Half Year Report

First half year 2005

Reno De Medici S.p.A.
Registered office in Milan – Via dei Bossi, 4
General and administrative offices:
Pontenuovo di Magenta (MI) – Via G. De Medici, 17
Share capital fully paid € 148,342,940.35
Tax and VAT code 00883670150

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1 This document is an English translation from Italian. The Italian original shall prevail in case of difference in interpretation and/or factual errors.

1. Company bodies

Board of Directors

Giovanni Dell'Aria Burani	Honorary chairman
Giuseppe Garofano (*)	Chairman
Carlo Peretti (*)	Deputy chairman
Ugo Dell'Aria Burani (*)	Deputy chairman
Ignazio Capuano (*)	Managing director
Marco Baglioni	Director
Piergiorgio Cavallera	Director
Mario Del Cane	Director
Giancarlo De Min (*)	Director
Michael Groller	Director
Vincenzo Nicastro	Director
Ambrogio Rossini	Director

(*) member of the executive committee

Board of Statutory Auditors

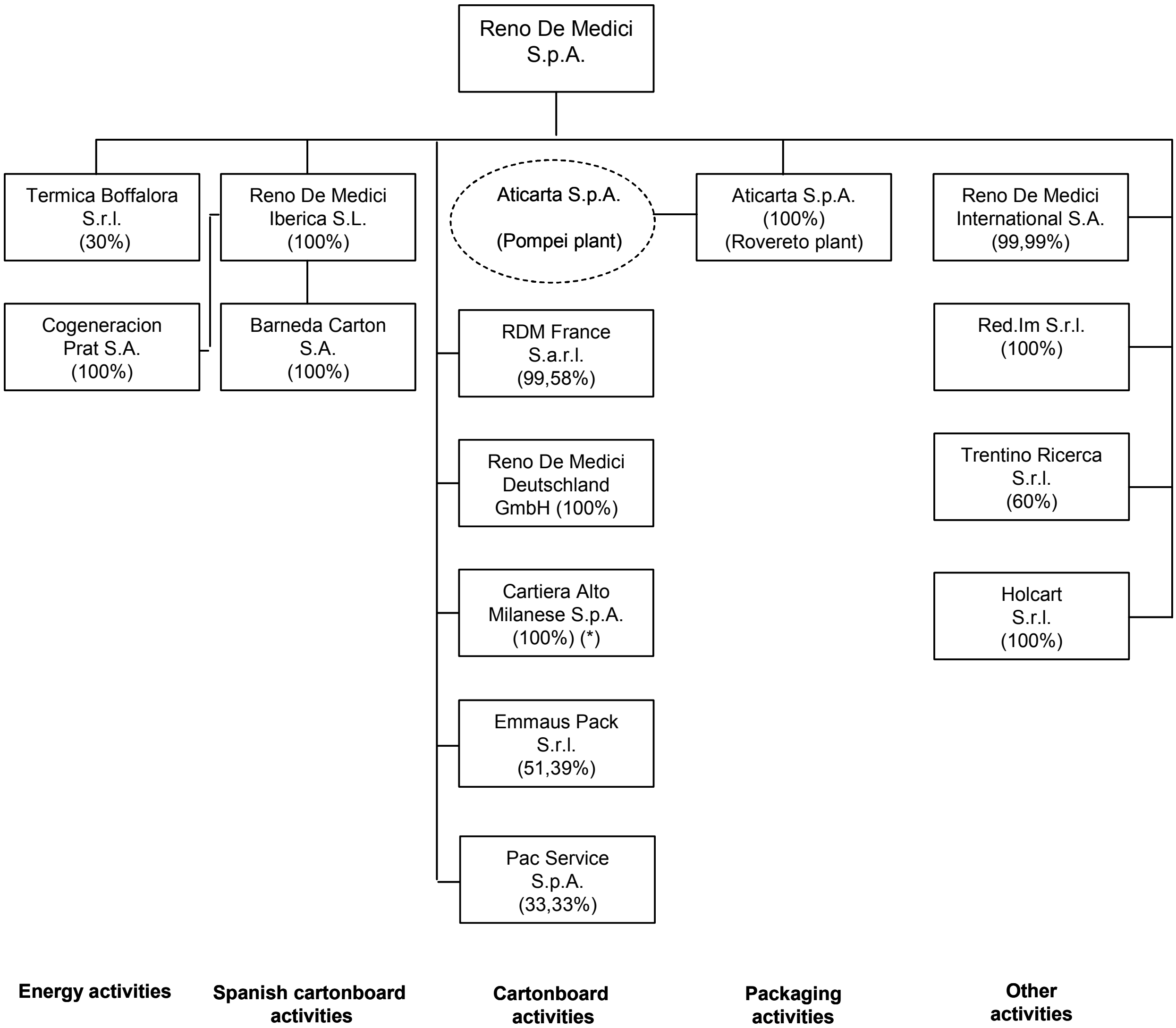
Sergio Pivato	Chairman
Carlo Tavormina	Standing auditor
Gabriele Tosi	Standing auditor
Michele Tosi	Substitute auditor
Gaudenzio Gadda	Substitute auditor

Independent auditors

PRICEWATERHOUSECOOPERS S.p.A.

2. Operating companies of the Reno De Medici Group at 30 June 2005

The following table does not include companies in liquidation or non-operating companies:



(*) Reno De Medici S.p.A. 8% - Holcart S.r.l. 92%

3. COMMENTS OF THE DIRECTORS ON THE OPERATIONS OF THE RENO DE MEDICI GROUP

Introduction

The Reno De Medici Group ("Group") has adopted for its consolidated financial statements the International Financial Reporting Standards ("IFRS") starting from this first half year report for 2005. As a consequence, the comparative figures for 2004 are restated in accordance with IFRS.

In this context, following the sale of Europoligrafico S.p.A. ("EPG") in June 2005, the results of EPG are classified in the item "discontinued operations", which for the first half of 2004 and the first half of 2005 consists of the results of that company and, for the first half of 2005, also includes the gain on sale and the accessory costs of sale of this operation. The balance sheet of EPG has not been consolidated at 30 June 2005.

As required by article 81 of Consob Regulation no. 11971 of 14 May 1999 and subsequent supplements and amendments (the "Consob Regulation"), this Half Year Report is compliant with IAS 34 and provides useful information for a better understanding of the interim results. In addition, according to Consob Resolution n. 14990 dated 14 April 2005, the effects of the adoption of IFRS on the 2004 figures are presented in the appendix, which forms an integral part of this half year report, in compliance with the provisions of IFRS 1 – *First-time Adoption of International Financial Reporting Standards*.

The financial statements of the Parent Company, Reno De Medici S.p.A., have been prepared in accordance with Italian accounting principles.

Results of the first half of 2005

The Group has achieved net revenues of approximately Euro 200 million in the first half of 2005, compared to net revenues of approximately Euro 217 million in the corresponding period of 2004[2]. The fall in net revenues over those of the previous year, amounting to 7.9%, is principally due to lower unit sales prices and to the halting of production at the Pompeii facility (owned by Aticarta S.p.A.) in June 2004, owing to the lack of demand for its specific product, cartonboard from virgin fibre. Volumes sold in the second quarter of 2005 have, however, shown a slight improvement compared to the first three months of the year.

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[2] See Consolidated Financial Statements.

Revenues realised by Group companies with the former subsidiary EPG amount to Euro 5.6 million in the first quarter of both 2005 and 2004.

Gross operating profit (EBITDA[3]) amounts to Euro 18.1 million at a consolidated level and includes unusual expenses of about Euro 450 thousand, deriving mainly from non-recurring costs incurred by the subsidiary Reno De Medici Iberica S.L..

Before unusual expenses, EBITDA at 30 June 2005 is approx. Euro 18.6 million (approx. Euro 22 million at the end of first semester 2004), representing 9.3% of net revenues (10.1% at June 2004).

The reduction in margin is due to the reduction in the unit sales prices of recycled cardboard referred to above and the increase of certain costs, such as energy costs, at the same time. The effect of these factors have been partially compensated by the results achieved in manufacturing efficiency and the steps taken to rationalise production costs, which have enable the Parent Company to contain even further variable and fixed factory costs (other than energy costs) if compared to the previous year.

EBIT[4] is negative for Euro 7.8 million, after charging depreciation and amortisation of tangible and intangible fixed assets of Euro 16.8 million, and write-downs of Euro 9.2 million. Particularly, the write-downs refer to plants and equipments of Pompeii factory owned by the subsidiary Aticarta S.p.A. (Euro 7 million) and to the board machine and ancillary plants and equipment of the subsidiary Cartiera Alto Milanese S.p.A. (about Euro 2,2 million) (see also Paragraph 7, section D).

Such write-downs result, as for Aticarta S.p.A., from the continuing inactivity of the Pompeii factory for which a temporary lay-off scheme involving all the facility's staff will expire in October 2005. The analyses of the most appropriate initiatives for the Pompeii factory are continuing, with local and central authorities and the trade unions, with the aim of reconverting operations into economically tenable industrial activities. As for Cartiera Alto Milanese S.p.A., write-downs follow the change in the strategic direction of this subsidiary, which in future will carry out an exclusively sales and distribution role.

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[3] Earnings Before Interest, Taxes, Depreciation and Amortisation.
[4] Gross operating profit less depreciation, amortisation and write-downs of tangible and intangible fixed assets.

The consolidated result for the period is substantially at break-even, with a net loss of approx. Euro 300 thousands, compared to the loss of Euro 1.5 million at June 2004. This result is mainly the consequence of both certain other charges amounting to Euro 15.7 million and the the positive result of discontinued operations of about Euro 30.6 million.

In particular, the other charges refer essentially to a provision made in respect of the receivable from Grupo Torras S.A. following the judgement of the Court of First Instance of Madrid published on 8th Semptember 2005 (see also Paragraph 7, section G, and Paragraph 9). Such provision has been stated after EBIT as it refers to a litigation started in 1993 and related to certain past transactions of the Saffa Group which have no relationships with the operations of Reno De Medici Group.

The result of discontinued operations includes a gain on the sale of EPG of Euro 27.3 million, net of accessory costs of sale, as well as the net profit for the period of Euro 3.3 million of EPG itself.

The Group made investments in tangible assets during the period of Euro 4.7 million during the first half of 2005 (Euro 5.5 million in the first half of the previous year), which mainly relate to extraordinary maintenance work carried out at the more important facilities and to modifications made to the top layer at Villa Santa Lucia.

The net financial indebtedness at the end of June 2005 amounts to Euro 190 million, down from about Euro 247.5 million at the end of December 2004, mostly as a result of the sale of EPG referred to above and the sale of land and buildings at the Verderio site which took place in the first quarter of 2005.

An analysis of the net financial indebtedness and additional information regarding the principal balance sheet and profit and loss items may be found in Paragraph 7 – "Notes to the consolidated financial statements for the first half of 2005".

Outlook for 2005

The first half of 2005 was characterised by a gradual pick up in sales volumes, in particular with reference to the Italian market, which by the end of the half year had essentially reached the levels reached at the end of June 2004. The performance of the European market has been somewhat more contrastive, distinguished by a reduction in sales volumes in Western Europe compared with an increased liveliness in the East European markets. Sales in the overseas markets have remained close on constant in absolute terms when compared to the first half of 2004, even though they have slightly increased as a proportion of total revenues (rising to 10% in the first half of 2005 compared to 9.2% in the first half of 2004).

The situation of sales prices, however, remains difficult; they show little movement due to the continuing weakness in the demand for consumer goods, which causes our major customers to be cautious in their stocking policies.

The increase in energy prices needs to be mentioned in discussing production costs. Assocarta has estimated that these costs account for up to 20% of the total production costs of Italian paper manufacturers and are higher, by about 20% for gas and 30% for electricity, than those borne by European competitors. This situation produces for the Italian players an evident competitive disadvantage.

In a scenario in which visibility continues to remain limited and marked by caution, actions aimed at rationalising costs and searching for efficiencies in manufacturing and selling operations prevail (see also Paragraph 11).

In this respect, the transfer to the manufacturing sites of certain activities previously carried out centrally at the corporate headquarters has been completed while two agreements relating to the Magenta and Villa Santa Lucia facilities and involving about 100 employees have been finalised.

Furthermore, a new project relating to the Marzabotto manufacturing sites has been initiated with the purpose to improve the overall efficiency standards.

In addition, Reno De Medici S.L., the Spanish subsidiary of Reno De Medici S.p.A., has finalised a programme to reorganise its operations as part of the broader restructuring process being carried out by the Reno De Medici Group in the Iberian Peninsular, which began in December 2003 with the sale of its real estate properties in the Barcelona area. Included in the programme is the decision, to be finalised with the relevant trade unions, to bring forward the closure of the Prat factory, now to be carried out by the end of 2005; this closure was originally planned for the end of 2006 as a result of the mentioned sale of the Barcelona properties.

4. Consolidated financial statements

Profit and loss account	Note	First half 2005	First half 2004
Euro/000			
Revenues from sales		200,376	217,487
Other revenues		3,087	2,813
Changes in stocks of finished goods		2,630	2,432
Cost of raw materials and services	C	(148,815)	(156,673)
Staff costs		(35,571)	(39,318)
Other operating costs		(3,084)	(4,663)
Income (expense) from non-current assets held for sale		(54)	(78)
Unusual income (expense)		(457)	(190)
Gross Operating Profit (EBITDA)		**18,112**	**21,810**
Depreciation and amortisation		(16,763)	(17,260)
Write-downs	D	(9,173)	0
Operating Profit (Loss) (EBIT)		**(7,824)**	**4,550**
Net financial expenses		*(7,293)*	*(7,845)*
Gain on purchase of RDM International debentures		*0*	*1,430*
Present value adjustment of Grupo Torras receivable		*610*	*575*
Financial income (expense), net	E	(6,683)	(5,840)
Income from equity investments		1,181	1,171
Other income (expense)		(15,728)	0
Taxation		(1,833)	(1,465)
Profit (loss) for the period before discontinued operations		**(30,887)**	**(1,584)**
Net gain from Europoligrafico sale		*27,259*	*0*
Result for the period of Europoligrafico		*3,313*	*55*
Discontinued operations	A	30,572	55
Profit (loss) for the period		**(315)**	**(1,529)**
Attributable to:			
Profit (loss) for the period attributable to the Group		(559)	(1,515)
Profit (loss) for the period attributable to minority interest		244	(14)
Earnings (loss) per share (Euro)		(0.001)	(0.006)

Balance Sheet	Note	30 June 2005	31 December 2004
Euro/000			
ASSETS			
Non-current assets			
Tangible fixed assets	F	231,551	267,193
Investment property		1,284	1,284
Goodwill		759	1,297
Other intangible fixed assets		3,963	4,739
Investments accounted for under the equity method		13,547	17,825
Deferred tax assets		0	0
Derivative financial instruments		0	5,183
Available-for-sale financial assets		235	256
Trade receivables		200	262
Other receivables	G	10,741	28,086
Non-current assets held for sale		5,209	8,883
Total non-current assets		**267,489**	**335,008**
Current assets			
Stocks	I	113,487	119,613
Trade receivables		124,498	141,755
Other receivables	H	38,479	6,925
Derivative financial instruments		2,222	2,105
Available-for-sale financial assets		675	144
Financial assets with fair value adjusted in profit and loss		0	0
Cash and cash equivalents		30,738	25,003
Total current assets		**310,099**	**295,545**
TOTAL ASSETS		**577,588**	**630,553**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Group interest in equity		154,953	155,512
Minority interest in equity		512	560
Shareholders' equity		**155,465**	**156,072**
Non-current liabilities			
Bank loans and other financial liabilities		41,057	198,751
Derivative financial instruments		25	1,247
Other payables		552	553
Deferred tax liabilities		4,611	3,314
Employees' leaving entitlement		26,275	29,823
Non-current provisions for contingencies and charges	K	20,067	22,069
Liabilities directly attributable to non-current assets held for sale		0	981
Total non-current liabilities		**92,587**	**256,738**
Current liabilities			
Bank loans and other financial liabilities		206,771	71,979
Derivative financial instruments		2,914	2,859
Trade payables		89,360	108,024
Other payables	L	27,829	33,461
Current taxation		2,662	1,420
Total current liabilities		**329,536**	**217,743**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**577,588**	**630,553**

Cash flow statement	First half 2005	First half 2004
Euro/000		
Profit (loss) for the period before dicountinued operations and taxation	(29,054)	(119)
Depreciation and amortisation	16,763	17,260
Write-downs	24,901	0
(Income) expense from equity investments	(1,181)	(1,171)
Financial (income) expense	6,683	5,840
(Gains) losses on the sale of fixed assets	(40)	123
Change in trade receivables	(7,768)	(5,249)
Change in stocks	(4,181)	(2,536)
Change in trade payables	9,125	1,134
Change in other receivables	3,655	6,135
Change in other payables	(3,455)	(11,049)
Change in the employees' leaving entitlement	279	(3,948)
Change in other provisions	1,857	(4,114)
Change in restricted deposits	204	3,280
Gross cash flow	**17,788**	**5,586**
Interest paid during the period	(6,562)	(7,133)
Taxation paid during the period	(493)	(1,150)
Cash flow from operating activities	**10,733**	**(2,697)**
Purchase (sale) of available-for-sale financial assets	(519)	9,003
Investments	(4,948)	(5,682)
Disposals	760	108
Dividends received	1,170	
a. Gain on discountinued operations	*27,259*	*0*
b. Result for the period of discountinued operations	*3,313*	*55*
C. Change in assets and liabilities relating to discountinued operations	*9,982*	*2,298*
D. Change in other receivables/payables relating to Europoligrafico's sale	*(32,292)*	*0*
Cash Flow from discountinued operations (a+b+c+d)	8,262	2,353
Change in scope of consolidation	4,566	(4,646)
Cash flow from investing activities	**9,291**	**1,136**
Proceeds from (repayments of) long-term loans	(13,793)	(9,917)
Dividends paid	(292)	(155)
Cash flow from financing activities	**(14,085)**	**(10,072)**
Change in cash and cash equivalents (unresticted)	**5,939**	**(11,633)**
Cash and cash equivalents (unresticted) at beginning of period	**5,976**	**15,366**
Cash and cash equivalents (unresticted) at end of period	**11,915**	**3,733**
Cash and cash equivalents at end of period		
Cash and cash equivalents (unresticted)	11,915	3,733
Cash and cash equivalents (resticted)	18,823	19,720
Cash and cash equivalents at end of period	**30,738**	**23,453**

