Half-year report

First half 2006

Reno De Medici S.p.A.
Registered office: Via dei Bossi 4, Milan
Corporate and administrative headquarters:
Via G. De Medici 17, Pontenuovo di Magenta (MI)
Share capital € 132,160,074.13 fully paid
Fiscal code and VAT no. 00883670150

CONTENTS[1]

1. Company bodies

2. Operating companies of the Reno De Medici Group at 30 June 2006

3. Comments of the Directors on the operations of the Reno De Medici Group
- Introduction
- Results of the first half of 2006
- Significant events
- Outlook for the current year

4. Consolidated financial statements
- Consolidated profit and loss account
- Consolidated balance sheet
- Consolidated cash flow statement
- Changes in shareholders' equity

5. Notes to the consolidated financial statements

5.1 Accounting principles and policies

5.2 Financial risk management policy

5.3 Scope of consolidation

5.4 Notes to the consolidated financial statements for the first half year 2006
- (A) Discontinued operations
- (B) Segment information
- (C) Cost of raw materials and services
- (D) Unusual income and expense
- (E) Depreciation, amortisation and impairment
- (F) Financial income (expense), net
- (G) Tangible fixed assets
- (H) Investment property
- (I) Available-for-sale financial assets - non-current
- (J) Other receivables - non-current
- (K) Stocks
- (L) Other receivables - current
- (M) Non-current assets held for sale
- (N) Net financial position
- (O) Other payables - non-current
- (P) Provisions for contingencies and charges
- (Q) Other payables - current

5.5 Related party transactions

5.6 Legal and arbitration proceedings

5.7 Subsequent events

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

6. Financial statements of the Parent Company prepared in accordance with International Financial Reporting Standards

7. Reconciliation of consolidated shareholders' equity and consolidated net profit with those of the Parent Company

8. List of investments in subsidiary companies and associates

Appendix: Transition by the Parent Company Reno De Medici S.p.A. to International Financial Reporting Standards (IFRS)

1. Company bodies

<u>Board of Directors</u>

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

(*) member of the executive committee

<u>Board of Statutory Auditors</u>

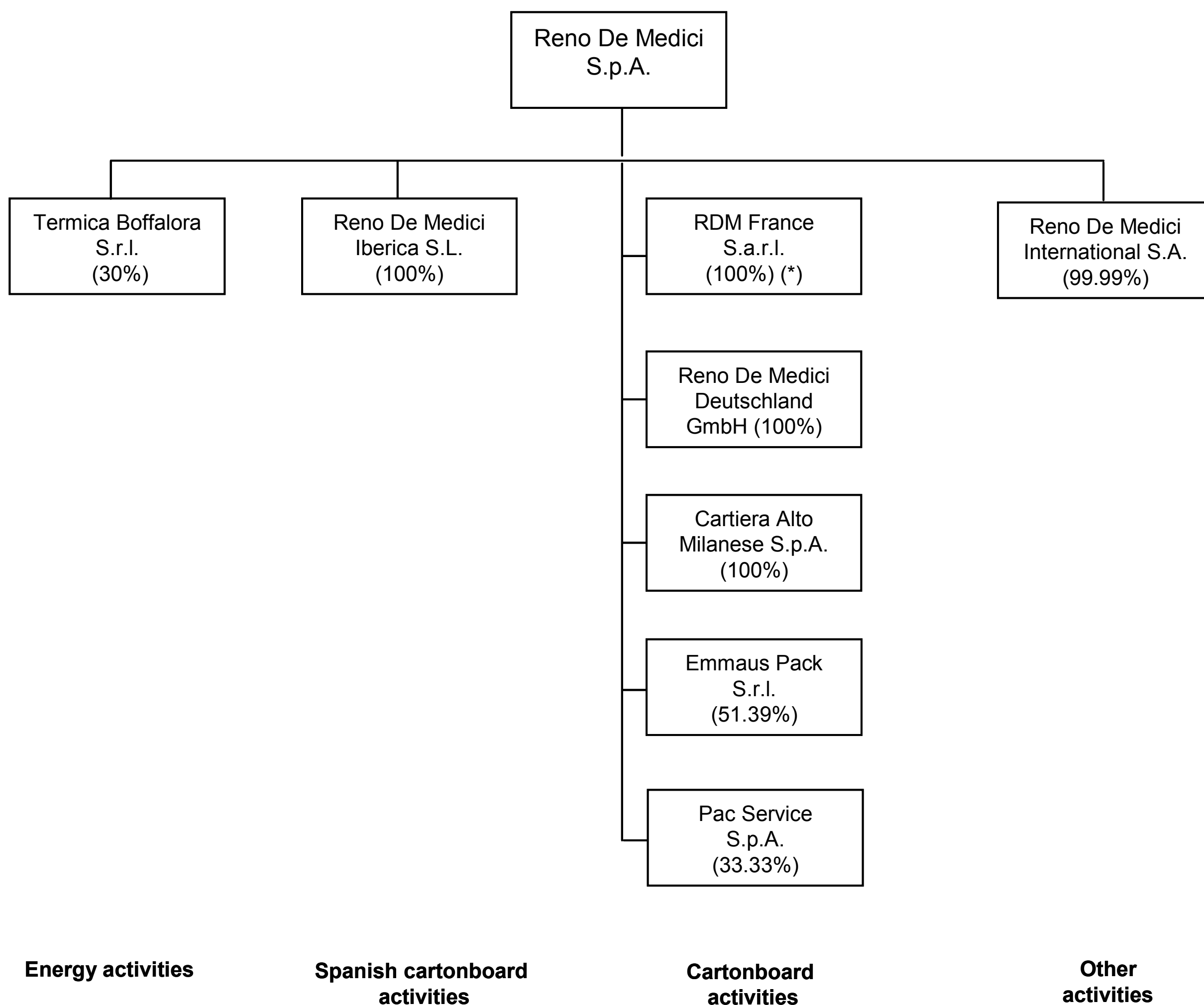
Sergio Pivato	Chairman
Marcello Priori	Standing auditor
Carlo Tavormina	Standing auditor
Giovanni Maria Conti	Substitute auditor
Myrta de' Mozzi	Substitute auditor

<u>Independent Auditors</u>

PricewaterhouseCoopers S.p.A.

2. Operating companies of the Reno De Medici Group at 30 June 2006

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



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

3. Comments of the Directors on the Operations of the Reno De Medici Group

Introduction

As required by article 81 of Consob Regulation no. 11971 of 14 May 1999 and subsequent supplements and amendments (referred to in the following as the "Regulations for Issuers"), this consolidated half-year report also includes the financial statements of the Parent Company which have been prepared in accordance with International Financial Reporting Standards (IFRS) pursuant to Consob Communication no. 6064313 of 28 July 2006.

The effects of the adoption of IFRS on the individual line items of the financial statements of Reno De Medici S.p.A. ("RDM" or the "Parent Company") are provided in the annex to this report, pursuant to the Consob Communication referred to above and in accordance with IFRS 1, First-time Adoption of International Financial Reporting Standards.

Results of the first half of 2006

The Reno De Medici Group (the "RDM Group" or the "Group") achieved net revenues of 163.3 million euros in the first half of 2006 compared to 151.1 million euros in the corresponding period of the previous year (up 8%)[2].

This performance reflects an increase of 12.4% in the volumes despatched compared to the six months ended 30 June 2005 (the 2005 figures do not include the volumes despatched by the production units whose results are presented as 'Discontinued operations').

Unit sales prices of the volumes sold in the first half of 2006 approached on average those of the first half of 2005, when there was a gradual fall in such prices right up to the end of the year.

New orders collected during the first half of 2006 reflected unit prices around 2.5% higher than those of the first half of 2005 and around 4% to 4.5% higher than those of the second half of the previous year. As a result, if cost factors remain unchanged, higher margins are to be expected from ordinary operations for the second half of 2006 compared to those of the corresponding period of 2005.

Operating profit (EBIT) of 5.1 million euros was achieved for the half year 2006 (after depreciation, amortisation and impairment of 11.6 million euros), compared to 1.7 million euros (after depreciation, amortisation and write-offs of 14.3 million euros) in the first half of the previous year.

---

[2] See the consolidated financial statements of the RDM Group.

Operating activities for the half year showed a profit before taxes of 0.3 million after a long period of negative results.

Profit and loss highlights for the six months ended 30 June 2006 and 2005 are shown in the following table:

Consolidated profit and loss account	First half 2006	First half 2005
Euro/000		
Revenues from sales	**163,273**	**151,130**
EBITDA	**16,743**	**16,060**
EBIT	**5,128**	**1,745**
Result of operating activities before taxes	**289**	**(18,909)**
Current and deferred taxes	*(2,685)*	*(1,783)*
Result of operating activities after taxes	**(2,396)**	**(20,692)**
Discontinued operations and non recurrent expenses	*(4,180)*	*20,377*
Result for the period	**(6,576)**	**(315)**

Gross operating profit (or EBITDA) closed at 16.7 million euros at a consolidated level for the half year compared to 16.1 million euros for the first half of 2005 (up 4.3%).

EBITDA for the second quarter of 2006 of 8.9 million euros increased by 21.9% over the same period of the previous year, when EBITDA amounted to 7.3 million euros, compared to a fall of 11.4% in the first quarter of 2006 over the first quarter of 2005 (7.8 million euros compared to 8.8 million euros in the first quarter of 2005).

The EBITDA performance only partially reflects the price increases which will have their full effect in the second half of 2006; on the other side EBITDA registers the steps taken to contain costs to set off the increase in energy charges.

