Quarterly report

First quarter 2006

Reno De Medici S.p.A.
Registered office: Via dei Bossi 4, Milan
Corporate headquarters:
Via G. De Medici 17, Pontenuovo di Magenta (MI)
Share capital: Euro 148,342,940.35 fully paid
Fiscal code and VAT no. 00883670150

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CORPORATE BODIES

Board of Directors

Giovanni Dell'Aria Burani	Honorary Chairman
Giuseppe Garofano (*)	Chairman
Carlo Peretti (*)	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
(**) until 8 April 2006

Board of Statutory Auditors

Sergio Pivato	Chairman
Marcello Priori (*)	Standing auditor
Carlo Tavormina	Standing auditor
Gabriele Tosi (**)	Standing auditor
Giovanni Maria Conti (*)	Substitute auditor
Myrta de' Mozzi (*)	Substitute auditor
Michele Tosi (**)	Substitute auditor
Gaudenzio Gadda (**)	Substitute auditor

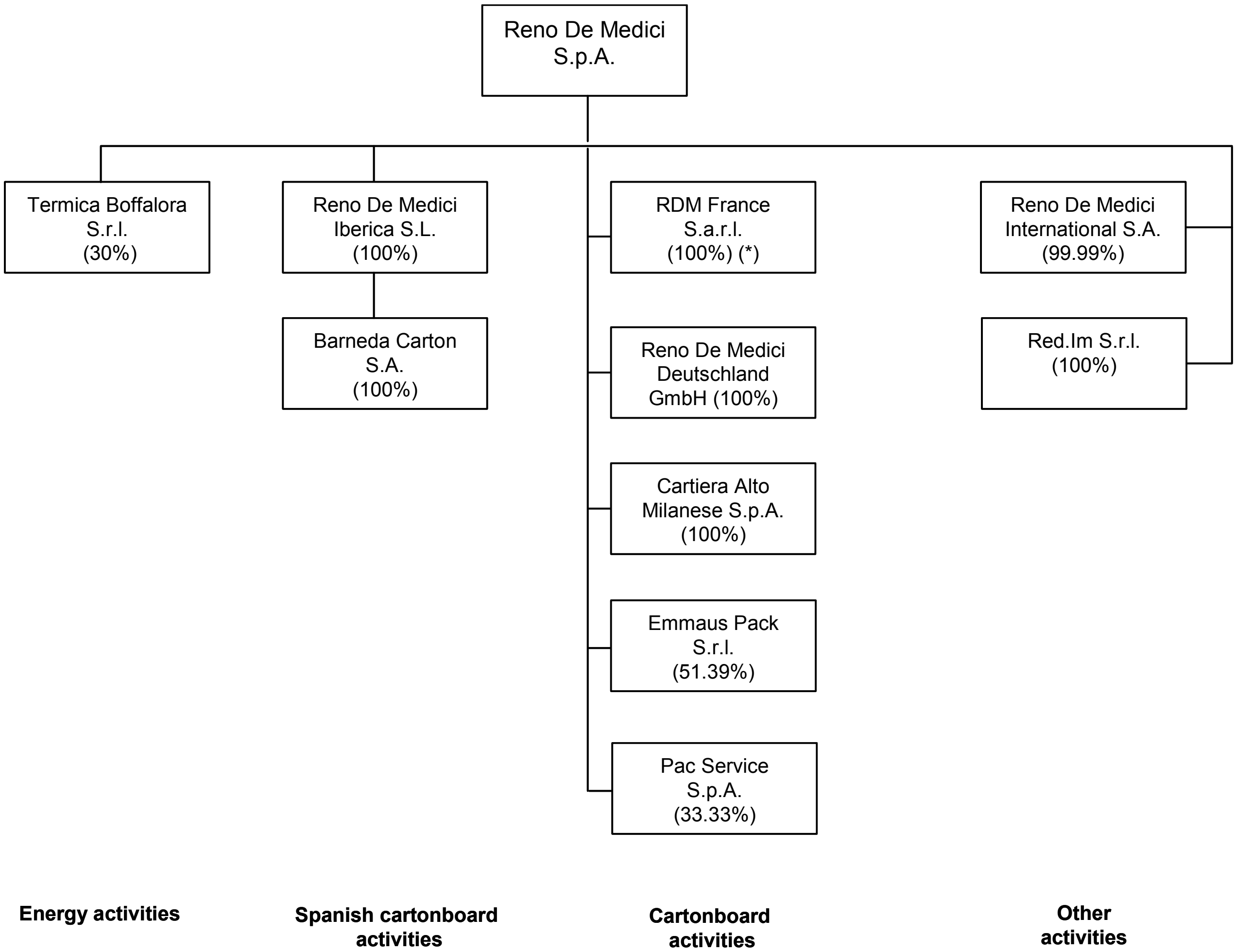
(*) from 3 May 2006
(**) until 3 May 2006

Independent Auditors

PRICEWATERHOUSECOOPERS S.p.A.

