000)	Note	31.12.2004	30.06.2004	01.01.2004
Adjustments				
Scope of consolidation	C	77	21	27
Valuation of derivative instruments at fair value	I	(5,656)	(1,172)	(5,800)
Purchase of RDM International debentures	U	(197)	(197)	0
Total adjustments		**(5,776)**	**(1,348)**	**(5,773)**

Derivative financial instruments

(euro/000)	Note	31.12.2004	30.06.2004	01.01.2004
Adjustments				
Measurement of derivative financial instruments at fair value	I	2,105	2,001	2,107
Total adjustments		**2,105**	**2,001**	**2,107**

Financial assets held for sale

(euro/000)	Note	31.12.2004	30.06.2004	01.01.2004
Adjustments				
Scope of consolidation	C	1	1	0
Purchase of RDM International debentures	U	(3,570)	(3,570)	0
Total adjustments		**(3,569)**	**(3,569)**	**0**

Reclassifications				
To liquid funds	P	(19,027)	(19,720)	(23,000)
Total reclassifications		**(19,027)**	**(19,720)**	**(23,000)**

Own shares

(euro/000)	Note	31.12.2004	30.06.2004	01.01.2004
Adjustments				
Own shares in hand	L	(787)	(734)	(787)
Total adjustments		**(787)**	**(734)**	**(787)**

Liquid funds

(euro/000)	Note	31.12.2004	30.06.2004	01.01.2004
Adjustments				
Scope of consolidation	C	247	298	121
Total adjustments		**247**	**298**	**121**

Reclassifications				
From financial assets held for sale	P	19,027	19,720	23,000
Total reclassifications		**19,027**	**19,720**	**23,000**

Non-current liabilities

Bank loans and other financial liabilities

(euro/000)	Note	31.12.2004	30.06.2004	01.01.2004
Adjustments				
Scope of consolidation	C	7,113	7,205	7,297
Amortised cost debenture loan	G	(400)	(558)	(700)
Purchase of RDM International debentures	U	(4,980)	(4,980)	0
Total adjustments		**1,733**	**1,667**	**6,597**

Derivative financial instruments

(euro/000)	Note	31.12.2004	30.06.2004	01.01.2004
Adjustments				
Measurement of derivative financial instruments at fair value	I	1,247	1,815	2,619
Total adjustments		**1,247**	**1,815**	**2,619**

Deferred tax liabilities

(euro/000)	Note	31.12.2004	30.06.2004	01.01.2004
Adjustments				
Deferred taxation on IFRS adjustments (*)	H	3,207	6,992	5,572
Scope of consolidation	C	78	121	79
Total adjustments		**3,285**	**7,113**	**5,651**

Employees' leaving entitlement

(euro/000)	Note	31.12.2004	30.06.2004	01.01.2004
Adjustments				
Scope of consolidation	C	320	421	401
Remeasurement of employees' leaving entitlement	Q	(3,394)	(3,134)	(2,219)
Total adjustments		**(3,074)**	**(2,713)**	**(1,818)**

(*) Adjustments on 30.06.2004 include estimated deferred taxation that was not calculated in first half year 2004 interim report under Italian Accounting Principles.

Non-current provisions from contingencies and charges

(euro/000)	Note	31.12.2004	30.06.2004	01.01.2004
Adjustments				
Scope of consolidation	C	234	76	129
Remeasurement of agents' termination provision	R	(553)	(445)	(291)
Restructuring provision	S	(601)	(659)	(736)
Total adjustments		**(920)**	**(1,028)**	**(898)**
Reclassifications				
To liabilities directly associated with non-current assets held for sale	O	(981)	(3,707)	(4,070)
To other receivables (receivables from Grupo Torras)	N	(30,000)	(30,000)	(30,000)
Total reclassifications		**(30,981)**	**(33,707)**	**(34,070)**

Liabilities directly associated with non-current assets held for sale

(euro/000)	Note	31.12.2004	30.06.2004	01.01.2004
Reclassifications				
From provisions for contingencies and charges	O	981	3,707	4,070
Total reclassifications		**981**	**3,707**	**4,070**

Current liabilities

Bank loans and other financial liabilities

(euro/000)	Note	31.12.2004	30.06.2004	01.01.2004
Adjustments				
Scope of consolidation	C	696	1,021	651
Total adjustments		**696**	**1,021**	**651**

Derivative financial instruments

(euro/000)	Note	31.12.2004	30.06.2004	01.01.2004
Adjustments				
Measurement of derivative financial instruments at fair value	I	2,859	2,962	3,089
Total adjustments		**2,859**	**2,962**	**3,089**

Trade payables

(euro/000)	Note	31.12.2004	30.06.2004	01.01.2004
Adjustments				
Scope of consolidation	C	503	1,616	2,862
Total adjustments		**503**	**1,616**	**2,862**

