

RenoDeMedici



## Update by Standard & Poor's

*Pontenuovo di Magenta, 28 april 2006*

Standard & Poor's Ratings Services resolved today the negative credit watch leaving unchanged the rating and the outlook. The research update of the agency is attached here below:

### Research Update

#### RatingsDirect Headline

Italian Cartonboard Producer Reno De Medici 'B' Ratings Affirmed; Off Watch Neg; Outlook Neg

#### CreditWire Vendor Headline

S&P Afrms Reno De Medici SpA 'B' Rtgs; Off Watch Neg; Otlk Neg

#### Contacts

Primary Credit Analyst: Barbara Castellano

Secondary Credit Analyst: Alf Stenqvist

Additional Contact:

GroupE-MailAddress@standardandpoors.com

#### Rationale

On April 28, 2006, Standard & Poor's Ratings Services affirmed its 'B' long-term and 'B' short-term corporate credit ratings on Italy-based cartonboard manufacturer Reno De Medici SpA (RDM). The ratings were removed from CreditWatch, where they had been placed on Nov. 22, 2005. The outlook is negative.

The ratings and outlook continue to reflect our concerns about RDM's operating performance. Notwithstanding some signs of a light recovery in the Italian economic environment, market conditions in the cartonboard industry remain tough. The ongoing increase in energy prices could put pressure on 2006 earnings, as already seen in 2005. In 2005, RDM's free cash flow generation was flat and funds from operations (FFO) to fully adjusted net debt was about 5%.

After the divestiture of its packaging division, RDM's product diversification has substantially reduced. The resulting higher dependency on the cartonboard industry and the Italian market negatively affects the company's business risk profile.

RDM is the second-largest producer of recycled cartonboard in Europe, with a focus on white-lined chipboard used for packaging products. The company has good market positions in this segment in Southern Europe, with Italy accounting for about 53% of sales in 2005. Cartonboard markets are mature, and demand in Europe is clearly tied to that for consumer goods. Producers of recycled cartonboard are exposed to volatile wastepaper and energy prices, and industry overcapacity continues to result in low operating rates and constant pricing pressure. Several other elements have also contributed to RDM's weak financial and operational performance over the past few years: operational inefficiencies, prolonged weak demand in RDM's major markets, and the rising prices of energy.

In 2005, RDM's operating margin was 8.6%, down from 10.2% in 2004 on a comparable basis. Demand remained sluggish, particularly in Italy, and the possibility to impose price increases was very limited. Net financial debt at year-end was €228 million, including €17 million of pension liabilities, down from €291 million in 2004. After the refinancing of the company's outstanding €145 million bond in May, net debt is expected to be reduced by €50 million. Free cash flow generation, which was flat in 2005, is expected to be mildly positive in 2006.

### *Liquidity*

At Dec. 31, 2005, RDM's liquidity and financial flexibility were very weak, and almost all of RDM's interest-bearing debt was short term. Total debt was €272 million (adjusted for pension liabilities), of which about €226 million was short term, and RDM's immediate cash balance was about €45 million (excluding €12 million of restricted deposits).

At the same date, RDM had credit facilities of about €96 million, of which a substantial part was committed. Of these facilities, €58.3 million--principally made up of advances on trade receivables--was drawn.

Standard & Poor's expects liquidity to remain tight, reflecting poor cash flow generation.

### **Outlook**

The negative outlook primarily reflects concerns regarding the company's operating performance. The ratings could be lowered if operating performance does not show any improvement in 2006, if cash flow continues to deteriorate, and if RDM 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 medium term.

### **Ratings List**

	To	From
Corporate credit rating	B/Negative/B	B/Watch Neg/B

**For further information, please contact:**

**Reno De Medici S.p.A.**  
**Guido Vigorelli**  
**Tel. 02/979601 Fax 02/97960555**  
**E-mail [investor.relations@renodemedici.it](mailto:investor.relations@renodemedici.it)**

**Bonaparte 48**  
**Monica Strigelli**  
**Tel. 02/8800971 Fax 02/72010530**  
**E-mail [monica.strigelli@bonaparte48.com](mailto:monica.strigelli@bonaparte48.com)**