OPERATING COMPANIES OF THE RENO DE MEDICI GROUP AT 31 MARCH 2006

The following table excludes non-operating Group companies and companies in liquidation.



(*) Reno De Medici S.p.A. 99.58% - Cartiera Alto Milanese S.p.A. 0.42%

COMMENTS OF THE DIRECTORS ON OPERATIONS

Consolidated results

The Reno De Medici Group (the "RDM Group" or the "Group") achieved net revenues of 85.2 million euros in the first quarter of 2006, compared to 74.9 million euros in the corresponding period of the previous year (up 13.7%)[1].

This performance, in line with the gradual recovery taking place in the leading European economies, reflects an increase in the volume of goods despatched, which rose to approximately 174,000 tonnes compared to the approximately 147,000 tonnes for the first quarter of 2005 (up 18%)[2].

As regards sales prices, new orders have been taken during the first quarter of 2006 for delivery in the second quarter of the year at unit prices of around 5% higher than those of the final quarter in 2005. Net revenues for the first quarter of 2006, however, also represent the delivery of goods ordered at the end of 2005 and accordingly reflect prices which, on average, are lower by around 1.5% than those currently being obtained. As a result, ordinary activities in the second quarter of this year are expected to produce a higher margin than that of the first quarter on a like for like cost basis.

Gross operating profit (or EBITDA) at a consolidated level closed at 7.9 million euros for the quarter (compared to 8.8 million euros for the first quarter of 2005), reflecting a further containment of costs which partially compensated the lower unit sales prices and higher energy costs.

In this regard, the unit variable manufacturing costs of Reno De Medici S.p.A. ("RDM" or the "Parent Company") (measured in euros per tonne) were in line with those of the first quarter of 2005. The increased efficiencies gained in the purchase and utilisation of raw materials were such as to be able to compensate the increase in unit energy costs of around 14%. Fixed factory and headquarter costs, in addition, fell by around 8% compared to the first quarter of 2005.

EBITDA for the quarter ended 31 March 2006 was affected in addition by the costs connected with the termination of operating units and related support services, with particular reference to the Barcelona area and the Magenta facility, the effect of whose reclassification as discontinued operations is not easy to determine.

[1] See the consolidated financial statements of the RDM Group.
[2] These figures do not include the volumes despatched by the production units whose results are presented as 'Discontinued operations'.

Operating profit (or EBIT) of 2.0 million euros was achieved for the quarter (after depreciation and amortisation of 5.9 million euros), compared to 2.4 million euros (after depreciation and amortisation of 6.4 million euros) in the first quarter of the previous year.

There was a net loss before discontinued operations of 2.1 million euros (a net loss of 0.9 million euros for the first quarter of 2005), which principally reflects net financial expense, including exchange differences, of 3.3 million euros (2.9 million euros for the first quarter of 2005) and taxation of 1.1 million euros (0.8 million euros for the first quarter of 2005).

Discontinued operations incurred a loss of approximately 1 million euros (a gain of 1.7 million euros in the first quarter of 2005), which is made up of the result for the period (the net operating result) of the Prat facility and the Magenta MC1 line, which both ceased activities in 2005. The result from discontinued operations for the first quarter of 2005 also included the results of the companies sold during 2005 (Europoligrafico S.p.A., Aticarta S.p.A. and Cogeneracion Prat S.A.).

The above matters lead to an overall loss for the quarter of 3.2 million euros (a profit of 0.9 million euros for the first quarter of 2005).

The Group made investments in fixed assets of 1.5 million euros during the first quarter of 2006 (0.9 million euros for the first quarter of 2005).

