



Draft financial statements 2004

Magenta, 30 March 2005

Financial year 2004 – Consolidated data

- ◆ Net revenues: 471 million euros, compared to 542 million euros in 2003 (-13%).
- ◆ Gross operating profit: 45.2 million euros, compared to 31.8 million euros in 2003 (+42%).
- ◆ Operating result: 3.2 million euros, compared to the corresponding negative operating result of 19.6 million euros in 2003.
- ◆ Net result for the year: a negative result of 13.5 million euros, compared to a loss of 100 million euros in 2003.
- ◆ Net debt: 245 million euros, compared to 246 million euros at September 2004 and 255 million euros at the end of 2003.
- ◆ Volume of cartonboard produced: 706 thousand tonnes, compared to 762 thousand tonnes in 2003 (-7.4%).
- ◆ Sales of cartonboard: 707 thousand tonnes, compared to 777 thousand tonnes in 2003 (-9%).

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The Board of Directors of Reno De Medici S.p.A. today approved the draft consolidated financial statements of the Reno De Medici Group and the draft financial statements of the Parent Company.

Consolidated financial statements

Consolidated net revenues amount to 470.9 million euros. The decrease of 70.8 million euros, or 13%, compared to the previous year is due to the rationalisation of productive capacity, to the pressure on prices in the cartonboard sector and to a depressed demand in Europe by the final customer in the consumer goods market, which is the principal outlet for products in the packaging sector.

Gross operating profit¹ or EBITDA², increased over the previous year, both in absolute terms, rising from 31.8 to 45.2 million euros, and as a percentage of net revenues, rising from 5.9% to 9.6%, showing an improvement of almost four percentage points. The increase is due to more than proportional decrease in the cost of raw materials and services and in labour costs. This result has been achieved as a consequence of reaching higher levels of manufacturing efficiency and a recovery of margin with respect to 2003, principally achieved in the activities carried out by the Parent Company and in the packaging activities of the subsidiary Europoligrafico.

Consolidated gross operating profit, stated net of bad debt charges of 2.9 million euros, includes both the result of the Pompeii factory (Articarta S.p.A.), a loss of 4 million euros, and non-recurring income of 10.5 million euros, gross of the related costs, arising from the settlement of the contractual relationship between Aticarta S.p.A. and BAT Italia S.p.A..

The consolidated operating profit³ (EBIT)⁴ of 3.2 million euros, stated after depreciation and amortisation of 42 million euros, shows a turnaround with respect to the corresponding loss of 19.7 million euros of the previous year, stated after depreciation and amortisation of 51.5 million euros.

A comparison between the 2004 and 2003 operating results is made difficult by the adjustments made in 2003 to the Group's inventory and to charges made for contingency provisions for a total of 13.7 million euros at a consolidated level. These adjustments have been recorded as extraordinary items.

Net extraordinary expenses include a write-down of certain plant at the Pompeii factory, owned by Articarta S.p.A., amounting to 3.0 million euros. The reasons for this write-down, not included in the report for the fourth quarter of 2004 approved in February, are to be found in the identification of specific plant at that factory which cannot be used in any of the various assumptions currently being studied for a restructuring or conversion of this facility.

The net result for the year before taxation is a loss of 13.7 million euros compared to the 10.7 million euros stated in the report for the fourth quarter of 2004 approved in February. The difference between the two figures is essentially due to the write-down of the plant at the Pompeii factory, owned by Aticarta S.p.A., as indicated above.

The result for the year pertaining to the Group, after tax and minority interests, amounts to 13.5 million euros, compared to the 100 million euros of the previous year.

Net invested capital of 398 million euros is principally made up of fixed assets of 363 million euros, financed as to 60% by debt and 40% by equity approximately.

Investments in 2004 amount to 13.9 million and relate principally to the cartonboard sector for 11.3 million euros and the packaging sector for 1.8 million euros.

