Reno De Medici

Annual report and financial statements at 31 December 2006

Reno De Medici

RdM GROUP

ANNUAL REPORT AND FINANCIAL STATEMENTS AT 31 DECEMBER 2006

78th FISCAL YEAR
RENO DE MEDICI

RENO DE MEDICI

Report of the Board of Directors
and Financial Statements
for the 78th fiscal year
ended 31 December 2006

Ordinary shareholders’ meeting
of 30 April (8 May) 2007

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 132,160,074.13 fully paid

Fiscal code and VAT no. 00883670150

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Notice of shareholders' meeting

Notice is hereby given that an ordinary shareholders' meeting will be held in Pontenuovo di Magenta (MI) on •• April 2007 at •• in first call and in second call if necessary on •• May at the same time and place to discuss and resolve on the following

AGENDA

1. **Financial statements at 31 December 2006; Report of the Board of Directors; Reports of the Board of Statutory Auditors and Independent Auditors; resolutions thereon. Presentation of the consolidated financial statements at 31 December 2006; Reports of the Board of Directors and Independent Auditors.**

2. **Appointment of the Board of Directors following approval of the number of board members, their term of office and their emoluments.**

COMPANY BODIES

BOARD OF DIRECTORS

Giuseppe Garofano (*)	Chairman
Carlo Peretti (*)	Deputy Chairman
Emanuele Rossini (*) (**)	Managing Director
Marco Baglioni	Director
Ignazio Capuano (*)	Director
Mario Del Cane	Director
Giancarlo De Min (*)	Director
Michael Groller	Director
Vincenzo Nicastro	Director

BOARD OF STATUTORY AUDITORS

Sergio Pivato	Chairman
Marcello Priori	Standing Auditor
Carlo Tavormina	Standing Auditor
Giovanni Maria Conti	Substitute Auditor
Myrta de' Mozzi	Substitute Auditor

INDEPENDENT AUDITORS

PRICEWATERHOUSECOOPERS S.p.A.

(*) Member of the Executive Committee.
(**) Co-opted onto the Board of Directors on 12 February 2007.

PRINCIPAL ECONOMIC AND FINANCIAL DATA OF THE GROUP AND OF RENO DE MEDICI S.P.A.

The principal figures of the consolidated profit and loss account and balance sheet of the Reno De Medici Group ("RDM" or "Group") at 31 December 2006 and for the year then ended, with comparative data for the prior year, are set out in the following.

RDM Group

(Millions of Euros)	**2006**	**2005**
ECONOMIC DATA (1)		
Net revenues	314	295
Gross operating profit (EBITDA)	29	28
Depreciation and amortisation	(23)	(26)
Operating result (EBIT)	6	2
Income (losses) from investments	(2)	2
Result before discontinued operations	(10)	(24)
Discontinued operations	(9)	11
Net result	(19)	(13)
Net result pertaining to the Group	(19)	(13)
BALANCE SHEET DATA		
– *Non-current assets* (2)	*197*	*218*
– *Non-current assets held for sale*	*11*	*20*
– *Non-current liabilities, employees' leaving entitlement and provision funds* (3)	*(63)*	*(28)*
– *Current assets (liabilities)* (4)	*(6)*	*(25)*
– *Working capital* (5)	*104*	*127*
Net capital invested (NCI) (6)	243	312
Net financial indebtedness (7)	127	169
Shareholders'equity (*)	116	143
RATIO		
EBITDA/Net revenues	9.2%	9.4%
EBIT/NCI	2.5%	0.6%
Debt ratio	52.3%	54.2%

(*) The decrease of Shareholders' funds include the effect arising from the demerger of RDM Realty S.p.A. amounting to Euro 8.2 million.

(1) See RDM Group consolidated financial statements.
(2) See RDM Group consolidated financial statements – total of "Non-current assets" excluding the detail items "Derivative instruments" and "Trade receivables" in 2006, while for 2005 an amount of Euro 5.2 million must be taken out of the detail item "Other receivables" as it relates to financial receivables classified in the Net Financial Position.
(3) See RDM Group consolidated financial statements – total of the following detail items of "Non-current liabilities": "Other payables", "Deferred tax liabilities", "Employees' leaving entitlement" and "Non-current provisions for contingencies and charges".
(4) See RDM Group consolidated financial statements – total of the detail items "Other receivables" and "Available-for-sale financial assets", classified in "Current assets", excluding the detail items: "Other payables" and "Current taxation", classified in "Current liabilities". Amounts of Euro 1.9 million and Euro 13 million must be taken out of the detail item "Other Receivables in 2006 and 2005 respectively as they relate to financial receivables classified in the Net Financial Position.
(5) See RDM Group consolidated financial statements – total of the detail items "Stocks" and "Trade receivables" classified in "Current assets" and the detail item "Trade receivables" classified in "Non-current assets", excluding the detail item "Trade payables", classified in "Current liabilities".
(6) Total of the items above.
(7) See RDM Group consolidated financial statements – total of the detail items "Derivative financial instruments", classified in "Non-current assets" and in "Current assets", "Liquid funds", classified in "Current assets", excluding the following detail items "Bank loans and other financial liabilities" and "Derivative financial instruments", classified in "Non-current liabilities" and "Bank loans and other financial liabilities" and "Derivative financial instruments", classified in "Current liabilities" with the reclassifications described in notes 2 and 4 above.

Summarised and general information

Reno De Medici S.p.A. ("RDM" or the "Parent Company") has adopted International Financial Reporting Standards ("IFRS") for the first time in preparing its separate financial statements at 31 December 2006. As a consequence, the comparative figures presented for 2005 represent data that have been recalculated and reclassified in accordance with IFRS. The key profit and loss and balance sheet items of the Parent Company compared with 2005, are as follows:

RDM

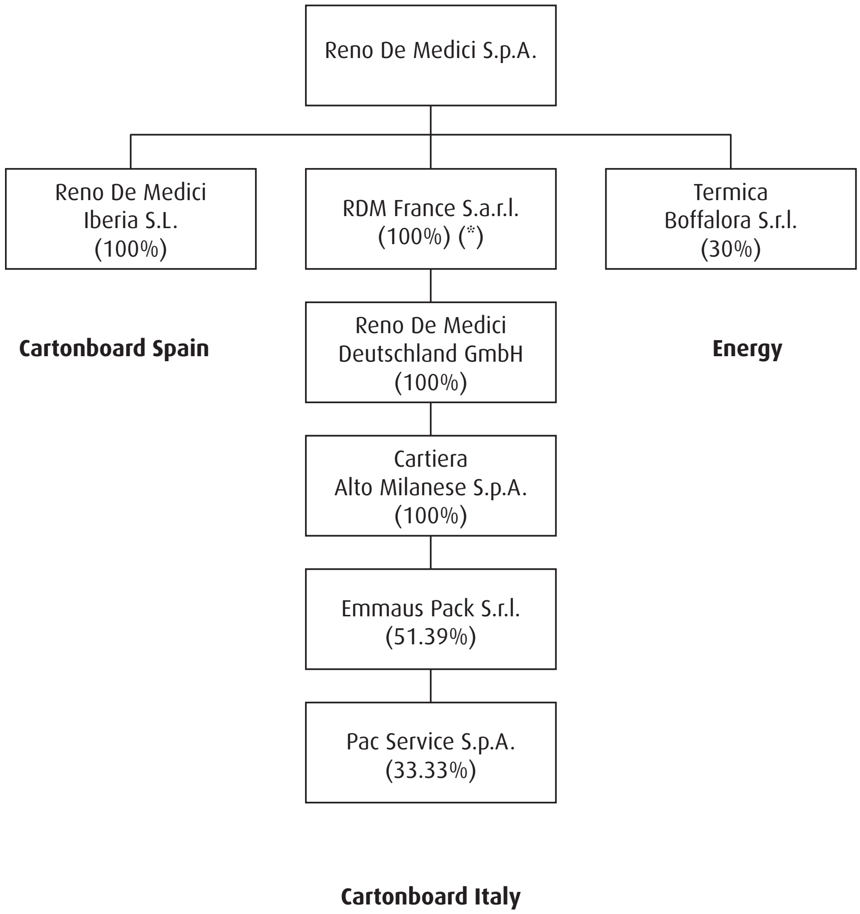
(Millions of Euros)	2006	2005
ECONOMIC DATA ([8])		
Net revenues	286	265
Gross operating profit (EBITDA)	24	25
Depreciation and amortisation	(24)	(25)
Operating result (EBIT)	(0)	(0)
Result before discontinued operations	(10)	(35)
Discontinued operations	(5)	18
Net result	(15)	(17)
BALANCE SHEET DATA		
– *Non-current assets* ([9])	*253*	*283*
– *Non-current assets held for sale*	*10*	*15*
– *Non-current liabilities, employees' leaving entitlement and provision funds* ([10])	*(33)*	*(33)*
– *Current assets (liabilities)* ([11])	*(6)*	*3*
– *Working capital* ([12])	*59*	*82*
Net capital invested (NCI) ([13])	283	350
Net financial indebtedness ([14])	166	201
Shareholders'equity ([*])	117	149
RATIO		
EBITDA/Net revenues	8.5%	9.3%
EBIT/NCI	0.0%	0.0%
Debt ratio	58.6%	57.4%

([*]) The decrease of Shareholders' funds of the Parent Company include the effect arising from the demerger of RDM Realty S.p.A. amounting to Euro 16.6 million.

(8) See RDM financial statements.
(9) See RDM financial statements – total of "Non-current assets" excluding the detail items "Derivative financial instruments" and "Trade receivables" in 2006, while for 2005 an amount of Euro 3 million must be taken out of the detail item "Other receivables" as this relates to financial receivables classified in the Net Financial Position.
(10) See RDM financial statements – total of the following detail items of "Non-current liabilities": "Other payables", "Deferred tax liabilities", ""Employees' leaving entitlement" and "Non-current provisions for contingencies and charges".
(11) See RDM financial statements – total of the following detail items of "Other receivables" classified in "Current assets", excluding the detail item "Other payables" classified in "Current liabilities". An amount of Euro 12.1 million relating to financial receivables reclassified to the Net Financial Position has been taken out of "Other receivables" in 2005 and an amount of Euro 13 million has been added, relating to receivables due from the subsidiary Red.Im S.r.l. classified in the detail item "Receivables from subsidiary companies".
(12) See RDM financial statements – total of the detail items "Stocks", "Trade receivables from third parties", "Receivables from subsidiary companies" and "Receivables from associates" classified in "Current assets" and the detail item "Trade receivables" classified in "Non-current assets", excluding the detail item "Trade payables to third parties", "Due to subsidiary companies" and "Due to associates", classified as "Current liabilities". The following has ben carried out for 2006: an amount of Euro 3.9 million has been taken out of "Receivables from subsidiary companies" and reclassified in the Net Financial Position; an amount of Euro 1.9 million has been taken out of "Due to subsidiary companies" and reclassified in the Net Financial Position. The following reclassifications have been made for 2005: an amount of Euro 17 million has been taken out of "Receivables from subsidiary companies", of which Euro 13 million has been reclassified as described in note 11 and Euro 4 million has been reclassified in the Net Financial Position; an amount of Euro 129.6 million has been taken out of "Due to subsidiary companies" and reclassified in the Net Financial Position.
(13) Total of the items above.
(14) See RDM financial statements – total of the detail items "Derivative financial instruments", classified as "Non-current assets" and "Current assets", "Liquid funds", classified as "Current assets", excluding the following detail items: "Bank loans and other financial liabilities", "Derivative financial instruments" and "Due to subsidiary companies", classified as "Non-current liabilities", and "Bank loans and other financial liabilities" and "Derivative financial instruments", classified as "Current liabilities" with the reclassifications described in notes 9, 11 and 12 above.

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

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

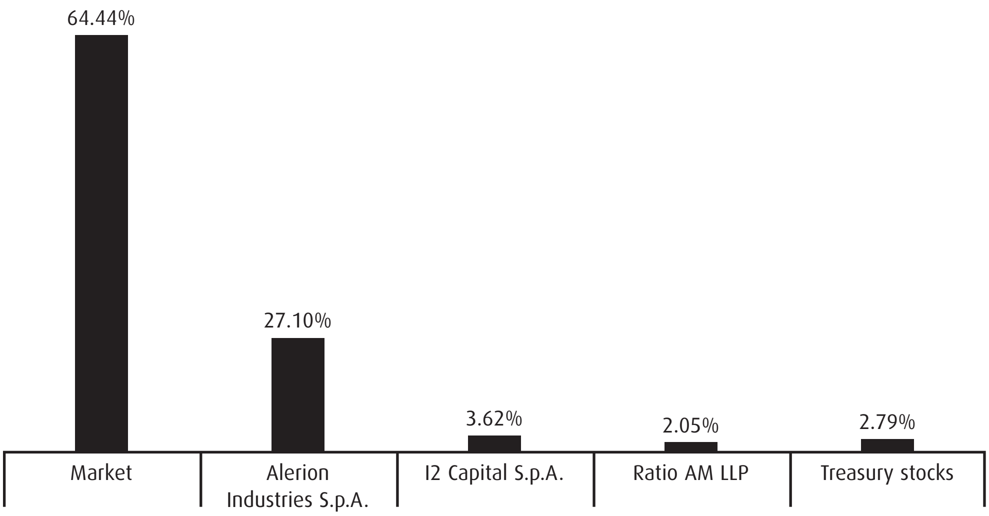


(*) Reno De Medici S.p.A. 99.58% - Cartiera Alto Milanese S.p.A. 0.42%.

SHAREHOLDERS

The shareholders of Reno De Medici S.p.A. at 26 March 2007 were as follows:

Ordinary shares	no.	269,202,370
Convertible saving shares	no.	512,067
Total shares	**no.**	**269,714,437**



INTRODUCTION

The RDM Group has substantially completed the reorganisation and restructuring process that it began around three years ago.

The steps taken to restructure the Group over this period, of which we recall the reorganisation of the production facilities, the sale of investments held in companies working in the packaging sector and the demerger of property assets that are not relevant to manufacturing activities, have led to a simplification of the Group's organisational structure and to specialisation in the original core business of the Group which regards the production of recycled cartonboard for packaging.

This strategy enabled the funds to be generated in the year ended 31 December 2006 that were needed to repay the bond of Euro 145 million that had been issued by Reno De Medici International S.A. and, especially, will allow us allocate the future funds generated by our industrial activities to strategic investments in the sector to which we belong, with the prospect of achieving results of note in terms of cost reduction and the recovery of manufacturing efficiency.

MAJOR OPERATIONS OF THE RENO DE MEDICI GROUP IN 2006

The major operations that the Group carried out in 2006 may be summarised as follows:

- on 6 April 2006, loan agreements were signed with the banks SanPaoloIMI S.p.A., Banca Intesa S.p.A. and Unicredit Banca d'Impresa S.p.A. for an amount of 60 million euros, as a preliminary to the repayment of the bond. This loan is divided into a first portion of Euro 50 million repayable in equal instalments over ten years and a second five-year revolving loan of Euro 10 million;
- on 1 May 2006, Reno De Medici Iberica S.L. ("RDM Iberica") purchased at book value the business of its wholly owned subsidiary Barneda Carton S.A., a company carrying out cutting and selling activities. Subsequent to this, on 17 May 2006, RDM Iberica sold its investment in the company to third parties;
- on 4 May 2006, the bond issued by the subsidiary Reno De Medici International S.A. was fully repaid;
- on 19 June 2006, the demerger deed was signed for the partial and proportional demerger of RDM through the transfer of the non-business property assets owned by RDM into the newly-established recipient company RDM Realty S.p.A. ("RDM Realty"). The formalisation of the demerger deed followed the admission to trading of RDM Realty's shares by Borsa Italiana S.p.A. on 12 June 2006 and the clearance given by Consob on 15 June 2006 for the publication of the company's listing prospectus. The demerger became effective on 21 June 2006 and the RDM Realty shares began trading in Expandi Market on 22 June 2006. The completion of the demerger operation led to Red.Im S.r.l. leaving the scope of consolidation and the resulting deconsolidation of interest-bearing debt of Euro 40 million;
- following the repayment of its bond, the subsidiary RDM International S.A. completed its corporate purpose and was accordingly wound up definitively on 21 December 2006;
- on 25 May 2006, in connection with the action being taken to dispose of the non-current assets held for sale relating to discontinued operations, an agreement was signed for the sale of board machine 3 at the Prat facility (BM3), and on 17 November 2006 two agreements were signed for the sale of board machines 1 and 2 located at the Pompeii facility. These two latter machines had been bought by RDM from Aticarta S.p.A., as part of the conditions of the agreement for the sale of the investment in that company. Dismantling operations are expected to be completed during the first part of 2007 for the Prat BM3 machine and by mid 2007 for the plant at the Pompeii facility;

- on 21 December RDM has signed an agreement with SanPaolo IMI for a loan of Euro 14.7 million, of which Euro 2.3 million was disbursed in 2006.

STATE OF THE MARKET

The calculations and estimates made by the trade association Assocarta based on ISTAT figures for the Italian market indicate apparent consumption of boxes (production plus exports minus imports) in the period between January and November 2006 of 685 thousand tonnes compared to 694 thousand tonnes in 2005 (down 1.3%), a fall of 9 thousand tonnes. Production volumes for the same period dropped by 25 thousand tonnes from 600 thousand tonnes in 2005 to 575 thousand tonnes in 2006 (down 4.2%). This decrease in production volumes was offset by an increase in imports of 20 thousand tonnes (up 4.2%) and an increase in exports of 4 thousand tonnes (up 0.8%).

At a worldwide level, the consumption of recycled cartonboard for packaging increased slightly in 2006 (up 0.4% over 2005), highlighting a stable situation in the leading European economies and, in particular, an unsatisfactory performance in the demand for consumer goods.

This weakness has enabled only a part of the additional burden in energy costs suffered over the past two years to be transferred down the production chain. Nonetheless, prices have recovered to a certain extent over 2005 and this situation held firm throughout the year.

The signs coming from the market at the beginning of 2007, if maintained, indicate that there will be a growth in demand capable of supporting price increases which at the very least will enable the increases in production costs incurred over the past few years to be recovered.

On the cost side, we highlight that after increases in energy costs of around 30% suffered during 2006 , which generated addictional costs for 15 million euros before considering improvements in efficiency, no further increases are expected in 2007. On the contrary a certain pressure is being exerted on the prices of fibrous raw materials.

ECONOMIC AND FINANCIAL PERFORMANCE OF THE RENO DE MEDICI GROUP

The results of the RDM Group, the principal items of the balance sheet and the composition of the Group's net financial position are set in the following.

The contributions made to profit and loss by discontinued operations, consisting of the Prat facility, the board machine 1 at the Magenta facility, the Pompeii facility and the assets demerged into the recipient RDM Realty (the Ciriè facility and Red.Im S.r.l.), and the costs relating to the demerger and listing, are reported in the profit and loss account in the item "Discontinued operations". For comparative purposes the same classification is consistently followed in the presentation of the figures for 2005.

ECONOMIC RESULTS

(Thousands of Euros)	**2006**	**%**	**2005**	**%**
Net revenues	313,889		295,275	
Operating costs ([15])	(294,601)		(272,260)	
Other operating income (expenses) ([16])	9,728		4,791	
Gross Operating Profit (EBITDA)	**29,016**	**9.2**	**27,806**	**9.4**
Depreciation, amortization and write-offs	(23,381)		(26,027)	
Operating Profit (Loss) (EBIT)	**5,635**	**1.8**	**1,779**	**0.6**
Net financial income (expenses)	(10,658)		(11,785)	
Income (losses) from investments	(1,990)		1,982	
Other income (expenses)	281		(15,700)	
Taxation	(3,168)		(223)	
Profit (loss) for the period before discontinued operations	**(9,900)**	**(3.1)**	**(23,947)**	**(8.1)**
Discontinued operations	(8,943)		11,177	
Profit (loss) for the period	**(18,843)**	**(6.0)**	**(12,770)**	**(4.3)**
Profit (loss) for the period attributable to the Group	**(19,098)**	**(6.1)**	**(13,261)**	**(4.5)**

The RDM Group achieved net revenues ([17]) in 2006 of Euro 314 million compared to Euro 295 million in 2005, being the result of the combined effect of an increase in both volumes and average sales prices.

In particular, despatched volumes reached 645,000 tonnes in 2006, representing an increase of 6% over 2005. These figures exclude sales

(15) See RDM Group consolidated financial statements. The balance is the total of the following profit and loss account items: "Cost of raw materials and services", "Staff costs" and "Other operating costs".
(16) See RDM Group consolidated financial statements. The balance is the total of the following profit and loss account items: "Other income", "Changes in stocks of finished goods", "Income (expense) from non-current assets held for sale" and "Unusual income (expense)".
(17) These figures do not include the volumes despatched by the production units whose economic contribution is classified as "Discontinued operations".

made by the business units sold during 2005 (the Prat facility and the Magenta MC1) and as a result are consistent with the net revenues stated above. The production volumes of operating facilities reached 651,000 tonnes compared to 610,000 tonnes in the previous year.

Average unit sales prices weighted by the mix of despatched volumes slightly increased over 2005. There was a gradual pick-up in prices throughout 2006 compared with the averages in 2005, when there was a continuing drop in prices as the year progressed.

Average unit sales prices during the fourth quarter of 2006 for the various types of cartonboard produced in the Group's factories increased considerably over those for the fourth quarter of the previous year.

An analysis of net revenues by geographical area is set out in the following table. It can be seen that revenues rose in Italy and other European Union countries (up 8%) and fell in countries outside the European Union (down 6.4%), distinguished by lower margins.

(Thousands of Euros)	**2006**	**%**	**2005**	**%**
Area				
Italy	170,110	54.2	157,223	53.2
UE	111,528	35.5	103,553	35.1
Extra UE	32,251	10.3	34,499	11.7
Net revenues	**313,889**	**100.0**	**295,275**	**100.0**

Trends in operating costs in 2006 were characterised by the considerable rise in energy costs which led to an increase totalling Euro 15 million before any efficiency recoveries.

Improvements in efficiency achieved by the production units and the steps taken to contain variable costs enabled the unfavourable tendency in energy factors to be significantly offset.

Taking also into account "Changes in stocks of finished goods", operating costs, included in the line "Other operating income (expense)", remain unchanged compared to the previous year (a percentage of 92% on value of production).

As a result of the changes described above, a gross operating profit (EBITDA) of Euro 29 million was achieved compared to Euro 27.8 million in 2005, representing an increase of 4.3%.

There was a considerable increase in operating profit (EBIT) which rose from Euro 1.8 million in 2005 to Euro 5.6 million in 2006. In addition to the increase in EBITDA, this may be attributed to lower depreciation, amortisation and write-downs.

Net financial expense and losses from investments rise overall by Euro 2.8 million. In particular, the part of net financial expense relating to interest-bearing debt, which also includes exchange gains and losses and the change in fair value of derivative financial instruments, fell by Euro 1.1 million. This decrease is essentially the result of a lower level of average debt and increasing interest rates. Income from investments in 2006 was lower by Euro 4.0 million, mainly due to the valuation at equity of the associates Termica Boffalora S.r.l., as stated by its major shareholder Edison S.p.A. in accordance with IFRS.

(Thousands of Euros)	**2006**	**2005**
Net financial income (expenses)	(10,658)	(11,785)
Income (losses) from investments	(1,990)	1,982
Total	**(12,648)**	**(9,803)**

Net other income of Euro 0.3 million is principally due to the income and expense connected with managing the receivable from Grupo Torras S.A.. It is recalled that in 2005 this item reflected the realignment of the carrying value of the receivable from Grupo Torras S.A. to the amount implicit in the first level sentence issued by the Court of Madrid in September 2005, which was subsequently confirmed at the second level in September 2006. These balances are classified after the operating result as the matter is a consequence of a dispute which arose in 1993 from earlier events in the Saffa Group, today part of the RDM Group, which do not pertain to the latter’s operations.

There is an overall loss of Euro 8.9 million from discontinued operations, which includes the contribution (in terms of net operating result) from the operations at the Prat facility and the Magenta MC1 that were sold during 2005, the income and expense connected with the assets demerged into the recipient company RDM Realty, including the costs incurred for the demerger operation and the listing of the recipient on the Expandi exchange, and the residual costs connected with the disposal of the investments Europoligrafico S.p.A. and Aticarta S.p.A. which were sold in 2005.

(Thousands of Euros)	**2006**	**2005**
Net gain (loss) from sales	–	32,328
Results for the period	(8,943)	(21,151)
Discontinued operations	**(8,943)**	**11,177**

There is a net loss in 2006 of Euro 18.8 million compared to a net loss of Euro 12.8 million in 2005. The loss attributable to the Group amounts to Euro 19.1 million (Euro 13.3 million in 2005).

Balance sheet

The following table sets out the principal balance sheet items.

(Thousands of Euros)	**31.12.2006**	**31.12.2005**
Trade receivables	100,834	107,092
Stocks	89,775	92,979
Trade payables	(86,560)	(72,552)
Working capital	**104,049**	**127,519**
Other current assets ([18])	7,261	2,627
Other current liabilities ([19])	(13,400)	(27,966)
Non-current assets ([20])	197,205	217,997
Non-current assets held for sale	11,392	20,208
Non-current liabilities ([21])	(40,458)	(3,357)
Invested capital	**266,049**	**337,028**
Employees' leaving entitlement and provision funds ([22])	(23,410)	(24,749)
Net invested capital	**242,639**	**312,279**
Net financial position ([23])	127,085	169,269
Shareholders' equity	115,554	143,010
Total sources	**242,639**	**312,279**

A considerable decrease in working capital may be noted, which is principally due to the decisive action taken to improve the management of receipts and payments flows. The decrease in stocks can be attributed to the net effect of the deconsolidation of Euro 3.9 million relating to fixed assets held for sale following the demerger operation, a reclassification of stocks of Euro 2.2 million relating to plant held for sale and an increase in finished goods and raw materials stocks of a total of Euro 2.9 million. In terms of the composition of stocks, the balance includes the rights to receive finished properties in Barcelona from Espais Promocions Immobiliares E.P.I. S.A. for an amount of Euro 30 million, which arose in 2003 as part of the operation for the sale of the Prat (Barcelona) area. These rights amounting to Euro 32 million form part of a preliminary sales agreement signed in 2005 with Red.Im S.r.l..

The decrease in current liabilities is mostly due to the severance payment of Euro 6.9 million made by RDM Iberica to its personnel for the termination of their employment contracts following the closure of the Prat facility.

(18) See RDM Group consolidated financial statements – total of the following detail items: "Other receivables" and "Available-for-sale financial assets", classified as "Current assets", excluding amounts of Euro 1,853 thousand for 2006 and Euro 18,551 thousand for 2005 as these relate to financial receivables classified in the Net Financial Position.
(19) See RDM Group consolidated financial statements – total of the following detail items: "Other payables" and "Current taxation", classified as "Current liabilities", while for 2005 an amount of Euro 5,200 thousand must be taken out of the detail item "Other payables" as this relates to financial payables classified in the Net Financial Position.
(20) See RDM Group consolidated financial statements – total of "Non-current assets" excluding the detail items "Derivative financial instruments" and "Trade receivables" in 2006, while for 2005 an amount of Euro 5,200 thousand must be taken out of the detail item "Other receivables" as this relates to financial receivables classified in the Net Financial Position.
(21) See RDM Group consolidated financial statements – total of the detail items of "Non-current liabilities": "Other payables" and "Deferred tax liabilities".
(22) See RDM Group consolidated financial statements – total of the detail items of "Non-current liabilities": "Employees' leaving entitlement" and "Provisions for contingencies and charges".
(23) See RDM Group consolidated financial statements – total of the detail items: "Derivative financial instruments", classified as "Non-current assets" and "Current assets", "Liquid funds", classified as "Current assets", excluding the following detail items "Bank loans and other financial liabilities" and "Derivative financial instruments", classified as "Non-current liabilities", and "Bank loans and other financial liabilities" and "Derivative financial instruments", classified as "Current liabilities" with the reclassifications described in notes 19 and 21.

The decrease in "Non-current assets held for sale" is principally the result of the finalisation of the sale of the board machine at Ciriè for Euro 1.2 million, the sale of the board machine at Prat for Euro 5.5 million and the effects of the demerger of the Ciriè land and buildings for Euro 2.8 million. In addition, certain technical supplies amounting to Euro 2.2 million have been reclassified during the year from "Stocks" to plant held for sale. In addition this item is affected by the write-down of the Magenta board machine 1 by Euro 1.2 million following the adjustment of its book vaue to its estimated realisable value.

The increase in non-current liabilities relates to a down payment of Euro 32 million made by Red.Im S.r.l. to RDM Iberica S.L. pursuant to the conditions of the preliminary agreement for the sale of land and buildings to be developed in the Prat area (Barcelona).

Net Invested capital at 31 December 2006 was funded by interest-bearing debt of 52.3% and shareholders' funds of 47.7% (respectively 54.2% and 45.8% at 31 December 2005).

Net financial position

Net consolidated financial debt at 31 December 2006 amounted to Euro 127.1 million, representing an improvement over the figure of Euro 169.3 million at 31 December 2005.

The following table summarises the changes that took place in the net financial position during the two years, from which a comparison may be made:

(Thousands of Euros)	**31.12.2006**	**31.12.2005**	**Variation**
Cash and cash equivalents and short-term financial receivables ([24])	11,389	75,330	(63,941)
Short-term financial payables ([25])	(57,481)	(225,608)	168,127
Valuation of current portion of derivatives ([26])	(273)	4,079	(4,352)
Short-term financial position	**(46,365)**	**(146,199)**	**99,834**
Long-term financial receivables ([27])	–	5,200	(5,200)
Long-term financial payables ([28])	(80,789)	(28,270)	(52,519)
Valuation of non-current portion of derivatives ([29])	69	–	69
Net financial position	**(127,085)**	**(169,269)**	**42,184**

(24) See RDM Group consolidated financial statements – total of "Liquid funds" and other financial receivables classified as "Other receivables", for amounts of Euro 1,853 thousand in 2006 and Euro12,999 thousand in 2005.
(25) See RDM Group consolidated financial statements – item "Bank loans and other financial liabilities" classified as "Current liabilities".
(26) See RDM Group consolidated financial statements – detail item "Derivative financial instruments", classified as "Current assets" excluding the detail item "Derivative financial instruments", classified as "Current liabilities".
(27) The item includes other financial receivables of Euro 5,200 thousand classified as "Other receivables" in 2005.
(28) See RDM Group consolidated financial statements – item "Bank loans and other financial liabilities" classified as "Non-current liabilities".
(29) See RDM Group consolidated financial statements –detail item "Derivative financial instruments", classified as "Non-current assets" excluding the detail item "Derivative financial instruments", classified as "Non-current liabilities".

The reduction over the previous year is principally due to the assignment of interest-bearing debt of Euro 40 million in Red.Im S.r.l. to the recipient RDM Realty following the completion of the demerger operation which took place in 2006. In addition, the RDM Group had outflows of cash during the year connected with operations of a non-recurring nature which, net of the proceeds received from the sale of assets held for sale relating to the Ciriè and Prat facilities, amount to Euro 5 million. These outflows of cash relate for the most part to the payment of the amounts due to the personnel of the Prat facility and the costs connected with the demerger operation and the listing of RDM Realty.

Furthermore, net financial debt at 31 December 2005 included a favourable effect (amounting in total to Euro 4.1 million) arising from the remeasurement at fair value of the derivative instruments connected with the Reno De Medici International S.A. bond, for which the related agreements were terminated normally in May 2006 on the repayment of that bond. The effect arising from the remeasurement at fair value of derivative instruments at 31 December 2006 acquired by the RDM Group as cash flow hedges was unfavourable for Euro 0.2 million.

In particular, gross financial debt at 31 December 2006 measured at amortised cost amounted to Euro 138.3 million (compared to Euro 253.9 million at 31 December 2005) and includes the non-current portion of Euro 80.8 million of long-term loans, the current portion of Euro 10.5 million of long-term loans and bank facilities of Euro 47 million, mostly made up of advances on trade receivables.

At 31 December 2006, liquidity and financial receivables due within 12 months amounted in total to Euro 11.4 million (compared to Euro 75.3 million at 31 December 2005) and include a balance of Euro 5 million restricted in connection with the dispute with Grupo Torras.

Long-term interest-bearing debt amounts to Euro 80.8 million. The repayment of the bond was made in 2006 for Euro 145 million and repayments totalling Euro 19.5 million were also made for long-term loans; in addition, new long-term loans of Euro 68.5 million were drawn down during the year.

Research and development activities

The research activities carried out at the premises of the various users of Group products (packaging companies and final customers) were continued in 2005. These are aimed at identifying particular applications needs that are not covered by the materials currently available and the starting up of specific research projects, which are also carried out in collaboration with external companies and occasionally with the support of the public authorities.

Technical investments

Technical investments made in 2006 amounted to Euro 10.7 million (Euro 10.1 million in 2005).

The objective of these investments is to reduce fixed and variable costs improve quality and service and carry out maintenance of an extraordinary nature on RDM Group plant. In particular:

- at the Villa Santa Lucia facility, work was carried out in the press area and in the drying section (to increase drainage and evaporation capacity) and on the system for managing scrap from the process (an increase in the diameter of the reeler);
- work was carried out at the Magenta facility on the vacuum system control, the open drown reduction on the wet end part and the strengthening of the drying of coatings;
- work was carried out at the Santa Giustina facility in the drying section to increase drying capacity and, in addition, installation work was carried out in connection with chemical improvement of the flow approach system;
- a couch roll of the forming fabric was replaced in the Marzabotto facility;
- in addition, extraordinary maintenance work was carried out on the Almazan cutters and those transferred from Prat to Llica De Val, achieving thereby a strengthening in the cutting capacity.

Human resources

The Group's workforce at 31 December 2006 totalled 1,198, of whom 45 were laid off under the state-subsidised *cassa integrazione straordinaria* scheme. The number of Group employees is lower by 128 over the previous year principally as the result of *mobilità* lay-off procedures commenced during the year at the Magenta and Marzabotto facilities and the closure of the Prat facility.
At 31 December 2006, the Group's workforce consisted of 19 executives and managers, 338 white-collar employees and 841 blue-collar employees.

ECONOMIC AND FINANCIAL PERFORMANCE OF RENO DE MEDICI S.P.A.

RDM has adopted International Financial Reporting Standards ("IFRS") for the first time in preparing its separate financial statements at 31 December 2006. As a consequence, the comparative figures presented for 2005 represent data that have been recalculated and reclassified in accordance with IFRS.

The contributions made to profit and loss by the discontinued operations consisting of the board machine 1 at the Magenta facility, the Pompeii facility and the assets demerged into the recipient RDM Realty S.p.A. (the Ciriè facility and Red.Im S.r.l.), and the costs relating to the demerger and listing are reported in the profit and loss account in the item "Discontinued operations". For comparative purposes, the same classification is consistently followed in the presentation of the figures for 2005.

Economic results

The following table sets out the principal profit and loss account items ([30]) for the year ended 31 December 2006, with comparative figures provided for the prior year:

(Thousands of Euros)	2006	%	2005	%
Net revenues	285,703		265,267	
Operating costs	(270,103)		(245,640)	
Other operating income (expenses)	8,464		5,162	
Gross Operating Profit (EBITDA)	**24,063**	**8.5**	**24,789**	**9.3**
Depreciation, amortization and write-offs	(24,462)		(24,660)	
Operating Profit (Loss) (EBIT)	**(399)**	**0.0**	**129**	**0.0**
Net financial income (expenses)	(10,762)		(6,755)	
Income (losses) from investments	2,125		(26,140)	
Taxation	(809)		(2,453)	
Profit (loss) for the period before discontinued operations	**(9,845)**	**(3.4)**	**(35,219)**	**(13.3)**
Discontinued operations	(5,492)		18,298	
Profit (loss) for the period	**(15,337)**	**(5.3)**	**(16,921)**	**(6.4)**

RDM achieved net revenues in 2006 of Euro 285.7 million compared to Euro 265.3 million in 2005, representing an increase of 7.7%, being the result of an increase in volumes and, to a lesser extent, an increase in unit sales prices.

(30) See notes 15 and 18 for the composition of the items in the reclassified profit and loss account.

In particular, despatched volumes reached 613,000 tonnes in 2006, excluding those relating to the Magenta board machine 1 for which revenues are classified as "Discontinued operations", compared to 575,000 tonnes in 2005, representing an increase of 6.6%. Comments on the changes in average net sales prices may be found in the section discussing the consolidated financial statements.

An analysis of net revenues by geographical area is set out in the following table. This shows that revenues rose in Italy and other European Union countries (up 10%) and fell in countries outside the European Union (down 7.2%), distinguished by lower margins. There has been a significant increase in the Spanish market as the volumes previously supplied by the Prat facility of the subsidiary RDM Iberica have been replaced by products arriving from Italy.

(Thousands of Euros)	**2006**	**%**	**2005**	**%**
Area				
Italy	164,246	57.5	150,831	56.9
UE	89,531	31.3	79,999	30.1
Extra UE	31,926	11.2	34,437	13.0
Net revenues	**285,703**	**100.0**	**265,267**	**100.0**

The increase in "Operating costs" is principally due to the rise in purchases arising from higher sales volumes and increases in energy costs.

As a consequence of the above changes, gross operating profit closed at Euro 24.1 million, which is largely in line with that of 2005.

There was a net operating loss of Euro 0.41 million after charging depreciation, amortisation and write-downs of Euro 24.5 million.

The decrease in "Net financial income (expenses) and income from investments" is mostly the result of the write-down of the holding in RDM Iberica in 2005, which was principally due to the adjustment made to the book value of the receivable from Grupo Torras S.A. following the first level sentence issued by the Court of Madrid and accessory costs relating to the closure of the Prat facility.

The result from discontinued operations consists of the contribution in terms of net operating result of the Magenta board machine 1, the costs connected with the assets demerged into the recipient company RDM Realty (the Ciriè facility), including the costs incurred for the demerger operation and the listing of the recipient company, and the accessory costs connected with the disposal of the investments Europoligrafico S.p.A. and Aticarta S.p.A. which were sold in 2005, including the accessory costs connected with the disposal of the Pompeii plant. Discontinued operations closed in profit in 2005 as the result of the capital gain realised on the sale of Europoligrafico S.p.A..

There was an overall net loss for the year of Euro 15.3 million compared to a net loss of Euro 16.9 million in 2005.

Balance sheet

The following table sets out the principal balance sheet items ([31]).

(Thousands of Euros)	**31.12.2006**	**31.12.2005**
Trade receivables	87,142	98,018
Stocks	53,844	50,094
Trade payables	(81,743)	(66,021)
Working capital	**59,243**	**82,091**
Other current assets	3,280	19,556
Other current liabilities	(9,631)	(16,322)
Non-current assets	253,089	283,186
Non-current assets held for sale	9,662	14,579
Non-current liabilities	(11,972)	(12,773)
Invested capital	**303,672**	**370,317**
Employees' leaving entitlement and provision funds	(21,080)	(20,697)
Net invested capital	**282,592**	**349,620**
Net financial indebtedness	165,521	200,782
Shareholders' equity	117,071	148,838
Total sources	**282,592**	**349,620**

The changes that have taken place in the main items of the separate balance sheet of the Parent Company are the same as those in the consolidated balance sheet discussed above. Entering into detail, the decrease in "Other current assets" is principally due to the demerger operation, under which a receivable of Euro 12.3 million due from Red.Im S.r.l.was contributed to the recipient company.

The decrease in "Non-current assets" is the result of the closure of the subsidiary Reno De Medici International S.A. with the related recovery of its carrying value of Euro 14 million, and the normal depreciation process for tangible fixed assets.

Net Invested capital at 31 December 2006 was funded by interest-bearing debt of 58.6% and shareholders' funds of 41.4% (respectively 57.4% and 42.6% at 31 December 2005).

(31) See notes 19 to 24 for the composition of the items presented in the reclassified balance sheet. The data relating to the Parent Company include in addition the following:
- the detail item "Receivable from subsidiary companies" is included in "Trade receivables" except for items of a financial nature amounting to Euro 4,028 thousand in 2006 and to Euro 4.059 thousand in 2006, which are included in the Net Financial Position, and the item "Receivable from associates";
- included in "Trade Payables" is the detail item "Payable to subsidiary companies" except for items of a financial nature amounting to Euro 34,088 thousand (Euro 129.657 thousand in 2005), which are included in the Net Financial Position, and the item "Payable from associates".

Net financial position

The net financial debt of the Parent Company at 31 December 2006 amounted to Euro 165.5 million, representing an improvement over the figure of Euro 200.8 million at 31 December 2005.

