DAVIDE CAMPARI-MILANO S.p.A.
ANNUAL REPORT
AT 31 DECEMBER 2017
GRUPPO CAMPARI

CAMPARI
GROUP

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Disclaimer

This document contains forward-looking statements relating to future events and the operating, economic and financial results of Gruppo Campari. These statements contain an element of risk and uncertainty since, by their very nature, they depend on future events and developments. Actual results may vary significantly from those forecast for a number of reasons, most of which are beyond the Group's control.

The official text is the Italian version of the document. Any discrepancies or differences arisen in the translation are not binding and have no legal effect. In case of any dispute on the content of the document, the Italian original shall always prevail.

Highlights

	31 December 2017	31 December 2016	change	
	€ million	€ million	total %	organic change %
Net sales	**1,816.0**	**1,726.5**	**5.2%**	**6.3%**
EBITDA	451.4	372.1	21.3%	22.4%
Adjusted EBITDA[1]	**437.6**	**405.3**	**8.0%**	**8.9%**
EBIT	394.3	319.4	23.5%	24.3%
EBIT adjusted[1]	**380.5**	**352.5**	**7.9%**	**8.7%**
Group net profit	356.4	166.3	114.3%	
Adjusted Group net profit[1]	**233.4**	**198.6**	**17.5%**	
EBIT margin (EBIT/net sales)	21.7%	18.5%		
EBIT margin (EBIT adjusted/net sales)	**21.0%**	**20.4%**		
ROI % (Operating income / fixed assets)	13.7%	10.1%		
ROI % (Operating income adjusted/ fixed assets)	**13.2%**	**11.2%**		
Basic earning per share (€)	0.31	0.14		
Diluted earning per share (€)	0.30	0.14		
Adjusted basic and diluted earning per share (€)[1]	**0.20**	**0.17**		
Average number of employees	4,020	4,172		
Free cash flow	227.0	243.2		
Adjusted free cash flow	**249.7**	**300.8**		
Acquisition and sale of companies or business division	123.6	(429.9)		
Net debt	981.5	1,192.4		
Shareholders' equity - Group and non-controlling interests	1,942.6	1,900.0		
Invested capital	2,924.1	3,092.4		

[1] For information on the definition of alternative performance indicators, see the next section of this report on operations in the section 'Alternative performance indicators'.

Information on the figures presented

For ease of reference, all figures in this annual report, in both the report on operations and the consolidated financial statements, are expressed in millions of Euro to one decimal place, whereas the original data is recorded and consolidated by the Group in thousands of Euro. Similarly, all percentages that relate to changes between two periods, rather than figures shown as a percentage of sales or other indicators, are always calculated on the basis of the original data in thousands of Euro. The use of values expressed in millions of Euro may therefore result in apparent discrepancies in both absolute values and percentage changes. For information on the definition of alternative performance indicators, see the next section of this annual report.

Corporate officers

Marco P. Perelli-Cippo	Honorary Director

Board of Directors[1]

Luca Garavoglia	Chairman
Robert Kunze-Concewitz	Managing Director and Chief Executive Officer
Paolo Marchesini	Managing Director and Chief Financial Officer
Eugenio Barcellona	Director and member of the Control and Risks Committee and the Remuneration and Appointments Committee[4]
Giovanni Cavallini	Director[5]
Camilla Cionini-Visani	Director and member of the Control and Risks Committee and the Remuneration and Appointments Committee[4][5]
Karen Guerra	Director [5][6]
Thomas Ingelfinger	Director and member of the Control and Risks Committee and the Remuneration and Appointments Committee[4][5]
Annalisa Elia Loustau	Director[5]
Stefano Saccardi	Director[1]
Catherine Vautrin-Gérardin	Director[5]

Board of Statutory Auditors[2]

Pellegrino Libroia	Chairman
Enrico Colombo	Statutory Auditor
Chiara Lazzarini	Statutory Auditor
Giovanni Bandera	Alternate Auditor
Graziano Gallo	Alternate Auditor
Piera Tula	Alternate Auditor

Independent auditors[3]

PricewaterhouseCoopers S.p.A.

[1] The 11 members of the Board of Directors were appointed on 29 April 2016 by the shareholders' meeting and will remain in office for the three-year period 2016-2018. At the same shareholders' meeting, Luca Garavoglia was appointed Chairman and granted powers in accordance with the law and the Company's articles of association.
On the occasion of the Board of Directors meeting held on 19 December 2017, Stefano Saccardi resigned its powers, with effect from 31 December 2017, remaining a Director until natural expiry.
At a meeting held on the same date, the Board of Directors gave Managing Directors Robert Kunze-Concewitz and Paolo Marchesini the following powers for three years, until approval of the 2018 financial statements:
- individual signature: powers of ordinary representation and management, within the value or time limits established for each type of function;
- joint signature: powers of representation and management for specific types of function, within the value or time limits deemed to fall outside ordinary activities.

[2] The Board of Statutory Auditors was appointed on 29 April 2016 by the shareholders' meeting for the three-year period 2016-2018.

[3] On 30 April 2010, the shareholders' meeting appointed PricewaterhouseCoopers S.p.A. as its independent auditors for the nine-year period 2010-2018.

[4] The Control and Risks Committee and the Remuneration and Appointments Committee were appointed by the Board of Directors on 29 April 2016 for the three-year period 2016-2018.

[5] Independent director.

[6] Appointed by resolution of the Board of Directors on 29 April 2016.

Report on operations

Significant events during the period

Sales organisation in South Africa
On 1 January, 2017, the Group began directly distributing its own brands in the South African market, via its subsidiary, Campari South Africa.
The respective sales force is currently being strengthened with the aim of capitalising on growth opportunities for the Group's entire portfolio in this market.

Acquisition of Bulldog London Dry Gin
On 10 February 2017, the Group acquired ownership of the Bulldog London Dry Gin brand for USD 55 million plus working capital and assumed liabilities of USD 3.9 million.
Bulldog, the fourth-largest premium gin in the world, sold in 95 countries, had already been distributed by the Group on some markets since 2014, under an exclusive five-year agreement, which also included a call option to acquire ownership of the brand in 2020.
After renegotiating the terms of the agreement, the Group acquired the brand before this date. The agreement includes a potential earn out to be paid to the sellers from 2019 on the achievement of specific sales volumes above the agreed objectives, estimated to be USD 28.6 million at the purchase date.

Extension of distribution agreements in the United States
On 1 March 2017, Campari America renewed and extended its existing distribution agreements with Southern Glazer ('SGWS'), the largest wine and spirits distributor in North America. Following the extension of the partnership, Campari America handed over distribution to SGWS for 14 new states that were previously managed by the Republic National Distributing Company. SGWS's distribution capacity will enable the Group to increase its market penetration in both new countries and established areas.

Distribution agreement in China
In March 2017, the Group signed an exclusive distribution agreement with Yuanliu International Trade, a subsidiary of French Group Camus, for the domestic Chinese market. The aim of this sales agreement is to expedite growth in the Chinese market, on the back of the well-established network of Yuanliu, a distributor of products that are complementary to those of the Group.

Sale of non-core businesses

Sale of winery businesses
During the year, the Group completed the sale of the following businesses, which had become part of the Group perimeter on the acquisition of Société des produits Marnier Lapostolle S.A. ('SPML').
These transactions had no significant impact on the Group's financial results for the year.
The completion of the agreement marks Campari's final move away from the still wines business in line with its strategy to rationalise its non-strategic activities and increase its focus on its core business of spirits.

- Sale of Lapostolle Chilean wines

On 31 January 2017, the deal to sell Lapostolle Wines in Chile, via the sale of Marnier Investissements S.A., to some of SPML's former shareholders was completed.
The enterprise value, gross of net financial debt, was € 30.0 million.

- Sale of French winery Château de Sancerre

On 1 July 2017, after obtaining the approval of the local competent authorities, the deal was closed to sell the French winery Château de Sancerre to Maison Ackerman, the wine division of Terrena, a French company with diversified interests in the agriculture industry.
The business sold includes the Sancerre wines, as well as property, vineyards, wine-making and production equipment, and inventory.
The final price of the transaction, including adjustments after closing, was € 20.1 million.

Sale of the Carolans and Irish Mist brands
On 1 August 2017, the Group finalised agreements to sell the Carolans and Irish Mist brands to Heaven Hill Brands, a US company operating in the alcoholic distillates sector.
The sold business includes the Carolans Irish Cream and Irish Mist (Irish Mist Liqueur and Irish Mist Whiskey) brands, inventory and production assets.
The enterprise value was USD 165.0 million (€ 139.4 million at the exchange rate on the closing date) on a cash-free/debt-free basis. The total value of the transaction corresponds to a multiple of around nine times the

contribution margin.
The sale generated a capital gain of around € 50 million, which is shown under Adjustments to operating income (charges) in the consolidated financial results for the year.

Carolans and Irish Mist had been acquired by the Group in 2010 as part of a portfolio of brands that also included Frangelico, the main acquisition target. Carolans is the second best-selling Irish whiskey cream in the world produced in Ireland. Irish Mist is the first liqueur to be made in Ireland.
In the fiscal year ended 31 December 2016, Carolans and Irish Mist recorded total net sales of € 34.0 million and CAAP (contribution after A&P) of € 16.3 million. Sales of the brands represented around 2% of the Group's total sales in 2016, of which 70% was achieved in the United States, its core market.
As part of the transaction, the Group and Heaven Hill Brands signed an exclusive multi-year distribution agreement, effective from the closing date. Under this agreement the Group will continue to distribute Carolans and Irish Mist in the international markets outside the United States.
The disposal is part of the Group's continued rationalisation of its non-strategic portfolio, to focus more on its priority brands in the core market and main region: the United States. In addition, this disposal helped to speed up the process of reducing the Group's financial debt.

Sale of real estate in France
In November 2017, the Group completed the sale of the SPML headquarter in Paris.
The sale of real estate did not have a significant impact on the consolidated financial results for the year, but had a positive effect, equal to € 35.3 million, on the 2017 cash position. The tax effects connected to the sale of the headquarters by the company SCI du Val, a fiscally transparent company, are already reflected in the stand alone financial statements of SPML and will have financial impact in 2018, on the occasion of the income taxes payment (approximately € 9.4 millions).

Innovation and new product launches

Campari Calendar (R)evolution
On 24 January 2017, the lead story of the global initiative 'Campari Calendar (R)evolution' was unveiled in Rome with the short film 'Killer in Red', written and directed by Paolo Sorrentino and featuring Clive Owen.
The content received around 20 million views worldwide via a media campaign carried out in conjunction with Google and YouTube.
Following on from the short film 'Killer in Red', the collaboration with Paolo Sorrentino has continued with the launch of the new 'Creation' campaign. Active since October 2017, this campaign includes a series of messages to increase the impact of communication on the various social media.

Bourbon Whiskey
In February 2017, the 'Whiskey Barons Collection' – a project created to celebrate a brand of bourbon, Bond & Lillard, from the pre-Prohibition period – was unveiled in the US. This high-quality bourbon, which is produced in the oldest distillery in Kentucky, reflects the authenticity of the product and the original packaging.
In the same month, the bourbon Wild Turkey Master's Keep, a limited edition aged for 17 years, was launched on the US market. In December 2017, Wild Turkey Master's Keep Decades was named the no. 3 whiskey of the year by 'Whisky Advocate' magazine.
In addition, in August 2017, Wild Turkey 'Master's Keep 1894' was launched exclusively for the Australian market. This is a limited edition Kentucky Straight Bourbon Whiskey, aged in barrels selected personally by Master Distiller Eddie Russell.
The global Wild Turkey campaign, directed by Oscar winner Matthew McConaughey, was launched on the Australian market in September, on national TV, on digital channels and via advertising hoardings. Also in September, the second phase of the '*Real Bourbon. No Apologies*' campaign was launched globally in conjunction with Matthew McConaughey as creative director. By the end of September 2017, the campaign had generated more than ten million YouTube views.

Appleton Estate
In early 2017, the Appleton Estate Joy Anniversary Blend was launched to celebrate the 20th anniversary of Joy Spence as master blender. This limited edition 25-year-old blend, prepared with selected rums, has a balanced taste with subtle oak notes.

SKYY
In the first quarter of 2017, two new varieties of SKYY Infusions were introduced to the US market: California Apricot, the first flavoured vodka to be infused with real apricot, which celebrates SKYY's Californian origins, and Bartlett Pear.
In May 2017, SKYY-Line, the new SKYY packaging, was launched, inspired by the sunsets of San Francisco, Rio, Cape Town and Dubai.

Cinzano sparkling wine
In the first quarter of 2017, Cinzano sparkling wine launched new packaging, which highlights the product's premium characteristics, for the global market.

Crodino
In March 2017, a new flavour of Crodino, Crodino blood orange flavour, which combines the fruity blood orange note with the intense bitter-sweet taste of Crodino, was launched on the Italian market.

Aperol restyling
At the start of the second quarter of 2017, Aperol's restyled packaging was launched in its core markets; the new design aims to increase the perception of the brand's value and make it stand out from its imitators.

Negroni Week 2017
Over the last five years, Campari has been the main sponsor of Imbibe Magazine's charity programme Negroni Week. Held in June 2017, the aim was to reinforce the message 'No Negroni without Campari' by strengthening the working relationship with the main brand ambassador, the bartender community. The 2017 edition was a great success, with 7,740 sales outlets around the world taking part (up 28% to 2016). The main markets involved were the USA, Germany, Argentina and Canada.

Glen Grant
The following were launched in the Global Travel Retail channel in the fourth quarter:
- Glen Grant 15-year-old Batch Strength Single Malt, a product created by master distiller Dennis Malcolm. The casks were selected from rare first-fill barrels used to age bourbon whiskey.
- Glen Grant 'The Rothes Chronicles' Cask Haven Single Malt: the product, launched to celebrate the history of the distillery, was aged in first-fill barrels used to age bourbon whiskey and sherry. The ageing takes place in historic warehouse no. 4, built by Major James Grant, which allows barrels to breathe and provides them with the optimal conditions in which to mature.

Other significant events

Extraordinary shareholders' meeting of the Parent Company
On 28 April 2017, the Extraordinary Shareholders' Meeting of Davide Campari-Milano S.p.A. approved the split of its paid-up share capital of 580,800,000 shares with a nominal value of € 0.1 per share to be carried out via the issue of two new shares with a nominal value of € 0.05 per share for each existing share, carrying dividend rights effective from 1 January 2016.
The current paid-up share capital of € 58,080,000.00 (unchanged) is therefore divided into 1,161,600,000 shares. The share split was carried out on 8 May 2017, doubling the number of shares and thereby halving the stock's value.

Tax reforms and taxation
- Patent box

On 28 April 2017, Davide Campari-Milano S.p.A. signed an agreement with the relevant tax authority that defines the methods and criteria to be used to calculate the portion of income that is exempt from IRES and IRAP for the purposes of a 'patent box', i.e. the size of the financial contribution to the company's income generated by intangible assets.
Under this regulation, a preferential tax regime applies to companies that generate income through the direct use of intellectual property or the granting to third parties of the rights to it.
The agreement relates to the tax years 2015-2019.

The tax reduction is calculated by excluding a proportion of the income attributable to the use of eligible intangible assets from the tax base; the proportion was 30% for 2015, 40% for 2016, and 50% for the three-year period 2017-2019.
At 31 December 2017, the tax benefit, of € 44.8 million, was recorded under income tax in the consolidated financial results for the year. Of this amount:
- € 12.0 million relates to the 2015 tax period;
- € 15.5 million relates to the 2016 tax period;
- € 17.3 million is estimated for the 2017 tax period.
The non-recurring tax benefit has been deducted from the tax payments of Davide Campari-Milano S.p.A. from June 2017.

- Tax reform in the United States

On December 22, 2017, the American tax reform was promulgated, which introduced important changes in the taxation of companies resident in the United States, including the reduction of the federal tax rate from 35% to 21%. The Group is evaluating the effects of this reform, which will start from the 2018 financial year; however, it should be noted that the financial statement as at 31 December 2017 includes a non-cash benefit of € 81.9 million related to the release to the income statement of part of the deferred tax liabilities recorded in previous years.

Purchase of own shares
Between 1 January and 31 December 2017, the Group purchased 10,910,000 own shares at an average price of € 5.85, and sold 4,541,575 own shares after the exercise of stock options. At 31 December 2017, the Parent Company held 9,053,113 own shares, equivalent to 0.78% of the share capital.

Debt restructuring
During 2017, Davide Campari-Milano S.p.A. placed two unrated bonds (a seven-year and a five-year bond, for € 150 million and € 50 million respectively), reserved for institutional investors only. This transaction enabled the company to optimise its debt structure by extending the average maturity of its liabilities and thereby benefit from the low interest rates on the market.
This transaction constituted an exchange for existing notes previously issued by the Parent Company and purchased by BNP Paribas, for a total amount of € 200,001,000.
The bonds redeemed were as follows:

- a total nominal amount of € 180,943,000 of existing notes issued in 2012 with a nominal value of € 400 million, fixed interest of 4.50% and due on 25 October 2019;
- a total nominal amount of € 19,058,000 of existing notes issued in 2015 with a nominal value of € 600 million, fixed interest of 2.75% and due on 30 September 2020.

On 5 April 2017, the new bonds were admitted to trading on the unregulated market ('Third Market') of the Vienna Stock Exchange and, at the same time, the difference settled in cash (for a total of € 27.1 million, of which € 3.9 million was for the instalment of interest that had accrued on the existing notes that were repurchased, and € 23.2 million related to the difference between the purchase price of the existing bonds compared with their nominal values, plus various transaction costs. The value of the previously issued bonds was therefore eliminated by Davide Campari-Milano S.p.A. and the above-mentioned difference was recognised in the Group's financial results as a non-recurring financial liability for the year.

Award of the mandate for the statutory audit of the accounts for the years 2019-2027
On 19 December 2017, the Ordinary Shareholders' Meeting of Davide Campari-Milano S.p.A. unanimously voted to award the mandate for the statutory audit of the accounts for the years 2019-2027 to auditing firm Ernst&Young S.p.A. pursuant to the legislation in force. The Shareholders' Meeting also approved the related remuneration.
The mandate for the statutory audit of the accounts granted to PricewaterhouseCoopers S.p.A. on 30 April 2010 is due to expire with the preparation of the consolidated and separate financial statements to 31 December 2018, thereby completing the maximum nine-year duration, which is non-renewable, permitted by law.

Succession to senior management position
After a hugely successful career spanning over thirty years, Stefano Saccardi, General Counsel and Business Development Officer, has decided to resigne. He will remain in office as a member of the Board of Directors of Davide Campari-Milano S.p.A. until the natural expiry of his mandate in 2019. From 1 January 2018, Fabio di Fede, a Campari executive manager with a wealth of experience, will succeed Stefano Saccardi as General Counsel and Business Development Officer.

Transactions with an impact in 2018

The following events, for which agreements were signed in 2017, are commented on in the note 'Events taking place after the end of the year' as their impact will be seen in 2018.

- sale of the Lemonsoda business;
- acquisition of Bisquit Cognac;
- termination of the agreement to distribute Brown Forman products in Italy;
- move of the Campari America office to New York City.

Group operating and financial results

Sales performance

Overall performance
Group net sales were € 1,816.0 million in 2017, an overall increase of +5.2% on 2016; the organic growth component of +6.3% was only partly offset by negative exchange rate variations (-0.8%) and a negative perimeter effect (-0.4%). In the fourth quarter, organic growth was +6.6%.
The following table shows these effects on the various geographical regions.

	2017		2016		total change	12 months change, of which				change % fourth quarter	
	€ million	%	€ million	%	€ million	total	organic	perimeter	exchange	total	organic
Americas	794.2	43.7%	726.3	42.1%	67.8	9.3%	7.6%	4.1%	-2.4%	-2.7%	9.4%
Southern Europe, Middle East and Africa	536.3	29.5%	532.8	30.9%	3.5	0.7%	5.6%	-5.1%	0.2%	3.2%	8.9%
North, Central and Eastern Europe	361.1	19.9%	343.9	19.9%	17.2	5.0%	7.2%	-2.9%	0.7%	-1.3%	1.9%
Asia-Pacific	124.4	6.9%	123.5	7.2%	1.0	0.8%	-0.8%	0.9%	0.7%	-6.9%	-2.9%
Total	**1,816.0**	**100.0%**	**1,726.5**	**100.0%**	**89.5**	**5.2%**	**6.3%**	**-0.4%**	**-0.8%**	**-1.1%**	**6.6%**

Organic change
Organic sales growth was +6.3% for the year, due to an excellent performance in all four quarters (+5.7%, +7.6%, +5.1% and +6.6% respectively). Over the twelve months as a whole, all geographical regions experienced strong organic growth except for Asia-Pacific, which showed a slight decline.
Similarly, all the global priority brands, with the exception of SKYY, and the main regional priority brands reported sustained growth. These results led to a continuous improvement in the product/market sales mix, in line with the Group's growth strategy.

The main trends by individual geographical region are shown below:
- the **Americas** region closed with organic growth of +7.6% (+9.4% in the fourth quarter); the United States, which confirmed its position as the Group's main market with 25.5% of total sales, recorded growth of +3.4% in the twelve months (+1.5% in the fourth quarter). All other markets in the region posted an excellent performance; the contributions of Mexico, Argentina and Jamaica were particularly significant;
- the **Southern Europe, Middle East and Africa** region reported overall organic growth of +5.6%, with a highly positive fourth quarter (+8.9%). Italy, the main market in the region, closed with organic growth of +2.0% for the year, driven by the aperitifs segment (Campari and Aperol). Among the other countries in the region, growth remained strong in France, Spain and South Africa, while Greece also recorded considerable growth.
- the **Northern, Central and Eastern Europe** region recorded organic growth of +7.2% (+1.9% in the fourth quarter), mainly driven by positive performances in Russia, the UK, Austria and the eastern European markets;
- the **Asia-Pacific** region recorded a slight fall of -0.8% in sales in the twelve months (-2.9% in the fourth quarter). Australia closed the year slightly down (-0.6%); sales in the early part of the year were affected by poor weather and fierce competitive pressure, but recovered gradually in the second half. In the other countries in the region, sales decreased by -1.4% in the year, mainly due to co-packing activities and changes to distribution structures.

The main trends by brand are shown below:
- **the Group's global priority brands** posted organic growth of +7.7%, and a highly positive result in the fourth quarter (+8.3%). All brands except SKYY made a positive contribution in the year. Looking specifically at aperitifs, **Aperol** recorded continuous double-digit growth due to a positive performance in all markets. **Campari** sales continued to strengthen in most of its key markets, such as Italy, Argentina, the United States, Brazil, Jamaica, Japan and France. **SKYY** closed the year with a decrease, despite a recovery in the fourth quarter. The United States, the brand's main market was adversely affected by ongoing fierce competition within the category, as well as by hurricanes, which sharply penalised sales in the third quarter. This performance was only partly offset by an overall increase in the international markets. The **Wild Turkey** portfolio reported growth, mainly due to the good results in the US, the brand's main market, and Canada. The **Jamaican rums** portfolio reported growth in the period due to positive performances in Jamaica, the US and the UK. Lastly, **Grand Marnier** recorded sales of € 130.4 million in 2017. It should be noted that the brand has been included in organic sales growth since the third quarter of 2017, having previously been classified in the perimeter effect (the acquisition of the brand was completed on 29 June 2016). In the second half of the year, Grand Marnier recorded organic growth of +1.8%;
- **regional priority brands** recorded growth of +13.0% over the twelve months, with an equally positive fourth quarter (+12.2%). Growth was spread across nearly all the brands in the category. Of particular significance was the double-digit growth of Espolòn, Bulldog, GlenGrant and the Mondoro and Riccadonna sparkling wines, as well as the sustained growth in Cinzano sales. It should be noted that the Bulldog brand, which was acquired in

February 2017, is included in annual organic sales growth, as it already formed part of the Group's network by way of a distribution agreement in existence prior to the acquisition.
The Carolans Irish Cream and Irish Mist brands, which were sold to Heaven Hill Brands in the third quarter of 2017 (transaction closed on 1 August 2017) but are still sold by the Group outside the US and Ireland under a distribution agreement with the buyer, were reclassified from regional priority brands to agency brands under 'Rest of the portfolio' from the closing date. Total organic growth of the regional priority brands in 2017 was calculated taking account of both the above-mentioned effects;
- **local priority brands** showed a positive trend (+1.3%), mainly driven by Crodino in Italy, Cabo Wabo in the United States and the Brazilian brands.

Perimeter effect
The negative perimeter effect of -0.4% was attributable to the following events:
- the consolidation of SPML, owner of the Grand Marnier brand, for which the perimeter effect was recorded in the first half of 2017, since it was consolidated from 1 July 2016;
- sales of non-core businesses and distribution agreements not considered strategic for the Group.

As regards business disposals, the period incorporates the impact of the sales of Sella&Mosca S.p.A. and Teruzzi&Puthod S.r.l., which closed during the fourth quarter of 2016, as well as the sale of the Chilean wines Lapostolle business (completed on 31 January 2017) and French winery Château de Sancerre (completed on 4 July 2017), both of which were previously acquired as part of the SPML deal;
It should be noted with regard to the sale of the Carolans Irish Cream and Irish Mist brands, which closed on 1 August 2017, that only sales of the brands in the US and Ireland are included in the calculation of the negative perimeter effect, and not those recorded in the other markets, where the Group will continue to sell the products under a multi-year distribution agreement.
The acquisition of Bulldog London Dry Gin, which was completed in February 2017, did not generate a perimeter effect, as the brand was already distributed by the Group at the time of acquisition and is therefore included in annual organic sales growth.

The impact of these factors on sales in the period is analysed in the table below.

Breakdown of the perimeter effect	€ million	% change on 2016
Acquisitions and sales of *business*		
Acquisitions (SPML)	58.9	3.4%
Disposals	-50.2	-2.9%
Total acquisition and sales	**8.7**	**0.5%**
Distribution contracts		
New agency brands distributed	4.6	0.3%
Discontinued agency brands	-19.3	-1.1%
Total distribution contracts	**-14.8**	**-0.9%**
Total perimeter effect	**-6.1**	**-0.4%**

Exchange rate effects

The exchange rate effect was slightly negative at -0.8%, mainly due to the depreciation against the Euro of the US Dollar, the Argentine Peso, UK Sterling and the Jamaican Dollar, while the Brazilian Real and the Rouble rose against the Euro. From the third quarter, the exchange rate effect was negative and on a downward path (-2.1% in the third quarter, -3.2% in the fourth quarter), driven by the gradual rise of the Euro, mainly against the US Dollar and the Argentine Peso.

The table below shows the average exchange rates for 2017 and spot rates at 31 December 2017 for the Group's most important currencies, together with the percentage change against the Euro, compared with the corresponding average exchange rates and spot rates in 2016 and the spot rates at 31 December 2016.

	average exchange rates		spot exchange rates	
	2017	change compared with 2016	31 December 2017	change compared with 31 December 2016
	: 1 Euro	%	: 1 Euro	%
US Dollar	1.129	-2.0%	1.199	-12.1%
Canadian Dollar	1.464	0.2%	1.504	-5.7%
Jamaica Dollars	144.494	-4.2%	149.403	-9.7%
Mexican peso	21.325	-3.1%	23.661	-8.0%
Brazilian Real	3.604	7.1%	3.973	-13.7%
Argentine Peso	18.728	-12.8%	22.931	-27.0%
Russia Rubles	65.891	12.7%	69.392	-7.3%
Australian Dollar	1.472	1.1%	1.535	-4.9%
Yuan Renminbi	7.626	-3.6%	7.804	-6.2%
Great Britain Pounds	0.876	-6.5%	0.887	-3.5%
Switzerland Francs	1.111	-1.9%	1.170	-8.2%

Sales by region

Sales for 2017 are analysed by geographical region and key market below. Unless otherwise stated, the comments relate to the organic change in each market.

- **Americas**

The region, broken down below into its core markets, recorded overall organic growth of +7.6%.

	% of Group total sales	2017		2016		total change	12 months change, of which				change % fourth quarter	
		€ million	%	€ million	%	€ million	total	organic	perimeter	exchange rate	total	organic
US	25.5%	463.6	58.4%	427.7	58.9%	35.9	8.4%	3.4%	7.0%	-2.0%	-12.4%	1.5%
Jamaica	4.6%	83.0	10.5%	78.9	10.9%	4.1	5.2%	9.8%	0.1%	-4.6%	0.1%	6.6%
Brazil	3.5%	63.4	8.0%	56.4	7.8%	7.0	12.5%	4.9%	0.0%	7.5%	-7.0%	-5.6%
Argentina	2.8%	50.4	6.3%	45.5	6.3%	4.8	10.6%	30.3%	-3.5%	-16.2%	40.9%	69.1%
Canada	3.2%	57.6	7.3%	54.4	7.5%	3.2	5.9%	6.0%	-0.3%	0.2%	-9.6%	4.4%
Other countries	4.2%	76.1	9.6%	63.4	8.7%	12.8	20.1%	21.4%	2.2%	-3.5%	35.7%	41.3%
Americas	**43.7%**	**794.2**	**100.0%**	**726.3**	**100.0%**	**67.8**	**9.3%**	**7.6%**	**4.1%**	**-2.4%**	**-2.7%**	**9.4%**

The **United States**, the Group's main market in terms of sales, representing 25.5% of total sales and 58.4% of the region's sales, closed 2017 with organic growth of +3.4%, with the fourth quarter growing by +1.5%.

The year's positive performance was driven by solid growth by Wild Turkey; the tequila segment, with Espolòn and Cabo Wabo closing the period with robust double-digit growth; continuous double-digit growth by Aperol and Campari; and the good performance of the Jamaican rums portfolio and Grand Marnier.

These results helped offset the negative performance of SKYY, which was the consequence of a number of factors, including ongoing competition within the category, due to the harsh pricing policy adopted by the main competitors; loss of market share to craft vodka brands; continued weakness in the flavoured vodka segment; and the severe impact of hurricanes on sales in the brand's key states during the third quarter.

Jamaica posted organic sales growth of +9.8%, driven by Campari, which continues to enjoy double-digit growth, and the excellent performance of the Jamaican rums portfolio (especially Wray&Nephew Overproof and Appleton Estate), which was the result of a targeted on-premise consumer strategy.

Brazil reported organic growth of +4.9%, despite the unfavourable macroeconomic conditions; this was driven by growth in the sales of Campari, Aperol and Dreher.

Argentina closed the year with organic growth of +30.3%, as well as a highly positive fourth quarter. The main contributors to this excellent result were Campari, SKYY and Cinzano, with the Aperol brand also showing a highly positive growth trend in this market, both in volume and value terms, although the basis of comparison is still low.

Sales in **Canada** grew by +6.0% in 2017, a result achieved through the performance of SKYY and aperitifs Aperol and Campari, and the contribution of Forty Creek. Baron Samedì sales again made a positive contribution to the result for the period.

Lastly, of the other countries in the region, excellent performances were recorded by **Mexico** (+32.2%), thanks to SKYY ready-to-drink, and by **Peru** (+59.3%).

- **Southern Europe, Middle East and Africa**

The region, which is broken down by core market in the table below, reported overall organic growth of +5.6%.

	% of Group total sales	2017		2016		total change	12 months change, of which				change % fourth quarter	
		€ million	%	€ million	%	€ million	total	organic	perimeter	exchange rate	total	organic
Italy	21.9%	398.5	74.3%	407.2	76.4%	-8.7	-2.1%	2.0%	-4.1%	0.0%	-2.4%	0.3%
Other countries of the region(*)	7.6%	137.8	25.7%	125.6	23.6%	12.2	9.7%	17.3%	-8.3%	0.7%	25.9%	43.5%
Southern Europe, Middle East and Africa	**29.5%**	**536.3**	**100.0%**	**532.8**	**100.0%**	**3.5**	**0.7%**	**5.6%**	**-5.1%**	**0.2%**	**3.2%**	**8.9%**

(*) Includes the Global Travel Retail channel .

In **Italy**, overall organic growth was +2.0%, with fourth-quarter growth in line with that of the previous year (+0.3%). The good result is mainly due to the continuing positive trend shown by Aperol and Campari, and the healthy performance of Crodino, which was partly offset by a slight fall in the sales of Campari Soda.

The **other countries in the region** reported positive sales growth of +17.3%, thanks to the healthy performance of many markets, including **France** (+15.9%), which was driven by sustained growth in Campari and double-digit growth in Aperol, Riccadonna and GlenGrant; **Spain** (+11.9%), driven by Aperol, Campari and Cinzano; and **South Africa**, mainly due to strong growth in SKYY sales and excellent progress by Aperol and GlenGrant. Lastly, **Nigeria**, although adversely affected by prolonged socio-economic instability, closed 2017 with a positive performance, mainly due to American Honey and SKYY.

The **Global Travel Retail** channel recorded organic growth of +8.5% at the end of the year (+32.6% in the fourth quarter), due to excellent performances by Aperol, SKYY, Bulldog, GlenGrant and Grand Marnier.

- **Northern, Central and Eastern Europe**

The region posted overall organic growth of +7.2%, spread across its core markets.

	% of Group total sales	2017		2016		total change	12 months change, of which				change % fourth quarter	
		€ million	%	€ million	%	€ million	total	organic	perimeter	exchange rate	total	organic
Germany	8.7%	157.9	43.7%	176.1	51.2%	-18.3	-10.4%	-2.6%	-7.8%	0.0%	-9.1%	0.0%
Russia	3.5%	63.2	17.5%	37.5	10.9%	25.7	68.7%	40.6%	10.3%	17.8%	22.0%	12.9%
Other countries of the region	7.7%	140.1	38.8%	130.4	37.9%	9.7	7.4%	10.8%	-0.1%	-3.3%	-4.8%	-2.4%
North, Central and Eastern Europe	**19.9%**	**361.1**	**100.0%**	**343.9**	**100.0%**	**17.2**	**5.0%**	**7.2%**	**-2.9%**	**0.7%**	**-1.3%**	**1.9%**

Germany closed 2017 with sales down -2.6%; this was a slight improvement on the first nine months, when performance was adversely affected by poor summer weather. The negative performance was mainly due to a decline in sales of some low-margin products, such as Cinzano sparkling wines, vermouth and the agency brands. This result was only partly offset by the healthy growth in the sales of Aperol, Frangelico, Bulldog, SKYY and Wild Turkey bourbon.

In **Russia**, the market closed the year with strong organic growth (+40.6%); the positive trend continued in the fourth quarter (+12.9%), thanks to the excellent performance of sparkling wines Mondoro and Cinzano, and the continued growth of Aperol, Espolòn and Wild Turkey.

The **other countries in the region** grew by +10.8% in the twelve months (despite a slight fall of -2.4% in the fourth quarter), due to the positive performances recorded in nearly all the geographic regions. Particularly significant contributions came from the UK (+13.8%), with excellent performances by Aperol, Bulldog, Campari and the Jamaican rums portfolio, and from Austria, Poland and the Czech Republic, where growth was mainly driven by Aperol and Campari.

- **Asia-Pacific**

The region reported a slight downturn of -0.8% in the year; the table below shows the region broken down into Australia and the other countries, with details of the changes during the period.

	% of Group total sales	2017		2016		total change	12 months change, of which				change % fourth quarter	
		€ million	%	€ million	%	€ million	total	organic	perimeter	exchange rate	total	organic
Australia	4.8%	86.4	69.4%	85.8	69.5%	0.6	0.7%	-0.6%	0.2%	1.1%	-0.6%	3.1%
Other countries of the region	2.1%	38.0	30.6%	37.7	30.5%	0.3	0.9%	-1.4%	2.4%	-0.1%	-19.2%	-14.7%
Asia-Pacific	**6.9%**	**124.4**	**100.0%**	**123.5**	**100.0%**	**1.0**	**0.8%**	**-0.8%**	**0.9%**	**0.7%**	**-6.9%**	**-2.9%**

Australia closed 2017 with a slight organic decline of -0.6%, due to a gradual recovery in the second half of the year, especially the fourth quarter, which reported sales growth of +3.1%, after a slowdown at the start of the year caused by poor weather. The market recorded double-digit growth in sales of Aperol, GlenGrant and Espolòn, and a positive performance by SKYY Vodka. This performance was more than offset by weakness in the ready-to-drink segment (particularly Wild Turkey), which was penalised by ongoing competitive pressure and a decrease in sales relating to co-packing activities.

Sales in the **other countries** decreased by -1.4% in the year. The positive performance recorded in **China** was due to growth in sales of GlenGrant, SKYY ready-to-drink and Wild Turkey, and in **New Zealand** to growth in sales of Wild Turkey ready-to-drink, Appleton and Aperol. Conversely, the markets in the rest of Asia reported decreases, most notably in **Japan**, due to changes in distribution structures; this was only partly offset by increases in Campari, SKYY Vodka and Aperol.

Sales by major brands at consolidated level

The following table summarises growth in the main brands in the twelve months, broken down into the categories identified by the Group based on the priorities (global, regional, local and other) assigned to them.

	Percentage of Group sales	change in percentage sales, of which				change % fourth quarter
		total	organic	perimeter	exchange rate	organic
Aperol	13.2%	19.1%	19.5%	-	-0.4%	19.4%
Campari	10.1%	8.1%	9.8%	-	-1.7%	15.3%
SKYY[(1)]	9.5%	-5.0%	-3.5%	-	-1.5%	2.5%
Wild Turkey portfolio[(1)(2)]	7.5%	4.9%	6.4%	-	-1.5%	9.1%
Jamaican rums portfolio[(3)]	5.0%	3.2%	6.3%	-	-3.1%	6.2%
global priority brands (excluding Grand Marnier)	**45.3%**	**6.8%**	**8.3%**	**-**	**-1.5%**	**11.0%**
Grand Marnier	7.2%	76.8%	1.8%	76.6%	-1.7%	-8.8%
global priority brands	**52.5%**	**12.9%**	**7.7%**	**6.7%**	**-1.5%**	**8.3%**
Cinzano	4.6%	6.9%	7.0%	-	-0.1%	6.8%
Averna, Braulio and Cynar	2.6%	2.3%	2.7%	-	-0.4%	6.5%
Espolòn	2.4%	56.3%	57.9%	-	-1.6%	62.2%
Frangelico	1.5%	1.4%	2.4%	-	-0.9%	0.4%
GlenGrant	1.4%	9.6%	10.1%	-	-0.5%	20.9%
Forty Creek	1.1%	-5.3%	-5.0%	-	-0.3%	-4.2%
Bulldog	0.8%	31.4%	32.3%	-	-0.9%	34.9%
other	2.3%	26.8%	19.8%	0.0%	7.0%	11.0%
regional priority brands[(4)]	**16.7%**	**13.4%**	**13.0%**	**0.0%**	**0.4%**	**12.2%**
Campari Soda	3.3%	-1.1%	-1.1%	-	-0.0%	-2.5%
Crodino	3.4%	3.0%	3.1%	-	-0.1%	1.3%
Wild Turkey portfolio ready-to-drink[(5)]	1.9%	-1.1%	-2.1%	-	1.1%	4.5%
Dreher and Sagatiba	1.8%	9.8%	2.8%	-	7.0%	-9.0%
other	1.8%	3.9%	4.9%	-	-1.0%	-0.5%
local priority brands	**12.3%**	**2.3%**	**1.3%**	**0.0%**	**1.0%**	**-1.3%**
rest of the portfolio	**18.5%**	**-15.3%**	**1.6%**	-15.8%	**-1.1%**	**2.7%**
total	**100.0%**	**5.2%**	**6.3%**	**-0.4%**	**-0.8%**	**6.6%**

(1) Excludes ready-to-drink.
(2) Includes American Honey.
(3) Includes Appleton, J.Wray and Wray & Nephew Overproof rum.
(4) Not including Carolans and Irish Mist, classified in the 'Rest of the portfolio' among agency brands.
(5) Includes American Honey ready-to-drink.