Consolidated net financial debt at 31 March 2006 amounts to 166,6 million euros, compared to 169.3 million euros at 31 December 2005. The decrease is principally the result of a decrease in short-term bank debt, which more than compensated the drop in restricted funds payable to the former employees of the Prat facility (of Reno De Medici Iberica S.L.) following the termination of their employment contracts.

In particular, short-term interest-bearing debt at 31 March 2006 amounts to 214 million euros, which includes the residual balance of 145 million euros relating to the bond (repaid on its contractual due date of 4 May 2006), the short-term portion of 16.8 million euros of long-term loans due within 12 months and short-term bank debt of 52.3 million euros, mostly consisting of advances on invoices issued to customers. Long-term interest-bearing debt at 31 March 2006 amounts to 28.2 million euros.

Available cash and cash equivalents at 31 March 2006 amounted to 57.6 million euros.

Segment information

The Group has adopted a geographical format as the means of reporting segment information, based on the location in which activities are carried out. The separate geographical areas identified are Italy, Spain and the residual category “Other”. Included in the residual category are the activities headed by the French subsidiary RDM France S.a.r.l., by the German subsidiary RenoDeMedici Deutschland GmbH and by the Luxembourg subsidiary Reno De Medici International S.A..

The following tables set out the profit and loss account, down to gross operating profit, on a geographical basis for the first quarters of 2006 and 2005. The figures reported in the table for the first quarter of 2005 exclude the contribution to the result for that quarter of those operations which were discontinued during 2005 (the sold companies Europoligrafico S.p.A., Aticarta S.p.A. and Cogeneracion Prat S.A. and the units at which operations were discontinued, namely the Prat facility and the MC1 line at Magenta).

The contribution made by Spain relates to operations at the Almazan facility (owned by RDM Iberica) and the marketing of cartonboard manufactured in the Parent Company’s factories.

Profit and loss account for the 1st quarter 2006	Italy	Spain	Other	Eliminations	Consolidated
Euro/000					
Revenues from sales	79,277	9,616	466	(4,177)	85,182
Other revenues	926	0	7		933
Changes in stocks of finished goods	2,177	(343)	0		1,834
Cost of raw materials and services	(61,627)	(7,974)	(185)	4,177	(65,609)
Staff costs	(11,889)	(1,310)	(225)		(13,424)
Other operating costs	(629)	(6)	(11)		(646)
Income (expense) from non-current assets held for sale	(387)	0	0		(387)
Unusual income (expense)	(60)	57	0		(3)
Gross Operating Profit (EBITDA)	**7,789**	**40**	**52**	**0**	**7,880**

Profit and loss account for the 1st quarter 2005	Italy	Spain	Other	Eliminations	Consolidated
Euro/000					
Revenues from sales	68,687	7,507	485	(1,766)	74,913
Other revenues	997	2	28	(4)	1,023
Changes in stocks of finished goods	937	389	0		1,326
Cost of raw materials and services	(49,216)	(6,500)	(190)	1,764	(54,142)
Staff costs	(11,671)	(1,239)	(217)		(13,127)
Other operating costs	(910)	(76)	(8)	6	(988)
Income (expense) from non-current assets held for sale	(126)	0	0		(126)
Unusual income (expense)	3	(63)	2		(58)
Gross Operating Profit (EBITDA)	**8,701**	**20**	**100**	**0**	**8,821**

Finally, the following table provides an analysis by geographical area of net revenues generated by sales of cartonboard.

Sales revenues	1st quarter 2006	1st quarter 2005
Euro/000		
Italy	45,548	38,915
European Union - other	31,014	26,288
Outside the European Union	8,620	9,710
Total sales revenues	**85,182**	**74,913**

The Italian market accounts for around 54% of consolidated net revenues (around 52% in 2005); the market consisting of the remainder of the European Union accounts for around 36% (35% in 2005), with countries outside the European Union accounting for 10% (13% in 2005).

Significant events

On 6 April 2006, two new long-term loan agreements were finalised for a total amount of 100 million euros, of which the first regards a loan of 60 million euros to RDM and the second a loan of 40 million euros to the subsidiary Red.Im S.r.l.[3].

The funds from these two loans, taken together with those already obtained by the RDM Group as the result of the sales of Europoligrafico S.p.A. and Aticarta S.p.A., enabled the bond issued by Reno De Medici International S.A. to be repaid on its contractual due date of 4 May 2006.