(Thousands of Euros)	**31.12.2006**	**31.12.2005**	**Variation**
Cash and cash equivalents and short-term financial receivables ([32])	6,225	64,915	(58,690)
Short-term financial payables ([33])	(59,252)	(207,294)	148,042
Valuation of current portion of derivatives ([34])	(274)	(33,970)	33,696
Short-term financial position	**(53,301)**	**(176,349)**	**123,048**
Long-term financial receivables ([35])	–	3,054	(3,054)
Long-term financial payables ([36])	(112,289)	(27,487)	(84,802)
Valuation of non-current portion of derivatives ([37])	69	–	69
Net financial position	**(165,521)**	**(200,782)**	**35,261**

The decrease in net financial debt is largely attributable to the reduction in working capital made possible by the more decisive action taken to improve the management of receipts and payments flows. In addition, the Parent Company reduced its intercompany financial debt during the year by Euro 14.9 million following the winding up of the subsidiary Reno De Medici International S.A., with the resulting improvement in its own financial position.

In particular, gross financial debt at 31 December 2006 measured at amortised cost amounted to Euro 161.3 million (compared to Euro 229.2 million at 31 December 2005) and includes the non-current portion of Euro 112.3 million of long-term loans, the current portion of Euro 10 million of long-term loans, bank facilities of Euro 47 million, mostly made up of advances on trade receivables, and intercomapny funding of Euro 2 million.

At 31 December 2006, liquidity and financial receivables due within 12 months amounted in total to Euro 6.2 million (compared to Euro 64.9 million at 31 December 2005).

(32) See RDM financial statements – total of the item “Liquid funds”, and of other financial receivables of Euro 153 thousand classified as “Other receivables” and of Euro 3,899 thousand classified as “Receivable from subsidiary companies” for 2006.
(33) See RDM financial statements – total of the item “Bank loans and other financial liabilities” classified as “Current liabilities” and other financial payables “Payable to subsidiary companies” of Euro 1,859 thousand for 2006 and Euro129,657 thousand for 2005.
(34) See RDM financial statements – detail item “Derivative financial instruments”, classified as “Current assets” excluding the detail item “Derivative financial instruments”, classified as “Current liabilities”.
(35) Total of other financial receivables classified as “Other receivables” for Euro 15,150 and “Receivable from subsidiary companies” for Euro 4,059 thousand for 2005.
(36) See RDM financial statements – total of the item “Bank loans and other financial liabilities” classified as “Current liabilities” and other financial payables “Payable to subsidiary companies” of Euro 32,000 thousand for 2006.
(37) See RDM financial statements – detail item “Derivative financial instruments”, classified as “Non-current assets” excluding the detail item “Derivative financial instruments”, classified as “Non-current liabilities”.

Research and development activities

Details of research and development activities can be found in the report on the consolidated figures.

Technical investments

Technical investments made in 2006 amounted to Euro 9.7 million (Euro 9.6 million in 2005).

The objective of these investments was to reduce fixed and variable costs, improve quality and service and carry out maintenance of an extraordinary nature on RDM plant. In particular:

- at the Villa Santa Lucia facility, work has been carried out in the press area and in the drying section (to increase drainage and evaporation capacity) and on the system for managing scrap from the process (an increase in the diameter of the reeler);
- work was carried out at the Magenta facility on the vacuum system control, the open drown reduction on the wet end part and the strengthening of the drying of coatings;
- work was carried out at the Santa Giustina facility in the drying section to increase drying capacity and, in addition, installation work was carried out in connection with chemical improvement of the flow approach system;
- a couch roll of the forming fabric was replaced in the Marzabotto facility.

Human resources

RDM’s workforce at 31 December 2006 totalled 1,053, of whom 45 were laid off under the state-subsidised *cassa integrazione straordinaria* scheme. The number of employees is lower by 58 over the previous year principally as the result of *mobilità* lay-off procedures commenced during the year at the Magenta and Marzabotto facilities.

At 31 December 2006, the workforce consisted of 16 executives and managers, 288 white-collar employees and 749 blue-collar employees.

RECONCILIATION BETWEEN THE GROUP'S NET RESULT FOR THE YEAR AND NET EQUITY AND THOSE OF THE PARENT COMPANY RENO DE MEDICI S.P.A.

	Shareholders' funds at 31.12.2006	Profit (loss) for the period ended at 31.12.2006
Reno De Medici S.p.A.	117,071	(15,337)
Difference between the carrying value of subsidiary companies and the corresponding share of their shareholder's funds	1,070	(1,856)
Difference between the carrying value of associates and the corresponding share of their shareholder's funds	6,157	(3,388)
Dividends received from subsidiary companies	0	(463)
Reversal of capital gains from sales to group companies	(4,256)	5
Reversal of allocations of merger difference	(5,054)	1,931
Other consolidation adjustments	(10)	10
RDM Group	**114,978**	**(19,098)**

RECONCILIATION BETWEEN THE GROUP'S NET FINANCIAL POSITION FOR THE YEAR AND THOSE OF THE PARENT COMPANY RENO DE MEDICI S.P.A.

	Net financial position at 31.12.2006
Reno De Medici S.p.A.	(165,521)
Cash and cash equivalents and short-term financial receivables of subsidiary companies	9,193
Short-term financial payables of subsidiary companies	(317)
Long-term financial payables of subsidiary companies	(500)
Eliminations of short-term financial payables due to subsidiary companies	2,088
Eliminations of long-term financial payables due to subsidiary companies	32,000
Eliminations of short-term financial receivables from subsidiary companies	(4,028)
RDM Group	**(127,085)**

CORPORATE GOVERNANCE

On 26 March 2007 the Board of Directors of Reno De Medici S.p.A. adopted the principles and the recommendations of the Corporate Governance Code of March 2006 prepared by the Corporate Governance Committee of Borsa Italiana, which replaced that prepared in 1999 as revised in 2002. Where certain provisions of this Code have not been adopted, the reasons for not doing so and the timing planned for adoption in the future are expressly stated in the following paragraphs.

The present bylaws of Reno De Medici S.p.A. do not include certain regulations introduced by Law no. 262 of 28 December 2005 as subsequently amended by Legislative Decree no. 303 of 29 December 2006. Reno De Medici S.p.A. has preferred to assess the new regulations introduced by the law before puttiing them into effect within the terms prescribed.

The following paragraphs describe the main features of the corporate governance system adoped by Reno De Medici S.p.A., in compliance with the requirements on this matter contained in the Market Rules for markets organised and managed by Borsa Italiana S.p.A., taking into consideration the recommendations included in the “Guidelines for the preparation of the annual corporate governance report” prepared by Borsa Italiana S.p.A. and the “Guide for the preparation of the corporate governance report” prepared by Assonime.

PART I

Corporate Governance structure

BOARD OF DIRECTORS

As provided in article 12 of the Bylaws, the Company’s Board of Directors consists of between 7 and 15 members. Board members may not be appointed for more than three fiscal years, their term of office expires on the date of the shareholders’ meeting called to approve the financial statements relating to their last year and they may be reelected.

As provided in article 15 of the Bylaws, the Board of Directors has the widest powers for the ordinary and extraordinary management of the Company. As a result, the Board may carry out all the actions it deems appropriate to achieve the company’s objects, if required also by delegation, with the sole exception of those reserved for shareholders in general meeting. The Board of Directors may, within the limits of law, arrange for mergers of companies in the cases provided by articles 2505 and 2505-bis of the Italian Civil Code, carry out a reduction in share capital following the withdrawal of a shareholder, open and close secondary offices, transfer the Company’s registered office anywhere within Italian territory, determine which Directors may represent the Company and amend the Bylaws for changes in laws and regulations.

As provided in article 17 of the Bylaws, the Board of Directors may delegate its duties within the limits of law to one or more managing directors and/or general managers. As provided in article 16, the Board of Directors may also appoint an Executive Committee from among its components and establish the number of its members, its duties and its powers.

BOARD OF STATUTORY AUDITORS

As provided in article 17 of the Company's Bylaws, the Board of Statutory Auditors consists of three standing auditors and two substitute auditors. Members of the Board of Statutory Auditors may be reelected. The appointment of the Statutory Auditors and the determination of their emoluments is the responsibility of shareholders in general meeting, while their duties and responsibilities and their term of office are determined by law.

Article 19 of the Company's Bylaws safeguards minority representation and makes reference to the qualifications required for appointment as a Statutory Auditor under the provisions of prevailing law, and the term of office, duties and responsibilities of the Auditor. An Auditor may not be appointed, and if appointed he immediately falls from office, if he already holds the position of standing Statutory Auditor in five or more other companies listed on Italian regulated markets.

The Board of Statutory Auditors meets at least every 90 (ninety) days and meetings may be called by any one of the Auditors. The meetings of the Board may also be held by audio conference or video conference, on the condition that all the participants can be identified and that they are able to follow the discussion and intervene in real time in the debate taking place on the matters being discussed.

The members of the Board of Statutory Auditors attend the general shareholders' meetings and the meetings of the Board of Directors. Furthermore, the Board of Statutory Auditors takes part in the meetings of the Internal Control Committee.

Article 17 of the Company's Bylaws establishes a procedure to appoint the members of the Board of Statutory Auditors in such a way as to ensure that one standing auditor and one substitute auditor may be appointed from those put forward by minority shareholders in a list of candidates (the so-called list vote).

GENERAL SHAREHOLDERS' MEETINGS

As provided in article 8 of the Company's Bylaws, a general shareholders' meeting is called by publishing within the terms of law a notice containing the date, the time and the place of the meeting and the subjects to be discussed. The meeting must be held in Italy, although this may be at a place different from the Company's registered office.

In order to attend the meeting shareholders must lodge their shares or an appropriate statement issued by the intermediary in charge of keeping the accounts at least two days prior to the date arranged for the meeting. A shareholder may be represented by a proxy though delegation in writing in compliance with the requirements of article 2372 of the Italian civil code, save other provisions of law.

The general shareholders' meeting is chaired by the Chairman of the Board of Directors or, in his absence or indisposition, by the Deputy Chairman or, in the absence or indisposition of the Deputy Chairman, by another person designated by the meeting. The Chairman verifies that the meeting is duly constituted, ascertains the identity of the speakers and their right to intervene, governs the proceedings by establishing the means by which discussion takes place and how votes are cast, and ascertains the results of the voting procedure.

The Chairman is assisted by a Secretary appointed by the meeting, who is not necessarily a shareholder: the assistance of a Secretary is not necessary if the minutes of the meeting are taken by a Notary, in the cases established by law or when the Chairman deems it appropriate.

SHARE CAPITAL AND COMPANY SHAREHOLDERS

The Company's share capital at 31 December 2006 is Euro 132,160,074.13, consisting of 269,714,437 shares each of nominal value Euro 0.49 divided into:

- 269,202,370 ordinary shares and
- 512,067 savings shares convertible into ordinary shares on the request of shareholders in February and September of each year.

The Company's leading shareholders are as follows:

- Alerion Industries S.p.A. which holds 27.10% of share capital;
- I2 Capital S.p.A. which holds 3.62% of share capital;
- Ratio Asset Management LLP which holds il 2.05% of share capital.

The Company holds in portfolio ordinary treasury shares equivalent to 2.79% of share capital.

The remaining shares are held by shareholders each of whom has a holding of less than 2% of share capital.

PART II

Information on putting the Corporate Governance Code into effect

BOARD OF DIRECTORS

Assignment of competences and delegations of power

Role of the Board of Directors

The Board of Directors (also referred to as the "Board" in the following) is the body that is central to the Company's Corporate Governance system. It is responsible for defining, applying and updating the rules of governance in compliance with prevailing laws and regulations and determining the Company's strategic lines of management, and in more detail the Board:

a) examines and approves the strategic, operational and financial plans of the Company and the Group and the Group's structure and corporate governance system;
b) evaluates the adequacy of the organisational, administrative and accounting structure of the Company and its subsidiaries having strategic relevance, as established by the managing directors, in particular with regard to the internal control system and the management of conflicts of interest;
c) delegates powers to the managing directors and to the Executive Committee and revokes them; it specifies the limits on these delegated powers, the manner by which they are exercised and the frequency, no less than once every three months, with which the bodies in question must report to the Board on the activities performed in the exercise of the powers delegated to them;
d) determines, after examining the proposal of the specific Committee and consulting the Board of Statutory Auditors, the remuneration of the managing directors and of those directors who are appointed to particular positions and, if the shareholders have not already provided for such in general meeting, determines how the total emoluments due shall be attributed to the individual members of the Board;
e) evaluates general performance, paying particular attention to the situations regarding conflicts of interest, taking into special consideration the information received from the managing directors and the Internal Control Committee, and periodically comparing the results achieved with those planned;
f) examines and approves the operations and transactions carried out by the Company and its subsidiaries having a significant impact on results, assets and liabilities or financial position, paying particular attention to related party transactions;
g) evaluates, at least once a year, its own performance and that of its committees;
h) provides information in the corporate governance report on the number of meetings of the Board and the Executive Committee and the related percentage of attendance of members of those bodies;

i) evaluates and approves the periodic accounting documentation required by prevailing legislation;

l) reports to the shareholders in general meeting.

Chairmanship of the Board of Directors and representation

The Board of Directors elects a Chairman from amongst its members unless shareholders in general meeting have already done so, and may also elect one or two Deputy Chairmen (article 13 of the Bylaws).

The Chairman of the Board of Directors acts as the Company's representative towards third parties and for judicial purposes and may sign on the Company's behalf; this responsibility falls to the Deputy Chairman in his absence or impediment. The Managing Directors may also represent the Company with the limits of the powers delegated to them as may the general managers within the powers with which they are entrusted. All the Directors may sign on the Company's behalf, including those with delegated powers, and may represent the Company towards third parties within the limits of the actions resolved by the Board of Directors for which they have been specifically delegated. Company employees and/or third parties may be empowered to represent the Company for single actions by the persons entitled to act as legal representative.

The present Chairman of the Board of Directors, Giuseppe Garofano, has been delegated with operational powers (as discussed herein) and, therefore, is referred to as an "executive director" pursuant to point 2.C.1 of the Corporate Governance Code.

Other delegated bodies

The Board of Directors of RDM has approved the following delegations of power.

The Board has granted to the Chairman Giuseppe Garofano the power as legal representative of the Company and all those powers necessary for the ordinary and extraordinary management of the Company, with the authority as sole signatory for payments or withdrawals that singly do not exceed Euro 10 million, excluding intragroup transfers for which there is no limit.

The Board has granted to the Managing Director, Emanuele Rossini, the power as legal representative of the Company and the same powers granted to the Chairman, namely all those powers necessary for the ordinary and extraordinary management of the Company, with the authority as sole signatory for payments or withdrawals that singly do not exceed Euro 10 million, excluding intragroup transfers for which there is no limit.

The Board has granted to Giancarlo De Min all those powers necessary for the ordinary management of the following activities: production, research, development, safety and environmental, technological innovation, investments in plant, equipment and systems of an innovative, modifying or preventive nature, with the authority as sole signatory for commitments for expenses that do not exceed Euro 0.5 million. These powers must be exercised through agreement with the Managing Director in order that he may be in a position to coordinate all the Company's activities.

An Executive Committee of the Board of Directors has been established in accordance with article 16 of the Bylaws and with article 2381 of the Italian Civil Code. This Committee is made up of the following members:

- Giuseppe Garofano;
- Carlo Peretti;
- Emanuele Rossini;
- Ignazio Capuano;
- Giancarlo De Min.

The Executive Committee is attributed with all the powers needed for the ordinary and extraordinary management of the Company, limited to amounts not exceeding Euro 20 million, other than for those matters reserved by law to the Board of Directors. The Executive Committee may make any resolution, of an ordinary or extraordinary nature, and with no limit to the amounts committed, if the members of the Executive Committee deem this necessary for specific operative requirements for which urgent action must be taken.

The Executive Committee provides the Board of Directors with thorough details of the resolutions taken.

In line with the indications included in the Corporate Governance Code and the provisions of the Controlling Authority, the delegated bodies report to the Board of Directors and to the Board of Statutory Auditors during the periodic meetings of the Board of Directors on the activities that they have been performing in carrying out their delegated duties, with particular reference to abnormal or unusual transactions or operations and related party transactions.

Meetings of the Board of Directors and the Executive Committee

There is no requirement in the Company's Bylaws for meetings of the Board of Directors to be held with a specific frequency. The Board met nine times in 2006 with a combined attendance of 88%. The Board has so far in 2007 up to the date of this report met on one occasion with a further four meetings planned to take place during the year, for the approval of the three quarterly reports and the half yearly report for 2007.

The Excutive Committee meets on all the occasions that the Chairman or whoever is acting in his place deems it appropriate. The Executive Committee met three times in 2006 with a combined attendance of 100%.

It is the Company's practice for all Board meetings to provide Board members reasonably in advance with all the documentation and all the information required to be able to arrive at an informed opinion on all the subjects that will be submitted to them for review.

Principles of conduct in carrying out related party tranactions

Given the particular importance that related party transactions may have in the operations of a listed company, it is consolidated practice for the Board of Directors to have the sole responsibility for authorising these transactions, without affecting compliance with the principles of the Corporate Governance Code and in accordance with article 9 of that Code.

Without changing these principles in any way, the Company has taken the decision required to supplement its internal regulatory measures by adopting a specific procedure, approved by the Board of Directors on 24 January 2006, for the approval of "Significant transactions and/or transactions with related parties", defining the means by which they are to be identified, the way in which they are to be carried out and documented and, in the event that there are matters of a particular importance, governing the manner in which resort is made to professionals and consultants for suitable support during the technical and evaluation stages.

Composition of the Board of Directors

The Board of Directors of RDM consists of not fewer than seven and not more than 15 members; shareholders in general meeting have the decision as to the number of members of the Board (article 12 of the Bylaws).

The present Board of Directors of RDM was appointed by shareholders in general meeting on 4 May 2004, who resolved that the Board should have 11 members. Following the resignation of two Directors, shareholders resolved in general meeting on 3 May 2006 to drop that number to nine.

The Company's Board of Directors was made up as follows on the date that the financial statements at 31 December 2006 were approved:

- Giuseppe Garofano (Executive Chairman);
- Carlo Peretti (Independent and non-executive Deputy Chairman);
- Emanuele Rossini (Managing Director);
- Marco Baglioni (Independent and non-executive Director);
- Ignazio Capuano (Non-executive Director);
- Giancarlo De Min (Executive Director);
- Mario Del Cane (Executive Director);
- Michael Groeller (Non-executive Director);
- Vincenzo Nicastro (Independent and non-executive Director).

On 9 February 2007, Ambrogio Rossini resigned from his position as Director and on 12 February 2007 the Board of Directors coopted Emanuele Rossini onto the board as a Director, appointing him as Managing Director in the place of the Director Ignazio Captano who maintained his position as Director.

The term of office of the present Directors expires with the approval of the financial statements for 2006.

Other positions held by Directors

The following is a list of the postions held by Directors as director or statutory auditor in other companies:

Director	**Company**	**Office held**
Giuseppe Garofano	Alerion Industries S.p.A.	Deputy Chairman
	Banca MB S.p.A.	Director
	Efibanca S.p.A.	Director
	Partecipazioni Italiane S.p.A.	Director
	RDM Realty S.p.A.	Chairman
	Sviluppo del Mediterraneo S.p.A.	Director
Carlo Peretti	Data Service S.p.A.	Director
	Fondo Investimento Equinox	Member of Supervisory Board
	Gancia S.p.A.	Director
	RDM Realty S.p.A.	Deputy Chairman
	Risanamento S.p.A.	Director
	Vodafone Omnitel NV	Chairman
Emanuele Rossini	Alerion Industries S.p.A.	Director
	Alerion Real Estate S.p.A. in liquidation	Liquidator
Michael Groeller	Allianz-Elementar Versicherungs AG	Deputy Chairman
	Bankhauses Krentschker & Co AG	Director
	Bast AG	Chairman of Supervisory Board
	Deisswill AG	Chairman
	GrECo International AG	Chairman of Supervisory Board
	Mayr-Melnhof Karton AG	Chairman of Supervisory Board
	NPF Holding AG	Director
	RHI AG	Chairman of Supervisory Board
	Saubermacher Dienstleistungs AG	Director
Vincenzo Nicastro	Baia Chia Hotels S.p.A.	Chairman of the Board of Statutory Auditors
	Chia Hotel & Resorts S.p.A.	Chairman of the Board of Statutory Auditors
	Chia Invest S.p.A.	Standing auditor
	Cosud S.r.l.	Standing auditor
	Filati Bertrand S.p.A. in amministrazione straordinaria	Chairman of Supervisory Board
	Red.Im S.r.l.	Chairman
	RDM Realty S.p.A.	Director
	Sitech S.p.A. in liquidation	Standing auditor
	STIM S.p.A.	Standing auditor
	Unicredit Banca d'Impresa S.p.A.	Standing auditor
	Unicredito Italiano S.p.A.	Standing auditor

Certain Directors are also directors in other companies of the RDM Group as follows:

Director	**Company**	**Office held**
Ignazio Capuano	Certiera Alto Milanese S.p.A.	Chairman
	Emmaus Pack S.r.l.	Chairman
	Reno De Medici Iberica S.L.	Director
Giancarlo De Min	Reno De Medici Iberica S.L.	Director
	Emmaus Pack S.r.l.	Director
Mario Del Cane	Reno De Medici Iberica S.L.	Chairman
	Reno Logistica S.p.A. in liquidation	Liquidator

Non-executive and independent directors

Non-executive directors

Under point 2.C.1 of the Corporate Governance Code, the following directors qualify as non-executive:

- the managing director of the issuer or a subsidiary having strategic importance, including the respective chairmen when these are granted individual management powers and when they play a specific role in the definition of business stratgies;
- the directors vested with management duties within the issuer or in one of its subsidiaries having strategic importance, or in a controlling company when the office concerns also the issuer;
- the directors who are members of the executive committee of the issuer, when no managing director is appointed or when the participation in the executive committee, taking into account the frequency of the meetings and the scope of the relevant resolutions, entails, as a matter of fact, the systematic involvement of its members in the day-to-day management of the issuer.

The Board of Directors has reviewed the extent to which this definition is applicable to its members, concluding that the following directors qualify as “non-executive”: Carlo Peretti, Marco Baglioni, Ignazio Capuano (from 12 February 2007), Michael Groeller and Vincenzo Nicastro.

The opinions of the non-executive directors assume considerable weight in the decisions taken by the Board, given the competence and authoritativeness that distinguish them.

The presence of non-executive directors within the Company’s managing body is an assurance to having the broadest safeguard for good corporate governance that takes on material form through an exchange of views and dialectic amongst all the Directors.

Independent directors

Under point 3.C.1 of the Corporate Governance Code, the following directors would not normally be considered independent in the following circumstances, although these conditions are not mandatory:

a. if he/she controls, directly or indirectly, the issuer also through its subsidiaries, trustees or through a third party, or is able to exercise dominant influence over the issuer, or participates in a shareholders’ agreement through which one or more persons may exercise control or considerable influence over the issuer;
b. if he/she is, or has been in the preceding three fiscal years, a relevant representative of the issuer, of a subsidiary having strategic relevance or of a company under common control with the issuer, or of a company or entity controlling the issuer or able to exercise over the

same a considerable influence, also jointly with others through a shareholders' agreement;

c. if he/she is, or had in the preceding fiscal year, directly or indirectly (for example through subsidiaries or companies of which he/she is a significant representative, or in the capacity as partner of a professional firm or of a consultancy company) a significant commercial, financial or professional relationship:
   - with the issuer, one of its subsidiaries, or any of its significant representatives;
   - with a subject who, jointly with others through a shareholders' agreement, controls the issuer or, in case of a company or an entity, with the relevant significant representatives;

   or is, or has been in the preceding three fiscal years, an employee of the above-mentioned subjects;
d. if he/she receives, or has received in the preceding three fiscal years, from the issuer or a subsidiary or holding company of the issuer, a significant additional remuneration compared to the "fixed" remuneration of a non-executive director of the issuer, including the participation in incentive plans linked to the company's performance, including stock option plans;
e. if he/she was a director of the issuer for more than nine years in the last twelve years;
f. if he/she is vested with the executive director office in another company in which an executive director of the issuer holds the office of director;
g. if he/she is a shareholder or quotaholder or director of a legal entity belonging to the same network as the company appointed for the accounting audit of the issuer;
h. if he/she is a close relative of a person who is in any of the positions listed in the above paragraphs.

The Board of Directors has verified the independence of Directors on the basis of the parameters defined by the Stock Exchange Regulations and the related Instructions for companies belonging to the Star Segment and on the basis of the criteria established in 2002 in the Corporate Governance Code, as the term of the present Board of Directors expires on the approval of the financial statements at 31 December 2006. A verification of independence in line with the new principles and criteria for application provided in the March 2006 Corporate Governance Code will be performed on the renewal of the Board.

The three independent Directors – Carlo Peretti, Marco Baglioni and Vincenzo Nicastro – qualify as such pursuant to article 3 of the Corporate Governance Code for Listed Companies issued in 1999, as revised in 2002, as:

(i) they do not have, nor have they recently had, economic relations with the Company, its subsidiaries, its executive directors or its controlling shareholders, either directly or indirectly or on behalf of third parties, of such an importance as to be able to influence their independence of judgement;

(ii) they do not own shareholdings, either directly or indirectly or on behalf of third parties, of such an amount as to enable them to exercise control or a dominant influence over the Company nor are they members of shareholders' agreements aimed at control of the Company;

(iii) they are not spouses, cohabitees, relatives or relations up to the second degree of an executive director of the Company or of a shareholder that controls the Company, nor are they spouses, cohabitees, relatives or relations up to the first degree who are in the situations described in paragraphs (i) and (ii).

Committees

The Company's Board of Directors has established (i) a Remuneration Committee and (ii) an Internal Control Committee and has appointed their respective members in compliance with the requirements of the Corporate Governance Code.

The Company has not established an Appointments Committee since the provisions of the Savings Law require the Company to adopt the so-called list vote to appoint the managing body by 30 June 2007. That procedure will ensure that there is suitable transparency in the procedures for the selection and appointment of canditates to the position in compliance with the requirements of the Corporate Governance Code regarding the appointment of directors.

Remuneration Committee

The Remuneration Committee consists of the Directors Giuseppe Garofano (Chairman), Carlo Peretti and Vincenzo Nicastro; they may avail themselves of internal staff and external consultants in performing their duties.

The Committee held one meeting in 2006 at which all its members attended.

The determination of the emoluments of the Chairman and of the Directors having specific delegated powers is reserved for the Board of Directors after consulting the Board of Statutory Auditors, as is, if the shareholders have not already provided for such in general meeting, the method by which the total emoluments due shall be attributed to the individual members of the Board.

Internal Control Committee

In conformity with article 8 of the Corporate Governance Code and with article 2.2.3, paragraph 3, subparagraph (i) of the Stock Exchange Regulations, the Board of Directors has established an Internal Control Committee to which has been assigned the responsibility for initiating the more important schemes regarding the control of business activities.

This Committee consists of the independent directors, Carlo Peretti (Chairman), Marco Baglioni and Vincenzo Nicastro.

The following functions have been assigned to the Internal Control Committee:

a) to assess together with the administrative heads of the Company and the Group and with the independent auditors the suitability of the accounting principles and policies adopted and the consistency of their application in the preparation of the consolidated financial statements;
b) on request of the Managing Director, to express opinions on specific aspects regarding the identification of the principal business risks and the design, creation and management of the internal control system;
c) to assess the work programme and the activities of the internal control officer;
d) to assess the proposals received for appointment as independent auditors and and to evaluate the reports and management letters issued by the auditors so appointed;
e) to supervise the effectiveness of the auditing process;
f) to perform any additional duties which the Board of Directors may assign;
g) to report to the Board of Directors on the work performed by the Committee and the adequacy of the internal control system, also taking into account the reports and communications issued periodically by the Internal Control Officer. This report is to be made at the least on the approval of the financial statements for the year and for the half-year.

The Committee met four times during 2006. The Managing Director, the members of the Board of Statutory Auditors, at least one of whom was always present at the 2006 meetings, and the Internal Control Officer, are all invited to attend the meetings of the Committee; such attendance also forms part of the Committee’s operating rules.

Individual attendance at the meetings of the Board of Directors and the Committees is set out in the following table:

Structure of the Board of Directors and Board Committees

		Board of Directors				Internal Control Committee		Remuneration Committee	
Office held	Member	Executive	Non-executive	Indipen-dent	% at-tendance (*)	Member	% partecip. (*)	Member	% at-tendance (*)
Chairman	Giuseppe Garofano	X			100%			X	100%
Deputy Chairman	Carlo Peretti		X	X	78%	X	75%	X	100%
Managing Director	Emanuele Rossini	X			(**)				
Director	Marco Baglioni		X	X	100%	X	100%		
Director	Ignazio Capuano		X		100%				
Director	Giancarlo De Min	X			100%				
Director	Mario Del Cane	X			89%				
Director	Michael Groeller		X		44%				
Director	Vicenzo Nicastro		X	X	89%	X	75%	X	100%
		Board of Directors				Internal Control Committee		Remuneration Committee	
Number of meetings held during 2006		9				4		1	

(*) Percentage of attendance at Board and Committee meetings.
(**) Co-opted onto the Board of Directors on 12 February 2007.

CORPORATE FUNCTIONS AND PROCEDURES

Internal procedures of the Board of Directors and of the Committees

Board of Directors

Article 14 of the Bylaws governs the rules by which the Board of Directors shall function and perform its duties.
In particular, the article requires the Board to meet each time the Chairman or whoever is acting in his place deems it appropriate, or if at least four Directors make a written request to the Chairman. In addition, a meeting of the Board of Directors may be called by at least two Statutory Auditors if they provide previous notification to the Chairman.
The notification of meetings must be made by a registered letter, telegramme or telefax sent at least five days prior to the proposed date of the meeting or, in cases of urgency, by electronic mail at least one day before that date. Meetings are chaired by the Chairman or whoever is acting in his place. Meetings are only validly constituted if the majority of standing directors are in attendance. Resolutions are passed by an absolute majority of the votes cast. In the case of a tied vote the chairman has the casting vote.
Remote attendance at meetings of the Board of Directors is permitted through audio-visual link.

In that case:

- the following must be guaranteed:
  a) the possibility to identify all the participants wherever they may be located;
  b) the possibility for all those attending to intervene, to express their views orally, to view, receive and transmit documentation and for them to review this and resolve on this as appropriate at the same time as all the others attending;
- the meeting of the board is considered to take place where the Chairman and the Secretary are located.

The bodies delegated for the purpose inform the Board of Directors and the Board of Statutory Auditors at their meetings, and in any case at least on a quarterly basis, of the general performance of operations, on the outlook for operations, and of the more significant economic and financial operations and transactions that have taken place, with particular regard being given to those in which the Directors have an interest either of their own or of third parties, or which are influenced by any subject exercising management and coordination; this information regards both the Company and its subsidiaries.

The information required to be given to the Board of Statutory Auditors may also be provided at the meetings of the Executive Committee for reasons of timeliness.

Committees

On 28 September 2005, the Internal Control Committee adopted a set of regulations governing the means by which the body should function and perform its duties. Amongst other things, these regulations provide for the following: (a) the Committee consists of three non-executive members of the Board of Directors of whom at least two must qualify as independent and remains in office for the Board's term; (b) the Committee is called to meet at least twice a year and each time the Chairman deems it necessary or on the request of at least two members; (c) the Chairman of the Board of Statutory Auditors and/or another Statutory Auditor every time designed, the Managing Director and the Internal Control Officer take part in the meetings without voting rights; (d) the Committee reports to the Board of Directors on its activities at least every half year, on the approval of the financial statements for the year and for the half-year, and on the adequacy of the internal control system.

Procedures for managing confidential information

External communications of confidential documents and information

On 3 March 2006, the Company's Board of Directors approved the adoption of a set of regulations to manage privileged information, establishing an appropriate register of persons having access to such information.
These regulations define the scope for which they are applicable, identify the recipients, govern the respective roles and responsibilities of these persons and direct the way in which confidential information must be managed internally and in which it is to be communicated externally, with the aim of achieving the following objectives:

- to define the means by which all information of a confidential nature is to be managed and treated from an operational point of view, with special attention being given to the way in which documents and privileged information regarding the Group is communicated externally;
- to define the obligations and responsibilities of the persons involved;
- to maintain the confidentiality of the information;
- to assure that the communication to the public of privileged information is carried out in a proper and timely manner.

Internal dealing

On 30 March 2006, the Board of Directors of RDM approved new internal organisational procedures regarding internal dealing which are in line with the new legislative and regulatory provisions in effect from 1 April 2006.

Procedures for the appointment of Directors and Statutory Auditors

Appointment of Directors

The Bylaws require the members of the Board of Directors to be appointed by shareholders in ordinary general meeting, although there are no specific formalities to be followed.
In this connection, article 147-*ter* of the Consolidated Finance Act, as amended by the Savings Law, requires amongst other things that a system for the election of the Managing Body be adopted that is based upon lists of candidates proposed by shareholders or groups of shareholders, together with the establishment (in the bylaws) of a minimum shareholding threshold for a list to be presented, which may not exceed one fortieth of share capital. Such a system should additionally ensure that (i) at least one of the members of the board of directors expresses the will of a the minority list which received the highest number of votes and which has no connection whatsoever, not even

indirectly, with the shareholders who presented or voted for the list having the highest number of votes; (ii) at least one of the members of the board of directors, or two if the board of directors is composed of more than seven members, must hold the independence qualifications established for statutory auditors by paragraph 3 of article 148 of the Consolidated Finance Act.
The Company plans to amend its Bylaws for these provisions by 30 June 2007, the deadline imposed by the Savings Law.

Appointment of Statutory Auditors

The Bylaws require statutory auditors to be appointed on the basis of lists presented by the shareholders in accordance with the procedures describe earlier, in order to enable minority shareholders to appoint one standing auditor and one substitute auditor and to ensure that there is transparency in the procedures, as required by point 10.P.1 of the Corporate Governance Code.
The list consists of two parts: one part is for the position as standing auditor, the other for that of substitute auditor.
Only those shareholders who on their own or together with others hold a total number of shares with voting rights that represent at least 3% of share capital with voting rights have the right to present lists.
No shareholder, nor those belonging to the same group of shareholders or to the same shareholders' voting pact group, may present more than one list, nor may they vote for different lists, including votes cast through trustees or through a third party.
Each candidate may appear in one list alone, otherwise he/she will automatically become ineligible.
No candidate may be included in a voting list if he/she is already a statutory auditor in more than five listed companies, excluding group companies; candidates not possessing the requisites of good standing and professionality established by applicable laws and regulations are not eligible for election.
The voting lists must be lodged at the company's registered office at least ten days before that of the shareholders' meeting in first call and this is stated in the notice calling the meeting.
Statements made by each of the candidates are lodged together with each list by the date referred to above, in which he/she accepts the nomination, affirms under his/her responsibility that there are no reasons for which he/she is not eligible or is incompatable with the position and confirms that he/she possesses the requisites for the respective position established by laws and regulations.
Any list not satisfying the above condition is considered not to have been presented.
The election of the statutory auditors procedes as follows:

1. the names of two standing auditors and one substitute auditor are taken from the list obtaining the highest number of votes in the general meeting on the basis of the order in which they are listed in the respective sections;

2. the names of one standing auditor and one substitute auditor are taken from the list obtaining the second highest number of votes in the general meeting on the basis of the order in which they are listed in the respective sections.

The first candidate in the list obtaining the highest number of votes becomes the chairman of the board.
If only one list is presented, the standing and substitute auditors named in that list are appopinted.
In the case that any of the requisites of laws and regulations are no longer satisfied, the statutory auditor automatically falls from office.
In the case that a statutory auditor is to be replaced, the substitute belonging to the same list as the previous auditor takes his place.
In addition also the Savings Law makes reference the appointment of members of the Board of Statutory Auditors, requiring amongst other things that a candidate included in a minority list should be appointed chairman. The Company plans to update its Bylaws for these measures by the deadline of 30 June 2007 stated in the Savings Law.

The internal control system

Internal Control

The Internal Control System as governed by article 8 of the Corporate Governance Code is the set of rules, procedures and organisational structures aimed at ensuring with reasonable certainty that certain objectives are met, such as the efficiency of corporate and business management, compliance with prevailing laws and regulations and the safeguarding of business assets, and also having as its purpose the prevention of fraud that could be harmful to the Company and the financial markets.
The Company's Managing Body is responsible for the management of that system. In particular, this Body sets the guidelines for the internal control system and on a periodic basis assesses its adequacy, effectiveness and efficiency with reference to the management of business risks.
In exercising these functions, the Board of Directors avails itself of the servcices of the Managing Director, the Internal Control Committee and the Internal Control Officer.

Internal Control Officer

The Internal Control Officer is appointed by the Board of Directors on the proposal of the Internal Control Committee.

In conformity with article 8 of the Corporate Governance Code, the Internal Control Officer does not respond directly to the head of any operating area, but reports directly to the Board of Directors, the Internal Control Committee and the Board of Statutory Auditors.

The Internal Control Officer has the responsibility for supporting the Managing Director and Management in identifying the major business risks and to present these for consideration to the Internal Control Committee and, on agreement with the Managing Director, to the Board of Directors, who decide on the priority under which action will be taken. In addition, he has the responsibility for establishing a programme for internal auditing activities and to ensure that the procedures put into place to manage significant risks are being complied with.

On 26 June 2005, the Company's Board of Directors appointed Alfredo Andreoli as Internal Control Officer.

Internal audit funcion

There is no Internal Control Function at the date of this report; it is envisaged to establish this function during the current year.

The organisational and administrative model as per Legislative Decree no. 231/2001

As part of the steps being taken to strengthen the Internal Control System and integrate the aims of this system with those of Legislative Decree no. 231/2001 regarding the administrative responsibilities of companies, on 28 September 2005 the Board of Directors approved the adoption of an Organisational, Management and Control Model (the "231 Model") envisaged under this law, and has established a Supervisory Body which is responsible for ensuring its effective implementation, proper functioning and updating as necessary.

The independent director Carlo Peretti, the Internal Control Officer Alfredo Andreoli and the standing Statutory Auditor Carlo Tavormina, have been appointed to make up the Supervisory Board. Each of these three has signed an individual statement that he is fully compatible with the requirements for holding this specific office.

The 231 Model adopted by the Company has been prepared from the bottom up by a process of documenting those activities and areas which are the most sensitive in relation to the offences envisaged by the law. The introduction of this model, which is considered wholly complementary to the objectives of the Internal Control System in their broadest sense, has led to the need to define certain testing standards, to which business procedures will have to conform during the revision stage mentioned above if they already exist, or which will have to be added if not yet adopted.

Assesment of the Internal Control System

The Board of Directors, acting also on the basis of the reports received from the Internal Control Committee and the Board of Statutory Auditors, believes that the Internal Control System is suitable for safeguarding business interests and suitable for the purposes for which it was created.

STATUTORY AUDITORS

The present members of the Board of Statutory Auditors were appointed by shareholders in general meeting on 3 May 2006. They hold office for three years and their term of office will expire on the date on which the financial statements at 31 December 2008 are approved.

The following is a list of the postions held by the Statutory Auditors as director or statutory auditor of other companies listed on regulated markets in Italy or abroad, in financial, banking or insurance companies or in companies of a large size:

Standing auditor	Company	Office held
Sergio Pivato	Auchan S.p.A.	Standing auditor
	Axa Cattolica Previdenza in Azienda S.p.A.	Chairman of the Board of Statutory Auditors
	Banca Lombarda e Piemontese S.p.A.	Chairman of the Board of Statutory Auditors
	Cassa di Risparmio di San Miniato S.p.A.	Director
	Clessidra SGR S.p.A.	Chairman of the Board of Statutory Auditors
	Edison S.p.A.	Chairman of the Board of Statutory Auditors
	Marcora S.p.A.	Chairman of the Board of Statutory Auditors
	Padana Assicurazioni S.p.A.	Chairman of the Board of Statutory Auditors
	SMA S.p.A.	Chairman of the Board of Statutory Auditors
	Società Italiana Distribuzione Moderna S.p.A.	Chairman of the Board of Statutory Auditors
	Stoccaggi Gas Italia S.p.A.	Chairman of the Board of Statutory Auditors
	Sviluppo del Mediterraneo S.p.A.	Chairman of the Board of Statutory Auditors
Marcello Priori	Banca Popolare di Milano S.c.a.r.l.	Director
	Bipiemme Gestioni SGR S.p.A.	Deputy Chairman
	Carrefour Italia Immobiliare S.r.l.	Standing auditor
	Carrefour Servizi Finanziari S.p.A.	Chairman of the Board of Statutory Auditors
	Demeter Italia S.r.l.	Standing auditor
	Etica SGR S.p.A.	Chairman of the Board of Statutory Auditors
	Fomas Finanziaria S.p.A.	Standing auditor
	IBI S.p.A.	Standing auditor
	Key Client Cards & Solutions S.p.A.	Standing auditor
	Lucchini S.p.A.	Standing auditor
	Monzino S.p.A.	Director
Carlo Tavormina	Enertad S.p.A.	Standing auditor
	Nem Due SGR S.p.A.	Standing auditor
	Omnia Sim S.p.A.	Chairman of the Board of Statutory Auditors
	Ream SGR S.p.A.	Chairman of the Board of Statutory Auditors
	RDM Realty S.p.A.	Chairman of the Board of Statutory Auditors
	Termica Boffalora S.r.l.	Standing auditor

There was 100% attendance of the Statutory Auditors at meetings of the Board of Statutory Auditors held during the year ended 31 December 2006. Attendance at the meetings of the Board of Directors was as follows:

- 56% for the Chairman Sergio Pivato;
- 100% for the Auditor Marcello Priori;
- 100% for the Auditor Carlo Tavormina,

with an overall attendance of 85%.