In this regard the unit variable manufacturing costs of Reno De Medici S.p.A. ("RDM" or the "Parent Company") in the first half of 2006 (measured in euros per tonne) were essentially in line with those of the first half of 2005, despite the significant increase in unit energy costs of around 20%.

In addition fixed factory and headquarter costs fell by around 10% compared to the first half of 2005.

There was a net loss before discontinued operations of 2.4 million euros (compared to a net loss of 20.7 million euros for the previous period), which principally reflects net financial expense, including exchange differences, of 5.8 million euros (5.9 million euros for the first half of 2005), income from equity investments of 1.0 million euros (substantially in line with the figure for 2005) and taxation of 2.7 million euros (1.8 million euros for the first half of 2005).

A loss of 4.2 million euros was incurred by discontinued operations, compared to a gain of 20.4 million euros in the first half of 2005 which included the gain from the sale of

Europoligrafico S.p.A.. In particular, as shown in the following table, the result from discontinued operations in the first half of 2006 includes the results for the period (the operating result) of the Prat facility and the Magenta MC1 line, which both ceased activities in 2005, the net economic contribution of Red.Im S.r.l. (which became part of RDM Realty S.p.A.) and the costs relating to the demerger operation and the consequent listing of RDM Realty S.p.A., and certain additional expenses relating to the sale of Europoligrafico S.p.A. and Aticarta S.p.A..

Discontinued operations and non recurrent expenses	1 Half 2006
	Euro/000
MC1 Magenta	(763)
Prat	(1,126)
Demerged operations	(409)
Demerger and listing expenses for RDM Realty	(1,353)
Expenses related to the sale of Europoligrafico and Aticarta	(529)
Total	**(4,180)**

The result from discontinued operations for the first half of 2005 also includes the results of the companies sold during 2005 (Europoligrafico S.p.A., Aticarta S.p.A. and Cogeneracion Prat S.A.).

The overall net result at 30 June 2006 therefore turned into a loss of 6.6 million euros as a result of the charge for current and deferred taxation (2.7 million euros) and the losses from discontinued operations (4.2 million euros).

The Group made investments in fixed assets of 3.0 million euros during the first half of 2006 (3.2 million euros for the first half of 2005).

Following the repayment of the bond on 4 May 2006, consolidated net financial debt at 30 June 2006 amounts to 140.1 million euros, compared to 169.3 million euros at 31 December 2005.

The decrease is principally due to the allocation to RDM Realty S.p.A. of the interest-bearing debt of Red.Im S.r.l. of 40 million euros pursuant to the finalisation of the demerger.

In addition the RDM Group incurred cash outflows of 9 million euros in the first half of 2006 principally due to the payments, currently still being made, to the former employees of the Prat facility (of Reno De Medici Iberica S.L.) as a settlement following the termination of their employment contracts, and the costs connected with extraordinary operations (setting up new loans and the demerger and listing of RDM Realty S.p.A.).
Reference should be made to note 5.4 to the consolidated financial statements for the first half year of 2006 for an analysis of net financial debt and for additional information on the main items of the balance sheet and profit and loss account.

Significant events

The deed for the partial and proportional demerger of RDM was formalised on 19 June 2006; under this operation, the net equity represented by the property assets held by the RDM Group but not forming part of its industrial business was transferred to the newly-established recipient company RDM Realty S.p.A. ("RDM Realty").

The formalisation of the merger deed followed the approval given by Borsa Italiana on 12 June 2006 for the admission to listing of the shares of RDM Realty, and the clearance provided by Consob on 15 June 2006 to the publication of the listing prospectus.

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

A the result of the finalisation of the demerger, Red.Im S.r.l. is no longer within the scope of consolidation, with the consequence that 40 million euros of interest-bearing debt has also been deconsolidated.

For the purposes of completeness, it is additionally noted that on 1 May 2006 Reno De Medici Iberica S.L. ("RDM Iberica") acquired the business of its wholly-owned subsidiary Barneda Carton S.A. at its book value; the subsidiary is dedicated to cutting and commercial activities. Subsequently, on 17 May 2006, RDM Iberica sold its equity holding in Barneda Carton S.A. to third parties for an amount of 200 thousand euros.

Outlook for the current year

Figures at 31 August 2006 for operations confirm an increase in volumes over the same period of the previous year and in particular despatches and purchase orders have both risen by 5%.

There has been a gradual recovery in the Group's sales volumes in 2006 (figures at 31 August). This is applicable in particular to the Italian market where there has been an improvement of 10% in sales volumes, attributable amongst other things to the reorganisation of the sales network that was carried out at the end of 2005. The Spanish market is affected by the closure of the Prat facility, whose economic contribution is included under "Discontinued operations", which led to lower volumes of approximately 20,000 tonnes. Despite this, a part of this volume, amounting to approximately 6,000 tonnes, has been recovered through increased production in the Italian factories. The volumes in the remainder of the European market are in line with those of the same period in 2005 even though the Group took the decision not to follow certain markets that generate

low margins. Sales on the Overseas markets have fallen by approximately 17%, as has their percentage of total revenues (6.7% for the eight months ended 31 August 2006 compared to 8.9% for the period ended 31 August 2005).

On the price front the RDM Group is making every possible effort to take the appropriate steps to increase sales prices, in order to achieve higher margins in a reference market which remains weak.

As regards production costs, energy charges have risen in absolute terms by approximately 24% over the same period of last year, reflecting the trend in natural gas and electricity prices which have increased on average by respectively 37% and 24%.

Forecasts for the current year remain marked by caution in what is still an uncertain framework of reference. In this context, the Group is continuing with steps to rationalise costs and to seek out industrial and commercial efficiencies.

4. Consolidated financial statements

Consolidated profit and loss account	Note	First half 2006	First half 2005
Euro/000			
Revenues from sales		163,273	151,130
Other revenues		1,112	1,816
Changes in stocks of finished goods		5,017	2,357
Cost of raw materials and services	C	(124,662)	(109,900)
Staff costs		(26,420)	(26,768)
Other operating costs		(1,430)	(2,328)
Income (expense) from non-current assets held for sale		(371)	(54)
Unusual income (expense)	D	224	(193)
Gross Operating Profit (EBITDA)		**16,743**	**16,060**
Depreciation and amortisation	E	(11,615)	(12,142)
Recovery of value and write-downs of assets	E	-	(2,173)
Operating Profit (EBIT)		**5,128**	**1,745**
Financial expense		(6,325)	(7,428)
Exchange differencies		(152)	390
Financial income		642	1,109
Financial income (expense), net	F	(5,835)	(5,929)
Income from investments		996	1,181
Other income (expense)		-	(15,906)
Taxation		(2,685)	(1,783)
Profit (loss) for the period before discontinued operations		**(2,396)**	**(20,692)**
Gains (losses) from disposals, net		-	27,259
Loss for the period		(4,180)	(6,882)
Discontinued operations	A	(4,180)	20,377
Profit (loss) for the period		**(6,576)**	**(315)**
Attributable to:			
Profit (loss) for the period pertaining to the group		(6,746)	(806)
Profit (loss) for the period pertaining to minority interests		170	491
Earnings (loss) per share (Euros)		(0.025)	(0.001)
Diluted earnings (loss) per share (Euros)		(0.025)	(0.001)

Consolidated balance sheet	Note	30.06.2006	31.12.2005
Euro/000			
ASSETS			
Non-current assets			
Tangible fixed assets	G	182,764	193,174
Investment property	H	-	1,284
Goodwill		146	146
Other intangible assets		2,876	3,309
Investments accounted for under the equity method		14,013	14,216
Deferred tax assets		651	577
Derivative financial instruments		216	-
Financial assets held for sale	I	964	219
Trade receivables		90	193
Other receivables	J	6,997	10,272
Total non-current assets		**208,717**	**223,390**
Current assets			
Stocks	K	84,411	92,979
Trade receivables		108,475	106,899
Other receivables	L	8,198	21,168
Derivative financial instruments	N	-	5,321
Financial assets held for sale		7	10
Liquid funds	N	11,224	56,779
Total current assets		**212,315**	**283,156**
Other non-current assets held for sale	M	**16,492**	**20,208**
TOTAL ASSETS		**437,524**	**526,754**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Shareholders' equity attributable to the group		127,880	142,251
Minority interests		491	759
Shareholders' equity		**128,371**	**143,010**
Non-current liabilities			
Bank loans and other financial liabilities	N	83,756	28,270
Derivative financial instruments	N	5	-
Other payables	O	32,830	1,064
Deferred tax liabilities		8,302	2,293
Employees' leaving entitlement		17,077	17,324
Non-current provisions for contingencies and charges	P	5,996	7,425
Total non-current liabilities		**147,966**	**56,376**
Current liabilities			
Bank loans and other financial liabilities	N	74,049	220,056
Derivative financial instruments	N	398	1,242
Trade payables		71,165	72,552
Other payables	Q	14,394	33,247
Current taxation		1,181	271
Total current liabilities		**161,187**	**327,368**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**437,524**	**526,754**