The **Group's global priority brands** (52.5% of sales) posted organic growth of +7.7% (+8.3% in the fourth quarter) and recorded a perimeter effect of +6.7%. Exchange rate variations made a negative contribution of -1.5% in the period.

Aperol continued its strong organic growth in 2017 (+19.5% in the period and +19.4% in the fourth quarter) and, at the end of the year, is one of the Group's fastest-growing brands and top in terms of net sales. The positive results were due to the healthy performances of its core markets – Italy, Germany, Austria and Switzerland – but also generally across all high-potential markets, where the brand is currently being developed and consolidated,

especially France, the US, the UK, Spain, Russia and the Global Travel Retail channel. Moreover, the brand is growing in many other markets in which it was more recently introduced, such as Australia, Brazil, Chile and the Czech Republic, with very promising results, albeit from a still-modest starting point.
Campari closed the year with highly satisfactory organic growth of +9.8%; this result was achieved through growth in all quarters and excellent fourth-quarter growth of +15.3%. This particularly satisfactory result was due to the good performance of the key markets, such as Italy, Argentina, the US, Jamaica, Brazil, Japan and France.
SKYY closed the year with a decline of -3.5%, although this was mitigated by organic growth of +2.5% in the fourth quarter. This result, on an annual basis, is largely due to a negative performance in its core US market, where sales were hampered by ongoing competitive pressure in the vodka category in general and by a reduction in the Group's innovation activities in the Infusions segment. Sales were also sharply penalised by the hurricanes that hit some of the brand's key states during the third quarter. The brand performed well in the international markets (27.0% of the brand's total sales by value), with the South African, Argentinian, German, Canadian and Japanese markets recording excellent results; however, this still did not offset the unfavourable trend in the US market.
The **Wild Turkey** portfolio, which includes American Honey, experienced growth of 6.4% in the year (+9.1% in the fourth quarter). Overall performance in the year was mainly driven by Wild Turkey bourbon in the core US market and other markets, such as Canada, Russia and China, which enabled the brand to completely offset the slowdown in Japan caused by changes in the distribution structure. Russell's Reserve continued to record double-digit growth in the core US market, while American Honey sales strengthened in the US and minor markets, offsetting the weakness in the Australian market.
It should be noted that the performance described does not include the Wild Turkey ready-to-drink portfolio, which, given that it is an exclusively domestic business in the Australian market, is classified under local priority brands.
The **Jamaican rums portfolio** (Appleton Estate, J.Wray and Wray&Nephew Overproof) reported overall organic growth of +6.3% in the year (+6.2% in the fourth quarter). The result is due to the good performance in Jamaica (+7.3%, driven by Appleton Estate and Wray&Nephew Overproof), the US (mainly thanks to Wray&Nephew Overproof), the UK (driven by Appleton Estate and Wray&Nephew Overproof) and Mexico.
The **Grand Marnier** brand, which became part of the Group's portfolio in July 2016, started to contribute to the overall organic result from the third quarter of 2017, generating organic growth of +1.8% for the year, after the termination of flavoured and non-cognac-based varieties and the heavy discounts applied by the previous distributors in the on-trade channel. Performance was mainly driven by the US and Canadian markets.

The **regional priority brands** (16.7% of the Group's sales) posted growth of +13.0% during the twelve months (+12.2% in the fourth quarter), spread across many of the main brands, particularly Espolòn, Bulldog and GlenGrant, but also Cinzano and the other sparkling wines.
Espolòn (+57.9% in the period, +62.2% in the fourth quarter) continues to enjoy excellent double-digit growth in the US, the brand's core market, and highly satisfactory results in the new international markets on which it was recently launched, including Australia, Russia, Italy and Canada.
GlenGrant reported excellent growth (+10.1%), thanks to strong growth in the fourth quarter (+20.9%). The brand's best performances were achieved in its core markets of France, South Africa, Australia, China and the Global Travel Retail channel.
Forty Creek recorded a negative result of -5.0% in the period (-4.2% in the fourth quarter). Despite a good performance in the Canadian market, sales fell in the US market, partly due to the hurricanes that hit one of the brand's core regions in the country.
Averna, Braulio and **Cynar** recorded an increase of +2.7% in the year and +6.5% in the fourth quarter. The category's good result was driven by Cynar in the Argentinian market, Braulio in the Swiss and Italian markets and Averna in the US.
Frangelico closed the period with a good performance of +2.4% (+0.4% in the fourth quarter). This performance was underpinned by strong results in the UK, German and Mexican markets.
Bulldog, which is now in the Group's portfolio of regional priority brands but had been part of its distribution network for some time, posted an excellent performance of +32.3% in the period, with a fourth-quarter result of +34.9%. This performance was driven, in particular, by the UK, Italy, the US and the Global Travel Retail channel.
Cinzano reported overall growth of +7.0% in the period, with growth of +6.8% in the fourth quarter, which confirms the good results of the first nine months of the year. This performance is the result of good growth in Cinzano sparkling wines and vermouth in Russia, and of Cinzano vermouth in Argentina, which completely offset the slowdown in Germany.
The **other brands** (Riccadonna and Mondoro sparkling wines) posted a good result in the period, thanks to positive performances in France, Russia and the South American markets.
It should be noted that Carolans and Irish Mist, with effect from their sale in the third quarter of 2017 and the signing of a distribution agreement at the same time, via which the Group will continue to sell these brands in international markets outside the US, were reclassified from regional priority brands to agency brands under 'Rest of the portfolio' from August 2017.

Local priority brands (12.3% of the Group's portfolio) reported growth of +1.3% during the year, despite declining by -1.3% in the fourth quarter.
Turning specifically to the main brands, as regards sales of single-serve aperitifs in Italy, Campari Soda contracted slightly (-1.1%), whereas Crodino increased (+3.1%), due to a positive second half assisted by marketing initiatives and product innovation (Crodino Arancia Rossa). The Brazilian brands reported growth of +2.8% in the period. Cabo Wabo sales also grew, thanks partly to the good performance of premium tequilas on the US market.

The **Rest of the portfolio**, which represents about one-fifth of the Group's sales (including agency brands, which account for around 7.9% of Group sales), reported modest growth (+1.6%) compared with the previous year. Other good performers in this category were SKYY ready-to-drink in Mexico, Old Smuggler in Argentina and Russia, and Zedda Piras in Italy.

Income statements

The income statement for 2017 shows a positive performance across all the main operating profitability indicators in terms of both organic and total changes, compared with the previous year.
In absolute terms, the gross margin increased by +9.2%, the contribution margin by +8.3% and the adjusted result from recurring activities by +7.9%. Positive performances were also confirmed at all levels of organic growth due to improvements in the product/market sales mix, in line with the Group's growth strategy. In absolute terms, the gross margin increased by +8.6%, the contribution margin by +8.3% and the adjusted result from recurring activities by +8.7%.

The Group's net profit rose by +114.3% and includes some non-recurring transactions. After adjusting for such operating, financial and tax components, the Group's profit was € 233.4 million, a rise of +17.5% on the previous year.

The table below shows the income statement for 2017 and a breakdown of the total change by organic growth, external growth and exchange rate effects.

	31 December 2017		31 December 2016		total change		of which organic		of which external		of which due to exchange rates	
	€ million	%	€ million	%	€ million	%	€ million	%	€ million	%	€ million	%
Net sales	**1,816.0**	**100.0**	**1,726.5**	**100.0**	**89.5**	**5.2**	**109.1**	**6.3%**	**(6.1)**	**-0.4%**	**(13.5)**	**-0.8%**
Cost of goods sold	(741.1)	(40.8)	(741.9)	(43.0)	0.8	(0.1)	(24.6)	3.3%	20.3	-2.7%	5.1	-0.7%
Gross profit	**1,075.0**	**59.2**	**984.6**	**57.0**	**90.4**	**9.2**	**84.4**	**8.6%**	**14.3**	**1.4%**	**(8.3)**	**-0.8%**
Advertising and promotional costs	(342.5)	(18.9)	(308.6)	(17.9)	(33.9)	11.0	(28.4)	9.2%	(8.3)	2.7%	2.8	-0.9%
Contribution margin	**732.4**	**40.3**	**676.0**	**39.2**	**56.4**	**8.3**	**56.0**	**8.3%**	**5.9**	**0.9%**	**(5.5)**	**-0.8%**
Overheads	(351.9)	(19.4)	(323.5)	(18.7)	(28.5)	8.8	(25.4)	7.9%	(5.5)	1.7%	2.4	-0.7%
Result from recurring activities	**380.5**	**21.0**	**352.5**	**20.4**	**28.0**	**7.9**	**30.6**	**8.7%**	**0.5**	**0.1%**	**(3.1)**	**-0.9%**
Adjustments to operating income (charges)(1)	13.9	0.8	(33.2)	(1.9)	47.0	(141.8)						
Operating result(1)	**394.3**	**21.7**	**319.4**	**18.5**	**75.0**	**23.5**						
Financial income (charges)	(40.0)	(2.2)	(58.6)	(3.4)	18.5	(31.6)						
Adjustments to financial income (charges)(1)	(24.8)	(1.4)	(24.6)	(1.4)	(0.2)	0.7						
Put option income (charges)	(2.8)	(0.2)	0.6	-	(3.4)	-						
Profit before tax and non-controlling interests interest	**326.7**	**18.0**	**236.7**	**13.7**	**90.0**	**38.0**						
Taxes	29.7	1.6	(70.5)	(4.1)	100.1	(142.1)						
Net profit	**356.4**	**19.6**	**166.3**	**9.6**	**190.1**	**114.3**						
Non-controlling interests	-	-	-	-	-	-						
Group net profit	**356.4**	**19.6**	**166.3**	**9.6**	**190.1**	**114.3**						
Group profit before tax adjusted(1)	**337.7**	**18.6**	**294.5**	**17.1**	**43.1**	**14.6**						
Group net profit adjusted(1)	**233.4**	**12.9**	**198.6**	**11.5**	**34.8**	**17.5**						
Total depreciation and amortisation	(57.1)	(3.1)	(52.7)	(3.1)	(4.4)	8.3	(5.6)	10.6%	0.7	-1.4%	**0.5**	**-1.0%**
Adjusted EBITDA(1)	**437.6**	**24.1**	**405.3**	**23.5**	**32.3**	**8.0**	**36.2**	**8.9%**	**(0.3)**	**-0.1%**	**(3.6)**	**-0.9%**
EBITDA	**451.4**	**24.9**	**372.1**	**21.6**	**79.3**	**21.3**	**83.2**	**22.4%**	(0.3)	**-0.1%**	(3.6)	**-1.0%**

(1) For information on the definition of alternative performance indicators, see the 'Alternative performance indicators' section in the next part of this Report on operations.

The Group's profit before tax and net income, total and adjusted, are shown below, to take include the adjustments to operating and financial income and charges, as well as the related tax effects and other tax adjustments.

	31 December 2017			31 December 2016			changes	
€ million	total	Adjustments	Adjusted	total	Adjustments	Adjusted	total	adjusted
Group profit before tax	**326.7**	(11.0)	**337.7**	**236.7**	(57.8)	**294.5**	38.0%	14.6%
Taxes	29.7	133.9	(104.3)	(70.5)	25.5	(96.0)	-142.1%	8.7%
Group net profit	**356.4**	123.0	**233.4**	**166.3**	(32.3)	**198.6**	114.3%	17.5%
Tax rate (nominal and adjusted)	**9.1%**		**-30.9%**	**-29.8%**		**-32.6%**		
Deferred taxes on goodwill and trademarks		(24.2)	(24.2)		(28.0)	(28.0)		
Cash tax rate			**-23.7%**			**-23.1%**		

The following is a breakdown of the adjustments of operating, financial and tax income (expenses) that were considered in the adjustment of the Group's economic results as described above.

	31 December 2017 € million		31 December 2016 € million	
Total adjustments to operating income (charges), of which:		**13.9**		**(33.2)**
gain on sale of business	*49.7*		-	
other adjustments to operating income (charges)	*(35.8)*		*(33.2)*	
Total adjustments to financial income (charges), of which:		**(24.8)**		**(24.6)**
liability management transaction	*(23.2)*		*(24.6)*	
other adjustments to financial income (charges)	*(1.6)*		-	
Total tax adjustments, of which:		**133.9**		**25.5**
Patent box	*44.8*		-	
US tax reform effect	*81.9*		-	
tax effects on operating and financial adjustments	*7.2*		*25.5*	
Total net adjustment		***123.0***		***(32.3)***

The resulting changes in the Group's profitability, calculated in basis points, are shown below. For more detailed comments on the changes in profitability in the individual geographical regions, please refer to the following section, 'Profitability by business area'.

margin accretion (dilution) in basis point(*)	Total	Organic
Cost of goods sold	220	120
Gross margin	**220**	**120**
Advertising and promotional costs	(100)	(50)
Contribution margin	**120**	**70**
Overheads	(60)	(30)
Result from recurring activities	**50**	**50**

(*) There may be rounding effects given that the basis points corresponding to the dilution have been rounded to the nearest ten.

The most important income statement items are analysed below. See the previous section for a detailed analysis of sales for the period.

Gross profit was € 1,075.0 million for 2017, up +9.2% compared with 2016.
As a percentage of sales, it rose from 57.0% in 2016 to 59.2% in 2017, with an increase in profitability of 220 basis points (120 basis points at organic level). This result was obtained through a good sales mix, achieved via a greater focus on high-margin products/markets and on the key global and regional priority brands, which led to a decrease in the cost of goods sold as a percentage of sales. The external growth component (+1.4%) is the net result of the acquisition of Grand Marnier, which was included in the perimeter effect until the second quarter of 2017 (contribution of +3.4%), the sale of the Carolans and Irish Mist brands (contribution of -0.8%) and of other low-margin non-core businesses (contribution of -1.2%).

Advertising and promotional costs were +18.9% of sales in 2017, an increase of +11.0% on the previous year's figure of +17.9%. Organic costs grew by +9.2%, generating dilution of 50 basis points and showing a gradual normalisation in the last quarter of the year, as planned. The higher investment was due to the implementation of some major marketing campaigns, mainly associated with the global and regional priority brands.

The **contribution margin** was € 732.4 million for 2017, up +8.3% compared with 2016. The organic growth component was +8.3%, while the perimeter effect and exchange rate effect were marginal (+0.9% and -0.8% respectively). Consequently, profitability as a percentage of sales increased by 120 basis points in total, due to the organic growth component of 70 basis points.

Overheads rose by +8.8% overall compared with the previous year, as a result of organic growth of +7.9%, external growth of +1.7% and a marginal exchange rate effect of -0.7%. Overheads as a percentage of sales showed an overall increase from +18.7% in 2016 to +19.4% in 2017, with a total dilutive effect of 60 and 30 basis points respectively. The increase was due to a number of initiatives launched by the Group to strengthen its distribution structures in some of its markets, including:
- the United States, where an investment programme was launched to upgrade the sales structure for the on-premise channel, a distribution segment that is strategic for the entire premium spirits portfolio;
- South Africa, where a new sales organisation was recently created;
- the Global Travel Retail channel, for which the distribution structure is currently being strengthened;
- Peru, where the Group invested in the restructuring of the distribution and sales structure;
- as well as the effect of inflation in some emerging markets.

The above-mentioned initiatives were mainly concentrated in the first few months of the year. Specifically, organic growth in overheads gradually normalised in the last few months of the year, as it benefited from the progressive release of efficiency gains generated by the consolidation of Grand Marnier.

The **adjusted result from recurring activities (adjusted EBIT)** for 2017 was € 380.5 million, an increase of +7.9% compared with 2016. It was 21.0% as a percentage of sales, an improvement of 50 basis points, compared with 20.4% last year. The adjusted EBIT organically improved by +8.7%, equating to 50 basis points.
The main factors, as noted above, that affected the organic results were:
- an improvement in gross margin, which boosted organic profitability by 120 basis points;
- a slight increase in advertising and promotional costs as a percentage of sales, generating dilution of 50 basis points;
- an increase in overheads, which rose more quickly than organic sales, diluting organic profitability by 30 basis points.

The impact of changes in the perimeter on the adjusted result from recurring activities was marginal at +0.1%. This generated a 50-basis-point improvement and was attributable to the net effect of the SPML acquisition, which only impacted the perimeter in the first half of 2017 (impact of +3.1%), and the sales of non-core businesses, including Carolans Irish Cream and Irish Mist, the still wines business and the termination of distribution agreements (total impact of -2.9%).

Adjustments to operating income and charges showed a net income balance of € 13.9 million in 2017. The sale of the Carolans, Irish Cream and Irish Mist brands led to the recognition of a capital gain of € 49.7 million in the third quarter of 2017, which more than offset the additional costs incurred in relation to the restructuring of the Group's organisational and distribution structures and the ancillary costs connected with the acquisition and disposal of businesses during the year. It should be noted that, in 2016, the item in question, totalling € 33.2 million, mainly included costs relating to the acquisition of SPML and the sales of non-core businesses.

The **operating result** in 2017 was € 394.3 million, a sustained overall increase of +23.5% compared with the previous year. The return on sales, i.e. the operating result expressed as a percentage of net sales, was +21.7% (+18.5% in 2016), a significant increase on the previous year.
Depreciation and amortisation for the year totaled € 57.1 million, an increase of € 4.4 million (+8.3%) on 2016, partly due to investment in the period and partly to the perimeter effects especially those relating to the SPML acquisition.

Adjusted EBITDA came in at € 437.6 million, an increase of +8.0% (+8.9% at organic level).

EBITDA amounted to € 451.4 million, an increase of +21.3%.

Net financial charges stood at € 40.0 million, a decrease of € 18.5 million on the figure of € 58.6 million in the same period of 2016, despite higher average net debt in 2017 than in 2016. This effect was mainly due to the debt restructuring operations carried out in 2016 and the first half of 2017 to reduce the average cost of debt. The balance includes € 6.7 million of mainly unrealised net exchange rate losses that relate to intra-company financing.

Average net debt in 2017 (€ 1,144.0 million) was higher than in 2016 (€ 1,130.0 million), which did not yet fully incorporate the effects of the acquisitions of businesses carried out in subsequent periods. The average cost of debt, excluding the effects of exchange rate differences and the components connected with liability management transactions, was 2.9%, a sharp decrease on 2016, when the figure was +5.6%, as a result of liability management transactions in the period.

In 2017, **adjustments to operating income (charges)** were negative at € 24.8 million, due mainly to liability management transactions carried out in the first half of the year. This relates to the difference paid when the existing bonds were bought back at their nominal value (€ 23.2 million).

In 2017, the item **income (charges) relating to put options and earn-outs** showed a net charge of € 2.8 million; this was mainly due to the non-cash effects of both the discounting to present value of payables for future commitments to buy company shareholdings, and the review of estimates of earn-out payables.

The Group's profit before tax was € 326.7 million, an increase of +38.0% compared with 2016. Profit as a percentage of sales was 18.0% (13.7% in 2016). Profit excluding adjustments to operating and financial income and charges for the period (€ 13.9 million and € 24.8 million respectively) was € 337.7 million, an increase of +14.6% compared with the profit for 2016, which was also adjusted in the same manner.

Income tax for the period was represented by net revenue of € 29.7 million. As described in 'Significant events in the period', the item includes a positive non-recurring component of € 44.8 million, attributable to reduced IRES and IRAP taxation under the 'patent box' regime, relating to the 2015, 2016 and 2017 tax years and a positive non-cash effect of € 81.9 million, related to the change in tax rate of US tax legislation. The details on tax adjustments on the two comparative periods, is showed in the above table.
The total tax rate, net of the adjustments of i.e. including all adjustments and tax benefits, fell from 29.8% in 2016 to -9.1% in 2017.
The normalised tax rate, the ratio between normalized income taxes and the Group's pre-tax profit, excluding the adjustments to operating and financial income, was 30.9% in 2017 (32.6% in 2016).
Lastly, also excluding the component for deferred taxes totalling € 24.2 million in 2017 (€ 28.0 million in 2016), reported for the purposes of cancelling out the effect of the tax-deductibility of amortisation on goodwill and brands, the tax rate is 23.7%, broadly in line with the 2016 rate of 23.1%.

The Group's net profit in 2017 was € 356.4 million, up from € 166.3 million in 2016. Net profit as a percentage of sales was 19.6% (9.6% in 2016). Net profit excluding adjustments to operating and financial income and charges in 2017 (€ 11.0 million), the related tax effects and other positive tax adjustments (€ 133.9 million) came to € 233.4 million, up +17.5% on the corresponding profit for 2016, which had also been adjusted in the same manner.

Basic and diluted earnings per share, of € 0.31, came to € 0.20 once adjusted for the above-mentioned components. This equated to an increase of +17.2% compared with the year-earlier figures, which had also been adjusted in the same manner.

Profitability by business area

A breakdown of the four geographical regions in which the Group operates is given below, showing each segment's percentage of sales and of the operating result in the two periods under review.

	2017				2016			
	Net sales	% of total	Result from recurring activities	% of total	Net sales	% of total	Result from recurring activities	% of total
	€ million	%	€ million	%	€ million	%	€ million	%
Americas	794.2	43.7%	171.1	45.0%	726.3	42.1%	152.4	43.2%
Southern Europe, Middle East and Africa	536.3	29.5%	86.2	22.7%	532.8	30.9%	91.5	25.9%
Northern, Central and Eastern Europe	361.1	19.9%	107.1	28.1%	343.9	19.9%	92.7	26.3%
Asia-Pacific	124.4	6.9%	16.2	4.2%	123.5	7.2%	15.9	4.5%
Total	**1,816.0**	**100.0%**	**380.5**	**100.0%**	**1,726.5**	**100.0%**	**352.5**	**100.0%**

At organic level, the Group's operating result as a percentage of sales benefited from a positive effect of 50 basis points, due to the following factors.

- The **gross margin** led to an increase in profitability of 120 basis points in total at organic level, recorded mainly in the 'Southern Europe, Middle East and Africa' and 'Northern, central and eastern Europe' regions.
- **Advertising and promotional costs** as a percentage of sales were broadly in line with 2016, with a slight dilution in profitability of 50 basis points on an organic basis.
- **Overheads** generated organic dilution of 30 basis points; the contributors to dilution were, among others, the 'Americas' and 'Southern Europe, Middle East and Africa', due to the strengthening of the Group's distribution structures in certain areas.

The income statements for each geographical region are shown in the following sections, with a breakdown of the organic change and the related dilution of profitability.

- **Americas**

The Americas region comprises the direct markets of the US, Jamaica, Brazil, Argentina, Peru, Mexico and Canada, which together represent around 90% of the region's sales. This region makes the largest contribution to the Group in terms of both sales and the result from recurring activities, at 43.7% and 45.0% respectively.
The results for the year were as follows:

	2017		2016		Total change		Organic change		Organic accretion/dilution of profitability
	€ million	%	€ million	%	€ million	%	€ million	%	Basis points
Net sales	**794.2**	**100.0**	**726.3**	**100.0**	**67.8**	**9.3%**	**55.6**	**7.6%**	
Gross margin	**464.7**	**58.5**	**412.3**	**56.8**	**52.4**	**12.7%**	**35.5**	**8.6%**	**50**
Advertising and promotional costs	(152.7)	(19.2)	(136.8)	(18.8)	(15.9)	11.6%	(9.3)	6.8%	10
Overheads	(141.0)	(17.7)	(123.1)	(16.9)	(17.9)	14.5%	(16.8)	13.6%	(90)
Result from recurring activities	**171.1**	**21.5**	**152.4**	**21.0**	**18.7**	**12.3%**	**9.4**	**6.2%**	**(30)**

Overall the region experienced an increase of +9.3% in sales; this includes sustained organic growth of +7.6%, generated by the positive performance of all the countries in the region, including the Group's main market of the US (+3.4%).
It should be noted that the total change in sales includes an external growth component (+4.1%), mainly attributable to the Grand Marnier brand. Conversely, exchange rate trends had a negative effect of -2.4% on sales.

The Group's operating result, which increased by +12.3%, shows an organic component of 6.2%, leading to profitability dilution of around 30 basis points, due to the following factors:

- At **gross margin** level, the region saw an organic increase of +8.6%, increasing profitability by 50 basis points, due to a favourable product/market mix, with healthy growth in the global and regional brands in the US, a highly profitable market. It should be noted that, the gross margin in 2017, although to a lesser extent of 2016, it was negatively penalised by the results of the sugar business in Jamaica.
- **Advertising and promotional costs** were slightly higher, at organic level, as a percentage of sales than in 2016, generating a dilution in profitability of 10 basis points. Investment was mainly focused on global brands, such as Wild Turkey, with the campaign involving Matthew McConaughey, Grand Marnier and SKYY.
- **Overheads** increased by +13.6% at organic level, generating a dilution of 90 basis points, due to the upgrading of the on-premise distribution capabilities in the US and the sales structures in Peru, in line with the Group's growth strategy.

- **Southern Europe, Middle East and Africa**

The Southern Europe, Middle East and Africa region includes the direct markets of Italy, Spain and South Africa, as well as markets served by third-party distributors. In 2017, this was the Group's second-largest area in terms of sales and profitability, with a contribution of 29.5% and 22.7% respectively.
The results for the year were as follows:

	2017		2016		Total change		Organic change		Organic accretion/dilution of profitability
	€ million	%	€ million	%	€ million	%	€ million	%	Basis points
Net sales	**536.3**	**100.0**	**532.8**	**100.0**	**3.5**	**0.7%**	**29.7**	**5.6%**	
Gross margin	**330.1**	**61.5**	**313.7**	**58.9**	**16.4**	**5.2%**	**28.6**	**9.1%**	**200**
Advertising and promotional costs	(108.7)	(20.3)	(99.0)	(18.6)	(9.7)	9.8%	(11.0)	11.1%	(100)
Overheads	(135.1)	(25.2)	(123.3)	(23.1)	(11.9)	9.6%	(9.9)	8.0%	(50)
Result from recurring activities	**86.2**	**16.1**	**91.5**	**17.2**	**(5.2)**	**-5.7%**	**7.7**	**8.5%**	**50**

Sales were broadly stable overall (+0.7%), with an organic component of +5.6%, driven by all the highly profitable markets in the region, including Italy (growth of +2.0%). The external growth component, however, had a negative impact of -5.1%, due to the sale of non-core businesses.

The result from recurring activities decreased by -5.7%, mainly due to the perimeter effects, while it increased by 8.5% at organic level, generating an improvement in profitability of 50 basis points.
The effects that led to this improvement are as follows:
- In terms of the **gross margin**, the results showed an organic increase of +9.1%, equivalent to 200 basis points. This increase was the combined effect of the excellent performance of all the highly profitable global priority brands in all markets in the region, especially Aperol and Campari, and the benefits from the sale of the less profitable businesses.
- **Advertising and promotional costs** rose by +11.1% at organic level, with a dilutive effect of 100 basis points, due to sustained activity focused on the Aperol, Campari, Grand Marnier and Bulldog brands in high-potential markets.
- **Overheads** increased in absolute terms by +8.0% at organic level, generating a dilution in profitability of 50 basis points. The increase is due partly to the strengthening of the Group's distribution structures (South Africa and Global Travel Retail) and partly to the integration of the SPML business, which concentrated administrative structures in the region in question.

- **Northern, Central and Eastern Europe**

The Northern, Central and Eastern Europe region, which includes the direct markets of Germany, Austria, Switzerland, Benelux, the UK, Russia and Ukraine, as well as areas served by third-party distributors, contributed 19.9% to the Group's sales and 28.1% to the result from recurring activities.
The results for the year were as follows:

	2017		2016		Total change		Organic change		Organic accretion/dilution of profitability
	€ million	%	€ million	%	€ million	%	€ million	%	Basis points
Net sales	**361.1**	**100.0**	**343.9**	**100.0**	**17.2**	**5.0%**	**24.8**	**7.2%**	
Gross margin	**219.6**	**60.8**	**198.5**	**57.7**	**21.1**	**10.7%**	**21.0**	**10.6%**	**180**
Advertising and promotional costs	(60.8)	(16.8)	(52.5)	(15.3)	(8.3)	15.8%	(8.4)	16.0%	(130)
Overheads	(51.7)	(14.3)	(53.2)	(15.5)	1.5	-2.8%	1.3	-2.4%	140
Result from recurring activities	**107.1**	**29.6**	**92.7**	**27.0**	**14.3**	**15.5%**	**13.9**	**15.0%**	**200**

Overall, sales in the region increased by +5.0%. Excluding the positive exchange rate effects and the negative perimeter effects, sales increased by +7.2% at organic level.

The result from recurring activities increased by +15.5%, due almost entirely to organic growth (+15.0%), which generated an improvement of 200 basis points. This positive performance is due to the factors shown below:
- At **gross margin**level, organic growth (+10.6%) led to an increase in profitability of 180 basis points, due to improvements in the geographical/product mix. Growth was driven by aperitifs (especially Aperol), which recorded double-digit increases in the region's key markets, such as Germany, Switzerland, Austria and the UK.
- **Advertising and promotional costs** rose by +16.0% in the period, with a dilutive effect of 130 basis points, due to a focus of activity on Aperol in the above-mentioned markets.
- Overheads decreased by -2.4% at organic level, with a resulting increase in profitability of 140 basis points, after the Group's sales structures were strengthened.

- **Asia-Pacific**

The Asia-Pacific region, which includes the direct markets of Australia and New Zealand, as well as areas served by third-party distributors, made a contribution of 6.9% to the Group's sales and 4.2% to the result from recurring activities.
The results for the year were as follows:

	2017		2016		Total change		Organic change		Organic accretion/dilution of profitability
	€ million	%	€ million	%	€ million	%	€ million	%	Basis points
Net sales	**124.4**	**100.0**	**123.5**	**100.0**	**1.0**	**0.8%**	**(1.0)**	**-0.8%**	
Gross margin	**60.5**	**48.6**	**60.0**	**48.6**	**0.5**	**0.8%**	**(0.7)**	**-1.1%**	**(10)**
Advertising and promotional costs	(20.3)	(16.3)	(20.2)	(16.4)	(0.0)	0.1%	0.3	-1.7%	10
Overheads	(24.1)	(19.4)	(23.9)	(19.3)	(0.2)	0.9%	(0.1)	0.2%	(20)
Result from recurring activities	**16.2**	**13.0**	**15.9**	**12.9**	**0.2**	**1.4%**	**(0.4)**	**-2.5%**	**(20)**

The region recorded an overall increase of +0.8% in sales; this includes an organic decrease of -0.8% due to the fierce competition in the Australian market and changes in the region's distribution structure.

The result from recurring activities improved by +1.4% overall, with a slight decrease of -2.5% in the organic component, diluting organic profitability by 20 basis points. The most significant effects overall are the following:
- The **gross margin** was in line with the previous year, falling slightly by -1.1% at organic level, which led to a 10-basis-point dilution in sales.
- **Advertising and promotional costs** were also in line with the previous year, with an organic decrease of -1.7%, causing a slight improvement in profitability of 10 basis points.
- **Overheads** were broadly stable at organic level (-2.5%, equating to a dilution of 20 basis points), after the structures were strengthened in Australia and the Asian markets during the previous year.

Reclassified statement of cash flows

The table below shows a simplified and reclassified version of the statement of cash flows in the financial statements.
The main restatement was the exclusion of cash flows relating to changes in short-term and long-term debt, and in investments in marketable securities. The total cash flow generated (or used) in the period thus corresponds to the change in net financial position.

	2017	*of which recurring*	2016	*of which recurring*
	€ million	€ million	€ million	€ million
EBITDA Adjusted	**437.6**	**437.6**	**405.3**	**405.3**
Other changes from operating activities	(26.5)	9.3	6.8	40.0
Taxes paid	(41.3)	(55.8)	(46.6)	(56.1)
Cash flow from operating activities before changes in working capital	**369.9**	**391.1**	**365.5**	**389.1**
Changes in net operating working capital	(58.6)	(58.6)	29.9	29.9
Cash flow from operating activities	**311.3**	**332.5**	**395.4**	**419.1**
Net interests paid	(27.0)	(27.0)	(71.5)	(71.5)
Adjustments to financial income (charges)	(24.8)	-	(24.6)	-
Capital expenditure	(32.5)	(55.9)	(56.1)	(46.7)
Free cash flow	**227.0**	**249.7**	**243.2**	**300.8**
Acquisition and sale of companies or business division[3]	123.6	-	(429.9)	-
Net finacial position of business acquisition and disposal	23.4	-	33.9	-
Sale and purchase of brands and rights, and payment of put option and earn-outs	(0.2)	-	(0.3)	-
Dividend paid out by the Parent Company	(52.1)	-	(52.1)	-
Other changes	(54.3)		(7.2)	-
Total cash flow used in other activities	**40.4**	**-**	**(455.6)**	**-**
Exchange rate differences and other changes	**(28.4)**		**26.5**	**-**
Change in net financial position due to operating activities	**239.0**	**-**	**(186.0)**	**-**
Put option and earn-out changes[1]	(21.0)		(192.7)	
Opening restatements[2]	(7.2)		-	-
Receivables arising from business disposals	-	-	5.0	-
Net cash flow of the period = change in net financial position	**210.8**	**-**	**(373.7)**	**-**
Reclassified net financial position at the beginning of the period	**(1,192.4)**	**-**	**(825.8)**	**-**
Reclassified net financial position at the end of the period	**(981.5)**		**(1,192.4)**	**-**
Net financial position at the end of the period disclosed	**(981.5)**		**(1,199.5)**	**-**

[1] This item, which is a cash item, was included purely to reconcile the change in the net financial position due to operating activities with the overall change in the net financial position.
[2] For information on reclassifications of opening book values, see note 7 – 'Reclassifications of opening book values' of the Consolidated Financial Statements to 31 December 2017.
[3] These items include the full effects of the acquisitions and sales of companies or businesses during the period, which impacted the Group's net financial position and liquidity flows as detailed below.

	business non-core still wine Lapostolle	business Bulldog Gin[*]	business non-core still wine Sancerre	business Carolans e Irish Mist[*]	total
	€ million	€ million	€ million	€ million	€ million
Receipt/(payment) on closing date of transiction	6.7	(44.5)	21.6	139.8	123.6
Net cash (debt) of acquired/sold companies	23.3	-	0.0	-	23.4
Total	**30.0**	**(44.5)**	**21.6**	**139.8**	**147.0**
Other payables - earn out included	-	(37.9)	-	-	(37.9)
Net asset value of acquisition/sales	**30.0**	**(82.3)**	**21.6**	**139.8**	**109.2**

[*] Amount in USD translated in Euro at exchange rate of the closing date of acquisition.

In 2017, **net cash flow** reflected cash generation of € 210.8 million, corresponding to the decrease in Group financial debt compared with 31 December 2016.
A comparison with the previous year, which reported negative cash flow of € 373.7 million overall, shows that the acquisitions and sales of businesses had a significant impact.

Free cash flow of € 227.0 million was generated overall in 2017; this is the result of cash flow from operating activities of € 311.3 million, which was partly used to pay net financial interest of € 27.0 million, make non-recurring payments of € 24.8 million mainly for liability management operations carried out in the year, and make net investments of € 32.5 million.
Free cash flow adjusted for all non-recurring items would amount to € 249.7 million (€ 300.8 million in 2016). Specifically, a comparison of recurring items indicates the following factors contributing to lower cash generation than in the previous year:

- adjusted EBITDA increased by € 32.3 million compared with 2016;
- operating changes, which include provisions net of utilisations and other non-cash changes, in addition to changes in non-commercial or financial assets and liabilities (indirect taxation and excise duties), showed cash generation of € 9.3 million (€ 40.0 million cash generated in 2016);
- income taxes paid during the year, excluding the most significant non-recurring components, amounted to € 55.8 million (€ 56.1 million in 2016);

- working capital recorded an organic increase of € 58.6 million in 2017 (compared with a decrease of € 29.9 million in 2016);
- recurring net interest paid was € 27.0 million, less than for the same period in 2016 (€ 71.5 million) due to liability management operations carried out in 2016 and 2017;
- net spending for recurring investments was € 55.9 million (see the next section for details).

Cash flow used in other activities was €40.4 million, compared with € 455.6 million in the same period in 2016. The change is mainly due to the extraordinary transactions carried out by the Group in the two periods under comparison:
- the acquisition of SPML in 2016 generated a total cash requirement of € 440.2 million;
- in 2017, acquisitions during the year (Bulldog), net of business disposals (Carolans, Irish Mist and the Chilean and French wines) generated a positive net cash flow totalling € 147.0 million.

Finally, cash flow used in other activities was affected by dividend payments of € 52.1 million and other negative changes (€ 54.3 million) mainly deriving from stock option plans.

Exchange rate differences and **other changes** had a negative impact of € 28.4 million on the 2017 net cash flow; this reflects the effect of exchange rate differences on operating working capital, as well as the recording of some non-cash items, which were included for the purposes of reconciling the changes in cash flow with the change in the net financial position.

The change in **financial payables relating to the exercise of put options and the payment of earn-outs**, shown here only for the purposes of reconciling the financial position with the total net financial position, is attributable to payables arising in connection with acquisitions of company shareholdings (SPML) and estimated earn-out payments (Bulldog).

Investments

Net investment in 2017 was € 32.5 million and mainly included acquisitions of property totalling € 85.8 million, net of disposals of € 53.1 million. These disposals related to SPML's premises in Paris for an amount of € 35.3 million.

Investments (€ 85.8 million) include tangible assets totalling € 69.3 million. These investments include non-recurring expenses of € 55.9 million relating to ongoing improvements to the productive efficiency of the industrial sites or at the Group's offices.
Specifically, they relate to the following projects:
- ✓ the purchase of barrels for maturing bourbon whisky and rum had an impact of € 17.9 million;
- ✓ other projects at the Group's various premises, which are not material individually, but amounted to € 37.9 million in total.

Among the extraordinary investments, totalling € 17.1 million, for the project related to the visitor center in Jamaica was invested 6,0 million.

Investment in intangible assets with a finite life of € 16.4 million mainly related to projects to continuously upgrade and integrate the Group's IT systems.

Breakdown of net debt

The table below shows how the debt structure changed during the two periods under comparison.

	31 December 2017	31 December 2016(**)	changes
	€ million	€ million	€ million
Cash and cash equivalents	514.5	354.1	160.4
Payables to banks	(17.6)	(106.9)	89.3
Lease payables	(0.1)	(0.0)	(0.1)
Other financial receivables and payables	0.2	(5.7)	5.9
Short-term net financial position	**496.9**	**241.4**	**255.5**
Payables to banks	(300.4)	(302.3)	1.8
Real estate lease payables	(1.3)	(2.2)	0.8
Private placement and bonds(*)	(996.3)	(994.6)	(1.7)
Other financial receivables and payables	37.8	55.3	(17.5)
Medium/long-term net financial position	**(1,260.3)**	**(1,243.7)**	**(16.6)**
Debt relating to operating activities	**(763.4)**	**(1,002.3)**	**239.0**
Liabilities for put option and earn out	(218.2)	(190.0)	(28.1)
Net financial position	**(981.5)**	**(1,192.4)**	**210.8**

(*) Including the relevant derivatives at 31 December 2016.
(**) For information on reclassifications to opening book values, see note 7 - 'Reclassifications to opening book values' in the Annual Financial Statements.