Other payables

(euro/000)	Note	31.12.2004	30.06.2004	01.01.2004
Adjustments				
Scope of consolidation	C	1,660	2,703	2,740
Valuation of derivative instruments at fair value	I	(1,317)	(1,313)	(1,347)
Purchase of RDM International debentures	U	(197)	(197)	0
Total adjustments		**146**	**1,193**	**1,393**
Reclassifications				
To current taxation		(1,420)	(1,727)	(1,150)
Total reclassifications		**(1,420)**	**(1,727)**	**(1,150)**

Current taxation

(euro/000)	Note	31.12.2004	30.06.2004	01.01.2004
Reclassifications				
From other payables		1,420	1,727	1,150
Total reclassifications		**1,420**	**1,727**	**1,150**

9. Effects of the transition to IFRS on the 2004 profit and loss account

(euro/000)	Italian GAAP	Reclassifica-tions	Adjustments	IFRS
Revenues from sales	470,923	(29)	2,709	473,603
Other revenues	18,472	(700)	(143)	17,629
Changes in stocks of finished goods	(3,322)	(237)		(3,559)
Cost of raw materials and services	(344,799)	170	(1,302)	(345,931)
Staff costs	(88,126)	1,538	442	(86,146)
Other operating costs	(7,953)	101	(113)	(7,965)
Income (expense) from non-current assets held for sale	0	598	0	598
Unusual income (expense)	0	(1,702)	591	(1,111)
Gross Operating Profit (EBITDA)	**45,195**	**(261)**	**2,184**	**47,118**
Depreciation, amortisation and write-downs	(42,020)	(3,000)	2,077	(42,943)
Operating Profit (EBIT)	**3,175**	**(3,261)**	**4,261**	**4,175**
Financial income (expense), net	(15,288)	(1,441)	2,992	(13,737)
Income from investments	3,127	0	0	3,127
Extraordinary income (expense), net	(4,702)	4,702	0	0
Taxation	630	0	(1,864)	(1,234)
Profit (loss) for the year	**(13,058)**	**0**	**5,389**	**(7,669)**
Attributable to:				
Profit (loss) for the year pertaining to the group	(13,468)		5,384	(8,084)
Profit (loss) for the year pertaining to minority interests	410		5	415

10. Reconciliation of the result for 2004

(euro/000)	Note	Year 2004
Profit (loss) under Italian GAAP		**(13,058)**
Separation of land and buildings	A	213
Revaluation of land and buildings	B	(483)
Scope of consolidation	C	56
Start-up costs Villa Santa Lucia	D	915
Elimination of costs for increases in share capital	F	762
Amortised cost debenture loan	G	(44)
Measurement of derivative financial instruments at fair value	I	943
Discounting of Grupo Torras receivable	N	1,168
Remeasurement of employees' leaving entitlement ex IAS 19	Q	1,206
Remeasurement of agents' termination provision as per IAS 37	R	262
Restructuring provision	S	(135)
Elimination of goodwill amortisation	T	612
Purchase of RDM International debenture loans	U	1,430
Other minor items		250
Deferred taxation on IFRS adjustments	H	(1,766)
Profit (loss) under IFRS		**(7,669)**

11. Effects of the transition to IFRS on the profit and loss account for the six months ended 30 June 2004

(euro/000)	Italian GAAP	Reclassifica-tions	Adjustments	IFRS
Revenues from sales	248,147	0	884	249,031
Other revenues	2,909	0	31	2,940
Changes in stocks of finished goods	2,639	0	292	2,931
Cost of raw materials and services	(178,780)	35	(411)	(179,156)
Staff costs	(47,666)	712	503	(46,451)
Other operating costs	(4,764)	43	(94)	(4,815)
Income (expense) from non-current assets held for sale	0	(78)	0	(78)
Unusual income (expense)	0	(503)	(9)	(512)
Gross Operating Profit (EBITDA)	**22,485**	**209**	**1,196**	**23,890**
Depreciation, amortisation and write-downs	(20,552)	0	1,032	(19,520)
Operating Profit (EBIT)	**1,933**	**209**	**2,228**	**4,370**
Financial income (expense), net	(7,339)	(712)	2,285	(5,766)
Income from investments	1,118	0	53	1,171
Extraordinary income (expense), net	(503)	503	0	0
Taxation	115	0	(1,419)	(1,304)
Profit (loss) for the period	**(4,676)**	**0**	**3,147**	**(1,529)**
Attributable to:				
Profit (loss) for the period pertaining to the group	(4,631)		3,116	(1,515)
Profit (loss) for the period pertaining to minority interests	(45)		31	(14)

