

RenoDeMedici



New actions by Standard & Poor's

Pontenuovo di Magenta, 22 november 2005

Standard & Poor's Ratings Services resolved today to maintain unchanged the short and long term corporate credit rating of Reno De Medici SpA, as well as the rating on the senior unsecured debt of subsidiary Reno De Medici International SA, at "B". However, Standard & Poor's Ratings Services resolved to put such ratings on credit watch with negative implications.

Following is the Research Update published today by Standard & Poor's.

Research Update

RatingsDirect Headline:

Italian Cartonboard Co. Reno De Medici On Watch Neg Re Execution Risks Of Refinancing Plan

CreditWire Vendor Headline:

S&P Puts Reno De Medici On Watch Neg Re Financing Plan

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Rationale

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

The CreditWatch placement primarily reflects our concerns related to the execution risks of the group's recently announced refinancing plan. In addition, persisting tough market conditions are likely to prevent any material near-term improvement in RDM's weak operating cash flows.

The refinancing plan for the group's €150 million senior unsecured bond--issued by subsidiary Reno De Medici International S.A. and guaranteed by RDM--of which €145 million is outstanding, includes several elements, including the valorization of some real estate assets through their proportional demerger from RDM into a newly established, separate company, generating a €40 million credit receivable for RDM. This will be followed by the stock market listing of the new company, which will then pay the credit receivable to RDM. A further €60 million should come from a new bank loan, €15 million from asset sales, and the balance from existing cash.

Successful implementation of these measures would enable the repayment of the maturing bond, but Standard & Poor's sees risks related to the plan's execution. In addition, although net debt would materially decrease following the refinancing, future limited liquidity resources remain a concern, and the weak operating cash flows are not expected to contribute meaningfully to debt reduction in the near term.

Standard & Poor's will closely follow the progress of the refinancing plan and its implementation. RDM's board of directors has scheduled a meeting before the end of December to approve the final terms of the proposed demerger of the real estate assets. If the prospects for successful implementation of the refinancing plan remain uncertain, we could lower the ratings by more than one notch. Standard & Poor's will also evaluate the group's operating performance and future liquidity position before resolving the CreditWatch status.

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

	To	From
Reno De Medici SpA Corporate credit rating	B/Watch Neg/B	B/Negative/B
Reno De Medici International S.A. Senior unsecured debt*	B/Watch Neg	B
*Guaranteed by Reno De Medici SpA.		

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Reno De Medici SpA has taken note of the decisions of Standard & Poor's and confirms the efforts in pursuing the restructuring of the Group's financial structure, referred to in the press release of 14 November 2005, which is reaffirmed entirely.

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