Change in Shareholders' equity	Share capital	Share premium reserve	Legal reserve	Other reserves	Retained earnings (losses) brought forward	Profit (loss) for the period	Own shares (*)	Total Shareholders' equity
Euro/000								
Shareholders' equity at 1 January 2004	**148,343**	**20,636**	**6,462**	**117,385**	**(24,204)**	**(100,026)**	**(5,374)**	**163,222**
Increase in share capital								
Distribution of dividends								
Change in accounting principles								
Reclassifications								
Change in scope of consolidation					4			4
Revaluations with equity effect								
Cover of 2003 losses		(11,752)		(90,066)	1,792	100,026		0
Profit (loss) for the period						(1,515)		(1,515)
Shareholders' equity at 30 June 2004	**148,343**	**8,884**	**6,462**	**27,319**	**(22,408)**	**(1,515)**	**(5,374)**	**161,711**
Increase in share capital								
Distribution of dividends								
Change in accounting principles								
Reclassifications								
Change in scope of consolidation					370			370
Revaluations with equity effect								
Cover of losses								
Profit (loss) for the period						(6,569)		(6,569)
Shareholders' equity at 31 December 2004	**148,343**	**8,884**	**6,462**	**27,319**	**(22,038)**	**(8,084)**	**(5,374)**	**155,512**
Increase in share capital								
Distribution of dividends								
Change in accounting principles								
Reclassifications								
Change in scope of consolidation								
Revaluations with equity effect								
Cover of 2004 losses		(1,087)		(15,362)	8,365	8,084		0
Profit (loss) for the period						(559)		(559)
Shareholders' equity at 30 June 2005	**148,343**	**7,797**	**6,462**	**11,957**	**(13,673)**	**(559)**	**(5,374)**	**154,953**

(*) Nominal value of owns shares is about Euro 4.1 million

5. Accounting principles and policies

The accounting principles and policies adopted in the preparation of the IFRS balance sheets at 30 June 2005 and 31 December 2004 and the profit and loss accounts for the first half-year 2005 and the first half-year 2004 are set out below, as supplemented by the exceptions and exemptions permitted by IFRS 1 - *First-time Adoption of IFRS*. In this respect, it should be noted that the principles and policies selected by the European Commission could differ from the IFRS which will be in force at 31 December 2005 as a consequence of possible new positions which might be taken by the Commission or as a result of new standards or interpretations issued by the International Accounting Standards Board (IASB) or the International Financial Reporting Interpretations Committee (IFRIC).

The consolidated financial statements are prepared in accordance with the IFRS issued by the International Accounting Standards Board or approved by the European Union. Such IFRS include all the revised International Accounting Standards ("IAS") and all the interpretations of the International Financial Reporting Interpretations Committee (IFRIC), previously known as the Standing Interpretations Committee ("SIC").

The consolidated financial statements are prepared in thousands of Euros, as this is the currency at present in use in the primary economic environment in which the Group operates.

Consolidation principles

The consolidated financial statements consist of the financial statements of Reno de Medici S.p.A. and those enterprises over which the Company has the right to exercise control. The definition of control is not based solely on the concept of legal ownership. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain the related benefits. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The equity and result attributable to minority interests are shown separately in the consolidated balance sheet and profit and loss account, respectively.

Subsidiaries in liquidation and insignificant enterprises are not consolidated, as their effect on the Group's total assets, total liabilities, financial position and result is immaterial, being overall less than 2%.

Subsidiaries which are excluded from the scope of consolidation are accounted for using the equity method and are included in the item “Investments accounted for under the equity method”.

The more significant consolidation policies adopted are as follows:

- The carrying value of investments consolidated on a line by line basis is eliminated against the corresponding equity. The assets, liabilities, costs and revenues of the subsidiaries are fully consolidated independent of the Group’s holding.
- All significant balances and transactions with group companies are eliminated, as are any gains or losses arising from intragroup transactions of commercial or financial nature not yet realised with third parties; unrealised losses are eliminated only to the extent that they do not represent an actual lower value of the asset sold.
- The carrying value of investments is reduced by the corresponding share of the investee’s equity, attributing to the single asset and liability line items their fair value at the date at which control was obtained. Any remaining positive difference is recognised as “Goodwill”; if the difference is negative it is credited to income.
- The share of the investee’s equity held by minorities is determined on the basis of the current values of assets and liablilities at the date on which control was obtained, excluding any related goodwill.
- Any increases or decreases of a subsidiary’s equity arising from its post-acquisition results are recorded on consolidation in an equity reserve denoted “Retained earnings (losses) brought forward”.
- Dividends distributed by Group enterprises are eliminated from the profit and loss account on consolidation.

Investments accounted for under the equity method

This item includes investments in unconsolidated subsidiaries and associates, which are accounted for under the equity method. Losses in excess of equity are accounted for to the extent to which the investor has a commitment to the investee to abide by legal or constructive requirements or in any other way to cover its losses.

Associates refer to those companies in which the Group exercises a significant influence over the company, but does not hold control or joint control over its financial and operating policies. The consolidated financial statements include the share pertaining to the Group of the results of associates, accounted for under the equity method, from the date that significant control commences until the date that it ceases. The Group's share of intragroup profits as yet unrealised with third parties is eliminated. The Group's share of unrealised losses is eliminated only to the extent that they do not represent an actual lower value of the asset sold.

Tangible fixed assets

Tangible fixed assets are stated at their original cost of purchase, production or contribution, including those direct accessory purchase costs required to bring an asset into a condition for use. Cost is reduced by accumulated depreciation and any write-downs in value.

Borrowing costs relating to investments in assets are fully recognised in the profit and loss account in the year in which they are incurred.

Ordinary maintenance and repair costs are charged to profit and loss in the year in which they are incurred; these costs are capitalised if they increase the value or economic life of the asset to which they relate.

Assets acquired under finance leases, which assign to the Group substantially all the risks and rewards of ownership, are recognised as tangible assets at their fair value or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as financial debt.

Depreciation is calculated on a straight-line basis over the estimated useful lives of assets, determined on the basis of the period during which the asset will be used by the Group. Land is not depreciated, even if acquired together with buildings.

The annual depreciation rates used are as follows:

Category		Rate %
Buildings		
	Factory buildings	3% - 5.50%
	Small constructions	5% - 10%
Plant and machinery		
	General plant and machinery	5% - 10%
	Specific plant and machinery	5.75% - 15.5%
Industrial and commercial equipment		
	Sundry equipment	10% - 25%
Other assets		
	Furniture and ordinary office machinery	8% - 12%
	Electronic office machinery	16.67% - 25%
	Internal vehicles	20%
	Motor vehicles	16.67% - 25%

The Group reviews, at least annually, if there is any indication that assets have suffered impairment. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of any impairment loss.
Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.
The recoverable amount of an asset is the higher of the fair value less disposal costs and its value in use. In assessing its value in use, the estimated future cash flows generated from the use of the asset and its disposal at the end of its useful life are discounted to their present value. The discount rate used reflects the implicit risk of the specific sector in which the asset operates. An impairment loss is recognised when the recoverable amount is lower than the carrying amount. When an impairment loss subsequently reverses, the carrying value of an asset is increased and the adjustment is recognised in income up to the lower of its recoverable amount and its preceding carrying value.

Non-current assets held for sale

Non-current assets held for sale consist of non-current assets whose carrying value will be recovered principally through a sale transaction rather than through continuing use. Assets held for sale are stated at the lower of their carrying amount and their fair value less disposal costs and are not depreciated.

Investment property

Investment property consists of land, buildings and parts of buildings which are not business assets, but which are held to earn rentals, for capital appreciation or both. Investment property is stated at cost less accumulated depreciation and impairment losses.

Goodwill

Goodwill is not amortised but is tested annually for impairment or more frequently if events or changes in circumstances indicate that it might be impaired, in accordance with IAS 36, *Impairment of Assets*. After initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Other intangible assets

Other intangible assets consist of identifiable assets not having physical substance, controlled by the Group and from which future economic benefits are expected.

Intangible assets are recognised when the cost of an asset can be measured reliably, in accordance with IAS 38 - *Intangible Assets*.

Other intangible assets having a finite life are measured at cost and amortised on a straight-line basis over their useful lives, estimated on the basis of the period during which the asset will be used by the Group.

The annual amortisation rates used are as follows:

Category		Rate %
Concessions, licences, trade marks and similar rights		
	Software licences	20%
Other intangible assets		
	Non-competition agreement	20%
	Market share	20%
	Sundry deferred charges	8% - 20%

Derivative financial instruments

Derivative financial instruments consist of assets and liabilities measured at fair value.

In accordance with IAS 39, derivative financial instruments only qualify for hedge accounting if all of the following apply:

- at the inception of the hedge there is formal designation and documentation of the hedging relationship;
- the hedge is expected to be highly effective;
- effectiveness can be reliably measured;
- the hedge is highly effective throughout the financial reporting periods for which it is designated.

When derivative financial instruments qualify for hedge accounting, the following accounting treatment applies:

- Where a derivative financial instrument is designated as a hedge of the exposure to changes in fair value of the hedged item (a fair value hedge; an example is the hedging of the fair value of assets or liabilities yielding or bearing a fixed rate), the instrument is measured at fair value and any gain or loss on remeasurement is recognised in the profit and loss account. In a consistent manner, any gain or loss on the hedged item attributable to the hedged risk adjusts the carrying value of the hedged item.

- Where a derivative financial instrument is designated as a hedge of the exposure to variability in the cash flows of the hedged item (a cash flow hedge; an example is the variation in cash flows of assets or liabilities due to variations in exchange rates), the changes in fair value of the instrument are initially recognised in equity and are subsequently recognised in the profit and loss account in a manner consistent with the recognition in the profit and loss account of the effects of the hedged transaction.

If hedge accounting cannot be applied, the gains or losses from the fair value measurement of derivative financial instruments are recognised immediately in the profit and loss account.

Own shares

Own shares are measured at cost and shown as a reduction in equity.

Financial assets held for sale

Financial fixed assets held for sale consist of investments in other companies and other non-current financial assets, which are measured at fair value; changes in the measurement of fair value are recognised in equity. When fair value cannot be reliably measured, investments are measured at cost as adjusted for any impairment losses.

Financial assets held for sale shown as current assets consist of securities with short-term maturities or marketable securities which represent a temporary investment of liquid funds.

Trade receivables and other receivables

Trade receivables and other receivables are measured at cost, represented by the initial fair value of the amount received in exchange. Subsequent adjustments are made to account for any write-downs. Non-current trade receivables and other receivables are measured at amortised cost.

Stocks

Stocks are stated at the lower of purchase or production cost, determined on a weighted average basis, and estimated realisable value, determined from market trends.

In the case of raw materials, market value means replacement cost; for finished goods and semi-finished goods, market value means net realisable value, representing the amount that the Group would expect to obtain from the sale of these goods in its normal activities.

Liquid funds

Liquid funds consist of available cash on hand and bank deposits, shares in liquid funds and other highly liquid investments which can be readily converted into cash and which are subject to an insignificant risk of changes in value.

Employee benefits

The Group maintains certain post-employment benefit plans which, depending on their terms and conditions, are either defined contribution plans or defined benefit plans. Under the defined contribution plans, the Group's obligation is limited to the payment of contributions to the state, to a fund or to a legally separate entity, which are determined on the basis of specific amounts due less amounts already paid in.

Defined benefit plans are post-employment plans which differ from defined contribution plans. The Italian employees' leaving entitlement ("TFR") is included amongst the defined benefit plans.

The liability for defined benefit plans, stated net of the fair value of any plan assets, is determined on the basis of actuarial assumptions and accounted for on an accruals basis, such that the cost of providing employee benefits is recognised in the period in which the benefit is earned by the employee; the liability is measured by independent actuaries using the projected credit method.

Actuarial gains and losses relating to defined benefit plans and arising from changes in actuarial estimates or from amendments to the terms of the plan, are recognised on a pro-rata basis as an expense over the expected average remaining working lives of the participating employees, to the extent to which the net amount not recognised at the end of the previous year exceeds the greater of 10% of the present value of the defined benefit obligation and 10% of the fair value of plan assets at that date ("corridor approach").

Provisions for contingencies and charges

The Group records provisions when it has an obligation, legal or constructive, arising from a past event, for which it is probable that a cost will be incurred to satisfy that obligation and when a reliable estimate of the amount can be made. Provisions are measured at the best estimate of the amount that at the balance sheet date the Group would rationally pay to settle the obligation or transfer it to a third party.

The amount provided for the agents' termination liability is determined using actuarial techniques, measured by independent actuaries.

Changes in estimates are recognised in the profit and loss account of the period in which the change occurs.

The costs which the Group expects to incur to carry out restructuring programmes are recognised in the period in which the Group formally defines the programme and in which it has created a valid expectation in interested parties that the restructuring will take place.

Bank loans and other financial liabilities

This item consists of financial liabilities made up of bank loans, debenture loans and financial amounts due to others, including amounts due to lessors in respect of finance leases, all of which are measured at amortised cost.

Trade payables and other payables

This item consists of trade payables and other liabilities, excluding financial liabilities shown under bank loans and other financial liabilities, all measured using the cost method. Non-current trade payables and other liabilities are measured using the amortised cost method.

Revenues and costs

Revenues from sales and from the provision of services is recognised when the risks and rewards characteristic of the ownership of the goods or the fulfilment of the services are effectively transferred.

Costs are recognised at the time of recognition of the corresponding goods or services sold or used during the period; costs having use over more than one period are deferred and attributed to the different periods on a systematic basis.

Revenues and costs are stated net of returns, discounts, allowances and settlement discounts.

Taxation

Current income taxes are determined on the basis of an estimate of taxable income for the period. Income tax liabilities are recognised in "Current taxation" in the balance sheet, net of the corresponding amounts paid on account and withholding taxes. Current tax assets and liabilities are determined using tax rates and tax legislation and regulations in force at the balance sheet date.

Deferred tax assets and liabilities reflect the effect of temporary differences between the accounting value and tax value of assets and liabilities.

The item "Deferred tax liabilities" represents liabilities to taxation arising from temporary differences which give rise to taxation in future periods in accordance with prevailing tax legislation.

The item “Deferred tax assets” represents taxation which, although relating to the accounting income or expense of future periods, refers for fiscal purposes to the current period for and which it is believed probable that sufficient taxable income will be generated in future periods for its recovery.
The effect in the profit and loss account of these balance sheet captions is recognised in the item “Taxation”.
Deferred tax assets relating to the carry forward of tax losses are recognised to the extent that it is probable that sufficient taxable income will be generated in future periods against which they can be utilised.

Exchange differences

Transactions in foreign currencies are recorded at the exchange rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are converted into Euros at the balance sheet date at the exchange rate prevailing at that date; exchange differences arising in this way are recognised in the profit and loss account.

Dividends

Dividends are recognised at the date on which their distribution is approved by shareholders.

Use of estimates

The preparation of financial statements and related disclosures that conform to International Accounting Standards requires to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates. Estimates are used in many areas, including accounting for bad debts provisions on accounts receivable, inventory obsolescence, depreciation, asset impairment, employee benefits, restructuring provisions, taxation and other accruals and provisions. Estimates and assumptions are reviewed periodically and the effects of any changes are reflected immediately in the profit and loss account.

6. Scope of consolidation

The consolidated financial statements of the Group consist of the financial statements of the Parent Company Reno De Medici S.p.A. and those of the following subsidiaries, all consolidated on a line-by-line basis:

Company name	Registered office	Activity	Balance sheet date	Share capital	Percentage of control 30 June 2005 Direct	Percentage of control 30 June 2005 Indirect	Percentage of control 31 December 2004 Direct	Percentage of control 31 December 2004 Indirect
Cartonboard sector								
Reno De Medici Iberica S.L.	Prat de Llobregatt (Spain)	Industrial	31 December	138,284	100.00%	-	100.00%	-
Barneda Carton S.A.	Ripollet (Spain)	Industrial	31 December	1,200	-	100.00%	-	100.00%
Reno De Medici Deut. GmbH	Bad Homburg (Germany)	Commercial	31 December	473	100.00%	-	100.00%	-
Emmaus Pack S.r.l.	Milan (Italy)	Industrial	31 December	200	51.39%	-	51.39%	-
Cartiera Alto Milanese S.p.A.	Fagnano Olona (Italy)	Industrial	31 December	120	8.00%	92.00%	8.00%	92.00%
Beobarna S.A.	Prat de Llobregatt (Spain)	Industrial	31 December	180	-	-	-	100.00%
RDM France S.a r.l.	Tramblay en France (France)	Commercial	31 December	96	99.58%	-	99.58%	0.42%
Packaging sector								
Aticarta S.p.A.	Milan (Italy)	Industrial	31 December	5,676	100.00%	-	-	100.00%
Europoligrafico S.p.A.	Milan (Italy)	Industrial	31 December	6,020	-	-	100.00%	-
Other sectors								
Reno De Medici Intern. S.A.	Lussemburgo (Luxembourg)	Financial services	31 December	14,000	99.99%	-	99.99%	-
Cogeneracion Prat S.A.	Prat de Llobregatt (Spain)	Energy	31 December	6,611	-	100.00%	-	90.00%
Holcart S.r.l.	Busto Arsizio (Italy)	Financial services	31 October	99	100.00%	-	100.00%	-
Red. Im S.r.l.	Milan (Italy)	Real estate	31 December	50	100.00%	-	100.00%	-

The scope of consolidation has changed with respect to that at 31 December 2004 as a result of the following operations:

- the sale of 100% of Europoligrafico S.p.A. in June 2005;
- the sale by the holding Reno De Medici Iberica S.L..of 100% of Beobarna S.A. in June 2005.