12. Reconciliation of the result for the six months ended 30 June 2004

(euro/000)	Note	First half 2004
Profit (loss) under Italian GAAP		**(4,676)**
Separation of land and buildings	A	201
Revaluation of land and buildings	B	(241)
Scope of consolidation	C	(238)
Start-up costs Villa Santa Lucia	D	458
Elimination of costs for increases in share capital	F	381
Amortised cost debenture loan	G	(24)
Measurement of derivative financial instruments at fair value	I	550
Own shares in hand	L	53
Discounting of Grupo Torras receivable	N	575
Remeasurement of employees' leaving entitlement as per IAS 19	Q	915
Remeasurement of agents' termination provision as per IAS 37	R	154
Restructuring provision	S	(77)
Elimination of goodwill amortisation	T	304
Purchase of RDM International debenture loans	U	1,430
Other minor items		125
Deferred taxation on IFRS adjustments	H	(1,419)
Profit (loss) under IFRS		**(1,529)**

13. Details of the effects of the transition to IFRS on the 2004 profit and loss account and on that for the six months ended 30 June 2004

Details are set out below by individual profit and loss account item of the adjustments and reclassifications between the profit and loss accounts prepared under Italian Accounting Principles and those prepared under IFRS. By the side of each item is a reference to the note which describes the matter which has generated the entry. These notes are provided in the present document in the paragraph entitled "Commentary on the reconciliation between Italian Accounting Principles and IFRS".

Revenues from sales

(euro/000)	**Note**	**2004**	**First half 2004**
Adjustments			
Scope of consolidation	C	2,709	884
Total adjustments		**2,709**	**884**
Reclassifications			
To income (expense) from non-current assets held for sale	O	(29)	0
Total reclassifications		**(29)**	**0**

Other revenues

(euro/000)	**Note**	**2004**	**First half 2004**
Adjustments			
Adjustment to gain on sale of Verderio property	A	(185)	0
Scope of consolidation	C	42	31
Totale adjustments		**(143)**	**31**
Reclassifications			
To income (expense) from non-current assets held for sale	O	(700)	0
Total reclassifications		**(700)**	**0**

Changes in stocks of finished goods

(euro/000)	**Note**	**2004**	**First half 2004**
Adjustments			
Scope of consolidation	C	0	292
Total adjustments		**0**	**292**
Reclassifications			
To income (expense) from non-current assets held for sale	O	(237)	0
Total reclassifications		**(237)**	**0**

Cost of raw materials and services

(euro/000)	Note	2004	First half 2004
Adjustments			
Scope of consolidation	C	1,429	488
Remeasurement of agents' termination provision	R	(262)	(154)
Restructuring provision	S	135	77
Total adjustments		**1,302**	**411**
Reclassifications			
To income (expense) from non-current assets held for sale	O	(170)	(35)
Total reclassifications		**(170)**	**(35)**

Staff costs

(euro/000)	Note	2004	First half 2004
Adjustments			
Remeasurement of employees' leaving entitlement	Q	(1,206)	(915)
Scope of consolidation	C	764	412
Total adjustments		**(442)**	**(503)**
Reclassifications			
To interest payable (remeasurement of employees' leaving entitlement)	Q	(1,441)	(712)
To income (expense) from non-current assets held for sale	O	(97)	0
Total reclassifications		**(1,538)**	**(712)**

Other operating costs

(euro/000)	Note	2004	First half 2004
Adjustments			
Scope of consolidation	C	113	94
Total adjustments		**113**	**94**
Reclassifications			
To income (expense) from non-current assets held for sale	O	(101)	(43)
Total reclassifications		**(101)**	**(43)**

Income (expense) from non current assets held for sale

(euro/000)	Note	2004	First half 2004
Reclassifications			
From revenues	O	29	0
From other revenues	O	700	0
From changes in stocks of finished goods	O	237	0
Fom service costs	O	(170)	(35)
From staff costs	O	(97)	0
From other operating costs	O	(101)	(43)
Total reclassifications		**598**	**(78)**

Unusual income (expense)

(euro/000)	Note	2004	First half 2004
Adjustments			
Scope of consolidation	C	591	(9)
Total adjustments		**591**	**(9)**
Reclassifications			
From extraordinary income (expense), net		(1,702)	(503)
Total reclassifications		**(1,702)**	**(503)**

Depreciation, amortisation and write-downs

(euro/000)	Note	2004	First half 2004
Adjustments			
Separation of land and buildings	A	(398)	(201)
Revaluation of buildings Santa Giustina	B	483	241
Start-up costs Villa Santa Lucia	D	(915)	(458)
Elimination of costs for increases in share capital	F	(762)	(381)
Elimination of issue costs for debenture loan	G	(276)	(138)
Elimination of goodwill amortisation	T	(612)	(304)
Valuation of CAM market share	C	500	250
Scope of consolidation	C	153	84
Start-up costs El Prat		(174)	(87)
Other minor items		(76)	(38)
Total adjustments		**(2,077)**	**(1,032)**
Reclassifications			
From extraordinary income (expense), net		(3,000)	0
Total reclassifications		**(3,000)**	**0**

Financial income (expense), net

(euro/000)	Note	2004	First half 2004
Adjustments			
Measurement of derivative financial instruments at fair value	I	943	550
Purchase of RDM International debenture loans	U	1,430	1,430
Discounting Grupo Torras receivable	N	1,168	575
Amortised cost debenture loan	G	(320)	(162)
Scope of consolidation	C	(229)	(108)
Total adjustments		**2,992**	**2,285**