As the consequence of the repayment of the bond, the RDM Group's long-term debt amounts to 142 million euros. This figure also includes the loan of 40 million euros to Red. Im S.r.l., the company demerged into the recipient company RDM Realty S.p.A.; as a result of this, the Group's debt will be reduced by a further 40 million euros after the demerger.

In this connection, it is recalled that RDM made formal applications to Consob and Borsa Italiana S.p.A. for, respectively, authorisation to proceed with the issue of the listing prospectus and admission to trading of the ordinary shares of RDM Realty. These applications are proceeding normally with these two bodies.

After the end of the quarter, in April, agreements were formalised with trades union representatives for the reduction of the workforce at the Marzabotto facility (by around

[3] Reference should be made to the press release of 6 April 2006 for further details of these two loan agreements.

40 employees of which a part re-absorbed into service activities), and the lay-off of part of the workforce (around 60 employees) at the Magenta facility and the Group's headquarters under the *cassa integrazione straordinaria* scheme. In addition, the procedure for beginning a *mobilità* lay-off scheme was formalised at the beginning of May; this will involve again the Magenta facility and the Group's headquarters and will regard a total of approx. 30 employees.

Outlook for operations

The figures for operations at the end of April 2006 confirm that there has been an increase in volumes compared to the first four months of the previous year. In particular, goods despatched have increased by approximately 7% while orders have risen by around 9%.

The trend in unit prices at the end of April 2006 indicates that there has been an essential realignment with the levels of the corresponding period in 2005, a year which was distinguished by a gradual reduction in prices.

Concerns and uncertainties remain over the continuing increase in energy costs, and the effect of this will need to be assessed in order to decide whether further action will need to be taken on unit sales prices during the current year.

The outlook for the year, in which there are recoveries in both volumes and sales prices following the significant fall which took place during the last quarter of 2005 and which were still reflected in the results for the first quarter of 2006, is therefore linked to a consolidation of the recovery taking place in the demand for consumer goods and in industrial production in general in the leading European economies.

CONSOLIDATED FINANCIAL STATEMENTS OF THE RENO DE MEDICI GROUP AT 31 MARCH 2006

Consolidated profit and loss account		1st quarter 2006	1st quarter 2005
	Euro/000		
Revenues from sales		85,182	74,913
Other revenues		933	1,023
Changes in stocks of finished goods		1,834	1,326
Cost of raw materials and services		(65,609)	(54,142)
Staff costs		(13,424)	(13,127)
Other operating costs		(646)	(988)
Income (expense) from non-current assets held for sale		(387)	(126)
Unusual income (expense)		(3)	(58)
Gross Operating Profit (EBITDA)		**7,880**	**8,821**
Depreciation and amortisation		(5,909)	(6,444)
Recovery of value and write-downs of assets		0	0
Operating Profit (EBIT)		**1,971**	**2,377**
	Financial expense	(3,607)	(3,695)
	Exchange differences	(45)	241
	Financial income	372	536
Financial income (expense), net		(3,280)	(2,918)
Income from investments		441	508
Other income (expense)		(171)	0
Taxation		(1,108)	(823)
Profit (loss) for the year before discontinued operations		**(2,147)**	**(856)**
	Gains (losses) from disposals, net		
	Loss for the period	(1,019)	1,749
Discontinued operations		(1,019)	1,749
Profit (loss) for the year		**(3,166)**	**893**
Attributable to:			
Profit (loss) for the year pertaining to the group		(3,266)	765
Profit (loss) for the year pertaining to minority interests		100	128

