



RenoDeMedici

*Illustrative Report of the Board of Directors
on points 1 (interim statement of financial position as at 30 June 2015) and 2
(voluntary reduction of the share capital to cover the losses recorded in the interim
statement of financial position as at 30 June 2015) on the Agenda of the
Shareholders' Meeting called for 30 October and 2 November 2015
pursuant to Article 125-ter of the Legislative Decree n. 58/98 and Article 72 of the
Issuers' Regulation*

28 September 2015

Reno De Medici S.p.A.
Registered office: 25 Viale Isonzo - Milan
Share capital: €185,122,487.06 fully paid-up
Tax code and VAT number 00883670150

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1. INTRODUCTION

Dear Shareholders,

This report (the "Report") has been prepared pursuant to Article 125-*ter* of the Legislative Decree n. 58/98 and Article 72 of Consob Regulation no. 11971/99, as subsequently amended and supplemented (the "Issuers' Regulation").

The purpose of this report is to illustrate the statement of financial position and income statement of Reno De Medici S.p.A. ("RDM" or the "Company") as at 30 June 2015, approved by the Board of Directors on 28 September 2015 to be submitted to the Shareholders' Meeting called for 30 October 2015, at first call and, if necessary, on 2 November 2015 at second call, which shall also resolve on the proposal to reduce the share capital to cover the losses.

While not mandatory, this report largely follows the format prescribed by Article 2446 of the Italian Civil Code, despite the losses not being such as to affect the share capital by more than 1/3 (one third), as specified below.

2. REASONS FOR THE OPERATION

First of all, it is worth stating once again that, as can be seen from the statement of financial position as at 30 June 2015, RDM is not in the situation envisaged by Article 2446 of the Italian Civil Code (i.e., its share capital has not been reduced by more than one third). This is therefore an operation to voluntarily cover the losses recorded over the years for the reasons set out below.

From 2008, i.e. after the merger with the Cascades Group, RDM and, therefore, the Group it controls, underwent a wide-ranging industrial restructuring which resulted in both the closure of production centres that were no longer competitive and a new focus on plants with a more positive growth outlook.

The restructuring has entailed: a) substantial industrial investments of around €75 million alone in recent years (2011-2014); b) optimisation of funding sources through diversification, in terms of both type and the credit institutions involved.

The positive effects of all of this have been confirmed by the positive results recorded in the last two financial years.

However, losses recorded in the more or less recent past have prevented these results from being shared with Shareholders and the implementation of a share buyback policy.

Therefore, and also in response to requests from shareholders at the latest meetings, we believe it is advisable to proceed with a voluntary operation to cover all the losses, partly by using the available reserves and partly by reducing the share capital.

Essentially, the aim is to realign the theoretical share capital of the company (its "nominal capital") with the actual share capital, understood as the current value of the shareholders' equity (its "real capital"), thereby restoring the original correspondence between nominal and real capital.

3. DECLARATION OF COMPLIANCE WITH IFRS (INTERNATIONAL FINANCIAL REPORTING STANDARDS)

The report, together with the observations of the Board of Statutory Auditors, will be made available to the public, pursuant to Article 125-ter of the CFA and Article 72 of the Issuers' Regulation, at the Company's registered office, at authorised storage site www.NIS-Storage.it and on the Company's website at www.renodemedici.com, at least 21 days before the first call of Shareholders' Meeting (i.e. by 9 October 2015).

This report was prepared in compliance with the applicable IFRS using the same recognition and measurement criteria adopted to prepare the Annual Financial Report as at 31 December 2014.

No changes have been made to the reclassification logic for the accounting data.

The accounting data as at 30 June 2015 have not been subject to a statutory audit.