Consolidated cash flow statement	First half 2006	First half 2005
Euro/000		
Profit (loss) for the period before discontinued operations and before taxation	289	(18,909)
Depreciation and amortisation	11,615	12,142
Write-downs	0	17,901
(Gains) losses from investments	(796)	(1,181)
Financial (income) expense	5,835	5,929
Gains (losses) on the disposal of fixed assets	(119)	(40)
Change in trade receivables	(1,512)	(7,768)
Change in stocks	2,633	(4,181)
Change in trade payables	(551)	9,125
Change in other receivables	(1,368)	3,655
Change in other payables	(3,438)	(3,455)
Change in the employees' leaving entitlement	(694)	279
Change in other provisions and deferred taxation	(994)	1,857
Gross cash flows	**10,900**	**15,354**
Interest paid in the period	(5,503)	(5,808)
Taxes paid in the period	(166)	(443)
Cash flows from operating activities [1]	**5,231**	**9,103**
Sale (purchase) of financial assets held for sale	3	(519)
Investments	(3,119)	(4,948)
Divestments	1,907	760
Dividends received	1,001	1,170
a. Gains on disposal of discontinued operations	-	27,259
b. Result for the period of discontinued operations	(4,180)	(6,882)
c. Change in assets and liabilities of discontinued operations	(6,892)	21,603
d. Change in other receivables/other payables of disposals	12,396	(32,292)
Cash flows from discontinued operations (a+b+c+d)	1,324	9,688
Change in scope of consolidation	-	4,566
Cash flows from investing activities [2]	**1,116**	**10,717**
Draw-down (repayment) of short-term bank borrowings and long-term loans	(51,052)	(13,793)
Dividends paid	(438)	(292)
Change in other financial liabilities	(412)	-
Cash flows from financing activities [3]	**(51,902)**	**(14,085)**
Change in restricted liquid funds [4]	**5,190**	**204**
Change in unrestricted liquid funds [1+2+3+4]	**(40,365)**	**5,939**
Unrestricted liquid funds at beginning of period	**44,807**	**5,976**
Unrestricted liquid funds at end of period	**4,442**	**11,915**
Liquid funds at end of period		
Unrestricted liquid funds	4,442	11,915
Restricted liquid funds	6,782	18,823
Total liquid funds at end of period	**11,224**	**30,738**

Statement of changes in consolidated shareholders' equity	Share capital	Share premium reserve	Legal reserve	Other reserves	Retained earnings (losses) brought forward	Profit (loss) for the period	Fair Value reserve	Hedging reserve	Own shares	Shareholders' equity attributable to group	Minority interest	Total Shareholders' equity
Euro/000												
Shareholders' equity at 1 January 2005	**148,343**	**8,884**	**6,462**	**27,319**	**(22,038)**	**(8,084)**	**-**	**-**	**(5,374)**	**155,512**	**560**	**156,072**
Increase in share capital												-
Distribution of dividends											(292)	(292)
Change in accounting principle												-
Reclassifications												-
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						(559)				(559)	244	(315)
Shareholders' equity at 30 June 2005	**148,343**	**7,797**	**6,462**	**11,957**	**(13,673)**	**(559)**	**-**	**-**	**(5,374)**	**154,953**	**512**	**155,465**
Increase in share capital												-
Distribution of dividends												-
Change in accounting principle												-
Reclassifications												-
Changes in the scope of consoldation												-
Value adjustments recognised directly in equity												-
Cover of 2004 losses												-
Profit (loss) for the period						(12,702)				(12,702)	247	(12,455)
Shareholders' equity at 31 December 2005	**148,343**	**7,797**	**6,462**	**11,957**	**(13,673)**	**(13,261)**	**-**	**-**	**(5,374)**	**142,251**	**759**	**143,010**
Increase in share capital												-
Distribution of dividends											(438)	(438)
Change in accounting principle												-
Reclassifications									502	502		502
Changes in the scope of consoldation	(16,183)			900	6,982			71		(8,230)		(8,230)
Value adjustments recognised directly in equity							243	(140)		103		103
Cover of 2005 losses		(7,797)	(6,462)	(6,616)	7,614	13,261						-
Profit (loss) for the period						(6,746)				(6,746)	170	(6,576)
Shareholders' equity at 30 June 2006	**132,160**	**-**	**-**	**6,241**	**923**	**(6,746)**	**243**	**(69)**	**(4,872)**	**127,880**	**491**	**128,371**

* the amount is due to RDM Realty S.p.A. shares held following the demeger

5. Notes to the consolidated financial statements

5.1 Accounting principles and policies

The Group's half-year report at 30 June 2006 has been prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and adopted by the European Union, in force in September 2006 when this report was prepared; in particular condensed interim financial statements have been prepared as permitted by IAS 34, Interim Financial Reporting. No accounting standards or interpretations have been revised or issued since 1 January 2006 which have a significant effect on the Group's consolidated financial statements.

The financial and economic position is presented in thousands of euros.

ACCOUNTING PRINCIPLES

Consolidation principles

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

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

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

The more significant consolidation policies adopted are as follows:

- the carrying value of investments consolidated on a line-by-line basis is eliminated against the corresponding equity. The assets, liabilities, costs and revenues of the subsidiaries are fully consolidated independent of the Group's holding;
- all significant balances and transactions with group companies are eliminated, as are any gains or losses arising from intragroup transactions of 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 are accounted for by the Group using the cost method. The cost of an acquired company is considered to be the fair value of the assets transferred by the seller, the fair value of the liabilities assumed and the fair value of instruments representing issued capital, at the date on which control is transferred, in exchange for gaining control of the company acquired. All directly attributable costs of acquisition are added to cost obtained in this way. The excess of the cost of acquisition over the fair value of the identifiable assets and liabilities acquired is recognised as goodwill. If the cost of acquisition is lower than the identifiable net assets acquired, the difference is recognised in the profit and loss account;
- 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 was 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 enterprises are eliminated from the profit and loss account on consolidation.

Investments accounted for under the equity method

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

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

Tangible fixed assets

Tangible fixed assets are stated at their original cost of purchase, production or contribution, including those direct accessory purchase costs required to bring an asset into

a condition for use. Cost is reduced by accumulated depreciation and any impairment losses.
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% - 9%
	Specific plant and machinery	5,75% - 11,5%
Industrial and commercial equipment		
	Sundry equipment	20% - 25%
Altri beni		
	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 assets have suffered impairment. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of any impairment loss.
Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.
The recoverable amount of an asset is the higher of the fair value less disposal costs and its value in use. In assessing its value in use, the estimated future cash flows generated from the use of the asset and its disposal at the end of its useful life are discounted to their

present value. The discount rate used reflects the implicit risk of the specific sector in which the asset operates. An impairment loss is recognised when the recoverable amount is lower than the carrying amount. When an impairment loss subsequently reverses, the carrying value of an asset is restated to the lower of its recoverable amount and its preceding carrying value and the adjustment is accounted for in the profit and loss account.

Non-current assets held for sale

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

Investment property

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

Goodwill

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

Other intangible assets

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

Other 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 assets or liabilities (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 assets or liabilities 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 assets or liabilities (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 available-for-sale financial assets, consisting of investments in other companies and other non-current financial assets, are measured at fair value with any effects recognised directly in equity. When there is objective evidence that assets are impaired, the impairment loss is recognised directly in equity even if the financial asset has not been sold. If fair value cannot be reliably measured, the investments are measured at cost adjusted for any losses in value.
The current portion consists 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 initially recognised at the fair value of the consideration to be received in exchange. Subsequent adjustments are made to account for any write-downs. Non-current trade receivables and other receivables are measured at amortised cost.

Stocks

Stocks are stated at the lower of purchase or production cost, determined on a weighted average basis, and estimated realisable value, determined from market trends.
In the case of raw materials market value means replacement cost; for finished goods and semi-finished goods market value means net realisable value, representing the amount that the Group would expect to obtain from the sale of these goods as part of its normal activities.

Liquid funds

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

Employee benefits

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

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

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 unit credit method.

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

Provisions for contingencies and charges

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

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

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

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

Bank loans and other financial liabilities

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

Trade payables and other payables

This item consists of trade payables and other liabilities, excluding financial liabilities shown under bank loans and other financial liabilities. These liabilities are initially recognised at the fair value of the consideration to be paid. Subsequently trade payables and other payables are measured 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 the item “Current taxation” in the balance sheet, net of the corresponding amounts paid on account and withholding taxes. Current tax assets and liabilities are determined using tax rates and tax legislation and regulations in force.

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

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

The item “Deferred tax assets” represents taxation relating to the accounting income or expense of future periods but which refers for fiscal purposes to the current period, and for which it is probable that sufficient taxable income will be generated in future periods for its recovery.

The effect in the profit and loss account of these balance sheet captions is recognised in the item “Taxation”.
Deferred tax assets relating to the carry forward of tax losses are recognised to the extent that it is probable that sufficient taxable income will be generated in future periods against which they can be utilised.

Discontinued operations

Discontinued operations consist of important, autonomous parts of the Group’s activities - in a business or geographical sense or which are part of a coordinated, single divestment programme - that have been discontinued or are held for sale, and subsidiaries acquired exclusively for resale.

The results of discontinued operations, which are represented by the total profits or losses of the operations themselves together with any gains or losses on sale, are reported in a separate line in the profit and loss account, net of the tax effect. For comparative purposes, the results of these activities in prior years are similarly reclassified.

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 Financial Reporting 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 many areas, including accounting for bad debts provisions for accounts receivable, stock obsolescence, depreciation, asset impairment, employee benefits, restructuring provisions, taxation, other accruals, provisions and the valuation of derivative instruments. Estimates and assumptions are reviewed periodically and the effects of any changes are reflected 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 the shareholders of the Parent Company by the weighted average number of shares outstanding during the period.

Diluted earnings per share is calculated on the same basis.