7. Notes to the consolidated financial statements for the first half of 2005

A. Discontinued operations

On 29 June, 2005, Reno De Medici S.p.A. sold 100% of the share capital of Europoligrafico S.p.A. to New EPG S.r.l., a company owned by two private equity funds, ITEQ SCA and Marina S.r.l., and a group of Italian entrepreneurs and investors.

The sales price of this investment was agreed in Euro 41.3 million, which resulted in a gain of approximately Euro 28 million at consolidated level. As a result of this transaction, Europoligrafico S.p.A. financial indebtedness, amounting to approx. Euro 13 million, has been deconsolidated.

For purposes of completeness, it is recalled that the sale did not include the 100% investment of Europoligrafico S.p.A. in Aticarta S.p.A., which had previously been transferred by Europoligrafico S.p.A. to Reno De Medici S.p.A. at a price equal to the carrying value of Aticarta S.p.A. in Europoligrafico S.p.A. at 31 December 2004 (approximately Euro 5.5 million).

In accordance with the terms of sale, Reno De Medici S.p.A. received proceeds of Euro 35.8 million from New EPG S.r.l. (of which Euro 8.3 million on 29 June 2005 and Euro 27.5 on 1 August 2005) and on 1 August 2005 granted a vendor loan of Euro 3 million to New EPG S.r.l.. The remainder of the sales price, Euro 5.5 million, will be settled at the time that Reno De Medici S.p.A. pays the agreed price for the investment in Aticarta S.p.A. referred to above.

As required by IFRS 5 – *Non-current Assets Held for Sale and Discontinued Operations*, the effect on profit and loss of Europoligrafico S.p.A. is classified in a single item “discontinued operations”. In the first half of 2005, this item consists of the Group’s interest in the net result for the period of the former subsidiary, the gain realised on sale and the accessory costs of sale.

Under the same accounting standard, in order for there to be comparability of data, the same approach has been followed in the presentation of the profit and loss for the corresponding period of the previous year.

Discontinued operations	First half 2005	First half 2004
Euro/000		
Profit and loss account - EUROPOLIGRAFICO		
Income	34,082	38,162
Expense	(31,512)	(37,421)
Operating profit (loss) (EBIT)	**2,570**	**741**
Profit (loss) before taxation	**5,799**	**(106)**
Taxation	(2,486)	161
Profit (loss) for the period	**3,313**	**55**
GAIN ON SALE	**28,009**	**n/a**
ESTIMATED ACCESSORY COSTS OF SALE	**(750)**	**n/a**
Discontinued operations	**30,572**	**55**

B. Segment information

Primary reporting format

As a result of the sale of Europoligrafico S.p.A. referred to above, there is no longer the need to present segment information subdivided between the cartonboard and packaging sectors, as the packaging activities still being carried out by the Group do not reach the size thresholds defined by IFRS.

Therefore, segment information is presented on a geographical basis as the primary reporting format, with reference to the location in which operations are situated. In this respect, the main geographical areas identified are Italy and Spain, with the remainder being classified in "Other". This residual category consists of the operations headed by the French subsidiary RDM France S.a.r.l., the German subsidiary RenoDeMedici Deutschland GmbH and the Luxembourg subsidiary Reno De Medici International S.A.. It was this latter company which issued debentures and which, given the amount of its total assets, should be classified separately in reporting geographical segments; this has, however, not been done, since the assets of this company consist mostly of a receivable from Reno De Medici S.p.A. connected with the issue of these debentures, which as a result is eliminated on consolidation. The following table sets out the profit and loss accounts for the first half of 2005 and 2004 and the balance sheets at 30 June 2005 and 2004, all analysed by geographical area and showing the investments made.

Profit and loss account for the six months ended 30 June 2005	Italy	Spain	Other	Eliminations	Consolidated
Euro/000					
Revenues from sales	168,524	36,612	967	(5,727)	200,376
Other revenues	2,951	152	35	(51)	3,087
Changes in stocks of finished goods	2,147	483	0	0	2,630
Cost of raw materials and services	(124,851)	(29,238)	(397)	5,671	(148,815)
Staff costs	(28,832)	(6,299)	(440)	0	(35,571)
Other operating costs	(2,522)	(555)	(17)	10	(3,084)
Income (expense) from non-current assets held for sale	(54)	0	0	0	(54)
Unusual income (expense)	(127)	(331)	1	0	(457)
Gross Operating Profit (EBITDA)	**17,236**	**824**	**149**	**(97)**	**18,112**
Depreciation and amortisation	(15,504)	(1,251)	(8)	0	(16,763)
Write-downs	(9,173)				(9,173)
Operating Profit (Loss) (EBIT)	**(7,441)**	**(427)**	**141**	**(97)**	**(7,824)**
Financial income (expense), net	(6,618)	212	(374)	97	(6,683)
Income from equity investments	(14,763)	0	0	15,944	1,181
Other income (expense)		(15,728)			(15,728)
Taxation	(1,712)	(1)	(120)	0	(1,833)
Profit (loss) for the period before discontinued operations	**(30,534)**	**(15,944)**	**(353)**	**15,944**	**(30,887)**
Discontinued operations	30,572	0	0	0	30,572
Profit (loss) for the period	**38**	**(15,944)**	**(353)**	**15,944**	**(315)**
Attributable to:					
Profit (loss) for the period attributable to the group	(206)	(15,944)	(353)	15,944	(559)
Profit (loss) for the period attributable to minority interest	244	0	0	0	244

Profit and loss account for the six months ended 30 June 2004	Italy	Spain	Other	Eliminations	Consolidated
Euro/000					
Revenues from sales	184,732	40,312	1,206	(8,763)	217,487
Other revenues	2,475	413	5	(80)	2,813
Changes in stocks of finished goods	2,270	162	0	0	2,432
Cost of raw materials and services	(133,964)	(31,031)	(521)	8,843	(156,673)
Staff costs	(31,993)	(6,890)	(435)	0	(39,318)
Other operating costs	(2,684)	(1,956)	(23)	0	(4,663)
Income (expense) from non-current assets held for sale	(78)	0	0	0	(78)
Unusual income (expense)	(190)	0	0	0	(190)
Gross Operating Profit (EBITDA)	**20,568**	**1,010**	**232**	**0**	**21,810**
Depreciation and amortisation	(16,060)	(1,191)	(9)	0	(17,260)
Write-downs	0	0	0	0	0
Operating Profit (Loss) (EBIT)	**4,508**	**(181)**	**223**	**0**	**4,550**
Financial income (expense), net	(7,892)	249	1,803	0	(5,840)
Income from equity investments	1,171	0	0	0	1,171
Other income (expense)	0	0	0	0	0
Taxation	(737)	(40)	(688)	0	(1,465)
Profit (loss) for the period before discontinued operations	**(2,950)**	**28**	**1,338**	**0**	**(1,584)**
Discontinued operations	55	0	0	0	55
Profit (loss) for the period	**(2,895)**	**28**	**1,338**	**0**	**(1,529)**
Attributable to:					
Profit (loss) for the period attributable to the group	(2,881)	28	1,338	0	(1,515)
Profit (loss) for the period attributable to minority interest	(14)	0	0	0	(14)

Balance sheet at 30 June 2005	Italy	Spain	Other	Eliminations	Consolidated
Euro/000					
ASSETS					
Non-current assets					
Tangible fixed assets	213,841	17,689	21	0	231,551
Investment property	1,284	0	0	0	1,284
Goodwill	613	63	83	0	759
Other intangible fixed assets	3,957	6	0	0	3,963
Investments accounted for under the equity method	100,152	5	0	(86,610)	13,547
Deferred tax assets	0	0	0	0	0
Derivative financial instruments	0	0	0	0	0
Available-for-sale financial assets	235	0	0	0	235
Trade receivables	200	0	0	0	200
Other receivables	6,898	3,843	0	0	10,741
Non-current assets held for sale	5,209	0	0	0	5,209
Total non-current assets	**332,389**	**21,606**	**104**	**(86,610)**	**267,489**
Current assets					
Stocks	71,430	42,057	0	0	113,487
Trade receivables	109,797	20,731	298	(6,328)	124,498
Other receivables	36,094	1,248	160,234	(159,097)	38,479
Derivative financial instruments	0	0	2,222	0	2,222
Available-for-sale financial assets	667	0	8	0	675
Financial assets with fair value adjusted in profit and loss	0	0	0	0	0
Cash and cash equivalents	9,814	20,444	480	0	30,738
Total current assets	**227,802**	**84,480**	**163,242**	**(165,425)**	**310,099**
TOTAL ASSETS	**560,191**	**106,086**	**163,346**	**(252,035)**	**577,588**
LIABILITIES AND SHAREHOLDERS' EQUITY					
Group interest in equity	153,658	70,485	17,420	(86,610)	154,953
Minority interest in equity	512				512
Shareholders' equity	**154,170**	**70,485**	**17,420**	**(86,610)**	**155,465**
Non-current liabilities					
Bank loans and other financial liabilities	41,057	0	0	0	41,057
Derivative financial instruments	25	0	0	0	25
Other payables	0	552	0	0	552
Deferred tax liabilities	4,751	0	(140)	0	4,611
Employees' leaving entitlement	26,275	0	0	0	26,275
Non-current provisions for contingencies and charges	6,300	13,688	79	0	20,067
Liabilities directly attributable to non-current assets held for sale	0	0	0	0	0
Total non-current liabilities	**78,408**	**14,240**	**(61)**	**0**	**92,587**
Current liabilities					
Bank loans and other financial liabilities	62,004	0	144,767	0	206,771
Derivative financial instruments	2,914	0	0	0	2,914
Trade payables	235,627	18,609	217	(165,093)	89,360
Other payables	25,384	2,024	753	(332)	27,829
Current taxation	1,684	728	250	0	2,662
Total current liabilities	**327,613**	**21,361**	**145,987**	**(165,425)**	**329,536**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**560,191**	**106,086**	**163,346**	**(252,035)**	**577,588**
INVESTMENTS IN PRODUCTIVE ASSETS	**4,355**	**315**	**0**	**0**	**4,670**

Balance sheet at 31 December 2004	Italy	Spain	Other	Eliminations	Consolidated
Euro/000					
ASSETS					
Non-current assets					
Tangible fixed assets	248,505	18,661	27	0	267,193
Investment property	1,284	0	0	0	1,284
Goodwill	1,151	63	83	0	1,297
Other intangible fixed assets	4,732	7	0	0	4,739
Investments accounted for under the equity method	125,221	2	4,559	(111,957)	17,825
Deferred tax assets	0	0	0	0	0
Derivative financial instruments	0	0	5,183	0	5,183
Available-for-sale financial assets	256	0	0	0	256
Trade receivables	262	0	0	0	262
Other receivables	7,394	20,692	0	0	28,086
Non-current assets held for sale	8,883	0	0	0	8,883
Total non-current assets	**397,688**	**39,425**	**9,852**	**(111,957)**	**335,008**
Current assets					
Stocks	77,817	41,796	0	0	119,613
Trade receivables	127,072	20,169	268	(5,754)	141,755
Other receivables	5,522	1,072	662	(331)	6,925
Derivative financial instruments	0	0	2,105	0	2,105
Available-for-sale financial assets	3,705	0	156,227	(159,788)	144
Financial assets with fair value adjusted in profit and loss	0	0	0	0	0
Cash and cash equivalents	3,523	21,108	372	0	25,003
Total current assets	**217,639**	**84,145**	**159,634**	**(165,873)**	**295,545**
TOTAL ASSETS	**615,327**	**123,570**	**169,486**	**(277,830)**	**630,553**
LIABILITIES AND SHAREHOLDERS' EQUITY					
Group interest in equity	163,244	86,430	17,795	(111,957)	155,512
Minority interest in equity	560				560
Shareholders' equity	**163,804**	**86,430**	**17,795**	**(111,957)**	**156,072**
Non-current liabilities					
Bank loans and other financial liabilities	204,131	0	144,620	(150,000)	198,751
Derivative financial instruments	1,247	0	0	0	1,247
Other payables	1	552	0	0	553
Deferred tax liabilities	3,049	(1)	266	0	3,314
Employees' leaving entitlement	29,823	0	0	0	29,823
Non-current provisions for contingencies and charges	7,339	14,652	78	0	22,069
Liabilities directly attributable to non-current assets held for sale	981	0	0	0	981
Total non-current liabilities	**246,571**	**15,203**	**144,964**	**(150,000)**	**256,738**
Current liabilities					
Bank loans and other financial liabilities	71,979	0	0	0	71,979
Derivative financial instruments	2,859	0	0	0	2,859
Trade payables	105,593	17,728	259	(15,556)	108,024
Other payables	24,138	3,313	6,327	(317)	33,461
Current taxation	383	896	141	0	1,420
Total current liabilities	**204,952**	**21,937**	**6,727**	**(15,873)**	**217,743**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**615,327**	**123,570**	**169,486**	**(277,830)**	**630,553**
INVESTMENTS IN PRODUCTIVE ASSETS	**13,399**	**485**	**15**	**0**	**13,899**

Secondary reporting format

The secondary reporting format is that by sector of activity regarding the cartonboard sector. Consistent with reporting for the first quarter, the data of the cartonboard sector include those of the cogeneration operations, given the high level of interdependence between these and the cartonboard sector. In accordance with the IFRS requirements for reporting the secondary segment by business segment, the following table sets out: a) revenues by geographical area; b) the carrying amount of assets (meaning total assets, net of the valuation of derivative financial instruments and tax captions); c) investments in tangible assets.

Cartonboard sector - sales revenues	First half 2005	First half 2004
Euro/000		
Italy	93,670	102,538
European Union - other	75,871	82,487
Outside the European Union	18,771	18,665
Total sales revenues	**188,312**	**203,690**

Cartonboard sector - assets and investments	30 June 2005	31 December 2004
Euro/000		
Assets	590,665	608,135
Investments	4,657	11,388

C. Cost of raw materials and services

The following table provides details of the costs incurred for raw materials and services:

Cost of raw materials and services	First half 2005	Percentage of sales revenues	First half 2004	Percentage of sales revenues
Euro/000				
Raw materials	85,516	42.7%	91,312	42.0%
Services	62,982	31.4%	64,149	29.5%
Use of third party assets	1,567	0.8%	880	0.4%
Change in stocks	(1,250)	-0.6%	332	0.2%
Cost of raw materials and services	**148,815**	**74.3%**	**156,673**	**72.0%**

The change in the costs incurred for services and those incurred for raw materials as a proportion of sales revenues for the first half of 2005 is mainly due to the increase in energy costs referred to above and to certain raw materials whose price is linked to the price of oil.

D. Write-downs

The following table provides details of write-downs:

Write-downs	First half 2005	First half 2004
Euro/000		
Plants and equipments of Aticarta S.p.A. (Pompeii's factory)	7,000	0
Plants and equipments of Cartiera Alto Milanese S.p.A.	2,173	0
Write-downs	**9,173**	**0**

The write-downs relating to Aticarta S.p.A. refer to plants and equipments of Pompeii factory and result from the continuing inactivity of this site for which a temporary lay-off scheme involving all the facility's staff will expire in October 2005. As mentioned above, analyses of the most appropriate initiatives for the Pompeii factory are continuing, with local and central authorities and the trade unions, with the aim of reconverting operations into economically tenable industrial activities.

As for Cartiera Alto Milanese S.p.A., the write-downs of the board machine, ancillary equipments and related machinery follow the change in the strategic direction of this subsidiary, which in future will carry out an exclusively sales and distribution role.

E. Financial income (expense)

The breakdown of the caption "financial income (expense)" is set out in the following table:

Financial income (expense), net	First half 2005	First half 2004
Euro/000		
Gain on purchase of RDM International debentures	0	1,430
Present value adjustment of Grupo Torras receivable	610	575
Net financial expenses	(7,293)	(7,845)
Financial income (expense), net	**(6,683)**	**(5,840)**

The caption includes (in first half 2004) a capital gain of Euro 1.4 million realised on the purchase by the Parent Company of Reno De Medici International S.A. debentures, which had a carrying value of Euro 3.6 million compared to a nominal value of Euro 5 million, in accordance with IAS 39 – *Financial Instruments: Recognition and Measurement*. The caption also includes and the periodical adjustment of the present value of the receivable from Grupo Torras S.A. which, in accordance with IFRS requirements, has been stated on the balance sheet as of 1 January 2004 (in the context of the transition to IFRS) on the basis of the expected collection timetable at that date.

The item “net inancial expenses” include the effect of the adjustments arising from the fair value measurement of derivative financial instruments.

F. Tangible fixed assets

An analysis of tangible fixed assets is set out in the following table:

Tangible fixed assets	30 June 2005	31 December 2004
Euro/000		
Land	24,047	26,538
Buildings	55,148	61,960
Plant and machinery	148,349	174,254
Industrial equipment	262	353
Other assets	1,083	1,820
Assets in course of construction	2,662	2,268
Tangible fixed assets	**231,551**	**267,193**

Tangible fixed assets at 31 December 2004 also include those of Europoligrafico S.p.A., which amounted in total to Euro 16.9 million. The change in this item also arises from depreciation and write-downs of about Euro 22.9 million and capital expenditure of about Euro 4.7 million.

G. Other receivables – non-current

The caption “Other receivables – non-current” consists mainly of the estimated present value of the receivable from Grupo Torras S.A., amounting to about Euro 3.8 million (about Euro 20.6 million as of 31 December 2004), stated after the provision (net of the amount of the dividends received on Torraspapel shares) recorded pursuant to the judgement of the Court of First Instance of Madrid (see Paragraph 9).