Reclassifications			
From staff costs (remeasurement of employees' leaving entitlement)	Q	(1,441)	(712)
Total reclassifications		**(1,441)**	**(712)**

Income from investments

(euro/000)	Note	2004	First half 2004
Adjustments			
Own shares in hand	L	0	53
Total adjustments		**0**	**53**

Extraordinary income (expense), net

(euro/000)	Note	2004	First half 2004
Reclassifications			
To unusual income (expense), net		1,702	503
To depreciation, amortisation and write-downs		3,000	0
Total reclassifications		**4,702**	**503**

Taxation

(euro/000)	Note	2004	First half 2004
Adjustments			
Deferred taxation on IFRS adjustments	H	1,766	1,419
Scope of consolidation	C	98	0
Total adjustments		**1,864**	**1,419**

14. Commentary on the reconciliation between Italian Accounting Principles and IFRS

First-Time adoption of IFRS

In adopting International Accounting Standards for the first time, the Group elected certain optional exemptions permitted by IFRS 1 – *First-Time Adoption of IFRS as follows*:

- *Business combinations:* the Group elected not to apply the requirements of IFRS 3 – *Business Combinations* retrospectively to purchases of companies or businesses that occurred before the date of transition to IFRS. As a result, adjustments have not been made to the accounting treatment of business combinations which occurred prior to 1 January 2004.
- *Fair value* (1) *or remeasurement as deemed cost:* the Group elected to remeasure the land and buildings of the Santa Giustina facility at their fair value at the opening balance sheet date, based on an appraisal made by an external valuer, and to use this as deemed cost going forward under the cost model. The agricultural land at the Magenta facility, which has been reclassified to investment property, has also been remeasured at fair value, based again on an appraisal made by an external valuer.
- *Non-current assets held for sale:* the Group elected to early adopt IFRS 5 – *Non-Current Assets Held for Sale and Discontinued Operations* from 1 January 2004 and shows non-current assets held for sale as a separate line item in the transition balance sheet.
- *Employee benefits:* the Group elected to recognise all cumulative actuarial gains and losses that arose prior to 1 January 2004. The Group has adopted the "corridor approach" for subsequent actuarial gains and losses, as permitted by IAS 19 – *Employee Benefits*.
- *Application of IAS 32 – Financial Instruments: Disclosure and Presentation and IAS 39 – Financial Instruments:* Recognition and Measurement: the Group has elected not to postpone the application of these two standards to 1 January 2005. As a result, the balance sheets at 31 December 2004, 30 June 2004 and 1 January 2004 and the profit and loss accounts for the year 2004 and for the six months ended 30 June 2004 reflect the adoption of these two standards from the transition date.

Main reconciling items between Italian Accounting Principles and IFRS

The following paragraphs provide a description of the main differences between the consolidated financial statements prepared under Italian Accounting Principles and those prepared under IFRS. Amounts are stated pre-tax; the related tax effects are aggregated and described in the note relating to deferred tax assets.

---

(1) Fair value is amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction (IAS 16 – *Property, Plant and Equipment*).

A. Separation of land and buildings

Under paragraph 58 of IAS 16 – *Property, Plant and Equipment,* land and buildings are separable assets and should be accounted for separately, even if the land pertains strictly to the buildings. Moreover, IAS 16 states that land usually has an infinite life and for this reason should not be depreciated, whereas buildings have a finite life and should therefore be depreciated.

As a consequence of this, the Group has identified the value of its owned land, has separated this from that of the related buildings and has eliminated accumulated depreciation on land at the transition date.

The effect on the balance sheet at 1 January 2004 of separating land and buildings was to increase the item land by approximately Euro 16.3 million (being the gross value of land at that date) and to decrease the value of buildings by approximately Euro 8.4 million (being the net effect of reclassifying land and eliminating the related accumulated depreciation). The separation of land and buildings led to lower depreciation of approximately Euro 0.4 million in the year 2004 (approximately Euro 0.2 million in the first half year of 2004), whereas the increase in the item land at 31 December 2004 amounted to approximately Euro 17.3 million (approximately Euro 17.4 million at 30 June 2004), with a decrease in the item buildings of approximately Euro 9.2 million (approximately Euro 9.3 million at 30 June 2004).

B. Revaluation of land and buildings at the Santa Giustina facility

Under IFRS 1 – *First-Time Adoption of IFRS,* property may be remeasured to fair value at the transition date, using this as deemed cost going forward. In particular, the fair value of property, plant, equipment, non-business investment property and intangible assets may be estimated at the transition date and used as deemed cost in the opening IFRS balance sheet.

