Draft Financial Statements 2005

Pontenuovo di Magenta, 30 March 2006

- **Industrial restructuring completed**
- **In course actions aimed at both the repayment of the Debenture Loan expiring on 4 May 2006 and the restructuring of the financial debt though term loans having mostly a 10 year tenor**
- **Approved the proportional demerger of the non core real estate assets into RDM Realty and made application for for the listing of the shares of this new company on the Italian Stock Exchange**
- **Pursuant to the demerger, the RDM Group will become a pure player in the production of recycled cartonboard, positioned to generate a higher profitability profile**

Financial Year 2005 – Consolidated data

- Net revenues: Euro 295.3 million vs. Euro 302 million in 2004 (-2,2%)
- EBITDA: Euro 27.4 million vs. Euro 31,2 million in 2004 (-12,2%)
- Net result: loss of Euro 13.3 million vs. loss of Euro 8.1 million in 2004
- Net financial indebtedness: Euro 169.3 million vs. Euro 247.5 million in 2004
- Tonnes shipped: 606 thousand vs. 595 thousand in 2004
- Tonnes produced: 610 thousand vs. 596 thousand in 2004

The actions completed in 2005 (sale of packaging operations aimed at reducing financial debt, industrial restructuring aimed at increasing manufacturing efficiencies, restructuring of capital structure through term loans having mostly a 10 year tenor) have already substantially changed the structure of RDM Group and, therefore, the structure of its consolidated accounts.

Pursuant to the completion of the actions still in course and to the repayment of the Debenture Loan, the RDM Group will act, by the end of first semester 2006, 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.

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The Board of Directors of Reno De Medici S.p.A. (“RDM” or the “Parent Company”) today approved the draft financial statements of RDM Group and the draft financial statements of the Parent Company for the financial year 2005.

FOREWORD

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.

CONSOLIDATED FINANCIAL STATEMENTS

The RDM Group has adopted for its consolidated financial statements the International Financial Reporting Standards (IFRS) starting from the Half Year Report 2005. To allow a better understanding of consolidated results it is noted that the economic contribution of subsidiaries sold in 2005 and production operations discontinued in the same year are presented in the 2005 profit and loss account under the item 'discontinued operations'. The same classification has been adopted in presenting the figures for 2004 for reasons of comparability.

The RDM Group achieved net revenues in 2005 of Euro 295 million compared to Euro 302 million in 2004[1]. 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

[1] Cf. Financial Statements

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 geographical breakdown of net revenues shows that the Italian markets accounts for 53% of consolidated net revenues, followed by the EU markets with 35% and by the non-EU markets with 12%. Such breakdown substantially reflects that of 2004.

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.

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.

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).

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

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 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.

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..

Gross 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.

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

FINANCIAL STATEMENTS OF THE PARENT COMPANY

The financial statements of RDM has 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.

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.

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 euros. 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).

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, mostly attributable as noted to the write-down of the Grupo Torras S.A. receivable.

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.

RDM’s net financial debt of RDM has fallen by Euro 39 million, from Euro 232 million at 2004 year end to Euro 193 million at 2005 year end.

INFORMATION RELATING TO DEBENTURE LOANS

As indicated previously, consolidated net finacial debt includes a debenture loan of Euro 145 million, issued by the subsidiary Reno De Medici International S.A.. This loan is due on May 4 2006 and is secured by a RDM guarantee at first request. For the *Offering Circular* relating to the debenture loan, please refer to www.renodemedici.it section Investor Relations.

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.

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.

OUTLOOK

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 uncertainties 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 are improving in respect to results of 2005 although they remain linked to a confirmation of a gradual pick-up in the demand for consumer goods. Thanks to the higher efficiencies achieved by the Group's production set up and to the improved revenue profile, it is reasonable to expect higher industrial margins to be generated.

Consolidated Financial Statements

Consolidated profit and loss account	31.12.2005	31.12.2004
Euro/000		
Revenues from sales	295,310	302,013
Other revenues	5,094	3,853
Changes in stocks of finished goods	247	1,429
Cost of raw materials and services	(215,637)	(218,353)
Staff costs	(52,750)	(51,333)
Other operating costs	(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	(24,632)	(25,971)
Recovery of value and write-downs of assets	(1,588)	0
Operating Profit (EBIT)	**1,208**	**5,183**
Net financial expense	(12,587)	(13,771)
Gain on repurchase of Bond		1,430
Effect of discounting receivable from Grupo Torras S.A.	722	1,168
Financial income (expense), net	(11,865)	(11,173)
Income from investments	1,982	3,127
Other income (expense)	(16,077)	0
Taxation	(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	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)

Consolidated balance sheet	31.12.2005	31.12.2004
Euro/000		
ASSETS		
Non-current assets		
Tangible fixed assets	193,174	267,193
Investment property	1,284	1,284
Goodwill	146	1,297
Other intangible assets	3,309	4,739
Investments accounted for under the equity method	14,216	17,825
Deferred tax assets	577	0
Derivative financial instruments	0	5,183
Financial assets held for sale	219	256
Trade receivables	193	262
Other receivables	10,272	28,086
	223,390	326,125
Other non-current assets held for sale	20,208	8,883
Total non-current assets	**243,598**	**335,008**
Current assets		
Stocks	92,979	119,613
Trade receivables	106,899	141,755
Other receivables	21,168	7,059
Derivative financial instruments	5,321	2,105
Financial assets held for sale	10	10
Financial assets at fair value	0	0
Liquid funds	56,779	25,003
Total current assets	**283,156**	**295,545**
TOTAL ASSETS	**526,754**	**630,553**
LIABILITIES AND SHAREHOLDERS' EQUITY		
Shareholders' equity attributable to the group	142,251	155,512
Minority interests	759	560
Shareholders' equity	**143,010**	**156,072**
Non-current liabilities		
Bank loans and other financial liabilities	28,270	198,751
Derivative financial instruments	0	1,247
Other payables	1,064	553
Deferred tax liabilities	2,293	3,285
Employees' leaving entitlement	17,324	29,823
Non-current provisions for contingencies and charges	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	220,056	71,979
Derivative financial instruments	1,242	2,859
Trade payables	72,552	108,024
Other payables	33,247	33,461
Current taxation	271	1,420
Total current liabilities	**327,368**	**217,743**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**526,754**	**630,553**

Reclassified Financial Statements of RDM Group

Profit and Loss

(Euro million)	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)**

Net Invested Capital

(Euro million)	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 liebilities	(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**

Net Financial Position

(Euro million)	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**

Reclassified Financial Statements of the Parent Company

Profit and Loss

(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)**

Net Invested Capital

(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**

Net Financial Position

(Millions of Euros)	31.12.2005	31.12.2004
Liquid funds and current financial receivables	64.6	30.5
Current financial payables	(233.2)	(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)**

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