4. STATEMENT OF FINANCIAL POSITION, INCOME STATEMENT AND NET FINANCIAL POSITION

| Reno De Medici S.p.A. - Financial Statements as at June 30, 2015 | | | |
|-------------------------------------------------------------------------|--------------------|--------------------|--------------------|
| STATEMENT OF FINANCIAL POSITION | 06.30.2015 | 12.31.2014 | 06.30.2014 |
| (amounts in Euro) | | | |
| ASSETS | | | |
| Non-current assets | | | |
| Tangible assets | 127,357,538 | 133,714,134 | 125,755,120 |
| Other intangible assets | 836,483 | 867,933 | 903,521 |
| Investments in Subsidiaries | 68,697,963 | 68,697,963 | 75,800,974 |
| Investments in Associates, Joint Ventures and other companies | 597,508 | 600,650 | 600,651 |
| Deferred tax assets | 1,677,083 | 2,033,483 | 2,668,375 |
| Other receivables | 376,491 | 396,638 | 365,120 |
| Total non-current assets | 199,543,066 | 206,310,801 | 206,093,761 |
| Current assets | | | |
| Inventories | 33,824,939 | 36,881,710 | 34,326,394 |
| Trade receivables | 35,717,500 | 27,168,525 | 32,154,995 |
| Receivables from Group Companies | 10,183,472 | 9,609,544 | 18,649,275 |
| Other receivables | 2,642,887 | 4,590,373 | 3,494,987 |
| Other receivables from Group Companies | 5,294,849 | 7,243,462 | 6,277,044 |
| Cash and cash equivalents | 2,109,485 | 2,086,712 | 3,391,403 |
| Total current assets | 89,773,132 | 87,580,326 | 98,294,098 |
| Assets held for sale | 2,331,445 | 1,838,163 | - |
| TOTAL ASSETS | 291,647,643 | 295,729,290 | 304,387,859 |

Reno De Medici S.p.A. - Financial Statements as at June 30, 2015

| STATEMENT OF FINANCIAL POSITION | 06.30.2015 | 12.31.2014 | 06.30.2014 |
|---------------------------------------------------|--------------------|--------------------|--------------------|
| (amounts in Euro) | | | |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | |
| Shareholders' equity | | | |
| Share capital | 185,122,487 | 185,122,487 | 185,122,487 |
| Other reserves | 3,007,538 | 2,794,561 | 3,367,724 |
| - <i>Legal reserve</i> | 613,883 | 442,655 | 442,655 |
| - <i>Extraordinary reserve</i> | 1,149,947 | 1,149,947 | 1,149,947 |
| - <i>Hedging reserve</i> | 70,910 | 29,161 | (72,001) |
| - <i>Reserve for actuarial gain (loss)</i> | (1,932,202) | (1,932,202) | (1,257,877) |
| - <i>Ovaro sale reserve</i> | 3,105,000 | 3,105,000 | 3,105,000 |
| Profit (loss) carried forward | (38,726,258) | (41,979,589) | (41,979,589) |
| Profit (loss) for the period | 2,239,197 | 3,424,558 | 7,676,521 |
| Total shareholders' equity | 151,642,964 | 149,362,017 | 154,187,143 |
| Non-current liabilities | | | |
| Payables to banks and other lenders | 24,887,560 | 15,139,883 | 10,435,565 |
| Other payables to Group Companies | - | - | 714,286 |
| Derivative instruments | 4,431 | 18,085 | 157,980 |
| Other payables | 156,309 | 182,361 | 208,412 |
| Employee benefits | 7,466,055 | 7,649,043 | 8,257,494 |
| Non-current provisions for risks and charges | 2,157,983 | 4,134,155 | 4,865,585 |
| Total non-current liabilities | 34,672,338 | 27,123,527 | 24,639,322 |
| Current liabilities | | | |
| Payables to banks and other lenders | 19,446,242 | 32,064,548 | 44,752,933 |
| Derivative instruments | 196,813 | 267,786 | 301,800 |
| Trade payables | 50,152,870 | 50,581,237 | 51,527,337 |
| Payables to Group Companies | 3,070,643 | 2,915,170 | 2,493,674 |
| Other payables | 6,867,637 | 6,265,095 | 7,078,936 |
| Other payables to Group Companies | 24,150,205 | 26,078,993 | 16,872,984 |
| Current taxes | 803,236 | 177,809 | 1,747,327 |
| Employee benefits | - | 893,108 | 786,403 |
| Current provisions for risks and charges | 644,695 | - | - |
| Total current liabilities | 105,332,341 | 119,243,746 | 125,561,394 |
| TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES | 291,647,643 | 295,729,290 | 304,387,859 |