RELATIONS WITH SHAREHOLDERS

The highest level of management is entrusted with meetings with shareholders, with whom relations are taken care of by the Investor Relator, Guido Vigorelli, who reports directly to the Managing Director.

As a rule the Company takes part in the events organised by the Star segment of the Stock Exchange and updates its website on a timely basis with the information required by legislative and regulatory provisions, simultaneously providing information to all its shareholders and to the various markets on which it is listed.

OTHER INFORMATION

PRINCIPAL DISPUTES IN COURSE

Amongst the current legal and arbitration proceedings, details are provided of the following:

– ***Dispute with Grupo Torras S.A.***

The dispute with Grupo Torras S.A. relates to an accumulation of situations which go back to February 1991 and regard the former Saffa Group, which today is part of the RDM Group.

Details as to the origins and evolution of the dispute may be found in the reports included with the financial statements of previous years. In summary, it is recalled that in 2001 arbitrators found in favour of the RDM Group and required Grupo Torras S.A. to pay an amount of approximately Euro 48 million plus interest; on the appeal of the counterparty, the Appeals Court of Madrid overturned such decision in 2003 on the basis that the arbitrators did not have judicial competence in the matter without, however, providing its opinion on the merits of the case. As a result, the RDM Group took the decision to initiate civil proceedings at the Court of Madrid.

On 8 September 2005, the Court of Madrid lodged its sentence in which it only partially upheld the RDM Group's claim. In particular, Grupo Torras S.A. was sentenced to purchase from RDM Iberica 1,115,400 shares of Torraspapel S.A. for which it was obliged to pay an amount of Euro 50.7 million, excluding the dividends received by RDM Iberica from these shares.

The Court of Madrid of the first level deemed it necessary to reduce the above amount by the percentage employed in the creditors' arrangement (suspensiòn de pagos) for 1992 to 1998 in which Grupo Torras S.A. was the debtor. As a consequence, as the effect of the reduction due to the creditors' arrangement to which the counterparty was bound in connection with subsequent operations with the Saffa Group, the Court of Madrid of the first level required that the creditors' agreement rate of approximately 11% be applied to the amount of Euro 50.7 million originally recognised.

As a result of these events, the carrying amount of the receivable from Grupo Torras S.A. was prudently aligned to that implicit in the sentence of the Court of Madrid of the first level, both in the separate financial statements of RDM Iberica and in the consolidated financial statements.

On 18 September 2006, the Appeals Court of Madrid passed judgement and notified sentence no. 114 on the appeal made by Reno De Medici S.p.A and Reno De Medici Iberica S.L. against sentence no. 43 of the Court of Madrid of the first level notified on 8 September 2005. In their ruling, the Appeals Court rejected the appeals made by both parties and thereby confirmed the ruling established at the first level.

As a consequence of this, RDM and RDM Iberica lodged an appeal with the Supreme Court on 9 January 2007.

– *Disputes with road hauliers*

RDM and Reno Logistica in liquidation were summonsed to appear in court following claims made by certain transport hauliers on the premise that the two Group companies did not respect the minimum transportation tariffs pursuant to Law no. 298/74.

In their court appearance, RDM and Reno Logistica in liquidation raised a series of exceptions of both a preliminary nature and in regard to the merits of the cases. These cases have now commenced and at a hearing on 5 March the expert witness was sworn in. Following this, the judge determined that the expert should begin his engagement on 27 March and adjourned the next hearing to 1 October 2007 when the expert's report will be examined.

The RDM Group has made provision deemed suitable in respect of these disputes.

– *Criminal proceedings*

On 10 March 2005, the Public Prosecutor of the Republic of Italy at the Court of Turin informed the heads of factory at the Ciriè facility from 1971 to 1993, subsequently replaced with the passage of time, by means of a formal "Notification to a Person Under Investigation Pursuant to Articles 369 and 369 bis of the Italian Criminal Code Procedure", that criminal proceedings had been commenced against them (number 5110/05 R.G. notification of a criminal act) to ascertain whether they have any responsibility as heads of the factory responsibility for the death through alleged illness of two former employees at the Ciriè facility during the performance of their professional duties from 1971 to 1993.

On 3 March 2007, the Turin Public Prosecutor's judge ruled that in the situation of one of the two former employees there is insufficient evidence to proceed with the case.

– *Sold activities*

On 16 May 2006 the Trento Inland Revenue Office commenced a tax audit of Aticarta S.p.A. for the period from 1 January to 31 December 2003, acting under instruction from the Milan Inland Revenue Office. The Dispute Notice issued on completion of the audit disallowed costs for a total of Euro 7.2 million, almost all of which relates to depreciation added back to taxable income on the grounds that the company allegedly did not keep a fixed asset register in accordance with tax laws and regulations.
A formal assessment was notified to Aticarta S.p.A. on 22 November 2006 by the Milan Inland Revenue Office, in which the tax authorities state their

reasoning as based on the Dispute Notice and assess the company to additional taxes of Euro 735 thousand plus penalties and interest.
On 4 December 2006, Colleoni S.A., the purchaser of Aticarta S.p.A., formally notified RDM of that assessment pursuant to the terms and conditions of the sales agreement. In its own turn, given that the issue raised by the Inland Revenue Office also regards fiscal years that precede the purchase by RDM of Aticarta S.p.A. from ATI S.p.A. which took place in 2001, RDM formally notified ATI S.p.A. of the situation, as provided by the original purchase agreement.
On 21 December 2006, the tax advisor engaged by Aticarta S.p.A. and assisted by RDM commencing a dispute with the Inland Revenue Office so as to be able to demonstrate the substantial propriety of the company’s actions and to show as a consequence that the findings of the Trento Inland Revenue Office relating to the keeping of a fixed asset register are unfounded.
In the light of discussions held with the tax advisor and of the documentation produced by Aticarta S.p.A. up to now in the proceedings, RDM is confident that the main issue will be resolved in a favourable manner. Nonetheless, RDM has considered it appropriate to make provision for the costs required to defend the Company at this pre-dispute stage and for the taxes and penalties corresponding to to the disallowed costs of smaller amount included in the Dispute Notice, in respect of which it recognises the convenience and opportunity of closing the matter.

OWN SHARES

No purchases or sales of own shares were made during the year.
Own shares in hand at 31 December 2006 consist of 7,513,443 ordinary shares, equal to 2.79% of share capital.

Following the demerger operation into the recipient company RDM Realty that took place in June 2006, RDM was assigned an equal number of the shares of that company which are reported in the non-current portion of “Available-for-sale assets”.

The ordinary RDM share was quoted on the telematic share market at a price of Euro 0.52 on the last trading day of 2006.

INVESTMENTS HELD BY DIRECTORS AND STATUTORY AUDITORS

The following information regarding the investments held by Directors and Statutory Auditors in RDM and its subsidiaries is presented as a requirement of Consob Regulation no. 11971 in accordance with format 3) of attachment 3C) of that Regulation:

Last and First name	Company shares	Number of shares as of 31.12.2005	Number of shares purchased	Number of shares sold	Number of shares as of 31.12.2006
De Min Giancarlo	Reno De Medici S.p.A.	12,000			12,000

RELATIONS BETWEEN RDM AND ITS SUBSIDIARY COMPANIES AND ASSOCIATES

Transactions carried out with subsidiary companies and associates 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.

The main transactions carried out by RDM with its subsidiaries are as follows:

- sales of cartonboard to Cartiera Alto Milanese S.p.A. (CAM), to Emmaus Pack S.r.l. (Emmaus) and to RDM Iberica;
- services provided to Emmaus and CAM;
- purchases of production shavings from Emmaus;
- purchases of technical supplies and of CO2 emission rights from RDM Iberica;
- commisions payable to RDM France S.a.r.l. and to Reno De Medici Deutschland GmbH;
- interest expense from financial transactions with Iberica, Reno De Medici International S.A., CAM, RDM France and Reno De Medici Deutschland GmbH;
- interest income from current accounts held with Emmaus, RDM Iberica and Reno Logistica S.p.A. in liquidation.

The following transactions carried out by RDM with its associated companies are noted:

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

Reference should be made to the notes to the financial statements of the Parent Company for the detailed figures of the transactions carried out in 2006 by RDM with its subsidiary companies and associates.

RELATED PARTY TRANSACTIONS

For the purposes of completing the information provided in the report on the financial statements at 31 December 2005, it is noted that all relations of a financial nature borne by Aticarta S.p.A. and all the commitments undertaken by RDM were finalised in March 2006 in accordance with the terms of the underlying contracts. It is recalled that RDM sold its holding in Aticarta S.p.A. to the Luxembourg company Colleoni S.A., owned by the family of Gastone Colleoni, in December 2005. At the present date Gastone Colleoni holds the postion of Chairman of the Board of Directors of Alerion, is a shareholder of that company with 3.245% of its capital and is a member of the Alerion shareholders' pact.

As part of finalising contractual relations Aticarta sold RDM all the plant at its Pompeii facility at a price of Euro 3.5 million and sold stocks of raw materials and supplies for Euro 1,7 million; at the same time, RDM entered an agreement with Aticarta to rent the Pompeii factory from 1 January to 30 June 2007 at a rental of Euro 1.2 million. Aticarta simultaneously paid over to RDM all the amounts due at the sales date on its cash pooling facilities which amounted to an overall total of Euro 10,2 million.

There are no related party transactions that could be considered to be abnormal or unusual, outside normal business operations or of such a nature as to prejudice the Group's economic situation, assets and liabilities or financial position.

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.

The following transactions are noted:

- services received from IBI S.p.A. (a company controlled by the shareholder Alerion S.p.A.) regarding an engagement for assistance conferred in 2005 for operations of an extraordinary nature carried out by RDM in 2005 and 2006. Under this arrangement, total fees of Euro 900 thousand were due to IBI S.p.A. for 2005 relating to the sale of the entire investment held in Europoligrafico S.p.A., the sale of the entire investment held in Aticarta S.p.A. and the work performed regarding the RDM demerger project. In addition, the engagement envisaged the payment to IBI S.p.A. of a further Euro 900 thousand for 2006, of which Euro 90 thousand relating to the completion of the demerger and Euro 810 thousand to new loan agreements connected with the full repayment of the bond. An amount of Euro 90 thousand has been recognised in 2006 as costs relating to the assistance provided for the demerger operation, while the remaining amount of Euro 810 thousand is included in the measurement of loans at amortised cost. The total debt due to IBI S.p.A. at 31 December 2006 totals Euro 1,800 thousand. Payments of Euro 215 thousand were made to IBI S.p.A. during the year;
- trading between the subsidiary Emmaus Pack S.r.l. and Immobiliare ANSTE S.r.l. and ANSTE Autotrasporti S.r.l., both of which relate to the Oldani family which owns 49% of Emmaus Pack S.r.l.. The transactions consist of rental instalments of Euro 211 thousand and transportation and ancillary services of Euro 483 thousand. Trade payables to ANSTE S.r.l. and ANSTE Autotrasporti S.r.l. at 31 December 2006 amount to Euro 64 thousand and Euro 135 thousand respectively. Payments of Euro 254 thousand and Euro 611 thousand were made to ANSTE S.r.l. and ANSTE Autotrasporti S.r.l. respectively during 2006;
- trading with Termica Boffalora S.r.l., in which RDM holds an investment of 30%, relating to purchases of steam. Costs of Euro 5,198 thousand were incurred in 2006, payments made during the year amounted to Euro 5,866 thousand and the balance of trade payables due to the company at 31 December 2006 totals Euro 1,363 thousand;

- trading with Pac Service S.p.A. in which RDM holds an investment of 33%, relating to sales of cartonboard. Revenues of Euro 1,890 thousand were realised in 2006, receipts during the year amounted to Euro 2,529 thousand and the balance of trade receivables due from the company at 31 December 2006 totals Euro 801 thousand.

"PROGRAMME SAFETY DOCUMENT"

RDM has prepared the "Programme safety document" in compliance with Legislative Decree no. 196/2003.

SUBSEQUENT EVENTS

Events of importance occurring after 31 December 2006 are set out in the following.

On 12 February 2007, having completed the complex operation for the restructuring of the RDM Group and in view of the new prospects for the business, which see it heading towards a relaunch and growth, the Managing Director Ignazio Capuano resigned from his operating responsibilities. Emanuele Rossini, former assistant to the Chairman of Reno De Medici, was coopted onto the Board of Directors and has taken the position as Managing Director of the Company and member of the Executive Committee.

Operations began in March to dismantle the 1 and 2 board machines at Pompeii. This work is expected to be completed within a few months.

FORECAST

There has been a significant increase in volumes sold during the first few months of 2007 (up 4% compared to the corresponding period in 2006) and in orders (up 9% compared to the corresponding period in 2006), leading to positive effects on machine load and plant usage.

The orders received have moreover been taken at the increased sales prices that the Group imposed at the beginning of the year.

On the cost side, the concerns and uncertainties felt over the trend in the price of fibrous raw materials are emphasised; these movements need to be constantly monitored in order to assess whether further steps will have to be taken on sales prices. No particular pressure is expected to arrive from energy prices however.

As a result, prospects for the current year remain linked to the pick-up in the demand for consumer goods in Europe, so as to be able to confirm the positive performance of the start of the year and enable higher industrial margins to be achieved.

Production grew by 2.5% in the first two months of 2007 compared to the corresponding period of last year, with the consequent favourable effects on the absorption of industrial fixed costs.

RISK MANAGEMENT

The following information is provided pursuant to article 2428, paragraph 2, no. 6-bis of the Civil Code. Reference should be made to the Notes to the Financial Statements for the estimates of the fair value of derivative financial instruments.

As part of its activities RDM is exposed to various market risks, and in particular the risk of fluctuations in foreign exchange rates, in interest rates and in the price of commodities, liquidity risk and customer credit risk.
In order to minimise part of these market risks, RDM enters arrangements to hedge specific operations (such as those affected by interest rate fluctuations) and to hedge its overall exposure (for example to foreign exchange rate fluctuations), using financial instruments offered by primary national or international banks. in accordance with its current policy approved by the Bpoard of Directors, RDM does not enter hedging arrangements for speculative reasons.

Exchange rates

RDM generated a part of its revenues in currencies other than the euro, principally the U.S. dollar and the British pound, for respective amounts of USD 14.4 million and GBP 5.9 million, and made purchases of U.S. 12.8 million dollars, thereby taking a long position in these currencies during the year. In addition to this, RDM had receipts of GBP 6.8 million and USD 15.1 million during the year, with the latter amount being counter-balanced by payments made of USD 11.9 million. In order to reduce the exchange rate risk arising from this RDM often entered export financing agreements in the same currency or forward sales contracts. These arrangements are always set up with the notional amount and maturity date equal to those of the expected cash flows (if the amounts are significant), in order that every change in the cash flows resulting from the forward sales due to the rise or fall in the value of the euro compared to other currencies is substantially balanced by a corresponding change in the cash flows expected from the underlying business operations.
The present hedging policy establishes maximum exposure levels, differing for each currency, and does not allow complex derivate operations to be carried out.

Interest rates

RDM uses a variety of debt instruments which depend on its financial requirements; in particular short-term debt is used to finance working capital needs, while medium to long-term forms are used to hedge investments that are linked to RDM's core business.

Technical instruments consist principally of the following:

- advances for the short-term portion;
- loans for the medium- to long-term portion. These instruments are set up with primary banks with index-linked floating interest rates that are revised every three or six months.

The aim of RDM’s present risk management policy is to reduce the variability of interest expense payable on its own debt and the respective effects on its results. As a result, the objectives for RDM in terms of risk management in practical terms consist in stabilising cash flows connected with the cost of servicing debt in line with the estimates made in drawing up its budget.

From an operational poiunt of view, RDM attempts to reach those objectives by entering agreements to acquire derivative financial instruments represented by Interest Rate Swaps (IRSs).
In line with the features of the operations carried out and its risk management objectives, RDM has taken the decision to follow a cash flow hedging principle having the aim of reducing the volatility of the cash flows linked to the interest expense incurred on short- and long-term debt financing.

In more detail, hedging agreements are entered that convert variable index-linked interest payments arising from the funding to fixed rate payments. This is carried out by entering Interest Rate Swap agreements under which RDM receives from the counterparty bank a flow of floating interest payments matching that incurred on the debt. RDM will then have an outgoing payment flow determined on the basis of a fixed rate. The combined position (debt + IRS) acts therefore as a fixed interest rate liability for which the amount of interest payable is known (which is the objective of a cash flow hedge).

RDM’s policy is to maintain the fixed rate medium- to long-term debt level in a range of between 50% and 75% and the fixed rate short-term debt level below 50%, depending on the trends expected in the market.

The present hedging policy does not allow complex derivate operations to be carried out.

Liquidity

Under RDM’s management policies, liquidity risk is monitored on a continuous basis. RDM’s objective is to mitigate this risk both by holding sufficient liquid funds or short-term deposits in primary institutions and by employing short-term credit facilities backed principally by the trade receivables of Italian and foreign customers.

Trade receivables

As a general rule, foreign trade receivables are insured with specialised insurance companies, while any uninsured or only partially insured balances require the specific authorisation of RDM's management, depending on the amount. There are specific credit control procedures for Italian customers, again depending on the amount, under which approval must be obtained from RDM's various levels of management. Under RDM's management policies, Italian and foreign trade receivables are monitored on a continuous basis and the appropriate recovery procedures are put promptly into action in the event of non-payment.

Supplies

As a result of the structure and type of its costs, RDM is mainly exposed to fluctuations in energy prices (natural gas and electricity), fluctuations in the price of certain chemical products, including those petroleum-based (such as latex), and changes in the price of fibrous raw materials.

RDM's management policies require that annual supply contracts for natural gas and electricity be agreed, in which prices are fixed for the year or that contain clauses under which they are determined on the basis of indices that are revised on a quarterly basis and linked to a basket of fossil fuels or their derivatives. In addition, hedging arrangements may be entered to cover the risk of using certain energy sources (such as for example BTZ low sulphur combustible oil).

For the purchase of chemical products and fibrous raw materials, RDM aims at having the widest possible range of suppliers and supply markets with the dual purpose of being able to monitor the various purchase terms on a constant basis and to encourage competition between suppliers. It is not practicable to formalise framework supply agreements for these types of purchases.

The present hedging policy does not allow complex derivate operations to be carried out knowing the problems connected in managing them. As a consequence, therefore, technical forms of hedging are used that are arranged with primary bank partners on a bilateral basis.

PROPOSED RESOLUTION

1. Separate Financial Statements at 31 December 2006; Report of the Board of Directors; Report of the Board of Statutory Auditors and Report of the independent auditors; Concerning and consequent resolutions; Presentation of Consolidated Financial Statements at 31 December 2006

To the shareholders,

We invite you to approve the Financial Statements at 31 december 2006 and in particular:

- The Report of the Board of Directors.
- The Balance Sheet, the Profit and Loss Account and the Notes to the Financial Statements at 31 December 2006 and relative attachments of Reno De Medici S.p.A., as presented by the Board of Directors, both as a whole and as single items.
- The cover of losses for the year of Euro 15,336,833, through the utilisation of the following reserves:
  - Extraordinary reserve for Euro 424,664.24;
  - Reserve for the rounding of nominla value for Euro 899,990.70;
  - IFRS reserve for Euro 13,049,420.23.
- Carring forward the residual loss for Euro 962,757.83.

CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2006

CONSOLIDATED PROFIT AND LOSS ACCOUNT

(Thousands of Euros)	**Note**	**31.12.2006**	**31.12.2005**
Revenues from sales	1	313,889	295,275
Other revenues	2	4,040	5,094
Changes in stocks of finished goods	3	5,781	247
Cost of raw materials and services	4	(239,842)	(215,743)
Staff costs	5	(51,544)	(52,750)
Other operating costs	6	(3,215)	(3,767)
Income (expense) from non-current assets held for sale	7	(363)	(179)
Unusual income (expense)	8	270	(371)
Gross Operating Profit (EBITDA)		**29,016**	**27,806**
Depreciation and amortisation	9	(23,381)	(24,439)
Recovery of value and write-downs of assets	9	–	(1,588)
Operating Profit (EBIT)		**5,635**	**1,779**
Financial expense		(11,547)	(14,694)
Exchange differencies		(187)	350
Financial income		1,076	2,559
Financial income (expense), net	10	(10,658)	(11,785)
Income from investments	11	(1,990)	1,982
Other income (expense)	12	281	(15,700)
Taxation	13	(3,168)	(223)
Profit (loss) for the period before discontinued operations		**(9,900)**	**(23,947)**
Gains (losses) from disposals, net		–	32,328
Loss for the period		(8,943)	(21,151)
Discontinued operations	14	(8,943)	11,177
PROFIT (LOSS) FOR THE PERIOD		**(18,843)**	**(12,770)**
Attributable to:			
Profit (loss) for the period pertaining to the group		(19,098)	(13,261)
Profit (loss) for the period pertaining to minority interests		255	491
Earnings (loss) per share (Euros)		(0.07)	(0.05)
Earnings (loss) per share before discontinued operations (Euros)		(0.04)	(0.09)

CONSOLIDATED BALANCE SHEET ASSETS

(Thousands of Euros)	Note	31.12.2006	31.12.2005
Non-current assets			
Tangible fixed assets	15	177,571	193,174
Investment property	16	–	1,284
Goodwill	17	146	146
Other intangible assets	18	2,338	3,309
Investments accounted for under the equity method	19	10,818	14,216
Deferred tax assets	20	892	577
Derivative financial instruments	21	83	–
Financial assets held for sale	22	471	219
Trade receivables	23	76	193
Other receivables	24	4,969	10,272
Total non-current assets		**197,364**	**223,390**
Current assets			
Stocks	25	89,775	92,979
Trade receivables	23	100,758	106,899
Other receivables	24	9,106	21,168
Derivative financial instruments	21	77	5,321
Financial assets held for sale	22	8	10
Financial assets at fair value through profit or loss		–	–
Liquid funds	26	9,536	56,779
Total current assets		**209,260**	**283,156**
Other non-current assets held for sale	27	**11,392**	**20,208**
TOTAL ASSETS		**418,016**	**526,754**

CONSOLIDATED BALANCE SHEET LIABILITIES AND SHAREHOLDERS' EQUITY

(Thousands of Euros)	Note	31.12.2006	31.12.2005
Shareholders' equity attributable to the group		114,978	142,251
Minority interests		576	759
Shareholders' equity	28	**115,554**	**143,010**
Non-current liabilities			
Bank loans and other financial liabilities	26	80,789	28,270
Derivative financial instruments	21	14	–
Other payables	29	32,759	1,064
Deferred tax liabilities	30	7,699	2,293
Employees' leaving entitlement	31	17,235	17,324
Non-current provisions for contingencies and charges	32	6,175	7,425
Total non-current liabilities		**144,671**	**56,376**
Current liabilities			
Bank loans and other financial liabilities	26	57,481	220,056
Derivative financial instruments	21	350	1,242
Trade payables	33	86,560	72,552
Other payables	29	13,368	33,247
Current taxation	34	32	271
Total current liabilities		**157,791**	**327,368**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**418,016**	**526,754**

CONSOLIDATED CASH FLOW STATEMENT

(Thousands of Euros)	**31.12.2006**	**31.12.2005**
Profit (loss) for the period before discontinued operations and before taxation	(6,732)	(23,724)
Depreciation and amortisation	23,381	24,632
Write-downs	–	16,906
(Gains) losses from investments	1,990	(1,982)
Financial (income) expense	10,658	11,865
Gains (losses) on the disposal of fixed assets	(420)	(246)
Change in trade receivables	6,219	6,970
Change in stocks	(2,910)	1,609
Change in trade payables	14,844	(10,766)
Change in other receivables	(1,531)	6,121
Change in other payables	(7,872)	7,185
Change in the employees' leaving entitlement	(928)	259
Change in other provisions and deferred taxation	(633)	(12,830)
Gross cash flow	**36,066**	**25,999**
Interest paid in the period	(10,895)	(13,511)
Taxes paid in the period	(2,335)	(2,358)
Cash flows from operating activities (1)	**22,836**	**10,130**
Sale (purchase) of financial assets held for sale	2	43
Investments	(10,876)	(10,507)
Divestments	2,208	860
Dividends received	1,076	1,757
Financial income	1,171	1,320
a. Gains on disposal of discontinued operations	*–*	*32,328*
b. Result for the period of discontinued operations	*(8,943)*	*(21,151)*
c. Change in assets and liabilities of discontinued operations	*649*	*24,361*
d. Change in other receivables/other payables of disposals	*11,201*	*(4,354)*
Cash flows from discontinued operations (a + b + c + d)	2,907	31,184
Change in scope of consolidation	–	4,577
Cash flows from investing activities (2)	**(3,512)**	**30,150**
Draw-down (repayment) of short-term bank borrowings and long-term loans	(70,587)	(5,684)
Dividends paid	(438)	(292)
Change in other financial liabilities	4,458	(1,500)
Cash flows from financing activities (3)	**(66,567)**	**(7,476)**
Change in restricted liquid funds (4)	**6,943**	**7,055**
Change in unrestricted liquid funds (1 + 2 + 3 + 4)	**(40,300)**	**38,831**
Unrestricted liquid funds at beginning of period	**44,807**	**5,976**
Unrestricted liquid funds at end of period	**4,507**	**44,807**
Liquid funds at end of period		
Unrestricted liquid funds	4,507	44,807
Restricted liquid funds	5,029	11,972
TOTAL LIQUID FUNDS AT END OF PERIOD	**9,536**	**56,779**

STATEMENT OF CHANGES IN CONSOLIDATED SHAREHOLDERS' EQUITY

Statement of changes in consolidated shareholders' equity (Thousands of Euros)	**Share capital**	**Share premium reserve**	**Legal reserve**	**Reserve for own shares**	**Other reserves**	**Retained earnings (losses) brought forward**	**Profit (loss) for the period**	**Fair Value reserve**	**Hedging reserve**	**Own shares**	**Share-holders' equity attributable to group**	**Minority interest**	**Total Share-holders' equity**
Shareholders' equity at 1 January 2005	**148,343**	**8,884**	**6,462**	**5,373**	**18,520**	**(18,612)**	**(8,084)**	**–**	**–**	**(5,374)**	**155,512**	**560**	**156,072**
Increase in share capital					–						–		–
Distribution of dividends					–						–	(292)	(292)
Change in accounting principle					–						–		–
Reclassifications				(77)	77						–		–
Changes in the scope of consoldation					–						–		–
Value adjustments recognised directly in equity					–						–		–
Cover of 2004 losses		(1,087)			(15,362)	8,365	8,084				–		–
Profit (loss) for the period					–		(13,261)				(13,261)	491	(12,770)
Shareholders' equity at 31 December 2005	**148,343**	**7,797**	**6,462**	**5,296**	**3,235**	**(10,247)**	**(13,261)**	**–**	**–**	**(5,374)**	**142,251**	**759**	**143,010**
Increase in share capital					–						–		–
Distribution of dividends					–						–	(438)	(438)
Change in accounting principle					–						–		–
Reclassifications (*)				(424)	424					502	502		502
Changes in the scope of consoldation	(16,183)				(373)	8,255			71		(8,230)		(8,230)
Value adjustments recognised directly in equity					–			(252)	(195)		(447)		(447)
Cover of 2004 losses		(7,797)	(6,462)		11,088	(10,090)	13,261				–		–
Profit (loss) for the period					–		(19,098)				(19,098)	255	(18,843)
Shareholders' equity at 31 December 2006	**132,160**	**–**	**–**	**4,872**	**14,374**	**(12,082)**	**(19,098)**	**(252)**	**(124)**	**(4,872)**	**114,978**	**576**	**115,554**

(*) The amount is due to RDM Realty S.p.A. shares held following the demerger and to other reclassifications between equity reserves.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Form and content

RDM is a company which is established as a corporate person under the legislation of the Republic of Italy. The RDM Group carries out its activities principally in Europe. These activities consist in the production and distribution of cartonboard for packaging made mainly of recycled fibre, performed either directly or through a network of agents, by the Parent Company, the subsidiary RDM Iberica and by subsidiaries whose sole activity consists in cutting and selling.

RDM has its registered office in Milan, Italy.

RDM's shares are listed on the Star segment of Borsa Italiana S.p.A. and on the Madrid and Barcelona stock exchanges.

The consolidated financial statements of the RDM Group were approved by the Board of Directors of RDM on 26 March 2007.

The consolidated financial statements of the RDM Group are presented in Euros (rounded to the nearest thousand), as this is the prevailing currency in the countries in which the Group principally operates. Subsidiary companies are included in the consolidated financial statements on the basis of the principles described in the section Accounting principles and policies.

The annual consolidated financial statements for 2006 have been prepared in accordance with the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board and adopted by the European Union. By IFRS is also intended all the revised accounting principles (International Accounting Standards or IAS) and all the interpretations of the International Financial Reporting Interpretations Committee ("IFRIC") and those of its predecessor, the Standing Interpretations Committee ("SIC").

Consolidated Financial Statements are presented as follows:

- Balance Sheet: current and non-current assets, and current and non-current liabilities, are presented as separate classifications;
- Income Statement: expenses are aggregated according to their nature;
- Cash Flow Statement: financial flows from operating activities are presented using the indirect method.

The preparation of the consolidated financial statements in accordance with IFRS requires the use of specific estimates and valuations, as well as management's reasonable judgement in applying accounting policies. Those matters requiring higher levels of complexity and a greater use of assumptions and estimates are discussed in the paragraph "Specific estimates and valuations".

Prior year data prepared in accordance with IFRS are presented for reasons of comparability. Certain reclassifications have been made to specific items of the balance sheet as of 31 December 2005 and the profit and loss account for the year then ended, in order that a homogeneous comparison may be made between the two years.

Seasonal factors affecting revenues

The trend of revenues for the sale of cartonboard for packaging is a function of the general tendency of the economies of the markets in which sales are made and in particular of the trend in the demand for consumer goods; it is not affected by specific seasonal factors during the year.

There are, however, seasonal effects in the production and sale of products as a result of factors connected with the calendar, such as for example if there is a high number of public holidays or periods of vacation in one month or accounting period rather than another (such as for example in August and December) that may typically recur in the main countries supplied.

Scope of consolidation

The consolidated financial statements include the financial statements of all subsidiary companies from the date on which control is acquired until the date that such control ceases.

Investments in associates are accounted for in the consolidated financial statements using the equity method. Associates are those companies in which the RDM Group holds at least 20% of the voting rights or has significant influence, but not control, over the company's financial and management policies.

Company name	Registered office	Activity	Share capital	Shareholding			
				31.12.2006		31.12.2005	
				Direct	Indirect	Direct	Indirect
Cartonboard sector							
Reno De Medici Iberica S.L.	Prat de Llobregatt (E)	Industrial	39,061	100.00%	–	100.00%	–
Cartiera Alto Milanese S.p.A.	Milan (I)	Commercial	200	100.00%	–		100.00%
RDM France S.a.r.l.	Tramblay en France (F)	Commercial	96	99.58%	0.42%	99.58%	0.42%
Reno De Medici Deut. GmbH	Bad Homburg (D)	Commercial	473	100.00%	–	100.00%	–
Emmaus Pack S.r.l.	Milan (I)	Industrial	200	51.39%	–	51.39%	–
Barneda Carton S.A.	Ripollet (E)	Industrial	1,200	–	–	–	100.00%
Other sectors							
Reno De Medici Intern. S.A.	Lussemburgo (L)	Financial	14,000	–	–	99.99%	–
Red.Im S.r.l.	Milan (I)	Real Estate	50	–	–	100.00%	–

Comparing the two years, Red.Im S.r.l. left the scope of consolidation as one of the assets transferred to RDM Realty on the partial demerger, as did Reno De Medici International S.A., which was wound up and closed on 21 December 2006, and Barneda Carton S.A., which was sold to the subsidiary RDM Iberica after the purchase of its manufacturing business.

The effects on the profit and loss account and balance sheet of other changes in the scope of consolidation are not significant.

Accounting principles and policies

Consolidation principles

The financial and economic position of the RDM Group comprises the financial and economic position of Reno De Medici S.p.A. and those enterprises over which it 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 on a line-by-line basis. Their effect on the Group's total assets, total liabilities, financial position and result is immaterial, being overall less than 1%.
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 size of the shareholding;
- all significant balances and transactions with Group companies are eliminated, as are any gains or losses arising from intragroup transactions of a 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;
- acquisitions of subsidiaries by the Group are accounted for using the cost method. By the cost of an acquisition is meant the fair value of the assets transferred by the seller, of the liabilities assumed and of the equity instruments issued, at the date of transfer of control, in exchange for the control of the company acquired. All costs directly attributable to the acquisition are also included in the cost. The excess of the cost of the acquisition over the fair value of the identifiable assets and liabilities acquired is recognised as goodwill. If the identifiable net assets acquired exceed the cost of the acquisition, the difference is recognised in profit and loss;
- the share of the investee's equity held by minorities is determined on the basis of the current values of assets and liabilities at the date on which control is obtained, excluding any related goodwill;

- any increases or decreases in 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 companies 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%
	Small constructions	5%
Plant and machinery	General plant and machinery	6.9% - 20%
	Specific plant and machinery	5.75% - 11.5%
Industrial and commercial equipment	Sundry equipment	20% - 25%
Other assets	Furniture and ordinary office machinery	8% - 12%
	Electronic office machinery	16.67% - 20%
	Internal vehicles	20%
	Motor vehicles	16.67% - 25%

The Group reviews, at least annually, if there is any indication that tangible 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 its fair value less costs to sell and its value in use. In assessing its value in use, the estimated future cash flows deriving 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.

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.

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 costs to sell and are not depreciated.

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.

Available-for-sale financial assets

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 there is objective evidence that a financial asset is impaired, the impairment loss is recognised in income despite the fact it has not been sold. 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 subsequently measured at amortised cost.

Stocks

Stocks are measured 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 is 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").
The Italian Finance Act and respective implementing decrees have introduced significant changes to the way in which the employees' leaving entitlement (the TFR) is regulated, which took effect on 1 January 2007; these changes include the possibility for an employee to choose where the TFR accruing in his favour from that date should be invested. In particular, the employee may request that these amounts be paid over to certain pension funds named in advance or may decide that they should remain in the company for which he works (in this latter case, the company must pay over the TFR contributions to a treasury account set up by INPS, the State social security organisation). At the present stage, given the uncertainties involved in attempting to interpret the recently issued law and regulations referred to above, the various possible

interpretations of how the accruing TFR should be considered under IAS 19 and how it should be measured in accordance with that standard and any changes to the actuarial computation that may arise from the already accrued TFR, as well as the impossibility of being able to make a prediction of the decisions that employees may take as to how they wish their accruing TFR to be invested (they must make their decision by 30 June 2007), any assumptions on to the need to make an actuarial adjustment to the TFR accrued at 31 December 2006 are considered premature.

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 on the basis of actuarial techniques used 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 it 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. Amounts due to banks and other lenders 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. These liabilities are initially measured at the fair value of the amount to be paid. Subsequent measurement is at amortised cost using the effective interest method.

Revenues and costs

Revenues from sales and from the provision of services are 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 laws 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 basis 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, and are recognised when it is believed probable that sufficient taxable income will be generated in future periods for their 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.

Discontinued operations

Discontinued operations consist of important autonomous lines of activity – in terms of business or geographical area or which form part of a single, co-ordinated disposal programme – that have either been disposed of or are held for sale, and subsidiary companies acquired exclusively for resale.

The results of discontinued operations, which are represented by the profits or losses of these operations and any gains or losses on disposal, are presented separately in the profit and loss account, net of any related tax effects, in a single line item. The profits or losses of these activities in prior years are reclassified in this way for comparative purposes.

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 management 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 accounting for bad debts provisions for accounts receivable, stock obsolescence, depreciation, asset impairment, employee benefits, restructuring provisions, taxation and other accruals and provisions and in measuring derivative financial instruments. Estimates and assumptions are reviewed regularly and the effects of any changes are recognised immediately in the profit and loss account.

Earnings per share

Earnings per share is calculated by dividing the profit or loss for the period attributable to shares by the weighted average number of shares outstanding during the period.
Diluted earnings per share is calculated on the same basis.

Risk Management

Reference should be made to the “Risk management” section of the Report of the Board of Directors for the information pursuant to article 2428, paragraph 2, no. 6-bis of the Italian civil code.

Specific estimates and valuations

Estimates and valuations are made on the basis both of past experience and a reasonable expectation of the occurrence of future events. The RDM Group makes and uses assumptions as to future events in the preparation of its consolidated financial statements. Estimates and valuations of an accounting nature made on the basis of assumptions about future events may differ from the results that actually occur or from the amounts actually recovered from assets. Estimates and valuations are mainly employed in the following situations.

Estimating the recoverable amount (impairment test)

The Group assesses at least annually whether there is any indication that tangible fixed assets and intangible assets may have suffered an impairment loss compared to their carrying amount in the balance sheet. If any such indication exists, the Group estimates the recoverable amount of the asset concerned. The recoverable amount of an asset is the higher of its current realisable value less costs to sell and its value in use. Value in use is determined as the present value of the future cash flows expected to be derived from the cash-generating unit to which the asset belongs through the use of the asset and its possible disposal at the end of its useful life.

The calculation of expected cash flows requires the use of estimates and valuations which may also be based on the expectations of future events relating to the cash-generating unit. Moreover, the present value of future cash flows is highly sensitive to the discount rates used, which reflect spot market figures and risk premiums which may undergo significant and unpredictable changes.

Fair value of derivative contracts and financial instruments

The fair value of financial instruments which are not quoted on a regulated active market is determined by employing various valuation techniques. In this respect, the Group uses those techniques which it believes are the most reasonable in connection with the specific financial instruments that have to be valued and adopts assumptions and makes estimates based on market conditions at the balance sheet date.

Taxation

The overall determination of the tax charge for the year requires the use of estimates and valuations, including those relating to any specific tax liabilities which may not be determinable at the date on which the related individual operation is carried out. In addition, in order to calculate deferred tax assets, the Group employs estimates and valuations which also take into account expectations of future events.

Discontinued operations

The item Discontinued operations also includes the economic result (in terms of net operating margin) of certain discontinued production units which are part of the Group. In order to determine the amounts of certain types of costs which relate to those discontinued units, the Group has employed management data and assumptions resulting from the cost accounting system, which utilises specific methodologies of separating and allocating costs on the basis of production and size variables.

Notes to the consolidated financial statements

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 segments that have been identified are Italy and Spain.

Included in the segment denoted Italy are also the activities headed by the French subsidiary RDM France S.a.r.l. and by the German subsidiary RenoDeMedici Deutschland GmbH, whose operations consist of the distribution and sales of goods produced in the Italian factories, and the economic contribution made by the Luxembourg subsidiary Reno De Medici International S.A. up until the date it was put into liquidation.
For ease of comparability the 2005 figures have been reclassified, as until this year there was also a segment called “Other” which consisted of the activities headed by RDM France S.a.r.l., RenoDeMedici Deutschland GmbH and Reno De Medici International S.A..

The contribution made by Spain relates to operations at the Almazan facility (owned by RDM Iberica) and the marketing of cartonboard manufactured in the factories of the Parent Company Reno De Medici S.p.A..

The following tables set out the profit and loss accounts for the years ended 31 December 2006 and 2005 and the balance sheets at those dates on a geographical basis, together with details of the investments made.