Consolidated balance sheet	31.03.2006	31.12.2005
Euro/000		
ASSETS		
Non-current assets		
Tangible fixed assets	188,487	193,174
Investment property	1,284	1,284
Goodwill	146	146
Other intangible assets	3,007	3,309
Investments accounted for under the equity method	13,698	14,216
Deferred tax assets	470	577
Derivative financial instruments	0	0
Financial assets held for sale	219	219
Trade receivables	0	193
Other receivables	10,235	10,272
	217,546	**223,390**
Other non-current assets held for sale	19,028	20,208
Total non-current assets	**236,574**	**243,598**
Current assets		
Stocks	87,828	92,979
Trade receivables	112,978	106,899
Other receivables	6,233	21,168
Derivative financial instruments	5,354	5,321
Financial assets held for sale	9	10
Financial assets at fair value	0	0
Liquid funds	65,698	56,779
Total current assets	**278,100**	**283,156**
TOTAL ASSETS	**514,674**	**526,754**
LIABILITIES AND SHAREHOLDERS' EQUITY		
Shareholders' equity attributable to the group	138,986	142,251
Minority interests	859	759
Shareholders' equity	**139,845**	**143,010**
Non-current liabilities		
Bank loans and other financial liabilities	28,151	28,270
Derivative financial instruments	0	0
Other payables	1,051	1,064
Deferred tax liabilities	2,843	2,293
Employees' leaving entitlement	17,288	17,324
Non-current provisions for contingencies and charges	6,849	7,425
Liabilities directly associated with non-current assets held for sale	0	0
Total non-current liabilities	**56,182**	**56,376**
Current liabilities		
Bank loans and other financial liabilities	214,066	220,056
Derivative financial instruments	1,210	1,242
Trade payables	77,730	72,552
Other payables	25,242	33,247
Current taxation	399	271
Total current liabilities	**318,647**	**327,368**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**514,674**	**526,754**

Consolidated net financial position	31.03.2006	31.12.2005	Variation
Euro/000			
Cash and cash equivalents and short term financial receivables	66,320	75,330	(9,010)
Short term financial payables	(214,066)	(225,608)	11,542
Valuation of current portion of derivatives	4,144	4,079	65
Short-term financial position	**(143,602)**	**(146,199)**	**2,597**
Long term financial receivables	5,200	5,200	0
Long term financial payables	(28,151)	(28,270)	119
Valuation of non-current portion of derivatives	0	0	0
Net financial position	**(166,553)**	**(169,269)**	**2,716**

COMMENTARY

The quarterly report of the Reno De Medici Group at 31 March 2006 has been prepared on the basis of article 82, first paragraph, of the Regulations for Issuers adopted by Consob in resolution no. 11971 of 14 May 1999 and subsequent amendments and supplements.

This quarterly report has not been audited by the Independent Auditors.

The consolidated balance sheet at 31 March 2006 and the consolidated profit and loss account for the quarter then ended are presented in a format that is consistent with that used in the consolidated financial statements at 31 December 2005.

There has been no change in the scope of consolidation during the quarter.

Following the sales of Europoligrafico S.p.A., Aticarta S.p.A. and Cogeneracion Prat S.A. in 2005, the results of these companies for the quarter ended 31 March 2005 have been reclassified as ‘Discontinued operations’.

In addition, the results (the net operating result) of the Prat facility and the Magenta MC1 line, which both ceased activities in 2005, have also been classified as ‘Discontinued operations’ in the first quarters of both 2005 and 2006. The non-current assets (plant and machinery) of those facilities are presented separately in the consolidated balance sheet under the item “Non-current assets held for sale”.

Accounting principles

The quarterly report has been prepared on the basis of the same accounting principles used in preparing the consolidated financial statements at 31 December 2005.

These principles are the International Accounting Standards adopted by the European Commission, and could differ from the International Financial Reporting Standards (IFRS) that will be effective at 31 December 2006 as the result of new or changed positions taken by the Commission or due to the issue of new accounting standards or new interpretations 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 and ratified by the European Union. IFRS also include all the previous International Accounting Standards revised by the Board (referred to as “IAS”) and all the interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”), previously known as the Standing Interpretations Committee (“SIC”).

The preparation of financial statements in accordance with International Financial Reporting Standards requires the use of estimates and assumptions which affect the carrying values of the assets and liabilities in the consolidated balance sheet and the disclosures relating to contingent assets and liabilities at the balance sheet date. The actual results could differ from these estimates. In particular, estimates are used to determine the result contributed by discontinued operations, provisions for the collection risk for receivables and inventory obsolescence, depreciation, amortisation, impairment, employee benefits, restructuring provisions, taxation and other accruals and provisions and in the measurement of derivative instruments. Estimates and assumptions are reviewed periodically and the effects of any changes are recognised immediately in the profit and loss account.

The consolidated financial statements are prepared in thousands of euros and amounts are stated in that currency, which represents the money of account of the main economies in which the Reno De Medici Group operates.

Workforce

The Group had 1,294 employees at 31 March 2006 compared to 1,531 employees at 31 March 2005 (this figure excludes the personnel of the companies sold in 2005).