Reno De Medici S.p.A. - interim situation as at 30 June 2015

| INCOME STATEMENT | 30.06.2015 | 31.12.2014 | 30.06.2014 |
|-------------------------------------------|--------------------|--------------------|--------------------|
| (amounts in Euros) | | | |
| Revenues from sales | 112,219,337 | 208,812,422 | 113,379,388 |
| - of which related parties | 9,670,170 | 34,344,865 | 21,318,271 |
| Other revenues and income | 4,575,194 | 17,110,486 | 9,834,272 |
| - of which related parties | 2,689,619 | 6,081,512 | 3,158,139 |
| Change in inventories of finished goods | (2,659,402) | (2,319,011) | (3,096,805) |
| Cost of raw materials and services | (87,481,536) | (168,005,399) | (89,429,314) |
| - of which related parties | (4,763,091) | (8,297,417) | (4,353,942) |
| Personnel costs | (13,354,212) | (28,160,309) | (14,322,807) |
| Other operating costs | (1,505,953) | (2,795,303) | (1,170,073) |
| Gross operating profit | 11,793,428 | 24,642,886 | 15,194,661 |
| Depreciation and amortization | (5,820,919) | (11,525,216) | (5,801,892) |
| Write-downs | (1,399,022) | (943,279) | - |
| Operating profit | 4,573,487 | 12,174,391 | 9,392,769 |
| <i>Financial expense</i> | <i>(1,711,365)</i> | <i>(4,367,078)</i> | <i>(2,395,063)</i> |
| <i>Gains (losses) on foreign exchange</i> | <i>107,893</i> | <i>168,403</i> | <i>65,594</i> |
| <i>Financial income</i> | <i>116,987</i> | <i>278,804</i> | <i>132,944</i> |
| Net financial income (expense) | (1,486,485) | (3,919,871) | (2,196,525) |
| Gains (losses) from investments | (281,718) | (3,683,836) | 759,950 |
| Taxes | (566,087) | (1,146,126) | (279,673) |
| Profit (loss) for the year | 2,239,197 | 3,424,558 | 7,676,521 |

Reno De Medici S.p.A. - interim situation as at 30 June 2015

| NET FINANCIAL POSITION | 30.06.2015 | 31.12.2014 | 30.06.2014 |
|----------------------------------------------------------|---------------|---------------|---------------|
| (thousands of Euros) | | | |
| Cash | 9 | 9 | 11 |
| Funds available from banks | 2,100 | 2,078 | 3,381 |
| A. Cash and cash equivalents | 2,109 | 2,087 | 3,392 |
| Other receivables from Group Companies | 5,295 | 7,243 | 6,277 |
| Receivables from other lenders | 576 | 249 | 263 |
| B. Current financial receivables | 5,871 | 7,492 | 6,540 |
| <i>1. Current payables to banks</i> | <i>4,472</i> | <i>17,717</i> | <i>34,403</i> |
| <i>2. Current portion of medium- and long-term loans</i> | <i>14,974</i> | <i>14,294</i> | <i>10,325</i> |
| <i>3. Payables to other lenders</i> | <i>0</i> | <i>54</i> | <i>25</i> |
| Payables to banks and other lenders (1+2+3) | 19,446 | 32,065 | 44,753 |
| Other payables to Group Companies | 24,150 | 26,079 | 16,873 |
| Derivatives - current financial liabilities | 197 | 268 | 302 |
| C. Current financial debt | 43,793 | 58,412 | 61,928 |
| D. Net current financial debt (C-A-B) | 35,813 | 48,833 | 51,996 |
| Payables to banks and other lenders | 24,888 | 15,140 | 10,436 |
| Financial payables to subsidiaries | 0 | | 714 |
| Derivatives - non-current financial liabilities | 4 | 18 | 158 |
| E. Non-current financial debt | 24,892 | 15,158 | 11,308 |
| F. Net financial debt (D+E) | 60,705 | 63,991 | 63,304 |