5.2 Financial risk management policy

As part of its activities RDM is exposed to various market risks and in particular the risk of fluctuations in foreign exchange rates, interest rates and 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 the overall exposure (for example to foreign exchange rate fluctuations) using financial instruments offered by primary national or international banks. RDM does not enter hedging arrangements for speculative reasons.

Exchange rates

The RDM Group generates a part of its revenues in currencies other than the euro, principally the US dollar and the British pound, thereby taking a long position in these currencies. In order to reduce the exchange rate risk arising from this situation, RDM often enters forward currency 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.

Interest rates

The RDM Group uses a variety of debt instruments as a function of the nature of its borrowing needs. In particular, it uses short-term debt to finance its working capital needs and medium-long term debt to cover the investments made which are linked to its core business.

The technical instruments mostly used consist of the following:

- advances for the short-term segment;
- loans for the medium-long term segment. The majority of these instruments, for which agreements are entered into with leading banks, are indexed to floating rates which are revised on a three/six monthly basis.

RDM's present Risk Management policy is aimed at reducing its exposure to the variable element of its debt interest and the related effect on the profit and loss account. Its objectives in managing risk are accordingly to stabilise the cash flows associated with its debt servicing costs in line with the estimates made in preparing the Group's budget.

RDM pursues this objective from an operative point of view by acquiring Interest Rate Swap (IRS) derivatives.

The RDM Group has decided to hedge its exposure through the use of cash flow hedging, consistent with the characteristics of the operations it carries out and its risk management objectives. This form of hedging has the purpose of reducing volatility in cash flows that are linked to interest expense on short- and long-term debt.

Hedging relations are set up to convert floating rate interest loans to fixed rate loans. This is carried out through Interest Rate Swap (IRS) transactions by which RDM receives cash inflows from its counterparty bank based on floating rates reflecting those incurred on its debt, with cash outflows for payments based on a fixed interest rate. As a result, the combined position (debt + IRS) takes the form of fixed rate debt, for which the amount of the interest borne is certain (being the objective of a cash flow hedge).

RDM's policy is to maintain around 75% of its medium- and long-term debt at fixed interest rates and to resort to hedging instruments for a part of its short-term exposure as a function of the forecast trend in interest rates.

Liquidity

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

Trade receivables

As a general rule, the policy followed for the management of commercial risk provides for the insurance of this risk through insurance companies specialised in receivables from foreign customers, 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 the 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 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 that are petroleum-based (such as latex) and changes in the price of fibrous raw materials.

RDM’s management policies require that annual supply agreements for natural gas and electricity contain clauses under which prices are determined on the basis of moving averages of market prices or indices that are revised on a quarterly basis and linked to a basket of fossil fuels or their derivatives.

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.

5.3 Scope of consolidation

The interim consolidated financial statements of the Group at 30 June 2006 consist of the interim financial statements of the Parent Company and the interim financial statements of the following subsidiaries, all consolidated on a line-by-line basis:

Company name	Registered office	Activity	Share capital	Shareholding			
				30.06.06		31.12.05	
				Direct	Indirect	Direct	Indirect
Reno De Medici Iberica S.L.	Prat de Llobregatt (E)	Manufacturing	39,061	100.00%	-	100.00%	-
Cartiera Alto Milanese S.p.A.	Milano (I)	Sales	200	100.00%	-	100.00%	-
RDM France S.a r.l.	Tramblay en France (F)	Sales	96	99.58%	0.42%	99.58%	0.42%
Reno De Medici Deut. GmbH	Bad Homburg (D)	Sales	473	100.00%	-	100.00%	-
Emmaus Pack S.r.l.	Milano (I)	Manufacturing	200	51.39%	-	51.39%	-
Barneda Carton S.A.	Ripollet (E)	Manufacturing	1,200	-	-	-	100.00%
Reno De Medici Intern. S.A.	Lussemburgo (L)	Financial	14,000	99.99%	-	99.99%	-
Red. Im S.r.l.	Milano (I)	Real estate	50	-	-	100.00%	-

Investments in associated companies are accounted for using the equity method.

Company name	Registered office	Activity	Share capital	Shareholding			
				30.06.06		31.12.05	
				Direct	Indirect	Direct	Indirect
Termica Boffalora S.r.l.	Sesto San Giovanni (MI)	Manufacturing	14,220	30.00%	-	30.00%	-
Pac Service S.p.A.	Vigonza (PD)	Manufacturing	1,000	33.33%	-	33.33%	-

The following changes in the consolidation scope have occurred since 31 December 2005:

- the partial and proportional demerger of RDM into the newly established company RDM Realty S.p.A. took place through the transfer to that company of RDM's non-industrial fixed assets, including its investment in the subsidiary Red.Im S.r.l.. The demerger deed dated 19 June 2006 was formalised following 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;
- the sale of 100% of Barneda Carton S.A. by Reno De Medici Iberica S.L. in May 2006.

5.4 Notes to the consolidated financial statements for the first half year 2006

A. Discontinued operations

Discontinued operations gave rise to losses of Euro 4.2 million compared to profits of Euro 20.4 million for the six months ended 30 June 2005.

This figure comprises the result for the period (the net operating result) of the Prat facility and the Magenta board machine (MC1) line, the net economic contribution up to 21 June 2006 of the operations that were demerged into the recipient company RDM Realty S.p.A., including the result for the period of Red.Im S.r.l., the costs associated with the demerger operation and the consequent listing of RDM Realty S.p.A. and certain additional accessory costs connected with the sales of Europoligrafico S.p.A. and Aticarta S.p.A..

The same approach has been followed in the preparation of the figures for the corresponding period of the previous year in order to make them comparable.

The result for the six months ended 30 June 2005 also includes the economic contribution of the companies sold in 2005, Europoligrafico S.p.A., Aticarta S.p.A. and Cogeneracion Prat S.A..

Details of discontinued operations analysed by individual activity are set out as follows:

Discontinued operations and non recurrent expenses	First half 2006	First half 2005
Euro/000		
MC1 Magenta	(763)	(948)
Stabilimento Prat	(1,126)	(2,547)
Demerged operations, demerger and listing expenses for RDM Realty	(1,762)	(109)
Europoligrafico S.p.A.	(240)	30,572
Aticarta S.p.A.	(289)	(9,606)
Cogeneracion Prat S.A.	-	3,015
Total	**(4,180)**	**20,377**

Details of the profits and losses arising from the operations that were discontinued and of the gains and losses resulting from their disposal, stated net of any costs incurred, are provided in the following tables:

Discontinued operations	First half 2006	First half 2005
Euro/000		
Profit and loss account - MC1 MAGENTA		
Revenues	917	17,360
Costs	(1,680)	(18,308)
Operating profit (EBIT)	**(763)**	**(948)**
Profit (loss) before taxation	**(763)**	**(948)**
Taxation	-	-
Profit (loss) for the period	**(763)**	**(948)**
GAIN ON DISPOSAL	**-**	**-**
COSTS CONNECTED WITH THE DISPOSAL	**-**	**-**
Total	**(763)**	**(948)**

Discontinued operations	First half 2006	First half 2005
Euro/000		
Profit and loss account - PRAT FACILITY		
Revenues	1,200	11,985
Costs	(2,326)	(14,532)
Operating profit (EBIT)	**(1,126)**	**(2,547)**
Profit (loss) before taxation	**(1,126)**	**(2,547)**
Taxation	-	-
Profit (loss) for the period	**(1,126)**	**(2,547)**
GAIN ON DISPOSAL	**-**	**-**
COSTS CONNECTED WITH THE DISPOSAL	**-**	**-**
Total	**(1,126)**	**(2,547)**

Discontinued operations	First half 2006	First half 2005
Euro/000		
Profit and loss account - Demerged operations RDM Realty		
Revenues	178	188
Costs	(318)	(253)
Operating profit (EBIT)	**(140)**	**(65)**
Profit (loss) before taxation	**(380)**	**(102)**
Taxation	(29)	(7)
Profit (loss) for the period	**(409)**	**(109)**
GAIN ON DISPOSAL	**-**	**-**
DEMERGER AND LISTING EXPENSES	(1,353)	**-**
Total	**(1,762)**	**(109)**

Discontinued operations	First half 2006	First half 2005
Euro/000		
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)**	**(750)**
Total	**(240)**	**30,572**

Discontinued operations	First half 2006	First half 2005
Euro/000		
Profit and loss account - ATICARTA		
Revenues	-	12,750
Costs	-	(21,687)
Operating profit (EBIT)	**-**	**(8,937)**
Profit (loss) before taxation	**-**	**(9,564)**
Taxation	-	(42)
Profit (loss) for the period	**-**	**(9,606)**
GAIN ON DISPOSAL	**-**	**-**
COSTS CONNECTED WITH THE DISPOSAL	**(289)**	**-**
Total	**(289)**	**(9,606)**

Discontinued operations	First half 2006	First half 2005
Euro/000		
Profit and loss account - COGENERACION PRAT		
Revenues	-	11,158
Costs	-	(8,052)
Operating profit (EBIT)	**-**	**3,106**
Profit (loss) before taxation	**-**	**3,016**
Taxation	-	(1)
Profit (loss) for the period	**-**	**3,015**
GAIN ON DISPOSAL	**-**	**0**
COSTS CONNECTED WITH THE DISPOSAL	**-**	**0**
Total	**-**	**3,015**

The following paragraphs provide the balance sheet details of the assets transferred to the recipient company RDM Realty S.p.A. on 21 June 2006:

- industrial land and buildings of Euro 3.5 million located in the municipality of Magenta (MI) and classified as tangible fixed assets;
- agricultural land and buildings of Euro 1.3 million located in the municipality of Magenta (MI) and classified as investment property;
- land and buildings of Euro 3.9 million not relating to the manufacture of recycled cartonboard, located at Boffalora Ticino (MI) and classified as stocks;
- land and buildings of Euro 2.8 million relating to the industrial site at Ciriè (TO) and classified as assets held for sale;
- the preliminary purchase and sale agreement between Reno De Medici Iberica S.L. and Red.Im S.r.l. having a value of Euro 32 million, whose subject is the future properties located in Barcelona that Espais Promocions Immobiliares E.P.I. has undertaken to transfer to RDM Iberica. As a consequence of the demerger operation, the liability relating to the cash advance paid by Red.Im S.r.l. to Reno De Medici Iberica S.L. on 27 April 2006 is recognised in the RDM consolidated balance sheet.
- deferred tax assets of Euro 4.0 million;
- other receivables of Euro 0.8 million;
- derivative financial instruments of Euro 0.1 million; and
- liquid funds of Euro 0.5 million.