The caption also includes receivables from tax authorities of about Euro 6.8 million (about 7.2 million as of 31 December 2004).

H. Other receivables - current

Details of “Other receivables – current” are set out in the table below:

Other receivables - current	30 June 2005	31 December 2004
Euro/000		
Tax credits	391	1,443
Miscellaneous receivables	36,537	3,051
Accrued income	319	692
Prepayments	1,232	1,739
Other receivables	**38,479**	**6,925**

Miscellaneous receivables at 30 June 2005 consist mainly of the balance of approximately Euro 33 million due from New EPG S.r.l., in connection with its acquisition of Europoligrafico S.p.A.; of this, Euro 27.5 million was received from New EPG S.r.l. on 1 August 2005, as described above.

I. Stocks

Details of “Stocks” are set out in the table below:

Stocks	30 June 2005	31 December 2004
Euro/000		
Raw materials	31,696	34,624
Work in progress	512	1,285
Finished goods and goods for resale	47,593	48,088
Receivable from Espais Promocions Immobiliares S.A.	30,000	30,000
Real estate for sale	3,486	3,486
Other stocks	200	2,130
Stocks	**113,487**	**119,613**

The receivable from Espais Promocions Immobiliares S.A. arises in the context of the transaction for the sale of the Prat area (Barcellona) in 2003, under which the counterparty is required to transfer real estate property having an equivalent value of the receivable. Under IFRS the receivable must be classified by the function of the related assets, and in stocks if the function is the subsequent sale.

Real estate for sale consists of land and buildings located in Magenta and owned by the subsidiary Red. Im. S.r.l..

J. Net financial position

The net financial position is set out in the following table.

Net financial position	30 June 2005	31 December 2004
Euro/000		
Cash and cash equivalents and short-term financial receivables	64,446	25,137
Short-term financial payables	(212,323)	(77,092)
Valuation of current portion of derivatives	(692)	(754)
Short-term financial position	**(148,569)**	**(52,709)**
Cash and cash equivalents and long-term financial receivables	0	0
Long-term financial payables	(41,057)	(198,751)
Valuation of non-current portion of derivatives	(25)	3,936
Net financial position	**(189,651)**	**(247,524)**

Cash and cash equivalents and short-term financial receivables, as of 30 June 2005, consist of cash and cash equivalents for Euro 30.7 million and short-term financial receivables for Euro 33.7 million.

Cash and cash equivalents consist of unrestricted deposits for Euro 11.9 million (of which Euro 8.3 million arising from the first payment received from the sale of Europoligrafico S.p.A.), and restricted deposits of Euro 18.8 million.

Short-term financial receivables are made up principally of the amount of Euro 33 million receivable in connection with the sale of Europoligrafico S.p.A.. On 1 August 2005, Euro 27.5 million of this balance was received; at the date of receipt, Reno De Medici S.p.A. granted a vendor loan of Euro 3 million to New EPG S.r.l..

Short-term financial payables consist of amounts totalling Euro 62 million due to banks (of which Euro 15 million relating to the current portion of long-term loans and Euro 47 million of short-term credit facilities mostly granted against receivables from customers), the Reno De Medici International S.A. debenture loan amounting to Euro 144.8 million (carried at amortised cost) and the amount of Euro 5.5 million due to Europoligrafico S.p.A. for the purchase of Aticarta S.p.A.. The debenture loan has been reclassified as current at 30 June 2005 as it is becomes due for payment in May 2006.

Long-term financial payables consist of long-term bank loans.

K. Provisions for contingencies and charges

Provisions for contingencies and charges, classified in non-current liabilities, may be analysed as follows:

Provisions for risks and contingencies	30 June 2005	31 December 2004
Euro/000		
Provision for the agents' termination indemnity	948	829
Restructuring provisions and other provisions	19,119	21,240
Provisions for risks and contingencies	**20,067**	**22,069**

The provision for the agents' termination indemnity represents the estimated liability payable to agents on termination by Group companies, measured in accordance with IFRS by applying, on the basis of historical data, actuarial valuation techniques to assumptions which represent the Group's best estimates of the variables that determine the future costs to be incurred.

The item "Restructuring provisions and other provisions" refers principally to the restructuring costs expected to be incurred for the reorganisation of Spanish operations in connection with the sale of the Prat area, to costs to be incurred for the reorganisation in progress at the Parent Company and to provisions for costs for existing legal disputes at that company, and to costs for reorganisation processes at the subsidiary Aticarta S.p.A..

L. Other payables - current

An analysis of the item "Other payables" included in current liabilities is set out below:

Other payables	30 June 2005	31 December 2004
Euro/000		
Progress payments	4,013	13
Tax payables	2,374	3,493
Payables to social security authorities	4,180	4,971
Miscellaneous payables	13,958	17,907
Accrued liabilities	2,343	6,700
Deferred income	961	377
Other payables	**27,829**	**33,461**

Advance payments relate mainly to advances received from Aticarta S.p.A. customers for supplies to be executed.

Tax payables refer principally to amounts due to the tax authorities, net of those relating to income tax which, as required by IAS 12 – *Income Taxes*, are reclassified to the appropriate balance sheet caption.

"Other payables" consist mostly of Euro 5.5 million due to Europoligrafico S.p.A. connected with the purchase of the investment in Aticarta S.p.A. referred to above, Euro 4.2 million due to employees, Euro 0.8 million payable to the management and controlling bodies of Group companies, and Euro 0.7 million relating to the pension fund of the Spanish subsidiary Reno De Medici Iberica S.L..

8. Related party and intragroup transactions

Related party transactions

In compliance with the Consob releases of 20 February 1997, 27 February 1998, 30 September 1998 and 30 September 2002, it is stated that there have been no related party transactions of an atypical or unusual nature outside the normal course of business or such as to prejudice the Group's economic or financial situation.

Transactions carried out with related parties are part of ordinary business activities and within the normal course of business of those parties involved, and are carried out on an arm's length basis.

Amongst the transactions with related parties are the following:

- trading relations with Kolicevo Karton d.o.o., for the purchase of cartonboard for approx. Euro 800 thousand, stated net of quantity rebates received during the period. The company is owned by the Mayr-Melnhof Karton A.G. Group of which the director Michael Groller is chairman of the supervisory board;
- services provided by IBI S.p.A., a company controlled by the shareholder Alerion Industries S.p.A., for Euro 175 thousand, regarding a consultancy engagement connected with the rationalisation of manufacturing costs;
- trading relations between the subsidiary Emmaus Pack S.r.l. and the companies Immobiliare ANSTE S.r.l. and ANSTE Autotrasporti S.r.l., both of which companies relate to the Oldani family which holds 49% of Emmaus Pack S.r.l.; the transactions regard rental instalments for about Euro 104 thousand and haulage and ancillary services for about Euro 256 thousand.

For purposes of completeness, it is recalled that on 29 June 2005, a sale and purchase agreement has been executed for the purchase of a controlling interest in Cartiera Alto Milanese S.p.A., through the acquisition of the holding company Holcart S.r.l. owned by Dr. Giovanni Dell'Aria Burani; for further details on this subject, reference should be made to the reports of the Board of Directors on financial statements of prior years. As previously agreed, the price paid by Reno De Medici S.p.A. was Euro 1.5 million.

Intragroup transactions

Transactions between Group companies, whether of a manufacturing, financial or services nature, are carried out at arm's length, taking into consideration the quality of the goods and the nature of the services provided. A summary of the transactions carried out between Reno De Medici S.p.A. and its directly and indirectly controlled subsidiaries and its associates is provided below.

Receivables/payables at 30 June 2005

Receivables/payables	Receivables		Payables		Other receivables/payables	
	Trade	Financial	Trade	Financial	Trade	Financial
Reno De Medici International S.A.				154,569		323
Holcart S.r.l.		6,158				
Reno De Medici Iberica S.L.	3,293		2,295	465		
Emmaus Pack S.r.l.	6,434	2,205	26	192		
Cartiera Alto Milanese S.p.A.	5,446		516			
RDM France S.a.r.l.			229	297		
Reno De Medici Deutschland GmbH			61	394		
Barneda Carton S.A.	150					
Aticarta S.p.A.		12,479				
Red. Im. S.r.l.	1	16,116				
Cogeneration Prat S.A.						
Cogeneration Baix Llobregat S.L.						
Trentino Ricerca S.r.l.						
CTM Centro Taglio Magenta S.r.l. in liquidation		79				
Reno Logistica S.p.A. in liquidation		84				
Pac Service S.p.A.	977					
Termica Boffalora S.r.l.			1,130			
Total	**16,301**	**37,121**	**4,257**	**155,917**	**-**	**323**

Revenues/ financial income – first half of 2005

Revenues and income	Sales and services	Other revenues	Financial income
Reno De Medici International S.A.			
Holcart S.r.l.			
Reno De Medici Iberica S.L.	4,987	51	
Emmaus Pack S.r.l.	7,422		24
Cartiera Alto Milanese S.p.A.	3,910		
RDM France S.a.r.l.			
Reno De Medici Deutschland GmbH			
Barneda Carton S.A.			
Aticarta S.p.A.			185
Red. Im. S.r.l.			37
Cogeneration Prat S.A.			
Cogeneration Baix Llobregat S.L.			
Trentino Ricerca S.r.l.			
CTM Centro Taglio Magenta S.r.l. in liquidation			1
Reno Logistica S.p.A. in liquidation			1
Pac Service S.p.A.	1,221		
Termica Boffalora S.r.l.			
Total	**17,540**	**51**	**248**

Operating costs/financial expense – first half of 2005

Costs	Purchases	Services	Commissions	Rent	Financial expense
Reno De Medici International S.A.					1,007
Holcart S.r.l.					
Reno De Medici Iberica S.L.					
Emmaus Pack S.r.l.	37				
Cartiera Alto Milanese S.p.A.	414				
RDM France S.a.r.l.			440		2
Reno De Medici Deutschland GmbH			207		4
Barneda Carton S.A.					
Aticarta S.p.A.					
Red. Im. S.r.l.				170	
Cogeneration Prat S.A.					
Cogeneration Baix Llobregat S.L.					
Trentino Ricerca S.r.l.					
CTM Centro Taglio Magenta S.r.l. in liquidation					
Reno Logistica S.p.A. in liquidation					
Pac Service S.p.A.					
Termica Boffalora S.r.l.		3,262			
Total	**451**	**3,262**	**647**	**170**	**1,013**

Transactions between Reno De Medici S.p.A. and its subsidiaries are as follows:

- sales of cartonboard to Cartiera Alto Milanese S.p.A., Emmaus Pack S.r.l. and Reno De Medici Iberica S.L.;
- services provided to Emmaus Pack S.r.l.;
- purchases of cartonboard from Cartiera Alto Milanese S.p.A.;
- purchases of discards from Emmaus Pack S.r.l.;
- commissions payable to RDM France S.a.r.l. and to Reno De Medici Deutschland GmbH;
- rental payments to Red. Im S.r.l.;
- interest receivable on current accounts with Aticarta S.p.A., Emmaus Pack S.r.l., Red. Im S.r.l., CTM Centro Taglio Magenta S.r.l. *in liquidazione* and Reno Logistica S.p.A. *in liquidazione*;
- interest payable on current accounts with RDM France S.a.r.l., Reno De Medici Deutschland GmbH and Reno De Medici International S.A.;
- interest payable on a five year loan (due date 2006) granted by Reno De Medici International S.A..

For purposes of completeness, it is recalled that as described in paragraph 7 (A) “Discontinued operations”, on 29 June 2005 Reno De Medici S.p.A. acquired from Europoligrafico S.p.A. its 100% of holding in Aticarta S.p.A. at a price equal to the carrying value of Aticarta S.p.A. in Europoligrafico S.p.A. at 31 December 2004 (approximately Euro 5.5 million), in the context of the sale of Europoligrafico S.p.A..

In addition, in June 2005, the Parent Company sold the Reno De Medici International S.A. debentures held in its portfolio to the issuer for cancellation. These debentures were carried at about Euro 3.6 million, compared to a nominal value of Euro 5 million, and were sold at a price of about Euro 4.8 million.

Transactions between Reno De Medici S.p.A. and its associates are as follows:

- purchases of steam from Termica Boffalora S.r.l.;
- sales of cartonboard to PAC Service S.p.A..

9. Legal and arbitration proceedings

The dispute with Grupo Toras S.A. is the most important of the legal and arbitration proceedings in progress (such litigation relates to certain past transactions occurred in February 1991 and involving the Saffa Group which became part of Reno De Medici Group).

Reference should be made to the reports on the financial statements of prior years for a detailed description of the origin and evolution of such litigation. Particularly, it is appropriate to remind that in 2001 Reno De Medici Group obtained a favourable arbitration award under which Grupo Torras S.A. was condemned to pay about Euro 48 million plus interest. Nevertheless, pursuant to the appeal made by the debtor in 2003, the Appeal Court of Madrid annulled the result of the arbitration, refusing to accept the arbitration board as the competent juridical body and without making a decision about the proceeding. As a result, Reno De Medici Group decided to initiate new civil proceedings at the Court of Madrid.

On July 27th, 2005, the principal hearing ("juico") was held in the Court of Madrid, during which the parties presented their cases and made their procedural requests.

The Court of Madrid published its judgement on September 8th, 2005 and ruled only partially for the action of Reno De Medici Group. Particularly, Grupo Torras S.A. was condemned to acquire n. 1.115.400 shares of Torraspapel S.A. from Reno De Medici Iberica S.L. and to pay about Euro 50,7 million (amount net of the dividends received by Reno De Medici Iberica S.L. on the shares of Torraspapel S.A.).

However according to the Court of First Instance such amount must be reduced in relation to the receivership status (*suspensiòn de pagos*) of Grupo Torras S.A. which occurred between 1992 and 1998 after the transactions with Saffa Group. As a result, the Court of First Instance believes that a receivership percentage of about 11% must be applied to the face value of the Euro 50,7 million credit receivable.

Pursuant to the judgement of the Court of First Instance, the receivable from Grupo Torras S.A. has been prudentially adjusted to the amount resulting from such judgement, in both the financial statements of Reno De Medici Iberica S.L. and the consolidated financial statements of the Group.

In any case, Reno De Medici S.p.A and Reno De Medici Iberica S.L. have already appealed against the decision of the Court of Madrid. There are indeed specific and valid motivations to sustain that no receivership percentages must be applied and therefore to ask for the payment of the entire face value of the credit receivable.

10. Rating

On 1 June 2005, Standard & Poor's Ratings Services lowered the credit rating of the long-term debt of Reno De Medici S.p.A. from 'B+' to 'B'. The same decision was taken regarding the debenture loan of Euro 150 million issued by the subsidiary Reno De Medici International S.A. due for repayment on 4 May 2006.

Standard & Poor's Ratings Services has confirmed the 'B' credit rating of the short-term debt of Reno De Medici S.p.A.. The outlook has passed from 'stable' to 'negative'.

The decisions taken by Standard & Poor's Ratings Services are the result of persistingly difficult market conditions, which have had repercussions on the generation of cash from the operations of Reno De Medici S.p.A.. According to the Agency, the benefits obtained from the industrial reorganisation being carried out by the Group, resulting in increased manufacturing efficiencies and in a rationalisation of costs, have been limited by pressures on sales prices in the major outlet markets.

11. Subsequent events

In July 2005, two agreements were reached with the trades unions regarding the Magenta and Villa Santa Lucia sites.

At Magenta, an agreement was reached for the introduction of C.I.G.O. (Cassa Integrazione Guadagni Ordinaria – a state temporary lay-off scheme) for 13 weeks, which will affect approximately 80 employees. Such agreement is connected to the halting of the board machine (out of the two board machines located at the Magenta facility) dedicated to the production of virgin fibre cartonboard following a weak customers' demand for this specific product. As for Villa Santa Lucia, the agreement the agreement provides for approximately 20 employees to be be laid off under the so called *mobilità* scheme. Both agreements came into effect in the last week of July 2005.

Furthermore, during September 2005, a new project relating to the Marzabotto manufacturing site has been initiated with the purpose to improve the overall efficiency.

In addition, Reno De Medici S.L., the Spanish subsidiary of Reno De Medici S.p.A., has finalised a programme to reorganise its operations as part of the broader restructuring process being carried out by the Reno De Medici Group in the Iberian Peninsular, which began in December 2003 with the sale of its real estate properties in the Barcelona area.

This programme confirms the Group's intention to maintain a manufacturing stronghold through the Alzaman factory, and includes plans to reconvert Barneda S.A., a subsidiary of Reno De Medici S.L., to a cutting and distribution centre, activities which will also include cartonboard produced by other Group factories, together with a sales and distribution network suitable for the needs of Spanish customers.

In addition, included in the programme is the decision to bring forward the closure of the Prat factory, now to be carried out by the end of 2005; this closure was originally planned for the end of 2006 as a result of the mentioned sale of the Barcelona properties.