Profit and loss account for the year ended 31 December 2006	**Italy**	**Spain**	**Eliminations**	**Consolidated**
Revenues from sales	292,061	38,192	(16,364)	313,889
Other revenues	3,690	505	(155)	4,040
Changes in stocks of finished goods	5,696	85	–	5,781
Cost of raw materials and services	(224,860)	(31,501)	16,519	(239,842)
Staff costs	(46,605)	(4,939)	–	(51,544)
Other operating costs	(3,090)	(125)	–	(3,215)
Income (expense) from non-current assets held for sale	(363)	–	–	(363)
Unusual income (expense)	270	–	–	270
Gross Operating Profit (EBITDA)	**26,799**	**2,217**	**–**	**29,016**
Depreciation and amortisation	(22,410)	(971)	–	(23,381)
Recovery of value and write-downs of assets	–	–	–	–
Operating Profit (EBIT)	**4,389**	**1,246**	**–**	**5,635**
Financial income (expense), net	(11,397)	739	–	(10,658)
Income from investments	(2,190)	200	–	(1,990)
Other income (expense)	–	281	–	281
Taxation	(3,168)	–	–	(3,168)
Profit (loss) for the year before discontinued operations	**(12,366)**	**2,466**	**–**	**(9,900)**
Discontinued operations	(5,796)	(3,147)	–	(8,943)
Profit (loss) for the year	**(18,162)**	**(681)**	**–**	**(18,843)**
Attributable to:				
Profit (loss) for the year pertaining to the group	(18,417)	(681)	–	(19,098)
Profit (loss) for the year pertaining to minority interests	255	–	–	255

Profit and loss account for the year ended 31 December 2005	Italy	Spain	Eliminations	Consolidated
Revenues from sales	273,755	29,778	(8,258)	295,275
Other revenues	4,003	1,178	(87)	5,094
Changes in stocks of finished goods	659	(412)	–	247
Cost of raw materials and services	(199,521)	(24,479)	8,257	(215,743)
Staff costs	(47,852)	(4,898)	–	(52,750)
Other operating costs	(3,474)	(288)	(5)	(3,767)
Income (expense) from non-current assets held for sale	(179)	–	–	(179)
Unusual income (expense)	(352)	(19)	–	(371)
Gross Operating Profit (EBITDA)	**27,039**	**860**	**(93)**	**27,806**
Depreciation and amortisation	(22,343)	(2,096)	–	(24,439)
Recovery of value and write-downs of assets	(2,233)	645		(1,588)
Operating Profit (EBIT)	**2,463**	**(591)**	**(93)**	**1,779**
Financial income (expense), net	(12,055)	177	93	(11,785)
Income from investments	(32,447)	5	34,424	1,982
Other income (expense)	–	(15,700)		(15,700)
Taxation	(223)	–	–	(223)
Profit (loss) for the year before discontinued operations	**(42,262)**	**(16,109)**	**34,424**	**(23,947)**
Discontinued operations	20,584	(9,407)	–	11,177
Profit (loss) for the year	**(21,678)**	**(25,516)**	**34,424**	**(12,770)**
Attributable to:				
Profit (loss) for the year pertaining to the group	(22,169)	(25,516)	34,424	(13,261)
Profit (loss) for the year pertaining to minority interests	491	–	–	491

Balance sheet at 31 December 2006	Italy	Spain	Eliminations	Consolidated
ASSETS				
Non-current assets				
Tangible fixed assets	168,882	8,689	–	177,571
Investment property	–	–	–	–
Goodwill	83	63	–	146
Other intangible assets	2,233	105	–	2,338
Investments accounted for under the equity method	72,337	3	(61,522)	10,818
Deferred tax assets	892	–	–	892
Derivative financial instruments	83	–	–	83
Financial assets held for sale	471	–	–	471
Trade receivables	76	–	–	76
Other receivables	896	36,073	(32,000)	4,969
Other non-current assets held for sale	9,662	1,730	–	11,392
Total non-current assets	**255,615**	**46,663**	**(93,522)**	**208,756**
Current assets				
Stocks	54,311	35,464		89,775
Trade receivables	93,789	16,117	(9,148)	100,758
Other receivables	3,657	6,103	(654)	9,106
Derivative financial instruments	77	–	–	77
Financial assets held for sale	8	–	–	8
Financial assets at fair value adjusted in income	–	–	–	–
Liquid funds	2,140	7,396	–	9,536
Total current assets	**153,982**	**65,080**	**(9,802)**	**209,260**
TOTAL ASSETS	**409,597**	**111,743**	**(103,324)**	**418,016**
LIABILITIES AND SHAREHOLDERS' EQUITY				
Shareholders' equity attributable to the group	115,649	60,851	(61,522)	114,978
Minority interests	576			576
Shareholders' equity	**116,225**	**60,851**	**(61,522)**	**115,554**
Non-current liabilities				
Bank loans and other financial liabilities	80,789	–	–	80,789
Derivative financial instruments	14	–	–	14
Other payables	32,600	32,159	(32,000)	32,759
Deferred tax liabilities	7,699	–	–	7,699
Employees' leaving entitlement	17,235	–	–	17,235
Non-current provisions for contingencies and charges	4,140	2,035	–	6,175
Liabilities directly associated with non-current assets held for sale	–	–	–	–
Total non-current liabilities	**142,477**	**34,194**	**(32,000)**	**144,671**
Current liabilities				
Bank loans and other financial liabilities	57,481	–	–	57,481
Derivative financial instruments	350	–	–	350
Trade payables	81,794	13,914	(9,148)	86,560
Other payables	11,238	2,784	(654)	13,368
Current taxation	32	–	–	32
Total current liabilities	**150,895**	**16,698**	**(9,802)**	**157,791**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**409,597**	**111,743**	**(103,324)**	**418,016**
MANUFACTURING INVESTMENTS	**9,767**	**964**	**0**	**10,731**

Balance sheet at 31 December 2005	Italy	Spain	Eliminations	Consolidated
ASSETS				
Non-current assets				
Tangible fixed assets	184,110	9,064	–	193,174
Investment property	1,284	–	–	1,284
Goodwill	83	63	–	146
Other intangible assets	3,304	5	–	3,309
Investments accounted for under the equity method	77,436	3	(63,223)	14,216
Deferred tax assets	577	–	–	577
Derivative financial instruments	–	–	–	–
Financial assets held for sale	219	–	–	219
Trade receivables	193	–	–	193
Other receivables	3,706	6,566	–	10,272
Other non-current assets held for sale	14,578	5,630	–	20,208
Total non-current assets	**285,490**	**21,331**	**(63,223)**	**243,598**
Current assets				
Stocks	85,917	39,062	(32,000)	92,979
Trade receivables	98,303	46,693	(38,097)	106,899
Other receivables	21,825	1,450	(2,107)	21,168
Derivative financial instruments	5,321	–	–	5,321
Financial assets held for sale	1,410	–	(1,400)	10
Financial assets at fair value adjusted in income	–	–	–	–
Liquid funds	43,450	13,329	–	56,779
Total current assets	**256,226**	**100,534**	**(73,604)**	**283,156**
TOTAL ASSETS	**541,716**	**121,865**	**(136,827)**	**526,754**
LIABILITIES AND SHAREHOLDERS' EQUITY				
Shareholders' equity attributable to the group	143,941	61,531	(63,221)	142,251
Minority interests	759	–	–	759
Shareholders' equity	**144,700**	**61,531**	**(63,221)**	**143,010**
Non-current liabilities				
Bank loans and other financial liabilities	28,270	–	–	28,270
Derivative financial instruments	–	–	–	–
Other payables	650	414	–	1,064
Deferred tax liabilities	2,293	–	–	2,293
Employees' leaving entitlement	17,324	–	–	17,324
Non-current provisions for contingencies and charges	3,961	3,464	–	7,425
Liabilities directly associated with non-current assets held for sale	0	0	0	0
Total non-current liabilities	**52,498**	**3,878**	**0**	**56,376**
Current liabilities				
Bank loans and other financial liabilities	220,056	–	–	220,056
Derivative financial instruments	1,242	–	–	1,242
Trade payables	100,038	46,118	(73,604)	72,552
Other payables	22,911	10,338	(2)	33,247
Current taxation	271	–	–	271
Total current liabilities	**344,518**	**56,456**	**(73,606)**	**327,368**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**541,716**	**121,865**	**(136,827)**	**526,754**
MANUFACTURING INVESTMENTS	**9,798**	**291**	**2**	**10,091**

1. Revenues from sales

Revenues from sales may be analysed as follows:

Revenues (Thousands of Euros)	31.12.2006	Inc. %	31.12.2005	Inc. %
Revenues for sales	313,777	99.96	295,096	99.94
Revenues for services	112	0.04	179	0.06
Total revenues	**313,889**	**100.0**	**295,275**	**100.0**

Revenues from sales arise essentially from sales of cartonboard, while services mostly relate to the sale of electricity.

The following table provides a geographical analysis of sales revenues:

Revenues by geographical areas (Thousands of Euros)	31.12.2006	31.12.2005	Variation	Inc. %
Italy	170,110	157,223	12,887	8.20%
UE	111,528	103,553	7,975	7.70%
Extra UE	32,251	34,499	(2,248)	(6.52%)
Net revenues	**313,889**	**295,275**	**18,614**	**6.30%**

There was an increase in sales of 6.3% in 2006 with growth being concentrated especially in the Italian and European Union markets. Revenues arising from the Magenta Board Machine 1 and from the Prat facility are classified as “Discontinued operations” for both years for comparative purposes.

2. Other revenues

Other revenues may be analysed as follows:

Other revenues	31.12.2006	31.12.2005	Variation
Grants	624	964	(340)
Ordinary capital gains	443	88	355
Recharge of costs	184	562	(378)
Increase in fixed assets	182	329	(147)
Rental income	35	61	(26)
Other revenues	2,572	3,090	(518)
Total	**4,040**	**5,094**	**(1,054)**

Grants consist principally of ordinary grants received from Comieco that relate to the use of waste paper deriving from urban waste differentiation schemes.

Capital gains consist mainly of those realised on the sale of a part of the site located at the Almazan facility.

Other revenues consist of prior year income, which itself principally comprises receipts from creditors' arrangement procedures, VAT recoveries following the closure of insolvency proceedings and income from miscellaneous smaller items.

3. Changes in stocks of finished goods

This item represents the increase in finished goods stocks over the year. The effect of the sale of stocks relating to the Magenta MC1 line is included in "Discontinued operations".

4. Cost of raw materials and services

Cost of raw materials and services	31.12.2006	31.12.2005	Variation
Cost of raw materials	**120,592**	**112,714**	**7,878**
Purchase of raw materials	123,272	113,139	10,133
Changes in stocks of raw materials	(2,680)	(425)	(2,255)
Services regarding sales	**34,291**	**32,871**	**1,420**
Transport	30,223	27,705	2,518
Commissions and agents' costs	4,068	5,166	(1,098)
Services regarding manufacturing	**72,163**	**57,066**	**15,097**
Energy	53,950	40,023	13,927
Maintenance	4,811	4,924	(113)
Waste disposal	4,642	4,321	321
Other manufacturing services	8,760	7,798	962
General services	**11,331**	**11,648**	**(317)**
Legal, notarial, administrative and external collaboration	2,839	3,548	(709)
Board of directors	1,665	1,735	(70)
Statutory auditors	163	158	5
Insurance	2,030	2,295	(265)
Postal and telephone	534	386	148
Other	4,100	3,526	574
Use of third party assets	**1,465**	**1,444**	**21**
Rental and leasing	1,465	1,444	21
Total	**239,842**	**215,743**	**24,099**

The cost of raw materials refers mainly to the purchase of waste paper, wood paste, cellulose and chemicals, technical purchases for the factories and packaging. These costs represent 37.7% of the value of production ("Revenues from sales" plus "Changes in stocks of finished goods"), a decrease over the 2005 figure of 38.1%.

Service costs have increased considerably compared to those of the previous year (Euro 117.8 million in 2006 compared to Euro 101.6 million in 2005). These costs represent 37.5% of revenues from sales (34.4% in 2005); the variation is due to the following factors:

- a significant increase in the costs incurred for manufacturing services, due principally to rises in energy costs (which amount to Euro 15.1 million without taking into consideration the cost of Euro 0.7 million incurred for the supply of fuel oil, not present in 2005 and classified as raw materials costs);
- an increase in the costs incurred for sales services linked to the rise in transport costs, which was partially offset by the decrease in agents' commissions following the reorganisation of the Parent Company's sales network that was completed during the current year;
- a drop in costs for general services as the result of the steps taken to contain fixed costs.

5. Staff costs

Staff costs	**31.12.2006**	**31.12.2005**	**Variation**
Salaries and wages	36,777	36,617	160
Social security contributions	12,554	13,907	(1,353)
Employees' leaving entitlement	2,146	2,221	(75)
Other costs	67	5	62
Total	**51,544**	**52,750**	**(1,206)**

The decrease in staff costs is prevalently connected to the reorganisation programme which has led to a reduction in the Group's workforce.

The following table sets out for the RDM Group the average number of employees at the end of the year and the average number of employees during the year, analysed by category:

Employees by category	**31.12.2006**	**31.12.2005**	**Variation**
Executives and managers	19	22	(3)
White-collar	338	359	(21)
Blue-collar	841	945	(104)
Total	**1,198**	**1,326**	**(128)**

Average by employee category	**2006**	**2005**	**Variation**
Executives and managers	20	22	(2)
White-collar	380	412	(32)
Blue-collar	941	1,046	(105)
Totale	**1,341**	**1,480**	**(139)**
Temporary lay-offs	51	–	51
Permanent manpower	**1,290**	**1,480**	**(190)**

The staff costs relating to the Magenta MC1 line have been reclassified to "Discontinued operations" for both 2006 and 2005.

6. Other operating costs

Other operating costs	31.12.2006	31.12.2005	Variation
Write-down of working capital receivables	212	490	(278)
Accruals to provisions	538	803	(265)
Other operating costs	2,465	2,474	(9)
Total	**3,215**	**3,767**	**(552)**

The decrease in other operating costs is the result of lower accruals for risks and for bad and doubtful debts.

Other costs, which are essentially in line with those incurred in 2005, consist mostly of indirect taxes and subscriptions to trade associations.

7. Income and expense from assets held for sale

This item consists of the costs relating to the disposal of the Ciriè factory plant and materials. The proceeds from the sale, net of expenses for the overall selling costs and the costs connected with maintaining the site, net of the proceeds from the sale, is negative for an amount of Euro 363 thousand, compared to expenses of Euro 179 thousand in 2005.

8. Unusual income (expense)

This item consists mainly of income from the refund of withholding taxes paid on interest paid to the Luxembourg subsidiary, pursuant to Legislative Decree no. 143/2005.

9. Depreciation and amortisation

The following table sets out details of the item "Depreciation and amortisation":

Depreciation, amortisation, recovery of value and write down of assets	31.12.2006	31.12.2005	Variation
Amortisation of intangible assets	1,158	1,352	(194)
Depreciation of tangible fixed assets	22,223	23,087	(864)
Write-downs	–	2,620	(2,620)
Recovery of value	–	(1,032)	1,032
Total	**23,381**	**26,027**	**(2,646)**

The decrease in the depreciation charge is due to the natural depreciation process for tangible fixed assets.

10. Financial income (expense), net

Financial income (expense)	31.12.2006	31.12.2005	Variation
Financial income	**1,076**	**2,559**	**(1,483)**
Interest and other financial income	832	1,837	(1,005)
Effect of discounting the receivable from Grupo Torras	244	722	(478)
Financial expense	**(11,547)**	**(14,694)**	**3,147**
Interest on bond	(2,996)	(8,700)	5,704
Bank interest	(6,485)	(3,801)	(2,684)
Interest Rate Swap (hedge accounting)	(295)	-	(295)
Trading derivatives	268	(83)	351
Interest on financing the employees' leaving entitlement	(839)	(833)	(6)
Expenses, commissions and other financial charges	(1,200)	(1,277)	77
Exchange differences	**(187)**	**350**	**(537)**
Exchange gains	528	1,912	(1,384)
Exchange losses	(715)	(1,562)	847
Total	**(10,658)**	**(11,785)**	**1,127**

The decrease of Euro 1.5 million in financial income is the result of the sale of Europoligrafico S.p.A. and Aticarta S.p.A. in 2005 when the two companies earned interest income, and interest of Euro 0.6 million recognised in 2005 following the receipt of tax refunds.

The decrease of Euro 3.1 million in financial expense is mostly the consequence of the reduction in average net debt, partly offset by the increase in interest rates during the year. "Interest on financing the employees' leaving entitlement" regards the financial component of the accrual for the year (the so-called "interest cost"), calculated as envisaged by IAS 19.

11. Income (losses) from investments

Losses from investments of Euro 2.0 million relates principally to the adjustment made at year end to align to equity the carrying values of the associates Termica Boffalora S.r.l. (losses for Euro 2.4 million), mainly due to the valuation at equity of the associates Termica Boffalora S.r.l., as stated by its major shareholder Edison S.p.A. in accordance with IFRS, and Pac Service S.p.A. (income for Euro 0.2 million). This item includes the income of Euro 0.2 million resulting from the sale of Barneda Carton S.A..

12. Other income (expense)

This item comprises the income and expense connected with managing the receivable due from Grupo Torras S.A.. The 2005 expense consisted mostly of the write-down of the receivable to the amount implicit in the first level court sentence.

13. Taxation

Taxation	**31.12.2006**	**31.12.2005**	**Variation**
Deferred taxation	(824)	2,035	(2,859)
Current taxation	(2,344)	(2,258)	(86)
Total	**(3,168)**	**(223)**	**(2,945)**

Reconciliation between theoretical and actual tax charge

Current taxation	Result before taxes		Total
	Negative	Positive	
Profit (loss) before taxation	(15,453)	1,990	(13,463)
Theoretical tax charge	n.a.	33%	33%
Theoretical tax charge		**657**	**657**
Differences taxable in future years	–	15	15
Differences deductible in future years	3,859	803	4,662
Reversal of prior year temporary differences	(46,882)	(745)	(47,627)
Permament differences which will not reverse in future years	3,272	66	3,338
Tax losses from prior years	–	(1,153)	(1,153)
Total differences	**(39,751)**	**(1,014)**	**(40,765)**
Taxable income (loss)	**(55,204)**	**976**	**(54,228)**
Taxable income from companies taking part in the fiscal consolidation	970	(971)	(1)
Current tax income (loss)	**(54,234)**	**5**	**(54,229)**
Actual tax charge	**–**	**2**	**2**

IRAP		
Difference between value and cost of production (excluding staff costs, write-down of receivables and provisions)	48,200	48,200
Financial statement reclassifications	(1,473)	(1,473)
Costs for apprentices, disabled persons and compulsory insurance	(1,795)	(1,795)
Total	**44,932**	**44,932**
Theoretical tax charge	4.45%	
Theoretical tax charge	**2,000**	**2,000**
Differences taxable in future years	–	–
Differences deductible in future years	2,821	2,821
Reversal of prior year temporary differences	(8,204)	(8,204)
Permament differences which will not reverse in future years	3,847	3,847
Total differences	**(1,536)**	**(1,536)**
Taxable income (loss)	43,396	43,396
Actual tax charge	**1,930**	**1,930**
Current taxation	**1,932**	**1,931**
Reclassification to “Discontinued operations”	89	89
Reclassification to “Income (expense) from non-current assets held for sale”	14	14
IRAP of previous years	104	104
Capital tax	205	205
Total	**2,345**	**2,344**

14. Discontinued operations

There was a loss of Euro 8.9 million from discontinued operations in 2006 compared to a profit of Euro 11.1 million in the previous year.

Discontinued operations	31.12.2006	31.12.2005
El Prat facility	(3,147)	(11,872)
MC1 Magenta	(2,567)	(3,122)
Demerged operations, demerger and listing expenses for RDM Realty	(2,280)	(916)
Europoligrafico S.p.A.	(240)	29,565
Aticarta S.p.A.	(709)	(4,943)
Cogeneracion Prat S.A.	–	2,465
Total	**(8,943)**	**11,177**

Discontinued operations for the year ended 31 December 2006 consist of the result for the period (in terms of the operating result) from Board Machine 1 at the Magenta facility (MC1) and from the Prat facility, the economic contribution up until 21 June 2006 of the activities transferred to the demerger recipient company RDM Realty S.p.A., the costs relating to the demerger and the resulting listing of RDM Realty S.p.A. and certain additional accessory costs relating to the sales of Europoligrafico S.p.A. and Aticarta S.p.A, which include the costs connected with the sale of the plant of the Pompeii facility held for disposal.

For reasons of comparability the same approach has been followed in presenting the data for the corresponding period of the previous year, which include the gain realised on the sale of the investment in Europoligrafico S.p.A. and the loss incurred on the sale of Aticarta S.p.A..

The following tables set out details of “Discontinued operations” on the basis of the operations concerned:

Discontinued operations	31.12.2006	31.12.2005
Profit and loss account – PRAT FACILITY		
Revenues	1,308	20,355
Costs	(4,455)	(32,227)
Operating profit (EBIT)	**(3,147)**	**(11,872)**
Profit (loss) before taxation	**(3,147)**	**(11,872)**
Taxation		
Profit (loss) for the period	**(3,147)**	**(11,872)**
GAIN ON DISPOSAL	**n.a.**	**n.a.**
COSTS CONNECTED WITH THE DISPOSAL	**n.a.**	**n.a.**
Total	**(3,147)**	**(11,872)**

Discontinued operations	**31.12.2006**	**31.12.2005**
Profit and loss account – MC1 Magenta		
Revenues	931	25,270
Costs	(2,300)	(28,392)
Operating profit (EBIT)	**(1,369)**	**(3,122)**
Write-down “Assets held for sale”	(1,220)	–
Profit (loss) before taxation	**(2,589)**	**(3,122)**
Taxation	22	–
Profit (loss) for the period	**(2,567)**	**(3,122)**
GAIN ON DISPOSAL	**n.a.**	**n.a.**
COSTS CONNECTED WITH THE DISPOSAL	**n.a.**	**n.a.**
Total	**(2,567)**	**(3,122)**

The economic contribution made by the Magenta MC1, which ceased operations in 2005, includes a write-down of Euro 1.2 million of the Magenta board machine classified as “Assets held for sale” as the result of adjusting its carrying amount to its estimated realisable value.

Discontinued operations	**31.12.2006**	**31.12.2005**
Profit and loss account – Demerged operations RDM Realty		
Revenues	178	375
Costs	(720)	(946)
Operating profit (EBIT)	**(542)**	**(571)**
Profit (loss) before taxation	**(781)**	**(651)**
Taxation	49	112
Profit (loss) for the period	**(732)**	**(539)**
GAIN ON DISPOSAL	**–**	**–**
DEMERGER AND LISTING EXPENSES	**(1,548)**	**(377)**
Total	**(2,280)**	**(916)**

The net economic contribution of the operations demerged into RDM Realty S.p.A. consists of the costs relating to managing the site located at the Ciriè facility and those incurred by RDM connected with the demerger operation itself and the listing costs.

Included in the 2005 result are revenues that include the capital gain realised on the sale of the agricultural and industrial sites in Magenta to Red.Im S.r.l..

Discontinued operations	**31.12.2006**	**31.12.2005**
Profit and loss account – EUROPOLIGRAFICO		
Revenues	–	34,082
Costs	–	(31,512)
Operating profit (EBIT)	**–**	**2,570**
Profit (loss) before taxation	**–**	**5,799**
Taxation	–	(2,486)
Profit (loss) for the period	**–**	**3,313**
GAIN ON DISPOSAL	**–**	**28,009**
COSTS CONNECTED WITH THE DISPOSAL	**(240)**	**(1,757)**
Total	**(240)**	**29,565**

Discontinued operations	**31.12.2006**	**31.12.2005**
Profit and loss account – ATICARTA		
Revenues	–	17,398
Costs	–	(27,570)
Operating profit (EBIT)	**–**	**(10,172)**
Profit (loss) before taxation	**–**	**(11,099)**
Taxation	–	(55)
Profit (loss) for the period	**–**	**(11,154)**
GAIN ON DISPOSAL	**–**	**7,327**
COSTS CONNECTED WITH THE DISPOSAL	**(709)**	**(1,116)**
Total	**(709)**	**(4,943)**

Discontinued operations	**31.12.2006**	**31.12.2005**
Profit and loss account – COGENERACION PRAT		
Revenues	–	18,832
Costs	–	(16,117)
Operating profit (EBIT)	**–**	**2,715**
Profit (loss) before taxation	**–**	**2,600**
Taxation	–	–
Profit (loss) for the period	**–**	**2,600**
LOSS ON DISPOSAL	**–**	**(131)**
COSTS CONNECTED WITH THE DISPOSAL	**–**	**(4)**
Total	**–**	**2,465**

15. Tangible fixed assets

Tangible fixed assets	Land	Buildings	Plant and machinery	Industrial and commercial equipment	Other assets	Assets in course of construction	Total
Cost	23,638	72,400	408,464	1,945	12,061	1,175	519,683
Accumulated depreciation/ write-downs	–	(26,926)	(286,533)	(1,720)	(11,330)	–	(326,509)
Net book value at 31.12.2005	**23,638**	**45,474**	**121,931**	**225**	**731**	**1,175**	**193,174**
Variations of the period:							
Change in consolidation scope (cost)	(843)	(1,737)	(1,029)	–	–	–	(3,609)
Change in consolidation scope (acc. dep.)	–	(127)	251	–	–	–	124
Increases	–	479	4,576	19	120	5,537	10,731
Decreases	(148)	–	(2,089)	–	(342)	–	(2,579)
Reclassification of cost	–	51	2,100	(7)	–	(1,074)	1,070
Depreciation for the year	–	(2,700)	(19,213)	(81)	(229)	–	(22,223)
Other changes (cost)	–	(474)	1,741	6	–	–	1,273
Other changes (acc. dep.)	–	474	(1,963)	(4)	(12)	–	(1,505)
Utilisation of accumulated depreciation	–	–	1,832	6	337	–	2,175
Reclassification of accumulated depreciation	–	–	(1,060)	–	–	–	(1,060)
Value at 31.12.2006							
Cost	22,647	70,719	413,763	1,963	11,839	5,638	526,569
Accumulated depreciation/ write-down	–	(29,279)	(306,686)	(1,799)	(11,234)	–	(348,998)
Net book value at 31.12.2006	**22,647**	**41,440**	**107,077**	**164**	**605**	**5,638**	**177,571**

“Land” relates to the manufacturing facilities of the Parent Company located at Magenta (MI), Santa Giustina (BL), Ovaro (UD), Villa Santa Lucia (FR), Marzabotto (BO) and the subsidiary RDM Iberica S.L. at Almazan. The change in consolidation scope relates to the land in Magenta owned by Red.Im S.r.l., the company transferred to RDM Realty in the proportional demerger.

“Buildings” consist for the most part of factories housing the manufacturing facilities. The increases for the year relate to improvements made to owned buildings. The change in consolidation scope regards the buildings in Magenta owned by Red.Im S.r.l..

“Plant and machinery” refers to specific and general manufacturing plant and machinery. The increases, partially yet included in assets in course of construction, mainly arise from the extraordinary steps taken to improve efficiency. In particular, investments of Euro 1.2 million at the Marzabotto facility relate principally to the replacement of the thermal plant;

investments of Euro 1.2 million at the Villa Santa Lucia facility are connected mostly with work carried out in the press area and in the drying section, together with action taken aimed at optimising scrap management; investments of Euro 1.1 million at the Santa Giustina facility were for the most part geared towards increasing drying capacity in the drying section and installing control systems; investments of Euro 0.8 million at the Magenta facility mainly regard control of the vacuum system and other action taken on open drown reduction on the wet end part and the coatings drying area; various investments were made at the Ovaro facility amounting in total to Euro 0.4 million; investments of Euro 0.7 million were made at the Almazan facility relating to extraordinary maintenance work on cutters transferred from Prat.

The lines “reclassification of cost” and “reclassification of depreciation” relate mostly to assets in the course of construction at 31 December 2005 which began use in 2006 and, to a lesser extent, the reclassification to “Assets held for sale” of certain plant and machinery at the Magenta facility connected with the MC1.

The decreases for the year relate to the replacement of assets on reaching the end of their useful lives.

“Industrial and commercial equipment” is mainly made up of assets used in the manufacturing process throughout the various facilities. Increases relate to a series of purchases, none of which is of particular significance.

“Other assets” is for the most part composed of electronic office machines, office furniture, fixtures and fittings and motor cars. Increases essentially relate to the purchase of information systems equipment. The decreases regard the disposal of company cars. No significant profit or loss emerged from these sales.

There are third party charges (mortgages and liens) amounting to a total of Euro 437 million on owned property and plant and machinery, given in favour of banks as security on loans, with an outstanding balance at 31 December 2006 amounting to Euro 90.6 million.

16. Investment property

“Investment property” consists of land for agricultural use owned by the demerged company Red.Im S.r.l..

17. Goodwill

Goodwill arises from the acquisition of Barneda Carton S.A., which was transferred to RDM Iberica in 2006 following the purchase of the business, and of a French sales company.

18. Other intangible assets

Other intangible assets	Concessions, licences, trade marks and similar rights	Other	Total
Net book value at 31.12.2005	**296**	**3,013**	**3,309**
Change in consolidation scope	–	–	–
Increases	135	10	145
Decreases	–	–	–
Reclassification of cost	13	29	42
Recovery of value and write-downs	–	–	–
Amortisation for the year	(104)	(1,054)	(1,158)
Utilisation of accumulated amortisation	–	–	–
Reclassification of amortisation	–	–	–
Net book value at 31.12.2006	**340**	**1,998**	**2,338**

"Concessions, licences and trade marks" relate to costs incurred for the purchase of software licences.

"Other intangible assets" consist principally of the net book value of Euro 1 million (after accumulated amortisation of Euro 1.5 million) assigned to the customer portfolio of the subsidiary Cartiera Alto Milanese S.p.A. on acquisition and the residual balance of Euro 0.9 million arising from the non-competition agreement stipulated in 2003 with Dr. Giovanni Dell'Aria Burani. This item has an estimated residual life of two years.

There have been no revaluations or write-downs of intangible assets during the year.

19. Investments accounted for under the equity method

	Carrying value at 31.12.2005	Acquisitions	Disposals and reimbur-sements	Changes in consolidation scope	Elimination of dividends from associates	Write-downs/ revaluations	Carrying value at 31.12.2006
Subsidiary companies	14	–	(11)	–	–	–	3
Trentino Ricerca in liquidation S.r.l.	11	–	(11)	–	–	–	–
Cogeneracion Baix Llobregat S.A.	3	–	–	–	–	–	3
Associates	14,202	–	–	–	(1,170)	(2,217)	10,815
Termica Boffalora S.r.l.	12,772				(970)	(2,429)	9,373
Pac Service S.p.A.	1,430				(200)	212	1,442
Total	**14,216**	**–**	**(11)**	**–**	**(1,170)**	**(2,217)**	**10,818**

The investment held in Trentino Ricerca S.r.l. in liquidation was eliminated in June 2006 following the completion of the procedure for winding up that company. As Reno Logistica S.p.A. in liquidation has a shareholders' deficit, a provision for losses on investments of Euro 0.3 million has been recognised in liabilities in respect of the holding in that company.

Write-downs refer to the adjustment for the year arising from the measurement of the carrying value of the investments in the associates Termica Boffalora using the equity method as stated by its major shareholder Edison S.p.A. in accordance with IFRS.

20. Deferred tax assets

Deferred tax assets, classified as non-current, arise from deductible temporary differences and unused tax losses in the subsidiaries Cartiera Alto Milanese S.p.A. and Emmaus Pack S.r.l.. These have been recognised to the extent that it is probable that the companies will have taxable profit in the future against which the temporary differences and unused tax losses can be utilised.

21. Derivative financial instruments

Derivative financial instruments	31.12.2006	31.12.2005	Variation
Non-current assets	**83**	**–**	**83**
Derivative financial instruments (Hedge accounting)	83	–	83
Current assets	**77**	**5,321**	**(5,244)**
Derivative financial instruments (Hedge accounting)	77	–	77
Derivative financial instruments (No hedge accounting)	–	5,321	(5,321)
Non-current liabilities	**14**	**–**	**14**
Derivative financial instruments (Hedge accounting)	14		14
Current liabilities	**350**	**1,242**	**(892)**
Derivative financial instruments (Hedge accounting)	350	–	350
Derivative financial instruments (No hedge accounting)	–	1,242	(1,242)

The changes taking place during the year in derivative financial instruments principally relate to the termination of positions held in connection with the bond repaid on 4 May 2006. Agreements for derivative instruments entered by the Parent Company in 2006 regarded interest rate swaps (IRS) aimed at stabilising cash flows servicing debt and commodity swaps on BTZ (fuel oil with low sulphur content), both of which qualified for hedge accounting.

There was an unfavourable valuation of Euro 225 thousand at 31 December 2006 of the hedging contract having a BTZ underlying (1% Fuel Oil CIF Med) for delivery in January, February and March 2007.

There was a favourable fair value of Euro 20 thousand at 31 December 2006 of the derivatives represented by interest rates swaps.

Although the agreements for derivative instruments at 31 December 2005 had been set up for hedging purposes, they did not qualify as hedging instruments under International Accounting Standards and accordingly hedge accounting could not be used.

The following table sets out the main features of the derivative financial instruments at 31 December 2006, analysed between interest rate swap agreements and commodities agreements:

Date:	**31.12.2006**						
Type of coverage:	**Cash flow hedge on Interest**						
Derivative instrument:	**Interest Rate Swap**						
Company	**Counterparty**	**Currency**	**Maturity**	**Nominal value** (Euro/000)	**Interest**	**Payment of interest**	***Fair value* of the derivative** (Euro/000)
Reno De Medici S.p.A.	SanPaolo IMI S.p.A.	Euro	06.04.2016	14,250	4.11% fixed Euribor 6M	Six monthly	(22)
Reno De Medici S.p.A.	Banca Intesa S.p.A.	Euro	06.04.2016	14,250	4.11% fixed Euribor 6M	Six monthly	(22)
Reno De Medici S.p.A.	Unicredit Banca d'Impresa S.p.A.	Euro	06.04.2016	14,250	4.11% fixed Euribor 6M	Six monthly	(22)
Reno De Medici S.p.A.	Banca Intesa S.p.A.	Euro	15.05.2016	5,890	4.15% fixed Euribor 6M	Six monthly	(32)
Reno De Medici S.p.A.	Banca Intesa S.p.A.	Euro	30.06.2008	10,000	3.57% fixed Euribor 3M	Three monthly	59
Reno De Medici S.p.A.	Banca Popolare di Milano S.p.A.	Euro	30.06.2008	10,000	3.57% fixed Euribor 3M	Three monthly	59
Total				**68,640**			**20**

Date:	**31.12.2006**					
Type of coverage:	**Cash flow hedge on commodities**					
Derivative instrument:	**Commodities Swap**					
Counterparty	**Period**	**Quantity** (ton.)	**Price** (Euro/ton.)	**Nominal value** (Euro/000)	**Settlement date**	***Fair value*** (Euro/000)
Unicredit Banca d'Impresa S.p.A.	from 01.01.2007 to 31.01.2007	1,400	245.8 Monthly average (Mid price)	344	07.02.2007	(67)
Unicredit Banca d'Impresa S.p.A.	from 01.02.2007 to 28.02.2007	2,600	251.2 Monthly average (Mid price)	653	07.03.2007	(107)
Unicredit Banca d'Impresa S.p.A.	from 01.03.2007 to 31.03.2007	1,300	256 Monthly average (Mid price)	333	06.04.2007	(51)
Total		**5,300**		**1,330**		**(225)**

22. Available-for-sale financial assets

This item consists of investments in other companies and other miscellaneous financial assets, classified as non-current and measured at fair value with changes in fair value recognised directly in equity. The balance is made up principally of the investment in RDM Realty, for Euro 0.3 million, held as a consequence of the proportional demerger executed on 21 June 2006, the shareholding in Cartonnerie Tunisienne S.A., for Euro 0.1 million and minor shares in consortia.

23. Trade receivables

The following table presents an analysis of trade receivables between current and non-current balances, whose total amounted to Euro 100.8 million at 31 December 2006:

Trade receivables	31.12.2006	31.12.2005	Variation
Trade receivables with customers	76	193	(117)
Non-current trade receivables	**76**	**193**	**(117)**
Trade receivables with customers	99,957	105,941	(5,984)
Receivables from associates	801	958	(157)
Current trade receivables	**100,758**	**106,899**	**(6,141)**

The current portion of trade receivables is stated net of a provision for bad and doubtful debts of Euro 6.3 million. The following table sets out the changes for the year in that provision:

Provision for bad and doubtful debts	31.12.2005	Change in scope	Charge	Utilisation	31.12.2006
Provision for bad and doubtful debts	6,636		299	(592)	6,343
Total	**6,636**	**–**	**299**	**(592)**	**6,343**

The following table provides an analysis of trade receivables by geographical area:

Geographical area	Current assets	Non current assets
Italy	69,204	
Rest of European Union	26,169	
Rest of Europe	5,377	76
Rest of the World	8	
Total	**100,758**	**76**

Reveivables from associates refer to trade receivables from the company Pac Service S.p.A..

24. Other receivables

Other non-current receivables	31.12.2006	31.12.2005	Variation
Grupo Torras S.A.	4,072	3,875	197
Tax credits	725	895	(170)
Guarantee deposits	172	248	(76)
Vendor loan New EPG	–	3,054	(3,054)
Receivables from the sale of Cogeneracion Prat S.A.	–	2,200	(2,200)
Total	**4,969**	**10,272**	**(5,303)**

The receivable from Grupo Torras S.A. represents the balance based on the first and second level sentences of the Court of Madrid, discounted to present value on an assumption of the expected timing of receipt that takes into account the steps needed to make an appeal to the Supreme Court.

The vendor loan which arose on the sale of Europoligrafico S.p.A. was repaid as the underlying conditions in the loan agreement were satisfied. The remaining balance at 31 December 2006 consists of accrued interest yet to be paid over.

An amount of Euro 0.5 million of the receivables deriving from the sale of Cogeneracion Prat S.A. was received in advance in 2006, with the remainder of Euro 1.7 million being reclassified to current assets.

Other current receivables	**31.12.2006**	**31.12.2005**	**Variation**
Receivables from the sale of BM3 Prat	2,998	–	2,998
Miscellaneous receivables	1,780	716	1,064
Receivables from the sale of Cogeneracion Prat S.A.	1,700	800	900
Prepayments and accrued income	1,435	736	699
Tax credits	1,193	730	463
Due from Aticarta S.p.A.	–	10,829	(10,829)
Due from Ati Packaging S.r.l.	–	1,267	(1,267)
Due from the sale of Europoligrafico	–	5,552	(5,552)
Dividend receivable from Torraspapel S.A.	–	435	(435)
Receivables from unconsolidated subsidiaries	–	103	(103)
Total	**9,106**	**21,168**	**(12,062)**

The change over 31 December 2005 is mostly due to the collection of financial receivables due from Aticarta S.p.A. and ATI Packaging S.r.l. (amounting to Euro 12.1 million) and the receipt of the balance due from the sale of Europoligrafico S.p.A (Euro 5.5 million).

The receivables for the sale of the Prat BM3 board machine arise from the sale of part of the plant and machinery classified as "Assets held for sale".

Other receivables regard for the most part amounts due from social security authorities for advances paid in connection with the cassa integrazione lay-off procedure (Euro 0.5 million) and receivables for insurance reimbursements (Euro 0.1 million).

Prepayments consist mostly of Euro 1.2 million of rental prepaid for the first half of 2007 for the Pompeii facility which houses the plant held for sale owned by RDM.

25. Stocks

The following table provides an analysis of stocks at 31 December 2006:

Stocks	31.12.2006	31.12.2005	Variation
Raw materials and consumables	22,361	24,431	(2,070)
Provision for obsolesence	(322)	(1,657)	1,335
Finished goods and goods for resale	37,736	35,880	1,856
Provision for obsolesence	–	(2,262)	2,262
Properties for sale	30,000	33,939	(3,939)
Other stocks and supplies for sale	–	2,648	(2,648)
Total	**89,775**	**92,979**	**(3,204)**

"Properties for sale" relate to the right to receive completed properties from Espais in Barcelona in connection with an agreement signed by RDM Iberica and Espais in December 2003. In December 2005, RDM Iberica entered a preliminary agreement for the future sale of these sites to Red.Im S.r.l. at a price of Euro 32 million, already paid in 2006. To guarantee performance of this commitment, RDM Iberica has granted a lien in favour of Red.Im S.r.l. over a receivable from Espais and RDM has issued a surety, all amounting in total to Euro 43 million.