At 31 December 2017, the consolidated net financial position was negative at € 981.5 million, a decrease of € 210.8 million on the amount of € 1,192.4 million reported at 31 December 2016. The effects of the following non-recurring transactions for the year are highlighted, as shown in the reclassified statement of cash flows.
- the acquisition of Bulldog, which impacted the net financial position by a total amount of € 82.3 million, as shown;
- disposals of businesses, including the Carolans and Irish Mist brands, the Chilean wines and Château de Sancerre, which made a total positive contribution to the net financial position of € 191.4 million;
- liability management operations carried out in 2017, resulting in a cash disbursement of € 23.2 million.

In terms of structure, at 31 December 2017, the net financial position continued to comprise a larger medium-/long-term debt component compared with the short-term portion.

The final short-term net cash position was € 496.9 million, an increase of € 255.5 million on the figure at 31 December 2016, and consisted mainly of cash and cash equivalents of € 514.5 million, net of payables to banks (€ 17.6 million).

The medium-/long-term items include bond loans of € 996.3 million, bank debts of € 300.4 million and other financial receivables and payables amounting to € 37.8 million that primarily include cash investments by the Parent Company.

Separately, the Group's net financial position includes a financial payable of € 218.2 million, comprising a payable for commitments to future acquisitions of minority shareholdings of the acquired companies (including SPML) and payables for future earn-outs.

The Group pursues the objectives of maintaining a sound capital and financial structure through the management of an adequate level of liquidity, which makes it possible to achieve an economic return and, at the same time, access external sources of financing. The Group monitors changes to its net debt/EBITDA ratio on an ongoing basis. Net debt is the Group's net financial position calculated at average exchange rates for the previous 12 months; EBITDA is the Group's operating result before depreciation, amortisation and non-controlling interests, pro-rated to take account of sales and acquisitions in the past 12 months. At 31 December 2017, this multiple was 2.0 (2.9 at 31 December 2016).

Reclassified statement of financial position

The Group's summary balance sheet is shown in the table below in reclassified format, to highlight the structure of invested capital and financing sources.

	31 December 2017	31 December 2016(*)
	€ million	€ million
Fixed assets	2,888.4	3,164.9
Other non-current assets and liabilities	(492.3)	(576.8)
Operating working capital	583.6	587.4
Other current assets and liabilities	(55.5)	(83.2)
Total invested capital	**2,924.1**	**3,092.4**
Shareholders' equity	1,942.6	1,900.0
Net financial position	981.5	1,192.4
Total financing sources	**2,924.1**	**3,092.4**

(*) For information on reclassifications at opening carrying amounts, see note 7 - 'Reclassifications to opening book values' in the Annual Financial Statements.

Invested capital at 31 December 2017 was € 2,924.1 million, a decrease of € 168.2 million compared with 31 December 2016.
The most significant change relates to the decrease in fixed assets reflecting a decrease in the net financial position, mainly attributable to disposals of businesses in 2017, specifically Carolans and Irish Mist. These changes were partly offset by increases in invested capital due to the Bulldog acquisition.

Regarding financing sources, the change in shareholders' equity was mainly due to profit for the period, the dividend paid by the Parent Company and translation differences on assets held in currencies other than euro. For details of the changes in the net financial position, please see the note 'Breakdown of net debt' above.
Please see the section below entitled 'Operating working capital' for further details of changes in net working capital.

As a result of the significant changes mentioned above, the Group's financial structure showed a ratio of debt to own funds at the end of the period of 50.8%, a sharp decrease on the figure of 63.1% recorded at 31 December 2016.

Operating working capital

The breakdown of the total change in operating working capital at 31 December 2017 is as follows.

	31 December 2017	31 December 2016	change of which:			
			total	organic	exhange rates	external
	€ million	€ million	€ million	€ million	€ million	€ million
Trade receivables	317.5	306.3	11.2	30.9	(20.8)	1.1
Inventories, of which						
- maturing inventory	*282.9*	293.7	(10.8)	14.9	*(25.7)*	-
- other inventory	*208.9*	249.8	(41.0)	(11.3)	*(15.7)*	*(13.9)*
Total inventories	491.7	543.5	(51.8)	3.6	(41.5)	(13.9)
Trade payables	(225.6)	(262.5)	36.8	24.1	13.1	*(0.3)*
Operating working capital	**583.6**	**587.4**	**(3.8)**	**58.6**	**(49.2)**	**(13.2)**
Sales in the previous 12 months rolling	1,816.0	1,726.5				
Working capital as % of sales in the previous 12 months	32.1	34.0				

At 31 December 2017, operating working capital totalled € 583.6 million, a decrease of € 3.8 million compared with the figure at 31 December 2016.

The exchange rate effect in 2017 led to a decrease in operating working capital of € 49.2 million, while the organic increase of € 58.6 million was only partly offset by the contraction resulting from business disposals. These disposals resulted in a decrease in working capital totalling € 13.2 million due to the sale of the French wines and the Carolans and Irish Mist business, which resulted in a decrease totalling € 7.1 million, and the sale of the Lemonsoda business (closed on 2 January 2018), which resulted in a decrease of € 5.2 million due to the classification of all the net assets of the sold business as 'Held-for-sale assets' at 31 December 2017.

The organic change in working capital comprised an increase of € 30.9 million due to changes in receivables, an increase of € 3.6 million in inventories and a decrease of € 24.1 million in trade payables.
With specific regard to inventories, a substantial part of the organic increase (€ 14.9 million) was attributable to products due to undergo the maturing process. It should be noted, however, that as the inventories are located in the Americas (other than Scotland), a substantial exchange rate effect of € 25.7 million resulted in a decrease in the total value of these stocks. It should be noted that, due to its nature, working capital represented by products due to undergo the maturing process is similar to invested capital.
The significant organic decrease in trade payables is partly due to a timing effect at the end of 2016, which resulted in the Group's deferment of some payments at the end of the period.

At 31 December 2017, operating working capital amounted to 32.1% of net sales in the previous 12 months, a decrease on the figure at 31 December 2016 (34.0%).

Investor information

The international economy
In 2017, the global economy's recovery consolidated. However, there are still areas of uncertainty surrounding economic policies at global level and continuing geopolitical tensions.

With regard to economic performance in the key areas for Gruppo Campari's activities, the economic upturn in Italy continued during the year. The strengthening of GDP was mainly driven by rising household consumption, principally in services and consumer durables due to higher disposable income; a favourable performance by the services sector, and a recovery in industrial activity in the second half of the year – following the temporary fall recorded at the start of the year – thanks to strong expansion in the manufacturing sector and the recovery of the construction sector. In particular, business confidence indicators have consolidated at high levels and above their pre-crisis values. Labour market conditions continue to improve; this is reflected in higher numbers of people in employment, with overall wages showing moderate growth, and a fall in the unemployment rate. In foreign trade, exports continued to expand, mainly in markets outside the European Union. ISTAT estimates that Italian gross domestic product (GDP) increased by +0.4% in the fourth quarter of 2017 and by +1.5% in 2017 as a whole (source: ISTAT).
Overall, growth in Italy is expected to continue, mainly driven by domestic demand. However, this positive scenario is contingent on the ECB maintaining expansionary monetary policy. Risks to growth are mainly expected to come from the global environment and, in particular, developments in global economic and commercial policies.

In the Eurozone, the cyclical expansion continues to strengthen, with economic growth improving and mainly supported by net foreign demand and, to a lesser extent, consumption. Although the risks linked to deflation have returned, inflation remains weak. In this regard, the ECB considered it necessary to maintain monetary accommodation, keeping official interest rates unchanged for an extended period of time, to guide inflation towards levels consistent with price stability.
GDP in all major Eurozone countries accelerated during the year. Economic activity in Germany continued to grow, recording an increase of +2.2% in 2017[1]. Estimated growth in French GDP was +1.8% in 2017[2], in part due to the positive outcome of the elections. The main risks to Eurozone growth are the uncertainty surrounding the global economy and geopolitical tensions.

In the UK, macroeconomic indicators continue to point to a largely stable economy. GDP growth is estimated to be around +1.5% in 2017[3]. In the medium term, uncertainty remains over the economic repercussions caused by the UK's exit from the European Union.
In the United States, the indicators suggest that economic activity, which slowed in the first few months of the year, strengthened in the second half, driven by domestic demand. US GDP growth for 2017 is estimated at + 2.2%[3].

In the Asia-Pacific region, GDP growth in 2017 is estimated at +5.6%[4], driven by strong consumption and foreign investment and, geographically, by higher-than-expected growth in China, Japan and South-East Asia, which offset lower-than-expected growth in India and Australia. This positive development was supported by countries' expansive monetary conditions.
Lastly, the economic environment for the Group's main emerging markets remains positive overall. Brazil's recession has eased slightly. After a reduction of -3.5% in 2016, GDP in 2017 is estimated to have grown +0.7%[3]. In Russia, too, the recessionary phase has eased. Inflation is improving, and the Russian Rouble is continuing to appreciate. For 2017, GDP is forecast to grow by +1.5% in Russia[3].

Overall, according to the latest OECD estimates, global GDP is expected to grow by +3.6% in 2017, an improvement on 2016 (+3.1%), driven by strengthening investment and employment in advanced economies and Russia's exit from recession.

Financial markets
Since the start of the year, share prices have continued to rise, in an environment of low volatility. In the Italian financial markets, share prices continued to rise during the year, driven mainly by improved corporate earnings and the publication of better-than-expected macroeconomic data. In 2017, the FTSE MIB and FTSE Italia All

[1] Source: Deutsche Bundesbank
[2] Source: Bank of France
[3] Source: OECD
[4] Source: International Monetary Fund

Shares indices recorded changes of +13.6% and +15.5% respectively. In Europe, the MSCI Europe closed 2017 with a gain of +6.2%, while in the US, the S&P500 index increased by +19.4%.

In the Italian bond markets, risk premiums for Italian government bonds decreased on the back of good economic performance and the announcement by the Governing Council of the ECB, in October 2017, that it would keep official interest rates unchanged. Sovereign risk premiums in the main Eurozone countries decreased, benefiting from stronger economic activity and, in the latter part of the year, the ECB's October announcement that it would reduce the pace of purchases of government bonds (quantitative easing), which have kept official interest rates unchanged, so that inflation could return to sustainable levels below but close to 2%. Lastly, long-term US yields rose slightly, mainly reflecting firming expectations of less accommodative monetary policy in the United States.

With regard to the exchange rates of the Group's main currencies in 2017, the US Dollar gradually depreciated against the Euro, shedding -2.0% by year end. Other currencies making losses against the Euro included the Argentine Peso (-12.8%), UK Sterling (-6.5%) and the Jamaican Dollar (-4.2%), while the Brazilian Real and the Russian Rouble made gains of +7.1% and +12.7% respectively.

Spirits sector

In 2017, the Stoxx Europe 600 Food&Beverage index increased by +10.4%, outperforming the MSCI Europe market index by +4.3%.

Overall, all the main companies recorded positive performances in the spirits sector in 2017.

At the top of the main trends driving the continuous growth in demand are the premiumisation of products and the extended product range brought about by high-end product innovation. These trends are being driven by a greater focus on distinctive factors, such as quality, authenticity, origin and craftsmanship. Renewed interest in classic cocktails, fuelled by the ever-expanding mixology phenomenon in global markets, is another driver of demand for premium brands. At the same time, the premium on-premise channel is experiencing continuous development with the emergence of cocktail bars and speakeasy-style bars inspired by the prohibition era. Emerging trends also include growth in craft spirits. This phenomenon, which originated in the US beer market, is currently also developing in the spirits market. Craft spirits are also expanding in the whisky, vodka and gin categories. The major sector players have reacted to this trend by stepping up the creation of limited and craft editions, fuelling the trend for premium products.

From a geographical perspective, in the US market, the most important for the industry in terms of size, profitability and sector growth, brown spirits continue to outperform market growth by volume and value, driven by the favourable trend for premium products, renewed interest in premium cocktails, and increasing demand for tasting products. The specific categories recording growth are American, Canadian and Irish whiskeys, Scotch and Japanese whisky, tequila, aged rum and cognac. At the same time, the vodka segment, the most important spirit category by size in the American market, remains under high competitive pressure, which is partly due to the launch of new products classified as craft.

In other developed markets, such as the United Kingdom and continental Europe, there is a positive trend in the consumption of brown spirits, as well as in categories such as bitter aperitifs and specialties; this is being driven by mixology and classic cocktails, and by the development of new occasions for the consumption of spirits apart from the traditional ones.

Lastly, in the main emerging markets, China saw a recovery in the consumption of imported premium products after a period of contraction due to the austerity measures introduced in 2012; there was also a more positive trend in markets such as Russia and Brazil, thanks to the gradual economic recovery and growing consumption.

The medium- to long-term outlook for companies in the consumer segment, and especially spirits, is positive, with favourable macroeconomic and demographic trends the main drivers; this is also reflected in the premium valuations these companies enjoy compared with market indices. Another positive regarding valuations of spirits securities is the expectation of further consolidation in the sector in the future.

Davide Campari-Milano S.p.A. stock

In the economic, industry and financial market environment described above, the Campari stock price benefited in 2017 from the announcement of positive financial results for 2016 and for the three quarters thereafter. During the year, the stock also received a boost from the announcement of several M&A transactions. These included the acquisition of Bulldog, announced on 2 February 2017; the sale of the Sancerre winery, announced on 12 June 2017, which marked the Group's complete exit from the non-strategic still wines business; the sales of the Carolans and Irish Mist brands, announced on 24 July 2017, and of the Lemonsoda business, announced on 4 October 2017, which marked the Group's exit from the carbonated drinks business; and the acquisition of Bisquit, announced on 20 December 2017. Lastly, the Campari stock started trading on the MSCI World index on 30 November 2017. The MSCI World Index shows the performance of large and mid-cap stocks in 23 developed

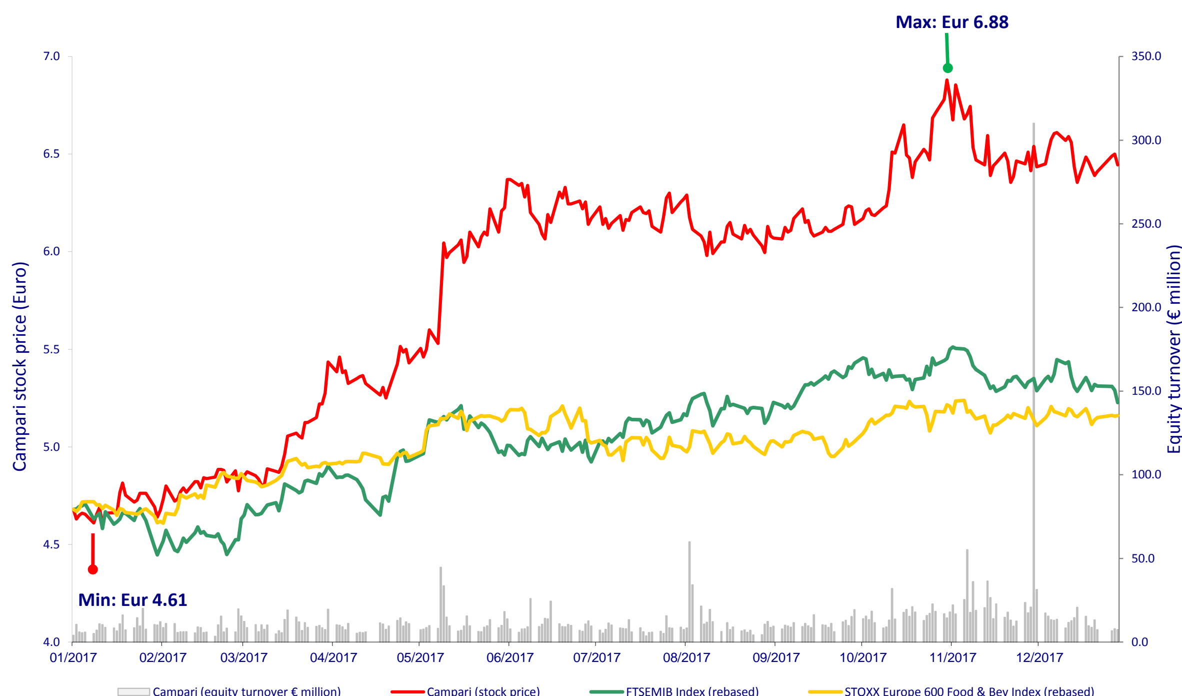
markets and 24 emerging markets. The index is composed of over 2,400 constituents, covering 11 sectors. The inclusion in this index allows the Campari stock to access a larger number of global portfolios.

In 2017, the Campari stock price rose by +38.8% in absolute terms, with a total shareholder return (TSR) of +39.8%. The Campari stock price outperformed the FTSE MIB by +25.1%. The stock outperformed the STOXX Europe 600 Food&Beverage index by +28.3% in the period from 1 January to 31 December 2017, and outperformed the MSCI Europe sector index by +32.6%. The Campari stock also recorded one of the best performances of all the most important players in the sector during the year.

For 2017, the minimum and maximum closing prices of € 4.61 and € 6.88 were recorded on 9 January 2017 and 31 October 2017 respectively. This was the highest price achieved by the stock since the IPO in 2001. An average of 2.2 million Campari shares were traded daily on the market managed by Borsa Italiana S.p.A. in 2017, with an average daily value of € 13.2 million. At 31 December 2017, Campari's market capitalisation was € 7.5 billion.

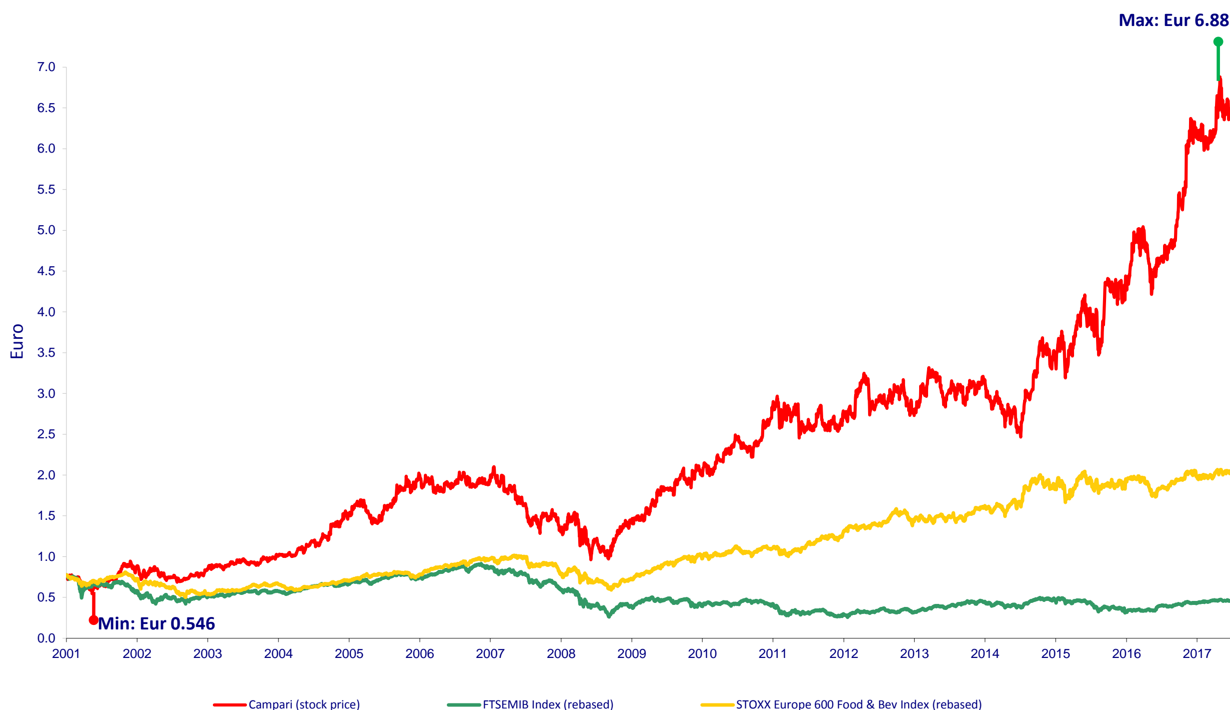
From the date of the initial public offering (IPO) to 31 December 2017, the Campari stock price has increased in absolute terms by +731.6% (an average of +13.7% per year), with total shareholder return (TSR[5] up +907.2% (an average of +15.0% per year). The Campari stock outperformed the FTSE MIB by +773.5%. The stock outperformed the STOXX Europe 600 Food&Beverage index by +568.8% in the period from the IPO to 31 December 2017, and outperformed the MSCI Europe sector index by +727.1% in the same period.

The performance of the Campari stock and the main benchmark indices from 1 January 2017 to 31 December 2017



[5] Dividend reinvested

The performance of the Campari stock and the main benchmark indices from listing (2001) to 31 December 2017



Notes:
The figures have been adjusted to reflect the changes in share capital in 2005, 2009 and 2017.
The STOXX Europe 600 Food &Beverage Price Index is a capitalisation-weighted index which includes European companies operating in the food and beverage industry.

Davide Campari-Milano S.p.A. stock

No. of shares

At 31 December 2017, the share capital of Davide Campari-Milano S.p.A. was € 58,080,000, comprising 1,161,600,000 ordinary shares with a nominal value of € 0.05 each.

Dividend

The Board of Directors voted to propose, at the Shareholders' Meeting, a full year dividend per share of € 0.05 for 2017 (+11.1% increase compared to the previous year).
The dividend will be paid on 23 May 2018 (with an ex-date for coupon no. 2 of 21 May 2018) in compliance with the Italian Stock Exchange calendar, and a record date of 22 May 2018. The Board of Directors resolved to convene the Ordinary Shareholders' Meeting on 23 April 2018, to approve the separate financial statements for the year ended 31 December 2017.

Shareholder base

The table below shows the major shareholders at 31 December 2017.

Shareholder(1)	Number of ordinary shares	% of share capital
Alicros S.p.A.	592,416,000	51.00%
Cedar Rock Capital(2)	116,818,487	10.06%

(1) Shareholders who have notified Consob and Davide Campari-Milano S.p.A. that they have shareholdings greater than 3% (pursuant to article 117 of Consob regulation 11971/99 on notification of significant holdings).
(2) Andrew Brown, Chief Investment Officer of Cedar Rock Capital Ltd., informed Consob in accordance with article 120 of Legislative Decree 58/1998 (TUF).

Loyalty shares

On 28 January 2015, loyalty shares were introduced. The table below shows the updated position, as at 31 December 2017, of outstanding shares and the number of voting rights that may be exercised at shareholders' meetings.

	Share capital composition	Number of voting rights
Total of which:	1,161,600,000	1,840,423,169
Ordinary shares (standard dividend rights 1 January 2017) - ISIN code IT0005252207 Coupon due: 2	482,776,831	482,776,831
Loyalty shares (standard dividend rights 1 January 2017) - ISIN code IT0005252215 Coupon due: 2	678,823,169	1,357,646,338

We show below the updated list, as at 31 December 2017, of shareholders with an interest of over 3% in the share capital of Davide Campari-Milano S.p.A., who are recorded in the special register for entitlement to increased voting rights (loyalty shares) and who have achieved double voting rights after the elapse of 24 months from the registration date.

Shareholder	Registration date	Registered shares	% of share capital	Total shares owned	% of share capital	Total voting rights	% of voting rights[2]
Alicros S.p.A.	9 April 2015	**592,416,000**	**51.00**	**592,416,000**	**51.00**	**1,184,832,000**	**64.38**
Cedar Rock Capital	9 April 2015	73,235,369		73,235,369		146,470,738	
	7 April 2016	4,811,334		4,811,334		4,811,334	
	7 April 2017	7,047,390		7,047,390		7,047,390	
	-	-		31,724,394[1]		31,724,394[1]	
	Total	**85,094,093**	**7.33**	**116,818,487**	**10.06**	**190,053,856**	**10.33**

[1] Shareholding determined based on notification made pursuant to law.
[2] Voting percentage determined based on total amount of voting rights at 9 December 2017, notified pursuant to article 85-*bis*, para. 4-*bis*, of Consob Regulation 11971 of 14 May 1999.

The new Article 6 of the articles of association and the related Regulation on the special list for double voting rights, approved by the Board of Directors, define the terms and conditions for registration on the list and for requesting removal from it.
For more detailed information on this subject, see the report prepared by the Board of Directors, and the Regulation on the special list for double voting rights, which is published on the Company's website (www.camparigroup.com/it/governance/loyalty-shares).

Information on the Campari stock and valuation indicators
The tables below show the performance of the Campari stock and the main valuation indicators used by Gruppo Campari since the IPO.

Year	Minimum price	Maximum price	Average price	Price at 31 December	Change in the Campari stock	Change in FTSE MIB	Average daily trading volume	Average daily trading value	Stock market capitalisation at 31 December
	€	€	€	€	%	%	millions of shares	€ million	€ million
2017	4.61	6.88	5.83	6.45	+38.8%	+13.6%	2.2	13.2	7,487
2016	3.47	5.05	4.38	4.65	+16.1%	-10.2%	2.8	12.0	5,396
2015	2.47	4.21	3.48	4.00	+55.0%	+12.7%	3.8	12.9	4,646
2014	2.52	3.21	2.95	2.58	-15.1%	+0.2%	2.8	8.0	2,997
2013	2.73	3.32	3.00	3.04	+4.8%	+16.6%	2.6	7.9	3,531
2012	2.54	3.25	2.78	2.90	+12.7%	+7.8%	3.4	9.6	3,369
2011	2.22	2.97	2.59	2.58	+5.6%	-25.2%	4.0	10.6	2,988
2010	1.76	2.50	2.08	2.44	+33.5%	-13.2%	3.8	7.6	2,828
2009	0.97	1.86	1.41	1.83	+52.1%	+19.5%	3.2	4.5	2,118
2008	0.97	1.65	1.39	1.20	-26.8%	-49.5%	2.6	3.7	1,394
2007	1.63	2.11	1.89	1.64	-12.8%	-7.0%	3.0	5.8	1,904
2006	1.57	2.03	1.83	1.88	+20.5%	+16.0%	2.4	4.4	2,183
2005	1.12	1.70	1.43	1.56	+32.0%	+15.5%	2.0	2.8	1,812
2004	0.90	1.20	1.01	1.19	+22.9%	+14.9%	1.8	1.7	1,374
2003	0.69	0.97	0.83	0.97	+28.2%	+14.4%	1.6	1.3	1,118
2002	0.64	0.95	0.79	0.75	+13.8%	-27.3%	2.2	1.7	871
[1] 2001	0.55	0.78	0.68	0.66	-14.9%	-14.1%	2.8	2.1	767

[1] Listing on the Italian Stock exchange (MTA) took place on 6 July 2001. Average daily volume and average daily trading value excluding first week of trading.

The table below shows information on dividends paid on the Campari stock since the IPO.

Year	Number of shares authorised and issued at 31 December	Adjusted number of shares at 31 December[(1)]	Number of shares with dividend rights[(2)]	Gross dividend per share (€)[(3)]	Total dividend (€ million) [(4)]
2017	1,161,600,000	1,161,600,000	1,151,679,409	0.050	57.6
2016	580,800,000	1,161,600,000	1,158,752,164	0.045	52.1
2015	580,800,000	1,161,600,000	1,158,508,124	0.045	52.1
2014	580,800,000	1,161,600,000	1,142,500,000	0.040	45.7
2013	580,800,000	1,161,600,000	1,152,019,724	0.040	46.1
2012	580,800,000	1,161,600,000	1,138,514,448	0.035	39.8
2011	580,800,000	1,161,600,000	1,157,273,960	0.035	40.5
2010	580,800,000	1,161,600,000	1,153,344,568	0.030	34.6
2009	290,400,000	1,161,600,000	1,152,761,012	0.030	34.6
2008	290,400,000	1,161,600,000	1,152,761,012	0.028	31.7
2007	290,400,000	1,161,600,000	1,157,422,184	0.028	31.8
2006	290,400,000	1,161,600,000	1,161,597,812	0.025	29.0
2005	290,400,000	1,161,600,000	1,125,424,052	0.025	28.1
2004	29,040,000	1,161,600,000	1,124,192,360	0.025	28.1
2003	29,040,000	1,161,600,000	1,121,600,000	0.022	24.7
2002	29,040,000	1,161,600,000	1,121,600,000	0.022	24.7
2001	29,040,000	1,161,600,000	1,121,600,000	0.022	24.7

1) Stock information prior to the dates on which changes were made to the amount of share capital has been adjusted to take into account the new composition of share capital as described below:
- two-for-one share split effective as at 8 May 2017;
- bonus share issue via the issue of 290,400,000 new shares with a nominal value of € 0.10 each to be provided free of charge to shareholders in the ratio of one new share for each share held, which came into effect on 10 May 2010;
- ten-for-one share split effective as at 9 May 2005.

(2) Excluding own shares held by Davide Campari-Milano S.p.A. For 2017, the number of shares at the date of the Board of Directors' meeting on 27 February 2018 is to be
recalculated on the basis of the total number of shares outstanding as at the dividend ex-date.

3) For 2017, the dividend proposed by the Board of Directors will be submitted for the approval of the shareholders' meeting on 23 April 2018.

4) For 2017, the total dividend was calculated on the basis of shares outstanding as at the Board of Directors meeting on 27 February 2018; this figure is to be recalculated based on the total number of shares outstanding as at the dividend ex-date.

The table below shows information on the main valuation indicators for the Campari stock since the IPO.

Year	earnings per share[(1)(2)]	price/shareholders' equity per share	price/net profit per share[(1)]	dividend/net profit per share[(1)(2)]	dividend/price per share[(3)]
2017	0.31	3.85	21.0	16,2%	0.8%
2016	0.14	2.84	32.4	31.4%	1.0%
2015	0.15	2.66	26.5	29.7%	1.1%
2014	0.11	1.90	23.2	35.4%	1.6%
2013	0.13	2.53	23.6	30.8%	1.3%
2012	0.13	2.36	21.5	25.4%	1.2%
2011	0.14	2.19	18.8	25.4%	1.4%
2010	0.13	2.26	18.1	22.1%	1.2%
2009	0.12	2.03	15.5	25.2%	1.6%
2008	0.11	1.46	11.0	25.1%	2.3%
2007	0.11	2.17	15.2	25.4%	1.7%
2006	0.10	2.74	18.6	24.8%	1.3%
2005	0.10	2.61	15.4	23.8%	1.6%
2004	0.08	2.20	14.2	29.0%	2.1%
2003	0.07	2.04	14.0	30.9%	2.3%
2002	0.07	1.82	10.1	28.5%	2.9%
2001	0.05	1.78	12.1	38.9%	3.3%

(1) Net income reported, not adjusted
(2) Up to 2004, Italian Accounting Standards; from 2005 IAS/IFRS.
(3) For 2017, the dividend proposed by the Board of Directors will be submitted for the approval of the shareholders' meeting on 23 April 2018.

Investor relations

The Company communicates regularly with investors, shareholders and financial market operators in general, in order to provide complete, accurate and timely information on its operations, while complying with the relevant confidentiality requirements for certain types of information.

Information is disseminated via the publication of documents such as management reports, press releases and investor presentations.
These documents are made available using the 1Info network information system, managed by Computershare S.p.A., via publication on the website www.1info.it.

As a result of using this publication platform, the Company is able to make all information promptly available on its website (www.camparigroup.com), in the ' Investor' and 'Governance' sections. Information about the Company that is of interest to shareholders and equity and debt investors is also available in these sections to enable them to exercise their rights in an informed manner.

The Company communicates and interacts regularly with the financial markets via analyst calls, investor meetings, roadshows and investor conferences, which are also attended by representatives of senior management. With reference to activities aimed at the analyst and institutional investor category, in the first half

of 2017 the Company continued to communicate information through numerous meetings organised in Milan and at the main stock exchanges in Europe and outside Europe, including in the US, Canada, Asia and Australia.
The Investor Relations department is responsible for managing relations with shareholders and investors, and has been operational since the Company's listing in 2001.

Information of interest to shareholders and investors is available on the website, and may also be requested by sending an email to the dedicated email address investor.relations@campari.com.

Gruppo Campari and corporate social responsibility

The Board of Directors of Davide Campari-Milano S.p.A., which approves this report, also approves the non-financial declaration at 31 December 2017 pursuant to Legislative Decree 254 of 30 December 2016, implementing EU Directive 2014/95. The non-financial declaration contains non-financial information about environmental, social and employment matters, as well as respect for human rights, anti-corruption and bribery issues, to the extent necessary to ensure understanding of the Group's business, performance, results and impact. Campari Group's non-financial declaration was prepared as a separate report from the Report on operations in the Consolidated Financial Statements and according to the guidelines of the GRI Sustainability Reporting Standards, the sustainability reporting framework that is mostly widely used worldwide. In light of the evidence that emerged from the materiality analysis, and to incorporate the aspects of sustainability whose reporting is subject to specific legal obligations, the non-financial declaration also reports on specific issues regarded as particularly relevant for a multinational operating in the spirits sector (e.g. responsible marketing and communication practices). The reporting scope is the same as that used for the Consolidated Financial Statements.
The Group's sustainability report is available on the Group's website at: www.camparigroup.com, in the 'sustainability' section, and will be published in the Milan Companies' Register along with the Annual Financial Statements.

Report on corporate governance and ownership structure

In accordance with legal obligations, the Board of Directors annually approves the report on corporate governance and ownership structure (the 'Report').
As well as the information pursuant to Article 123-*ter* of Legislative Decree 58 of 24 February 1998, the Report contains a general description of the corporate governance system adopted by the Group, featuring information on compliance with the principles and recommendations of the Code of Conduct for Listed Companies, including specific reasons why certain recommendations have not been applied.
The Report also contains a description of the features of the Group's internal control and risk management system, including in relation to the financial reporting process.
The Report is available at www.camparigroup.com, in the Corporate Governance section.

Organisation, Management and Control Model pursuant to Legislative Decree 231 of 8 June 2001
From 1 January 2009, Davide Campari-Milano S.p.A. decided to adopt an Organisation, Management and Control Model pursuant to Legislative Decree 231 of 8 June 2001 on the administrative responsibility of legal entities, for the purposes of ensuring ethical and transparent conduct as a way to reduce the risk of the offences specified in the legislative decree being committed. It also established a Supervisory Body responsible for monitoring compliance with the Model and proposing any changes that might be necessary following amendments to the relevant legislation.
The Board of Directors has decided that it is appropriate, in order to streamline the control system, to allocate the functions of the Supervisory Body, pursuant to Law 183 of 12 November 2011, to the members of the Board of Statutory Auditors.
For a more detailed description of the Model and the activities undertaken in 2016, please see the report on corporate governance and ownership structure published on www.camparigroup.com.

Transactions with related parties
The procedures for transactions with related parties approved by the Parent Company's Board of Directors on 11 November 2010, which came into force on 1 January 2011, can be viewed at www.camparigroup.com, in the Investors section.
An overview of these procedures is provided in the Report on corporate governance and ownership structure.

Risk management

Risks relating to international trade and operations in emerging markets
In line with its international growth strategy, the Group currently operates in numerous markets, and plans to expand in certain emerging countries, especially in Eastern Europe, Asia, Latin America and Africa.
Operating in emerging markets means that the Group is vulnerable to various risks inherent in international business, including exposure to an often unstable local political and economic environment, exchange rate fluctuations (and related hedging difficulties), export and import quotas, and limits or restrictions on investment, advertising or the repatriation of dividends.

Risks relating to the Company's dependence on licences for the use of third-party brands and licences granted to third parties for use of the Group's brands
At 31 December 2017, 7.9% of the Group's consolidated net sales came from production and/or distribution under licence of third-party products.
Should any of these licensing agreements be terminated or not renewed for any reason, this could have a negative effect on the Group's activities and operating results.

Risks relating to market competition
The Group is part of the alcoholic and non-alcoholic beverage sector, where there is a high level of competition and a huge number of operators. The main competitors are large international groups involved in the current wave of mergers and acquisitions, which are operating aggressive competitive strategies at global level.
The Group's competitive position vis-à-vis the major global players, which often have greater financial resources and benefit from a more highly diversified portfolio of brands and geographic locations, means that its exposure to market competition risks is particularly significant.

Risks relating to the Company's dependence on consumer preference and propensity to spend
An important success factor in the beverage industry is the ability to interpret consumer preferences and tastes – particularly those of young people – and to continually adapt sales strategies to anticipate market trends and strengthen and consolidate the product image.
If the Group's ability to understand and anticipate consumer tastes and expectations and to manage its own brands were to cease or decline significantly, this could considerably affect its activities and operating results.
Moreover, the unfavourable economic situation in certain markets is dampening the confidence of consumers, making them less likely to buy drinks.

Risks relating to the Company's dependence on key customers
In some markets where the Group operates, sales are concentrated on a limited number of key customers: therefore, a possible change in the priorities or deterioration of the financial conditions of these customers could have significant adverse effects on the Group's business and outlook.
Furthermore, if such key customers see the terms and conditions set forth in contracts as no longer acceptable, they may require them to be renegotiated, resulting in less favourable terms and conditions.

Risks relating to legislation in the beverage industry
Activities relating to the alcoholic beverages and soft drinks industry – production, distribution, export, import, sales and marketing – are governed by complex national and international legislation, often drafted with somewhat restrictive aims.
The requirement to make the legislation governing the health of consumers, particularly young people, ever more stringent could, in the future, lead to the adoption of new laws and regulations aimed at discouraging or reducing the consumption of alcoholic drinks. Such measures could include restrictions on advertising or tax increases for certain product categories. Any tightening of regulations in the main countries in which the Group operates could lead to a fall in demand for its products.

Tax risks
The Group operates in many countries with different tax regulations. In many jurisdictions, distillates and wines are subject to import and excise duties, some of which could rise and negatively affect demand for Campari Group products. Such changes could have a negative impact on profit margins or sales, reducing overall consumption or encouraging consumers to move to categories of alcoholic beverages that are less heavily taxed.
Moreover, significant changes in the international tax environment could suddenly increase overall business costs if there is a rise in the Group's effective tax rate, and lead to uncertain and/or unexpected exposure to tax.
The Group regularly reviews its business strategy and tax policy in light of regulatory changes, and assesses the likelihood of any negative results of potential inspections in order to determine the adequacy of its tax provisions.

Risks relating to environmental policy
With regard to the risks associated with environmental policy, the Group's industrial management has implemented dedicated procedures relating to safety and qualitative controls in the area of environmental pollution and the disposal of solid waste and waste water. The objective of this structure is to continuously monitor and update the Group's industrial activities based on the legislation in force in the individual countries in which it operates.