¹ The difference between production value and production cost, stated before depreciation, amortisation and write-downs of tangible and intangible fixed assets.

² Earnings Before Interest, Taxes, Depreciation and Amortisation.

³ Gross operating profit less depreciation, amortisation and write-downs of tangible and intangible fixed assets.

⁴ Earnings Before Interest and Taxes.

The consolidated net financial position amounts to 245 million euros at the end of 2004 against the 255 euros at the end of 2003. In particular, long-term loans amount to 223 million euros, of which 26 million euros are due in 2005, and debentures due in May 2006 amount to 150 million euros. Current bank debt amounts to 50 million euros (of which 45 million euros regard commercial lines of credit). The composition of group's net financial position at year end reflects principally to net amounts due for long-term loans and leasing of 30 million euros.

There have been no particular changes in the composition by sector of the Group's revenues compared to the prior year as a percentage of consolidated net turnover. In detail, the cartonboard sector represents 76% of consolidated revenues, followed by the packaging sector at 21%. The remaining sectors, principally led by the operations of the Spanish subsidiary Cogeneration Prat, amount to 3%.

There have been no particular changes in revenues by geographical area, either, compared to the previous year: net revenues from the Italian market represent 56% of the total, with the European market and overseas market amounting to 35% and 9% respectively.

Financial statements of Reno De Medici S.p.A.

The net revenues of the Parent Company amount to 304.8 million euros. The reduction of 15.6 million euros is due to the reasons indicated previously regarding consolidated revenues.

The improvement in gross operating profit for 2004, 27.9 million euros, compared to the 23.5 million euros of 2003, with a corresponding rise to 9.2% from 7.3% as a percentage of revenues, derives from the initiatives taken to contain costs and an improvement in manufacturing efficiency, as indicated in the comments relating to the consolidated figures.

A comparison between the 2004 and 2003 EBITDA is difficult also at a Parent Company level, as a consequence of the adjustments made to inventory in 2003 and to charges made to contingency provisions for a total of 7.9 million euros. These adjustments have been recorded as extraordinary items also by the Parent Company.

Reno De Medici S.p.A. closes 2004 with a negative result of 16.4 million euros, compared to the net loss of 101.8 million euros in the previous year.

The net financial debt of Reno De Medici S.p.A. has remained essentially stable, amounting to 232 million euros at the end of 2004, compared to 229 million euros at the end of 2003.

Information relating to the debenture loan

As indicated previously, consolidated net financial debt includes a debenture loan of 150 million euros, issue by the subsidiary Reno De Medici International S.A..

This loan is due on 4 May 2006 and is secured by a Parent Company guarantee at first request.

Information regarding the transition to International Financial Reporting Standards (IFRS)

The following information is provided in accordance with the requirements of CONSOB Communication DME/5015175 of 10 March 2005. During 2004, the Reno De Medici Group launched a specific project named “IFRS Project”, with the assistance of PricewaterhouseCoopers S.p.A.. This project includes the creation of certain bodies having decisional powers and others in support to ensure that this activity is carried out in an adequate manner both from a decisional and operative point of view.

The IFRS project is structured in three work phases. The first phase is concerned with the definition of the scope of the work and the identification of the macro areas of the financial statements under consideration. The second phase consists of an evaluation of the accounting principles and policies used by the Group for every area of the financial statements, an analysis of the options available under IFRS and the identification of the differences, if any, with the principles and policies currently adopted. The third phase requires the quantification of the accounting differences and the preparation of a transition balance sheet at 1 January 2004, together with a Group accounting manual which describes the principal changes to be made to current procedures, including those relating to information systems.

On completion of the first two phases for the whole Group, the potential effects of applying IFRS to the transition balance sheet have now been determined, in particular for the Parent Company Reno De Medici S.p.A., leading to the identification of the economic and balance sheet effects deriving from the application of the new standards and their quantification for the consolidated financial statements.

