

RenoDeMedici



Update by Standard & Poor's

Pontenuovo di Magenta, 21 december 2005

Standard & Poor's Ratings Services confirmed today the ratings on Reno De Medici and issued an update attached here below:

Research Update

RatingsDirect Headline

Italian Cartonboard Producer Reno De Medici SpA 'B' Ratings Remain On CreditWatch Negative

CreditWire Vendor Headline

S&P Keeps Reno De Medici 'B' Ratings On Watch Neg

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Rationale

On Dec. 21, 2005, Standard & Poor's Ratings Services said that its 'B' long-term and short-term corporate credit ratings on Italy-based cartonboard manufacturer Reno De Medici SpA (RDM) remain on CreditWatch with negative implications, where they were placed on Nov. 22, 2005.

The CreditWatch status now mainly reflects concerns related to persisting tough market conditions that are likely to affect RDM's weak operating cash flows. The execution risk related to the refinancing plan for the €145 million bond issued by Reno De Medici International S.A. has been substantially reduced since the CreditWatch placement, thanks to the recently announced sale of Aticarta, which will reduce RDM's debt by an estimated €15 million, and the agreed arrangement of two new credit facilities expected to be concluded shortly: The first one, for €40 million, will be granted to Red Im.--RDM's real estate subsidiary, which is to be demerged from the group--and the second, for €60 million, will be granted to RDM. The balance of €30 million should come from RDM's already available funds.

The €40 million in proceeds from the first loan will be used by Red Im. to fund the earlier transfer to the subsidiary of RDM's real estate assets. Standard & Poor's understands

that the loan has been approved, despite the still-pending regulatory approval for the real estate demerger.

Standard & Poor's will monitor the final implementation of the refinancing plan and will evaluate the group's operating performance and future liquidity position before resolving the CreditWatch status. Although net debt would materially decrease following the refinancing, limited future liquidity resources remain a concern, and the weak operating cash flows are not expected to contribute meaningfully to debt reduction in the near term.

During the first nine months of 2005, RDM's revenues shrank by about 8%, while the EBITDA margin was 8%. The average prices applied in the cartonboard sector decreased over the period, and no recovery was seen in demand. The company's net debt decreased to €213 million, from €258 million at end-December 2004, reflecting the sale of Europoligrafico. The market outlook remains difficult, and we expect this to show in RDM's full-year operating results.

Liquidity

RDM's liquidity and financial flexibility are very weak, owing to poor cash flow generation. As the €150 million bond matures in May 2006 (€145 million outstanding), almost all of RDM's interest-bearing debt is now short term. At end-September 2005, total debt was €249 million, of which about €215 million was short term, while RDM's immediate cash balance was only about €33 million. At the same date, RDM had uncommitted credit facilities of about €98 million, of which about half was undrawn.

Although the use of uncommitted credit facilities is common practice in Italy, the availability of such 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.

Ratings List

Reno De Medici SpA

Corporate credit rating

B/Watch Neg/B

Reno De Medici International S.A.

Senior unsecured debt*

B/Watch Neg

*Guaranteed by Reno De Medici SpA.

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