Risks relating to product compliance and safety
The Group is exposed to risks relating to its responsibility to ensure that its products are safe for consumption.
It has therefore put in place procedures to ensure that products manufactured in Group plants are compliant and safe in terms of quality and hygiene, in accordance with the laws and regulations in force, and voluntary certification standards.
In addition, the Group has defined guidelines to be implemented if quality is accidentally compromised, such as withdrawing and recalling products from the market.

Risks relating to employees
In the various countries where the Group has subsidiaries, its dealings with employees are regulated and protected by collective labour agreements and the regulations in force locally.
Any reorganisation or restructuring undertaken, where this becomes essential for strategic reasons, is defined on the basis of plans agreed with employee representatives.
Moreover, the Group has implemented specific procedures to monitor safety in the workplace, and it is worth noting that the accident rate at Group plants is very low and that any accidents that do occur tend to be minor.

Environmental and geopolitical risks
The Group operates in around 190 countries. Production activities and the implementation of the Group's strategies are subject to the effects of natural events and geopolitical risks. Environmental changes, some of which could have a significant impact, could interfere with the local supply chain, as well as harm some customers. These events are generally unpredictable and may affect the seasonality of sales, just as natural disasters (such as hurricanes) may damage products and disrupt production at some plants. Some weather conditions might also have a positive effect on some geographical regions, but a negative effect in other segments.
The Group monitors environmental and geopolitical risks, has emergency plans in place and continuously develops plans to deal with such crises. The Group counts compliance with regulations and with local and international standards among its priorities, together with business continuity assessment, back-up scenarios and global insurance policies.

Risk of failure to comply with laws and regulations
As the Group is exposed and subject to numerous different regulations, there is a risk that failure to comply with laws and regulations, as well as with the Group's policies, could harm its reputation and/or lead to potentially substantial fines. To mitigate this risk, the Group has created a Code of Ethics and defined Rules of Business Conduct. It also provides its employees with regular training on its global policies. Internal assurance activities are continuously monitored and assessed with local management in order to improve the internal control system.

Cyber-security risks
Cyber-security risks have a potential global impact for Campari Group, due to both the strong interconnectedness within the Group and the ever-increasing pervasiveness of technology (and the internet) on the performance of company activities.
The major risks associated with cyber-security include reputational damage caused by breaches/theft of sensitive data, the malfunctioning or disruption of IT systems, the unavailability of online services due to a cyber attack and the increased cost of resolving these problems.

Exchange rate and other financial risks
Around 58.4% of the Group's consolidated net sales in 2017 came from outside the European Union.
With the growth in the Group's international operations in areas outside the Eurozone, a significant fluctuation in exchange rates could hit the Group's activities and operating results.
However, the establishment of Group entities in countries such as the United States, Australia, Jamaica, Brazil, Canada, Russia and Argentina allows this risk to be partly covered, given that both costs and income are denominated in the same currency. Therefore, exposure to foreign exchange transactions generated by sales and purchases in currencies other than the Group's functional currencies represented an insignificant proportion of consolidated sales and consolidated margins in 2017.
For a more detailed analysis of the Group's risks, see note 39 – 'Provisions for risks', and for financial risks, note 46 – 'Nature and extent of risks arising from financial instruments' in this report.

Other information

Structure of the Group
For information on changes to the Group's structure in 2015, see note 2 - 'Basis of consolidation of the consolidated financial statements'.

Holding and purchase of own shares and shares of the Parent Company
At 31 December 2017, the Parent Company held 9,053,113 own shares, equivalent to 0.78% of the share capital. The Company purchased 10,910,000 own shares, at an average price of € 5.85, and sold 4,541,575 own shares during the year.
These own shares are to be used in stock option plans, as described in detail in later sections of these Annual Financial Statements.
Furthermore, after 31 December 2017 and until publication of the financial statements was authorised, the Company purchased an additional 2,896,000 own shares, at an average price of € 6.28, and own shares were sold for the exercise of stock options for a total of 2,028,522 shares. Thus, the number of own shares on the date this report was approved was 9,920,591.However, during the period, Group companies did not hold, and do not currently hold, either directly or indirectly, any shares of the controlling shareholder.

Adaptation plan pursuant to Articles 36 and 39 of the Market Regulations
In accordance with Articles 36 and 39 of Consob Regulation 16191 of 29 October 2007 and subsequent amendments concerning 'conditions for listing shares of companies that control companies established and governed by laws of non-EU countries', the Parent Company has identified the significant subsidiaries defined in accordance with Article 36, paragraph 2 of the above-mentioned Regulation, and verified that the conditions set out in paragraphs a), b) and c) of Article 36 have been met.

Personal data protection code
The Parent Company applies Legislative Decree 196 of 30 June 2003, the Personal Data Protection Code, and specifically declares that it has established appropriate preventive security measures including with regard to information obtained as a result of technological advancements, the nature of the data and specific handling procedures in order to minimise risks associated with the intentional or unintentional destruction or loss of the data, unauthorised access or handling, or use of the data for purposes other than those for which it was collected.

Other information
In accordance with Article 70, paragraph 8, and Article 71, paragraph 1-*bis*, of Consob Regulation 11971 of 14 May 1999, the Board of Directors has decided to take advantage of the option to derogate from the obligations to make available to the public the information documents prescribed in relation to significant mergers, spin-offs and capital increases through contributions in kind, acquisitions and disposals.

Research and development activities
Group companies carried out research and development activities solely in relation to ordinary manufacturing and trading activities; costs were therefore fully expensed during the period.

Operating and financial results of the Parent Company Davide Campari-Milano S.p.A.

Financial performance

	31 December 2017		31 December 2016	
	€ million	%	€ million	%
Net sales	**661.1**	**100.0**	**605.2**	**100.0**
Cost of goods sold, after distribution costs	(291.9)	-44.2	(270.9)	-44.8
Gross margin after distribution costs	**369.2**	**55.8**	**334.4**	**55.2**
Advertising and promotional costs	(63.1)	-9.5	(63.3)	-10.5
Contribution margin	**306.0**	**46.3**	**271.1**	**44.8**
Structure costs	(112.7)	-17.0	(100.4)	-16.6
Adjusted result from recurring activities[1]	**193.3**	**29.2**	**170.6**	**28.2**
Adjustments to operating income (charges)	37.3	5.6	(1.8)	-0.3
Operating result[1]	**230.6**	**34.9**	**168.8**	**27.9**
Financial income (charges)	(45.5)	-6.9	(62.1)	-10.3
Adjustments to financial income (expenses)[1]	(24.8)	-3.8	(11.5)	-1.9
Dividends	41.1	6.2	138.3	22.9
Put option costs	(3.3)	-0.5	-	-
Profit before tax	**198.1**	**30.0**	**233.5**	**38.6**
Tax	10.7	1.6	(28.0)	-4.6
Net profit	**208.9**	**31.6**	**205.5**	**34.0**

[1] For information on the definition of performance indicators, see the section, 'Alternative performance indicators' below.

The year ended 31 December 2017 closed with an operating result of € 230.6 million, an increase of 37% compared with the previous year.
Net profit for the year, totalling € 208.9 million, increased proportionally less than in 2016, due to lower dividend income.

More specifically, net sales totalled € 661.1 million, are increased compared to 2016 and they include sales to third-party customers on the Italian market and sales to Group companies, equal to € 260.9 million, up 22.1% year-on-year.

The gross margin was higher than in 2016 due to higher sales, while the cost of goods as a proportion of sales decreased slightly.

The contribution margin increased as a percentage of sales by 150 basis points, due to the consistency in spending on advertising and promotions, which increased the profit lever.

Recurring overheads increased compared to the previous year due to the strengthening of certain specific areas of the organisation.

The operating result benefited from adjustments to operating income totalling € 37.3 million, mainly deriving from capital gains on the sale of investments.

Financial charges decreased compared with the previous year and include adjustments of € 24.8 million, mainly relating to liability management operations carried out in the first half of 2017.

Income tax for the period was represented by net revenue of € 10.7 million. The item includes a positive non-recurring component of € 44.8 million, attributable to reduced IRES and IRAP taxation under the 'patent box' regime, which includes the benefit relating to the 2015 and 2016 tax years (€ 27.5 million), as well as the estimated portion of reduced tax for the 2017 year (€ 17.3 million).

Financial position

	31 December 2017 € million	31 December 2016 € million
Fixed assets	2,751.5	2,834.0
Other net non-current assets/liabilities	(30.6)	(25.4)
Operating working capital	98.0	98.0
Other current assets and liabilities	(3.1)	(18.3)
Net invested capital	**2,815.8**	**2,888.4**
Shareholders' Equity	1,274.0	1,162.6
Net financial position	1,541.8	1,725.8
Total financing sources	**2,815.8**	**2,888.4**

The balance sheet as at 31 December 2017 shows a slight decrease in invested capital (and at the same time also in the sources of financing).

Fixed assets decreased mainly due to the disposal of the investment in TJ Carolan & Sons Ltd and the transfer of all Crodo's assets to subsidiary Nettuno S.r.l..

Operating working capital was broadly unchanged on the previous year, with a contraction in inventories offset by a decrease in trade payables to third parties and, to some extent, by an increase in trade receivables.

The balance of other current assets and liabilities improved mainly reflecting the tax receivable for the period.

The Company's financial position showed a decrease in total net debt compared with the previous year, due to the Company's strong cash-generating capacity. For more detailed information on the financial position, please refer to the notes to the Annual Financial Statements of Davide Campari-Milano S.p.A on cash and cash equivalents and the reconciliation with the net financial position.

The increase in shareholders' equity was mainly associated with the financial results achieved during the year, net of the portion that was distributed.

Reconciliation of the Parent Company and Group net profit and shareholders' equity

Pursuant to the Consob communication of 28 July 2006, the table below shows a reconciliation between the net profit for the period and shareholders' equity for the Group and the Parent Company Davide Campari-Milano S.p.A.

	31 December 2017		31 December 2016	
	Shareholders' equity € million	Profit € million	Shareholders' equity € million	Profit € million
Figures from the annual financial statements of Davide Campari-Milano S.p.A.	**1,274.0**	**208.9**	**1,162.6**	**205.5**
- Difference between carrying value and pro-rata value of shareholders' equity of equity investments	691.0	-	767.9	-
- Pro-rata results of subsidiaries	-	215.1	-	189.4
- Elimination of intra-group dividends	-	(67.6)	-	(167.5)
- Elimination of intra-group profits and capital gains	(22.4)	(0.1)	(30.5)	(61.1)
Figures from the consolidated financial statements (figures attributable to the Group)	**1,942.6**	**356.4**	**1,900.0**	**166.3**
Shareholders' equity and net profit attributable to non-controlling interests	-	-	-	-
Group's equity and net profit	**1,942.6**	**356.4**	**1,900.0**	**166.3**

Events taking place after the end of the year

Acquisitions and commercial agreements

Acquisition of Bisquit
On 31 January 2018, the Group closed the agreement to acquire Bisquit Dubouché et Cie. from South African group Distell. The company, owner of the Bisquit brand, is a cognac producer located in the heart of the French town of Cognac. The total enterprise value of the transaction was € 53.9 million. The acquired business includes inventory, specifically maturing stock valued at approximately € 33.0 million, the brands, and production facilities consisting of warehouses for the maturing process, blending cellars and bottling lines.
The Bisquit brand is expected to record *pro-forma* sales of approximately € 9.0 million in 2018. The brand's key markets are South Africa, Belgium, the duty free channel and Switzerland.
The acquisition of Bisquit represents an opportunity for the Group to expand its offer in the high-growth premium cognac category. With its strong heritage, the Bisquit super premium brand further enhances the Group's premium brands portfolio, and gives it a richer product mix. With this acquisition, the Group is taking full control of the cognac ageing process, creating brand innovation opportunities and acquiring a significant stock of high-quality cognac. Commercially, the deal further strengthens the Group's distribution platform, particularly on the South African market, where a direct sales force was recently established, as well as in the US and China, key markets for the premium cognac category. Finally, it further increases the Group's exposure to the premium segment of the on-premise distribution channel, in both developed and emerging markets.

Disposals

Disposal of the Lemonsoda business
On 2 January 2018, the Group closed an agreement to sell the Lemonsoda business to Danish-based beverage company Royal Unibrew A/S.
The enterprise value is € 80.0 million on a cash-free/debt-free basis for 100% of the issued share capital of a wholly-owned subsidiary of Davide Campari-Milano S.p.A., to which the business in question has been transferred, subject to the customary price adjustment mechanisms. The sold business includes the alcohol-free fruit-flavoured carbonated varieties Lemonsoda, Oransoda, Pelmosoda and Mojito Soda, grouped under the Freedea brand name, as well as the Crodo brands, except for Crodino. Besides the brands, the perimeter includes the manufacturing and bottling facility, located in Crodo, Northern Italy, the water springs and the inventory.
In the fiscal year ended 31 December 2016, the perimeter of brands disposed of recorded total net sales of € 32.8 million and CAAP (contribution after A&P) of € 6.3 million. The total net sales relating to the brands sold represented approximately 2% of Campari Group's net sales in FY2016. Italy is the brands' core market, accounting for 84.3% of the overall net sales in FY2016. The total consideration for the deal corresponds to a multiple of approximately 13 times the CAAP (contribution after A&P), before allocated costs and depreciation, relating to the brands sold.
As part of the transaction, and effective from closing , Campari Group and Royal Unibrew will enter into a multi-year manufacturing agreement, under which Royal Unibrew will continue to manufacture certain of Campari Group's own products which are currently produced at the bottling facility in Crodo.
The net assets disposed of were classified as net held-for-sale assets at 31 December 2017. The economic effects expected in 2018 are positive and equal to a profit of about € 35 million, gross of the related tax effect.
This transaction is in line with Campari Group's efforts to streamline its brand portfolio and increase its focus on its core spirits business. Since the beginning of 2017, Campari Group has disposed of several non-core assets with a total value of approximately € 310.0 million.

Termination of the agreement to distribute Brown Forman products in Italy
The agreements to distribute Brown Forman products in Italy will cease with effect from April 2018. Sales – mainly relating to the Jack Daniel's brand – represented around 1.65% of Group sales in 2017.

Restructuring activities

The Group has launched the following activities, most of the costs of which are expected to be recognised in 2018, in order to improve the efficiency of its production facilities and move its sales structures closer to the business. It is expected that these costs will be almost entirely offset by the aforementioned profits deriving from the sale of the Lemonsoda business.

- **Relocation of the Campari America office to New York City**

On 11 December 2017, the Group officially relocated the administrative and commercial offices of Campari America from the current premises in San Francisco to New York City, which will become the new head office for

the United States and for the North America business unit. The main reason for this decision to relocate to the heart of Manhattan is that New York is more central to the US spirits business. It will give the Group increasing weight in the US and North American markets. In addition, being closer to the Parent Company's European head office and to the companies in the North America region will allow information to be exchanged more rapidly and efficiently.
In 2017, costs totalling € 1.8 million, gross of tax benefits, were recognised in relation to the early termination of lease agreements for the San Francisco premises, consultancy and legal expenses and the first tranche of personnel restructuring costs.

- **Outsourcing of US and Canadian accounting and administrative activities**

As part of the above-mentioned relocation project, the Group has decided to migrate the activities currently carried out by the American shared service center, also based in San Francisco, to an external provider. In fact, after a careful assessment, the Group considered that this change could lead to an additional efficiency of accounting and administrative processes, also in terms of automation and technological innovation.

- **Optimisation of production plants in Brasil**

The Group has announced the reorganization of its operating structures in Brazil and a plant is expected to close in June 2018.
The Sorocaba plant built in the early 60s and joined the Group in 2001 in the context of the acquisition of the Brazilian brands Dreher, Drury's and Old Eight, does not reach the levels of operational efficiency necessary to guarantee the sustainability over time. The transfer of production, currently in place at this plant, in the Suape plant, built in 2010, will make it easier to use its production capacity.
Confirming its commitment to the continuity of investments on its brands, the initiative aims to improve the operational efficiency of the local production structure, while maintaining commercial operations with consumers and customers at local level.

Full year 2017 conclusion and outlook

The Group achieved very positive results across all performance indicators in fiscal year 2017, in both reported and organic terms, finishing the year with a solid fourth quarter result, continuing the sustained growth rate seen in the first nine months of the year. In particular, the organic growth of the business was driven by favourable sales mix, in line with the Group's strategic objectives. Outperformance of key high-margin Global and Regional priorities in core developed markets helped to generate significant gross margin expansion in organic terms. This result more than offset the increasing investment in marketing activities as well as initiatives to strengthen the Group's distribution structures whose growth normalised towards the end of the year, as expected. This is partly due to efficiencies generated by the consolidation of Grand Marnier which helped to increase operating profitability on Group sales at an organic level.
External growth (perimeter) positively contributed to the Group's profit, reflecting the combined effects of the acquisition of Grand Marnier and the disposals of low-margin non-core businesses. However, the exchange rates of many key Group currencies progressively worsened over the year, particularly the US dollar against the euro. Lastly, at a net profit level, solid growth was achieved, both overall and on an adjusted basis, i.e. excluding non-recurring operating, financial and tax adjustments recorded during the year. From a financial standpoint, the Group further strengthened its infrastructure during 2017 by maintaining an adequate level of reinvestments into the business. The Group also continued to restructure its financial debt, while rationalising the portfolio through various disposals of non-core assets. This allows the Group to have an increased focus on the core business, further reduce net financial debt on top of organic cash flow generation.

The outlook for 2018 remains fairly balanced in a still uncertain macroeconomic scenario for some emerging markets, while the Group expects a continued outperformance of high-margin Global and Regional priority brands in core developed markets. Furthermore, organic gross margin expansion will benefit from favourable sales mix, balancing the expected price increases on input costs, especially agave. Marketing and advertising investments are expected to grow in line with sales growth, with an increased skew into Q1 2018, while structure costs are expected to remain stable in organic terms as a percent of sales. It is important to note that these indicators will also be impacted by the deconsolidation of non-core non-strategic businesses in 2018.

Regarding external growth, the overall change will reflect further portfolio streamlining and the agency brand discontinuations. In 2018, the perimeter effect has an estimated negative impact of € (70) million in net sales(1) and € (16) million on operating profit(2). Moreover, the external growth is expected to have a broadly neutral effect on EBIT adjusted margin as a percentage of net sales, as gross margin accretion will be offset by a dilution effect from A&P investments and SG&A due to the disposals of non-core assets.

Regarding the exchange rates, appreciation of key currencies against the euro could continue, in particular the progressive strengthening of the Euro against the US dollar. In particular, the exchange rate effect has an estimated negative impact of € (90) million in net sales(1) and around € (24) million in operating profit(3)(4).
In addition, it should be noted that following the completion of recent initiatives to rationalise the business through the sale of non-core assets and the consequent increase in focus on its key activities, the Group has launched a series of projects aimed at enhancing the efficiency of its operations in some key markets. Specifically, activities have been launched for the relocation of the US subsidiary's head office and the North America business unit from San Francisco to New York, scheduled for completion in the second half of the year. At the same time, a reorganisation of the production activities in Brazil has been launched with one facility closing. We believe that the restructuring costs related to this initiative will be fully offset by the capital gain from the disposal of the Lemonsoda business.

It should be noted that in 2018, the tax savings related to the 'patent box' tax regime, which provides tax relief to the Italian companies that use intellectual property rights, will continue (tax saving of € 17.3 million in FY 2017). Lastly, the benefits from the tax reform introduced in the United States in 2018 (Tax Cuts and Jobs Act), which has brought in various changes to taxation on profits generated in the US, are expected to have an impact from 2019, once the non recurring costs relating to the relocation of the US head office are fully absorbed.

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[1] After reclassification due to implementation of IFRS 15
[2] Revised estimate vs. perimeter effect guidance provided upon 9M 2017 results announcement of c. € (50) million in sales and € (15) million in EBIT
[3] Based on EUR/US Dollar exchange rate at 1.25 and other currencies at spot rates projected for the full FY2018
[4] Revised estimate vs. FX effect guidance provided upon 9M 2017 results announcement of c. € (30) million in sales and € (10) in EBIT

Alternative performance indicators

This annual financial report presents and comments upon certain financial indicators and reclassified financial statements (in relation to the statement of financial position and statement of cash flows) that are not defined by the IFRS.
These indicators, which are described below, are used to analyse the Group's business performance in the 'Highlights' and 'Report on operations' sections, in compliance with the requirements of Consob communication DEM 6064293 of 28 July 2006 as subsequently amended and supplemented (Consob communication 0092543 of 3 December 2015), which incorporates the Guidelines on Alternative Performance Measures (ESMA/2015/1415).
The alternative performance measures listed below should be used to supplement the information required by the IFRS to help readers of the financial report come to a better understanding of the Group's economic, financial and capital position. The method used by Gruppo Campari to calculate these adjustment measures has been consistent over the years. It should also be noted that these methods could be different from those used by other companies.

- **Financial indicators used to measure Group operating performance**

Contribution margin: calculated as the difference between net sales, the cost of goods sold (in its materials, production and distribution cost components) and advertising and promotional costs.
Adjustments to operating income (charges): defined as certain transactions or events, identified by the Group as adjustment components for the result from recurring activities.
- capital gains/losses on the sale of tangible and intangible assets;
- penalties arising from the settlement of tax disputes;
- impairment losses on fixed assets;
- restructuring and reorganisation costs;
- ancillary costs associated with acquisitions/sales of businesses or companies;
- other non-recurring income (charges).

The above-mentioned items were deducted from or added to the following indicators: operating result, EBITDA, profit/loss before tax for the period and net profit/loss for the period after tax.
The Company believes that these indicators, appropriately adjusted, are useful to both management and investors in assessing the Group's financial and economic results against those of other companies in the sector, as they exclude the impact of some items that are not relevant for assessing operating performance.
Adjusted result from recurring activities: the operating result for the period net of the above-mentioned adjustments to operating income (charges).
EBITDA: the operating result before depreciation and amortisation of tangible and intangible assets.
Adjusted EBITDA: EBITDA as defined above, excluding adjustments to operating income (charges) as described above.
Adjustments to financial income (charges): several transactions or events identified by the Group as components adjusting the net profit/loss related to events covering a single period or financial year such as:
- charges related to the early termination of financial liabilities;
- financial charges associated with acquisitions/sales of businesses or companies;
- other non-recurring financial income (charges).

Group's adjusted profit/loss before tax: profit for the period before tax and net of adjustments to operating income (charges) and adjustments to financial income (charges) described above, and before the tax effect.
Group's adjusted net profit/loss: the profit/loss for the period, net of the above-mentioned adjustments to operating income (charges) and adjustments to financial income (charges), the related tax effect and other positive/negative tax adjustments for the period.
ROS (return on sales): the ratio of the operating result to net sales for the period.
ROI (return on investment): the ratio of the operating result for the period to fixed assets at the end of the period (see the definition of fixed assets below).

- **Reclassified statement of financial position**

The items included in the reclassified statement of financial position are defined below as the algebraic sum of specific items contained in the financial statements:
Fixed assets – calculated as the algebraic sum of:
- net tangible assets;
- biological assets;
- investment property;
- goodwill and brands;
- intangible assets with a finite life;
- non-current assets held for sale;

- investments in affiliates and joint ventures.

Other non-current assets and liabilities – calculated as the algebraic sum of:
- deferred tax assets;
- other non-current assets, net of financial assets (classified under net debt);
- deferred tax liabilities;
- defined benefit plans;
- provisions for risks and charges;
- other non-current liabilities, net of financial liabilities (classified under net debt).

Operating working capital – calculated as the algebraic sum of:
- inventories;
- trade receivables;
- trade payables.

Other current assets and liabilities – calculated as the algebraic sum of:
- current tax receivables;
- other current receivables, net of financial assets (classified under net debt);
- current payables to tax authorities;
- other current payables, net of financial liabilities (classified under net financial position).

Net financial position – calculated as the algebraic sum of:
- cash and cash equivalents;
- non-current financial assets, posted to other non-current assets;
- current financial assets, posted to other receivables;
- payables to banks;
- other financial payables;
- bonds;
- non-current financial liabilities, posted to other non-current liabilities.

- **Reclassified statement of cash flows**

Free cash flow: a cash flow that measures the Group's self-financing capacity calculated on the basis of cash flow from operations, adjusted for net interest paid and cash flow used in investments, net of income from realising fixed assets.

Free cash flow adjusted: a cash flow that measures the Group's self-financing capacity calculated on the basis of cash flow from operations, net of adjustments to operating income (charges) and adjustments to financial income (charges) described above, adjusted for net interest paid and cash flow used in investments, net of income from realising fixed assets.

Gruppo Campari
Consolidated financial statements for the year ending 31 December 2017

Financial statements

Consolidated income statements

	Notes	2017	*of which: related parties*	2016	*of which: related parties*
		€ million	*€ million*	€ million	*€ million*
Net sales	10	**1,816.0**		**1,726.5**	
Cost of goods sold	11	(741.1)		(741.9)	
Gross profit		**1,075.0**		**984.6**	
Advertising and promotional costs		(342.5)		(308.6)	
Contribution margin		**732.4**		**676.0**	
Overheads	12	(338.1)	*0.1*	(356.6)	*0.1*
Of which adjustments to operating income (charges)[1]	13	*13.9*		*(33.2)*	
Operating result[1]		**394.3**		**319.4**	
Financial income (expenses)	18	(64.8)		(83.2)	
Of which adjustments to financial income (expenses)[1]	18	(24.8)		(24.6)	
Put option income (charges)	19	(2.8)		0.6	
Profit before tax		**326.7**		**236.7**	
Income tax expense	20	29.7		(70.5)	
Profit for the period		**356.4**		**166.3**	
Profit attributable to:					
Parent Company shareholders		356.4		166.3	
Non-controlling interests		(0.0)	-	(0.0)	-
Basic earnings per share (€)	21	0.31		0.14	
Diluted earnings per share (€)		0.30		0.14	
Basic and diluted earnings per share (€) adjusted[1]		0.20		0.17	

[1] For information on the definition of alternative performance indicators, see the section in the report on operations 'Alternative performance indicators'.

Consolidated statements of comprehensive income

	Notes	2017	2016
		€ million	€ million
Profit for the period (A)		**356.4**	**166.3**
B1) Items that may be subsequently reclassified to profit or loss			
Cash flow hedge:			
Profit (loss) for the period	35	0.3	(1.0)
Profit (losses) classified to other comprehensive income	35	(1.8)	(2.4)
Net gains (losses) from cash flow hedge		2.1	1.4
Tax effect	20	(0.4)	(0.3)
Total cash flow hedge		**1.7**	**1.1**
Assets available for sale:		-	-
Profit(loss) for the period		-	(6.2)
Total assets available for sale		**-**	**(6.2)**
Conversion difference		-	-
Profit (loss) for the period		1.7	-
Profit (losses) classified to other comprehensive income		(211.3)	49.0
Total conversion difference		**(209.6)**	**49.0**
Total: items that may be subsequently reclassified to profit or loss (B1)		**(208.0)**	**43.8**
B2) Items that may not be subsequently reclassified to profit or loss		-	-
Remeasurements of post-employment benefit obligations:		-	-
Profit(loss) for the period	35	0.3	0.2
Tax effect	20	(0.1)	(0.1)
Remeasurements of post-employment benefit obligations		**0.2**	**0.1**
Total: items that may not be subsequently reclassified to profit or loss (B2)		**0.2**	**0.1**
Other comprehensive income (expenses) (B=B1+B2)		**(207.8)**	**43.9**
Total comprehensive income (A+B)		**148.6**	**210.2**
Attributable to:			
Parent Company shareholders		148.6	210.2
Non-controlling interests		-	-

Consolidated statements of financial position

	Notes	31 December 2017	*of which: related parties*	31 December 2016(*)	*of which: related parties*
		€ million	*€ million*	€ million	*€ million*
ASSETS					
Non-current assets					
Net tangible fixed asets	22	430.9		509.6	
Biological assets	23	1.0		7.8	
Investment properties	24	120.9		122.6	
Goodwill and brands	25	2,302.7		2,490.9	
Intangible assets with a finite life	27	32.8		26.3	
Deferred tax assets	20	43.1		35.2	
Other non-current asssets	28	46.5	*2.2*	64.3	*2.2*
Total non-current assets		**2,978.0**		**3,256.7**	
Current assets					
Inventories	29	491.4		536.1	
Current biological assets	29	0.4		7.5	
Trade receivables	30	317.5		306.3	
Short-term financial receivables	31	9.3		7.2	
Cash and cash equivalents	33	514.5		354.1	
Income tax receivables	32	28.6	*15.5*	12.3	*2.0*
Other receivables	30	31.8		26.8	
Total current assets		**1,393.4**		**1,250.2**	
Assets held for sale	34	47.7		43.0	
Total assets		**4,419.1**		**4,549.9**	
LIABILITIES AND SHAREHOLDERS' EQUITY					
Shareholders' equity					
- Share capital		58.1		58.1	
- Reserves		1,884.5		1,841.9	
Capital and reserves attributable to Parent Company	35	1,942.6		1,900.0	
Non-controlling interests	35	-		-	
Total shareholders' equity		**1,942.6**		**1,900.0**	
Non-current liabilities					
Bonds	36	995.6		992.4	
Other non-current liabilities	36	493.6		459.5	
Post-employment benefit obligations	38	34.4		36.4	
Provisions for risks and charges	39	123.7		93.3	
Deferred tax liabilities	20	364.0		482.9	
Total non-current liabilities		**2,011.3**		**2,064.6**	
Current liabilities					
Payables to banks	37	13.8		106.9	
Other financial liabilities	37	62.1		58.5	
Trade payables	40	225.6		262.5	
Income tax payables	42	21.8	*1.1*	14.0	*0.5*
Other current liabilities	40	141.7	*4.3*	138.8	*2.4*
Total current liabilities		**465.1**		**580.8**	
Liabilities held for sale		0.1		4.6	
Total liabilities		**2,476.5**		**2,649.9**	
Total liabilities and shareholders' equity		**4,419.1**		**4,549.9**	

(*) For reclassifications of opening book values, see note 7 – 'Reclassifications of opening book values'

Consolidated statements of cash flows

	Note	2017 € million	2016 € million
Operating profit		**394.3**	**319.4**
Depreciation and amortisation	14	57.1	52.7
Gains on sales of fixed assets	13	(5.1)	(3.7)
Write-downs of tangible fixed assets	13	6.0	0.3
Accruals of provision	39	10.2	18.0
Utilizations of provisions	39	(5.4)	(2.8)
Gains on sales of business		(49.7)	-
Other non-cash items		(8.2)	10.8
Changes in net operating working capital		(58.6)	29.9
Other changes in non-financial assets and liabilities		11.7	17.3
Income taxes paid		(41.3)	(46.6)
Cash flow generated from (used in) operating activities		**311.2**	**395.4**
Purchase of tangible and intangible fixed assets	22-23-27	(85.8)	(63.8)
Proceeds from disposal of tangible assets	13	53.1	7.5
Changes in receivables and payables from investments in fixed assets		0.1	0.2
Acquisition and sale of companies or business divisions	8	123.6	(429.9)
Cash and cash equivalents at acquired companies	8	-	45.6
Purchase and sale of trademarks and distribution rights		(0.2)	(0.1)
Put options and earn out payments		(2.3)	(0.3)
Interests received		6.5	7.0
Net changes in securities	28-31	(0.9)	56.6
Dividends received		0.4	0.9
Other changes		-	1.3
Cash flow generated from (used in) investing activities		**94.7**	**(374.9)**
Utilization of revolving facility loan		180.0	50.0
Medium-/long-term financing		0.9	300.0
Repayment of private placements and bonds		-	(719.7)
Liability management effect		(23.2)	(24.6)
Repayment of revolving facility loan		(227.7)	-
Other repayments of other medium- and long -term debts		(0.4)	(1.9)
Net change in short-term financial payables and bank loans		(18.8)	7.4
Interests paid		(35.1)	(78.6)
Change in other financial payables and receivables		19.4	(9.1)
Purchase and sale of own shares	43	(53.6)	(8.1)
Dividends paid to non-controlling interests		-	(1.6)
Dividend paid by the Parent Company	35	(52.1)	(52.1)
Cash flow generated from (used in) financing activities		**(210.7)**	**(538.2)**
Effect of exchange rate differences on net operating working capital		49.2	(2.6)
Other differences		(83.9)	30.0
Other differences including exchange rate differences		**(34.8)**	**27.4**
Net change in cash and cash equivalents: increase (decrease)		**160.4**	**(490.3)**
Cash and cash equivalents at the beginning of period	33	354.1	844.3
Cash and cash equivalents at end of period	33	514.5	354.1

Statement of changes in shareholders' equity

	Notes	Attributable to Parent Company shareholders					Shareholders' equity	
		Share capital	Legal reserve	Retained earnings	Other reserves	Total	Non controlling interests	Total
		€ million	€ million	€ million	€ million	€ million	€ million	€ million
Balance at 31 December 2016		**58.1**	**11.6**	**1,750.9**	**79.4**	**1,900.0**	**-**	**1,900.0**
Dividend payout to Parent Company shareholders	35	-	-	(52.1)	-	(52.1)	-	(52.1)
Own shares acquired	43	-	-	(63.8)	-	(63.8)	-	(63.8)
Own shares sold	43	-	-	10.2	-	10.2	-	10.2
Stock options	43	-	-	-	6.9	6.9	-	6.9
Stock options utilization	43	-	-	3.1	(3.1)	-	-	-
Other changes		-	-	(9.3)	2.0	(7.3)	-	(7.3)
Profit for the period		-	-	356.4	-	356.4	-	356.4
Other comprehensive income (expense)		-	-	-	(207.8)	(207.8)	-	(207.8)
Total comprehensive income		-	-	356.4	(207.8)	148.6	-	148.6
Balance at 31 December 2017		**58.1**	**11.6**	**1,995.6**	**(122.7)**	**1,942.6**	**-**	**1,942.6**

	Attributable to Parent Company shareholders					Shareholders' equity	
	Share capital	Legal reserve	Retained earnings	Other reserves	Total	Non controlling interests	Total
	€ million	€ million	€ million	€ million	€ million	€ million	€ million
Balance at 31 December 2015	**58.1**	**11.6**	**1,650.7**	**25.1**	**1,745.5**	**0.3**	**1,745.8**
Dividend payout to Parent Company shareholders	-	-	(52.1)	-	**(52.1)**	-	(52.1)
Dividend payout to non-controlling interest	-	-	(1.3)	-	(1.3)	-	(1.3)
Purchase of non-controlling interests	-	-	0.3	-	0.3	(0.3)	-
Own shares acquired	-	-	(18.7)	-	(18.7)	-	(18.7)
Own shares sold	-	-	10.6	-	10.6	-	10.6
Stock options	-	-	3.5	4.1	7.6	-	7.6
Other changes	-	-	(1.8)	-	(1.8)	-	(1.8)
Profit for the period	-	-	166.3	-	166.3	-	166.3
Other comprehensive income (expense)	-	-	(6.2)	50.1	43.9	-	43.9
Total comprehensive income	**-**	**-**	**160.0**	**50.1**	**210.2**	**-**	**210.2**
Balance at 31 December 2016	**58.1**	**11.6**	**1,750.9**	**79.4**	**1,900.0**	**-**	**1,900.0**

Notes to the consolidated financial statements

1. General information

Davide Campari-Milano S.p.A. is a company listed on the Italian stock market, with registered office at Via Franco Sacchetti 20, 20099 Sesto San Giovanni (MI), Italy.
The Company is recorded in the Milan companies register and REA (business administration register) under no. 1112227.
Davide Campari-Milano S.p.A. is controlled by Alicros S.p.A., which has a 51% holding and is, in turn, 53.71%-controlled by Lagfin S.C.A., whose registered office is in Luxembourg.
Founded in 1860, the Group is the sixth-largest in the branded spirits industry, with an extensive product portfolio. Internationally recognised brands include Aperol, Appleton Estate, Campari, Grand Marnier, SKYY Vodka and Wild Turkey.
The Group operates in around 190 countries with prime positions in Europe and the Americas. It has 18 production plants and its own distribution network in some 20 countries, and employs around 4,000 people.
The consolidated financial statements of Gruppo Campari for the year ending 31 December 2017 were approved on 27 February 2018 by the Board of Directors of the Parent Company Davide Campari-Milan S.p.A., which has authorised their publication.
The Board of Directors reserves the right to amend the financial statements should any significant events occur that require changes to be made, up to the date of the Shareholders' Meeting of the Parent Company.
The financial statements are presented in euro, the reference currency of the Parent Company and many of its subsidiaries.

2. Preparation criteria

The consolidated financial statements for the year ending 31 December 2017 were prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and ratified by the European Union. These include all the international accounting standards (IAS) and interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and its predecessor, the Standing Interpretations Committee (SIC).
The accounts were prepared on a cost basis, taking into account, where appropriate, any value adjustments, except for balance sheet items that, according to the IFRS, must be recognised at fair value, such as financial derivatives, biological assets and new acquisitions, and except in cases where the IFRS allow a different valuation criterion to be used.
The carrying amount of assets and liabilities subject to fair value hedging transactions, which would otherwise be recorded at cost, has been adjusted to take account of the changes in fair value attributable to the risk being hedged.
Unless otherwise indicated, the figures reported in these notes are expressed in million euro.

Consolidation principles

The consolidated financial statements include the financial statements of the Parent Company and the Italian and foreign subsidiaries.
These accounting statements, based on the same financial year as the Parent Company and drawn up for the purposes of consolidation, have been prepared in accordance with the international accounting standards adopted by the Group.
Joint ventures are consolidated according to the equity method.

Form and content

In accordance with the format selected by the Group, the income statement has been classified by function, and the statement of financial position based on the division between current and non-current assets and liabilities.
We consider that this format will provide a more meaningful representation of the items that have contributed to the Group's results and its assets and financial position.
In the income statement, transactions or events that may generate income and charges that are not relevant for assessing performance, such as capital gains/losses on the sale of fixed assets, restructuring and reorganisation costs, financial charges and any other non-recurring income/expenses, are shown separately; this provides a clearer picture of the company's operating performance. Adjustments to operating income and charges are also discussed in detail in these notes.
This presentation complies with the requirements of Consob communication DEM/6064293 of 28 July 2006, as subsequently amended and consolidated (Consob communication no. 0092543 of 3 December 2015, which incorporates the Guidelines on Alternative Performance Measures (ESMA/2015/1415).
In 2017, the Group did not carry out any atypical and/or unusual transactions, which are defined in the Consob communication as atypical and/or unusual on the basis of materiality or size, or because the counterparties, the object of the transaction, the method used to determine the price and timing of the transaction (proximity to year

end) could give rise to concerns over the accuracy or completeness of the information provided in the financial statements, conflicts of interest, the safeguarding of company assets and the protection of minority shareholders.
The cash flow statement was prepared using the indirect method.
Lastly, with reference to the requirements of Consob Resolution 15519 of 27 July 2006 in relation to financial statements, the income statement and statement of financial position contain columns providing information on any significant transactions with related parties.