26. Net financial position

Net financial position (Thousands of Euros)	31.12.2006	31.12.2005	Variation
Cash	9	13	(4)
Funds available at banks	4,498	44,794	(40,296)
Restricted funds at banks	5,029	11,972	(6,943)
A. Cash and cash equivalents	**9,536**	**56,779**	**(47,243)**
Other current financial receivables	1,853	18,551	(16,698)
Derivatives - current financial assets	77	5,321	(5,244)
B. Current financial receivables	**1,930**	**23,872**	**(21,942)**
1. Bank overdraft and short term loans	*47,069*	*58,418*	*(11,349)*
2. Current portion of medium and long term loans	*10,412*	*16,724*	*(6,312)*
3. Bonds	*–*	*144,914*	*(144,914)*
Bank loans and other financial liabilities (1 + 2 + 3)	57,481	220,056	(162,575)
Other current financial liabilities	–	5,552	(5,552)
Derivatives - current financial liabilities	351	1,242	(891)
C. Current financial debt	**57,832**	**226,850**	**(169,018)**
D. Current financial debt, net (C – A – B)	**46,366**	**146,199**	**(99,833)**
Other non current financial receivables	–	5,200	(5,200)
Derivatives - non current financial assets	83	–	83
E. Non-current financial receivables	**83**	**5,200**	**(5,117)**
Bank loans and other financial liabilities	80,789	28,270	52,519
Derivatives - non-current financial liabilities	14	–	14
F. Non-current financial payables	**80,803**	**28,270**	**52,533**
G. Non-current financial debt (F – E)	**80,720**	**23,070**	**57,650**
H. Financial debt, net (D + G)	**127,086**	**169,269**	**(42,183)**

The Group had net financial debt at 31 December 2006 of Euro 127.1 million, compared to Euro 169.2 million at 31 December 2005.

The net financial position at 31 December 2006 reflects the restructuring of the debt during the year, in connection with the repayment of the bond by the subsidiary RDM International S.A. on 4 May 2006.

In order to obtain the funds necessary to repay the RDM bond on 6 April 2006, RDM entered floating rate long-term loan agreements with the banks SanPaoloIMI S.p.A., Banca Intesa S.p.A. and Unicredit Banca d'Impresa S.p.A. for a total of 60 million euros, of which Euro 50 million is repayable in six monthly instalments ending on 6 April 2016 and Euro 10 million is repayable on 6 April 2011. These funds, together with the liquidity obtained from the sale of the investments in Aticarta and Europoligrafico and payments of trade and financial receivables due from Red.Im, transferred to the merger recipient RDM Realty, were used to repay the bond which had a total nominal value of Euro 145 million.

The considerable decrease in "Liquid funds" is connected with the repayment of the bond as described above. This balance includes unrestricted bank deposits of Euro 5 million.

The other current receivables of a financial nature are made up of amounts of Euro 0.2 million due from Europoligrafico and Euro 1.7 million due from Cogeneracion Prat S.A.. This latter balance originates from a loan agreement between RDM Iberica and Cogeneracion Prat S.A., arranged before the sale of the investment out of the Group, which expires on 31 December 2007 and is secured on the company's plant. The change over 31 December 2005 is mainly the result of the receipt of amounts totalling Euro 12.1 million from Aticarta S.p.A. and ATI Packaging S.r.l. and the receipt of the outstanding balance of Euro 5.6 million from the sale of Europoligrafico S.p.A..

Other current financial liabilities at 31 December 2005 consisted of the balance of Euro 5.6 million due to Europoligrafico S.p.A. relating to the purchase of the investment in Aticarta S.p.A.; this was settled during the year.

Other non-current financial receivables at 31 December 2005 consisted of a vendor loan of Euro 3 million given to the purchasers of Europoligrafico S.p.A.. This balance was repaid in advance in 2006 as the underlying conditions in the loan agreement for doing so were satisfied.

The non-current portion of "Bank loans and other financial liabilities" consists of long-term interest-bearing debt of Euro 80.8 million measured at amortised cost.

The following table provides an analysis of the nominal value of long-term debt at 31 December 2006 by due date:

Loans	**Due within one year**	**Due after more than one year**	**Due after more than five years**	**Total**
M.I.C.A. - due 13 February 2016	119	520	767	1,406
M.I.C.A. - due 16 October 2013	136	575	305	1,016
M.I.C.A. - due 28 May 2008	52	54		106
San Paolo Imi - due 15 June 2011	1,925	7,555	–	9,480
San Paolo Imi - due 15 December 2011	2,819	12,660	–	15,479
San Paolo Imi - due 6 April 2016	–	–	2,262	2,262
San Paolo Imi fin. pool - tranche A - due 6 April 2016	5,000	20,000	22,500	47,500
San Paolo Imi fin. pool - tranche B - due 6 April 2011	–	10,000	–	10,000
Banca Popolare Emilia Romagna - due 15 May 2016	620	2,480	2,790	5,890
UNICREDIT - due 1 June 2009	133	200		333
UNICREDIT - due 2 November 2009	150	300		450
Total payables at nominal value	**10,954**	**54,344**	**28,624**	**93,922**
Effett of amortized cost	**(542)**	**(1,652)**	**(527)**	**(2,721)**
Total payables valued with amortized cost	**10,412**	**52,692**	**28,097**	**91,201**

RDM is bound by certain restrictions and commitments with thresholds for the pool funding that are normal for syndicated loans of this nature; amongst these are limitations on obtaining additional debt, on distributing dividends, on granting guarantees (a negative pledge), on the disposal of core activities, on making investments and on carrying out financial transactions of an extraordinary nature.

In particular, this loan requires certain financial covenants to be respected that are based on the following ratios:

- Net financial position/Equity;
- Net financial position/Gross operating profit;
- Gross operating profit/Net financial expense.

These ratios must be calculated every six months on the basis of the figures stated in the Group's year end and half year consolidated financial statements, starting from 31 December 2006.
The half year calculations of Gross operating profit and net financial expense are based on the twelve month period ending on the last day of the half year concerned.
The eventual failure to respect the loan agreement covenants can be grounds for the lending banks to terminate the arrangement.

In terms of guarantees, the agreement requires RDM to provide first mortgages on the Ovaro and Marzabotto factories and second mortgages on those at Magenta, Santa Giustina and Villa Santa Lucia, for an overall total of Euro 120 million.
In addition, first special liens have been given as security on the plant and machinery at Ovaro and Marzabotto and second special liens on the plant and machinery at Magenta, Santa Giustina and Villa Santa Lucia, for an overall total of Euro 120 million.

Furthermore, an agreement was signed by the Parent Company with Banca Popolare dell'Emilia Romagna on 13 April 2006 for a floating rate loan of Euro 6.2 million repayable in six-monthly instalments ending on 15 May 2016. This loan is secured by mortgages on the Ovaro, Marzabotto, Magenta, Santa Giustina and Villa Santa Lucia factories for an overall total of Euro 22.4 million.
An agreement was signed by the Parent Company with SanPaolo IMI on 21 December 2006 for a loan of Euro 14.7 million, of which Euro 2.3 million was disbursed in 2006. This loan is governed by the same covenants as the pool loan and is secured by mortgages on the Ovaro, Marzabotto, Magenta, Santa Giustina and Villa Santa Lucia factories for an overall total of Euro 29.4 million.
In addition, special liens have been given as security on the plant and machinery at the same facilities for an overall total of Euro 29.4 million.

In connection with the new loan agreements for the year interest rate swaps having a notional value of Euro 48.6 million at 31 December 2006 were arranged during the year by RDM to reduce the variability of the interest payable on this debt.

Note 21 contains further details of the derivative financial instruments held at 31 December 2006.

27. Non-current assets held for sale

Assets held for sale	31.12.2005	Reclassification	Decreases	Demerger	Write-downs	31.12.2006
Properties	2,850	–	–	(2,850)	–	–
Plant	17,358	1,144	(5,890)	–	(1,220)	11,392
Total	**20,208**	**1,144**	**(5,890)**	**(2,850)**	**(1,220)**	**11,392**

“Non-current assets for sale” total Euro 11.4 million at 31 December 2006 (Euro 20.2 million at 31 December 2005). The nil balance of “Properties” is the consequence of the demerger of the land and buildings of the industrial site at Ciriè into the recipient RDM Realty S.p.A..

“Plant” consist of held for sale manufacturing plant and machinery relating to the Pompeii facility and the MC1 at the Magenta facility and the residual plant at the Prat facility. The decrease over the year is principally the result of the following:

- the sale of part of the plant and materials at the Prat facility (Euro 4.4 million);
- the sale of the plant located at the Ciriè facility where disposal operations were completed during 2006 (Euro 1.1 million);
- the sale of certain machinery from the Pompeii facility (Euro 0.3 million).

The write-down of Euro 1.2 million relates to the adjustment made to the book value of the Magenta MC1 to reduce it to its estimated realisable value.

28. Shareholders' equity

Changes in shareholders' equity of RDM Group for the year are set out in the following table:

Description	Shareholders' equity at 31.12.2005	Change in the year						Share-holders' equity at 31.12.2006
		Loss cover 2005	Demerger of RDM Realty S.p.A.	Reclassifi-cation	Fair value assets available for sale	Hedge accounting	Profit (loss) for the year	
Share capital	148,343		(16,183)					132,160
Share premium reserve	7,797	(7,797)						–
Legal reserve	6,462	(6,462)						–
Reserve for own shares	5,296			(424)				4,872
Other reserves:								
– Reserve for the purchase of own shares	6,584	(6,584)						–
– Extraordinary reserve	77	(77)		424				424
– Reserve for the rounding of nominal value			900					900
– Other reserves								–
IFRS Reserve 01.01.2005	(3,426)		(1,273)					(4,699)
IFRS Result 31.12.2005		17,749						17,749
IFRS Reserve	(3,426)	17,749	(1,273)		–	–	–	13,050
Hedging reserve			71			(195)		(124)
Fair value reserve					(252)			(252)
Profit (loss) brought forward	(10,247)	(10,090)	8,255					(12,082)
Profit (loss) for the period	(13,261)	13,261					(19,098)	(19,098)
Own shares	(5,374)		502					(4,872)
Total	**142,251**	**–**	**(7,728)**	**–**	**(252)**	**(195)**	**(19,098)**	**114,978**

On 3 May 2006, shareholders in general meeting resolved to cover the 2005 losses of the Parent Company stated in the financial statements prepared in accordance with Italian accounting principles and amounting to Euro 34,670 thousand, by using the "Share premium reserve" for Euro 7,797 thousand, the "Legal reserve" for Euro 6,462 thousand, the "Reserve for the purchase of own shares" for Euro 6,584 thousand and the "Extraordinary reserve" for Euro 77 thousand, carrying forward the remaining loss of Euro 13,750 thousand.

The "IFRS reserve" consists of the effect for the Parent Compant arising on the transition to IFRS on 1 January 2005, excluding the part relating to own shares which is presented separately, and that regarding the result for the year ended 31 December 2005 deriving from the use of International Accounting Standards, which amounting to Euro 17.7 million was lower than that incurred under Italian accounting principles.

The "Reserve for own shares" is a restricted reserve pursuant to article 2357-ter of the Italian civil code.

Own shares consist of 7,513,443 ordinary shares, equal to 2.79% of share capital.

In addition, in accordance with article 5 of the Parent Company's bylaws, the bearers of savings shares may convert their shares into ordinary shares during February and September of each year. A total of 2,211 savings shares were converted into ordinary shares during 2006. As a consequence of this, share capital at 31 December 2006, fully subscribed and paid, is made up as follows:

	Quantity	Par value (Euro)	Total (Euro)
Ordinary shares	269,202,370	0.49	131,909,161.30
Savings shares	512,067	0.49	250,912.83
Total	**269,714,437**		**132,160,074.13**

RDM's bylaws also provide that if during any one fiscal year a dividend per share is distributed to savings shareholders which is less than 5% of the nominal value of the savings shares (being Euro 0.49), then the difference is transferred as an increase in the privileged dividend of the following two years. In this respect it is recalled that no dividends were distributed in 2004 or 2005.

Minority interests of Euro 0.6 million (Euro 0.8 million at 31 December 2005) relate to the share held by minority quotaholders in the subsidiary Emmaus Pack S.r.l..

29. Other payables

The following table provides a detail of other current payables:

Other payables	31.12.2006	31.12.2005	Variation
Due to Red.Im S.r.l. for the purchase of Prat properties	32,000	–	32,000
Deferred income	599	650	(51)
Miscellaneous payables	160	414	(254)
Other non-current payables	32,759	1,064	31,695
Personnel	4,145	10,979	(6,834)
Payable to social security authorities	3,102	3,556	(454)
Payable to tax authorities	2,610	3,842	(1,232)
Miscellaneous payables	1,837	2,242	(405)
Company bodies	858	866	(8)
Accred expenses and deferred income	816	506	310
Payable to EPG for the purchase of Aticarta	–	5,552	(5,552)
Accrued interest payable on debenture loan	–	5,704	(5,704)
Other current payables	**13,368**	**33,247**	**(19,879)**

Non-current payables amount to Euro 32.8 million and consist principally of the down payment of Euro 32 million made by Red.Im S.r.l. to RDM Iberica pursuant to the preliminary agreement for the sale of properties to be erected at the Prat site.

The item “Personnel” regards mainly deferred remuneration and indemnities. The decrease is mainly due to the payment of indeminities to personnel of Prat facilities.

“Payable to social security authorities” relates for the most part to amounts due to social security authorities for social security contributions on current wages and salaries paid to employees in December, which were paid over in January 2007, and to accruals for social security contributions due on deferred remuneration (employee leave, additional months’ salaries and overtime).

“Payable to tax authorities” consists of withholding taxes on wages and salaries paid to employees in December, VAT payables and miscellaneous tax payables.

30. Deferred taxation

The following table provides a summary of the calculation of deferred tax assets and deferred tax liabilities from temporary differences at 31 December 2006:

Deferred taxation	31.12.2006			31.12.2005		
	Temporary differences	Average tax rate %	Tax effect	Temporary differences	Average tax rate %	Tax effect
Recognised deferred tax assets	**60,555**		**19,636**	**115,147**		**37,164**
Write-down of investments	7,966	33.00%	2,629	6,958	33.00%	2,296
Tax loss for the year	–		–	11,948	34.84%	4,163
Tax losses to carry forward	28,460	34.70%	9,875	17,949	34.47%	6,188
Write-downs for permanent losses in value	1,220	4.25%	52	6,990	4.25%	297
Stock provision	322	4.25%	14	322	4.25%	14
Provision for future charges	2,940	4.25%	125	2,329	4.69%	109
Other temporary differences IRES	948	33.00%	313	774	33.00%	256
Other temporary differences IRAP	994	4.25%	42		4.25%	–
Agent's termination indemnity	45	37.25%	17	245	16.91%	41
Write-downs of intangible assets IFRS	767	37.25%	286	1,546	37.26%	576
Valuation of derivatives with hedge accounting	185	33.00%	61		33.00%	–
Deferred tax assets on consolidation entries	16,708	37.25%	6,224	66,086	35.14%	23,224
Recognised deferred tax liabilities	**72,841**		**26,443**	**112,189**		**38,881**
Gain on the disposal of Espais	24,204	35.00%	8,471	24,204	35.00%	8,471
Book depreciation exceeding tax depreciation	16,167	37.25%	6,022	19,674	37.25%	7,329
Other temporary differences IRAP	110	4.25%	5		4.25%	–
Other temporary differences IRES	231	33.00%	76		33.00%	–
Reclassification start-up costs Villa Santa Lucia IFRS	2,451	37.25%	913	2,647	37.25%	986
Separation of land and buildings IFRS	4,950	37.25%	1,844	6,606	37.25%	2,461
Revaluation of land and buildings IFRS	22,224	37.25%	8,278	22,739	37.25%	8,470
Remeasurement TFR IFRS	2,338	33.00%	772	2,422	33.00%	799
Remeasurement FISC IFRS	47	37.25%	18	380	37.25%	142
Deferred tax liabilities on consolidation entries	119	37.25%	44	33,517	30.50%	10,223
Recognised deferred tax (assets) liabilities, net			**6,807**			**1,717**
– of which deferred tax liabilities			*7,699*			*2,293*
– (of which deferred tax assets)			*(892)*			*(577)*
Unrecognised deferred tax assets	**210,674**		**70,994**	**191,397**		**64,380**
Write-down of investments	–	33.00%	–	12,549	33.00%	4,141
Write-downs for permanent losses in value	1,220	33.00%	403	6,990	33.00%	2,307
Stock provision	322	33.00%	106	322	33.00%	106
Bad and doubtful debts	1,582	33.00%	522	1,958	33.00%	646
Provision for future charges (IRES)	3,805	33.00%	1,256	2,461	33.00%	812
Agents' termination indemnity	–	33.00%	–	151	33.00%	50
Differences deductible in future years	1,792	37.25%	668	10	37.25%	4
Tax losses to carry forward	147,771	33.50%	49,503	114,715	33.50%	38,427
Tax loss for the year	54,182	34.21%	18,537	50,458	34.21%	17,262
Deferred tax assets on consolidation entries	–	35.00%	–	1,783	35.00%	624
Unrecognised deferred tax assets			**70,994**			**64,380**

Deferred tax assets and liabilities at 31 December 2006 have been offset as the conditions in IAS 12 are satisfied; in particular, they are offset when balances relate to income taxes levied by the same taxation authority and when there is a legally enforceable right to do so.

The differences in the various average tax rates are due to the different fiscal legislation prevailing in the European countries in which the Reno De Medici Group operates.

Unrecognised deferred tax assets arise principally from unused tax losses. These assets have not been recognised for reasons of prudence, given the present situation in the sales markets.

The following table provides details of the Group's accumulated tax losses at 31 December 2006 with details of the year in which the related benefit expires:

Accumulated tax losses	**2007**	**2008**	**2009**	**2010**	**2011**
Reno De Medici S.p.A.	121,988	103,629	60,964	42,151	24,672
RDM Iberica S.L.	105,485	95,101	83,468	83,468	83,468
Cartiera Alto Milanese S.p.A.	1,777	1,777	1,777	1,777	–
RDM Deutschland Gmbh	1,194	1,194	1,194	1,194	1,194
Total tax losses to carry forward	**230,443**	**201,702**	**147,402**	**128,589**	**109,333**

The tax losses relating to RDM Deutschland GmbH do not expire, while those relating to RDM Iberica S.L. may be utilised until 2020.

31. Employees' leaving entitlement

Employees' leaving entitlement	**31.12.2006**	**31.12.2005**	**Variation**
Employees' leaving entitlement	17,235	17,324	(89)

The actuarial valuation of the "Employees' leaving entitlement" at 31 December 2006 in accordance with IAS 19 was made by an independent actuary on the basis of information provided by the Group.

The following demographic assumptions were used by the actuary:
- mortality rates: ISTAT data for 2002 relating to the Italian population and separated by gender;
- incapacity: the INPS model for forecasts up until 2010;
- retirement age for general activities: it has been assumed that active workers will reach the first of the pension requisites valid for the *Assicurazione Generale Obbligatoria* (Compulsory General Insurance);
- employees leaving for reasons other than death in service: an annual turnover frequency of 5.00% has been assumed;
- advances of the entitlement: an annual figure of 3.00% has been assumed.

The economic and financial assumptions used were as follows:

Economic and financial assumptions	
Annual discount rate	4.60%
Annual inflation rate	2.00%
Annual increase in overall salaries and wages	2.50%
Annual increase in employees' leaving entitlement	3.00%

Movements in the actuarial value of the liability for the year were as follows:

Movements in the actuarial value of the liability	
Actuarial value at 31.12.2005	**17,324**
Service cost	1,512
Interest cost	839
Services rendered	(2,440)
Other movements	
Actuarial value at 31.12.2006	**17,235**

Unrecognised actuarial losses at 31 December 2006 resulting from the application of the corridor method amounted to Euro 1.5 million and do not exceed the 10% threshold.

32. Provisions

The balance at 31 December 2006 is made up as follows:

Provisons for contingencies and charges	31.12.2005	Charge	Utilisation	31.12.2006
Agents' termination indemnity	1,077	72	(356)	793
Provision for future charges	6,042	1,703	(2,694)	5,051
Taxation	29			29
Provision for losses on investments	278	24		302
Total	**7,425**	**1,799**	**(3,050)**	**6,175**

The liability for the agents' termination indemnity is determined on the basis of actuarial techniques.

The utilisation of Euro 2.7 million of the "Provision for future charges" during the year relates mostly to the portion regarding 2006 of the rentals for the Prat site for Euro 1.7 million already provided last year, to the settlement of disputes for Euro 0.5 million and to utilisations regarding the purchase of CO2 quotas.
The charge for the year relates principally to costs still to be incurred regarding the Ciriè, Pompeii and Prat facilities amounting in total to Euro 1 million, which are classified as discontinued operations in the profit and loss account, and the accrual for the expected land reclamation costs connected with the landfill at the Santa Giustina facility amounting to Euro 0.6 million.

The charge for the "Provision for losses on investments" relates to the losses incurred by the subsidiary Reno Logistica in liquidation.

33. Trade payables

The balance at 31 December 2006 is made up as follows:

Trade payables	31.12.2006	31.12.2005	Variation
Trade payables to third parties	85,197	71,605	13,592
Due to associates	1,363	947	416
Total	**86,560**	**72,552**	**14,008**

"Trade payables" amount to Euro 86.6 million (Euro 72.6 million at 31 December 2005) and are due within 12 months. Balances are stated net of trade discounts and are adjusted for any returns or rebates agreed with the seller.

"Due to associates" of Euro 1.3 million (Euro 0.9 million at 31 December 2005) relates to balances of a trading nature for purchases of steam from Termica Boffalora S.r.l..

34. Current taxation

The balance of Euro 32 million represents the amount due to the tax authorities for current taxation relating to the year ended 31 December 2006.

35. Earnings per share

Earnings per share is calculated by dividing the profit or loss of the Group for the year (adjusted to take account of the minimum due to savings shareholders) by the weighted average number of shares outstanding during the period, excluding own shares held.

The following table sets out the calculation of earnings per share for the years ended 31 December 2006 and 2005:

Basic earnings per share	31.12.2006	31.12.2005
Profit (loss) of the period	(18,843)	(12,770)
Result attributable to savings shares	42	43
Profit (loss) of the period adjusted	(18,885)	(12,813)
Weighted average of outstanding ordinary shares	261,688,190	261,684,740
Weighted average of outstanding savings shares	512,067	514,278
Earnings (losses) per share	(0.07)	(0.05)
Profit (loss) of the period before discontinued operations	(9,900)	(23,947)
Profit (loss) of the period before discontinued operations adjusted	(9,942)	(23,990)
Earnings (losses) per share before discontinued operations	(0.04)	(0.09)

Diluted earnings per share	31.12.2006	31.12.2005
Profit (loss) of the period	(18,843)	(12,770)
Weighted average of outstanding ordinary shares	262,200,994	262,200,994
Earnings (losses) per share	(0.07)	(0.05)
Profit (loss) of the period before discontinued operations	(9,900)	(23,947)
Earnings (losses) per share before discontinued operations	(0.04)	(0.09)

36. Non-recurring transactions

Non-recurring transactions include the partial and proportional demerger of the Parent Company through the transfer of net assets consisting of owned non-business property assets into the newly-established recipient company RDM Realty S.p.A. ("RDM Realty").

The formalisation of the demerger deed followed the admission to trading of RDM Realty's shares by Borsa Italiana S.p.A. on 12 June 2006 and the clearance given by Consob on 15 June 2006 for the publication of the company's listing prospectus.

The demerger became effective on 21 June 2006 and the RDM Realty shares began trading in class 1 of the Expandi Market on 22 June 2006, with the RDM shares being traded ex-demerger from that date.

The following balance sheet effects at 21 June 2006 arose from the transfer of the assets described to the recipient RDM Realty S.p.A.:
- land and buildings for industrial use of Euro 3.5 million, located in the municipality of Magenta (MI) and classified as tangible assets;
- land for agricultural use of Euro 1.3 million located in Magenta (MI) and classified as investment property;
- land and buildings of Euro 3.9 million not relating to the manufacture of recycled cartonboard, located in Boffalora Ticino (MI) and classified as stocks;
- land and buildings of Euro 2.8 million relating to the Ciriè industrial site and classified as assets held for sale;
- as a consequence of the demerger the cash down payment made by Red.Im S.r.l. to RDM Iberica on 27 April 2006 in connection with the preliminary purchase and sale agreement between RDM Iberica and Red.Im S.r.l., having a value of Euro 32 million and relating to future properties in Barcelona that Espais has undertaken to transfer to RDM Iberica, has become a liability item in the RDM consolidated financial statements;
- deferred tax assets of Euro 4 million;
- other receivables of Euro 0.8 million;
- derivative financial instruments of Euro 0.1 million; and
- liquid funds of 0.5 million.

Liabilities transferred to the demerger recipient consisted of bank debt of Euro 39.5 million, payables to RDM of Euro 0.8 million, derivative financial instruments of Euro 0.1 million and other payables of Euro 0.3 million.

As a result, the proportional demerger into RDM Realty S.p.A. led to an overall decrease of Euro 8.2 million in the shareholders' equity of the RDM Group.

Reference should be made to note 28 for further details of the changes in the items of shareholders' equity resulting from the demerger.

There were no other transactions of a non-recurring nature other than those connected with discontinued operations described in note 14.

37. Contingent liabilities and commitments and other guarantees given to third parties

Reference should be made to the section "Other information" in the Report of the Board of Directors for a discussion of the principal disputes in which the Group is involved.

Commitments and guarantees to third parties, over those previously reported, include the following:

- sureties of Euro 2.3 million provided in favour of the Region of Veneto and the Province of Belluno regarding the landfill located at the Santa Giustina (BL) facility;
- sureties of Euro 100 thousand provided in favour of the customs authorities;
- a surety of Euro 1.5 million provided in favour of the tax authorities in respect of VAT reimbursements;
- a surety of Euro 100 thousand provided in favour of Agea S.p.A. relating to the recovery of starch;
- a surety of Euro 20 thousand given in favour of the Region of Lombardy;
- a surety of Euro 3 thousand given in connection with the leasing of property;
- a guarantee of Euro 43 million given by RDM in favour of Red.Im S.r.l. relating to performance connected with the signing of a preliminary agreement on 19 December 2005 for the sale of properties by RDM Iberica S.L. and Red.Im S.r.l.. For the same purpose a lien on RDM Iberica's receivable from Espais was set up on 8 March 2006 in favour of Red.Im S.r.l..

OTHER INFORMATION

Investments in subsidiary companies and associates at 31 December 2006 (pursuant to article 38, paragraph 2 of Legislative Decree no. 127/91).

List of subsidiary companies included in the scope of consolidation

Cartonboard sector

Reno De Medici Iberica S.L.
Prat de Llobregat – Barcelona – Spain
Direct ownership 100%
Consolidation method: line-by-line

Emmaus Pack S.r.l.
Milan – Italy
Direct ownership 51.39%
Consolidation method: line-by-line

Cartiera Alto Milanese S.p.A.
Milan – Italy
Direct ownership 100%
Consolidation method: line-by-line

RDM France S.à.r.l.
Tremblay en France – Paris – France
Direct ownership 99.58%
Indirect ownership 0.42% (through Cartiera Alto Milanese S.p.A.)
Consolidation method: line-by-line

Reno De Medici Deutschland GmbH
Bad Homburg – Germany
Direct ownership 100%
Consolidation method: line-by-line

List of equity investments accounted for using the equity method

Cartonboard sector

Pac Service S.p.A.
Vigonza – Padua – Italy
Direct ownership 33.33%
Associate

Energy sector

Termica Boffalora S.r.l.
Sesto San Giovanni – Milan – Italy
Direct ownership 30%
Associate

Service sector

Reno Logistica S.p.A. in liquidation
Milan – Italy
Direct ownership 100%
Unconsolidated subsidiary

Cogeneration Baix De Llobregat S.L.
Prat de Llobregat – Barcelona – Spain
Direct ownership 100%
Unconsolidated subsidiary

List of other investments

Cartonboard sector

Cartonnerie Tunisienne S.A.
Les Berges Du Lac – Tunis
Direct ownership 5.274%

Other sectors

RDM Realty S.p.A.
Milan – Italy
Direct ownership 0.327%

Energymont S.p.A.
Tolmezzo – Udine – Italy
Direct ownership 2.02%

Consortia

Conai
Milan – Italy
Consortium share

Comieco
Milan – Italy
Consortium share

Gas Intensive S.c.r.l.
Milan – Italy
Consortium share

C.I.A.C. S.c.r.l.
Valpenga (TO) – Italy
Consortium share

Idroenergia S.c.r.l.
Aosta – Italy
Consortium share

Università Carlo Cattaneo
Castellanza (VA) – Italy
Consortium share

RELATED PARTY TRANSACTIONS

Reference should be made to the "Other information" section of the Report of the Board of Directors for details of related party transactions.

The supplementary information regarding related party transactions required by Consob communication no. 6064293 of 28 July 2006 is set out below.

Receivables, payables, receipts and payments with related parties

The following tables provide details of receivables and payables due from and due to related parties at 31 December 2006 and receipts and payments flows with related parties for the year then ended:

Receivables and payables due to related parties	**Current assets Trade receivables**	**Current liabilities Trade payables**
IBI S.p.A.		1,800
Immobiliare Anste S.r.l.		64
Anste Autotrasporti S.r.l.		135
Termica Boffalora S.r.l.		1,363
Pac Service S.p.A.	801	
Total	**801**	**3,362**
Incidence on the total of the item	**0.8%**	**3.9%**

Outflows and inflows of cash due to related parties	**Outflows Trade payables**	**Inflows Trade receivables**
IBI S.p.A.	215	
Immobiliare Anste S.r.l.	254	
Anste Autotrasporti S.r.l.	611	
Termica Boffalora S.r.l.	5,866	
Pac Service S.p.A.		2,529
Total	**6,946**	**2,529**

Revenues and costs deriving from related party transactions

The following tables provide details of the revenues and costs deriving from related party transactions in the year ended 31 December 2006:

Revenues	**Revenues for sales**
IBI S.p.A.	
Immobiliare Anste S.r.l.	
Anste Autotrasporti S.r.l.	
Termica Boffalora S.r.l.	
Pac Service S.p.A.	1,890
Total	**1,890**
Incidence on the total of the item	**0.6%**

Costs	**Cost of raw materials and services**	**Discontinued operations**
IBI S.p.A.		90
Immobiliare Anste S.r.l.	211	
Anste Autotrasporti S.r.l.	483	
Termica Boffalora S.r.l.	5,198	
Pac Service S.p.A.		
Total	**5,892**	**90**
Incidence on the total of the item	**2.5%**	**1.0%**

SUBSEQUENT EVENTS

Reference should be made to the “Other information” section of the Report of the Board of Directors for details of significant events occurring after 31 December 2006.

REPORT OF THE INDEPENDENT AUDITORS

PricewaterhouseCoopers SpA

AUDITORS' REPORT IN ACCORDANCE WITH ARTICLE 156 OF LEGISLATIVE DECREE N° 58 DATED 24 FEBRUARY 1998

To the shareholders of
Reno De Medici SpA

1 We have audited the consolidated financial statements of Reno De Medici SpA and its subsidiaries ("Reno De Medici Group") as of 31 December 2006, constituted by the balance sheet, income statement, statement of changes in shareholders' equity, cash flow statement and the related notes. These consolidated financial statements are the responsibility of Reno De Medici SpA's Directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

2 We conducted our audit in accordance with the auditing standards and criteria recommended by CONSOB, the Italian Commission for listed Companies and the Stock Exchange. In accordance with those standards and criteria, the audit has been planned and performed to obtain the necessary assurance about whether the consolidated financial statements are free of material misstatement and, taken as a whole, are reliable. An audit includes examining, on a sample basis, evidence supporting the amounts and disclosures in the financial statements, as well as assessing the appropriateness of the accounting principles used and the reasonableness of the estimates made by the Directors. We believe that our audit provides a reasonable basis for our opinion.

For the opinion on the consolidated financial statements of the prior year, which are presented for comparative purposes, reference is made to our report dated 11 April 2006.

3 In our opinion, the consolidated financial statements of Reno De Medici SpA as of 31 December 2006 comply with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree n° 38/2005; accordingly, they have been drawn up clearly and give a true and fair view of the financial position, results of operations, changes in shareholders' equity and cash flows of Reno De Medici Group for the year then ended.

Sede legale e amministrativa: Milano 20149 Via Monte Rosa 91 Tel. 0277851 Fax 027785240 Cap. Soc. 3.754.400,00 Euro i.v., C.F. e P.IVA e Reg. Imp. Milano 12979880155 Iscritta al n. 43 dell'Albo Consob – Altri Uffici: **Bari** 70125 Viale della Repubblica 110 Tel. 0805429863 – **Bologna** 40122 Via delle Lame 111 Tel. 051526611 – **Brescia** 25124 Via Cefalonia 70 Tel. 0302219811 – **Firenze** 50129 Viale Milton 65 Tel. 0554627100 – **Genova** 16121 Piazza Dante 7 Tel. 01029041 – **Napoli** 80121 Piazza dei Martiri 30 Tel. 08136181 – **Padova** 35137 Largo Europa 16 Tel. 0498762677 – **Palermo** 90141 Via Marchese Ugo 60 Tel. 091349737 – **Parma** 43100 Viale Tanara 20/A Tel. 0521242848 – **Roma** 00154 Largo Fochetti 29 Tel. 06570251 – **Torino** 10129 Corso Montevecchio 37 Tel. 011556771 – **Trento** 38100 Via Grazioli 73 Tel. 0461237004 - **Treviso** 31100 Viale Felissent 90 Tel. 0422696911 – **Trieste** 34125 Via Cesare Battisti 18 Tel. 0403480781 - **Udine** 33100 Via Poscolle 43 Tel. 043225789 – **Verona** 37122 Corso Porta Nuova 125 Tel.0458002561

PRICEWATERHOUSECOOPERS

Milan, 11 April 2007

PricewaterhouseCoopers SpA

Signed by Giorgio Greco
(Partner)

This report has been translated from the original which was issued in accordance with Italian legislation. References in this report to the Consolidated Financial Statements refer to the Consolidated Financial Statements in original Italian and not to their translation.

(2)

FINANCIAL STATEMENTS OF THE PARENT COMPANY RENO DE MEDICI S.P.A.

PROFIT AND LOSS ACCOUNT

(Euros)	Note	31.12.2006	31.12.2005
Revenues from sales to third parties		239,567,223	232,103,376
Revenues from sales to subsidiary companies		46,135,333	33,163,195
Revenues from sales	1	285,702,556	265,266,571
Other revenues	2	3,536,805	3,711,890
Changes in stocks of finished goods	3	5,290,196	1,628,877
Cost of raw materials and services	4	(222,227,164)	(195,782,620)
Staff costs	5	(45,135,171)	(46,489,534)
Other operating costs	6	(2,740,708)	(3,367,434)
Income (expense) from non-current assets held for sale	7	(363,386)	(179,454)
Gross Operating Profit (EBITDA)		**24,063,128**	**24,788,296**
Depreciation and amortisation	8	(24,462,339)	(24,659,770)
Recovery of value and write-downs of assets		–	0
Operating Profit (EBIT)		**(399,211)**	**128,526**
Financial expense		(11,331,060)	(10,279,883)
Exchange differences		(153,753)	331,161
Financial income		723,366	3,194,417
Financial income (expense), net	9	(10,761,447)	(6,754,305)
Income (expense) from investments	10	2,124,792	(26,140,937)
Taxation	11	(809,331)	(2,452,759)
Profit (loss) for the year before discontinued operations		**(9,845,197)**	**(35,219,475)**
Gains (losses) from disposals, net		–	19,466,547
Loss for the period		(5,491,636)	(1,167,674)
Discontinued operations	12	(5,491,636)	18,298,873
PROFIT (LOSS) FOR THE YEAR		**(15,336,833)**	**(16,920,602)**

BALANCE SHEET
ASSETS

(Euros)	Note	31.12.2006	31.12.2005
Non-current assets			
Tangible fixed assets	13	178,499,976	192,771,881
Other intangible assets	14	1,207,323	1,794,435
Shares in subsidiary companies	15	64,354,067	79,494,265
Shares in associate companies	16	7,742,970	7,742,970
Derivative financial instruments	17	82,643	–
Financial assets held for sale	18	443,000	190,715
Trade receivables	19	76,245	103,679
Other receivables	20	918,786	4,142,084
Total non-current assets		**253,325,010**	**286,240,029**
Current assets			
Stocks	21	53,843,895	50,093,804
Trade receivables	19	67,521,890	76,569,062
Trade receivables due to subsidiary companies	22	22,846,924	37,582,250
Trade receivables due to associates	23	801,222	958,363
Other receivables	20	3,280,112	18,620,104
Derivative financial instruments	17	76,833	–
Liquid funds	24	2,043,718	43,208,303
Total current assets		**150,414,594**	**227,031,886**
Other non-current assets held for sale	25	**9,661,923**	**14,579,051**
TOTAL ASSETS		**413,401,527**	**527,850,966**

BALANCE SHEET LIABILITIES AND SHAREHOLDERS' EQUITY

(Euros)	Note	31.12.2006	31.12.2005
Shareholder's equity	26	**117,070,959**	**148,838,767**
Non-current liabilities			
Bank loans and other financial liabilities	24	80,288,317	27,486,870
Payables due to subsidiary companies	27	32,000,000	–
Derivative financial instruments	17	14,393	–
Other payables	28	599,185	651,288
Deferred tax liabilities	29	11,372,809	12,122,046
Employees' leaving entitlement	30	17,133,264	17,008,263
Non-current provisions for contingencies and charges	31	3,946,391	3,688,649
Total non current liabilities		**145,354,359**	**60,957,116**
Current liabilities			
Bank loans and other financial liabilities	24	57,163,581	72,084,745
Derivative financial instruments	17	351,077	33,970,414
Trade payables due to third party	32	78,404,779	63,060,687
Payables due to subsidiary companies	27	4,062,837	131,670,157
Payables due to associates payables	33	1,363,223	947,264
Other payables	28	9,630,712	16,321,816
Total current liabilities		**150,976,209**	**318,055,083**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**413,401,527**	**527,850,966**

CASH FLOW STATEMENT

(Euros)	**31.12.2006**	**31.12.2005**
Profit (loss) for the period before discontinued operations and before taxation	(9,036)	(32,767)
Depreciation and amortisation	24,462	23,091
Write-downs	–	–
(Gains) losses from investments	(2,125)	23,903
Financial (income) expense	10,761	6,755
Gains (losses) on the disposal of fixed assets	–	(256)
Change in trade receivables	9,075	14,643
Change in stocks	(4,405)	3,039
Change in trade receivables due to subsidiary companies	(1,654)	(131)
Change in trade receivables due to associates companies	157	(797)
Change in other receivables	(2,085)	7,858
Change in trade payables	15,346	(3,912)
Change in trade payables due to subsidiary companies	(40)	2,311
Change in trade payables due to associates companies	416	(118)
Change in other payables	(1,190)	(1,087)
Change in the employees' leaving entitlement	(708)	(449)
Change in other provisions and deferred taxation	735	(5,650)
Gross cash flows	**39,709**	**36,433**
Interest paid in the period	(11,272)	(11,731)
Taxes paid in the period	(2,236)	(1,378)
Cash flows from operating activities	**26,201**	**23,324**
Sale (purchase) of financial assets held for sale	(126)	3,579
Investments	(9,709)	(13,035)
Divestments	15,619	857
Dividends received	2,125	1,686
a. Gains on disposal of discontinued operations	*–*	*19,466*
b. Result for the period of discontinued operations	*(5,492)*	*(1,167)*
c. Change in assets and liabilities of discontinued operations	*1,220*	*19,926*
d. Change in other receivables/other payables of disposals	*19,079*	*(3,054)*
Cash flows from discontinued operations (a + b + c + d)	14,807	35,171
Cash flows from investing activities	**22,716**	**28,258**
Repayment (draw-down) of intragroup receivables	29	(7,618)
Draw-down (repayment) of intragroup payable	(95,569)	(1,705)
Draw-down (repayment) of short-term bank borrowings and long-term loans	37,880	(1,977)
Dividends paid	–	–
Change in other financial liabilities	(32,421)	(337)
Cash flows from financing activities	**(90,081)**	**(11,637)**
Change in restricted liquid funds	–	–
Change in unrestricted liquid funds	**(41,164)**	**39,945**
Unrestricted liquid funds at beginning of period	**43,208**	**3,263**
Unrestricted liquid funds at end of period	**2,044**	**43,208**
Liquid funds at end of period		
Unrestricted liquid funds	2,044	43,208
Restricted liquid funds	–	–
TOTAL LIQUID FUNDS AT END OF PERIOD	**2,044**	**43,208**

CHANGES IN SHAREHOLDERS' EQUITY

Statement of changes in consolidated shareholders' equity (Thousands of Euros)	**Share capital**	**Share premium reserve**	**Legal reserve**	**Reserve for own shares**	**Extra-ordinary reserve**	**Reserve for the purchase of own shares**	**Reserve for the rounding of nominal value**	**IFRS Reserve**	**Retained earnings (losses) brought forward**	**Profit (loss) for the period**	**Fair Value reserve**	**Hedging reserve**	**Own shares**	**Total Share-holders' equity**
Shareholders' equity at 01.01.2005	**148,343**	**8,884**	**6,462**	**5,373**	**15,362**	**6,584**	**–**	**(3,426)**	**–**	**(16,449)**	**–**	**–**	**(5,374)**	**165,759**
Increase in share capital														–
Distribution of dividends														–
Change in accounting principle														–
Reclassifications				(77)	77									–
Value adjustments recognised directly in equity														–
Cover of 2004 losses		(1,087)			(15,362)					16,449				–
Profit (loss) for the period										(16,921)				(16,921)
Shareholders' equity at 31.12.2005	**148,343**	**7,797**	**6,462**	**5,296**	**77**	**6,584**	**–**	**(3,426)**	**–**	**(16,921)**	**–**	**–**	**(5,374)**	**148,838**
Increase in share capital														–
Distribution of dividends														–
Change in accounting principle														–
Reclassifications (*)				(424)	424								502	502
Demerger	(16,183)						900	(1,273)						(16,556)
Value adjustments recognised directly in equity											(252)	(124)		(376)
Cover of 2005 losses (**)		(7,797)	(6,462)		(77)	(6,584)		17,749	(13,750)	16,921				0
Profit (loss) for the period										(15,337)				(15,337)
Shareholders' equity at 31.12.2006	**132,160**	**–**	**–**	**4,872**	**424**	**–**	**900**	**13,050**	**(13,750)**	**(15,337)**	**(252)**	**(124)**	**(4,872)**	**117,071**

(*) The amount is due to RDM Realty S.p.A. shares held following the demerger and to other reclassifications between equity reserves.
(**) On 3 May 2006, shareholders in general meeting resolved to cover the 2005 losses of the Parent Company stated in the financial statements prepared in accordance with Italian accounting principles. The movement includes the effect arising from the company's transaction to IFRS regarding the result for the year ended 31 December 2005.