On this basis, the Group identified the fair value of the land and buildings at the Santa Giustina facility, commissioning an appraisal prepared by an external valuer, and used this as deemed cost in the opening IFRS balance sheet. The remeasurement to fair value in the balance sheets at the reference dates led to an increase in the item land of approximately Euro 11.3 million and in the item buildings of approximately Euro 12.4 million at 1 January 2004, approximately Euro 12.0 million at 31 December 2004 and approximately Euro 12.2 million at 30 June 2004. The remeasurement of buildings led to increased depreciation in the year 2004 of approximately Euro 0.5 million (approximately Euro 0.2 million for the first half year of 2004).

C. Scope of consolidation

In 2003, the Company signed a purchase commitment to acquire the company Cartiera Alto Milanese S.p.A. (referred to in the following as “CAM”), through the purchase of the holding company owned by Dr. Giovanni Dell’Aria Burani at a price of Euro 2.5 million. This agreement was revised

in December 2004, by reducing the purchase price from Euro 2.5 million to Euro 1.5 million as a result of the change in the net assets of the company to be acquired. Pursuant to the revised agreement, the Company went ahead with the acquisition in June 2005 in accordance with the above-mentioned terms.
Under International Accounting Standards, the parent company is required to consolidate all those companies under its control. The definition of control is not based solely on the concept of legal ownership and moreover under IAS 27 – *Consolidated and Separate Financial Statements*, control exists when a company has the power to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities.
On this basis, the Group has consolidated the purchased company starting from the transition balance sheet at 1 January 2004. The consolidation of CAM and its holding company on transition led to a difference on consolidation of approximately Euro 8.2 million, which has been written down to the originally agreed price of Euro 2.5 million. This residual amount has been attributed to the value of the client portfolio of the acquired company and is shown in intangible assets; this amount is being amortised on a straight line basis over an estimated useful life of five years.

D. Start-up costs - Villa Santa Lucia

In 2002, the Company deferred in intangible assets the costs incurred for the start-up of the Villa Santa Lucia facility, following the revamping of the manufacturing plant, amortising these over a period of three years. Under IAS 16 – *Property, Plant and Equipment*, these costs may remain in non-current assets, but should be reclassified to tangible assets, capitalised together with the asset to which they refer and depreciated over the residual life of that asset.
The adjustment for this matter led to an increase in plant and machinery in the transition balance sheet at 1 January 2004 of approximately Euro 3.0 million and a decrease in other intangible assets of approximately Euro 1.1 million. The corresponding effect on the balance sheet at 31 December 2004 was to increase plant and machinery by approximately Euro 2.8 million (approximately Euro 2.9 million at 30 June 2004). This adjustment led to decreased depreciation in the year 2004 of approximately Euro 0.9 million (approximately Euro 0.5 million for the first half year of 2004), due to the different rates used for different asset categories (plant and machinery as compared to intangible assets).

E. Investment property

IAS 40 – *Investment Property* defines property as land, buildings or parts of buildings which are held to earn rentals, for capital appreciation or both. Included in the scope of the definition is land held for long-term capital appreciation, land held for undecided future use, buildings held by the owner or by the lessee under a finance lease and leased out to third parties under an operating lease and vacant buildings held to be leased out under an operating lease. IAS 40 permits enterprises to choose between a cost model, net of depreciation, and a fair value model on measurement subsequent to initial recognition. In accordance with the exemption permitted by IFRS 1 – *First-Time Adoption of IFRS*, the Group elected to remeasure the agricultural land at the Magenta site at its fair value at the opening balance sheet date, reclassifying the land to investment property, to use this as deemed cost in the transition balance sheet and to go forward under the cost model. The remeasurement led to an increase in land classified in this caption in the balance sheets at 1 January 2004, 30 June 2004 and 31 December 2004 of approximately Euro 1.0 million.

F. Elimination of costs for increases in share capital

Under IAS 38 – *Intangible Assets*, costs incurred for increases in share capital may not be accounted for as intangible assets, but should be recognised as a reduction of the capital increase in equity. The effect of this adjustment is to decrease intangible assets at 1 January 2004, 30 June 2004 and 31 December 2004 by approximately Euro 3.0 million, Euro 2.7 million and Euro 2.3 million, respectively. This adjustment led to the elimination of amortisation of capitalised costs in the year 2004 of approximately Euro 0.8 million (approximately Euro 0.4 million for the first half year of 2004).

G. Amortised cost of debenture loan

Under IAS 39 – *Financial Instruments: Recognition and Measurement*, loans should be measured at amortised cost. The amortised cost of an asset or liability is obtained by using the effective interest method. In particular, the effective interest rate is the rate that exactly discounts all estimated future cash receipts and payments related to the financial asset or liability, including commissions, transaction costs and issue costs and premiums. On this basis, deferred issue costs have been eliminated from intangible assets in the balance sheets at 1 January 2004, 30 June 2004 and 31 December 2004, amounting to approximately Euro 0.6 million, Euro 0.5 million and Euro 0.4 million respectively, and the amortisation of these costs of approximately Euro 0.3 million and Euro 0.1 million has been eliminated from the profit and loss accounts for the year 2004 and that for the first half year of 2004. These costs have been taken into consideration in the recalculation of the effective interest rate of the debenture loan, leading to a decrease of the debenture loan liability of approximately Euro 0.7 million at 1 January 2004, approximately Euro 0.6 million at 30 June 2004 and approximately Euro 0.4 million at 31 December 2004. The increase in the interest rate has led to an increase in interest expense of approximately Euro 0.3 million in the profit and loss account for the year 2004 and approximately Euro 0.2 million in the profit and loss account for the first half year of 2004.