Basis of consolidation
The following changes occurred in the basis of consolidation, resulting from the creation, acquisition and sale of companies, described in the Report on operations in the section 'Significant events in the period':
- on 31 January 2017, the Group closed the sale of Lapostolle Wines in Chile, which had become part of the Campari perimeter on the acquisition of SPML. As a result, the companies belonging to the sold business are no longer included in the perimeter of consolidation;
- on 1 August 2017, T.J. Carolan & Son Ltd, which was created from the spin-off of the assets relating to the sold business from Campari Distribution Ireland (formerly T. J. Carolan & Son Ltd.) was sold. Therefore, at 31 December 2017, T.J. Carolan & Son Ltd was no longer included in the perimeter of consolidation;
- on 4 October 2017, the Group signed an agreement for the sale of the Lemonsoda business, the closing of which was finalised in 2018. Parent Company Davide-Campari Milano S.p.A. transferred the net assets relating to this business to Nettuno S.r.l.; these assets are shown as 'net assets held for sale'.

The tables below list the companies included in the basis of consolidation as at 31 December 2017.

Name, activity	Registered office	Share capital at 31 December 2017			% owned by Parent Company		
		Currency	Amount		Direct	Indirect	Direct shareholder
Parent Company							
Davide Campari-Milano S.p.A., holding and manufacturing company	Via Franco Sacchetti, 20 Sesto San Giovanni	€	58,080,000				
Fully consolidated companies							
Italy							
Campari International S.r.l., trading company	Via Franco Sacchetti, 20 Sesto San Giovanni	€	700,000		100.00		
Campari Services S.r.l., services company	Via Franco Sacchetti, 20 Sesto San Giovanni	€	160,000		100.00		
Nettuno S.r.l., dormant company	Via Franco Sacchetti, 20 Sesto San Giovanni	€	10,000		100.00		
Fratelli Averna S.p.A., manufacturing company	Via Xiboli, 345, Caltanisetta	€	3,900,000		100.00		
Europe							
Campari Austria GmbH, trading company	Naglergasse 1/Top 13 A, Vienna	€	500,000			100.00	DI.CI.E. Holding B.V.
Campari Benelux S.A., finance and trading company	Avenue de la Méterologie, 10, Brussels	€	1,000,000		61.00	39.00	Glen Grant Ltd
Campari Deutschland GmbH, trading company	Bajuwarenring 1, Oberhaching	€	5,200,000			100.00	DI.CI.E. Holding B.V.
and manufacturing company	Calle de la Marina 16-18, planta 28, Barcelona	€	3,272,600		100.00		
Campari RUS OOO, trading company	2nd Yuzhnoportoviy proezd 14/22, Moscow	RUB	2,010,000,000			100.00	DI.CI.E. Holding B.V.
Campari Schweiz A.G., trading company	Lindenstrasse 8, Baar	CHF	500,000			100.00	DI.CI.E. Holding B.V.
Campari Ukraine LLC, trading company	8, Illinska Street, 5th Floor, Block 8 and 9, Kiev	UAH	87,396,209			100.00	DI.CI.E Holding B.V. (99%), Campari RUS OOO (1%)
DI.CI.E. Holding B.V., holding company	Luna Arena, Herikerbergweg 114, Zuidoost, Amsterdam	€	15,015,000		100.00		
Glen Grant Ltd., manufacturing and trading company	Glen Grant Distillery, Rothes, Morayshire	GBP	24,949,000		100.00		
Grand Marques Nederland B.V., financial and trading company	91, Boulevard Haussmann, Paris	€	189,000			85.71	Société des Produits Marnier Lapostolle S.A.
Kaloyiannis-Koutsikos Distilleries S.A., manufacturing and trading company	6 & E Street, A' Industrial Area, Volos	€	6,811,220			100.00	DI.CI.E. Holding B.V.
Société Civile Immobilière Du Val, property company	91, Boulevard Haussmann, Paris	€	16,769,392			99.99	Société des Produits Marnier Lapostolle S.A.
Société des Produits Marnier Lapostolle S.A.,holding and manufacturing company	91, Boulevard Haussmann, Paris	€	27,157,500	(3)	71.16		
Campari Distribution Ireland Ltd., trading company	Lower Mont Street, Dublin	€	245		100.00		
Sorfinn Ltd., brand holder	Ormond Building, Suite 1,05, 31-36 Upper Ormond Quay, Dublin	€	2,600		100.00		
Americas							
Campari America LLC, manufacturing and trading company	1255 Battery Street, Suite 500, San Francisco	USD	566,321,274	(2)	100.00		

Name, activity	Registered office	Share capital at 31 December 2017			% owned by Parent Company		
		Currency	Amount		Direct	Indirect	Direct shareholder
Campari Services America LLC, services company	1255 Battery Street, Suite 500, San Francisco	USD	381,625			100.00	Campari Services S.r.l.
Campari Argentina S.A., manufacturing and trading company	Olga Cossettini, 243 Piso 3, Puerto Madeo, CABA	ARS	576,865,930			100.00	DI.CI.E. Holding B.V. (98,81%), Campari do Brasil Ltda. (1.19%)
Campari do Brasil Ltda., manufacturing and trading company	Alameda Rio Negro 585, Edificio Demini, Conjunto 62, Alphaville-Barueri-SP	BRL	239,778,071		100.00		
Campari Mexico S.A. de C.V., manufacturing and trading company	Avenida Americas 1592 3er Piso ol. Country Club, Guadalajara, Jalisco	MXN	820,187,150			100.00	DI.CI.E. Holding B.V.
Campari Peru SAC, trading company	Avenida Santo Toribio 115, Edificio Tempus, Piso 5, San Isidro, Lima	PEN	15,333,589	(2)		100.00	Campari Espãna S.L. (99,81%), Campari do Brasil Ltda. (0.19%)
Forty Creek Distillery Ltd., manufacturing and trading company	297 South Service Road West, Grimsby	CAD	105,500,100	(2)		100.00	DI.CI.E. Holding B.V.
Gregson's S.A. (in liquidation)	Andes 1365, Piso 14, Montevideo	UYU	0	(1)		100.00	Campari do Brasil Ltda.
J. Wray & Nephew Ltd., manufacturing and trading company	23 Dominica Drive, Kingston 5	JMD	750,000			100.00	Campari Espãna S.L.
Marnier Lapostolle Chile S.p.A., trading company	183, Madison Avenue, New York	USD	1,000,000			100.00	Société des Produits Marnier Lapostolle S.A.
Others							
Campari (Beijing) Trading Co. Ltd., trading company	Xingfu Dasha Building, Block B, Room 511, 3 Dongsanhuan BeiLu, Chaoyang District, Beijing	CNY	104,200,430			100.00	DI.CI.E. Holding B.V.
Campari do Brasil Ltda., manufacturing and trading company	Level 10, Tower B, 207 Pacific Highway, St Leonards, Sydney	AUD	21,500,000			100.00	DI.CI.E. Holding B.V.
Campari India Private Ltd., services company	311B, DLF South Court, Saket, New Delhi	INR	100,000			100.00	DI.CI.E. Holding B.V.
Campari Japan Ltd., trading company	6-17-15, Jingumae Shibuya-ku,Tokyo	JPY	3,000,000			100.00	DI.CI.E. Holding B.V.
Campari New Zealand Ltd., trading company	c/o KPMG 18, Viaduct Harbour Av., Maritime Suar	NZD	10,000			100.00	Campari Australia Pty Ltd
Campari Singapore Pte Ltd, trading company	16 Raffles Quay # 10-00, Hong Leong Building, Singapore	SGD	100,000			100.00	Campari Australia Pty Ltd
Campari South Africa Pty Ltd., trading company	12th Floor, Cliffe Deker Hofmeyr 11 Buitengracht Street, Cape Town	ZAR	166,247,750			100.00	DI.CI.E. Holding B.V.

(1) Company in liquidation
(2) Includes capital contribution
(3) Shares in usufruct of 2.24% are not included

Definition of control

Control is determined when the Group is exposed to or has a right to variable returns resulting from its involvement with the investee, and, at the same time, has the ability to use its power over the investee to affect these returns. Specifically, the Group controls a subsidiary if, and only if, it has:
- power over the investee (or holds valid rights that give it the current ability to manage significant activities of the investee);
- exposure or rights to variable returns resulting from its involvement with the investee;
- the ability to use its power over the investee to affect the size of its returns.

Generally, control is assumed to exist when the Group possesses a majority of the voting rights. In support of this assumption and when the Group holds less than the majority of the voting rights (or similar rights), the Group considers all relevant facts and circumstances in assessing whether it controls the investee, including contractual arrangements with other holders of voting rights, rights arising from contractual arrangements, and the Group's voting rights and potential voting rights.
The Group reassesses whether or not it controls a subsidiary if facts and circumstances indicate that one or more of the three significant elements defining control have been subject to change. Consolidation of a subsidiary begins when the Group obtains direct or indirect control of that subsidiary (or via one or more other subsidiaries) and ceases when the Group loses control thereof. The assets, liabilities, revenues and costs of the subsidiary acquired or disposed of over the year are included in the consolidated financial statements from the date on which the Group obtains control until the date on which the Group no longer exercises control over the company.
The profit (loss) for the year and all other components of the statement of comprehensive income are attributed to the shareholders of the Parent Company and to non-controlling interests, even if this results in non-controlling interests having a negative value. When necessary, appropriate adjustments are made to subsidiaries' financial statements to bring them into line with the Group's accounting policies. All intra-group assets and liabilities, shareholders' equity, revenues, costs and cash flow relating to transactions between Group entities are fully derecognised on consolidation.

Subsidiaries
All subsidiaries are consolidated on a line-by-line basis.
Under this method, all assets and liabilities, and expenses and revenues for consolidated companies, are fully reflected in the consolidated financial statements. The carrying amount of the equity investments is derecognised against the corresponding portion of the shareholders' equity of the subsidiaries. Individual assets and liabilities are assigned the value attributed to them on the date control was acquired.

Any positive difference is recorded under the asset item Goodwill, and any negative amount is reported on the income statement (see also 8 'Business combinations' below).
Non-controlling interests in shareholders' equity and profit are reported under the appropriate items in the financial statements; non-controlling interests in shareholders' equity are determined on the basis of the present values assigned to assets and liabilities on the date control was assumed, both in the case that the components of non-controlling interests give holders the right to receive a proportional share of the subsidiary's net assets in the event of liquidation, and in the case that the components of non-controlling interests do not give holders the right to receive a proportional share of the subsidiary's net assets in the event of liquidation.
Changes in investments in subsidiaries that do not result in the acquisition or loss of control are recorded as changes in shareholders' equity.
If the Group loses control of a subsidiary, the related assets (including goodwill), liabilities, non-controlling interests and other components of shareholders' equity are derecognised, while any profit or loss is posted to the income statement. Any ownership interest maintained is recorded at fair value.

Associates and joint ventures
An associate is a company over which the Group exercises significant influence. Significant influence means the power to contribute to determining an associate's financial and management policies, without having control or joint control over it.
A joint venture is a joint-control agreement in which the parties that hold joint control have rights to the net assets covered by the agreement. Joint control is the contractually agreed sharing of control of an agreement, which solely exists when decisions on relevant activities require unanimous consensus from all parties sharing control.
The factors considered to determine significant influence or joint control are similar to those necessary to determine control over subsidiaries.
These companies are reported in the consolidated financial statements using the equity method, starting on the date when significant influence or joint control begins and ending when such influence or control ceases.
If there is a significant loss of influence or joint control, the holding and/or investment is valued at fair value with the difference between fair value and carrying amount being recorded in the income statement.
If the Group's interest in any losses of associates exceeds the carrying amount of the equity investment in the financial statements, the value of the equity investment is derecognised, and the Group's portion of further losses is not reported, unless, and to the extent to which, the Group has a legal or implicit obligation to cover such losses.
The Group assesses the existence of any impairment indicators on an annual basis by comparing the value of the investment measured at equity with the recoverable value; any impairment value is allocated to the investment as a whole with an offsetting entry in the income statement.

Transactions derecognised during the consolidation process
When preparing the consolidated financial statements, unrealised profits and losses resulting from intra-group transactions are derecognised, as are the entries giving rise to payables and receivables, and costs and revenues between the companies included in the basis of consolidation.
Unrealised profits and losses generated on transactions with associated companies or joint ventures are derecognised to the extent of the Group's percentage interest in those companies.
Dividends collected from consolidated companies are derecognised.

Currency conversion criteria and exchange rates applied to the financial statements
Figures expressed in currencies other than the accounting currency (euro) are converted as follows:
- income statement items are converted at the average exchange rate for the year, while statement of financial position items are converted at year-end exchange rates; exchange rate differences resulting from the application of the different methods for conversion to euro of income statement and statement of financial position items are recorded under the currency translation reserve in shareholders' equity, until the investment in question is sold;
- any difference between the value of shareholders' equity at the end of the year, as converted at the prevailing rate, and the value of shareholders' equity converted at the year-end rate for the previous year are also recorded under the currency translation reserve.

When preparing the consolidated statement of cash flows, average exchange rates were used to convert the cash flows of subsidiaries outside the Eurozone.
The exchange rates used for conversion transactions are shown below.

	31 December 2017		31 December 2016	
	average rate	end-of-period rate	average rate	end-of-period rate
US Dollar	1.129	1.199	1.107	1.054
Canadian Dollar	1.464	1.504	1.467	1.419
Jamaica Dollars	144.494	149.403	138.379	134.906
Argentine Peso	18.728	22.931	16.333	16.749
Australian Dollar	1.472	1.535	1.489	1.460
Brazilian Real	3.604	3.973	3.861	3.431
Switzerland Francs	1.111	1.170	1.090	1.074
Chile Pesos	731.945	737.290	748.720	704.945
Yuan Renminbi	7.626	7.804	7.350	7.320
Euro	1.000	1.000	1.000	1.000
Great Britain Pounds	0.876	0.887	0.819	0.856
India Rupees	73.495	76.606	74.362	71.594
Japanese Yen	126.632	135.010	120.303	123.400
Mexican peso	21.325	23.661	20.660	21.772
New Zealand Dollars	1.589	1.685	1.590	1.516
Peruvian sol	3.681	3.885	3.736	3.540
Russia Rubles	65.891	69.392	74.226	64.300
Singapore Dollars	1.558	1.602	1.528	1.523
Ukraine Hryvnia	30.030	33.732	28.284	28.739
Uruguay Pesos	32.395	34.552	33.393	30.957
Rand	15.042	14.805	16.282	14.457

3. Summary of accounting principles

Intangible assets

Intangible assets include all assets without any physical form that are identifiable, controlled by the Company and capable of producing future benefits, as well as goodwill when purchased for consideration.
Intangible assets acquired are recorded under assets, in accordance with IAS 38 – Intangible Assets, when it is likely that the use of the assets will generate future economic benefits, and when the cost can be reliably determined.
If acquired separately, these assets are reported at acquisition cost including all allocable ancillary costs on the acquisition date.
Intangible assets acquired through business combinations are reported separately from goodwill, at fair value, where this can reliably be measured, on the acquisition date.
Subsequently, intangible assets are recorded at cost net of accumulated amortisation and any impairment losses.
Assets produced internally, excluding development costs, are not capitalised and are reported in the income statement for the financial year in which they are incurred.
Intangible assets with a finite life are amortised on a straight-line basis in relation to their remaining useful life, generally three years, taking into account losses due to a reduction in accumulated value.
The period of amortisation of intangible assets with a finite life is reviewed at least at the end of every financial year in order to ascertain any changes in their useful life, which if identified will be considered as changes in estimates.
The costs of development projects and studies are recorded in the income statement in full in the year in which they are incurred.
Advertising and promotional costs are recorded in the income statement when the Company has received the goods or services in question.
Costs relating to industrial patents, concessions, licences and other intangible fixed assets are recorded on the assets side of the statement of financial position only if they are able to produce future economic benefits for the Company. These costs are amortised according to the period of use, if this can be defined, or according to contract duration.
Software licences represent the cost of purchasing licences and, if incurred, external consultancy fees or internal personnel costs necessary for development. These costs are recorded in the year in which the internal or external costs are incurred for training personnel and other related costs.
Goodwill and brands, which result from acquisitions and qualify as intangible assets with an indefinite life, are not amortised. The possibility of recovering their carrying amount is ascertained at least annually, and in any case when events occur leading to the assumption of a reduction in value using the criteria indicated in the section entitled Impairment.

For goodwill, a test is performed on the smallest cash-generating unit to which the goodwill relates. On the basis of this, management directly or indirectly assesses the return on investment including goodwill. See also ‘Business combinations’ below.
Write-downs in goodwill can no longer be recovered in future years. When control of the previously acquired company is transferred, the capital gain or loss from the transfer takes into account the corresponding residual value of the previously recorded goodwill.

Business combinations
Business combinations are recorded in accordance with IFRS 3 – Business Combinations, by applying the acquisition method.
The cost of an acquisition is determined by the sum of the payments transferred as part of a business combination, measured at fair value, on the date of acquisition and the value of the portion of shareholders' equity relating to non-controlling interests, measured at fair value or as a pro-rata share of the net assets recognised for the acquired entity.
In the case of business combinations made in stages, the interest previously held by the Group in the acquired business is revalued at fair value on the date control is acquired, and any resulting gains or losses are recognised in the income statement.
Conditional payments are measured at fair value at the acquisition date and are included among the transferred payments for the purposes of calculating goodwill. Subsequent changes to the fair value of the conditional payment, i.e. where the amount and future disbursement are dependent on future events, classified as a financial instrument pursuant to IAS 39 – Financial Instruments: Recognition and Measurement, are reported on the income statement or separately in equity under the other components of comprehensive income. Conditional payments that do not fall within the scope of application of IAS 39 are valued on the basis of the specific applicable IFRS/IAS. Conditional payments that are classified as capital instruments are not revalued; they are therefore recorded under equity when settled. Ancillary costs relating to the transaction are recognised in the income statement at the time they are incurred.
Any changes in fair value occurring once more information is available during the measurement period (12 months from the date of acquisition) are included retrospectively in goodwill.
Goodwill acquired in business combinations is initially measured at cost, as the excess of the sum of payments transferred as part of a business combination, the value of the portion of shareholders' equity relating to non-controlling interests and the fair value of any interest previously held in the acquired business over the Group's portion of the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquired company.
If the value of the net assets acquired and liabilities assumed on the acquisition date exceeds the sum of the transferred payments, the value of the non-controlling interests' portion of shareholders' equity and the fair value of any interest previously held in the acquired business, this excess value is recorded in the income statement as income from the transaction.
After the initial entry, goodwill is measured at cost less cumulative impairment.
To establish whether impairment has occurred, the goodwill acquired in a business combination is allocated from the date of the acquisition to the individual cash-generating units or to the groups of cash-generating units likely to benefit from merger synergies, whether or not other assets or liabilities from the acquisition are assigned to these units or groups of units.
When the goodwill is part of a cash-generating unit (or group of cash-generating units) and some of the internal assets of the unit are sold, the goodwill associated with the assets sold is included in the carrying amount of the assets in order to establish the profit or loss generated by the sale.
Goodwill sold in this way is measured according to the value of the assets sold and the value of the remaining portion of the unit.

Tangible fixed assets
Property, plant and equipment are recorded at acquisition or production cost, gross of capital grants (if received) and directly charged expenses, and are not revalued.
Subsequently, tangible fixed assets are recorded at cost net of accumulated depreciation and any impairment losses.
Any costs incurred after purchase are only capitalised if they increase the future financial benefits generated by using the asset.
The replacement costs of identifiable components of complex assets are allocated to assets on the statement of financial position and depreciated over their useful life. The residual value recorded for the component being replaced is allocated to the income statement; other costs are expensed in profit and loss when the expense is incurred.
The financial charges incurred in respect of investments in assets which take a significant period of time to be prepared for use or sale (qualifying assets as defined in IAS 23 – Borrowing Costs) are capitalised and depreciated over the useful life for the class of assets to which they belong.
All other financial charges are posted to the income statement when incurred.
Ordinary maintenance and repair expenses are expensed in profit and loss in the period in which they are incurred.
If there are current obligations for dismantling or removing assets and cleaning up the related sites, the assets' reported value includes the estimated (discounted to present value) costs to be incurred when the structures are abandoned, which are reported as an offsetting entry to a specific reserve.
Assets held under finance lease contracts, which essentially assign to the Group all the risks and benefits tied to ownership, are recognised as Group assets at their current value, or the present value of the minimum lease payments, whichever is lower.

The corresponding liability to the lessor is reported in the financial statements under financial payables.
These assets are depreciated using the policies and rates indicated below.
Leasing arrangements in which the lessor retains substantially all the risks and benefits relating to the ownership of the assets are classified as operating leases, and the related costs are recognised in the income statement over the term of the contract.
Depreciation is applied using the straight-line method, based on each asset's estimated useful life as established in accordance with the Company's plans for use of such assets, taking into account wear and tear and technological obsolescence, and the likely estimated realisable value net of disposal costs.
When the tangible asset consists of several significant components with different useful lives, depreciation is applied to each component individually.
The amount to be depreciated is represented by the reported value less the estimated net market value at the end of its useful life, if this value is significant and can be reasonably determined.
Land, even if acquired in conjunction with a building, is not depreciated, and nor are available-for-sale tangible assets, which are reported at the lower of their carrying amount and fair value less disposal costs.
Rates are as follows:

- major real estate assets and light construction: 3%-10%
- plant and machinery: 10%
- furniture, and office and electronic equipment: 10%-20%
- motor vehicles: 20%-25%
- miscellaneous equipment: 20%-30%

Depreciation ceases on the date that the asset is classified as available for sale, in accordance with IFRS 5, or on the date on which the asset is derecognised for accounting purposes, whichever occurs first.
A tangible asset is derecognised from the statement of financial position at the time of sale or when there are no future economic benefits associated with its use or disposal.
Any profits or losses are included in the income statement in the year of this derecognition.

Capital grants
Capital grants are recorded when there is a reasonable certainty that all requirements necessary for access to such grants have been met and that the grant will be disbursed.
This generally occurs at the time the decree acknowledging the benefit is issued.
Capital grants that relate to tangible fixed assets are recorded as deferred income and credited to the income statement over the whole period corresponding to the useful life of the asset in question.

Impairment
The Group ascertains, at least annually, whether there are indicators of potential impairment of intangible and tangible assets. If the Group finds that such indications exist, it estimates the recoverable value of the relevant asset.
Moreover, intangible assets with an indefinite useful life or not yet available for use, and goodwill are subject to impairment tests every year or more frequently, whenever there is an indication that the asset may be impaired.
The ability to recover the assets is ascertained by comparing the carrying amount to the related recoverable value, which is represented by the greater of the fair value less disposal costs, and the value in use.
In the absence of a binding sale agreement, the fair value is estimated on the basis of recent transaction values in an active market, or based on the best information available to determine the amount that could be obtained from selling the asset.
The value in use is determined by discounting expected cash flows resulting from the use of the asset, and if significant and reasonably determinable, the cash flows resulting from its sale at the end of its useful life.
Cash flows are determined on the basis of reasonable, documentable assumptions representing the best estimate of the future economic conditions that will occur during the remaining useful life of the asset, with greater weight given to outside information.
The discount rate applied takes into account the implicit risk of the business segment.
When it is not possible to determine the recoverable value of an individual asset, the Group estimates the recoverable value of the unit that incorporates the asset and generates cash flows.
Impairment is reported if the recoverable value of an asset is lower than its carrying amount.
This loss is posted to the income statement unless the asset was previously written up through a shareholders' equity reserve.
In this case, the reduction in value is first allocated to the revaluation reserve.
If, in a future period, a loss on assets, other than goodwill, does not materialise or is reduced, the carrying amount of the asset or cash-generating unit is increased up to the new estimate of recoverable value, and may not exceed the value that would have been determined if no loss from a reduction in value had been reported.
The recovery of impairment is posted to the income statement, unless the asset was previously reported at its revalued amount. In this case, the recovery in value is first allocated to the revaluation reserve.

Investment property
Property and buildings held to generate lease income (investment property) are valued at cost less accumulated depreciation and impairment losses.
The depreciation rate for buildings is 3%, while land is not depreciated.
Investment property is derecognised from the statement of financial position when sold or when it becomes permanently unusable and no future economic benefits are expected from its disposal.

Biological assets
Biological assets are valued, at initial recognition, and at each subsequent reporting date, at their fair value, less estimated point-of-sale costs.
Agricultural produce is valued at fair value less estimated point-of-sale costs at harvest.

Financial instruments
Financial instruments held by the Group are categorised in the items below.
Financial assets include investments in associated companies and joint ventures, short-term securities, financial receivables, which in turn include the positive fair value of financial derivatives, trade and other receivables, and cash and cash equivalents.
Specifically, cash and cash equivalents include cash, bank deposits and highly liquid securities that can be quickly converted into cash, and which carry an insignificant risk of a change in value. Deposits and securities included in this category mature in less than three months from the acquisition date.
Current securities include short-term securities or marketable securities representing a temporary investment of cash that do not meet the requirements for classification as cash equivalents.
Financial liabilities include financial payables, which, in turn, include the negative fair value of financial derivatives, trade payables and other payables.
Financial assets and liabilities, other than equity investments, are recorded in accordance with IAS 39 – Financial Instruments: Recognition and Measurement in the following categories.

i. Financial assets at fair value with changes recorded in the income statement.
   This category includes all financial instruments held for trading and those designated at the time they were initially reported at fair value with changes recorded in the income statement.
   Financial assets held for trading are all instruments acquired with the intention of sale in the short term; this category also includes derivatives that do not satisfy the requirements set out by IAS 39 for consideration as hedging instruments.
   These instruments, measured at fair value with changes recorded in the income statement, are reported in the statement of financial position at fair value, while the related profits and losses are reported in the income statement.
ii. Investments held to maturity.
   Current financial assets and securities to be held until maturity are reported on the basis of the trading date, and, at the time they are first recorded, are valued at acquisition cost, represented by the fair value of the initial consideration given in exchange plus transaction costs (e.g. commission, consulting fees, etc.).
   The initial reported value is then adjusted to take into account repayments of principal, any write-downs and the amortisation of the difference between the repayment amount and the initial reported value. Amortisation is applied on the basis of the effective internal interest rate represented by the rate which, at the time of initial reporting, would make the present value of expected cash flows equal to the initial reported value (known as the amortised cost method).
   The profits and losses are recorded on the income statement when the investment is derecognised for accounting purposes or when impairment occurs beyond the amortisation process.
iii. Loans and receivables.
   Loans and receivables are non-derivative financial instruments with fixed or determinable payments, which are not listed on an active market.
   After the initial reporting, these instruments are valued according to the amortised cost method using the effective discount rate net of any provision for impairment.
   Profits and losses are recorded in the income statement when loans and receivables are derecognised for accounting purposes or when an impairment occurs beyond the amortisation process.
iv. Financial assets available for sale.
   Financial assets available for sale, excluding derivatives, are those designated as such or not classified under any of the three previous categories.
   After initial recognition, financial instruments available for sale are valued at fair value. If the market price is not available, the present value of financial instruments available for sale is measured using the most appropriate valuation methods, such as the analysis of discounted cash flows performed using market information available on the reporting date. In the absence of reliable information, they are held at cost.

Profits and losses on financial assets available for sale are recorded directly in shareholders' equity up to the time the financial asset is sold or written down. At that time the accumulated profits and losses, including those previously posted to shareholders' equity, are included in the income statement for the period.

Impairment of a financial asset
The Group assesses, at least annually, whether there are any indicators that a financial asset or a group of financial assets could be impaired.
A financial asset or group of financial assets is written down only if there is objective evidence of impairment caused by one or more events that occurred following the initial reporting date of the asset or group of assets, and which had an impact that can be reliably estimated on the future cash flows that may be generated by the asset or group of assets.

Derecognition of financial assets and liabilities
A financial asset (or where applicable, part of a financial asset or part of a group of similar financial assets) is derecognised from the financial statements when:
- the rights to receive income from financial assets no longer exist;
- the Group reserves the right to receive income from financial assets, but has taken on a contractual obligation to pay such income in full and without delay to a third party;
- the Group has transferred the right to receive income from financial assets and (i) has substantially transferred all the risks and benefits relating to the ownership of the financial asset, or (ii) has neither substantially transferred nor retained all the risks and benefits relating to the ownership of the financial asset, but has transferred control of the asset.

When the Group has transferred the rights to receive financial income from an asset, and it has neither transferred nor retained all the risks and benefits, or it has not lost control of the same, the asset is reported in the statement of financial position to the extent of the Group's remaining involvement in the asset.
A financial liability is derecognised from the financial statements when the underlying obligation of the liability is no longer held or has been cancelled or settled.
In cases where an existing financial liability is replaced by another of the same lender under different conditions, or where the conditions of an existing liability are changed, the replacement or change is treated in the financial statements as a derecognition of the original liability, and a new liability is reported, with any difference in the accounting values allocated to the income statement.

Financial derivatives and hedging transactions
Financial derivatives are used solely for hedging purposes to reduce exchange and interest rate risk.
In accordance with IAS 39, financial derivatives may be recorded using hedge accounting procedures only if, at the beginning of the hedge, the hedge relationship has been designated.
It is assumed that the hedge is highly effective: it must be possible for this effectiveness to be reliably measured, and the hedge must prove highly effective during the accounting periods for which it is designated.
All financial derivatives are measured at their fair value pursuant to IAS 39.
Where financial instruments meet the requirements for being reported using hedge accounting procedures, the following accounting treatment is applied:

i. fair value hedge: if a financial derivative is designated as a hedge against exposure to changes in the fair value of an asset or liability attributable to a particular risk that could have an impact in the income statement, the gains or losses resulting from the subsequent valuations of the fair value of the hedging instrument are reported in the income statement. The gain or loss on the hedged item, which is attributable to the hedged risk, is reported as a portion of the carrying amount of this item and as an offsetting entry in the income statement;
ii. cash flow hedge: if a financial instrument is designated as a hedge of exposure to fluctuations in the future cash flow of an asset or liability recorded in the financial statements, or of a transaction that is considered to be highly probable and that could have an impact on the income statement, the effective portion of the gains or losses on the financial instrument is recognised in the statement of comprehensive income. Cumulative gains or losses are reversed from shareholders' equity and recorded in the income statement in the same period in which the transaction being hedged has an impact on the income statement. The gain or loss associated with a hedge or the portion of a hedge that has become ineffective is posted to the income statement when the ineffectiveness is reported.

If a hedge instrument or hedge relationship is closed out, but the transaction being hedged has not been carried out, the accumulated profits and losses, which, until that time had been posted to shareholders' equity, are reported in the income statement at the time the related transaction is carried out.
If the transaction being hedged is no longer considered likely to take place, the pending unrealised profits or losses in shareholders' equity are recorded in the income statement.
If hedge accounting cannot be applied, any gains or losses resulting from the valuation of the financial derivative at its present value are posted to the income statement.

IAS 39 – Financial Instruments: Recognition and Measurement allows the foreign currency risk of a highly probable intra-group transaction to qualify as the hedged item in a cash flow hedge, provided that the transaction is denominated in a currency other than the functional currency of the company entering into the transaction and that the consolidated financial statements are exposed to exchange rate risk.
In addition, if the hedge of a forecast intra-group transaction qualifies for hedge accounting, any gain or loss that is recognised directly in the statement of comprehensive income, in accordance with the rules of IAS 39, must be reclassified in the income statement in the same period in which the currency risk of the hedged transaction affects the consolidated income statement.

Own shares
Own shares are reported as a reduction in respect of shareholders' equity.
The original cost of the own shares and the economic effects of any subsequent sales are reported as movements in shareholders' equity.

Inventories
Inventories of raw materials and semi-finished and finished products are valued at the lower of purchase or production cost, determined using the weighted average method, and market value.
Work in progress is recorded at the acquisition cost of the raw materials used including the actual production costs incurred up to the point of production reached.
Inventories of raw materials and semi-finished products that are no longer of use in the production cycle and inventories of unsaleable finished products are fully written down.
Low-value replacement parts and maintenance equipment not used in connection with a single asset item are reported as inventories and recorded in the income statement when used.

Non-current assets classified as held for sale
Non-current assets classified as held for sale include non-current assets (or disposal groups) whose carrying amount will be recovered primarily from their sale rather than their ongoing use, and whose sale is highly probable in the short term (within one year) and in the assets' current condition.
Non-current assets classified as held for sale are valued at the lower of their net carrying amount and present value, less sale costs, and are not amortised.

Employee benefits
Post-employment benefit plans
Group companies provide post-employment benefits for staff, both directly and by contributing to external funds.
The procedures for providing these benefits vary according to the legal, fiscal and economic conditions in each country in which the Group operates.
Group companies provide post-employment benefits through defined contribution and/or defined benefit plans.

i. Defined benefit plans.
   The Group's obligations and the annual cost reported in the income statement are determined by independent actuaries using the projected unit credit method.
   The net cumulative value of actuarial profits and losses is recorded directly on the statement of comprehensive income and is not subsequently recognised in the income statement.
   The costs associated with an increase in the present value of the obligation, resulting from the approaching time when benefits will be paid, are included under financial charges. Service costs are posted to the income statement. The liability recognised represents the present value of the defined benefit obligation, less the present value of plan assets. In the event of a modification to the plan that changes the benefits accruing from past service, the costs arising from past service are expensed in profit and loss at the time the change to the plan is made. The same treatment is applied if there is a change to the plan that reduces the number of employees or that varies the terms and conditions of the plan (treatment is the same regardless of whether the final result is a profit or a loss).
ii. Defined contribution plans
   Since the Group fulfils its obligations by paying contributions to a separate entity (a fund), with no further obligations, the Company records its contributions to the fund in respect of employees' service, without making any actuarial calculation.
   Where these contributions have already been paid at the reporting date, no liabilities are recorded in the financial statements.

Compensation plans in the form of stock options

The Group pays additional benefits in the form of stock option plans to employees, directors and individuals who regularly carry out work for one or more Group companies.

Pursuant to IFRS 2 – Share-Based Payment, the total fair value of the stock options on the grant date is to be reported as a cost in the income statement, with an increase in the respective shareholders' equity reserve, in the period beginning at the time they are granted and ending on the date on which the employees, directors and individuals who regularly carry out work for one or more Group companies become fully entitled to receive the stock options.

Changes in the present value following the allocation date have no effect on the initial valuation, while in the event of changes to the terms and conditions of the plan, additional costs are recorded for each change in the plan that determines an increase in the present value of the recognised option. The cost is recognised as a portion, for each period in which the vesting conditions have been met, while in the event of the cancellation of an option, the cost recorded until that date is released to income on the income statement.

The fair value of stock options is represented by the value of the option calculated by applying the Black-Scholes model, which takes into account the conditions for exercising the option, the current share price, expected volatility and the risk-free rate, as well as the non-vesting conditions.

The stock options are recorded at fair value with an offsetting entry under the stock option reserve.

The dilutive effect of options not yet exercised is included in the calculation of diluted earnings per share.

Provision for risks and charges

Accruals for the provision for risks and charges are reported when:

- there is a current legal or implicit obligation resulting from a past event;
- it is likely that the fulfilment of the obligation will require some form of payment;
- the amount of the obligation can be reliably estimated.

Accruals are reported at a value representing the best estimate of the amount the Company would reasonably pay to discharge the obligation or transfer it to third parties on the reporting date.

Where the financial impact of time is significant, and the payment dates of the obligations can be reliably estimated, the accrual is discounted. The change in the related provision over time is allocated to the income statement under Financial income (charges).

Provisions are periodically updated to reflect changes in estimates of cost, timescales and discount rates. Revisions to estimates of provisions are allocated to the same item in the income statement where the accrual was previously reported or, if the liability relates to tangible assets (e.g. dismantling and restoration), these revisions are reported as an offsetting entry to the related asset.

When the Group expects that all or part of the provisions will be repaid by third parties, the payment is recorded under assets only if it is virtually certain, and the accrual and related repayment are posted to the income statement.

Restructuring provisions

The Group reports restructuring provisions only if there is an implicit restructuring obligation and a detailed formal restructuring programme that has led to the reasonable expectation by the third parties concerned that the Company will carry out the restructuring, either because it has already started the process or because it has already communicated the main aspects of the restructuring to the third parties concerned.

Recording of revenues, income and expense in the income statement

Revenues are reported to the extent to which it is likely that economic benefits will flow to the Group and in respect of the amount that can be reliably determined.

Revenues are reported at the fair value of the sum received, net of current and deferred discounts, allowances, excise duties, returns and trade allowances.

Specifically:

- sales revenues are recorded when the risks and benefits associated with owning the items are transferred to the buyer, and the revenue amount can be reliably determined;
- service revenues are reported when services are rendered; allocations of revenues related to partially performed services are reported on the basis of the percentage of the transaction completed at the reporting date, when the revenue amount can be reliably estimated;
- financial income and charges are recorded in the period to which they relate;
- capital grants are credited to the profit and loss account in proportion to the useful life of the assets to which they relate;
- lease income from investment property is recorded on a straight-line basis for the duration of the existing leasing contracts.

Costs are recognised in the income statement when they relate to goods and services sold or consumed during the period, or as a result of systematic apportionment or when the future utility of such goods and services cannot be determined.

Personnel and service costs include stock options (given their largely remunerative nature) granted to employees, directors and individuals who regularly carry out work for one or more Group companies.
Costs incurred in studying alternative products or processes, or in conducting technological research and development, are considered current costs and charged to the income statement in the period in which they are incurred.

Taxes
Current income taxes are calculated on estimated taxable income, and the related payable is recorded under Tax payables.
Current tax payables and receivables are recorded in the amount expected to be paid to/received from tax authorities by applying the tax rates and regulations in force or effectively approved on the reporting date.
Current taxes relating to items posted directly to shareholders' equity are included in shareholders' equity.
Other non-income taxes, such as property and capital taxes, are included in operating expenses.
Deferred tax assets and liabilities are calculated on all temporary differences between the asset and liability values recorded in the accounts and the corresponding values recognised for tax purposes using the liability method.
Provisions for taxes that could be incurred from the transfer of undistributed profit from subsidiaries have been made only where there is a genuine intention to transfer that profit.
Deferred tax assets are reported when their recovery is likely.
Deferred tax assets and liabilities are determined on the basis of tax rates projected to be applicable under the respective laws of the countries in which the Group operates, in those periods when the temporary differences are generated or derecognised.
Current and deferred tax assets and liabilities are offset when these relate to income taxes levied by the same tax authority and a legal right of set-off exists, provided that realisation of the asset and settlement of the liability take place simultaneously.
The balance of any set-off is posted to deferred tax assets if positive and deferred tax liabilities if negative.

Transactions in foreign currencies (not hedged with derivatives)
Revenues and costs related to foreign currency transactions are reported at the exchange rate in force on the date the transaction is completed.
Monetary assets and liabilities in foreign currencies are converted to euro at the exchange rate in effect on the reporting date, with any related impact posted to the income statement.

Earnings per share
Basic earnings per share are calculated by dividing the Group's net profit by the weighted average number of shares outstanding during the period, excluding any own shares held.
For the purposes of calculating the diluted earnings (loss) per share, the weighted average of outstanding shares is adjusted in line with the assumption that all potential shares with a diluting effect will be converted.
The Group's net profit is also adjusted to take into account the impact of the conversion, net of taxes.