NOTES TO THE FINANCIAL STATEMENTS

Basis of preparation

Legislative Decree no. 38 of 28 February 2005 governs the way in which Regulation (EC) no. 1606/2002 of the European Parliament and of the Council of 19 July 2002 is to be adopted as part of Italian legislation, establishing the requirement for listed companies to prepare their annual financial statements in accordance with International Financial Reporting Standards (referred to as "IFRS" or "International Accounting Standards" in the following) starting from the year ended or in progress on 31 December 2006.

In compliance with paragraph 25 of IFRS 1, since the parent became a first-time adopter of IFRS for its separate financial statements (its transition date to IFRS is 1 January 2005) later than for its consolidated financial statements (for which the transition date to IFRS was 1 January 2004), the Parent Company has measured its assets and liabilities at the same amounts in both financial statements, except for consolidation adjustments.

The separate financial statements of the Parent Company have been prepared in accordance with the IFRS issued by the International Accounting Standards Board and adopted by the European Union. By IFRS is also intended all the revised accounting principles (International Accounting Standards or IAS) and all the interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"), previously known as the Standing Interpretations Committee ("SIC").

In compliance with the regulatory provisions referred to earlier, the reconciliations required by IFRS to be prepared as at the date of transition to IFRS are included in the annex "Transition to International Financial Reporting Standards by the Parent Company Reno De Medici S.p.A.".

The amounts in the balance sheet and profit and loss account are expressed in euros, while those in the notes to the financial statements are expressed in thousands of euros unless otherwise stated.

Financial Statements are presented as follows:

- Balance Sheet: current and non-current assets, and current and non-current liabilities, are presented as separate classifications;
- Income Statement: expenses are aggregated according to their nature;
- Cash Flow Statement: financial flows from operating activities are presented using the indirect method.

The financial statements have been audited pursuant to Legislative Decree no. 58 of 24 February 1998 and the Auditors' Report is attached to the financial statements.

ACCOUNTING PRINCIPLES AND POLICIES

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 Company 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 charged 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 Company. Land is not depreciated, even if acquired together with buildings.

The annual depreciation rates used are as follows:

Category		Rate %
Buildings	Factory buildings	3%
	Small constructions	5%
Plant and machinery	General plant and machinery	9% - 20%
	Specific plant and machinery	5.75% - 9.5%
Industrial and commercial equipment	Sundry equipment	20%
Other assets	Furniture and ordinary office machinery	12%
	Electronic office machinery	20%
	Internal vehicles	20%
	Motor vehicles	25%

The Company 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 Company 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

This item consists of non-current assets whose carrying amount will be recovered principally through a sale transaction rather than through continuing use. Assets held for sale are measured at the lower of their carrying amount and fair value less costs to sell and are not depreciated.

Other intangible assets

This item consists of identifiable assets without physical substance that are controlled by the Company and are capable of producing future economic benefits.

Other intangible assets are recognised and measured in accordance with IAS 36 *Intangible Assets* when the cost of the asset can be measured reliably.

Other intangible assets having finite useful lives are measured at cost and are amortised on a straight line basis over their useful lives, intended as the estimate of the period in which the asset will be used by the Company.

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%
	Sundry deferred charges	8% - 20%

Investments in subsidiary companies, associates and joint ventures

Investments in subsidiary companies, associates and joint ventures are measured at cost and undergo periodic testing to determine the extent of any impairment losses.
This testing is carried out each time there is any indication that an investment may be impaired. Measurement of this is performed in the same way as that described for tangible fixed assets.

Any impairment loss is recognised in income for the period in which it is identified. When an impairment loss subsequently reverses, the carrying value of an investment is increased and the adjustment is recognised in income up to the lower of its recoverable amount and its original carrying value.

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 are shown as a reduction in equity.

Available-for-sale financial assets

Non-current 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 there is objective evidence that a financial asset is impaired, the impairment loss is recognised in income despite the fact it has not been sold. When fair value cannot be reliably measured, investments are measured at cost as adjusted for any impairment losses.
Financial assets held for sale presented as current assets consist of securities with short-term maturities or marketable securities which represent a temporary investment of liquid funds.

Trade receivables from third parties, subsidiary companies and associates and other receivables

Trade receivables and other receivables are initially measured at the initial fair value of the amount to be received. Subsequent adjustments are made to account for any write-downs. Non-current trade receivables and other receivables are subsequently measured at amortised cost.

Stocks

Stocks are measured 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 Company 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 Company 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 Company’s obligation is limited to the payment of contributions to the State, to a fund or to a legally separate entity, which is 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").
The Italian Finance Act and respective implementing decrees have introduced significant changes to the way in which the employees' leaving entitlement (the TFR) is regulated, which took effect on 1 January 2007; these changes include the possibility for an employee to choose where the TFR accruing in his favour from that date should be invested. In particular, the employee may request that these amounts be paid over to certain pension funds named in advance or may decide that they should remain in the company for which he works (in this latter case, the company must pay over the TFR contributions to a treasury account set up by INPS, the State social security organisation). At the present stage, given the uncertainties involved in attempting to interpret the recently issued law and regulations referred to above, the various possible interpretations of how the accruing TFR should be considered under IAS 19 and how it should be measured in accordance with that standard and any changes to the actuarial computation that may arise from the already accrued TFR, as well as the impossibility of being able to make a prediction of the decisions that employees may take as to how they wish their accruing TFR to be invested (they must make their decision by 30 June 2007), any assumptions on to the need to make an actuarial adjustment to the TFR accrued at 31 December 2006 are considered premature.

Provisions for contingencies and charges

The Company 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 that the Company 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 Company expects to incur to carry out restructuring programmes are recognised in the period in which it 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. Amounts due to banks and other lenders are measured at amortised cost.

Trade payables to third parties, subsidiary companies and associates and other payables

These liabilities are initially measured at the fair value of the amount to be paid. Subsequent measurement is at amortised cost using the effective interest 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 laws 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 base 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, and are recognised when it is

believed probable that sufficient taxable income will be generated in future periods for their 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.

Discontinued operations

Discontinued operations consist of important autonomous lines of activity – in terms of business or geographical area or which form part of a single, co-ordinated disposal programme – that have either been disposed of or are held for sale, and subsidiary companies acquired exclusively for resale. The results of discontinued operations, which are represented by the profits or losses of these operations and any gains or losses on disposal, are presented separately in the profit and loss account, net of any related tax effects, in a single line item. The profits or losses of these activities in prior years are similarly reclassified for comparative purposes.

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 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 management 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 accounting for bad debts provisions for accounts receivable, stock obsolescence, depreciation, asset impairment, employee benefits, restructuring provisions, taxation and other accruals and provisions and in measuring derivative financial instruments. Estimates and assumptions are reviewed regularly and the effects of any changes are reflected immediately in the profit and loss account.

Risk management

Reference should be made to the "Risk management" section of the Report of the Board of Directors for the information pursuant to article 2428, paragraph 2, no. 6-bis of the Italian civil code.

Specific estimates and valuations

Estimates and valuations are made on the basis both of past experience and a reasonable expectation of the occurrence of future events. The Company makes and uses assumptions as to future events in the preparation of its consolidated financial statements. Estimates and valuations of an accounting nature obtained on the basis of assumptions about future events may differ from the results that actually occur or from the amounts actually recovered from assets. Estimates and valuations are mainly employed in the following situations.

Estimating the recoverable amount (impairment test)

The Company assesses at least annually whether there is any indication that tangible fixed assets and intangible assets may have suffered an impairment loss compared to their carrying amount in the balance sheet. If any such indication exists, the Company estimates the recoverable amount of the asset concerned. The recoverable amount of an asset is the higher of its current realisable value less costs to sell and its value in use. Value in use is determined as the present value of the future cash flows expected to be derived from the cash-generating unit to which the asset belongs through the use of the asset and its possible disposal at the end of its useful life.

The calculation of expected cash flows requires the use of estimates and valuations which may also be based on the expectations of future events relating to the cash-generating unit. Moreover, the present value of future cash flows is highly sensitive to the discount rates used, which reflect precise market figures and risk premiums which may undergo significant and unpredictable changes.

Fair value of derivative contracts and financial instruments

The fair value of financial instruments which are not quoted on a regulated active market is determined by employing various valuation techniques. In this respect, the Company uses those techniques which it believes are the most reasonable in connection with the specific financial instruments that have to be valued and adopts assumptions and makes estimates based on market conditions at the balance sheet date.

Taxation

The overall determination of the tax charge for the year requires the use of estimates and valuations, including those relating to any specific tax liabilities which may not be determinable at the date on which the related individual operation is carried out. In addition, in order to calculate deferred tax assets, the Company employs estimates and valuations which also take into account expectations of future events.

Discontinued operations

The item Discontinued operations also includes the economic result (in terms of net operating margin) of certain discontinued production units which are part of the Company. In order to determine the amounts of certain types of costs which relate to those discontinued units, the Company has used management data and assumptions resulting from the cost accounting system, which utilises specific methodologies of separating and allocating costs on the basis of variables depending on production and size.

Notes to the financial statements

1. Revenues from sales

Revenues from sales may be analysed as follows:

Revenues	31.12.2006	31.12.2005	Variation	%
Revenues for sales	285,439	265,088	20,351	7.7%
Revenues for services	264	179	85	47.5%
Total	**285,703**	**265,267**	**20,436**	**7.7%**

Revenues from sales arise essentially from sales of cartonboard, while services mostly relate to those provided to subsidiary companies. The following table provides a geographical analysis of sales revenues:

Revenues by geographical areas	31.12.2006	31.12.2005	Variation	%
Italy	164,246	150,831	13,415	8.9%
UE	89,531	79,999	9,532	11.9%
Extra UE	31,926	34,437	(2,511)	–7.3%
Total	**285,703**	**265,267**	**20,436**	**7.7%**

The increase in sales relating to the Italian market is mostly the result of a growth in sales volumes, while the rise in sales to the rest of the European Union is significantly affected by the increase in exports to the Spanish market following the closure of the Prat facility by the subsidiary RDM Iberica S.L. in 2005 and the consequent reallocation of production volumes to the Company's Italian factories.

In addition, it is noted that sales revenues relating to Board Machine 1 at the Magenta facility have been reclassified to "Discontinued operations" in both years.

2. Other revenues

Other revenues	31.12.2006	31.12.2005	Variation
Grants	623	686	(63)
Indemnities	317	375	(58)
Increase in fixed assets	182	329	(147)
Recharge of costs	178	188	(10)
Ordinary capital gains	153	51	102
Rental income	35	61	(26)
Other revenues	2,049	2,022	27
Total	**3,537**	**3,712**	**(175)**

Grants consist principally of ordinary grants received from Comieco that relate to the use of waste paper deriving from urban waste differentiation schemes.

Other revenues consist mostly of prior year income, which itself principally comprises receipts from creditors' arrangement procedures, VAT recoveries following the closure of insolvency proceedings and miscellaneous income.

3. Changes in stocks of finished goods

This item represents the increase in finished goods stocks over the year. The effect of the sale of stocks relating to the Magenta MC1 line is included in "Discontinued operations".

4. Cost of raw materials and services

Cost of raw materials and services	31.12.2006	31.12.2005	Variation
Cost of raw materials	**111,185**	**100,612**	**10,573**
Purchase of raw materials	113,577	101,707	11,870
Changes in stocks of raw materials	(2,392)	(1,095)	(1,297)
Services regarding sales	**32,314**	**31,030**	**1,284**
Transport	27,942	25,998	1,944
Commissions and agents' costs	4,372	5,032	(660)
Services regarding manufacturing	**68,923**	**52,923**	**16,000**
Energy	51,132	37,524	13,608
Maintenance	4,655	4,417	238
Waste disposal	4,611	4,359	252
Other manufacturing services	8,525	6,623	1,902
General services	**8,882**	**10,516**	**(1,634)**
Legal, notarial, administrative and external collaboration	2,218	3,253	(1,035)
Board of directors	1,020	1,096	(76)
Statutory auditors	126	152	(26)
Insurance	1,600	1,980	(380)
Postal and telephone	415	561	(146)
Other	3,503	3,474	29
Use of third party assets	**923**	**702**	**221**
Rental and leasing	923	702	221
Total	**222,227**	**195,783**	**26,444**

The cost of raw materials refers mainly to the purchase of waste paper, wood paste, cellulose, chemicals and technical purchases for the factories and packaging. These costs represent approximately 38% of value of production, the incidence is in line compared with the data of the year end 2005.

Service costs have increased considerably compared to those of the previous year (Euro 111.1 million in 2006 compared to Euro 95 million in 2005). These costs represent 38.9 % of revenues from sales (35.8% in 2005), a variation due to the following factors:

- a significant increase in the costs incurred for manufacturing services, due principally to rises in energy costs (which amount to Euro 13.6

million without taking into consideration the costs of Euro 0.7 million incurred for the supply of fuel oil, not present in 2005 and which are classified as raw materials costs);

- an increase in the costs incurred for sales services linked to the rise in transport costs, which was partially offset by the decrease in agents' commissions following the reorganisation of the sales network that was completed during the current year;
- a drop in costs for general services as the result of the steps taken to contain fixed costs.

5. Staff costs

Staff costs	31.12.2006	31.12.2005	Variation
Salaries and wages	31,798	32,649	(851)
Social security contributions	11,205	11,825	(620)
Employees' leaving entitlement	2,102	2,014	88
Other costs	30	2	28
Total	**45,135**	**46,490**	**(1,355)**

The decrease in staff costs is prevalently connected to the reorganisation programme which has led to a reduction in the Company's workforce.

The following table sets out the number of employees at the end of the year and the average number of employees during the year, analysed by category:

Employees by category	31.12.2006	31.12.2005	Variation
Executives and managers	16	18	(2)
White-collar	288	284	4
Blue-collar	749	809	(60)
Total	**1,053**	**1,111**	**(58)**

Average by employee category	31.12.2006	31.12.2005	Variation
Executives and managers	18	20	(2)
White-collar	289	304	(15)
Blue-collar	778	839	(61)
Total	**1,085**	**1,163**	**(78)**
Temporary lay-offs	**51**	**–**	**51**
Permanent manpower	**1,034**	**1,163**	**(129)**

The staff costs relating to the Magenta MC1 line have been reclassified to "Discontinued operations" for both 2006 and 2005.

6. Other operating costs

Other operating costs	31.12.2006	31.12.2005	Variation
Write-down of working capital receivables	–	375	(375)
Accruals to provisions	538	803	(265)
Other operating costs	2,203	2,189	14
Total	**2,741**	**3,367**	**(626)**

The decrease in other operating costs is the result of lower accruals for risks and for bad and doubtful debts.

Other costs, which are essentially in line with those incurred in 2005, consist mostly of indirect taxes and subscriptions to trade associations.

7. Income and expense from assets held for sale

This item consists of the costs relating to the disposal of the Ciriè factory plant and materials. The proceeds from the sale, net of expenses for the overall selling costs and the costs connected with maintaining the site, net of the proceeds from the sale, is negative for an amount of Euro 363 thousand, compared to expenses of Euro 179 thousand in 2005.

8. Depreciation and amortisation

The following table sets out the amortisation charge for intangible assets and the depreciation charge for tangible fixed assets:

Depreciation and amortisation	31.12.2006	31.12.2005	Variation
Amortisation of intangible assets	23,819	23,856	(37)
Depreciation of tangible fixed assets	643	804	(161)
Total	**24,462**	**24,660**	**(198)**

9. Financial income (expense), net

Financial income (expense)	31.12.2006	31.12.2005	Variation
Financial income	**723**	**3,194**	**(2,471)**
Interest from subsidiary companies	87	129	(42)
Income from RDM International S.A. bond	–	1,405	(1,405)
Other income	636	1,660	(1,024)
Financial expense	**(11,331)**	**(10,280)**	**(1,051)**
Interest due to subsidiary companies	(1,760)	(1,875)	115
Interest due to bank	(6,415)	(3,623)	(2,792)
Interest Rate Swaps (hedge accounting)	(295)	–	(295)
Interest trading derivatives	(2,647)	(8,012)	5,365
Fair value valuation trading derivatives	1,344	4,384	(3,040)
Interest on financing the employees' leaving entitlement	(833)	(813)	(20)
Expenses, commissions and other financial charges	(725)	(341)	(384)
Exchange differences	**(153)**	**331**	**(484)**
Realised foreign exchange gains (losses):			
Realised gains	389	1,860	(1,471)
Realised losses	(612)	(1,514)	902
Unrealised foreign exchange gains (losses):			
Unrealised gains	121	–	121
Unrealised losses	(51)	(15)	(36)
Total financial income (expense)	**(10,761)**	**(6,755)**	**(4,006)**

The decrease of Euro 2.5 million in financial income relates to the recognition in 2005 of the interest that accrued on the Reno De Medici International S.A. bond, the gain of Euro 1.4 million deriving from the sale of the bond to the issuer, interest totalling Euro 0.5 million accruing on intercompany current accounts held with Europoligrafico S.p.A., Aticarta S.p.A. and Red.Im S.r.l., and interest of Euro 0.6 million received in connection with tax credits.

The increase of Euro 1.1 million in financial expense is principally due to the fact that derivate financial instruments were measured in 2005 without applying hedge accounting, since although the agreements for these had been set up for hedging purposes, they did not qualify as hedging instruments under International Accounting Standards.

Accounting for these at fair value from the date of transition to IFRS has led in 2005 to a reduction of Euro 4.3 million in financial expense, compared to Euro 1.3 million in 2006.

The increase in bank interest is due to the restructuring of the financial indebtedness that, after the repayment of the bond issued by the subsidiary company Reno De Medici International S.A., is mainly related to bank.

"Interest on financing the employees' leaving entitlement" regards the financial component of the accrual for the year (the so-called "interest cost"), calculated as envisaged by IAS 19.

10. Income (expense) from investments

Income (expense) from investments	31.12.2006	31.12.2005	Variation
Income from equity investments in subsidiary companies	**926**	**344**	**582**
Income form liquidation of RDM International S.A.	463	–	463
Dividends from Emmaus Pack	463	308	155
Dividends from RDM France	–	36	(36)
Income from equity investments in associates	**1,171**	**1,320**	**(149)**
Dividends from Termica Boffalora	971	1,170	(199)
Dividends from Pac Service	200	150	50
Income from equity investments in other companies	**79**	**22**	**57**
Dividends from Cartonnerie Tunisienne	–	22	(22)
Other income	79	–	79
Write-down and losses from investments in subsidiary companies	**(32)**	**(27,817)**	**27,785**
Write-down RDM Iberica S.L.	–	(24,898)	24,898
Write-down Cartiera Alto Milanese S.p.A.	–	(366)	366
Write-down Reno Logistica S.p.A.	(25)	(315)	290
Write-down Trentino Ricerche S.r.l.	(7)	(10)	3
Losses from liquidation of Holcart S.r.l.	–	(2,221)	2,221
Losses from liquidation of Centro Taglio Magenta S.r.l.	–	(7)	7
Altre svalutazioni	**(19)**	**(10)**	**(9)**
Write-down other companies	(19)	(10)	(9)
Total	**2,125**	**(26,141)**	**28,266**

Income from investments includes the gain realised on the liquidation on 21 December 2006 of the subsidiary RDM International S.A., made up of the excess of the value of the assets and liabilities transferred to the Parent Company on carrying out this operation over the carrying amount of the investment.

The write-downs of investments in subsidiary companies and the related expense amounted to Euro 27,817 thousand in 2005. The principal components of this regard the impairment loss of Euro 24,898 recognised on the investment in the subsidiary RDM Iberica S.L., and connected with the closure of the Prat facility and the adjustment of the present value of the receivable from Grupo Torras following the sentence lodged by the first level Court of Madrid on 8 September 2005, and the losses of Euro 2,221 thousand euros deriving from the liquidation of Holcart S.r.l..

11. Taxation

Taxation	31.12.2006	31.12.2005	Variation
Current taxation	**(1,668)**	**(1,378)**	**(290)**
IRAP of the year	(1,883)	(1,963)	80
IRAP of prior year	(105)	(10)	(95)
Income from tax consolidation	320	595	(275)
Deferred taxation	**859**	**(1,075)**	**1,934**
IRES	938	(1,180)	2,118
IRAP	(79)	105	(184)
Total	**(809)**	**(2,453)**	**1,644**

Reconciliation between the theoretical and actual tax charge (IRES)

IRES	31.12.2006	
Profit (loss) before taxation	(14,528)	
Theoretical tax charge	33%	–
Temporary differences taxable in future years	–	
Differences deductible in future years	3,859	
Reversal of prior year temporary differences	(17,816)	
Permanent differences which will not reverse in future years	2,843	
Tax losses from prior years	–	
Total differences	**(11,114)**	
Taxable income (loss)	**(25,642)**	
Taxable income from companies included in the tax consolidation	970	
Current tax (loss)	**(24,672)**	
Current income tax – IRES	**33.0%**	–

Reconciliation between the theoretical and actual tax charge (IRAP)

IRAP	31.12.2006	
Difference between value and cost of production (excluding B9, B10 c), d) and B12))	45,397	
Financial statement reclassifications	(1,432)	
Costs for apprentices, disabled persons and compulsory insurance	(1,783)	
Total	**42,182**	
Theoretical tax charge	4.25%	1,793
Temporary differences taxable in future years		
Differences deductible in future years	2,796	
Reversal of prior year temporary differences	(8,144)	
Permanent differences which will not reverse in future years	3,081	
Total differences	**(2,267)**	–
Taxable income	**39,915**	–
Current tax - IRAP	**4.46%**	**1,782**
Reclassifications:		
Discontinued operations		88
Income (expense) from non-current assets held for sale		13
Current taxation after reclassifications		**1,883**

The Company has elected to participate in the national tax consolidation procedure for IRES (pursuant to article 117 and following of the Income Tax Consolidation Act (TUIR)), in a capacity as consolidating company, starting from the year ended 31 December 2004.

12. Discontinued operations

There was a loss of Euro 5.5 million from discontinued operations in 2006 compared to a profit of Euro 18.3 million in the previous year.

Discontinued operations	**31.12.2006**	**31.12.2005**
MC1 Magenta	(2,567)	(3,122)
Demerged operations, demerger and listing expenses for RDM Realty	(1,976)	1,955
Europoligrafico S.p.A.	(240)	23,134
Aticarta S.p.A.	(709)	(3,668)
Total	**(5,492)**	**18,299**

Discontinued operations for the year ended 31 December 2006 consist of the result for the period (in terms of the operating result) from Board Machine 1 at the Magenta facility (MC1), the economic contribution up until 21 June 2006 of the activities transferred to the demerger recipient company RDM Realty S.p.A., the costs relating to the demerger and the resulting listing of RDM Realty S.p.A. and certain additional accessory costs relating to the sales of Europoligrafico S.p.A. and Aticarta S.p.A, which include the costs connected with the sale of the plant of the Pompeii facility held for disposal.

The same approach has been followed in presenting the data for the corresponding period of the previous year for reasons of comparability. These figures consist of the following: the gain realised on the sale of the investment in Europoligrafico S.p.A., the gain realised on the sale of the agricultural and industrial areas located at Red.Im S.r.l. in Magenta as a preliminary to the demerger of RDM Realty S.p.A. and the loss incurred on the sale of Aticarta S.p.A..

The following tables set out details of "Discontinued operations" on the basis of the operations concerned:

Discontinued operations	**31.12.2006**	**31.12.2005**
Profit and loss account – MC1 Magenta		
Revenues	931	25,270
Costs	(2,300)	(28,392)
Operating profit (EBIT)	**(1,369)**	**(3,122)**
Write-down "Assets held for sale"	(1,220)	
Profit (loss) before taxation	**(2,589)**	**(3,122)**
Taxation	22	–
Profit (loss) for the period	**(2,567)**	**(3,122)**
GAIN ON DISPOSAL	**n.a.**	**n.a.**
COSTS CONNECTED WITH THE DISPOSAL	**n.a.**	**n.a.**
Total	**(2,567)**	**(3,122)**

The economic contribution made by the Magenta MC1, which ceased operations in 2005, includes a write-down of Euro 1.2 million of the Magenta board machine which is classified as "Assets held for sale" as the result of an adjustment of its carrying amount to its estimated realisable value.

Discontinued operations	**31.12.2006**	**31.12.2005**
Profit and loss account – Demerged operations RDM Realty		
Revenues	–	1,868
Costs	(512)	–
Operating profit (EBIT)	**(512)**	**1,868**
Profit (loss) before taxation	**(512)**	**1,868**
Taxation	83	464
Profit (loss) for the period	**(429)**	**2,332**
Gain on disposal	**–**	**–**
Demerger and listing expenses	**(1,547)**	**(377)**
Total	**(1,976)**	**1,955**

The net economic contribution of the operations demerged into RDM Realty S.p.A. consists of the costs relating to managing the area located at the Ciriè facility and those incurred by RDM connected with the demerger operation itself and the listing costs.

The comparative figure for revenues consists of the capital gain realised on the sale of the agricultural and industrial areas in Magenta to Red.Im S.r.l..

Discontinued operations	**31.12.2006**	**31.12.2005**
Profit and loss account – EUROPOLIGRAFICO		
Revenues	–	–
Costs	–	–
Operating profit (EBIT)	**–**	**–**
Profit (loss) before taxation	**–**	**–**
Taxation	–	–
Profit (loss) for the period	**–**	**–**
GAIN ON DISPOSAL	**–**	**24,891**
COSTS CONNECTED WITH THE DISPOSAL	**(240)**	**(1,757)**
Total	**(240)**	**23,134**

Discontinued operations	**31.12.2006**	**31.12.2005**
Profit and loss account – ATICARTA		
Revenues	–	–
Costs	–	–
Operating profit (EBIT)	**–**	**–**
Profit (loss) before taxation	**–**	**–**
Taxation	–	–
Profit (loss) for the period	**–**	**–**
GAIN ON DISPOSAL	**–**	**(2,552)**
COSTS CONNECTED WITH THE DISPOSAL	**(709)**	**(1,116)**
Total	**(709)**	**(3,668)**

13. Tangible fixed assets

Tangible fixed assets	**Land**	**Buildings**	**Plant and machinery**	**Industrial and commercial equipment**	**Other assets**	**Assets in course of construction**	**Total**
Cost	22,256	71,859	408,747	1,935	9,628	1,175	515,600
Accumulated depreciation/ write-downs	–	(26,808)	(285,229)	(1,717)	(9,074)	–	(322,828)
Net book value at 31.12.05	**22,256**	**45,051**	**123,518**	**218**	**554**	**1,175**	**192,772**
Increases	–	327	3,764	18	20	5,537	9,666
Decreases	–	–	(1,945)	–	(217)	–	(2,162)
Reclassification of cost	–	51	2,100	(7)	–	(1,074)	1,070
Recovery of value and write down	–	–	–	–	–	–	–
Depreciation for the year	–	(2,568)	(21,003)	(78)	(170)	–	(23,819)
Other changes (cost)	–	–	–	–	–	–	–
Other changes (acc. dep.)	–	–	–	–	–	–	–
Utilisation of accumulated depreciation	–	–	1,816	6	211	–	2,033
Reclassification of accumulated depreciation	–	–	(1,060)	–	–	–	(1,060)
Cost	22,256	72,237	412,666	1,946	9,431	5,638	524,174
Accumulated depreciation/ write-down	–	(29,376)	(305,476)	(1,789)	(9,033)	–	(345,674)
Net book value at 31.12.06	**22,256**	**42,861**	**107,190**	**157**	**398**	**5,638**	**178,500**

"Land" regards the manufacturing facilities of the Parent Company located at Magenta (MI), Santa Giustina (BL), Ovaro (UD), Villa Santa Lucia (FR), Marzabotto (BO) and the Turin warehouse.

"Buildings" consist for the most part of those housing the manufacturing facilities. The increases for the year relate to improvements made to buildings owned by the Company.

"Plant and machinery" refers to specific and general manufacturing plant and machinery. The increases, partially yet included in assets in course of construction, mainly arise from the extraordinary steps taken to improve efficiency. In particular, investments of Euro 1.2 million at the Marzabotto facility relate principally to the replacement of the thermal plant; investments of Euro 1.2 million made at the Villa Santa Lucia facility were connected mostly with work carried out in the press area and in the drying section, together with action taken aimed at optimising scrap management; investments of Euro 1.1 million made at the Santa Giustina facility were for the most part geared towards increasing drying capacity in the drying section and installing control systems; investments of Euro 0.8 million made at the Magenta facility mainly regarded control of the vacuum system and other action taken on open drown reduction on the wet end part and the coatings drying area; various investments were made at the Ovaro facility amounting in total to Euro 0.4 million.

The lines "reclassification of cost" and "reclassification of depreciation" relate mostly to assets in the course of construction at 31 December 2005 which began use in 2006 and, to a lesser extent, the reclassification to "Assets held for sale" of certain plant and machinery at the Magenta facility relating to the MC1.

The decreases for the year relate to the replacement of assets on reaching the end of their useful lives.

"Industrial and commercial equipment" is mainly made up of assets used in the manufacturing process throughout the various facilities. Increases relate to a series of purchases, none of which of particular significance.

"Other assets" is for the most part composed of electronic office machines, office furniture, fixtures and fittings and motor cars. Increases essentially relate to the purchase of information systems equipment. The decreases regard the disposal of company cars. No significant profit or loss emerged from these sales.

There are third party charges (mortgages and privileges) amounting to a total of Euro 437 million on owned property and plant and machinery given in favour of banks as security on loans, whose outstanding balance at 31 December 2006 amounts to Euro 90.6 million.

14. Other intangible assets

Other intangible assets	Concessions, licences, trade marks and similar rights	Other	Total
Net book value at 31.12.2005	**289**	**1,505**	**1,794**
Increases	33	10	43
Decreases	–	–	–
Reclassification of cost	13	–	13
Recovery of value and write-downs	–	–	–
Amortisation for the year	(101)	(542)	(643)
Utilisation of accumulated amortisation	–	–	–
Reclassification of amortisation	–	–	–
Net book value at 31.12.2006	**234**	**973**	**1,207**

"Concessions, licences and trade marks" relate to costs incurred for the purchase of software licences. The increase for the year mainly relates to the costs incurred for the purchase of software.

"Other intangible assets" are made up principally of the residual balance of Euro 0.9 million arising from the non-competition agreement stipulated in 2003 with Dr. Giovanni Dell'Aria Burani. This item has an estimated residual life of two years.

There have been no revaluations or write-downs of intangible assets during the year.

15. Investments in subsidiary companies

The following table shows the investments held in subsidiary companies, stated net of the provision for equity investments:

Investment	Cost 31.12.2005	Provision against cost 31.12.2005	Net book value 31.12.2005	Increases (Decreases) of investment	Increases (Decreases) of provision	Cost 31.12.2006	Net book value 31.12.2006
Reno De Medici Iberica S.L.	138,284	(76,752)	61,532	–	–	138,284	61,532
RDM International S.A.	14,000	–	14,000	(14,000)	–	–	–
Reno De Medici Deutschland GmbH	150	–	150	–	–	150	150
RDM France S.a.r.l.	66	–	66	–	–	66	66
Red.Im. S.r.l.	1,129	–	1,129	(1,129)	–	–	–
Emmaus Pack S.r.l.	108	–	108	–	–	108	108
Cartiera Alto Milanese S.p.A. (*)	2,864	(366)	2,498	–	–	2,864	2,498
Reno Logistica S.p.A. in liquidation	150	(150)	–	–	–	150	–
Trentino Ricerca S.r.l. in liquidation	11		11	(11)	–	–	–
Total	**156,762**	**(77,268)**	**79,494**	**(15,140)**	**–**	**141,622**	**64,354**

Reno De Medici S.p.A. transferred its entire holding in the subsidiary Red.Im S.r.l. to the recipient RDM Realty S.p.A. following the formalisation of the deed for the partial and proportional demerger on 21 June 2006.

Reno De Medici International S.A. was put into liquidation on 21 December 2006, leading to the complete elimination of the equity investment from the balance sheet.

The winding up of Trentino Ricerca S.r.l. was finalised on 5 June 2006.

Given the fact that Reno Logistica S.p.A. in liquidation has a shareholders' deficit of Euro 0.3 million, a provision for losses on investments of Euro 0.3 million has been recognised in liabilities in respect of the holding in that company.

The following table sets out details of the Company's percentage shareholding in subsidiary companies, the share or quota capital of the subsidiary, the subsidiary's equity and its result for the year at 31 December 2006. This data are presented in accordance with national accounting principles, except for RDM Iberica whose data are provided on the basis of IFRS.

Company name	Registered office	Shareholding	Share Capital at 31.12.2006	Shareholders' equity at 31.12.2006	Result for 2006
Reno De Medici Iberica S.L.	Prat de Llobregatt (E)	100%	39,061	60,851	(681)
Cartiera Alto Milanese S.p.A.	Milan (I)	100%	200	2,025	1,017
Reno De Medici Deutschland GmbH	Bad Homburg (D)	100%	473	485	18
RDM France S.a.r.l.	Tremblay en France (F)	99.58%	96	618	(4)
Emmaus Pack S.r.l.	Milan (I)	51.39%	200	1,156	535
Reno Logistica S.p.A. in liquidation	Milan (I)	100%	150	(302)	(25)

16. Investments in associates

Investments in associates, for which there have been no changes during the year, are set out in the following table:

Company name	Registered office	Shareholding	Cost at 31.12.2006
Termica Boffallora S.r.l.	Milan - Italy	30%	7,356
Pac Service S.p.A.	Vigonza (PD) - Italy	33.33%	387
Total			**7,743**

A brief summary of the key figures of the balance sheets and profit and loss accounts of associates, prepared in accordance with Italian accounting principles, is set out below (the data regarding Termica Boffalora S.r.l. are extracted from financial statements approved by the company's quotaholders in general meeting; those regarding PAC Service S.p.A. have been approved by the company's Board of Directors):

	Termica Boffalora S.r.l.	Pac Service S.p.A.
Total assets	26,083	10,728
Shareholders' equity	19,580	4,370
Other liabilities	6,503	6,358
Revenues from sales	56,506	16,605
Profit (loss) for the period	3,872	680

17. Derivative financial instruments

Derivative financial instruments	31.12.2006	31.12.2005	Variation
Non-current assets	**83**	**–**	**83**
Derivative financial instruments (Hedge accounting)	83	–	83
Current assets	**77**	**–**	**77**
Derivative financial instruments (Hedge accounting)	77	–	77
Non-current liabilities	**14**	**–**	**14**
Derivative financial instruments (Hedge accounting)	14	–	14
Current liabilities	**351**	**33,970**	**(33,619)**
Derivative financial instruments (Hedge accounting)	351	–	351
Derivative financial instruments (No hedge accounting)	**–**	**33,970**	**(33,970)**

The changes taking place during the year in derivative financial instruments principally relate to the termination of positions held in connection with the bond repaid on 4 May 2006. Agreements for derivative instruments entered in 2006 regarded interest rate swaps (IRS) aimed at stabilising cash flows servicing debt, and commodity swaps on BTZ (fuel oil with low sulphur content) both of which qualified for hedge accounting.

There was an unfavourable valuation of Euro 225 thousand at 31 December 2006 of the hedging contract having a BTZ underlying (1% Fuel Oil CIF Med) with deliveries in January, February and March 2007.

There was a favourable fair value of Euro 20 thousand at 31 December 2006 of the derivatives represented by interest rates swaps.

Although the agreements for derivative instruments at 31 December 2005 had been set up for hedging purposes, they did not qualify as hedging instruments under International Accounting Standards and accordingly hedge accounting could not be used.

Derivative financial instruments classified as current liabilities consist of the fair value of cross currency swap agreements in Yen entered into by RDM with a primary bank in connection with the intercompany loan from RDM International S.A. denominated in Yen and linked to the bond issued by that subsidiary. The value of those instruments at 31 December 2005 amounted in total to Euro 34 million, recognised in current liabilities at that date; this liability is linked to the fair value of the underlying intercompany loan at year end, determined by applying the yen/euro exchange rate at that date, which implied a reduction of Euro 31,4 million in the debt owed to the subsidiary.

The following table sets out the main features of the Company's derivative financial instruments at 31 December 2006, analysed between interest rate swap agreements and commodities agreements:

Date:	31.12.2006						
Type of coverage:	Cash flow hedge on Interest						
Derivative instrument:	Interest Rate Swap						
Company	**Counterparty**	**Currency**	**Maturity**	**Nominal value** (Euro/000)	**Interest**	**Payment of interest**	**Fair value of the derivative** (Euro/000)
Reno De Medici S.p.A.	SanPaolo IMI S.p.A.	Eur	06,04,2016	14,250	4.11% fixed Euribor 6M	Six monthly	(22)
Reno De Medici S.p.A.	Banca Intesa S.p.A.	Eur	06,04,2016	14,250	4.11% fixed Euribor 6M	Six monthly	(22)
Reno De Medici S.p.A.	Unicredit Banca d'Impresa S.p.A.	Eur	06,04,2016	14,250	4.11% fixed Euribor 6M	Six monthly	(22)
Reno De Medici S.p.A.	Banca Intesa S.p.A.	Eur	15,05,2016	5,890	4.15% fixed Euribor 6M	Six monthly	(32)
Reno De Medici S.p.A.	Banca Intesa S.p.A.	Eur	30,06,2008	10,000	3.57% fixed Euribor 3M	Three monthly	59
Reno De Medici S.p.A.	Banca Popolare di Milano S.p.A.	Eur	30,06,2008	10,000	3.57% fixed Euribor 3M	Three monthly	59
Total				**68,640**			**20**

Date:	31.12.2006					
Type of coverage:	Cash flow hedge on Commodities					
Derivative instrument:	Commodities Swap					
Counterparty	**Period**	**Quantity** (ton)	**Price** (Euro/ton)	**Nominal value** (Euro/000)	**Settlement date**	**Fair value** (Euro/000)
Unicredit Banca d'Impresa S.p.A.	from 01.01.2007 to 31.01.2007	1,400	245.8 Monthly average (Mid price)	344	07.02.2007	(67)
Unicredit Banca d'Impresa S.p.A.	from 01.02.2007 to 28.02.2007	2,600	251.2 Monthly average (Mid price)	653	07.03.2007	(107)
Unicredit Banca d'Impresa S.p.A.	from 01.03.2007 to 31.03.2007	1,300	256 Monthly average (Mid price)	333	06.04.2007	(51)
Total		**5,300**		**1,330**		**(225)**

18. Available-for-sale financial assets

This item consists of investments in other companies and other miscellaneous financial assets, classified as non-current and measured at fair value with changes in fair value recognised directly in equity.

Investment	Registered office	Shareholding	Carrying value at 31.12.2005	Increases	Decreases	Carrying value at 31.12.2006
Cartonnerie Tunisienne S.A.	Les Berges Du Lac (Tunisi)	5.274%	121	–	–	121
Comieco	Milan - Italy	Consortium share	44	–	–	44
Conai	Milan - Italy	Consortium share	23	–	–	23
Gas Intensive S.c.r.l.	Milan - Italy	Consortium share	1	–	–	1
C.I.A.C. S.c.r.l.	Valpenga (TO) - Italy	Consortium share	1	–	–	1
Idroenergia S.c.r.l.	Aosta - Italy	Consortium share	1	–	–	1
Energymont S.p.A.	Tolmezzo - Italy	2.020%	–	2	–	2
Rdm Realty S.p.A.	Milan - Italy	0.327%	–	502	(252)	250
Total			**191**	**504**	**(252)**	**443**

The recognition of the investment in RDM Realty S.p.A. is the consequence of the proportional demerger carried out on 21 June 2006; the decrease relates to the adjustment of its carrying amount to market value on 31 December 2006.