12. Financial statements of the Parent Company prepared in accordance with Italian accounting principles

Balance sheet - assets	30 June 2005	31 December 2004
Euro/000		
A) Unpaid share capital due from shareholders	-	-
Total due from shareholders (A)		
B) Fixed assets		
I- Intangible assets		
1) Start-up and capital costs	1,939	2,331
4) Concessions, licences, trade marks and similar rights	321	224
7) Other assets	1,839	2,132
Total fixed assets	**4,099**	**4,687**
II- Tangible assets		
1) Land and buildings	49,831	50,730
2) Plant and machinery	133,798	143,057
3) Industrial and commercial equipment	221	234
4) Other assets	611	730
5) Assets in course of construction and payments on account	2,431	1,699
Total tangible assets	**186,891**	**196,450**
III- Investments		
1) Interests in:		
a) Subsidiaries	92,230	128,590
b) Associates	7,743	7,759
d) Other companies	191	400
2) Receivables from:		
a) Subsidiaries	13,332	13,332
d) Others	82	77
4) Own shares (total nominal value € 3,561,982)	4,587	4,587
Total investments	**118,164**	**154,745**
Total fixed assets (B)	**309,154**	**355,882**
C) Current assets		
I- Stocks		
1) Raw materials and consumables	18,224	17,220
4) Finished goods and goods for resale	36,885	33,681
Total stocks	**55,109**	**50,901**
II- Receivables		
1) Trade receivables		
Due within one year	85,805	85,336
Due after more than one year	161	161
2) Subsidiaries		
Due within one year	15,326	15,075
Due after more than one year		
3) Associates		
Due within one year	977	161
Due after more than one year		
4-bis) Tax credits		
Due within one year	23	993
Due after more than one year	6,274	6,287
5) Other receivables		
Due within one year	33,898	954
Due after more than one year	47	47
Total receivables	**142,512**	**109,014**
III- Financial assets not of a fixed nature		
5) Own shares (total nominal value € 570,412)	787	787
6) Other securities		3,569
7) Receivable from subsidiaries	23,790	23,713
8) Financial receivables from others	503	
Total financial assets	**25,079**	**28,069**
IV - Liquid funds		
1) Bank and postal accounts	9,635	3,252
3) Cash and valuables in hand	10	11
Total liquid funds	**9,645**	**3,263**
Total current assets (C)	**232,345**	**191,247**
D) Prepayments and accrued income (of which disagio on loans € 0)	881	1,561
Total prepayments and accrued income (D)	**881**	**1,561**
TOTAL ASSETS	**542,380**	**548,690**

Balance sheet Liabilities and shareholders' equity	30 June 2005	31 December 2004
Euro/000		
A) Shareholders' equity		
I) Share capital	148,343	148,343
II) Share premium reserve	7,797	8,884
III) Revaluation reserves		
IV) Legal reserve	6,462	6,462
V) Reserve for own shares in portfolio	5,373	5,373
VI) Reserves provided for by the bylaws		
VII) Other reserves		
Reserve for the purchase of own shares	6,584	6,584
Extraordinary reserve		15,362
Reserve from contribution of assets		
Merger surplus and share exchange reserve		
Dividend fluctuation reserve		
Reserve as per article 67 of the consolidated tax law		
VIII) Retained earnings (losses) brought forward		
VIII) Profit (loss) for the period	(12,283)	(16,449)
Total shareholders' equity (A)	**162,276**	**174,559**
B) Provisions for contingencies and charges		
1) Termination indemnities	1,223	1,046
2) Taxation	3,914	3,914
3) Other provisions	10,629	4,094
Total provisions for contingencies and charges (B)	**15,766**	**9,054**
C) Employees' leaving entitlement	20,497	19,050
Total employees' leaving entitlement (C)	**20,497**	**19,050**
D) Payables		
4) Due to banks		
Due within one year	56,895	63,821
Due after more than one year	38,876	37,728
7) Trade payables		
Due within one year	68,184	66,855
Due after more than one year		
9) Due to subsidiaries		
Due within one year	159,043	14,304
Due after more than one year		150,000
10) Due to associates		
Due within one year	1,130	1,080
Due after more than one year		
12) Due to tax authorities		
Due within one year	2,108	2,439
Due after more than one year		
13) Due to social security authorities		
Due within one year	3,255	3,247
Due after more than one year		
14) Other payables		
Due within one year	11,305	4,508
Due after more than one year		
Total payables (D)	**340,797**	**343,982**
E) Accrued liabilities and deferred income (of which agio on loans € 0)	3,044	2,045
Total accrued liabilities and deferred income (E)	**3,044**	**2,045**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**542,380**	**548,690**

Profit and loss account	First half 2005	First half 2004
Euro/000		
A) Value of production		
1) Revenues from sales and services	151,903	158,911
2) Changes in stocks of work in progress, semi-finished goods and finished goods	3,204	4,130
4) Own work capitalised		5
5) Other revenues and income	1,810	1,129
Total value of production (A)	**156,917**	**164,175**
B) Cost of production		
6) Raw materials, consumables and goods for resale	61,556	63,239
7) Services	54,337	52,832
8) Use of third party assets	355	632
9) Staff costs:	26,028	26,600
a) Wages and salaries	*17,963*	*17,596*
b) Social security contributions	*6,480*	*6,282*
c) Employees' leaving entitlement	*1,584*	*1,624*
e) Other costs	*1*	*1,098*
10) Amortisation, depreciation and write-downs of assets:	13,587	14,279
a) Amortisation of intangible fixed assets	*864*	*1,383*
b) Depreciation of tangible fixed assets	*12,394*	*12,682*
c) Other write-downs of assets	-	-
d) Write-down of receivables included as current assets and liquid funds	*329*	*214*
11) Changes in raw materials and consumables	(1,005)	(868)
12) Accruals for contingencies	817	526
14) Other operating costs	1,063	1,338
	156,738	**158,578**
DIFFERENCE BETWEEN VALUE AND COST OF PRODUCTION (A-B)	**179**	**5,597**
Financial income and expense		
15) Income from investments	26,369	523
a) subsidiaries	*308*	*523*
b) associates	*1,170*	
d) other income	*24,891*	
16) Other financial income	1,807	656
c) from securities included as current assets which are not equity interests	*1,405*	*99*
d) other financial income (of which from subsidiaries 000/€ 247)	*402*	*557*
17) Interest payable and other financial charges	7,045	7,097
a) subsidiaries	*1,013*	*1,068*
e) other interest payable and financial charges	*6,032*	*6,029*
17-bis) Foreign exchange gains (losses)	387	357
Total financial income and expense (15+16-17+17 bis)	**21,518**	**(5,561)**
D) Value adjustments to financial assets		
18) Revaluations	-	-
a) equity interests		
19) Write-downs	33,971	53
a) equity interests	*33,971*	*53*
b)non-current investments other than equity interests		
Total adjustments to financial assets (18-19)	**(33,971)**	**(53)**
E) Extraordinary income and expense		
20) Income	-	-
b) other income		
21) Expense	9	-
c) other expense	*9*	
Total extraordinary items (20-21)	**(9)**	**-**
PROFIT (LOSS) BEFORE TAXATION (A-B+C+D+E)	**(12,283)**	**(17)**

13. Notes to the financial statements of the Parent Company

Major notes to the financial statements of the Parent Company are as follows:

- With reference to the sale of the investment in Europoligrafico S.p.A., the caption "Income from investments" of the Parent's profit and loss account includes a gain of about Euro 24,9 million (stated gross of accessory costs of sale).

  As described previously, this transaction generated a gain of Euro 28 million in the consolidated financial statements due to the different carrying values of the assets of Europoligrafico S.p.A. in those statements. In addition, the Group's interest in the net profit for the period of the former subsidiary, about Euro 3.3 million, is recognised in the consolidated financial statements.

- The caption "Other financial income" of the Parent's profit and loss account includes a gain of about Euro 1.3 million realised on the sale of the debentures of Reno De Medici International S.A. held in portfolio (previously stated at approx. Euro 3.6 million compared to their nominal value of Euro 5 million). The debentures were sold to the issuer for cancellation.

  Under IAS 39 – *Financial Instruments: Recognition and Measurement*, if an entity reacquires financial instruments previously issued by that entity, the carrying value of the debt must be reduced and the difference between the purchase price and the carrying value, remeasured on an amortised cost basis, must be recognised in the profit and loss account. As a result, in the consolidated financial statements, the gain on sale of the Reno De Medici International S.A. debentures was recognised in the first half of 2004, the period in which the purchase took place.

- The caption "Write-downs of equity interest" of the Parent's profit and loss account includes a write-down of the investments in Holcart S.r.l. and Cartiera Alto Milanese S.p.A. of about Euro 8,2 million. This write-down is the result of adjusting the carrying value of these investments to equity, taking into account the residual value of the customer portfolio of Cartiera Alto Milanese S.p.A. stated among the intangible assets of the consolidated financial statements at Euro 1.75 million as of 30 June 2005.

These companies have been included in the scope of consolidation since 1 January 2004, as required by International Financial Reporting Standards, and were written down by Euro 5.8 million in the transition to IFRS with the corresponding charge recognised against equity, as required by IFRS 1 - *First-time Adoption of International Financial Reporting Standards*.

The consolidated financial statements also include losses of Euro 2.5 million for these companies for the first half of 2005, due principally, as described previously, to the write-down of Euro 2,2 million of the board machine of Cartiera Alto Milanese S.p.A. as a result of the change in the strategic direction of this subsidiary, which in future will carry out an exclusively sales and distribution role.

- The caption "Write-downs of equity interest" of the Parent's profit and loss account also includes a write-down of the investment in Reno De Medici Iberica S.L. of approx. Euro 25.3 million, of which Euro 24.5 million refer to the provision related to the receivable from Grupo Torras S.A. and recorded following the judgement of the Court of First Instance of Madrid.

  The receivable from Grupo Torras S.A., reported in the financial statements of Reno De Medici Iberica S.L. as of 31 December 2004, amounted to approx. Euro 61.9 million and a specific provision of Euro 30 million was recorded in the provisions for contingencies and charges. At 30 June 2005, the net value of such receivable (approx. Euro 31.9 million) has been adjusted to the amount resulting from the judgement of the Court of First Instance of Madrid.

  As for the consolidated financial statements, in accordance with IFRS, the net value of the receivable from Grupo Torras S.A. has been discounted, at each reporting date starting from 1 January 2004, on the basis of the expected collection timetable. As of 31 December 2004, the present value of the net receivable amounted to approx. Euro 20.6 million. At 30 June 2005, such value has been adjusted to the amount resulting from the judgement of the Court of First Instance of Madrid, taking into account the expected collection timetable.

- In the financial statements of the Parent Company the carrying value of Aticarta S.p.A. has not been adjusted to that company's equity (which, as of 30 June 2005, incorporates a negative result of about Euro 9.5 million, of which Euro 7 million relating to the write-downs of Pompeii's plants and equipments) as this difference has not been judged a permanent loss of value given the market value of Aticarta S.p.A.’s other assets.

14. List of investments in subsidiaries and associates

The following list of investments at 30 June 2005 in unlisted share capital companies or companies with limited liability, and exceeding 10% of capital, is provided in accordance with article 126 of CONSOB Resolution no. 11971 of 14 May 1999 and subsequent supplements and amendments:

Financial companies

Reno De Medici International S.A.
Luxembourg
Direct ownership 99,99%

Holcart S.r.l.
Busto Arsizio - Varese - Italy
Direct ownership 100%

Cartonboard sector

Reno De Medici Iberica S.L.
Prat de Llobregat - Barcelona - Spain
Direct ownership 100%

Emmaus Pack S.r.l.
Milan - Italy
Direct ownership 51,39%

Cartiera Alto Milanese S.p.A.
Fagnano Olona - Varese – Italy
Direct ownership 8%
Indirect ownership 92% (through Holcart S.r.l.)

RDM France S.à.r.l.
Tremblay en France – Paris- France
Direct ownership 99,58%

RenoDeMedici Deutschland GmbH
Bad Homburg - Germany
Direct ownership 100%

Barneda Carton S.A.
Llica de Vail - Barcelona - Spain
Indirect ownership 100% (through Reno De Medici Iberica S.L.)

Pac Service S.p.A.
Vigonza - Padua - Italy
Direct ownership 33,33%

Centro Taglio Magenta S.r.l. in liquidazione
Milan - Italy
Direct ownership 100%

Packaging sector

Aticarta S.p.A.
Milan - Italy
Direct ownership 100%

Real estate sector

RED. IM. S.r.l.
Milan - Italy
Direct ownership 100%

Energy sector

Cogeneracion Prat S.A.
Prat de Llobregat - Barcelona - Spain
Indirect ownership 100% (through Reno De Medici Iberica S.L.)

Cogeneracion Baix Llobregat S.L.
Prat de Llobregat - Barcelona - Spain
Indirect ownership 100% (through Reno De Medici Iberica S.L.)

Termica Boffalora S.r.l.
Sesto S. Giovanni - Milan - Italy
Direct ownership 30%

Service sector

Reno Logistica S.p.A. in liquidazione
Milan - Italy
Direct ownership 100%

Trentino Ricerca S.r.l.
Rovereto - Trento - Italy
Direct ownership 60%

Consortia

ARSPCC
Torre de Barcelona – Barcelona - Spain
Indirect ownership 50% (through Reno De Medici Iberica S.L.)

APPENDIX: TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

Under Regulation (EC) No. 1606/2002 of the European Parliament dated 19 July 2002 on the application of international accounting standards, European companies whose securities are admitted to trading on a regulated market of any Member State are required to prepare their consolidated financial statements in conformity with international accounting standards (International Financial Reporting Standards, referred to in the following as "IFRS" or "International Accounting Standards") for each financial year starting on or after 1 January 2005, applicable for the first time to Reno De Medici S.p.A. from the financial year ending 31 December 2005.

On 14 April 2005, Consob, issued resolution no. 14990, thereby amending and supplementing Regulation No. 11971 of 14 May 1999 (referred to in the following as the "Consob Regulation"); this resolution incorporates the requirements of the European regulation and governs, amongst other matters, the application of International Accounting Standards to interim financial reporting for 2005.

In particular, the adoption of IFRS is compulsory starting from the third quarter of 2005 (for Reno De Medici starting from the interim accounts for the quarter ending 30 September 2005). Under articles 81 bis and 82 bis of the Consob Regulation, interim accounts for quarters preceding that ending on 30 September 2005 may be prepared by following a transition procedure. Reno De Medici Group (referred to in the following as the "Group") has adopted this transition procedure in reporting its first quarter, in which detailed information is provided regarding the procedures put into place for the transition to IFRS and their status, in accordance with article 82 bis, no. 1, paragraph a) of the Consob Regulation.

There are two alternatives available for the second quarter:

1. <u>Continuing use of Italian accounting principles (referred to in the following as "Italian GAAP" or "Italian Accounting Principles") and preparation of reports for both the second quarter and the first half year of 2005</u>

Under this alternative, reporting for the second quarter and for the half year are both prepared in compliance with Italian GAAP, with formal approval by 14 August 2005 and 30 September 2005 respectively and with the requirement to present reconciliations between IFRS and Italian GAAP and notes to the financial statements referring to the year ended 31 December 2004 and the six months ended 30 June 2005 as an appendix to the reporting for the second quarter and that for the half year.

2. Application of IFRS in the half-year report but no requirement to prepare a report for the second quarter

Under this alternative, the half-year report is prepared with the full application of IFRS, with formal approval required by 30 September 2005. In this situation, under the Consob Regulation and the Regulation Instructions of markets organised and managed by Borsa Italiana S.p.A. (article IA.2.12.6) (referred to in the following as the "Stock Exchange Regulation Instructions") companies are permitted not to prepare a report for the second quarter, given the time and effort required for a complete application of IFRS. The presentation of reconciliations between IFRS and Italian GAAP is also required in this case as an appendix to the half-year IFRS report, together with notes to the financial statements referring to the year ended 31 December 2004 and a reconciliation at 30 June 2004.

As a consequence of the requirements of the Consob Regulation and the Stock Exchange Regulation Instructions, on 20 July 2005 the Board of Directors of Reno De Medici S.p.A. (referred to in the following as "RDM" or the "Company") took the decision to make use of the possibility not to issue a report for the second quarter of 2005, pursuant to article 82 bis of the Consob Regulation, and to issue a half-year report on a consolidated basis prepared under International Accounting Standards, in compliance with article 81 of the mentioned Consob Regulation. The accounts of RDM, as parent company, have been prepared in accordance with Italian Accounting Principles.

As a result of the decision of the Board of Directors and in accordance with the rules and regulations referred to previously, the following are presented:

1. The Group's accounting principles and policies as supplemented and amended as a consequence of adopting International Accounting Standards.
2. A schedule summarising the effects of the transition to IFRS on the balance sheet at 31 December 2004.
3. A reconciliation of equity at 31 December 2004 between Italian Accounting Principles and IFRS.
4. A schedule summarising the effects of the transition to IFRS on the balance sheet at 30 June 2004.
5. A reconciliation of equity at 30 June 2004 between Italian Accounting Principles and IFRS.
6. A schedule summarising the effects of the transition to IFRS on the balance sheet at 1 January 2004.
7. A reconciliation of equity at 1 January 2004 between Italian Accounting Principles and IFRS.

8. Details of the effects of the transition to IFRS on the balance sheets at 31 December 2004, 30 June 2004 and 1 January 2004.
9. A schedule summarising the effects of the transition to IFRS on the 2004 profit and loss account.
10. A reconciliation of the net result for 2004 between Italian Accounting Principles and IFRS.
11. A schedule summarising the effects of the transition to IFRS on the profit and loss account for the six months ended 30 June 2004.
12. A reconciliation of the net result for the six months ended 30 June 2004 between Italian Accounting Principles and IFRS.
13. Details of the effects of the transition to IFRS on the 2004 profit and loss account and on that for the six months ended 30 June 2004.
14. A commentary on the principal reconciling items between Italian Accounting Principles and IFRS.
15. The auditor's report on the reconciliation schedules pursuant to IFRS 1 (1 January to 31 December 2004).

For purposes of completeness, it is recalled that the profit and loss account for the first half of 2004 presented in the appendix differs from that presented as a comparative statement for the profit and loss account for the first half of 2005. As described previously, as a result of the sale of Europoligrafico S.p.A. in June 2005, the result of EPG for the first half of 2004 has been reclassified to "Discontinued operations" to improve comparability.

1. Accounting principles and policies

The accounting principles and policies used in the preparation of the financial statements presented in the appendix are the same as those used in the preparation of the first half year report for 2005. Reference should therefore be made to paragraph 5 “Accounting principles and policies” of the half year report.