Use of estimates
The preparation of the financial statements and related notes in accordance with IFRS requires the management to make estimates and assumptions that have an impact on the value of revenues, costs, assets and liabilities in the statement of financial position and on disclosures concerning contingent assets and liabilities at the reporting date.
If, in the future, these estimates and assumptions, based on the best valuation currently available, differ from the actual circumstances, they will be amended accordingly at the time the circumstances change.
In particular, estimates are used to identify provisions for risks with respect to receivables, obsolete inventory, depreciation and amortisation, asset write-downs, employee benefits, taxes, restructuring reserves and accrual of other provisions.
The estimates and assumptions are reviewed periodically and the impact of any change is reflected in the income statement.
Goodwill and intangible assets with an indefinite useful life are subject to annual impairment tests to check for any losses in value.
The calculations are based on expected financial flows from the cash-generating units to which the goodwill is attributed, as inferred from multi-year budgets and plans.

4. Changes in accounting standards
The accounting standards adopted by the Group are the same as those applied to the annual financial statements at 31 December 2016. For the sake of completeness, we set out the accounting standards and amendments that have not yet been adopted by the Group.

a. Accounting standards, amendments and interpretations that have been ratified and are applicable/have been adopted by the Group in advance

Amendment to IAS 12 – Income Tax (applicable from 1 January 2017, not yet ratified by the European Union)
On 19 January 2016, the IASB published some amendments to IAS 12. These amendments are intended to clarify how to account for deferred financial assets relating to debt instruments measured at fair value. The introduction of the new amendment did not have an impact on the Group’s financial position and profitability.

Amendment to IAS 7 – Statement of Cash Flows (applicable from 1 January 2017 and ratified by the European Union on 6 November 2017)
On 29 January 2016, the IASB issued an amendment to IAS 7 – Statement of Cash Flows, which requires information relating to changes in financial liabilities to be reported, with the aim of improving the information provided to investors to help them better understand the changes to such payables. This amendment relates purely to the presentation of the financial statements and did not therefore have any effect on the Group’s financial position or profitability.

The annual cycle of improvements to IFRS 2014-2016: the document ‘Annual cycle of improvements to IFRS 2014-2016’, ratified by the European Union on 7 February 2018, containing essentially technical and drafting amendments to the international accounting standards, has not yet been ratified. The main clarifications relate to IFRS 1, IAS 28 and IFRS 12. These improvements had not an impact on the Group's financial position

b. Accounting standards, amendments and interpretations that have been ratified but are not yet applicable/have not been adopted by the Group in advance

IFRS 9 – Financial Instruments (applicable from 1 January 2018)
IFRS 9 – Financial Instruments, published by the IASB in July 2014 and ratified by the European Union in November 2016, replaces IAS 39 – Financial Instruments: Recognition and Measurement, from 1 January 2018. Recognition and Measurement. IFRS 9 introduces new criteria for the classification and measurement of financial assets and financial liabilities, a new model for calculating the impairment of financial assets and new provisions for hedge accounting.
IFRS 9 will be applied retrospectively by the Group as of 1 January 2018, with the exception of the following:
- The Group intends to use the exemption that allows it not to recalculate the comparative information of the previous year due to changes in classification and measurement (including the new provisions regarding the methods for calculating the impairment of financial assets). In general, any differences in the carrying amounts of financial assets and liabilities arising from the adoption of IFRS 9 will be recognised under retained earnings and reserves at 1 January 2018;
- with reference to the methods of showing hedging transactions, the Group has decided to continue applying the previous provisions of IAS 39 and postpone the application of hedge accounting, as required by IFRS 9, as permitted by paragraph 7.2.21.

The Group has already begun, and is about to finalise, an analysis of the impact of the first-time adoption of IFRS 9. As the analysis currently stands, and as reported in detail below, we do not expect any significant impact on the financial statements for the year ending 31 December 2017. However, since all the detailed analysis has not yet been completed, the actual effects of adopting IFRS 9 on 1 January 2018 may change up until the date of preparation of the Group’s consolidated financial statements to be published in 2018.

a) New criteria for the classification and measurement of financial assets

Summary of the changes

Under IFRS 9, receivables, loans and debt securities recorded under financial assets are classified in the following three categories based on the characteristics of the financial flows of these assets and the business model used to manage them:
- assets measured at amortised cost;
- assets measured at fair value reported in other items of comprehensive income (FVOCI);
- assets measured at fair value reported through profit or loss (FVTPL).

Derivatives incorporated in contracts where the primary element is a financial asset that falls within the scope of the standard no longer have to be separated. Instead, this hybrid instrument is examined for the purpose of classifying it as a whole.

The above-mentioned categories laid down by IFRS 9 replace the previous categories of IAS 39: assets held to maturity, loans and receivables, assets available for sale and assets valued at FVTPL.

Furthermore, IFRS 9 provides as a general rule that all interests other than those in subsidiaries, associates and joint ventures are valued at FVTPL. If these investments are not held for trading purposes, it is possible to adopt

the option, on an investment-by-investment and irrevocable basis, to present subsequent changes in fair value through other comprehensive income, and only recognise the effects of distributing dividends through profit or loss; in this case, cumulative amounts in other comprehensive income will never be reclassified to profit (loss) for the year, even when the investment is sold.

Potential impacts for the Group

Given the type of financial assets and liabilities of the Group as at 31 December 2017, no significant impacts are expected from the application of IFRS 9. However, we are still finalising some analyses of the characteristics of the cash flows of certain debt instruments in the portfolio and the business model used to manage some trade receivable clusters.

b) New criteria for the classification and measurement of financial liabilities

Summary of the changes

IFRS 9 essentially maintains the provisions of IAS 39 on the classification and measurement of financial liabilities, with the exception of financial liabilities valued at FVTPL, for which changes in fair value related to changes in issuer credit risk ('own credit risk') are recognised under other comprehensive income rather than through profit (loss) for the period, unless this results in an accounting asymmetry.

Potential impacts for the Group

The Group did not hold significant financial liabilities valued at FVTPL as at 31 December 2017 and the first-time adoption of IFRS 9 is therefore not expected to have a significant impact on financial liabilities.

c) New model for determining impairment of financial assets

IFRS 9 replaces the impairment model based on 'incurred loss', as laid down by IAS 39, with a forecast model based on 'expected credit loss' or ECL.

The new impairment model applies to all financial assets that are not already valued at FVTPL or that are valued at amortised cost or FVOCI.

According to IFRS 9, credit loss provisions will be valued using one of the following bases:

- *12-month ECLs*, i.e. ECLs arising from the possibility of default events within twelve months of the closing date of the financial year; and
- *Lifetime ECLs*, i.e. ECLs that result from all possible default events over the expected life of a financial instrument.

Valuation based on lifetime ECLs is always used for trade receivables, including impaired trade receivables, and other financial assets whose credit risk at the end of the accounting year has increased significantly since initial recognition. If the credit risk of a financial asset that is not a trade receivable subsequently decreases significantly,12-month ECLs will be applied.

Potential impacts for the Group

The main financial assets of the Group which are valued at amortised cost and to which the new impairment model is applied, are trade receivables. Given the Group's ordinary trading activities, the management of relations with counterparties, the analysis of historic insolvencies and the outlook for future economic conditions, we do not expect, as the analysis currently stands, any significant disparities in the measurement of provisions for doubtful receivables deriving from the first-time adoption of the new impairment model under IFRS 9.

IFRS 15 – Revenue from Contracts with Customers (applicable from 1 January 2018)

For comments on the application of the new standard, please see note 50 to the Consolidated Financial Statements for the year ending 31 December 2017.

Clarification to IFRS 15 – Revenue from Contracts with Customers (applicable from 1 January 2018)

The IASB has provided practical information on some of the issues covered by IFRS 15 (identification of performance obligations, principal versus agent considerations and licensing). The potential impact of this amendment will be analysed when IFRS 15 is adopted, as described above.

IFRS 16 – Leases (applicable from 1 January 2019 with the option for early adoption)

On 13 January 2016, the IASB published the new accounting standard IFRS 16 – Leases. The new standard replaces IAS 17 and provides methods of accounting presentation that more appropriately reflect the type of leases in the balance sheet. The new IFRS 16 is applicable from 1 January 2019, but early adoption is permitted for companies that also apply IFRS 15 – Revenues from Contracts with Customers. In particular, IFRS 16 introduces a single lessee accounting model in the financial statements of lessees, requiring lessees to recognise an asset for the right to use the underlying asset and a liability for the obligation to pay rent. Furthermore, the nature of the costs of the above-mentioned leases will change since IFRS 16 will replace the recognition on a straight-line basis of the costs of operating leases with depreciation of the right-of-use asset and the financial charges of the lease liabilities. IFRS 16 will be adopted by the Group from 1 January 2019 as follows:

- regarding first-time adoption of the standard, the Group intends to adopt the modified retrospective approach. Therefore, the data for the comparative period will not be restated; some simplifications and practical expedients will be applied, as permitted by the standard;

- in the definition of the scope of application, low-value asset leases (i.e. unit value lower than USD 5,000) and short-term leases (i.e. less than 12 months) are managed separately. Costs relating to these leases will continue to be recognised in the income statement as separately identified operating costs and will mainly relate to some IT equipment;
- we are in the process of finalising the measurement of residual and large contracts for the purposes of applying IFRS 16. Based on our provisional analysis, the greatest impact will be on existing contracts relating to buildings, vehicles and industrial equipment.
- As part of our ongoing analysis, the Group is also considering arrangements which are not legally a lease but contain a lease pursuant to IFRIC 4. In these situations, the Group may decide to:
- apply the definition of a lease contained in IFRS 16 to all contracts; or
- as a practical expedient, not reassess whether the arrangements contain a lease.

The Group is deciding whether or not to apply the practical expedient and is assessing the potential impact on the consolidated financial statements and whether this will affect the number of contracts identified as leases upon transition to the new standard.
Lastly, it should be noted that analysis is under way to identify an appropriate IT system to provide accounting support for the new way of presenting leases in terms of the Company’s income, capital and financial position.

c. Accounting standards, amendments and interpretations not yet ratified
IFRS 17 – Insurance contracts (applicable from 1 January 2021)
This standard aims to regulate accounting for insurance contracts (previously known as IFRS 4 Phase II). The accounting model under the standard is known as the building block approach (BBA), based on discounted expected cash flows; this includes a specific risk adjustment and contractual service margin, which are released through amortisation thereof. The new accounting standard is not applicable to the consolidated financial statements.

IFRS 14 – Regulatory Deferral Accounts (applicable from 1 January 2016)
Under the new standard, only first-time adopters of IFRS are allowed to continue to recognise amounts relating to the rate regulation according to the previous accounting standards adopted. In order to improve comparability with entities that already apply IFRS and hence do not recognise such amounts, the standard requires the rate regulation effect to be presented separately from the other items. The European Commission has decided not to start the approval process for this interim standard and to wait for the definitive standard. The new standard is not applicable to the consolidated financial statements.

Amendment to IFRS 10-IAS 28 – Sales or Contributions of Assets between an Investor and its Associate/Joint Venture (applicable from 1 January 2016)
The amendment, published in September 2014, is intended to resolve a conflict between the requirements of IFRS 10 and IAS 28 in the event that an investor sells or contributes a business to an associate or joint venture. The main change introduced by the amendment is that the gain or loss resulting from the loss of control must be recorded in full at the time of the sale or contribution of the business. A partial gain or loss is only recorded in the event of a sale or contribution involving individual assets only. The IASB has suspended publication and approval of this amendment until a date still to be determined.

Amendment to IFRS 2 – Classification and Measurement of Share-based Payment Transactions (applicable from 1 January 2018)
This includes clarifications on the accounting treatment of stock options that are subject to performance-linked vesting conditions. The Group estimates that the adoption of the new standard will not have a significant impact on its financial position or profitability.

Interpretation IFRIC 22 – Foreign Currency Transactions And Advance Consideration (issued on 8 December 2016)
IFRIC 22 aims to clarify the accounting treatment of transactions that involve the receipt or payment of advance consideration in a foreign currency, and, specifically, when an entity recognises a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration before the entity recognises the related asset, expense or income. IFRIC 22 is applicable from 1 January 2018, and early adoption is permitted.

Amendment to IAS 40 – Transfers of Investment Property (issued on 8 December 2016)
One of the main changes introduced by the amendment is that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use.

Interpretation IFRIC 23 – Uncertainty over Income Tax Treatments (issued on 7 June 2017)

IFRIC 23 aims to clarify how to calculate current and deferred taxes when there is uncertainty about the tax treatment adopted by the entity drawing up the financial statements and which may not be accepted by the tax authorities.

Amendment to IFRS 9 – Prepayment Features with Negative Compensation (issued on 12 October 2017)
The main aim of the amendment is to evaluate the information provided by the application of amortised cost for instruments that contain symmetric prepayment options and have contractual cash flows that are solely payments of principal and interest (SPPI). The changes introduced by this amendment have been evaluated by the Group as part of its overall analysis of the application of IFRS 9, as commented on above.

Amendment to IAS 28 – Long-term interests in associates and joint ventures (issued on 12 October 2017)
The amendment introduced aims to clarify the application of IFRS 9 to long-term investments in associates and joint ventures that form part of the net investment but to which the equity method is not applied. The changes introduced by this amendment have been evaluated by the Group as part of its overall analysis of the application of IFRS 9, as commented on above.

5. Seasonal factors

Sales of some Group products are more affected than others by seasonal factors, because of different consumption patterns or consumer habits.
In particular, sales of sparkling wines in some countries are concentrated in certain periods of the year, mainly around Christmas.
The Group's commercial risk is higher because the result obtained in these periods can significantly influence the sales result for the full year.
In general, the Group's diversified product portfolio and the geographical spread of its sales help to substantially reduce any risks relating to seasonal factors.

6. Debt management

The Group's debt management objectives are based on its ability to ensure that it retains an optimal level of financial soundness, while maintaining an appropriate level of liquidity that enables it to make an economic return and access external sources of funding. The Group monitors changes to its net debt/EBITDA ratio on an ongoing basis. Net debt is the Group's net financial position calculated at average exchange rates for the previous 12 months; EBITDA is the Group's operating result before depreciation, amortisation and non-controlling interests, pro-rated to take account of sales and acquisitions in the past 12 months. At 31 December 2017, this multiple was 2.0 (2.9 at 31 December 2016).

7. Reclassifications to comparison book value

On 29 June 2016, the Group completed the acquisition of SPML.
Over the next 12 months, the acquisition values to be allocated were defined. These were published on 31 December 2016. These changes required the opening balances to be shown differently, as detailed in the following table. The above-mentioned allocation did not have a significant impact on the income statement for 2017.

Information on the Report on Operations

Reclassifications on the net financial position

Net financial position	31 December 2016		
€ million	Published figures	*Reclassifications*	Figures after reclassifications
Cash and cash equivalents	354.1	-	354.1
Payables to banks	(106.9)	-	(106.9)
Other financial receivables and payables	(5.7)	-	(5.7)
Short-term net cash position	**241.4**	**-**	**241.4**
Payables to banks	(302.3)	-	(302.3)
Real estate lease payables	(2.2)	-	(2.2)
Private placements and bonds(*)	(994.6)	-	(994.6)
Other financial receivables and payables	55.3	-	55.3
Medium/long-term net financial position	**(1,243.7)**	**-**	**(1,243.7)**
Debt relating to operating activities	**(1,002.3)**	**-**	**(1,002.3)**
Payables for the exercise of put options, earn out payments and commitment to purchase SPML shares	(197.2)	*7.2*	(190.0)
Net financial position	**(1,199.5)**	***7.2***	**(1,192.4)**

(*) Including the relevant derivatives.

Reclassifications on the statement of financial position

Group statement of financial position	31 December 2016		
€ million	Published figures	*Reclassifications*	Figures after reclassifications
Fixed assets	3,147.8	*17.1*	3,164.9
Other non-current assets and liabilities	(552.0)	*(24.9)*	(576.8)
Operating working capital	586.6	*0.8*	587.4
Other current assets and liabilities	(82.9)	*(0.2)*	(83.2)
Total invested capital	**3,099.5**	***(7.2)***	**3,092.4**
Shareholders' equity	1,900.0	-	1,900.0
Net financial position	1,199.5	*(7.2)*	1,192.4
Total financing sources	**3,099.5**	***(7.2)***	**3,092.4**

Reclassifications on operating working capital

Operating working capital	31 December 2016		
€ million	Published figures	*Reclassifications*	Figures after reclassifications
Receivables from customers	306.4	-	306.3
Inventories, of which:			
- maturing inventory	*293.7*	-	*293.7*
- other inventory	*249.3*	*0.5*	*249.8*
Total inventories	543.0	*0.5*	543.5
Payables to suppliers	(262.8)	*0.3*	(262.5)
Operating working capital	**586.6**	***0.8***	**587.4**
Sales in the previous 12 months	1,726.5		1,726.5
Working capital as % of sales in the previous 12 months	34.0		34.0

Information provided in the consolidated financial statements

Reclassifications of the consolidated statement of financial position

	31 December 2016		
	Published figures	*Reclassifications*	Figures after reclassifications
	€ million	*€ million*	€ million
ASSETS			
Non-current assets			
Net tangible fixed assets	494.3	*15.3*	509.6
Biological assets	0.4	*7.3*	7.8
Investment property	121.9	*0.7*	122.6
Goodwill and brands	2,504.9	*(14.0)*	2,490.9
Intangible assets with a finite life	26.3	-	26.3
Deferred tax assets	37.2	*(2.0)*	35.2
Other non-current assets	64.3	-	64.3
Total non-current assets	**3,249.4**	**7.3**	**3,256.7**
Current assets			
Inventories	535.5	*0.5*	536.1
Current biological assets	7.5	-	7.5
Trade receivables;	306.4	*(0.1)*	306.3
Short-term financial receivables	7.2	*(0.0)*	7.2
Cash and cash equivalents	354.1	-	354.1
Current income tax receivables	12.3	-	12.3
Other receivables	26.8	-	26.8
Total current assets	**1,249.8**	**0.5**	**1,250.2**
Assets held for sale	35.2	*7.8*	43.0
Total assets	**4,534.3**	**15.6**	**4,549.9**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Shareholders' equity			
- Share capital	58.1	-	58.1
- Reserves	1,841.9	-	1,841.9
Parent Company's portion of shareholders' equity	1,900.0	-	1,900.0
Non-controlling interests' portion of shareholders' equity	-		(0.0)
Total shareholders' equity	**1,900.0**	**-**	**1,900.0**
Non-current liabilities			
Bonds	992.4	-	992.4
Other non-current liabilities	506.4	*(46.9)*	459.5
Defined benefit plans	36.5	*(0.1)*	36.4
Provisions for risks and charges;	96.6	*(3.2)*	93.3
Deferred tax liabilities;	456.6	*26.2*	482.9
Total non-current liabilities	**2,088.6**	**(24.0)**	**2,064.6**
Current liabilities			
Payables to banks	106.9	-	106.9
Other financial payables;	18.8	*39.7*	58.5
Trade payables;	262.8	*(0.3)*	262.5
Current income tax payables	14.0	-	14.0
Other current liabilities	138.6	*0.2*	138.8
Total current liabilities	**541.1**	***39.6***	**580.8**
Liabilities held for sale	4.6	-	4.6
Total liabilities	**2,634.3**	***15.6***	**2,649.9**
Total liabilities and shareholders' equity	**4,534.3**	***15.6***	**4,549.9**

8. Business combination (acquisition and disposal)

a) Business combinations completed in the previous year

The impact of the definitive allocation of the acquisition values of SPML is summarised below, which shows that they did not have any monetary impact.

Acquisition of Société des Produits Marnier Lapostolle S.A.

On 29 June 2016, the Group completed the acquisition of SPML.

In allocating the definitive acquisition values, the Group considered the impact of discounting the cash flows for payment of the company's residual shares by 2021 to present value, based on the contractual agreements in place with the sellers. The effect of the above-mentioned revaluation at fair value was to reduce the debt originally recorded by € 7.2 million. The non-monetary effects of discounting to present value will be charged to the Group's income statement using the amortised cost method over the term of the related debt instrument.

Definitive purchase price allocation

The definitive purchase price allocation at the fair values of the net assets acquired is shown below.

Changes to the net assets of the SPML Group, which were shown provisionally at 30 June 2016, have been identified separately. The final values shown are the result of the recognition and reworking of further information about facts and events existing at the closing date. The analysis was partly carried out with the assistance of independent experts.

Goodwill was deemed to be fully reportable due to the synergies expected to be generated by integrating the brands acquired into the Group's commercial structure. The goodwill is not amortisable for tax purposes according to local regulations.

The values shown here are reported in the following notes to the financial statements. The changes to the values included in the Group's consolidated figures as at 31 December 2016 are shown separately in note 7 – 'Reclassification of opening book values'. Where not expressed in Euro, the values were converted at the exchange rate on the closing date of the transaction.

fair value at acquisition date	Provisional fair value published at 30 June 2016	Adjustments and reclassifications	Fair value published at 30 June 2017
	€ million	€ million	€ million
ASSETS			
Non-current assets			
Net tangible assets	58.9	14.0	72.9
Biological assets	4.7	7.7	12.5
Investment property	121.1	0.6	121.7
Brands	256.0	51.1	307.1
Intangible assets with a finite life	0.6	-	0.6
Equity investments in other companies	0.2	-	0.2
Deferred tax assets	17.4	3.6	20.9
Other non-current financial assets	5.8	-	5.8
Total non-current assets	**464.8**	**76.9**	**541.7**
Current assets			
Inventories	70.3	3.4	73.6
Current biological assets	-	4.4	4.4
Trade receivables	23.0	1.0	24.0
Short-term financial receivables	3.5	0.1	3.6
Cash and cash equivalents	47.8	(1.2)	46.6
Current tax receivables	2.9	(0.4)	2.4
Other receivables	18.8	(10.2)	8.5
Total current assets	**166.1**	**(2.9)**	**163.2**
Assets held for sale	**-**	**5.4**	**5.4**
Total assets	**630.9**	**79.4**	**710.3**
LIABILITIES			
Non-current liabilities			
Other non-current financial liabilities	-	0.9	0.9
Defined benefit plans	39.3	(7.9)	31.4
Provisions for risks and charges	32.0	7.7	39.8
Deferred tax liabilities	130.7	36.2	166.9
Total non-current liabilities	**202.1**	**37.0**	**239.0**
Current liabilities			
Current payables to banks	20.8	(0.9)	19.8
Other financial liabilities	1.3	1.5	2.8
Trade payables	15.8	(1.0)	14.8
Current payables to tax authorities	1.8	(0.5)	1.3
Other current liabilities	6.9	2.8	9.7
Total current liabilities	**46.6**	**1.9**	**48.5**
Total liabilities	**248.7**	**38.8**	**287.5**
Net assets acquired	382.2	40.6	422.8
Goodwill generated by acquisition	**300.7**	**(47.7)**	**253.0**
Total cost, net of amortosation for the exercise of future purchase rights	**682.9**	**(7.2)**	**675.8**
Total cost, of which:	**682.9**	-	**682.9**
Price paid in cash, excluding ancillary costs	472.7	-	472.7
Payables for squeeze-out	17.1	-	17.1
Payables for the exercise of future purchase rights (gross of amortisation effects)	193.1	-	193.1
- of which liabilities net of amortised cost effect	-	185.9	185.9
- of which amortised cost effect	-	7.2	7.2
Net cash position acquired, of which:	**35.0**	**(2.5)**	**32.5**
- Cash, cash equivalents and financial assets	57.1	(1.1)	56.0
- Financial debt acquired	(22.1)	(1.4)	(23.5)

Values arising from SPML acquisition	Goodwill € million	Brand € million	Total € million
Provisional fair value published at 30 June 2016	**300.7**	**256.0**	**556.7**
Change resulting from provisional allocation of acquisition values	15.6	1.8	17.4
Provisional fair value published at 31 December 2016	**316.3**	**257.8**	**574.1**
Change resulting from final allocation of acquisition values	(63.3)	49.2	(14.1)
Fair value published at 30 June 2017	**253.0**	**307.1**	**560.0**

b) Business Combination occurred during 2017

The impact of purchases and sales of businesses carried out in 2017 on the Group's financial position is summarised below.

	business non-core wine Lapostolle € million	Bulldog(*)(**) € million	*business non-core* wine Sancerre € million	*business* Carolans and Irish Mist(**) € million	Total € million
Acquisitions and sales of companies or business divisions	6.7	(44.5)	21.6	139.8	123.6
Net financial position of business acquired or sold	23.3	-	-	-	23.4
Other costs of the business combination(*)	0.0	(11.0)	-	0.1	(11.0)
Net impact of business acquired or sold	**30.0**	**(55.4)**	**21.6**	**139.8**	**136.0**
Net payables arising from earn out(*)		(26.9)	-	-	(26.9)
Total costs from acquisition and sales of companies or business divisions	**30.0**	**(82.3)**	**21.6**	**139.8**	**109.1**

(*) Including payables relating to financial guarantees
(**) Value in USD converted into Euro at the exchange rate on the acquisition closing date.

It should be noted that the sales of non-core businesses Lapostolle and Sancerre wines, which became part of the Group when SPML was acquired, did not have any economic impact for the Group as the sale values were in line with the values of the recent acquisition.
The sale of the Carolans and Irish Mist business generated gains of around € 50 million, shown in the consolidated result for the year under Adjustments to operating income and charges.
The information relating to the acquired businesses is summarised below.

Acquisition of Bulldog London Dry Gin

As described in 'Significant events in the period', on 10 February 2017, the Group completed the acquisition, via Glen Grant Ltd., of the Bulldog London Dry Gin brand.
The impact of the acquisition on Campari Group is shown below.

	USD million	Amount in Euro at the closing date exchange rate
Payments at the closing date	47.3	44.5
Prepayments paid before acquisition	2.5	2.4
Guarantees on business acquistion within 2018	5.3	4.9
Operating working capital acquired	0.9	0.9
Other liabilities acquired	3.0	2.8
Total price of acquisition, excluding earn out	**58.9**	**55.4**
Deferred financial liabilities for earn out	28.6	26.9
Total price of acquisitions	**87.5**	**82.3**

Definitive purchase price allocation

The definitive purchase price allocation at the fair values of the net assets acquired is shown below.
The values shown here are explained in the following notes to the financial statements, where they are highlighted as changes in the basis of consolidation in the statement of financial position. Where not expressed in Euro, the values were converted at the exchange rate on the closing date of the transaction.

fair value at acquisition date	Provisional fair value published at 30 June 2017 € million	Adjustments and reclassifications € million	Fair value published at 31 December 2017 € million
ASSETS			
Non-current assets			
Brands	54.6	(1.7)	52.9
Total non-current assets	**54.6**	**(1.7)**	**52.9**
Current assets			
Trade receivables	0.9	-	0.9
Total current assets	**0.9**	**-**	**0.9**
Net assets acquired	55.4	(1.7)	53.8
Goodwill generated by acquisition	26.9	1.7	28.6
Total cost, of which:	**82.3**	**-**	**82.3**
Price paid in cash, excluding ancillary costs	44.5	-	44.5
Receivables for prepayment	2.4	-	2.4
Earn out liabilities	26.9	-	26.9
Other liabilities arising from acquisition	8.6	-	8.6

Values arising from Bulldog acquisition	Goodwill € million	Brands € million	Total € million
Provisional fair value at acquisition date	**26.9**	**54.6**	**81.5**
Change resulting from provisional allocation of acquisition value	1.7	(1.7)	-
Exchange rate	(1.1)	(2.1)	(3.2)
Fair value published at 31 December 2017	**27.4**	**50.8**	**78.3**

Sales of the brand are included in organic growth as it already formed part of the Group's network at the time it was acquired by way of a distribution agreement previously agreed at market conditions.

Acquisition of Bisquit

As reported in the section 'Events after the end of the year', on 31 January 2018, the Group, via Société de Produits Marnier Lapostolle S.A., completed the acquisition of the Bisquit brand, for € 53.9 million.

Provisional purchase price allocation

Since the transaction was completed after the end of the 2017 financial year (closing date: 31 January 2018), none of the values described were reflected in the 2017 consolidated accounts.

On the date that publication of these consolidated financial statements was authorised, the Group began the process of recognising and reworking the information for allocating the purchase price at the fair value of the net assets acquired. The above analysis will be carried out within 12 months of the closing date. The business acquired includes stock, in particular the warehouse for the maturing process, brands, production plants, blending cellars and bottling lines. The Bisquit Cognac brand is expected to record *pro-forma* sales of approximately € 9.0 million in 2018.

9. Operating segment

The Group's operating businesses are determined on the basis of the results of the operating segments, which are periodically reviewed by the Chief Operating Decision Maker (Chief Executive Officer) to assess performance and inform resource allocation decisions.

Since 2012, the Group has mainly based its management analysis on geographical regions, identified as operating segments that reflect the Group's operating model and current way of working by business unit.

The geographical regions considered are: i) the Americas, ii) Southern Europe, Middle East and Africa, iii) Northern, Central and Eastern Europe, and (iv) Asia-Pacific.

The level of profitability analysed is the result from recurring activities, equal to the operating result before adjustments to operating income and charges (for a definition of alternative performance indicators, please see the 'Alternative performance indicators' section of the Report on operations above).

In addition, the profitability of each region shown in the new segment reporting methodology reflects the profit generated by the Group in sales to third parties made in that region, thereby neutralising the effects of inter-company margins.

2017	Americas € million	Southern Europe, Middle East and Africa € million	Northern, Central and Eastern Europe € million	Asia-Pacific € million	Total allocated € million	Non-allocated items and adjustments € million	Consolidated € million
Net sales to third parties	794.2	536.3	361.1	124.4	1,816.0	-	1,816.0
Net sales between segments	39.5	283.9	30.2	0.2	353.8	(353.8)	-
Total net sales	**833.7**	**820.2**	**391.3**	**124.6**	**2,169.8**	**(353.8)**	**1,816.0**
Segment result	**171.1**	**86.2**	**107.1**	**16.2**	**380.5**	**-**	**380.5**
Adjustment to operating income (charges)[1]	-	-	-	-	-	13.9	13.9
Operating result	-	-	-	-	-	-	394.3
Financial income (charges)	-	-	-	-	-	(64.8)	(64.8)
Put option, earn out and discounted effect income (charges)	-	-	-	-	-	(2.8)	(2.8)
Taxes	-	-	-	-	-	29.7	29.7
Non-controlling interests	-	-	-	-	-	-	-
Group profit for the period	**-**	**-**	**-**	**-**	**-**	**-**	**356.4**
Depreciation/amortization	-	-	-	-	-	**(57.1)**	**(57.1)**

[1] For information on the definition of alternative performance indicators, see the section in the report on operations 'Alternative performance indicators'.

2016	Americas	Southern Europe, Middle East and Africa	Northern, Central and Eastern Europe	Asia-Pacific	Total allocated	Non-allocated items and adjustments	Consolidated
	€ million	€ million	€ million	€ million	€ million	€ million	€ million
Net sales to third parties	726.3	532.8	343.9	123.5	1,726.5	-	1,726.5
Net sales between segments	39.2	219.8	46.1	0.3	305.3	(305.3)	0.0
Total net sales	**765.5**	**752.6**	**390.0**	**123.8**	**2,031.8**	**(305.3)**	**1,726.5**
Segment result	**152.4**	**91.5**	**92.7**	**15.9**	**352.5**	**-**	**352.5**
Adjustment to operating income (charges)[1]	-	-	-	-	-	(33.2)	(33.2)
Operating result	-	-	-	-	-	-	319.4
Financial income (charges)	-	-	-	-	-	(83.2)	(83.2)
Put option, earn out and discounted effect income (charges)	-	-	-	-	-	0.6	0.6
Taxes	-	-	-	-	-	(70.5)	(70.5)
Non-controlling interests	-	-	-	-	-	-	-
Group profit for the period	**-**	**-**	**-**	**-**	**-**	**-**	**166.3**
Depreciation/amortization	-	-	-	-	-	**(52.7)**	**(52.7)**

[1] For information on the definition of alternative performance indicators, see the section in the report on operations ‘Alternative performance indicators’.

10. Net sales

	2017	2016
	€ million	€ million
Sale of goods	1,797.7	1,706.3
Rendering of services	18.3	20.2
Total net sales	**1,816.0**	**1,726.5**

For more detailed analysis of net sales, please refer to the information in the report on operations in the ‘Sales performance’ section. The provision of services relates to bottling the products of third parties.

11. Cost of goods sold

A breakdown of the cost of goods sold is shown by function and by type in the table below.

	2017	2016
	€ million	€ million
Materials and manufacturing costs	657.6	659.8
Distribution costs	83.5	82.1
Total cost of good sold	**741.1**	**741.9**
Breakdown by type		
Raw materials and finished goods acquired from third parties	467.6	490.2
Inventory write-downs	11.9	1.4
Personnel costs	78.4	76.2
Depreciation/amortisation[*]	38.0	37.2
Utilities	12.8	12.9
External production and maintenance costs	38.1	39.0
Variable transport costs	59.8	58.2
Other costs	34.5	26.9
Total cost of goods sold	**741.1**	**741.9**

[*] In 2016, depreciation and amortisation was net of € 1.8 million pending for final stocks of maturing inventory.

The increase in the cost of goods sold is commented upon in the Report on operations, where the change in these costs as a percentage of sales is analysed.
For a breakdown of personnel costs, see note 15- ‘Personnel costs’.

12. Overheads

A breakdown of overheads is shown by function and by type in the two tables below.

	2017	2016
	€ million	€ million
Sales costs	151.7	142.0
General and administrative expenses	186.4	214.6
Total overheads	**338.1**	**356.6**
Agents and other variable sales costs	11.8	19.0
Depreciation/amortisation	18.5	14.9
Personnel costs	207.7	185.2
Travel, business trip, training and meetings	30.4	28.1
Utilities	1.7	1.5
Services, maintenance and insurance	49.8	47.0
Operating leases and rental expenses	14.2	11.4
Other	17.7	16.4
Total overheads before Adjustments to operating income (charges)	**351.9**	**323.5**
Adjustments to operating income (charges)[1]	(13.9)	33.2
Total overheads	**338.1**	**356.6**

[1] For information on the definition of alternative performance indicators, see the previous section of this report on operations (‘Alternative performance indicators’).

The increase in overheads, before adjustments to operating charges, is due mainly to an increase in personnel costs. For a breakdown of costs, see note 15– 'Personnel costs'.
A breakdown of adjustments to operating income and charges is provided in the next section.

13. Adjustments to operating income and charges

The operating result for the period was affected by the following transactions or events.

	2017 € million	2016 € million
Other capital gains on the sale of tangible assets	4.0	1.1
Capital gains from the sale of business	49.7	2.9
Other income	-	3.6
Total income adjustment items	**53.7**	**7.5**
Provision for risk and charges	(10.0)	-
Capital losses on sale of businesses	-	(3.1)
Write-down of tangible assets	(6.6)	(0.4)
Accruals to provisions for staff restructuring	(1.4)	(16.0)
Personnel restructuring costs	(12.1)	(8.1)
Costs for fiscal claims	(0.3)	(1.2)
Penalty for the termination of distribution relationship	(1.3)	(1.6)
Acquisition/sale of business costs	(6.2)	(8.8)
Other expenses	(1.8)	(1.5)
Total expense adjustment items	**(39.9)**	**(40.7)**
Total adjustments to operating income (charges)	**13.9**	**(33.2)**

The positive adjustment components for the period included total income of € 49.7 million attributable to the sale of the Carolans and Irish Mist business, plus € 4.0 million generated by the sale of real estate.

The negative adjustment items included € 6.2 million for consultancy costs related to the acquisitions and sales of business carried out during the year. Lastly, restructuring costs totalled € 20.1 million, of which € 6.6 million was due to the impairment of fixed assets and € 13.5 million to personnel restructuring costs. With regard to the move of the Campari America headquarters from San Francisco to New York, the financial statements for the year ending 31 December 2017 include costs totalling € 1.8 million for early termination of the lease contracts in place at the San Francisco office, consultancy and legal fees related to the project and a first tranche of personnel restructuring. Most of the costs associated with this restructuring will be incurred in 2018.
Finally, expense adjustment items include € 10.0 million in provisions for risks and charges, attributable to legal disputes and reorganisation processes under way in Group companies.

14. Depreciation/amortisation

The following table shows details of depreciation and amortisation, by type and by function, included in the income statement.

	2017 € million	2016 € million
- Tangible fixed assets	34.7	32.3
- Intangible fixed assets	3.3	4.9
Depreciation and amortization included in cost of goods sold	**38.0**	**37.2**
- Tangible fixed assets	10.0	8.0
- Intangible fixed assets	8.5	6.8
Depreciation and amortization included in structure costs	**18.5**	**14.8**
- Tangible fixed assets	0.6	0.7
- Intangible fixed assets	-	-
Depreciation and amortization included in advertising and promotional expenses	**0.6**	**0.7**
- Tangible fixed assets	45.3	41.0
- Intangible fixed assets	11.8	11.7
Total depreciation and amortization in the income statement	**57.1**	**52.7**
Depreciation and amortization not included in the income statement because pending for final stocks of maturing inventory	-	1.8
Total depreciation and amortization	**57.1**	**54.5**

15. Personnel cost

	2017 € million	2016 € million
Salaries and wages	214.3	197.8
Social security contributions	49.3	44.4
Cost of defined contribution plans	7.9	7.0
Cost of defined benefit plans	0.2	(1.8)
Other costs relating to mid/long-term benefits	8.3	5.4
Cost of share-based payments	7.0	7.5
Total personnel costs	**287.0**	**260.4**
of which:		
- Included in cost of goods sold	78.4	76.2
- Included in overhead	207.5	185.1
- Included in advertising and promotional expenses	1.0	1.3
- Included in adjustments to operating income (charges)[1]	-	(2.3)
Total	**287.0**	**260.4**

[1] For information on the definition of alternative performance indicators, see the previous section of this report on operations ('Alternative performance indicators')

The allocation of personnel costs to the cost of goods sold and overheads was explained in the two previous notes. Personnel costs increased by 10.2% compared with 2016, as they mainly included the effects of the consolidation of SPML and the strengthening of the Group's sales structures.

16. Research and development costs

The Group's research and development activities related solely to ordinary production and commercial activities, namely ordinary product quality control and packaging studies in various markets.
Related costs are recorded in full in the income statement for the year in which they are incurred.

17. Other costs

Payments under operating leases in 2017 were € 21.5 million and relate to contracts held by Group companies regarding property, IT equipment, company cars and other equipment.

18. Financial income and charges

Net financial charges for the period break down as follows.

	2017 € million	2016 € million
Bank term deposit interest	6.5	7.0
Dividends from third parties	0.4	0.9
Other income	1.6	7.5
Total financial income	**8.5**	**15.4**
Net interest payable on bonds and private placements	(33.2)	(64.9)
Interest payable on leases	(0.3)	(0.4)
Interest payable to banks	(3.8)	(3.5)
Total interest payables	**(37.4)**	**(68.8)**
Net interest on defined benefit plans	(0.5)	(0.2)
Bank charges	(2.9)	(4.3)
Other charges and exchange rate differences	(7.8)	(0.7)
Total financial charges	**(11.1)**	**(5.2)**
Income from financial asset	0.1	5.1
Financial charges from bonds and private placement early termination	(24.8)	(29.1)
Acquisition costs	(0.1)	(0.6)
Total financial income (charges) adjustments	**(24.8)**	**(24.6)**
Net financial income (charges)	**(64.8)**	**(83.2)**

Net financial charges, which include the effects of exchange rate differences, were € 64.8 million, a decrease on the previous period's figure of € 83.2 million. The total change of €18.4 million was due to the debt restructuring carried out in the third quarter of 2016 and the first half of 2017. This restructuring involved financial charges of € 24.8 million in 2017. This relates to the difference paid when the existing bonds were bought back at their nominal value (€ 23.2 million) and the non-cash effects of discounting them to present value.
The average cost of debt, excluding exchange rate effects and adjustments to financial income and charges, as well as income and charges relating to put options and earn outs and the effects of discounting them to present value, was 2.9%, a decrease on the average figure of 5.6% for 2016.