5. INITIATIVES WHICH THE COMPANY INTENDS TO UNDERTAKE TO IMPROVE OPERATIONS AND TO ENSURE THE POSITION OF THE BUSINESS AS A GOING CONCERN

The Board of Directors notes that the losses recorded in the draft statement of financial position as at 30 June 2015 arose due to the negative results recorded by the Company in previous financial years. As described in the introductory section, the factors causing these losses were identified and rectified by the Company as demonstrated by the profit generated in the year to 31 December 2013 and the year to 31 December 2014, as well as the profit accrued in the first half of 2015. RDM does not, therefore, have any critical problems that could in any way call into question its position as a going concern.

In the light of the above, taking into consideration the initiatives undertaken by the Company during previous financial years and bearing in mind that, if the Shareholders' Meeting were to approve the proposal to cover the losses by using the available reserves and a share capital decrease, the losses would be fully made good, the Company believes that it is not necessary to take any further steps to improve operations or to safeguard the position of the business as a going concern.

6. DEBT RESTRUCTURING PLANS

The Company has not approved nor is it in the process of approving any debt restructuring plans.

7. CONCLUSIONS

Following any reduction in the share capital, Article 5 of the Company By-Laws will be altered as a result to reflect the new composition of the share capital, which would stand at € 150.399.255,80.

The proposed resolution to reduce the share capital in point 2 of the Agenda does not require the approval of the special meeting of holders of savings shares, pursuant to Article 2376 of the Italian Civil Code and Article 146 of the CFA, because they do not suffer any prejudice, taking into account the fact that the shares have no par value and that the financial privileges of savings shares are parameterised to an absolute monetary value (€0.49) and not to the par value in accounting terms of the shares.

There is no right of redemption for holders of ordinary shares and savings shares.

* * *

By virtue of the above, we propose the approval of the following resolutions:

First agenda item

“The Ordinary Shareholders’ Meeting of Reno De Medici S.p.A.:

- *Having examined the interim statement of financial position as at 30 June 2015;*
- *Having examined the Directors’ Report;*
- *Taking into account the observations of the Board of Statutory Auditors;*

RESOLVES

- *(i) to approve the interim statement of financial position as at 30 June 2015 which shows a profit for the period of €2,239,196.98, compared with total retained losses of €38,726,258.48.”*

Second agenda item

“The Extraordinary Shareholders’ Meeting of Reno De Medici S.p.A., having acknowledged:

- *the interim statement of financial position as at 30 June 2015 approved by this meeting;*
- *the losses recorded in the statement of financial position as at 30 June 2015, equal to €38,762,258.48;*
- *the available reserves equal to €1,763,830.24 (i.e.: legal reserve + extraordinary reserve) recorded in the statement of financial position as at 30 June 2015;*
- *the profits for the period recorded in the statement of financial position as at 30 June 2015, equal to €2,239,196.98;*

RESOLVES

- *(i) to proceed, following the full use of the available reserves totalling € 1,763,830.24, to cover the losses recorded in the statement of financial position as at 30 June 2015 for € 38,726,258.48 net of profits for the period of € 2,239,196.98 by reducing the share capital from the current figure of*

€185,122,487.06 to € 150,399,255.80, and therefore by € 34,723,231.26, without prejudice to the number of outstanding shares, with no par value;

- (ii) consequently to amend Article 5 of the Company By-Laws as follows:

| EXISTING TEXT | PROPOSED TEXT |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p style="text-align: center;">Article 5</p> <p>5.1. The share capital is €185,122,487.06 (one hundred and eighty five million one hundred and twenty two thousand and four hundred and eighty seven/06) divided into 377,800,994 shares with no par value, of which:</p> <ul style="list-style-type: none"> - 377,527,066 ordinary shares; - 273,928 savings shares convertible to ordinary shares at the request of shareholders in February and September each year. <p style="text-align: center;"><i>omissis</i></p> | <p style="text-align: center;">Article 5</p> <p>5.1. The share capital is €185,122,487.06 (one hundred and eighty five million one hundred and twenty two thousand and four hundred and eighty seven/06) 150.399.255,80, divided into: 377,800,994* shares with no par value, of which:</p> <ul style="list-style-type: none"> - 377,527,066 ordinary shares; - 273,928 savings shares convertible to ordinary shares at the request of shareholders in February and September each year. <p style="text-align: center;"><i>omissis</i></p> <p><i>*The exact sharing of the share capital will be determined at the end of current convertible time taking into account the possible conversion of savings shares that has taken place in the meantime</i></p> |

- (iii) to confer upon the Board of Directors – and through it on the Chairman and the CEO, separately – all powers required to execute, also by means of attorneys, this resolution and to file it by registration in the Companies Register, accepting and introducing the amendments, supplements or eliminations, formal and not substantial, which may be required by the competent Authorities."

Milan, 7 October 2015

On behalf of the Board of Directors

The Chairman

Signed by Robert Hall

8. OBSERVATIONS BY THE BOARD OF STATUTORY AUDITORS ON THE REPORT ON THE COMPANY'S STATEMENT OF FINANCIAL POSITION FOLLOWING THE VOLUNTARY REDUCTION OF THE SHARE CAPITAL AS A RESULT OF LOSSES

To the Shareholders' Meeting of Reno De Medici S.p.A.

Headquarters at Viale Isonzo 25, Milan

Subject: *Observations by the Board of Statutory Auditors on the Report on the Company's Statement of Financial Position as at 30 June 2015 following the voluntary reduction of the share capital as a result of losses.*

Given that on the 28th of September 2015:

- the Board of Directors resolved to call the Shareholders' Meeting on the 2nd of November 2015 in order to decide and take the consequent action with reference to the proposal of the Board to hedge the previous losses – although lower than one third of the share capital - not being therefore applicable the provision of Article 2446 of the Italian Civil Code;
- the Board of Directors, with reference to the above mentioned operation, presented, in addition to the financial statements as of 31st of December 2014, the 2015 Half-Year Report approved on the same date, an explanatory report on the causes of the previous losses, on the foreseeable performance of the future management and about the policies which are intended to be pursued to ensure the profitability of the business (the **Report**), in order to be submitted to the aforesaid Shareholders' Meeting;
- the Board of Statutory Auditors received a copy of the above mentioned documentation.

Therefore, the Board of Statutory Auditors is willing to submit to the kind attention of the shareholders its observations about the Report of the Administrative Board on the financial and economic status of the Company.

The following report essentially focuses on the reasons that caused the previous losses, their nature and the characteristics of the same and on the examination of the evaluation criteria adopted for the drafting of the financial report as of 30th of June 2015.

Following the examination of all the documents produced by the Administrative Board, the Board of Statutory Auditors states the following:

- a) The report explains the reasons and motivations and modalities for the implementation of the proposal of the Board of Directors, giving as well an explanation of the nature and causes of the losses, stating that, in light of the positive results achieved in the two last financial years and in the first half of the current year “it will not be necessary to undertake any other further initiative in order to recover the profitability of the business or to preserve the Company’s going concern..
- b) The report of the Board of Directors has been prepared according to the provisions of the civil law regarding the drafting of the financial statements. Ultimately, we can confirm that a truthful and

correct representation of the present situation of the Company has been given, as confirmed, *inter alia*, by Deloitte & Touche S.p.A., appointed in order to carry out the statutory auditing who did not report any anomalies with regards to the limited audit of the condensed consolidated half-year financial statement.

- c) The proposals of the Board of Directors with regard to the actions to be taken and to the consequent operational measures are compliant with the principles of correct administration of business the law and the statutory provisions taking into account the correct financial balance.

A copy of these observations, together with the Directors' Report, was filed at the Company headquarters on 9 October 2015, so that they could be seen by the shareholders.

Milan, 8 October 2015

Signed by.

The Board of Statutory Auditors

Giancarlo Russo Corvace

Tiziana Masolini

Gian Maria Conti