2. Effects of the transition to IFRS on the balance sheet at 31 December 2004

euro/000	Italian GAAP	Reclassifications	Adjustments	IFRS
ASSETS				
Non-current assets				
Tangible fixed assets	241,547	(9,963)	35,609	267,193
Investment property	0	1,284	0	1,284
Goodwill	684	0	613	1,297
Other intangible assets	5,584	(204)	(641)	4,739
Investments accounted for under the equity method	17,825	0	0	17,825
Deferred tax assets	9,594	0	(9,594)	0
Derivative financial instruments	0	0	5,183	5,183
Financial assets held for sale	427	0	(171)	256
Own shares	4,587	0	(4,587)	0
Trade receivables	161	0	101	262
Other receivables	99,395	(60,000)	(11,309)	28,086
Other non-current assets held for sale	0	8,883	0	8,883
Total non-current assets	**379,804**	**(60,000)**	**15,204**	**335,008**
Current assets				
Stocks	86,044	30,000	3,569	119,613
Trade receivables	142,949	0	(1,194)	141,755
Other receivables	12,701	0	(5,776)	6,925
Derivative financial instruments	0	0	2,105	2,105
Financial assets held for sale	22,740	(19,027)	(3,569)	144
Own shares	787	0	(787)	0
Financial assets at fair value adjusted in income	0	0	0	0
Liquid funds	5,729	19,027	247	25,003
Total current assets	**270,950**	**30,000**	**(5,405)**	**295,545**
TOTAL ASSETS	**650,754**	**(30,000)**	**9,799**	**630,553**
LIABILITIES AND SHAREHOLDERS' EQUITY				
Shareholders' equity	**152,748**	**0**	**3,324**	**156,072**
Non-current liabilities				
Bank loans and other financial liabilities	197,018	0	1,733	198,751
Derivative financial instruments	0	0	1,247	1,247
Other payables	553	0	0	553
Deferred tax liabilities	29	0	3,285	3,314
Employees' leaving entitlement	32,897	0	(3,074)	29,823
Non-current provisions for contingencies and charges	53,970	(30,981)	(920)	22,069
Liabilities directly associated with non -current assets held for sale	0	981	0	981
Total non-current liabilities	**284,467**	**(30,000)**	**2,271**	**256,738**
Current liabilities				
Bank loans and other financial liabilities	71,283	0	696	71,979
Derivative financial instruments	0	0	2,859	2,859
Trade payables	107,521	0	503	108,024
Other payables	34,735	(1,420)	146	33,461
Current taxation	0	1,420	0	1,420
Current provisions for contingencies and charges	0	0	0	0
Total current liabilities	**213,539**	**0**	**4,204**	**217,743**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**650,754**	**(30,000)**	**9,799**	**630,553**

3. Reconciliation of shareholders’ equity at 31 December 2004

euro/000	Note	31 December 2004
Shareholders' equity under Italian GAAP		**152,748**
Separation of land and buildings	**A**	8,080
Revaluation of land and buildings	**B,E**	24,211
Scope of consolidation	**C**	(5,437)
Start-up costs Villa Santa Lucia	**D**	2,843
Elimination of costs for increases in share capital	**F**	(2,285)
Amortised cost debenture loan	**G**	30
Measurement of derivative financial instruments at fair value	**I**	(1,157)
Own shares in hand	**L**	(5,374)
Discounting of Grupo Torras receivable	**N**	(11,309)
Remeasurement of employees' leaving entitlement	**Q**	3,394
Remeasurement of agents' termination provision	**R**	553
Restructuring provision	**S**	601
Elimination of goodwill amortisation	**T**	613
Purchase of RDM International debenture loans	**U**	1,410
Other minor items		(48)
Deferred taxation on IFRS adjustments	**H**	(12,801)
Shareholders' equity under IFRS		**156,072**

4. Effects of the transition to IFRS on the balance sheet at 30 June 2004

euro/000	Italian GAAP	Reclassifications	Adjustments	IFRS
ASSETS				
Non-current assets				
Tangible fixed assets	257,782	(8,372)	35,972	285,382
Investment property	0	1,284	0	1,284
Goodwill	765	0	305	1,070
Other intangible assets	6,992	(243)	(1,558)	5,191
Investments accounted for under the equity method	15,569	0	0	15,569
Deferred tax assets	5,466	0	(5,466)	0
Derivative financial instruments	0	0	1,085	1,085
Financial assets held for sale	227	0	29	256
Own shares	4,587	0	(4,587)	0
Trade receivables	185	0	0	185
Other receivables	99,026	(60,000)	(11,807)	27,219
Other non-current assets held for sale	0	5,935	0	5,935
Total non-current assets	**390,599**	**(61,396)**	**13,973**	**343,176**
Current assets				
Stocks	93,660	31,396	3,859	128,915
Trade receivables	161,482	0	76	161,558
Other receivables	11,993	0	(1,348)	10,645
Derivative financial instruments	0	0	2,001	2,001
Financial assets held for sale	23,348	(19,720)	(3,569)	59
Own shares	734	0	(734)	0
Financial assets at fair value adjusted in income	0	0	0	0
Liquid funds	3,435	19,720	298	23,453
Total current assets	**294,652**	**31,396**	**583**	**326,631**
TOTAL ASSETS	**685,251**	**(30,000)**	**14,556**	**669,807**
LIABILITIES AND SHAREHOLDERS' EQUITY				
Shareholders' equity	**161,431**	**0**	**910**	**162,341**
Non-current liabilities				
Bank loans and other financial liabilities	206,165	0	1,667	207,832
Derivative financial instruments	0	0	1,815	1,815
Other payables	5,803	0	0	5,803
Deferred tax liabilities	(1,842)	0	7,113	5,271
Employees' leaving entitlement	34,236	0	(2,713)	31,523
Non-current provisions for contingencies and charges	60,230	(33,707)	(1,028)	25,495
Liabilities directly associated with non -current assets held for sale	0	3,707	0	3,707
Total non-current liabilities	**304,592**	**(30,000)**	**6,854**	**281,446**
Current liabilities				
Bank loans and other financial liabilities	72,259	0	1,021	73,280
Derivative financial instruments	0	0	2,962	2,962
Trade payables	113,018	0	1,616	114,634
Other payables	33,951	(1,727)	1,193	33,417
Current taxation	0	1,727	0	1,727
Current provisions for contingencies and charges	0	0	0	0
Total current liabilities	**219,228**	**0**	**6,792**	**226,020**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**685,251**	**(30,000)**	**14,556**	**669,807**

5. Reconciliation of shareholders' equity at 30 June 2004

euro/000	Nota	30 June 2004
Shareholders' equity under Italian GAAP		**161,431**
Separation of land and buildings	**A**	8,068
Revaluation of land and buildings	**B,E**	24,453
Scope of consolidation	**C**	(5,946)
Start-up costs Villa Santa Lucia	**D**	2,385
Elimination of costs for increases in share capital	**F**	(2,666)
Amortised cost debenture loan	**G**	50
Measurement of derivative financial instruments at fair value	**I**	(1,550)
Own shares in hand	**L**	(5,321)
Discounting of Grupo Torras receivable	**N**	(11,902)
Remeasurement of employees' leaving entitlement	**Q**	3,134
Remeasurement of agents' termination provision	**R**	445
Restructuring provision	**S**	659
Elimination of goodwill amortisation	**T**	305
Purchase of RDM International debenture loans	**U**	1,410
Other minor items		(156)
Deferred taxation on IFRS adjustments	**H**	(12,458)
Shareholders' equity under IFRS		**162,341**

6. Effects of the transition to IFRS on the balance sheet at 1 January 2004

euro/000	Italian GAAP	Reclassifications	Adjustments	IFRS
ASSETS				
Non-current assets				
Tangible fixed assets	271,005	(8,611)	36,160	298,554
Investment property	0	1,284	0	1,284
Goodwill	1,070	0	0	1,070
Other intangible assets	8,566	(297)	(2,479)	5,790
Investments accounted for under the equity method	9,752	0	0	9,752
Deferred tax assets	5,466	0	(5,466)	0
Derivative financial instruments	0	0	5,958	5,958
Financial assets held for sale	231	0	29	260
Own shares	4,587	0	(4,587)	0
Trade receivables	190	0	0	190
Other receivables	99,135	(60,000)	(12,212)	26,923
Other non-current assets held for sale	0	6,228	0	6,228
Total non-current assets	**400,002**	**(61,396)**	**17,403**	**356,009**
Current assets				
Stocks	91,335	31,396	3,648	126,379
Trade receivables	155,129	0	1,185	156,314
Other receivables	16,796	0	(5,773)	11,023
Derivative financial instruments	0	0	2,107	2,107
Financial assets held for sale	32,058	(23,000)	0	9,058
Own shares	787	0	(787)	0
Financial assets at fair value adjusted in income	0	0	0	0
Liquid funds	15,245	23,000	121	38,366
Total current assets	**311,350**	**31,396**	**501**	**343,247**
TOTAL ASSETS	**711,352**	**(30,000)**	**17,904**	**699,256**
LIABILITIES AND SHAREHOLDERS' EQUITY				
Shareholders' equity	**166,224**	**0**	**(2,242)**	**163,982**
Non-current liabilities				
Bank loans and other financial liabilities	218,032	0	6,597	224,629
Derivative financial instruments	0	0	2,619	2,619
Other payables	5,888	0	0	5,888
Deferred tax liabilities	0	0	5,651	5,651
Employees' leaving entitlement	36,577	0	(1,818)	34,759
Non-current provisions for contingencies and charges	64,106	(34,070)	(898)	29,138
Liabilities directly associated with non -current assets held for sale	0	4,070	0	4,070
Total non-current liabilities	**324,603**	**(30,000)**	**12,151**	**306,754**
Current liabilities				
Bank loans and other financial liabilities	65,749	0	651	66,400
Derivative financial instruments	0	0	3,089	3,089
Trade payables	110,638	0	2,862	113,500
Other payables	44,138	(1,150)	1,393	44,381
Current taxation	0	1,150	0	1,150
Current provisions for contingencies and charges	0	0	0	0
Total current liabilities	**220,525**	**0**	**7,995**	**228,520**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**711,352**	**(30,000)**	**17,904**	**699,256**

7. Reconciliation of shareholders’ equity at 1 January 2004

	Note	1 January 2004
euro/000		
Shareholders' equity under Italian GAAP		**166,224**
Separation of land and buildings	**A**	7,867
Revaluation of land and buildings	**B,E**	24,694
Scope of consolidation	**C**	(5,728)
Start-up costs Villa Santa Lucia	**D**	1,928
Elimination of costs for increases in share capital	**F**	(3,047)
Amortised cost debenture loan	**G**	54
Measurement of derivative financial instruments at fair value	**I**	(2,096)
Own shares in hand	**L**	(5,374)
Discounting of Grupo Torras receivable	**N**	(12,477)
Remeasurement of employees' leaving entitlement	**Q**	2,219
Remeasurement of agents' termination provision	**R**	291
Restructuring provision	**S**	736
Other minor items	**T**	(271)
Deferred taxation on IFRS adjustments	**H**	(11,038)
Shareholders' equity under IFRS		**163,982**

8. Details of the effects of the transition to IFRS on the balance sheets at 31 December 2004, 30 June 2004 and 1 January 2004

Details are set out below by individual balance sheet item of the adjustments and reclassifications between the balance sheets prepared under Italian Accounting Principles and those prepared under IFRS. By the side of each item is a reference to the note which describes the matter which has generated the entry. These notes are provided in the present document in the paragraph entitled "Commentary on the reconciliation between Italian Accounting Principles and IFRS".

Non-current assets

Tangible fixed assets

Land	Note	31 December 2004	30 June 2004	1 January 2004
euro/000				
Adjustments				
Separation of land and buildings	**A**	17.273	17.391	16.268
Revaluation of land at the Santa Giustina facility	**B**	11.267	11.267	11.267
Revaluation of agricultural land at the Magenta facility	**E**	991	991	991
Total adjustments		**29.531**	**29.649**	**28.526**
Reclassifications				
To investment property	**E**	(1.284)	(1.284)	(1.284)
To non-current assets held for sale	**O**	(1.709)	(638)	(638)
Total reclassifications		**(2.993)**	**(1.922)**	**(1.922)**

Buildings	Note	31 December 2004	30 June 2004	1 January 2004
euro/000				
Adjustments				
Separation of land and buildings	**A**	(9,193)	(9,323)	(8,401)
Revaluation of buildings at the Santa Giustina facility	**B**	11,953	12,195	12,436
Total adjustments		**2,760**	**2,872**	**4,035**
Reclassifications				
To non-current assets held for sale	**O**	(2,948)	(2,288)	(2,288)
To stocks (buildings held for sale)		0	(1,396)	(1,396)
From other intangible assets		204	243	297
Total reclassifications		**(2,744)**	**(3,441)**	**(3,387)**

Plant and machinery	Note	31 December 2004	30 June 2004	1 January 2004
euro/000				
Adjustments				
Scope of consolidation	**C**	432	453	488
Start-up costs Villa Santa Lucia	**D**	2,843	2,941	3,039
Total adjustments		**3,275**	**3,394**	**3,527**
Reclassifications				
To non-current assets held for sale	**O**	(4,131)	(2,977)	(3,270)
Total reclassifications		**(4,131)**	**(2,977)**	**(3,270)**

Commercial and industrial equipment	Note	31 December 2004	30 June 2004	1 January 2004
euro/000				
Adjustments				
Scope of consolidation	**C**	8	10	12
Total adjustments		**8**	**10**	**12**
Reclassifications				
To non-current assets held for sale	**O**	(23)	(13)	(13)
Total reclassifications		**(23)**	**(13)**	**(13)**

Other assets	Note	31 December 2004	30 June 2004	1 January 2004
euro/000				
Adjustments				
Scope of consolidation	**C**	35	47	60
Total adjustments		**35**	**47**	**60**
Reclassifications				
To non-current assets held for sale	**O**	(72)	(19)	(19)
Total reclassifications		**(72)**	**(19)**	**(19)**

Investment property

	Note	31 December 2004	30 June 2004	1 January 2004
euro/000				
Reclassifications				
From tangible fixed assets (land)	E	1,284	1,284	1,284
Total reclassifications		**1,284**	**1,284**	**1,284**

Goodwill

	Note	31 December 2004	30 June 2004	1 January 2004
euro/000				
Adjustments				
Business combinations-elimination of goodwill amortisation	T	105	39	0
Business combinations-elimination of goodwill amortisation (Europoligrafico and Aticarta)	T	508	266	0
Total adjustments		**613**	**305**	**0**

Other intangible assets

	Note	31 December 2004	30 June 2004	1 January 2004
euro/000				
Adjustments				
Start-up costs Villa Santa Lucia	D	0	(556)	(1,111)
Elimination of costs for increases in share capital	F	(2,285)	(2,666)	(3,047)
Elimination of issue costs for debenture loan	G	(370)	(508)	(646)
Scope of consolidation	C	62	78	96
Valuation of CAM market share	C	2,000	2,250	2,500
Start-up costs El Prat		0	(87)	(174)
Other minor items		(48)	(69)	(97)
Total adjustments		**(641)**	**(1,558)**	**(2,479)**
Reclassifications				
Tangible fixed assets		(204)	(243)	(297)
Total reclassifications		**(204)**	**(243)**	**(297)**

Deferred tax assets

euro/000	Note	31 December 2004	30 June 2004	1 January 2004
Adjustments				
Deferred taxation on IFRS adjustments	**H**	(9,594)	(5,466)	(5,466)
Total adjustments		**(9,594)**	**(5,466)**	**(5,466)**

Derivative financial instruments

euro/000	Note	31 December 2004	30 June 2004	1 January 2004
Adjustments				
Measurement of derivative financial instruments at fair value	**I**	5,183	1,085	5,958
Total adjustments		**5,183**	**1,085**	**5,958**

Financial assets held for sale

euro/000	Note	31 December 2004	30 June 2004	1 January 2004
Adjustments				
Scope of consolidation	**C**	(171)	29	29
Total adjustments		**(171)**	**29**	**29**

Own shares

euro/000	Note	31 December 2004	30 June 2004	1 January 2004
Adjustments				
Own shares in hand	**L**	(4,587)	(4,587)	(4,587)
Total adjustments		**(4,587)**	**(4,587)**	**(4,587)**

Trade receivables

	Note	31 December 2004	30 June 2004	1 January 2004
euro/000				
Adjustments				
Scope of consolidation	**C**	101	0	0
Total adjustments		**101**	**0**	**0**

Other receivables

	Note	31 December 2004	30 June 2004	1 January 2004
euro/000				
Adjustments				
Scope of consolidation	**C**	0	95	265
Discounting of Grupo Torras receivable	**N**	(11,309)	(11,902)	(12,477)
Total adjustments		**(11,309)**	**(11,807)**	**(12,212)**
Reclassifications				
To stocks (buildings held for sale)	**M**	(30,000)	(30,000)	(30,000)
From contingencies for provisions and charges (risks on Grupo Torras receivables)	**N**	(30,000)	(30,000)	(30,000)
Total reclassifications		**(60,000)**	**(60,000)**	**(60,000)**

Non-current assets held for sale

	Note	31 December 2004	30 June 2004	1 January 2004
euro/000				
Reclassifications				
From tangible fixed assets	**O**	8,883	5,935	6,228
Total reclassifications		**8,883**	**5,935**	**6,228**

Current assets

Stocks

euro/000	Note	31 December 2004	30 June 2004	1 January 2004
Adjustments				
Scope of consolidation	**C**	3,569	3,859	3,648
Total adjustments		**3,569**	**3,859**	**3,648**
Reclassifications				
From tangible fixed assets (buildings)		0	1,396	1,396
From other receivables (receivable from Espais)	**M**	30,000	30,000	30,000
Total reclassifications		**30,000**	**31,396**	**31,396**

Trade receivables

euro/000	Note	31 December 2004	30 June 2004	1 January 2004
Adjustments				
Scope of consolidation	**C**	(1,194)	76	(1,185)
Total adjustments		**(1,194)**	**76**	**(1,185)**