19. Trade receivables from third parties

The following table presents an analysis of trade receivables between current and non-current balances, whose total amounted to Euro 67.6 million at 31 December 2006:

Trade receivables	31.12.2006	31.12.2005	Variation
Trade receivables with customers	76	104	(28)
Non-current trade receivables	**76**	**104**	**(28)**
Trade receivables with customers	67,522	76,569	(9,047)
Current trade receivables	67,522	76,569	(9,047)
Total	**67,598**	**76,673**	**(9,075)**

The current portion of trade receivables from third parties is stated net of a provision for bad and doubtful debts of Euro 2.3 million. The following table sets out the changes for the year in that provision:

Provision for bad and doubtful debts	31.12.2005	Charge	Utilisation	31.12.2006
Provision for bad and doubtful debts	2,854	–	(544)	2,310
Total	**2,854**	**–**	**(544)**	**2,310**

The following table provides an analysis of trade receivables from third parties by geographical area:

Geographical area	Current assets	Non current assets
Italy	51,486	–
Rest of European Union	10,651	–
Rest of Europe	5,377	76
Rest of the World	8	–
Total	**67,522**	**76**

20. Other receivables

Other non-current receivables	31.12.2006	31.12.2005	Variation
Tax credits	725	895	(170)
Guarantee deposits	80	82	(2)
Vendor loan New EPG	–	3,054	(3,054)
Miscellaneous receivables	113	111	2
Total	**918**	**4,142**	**(3,224)**

The vendor loan which arose on the sale of Europoligrafico S.p.A. was repaid as the underlying conditions in the loan agreement were satisfied.

Tax credits mainly relate to requests made for the refund of IRPEG taxation for prior years. The decrease arises principally as the result of the utilisation of advance withholding tax paid in connection with the employees' leaving entitlement.

Other current receivables	31.12.2006	31.12.2005	Variation
Tax credits	890	239	651
Prepayments	1,295	167	1,128
Miscellaneous receivables	1,095	281	814
Due from Aticarta S.p.A.	–	10,829	(10,829)
Due from Ati Packaging S.r.l.	–	1,267	(1,267)
Due from the sale of Europoligrafico	–	5,552	(5,552)
Accrued income	–	285	(285)
Total	**3,280**	**18,620**	**(15,340)**

The change over 31 December 2005 is mostly due to the collection of financial receivables due from Aticarta S.p.A. and ATI Packaging S.r.l. (amounting to Euro 12.1 million) and the receipt of the balance due from the sale of Europoligrafico S.p.A (Euro 5.6 million).

Tax credits principally relate to VAT and income taxes.

Other receivables regard for the most part amounts due from social security authorities for advances paid in connection with the cassa integrazione lay-off procedure (Euro 0.5 million) and receivables for insurance reimbursements (Euro 0.1 million).

"Prepayments" consist mostly of Euro 1.2 million of rental prepaid for the first half of 2007 for the Pompeii facility which houses the plant held for sale owned by RDM.

21. Stocks

The following table provides an analysis of stocks at 31 December 2006:

Stocks	31.12.2006	31.12.2005	Variation
Raw materials and consumables	20,141	19,507	634
Provision for obsolesence	(322)	(322)	–
Finished goods and goods for resale	34,025	30,021	4,004
Provision for obsolesence	–	888	(888)
Total	**53,844**	**50,094**	**3,750**

The technical supplies held for sale regard the Ciriè facility and were reclassified during the year to "Assets held for sale" in line with the classification adopted for the plant.

22. Receivable from subsidiary companies

Amounts receivable from subsidiary companies of Euro 22.8 million refer to the Italian subsidiaries and the Spanish subsidiary.

Receivable from subsidiary companies	31.12.2006	31.12.2005	Variation
Reno De Medici Iberica S.L.	8,390	3,494	4,896
Emmaus Pack S.r.l.	7,614	7,256	358
Cartiera Alto Milanese S.p.A.	6,710	6,469	241
Reno Logistica S.p.A. in liquidation	128	100	28
RDM France S.a.r.l.	5	156	(151)
Red.Im S.r.l.	–	20,106	(20,106)
Trentino Ricerca S.r.l. in liquidation	–	1	(1)
Total	**22,847**	**37,582**	**(14,735)**

These balances arise principally from trading relations between Group companies which are carried out at arm's length rates. The receivable from Red.Im S.r.l. was reduced to a nil balance at 31 December 2006 as the result of the proportional demerger into RDM Realty which took place in June 2006, which led to the transfer of Euro 12.4 million of receivables to the recipient company and the collection of the remaining balance of Euro 7.7 million.

23. Receivable from associates

Amounts receivable from associates amount to Euro 801 thousand (Euro 958 thousand at 31 December 2005) and consist of balances of a trading nature due from Pac Service S.p.A..

24. Net financial position

Net financial position	31.12.2006	31.12.2005	Variation
Cash	8	9	(1)
Funds available at banks	2,036	43,199	(41,163)
A. Cash and cash equivalents	**2,044**	**43,208**	**(41,164)**
Other current financial receivables	153	17,648	(17,495)
Financial receivables from subsidiary companies	4,028	4,059	(31)
Derivatives - current financial assets	77	–	77
B. Current financial receivables	**4,258**	**21,707**	**(17,449)**
1. Bank overdraft and short term loans	*47,035*	*55,644*	*(8,609)*
2. Current portion of medium and long term loans	*10,129*	*16,441*	*(6,312)*
Bank loans and other financial liabilities (1 + 2)	57,164	72,085	(14,921)
Financial payables due to subsidiary companies	2,088	129,657	(127,569)
Other current financial liabilities	–	5,552	(5,552)
Derivatives - current financial liabilities	351	33,970	(33,619)
C. Current financial debt	**59,603**	**241,264**	**(181,661)**
D. Current financial debt, net (C – A – B)	**53,301**	**176,349**	**(123,048)**
Other non current financial receivables	–	3,054	(3,054)
Derivatives - non current financial assets	83	–	83
E. Non-current financial receivables	**83**	**3,054**	**(2,971)**
Bank loans and other financial liabilities	80,289	27,487	52,802
Financial payables due to subsidiary companies	32,000	–	32,000
Derivatives - non-current financial liabilities	14	–	14
F. Non-current financial payables	**112,303**	**27,487**	**84,816**
G. Non-current financial debt (F – E)	**112,220**	**24,433**	**87,787**
H. Financial debt, net (D + G)	**165,521**	**200,782**	**(35,261)**

The Parent Company had net financial debt at 31 December 2006 of Euro 165.5 million, compared to Euro 200.8 million at 31 December 2005.

The net financial position at 31 December 2006 reflects the restructuring of the Parent Company's debt during the year, in connection with the repayment of the bond by the subsidiary RDM International S.A. on 4 May 2006.

The following transactions were performed during the year with the purpose of ensuring that the subsidiary had adequate funds to repay the RDM bond:

- on 6 April 2006, RDM entered floating rate long-term loan agreements with the banks SanPaoloIMI S.p.A., Banca Intesa S.p.A. and Unicredit

Banca d'Impresa S.p.A. for a total of 60 million euros, of which Euro 50 million is repayable in six monthly instalments until 6 April 2016 and Euro 10 million is repayable on 6 April 2011;

- on 27 April 2006 RDM entered a loan agreement with the subsidiary RDM Iberica for a total of Euro 32 million, repayable on 27 April 2016.

These funds, together with the liquidity obtained from the sale of the investments in Aticarta and Europoligrafico and payments of trade and financial receivables due from Red.Im, transferred to the merger recipient RDM Realty, were used to repay the intercompany loan granted by the subsidiary Reno De Medici International S.A. and having a total nominal value of Euro 145 million.

The decrease in net financial debt is principally due to the liquidation of the subsidiary Reno De Medici International S.A., which led to a reduction of Euro 14.9 million in financial debt and a decrease in net working capital, as shown in more detail in the cash flow statement.

The considerable decrease in "Liquid funds" is connected with the repayment of the intercompany loan as described above. This balance includes unrestricted bank deposits of Euro 2 million.

The current part of "Financial receivables from subsidiary companies" consist of balances of Euro 2.5 million from RDM Iberica, Euro 1.4 million from Emmaus Pack S.r.l. and Euro 0.1 million from the company in liquidation Reno Logistica S.p.A..

"Financial receivables" are made up of the residual balances of Euro 0.2 million due from Europoligrafico (a total amount of Euro 3.1 million is classified as non-current at 31 December 2006). The change over 31 December 2005 is mainly the result of the receipt of amounts totalling Euro 12.1 million from Aticarta S.p.A. and ATI Packaging S.r.l. and the receipt of the outstanding balance of Euro 5.6 million from the sale of Europoligrafico S.p.A..

The current part of "Financial payables to subsidiary companies" consist of balances of a financial nature held by the Parent Company as part of the Group's overall centralised treasury framework and comprise an amount of Euro 1.2 million due to Cartiera Alto Milanese, Euro 0.5 million due to RDM France and Euro 0.4 million due to Reno De Medici Deutschland.

"Other current financial liabilities" at 31 December 2005 consisted of financial payables of Euro 5.6 million due to Europoligrafico S.p.A. and relating to the purchase of the investment in Aticarta S.p.A.; the payable was settled during the year.

The non-current portion of "Bank loans and other financial liabilities" consists of long-term interest-bearing debt of Euro 80.3 million measured at amortised cost.

The following table provides an analysis of the nominal value of long-term debt at 31 December 2006 by due date:

Loans	**Due within one year**	**Due after more than one year**	**Due after more than five years**	**Total**
M.I.C.A. - due 13 February 2016	119	520	767	1,406
M.I.C.A. - due 16 October 2013	136	575	305	1,016
M.I.C.A. - due 28 May 2008	52	54		106
San Paolo Imi - due 15 June 2011	1,925	7,555	–	9,480
San Paolo Imi - due 15 December 2011	2,819	12,660	–	15,479
San Paolo Imi - due 6 April 2016	–	–	2,262	2,262
San Paolo Imi fin. pool - tranche A - due 6 April 2016	5,000	20,000	22,500	47,500
San Paolo Imi fin. pool - tranche B - due 6 April 2011	–	10,000	–	10,000
Banca Popolare dell'Emilia Romagna - due 15 May 2016	620	2,480	2,790	5,890
Total payables at nominal value	**10,671**	**53,844**	**28,624**	**93,139**
Effett of amortized cost	**(542)**	**(1,632)**	**(547)**	**(2,721)**
Total payables valued with amortized cost	**10,129**	**52,212**	**28,077**	**90,418**

RDM is bound by certain restrictions and commitments with tolerance levels for the pool funding that are normal for syndicated loans of this nature; amongst these are limitations on obtaining additional debt, on distributing dividends, on granting guarantees (a negative pledge), on the disposal of core activities, on making investments and on carrying out financial transactions of an extraordinary nature.

In particular, this loan requires certain financial covenants to be respected that are based on the following ratios:

- Net financial position/Equity;
- Net financial position/Gross operating profit;
- Gross operating profit/Net financial expense.

These ratios must be calculated every six months on the basis of the figures stated in the Group's year end and half year consolidated financial statements, starting from 31 December 2006.
The half year calculations of Gross operating profit and net financial expense are based on the twelve month period ending on the last day of the half year concerned.
The eventual failure to respect the loan agreement covenants can be grounds for the lending banks to terminate the arrangement.

In terms of guarantees, the agreement requires RDM to provide first mortgages on the Ovaro and Marzabotto factories and second mortgages on those at Magenta, Santa Giustina and Villa Santa Lucia, for an overall total of Euro 120 million.

In addition, first special liens have been given as security on the plant and machinery at Ovaro and Marzabotto and second special liens on the plant and machinery at Magenta, Santa Giustina and Villa Santa Lucia, for an overall total of Euro 120 million.

Further, an agreement was signed with Banca Popolare dell'Emilia Romagna on 13 April 2006 for a floating rate loan of Euro 6.2 million repayable in six-monthly instalments ending on 15 May 2016. This loan is secured by mortgages on the Ovaro, Marzabotto, Magenta, Santa Giustina and Villa Santa Lucia factories for an overall total of Euro 22.3 million.

An agreement was signed with SanPaolo IMI on 21 December 2006 for a loan of Euro 14.7 million, of which Euro 2.3 million was disbursed in 2006. This loan is governed by the same covenants as the pool loan and is secured by mortgages on the Ovaro, Marzabotto, Magenta, Santa Giustina and Villa Santa Lucia factories for an overall total of Euro 29.4 million.
In addition, special liens have been given as security on the plant and machinery at the same facilities for an overall total of Euro 29.4 million.

In connection with the new long-term loan agreements made during the year, interest rate swap agreements having a notional value of Euro 48.6 million at 31 December 2006 were arranged during the year to reduce the variability of the interest payable on this debt.

Note 17 contains further details of the derivative financial instruments held at 31 December 2006.

25. Non-current assets held for sale

Assets held for sale	31.12.2006	31.12.2005	Variation
Properties	–	2,850	(2,850)
Plant	9,662	11,729	(2,067)
Total	**9,662**	**14,579**	**(4,917)**

"Non-current assets for sale" total Euro 9.7 million at 31 December 2006 (Euro 14.6 million at 31 December 2005). The nil balance of "Properties" is the consequence of the demerger of the land and buildings of the industrial area at Ciriè into the recipient RDM Realty S.p.A..
"Plant and supplies" consist of manufacturing plant and machinery relating to the Pompeii facility and the held for sale MC1 at the Magenta facility. The decrease over the year is principally the result of the sale of the plant located at the Ciriè facility where disposal operations were completed during 2006 (Euro 1.1 million), the sale of certain machinery from the Pompeii facility (Euro 0.3 million), reclassifications to stocks of Euro 0.7 million and the write-down of the book value of the Magenta MC1 by Euro 1.2 million to its estimated realisable value.

The gains and losses realised on the disposal of the Ciriè plant, for which sales were effectively made at book value, are recognised in "Income (expense) from non-current assets held for sale".

26. Shareholders' equity

Changes in shareholders' equity for the year are set out in the following table:

Description	Shareholders' equity at 31.12.2005	Change in the year						Shareholders' equity at 31.12.2006
		Loss cover 2005	Demerger of RDM Realty S.p.A.	Reclassification	Fair value assets available for sale	Hedge accounting	Profit (loss) for the year	
Share capital	148,343		(16,183)					132,160
Share premium reserve	7,797	(7,797)						–
Legal reserve	6,462	(6,462)						–
Reserve for own shares	5,296			(424)				4,872
Other reserves:								
– Reserve for the purchase of own shares	6,584	(6,584)						–
– Extraordinary reserve	77	(77)		424				424
– Reserve for the rounding of nominal value			900					900
– Other reserves								–
IFRS Reserve 01.01.2005	(3,426)		(1,273)					(4,699)
IFRS Result 31.12.2005		17,749						17,749
IFRS Reserve	(3,426)	17,749	(1,273)		–	–	–	13,050
Hedging reserve						(124)		(124)
Fair value reserve					(252)			(252)
Profit (loss) brought forward	–	(13,750)						(13,750)
Profit (loss) for the period	(16,921)	16,921					(15,337)	(15,337)
Own shares	(5,374)		502					(4,872)
Total	**148,838**	**–**	**(16,054)**	**–**	**(252)**	**(124)**	**(15,337)**	**117,071**

On 3 May 2006, shareholders in general meeting resolved to cover the 2004 losses of the Parent Company stated in the financial statements prepared in accordance with Italian accounting principles and amounting to Euro 34,670 thousand, by using the "Share premium reserve" for Euro 7,797 thousand, the "Legal reserve" for Euro 6,462 thousand, the "Reserve for the purchase of own shares" for Euro 6,584 thousand and the "Extraordinary reserve" for Euro 77 thousand, carrying forward the remaining loss of Euro 13,750 thousand.

The "IFRS reserve" amount to Euro 3.4 million and it consists of the effect arising on the Company's transition to IFRS on 1 January 2005, excluding the part relating to the Company's own shares, which is presented separately, and that regarding the result for the year ended 31 December 2005 deriving from the use of International Accounting Standards, which amounting to Euro 17.7 million was lower than that incurred under Italian accounting principles.

Reference should be made to the annex "Transition to International Financial Reporting Standards (IFRS) by the Parent Company Reno De Medici S.p.A." for more detailed information regarding Regulation (EC) no. 1606/2002 of the European Parliament and of the Council of 19 July 2002 and its adoption as part of Italian legislation under which listed companies must prepare their annual financial statements in accordance with International Financial Reporting Standards starting with the year in progress on 31 December 2006.

Own shares consist of 7,513,443 ordinary shares, equal to 2.79% of share capital.

In addition, in accordance with article 5 of the Company's bylaws, the bearers of savings shares may convert their shares into ordinary shares during February and September of each year. A total of 2,211 savings shares were converted into ordinary shares during 2006. As a consequence of this, share capital at 31 December 2006, fully subscribed and paid, is made up as follows:

	Quantity	**Par value** (Euro)	**Total** (Euro)
Ordinary shares	269,202,370	0.49	131,909,161.30
Savings shares	512,067	0.49	250,912.83
Total	**269,714,437**		**132,160,074.13**

The Company's bylaws also provide that if during any one fiscal year a dividend per share is distributed to savings shareholders which is less than 5% of the nominal value of the savings shares (being Euro 0.49), then the difference is transferred as an increase in the privileged dividend of the following two years. In this respect it is recalled that no dividends were distributed in 2004 and 2005.

The following table provides an analysis of the individual items of shareholders' equity on the basis of the use to which each item may be put, its origin and its utilisation in prior years, as required by article 2427, no. 7-*bis* of the Italian civil code:

Description	**Balance at 31.12.2006**	**Utilisation possibilities**	**Available portion**	**Summary of utilisation in the years 2006-2005-2004**	
				For loss cover	**For other purposes**
Share capital	132,160				16,183
Share premium reserve	–			20,636	
Legal reserve	–			6,462	
Reserve for own shares	4,872		–		14,042
Other reserves:					
– Reserve for the purchase of own shares	–			6,584	24,644
– Extraordinary reserve	424	A, B, C	424	45,457	
– Reserve from contribution of assets	–			13,492	
– Merger surplus reserve and share exchange reserve	–			84,207	1,626
– Reserve as per article 67 of the consolidated tax law	–			1,644	
– Dividend fluctuation reserve	–			9,725	
Reserve for the rounding of nominal value	900	A, B			
Hedging reserve	(124)				
Fair value reserve	(252)				
IFRS Reserve 01.01.2005	(4,699)				1,274
IFRS Result 31.12.2005	17,749				
IFRS Reserve	13,050	A, B			
Own shares	(4,872)				502
Profit (loss) brought forward	(13,750)				
Profit (loss) for the period	(15,337)				
Total	**117,071**		**424**		
Non-distributable portino					
Distributable portion remaining			**424**		

A) For increases in share capital;
B) To cover losses;
C) For distribution to shareholders.

27. Payable to subsidiary companies

The following table provides a detail of the amounts payable to subsidiary companies classified as current liabilities:

Payable to subsidiary companies - current	**31.12.2006**	**31.12.2005**	**Variation**
Reno De Medici Iberica S.L.	1,413	2,340	(927)
Cartiera Alto Milanese S.p.A.	1,204	3,809	(2,605)
RDM France S.a.r.l.	645	522	124
Reno De Medici Deutschland GmbH	466	463	3
Emmaus Pack S.r.l.	335	27	308
Reno De Medici International S.A.	–	124,510	(124,510)
Total	**4,063**	**131,670**	**(127,607)**

These balances consist of the following:

- payables to RDM Iberica which relate principally to trading operations;
- payables to Cartiera Alto Milanese which relate to the current account held by the subsidiary with RDM;
- payables to RDM France and Reno De Medici Deutschland which relate principally to financial operations;
- payables to Emmaus Pack which relate principally to the national tax consolidation.

Balances payable to subsidiary companies at 31 December 2005 included payables to Reno De Medici International S.A. of a financial nature, consisting of a yen denominated loan, which amounted to Euro 113.6 million if converted into euros at the exchange rate at the balance sheet date, and other credit facilities for Euro 10.9 million with the Parent Company. The foreign currency loan was repaid in May 2006, while the other financial liabilities were settled following the liquidation of the company in December 2006.

The non-current portion of payables to subsidiary companies relates to a loan of Euro 32 million disbursed by RDM Iberica S.L. on 27 April 2006.

28. Other payables

Non-current other payables total Euro 599 thousand and consist of the portion of deferred income on the Law no. 488 capital grant relating to the Villa Santa Lucia facility that refers to the period beyond twelve months. Payables due after more than five years are Euro 0.4 million.

The following table provides a detail of other current payables:

Other payables - current	**31.12.2006**	**31.12.2005**	**Variation**
Personnel	2,902	2,872	30
Payable to social security authorities	2,797	3,144	(347)
Payable to tax authorities	1,747	3,170	(1,423)
Accrued interest payable on loan	757	122	635
Company bodies	228	220	8
Deferred income	52	52	–
Miscellaneous payables	1,147	713	434
Payable to EPG for the purchase of Aticarta	–	5,552	(5,552)
Accred expenses	–	477	(477)
Total	**9,631**	**16,322**	**(6,692)**

“Payable to tax authorities” consists of withholding taxes on wages and salaries paid to employees in December, VAT payables and miscellaneous tax payables.

"Payable to social security authorities" relates for the most part to amounts due to social security authorities for social security contributions payable on current wages and salaries paid to employees in December, which were paid over in January 2007, and to accruals for social security contributions due on deferred remuneration (employee leave, additional months' salaries and overtime).

The item "Personnel" consists mostly of deferred remuneration and indemnities.

"Deferred income" relates to the portion of the Law no. 488 capital grant referring to the next fiscal year.

29. Deferred tax liabilities

Deferred taxation	31.12.2006	31.12.2005	Variation
Non current liabilities			
Deferred taxation	11,373	12,122	(749)

The following table provides a summary of the determination of deferred tax assets and deferred tax liabilities from temporary differences at 31 December 2006:

Deferred taxation	31.12.2006			31.12.2005		
	Temporary differences	Average tax rate %	Tax effect	Temporary differences	Average tax rate %	Tax effect
Recognised deferred tax assets	**16,838**		**4,025**	**23,606**		**5,051**
Write-down of investments (2007)	7,966	33.00%	2,629	6,958	33.00%	2,296
Tax losses to carry forward	2,479	33.00%	818	4,003	33.00%	1,321
Write-downs for permanent losses in value	1,220	4.25%	52	6,990	4.25%	297
Stock provision	322	4.25%	14	322	4.25%	14
Provision for future charges (IRAP)	2,940	4.25%	125	2,293	4.25%	97
Agent's termination indemnity		4.25%	–	151	4.25%	6
Other temporary differences IRAP	959	4.25%	41		33.00%	–
Write-downs of intangible assets IFRS	767	37.25%	286	1,546	37.25%	576
Valuation of derivatives with hedge accounting	185	33.00%	61		33.00%	–
Valuation of derivative (no hedge accounting)		33.00%		1,343	33.00%	443
Recognised deferred tax liabilities	**41,725**		**15,398**	**19,674**		**17,172**
Book depreciation exceeding tax depreciation	16,152	37.25%	6,017	19,674	37.25%	7,329
Other temporary differences IRAP	110	4.25%	5		37.25%	–
Other temporary differences IRES	231	33.00%	76		37.25%	–
Reclassification start-up costs Villa Santa Lucia IFRS	2,451	37.25%	913	2,647	37.25%	986
Separation of land and buildings IFRS	5,732	37.25%	2,135	6,258	37.25%	2,331
Revaluation of land and buildings IFRS	14,723	37.25%	5,484	15,039	37.25%	5,602
Remeasurement TFR IFRS	2,326	33.00%	768	2,422	33.00%	799
Remeasurement FISC IFRS		33.00%	–	380	33.00%	125
Recognised deferred tax (assets) liabilities, net			**11,373**			**12,122**
Unrecognised deferred tax assets	**128,230**		**42,316**	**128,349**		**42,355**
Write-down of investments		33.00%	–	12,549	33.00%	4,141
Write-downs for permanent losses in value	1,220	33.00%	403	6,990	33.00%	2,307
Stock provision	322	33.00%	106	322	33.00%	106
Bad and doubtful debts	1,582	33.00%	522	1,958	33.00%	646
Provision for future charges (IRES)	3,805	33.00%	1,256	2,461	33.00%	812
Differences deductible in future years	1,792	33.00%	591		33.00%	–
Agents' termination indemnity		33.00%	–	151	33.00%	50
Tax losses to carry forward	94,837	33.00%	31,296	85,626	33.00%	28,257
Tax loss for the year	24,672	33.00%	8,142	18,292	33.00%	6,036
Unrecognised deferred tax assets			**42,316**			**42,355**

Deferred tax assets and liabilities at 31 December 2006 have been offset as the conditions in IAS 12 are satisfied; in particular, they are offset when balances relate to income taxes levied by the same taxation authority and when there is a legally enforceable right to do so.
The net balance at 31 December 2006 is made up of deferred tax liabilities of Euro 15.4 million consisting of Euro 13.7 million relating to IRES taxation and Euro 1.7 million relating to IRAP taxation, and deferred tax assets of Euro 4 million consisting of Euro 3.8 million relating to IRES taxation and Euro 0.2 million relating to IRAP taxation.

The origin of these balances lies mostly in the excess of the statutory carrying amounts of certain fixed asset items over their tax bases, resulting from the allocation of the surplus arising on the 1988 merger and the effects of the transition to IFRS, as the above table shows. Deferred tax liabilities therefore represent the future tax charge that will be incurred by the Company as a consequence of the fact that a portion of annual book depreciation will not be deductible in arriving at taxable income for IRES and IRAP purposes.

Deferred tax assets are recognised to the extent that it is probable that the Company will have taxable profit in the future against which the temporary differences and unused tax losses can be utilised.

Considering that the Company has always had taxable income for IRAP purposes over the past few years deferred tax assets of Euro 0.2 million have been recognised, representing the benefit that will be realised in the future when the temporary differences reverse and lower IRAP taxation will be paid. These temporary difference regard provisions for write-downs or future costs.
For IRES purposes, since the Company has continually had tax losses over the past few years, deferred tax assets have been recognised only for an amount of Euro 3.8 million, which represents the extent to which the deferred tax liabilities connected with the reversal of the taxable temporary differences referred to above will be generated up until the year ending 31 December 2012.

Unrecognised deferred tax assets arise principally from unused tax losses. These assets have not been recognised for reasons of prudence, given the present situation in the sales markets.

The following table provides details of the accumulated tax losses at 31 December 2006 for which deferred tax assets have not been recognised amount to Euro 119.6 million, with details of the year in which the related benefit expires:

Accumulated tax losses	**2007**	**2008**	**2009**	**2010**	**2011**
Reno De Medici S.p.A.	119,509	103,629	60,964	42,151	24,672

30. Employees' leaving entitlement

Employees' leaving entitlement	**31.12.2006**	**31.12.2005**	**Variation**
Employees' leaving entitlement	17,133	17,008	(12,499)

The actuarial valuation of the "Employees' leaving entitlement" at 31 December 2006 in accordance with IAS 19 was made by an independent actuary on the basis of information provided by RDM.

The following demographic assumptions were used by the actuary:

- mortality rates: ISTAT data for 2002 relating to the Italian population and separated by gender;
- incapacity: the INPS model for forecasts up until 2010;
- retirement age for general activities: it has been assumed that active workers will reach the first of the pension requisites valid for the *Assicurazione Generale Obbligatoria* (Compulsory General Insurance);
- employees leaving for reasons other than death in service: an annual turnover frequency of 5.00% has been assumed;
- advances of the entitlement: an annual figure of 3.00% has been assumed.

The economic and financial assumptions used were as follows:

Economic and financial assumptions	
Annual discount rate	4.60%
Annual inflation rate	2.00%
Annual increase in overall salaries and wages	2.50%
Annual increase in employees' leaving entitlement	3.00%

Movements in the actuarial value of the liability for the year were as follows:

Movements in the actuarial value of the liability	
Actuarial value at 31.12.2005	**17,008**
Service cost	1,475
Interest cost	833
Services rendered	(2,183)
Actuarial value at 31.12.2006	**17,133**

Unrecognised actuarial losses at 31 December 2006 resulting from the application of the corridor method amounted to Euro 1.5 million and do not exceed the 10% threshold.

31. Provisions

The balance at 31 December 2006 is made up as follows:

Provisons for contingencies and charges	**31.12.2005**	**Charge**	**Utilisation**	**31.12.2006**
Provision for future charges	2,461	1,403	(924)	2,940
Agents' termination indemnity	950	23	(269)	704
Provision for losses on investments	278	24	–	302
Total	**3,689**	**1,450**	**(1,193)**	**3,946**

The liability for the agents' termination indemnity is determined on the basis of actuarial techniques.

The utilisation of Euro 924 thousand of the provision for future charges during the year relates to the settlement of disputes for Euro 480 thousand and a utilisation resulting from the purchase of CO2 quotas. The charge for the year consists mainly of accruals for costs to be incurred at the Ciriè and Pompeii facilities, classified in the profit and loss account as "Discontinued operations", and of accruals related to the closure of the internal waste disposal system.

The charge for the "Provision for losses on investments" relates to the losses incurred by the subsidiary Reno Logistica in liquidation.

32. Trade payables

"Trade payables" amount to Euro 78.4 million (Euro 63.1 million at 31 December 2005) due within 12 months. Payables are stated net of trade discounts and are adjusted for any returns or rebates agreed with the seller.

33. Payable to associates

Amounts payable to associates total Euro 1.4 million (Euro 0.9 million at 31 December 2005) and relate to balances of a trading nature for purchases of steam from Termica Boffalora S.r.l..

34. Non-recurring transactions

Non-recurring transactions include the partial and proportional demerger of RDM through the transfer of net assets consisting of the non-business property assets owned by RDM into the newly-established recipient company RDM Realty S.p.A. ("RDM Realty").

The formalisation of the demerger deed followed the admission to trading of RDM Realty's shares by Borsa Italiana S.p.A. on 12 June 2006 and the clearance given by Consob on 15 June 2006 for the publication of the company's listing prospectus.

The demerger became effective on 21 June 2006 and the RDM Realty shares began trading in class 1 of the Expandi Market on 22 June 2006, with the RDM shares being traded ex-demerger from that date.

The following balance sheet effects at 21 June 2006 arose from the transfer of the assets described to the recipient RDM Realty S.p.A.:

- the investment in the subsidiary Red.Im S.r.l., owner of the land and buildings classified for industrial and agricultural use and located in the

municipality of Magenta (MI), included in investments in subsidiary companies at an amount of Euro 1.1 million;
- receivables of Euro 12.4 million from the same subsidiary, included as amounts receivable from subsidiary companies in current assets;
- land and buildings of Euro 2.9 million relating to the Ciriè industrial area, classified as assets held for sale;
- deferred tax assets, net of deferred tax liabilities, of Euro 0.2 million.

As a result the proportional demerger into RDM Realty S.p.A. led to an overall decrease of Euro 16.6 million in the shareholders' equity of RDM.

Reference should be made to note 26 for further details on the changes in items of shareholders' equity resulting from the demerger.

There were no other transactions of a non-recurring nature other than those connected with discontinued operations described in note 12.

35. Contingent liabilities and commitments and other guarantees given to third parties

Reference should be made to the section "Other information" in the Report of the Board of Directors for a discussion of the principal disputes in which the Company is involved.

Commitments and guarantees to third parties include the following:
- sureties of Euro 2.3 million provided in favour of the Veneto Region and the Province of Belluno regarding the landfill located at the Santa Giustina (BL) facility;
- sureties of Euro 100 thousand provided in favour of the customs authorities;
- a surety of Euro 1.5 million provided in favour of the tax authorities in respect of VAT reimbursements;
- a surety of Euro 100 thousand provided in favour of Agea S.p.A. relating to the recovery of starch;
- a surety of Euro 20 thousand given in favour of the Lombardy Region;
- a surety of Euro 3 thousand given in connection with the leasing of property;
- a guarantee of Euro 43 million given in favour of Red.Im S.r.l. relating to performance connected with the signing of a preliminary agreement on 19 December 2005 for the sale of properties by RDM Iberica S.L. and Red.Im S.r.l..

36. Related party transactions

Reference should be made to Attachment A of this report - "Details of transactions and balances with related parties and Group companies as at and for the year ended 31 December 2006" and to the section "Other information" of the Report of the Board of Directors for the supplementary information required by Consob Communication no. 6064293 of 28 July 2006.

ATTACHMENTS

The following information, which forms part of these notes, is attached:

Attachment A – Details of transactions and balances with related parties and Group companies as at and for the year ended 31 December 2006.

Attachment B – Remuneration of members of the Board of Directors, members of the Board of Statutory Auditors and General Managers.

Attachment C – List of investments in subsidiary companies and associates.

Attachment A – Details of transactions and balances with related parties and Group companies as at and for the year ended 31 December 2006

The supplementary information regarding related party transactions required by Consob communication no. 6064293 of 28 July 2006 is set out below.

Receivables, payables, receipts and payments with related parties

The following tables provide details of receivables and payables due from and due to related parties at 31 December 2006 and receipts and payments flows with related parties for the year then ended:

Receivables and payables due to related parties	Current assets	Current liabilities	
	Receivable from associates	Payables to third parties	Payable to associates
IBI S.p.A.		1,800	
Termica Boffalora S.r.l.			1,363
Pac Service S.p.A.	801		
Total	**801**	**1,800**	**1,363**
Incidence on the total of the item	**100.0%**	**2.3%**	**100.0%**

Outflows and inflows of cash due to related parties	Outflows		Inflows
	Payables to third parties	Payable to associates	Receivables from associates
IBI S.p.A.	215		
Termica Boffalora S.r.l.		5,866	
Pac Service S.p.A.			2,529
Total	**215**	**5,866**	**2,529**

Revenues and costs deriving from related party transactions

The following tables provide details of the revenues and costs deriving from related party transactions carried out in the year ended 31 December 2006:

Revenues	Revenues for sales
IBI S.p.A.	
Termica Boffalora S.r.l.	
Pac Service S.p.A.	1,890
Total	**1,890**
Incidence on the total of the item	**0.7%**

Costs	Cost of raw materials and services	Discontinued operations
IBI S.p.A.		90
Termica Boffalora S.r.l.	5,198	
Pac Service S.p.A.		
Total	**5,198**	**90**
Incidence on the total of the item	**2.3%**	**1.7%**

The following tables provide details of transactions carried out in the year ended 31 December 2006 with direct and indirect subsidiary companies and with associates. Transactions between Reno De Medici S.p.A. and other Group companies of a manufacturing or financial nature and those regarding the provision of services are all carried out on an arm's length basis taking into consideration the quality of the goods and services supplied.

Intercompany receivables and payables

Intercompany balances	**Current assets**			**Non current liabilities**	**Current liabilities**		
	Receivables from subsidiary companies		**Receivables from associates**	**Payables from subsidiary companies**	**Payables from subsidiary companies**		**Payables from associates financial**
	Trade	**Financial**	**Trade**	**Financial**	**Financial**	**Trade**	**Trade**
Reno De Medici Iberica S.L.	5,916	2,474		32,000	654	759	
Cartiera Alto Milanese S.p.A.	6,710				1,204		
Reno De Medici International S.A.							
RDM France S.a.r.l.	5					645	
Reno De Medici Deutschland GmbH						465	
Emmaus Pack S.r.l.	6,189	1,425				335	
Reno Logistica S.p.A. in liquidation		128					
Pac Service S.p.A.			801				
Termica Boffalora S.r.l.							1,363
Total	**18,820**	**4,027**	**801**	**32,000**	**1,858**	**2,204**	**1,363**

Intercompany revenues and income

Intercompany revenues	**Revenues from sales**	**Other income**	**Financial income**
Reno De Medici Iberica S.L.	14,863		11
Cartiera Alto Milanese S.p.A.	16,759		
Reno De Medici International S.A.			
RDM France S.a.r.l.	2	6	
Reno De Medici Deutschland GmbH			
Emmaus Pack S.r.l.	14,511		71
Reno Logistica S.p.A. in liquidation			5
Pac Service S.p.A.	1,890		
Termica Boffalora S.r.l.			
Total	**48,025**	**6**	**87**

Intercompany costs and expenses

Intercompany costs	**Cost of raw materials and services**		**Financial expenses**
	Raw material	**Services**	
Reno De Medici Iberica S.L.	669		882
Cartiera Alto Milanese S.p.A.			58
Reno De Medici International S.A.			795
RDM France S.a.r.l.		841	12
Reno De Medici Deutschland GmbH		413	13
Emmaus Pack S.r.l.	66	32	
Reno Logistica S.p.A. in liquidation			
Pac Service S.p.A.			
Termica Boffalora S.r.l.		5,198	
Total	**735**	**6,484**	**1,760**

Attachment B – Remuneration of members of the Board of Directors, members of the Board of Statutory Auditors and General Managers

The following tables provide details of the remuneration of members of the Board of Directors and members of the Board of Statutory Auditors of the Company and its subsidiary companies in accordance with article 78 of Consob Regulation no. 11971 of 14 May 1999 and subsequent supplements and amendments:

Family name/first name	Description of office in Reno De Medici S.p.A.		
	Office held	**Period of the year in which office held**	**Expiry of office**
Dell'Aria Burani Giovanni	Honorary chairman	01.01-31.12.2006	31.12.2006
Garofano Giuseppe (1)	Chairman	01.01-31.12.2006	31.12.2006
Peretti Carlo (1)	Deputy chairman	01.01-31.12.2006	31.12.2006
Capuano Ignazio (1)	Managing director	01.01-31.12.2006	31.12.2006
Rossini Ambrogio	Director	01.01-31.12.2006	31.12.2006
De Min Giancarlo (1)	Director	01.01-31.12.2006	31.12.2006
Del Cane Mario	Director	01.01-31.12.2006	31.12.2006
Groller Michael	Director	01.01-31.12.2006	31.12.2006
Cavallera Piergiorgio	Director	01.01-12.04.2006	31.12.2006
Baglioni Marco	Director	01.01-31.12.2006	31.12.2006
Nicastro Vincenzo	Director	01.01-31.12.2006	31.12.2006
Pivato Sergio	Standing auditor (Chairman)	01.01-31.12.2006	31.12.2008
Tavormina Carlo	Standing auditor	01.01-31.12.2006	31.12.2008
Tosi Gabriele	Standing auditor	01.01-03.05.2006	31.12.2005
Priori Marcello	Standing auditor	03.05-31.12.2006	31.12.2008

Family name/first name	Fees			
	Emoluments for office	**Non-monetary benefits**	**Bonuses and other incentives**	**Other remuneration (2)**
Dell'Aria Burani Giovanni	454,482			
Garofano Giuseppe (1)	10,000			
Peretti Carlo (1)	120,000			
Capuano Ignazio (1)	310,000		350,000	
Rossini Ambrogio	10,000			
De Min Giancarlo (1)	10,000	4,470		161,632
Del Cane Mario	10,000			85,000
Groller Michael	10,000			
Cavallera Piergiorgio	2,500			
Baglioni Marco	30,600			
Nicastro Vincenzo	52,000			
Pivato Sergio	64,454			
Tavormina Carlo	43,699			6,954
Tosi Gabriele	10,400			
Priori Marcello	7,412			

(1) Member of the executive committee.
(2) Includes remuneration for fees for office held in subsidiary companies, for remuneration as employee and/or for consultancy fees.

Attachment C – List of investments in subsidiary companies and associates

Investments at 31 December 2006 in unlisted share capital companies or companies with limited liability and exceeding 10% of capital are as follows (pursuant to article 126 of Consob Regulation no. 11971 of 14 May 1999 and subsequent supplements and amendments):

Cartonboard sector

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

Cartiera Alto Milanese S.p.A.
Milan – Italy
Direct ownership 100%

Emmaus Pack S.r.l.
Milan – Italy
Direct ownership 51.39%

RDM France S.à.r.l.
Tremblay en France – Paris – France
Direct ownership 99.58%
Indirect ownership 0.42% (through Cartiera Alto Milanese S.p.A.)

RenoDeMedici Deutschland GmbH
Bad Homburg – Germany
Direct ownership 100%

Pac Service S.p.A.
Vigonza – Padua – Italy
Direct ownership 33.33%

Energy sector

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

Service sector

Reno Logistica S.p.A. in liquidation
Milan – Italy
Direct ownership 100%

These financial statements, consisting of the balance sheet, profit and loss account and notes, provide a true and fair view of the financial situation and result for the year and correspond to the accounting records.