The liabilities transferred to the recipient company were made up 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.

The overall effect of the proportional demerger into RDM Realty S.p.A. was a reduction of the RDM Group’s equity of Euro 8.2 million.

There are no non-recurring operations other than those relating to the discontinued operations described in this note.

B. Segment information

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

The following tables set out the profit and loss account, down to operating profit, on a geographical basis for the first half of 2006 and 2005.

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

Consolidated profit and loss account First Half 2006	Italy	Spain	Other	Eliminations	Group
Euro/000					
Revenues from sales	151,788	17,265	937	(6,717)	163,273
Other revenues	1,126	-	10	(24)	1,112
Changes in stocks of finished goods	5,609	(592)	-	-	5,017
Cost of raw materials and services	(117,306)	(13,640)	(460)	6,744	(124,662)
Staff costs	(23,303)	(2,661)	(456)	-	(26,420)
Other operating costs	(1,377)	(29)	(24)	-	(1,430)
Income (expense) from non-current assets held for sale	(371)	-	-	-	(371)
Unusual income (expense)	(92)	56	263	(3)	224
Gross Operating Profit (EBITDA)	**16,074**	**399**	**270**	**-**	**16,743**
Depreciation and amortisation	(11,320)	(290)	(5)	-	(11,615)
Recovery of value and write-downs of assets	-	-	-	-	-
Operating Profit (EBIT)	**4,754**	**109**	**265**	**0**	**5,128**

Consolidated profit and loss account First Half 2006	Italy	Spain	Other	Eliminations	Group
Euro/000					
Revenues from sales	139,150	15,457	967	(4,444)	151,130
Other revenues	1,832	-	35	(51)	1,816
Changes in stocks of finished goods	2,093	264	-	-	2,357
Cost of raw materials and services	(100,950)	(12,932)	(397)	4,379	(109,900)
Staff costs	(23,813)	(2,515)	(440)	-	(26,768)
Other operating costs	(2,227)	(103)	(17)	19	(2,328)
Income (expense) from non-current assets held for sale	(54)	-	-	-	(54)
Unusual income (expense)	(127)	(67)	1	-	(193)
Gross Operating Profit (EBITDA)	**15,904**	**104**	**149**	**(97)**	**16,060**
Depreciation and amortisation	(11,222)	(912)	(8)	-	(12,142)
Recovery of value and write-downs of assets	(2,173)	-	-	-	(2,173)
Operating Profit (EBIT)	**2,509**	**(808)**	**141**	**(97)**	**1,745**

Finally, the following table provides an analysis by geographical area of net revenues generated by sales of cartonboard on the basis of where the customer is located:

Revenues by geographical area	First half 2006	First half 2005
Euro/000		
Italy	91,576	83,797
European Union	56,057	50,774
Outside the European Union	15,640	16,559
Total	**163,273**	**151,130**

C. Cost of raw materials and services

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

Cost of raw materials and services	First half 2006	Percentage of sales revenues	First half 2005	Percentage of sales revenues
Euro/000				
Raw materials	61,977	38.0%	58,206	38.5%
Services	59,723	36.6%	51,688	34.2%
Use of third party assets	697	0.4%	722	0.5%
Change in stock	2,265	1.4%	(716)	-0.5%
Cost of raw materials and services	**124,662**	**76.4%**	**109,900**	**72.7%**

The change in the percentage of costs for “Services” is principally due to the rise in energy costs, while despite the trend in the cost of oil prices, the item “Raw materials” represents a lower percentage of turnover as the result of increased manufacturing efficiency achieved during the half year.

D. Unusual income and expense

This item consists principally of income resulting from the refund of withholding tax on interest paid to the Luxembourg subsidiary pursuant to Legislative Decree no. 143/2005.

E. Depreciation, amortisation and impairment

The following table provides details of the items “Depreciation”, “Amortisation” and “Impairment”.

Depreciations and write-downs	First half 2006	First half 2005	Variation
Euro/000			
Depreciation of tangible fixed assets	11,037	11,437	(400)
Amortisation of intangible fixed assets	578	705	(127)
Amortisation and depreciation	**11,615**	**12,142**	**(527)**
Write down machinery Cartiera Alto Milanese S.p.A.	-	2,173	(2,173)
Write-downs	**-**	**2,173**	**(2,173)**

F. Financial income (expense), net

The following table provides details of the item “Financial income (expense), net”:

Financial Income (expense)	First half 2006	First half 2005	Variation
Financial expense	(6,325)	(7,428)	1,103
Financial income	642	1,109	(467)
Exchange differencies	(152)	390	(542)
Net financial Income (expense)	**(5,835)**	**(5,929)**	**94**

The decrease in financial expenses, partially set-off by the negative trend in exchange differences, is mainly linked to the improvement in the net financial position compared to the same period of the previous year.

Net Financial expense includes the effects of the valuation of derivative financial instruments at fair value and the use of the amortised cost method to measure loans.

G. Tangible fixed assets

The following table provides details of tangible fixed assets:

Tangible fixed assets	30 June 2006	31 December 2005
Euro/000		
Land	22,795	23,638
Buildings	42,293	45,474
Plant and machinery	114,426	121,931
Industrial equipment	191	225
Other assets	609	731
Assets in course of construction	2,450	1,175
Tangible fixed assets	**182,764**	**193,174**

Changes in this item arise from depreciation of Euro 11 million and net investments of Euro 3 million. The item additionally includes a decrease in assets of Euro 3.5 million linked to the effects of the demerger into the recipient company RDM Realty S.p.A..

H. Investment property

The decrease in investment property is the result of the demerger of certain assets into the recipient company RDM Realty S.p.A. which included agricultural land in Magenta classified under this item.

I. Available-for-sale financial assets - non-current

This item consists of the valuation at market price on 30 June 2006 of the shares held in Realty S.p.A. (Euro 0.7 million) assigned to RDM following the demerger, in exchange for its own shares held in portfolio.

J. Other receivables - non-current

"Other receivables - non-current" at 30 June 2006 consist principally of the estimated present value of the receivable from Grupo Torras S.A., amounting to Euro 3.8 million, the receivables of Euro 2.2 million arising from the sale of Cogeneracion Prat S.A. (further details of this balance are provided in note N) and tax credits of Euro 0.8 million.

K. Stocks

Details of the item "Stocks" are set out in the table below:

Stocks	30 June 2006	31 December 2005
Euro/000		
Raw materials and consumables	20,416	22,774
Finished goods and goods for resale	33,995	33,618
Properties for sale	30,000	33,939
Other stocks and supplies for sale	-	2,648
Total	**84,411**	**92,979**

The item "Properties for sale" includes the right held by RDM Iberica to receive real estate from Espais Promocions Immobiliares S.A. established in 2003 as part of the operation for the sale of the Prat area (Barcelona), under which the counterparty is required to transfer real estate having an equivalent value of the pre-established amount at the time of completion of the process to maximise its urban value. Under IFRS, this amount must be classified by the function of the related assets, and as a result in stocks if its function is its subsequent sale. The decrease in this item is due to the demerger of certain assets carried at Euro 3.9 million which included the land not relating to the manufacture of cartonboard located in Magenta (MI) and owned by Red.Im S.r.l..
The decrease in the item "Other stocks and supplies for sale" is related to the stocks at Ciriè and Pompeii.

L. Other receivables - current

The following table provides analysis of “Other receivables” classified as current assets:

Other receivables	30 June 2006	31 December 2005
Euro/000		
Tax credits	264	730
Miscellaneous receivables	5,772	19,702
Accrued income	240	484
Prepayments	1,922	252
Other receivables	**8,198**	**21,168**

“Other receivables” at 30 June 2006 consist mostly of a vendor loan of Euro 3 million granted to Europoligrafico S.r.l., advances to suppliers, employees and third parties of Euro 0.8 million, a receivable of Euro 0.5 million arising from the sale of Cogeneracion Prat and receivables of Euro 0.8 million due from Red.Im S.r.l.. Information on the change of this balance over that at 31 December 2005 is provided in note N in the discussion of current financial receivables.

M. Non-current assets held for sale

Assets held for sale	30 June 2006	31 December 2005
Properties	-	2,850
Plant	16,492	17,358
Total	**16,492**	**20,208**

Non-current assets held for sale amount to Euro 16.5 million (Euro 20.2 million at 31 December 2005). The decrease in “Properties” is due to the demerger of certain assets into the recipient company RDM Realty S.p.A. which included the land and buildings of the industrial site at Ciriè.