It should be noted that, with regard to the taxes paid during the year:

- the Parent Company pays a fixed coupon of 4.5% on the residual nominal amount of the Eurobond issued in 2012, after liability management operations of € 219.0 million carried out during the year;
- the Parent Company pays a fixed coupon of 2.75% on the residual nominal amount of the Eurobond issued in 2015, after liability management operations of € 580.9 million carried out during the year;
- regarding the two Eurobonds issued in 2017 for nominal amounts of € 50.0 million and € 150.0 million, the Parent Company pays a fixed annual nominal coupon of 1.768% and 2.165% respectively.
- the Parent Company pays interest at 3-month Euribor plus a spread of 0.85% on the nominal amount of the term loan taken out in August 2016 (€ 300 million);
- the Parent Company pays interest at 3-month Euribor plus a spread of 0.50% on the nominal amount of the revolving credit facility taken out in September 2016 (€ 200 million).

19. Income and charges relating to put options and earn outs

At 31 December 2017, net liabilities totalling € 2.8 million were recorded. These related to the non-cash effects apportioned for 2017 of discounting the payable for future commitments to purchase the remaining SPML shares from the former shareholders to present value (€ 3.5 million), as well as income of € 0.7 million arising from updated estimates of earn out payments linked to the acquisitions of Sagatiba and Bulldog.

20. Income taxes

Taxes are calculated based on existing regulations, applying the tax rates in force in each country.
Deferred tax income and expense is calculated each year based on the rates in force at the time the temporary differences are reversed; appropriate adjustments are made if the rate is different from that of previous years, provided that the related law has already been issued on the date the financial report is drafted.
The amounts of current and deferred taxes recorded directly in the statement of comprehensive income relate to the effects of the remeasurement of pension funds and the valuation at fair value of cash flow hedging contracts.
Details of current and deferred taxes included in the Group's income statement and statement of comprehensive income are as follows.

	2017 € million	2016 € million
- current taxes for the year	(60.3)	(49.8)
- current taxes relating to previous years	25.5	1.7
- change in tax rate deferred tax	81.9	-
- deferred tax expenses(*)	(17.5)	(22.4)
Taxes recorded in the income statement	**29.7**	**(70.5)**
Taxes recorded in the statement of comprehensive income	**(0.5)**	**(0.4)**

(*) the line includes tax provision

On 28 April 2017, Davide Campari-Milano S.p.A. signed an agreement with the relevant tax authority that defines the methods and criteria to be used to calculate the portion of income that is exempt from IRES and IRAP for the purposes of a 'patent box', i.e. the size of the financial contribution to the company's income generated by intangible assets.
Under this regulation, a preferential tax regime applies to companies that generate income through the direct use of intellectual property or the granting to third parties of the rights to it.
The agreement relates to the tax years 2015-2019.
The tax reduction is calculated by excluding a proportion of the income attributable to the use of eligible intangible assets from the tax base; the proportion was 30% for 2015, 40% for 2016, and 50% for the three-year period 2017-2019.
At 31 December 2017, the tax benefit, of € 44.8 million, was recorded under income tax in the consolidated financial results for the year. Of this amount:

- € 12.0 million relates to the 2015 tax period;
- € 15.5 million relates to the 2016 tax period;
- € 17.3 million is estimated for the 2017 tax period.

The non-recurring tax benefit has been deducted from the tax payments of Davide Campari-Milano S.p.A. from June 2017.

On 22 December 2017, a US tax reform was promulgated which introduced major changes to the taxation of companies resident in the United States, including the reduction of the federal tax rate from 35% to 21% starting from 2018. The tax rate change generated to the income statements 2017 a non-cash benefit of € 81.9 million relating to the release to the income statement of a portion of the deferred tax liabilities recorded in previous years by the American subsidiary.

Reconciliation of tax charges

The table below shows a reconciliation of the theoretical tax charge with the Group's actual tax charge.
The theoretical rate used is that in force on the reporting date, based on legal provisions, taking into account the IRES rate of 24.0% applied to the Parent Company.
In order to provide a clearer picture, IRAP has not been taken into account since, being a tax calculated on a tax base other than pre-tax profit, it would have had distortive effects.

Tax base differences are included under the permanent differences item.

	2017 € million	2016 € million
Group profit before tax	**326.7**	**236.7**
Applicable tax rate in Italy	24%	27.5%
Theoretical Group taxes at current tax rate in Italy	**(78.4)**	(65.1)
Difference in tax rate of Group companies	(4.4)	(2.1)
Permanent differences	(1.8)	(2.9)
Tax incentives	46.7	4.7
Tax provision	(22.7)	1.1
Taxes relating to previous financial years	93.8	0.2
Other consolidation differences	1.2	0.6
IRAP	(4.9)	(6.9)
Actual tax charge	29.7	(70.5)
Actual tax rate	**9.1%**	**-29.8%**

Breakdown of deferred taxes by type

Details of deferred tax income/expense and deferred tax assets/liabilities posted to the income statement, the statement of comprehensive income and the statement of financial position are broken down by type below.

	Statement of financial position		Income statement		Comprehensive Income Statements	
	31 December 2017 € million	31 December 2016 € million	2017 € million	2016 € million	2017 € million	2016 € million
Deferred expenses	1.7	2.2	(0.4)	(0.1)	-	-
Taxed funds	29.5	30.1	2.4	(4.5)	(0.1)	-
Past losses	6.7	7.3	(0.1)	0.9	-	-
Reclassified in reduction of deferred tax liabilities	(8.1)	(7.4)	-	-	-	0.2
Reclassified to assets available for sale	(0.2)	-	-	-	-	-
Exchange rate effect	-	-	-	-	(2.1)	7.2
Other	13.6	3.0	(0.2)	(0.6)	(0.4)	(0.5)
Deferred tax assets	**43.1**	**35.2**	**1.6**	**(4.3)**	**(2.5)**	**7.0**
Accelerated depreciation	(63.5)	(89.4)	23.0	8.1	-	(0.1)
Capital gains subject to deferred taxation	(0.4)	(0.8)	0.3	(0.1)	-	-
Goodwill and brands deducted locally	(175.6)	(266.5)	(24.2)	(28.0)	-	-
Tax rate changes	-	-	81.9	-	-	-
Trademark not deductible at local level	(79.3)	(91.1)	13.3	10.2	-	-
Taxes payable on undistributed profits	(1.0)	(1.1)	0.1	-	-	-
Leasing	(1.9)	(1.9)	-	-	-	-
Reclassification of deferred tax assets	8.1	7.4	-	0.6	-	-
Exchange rate effect	-	-	-	-	30.7	(16.2)
Other	(50.2)	(39.5)	5.1	(8.8)	-	-
Deferred tax liabilities	**(364.0)**	**(482.9)**	**99.4**	**(18.0)**	**30.6**	**(16.3)**
Total	**(320.9)**	**(447.7)**	**101.1**	**(22.4)**	**28.1**	**(9.4)**

Deferred tax assets in respect of past losses are mainly attributable to Campari do Brasil Ltda and Campari España S.L. Local legislation does not set a time limit for their use, but does set a quantitative limit for each individual year, based on declared taxable income. The companies have also begun to use these against taxable profit.

21. Basic and diluted earnings per share

Basic earnings per share are calculated as the ratio of the Group's portion of net profits for the year to the weighted average number of ordinary shares outstanding during the year; own shares held by the Group are, therefore, excluded from the denominator.

Diluted earnings per share are determined by taking into account the potential dilution effect resulting from options allocated to beneficiaries of stock option plans in the calculation of the number of outstanding shares.

Basic and diluted earnings per share are calculated as shown in the table below.

		31 December 2017 € million	31 December 2016 € million
Net profit attributable to ordinary shareholders	€ million	356.4	166.3
Weighted average of ordinary share outstanding	number	1,160,785,339	1,157,508,450
Basic earnings per share	€	**0.31**	**0.14**
Net profit attributable to ordinary shares outstanding net of dilution	€ million	356.4	166.3
Weighted average of ordinary shares outstanding net of dilution	number	1,180,022,862	1,158,249,215
Diluted earnings per share	€	**0.30**	**0.14**

22. Net tangible fixed assets

Changes in this item are shown in the table below.

	Land and buildings € million	Plant and machinery € million	Other € million	Total € million
Carrying amount at the beginning of the period	387.2	385.4	171.8	944.4
Accumulated amortization at the beginning of the period	(114.6)	(243.6)	(91.8)	(450.1)
Balance at 31 December 2016	**272.6**	**141.8**	**79.9**	**494.3**
Reclassification of opening values	14.2	(0.3)	1.4	15.3
Balance at 31 December 2016 post-reclassifications	**286.8**	**141.5**	**81.4**	**509.6**
Perimeter effect for disposals	-	(0.5)	(0.0)	(0.5)
Reclassification as assets held for sale	(39.5)	(7.9)	(2.2)	(49.6)
Investments	17.4	18.4	31.0	66.8
Disposals	(5.6)	(2.1)	(3.3)	(11.1)
Depreciation	(11.6)	(20.8)	(12.6)	(45.0)
Exchange rate differences and other changes	(15.0)	(13.1)	(11.3)	(39.4)
Balance at 31 December 2017	**232.4**	**115.5**	**83.0**	**430.9**
Carrying amount at the end of the period	326.5	309.7	150.9	787.1
Accumulated amortization at the end of the period	(94.1)	(194.2)	(67.9)	(356.2)

Following the definitive allocation of the purchase price of SPML, the opening values of the tangible assets located mainly in France were adjusted by an amount of € 15.3 million.

Reclassifications to assets held for sale are attributable to:

- the sale of Sancerre French wines, which includes buildings, wine-making equipment, production machinery and other fixed assets totalling € 6.2 million; these assets were reclassified as assets held for sale and sold during the year;
- the sale of the former SPML building in Paris for € 32.4 million; the property has also been reclassified and sold during the year;
- the sale of assets related to the Lemonsoda business for € 12.5 million, the closing of which was finalised on 3 January 2018.

Investment in the period (€ 66.8 million) includes the following projects:

- in Jamaica, € 6.0 million was invested to refurbish the visitor centre;
- in the US, € 4.7 million was invested in extending the warehouses for storing barrels of maturing inventory at the Lawrenceburg plant;
- in Argentina, € 0.9 million was invested in introducing herb infusion equipment and € 0.4 million in installing a new bottling line;
- in Australia, approximately € 2.0 million was invested in improving the efficiency of the Derrimut bottling plant;
- the purchase of barrels for maturing bourbon whisky and rum had an impact of € 17.9 million;

Disposals, amounting to €11.1 million, mainly related to the sale of barrels for maturing inventory in America.

Lastly, it should be noted that, for greater clarity, fixed assets in progress of €5.6 million were included under the categories to which they relate, depending on the nature of the capital expenditure.

The following table provides a breakdown of tangible fixed assets by ownership.

€ million	Fixed assets owned	under finance lease	total
Land and buildings	232.4	-	232.4
Plant and machinery	115.5		115.5
Other assets	**81.2**	1.8	**83.0**
Total	**429.1**	**1.8**	**430.9**

23. Biological assets

At 31 December 2017, the biological assets were attributable to the orange plantations owned in the Caribbean by the SPML group. During the year, the biological assets relating to the Chateau de Sancerre French still wines business were first reclassified as assets held for sale and then sold in July 2017 (please refer to the section 'Significant events in the period' for more information).

A summary of changes in this item is shown in the table below.

	Assets valued at cost € million
Carrying amount at the beginning of the period	1.0
Accumulated depreciation at the beginning of the period	(0.6)
Balance at 31 December 2016	**0.4**
Reclassification of opening values[(*)]	7.3
Balance at 31 December 2016 post-reclassifications	**7.8**
Depreciation	(0.1)
Reclassification as assets held for sale	(7.5)
Other movements	0.8
Balance at 31 December 2017	**1.0**
Carrying amount at the end of the period	1.3
Accumulated depreciation at the end of the period	(0.3)

[(*)] For reclassifications of opening book values, see note 7 – 'Reclassifications of opening book values'

All residual biological assets at 31 December 2017 are recognised on a cost basis, net of depreciation and impairment.

24. Investment property

At 31 December 2017, investment property, totalling € 120.9 million, related to the investment property of SPML, and for immaterial amounts, assets owned by the Parent Company.
These buildings were recorded in the financial statements at their approximate fair value at the reporting date.

25. Goodwill and brands

Changes during the year are shown in the table below.

	Goodwill € million	Brands with an indefinite life € million	Brands with a finite life € million	Total € million
Carrying amount at the beginning of the period	1,486.2	1,001.1	45.8	2,533.2
Opening impairment	(3.0)	(0.0)	(25.2)	(28.3)
Balance at 31 December 2016	**1,483.2**	**1,001.1**	**20.6**	**2,504.9**
Reclassification of opening values	(63.2)	49.2		
Balance at 31 December 2016 post-reclassifications	**1,419.9**	**1,050.4**	**20.6**	**2,490.9**
Perimeter effect for acquisition	28.6	52.9	-	81.5
Investments	-	0.2	-	0.2
Reclassification as assets held for sale	(46.7)	(67.2)	-	(113.8)
Depreciation	-	-	(2.3)	(2.3)
Other movements	0.2	0.5	-	0.7
Exchange rate differences	(105.0)	(47.0)	(2.3)	(154.4)
Balance at 31 December 2017	**1,297.0**	**989.7**	**16.0**	**2,302.7**
Carrying amount at the end of the period	1,299.9	989.6	38.3	2,327.8
Closing impairment	(2.9)	-	(22.2)	(25.1)

Intangible assets with an indefinite life are represented by goodwill and brands, both deriving from acquisitions. The Group expects to obtain positive cash flow from these assets for an indefinite period of time. Goodwill and brands with an indefinite life are not amortised but are subject to impairment tests.
Brands with a finite life included the value of the X-Rated Fusion Liqueur which, in previous years, had suffered impairment losses. In 2015, its useful life was reviewed and determined as a period of ten years from 2016.
The change in the basis of consolidation comprises increases totalling € 81.5 million attributable to the identification of amounts for goodwill € 28.6 million) and brands (€ 52.9 million) related to the acquisition of Bulldog (for more details, see note 8 – 'Business combinations');
In 2017, an amount of € 23.6 million was reclassified under assets available for sale, attributable to the goodwill of the Lemonsoda soft drinks business (see the section 'Events taking place after the end of the year' in the Report on operations for more details), as well as amounts for goodwill and brands of € 23.0 million and € 62.7 million respectively, attributable to the sale of the business belonging to the Carolans and Irish Mist brands (see the section 'Significant events' in the Report on operations for more details).

Negative exchange rate differences, of € 154.4 million, arose when the amounts for brands and goodwill, which were recorded in local currency, were adjusted to year-end exchange rates, and due specifically to the depreciation of the US Dollar.

26. Impairment

Regarding the impairment tests conducted on the recoverable value of intangible assets with an indefinite life, the goodwill values were tested at an aggregate level on the basis of the values allocated to the four cash-generating units (CGUs), namely Americas CGU, SEMEA CGU, NCEE CGU and APAC CGU. This structure reflects, for each CGU in the Group, the lowest level of goodwill allocated considered to be appropriate, given the synergies and efficiency improvements obtained at regional level. Moreover, this configuration reflects the geographical

segment reporting structure adopted by the Group, based on the Group's current organisational structure. For brands, the values were tested individually or by combinations of brands acquired.

The impairment tests were developed for the balance sheet figures at 30 September 2017 in time for the meeting of the Board of Directors of Davide Campari-Milano S.p.A. convened for the respective approval. The results of the tests were still valid as at 31 December 2017, since no events or indicators of impairment had occurred that could have significantly reduced the value of the assets or recoverable amounts in the last quarter of 2017.

Impairment testing of goodwill

The allocation of goodwill for each CGU is based on the previous year's goodwill values, and adjusting them for exchange rate effects on goodwill values and perimeter effects.

The carrying amounts of the CGUs were calculated by allocating, in addition to goodwill, the brand values assigned on the basis of the profitability achieved by the brand in each CGU, as well as the fixed assets and working capital, which were mainly allocated on the basis of the relevant sales by region.

The recoverable value of the CGUs is determined based on the 'value in use' model. The value in use of an asset is calculated by discounting the estimated value of future cash flows generated by the continuous use of an asset. Expected cash flows, which are based on the Group's cash flow estimates, are discounted using a post-tax discount rate, which reflects both the time value of money and a further adjustment to include the generic market risk and the specific risks for the company. IAS 36 states that a discount rate and pre-tax expected cash flows should be used for calculating value in use. The exercise established that the post-tax approach provides results consistent with those obtained with a pre-tax approach.

Forecasts of operating cash flows relating to the whole Group are taken from the 2018 budget and the strategic plans prepared by the Group's subsidiaries in 2017 for the period 2019-2022 and approved by the Board of Directors of Davide Campari-Milano S.p.A.

In addition, the five-year cash flow plan was extended to ten years, assuming a growth rate no higher than the average long-term growth rate for the market in which the Group operates. The use of a ten-year period was justified by the extension of the life cycle of the brands in the reference market, as well as the length of the maturing process of certain particularly important businesses in some CGUs. Estimates of future cash flows were calculated based on prudent criteria in respect of growth rates and sales development. In addition, projections are based on reasonableness, prudence and consistency with respect to the allocation of future overheads, trends in capital investment, conditions of financial equilibrium and the main macroeconomic variables. Cash flow projections relate to current operating conditions and therefore do not include cash flows connected with any one-off operations. The main assumptions used in calculating the value in use of the CGUs are the growth rate and discount rate.

For the purposes of determining the terminal value, the perpetuity growth method of discounting was used. Specifically, a perpetual growth rate was used that corresponds to the average of consumer price rises for the period 2018-2022 (source: IMF), assumed conservatively to be 2.4% for the Americas CGU, 1.3% for the SEMEA CGU, 2.1% for the NCEE CGU and 2.4% for the APAC CGU. The perpetual growth rate value does not exceed the long-term growth rate of the industry in which the Group operates, in line with the provisions of IAS 36.

The value in use of the CGUs was calculated by discounting the estimated value of future cash flows, including the terminal value, which it is assumed will derive from the continuing use of the assets, at a discount rate (net of taxes and adjusted for risk) that reflects the weighted average cost of capital. Specifically, the discount rate used was the Weighted Average Cost of Capital (WACC), which depends on the risk associated with the estimate of cash flows. The WACC was determined on the basis of observable indicators and market parameters, the current value of money, and the specific risks connected with the business of the relevant CGU. The discount rates used in the 2017 impairment tests on the date the valuation was performed varied for the four CGUs tested as follows: 6.0% for the Americas CGU, 7.9% for the SEMEA CGU, 8.0% for the NCEE CGU and 6.0% for the APAC CGU.

Impairment testing on brands

Impairment testing was performed on brands individually, using the value in use criterion. The recoverable value of the brand was calculated using the multi-period excess earnings method (MEEM).

The MEEM is an earnings-based valuation method. The theoretical premise of the MEEM is that the value of a brand is equal to the current value of the residual cash flows attributable to that asset only. Essentially, according to this criterion, the relevant earnings are calculated using the income that the company would record if it released itself from ownership of all the other assets (contributory asset charges) to reacquire the right of use.

Estimates of income flows generated by individual brands, net of contributory asset charges, and of the terminal value, discounted to present value using an appropriate discount rate, were used to calculate the recoverable value of brands. Forecasts of income flows come from the 2018 budget and the strategic plans prepared by the Group's subsidiaries in 2017 for the period 2019-2022. In addition, the five-year income flow plan was extended to ten years, assuming a growth rate no higher than the average long-term growth rate for the market in which the Group operates. The use of a ten-year period was justified by the extension of the life cycle of the brands in

the industry in which the Group operates, and takes into account the length of the maturing process of certain brands.
Specifically, for the purposes of determining the terminal value of each brand, a perpetual growth rate of between 2.1% and 2.3% was used that did not exceed the long-term growth estimates for the sector. The discount rates used for the individual brands tested varied from 6.8% to 8.0% and took into account a specific risk premium for the brand in question.
Based on the materiality principle, brands which, individually and in aggregate, have an immaterial value are not subject to impairment testing.

Results of impairment testing
Based on the methodologies and assumptions set out above, the impairment tests revealed that the values of goodwill and brands recorded at 31 December 2017 were fully recoverable.
To take into account current market volatility and uncertainty over future economic prospects, sensitivity analysis was carried out to assess the recoverability of amounts relating to goodwill and brands. Specifically, sensitivity analysis of recoverable values of the individual CGUs and individual brands was carried out based on the assumption of a percentage point increase in the discount rate and a percentage point reduction in the terminal growth rate. The sensitivity analysis described above confirmed that the values of the goodwill and brands are fully recoverable.

Values of goodwill and brands at 31 December 2017
The values of goodwill at 31 December 2017, by CGU, are shown in the table below.

	31 December 2017(*) € million	31 December 2016(*) € million
Americas	676.2	759.4
SEMEA	365.6	410.6
NCEE	256.0	287.5
APAC	22.8	25.6
Total	**1,320.6**	**1,483.2**
Reclassification of opening balances		**(63.2)**
Total Adjusted	**1,320.6**	**1,420.0**

(*) amounts classified as 'assets held for sale' included.

Changes in goodwill values at 31 December 2017 compared with 31 December 2016 are due to negative exchange rate effects of € 104.9 million, which were re-allocated proportionally to the individual CGUs, and to the perimeter effect.

The values of brands at 31 December 2017 are shown in the table below:

	31/12/2017(*) € million	31/12/2016(*) € million
Grand Marnier(1)	300.7	256.0
Wild Turkey	152.3	173.2
Glen Grant and Old Smuggler	104.3	104.3
Jamaican Rum Portfolio	104.1	115.3
Forty Creek	69.1	73.2
Averna and Braulio	65.5	65.5
Cabo Wabo	59.2	67.4
Frangelico(2)	54.0	116.6
Bulldog	50.8	-
X-Rated(3)	16.1	20.6
Riccadonna	11.3	11.3
Others	18.3	20.2
Total	**1,005.7**	**1,023.5**
Reclassification of opening balances		**49.2**
Total Adjusted	**1,005.7**	**1,072.7**

(*) Amounts classified as 'assets held for sale' included.
(1) Trademark value at 31 December 2016 based on Provisional Purchase Price Allocation.
(2) Trademark value at 31 December 2016 including also Carolans & Irish Mist (disposed in 2017)
(3) Asset with finite life. The trademark value amortized over a timeframe of 10 years until 2025.

Changes in brand values at 31 December 2017 compared with 31 December 2016 are due to negative exchange rate effects (€ 49.3 million) and the perimeter effect attributable to the acquisition of Bulldog.

27. Intangible assets with a finite life

Changes in this item are shown in the table below.

	Software	Other	Total
	€ million	€ million	€ million
Carrying amount at the beginning of the period	63.6	14.5	78.1
Accumulated amortization at the beginning of the period	(43.0)	(8.8)	(51.8)
Balance at 31 December 2016	**20.6**	**5.7**	**26.3**
Investments	16.2	0.2	16.4
Disposal	-	(0.3)	(0.3)
Amortisation for the period	(8.7)	(0.8)	(9.5)
Exchange rate differences and other changes	(1.7)	1.6	(0.1)
Balance at 31 December 2017	**26.4**	**6.4**	**32.8**
Carrying amount at the end of the period	73.4	14.0	87.4
Accumulated amortization at the end of the period	(47.0)	(7.6)	(54.6)

Intangible assets with a finite life are amortised on a straight-line basis according to their remaining useful life.
Investment in intangible assets with a finite life during the year, totalling €16.4 million, mainly related to projects to continuously upgrade and integrate the IT systems currently used by the Group.

28. Other non-current assets

This item breaks down as follows:

	Balance at 31 December 2017	Balance at 31 December 2016
	€ million	€ million
Financial receivables	10.8	21.5
Term deposit	27.0	33.7
Non-current financial assets	**37.8**	**55.3**
Equity investment in other companies	1.3	1.7
Security deposits	0.9	1.1
Other non-current receivables from main shareholders	2.2	2.2
Other non-current tax receivables	4.2	4.0
Other non-current assets	**8.7**	**9.1**
Other non-current assets	**46.5**	**64.3**

At 31 December 2017, deposits, totalling € 27.0 million comprised cash investments of € 27.0 million by the Parent Company, with a maturity date of 2019.
Financial receivables essentially include interest-bearing financial receivables from sales of businesses totalling € 5.0 million and restricted deposits of € 3.2 million for the settlement of the put option to acquire the remaining minority shares of J.Wray & Nephew Ltd. The item was lower than at 31 December 2016 following the sale of cash investments.
The other non-current tax receivables, totalling €4.2 million include receivables from the tax authorities due to the Group's Italian companies (€3.5 million) related to the entitlement to refunds of the higher income taxes paid in previous years due to the non-deductibility of IRAP Additional receivables totalling € 2.2 million due to the ultimate shareholder Alicros S.p.A. were recorded for the tax consolidation periods from 2007 to 2011.
Please see note 48 – 'Related Parties' for details on the relationships with ultimate shareholder Alicros S.p.A.

29. Inventories and current biological assets

This item breaks down as follows:

	Balance at 31 December 2017	Balance at 31 December 2016(*)
	€ million	€ million
Raw materials, supplies and consumables	39.5	38.3
Work in progress	62.7	59.3
Ageing inventory	282.9	293.7
Finished products and goods for resale	106.4	144.8
Inventories	**491.4**	**536.1**
Current biological assets	0.4	7.5
Current biological assets	**0.4**	**7.5**
Total	**491.7**	**543.5**

(*) For reclassifications of opening book values, see note 7 – 'Reclassifications of opening book values'

Stocks totalled € 491.4 million at 31 December 2017, a decrease on 31 December 2016. This is essentially attributable to several factors, as summarised below:

- exchange rate effects, which had a negative impact of € 41.6 million on the closing value of inventories;
- sales of the Carolans and Irish Mist businesses for a total of € 5.1 million;
- effects of the reclassification of an amount of € 5.2 million to net assets held for sale, relating to the sale of the Lemonsoda business (for more information, see 'Events taking place after the end of the period');
- organic change, which comprised a net increase of € 3.6 million, due to increases in stocks of work in progress and maturing inventory and raw materials totalling € 28.9 million, offset by a decrease in finished products of € 22.0 million.

Current biological assets at 31 December 2017 totalled € 0.4 million, being the fair value of the sugar cane harvest that had not yet ripened. This fair value estimate is based on the production costs incurred minus any impairment, calculated with reference to the estimated revenues from the sale of the harvest minus the costs of cultivation, harvesting and transportation to point of sale.
The significant change compared to the previous year is essentially attributable to the sale of the Sancerre wines business totalling € 3.9 million.

Inventories are reported minus the relevant provisions for write-downs. The changes are shown in the table below.

	€ million
Balance at 31 December 2016	**(16.5)**
Perimeter effect for acquisition	1.4
Balance at 31 December 2016 post reclassification	**(15.1)**
Perimeter effect for acquisition	-
Perimeter effect for sale of business	0.0
Accruals/Release	(5.8)
Utilisation	1.6
Exchange rate differences and other changes	1.5
Balance at 31 December 2017	**(17.7)**

30. Trade receivables and other receivables

This item breaks down as follows:

	Balance at 31 December 2017	Balance at 31 December 2016
	€ million	€ million
Trade receivables from external costumers	307.9	291.5
Receivables in respect of contributions to promotional costs	9.6	14.9
Trade receivables	**317.5**	**306.4**
Advances to suppliers	0.2	0.4
Advances and other receivables from suppliers	4.2	2.4
Other receivables from tax authorities	8.1	7.4
Receivables from agents and miscellaneous customers	3.1	1.6
Prepaid expenses	12.0	7.2
Other	4.3	7.8
Other receivables	**31.8**	**26.8**

Trade receivables increased by € 11.1 million compared with the previous year, including an organic increase of € 30.9 million. This effect was partially offset by a foreign exchange effect of € 20.8 million. Their carrying amount is considered to be close to their fair value.
Trade receivables are shown net of year-end bonuses and payables for promotional costs. This item is reported net of the related bad debt provision, reflecting the actual risk of uncollectability, consistent with the disclosure of revenues on the income statement.

Other receivables from tax authorities, totalling €8.1 million, primarily comprise €4.3 million for VAT, €1.1 million for excise duty and €2.7 million for other taxes.

The table below shows receivables broken down by maturity.

31 December 2017	Trade receivables	Other receivables	Total
	€ million	€ million	€ million
Not overdue and not impaired	**256.3**	**11.6**	**267.9**
Not overdue and not impaired	0.2	0.5	0.7
Due and not impaired:			
Less than 30 days	38.4	-	38.4
30-90 days	11.6	-	11.6
Within 1 year	5.0	0.1	5.1
Within 5 years	3.2	-	3.2
Total due and not impaired:	**58.4**	**0.1**	**58.4**
Due and impaired	**12.3**	**-**	**12.3**
Amount impaired	(11.6)	(0.5)	(12.1)
Total receivables broken down by maturity	**315.6**	**11.7**	**327.3**

31 December 2016	Trade receivables € million	Other receivables € million	Total € million
Not overdue and not impaired	**238.8**	**12.6**	**251.4**
Due and not impaired:			
Less than 30 days	43.0	0.1	43.1
30-90 days	13.1	6.6	19.7
Within 1 year	4.2	-	4.2
Within 5 years	4.1	0.4	4.4
Total due and not impaired:	**64.5**	**7.0**	**71.5**
Due and impaired	**14.3**	**0.8**	**15.1**
Amount impaired	(14.3)	(0.8)	(15.1)
Total receivables broken down by maturity	**303.2**	**19.6**	**322.9**

The following table shows the changes in bad debt provisions during the period.

	Bad debt provision	
€ million	Trade receivables	Other receivables
Balance at 31 December 2016	**14.3**	**0.8**
Accruals	2.8	0.4
Utilizations	(3.5)	(0.0)
Releases	(0.6)	(0.6)
Exchange rate differences and other changes	(1.4)	(0.1)
Balance at 31 December 2017	**11.6**	**0.5**

Utilisations for the year were due to the settlement of lawsuits outstanding from previous years.

31. Current financial receivables

This item breaks down as follows:

	Balance at 31 December 2017 € million	Balance at 31 December 2016 € million
Securities and term deposit	**2.4**	**2.4**
Valuation at fair value of forward contracts	2.1	0.6
Other financial assets	0.4	0.7
Restricted deposits	4.4	3.5
Other current financial receivables	**6.9**	**4.8**
Current financial receivables	**9.3**	**7.2**

Securities mainly include short-term or marketable securities that represent a temporary investment of cash but do not satisfy all the requirements for classification under cash and cash equivalents. The item includes securities falling due within one year.
The other financial assets mainly include the costs incurred for entering into the revolving credit facility (RCF), which are charged to the income statement as financial liabilities over the term of the credit facility.

Restricted deposits at 31 December 2017 include cash earmarked for settling payables for guarantees relating to the acquisition of Bulldog. Current financial payables included liabilities of the same amount, as shown under note 37 – 'Payables to banks and other current financial payables'.
All financial receivables are current and due within a year.

32. Current income tax receivables

	Balance at 31 December 2017 € million	Balance at 31 December 2016 € million
Income taxes	13.1	10.3
Receivables from main shareholders for tax consolidation	15.5	2.0
Income tax receivables	**28.6**	**12.3**

Tax receivables can all be recovered within twelve months.
Receivables from the ultimate shareholder mainly relate to receivables for tax consolidation due from the ultimate shareholder, Alicros S.p.A., of € 13.9 million for the Parent Company, € 1.1 million for Fratelli Averna S.p.A. and € 0.5 million for other Group companies. All receivables and payables are non-interest-bearing; for more details, see note 48 – 'Related parties'.

33. Cash and equivalents and reconciliation with net debt

The Group's cash and cash equivalents break down as follows:

	Balance at 31 December 2017 € million	Balance at 31 December 2016 € million
Bank current accounts and cash	363.8	308.7
Term deposit maturing within 3 months	150.7	45.4
Cash and cash equivalents	**514.5**	**354.1**

The cash and cash equivalents item comprises current accounts, other sight deposits and those that can be withdrawn within a maximum period of three months from the reporting date, which are held at leading banks and pay variable market-based rates depending on the currency and period concerned.
'Cash and cash equivalents' also includes securities that can be readily converted into cash, consisting of short-term, highly liquid financial investments that can be quickly converted to known cash instruments, with an insignificant risk of a change in value.

The change in cash and cash equivalents compared with 31 December 2016, up by € 160.4 million, is mainly attributable to the sales and acquisitions of businesses concluded during the year, in addition to the liquidity generated by recurring operating activities.

Reconciliation with net financial position
The reconciliation with the Group's net debt is set out below.

	Balance at 31 December 2017 € million	Balance at 31 December 2016(**) € million
Cash and cash equivalents	514.5	354.1
Cash (A)	**514.5**	**354.1**
Securities	2.4	2.4
Other current financial receivables	6.9	4.8
Current financial receivables (B)	**9.3**	**7.2**
Current bank payables	(17.6)	(106.9)
Current portion of lease payables	(0.1)	-
Other current financial payables	(9.1)	(12.9)
Current portion of payables for put option and earn outs	(49.1)	(45.6)
Current financial payables (C)	**(76.0)**	**(165.5)**
Net current financial position (A+B+C)	**447.8**	**195.8**
Non-current bank payables	(300.4)	(302.3)
Non-current portion of lease payables	(1.3)	(2.2)
Non-current portion of private placement and bonds	(996.3)	(994.6)
Non-current portion of payables for put option and earn outs	(169.1)	(144.4)
Non-current financial debt (D)	**(1,467.1)**	**(1,443.4)**
Net debt (A+B+C+D)(*)	**(1,019.3)**	**(1,247.6)**
Reconciliation with the Group's financial position, as shown in the Report on Operations:		
Term deposits	31.5	25.6
Non-current financial receivables	6.3	29.6
Group net financial position	**(981.5)**	**(1,192.4)**

(*) In accordance with the definition of net debt set out in Consob Communication DEM 6064293 of 28 July 2006.
(**) For reclassifications of opening book values, see note 7 – 'Reclassifications of opening book values'

For all information concerning the items that make up net debt excluding liquidity, see note 31 - 'Current financial receivables', note 28 - 'Other non-current assets', and note 36/37 - 'Financial liabilities'.

34. Net assets held for sale

Net assets held for sale are valued at the lower of net book value and fair value less selling costs. At 31 December 2017, this item included:
- surplus real estate assets relating to a residual portion of the Termoli site (value unchanged from 31 December 2016);
- property in France;
- net assets belonging to the Lemonsoda business.

At 31 December 2016, this item included the net assets of the Lapostolle Chilean wines business, the sale of which was completed on 31 January 2017.
For more details, see 'Significant events during the period' and 'Events taking place after the end of the period'.

	31 December 2016 post - reclassification(*)	Disposal	Reclassification as assets held for sale	31 December 2017
	€ million	€ million	€ million	€ million
Assets				
Net tangible assets	15.1	(58.4)	62.0	**18.6**
Goodwill and Brands	1.8	(92.0)	113.8	**23.6**
Other net intangible assets	0.2	(0.2)	0.0	**0.0**
Other non-current assets	0.6	(0.6)	0.2	**0.2**
Inventories	19.0	(25.9)	12.1	**5.2**
Trade receivables	3.9	(3.9)	-	**-**
Other current assets	2.4	(2.4)	0.0	**-**
Total assets classified as held for sale	**43.0**	**(183.4)**	**188.2**	**47.7**
Liabilities				
Other non-current liabilities	1.4	(1.4)	-	**-**
Trade payables	1.3	(1.3)	-	**-**
Other current liabilities	1.9	(1.9)	0.1	**0.1**
Total liabilities classified as held for sale	**4.6**	**(4.6)**	**0.1**	**0.1**
Total net assets	**38.4**	**(178.8)**	**188.1**	**47.6**
Of which:				
business Lapostolle *wines*	32.0	(32.0)		**-**
investment properties	6.4	(35.6)	35.2	**6.0**
business Sancerre *wines*		(21.9)	21.9	**-**
business Carolans/Irish Mist		(89.3)	89.3	**-**
business Lemonsoda			41.6	**41.6**

(*) For reclassifications of opening book values, see note 7 – 'Reclassifications of opening book values'

35. Shareholders' equity

The Group manages its capital structure and makes changes to it on the basis of the prevailing economic conditions and the specific risks of the underlying asset.
To maintain or change its capital structure, the Group may adjust the dividends paid to the shareholders and/or issue new shares.
In this context, like other groups operating in the same sector, the Group uses the net debt/EBITDA multiple as a monitoring tool.
Net debt is the Group's net financial position calculated at average exchange rates for the previous 12 months; EBITDA is the Group's operating result before depreciation, amortisation and non-controlling interests, pro-rated to take account of sales and acquisitions in the past 12 months.
At 31 December 2017, this multiple was 2.0 (compared with 2.9 at 31 December 2016).

For information on the composition of and changes in shareholders' equity for the periods under review, see the statement of changes in shareholders' equity.

Share capital

At 31 December 2017, the share capital of Davide Campari-Milano S.p.A. was € 58,080,000 fully paid-up, comprising 1,161,600,000 ordinary shares with a nominal value of € 0.05 each.
On 28 April 2017, the Extraordinary Shareholders' Meeting approved the split of its 580,800,000 shares with a nominal value of € 0.1 per share, which constituted its share capital at 31 December 2016, to be carried out via the issue of two new shares with a nominal value of € 0.05 per share for each existing share. The share split was carried out on 8 May 2017. The new shares qualify for dividends from 1 January 2016, and the paid-up share capital of € 58,080,000 (unchanged from 31 December 2016) is divided into 1,161,600,000 shares. The share split doubled the number of shares, thereby halving the stock's value.

Outstanding shares and own shares

The following table shows the reconciliation between the number of outstanding shares at 31 December 2017 and in the two prior years.

	No. of shares			Nominal value		
	31 December 2017	31 December 2016	31 December 2015	31 December 2017	31 December 2016	31 December 2015
				€	€	€
Outstanding shares at the beginning of the period	1,158,915,312	1,158,157,108	1,153,837,434	57,945,766	57,907,855	57,691,872
Purchases for the stock option plan	(10,910,000)	(4,652,270)	(23,036,836)	(545,500)	(232,614)	(1,151,842)
Disposals	4,541,575	5,410,474	27,356,510	227,079	270,524	1,367,826
Outstanding shares at the end of the period	1,152,546,887	1,158,915,312	1,158,157,108	57,627,344	57,945,766	57,907,855
Total own shares held	9,053,113	2,684,688	3,442,892	452,656	134,234	172,145
Own shares as a % of share capital	0.78%	0.23%	0.30%			

In 2017, 10,910,000 own shares were acquired at a purchase price of €63.8 million, which equates to an average price of €5.85 per share.
The sale of 4,541,575 shares at a price of € 10.2 million for the exercise of stock option rights produced a negative difference of € 10.2 million, which was recorded under shareholders' equity and offset by the use of stock option reserves of € 3.1 million.