H. Deferred taxation on IFRS adjustments

The amounts shown for this item in the reconciliation schedules represent the net effect of deferred taxation of the adjustments described in this present commentary.

I. Measurement of derivative financial instruments at fair value

Under IAS 39 – *Financial Instruments: Recognition and Measurement*, derivative financial instruments should be measured at fair value. On the basis of the detailed requirements of this standard, derivatives linked to the debenture loan and to certain long-term loans have been measured at fair value but hedge accounting has not been applied. In particular, the hedging relationships for the derivatives linked to the debenture loan do not qualify for hedge accounting under IAS 39, and accordingly the derivatives have not been formally designated as hedging instruments, even though they were established for the purposes of hedging. The derivatives linked to certain long-term loans are, however, designated as hedging instruments. The related effects have been recognised in equity at the transition date for all derivatives; subsequent variations are recognised in the profit and loss account.
The measurement of derivatives at fair value led to a pre-tax decrease in equity at 1 January 2004 of approximately Euro 2.1 million, at 30 June 2004 of approximately Euro 1.6 million and at 31 December 2004 of approximately Euro 1.2 million. The effect on the profit and loss account for the year 2004 is to decrease financial expense by approximately Euro 0.9 million, whereas the effect on the profit and loss account for the first half year of 2004 is to decrease financial expense by approximately Euro 0.5 million.

L. Own shares

Under IAS 32 – *Financial Instruments: Disclosure and Presentation*, the cost of a company's own equity instruments that it has reacquired should be deducted from equity. As a result, the Company has reclassified its reacquired own shares, reducing equity by approximately Euro 5.4 million at 1 January 2004, 30 June 2004 and 31 December 2004.

M. Reclassification of receivable from Espais Promocions Immobiliares S.A.

The receivable of Euro 30 million from Espais Promocions Immobiliares S.A., arising as part of the transaction for the sale of the El Prat area which took place in 2003, is classified as a financial fixed asset in the consolidated balance sheets at 1 January 2004, 30 June 2004 and 31 December 2004 prepared under Italian Accounting Principles. Under this transaction, the counterparty is required to consign buildings of an amount equal to the receivable at the expected date of their valuation for town planning purposes. Under IFRS this receivable should not be classified as a financial fixed asset, as settlement will not be by cash or other monetary means. Under International Accounting Standards, assets should be classified on the basis of their function. In particular, if the function of an asset is its future sale, it should be classified in stocks, whereas if its future function is for leasing, it should be classified as a tangible fixed asset. On this basis, the receivable has been reclassified to stocks.

N. Provision for receivable from Grupo Torras S.A.

Under International Accounting Standards, provisions relating to the decrease in value of assets and doubtful debts should be considered as adjustments to the carrying amount of these assets and not as provisions classified in liabilities. As a consequence, the amount of Euro 30 million provided against the recovery of the receivables from Grupo Torras S.A. has been reclassified as a reduction of the nominal amount of the receivable (about Euro 61.9 million) , itself classified in non-current assets, in the balance sheets at 1 January 2004, 30 June 2004 and 31 December 2004. Moreover, in accordance with IFRS, the present value of such receivable, at the reporting date, has been calculated on the basis of the expected collection timetable. This discounting adjustment resulted in a reduction of the receivable of about Euro 12.5 million as of 1 January 2004, about Euro 11.9 million as of 30 June 2004 and about Euro 11.3 million as of 31 December 2004. In the profit and loss account a financial income of about Euro 1.2 million has been recorded at 31 December 2004 (about Euro 0.6 bat 30 June 2004).

O. Reclassification of fixed assets held for sale

IFRS 5 – *Non-Current Assets Held for Sale and Discontinued Operations* defines the accounting treatment of assets held for sale and the manner in which discontinued operations should be presented. In particular, the standard requires that non-current assets held for sale be measured at the lower of their carrying amount and their fair value less disposal costs, and that they should not be depreciated. In regard to their presentation, the standard requires that non-current assets held for sale should be presented separately in the balance sheet and that the results of discontinued operations should be presented separately in the profit and loss account. On the basis of these requirements, the assets and provisions relating to the Ciriè facility, closed in November 2003, have been reclassified in the balance sheets at 1 January 2004 and at 30 June 2004. In a similar manner, the assets and provisions relating to the Verderio facility, owned by Europoligrafico S.p.A. and closed in 2004, have been reclassified in the balance sheet at 31 December 2004. The income and expense arising from these operations have been reclassified in the profit and loss account for the year 2004.