For information purposes, the following captions of the financial statements are those principally affected by the change in principles and policies to IFRS from those currently adopted: intangible fixed assets, tangible fixed assets, financial fixed assets, financial assets and liabilities, both current and noncurrent and the employees’ leaving entitlement.

Discussions are currently taking place with PricewaterhouseCoopers S.p.A. to define the terms of engagement for the verification of the data arising from the transition process.

Principal subsequent events

A project for the decentralisation to the principal manufacturing facilities of certain functions currently performed at the Parent Company was communicated to the trades unions in February 2005 together with further rationalisation initiatives involving some manufacturing plants.

In March 2005, Reno De Medici S.p.A. received from the investee Termica Boffalora S.r.l. an invoice regarding a price settlement of 1,074 thousand euros relating to 2004. As sufficient explanations have not yet been received regarding the method of determining this alleged settlement, and since Reno De Medici S.p.A. intends to dispute the legitimacy of the request made by Termica Boffalora S.r.l. in the appropriate manner and at the appropriate time, the invoice has been returned for the full amount. The Parent Company has taken this matter into consideration in determining the carrying amount of this investment under the equity method,

adjusting as necessary the net result of this company as compared to that indicated in the report for the fourth quarter approved in February 2005.

Forecast

The European market for coated cartonboard used in packaging for the first two months of 2005 shows a reduction in volume over that of the same period of 2004, which has also affected the recycled fibre cartonboard market. In this context, the volumes sold by the Group's cartonboard sector have decreased in these two months compared to the previous year.

Sales prices have also suffered, being lower than those of 2004, although there are signs of an upturn following the falling trend which characterised 2004. The possibility of there being a stable increase in sales prices will, however, require there to be a stable upturn in the final demand of consumer goods, which is currently difficult to forecast; such an upturn is moreover needed to combat the increase in energy prices and the rise in the cost of certain raw materials used in the manufacturing process, linked as they are to the trend of oil prices. In order, however, to pursue the Group's economic and financial equilibrium, steps continue to be taken to rationalise structural costs at both a central and factory level and the variable costs of primary operations (purchasing, production and sales).

Studies continue in particular at the Pompeii factory, owned by the subsidiary Aticarta S.p.A., in unison with the local and national authorities, to identify the most appropriate initiatives which may be taken to reposition that facility's activities even outside the paper industry.

The year has begun well for the packaging sector, which has demonstrated an improvement in turnover and operating margin compared to the first two months of 2004, due to the completion of the restructuring process and the resumption of important commercial relations which took place in the second half of 2004. As a consequence, therefore, the objectives of the packaging sector consist in the consolidation of market share and in an operating profitability in line with that of major European competitors.

The initiatives taken to recover efficiency levels have enabled a gross operating profit to be achieved for the first two months of 2005 in line with budget, including also that of the cartonboard sector, despite a decrease of approximately 10% in turnover compared to forecasted figures. At this stage, by putting further rationalisations into effect and by containing costs, it should be possible to reach a consolidated gross operating profit for 2005 not dissimilar to that of 2004 if comparing the same consolidation area.

Reclassified financial statements

Reclassified consolidated profit and loss account for the year ended 31 December 2004

(Millions of euros)		%		%	Variation
	2004		2003		
Net revenues	470.9		541.7		(70.8)
Raw materials and services	(337.6)		(405.7)		68.1
Personnel	(88.1)		(104.2)		16.1
Gross operating profit	45.2	9.6	31.8	5.9	13.4
Depreciation and amortisation	(42.0)		(51.5)		9.5
Operating result	3.2	0.7	(19.7)	(3.6)	22.7
Net financial income (expense)	(15.3)		(15.8)		0.5
Result from ordinary activities	(12.1)	(2.6)	(35.5)	(6.6)	23.4
Adjustments to financial assets	3.1		(5.6)		8.7
Net extraordinary income (expense)	(4.7)		(58.4)		53.7
Result before taxation	(13.7)	(2.9)	(99.5)	(18.4)	85.8
Taxation	0.6		(1.5)		2.1
Net result	(13.1)	(2.8)	(101.0)	(18.6)	87.9
Net result for the group	(13.5)	(2.9)	(100.0)	(18.5)	86.5

