

RenoDeMedici



Standard & Poor's new rating and outlook

Pontenuovo di Magenta, 1 June 2005

Standard & Poor's Ratings Services lowered today its long term corporate credit rating on Reno De Medici SpA to "B" from "B+". The same rating action was taken on the senior unsecured debt of subsidiary Reno De Medici International S.A.. In addition, the "B" short term corporate credit rating on Reno De Medici SpA was affirmed. The outlook is negative.

Following is the press release published today by Standard & Poor's.

Research Update

RatingsDirect Headline:

Italian Carton Board/Packaging Co. Reno De Medici SpA Downgraded To 'B'; Outlook Negative

CreditWire Vendor Headline:

S&P Lowers Reno De Medici SpA Rtg To 'B'; Otlk Neg

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Rationale

On June 1, 2005, Standard & Poor's Ratings Services lowered its long-term corporate credit rating on Italy-based carton board and packaging company Reno De Medici SpA (RDM) to 'B' from 'B+'. The same rating action was taken on the senior unsecured debt of subsidiary Reno De Medici International S.A. In addition, the 'B' short-term corporate credit rating on RDM was affirmed. The outlook is negative.

The downgrade reflects RDM's weaker-than-expected operating cash flows. Operating performance has been affected by persisting difficult market conditions, which have further deteriorated over the past months. Moreover, the company's restructuring efforts and cost efficiency improvements have been counterbalanced by increased price pressure in its main product markets. This is likely to prevent any further material improvement in operating cash flows in 2005. In 2004, RDM generated EBITDA of only €45 million (albeit up from €30 million in 2003). The weak cash flow generation has also negatively affected credit measures. In 2004, funds from operations (FFO) to net debt was below 10%, and net debt to EBITDA

for the 12 months ended March 31, 2005) was 5.3x (6x including unfunded pension liabilities).

The European carton board markets are mature, and producers of recycled carton board are exposed to volatile wastepaper and energy prices. In addition, industry overcapacity continues to generate low operating rates and constant pricing pressure. RDM's primary geographic market is Italy (accounting for about half of sales). The Italian consumer goods market is currently very weak, resulting in strong pressure on RDM's sales and margins. During the first quarter 2005, RDM's average prices applied in the carton board sector decreased, and are not expected to recover in the near term. Combined, these factors result in a well-below-average business profile assessment for RDM, thereby constraining the ratings.

Liquidity

RDM's liquidity and financial flexibility are very weak, as a result of its poor cash flow generation, which has led to a gradual increase in short-term debt. As the €150 million bond matures in May 2006, almost all of RDM's interest-bearing debt is now short term. At the end-March 2005, total debt was €251 million, of which about €62 million was short term. About €23 million of this short-term debt consisted of current maturities of long-term debt, with the rest being drawn under the group's uncommitted bank credit facilities. RDM's immediate cash balance was only about €18 million at March 31, 2005, of which €14 million is currently available but earmarked for special restructuring costs. RDM had uncommitted credit facilities of about €90 million at the same date, of which more than half remains undrawn.

Although the use of uncommitted credit facilities is common practice in Italy, the availability of such uncommitted credit facilities in a distress scenario is uncertain. Sole reliance on these facilities as a back-up liquidity source would, therefore, lead to heightened liquidity risk.

Recovery analysis

The group's finance subsidiary, Reno De Medici International S.A., has an outstanding €150 million unsecured notes issue maturing in 2006. The notes, rated 'B' by Standard & Poor's, are guaranteed by Reno De Medici SpA, the group's top holding company. Although the notes are unsecured, their rating is the same as RDM's corporate credit rating as the group has little secured debt on its balance sheet. If RDM were to increase its secured-debt levels or other priority liabilities, however, the rating on the notes could be lowered by up to two notches.

Outlook

The negative outlook primarily reflects concerns regarding the group's near-term financial flexibility, as more than 80% of the interest-bearing debt is now short term, and refinancing of the €150 million bond has not yet been resolved. Standard & Poor's expects RDM to seek a solution to the refinancing issues in the near term. The rating could be lowered further, however, if refinancing is not resolved in 2005. In addition, downward pressure on the rating could increase if operating cash flows weaken or if the group fails to improve its credit measures over the near-to-medium term. Standard & Poor's expects FFO to net debt to improve to about 10% in 2005.

Ratings List

	To	From
Reno De Medici SpA		
Corporate credit rating	B/Negative/B	B+/Stable/B
Reno De Medici International S.A.		
Senior unsecured debt*	B	B+

*Guaranteed by Reno De Medici SpA.

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Reno De Medici SpA reserves the right to comment on the rating action taken by Standard & Poor's.

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