The line item “Plant” consists of manufacturing plant and machinery held for sale relating to the facilities at Prat (Spain) and Pompeii and the MC1 line at the Magenta facility. The decrease over the period is the result of the sale of the plant situated at the Ciriè facility, for which disposal operations were finalised during the first half of 2006, and the sale of certain machinery at the Pompeii facility.

The economic effects of the disposals of the plant at Ciriè and Pompeii, for which the sales took place essentially at the book value of the assets concerned, are recognised in the item “Income (expense) from non-current assets held for sale”.

N. Net financial position

Consolidated net financial debt amounts to Euro 140.1 million (Euro 169.3 million at 31 December 2005) following the repayment on 4 May 2006 of the bond issued by the subsidiary RDM International S.A..
The decrease is principally due to the removal from the consolidated balance sheet of debt of Euro 40 million held by Red.Im S.r.l. following the finalisation of the demerger operation.

The net financial position is made up as follows:

Net financial position	30 June 2006	31 December 2005	Variation
Euro/000			
Cash	18	13	5
Funds available at banks	4,424	44,794	(40,370)
Restricted funds at banks	6,782	11,972	(5,190)
A. Cash and cash equivalents	**11,224**	**56,779**	**(45,555)**
Other current financial receivables	4,463	18,551	(14,088)
Derivatives - current financial assets	-	5,321	(5,321)
B. Current financial receivables	**4,463**	**23,872**	**(19,409)**
Bank overdrafts and short-term loans	60,725	58,418	2,307
Current portion of medium- and long-term loans	13,324	16,724	(3,400)
Bonds - current portion	-	144,914	(144,914)
Other current financial liabilities	-	5,552	(5,552)
Derivatives - current financial liabilities	398	1,242	(844)
C. Current financial debt	**74,447**	**226,850**	**(152,403)**
D. Current financial debt, net (C - A - B)	**58,760**	**146,199**	**(87,439)**
Non-current payables to banks	2,200	5,200	(3,000)
Derivatives - non-current financial liabilities	216	-	216
E. Non-current financial debt	**2,416**	**5,200**	**(2,784)**
Other non-current financial receivables	83,757	28,270	55,487
Derivatives - non-current financial liabilities	5	-	5
F. Non-current financial receivables	**83,762**	**28,270**	**55,492**
G. Non-current financial debt, net (E - F)	**81,346**	**23,070**	**58,276**
Q. Financial debt, net (D +G)	**140,106**	**169,269**	**(29,163)**

Cash and cash equivalents consist of unrestricted deposits of Euro 4.4 million and restricted deposits of Euro 6.8 million, of which Euro 1.8 million is to be used for a termination settlement with the Prat personnel (Euro 7.0 million al 31 December 2005) and Euro 5.0 million is restricted in respect of a surety requested by the Court of Madrid in relation to the dispute with Grupo Torras (this is unchanged over 31 December 2005).

Current financial receivables principally consist of the vendor loan of Euro 3.1 million granted to Europoligrafico S.r.l., financial receivables of Euro 0.8 million due from Red.Im S.r.l., the short-term portion, amounting to of Euro 0.5 million, of the amount receivable from the sale of Cogeneracion Prat S.A. and receivables of Euro 0.1 million due from unconsolidated subsidiaries.

The change over 31 December 2005 is principally due to the receipt of financial receivables of Euro 12.1 million from Aticarta S.p.A. and ATI Packaging S.r.l. and the receipt of the balance due on the sale of Europoligrafico partially set-off by the reclassification of the vendor loan referred to above which was classified as non-current at 31 December 2005.

The reduction to nil of the balance relating to derivative agreements (Euro 5.3 million at 31 December 2005) is connected with the agreements that were outstanding relating to the bond repaid on 4 May 2006.
"Bank overdrafts and short-term loans" relate to credit facilities granted by banks and principally consist of advances on trade receivables.

The current portion of medium- and long-term loans consists of that part becoming due within the coming 12 months (measured at amortised cost).

The balance of "Other current financial liabilities" at 31 December 2005 consisted of the payable of Euro 5.5 million due to Europoligrafico in respect of the purchase of the investment in in Aticarta S.p.A., which was settled during the half year.

"Non-current payables to banks" consist of medium- and long-term loans granted by banks (measured at amortised cost).

"Other non-current financial receivables" consist mainly of the deferred portion of the price for the sale of Cogeneracion Prat S.A. for an amount of Euro 0.5 million and financial receivables of Euro 1.7 million due from that company; these receivables are unchanged over 31 December 2005. The decrease over the period is due to the reclassification as current of the vendor loan to Europoligrafico S.r.l..

On 6 April 2006 RDM entered an agreement with Banca Intesa S.p.A., SanpaoloIMI S.p.A. and Unicredit Banca d'Impresa S.p.A. for a long-term floating rate interest loan of Euro 60 million, 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.

The terms of the loan impose certain restrictions on RDM and required it to make a series of undertakings, with certain tolerance levels, as is usual in syndicated loans of this type; included in these are limitations on assuming additional debt, on distributing dividends, on granting guarantees (negative pledge), on arrangements regarding core assets, on making investments and on extraordinary operations.
In particular, the loan contains covenants based on the following parameters:

- Net Financial Position/Net Equity
- Net Financial Position/Gross Operating Margin
- Gross Operating Margin /Net Financial Expenses

These parameters must be calculated every six months from the Group's consolidated financial statements and consolidated half-year reports, starting from 31 December 2006.
The half-yearly verifications of the Group's Gross Operating Margin and Net Financial Expenses will refer to the twelve month period ending on the last day of the half-year being considered.
In the event that the loan agreement covenants are not respected, the lending banks have the right to terminate the loan.
Included amongst the security provided by RDM on the loan is a first mortgage on the Ovaro and Marzabotto factories and a second mortgage on the factories at Magenta, Santa Giustina and Villa Santa Lucia, for an overall total of Euro 120 million.
First liens on the plant and machinery at Ovaro and Marzabotto and second liens on that at Magenta, Santa Giustina and Villa Santa Lucia, amounting in total to Euro 120 million, have also been given as security.

In addition 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. Under this agreement mortgages will be granted on the factories at Ovaro, Marzabotto, Magenta, Santa Giustina and Villa Santa Lucia amounting in total to Euro 22.4 million.

As regards the new loans set up for a total of Euro 66.2 million, for hedging purpose Interest Rate Swap agreements have been entered into for a notional value of Euro 50.9 million in order to reduce the variability of the interest payable on the loans.

There are additionally mortgages on the factories at Magenta, Santa Giustina and Villa Santa Lucia amounting in total to Euro 135.3 million and liens on the production plant for the same amount, all given as security on pre-existing loans.

O. Other payables - non-current

This item relates mostly to a cash advance of Euro 32 million made by Red.Im S.r.l. to RDM Iberica S.L. pursuant to the preliminary agreement for the sale of buildings to be built on the Prat site (Barcelona).

P. Provisions for contingencies and charges

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

Provision for contingencies and charges	30 June 2006	31 December 2005
Euro/000		
Agents' termination indemnity	938	1,077
Restructuring provisions and other provisions	5,058	6,348
Total	**5,996**	**7,425**

The item “Restructuring provisions and other provisions” relates principally to accruals made for future contractual costs to be incurred relating to the Prat facility, disputes in progress and an accrual of the estimate of the cost to be incurred for CO_2 emissions exceeding the levels authorised in the National Allocation Plan.

Q. Other payables - current

The following table provides analysis of “Other payables” classified as current liabilities:

Other payables	30 June 2006	31 December 2005
Euro/000		
Tax payables	2,601	3,842
Payables to social securities authorities	2,859	3,556
Miscellaneous payables	8,137	19,639
Accrued liabilities	741	6,156
Deferred income	56	54
Total	**14,394**	**33,247**

“Tax payables” refer principally to amounts due to the revenue authorities, excluding those regarding income taxes which as required by IAS 12, Income Taxes are classified in the specific balance sheet line item.

“Miscellaneous payables” consist mostly of an amount of Euro 6.1 million due to personnel (Euro 11.0 million at 31 December 2005) and an amount of Euro 0.8 million due to members of corporate administrative and control bodies. The decrease over 31 December 2005 is the result of the payment of part of the indemnity due to the Prat personnel and the settlement of the liability of Euro 5.5 million connected with the purchase of Aticarta S.p.A..

The decrease in the item “Accrued liabilities” is principally due to the fact that at 31 December 2005 the balance included an accrual for interest on the bond repaid on 4 May 2006.

5.5 Related party transactions

There have been no related party transactions of an atypical or unusual nature outside the normal course of business or such as to prejudice the Group's economic or financial situation.