Other receivables

euro/000	Note	31 December 2004	30 June 2004	1 January 2004
Adjustments				
Scope of consolidation	**C**	77	21	27
Valuation of derivative instruments at fair value	**I**	(5,656)	(1,172)	(5,800)
Purchase of RDM International debentures	**U**	(197)	(197)	0
Total adjustments		**(5,776)**	**(1,348)**	**(5,773)**

Derivative financial instruments

	Note	31 December 2004	30 June 2004	1 January 2004
euro/000				
Adjustments				
Measurement of derivative financial instruments at fair value	I	2,105	2,001	2,107
Total adjustments		**2,105**	**2,001**	**2,107**

Financial assets held for sale

	Note	31 December 2004	30 June 2004	1 January 2004
euro/000				
Adjustments				
Scope of consolidation	C	1	1	0
Purchase of RDM International debentures	U	(3,570)	(3,570)	0
Total adjustments		**(3,569)**	**(3,569)**	**0**
Reclassifications				
To liquid funds	P	(19,027)	(19,720)	(23,000)
Total reclassifications		**(19,027)**	**(19,720)**	**(23,000)**

Own shares

	Note	31 December 2004	30 June 2004	1 January 2004
euro/000				
Adjustments				
Own shares in hand	L	(787)	(734)	(787)
Total adjustments		**(787)**	**(734)**	**(787)**

Liquid funds

	Note	31 December 2004	30 June 2004	1 January 2004
euro/000				
Adjustments				
Scope of consolidation	**C**	247	298	121
Total adjustments		**247**	**298**	**121**
Reclassifications				
From financial assets held for sale	**P**	19,027	19,720	23,000
Total reclassifications		**19,027**	**19,720**	**23,000**

Non-current liabilities

Bank loans and other financial liabilities

	Note	31 December 2004	30 June 2004	1 January 2004
euro/000				
Adjustments				
Scope of consolidation	**C**	7,113	7,205	7,297
Amortised cost debenture loan	**G**	(400)	(558)	(700)
Purchase of RDM International debentures	**U**	(4,980)	(4,980)	0
Total adjustments		**1,733**	**1,667**	**6,597**

Derivative financial instruments

	Note	31 December 2004	30 June 2004	1 January 2004
Adjustments				
Measurement of derivative financial instruments at fair value	**I**	1,247	1,815	2,619
Total adjustments		**1,247**	**1,815**	**2,619**

Deferred tax liabilities

	Note	31 December 2004	30 June 2004	1 January 2004
euro/000				
Adjustments				
Deferred taxation on IFRS adjustments (*)	**H**	3,207	6,992	5,572
Scope of consolidation	**C**	78	121	79
Total adjustments		**3,285**	**7,113**	**5,651**

Employees' leaving entitlement

	Note	31 December 2004	30 June 2004	1 January 2004
euro/000				
Adjustments				
Scope of consolidation	**C**	320	421	401
Remeasurement of employees' leaving entitlement	**Q**	(3,394)	(3,134)	(2,219)
Total adjustments		**(3,074)**	**(2,713)**	**(1,818)**

(*) Adjustments on 30.06.2004 include estimated deferred taxation that was not calculated in first half year 2004 interim report under Italian Accounting Principles.

Non-current provisions from contingencies and charges

euro/000	Note	31 December 2004	30 June 2004	1 January 2004
Adjustments				
Scope of consolidation	**C**	234	76	129
Remeasurement of agents' termination provision	**R**	(553)	(445)	(291)
Restructuring provision	**S**	(601)	(659)	(736)
Total adjustments		**(920)**	**(1,028)**	**(898)**
Reclassifications				
To liabilities directly associated with non-current assets held for sale	**O**	(981)	(3,707)	(4,070)
To other receivables (receivables from Grupo Torras)	**N**	(30,000)	(30,000)	(30,000)
Total reclassifications		**(30,981)**	**(33,707)**	**(34,070)**

Liabilities directly associated with non-current assets held for sale

euro/000	Note	31 December 2004	30 June 2004	1 January 2004
Reclassifications				
From provisions for contingencies and charges	**O**	981	3,707	4,070
Total reclassifications		**981**	**3,707**	**4,070**

Current liabilities

Bank loans and other financial liabilities

euro/000	Note	31 December 2004	30 June 2004	1 January 2004
Adjustments				
Scope of consolidation	**C**	696	1,021	651
Total adjustments		**696**	**1,021**	**651**

Derivative financial instruments

euro/000	Note	31 December 2004	30 June 2004	1 January 2004
Adjustments				
Measurement of derivative financial instruments at fair value	**I**	2,859	2,962	3,089
Total adjustments		**2,859**	**2,962**	**3,089**

Trade payables

euro/000	Note	31 December 2004	30 June 2004	1 January 2004
Adjustments				
Scope of consolidation	**C**	503	1,616	2,862
Total adjustments		**503**	**1,616**	**2,862**

Other payables

	Note	31 December 2004	30 June 2004	1 January 2004
euro/000				
Adjustments				
Scope of consolidation	**C**	1,660	2,703	2,740
Valuation of derivative instruments at fair value	**I**	(1,317)	(1,313)	(1,347)
Purchase of RDM International debentures	**U**	(197)	(197)	0
Total adjustments		**146**	**1,193**	**1,393**
Reclassifications				
To current taxation		(1,420)	(1,727)	(1,150)
Total reclassifications		**(1,420)**	**(1,727)**	**(1,150)**

Current taxation

	Note	31 December 2004	30 June 2004	1 January 2004
euro/000				
Reclassifications				
From other payables		1,420	1,727	1,150
Total reclassifications		**1,420**	**1,727**	**1,150**

9. Effects of the transition to IFRS on the 2004 profit and loss account

euro/000	Italian GAAP	Reclassifications	Adjustments	IFRS
Revenues from sales	470,923	(29)	2,709	473,603
Other revenues	18,472	(700)	(143)	17,629
Changes in stocks of finished goods	(3,322)	(237)		(3,559)
Cost of raw materials and services	(344,799)	170	(1,302)	(345,931)
Staff costs	(88,126)	1,538	442	(86,146)
Other operating costs	(7,953)	101	(113)	(7,965)
Income (expense) from non-current assets held for sale	0	598		598
Unusual income (expense)	0	(1,702)	591	(1,111)
Gross Operating Profit (EBITDA)	**45,195**	**(261)**	**2,184**	**47,118**
Depreciation, amortisation and write-downs	(42,020)	(3,000)	2,077	(42,943)
Operating Profit (EBIT)	**3,175**	**(3,261)**	**4,261**	**4,175**
Financial income (expense), net	(15,288)	(1,441)	2,992	(13,737)
Income from investments	3,127	0	0	3,127
Extraordinary income (expense), net	(4,702)	4,702	0	0
Taxation	630	0	(1,864)	(1,234)
Profit (loss) for the year	**(13,058)**	**0**	**5,389**	**(7,669)**
Attributable to:				
Profit (loss) for the year pertaining to the group	(13,468)		5,384	(8,084)
Profit (loss) for the year pertaining to minority interests	410		5	415

10. Reconciliation of the result for 2004

	Note	Year 2004
euro/000		
Profit (loss) under Italian GAAP		**(13,058)**
Separation of land and buildings	**A**	213
Revaluation of land and buildings	**B**	(483)
Scope of consolidation	**C**	56
Start-up costs Villa Santa Lucia	**D**	915
Elimination of costs for increases in share capital	**F**	762
Amortised cost debenture loan	**G**	(44)
Measurement of derivative financial instruments at fair value	**I**	943
Discounting Grupo Torras receivable	**N**	1,168
Remeasurement of employees' leaving entitlement as per IAS 19	**Q**	1,206
Remeasurement of agents' termination provision as per IAS 37	**R**	262
Restructuring provision	**S**	(135)
Elimination of goodwill amortisation	**T**	612
Purchase of RDM International debenture loans	**U**	1,430
Other minor items		250
Deferred taxation on IFRS adjustments	**H**	(1,766)
Profit (loss) under IFRS		**(7,669)**

11. Effects of the transition to IFRS on the profit and loss account for the six months ended 30 June 2004

euro/000	Italian GAAP	Reclassifications	Adjustments	IFRS
Revenues from sales	248,147	0	884	249,031
Other revenues	2,909	0	31	2,940
Changes in stocks of finished goods	2,639	0	292	2,931
Cost of raw materials and services	(178,780)	35	(411)	(179,156)
Staff costs	(47,666)	712	503	(46,451)
Other operating costs	(4,764)	43	(94)	(4,815)
Income (expense) from non-current assets held for sale	0	(78)	0	(78)
Unusual income (expense)	0	(503)	(9)	(512)
Gross Operating Profit (EBITDA)	**22,485**	**209**	**1,196**	**23,890**
Depreciation, amortisation and write-downs	(20,552)	0	1,032	(19,520)
Operating Profit (EBIT)	**1,933**	**209**	**2,228**	**4,370**
Financial income (expense), net	(7,339)	(712)	2,285	(5,766)
Income from investments	1,118	0	53	1,171
Extraordinary income (expense), net	(503)	503	0	0
Taxation	115	0	(1,419)	(1,304)
Profit (loss) for the period	**(4,676)**	**0**	**3,147**	**(1,529)**
Attributable to:				
Profit (loss) for the period pertaining to the group	(4,631)		3,116	(1,515)
Profit (loss) for the period pertaining to minority interests	(45)		31	(14)

12. Reconciliation of the result for the six months ended 30 June 2004

euro/000	Note	First half 2004
Profit (loss) under Italian GAAP		**(4,676)**
Separation of land and buildings	**A**	201
Revaluation of land and buildings	**B**	(241)
Scope of consolidation	**C**	(238)
Start-up costs Villa Santa Lucia	**D**	458
Elimination of costs for increases in share capital	**F**	381
Amortised cost debenture loan	**G**	(24)
Measurement of derivative financial instruments at fair value	**I**	550
Own shares in hand	**L**	53
Discounting Grupo Torras receivable	**N**	575
Remeasurement of employees' leaving entitlement as per IAS 19	**Q**	915
Remeasurement of agents' termination provision as per IAS 37	**R**	154
Restructuring provision	**S**	(77)
Elimination of goodwill amortisation	**T**	304
Purchase of RDM International debenture loans	**U**	1,430
Other minor items		125
Deferred taxation on IFRS adjustments	**H**	(1,419)
Profit (loss) under IFRS		**(1,529)**

13. Details of the effects of the transition to IFRS on the 2004 profit and loss account and on that for the six months ended 30 June 2004

Details are set out below by individual profit and loss account item of the adjustments and reclassifications between the profit and loss accounts prepared under Italian Accounting Principles and those prepared under IFRS. By the side of each item is a reference to the note which describes the matter which has generated the entry. These notes are provided in the present document in the paragraph entitled "Commentary on the reconciliation between Italian Accounting Principles and IFRS".

Revenues from sales

euro/000	Note	2004	First half 2004
Adjustments			
Scope of consolidation	**C**	2,709	884
Total adjustments		**2,709**	**884**
Reclassifications			
To income (expense) from non-current assets held for sale	**O**	(29)	0
Total reclassifications		**(29)**	**0**

Other revenues

euro/000	Note	2004	First half 2004
Adjustments			
Adjustment to gain on sale of Verderio property	**A**	(185)	0
Scope of consolidation	**C**	42	31
Total adjustments		**(143)**	**31**
Reclassifications			
To income (expense) from non-current assets held for sale	**O**	(700)	0
Total reclassifications		**(700)**	**0**

Changes in stocks of finished goods

	Note	2004	First half 2004
euro/000			
Adjustments			
Scope of consolidation	**C**	0	292
Total adjustments		**0**	**292**
Reclassifications			
To income (expense) from non-current assets held for sale	**O**	(237)	0
Total reclassifications		**(237)**	**0**

Cost of raw materials and services

	Note	2004	First half 2004
euro/000			
Adjustments			
Scope of consolidation	**C**	1,429	488
Remeasurement of agents' termination provision	**R**	(262)	(154)
Restructuring provision	**S**	135	77
Total adjustments		**1,302**	**411**
Reclassifications			
To income (expense) from non-current assets held for sale	**O**	(170)	(35)
Total reclassifications		**(170)**	**(35)**

Staff costs

	Note	2004	First half 2004
euro/000			
Adjustments			
Remeasurement of employees' leaving entitlement	**Q**	(1,206)	(915)
Scope of consolidation	**C**	764	412
Total adjustments		**(442)**	**(503)**
Reclassifications			
To interest payable (remeasurement of employees' leaving entitlement)	**Q**	(1,441)	(712)
To income (expense) from non-current assets held for sale	**O**	(97)	0
Total reclassifications		**(1,538)**	**(712)**

Other operating costs

	Note	2004	First half 2004
euro/000			
Adjustments			
Scope of consolidation	**C**	113	94
Total adjustments		**113**	**94**
Reclassifications			
To income (expense) from non-current assets held for sale	**O**	(101)	(43)
Total reclassifications		**(101)**	**(43)**

Income (expense) from non current assets held for sale

	Note	2004	First half 2004
euro/000			
Reclassifications			
From revenues	**O**	29	0
From other revenues	**O**	700	0
From changes in stocks of finished goods	**O**	237	0
Fom service costs	**O**	(170)	(35)
From staff costs	**O**	(97)	0
From other operating costs	**O**	(101)	(43)
Total reclassifications		**598**	**(78)**

Unusual income (expense)

	Note	2004	First half 2004
euro/000			
Adjustments			
Scope of consolidation	**C**	591	(9)
Total adjustments		**591**	**(9)**
Reclassifications			
From extraordinary income (expense), net		(1,702)	(503)
Total reclassifications		**(1,702)**	**(503)**

Depreciation, amortisation and write-downs

	Note	2004	First half 2004
euro/000			
Adjustments			
Separation of land and buildings	**A**	(398)	(201)
Revaluation of buildings Santa Giustina	**B**	483	241
Start-up costs Villa Santa Lucia	**D**	(915)	(458)
Elimination of costs for increases in share capital	**F**	(762)	(381)
Elimination of issue costs for debenture loan	**G**	(276)	(138)
Elimination of goodwill amortisation	**T**	(612)	(304)
Valuation of CAM market share	**C**	500	250
Scope of consolidation	**C**	153	84
Start-up costs El Prat		(174)	(87)
Other minor items		(76)	(38)
Total adjustments		**(2,077)**	**(1,032)**
Reclassifications			
From extraordinary income (expense), net		(3,000)	0
Total reclassifications		**(3,000)**	**0**

Financial income (expense), net

	Note	2004	First half 2004
euro/000			
Adjustments			
Measurement of derivative financial instruments at fair value	**I**	943	550
Purchase of RDM International debenture loans	**U**	1,430	1,430
Discounting Grupo Torras receivable	**N**	1,168	575
Amortised cost debenture loan	**G**	(320)	(162)
Scope of consolidation	**C**	(229)	(108)
Total adjustments		**2,992**	**2,285**
Reclassifications			
From staff costs (remeasurement of employees' leaving entitlement)	**Q**	(1,441)	(712)
Total reclassifications		**(1,441)**	**(712)**

Income from investments

	Note	2004	First half 2004
euro/000			
Adjustments			
Own shares in hand	**L**	0	53
Total adjustments		**0**	**53**

Extraordinary income (expense), net

	Note	2004	First half 2004
euro/000			
Reclassifications			
To unusual income (expense), net		1,702	503
To depreciation, amortisation and write-downs		3,000	0
Total reclassifications		**4,702**	**503**

Taxation

	Note	2004	First half 2004
euro/000			
Adjustments			
Deferred taxation on IFRS adjustments	**H**	1,766	1,419
Scope of consolidation	**C**	98	0
Total adjustments		**1,864**	**1,419**

14. Commentary on the reconciliation between Italian Accounting Principles and IFRS

First-Time adoption of IFRS

In adopting International Accounting Standards for the first time, the Group elected certain optional exemptions permitted by IFRS 1 - *First-Time Adoption of IFRS* as follows:

- Business combinations: the Group elected not to apply the requirements of IFRS 3 – *Business Combinations* retrospectively to purchases of companies or businesses that occurred before the date of transition to IFRS. As a result, adjustments have not been made to the accounting treatment of business combinations which occurred prior to 1 January 2004.
- Fair value[5] or remeasurement as deemed cost: the Group elected to remeasure the land and buildings of the Santa Giustina facility at their fair value at the opening balance sheet date, based on an appraisal made by an external valuer, and to use this as deemed cost going forward under the cost model. The agricultural land at the Magenta facility, which has been reclassified to investment property, has also been remeasured at fair value, based again on an appraisal made by an external valuer.
- Non-current assets held for sale: the Group elected to early adopt IFRS 5 – *Non-Current Assets Held for Sale and Discontinued Operations* from 1 January 2004 and shows non-current assets held for sale as a separate line item in the transition balance sheet.
- Employee benefits: the Group elected to recognise all cumulative actuarial gains and losses that arose prior to 1 January 2004. The Group has adopted the "corridor approach" for subsequent actuarial gains and losses, as permitted by IAS 19 – *Employee Benefits*.
- Application of IAS 32 – *Financial Instruments: Disclosure and Presentation* and IAS 39 – *Financial Instruments: Recognition and Measurement*: the Group has elected not to postpone the application of these two standards to 1 January 2005. As a result, the balance sheets at 31 December 2004, 30 June 2004 and 1 January 2004 and the profit and loss accounts for the year 2004 and for the six months ended 30 June 2004 reflect the adoption of these two standards from the transition date.

[5] Fair value is amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction (IAS 16 – *Property, Plant and Equipment)*.

Main reconciling items between Italian Accounting Principles and IFRS

The following paragraphs provide a description of the main differences between the consolidated financial statements prepared under Italian Accounting Principles and those prepared under IFRS. Amounts are stated pre-tax; the related tax effects are aggregated and described in the note relating to deferred tax assets.