P. Liquid funds

Restricted deposits with banks relating to the company Reno De Medici Iberica S.L. are classified in the consolidated balance sheets at 1 January 2004, 30 June 2004 and 31 December 2004 prepared under Italian Accounting Principles as financial assets not considered to be fixed asset investments. In particular, Euro 18 million (approximately Euro 15 million at 30 June 2004 and approximately Euro 14 million at 31 December 2004) relate to deposits made in respect of the costs for the restructuring of the El Prat area, and a further amount of Euro 5 million (the same amount at 30 June 2004 and at 31 December 2004) is restricted in respect of a guarantee requested by the Madrid Court regarding litigation with Grupo Torras. International Accounting Standards require, however, that also restricted bank balances be shown as liquid funds.

Q. Remeasurement of the employees' leaving entitlement provision

On adopting International Accounting Standards, the Italian employees' leaving entitlement, which was previously accounted for under specific Italian legislation, was considered to be a defined benefit plan and accordingly to be accounted for as such following the requirements of IAS 19 – *Employee Benefits*. As discussed above in connection with the first time adoption of IFRS, the Group has elected to recognise all cumulative actuarial gains and losses that arose prior to 1 January 2004 and to use the "corridor approach" for actuarial gains and losses arising subsequently. The remeasurement of the employees' leaving entitlement under IAS 19 led to a decrease in the liability at 1 January 2004 of approximately Euro 2.2 million, at 30 June 2004 of approximately Euro 3.1 million and at 31 December 2004 of approximately Euro 3.4 million. The accrual for the year 2004 decreased by approximately Euro 1.2 million (approximately Euro 0.9 million in the first half year of 2004). In addition, the interest component of the accrual for the period is reclassified to financial items in the profit and loss account, as required by IAS 19.

R. Remeasurement of the agents' termination indemnity provision

Under International Accounting Standards, the provision for the agents' termination indemnity should be recognised as a liability, as the existence of the obligation is certain, even though the amount is uncertain. As a result, a provision should be recognised, estimating the amount of payments which will be required to settle agents on termination on the basis, among other things, of historical data, and using actuarial techniques in order to obtain an estimate in the best manner possible of the variables which will determine the overall cost to be incurred. On the basis of the results of these remeasurement techniques, the provision for the agents' termination liability decreased at 1 January 2004 by approximately Euro 0.3 million, at 30 June 2004 by approximately Euro 0.4 million and at 31 December 2004 by approximately 0.6 million; the accrual for the year 2004 decreased by approximately Euro 0.3 million (approximately Euro 0.1 million in the first half year of 2004).

S. Restructuring provisions

Under IAS 37 – *Provisions, Contingent Liabilities and Contingent Assets*, a provision should not be recognised for the costs expected to be incurred for the relocation of personnel. As a result, the amounts of approximately Euro 0.7 million, Euro 0.7 million and Euro 0.6 million provided for this matter at 1 January 2004, 30 June 2004 and 31 December 2004 respectively have been eliminated from restructuring provisions at those dates. As a further result of the elimination of these provisions, additional operating costs of approximately Euro 0.1 million have been recognised in the profit and loss account for the year 2004.

T. Business combinations

Under IFRS 3 – *Business Combinations*, goodwill arising from a business combination should not be amortised.

U. Purchase of Reno De Medici International S.A. debentures

In the first half of 2004, RDM purchased debentures issued by Reno De Medici International S.A. having a nominal value of Euro 5 million at a price of approximately Euro 3.6 million. Under IAS 39 – *Financial Instruments: Recognition and Measurement*, if issued financial instruments are repurchased, then the existing liability should be immediately reduced, recognising in the profit and loss account the difference between the purchase price and the carrying value remeasured at amortised cost.

15. Auditor's report on the reconciliation schedules pursuant to IFRS 1 (1 January 2004 to 31 December 2004)

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers SpA

AUDITOR'S REPORT ON THE IFRS RECONCILIATION SCHEDULES ILLUSTRATING THE IMPACT OF THE TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

To the Board of directors of
Reno De Medici SpA

1 We have audited the Reconciliation Schedules, comprising the consolidated balance sheets as of 1 January 2004 and 31 December 2004 and the consolidated income statement for the year ended 31 December 2004 (hereinafter the "IFRS Reconciliation Schedules") of Reno De Medici Group and related notes, included in the document "Transition to International Financial Reporting Standards (IFRS)" included in the interim consolidated financial report of Reno De Medici Group for the six months ended 30 June 2005. The aforementioned IFRS Reconciliation Schedules have been derived from the consolidated financial statements of Reno De Medici SpA as of 31 December 2004 prepared in compliance with the laws governing the criteria for the preparation of financial statements, which we audited and on which we issued or report on 11 April 2005. The IFRS Reconciliation Schedules have been prepared in connection with the process of transition to the International Financial Reporting Standards (IFRS) endorsed by the European Commission. The IFRS Reconciliation Schedules are the responsibility of Reno De Medici SpA's directors. Our responsibility is to express an opinion on the IFRS Reconciliation Schedules based on our audit.