Reclassified consolidated balance sheet at 31 December 2004

(Millions of euros)	31.12.2004	31.12.2003	Variation
Trade receivables	143.1	155.3	(12.2)
Inventory	86.0	91.3	(5.3)
Trade payables	(107.5)	(110.7)	3.2
Total working capital	121.6	135.9	(14.3)
Other assets	30.3	30.1	0.2
Other liabilities	(30.2)	(31.5)	1.3
Net fixed assets	362.8	387.4	(24.6)
Invested capital	484.5	521.9	(37.4)
Employees' leaving entitlement and other provisions	(86.9)	(100.8)	13.9
Net invested capital	397.6	421.1	(23.5)
Net financial position	244.9	254.9	(10.0)
Shareholders' funds	152.7	166.2	(13.5)
Total sources	397.6	421.1	(23.5)

Consolidated net financial position at 31 December 2004

(Millions of euros)	31.12.2004	31.12.2003	Variation
Liquid funds and current financial receivables	23.5	34.3	(10.8)
Current financial payables	(76.4)	(71.1)	(5.3)
Current financial position	(52.9)	(36.8)	(16.1)
Non current financial receivables	5.0	5.0	0.0
Non current financial payables	(197.0)	(223.1)	26.1
Net financial position	(244.9)	(254.9)	10.0

Reclassified profit and loss account of Reno De Medici S.p.A. for the year ended 31 December 2004

(Millions of euros)					Variation
	2004	%	2003	%	
Net revenues	304.8		320.4		(15.6)
Raw materials and services	(227.1)		(243.6)		16.5
Personnel	(49.8)		(53.3)		3.5
Gross operating profit	27.9	9.2	23.5	7.3	4.4
Depreciation and amortisation	(28.9)		(31.1)		2.2
Operating result	(1.0)	(0.3)	(7.6)	(2.4)	6.6
Net financial income (expense)	(12.5)		(10.6)		(1.9)
Result from ordinary activities	(13.5)	(4.4)	(18.2)	(5.7)	4.7
Adjustments to financial assets	(3.6)		(56.6)		53.0
Net extraordinary income (expense)	(0.9)		(27.1)		26.2
Result before taxation	(18.0)	(5.9)	(101.9)	(31.8)	83.9
Taxation	1.6		0.1		1.5
Net result	(16.4)	(5.4)	(101.8)	(31.8)	85.4

Reclassified balance sheet of Reno De Medici S.p.A. at 31 December 2004

(Millions of euros)	31.12.2004	31.12.2003	Variation
Trade receivables	100.7	100.9	(0.2)
Inventory	50.9	47.3	3.6
Trade payables	(71.1)	(69.5)	(1.6)
Total working capital	80.5	78.7	1.8
Other assets (liabilities), net	(1.6)	2.3	3.9
Net fixed assets	355.9	377.0	(21.1)
Invested capital	434.8	458.0	(23.2)
Employees' leaving entitlement and other provisions	(28.1)	(38.2)	10.1
Net invested capital	406.7	419.8	(13.1)
Net financial position	232.1	228.8	3.3
Shareholders' funds	174.6	191.0	(16.4)
Total sources	406.7	419.8	(13.1)

Net financial position of Reno De Medici S.p.A. at 31 December 2004

(Millions of euros)	31.12.2004	31.12.2003	Variation
Liquid funds and current financial receivables	30.5	40.3	(9.8)
Current financial payables	(74.9)	(67.8)	(7.1)
Current financial position	(44.4)	(27.5)	(16.9)
Non current financial payables	(187.7)	(201.4)	13.7
Net financial position	(232.1)	(228.9)	(3.2)

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