A. Separation of land and buildings

Under paragraph 58 of IAS 16 – *Property, Plant and Equipment*, land and buildings are separable assets and should be accounted for separately, even if the land pertains strictly to the buildings. Moreover, IAS 16 states that land usually has an infinite life and for this reason should not be depreciated, whereas buildings have a finite life and should therefore be depreciated.

As a consequence of this, the Group has identified the value of its owned land, has separated this from that of the related buildings and has eliminated accumulated depreciation on land at the transition date.

The effect on the balance sheet at 1 January 2004 of separating land and buildings was to increase the item land by approximately Euro 16.3 million (being the gross value of land at that date) and to decrease the value of buildings by approximately Euro 8.4 million (being the net effect of reclassifying land and eliminating the related accumulated depreciation). The separation of land and buildings led to lower depreciation of approximately Euro 0.4 million in the year 2004 (approximately Euro 0.2 million in the first half year of 2004), whereas the increase in the item land at 31 December 2004 amounted to approximately Euro 17.3 million (approximately Euro 17.4 million at 30 June 2004), with a decrease in the item buildings of approximately Euro 9.2 million (approximately Euro 9.3 million at 30 June 2004).

B. Revaluation of land and buildings at the Santa Giustina facility

Under IFRS 1 - *First-Time Adoption of IFRS*, property may be remeasured to fair value at the transition date, using this as deemed cost going forward. In particular, the fair value of property, plant, equipment, non-business investment property and intangible assets may be estimated at the transition date and used as deemed cost in the opening IFRS balance sheet.

On this basis, the Group identified the fair value of the land and buildings at the Santa Giustina facility, commissioning an appraisal prepared by an external valuer, and used this as deemed cost in the opening IFRS balance sheet. The remeasurement to fair value in the balance sheets at the reference dates led to an increase in the item land of approximately Euro 11.3 million and in the item buildings of approximately Euro 12.4 million at 1 January 2004, approximately Euro 12.0 million at 31 December 2004 and approximately Euro 12.2 million at 30 June 2004. The remeasurement of buildings led to increased depreciation in the year 2004 of approximately Euro 0.5 million (approximately Euro 0.2 million for the first half year of 2004).

C. Scope of consolidation

In 2003, the Company signed a purchase commitment to acquire the company Cartiera Alto Milanese S.p.A. (referred to in the following as "CAM"), through the purchase of the holding company owned by Dr. Giovanni Dell'Aria Burani at a price of Euro 2.5 million. This agreement was revised in December 2004, by reducing the purchase price from Euro 2.5 million to Euro 1.5 million as a result of the change in the net assets of the company to be acquired. Pursuant to the revised agreement, the Company went ahead with the acquisition in June 2005 in accordance with the above-mentioned terms.

Under International Accounting Standards, the parent company is required to consolidate all those companies under its control. The definition of control is not based solely on the concept of legal ownership and moreover under IAS 27 – *Consolidated and Separate Financial Statements*, control exists when a company has the power to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities.

On this basis, the Group has consolidated the purchased company starting from the transition balance sheet at 1 January 2004. The consolidation of CAM and its holding company on transition led to a difference on consolidation of approximately Euro 8.2 million, which has been written down to the originally agreed price of Euro 2.5 million. This residual amount has been attributed to the value of the client portfolio of the acquired company and is shown in intangible assets; this amount is being amortised on a straight line basis over an estimated useful life of five years.

D. Start-up costs - Villa Santa Lucia

In 2002, the Company deferred in intangible assets the costs incurred for the start-up of the Villa Santa Lucia facility, following the revamping of the manufacturing plant, amortising these over a period of three years. Under IAS 16 – *Property, Plant and Equipment*, these costs may remain in non-current assets, but should be reclassified to tangible assets, capitalised together with the asset to which they refer and depreciated over the residual life of that asset.

The adjustment for this matter led to an increase in plant and machinery in the transition balance sheet at 1 January 2004 of approximately Euro 3.0 million and a decrease in other intangible assets of approximately Euro 1.1 million. The corresponding effect on the balance sheet at 31 December 2004 was to increase plant and machinery by approximately Euro 2.8 million (approximately Euro 2.9 million at 30 June 2004). This adjustment led to decreased depreciation in the year 2004 of approximately Euro 0.9 million (approximately Euro 0.5 million for the first half year of 2004), due to the different rates used for different asset categories (plant and machinery as compared to intangible assets).

E. Investment property

IAS 40 – *Investment Property* defines property as land, buildings or parts of buildings which are held to earn rentals, for capital appreciation or both. Included in the scope of the definition is land held for long-term capital appreciation, land held for undecided future use, buildings held by the owner or by the lessee under a finance lease and leased out to third parties under an operating lease and vacant buildings held to be leased out under an operating lease. IAS 40 permits enterprises to choose between a cost model, net of depreciation, and a fair value model on measurement subsequent to initial recognition. In accordance with the exemption permitted by IFRS 1 – *First-Time Adoption of IFRS*, the Group elected to remeasure the agricultural land at the Magenta site at its fair value at the opening balance sheet date, reclassifying the land to investment property, to use this as deemed cost in the transition balance sheet and to go forward under the cost model. The remeasurement led to an increase in land classified in this caption in the balance sheets at 1 January 2004, 30 June 2004 and 31 December 2004 of approximately Euro 1.0 million.

F. Elimination of costs for increases in share capital

Under IAS 38 – *Intangible Assets*, costs incurred for increases in share capital may not be accounted for as intangible assets, but should be recognised as a reduction of the capital increase in equity. The effect of this adjustment is to decrease intangible assets at 1 January 2004, 30 June 2004 and 31 December 2004 by approximately Euro 3.0 million, Euro 2.7 million and Euro 2.3 million, respectively. This adjustment led to the elimination of amortisation of capitalised costs in the year 2004 of approximately Euro 0.8 million (approximately Euro 0.4 million for the first half year of 2004).

G. Amortised cost of debenture loan

Under IAS 39 – *Financial Instruments: Recognition and Measurement*, loans should be measured at amortised cost. The amortised cost of an asset or liability is obtained by using the effective interest method. In particular, the effective interest rate is the rate that exactly discounts all estimated future cash receipts and payments related to the financial asset or liability, including commissions, transaction costs and issue costs and premiums. On this basis, deferred issue costs have been eliminated from intangible assets in the balance sheets at 1 January 2004, 30 June 2004 and 31 December 2004, amounting to approximately Euro 0.6 million, Euro 0.5 million and Euro 0.4 million respectively, and the amortisation of these costs of approximately Euro 0.3 million and Euro 0.1 million has been eliminated from the profit and loss accounts for the year 2004 and that for the first half year of 2004. These costs have been taken into consideration in the recalculation of the effective interest rate of the debenture loan, leading to a decrease of the debenture loan liability of approximately Euro 0.7 million at 1 January 2004, approximately Euro 0.6 million at 30 June 2004 and approximately Euro 0.4 million at 31 December 2004. The increase in the interest rate has led to an increase in interest expense of approximately Euro 0.3 million in the profit and loss account for the year 2004 and approximately Euro 0.2 million in the profit and loss account for the first half year of 2004.

H. Deferred taxation on IFRS adjustments

The amounts shown for this item in the reconciliation schedules represent the net effect of deferred taxation of the adjustments described in this present commentary.

I. Measurement of derivative financial instruments at fair value

Under IAS 39 - *Financial Instruments: Recognition and Measurement*, derivative financial instruments should be measured at fair value. On the basis of the detailed requirements of this standard, derivatives linked to the debenture loan and to certain long-term loans have been measured at fair value but hedge accounting has not been applied. In particular, the hedging relationships for the derivatives linked to the debenture loan do not qualify for hedge accounting under IAS 39, and accordingly the derivatives have not been formally designated as hedging instruments, even though they were established for the purposes of hedging. The derivatives linked to certain long-term loans are, however, designated as hedging instruments. The related effects have been recognised in equity at the transition date for all derivatives; subsequent variations are recognised in the profit and loss account.

The measurement of derivatives at fair value led to a pre-tax decrease in equity at 1 January 2004 of approximately Euro 2.1 million, at 30 June 2004 of approximately Euro 1.6 million and at 31 December 2004 of approximately Euro 1.2 million. The effect on the profit and loss account for the year 2004 is to decrease financial expense by approximately Euro 0.9 million, whereas the effect on the profit and loss account for the first half year of 2004 is to decrease financial expense by approximately Euro 0.5 million.

L. Own shares

Under IAS 32 – *Financial Instruments: Disclosure and Presentation*, the cost of a company's own equity instruments that it has reacquired should be deducted from equity. As a result, the Company has reclassified its reacquired own shares, reducing equity by approximately Euro 5.4 million at 1 January 2004, 30 June 2004 and 31 December 2004.

M. Reclassification of receivable from Espais Promocions Immobiliares S.A.

The receivable of Euro 30 million from Espais Promocions Immobiliares S.A., arising as part of the transaction for the sale of the Prat area which took place in 2003, is classified as a financial fixed asset in the consolidated balance sheets at 1 January 2004, 30 June 2004 and 31 December 2004 prepared under Italian Accounting Principles. Under this transaction, the counterparty is required to consign buildings of an amount equal to the receivable at the expected date of their valuation for town planning purposes. Under IFRS this receivable should not be classified as a financial fixed asset, as settlement will not be by cash or other monetary means. Under International Accounting Standards, assets should be classified on the basis of their function. In particular, if the function of an asset is its future sale, it should be classified in stocks, whereas if its future function is for leasing, it should be classified as a tangible fixed asset. On this basis, the receivable has been reclassified to stocks.

N. Provision for receivable from Grupo Torras S.A.

Under International Accounting Standards, provisions relating to the decrease in value of assets and doubtful debts should be considered as adjustments to the carrying amount of these assets and not as provisions classified in liabilities. As a consequence, the amount of Euro 30 million provided against the recovery of the receivables from Grupo Torras S.A. has been reclassified as a reduction of the nominal amount of the receivable (about Euro 61.9 million), itself classified in non-current assets, in the balance sheets at 1 January 2004, 30 June 2004 and 31 December 2004. Moreover, in accordance with IFRS, the present value of such receivable, at the reporting date, has been calculated on the basis of the expected collection timetable. This discounting adjustment resulted in a reduction of the receivable of about Euro 12.5 million as of 1 January 2004, about Euro 11.9 million as of 30 June 2004 and about Euro 11.3 million as of 31 December 2004. In the profit and loss account a financial income of about Euro 1.2 million has been recorded at 31 December 2004 (about Euro 0.6 bat 30 June 2004).

O. Reclassification of fixed assets held for sale

IFRS 5 - *Non-Current Assets Held for Sale and Discontinued Operations* defines the accounting treatment of assets held for sale and the manner in which discontinued operations should be presented. In particular, the standard requires that non-current assets held for sale be measured at the lower of their carrying amount and their fair value less disposal costs, and that they should not be depreciated. In regard to their presentation, the standard requires that non-current assets held for sale should be presented separately in the balance sheet and that the results of discontinued operations should be presented separately in the profit and loss account.

On the basis of these requirements, the assets and provisions relating to the Ciriè facility, closed in November 2003, have been reclassified in the balance sheets at 1 January 2004 and at 30 June 2004. In a similar manner, the assets and provisions relating to the Verderio facility, owned by Europoligrafico S.p.A. and closed in 2004, have been reclassified in the balance sheet at 31 December 2004. The income and expense arising from these operations have been reclassified in the profit and loss account for the year 2004.

P. Liquid funds

Restricted deposits with banks relating to the company Reno De Medici Iberica S.L. are classified in the consolidated balance sheets at 1 January 2004, 30 June 2004 and 31 December 2004 prepared under Italian Accounting Principles as financial assets not considered to be fixed asset investments. In particular, Euro 18 million (approximately Euro 15 million at 30 June 2004 and approximately Euro 14 million at 31 December 2004) relate to deposits made in respect of the costs for the restructuring of the Prat area, and a further amount of Euro 5 million (the same amount at 30 June 2004 and at 31 December 2004) is restricted in respect of a guarantee requested by the Madrid Court regarding litigation with Grupo Torras. International Accounting Standards require, however, that also restricted bank balances be shown as liquid funds.

Q. Remeasurement of the employees' leaving entitlement provision

On adopting International Accounting Standards, the Italian employees' leaving entitlement, which was previously accounted for under specific Italian legislation, was considered to be a defined benefit plan and accordingly to be accounted for as such following the requirements of IAS 19 – *Employee Benefits*. As discussed above in connection with the first time adoption of IFRS, the Group has elected to recognise all cumulative actuarial gains and losses that arose prior to 1 January 2004 and to use the "corridor approach" for actuarial gains and losses arising subsequently. The remeasurement of the employees' leaving entitlement under IAS 19 led to a decrease in the liability at 1 January 2004 of approximately Euro 2.2 million, at 30 June 2004 of approximately Euro 3.1 million and at 31 December 2004 of approximately Euro 3.4 million. The accrual for the year 2004 decreased by approximately Euro 1.2 million (approximately Euro 0.9 million in the first half year of 2004). In addition, the interest component of the accrual for the period is reclassified to financial items in the profit and loss account, as required by IAS 19.

R. Remeasurement of the agents' termination indemnity provision

Under International Accounting Standards, the provision for the agents' termination indemnity should be recognised as a liability, as the existence of the obligation is certain, even though the amount is uncertain. As a result, a provision should be recognised, estimating the amount of payments which will be required to settle agents on termination on the basis, among other things, of historical data, and using actuarial techniques in order to obtain an estimate in the best manner possible of the variables which will determine the overall cost to be incurred. On the basis of the results of these remeasurement techniques, the provision for the agents' termination liability decreased at 1 January 2004 by approximately Euro 0.3 million, at 30 June 2004 by approximately Euro 0.4 million and at 31 December 2004 by approximately 0.6 million; the accrual for the year 2004 decreased by approximately Euro 0.3 million (approximately Euro 0.1 million in the first half year of 2004).

S. Restructuring provisions

Under IAS 37 – *Provisions, Contingent Liabilities and Contingent Assets*, a provision should not be recognised for the costs expected to be incurred for the relocation of personnel. As a result, the amounts of approximately Euro 0.7 million, Euro 0.7 million and Euro 0.6 million provided for this matter at 1 January 2004, 30 June 2004 and 31 December 2004 respectively have been eliminated from restructuring provisions at those dates. As a further result of the elimination of these provisions, additional operating costs of approximately Euro 0.1 million have been recognised in the profit and loss account for the year 2004.

T. Business combinations

Under IFRS 3 – *Business Combinations*, goodwill arising from a business combination should not be amortised.

U. Purchase of Reno De Medici International S.A. debentures

In the first half of 2004, RDM purchased debentures issued by Reno De Medici International S.A. having a nominal value of Euro 5 million at a price of approximately Euro 3.6 million. Under IAS 39 - *Financial Instruments: Recognition and Measurement*, if issued financial instruments are repurchased, then the existing liability should be immediately reduced, recognising in the profit and loss account the difference between the purchase price and the carrying value remeasured at amortised cost.

15. Auditor's report on the reconciliation schedules pursuant to IFRS 1 (1 January 2004 to 31 December 2004)

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AUDITOR'S REPORT ON THE IFRS RECONCILIATION SCHEDULES ILLUSTRATING THE IMPACT OF THE TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

RENO DE MEDICI SPA

AUDITOR'S REPORT ON THE IFRS RECONCILIATION SCHEDULES ILLUSTRATING THE IMPACT OF THE TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

To the Board of directors of
Reno De Medici SpA

1 We have audited the Reconciliation Schedules, comprising the consolidated balance sheets as of 1 January 2004 and 31 December 2004 and the consolidated income statement for the year ended 31 December 2004 (hereinafter the "IFRS Reconciliation Schedules") of Reno De Medici Group and related notes, included in the document "Transition to International Financial Reporting Standards (IFRS)" included in the interim consolidated financial report of Reno De Medici Group for the six months ended 30 June 2005. The aforementioned IFRS Reconciliation Schedules have been derived from the consolidated financial statements of Reno De Medici SpA as of 31 December 2004 prepared in compliance with the laws governing the criteria for the preparation of financial statements, which we audited and on which we issued or report on 11 April 2005. The IFRS Reconciliation Schedules have been prepared in connection with the process of transition to the International Financial Reporting Standards (IFRS) endorsed by the European Commission. The IFRS Reconciliation Schedules are the responsibility of Reno De Medici SpA's directors. Our responsibility is to express an opinion on the IFRS Reconciliation Schedules based on our audit.

2 We conducted our audit in accordance with auditing standards generally accepted in Italy. Those standards require that we plan and perform the audit to obtain the necessary assurance about whether the IFRS Reconciliation Schedules are free of material misstatement and, taken as a whole, are presented fairly. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the IFRS Reconciliation Schedules. An audit also includes assessing the accounting principles used and significant estimates made by the directors. We believe that our audit provides a reasonable basis for our opinion.

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3 In our opinion, the IFRS Reconciliation Schedules identified in paragraph 1 of this report, taken as a whole, have been drawn up in compliance with the criteria and standards set out in article 81 of Regulations for Issuers No. 11971/1999 adopted by CONSOB with its Resolution No. 14990 of 14 April 2005.

4 We wish to emphasise that the IFRS Reconciliation Schedules, having been prepared for sole purpose of the transition project for the preparation of the first full set of consolidated financial statements compliant with the IFRS endorsed by the European Commission, do not include the comparative financial information and explanatory notes that would be required in order to present fairly the consolidated financial position and result of operations of Reno De Medici Group in compliance with IFRS. Furthermore, we point out that the IFRS Reconciliation Schedules could be subject to adjustment should the European Commission alter its stance with respect to approval of IFRS or should the IASB or IFRIC issue new pronouncements.

Milan, 28 September 2005

PricewaterhouseCoopers SpA

Fabrizio Piva
(Partner)

This report has been translated from the original which was issued in accordance with Italian practice. We have not examined the translation of the document referred to in this report.