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

Amongst the transactions with related parties are the following:

- services received from IBI S.p.A. (a company controlled by the shareholder Alerion) regarding an engagement granted in 2005 for assistance in carrying out the principal operations of an extraordinary nature in 2005 and 2006. Under this arrangement, total fees of Euro 900 thousand regarding 2005 were payable to IBI S.p.A. in connection with the sale of the entire holding in Aticarta S.p.A. and the activities performed regarding the RDM demerger project. The engagement also included the payment to IBI S.p.A. of an additional fee of Euro 900 thousand in relation to the completion of the demerger operation (Euro 90 thousand) and on the signing of the new loan agreements linked to the full repayment of the bond (Euro 810 thousand). The amount of Euro 90 thousand relating to the services provided in connection with the demerger operation has been recognised as a cost in the first half year of 2006, while the balance of Euro 810 thousand has been included in the measurement of the loan in accordance with an amortised cost accounting treatment, leading to increased financial expenses in the period of Euro 22 million. The balance due to IBI S.p.A. at 30 June 2006 amounts to Euro 1,890 thousand;
- trading relations, involving the purchase of cartonboard for Euro 1,388 thousand, with Kolicevo Karton d.o.o., a company controlled by the Mayr-Melnhof Karton A.G. group, one of RDM directors, Michael Groller, is chairman of the supervisory board. The balance due at 30 June 2006 amounts to Euro 815 thousand;
- trading relations between the subsidiary Emmaus Pack S.r.l. and the companies Immobiliare ANSTE S.r.l. and ANSTE Autotrasporti S.r.l., both of which regard the Oldani family which owns 49% of Emmaus Pack S.r.l.. The transactions consist respectively of rental instalments of Euro 106 thousand and transport and ancillary services of Euro 263 thousand. The total balance due to the two companies at 30 June 2006 amounts to Euro 218 thousand;
- trading and financial relations with Red.Im S.r.l., a company wholly owned by RDM Realty S.p.A. (whose principal shareholder is Alerion Industries S.p.A. with an interest of 26.08%). Red.Im S.r.l. was part of the RDM Group until 21 June 2006, the date on

which the demerger into RDM Realty S.p.A. became effective and the results of its operations until that date are included in “Discontinued operations”. The transactions and balances with Red.Im S.r.l. are as follows:

- interest bearing financial receivables of Euro 767 thousand at market rates, due within 12 months. Interest income of Euro 36 thousand matured during the period;
- rental payments of Euro 170 thousand in respect of buildings having industrial and commercial use in the municipality of Magenta. On 1 January 2004 a rental agreement was signed between RDM and Red.Im S.r.l. having a term of 6 years with annual rent payable of Euro 340 thousand;
- on 19 December 2005 a preliminary purchase and sales agreement was signed between Red.Im S.r.l. and Reno De Medici Iberica S.L. for an amount of Euro 32 million regarding the future buildings to be constructed on the Prat area and to be handed over by 30 October 2011. On 27 April 2006 Red.Im S.r.l. made an advance payment of the full amount which is accounted for as a non-current payable. As a performance bond, Red.Im S.r.l. has a lien in its favour over the receivable due to Reno De Medici Iberica S.L. from Espais S.A., the company which has undertaken to hand over the buildings, covering a maximum of Euro 43 million;

▪ trading relations with Termica Boffalora S.r.l. for the purchase of steam, a company in which RDM has a stake of 30%. Costs of Euro 2,890 thousand were incurred during the period and the balance due at 30 June 2006 amounts to Euro 1,093 thousand;
▪ trading relations with Pac Service S.p.A for the sale of cartonboard, a company in which RDM has a stake of 33%. Sales of Euro 1,113 thousand were made during the period and the receivable balance at 30 June 2006 amounts to Euro 1,105 thousand.

The transactions and balances described above are summarised in the following tables pursuant to Consob Resolution no. 15519 of 27 July 2006:

Receivables / Payables with related party	Receivables		Payables	
	Trade	Other current receivables	Trade	Other current payables
IBI S.p.A.			1,890	
Kolicevo Karton D.o.o.			815	
Immobiliare Anste S.r.l.			63	
Anste Autotrasporti S.r.l.			155	
Red. Im. S.r.l.		767		32,000
Termica Boffalora S.r.l.			1,093	
Pac Service S.p.A.	1,105			
Total	**1,105**	**767**	**4,016**	**32,000**

Revenues	Sales and services	Financial income
IBI S.p.A.		
Kolicevo Karton D.o.o.		
Immobiliare Anste S.r.l.		
Anste Autotrasporti S.r.l.		
Red. Im. S.r.l.		36
Termica Boffalora S.r.l.		
Pac Service S.p.A.	1,113	
Total	**1,113**	**36**

Costs	Raw materials and services	Financial expense	Discontinued operations
IBI S.p.A.		22	90
Kolicevo Karton D.o.o.	1,388		
Immobiliare Anste S.r.l.	106		
Anste Autotrasporti S.r.l.	263		
Red. Im. S.r.l.	170		
Termica Boffalora S.r.l.	2,890		
Pac Service S.p.A.			
Total	**4,817**	**22**	**90**

The directors' emoluments which relate to the first half of 2006 amount in total to Euro 0.4 million.

5.6 Legal and arbitration proceedings

Details are provided of the following current legal and arbitration proceedings:

- 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 percentages 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 operations with the Saffa Group at a subsequent date, 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. has been 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.

RDM and RDM Iberica had appealed against the sentence of the Court of Madrid of the first level but on 18 September 2006 the Madrid Appeals Court rejected that appeal and confirmed the sentence of the first level. Additional information on this matter is provided in paragraph 5.7 “Subsequent events”.

- Disputes with road hauliers

RDM and Reno Logistica in liquidation have been 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 appearance in court, RDM and Reno Logistica in liquidation raised a series of exceptions of both a preliminary nature and in regard to the merits of the case. At the present moment these cases are still at a very early stage.

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

- Criminal proceedings

In March 2005, the Public Prosecutor of the Court of Turin commenced criminal proceedings to establish whether RDM, in the persons of the heads of factory at the Ciriè facility, subsequently replaced with the passage of time, had any responsibility for the death of two former employees of that facility (who allegedly died as a cause of their employment). At the present moment there is a single trial open in this respect for which a pre-discussion hearing was held in January 2006. RDM is claiming that it is not responsible for the two deaths.

At the present stage the criminal proceedings are pending before a single judge representing the court with the hearing to be held in November 2006.

5.7 Subsequent events

The agreement for the sale of the board MC 3 machine located at the Prat facility was finalised in July 2006. The agreed price, which includes the related parts and supplies, is in line with the carrying value of the assets. The disposal operation is expected to be completed by the beginning of 2007.

With reference to the dispute with Grupo Torras S.A. on 18 September 2006 the Madrid Appeals Court notified its decision in 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 issued by the Court of Madrid of the first level and notified on 8 September 2005. Sentence no. 114 rejected the appeal and confirmed the sentence of the first level.

As the Reno De Medici Group had already adjusted its financial statements following the sentence at the first level, to align these with the decision pronounced by the court on that occasion, there will be no negative accounting effects on the consolidated financial statements as the result of the rejection of the appeal.

Reno De Medici S.p.A. and Reno De Medici Iberica S.L. reserve the right, after further evaluation of the grounds of the judgement, to appeal at the Court of Third Instance.

6. Financial statements of the Parent Company prepared in accordance with International Financial Reporting Standards

Profit and loss account	First half 2006	First half 2005
Euro/000		
Revenues from sales	148,749	134,543
Other revenues	1,103	1,810
Changes in stocks of finished goods	1,297	3,257
Cost of raw materials and services	(111,635)	(99,041)
Staff costs	(22,997)	(23,328)
Other operating costs	(1,214)	(2,167)
Income (expense) from non-current assets held for sale	(370)	(54)
Unusual income (expense)	(93)	(10)
Gross Operating Profit (EBITDA)	**14,840**	**15,010**
Depreciation and amortisation	(12,363)	(12,153)
Recovery of value and write-downs of assets	-	-
Operating Profit (EBIT)	**2,477**	**2,857**
Financial expense	(5,473)	(5,486)
Exchange differencies	(130)	387
Financial income	426	1,806
Financial income (expense), net	(5,177)	(3,293)
Income from investments	798	(17,638)
Other income (expense)	0	0
Taxation	(991)	(1,675)
Profit (loss) for the period before discontinued operations	**(2,893)**	**(19,749)**
Gains (losses) from disposals, net	-	*23,193*
Loss for the period	(2,751)	*0*
Discontinued operations	(2,751)	23,193
Profit (loss) for the period	**(5,644)**	**3,444**

Balance sheet	30 June 2006	30 June 2005
Euro/000		
ASSETS		
Non-current assets		
Tangible fixed assets	184,440	192,772
Other intangible assets	1,491	1,794
Shares in subsidiary companies	77,700	79,494
Shares in associate companies	7,743	7,743
Derivative financial instruments	216	-
Financial assets held for sale	936	191
Trade receivables	90	104
Other receivables	889	4,142
Total non-current assets	**273,505**	**286,240**
Current assets		
Stocks	48,597	50,094
Trade receivables	77,533	76,569
Trade receivables due to subsidiary companies	20,153	37,582
Trade receivables due to associates	1,124	958
Otheer receivables	6,733	18,620
Liquid funds	1,574	43,208
Total current assets	**155,714**	**227,031**
Other non-current assets held for sale	**9,604**	**14,579**
TOTAL ASSETS	**438,823**	**527,850**
LIABILITIES AND SHAREHOLDERS' EQUITY		
Shareholders' funds		
Share capital	132,160	148,343
Share premium account	-	7,797
Other reserves	6,241	18,419
Fair value reserve	243	-
Hedging reserve	(69)	-
Own shares	(4,872)	(5,374)
Retained earnings (losses) brought forward	(745)	(3,426)
Profit (loss) for the year	(5,644)	(16,921)
Total shareholder's funds	**127,314**	**148,838**
Non-current liabilities		
Bank loans and other financial liabilities	83,114	27,487
Payable due to subsidiary companies	32,000	-
Derivative financial instruments	5	-
Other payables	625	651
Deferred tax liabilities	12,645	12,122
Employees' leaving entitlement	16,959	17,008
Non-current provisions for contingencies and charges	3,283	3,689
Total non-current liabilities	**148,631**	**60,957**
Current liabilities		
Bank loans and other financial liabilities	72,915	72,085
Derivative financial instruments	398	33,970
Trade payables due to third party	64,428	63,059
Payables due to subsidiary companies	14,276	131,672
Payables due to associates payables	608	947
Other payables	9,482	16,322
Current taxation	771	-
Total current liabilities	**162,878**	**318,055**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**438,823**	**527,850**