2 We conducted our audit in accordance with auditing standards generally accepted in Italy. Those standards require that we plan and perform the audit to obtain the necessary assurance about whether the IFRS Reconciliation Schedules are free of material misstatement and, taken as a whole, are presented fairly. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the IFRS Reconciliation Schedules. An audit also includes assessing the accounting principles used and significant estimates made by the directors. We believe that our audit provides a reasonable basis for our opinion.

Sede legale e amministrativa: Milano 20149 Via Monte Rosa 91 Tel. 0277851 Fax 027785240 Cap. Soc. 3.754.400,00 Euro i.v., C.F. e P.IVA e Reg. Imp. Milano 12979880155 Iscritta al n. 43 dell'Albo Consob – Altri Uffici: **Bari** 70125 Viale della Repubblica 110 Tel. 0805429863 – **Bologna** 40122 Via delle Lame 111 Tel. 051526611 – **Brescia** 25124 Via Cefalonia 70 Tel. 0302219811 – **Firenze** 50129 Viale Milton 65 Tel. 0554627100 – **Genova** 16121 Piazza Dante 7 Tel. 01029041 – **Napoli** 80121 Piazza dei Martiri 30 Tel. 0817644441 – **Padova** 35137 Largo Europa 16 Tel. 0498762677 – **Palermo** 90141 Via Marchese Ugo 60 Tel. 091349737 – **Parma** 43100 Viale Tanara 20/A Tel. 0521242848 – **Roma** 00154 Largo Fochetti 29 Tel. 06570251 – **Torino** 10129 Corso Montevecchio 37 Tel. 011556771 – **Trento** 38100 Via Manzoni 16 Tel. 0461237004 – **Treviso** 31100 Viale Felissent 90 Tel. 0422696911 – **Trieste** 34125 Via Cesare Battisti 18 Tel. 0403480781 – **Udine** 33100 Via Poscolle 43 Tel. 043225789 – **Verona** 37122 Corso Porta Nuova 125 Tel. 0458002561

PRICEWATERHOUSECOOPERS

3 In our opinion, the IFRS Reconciliation Schedules identified in paragraph 1 of this report, taken as a whole, have been drawn up in compliance with the criteria and standards set out in article 81 of Regulations for Issuers No. 11971/1999 adopted by CONSOB with its Resolution No. 14990 of 14 April 2005.

4 We wish to emphasise that the IFRS Reconciliation Schedules, having been prepared for sole purpose of the transition project for the preparation of the first full set of consolidated financial statements compliant with the IFRS endorsed by the European Commission, do not include the comparative financial information and explanatory notes that would be required in order to present fairly the consolidated financial position and result of operations of Reno De Medici Group in compliance with IFRS. Furthermore, we point out that the IFRS Reconciliation Schedules could be subject to adjustment should the European Commission alter its stance with respect to approval of IFRS or should the IASB or IFRIC issue new pronouncements.

Milan, 28 September 2005

PricewaterhouseCoopers SpA

Fabrizio Piva
(Partner)

SUMMARY OF RESOLUTIONS ADOPTED AT THE ORDINARY SHAREHOLDERS' MEETING OF 3 MAY 2006

Chairman: Giuseppe Garofano
Secretary: Carlo Marchetti
Shareholders attending: n. [••]
Share capital represented: [••]%

The Ordinary Shareholders' meeting resolved on the following.

1. In respect of the first matter on the agenda, shareholders resolved:
   - to approve the Report of the Board of Directors and the Financial Statements of Reno De Medici S.p.A. at 31 December 2005;
   - to approve the cover of the loss for the year of Euro 34,670,296 through the use of the extraordinary reserve for Euro 77,234, the reserve for the purchase of own shares for Euro 6,583,868, the share premium reserve for Euro 7,797,218 and the legal reserve for Euro 6,461,775, carrying forward the residual loss of Euro 13,750,201.

2. In respect of the second matter on the agenda, shareholders appointed [••] as Chairman of the Board of Statutory Auditors, [••] and [••] as standing auditors and [••] and [••] as substitute auditors.

3. In respect of the third matter on the agenda, as a result of the resignations of Mr. Ugo Dell'Aria Burani with effect from 31 December 2005 and Mr. Piergiorgio Cavallera with effect from 9 April 2006, shareholders resolved to amend the number of members of the Board of Directors from 11 to [••].

4. In respect of the fourth matter on the agenda, shareholders appointed PricewaterhouseCoopers S.p.A. as auditors of the financial statements of Reno De Medici S.p.A. and the consolidated financial statements of the Reno De Medici Group for the years ending 31 December 2006 to 31 December 2011, pursuant to articles 155 and following of Italian Legislative Decree no. 58/98, and of the half year reports at 30 June of the same years.