Milan, 26 March 2007

On behalf of the Board of Directors

The Managing Director

(Emanuele Rossini)

REPORT OF THE BOARD OF STATUTORY AUDITORS TO THE GENERAL MEETING OF SHAREHOLDERS PURSUANT TO ARTICLE 153 OF LEGISLATIVE DECREE NO. 58/98 AND ARTICLE 2429 OF THE ITALIAN CIVIL CODE

To the General Meeting of Shareholders of Reno De Medici S.p.A..

We have performed the supervisory activities provided in Legislative Decree no. 58 of 24 February 1998 during the year ended 31 December 2006 in accordance with the principles of conduct for the Board of Statutory Auditors recommended by the National Councils of Dottori Commercialisti and Ragionieri (the Italian accounting profession).

In particular, and in conformity with the indications provide by Consob (the public authority responsible for regulating the Italian securities market) in a release of 6 April 2001, we report as follows.

We have carried out supervisory activities to ensure that the law and the Company's memorandum of association have been observed.

The Company's directors have provided us with extensive information, on at minimum a quarterly basis, on the activities carried out by the Company and its subsidiaries and as to their most significant operations of an economic or financial nature or operations involving their assets and liabilities, and have supplied us with details of their performance and of the events that have had the most importance influence in determining their result for the year.

On our part, we have continuously ascertained that any resolutions taken and put into effect comply with the law and the Company's memorandum of association and were not manifestly imprudent, of a risky nature, in conflict of interest with the resolutions taken by shareholders in general meeting or of such a type as to compromise the integrity of the Company's equity.

As part of our functions, we have supervised the adequacy of the Company's organisational structure, the respect of principles of good administration and the adequacy of the instructions transmitted by the Company to its subsidiaries pursuant to article 114, paragraph 2, of Legislative Decree no. 58/98, by gathering information from the heads of the organisational functions and through meetings with the auditing firm PricewaterhouseCoopers S.p.A. having the purpose of a reciprocal exchange of any relevant data or information; we have no particular observations to report in this respect.

We have assessed and carried out supervisory activities over the system of internal control and the administrative and accounting system, as well as over the reliability of the system to correctly represent operations, by obtaining information from the heads of the respective functions, examining the Company's records and analysing the results of the work performed by the auditing firm, supervising the activities of the internal control officer and attending meetings of the Internal Control Committee. We have no particular observations to report in this respect.

As provided by articles 165 and 155 of Legislative Decree no. 58 of 24 February 1998, the auditing firm has performed the following on an exclusive basis:

- verification of the proper maintenance of the Company's accounting records and the correct recognition of operations in these records;
- verification as to the correspondence between the financial statements and the accounting records and as to compliance with the regulations which govern the financial statements.

We have held regular meetings with members of the auditing firm pursuant to article 150, paragraph 2, of Legislative Decree no. 58/98 and no significant data or information emerged from these discussions which need be described in this report.

In the Report of the Board of Directors the directors list and adequately discuss the operations which have taken place with Group companies and other related parties, highlighting the ordinary nature of these transactions, or in any event that their nature is functional to the company's programmes and needs, their features and the amounts involved. These operations respond to principles of congruence and do not appear to be contrary to the interests of the Company.

In addition, suitable tables are provided in the notes to the financial statements of the Parent Company in which the nature and economic and financial effects of related party transactions are summarised, including those carried out with Group companies.

We have supervised the means by which the system of corporate governance required by the corporate governance code adopted by the company has been put into practice in compliance with the recommendations of Borsa Italiana S.p.A.. In particular in this respect we have carried out the following:

- we have verified that the criteria adopted by the Board of Directors to assess the independence of its members have been properly applied;
- we have supervised over the independence of the auditing firm.

We have verified that laws regarding the preparation of the statutory and consolidated financial statements at 31 December 2006 - prepared in accordance with IAS/IFRS international accounting standards - and the report on operations have been observed, by carrying out direct checks and by obtaining information from the auditing firm.

In the Report of the Board of Directors, the directors provide extensive information on the Company's performance and the events that have characterised the year, describing the activities performed in the various geographical areas in which the Company operates. On our part we bring to your attention the information provided by the directors in the order followed by them:

- the repayment of the bond on 4 May 2006 for Euro 145.0 million;
- the new loan agreements entered on 6 April 2006 for a total amount of Euro 80.9 million;
- the partial and proportional demerger of non-business property activities into RDM Realty S.p.A., the newly established recipient company, finalised on 21 June 2006.

The auditing firm has issued reports as of today's date with unqualified opinions on the consolidated and separate financial statements at 31 December 2006 and without any emphases of matter.

The Board of Statutory Auditors issued the following reports during the year as required by law:

– an opinion pursuant to article 159, paragraph 1, of Legislative Decree no. 58/98, relating to the appointment of the auditing firm PricewaterhouseCoopers S.p.A. for the audit of the company's statutory financial statements and consolidated financial statements for the years 2006 to 2011, for the review of its half-year financial statements at 30 June 2006 to 30 June 2011 and the verification that its accounting records have been properly maintained and that they contain correct evidence as to its operations;

– an opinion pursuant to article 159, paragraph 1, of Legislative Decree no. 58/98, relating to the appointment of the auditing firm PricewaterhouseCoopers S.p.A. for the audit of the statutory financial statements and consolidated financial statements of RDM Realty S.p.A., the recipient company of the partial demerger, for the years 2006 to 2011, for the review of its half-year financial statements at 30 June 2006 to 30 June 2011 and the verification that its accounting records have been properly maintained and that they contain correct evidence as to its operations;

The company appointed PricewaterhouseCoopers S.p.A. to perform the following engagements in addition to its audits of the statutory and consolidated financial statements and its review of the half-year statements:

i) the audit of the combined financial statements of the RDM Realty Group for the years ended 31 December 2004 and 31 December 2005, an examination of the pro-forma consolidated balance sheet and profit and loss account of the RDM Realty Group at 31 December 2004 and 31 December 2005 and assistance in the review of the accounting and financial information to be included in the Italian and international prospectuses, for a fee of Euro 65,000;

ii) the audit of the Parent Company's reconciliation schedules as required by IFRS 1, for a fee of Euro 18,000;

iii) an opinion on the settlement value of shares for the purpose of the exercising by shareholders of their withdrawal rights pursuant to article 2437-ter of the Italian civil code, The company did not engage any parties linked by continuing relations with PricewaterhouseCoopers S.p.A. which are also members of the firm's international network.

During the course of performing our supervisory activities and on the basis of the information received from the auditing firm, we have not identified any omissions or illegal or improper acts, or in any case any events of such significance so as to require communication to the company's control body or to require mention in this report.

In addition, there are no matters to be brought to your attention from the annual report of the Board of Directors on corporate governance.

We have not received any denouncements pursuant to article 2408 of the Italian civil code nor any statements from third parties.

The supervisory activity referred to above was carried out at seven meetings of the Board of Statutory Auditors (including individual interventions) and by attending nine meetings of the Board of Directors and three of the Executive Committee.

On the basis of the matters referred to above, the Board of Statutory Auditors, within its sphere of competence, has not identified any matters that could prevent the approval of the financial statements as at 31 December 2006 and for the year then ended, nor in respect of the proposal made by the directors to cover the Company's loss for the year.

Pontenuovo di Magenta (MI), 11 April 2007

THE BOARD OF
STATUTORY AUDITORS

Prof. SERGIO PIVATO
(Chairman)

Dott. MARCELLO PRIORI

Dott. CARLO TAVORMINA

REPORT OF THE INDEPENDENT AUDITORS

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers SpA

AUDITORS' REPORT IN ACCORDANCE WITH ARTICLE 156 OF LEGISLATIVE DECREE N° 58 DATED 24 FEBRUARY 1998

To the shareholders of
Reno De Medici SpA

1 We have audited the financial statements of Reno De Medici SpA as of 31 December 2006, constituted by the balance sheet, income statement, statement of changes in shareholders' equity, cash flow statement and the related notes. These financial statements are the responsibility of Reno De Medici SpA's Directors. Our responsibility is to express an opinion on these financial statements based on our audit. The aforementioned financial statements have been prepared for the first time in accordance with the International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree n° 38/2005.

2 We conducted our audit in accordance with the auditing standards and criteria recommended by CONSOB, the Italian Commission for listed Companies and the Stock Exchange. In accordance with those standards and criteria, the audit has been planned and performed to obtain the necessary assurance about whether the financial statements are free of material misstatement and, taken as a whole, are reliable. An audit includes examining, on a sample basis, evidence supporting the amounts and disclosures in the financial statements, as well as assessing the appropriateness of the accounting principles used and the reasonableness of the estimates made by the Directors. We believe that our audit provides a reasonable basis for our opinion.

The financial statements present the prior year corresponding figures prepared in accordance with the same accounting principles. Furthermore, the Appendix "Transition by the parent company Reno De Medici SpA to International Financial Reporting Standards (IFRS)" to the financial statements explains the effects of the transition to IFRS as adopted by the European Union and includes the disclosures related to the reconciliation schedules required by IFRS 1, which have been approved by the Board of Directors and published with the interim consolidated financial report for the six months ended 30 June 2006, that we audited and on which we issued our report dated 5 October 2006.

3 In our opinion, the financial statements of Reno De Medici SpA as of 31 December 2006 comply with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to

Sede legale e amministrativa: Milano 20149 Via Monte Rosa 91 Tel. 0277851 Fax 027785240 Cap. Soc. 3.754.400,00 Euro i.v., C.F. e P.IVA e Reg. Imp. Milano 12979880155 Iscritta al n. 43 dell'Albo Consob – Altri Uffici: **Bari** 70125 Viale della Repubblica 110 Tel. 0805429863 – **Bologna** 40122 Via delle Lame 111 Tel. 051526611 – **Brescia** 25124 Via Cefalonia 70 Tel. 0302219811 – **Firenze** 50129 Viale Milton 65 Tel. 0554627100 – **Genova** 16121 Piazza Dante 7 Tel. 01029041 – **Napoli** 80121 Piazza dei Martiri 30 Tel. 08136181 – **Padova** 35137 Largo Europa 16 Tel. 0498762677 – **Palermo** 90141 Via Marchese Ugo 60 Tel. 091349737 – **Parma** 43100 Viale Tanara 20/A Tel. 0521242848 – **Roma** 00154 Largo Fochetti 29 Tel. 06570251 – **Torino** 10129 Corso Montevecchio 37 Tel. 011556771 – **Trento** 38100 Via Grazioli 73 Tel. 0461237004 - **Treviso** 31100 Viale Felissent 90 Tel. 0422696911 – **Trieste** 34125 Via Cesare Battisti 18 Tel. 0403480781 - **Udine** 33100 Via Poscolle 43 Tel. 043225789 – **Verona** 37122 Corso Porta Nuova 125 Tel.0458002561

PRICEWATERHOUSECOOPERS

implement article 9 of Legislative Decree n° 38/2005; accordingly, they have been drawn up clearly and give a true and fair view of the financial position, results of operations, changes in shareholders' equity and cash flows of Reno De Medici SpA for the year then ended.

Milan, 11 April 2007

PricewaterhouseCoopers SpA

Signed by Giorgio Greco
(Partner)

This report has been translated from the original which was issued in accordance with Italian legislation. References in this report to the Financial Statements refer to the Financial Statements in original Italian and not to their translation.

(2)

SUMMARIES OF THE PRINCIPAL FIGURES FROM THE MOST RECENT FINANCIAL STATEMENTS OF THE SUBSIDIARY COMPANIES AND ASSOCIATES OF THE RENO DE MEDICI GROUP

Selected financial data of subsidiary companies and associates of the Reno De Medici Group as at and for the year ended 31 December 2006 are set out below in accordance with the third and fourth paragraphs of article 2429 of the Italian civil code.

Subsidiary companies

Included in the scope of consolidation

- Cartiera Alto Milanese S.p.A.
- Emmaus Pack S.r.l.
- RDM France S.a.r.l.
- Reno De Medici Deutschland GmbH
- Reno De Medici Iberica S.L.

Excluded from the scope of consolidation

- Reno Logistica S.p.A. in liquidation

Associates

- Termica Boffalora S.r.l.
- Pac Service S.p.A.

Cartiera Alto Milanese S.p.A.
Registered office in Milan – Via dei Bossi, 4
Share capital Euro 200,000

Thousands of Euros

Balance Sheet

Assets	**31.12.2006**	**31.12.2005**
Fixed assets	72	121
Working capital	9,939	11,934
Prepayments and accrued income	2	5
TOTAL ASSETS	**10,013**	**12,060**

Liabilities and shareholders' funds	**31.12.2006**	**31.12.2005**
Shareholders' funds	2,025	1,008
Provisions for contingencies and charges	80	159
Employees' leaving entitlement	–	229
Payables	7,904	10,659
Accrued expenses and deferred income	4	5
TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS	**10,013**	**12,060**

Profit and loss account

	31.12.2006	**31.12.2005**
Value of production	18,755	9,908
Cost of production	(17,711)	(12,197)
Operating profit	**1,044**	**(2,289)**
Financial income and (expense)	(11)	(39)
Value adjustments to financial assets	–	–
Extraordinary income and (expense)	(18)	(113)
Profit (loss) before taxation	**1,015**	**(2,441)**
Income taxes	1	652
PROFIT (LOSS) FOR THE YEAR	**1,016**	**(1,789)**

Emmaus Pack S.r.l.
Registered office in Milan – Via dei Bossi, 4
Share capital Euro 200,000

Thousands of Euros

Balance Sheet

Assets	31.12.2006	31.12.2005
Fixed assets	225	184
Working capital	10,055	10,200
Prepayments and accrued income	61	60
TOTAL ASSETS	**10,341**	**10,444**

Liabilities and shareholders' funds	31.12.2006	31.12.2005
Shareholders' funds	1,156	1,521
Provisions for contingencies and charges	84	115
Employees' leaving entitlement	114	119
Payables	8,986	8,689
Accrued expenses and deferred income	1	–
TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS	**10,341**	**10,444**

Profit and loss account

	31.12.2006	31.12.2005
Value of production	18,551	19,076
Cost of production	(17,519)	(17,294)
Operating profit	**1,032**	**1,782**
Financial income and (expense)	(78)	(63)
Value adjustments to financial assets	–	–
Extraordinary income and (expense)	–	–
Profit (loss) before taxation	**954**	**1,719**
Income taxes	(419)	(702)
PROFIT (LOSS) FOR THE YEAR	**535**	**1,017**

RDM France S.a.r.l.

Registered office in 12 Rue Chardonnerets – Z.A.C. Paris Nord II Tremblay en France
Share capital Euro 96,000

Thousands of Euros

Balance Sheet

Assets	**31.12.2006**	**31.12.2005**
Fixed assets	704	652
Working capital	438	562
Prepayments and accrued income	13	14
TOTAL ASSETS	**1,155**	**1,228**

Liabilities and shareholders' funds	**31.12.2006**	**31.12.2005**
Shareholders' funds	618	622
Provisions for contingencies and charges	78	78
Employees' leaving entitlement	–	–
Payables	460	528
Accrued expenses and deferred income	–	–
TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS	**1,156**	**1,228**

Profit and loss account

	31.12.2006	**31.12.2005**
Value of production	1,330	1,366
Cost of production	(1,354)	(1,284)
Operating profit	**(24)**	**82**
Financial income and (expense)	6	5
Value adjustments to financial assets	–	–
Extraordinary income and (expense)	16	(149)
Profit (loss) before taxation	**(2)**	**(62)**
Income taxes	(2)	–
PROFIT (LOSS) FOR THE YEAR	**(4)**	**(62)**

Reno De Medici Deutschland GmbH
Bad Homburg, Hohestrasse 46
Share capital Euro 472,950

Thousands of Euros

Balance Sheet

Assets	31.12.2006	31.12.2005
Fixed assets	5	5
Working capital	522	509
Prepayments and accrued income	2	3
TOTAL ASSETS	**529**	**517**

Liabilities and shareholders' funds	31.12.2006	31.12.2005
Shareholders' funds	485	469
Provisions for contingencies and charges	–	–
Employees' leaving entitlement	–	–
Payables	44	48
Prepayments and accrued income	–	–
TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS	**529**	**517**

Profit and loss account

	31.12.2006	31.12.2005
Value of production	420	421
Cost of production	(418)	(422)
Operating profit	**2**	**(1)**
Financial income and (expense)	16	9
Value adjustments to financial assets	–	–
Extraordinary income and (expense)	–	–
Profit (loss) before taxation	**18**	**8**
Income taxes	–	–
PROFIT (LOSS) FOR THE YEAR	**18**	**8**

Reno De Medici Iberica S.L.
Prat De Llobregatt (Barcelona) Nicolas M. Urgoiti, 42
Share capital Euro 138,284,023

Thousands of Euros

Balance Sheet (*)

Assets	**31.12.2006**	**31.12.2005**
Fixed assets	14,222	18,856
Working capital	94,481	106,813
Prepayments and accrued income	3,040	379
TOTAL ASSETS	**111,743**	**126,048**

Liabilities and shareholders' funds	**31.12.2006**	**31.12.2005**
Shareholders' funds	60,851	61,532
Provisions for contingencies and charges	2,035	8,100
Employees' leaving entitlement	–	–
Payables	48,857	56,416
Accrued expenses and deferred income	–	–
TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS	**111,743**	**126,048**

Profit and loss account

	31.12.2006	**31.12.2005**
Value of production	37,092	46,468
Cost of production	(38,607)	(54,054)
Operating profit	**(1,515)**	**(7,586)**
Financial income and (expense)	812	455
Value adjustments to financial assets	(109)	1,365
Extraordinary income and (expense)	131	(19,132)
Profit (loss) before taxation	**(681)**	**(24,898)**
Income taxes	–	–
Profit (loss) for the year	**(681)**	**(24,898)**

(*) Bilancio redatto secondo i principi IFRS.

Reno Logistica S.p.A. in liquidation
Registered office in Milan – Via dei Bossi, 4
Share capital Euro 150,000

Thousands of Euros

Balance Sheet

Assets	**31.12.2006**	**31.12.2005**
Fixed assets	–	–
Working capital	118	126
Prepayments and accrued income	–	–
TOTAL ASSETS	**118**	**126**

Liabilities and shareholders' funds	**31.12.2006**	**31.12.2005**
Shareholders' funds	(302)	(278)
Provisions for contingencies and charges	285	285
Employees' leaving entitlement	–	–
Payables	135	119
Accrued expenses and deferred income	–	–
TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS	**118**	**126**

Profit and loss account

	31.12.2006	**31.12.2005**
Value of production	–	–
Cost of production	(20)	(307)
Operating profit	**(20)**	**(307)**
Financial income and (expense)	(5)	(8)
Value adjustments to financial assets	–	–
Extraordinary income and (expense)	–	–
Profit (loss) before taxation	**(25)**	**(315)**
Income taxes	–	–
PROFIT (LOSS) FOR THE YEAR	**(25)**	**(315)**

Termica Boffalora S.r.l.
Registered office in Sesto San Giovanni (MI) – Viale Italia, 592
Quota capital Euro 14,220,000

Thousands of Euros

Balance Sheet

Assets	31.12.2006	31.12.2005
Fixed assets	5,834	2,560
Working capital	20,138	28,367
Prepayments and accrued income	111	159
TOTAL ASSETS	**26,083**	**31,086**

Liabilities and shareholders' funds	31.12.2006	31.12.2005
Shareholders' funds	19,580	18,947
Provisions for contingencies and charges	–	–
Employees' leaving entitlement	–	–
Payables	6,503	12,139
Accrued expenses and deferred income	–	–
TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS	**26,083**	**31,086**

Profit and loss account

	31.12.2006	31.12.2005
Value of production	56,506	61,323
Cost of production	(50,918)	(55,820)
Operating profit	**5,588**	**5,503**
Financial income and (expense)	571	220
Value adjustments to financial assets	–	–
Extraordinary income and (expense)	(10)	(6)
Profit (loss) before taxation	**6,149**	**5,717**
Income taxes	(2,277)	(2,216)
PROFIT (LOSS) FOR THE YEAR	**3,872**	**3,501**

Pac Service S.p.A.
Registered office in Vigonza (PD) – Via Julia, 47
Share capital Euro 1,000,000

Thousands of Euros

Balance Sheet

Assets	31.12.2006	31.12.2005
Fixed assets	1,660	1,372
Working capital	9,035	8,392
Prepayments and accrued income	33	73
TOTAL ASSETS	**10,728**	**9,837**

Liabilities and shareholders' funds	31.12.2006	31.12.2005
Shareholders' funds	4,370	4,291
Provisions for contingencies and charges	261	185
Employees' leaving entitlement	120	131
Payables	5,977	5,230
Accrued expenses and deferred income	–	–
TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS	**10,728**	**9,837**

Profit and loss account

	31.12.2006	31.12.2005
Value of production	16,605	14,845
Cost of production	(15,416)	(13,739)
Operating profit	**1,189**	**1,106**
Financial income and (expense)	(15)	(7)
Value adjustments to financial assets	–	–
Extraordinary income and (expense)	(5)	9
Profit (loss) before taxation	**1,169**	**1,108**
Income taxes	(489)	(462)
PROFIT (LOSS) FOR THE YEAR	**680**	**646**

APPENDIX - TRANSITION BY THE PARENT COMPANY RENO DE MEDICI S.P.A. TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

Legislative Decree no. 38 of 28 February 2005 governs the means by which Regulation (EC) no. 1606/2002 of the European Parliament and of the Council of 19 July 2002 was enacted into Italian law and establishes the requirement for listed companies to prepare their annual financial statements in compliance with International Financial Reporting Standards (referred to in the following as IFRS) starting from the year ending or in course on 31 December 2006.

In its Communication no. 6064313 of 28 July 2006, Consob clarified that in order to be consistent with article 81 "Half-year report" of the Regulations for Issuers, the Parent Company Reno De Medici S.p.A. must prepare its financial statements for the six months ended 30 June 2006 in accordance with IFRS.

In order to ensure that there is adequate disclosure of the effects resulting from the transition to the new rules, including those relating to specific line items, the information required by paragraphs 39 and 40 of IFRS 1 is provided.

In accordance with paragraph 25 of IFRS 1, since the Parent Company is applying IFRS for the first time in the preparation of its separate financial statements (the transition date being 1 January 2004), assets and liabilities are stated at the same amount as that at which they were stated in the Group statements, excluding consolidation adjustments.

The separate financial statements of the Parent Company are prepared in accordance with the IFRS issued by the International Accounting Standards Board and approved 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 accounting principles and policies used in the preparation of the reconciliations presented in this appendix are the same as those used in the preparation of the consolidated financial statements, with the exception of those relating to the measurement of equity investments.

Investments in subsidiary companies, associated companies and joint ventures are measured using the cost method and impairment tests are carried out periodically to determine whether there are any losses in value.

An impairment test is performed every time that there is evidence that the investment has undergone a probable loss in value. The valuation method is the same as that described in the paragraph "Tangible fixed assets" in the section "Accounting principles and policies" of the half-year report.

If it is necessary to write down an asset, the impairment loss is charged against income in the period in which the write-down is recognised. When the reasons for the write-down no longer exist, the carrying amount of the investment is reinstated up to its original cost. This reinstatement is recognised in the profit and loss account.

In compliance with the laws and regulations described earlier in this appendix, the following reconciliations to IFRS required by IFRS 1 are presented below:

1. the reconciliation of shareholders' equity at 31 December 2005 between Italian accounting principles and IFRS;
2. the reconciliation of shareholders' equity at 30 June 2005 between Italian accounting principles and IFRS;
3. the reconciliation of shareholders' equity at 1 January 2005 between Italian accounting principles and IFRS;
4. the reconciliation of the net result for 2005 between Italian accounting principles and IFRS;
5. the reconciliation of the net result for the six months ended 30 June 2005 between Italian accounting principles and IFRS;
6. a commentary on the accounting principles and policies used by the group supplemented and amended following the adoption of International Financial Reporting Standards and on the principal reconciling items between Italian accounting principles and IFRS.

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 separate financial statements compliant with the IFRS endorsed by the European Commission do not include comparative financial information end explanatory notes that would be required in order to present fairly the separate financial position and result of operations of RDM in compliance with IFRS.

1. Reconciliation of shareholders' equity at 31 December 2005

(euro/000)	Note	31 December 2005
Shareholders' equity under Italian GAAP		**139,889**
Separation of land and buildings	A	6,258
Revaluation of land and buildings	B	15,040
Start-up costs Villa Santa Lucia	C	2,647
Elimination of intangible fixed assets	D	(1,545)
Valuation of shares in subsidiary companies	E	(786)
Measurement of RDM International intragroup loan at fair value	F	31,422
Measurement of derivative financial instruments at fair value	G	(32,766)
Remeasurement of employees' leaving entitlement as per IAS 19	H	2,422
Remeasurement of agents' termination provision as per IAS 37	I	380
Own shares in hand	L	(5,297)
Deferred taxation on IFRS adjustments	M	(8,826)
Shareholders' equity under IFRS		**148,838**

2. Reconciliation of shareholders' equity at 30 June 2005

(euro/000)	Note	30 June 2005
Shareholders' equity under Italian GAAP		**161,454**
Separation of land and buildings	A	6,348
Revaluation of land and buildings	B	16,171
Start-up costs Villa Santa Lucia	C	2,745
Elimination of intangible fixed assets	D	(1,938)
Valuation of shares in subsidiary companies	E	(1,033)
Measurement of RDM International intragroup loan at fair value	F	27,225
Measurement of derivative financial instruments at fair value	G	(30,907)
Remeasurement of employees' leaving entitlement as per IAS 19	H	2,590
Remeasurement of agents' termination provision as per IAS 37	I	372
Own shares in hand	L	(5,374)
Deferred taxation on IFRS adjustments	M	(8,450)
Shareholders' equity under IFRS		**169,203**

3. Reconciliation of shareholders' equity at 1 January 2005

(euro/000)	Note	1 January 2005
Shareholders' equity under Italian GAAP		**174,559**
Separation of land and buildings	A	6,184
Revaluation of land and buildings	B	16,311
Start-up costs Villa Santa Lucia	C	2,843
Elimination of intangible fixed assets	D	(2,331)
Valuation of shares in subsidiary companies	E	(15,888)
Measurement of RDM International intragroup loan at fair value	F	33,136
Measurement of derivative financial instruments at fair value	G	(38,864)
Remeasurement of employees' leaving entitlement as per IAS 19	H	2,407
Remeasurement of agents' termination provision as per IAS 37	I	372
Own shares in hand	L	(5,373)
Deferred taxation on IFRS adjustments	M	(7,597)
Shareholders' equity under IFRS		**165,759**

4. Reconciliation of profit (loss) for the year ended 2005

(euro/000)	Note	Year 2005
Shareholders' equity under Italian GAAP		**(34,670)**
Separation of land and buildings	A	74
Revaluation of land and buildings	B	(1,271)
Start-up costs Villa Santa Lucia	C	(196)
Elimination of intangible fixed assets	D	785
Valuation of shares in subsidiary companies	E	15,101
Measurement of RDM International intragroup loan at fair value	F	(1,714)
Measurement of derivative financial instruments at fair value	G	6,098
Remeasurement of employees' leaving entitlement as per IAS 19	H	15
Remeasurement of agents' termination provision as per IAS 37	I	8
Own shares in hand	L	77
Deferred taxation on IFRS adjustments	M	(1,228)
Profit (loss) under IFRS		**(16,921)**

5. Reconciliation of profit (loss) for the six months ended 30 June 2005

(euro/000)	Note	First half 2005
Profit (loss) under Italian GAAP		**(13,105)**
Separation of land and buildings	A	164
Revaluation of land and buildings	B	(140)
Start-up costs Villa Santa Lucia	C	(98)
Elimination of intangible fixed assets	D	393
Valuation of shares in subsidiary companies	E	14,855
Measurement of RDM International intragroup loan at fair value	F	(5,911)
Measurement of derivative financial instruments at fair value	G	7,957
Remeasurement of employees' leaving entitlement as per IAS 19	H	183
Remeasurement of agents' termination provision as per IAS 37	I	0
Own shares in hand	L	0
Deferred taxation on IFRS adjustments	M	(854)
Profit (loss) under IFRS		**3,444**

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

First-time adoption of IFRS

In common with the treatment adopted in preparing the Group's consolidated financial statements on transition to IFRS, the Parent Company 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.
- Fair value ([38]) 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.
- 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.
- The Sarriò merger: the merger of Sarriò into Reno De Medici S.p.A. took place before the transition date, with the merger deficit being allocated under Italian accounting principles to land and buildings and plant. As this operation was carried out by two entities already linked by a relationship of control, it cannot strictly be considered to be a business combination, even though the effect of the merger led in substance to the consolidation of a company in the statutory accounts of the Parent Company which had been acquired to all intents and purposes at a consolidated level. Given the present uncertainty as to the accounting treatment that should be applied in separate IAS/IFRS financial statements in these situations, and since future clarifications are expected on this matter, it has been decided to maintain unchanged the figures used in the financial statements prepared in accordance with Italian accounting principles.

In addition, on adopting IFRS in the statutory accounts for the first time, the cost of equity investments has been redetermined by retrospectively applying the requirements of IAS/IFRS in line with the general principles included in the IASB Framework.

As a result, the amount of any write-downs recognised in the financial statements prepared in accordance with Italian accounting principles has been recalculated by following the requirements of IAS 36.

(38) Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm lenght's 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 separate 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.

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 Parent Company 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 2005 of separating land and buildings was to increase the item land by Euro 15.0 million (being the gross value of land at that date) and to decrease the value of buildings by Euro 8.8 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 Euro 0.3 million in the year 2005 (Euro 0.2 million in the first half year of 2004), whereas the increase in the item land at 31 December 2005 amounted to Euro 14.3 million (Euro 15.0 million at 30 June 2005), with a decrease in the item buildings of Euro 8.0 million (Euro 8.6 million at 30 June 2005).

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

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 under the cost model. 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 and of the agricultural land at the Magenta facility, commissioning an appraisal prepared by an external valuer, and used this as deemed cost in the opening IFRS transition balance sheet used for consolidated purposes. The carrying values of the Santa Giustina land and buildings in the separate financial statements at the transition date have been aligned to those of the consolidated financial statements, taking into consideration the merger deficit previously allocated to those assets. The remeasurement to fair value in the balance sheets at the reference dates led to an increase in the item land of Euro 8.6 million and in the item buildings of Euro 6.7 million at 1 January 2005, Euro 6.4 million at 31 December 2005 and Euro 6.6 million at 30 June 2005. The remeasurement of buildings led to increased depreciation in the year 2005 of Euro 0.3 million (Euro 0.1 million for the first half year of 2005).

The revaluation to fair value of the agricultural land at Magenta led to an increase on transition in the item land of Euro 1.0 million; this land was sold in the second half of 2005 to the subsidiary Red.Im with a capital gain lower by Euro 1.0 million recognised in the 2005 profit and loss account.

C. Start-up costs at Villa Santa Lucia

In the year ended 31 December 2002, the Company capitalised in intangible assets the start-up costs relating to the Villa Santa Lucia facility following the revamping of the production plant, determining the amortisation period for those costs in three years. Under International Financial Reporting Standards (IFRS 16, Property, Plant and Equipment) these costs may remain as fixed assets but must be classified as tangible fixed assets, including them in the carrying value of the plant to which they relate and depreciating them over the useful life of that plant.

This reclassification has led to an increase in plant and machinery in the transition balance sheet at 1 January 2005 of Euro 2.8 million. Plant and machinery in the balance sheet at 31 December 2005 have increased by Euro 2.6 million (Euro 2.7 million at 30 June 2005). As a result of these adjustments, depreciation for 2005 increased by Euro 0.2 million (Euro 0.1 million for the first half year of 2005).

D. Elimination of intangible assets

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 2005, 30 June 2005 and 31 December 2005 by Euro 2.3 million, Euro 1.9 million and Euro 1.5 million, respectively. This adjustment led to the elimination of amortisation of capitalised costs in the year 2005 of Euro 0.8 million (Euro 0.4 million for the first half year of 2005).

E. Investments in subsidiary companies

RDM entered into a committal agreement in 2003 for the purchase of the investment in Cartiera Alto Milanese S.p.A. (referred to in the following as "CAM") through the acquisition of its holding company Holcart S.r.l.. As stipulated in the agreement which was revised in December 2004, the investment was acquired in June 2005 at a price of Euro 1.5 million.

Under International Financial Reporting Standards, the definition of control is not based exclusively on legal ownership and 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 entity so as to obtain benefits from its activities.

Under this reasoning this investment has been recognised as such in the balance sheet starting from the transition date of 1 January 2005.

In line with the treatment adopted in the consolidated financial statements, the carrying value of these investments has been adjusted to their equity, taking into account the residual value of the customer portfolio of Cartiera Alto Milanese S.p.A. of Euro 2 million. This adjustment has led to the recognition in the Parent Company's balance sheet of a provision for investments of Euro 1.5 million, presented as a deduction from the item "Investments in subsidiary companies", and a provision for losses on investments of Euro 3.8 million, presented as a liability and recognised directly in equity as provided in IFRS 1.

The results for the six months ended 30 June 2005 and the year ended 31 December 2005 include lower write-downs of equity interests by Euro 5.3 million as the result of the adjustments made during transition.

The measurement of the carrying amount of the investments reflects in addition the effects resulting from the adoption of IFRS in determining the equity of the subsidiaries RDM Iberica S.L. and Red.Im S.r.l.:

- the investment in RDM Iberica S.L. takes into account the discounting to present value of the receivable from Grupo Torras in the transition to IFRS, leading to a decrease in the carrying amount of Euro 11.2 million at 1 January 2005, Euro 1.9 million at 30 June 2005 and Euro 1.7 million at 31 December 2005. This also led to a decrease of Euro 9.5 million in the write-down of equity interests in the profit and loss account for the year ended 31 December 2005 (Euro 9.4 million in the profit and loss account for the six months ended 30 June 2005);
- following the reversal of the write-downs recognised under Italian accounting principles, the carrying amounts of the investment in Red.Im S.r.l. were increased at 1 January 2005 by Euro 0.7 million, at

30 June 2005 by Euro 0.8 million and at 31 December 2005 by Euro 0.9 million. This led also to a decrease of Euro 0.3 million in the write-down of equity interests in the profit and loss account for the year ended 31 December 2005 (Euro 0.1 million in the profit and loss account for the six months ended 30 June 2005).

F. Measurement at fair value of the loan in foreign currency

Under IAS 21, The Effects of Changes in Foreign Exchange Rates, at every balance sheet date loans denominated in foreign currency must be measured at their fair value by using the exchange rate ruling at the date at which fair value is determined. Using this reasoning, the loan granted to the subsidiary Reno De Medici International S.A. has been measured by applying the Yen/Euro rate ruling at every reporting date.

The measurement of intercompany loans at fair value has led to a pre-tax increase in shareholders' equity at 1 January 2005 of Euro 33.1 million, at 30 June 2005 of Euro 27.2 million and at 31 December 2005 of Euro 31.4 million. The effect on the profit and loss account for the year ended 31 December 2005 is an increase in financial expense, including the foreign exchange component, of Euro 1.7 million and on the profit and loss account for the six months ended 30 June 2005 of an increase in financial expense, including the foreign exchange component, of Euro 5.9 million.

G. 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 at the transition date but hedge accounting has not been applied. In particular, the derivate financial instruments held by Reno De Medici S.p.A. relate to transactions carried out to hedge the exchange risk (Cross Currency Swaps) and the interest rate risk (Interest Rate Swaps) mostly regarding loans granted by the subsidiary Reno De Medici International S.A and relating to the residual balance of medium- and long-term loans given by banks. Although these instruments have been acquired with the objective of hedging, they do not satisfy the IFRS conditions for hedge accounting and accordingly they are treated as non-hedging instruments. The effects of accounting for derivative financial instruments under IFRS at the transition date have been recorded directly in equity, while any subsequent changes have been recorded in the profit and loss account.

The measurement of derivatives at fair value led to a pre-tax decrease in equity at 1 January 2005 of Euro 38.9 million, at 30 June 2005 of Euro

30.9 million and at 31 December 2005 of Euro 32.8 million. The effect on the profit and loss account for the year ended 31 December 2005 is to decrease financial expense, including the foreign exchange component, by Euro 6.1 million, whereas the effect on the profit and loss account for the six months ended 30 June 2005 is to decrease financial expense, including the foreign exchange component, by Euro 8.0 million.

H. Remeasurement of the employees' leaving entitlement provision

On adopting International Financial Reporting 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 in the Group's consolidated financial statements, 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. All cumulative actuarial gains and losses that arose prior to 1 January 2004 have been recognised in the transition balance sheet. The remeasurement of the employees' leaving entitlement under IAS 19 led to a decrease in the liability at 1 January 2005 of Euro 2.2 million, at 30 June 2005 of Euro 2.6 million and at 31 December 200 of Euro 2.4 million. The effect on the profit and loss account for the year ended 31 December 2005 (including the foreign exchange component classified in financial expense) is substantially nil, while the charge in the profit and loss account for the six moths ended 30 June 2005 is decreased by Euro 0.2 million.

I. Remeasurement of the agents' termination indemnity provision

Under International Financial Reporting 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 by 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 2005 at 30 June 2005 and at 31 December 2005 by approximately 0.4 million; the charge for the year ended 31 December 2005 and for the six months ended 30 June 2005 is essentially in line with that recognised under Italian accounting principles.

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 own shares held in portfolio, reducing equity at 1 January 2005, 30 June 2005 and 31 December 2005.

M. Deferred taxation on IFRS adjustments

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

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PricewaterhouseCoopers 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 of equity as of 1 January 2005 and 31 December 2005 and the profit and loss for the year ended 31 December 2005 (hereinafter the "IFRS Reconciliation Schedules") of Reno De Medici SpA and related notes, drawn up in compliance with the criteria and methodology set out in CONSOB Communication No 6064313 of 28 July 2006 and included in the document "Transition to International Financial Reporting Standards (IFRS) of the parent Reno De Medici SpA" included in the interim consolidated financial report for the six months ended 30 June 2006. The aforementioned IFRS Reconciliation Schedules have been derived from the financial statements of Reno De Medici SpA as of 31 December 2005 prepared in compliance with the laws governing the criteria for the preparation of financial statements, which we audited and on which we issued our report on 11 April 2006. The IFRS Reconciliation Schedules have been prepared in connection with the process of transition to the International Financial Reporting Standards 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.

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 methodology set out in CONSOB Communication No 6064313 of 28 July 2006.

Sede legale e amministrativa: Milano 20149 Via Monte Rosa 91 Tel 0277851 Fax 027785240 Cap Soc. 3.754.400,00 Euro i v., C.F. e P.IVA e Reg. Imp. Milano 12979880155 Iscritta al n. 43 dell'Albo Consob – Altri Uffici: **Bari** 70125 Viale della Repubblica 110 Tel. 0805429863 – **Bologna** 40122 Via delle Lame 111 Tel. 051526611 – **Brescia** 25124 Via Cefalonia 70 Tel. 0302219811 – **Firenze** 50129 Viale Milton 65 Tel. 0554627100 – **Genova** 16121 Piazza Dante 7 Tel 01029041 – **Napoli** 80121 Piazza dei Martiri 30 Tel. 0817644441 – **Padova** 35137 Largo Europa 16 Tel 0498762677 – **Palermo** 90141 Via Marchese Ugo 60 Tel. 091349737 – **Parma** 43100 Viale Tanara 20/A Tel. 0521242848 – **Roma** 00154 Largo Fochetti 29 Tel 06570251 – **Torino** 10129 Corso Montevecchio 37 Tel 011556771 – **Trento** 38100 Via Manzoni 16 Tel. 0461237004 - **Treviso** 31100 Viale Felissent 90 Tel 0422696911 – **Trieste** 34125 Via Cesare Battisti 18 Tel 0403480781 - **Udine** 33100 Via Poscolle 43 Tel 043225789 – **Verona** 37122 Corso Porta Nuova 125 Tel 0458002561

PRICEWATERHOUSECOOPERS

4. As disclosed in the explanatory notes, the IFRS Reconciliation Schedules, having been prepared for sole purpose of the transition project for the preparation of the first full set of financial statements of Reno De Medici SpA compliant with the IFRS endorsed by the European Commission, do not include comparative data and the explanatory notes that would be required in order to present fairly the financial position and result of operations of Reno De Medici SpA in compliance with IFRS.

Milan, 5 October 2006

PricewaterhouseCoopers SpA

Signed by

Giorgio Greco
(Partner)

This report has been translated into the English language solely for the convenience of international readers.

(2)

BOWNE International – Milano

Annual report and financial statements at 31 December 2006