Cash flow statement	First half 2006	First half 2005
Euro/000		
Profit (loss) for the period before discontinued operations and before	(1,902)	(18,074)
Depreciation and amortisation	12,362	12,154
Write-downs	666	16,183
(Gains) losses from investments	(1,464)	(1,478)
Financial (income) expense	5,177	3,293
Gains (losses) on the disposal of fixed assets	(119)	(32)
Change in trade receivables	(950)	5,350
Change in stocks	801	(4,208)
Change in trade receivables due to subsidiary companies	6,340	557
Change in trade receivables due to associates companies	(166)	(816)
Change in other receivables	(2,507)	1,252
Change in trade payables	1,369	1,219
Change in trade payables due to subsidiary companies	(1,460)	209
Change in trade payables due to associates companies	(339)	65
Change in other payables	(2,064)	(224)
Change in the employees' leaving entitlement	(493)	775
Variazione altri fondi e imposte differite	(440)	3,169
Gross cash flows	**14,811**	**19,394**
Interest paid in the period	(4,956)	(4,424)
Taxes paid in the period	(52)	-
Cash flows from operating activities [1]	**9,803**	**14,970**
Sale (purchase) of financial assets held for sale	-	3,579
Investments	(2,396)	(3,273)
Divestments	1,610	206
Dividends received	1,464	1,478
a. Gains on disposal of discontinued operations	-	24,141
b. Result for the period of discontinued operations	(2,751)	(163)
c. Change in assets and liabilities of discontinued operations	-	10,859
d. Change in other receivables/other payables of disposals	12,096	(27,489)
Cash flows from discontinued operations (a+b+c+d)	9,345	7,348
Cash flows from investing activities [2]	**10,023**	**9,338**
Repayment (draw-down) of intragroup receivables	(1,288)	(6,990)
Draw-down (repayment) of intragroup payable	(147,358)	(5,368)
Draw-down (repayment) of short-term bank borrowings and long-term loans	88,356	(5,779)
Dividends paid	-	-
Change in other financial liabilities	(1,170)	211
Cash flows from financing activities [3]	**(61,460)**	**(17,926)**
Change in restricted liquid funds [4]	**-**	**-**
Change in unrestricted liquid funds [1+2+3+4]	**(41,634)**	**6,382**
Unrestricted liquid funds at beginning of period	**43,208**	**3,263**
Unrestricted liquid funds at end of period	**1,574**	**9,645**
Liquid funds at end of period		
Unrestricted liquid funds	1,574	9,645
Restricted liquid funds	-	-
Total liquid funds at end of period	**1,574**	**9,645**

Statement of changes in shareholders' equity	Share capital	Share premium reserve	Legal reserve	Other reserves	Retained earnings (losses) brought forward	Profit (loss) for the period	Fair Value reserve	Hedging reserve	Own shares	Shareholders' equity
Euro/000										
Shareholders' equity at 1 January 2005	**148,343**	**8,884**	**6,462**	**27,319**	**(3,426)**	**(16,449)**	**-**	**-**	**(5,374)**	**165,759**
Increase in share capital										
Distribution of dividends										
Change in accounting principle										
Reclassifications										
Value adjustments recognised directly in equity										
Cover of 2004 losses		(1,087)		(15,362)		16,449				-
Profit (loss) for the period						3,444				3,444
Shareholders' equity at 30 June 2005	**148,343**	**7,797**	**6,462**	**11,957**	**(3,426)**	**3,444**	**-**	**-**	**(5,374)**	**169,203**
Increase in share capital										
Distribution of dividends										
Change in accounting principle										
Reclassifications										
Value adjustments recognised directly in equity										
Cover of 2004 losses										
Profit (loss) for the period						(20,365)				(20,365)
Shareholders' equity at 31 December 2005	**148,343**	**7,797**	**6,462**	**11,957**	**(3,426)**	**(16,921)**	**-**	**-**	**(5,374)**	**148,838**
Increase in share capital										
Distribution of dividends										
Change in accounting principle										
Reclassifications									502	502
Demerger	(16,183)			900	(1,273)					(16,556)
Value adjustments recognised directly in equity							243	(69)		174
Cover of 2005 losses		(7,797)	(6,462)	(6,616)	3,954	16,921				-
Profit (loss) for the period						(5,644)				(5,644)
Shareholders' equity at 30 June 2006	**132,160**	**-**	**-**	**6,241**	**(745)**	**(5,644)**	**243.00**	**(69)**	**(4,872)**	**127,314**

* the amount is due to RDM Realty S.p.A. shares held following the demeger

7. Reconciliation of consolidated shareholders’ equity and consolidated net profit with those of the Parent Company

The following reconciliation between consolidated shareholders’ equity and consolidated net profit with those of the Parent Company is presented pursuant to Consob Communication no. 6064293 of 28 July 2006.

	Shareholders' funds at 30 June 2006	Profit (loss) for the period ended at 30 June 2006
Reno De Medici S.p.A.	127,314	(5,644)
Difference between the carrying value of subsidiary companies and associates and the corresponding share of their shareholder's funds	11,018	(580)
Dividends received from subsidiary companies	-	(463)
Reversal of capital gains from sales to group companies	(4,256)	-
Reversal of allocations of merger difference	(6,026)	962
Other consolidation adjustments	(170)	(1,021)
Consolidated financial statements	**127,880**	**(6,746)**

8. List of investments in subsidiary companies and associates

Investments at 30 June 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 Resolution no. 11971 of 14 May 1999 and subsequent supplements and amendments).

Financial companies

Reno De Medici International S.A.
Luxembourg
Direct ownership 99.99%

Cartonboard sector

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

Emmaus Pack S.r.l.
Milan - Italy
Direct ownership 51.39%

Cartiera Alto Milanese S.p.A.
Milano – Italy
Direct ownership 100%

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 S. Giovanni - Milan - Italy
Direct ownership 30%

Service sector

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

AUDITORS' REPORT ON THE LIMITED REVIEW OF INTERIM FINANCIAL REPORTING FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2006 PREPARED IN ACCORDANCE WITH ARTICLE 81 OF CONSOB REGULATION APPROVED BY RESOLUTION No. 11971 OF 14 MAY 1999 AND SUBSEQUENT AMENDMENTS AND INTEGRATIONS

To the shareholders of
Reno De Medici SpA

1. We have performed a limited review of the consolidated interim financial reporting consisting of balance sheet, income statement, statement of changes in shareholders' equity and cash flows (hereinafter "accounting statements") and related explanatory and supplementary notes included in the interim financial reporting of Reno De Medici SpA for the six month period ended at 30 June 2006. The interim financial reporting is the responsibility of Reno De Medici SpA's directors. Our responsibility is to issue this report based on our limited review. We have also checked the part of the notes related to the information on operations for the sole purpose of verifying the consistency with the remaining part of the interim financial reporting.

2. Our work was conducted in accordance with the criteria for a limited review recommended by the National Commission for Companies and the Stock Exchange (CONSOB) with resolution n° 10867 of 31 July 1997. The limited review consisted principally of inquiries of company personnel about the information reported in the interim financial reporting and about the consistency of the accounting principles utilised therein as well as the application of analytical review procedures on the data contained in the interim financial reporting. The limited review excluded certain auditing procedures such as compliance testing and verification or validation tests of the assets and liabilities and was therefore substantially less in scope than an audit performed in accordance with generally accepted auditing standards. Accordingly, unlike the audit on the annual consolidated financial statements, we do not express a professional audit opinion on the interim financial reporting.

3. Regarding the comparative data of the prior year consolidated financial statements and of the prior year interim financial reporting presented in the accounting statements, reference should be made to our reports dated 11 April 2006 and 6 October 2005 respectively.

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. Based on our review, no significant changes or adjustments came to our attention that should be made to the consolidated accounting statements and related explanatory and supplementary notes, identified in paragraph 1 of this report, in order to make them consistent with the international accounting standard IAS 34 and with the criteria for the preparation of interim financial reporting established by Article 81 of the CONSOB Regulation approved by Resolution n° 11971 of 14 May 1999 and subsequent amendments and integrations.

5. As disclosed in the consolidated interim financial reporting, effective from 21 June 2006, the Company entered into a deed for the partial and proportional demerger of Reno De Medici SpA. Under this agreement, the net equity represented by the property assets held by the Reno De Medici Group, which are not part of its industrial business, were transferred to the newly-established recipient company RDM Realty SpA. As a consequence of this demerger Reno De Medici SpA no longer has control over Red.Im Srl and therefore Red.Im Srl's assets and liabilities, comprising its interest-bearing debt of Euro 40 million, are no longer included in Reno De Medici SpA's consolidated financial statements.

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.

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 Dicember 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	**C**	(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
Profit (loss) 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[3] 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

[3] 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).

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.

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.

PRICEWATERHOUSECOOPERS

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.