Furthermore, after 31 December 2017 and until publication of the financial statements was authorised, the Company purchased an additional 2,896,000 own shares, at an average price of € 6.28, and own shares were sold for the exercise of stock options for a total of 2,028,522 shares. Thus, the number of own shares on the date this report was approved was 9,920,591.

Dividends paid and proposed

The table below shows the dividends approved and paid during the year and in the previous year, and the dividends subject to the approval of the Shareholders' Meeting to approve the financial statements for the year ending 31 December 2017.

	Total amount		Dividend per share	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
	€ million	€ million	€	€
Dividends approved and paid during the year on ordinary shares	52.1	52.1	0.045	0.045
Dividends proposed on ordinary shares(*)	57.6		0.050	

(*) Calculated on the basis of outstanding shares at the date of the Board of Directors' meeting on 27 February 2018.

Other reserves

	Stock options	Cash flow hedging	Foreign currency traslation reserves	Remeasurement reserve for actuarial effefts relating to defined benefit plans	Total
	€ million	€ million	€ million	€ million	€ million
Balance at 31 December 2016	**26.2**	**(2.3)**	**59.3**	**(3.9)**	**79.4**
Cost of stock options for the period	6.9	-	-	-	6.9
Stock option exercided	(3.1)	-	-	-	(3.1)
Losses (profits) reclassified in the income statement	-	0.3	1.7	-	2.0
Profits (losses) allocated to shareholders' equity	-	1.8	-	0.3	2.1
Tax effect recognised in shareholder's equity	-	(0.4)	-	(0.1)	(0.6)
Traslation difference	-	-	(211.3)	-	(211.3)
Other movements	-	-	-	2.0	2.0
Balance at 31 December 2017	**30.0**	**(0.7)**	**(150.3)**	**(1.7)**	**(122.7)**

The stock option reserve contains the provision made as an offsetting entry for the notional cost recognised in the income statement for stock options granted. The provision is determined based on the fair value of the options, calculated using the Black-Scholes model.
For information on the Group's stock option plans, see note 43 – 'Stock option plan'.
The hedging reserve contains amounts (net of the related tax effect) pertaining to changes resulting from fair value adjustments of financial derivatives recorded using the cash flow hedging methodology.
For further information, see note 44 – 'Financial instruments: disclosures'.
The translation reserve reflects all exchange rate differences relating to the conversion of the accounts of subsidiaries denominated in currencies other than euro.
The remeasurement reserve for actuarial effects relating to defined benefit plans includes the effects of changes to the actuarial assumptions used to calculate net obligations for defined benefits.

36. Bonds and other non-current liabilities

The breakdown of bonds and other non-current liabilities is as follows.

	31 December 2017	Of which perimeter effect	31 December 2016(*)
	€ million	€ million	€ million
Bond (Eurobond) issued in 2012	218.1	-	397.2
Bond (Eurobond) issued in 2015	577.5	-	595.3
Bonds issued in 2017	200.0	-	-
Total bonds and private placement	**995.6**	**-**	**992.4**
Payables and loans due to banks	300.4	-	302.3
Property leases	1.3	(1.0)	2.2
Non-current liabilities for hedging derivatives	0.7	-	2.1
Payables for put option and earn outs	169.1	26.9	144.4
Non-current financial liabilities	**471.6**	**25.9**	**451.0**
Other non-current non-financial liabilities	22.0	-	8.5
Other non-current liabilities	**493.6**	**25.9**	**459.5**

(*) For reclassifications of opening book values, see note 7 – 'Reclassifications of opening book values'

Bonds

As explained in the 'Significant events during the period' section, on 30 March 2017, Davide Campari-Milano S.p.A. placed two unrated bonds (a seven-year and a five-year bond for € 150 million and € 50 million respectively), reserved for institutional investors only. This transaction constituted an exchange for existing notes previously issued by Davide Campari-Milano S.p.A. for a total amount of € 200 million.
The bonds redeemed were as follows:

- a total nominal amount of € 180.9 million of existing notes issued in 2012 with a nominal value of € 400 million, fixed interest of 4.50% and due on 25 October 2019;

- a total nominal amount of € 19.0 million of existing notes issued in 2015 with a nominal value of € 600 million, fixed interest of 2.75% and due on 30 September 2020.

The transaction incurred non-recurring financial liabilities of € 24.5 million; these mainly constituted the difference in the price of the outstanding bonds being bought back and their nominal value (€ 23.2 million), as well as various other transaction-related expenses.
At 31 December 2017, the bonds item included the following issues placed by the Parent Company:

- Eurobond 2012, with a duration of seven years and a nominal value of € 219.1 million, due on 25 October 2019. The bond pays a fixed annual coupon of 4.5% and the issue price was 99.068% of par, corresponding to a gross return of 4.659%.
- Eurobond 2015, due on 30 September 2020 and with a nominal value of € 580.9 million. The offer was placed at 99.715% of the nominal value. Coupons are payable at a nominal fixed interest rate of 2.75%. The gross return on the bond is therefore 2.81%;
- bond loan issued in 2017 by the Parent Company, due on 5 April 2022, with a nominal value of € 50 million. The bond pays a fixed annual coupon of 1.768%;
- bond loan issued in 2017 by the Parent Company, due on 5 April 2024, with a nominal value of € 150 million. The bond pays a fixed annual coupon of 2.165%.

The changes recorded in 2017 relate to the effects of the amortised cost of the above bonds and were negative at € 3.1 million (of which € 1.3 million was paid when the above-mentioned liability management transaction was renegotiated).

Payables and loans due to banks
This item includes euro-denominated loans entered into with leading banks, on which interest is mainly due at floating market rates. Specifically, the Parent Company took out a € 300 million bullet loan in 2016, at a rate of 3-month Euribor plus a 0.85% spread, made available by Banco Popolare, Intesa Sanpaolo and UniCredit. In conjunction with the term loan, a revolving credit facility (RCF) was granted in an amount of € 200 million, which had not been used as at 31 December 2017. On 3 August 2017, Davide Campari-Milano S.p.A. took the opportunity to extend the above financial exposures by two years: the new maturity is August 2021, from the original date of August 2019.

Leases
This item mainly includes payables for the purchase of vehicles. The decrease is mainly due to the perimeter effect resulting from the sale of the Chilean wines business (€ 1.0 million).

Payable for put options and earn outs
At 31 December 2017, the long-term portion of the item ‘Payables for put options and earn outs’ included:

- a payable (€ 139.1 thousand) created after the signing of agreements with members of the family that used to be the controlling shareholder of SPML, for the purchase, by 2021, of all the remaining shares held by them;
- an estimated payable for the earn out relating to the acquisition of Bulldog of € 23.1 million (value of € 26.9 million at the acquisition exchange rate), which can be exercised between 2019 and 2021;
- an estimated payable for the earn out relating to the acquisition of the Sagatiba brand, to be paid after the following year.

Other non-financial liabilities
The other non-financial liabilities at 31 December 2017 mainly include medium- to long-term liabilities relating to incentive-based plans accrued on behalf of employees, totalling € 20.1 million. They also include medical cover and profit-sharing benefits for employees of € 6.5 million.

Interest rates and maturities
The table below shows a breakdown of the Group’s main financial liabilities, together with effective interest rates and maturities.
It should be noted that, as regards the effective interest rate of hedged liabilities, the rate reported includes the effect of the hedging itself.
Furthermore, the values of hedged liabilities are shown here net of the value of the related derivative, whether this is an asset or liability.

	Nominal interest rate	Maturity	31 December 2017	31 December 2016(*)
			€ million	€ million
Non-current payables and loans due to banks	variable Euribor + 50/85 basis point	2016-2021	318.1	409.2
Parent Company bond issues				
- issued in 2012 (Eurobond)	fixed rate 4.5%	2019	218.1	595.3
- issued in 2015 (Eurobond)	fixed rate 2.75%	2020	577.5	397.2
- issued in 2017 (temination 2022)	fixed rate 1.768%	2022	50.0	
- issued in 2017 (temination 2024)	fixed rate 2.165%	2024	150.0	
Property leases	Euribor + 133 basis points	2015-2026	1.4	2.2

(*) For reclassifications of opening book values, see note 7 – 'Reclassifications of opening book values'

37. Payables to banks and other current financial payables

The table below shows a breakdown of the Group's payables to banks and other current financial payables.

	31 December 2017	Of which perimeter effect	31 December 2016(*)
	€ million	€ million	€ million
Payables and loans due to banks	**13.8**	**(21.5)**	**106.9**
Other financial liabilities	3.8	-	
Accrued interest on bonds	8.9	-	7.5
Property leases	0.1	(0.0)	0.0
Liabilities on hedging contracts	0.2	(0.1)	5.4
Payables for put options and earn outs	49.1	4.9	45.6
Total other financial payables	**62.1**	**4.8**	**58.5**

(*) For reclassifications of opening book values, see note 7 – 'Reclassifications of opening book values'

Payables to banks

Short-term payables to banks related to short-term loans or credit facilities used by the Group to obtain additional financial resources. The total change was mainly due to perimeter effects represented by bank payables belonging to SPML group companies of € 19.8 million, in addition to the repayment of a € 50.0 million tranche of the revolving credit facility (RCF) (see comments under note 36 – 'Bonds and other non-current liabilities'). Some loans are secured by mortgages on properties in Caltanissetta, in an amount of €3.5 million.

Payables for put options and earn outs

The short-term portion of these payables included payables for put options (€ 44.5 million) and earn outs (€ 4.6 million).

The payable for put options relates to:
- € 3.0 million for the purchase of the residual non-controlling shares in J.Wray & Nephew Ltd, for which the Group holds restricted cash and cash equivalents guaranteeing this obligation;
- € 41.5 million for the option to purchase some shares still held by former shareholders of SPML, exercisable in the next 12 months.

Payables for earn outs relate to:
- the annual tranche of Sagatiba (€ 0.2 million);
- € 4.4 million for the payable arising from the acquisition of Bulldog. A restricted deposit of the same amount is recorded under current financial receivables (see note 31 – 'Current financial receivables').

38. Defined benefit plans

Group companies provide post-employment benefits for staff, both directly and by contributing to external funds.
The procedures for providing these benefits vary according to the legal, fiscal and economic conditions in each country in which the Group operates.
The benefits are provided through defined contribution and/or defined benefit plans.
For defined contribution plans, Group companies pay contributions to private pension funds and social security institutions, based on either legal or contractual obligations, or on a voluntary basis.
The companies fulfil all their obligations by paying the said contributions.
At the end of the financial year, any liabilities for contributions to be paid are included in Other current liabilities; the cost for the period is reported according to function in the income statement.
Defined benefit plans may be unfunded, or fully or partially funded by contributions paid by the company, and sometimes by its employees, to a company or fund which is legally separate from the company and which pays out benefits to employees.

As regards the Group's Italian subsidiaries, the defined benefit plans consist of the employee indemnity liability (TFR), to which its employees are entitled by law.
Following reform of the supplementary pension scheme in 2007, for companies with at least 50 employees, TFR contributions accrued up to 31 December 2006 are considered to be 'defined benefit plans', while contributions accruing from 1 January 2007, which have been allocated to a fund held at the INPS (Italian social security agency) or to supplementary pension funds, are considered to be 'defined contribution plans'.
The portion of the TFR considered as a defined benefit plan consists of an unfunded plan that does not, therefore, hold any dedicated assets. The other unfunded defined benefit plans relate to SPML.

Campari Deutschland GmbH and Campari Schweiz A.G. have some funded defined benefit plans in place for employees and/or former employees. These plans have dedicated assets.
The liability for medical insurance in place at 31 December 2017 relates to J. Wray & Nephew Ltd. and offers access to health care provided that employees stay with the company until pensionable age and have completed a minimum period of service. The cost of these benefits is spread over the employee's service period using a calculation methodology similar to that used for defined pension plans.

The liability relating to the Group's defined benefit plans, which is calculated on an actuarial basis using the projected unit credit method, is reported in the statement of financial position net of the fair value of any dedicated assets.
In cases where the fair value of dedicated assets exceeds the value of the post-employment benefit obligation, and where the Group has the right to reimbursement or the right to reduce its future contributions to the plan, the surplus is reported as a non-current asset, in accordance with IAS 19.

The following table reports changes in the present value of defined benefit obligations, and the fair values of the assets relating to the plan in 2017 and 2016.

€ million	liabilities(*)	assets
Liabilities (assets) 31 dicembre 2016	**42.9**	**(3.7)**
Amounts included in the income statement:		-
- current service costs	1.8	-
- past service costs	(0.1)	-
- net interest	0.6	-
Total	**2.3**	**-**
Amounts included in the statement of comprehensive income:		-
- gain/(losses) resulting from changes in actuarial assumptions	0.1	-
- exchange rate differences	(0.4)	0.1
Total	**(0.4)**	**0.0**
Other changes:		-
- benefits paid	(3.6)	0.1
- business combination	(0.1)	-
- contribution to the plan by other members	0.2	(0.1)
- contributions to the plan by employees	0.1	(0.1)
- benefits transferred	3.1	-
Total	**(0.2)**	**(0.0)**
Liabilities (assets) 31 dicembre 2017(**)	**44.6**	**(3.7)**

(*) For reclassifications of opening book values, see note 7 – 'Reclassifications of opening book values'
(**) of which €34.4 million included under Defined benefit plans (note 38); of which €6.5 million included under Other non-current liabilities (note 36)

€ million	liabilities(*)	assets
Liabilities (assets) 31 dicembre 2015	**14.6**	**(3.6)**
Amounts included in the income statement:		-
- current service costs	(1.8)	-
- net interest	0.4	(0.1)
Total	**(1.3)**	**(0.1)**
Amounts included in the statement of comprehensive income:		-
- gain/(losses) resulting from changes in actuarial assumptions	(0.2)	-
Total	**(0.2)**	**-**
Other changes:		-
- benefits paid	(1.4)	0.2
- change in basis of consolidation	31.0	
- contribution to the plan by other members	0.1	(0.1)
- contributions to the plan by employees		(0.1)
- benefits transferred	0.1	
Total	**29.8**	**(0.0)**
Liabilities (assets) 31 dicembre 2016(**)	**42.9**	**(3.7)**

(*) For reclassifications of opening book values, see note 7 – 'Reclassifications of opening book values'
(**) of which €36.4 million included under Defined benefit plans (note 38); of which €2.7 million included under Other non-current liabilities (note 36)

The table below shows the total changes in obligations for defined benefit plans financed by assets that serve the plan (funded assets) and the liabilities relating to long-term unfunded benefits. It also includes benefits linked to medical cover, as described above, provided by J. Wray & Nephew Ltd. to its current and/or former employees, and the long-term benefits of the Group's Italian companies (TFR).

Current value of obligations	unfunded obligations		funded obligations		
€ million	pension plans(**)	other liabilities	gross value of pension plans	fair value of assets	net values
Liabilities (assets) 31 December 2016(*)	**35.6**	**2.7**	**4.6**	**(3.7)**	**0.9**
Amounts included in the income statement:			-	-	-
- current service costs	0.1	1.7	0.1	-	0.1
- past service costs	-	(0.1)	-	-	-
- reduction/plan amendment	-	-	-	-	-
- net interest	0.5	-	0.1	-	0.0
- gains/(losses) on regulations implemented	-	-	-	-	-
Total	**0.6**	**1.6**	**0.1**	**-**	**0.1**
Amounts included in the statement of comprehensive income:					
- gain/(losses) resulting from changes in actuarial assumptions	(0.0)	(0.1)	0.2	(0.0)	0.1
- changes to plan assets (excluding components already considered in net interest payable)		-		-	-
- exchange rate differences		(0.3)	(0.1)	0.1	(0.1)
Total	**(0.0)**	**(0.4)**	**0.0**	**0.0**	**0.1**
Other changes:					
- benefits paid	(2.7)	(0.7)	(0.1)	0.1	(0.0)
- business combination		(0.1)		-	-
- change in basis of consolidation		-		-	-
- contribution to the plan by other members		0.1	0.1	(0.1)	-
- contributions to the plan by employees		0.1	0.1	(0.1)	-
- benefits transferred	(0.1)	3.2		-	-
Total	**(2.8)**	**2.6**	**0.0**	**(0.0)**	**(0.0)**
Liabilities (assets) 31 December 2017	**33.4**	**6.5**	**4.8**	**(3.7)**	**1.1**

(*) For reclassifications of opening book values, see note 7 – 'Reclassifications of opening book values'

(**) of which €34.4 million included under Defined benefit plans (note 38); of which €6.5 million included under Other non-current liabilities (note 36)

Current value of obligations	unfunded obligations		funded obligations		
€ million	pension plans	other liabilities	gross value of pension plans	fair value of assets	net values
Liabilities (assets) 31 December 2015	**7.7**	**2.5**	**4.3**	**(3.6)**	**0.7**
Amounts included in the income statement:					-
- current service costs	(2.0)	0.2	0.1		0.1
- past service costs		-			
- reduction/plan amendment		-		-	-
- net interest	0.4	-	0.1	(0.1)	-
- gains/(losses) on regulations implemented		-		-	-
Total	**(1.7)**	**0.2**	**0.2**	**(0.1)**	**0.1**
Amounts included in the statement of comprehensive income:					
- gain/(losses) resulting from changes in actuarial assumptions	(0.3)	-	0.1	0.0	0.1
- changes to plan assets (excluding components already considered in net interest payable)		-		-	-
- exchange rate differences		(0.1)	(0.1)	(0.1)	(0.2)
Total	**(0.3)**	**(0.1)**	**(0.0)**	**(0.0)**	**(0.1)**
Other changes:					
- benefits paid	(1.3)	-	(0.1)	0.1	(0.0)
- change in basis of consolidation	31.1	-		-	-
- contribution to the plan by other members		-	0.1	(0.1)	-
- contributions to the plan by employees		-	0.1	(0.1)	-
- benefits transferred	(0.1)	0.1			
Total	**29.8**	**0.1**	**0.0**	**(0.0)**	**(0.0)**
Liabilities (assets) 31 December 2016(*)(**)	**35.5**	**2.7**	**4.5**	**(3.8)**	**0.7**

(*) For reclassifications of opening book values, see note 7 – 'Reclassifications of opening book values'

(**) of which €36.4 million included under Defined benefit plans (note 38); of which €2.7 million included under Other non-current liabilities (note 36)

The cost for current work and actuarial gains and losses are classified under personnel costs, while financial charges on obligations are classified as financial charges. The effects of the recalculation of actuarial effects are included in the other items of the statement of comprehensive income. The table below shows a breakdown of the values of assets that service the pension plans.

	2017	2016
- equity investments	1.1	1.1
- reinsurance policies	2.6	2.6
Fair value of plan assets	3.7	3.7

Obligations related to the plans described above are calculated on the basis of the following actuarial assumptions:

	Unfunded pension plans		Funded pension plans		Other plans	
	2017	2016	2017	2016	2017	2016
Discount rate	1.38%-1.81%	1.38%-1.81%	1.46%	0.70%-1.45%	8.00%	9.00%
Future salary increases	2.00%-3.00%	2.00%-3.00%	2.00%	2.00%		-
Growth rate of healthcare costs		-		-	8.00%	8.00%
Expected return on assets		-	1.00%	1.00%	-	-
Staff turnover rate	3,36%	1.68%-2.65%		-		-
Forecast inflation rate	1.00%	1,00%-1.50%	1.00%	1.00%	1.00%-7.00%	-

The rates relating to the costs of health benefits are not included in the assumptions used in determining the above obligations. Thus, any changes in these rates would not have any effect.

A quantitative sensitivity analysis of the significant assumptions used at 31 December 2017 is shown below. Specifically, it shows the effects on the final net obligation arising from a positive or negative percentage change in the key assumptions used.

	Unfunded pension plans			Funded pension plans			Other plans		
	Change in the assumptions	Impact of positive change	Impact of negative change	Change in the assumptions	Impact of positive change	Impact of negative change	Change in the assumptions	Impact of positive change	Impact of negative change
2017									
Discount rate	+/- 0.5%	-3.55%	3.81%	+1.46/+0.46%	-9.47%	11.16%			
Future salary increases							+/- 1%	-10.46%	8.90%
Future pension increases				+/- 0.25%	2.48%	-2.40%			
Forecast inflation rate	+/- 0.5%	2.3%	-2.3%						
Growth rate of healthcare costs							+/- 1%	11.07%	-8.11%
2016									
Discount rate	+/- 0.5%	-3.62%	3.87%	+/- 1%	-4.92%	5.82%	+/- 1%	-8.92%	10.49%
Future salary increases				+/- 0.25%+/- 0.5%	1.30%	-1.25%			
Forecast inflation rate	+/- 0.5%	2.40%	-2.31%						
Growth rate of healthcare costs							+/- 1%	7.68%	-11.44%

The sensitivity analysis shown above is based on a method involving extrapolation of the impact on the net obligation for defined benefit plans of reasonable changes to the key assumptions made at the end of the financial year.
The methodology and the assumptions made in preparing for the sensitivity analysis remain unchanged from the previous year.
Given that pension liabilities have been adjusted on the basis of the consumer prices index, the pension plan is exposed to the inflation rate of the various countries, interest rate risks and changes in the life expectancy of former employees. Given that the assets servicing the plans mainly relate to investments in bonds, the Group is also exposed to market risk in the related sectors.
The following payments are the expected contributions that will be made in future years to provide for the net obligations of the defined benefit plans.

€ million	Total	Unfunded pension plans	Funded pension plans	Other plans
Within 12 months	0.5	0.2	0.3	
From 1 to 5 years	4.7	0.7	0.9	3.1
From 5 to 10 years	6.0	0.9	2.4	2.7
Total	**11.1**	**1.7**	**3.5**	**5.8**
Average plan duration (years)	**9.5**	**8.7**	**10.8**	**9.0**

39. Provisions for risks and charges

The table below indicates changes to this item during the period.

	Tax provision	Restructuring provisions	Agent severance fund	Other	Total
	€ million	€ million	€ million	€ million	€ million
Balance at 31 December 2016	**47.9**	**16.1**	**1.8**	**30.8**	**96.6**
Reclassification of opening balances	0.7			(3.9)	(3.2)
Balance at 31 December 2016 - post reclassifications	**48.5**	**16.1**	**1.8**	**26.9**	**93.3**
Accruals	44.8	1.2	0.2	10.3	56.5
Utilizations	(0.1)	(0.7)	(0.9)	(3.8)	(5.5)
Realeses	(8.9)	(7.0)	(0.0)	(0.5)	(16.5)
Exchange rate differences and other changes	(1.2)	(0.1)	-	(3.0)	(4.3)
Balance at 31 December 2017	**83.1**	**9.5**	**1.2**	**29.8**	**123.7**
of which estimated outlay:					
- due within 12 months	5.4	3.1		6.9	15.4
- due after 12 months	77.8	6.4	1.2	22.9	108.3

In relation to changes in the provisions for risks and charges compared with the 2016 annual financial statements, it should be noted that uses were made of the restructuring provision (€0.7 million) for payments during the year in connection with the restructuring processes under way within the Group.
The tax provision of € 83.1 million at 31 December 2017 increased by € 44.8 million due to assessments of the Group's likely tax risks.
Other funds reflected the recognition by the Parent Company and subsidiaries of liabilities for various lawsuits, including a legal dispute totalling €13.5 million over a distribution agreement.

The information reported below concerns potential liabilities arising from disputes in progress, in relation to which the Group did not, however, deem it necessary to make provisions as of the date of this report.
Various disputes were outstanding with the Brazilian tax authorities; however, it is not considered likely that the Group will lose the cases, based on the information available at the date of this report.

- At 31 December 2016, one dispute relating to production tax (IPI) was outstanding, in which the tax authorities contested the correct classification of products sold by Campari do Brasil Ltda. The increase in taxes and penalties was BRL 117.6 million (equivalent to € 29.6 million at the exchange rate on 31 December 2017) plus interest.
  In March 2012, the company was officially informed that the outcome of the dispute was in its favour. However, the formulation of the ruling was deemed inadequate for providing the Company with complete legal safeguards in the event of future litigation relating to the same dispute. In May 2017, the Company received a final ruling on the above-mentioned dispute, stating that an amount of BRL 83.1 million, net of interest (approximately € 21.0 million at the exchange rate applying on 31 December 2017) is no longer subject to any dispute whatsoever.
  The Group considers that there are still no grounds for creating a specific provision for the remaining amount of BRL 34.5 million (approximately € 8.7 million at the exchange rate on 31 December 2017), plus interest. As a result, no provisions were made for this item in the financial statements at 31 December 2017.
- Another outstanding dispute relates to a tax inspection report concerning the payment of ICMS (tax on the consumption of goods and services) with respect to sales made by Campari do Brasil Ltda to a single customer in 2007 and 2008; the company was notified of this report on 16 February 2012. The amount stipulated, including penalties, totalled BRL 46.9 million (€ 11.8 million at the exchange rate on 31 December 2017) plus interest.
  The dispute is pending before the administrative court, and is not expected to be settled in the near future.
  Based on evaluations conducted by external legal consultants, which have appealed against the findings of the local tax authorities, the Group believes that the outcome of the dispute will be in favour of the company. It is therefore deemed unnecessary at present to create a specific provision.
- In June 2016, the Company received a tax inspection notice relating to the years 2012 and 2013, alleging non-compliance in the use of a tax benefit relating to the sales of finished products manufactured in the Suape plant. The contested amount is BRL 24.5 million (€ 6.2 million at the exchange rate at 31 December 2017) including the related penalties. The Company's lawyers have prepared an appeal that demonstrates compliance with all the requirements stipulated by tax law. Based on the advice of its lawyers, the Group continues to believe that there is no reason to make a specific provision.

Finally, in December 2015 a claim for compensation totalling USD 23 million was notified to the subsidiary J.Wray & Nephew Ltd by Algix Jamaica Limited. This company maintains that it has suffered damage to its fish farm due to the waste water from the sugar processing carried out by J.Wray&Nephew Ltd. During the proceedings, to enable the company to continue with its sugar production business, J.Wray&Nephew Ltd was requested to comply with specific new environmental regulations. In 2017, J.Wray & Nephew Ltd. complied with the above-mentioned rules and the sugar production business was therefore authorised.
The company, supported by its own legal advisers, maintains that there is no causal link between its activities and the losses alleged to have been suffered by Algix Jamaica Ltd, and that the claim for damages therefore appears groundless both in terms of substance and quantification of damages. No provision was therefore created in this regard.

40. Trade payables and other current liabilities

	Balance at 31 December 2017	Balance at 31 December 2016(*) post-reclassification
	€ million	€ million
Trade payables to external suppliers	225.6	262.5
Trade payables	**225.6**	**262.5**
Payables to staff	56.1	52.3
Payables to agents	2.4	3.2
Deferred income	4.2	4.8
Amounts due to controlling shareholder for Group VAT	4.3	2.4
Value added tax	24.0	24.3
Tax on alcohol production	36.9	38.6
Withholding and miscellaneous taxes	5.3	7.0
Other	8.5	6.3
Other current liabilities	**141.7**	**138.8**

(*) For reclassifications of opening book values, see note 7 – 'Reclassifications of opening book values'

The significant decrease in exposure to suppliers is due to an organic decrease of € 24.1 million; this, in turn, is partly due to a timing effect at the end of 2016, which resulted in the Group's deferment of some payments at the end of the period. The exchange rate effect helped reduce the above-mentioned exposure by € 13.1 million.
Payables for capital grants and deferred income relating to these grants break down as shown in the next paragraph.

The maturities for trade payables and other current liabilities are shown below.

31 December 2017	Trade payables	Other payables to third parties	Total
	€ million	€ million	€ million
On demand	48.6	9.0	57.5
Due within 1 year	176.9	132.7	309.7
Due after 1 year	-	-	0.1
Total	**225.6**	**141.7**	**367.3**

41. Capital grants

The following table provides details of changes in deferred income related to capital grants between one financial year and the next.
Once the grants become certain, they are classified as deferred income and are reported in the income statement based on the useful life of the plant.
In the interests of clarity, the table below illustrates changes in both payables and deferred income.

	Payables for capital grants	Deferred income
	€ million	€ million
Balance at 31 December 2016	**-**	**1.4**
Amounts posted to the income statements	-	(0.2)
Balance at 31 December 2017	**-**	**1.2**

	Payables for capital grants	Deferred income
	€ million	€ million
Balance at 31 December 2015	**1.3**	**4.2**
Amounts posted to the income statements	-	(0.7)
Perimeter effect for sale of business	(1.3)	(2.1)
Balance at 31 December 2016	**-**	**1.4**

42. Payables to tax authorities

This item breaks down as follows:

	Balance at 31 December 2017	Balance at 31 December 2016
	€ million	€ million
Taxes payable	20.7	13.5
Due tocontrolling shareholder for tax consolidation	1.1	0.5
Total income tax payables	**21.8**	**14.0**

These payables are all due within twelve months.
The corporate income tax payable is shown net of advance payments and taxes deducted at source.

Payables to the controlling shareholder for tax consolidation at 31 December 2017 relate to the income tax payables of Campari International S.r.l.
Against these payables, some Italian subsidiaries have receivables for tax consolidation totalling € 15.5 million (note 32 – 'Income tax payables'). It should be noted that these payables and receivables are all non-interest-bearing; for further details, see note 48 - 'Related parties'.

43. Stock option plan

Pursuant to Consob resolution 11971 of 14 May 1999 as amended, and Consob communication 11508 of 15 February 2000, the following information is provided on the stock option plan (the 'Plan') approved by the Board of Directors of Davide Campari-Milano S.p.A. on 15 May 2001, which incorporated the framework plan for the general regulation of stock options for Campari Group, approved by the Shareholders' Meeting of 2 May 2001.
The purpose of the Plan is to offer beneficiaries who occupy key positions in the Group the opportunity of owning shares in Davide Campari-Milano S.p.A., thereby aligning their interests with those of other shareholders and fostering loyalty, in the context of the strategic goals to be achieved.
The recipients are employees, directors and/or individuals who regularly work for one or more Group companies, who have been identified by the Board of Directors of Davide Campari-Milan S.p.A., and who, on the Plan approval date and until the date that the options are exercised, have worked as employees and/or directors and/or in any other capacity at one or more Group companies without interruption.
The Plan regulations do not provide for loans or other incentives for share subscriptions pursuant to article 2358, paragraph 3 of the Italian Civil Code.
The Board of Directors of Davide Campari-Milano S.p.A. has the right to draft regulations, select beneficiaries and determine the share quantities and values for the execution of stock option plans. In addition, Davide Campari-Milano S.p.A. reserves the right, at its sole discretion, to modify the Plan and the regulations as necessary or appropriate to reflect revisions of laws in force, or for other objective reasons that would warrant such modification.
Subsequently, further stock options have been granted each year, governed by the framework plan approved by the Shareholders' Meeting on 2 May 2001.
The Shareholders' Meeting of 28 April 2017 approved a new stock option plan, establishing the maximum number of shares that may be granted (specifying how many may be granted to directors of the Parent Company and how many to any other beneficiary) and authorising the board of directors of the Parent Company to identify, within the limits established by the Shareholders' Meeting, the beneficiaries and the number of options that may be granted to each.

The options were therefore assigned on 03 August 2017 to the individual beneficiaries, with the right to exercise options in the two-year period following the end of the fifth year from the allocation date.

The total number of options granted in 2017 for the purchase of further shares was 1,179,323, with an average grant price of € 6.19, equivalent to the weighted average market price in the month preceding the day on which the options were granted.

The following table shows changes in stock option plans during the periods concerned.

	31 December 2017		31 December 2016	
	No. of shares	Average allocation/exercise price (€)	No. of shares	Average allocation/exercise price (€)
Options outstanding at the beginning of the period	61,671,300	3.19	54,189,506	2.75
Options granted during the period	1,179,323	6.19	15,105,018	4.29
(Options cancelled during the period)	(1,905,575)	3.38	(2,075,058)	2.87
(Options exercised during the period)(*)	(4,541,575)	2.25	(5,410,474)	2.01
(Options expired during the period)	(1,000)	-	(137,692)	-
Options outstanding at the end of the period	56,402,473	3.32	61,671,300	3.19
of which those that can be exercised at the end of the period	15,128,339	2.63	3,623,930	1.89

(*) The average market price on the exercise date was €5.40.

The average remaining life of outstanding options at 31 December 2017 was 3.4 years (3.3 years at 31 December 2016).
The exercise prices for the options allocated each year range as below.

	Average exercise price
Allocations: 2011	2.73
Allocations: 2012	2.63
Allocations: 2013	2.97
Allocations: 2014	3.14
Allocations: 2015	3.54
Allocations: 2016	4.29
Allocations: 2017	6.19

The average fair value of the options granted during 2017 was € 1.2 (€ 1.1 in 2016).
The fair value of stock options is represented by the value of the option calculated by applying the Black-Scholes model, which takes into account the conditions for exercising the option, as well as the current share price, expected volatility and the risk-free rate, and the non-vesting conditions for the plans.
Volatility was estimated using data supplied by a market information provider together with a leading bank, and corresponds to the estimate of volatility recorded in the period covered by the Plan.
The following assumptions were used for the fair value measurement of options issued in 2017 and 2016.

	2017	2016
Expected dividends (€)	0.05	0.05
Expected volatility (%)	21%	28%
Historic volatility (%)	21%	23%
Market interest rate	0.51%	0.93%
Expected option life (years)	7.00	7.00
Exersise price (€)	6.19	4.29

Davide Campari-Milano S.p.A. has a number of own shares that can be used to cover stock option plans.
The following table shows changes in the number of own shares held during the periods considered.

	No. of own shares		Purchase price (€ million)	
	2017	2016	2017	2016
Balance at 1 January	2,684,688	3,442,892	11.6	12.7
Purchases	10,910,000	4,652,270	63.8	18.9
Disposals	(4,541,575)	(5,410,474)	(20.4)	(20.1)
Final balance	9,053,113	2,684,688	55.0	11.6
% of share capital	0.78%	0.23%		

In relation to the sales of own shares in the year, which are shown in the above table at the original purchase price (€ 20.4 million), carried out at a market price totalling € 10.2 million, the Parent Company recorded a negative difference of € 10.2 million, which was recorded under shareholders' equity and partly covered by the use of € 3.1 million from the stock option reserve.

44. Financial instruments – disclosures

The value of individual categories of financial assets and liabilities held by the Group is shown below.

31 December 2017 € million	Loans and receivables	Fianancial liabilities at amortized cost	Assets and liabilities measured at fair value through profit or loss	Assets and liabilities measured at fair value with changes recognized in the statement of comprehensive income	Hedging transactions
Cash and cash equivalents	514.5				
Current financial assets	7.2				
Other non-current financial assets	37.8				
Trade receivables	317.5				
Payables to banks and other institutions		(318.1)			
Real estate lease payables		(1.4)			
Bonds		(995.6)			
Accrued interest on bonds		(8.9)			
Put option payables		(218.2)			
Trade payables		(225.6)			
Non-current assets for hedge derivtives, not in hedge accounting			1.5		
Current assets for hedging derivatives					0.6
Non-current liabilities for interest rate swap derivatives					(0.7)
Current liabilities for forex derivatives					(0.2)
Total	**876.9**	**(1,767.8)**	**1.5**	**-**	**(0.3)**

31 December 2016 € million	Loans and receivables	Fianancial liabilities at amortized cost	Assets and liabilities measured at fair value through profit or loss	Assets and liabilities measured at fair value with changes recognized in the statement of comprehensive income	Hedging transactions
Cash and cash equivalents	354.1				
Current financial assets	6.6				
Other non-current financial assets	55.3				
Trade receivables	306.4				
Payables to banks		(409.2)			
Real estate lease payables		(2.2)			
Bonds		(992.4)			
Accrued interest on bonds		(7.5)			
Put option payables		(197.2)			
Trade payables		(262.8)			
Non-current assets for hedge derivtives, not in hedge accounting			0.1		
Current assets for hedging derivatives					0.5
Non-current liabilities for hedging derivatives					(2.1)
Current liabilities for hedging derivatives					(5.4)
Non-current liabilities for hedging derivatives, not reported using hedge accounting procedures			(0.1)		
Total	**722.3**	**(1,871.3)**	**0.0**	**-**	**(7.0)**

Fair value hedging derivatives

At 31 December 2017, the Group has in place the following contracts for hedging payables and receivables in foreign currency that meet the definition of hedging instruments based on IAS 39.

At 31 December 2017, certain Group subsidiaries held forward contracts on receivables and payables in currencies other than the Euro in their financial statements.

The contracts were negotiated to match maturities with projected incoming and outgoing cash flows resulting from sales and purchases in individual currencies.

The valuation of these contracts at the reporting date gave rise to the reporting of assets of €0.6 million and liabilities of €0.2 million.

Gains and losses on the hedged and hedging instruments used in all the Group's fair value hedges, corresponding to the above-mentioned contracts, are summarised below.

	31 December 2017 € million	31 December 2016 € million
Gains on hedging instruments	0.1	0.1
Losses on hedging instruments	(0.1)	(4.2)
Total gains (losses) on hedging instruments	**-**	**(4.1)**
Gains on hedged items	0.2	8.9
Losses on hedged items	(0.3)	(1.0)
Total gains (losses) on hedging instruments	**(0.1)**	**7.9**

Derivatives used for cash flow hedging

The Group uses the following contracts to hedge its cash flows:

- interest rate swaps on the Eurobond issued in 2015. Around the time the loan was granted, the Parent Company entered into an interest rate hedging agreement. This resulted in an initial financial liability of € 1.3 million, recorded under comprehensive income or expense and released to the income statement with the cash flows generated by the underlying debt. In 2016, an effect of € 0.3 million was recycled to the income statement;
- hedging of future sales and purchases in currency and interest rates on future transactions.

The following table shows when the hedged cash flows are expected to be received, as of 31 December 2017. These cash flows only relate to interest and have not been discounted to present value.

The breakdown shows the cash flows arising from forward foreign exchange and interest rate contracts in respect of future currency sales/purchases.

31 December 2017	Within one year € million	1-5 years € million	Over 5 years € million	Total € million
Cash outflows	(2.5)	2.0	-	(0.5)
Cash inflows	0.7	-	-	0.7
Net cash flows	**3.2**	**(2.0)**	**-**	**1.2**

31 December 2016	Within one year € million	1-5 years € million	Due after 5 years € million	Total € million
Cash outflows	2.2	-	-	2.2
Cash inflows	0.1	-	-	0.1
Net cash flows	**(2.0)**	**-**	**-**	**(2.0)**

The overall changes in the cash flow hedge reserve and the associated deferred taxes are shown below.

	Gross amount € million	Tax effect € million	Net amount € million
Riserve at 31 December 2016	(2.9)	0.7	(2.2)
Booked to the income statement during the period	0.1	(0.0)	0.1
Recognized in equity during the period	1.9	(0.4)	1.5
Riserve at 31 December 2017	**(1.0)**	**0.3**	**(0.7)**

	Gross amount € million	Tax effect € million	Net amount € million
Riserve at 31 December 2015	(4.3)	1.1	(3.2)
Booked to the income statement during the period	2.4	(0.6)	1.8
Recognized in equity during the period	(1.0)	0.2	(0.8)
Riserve at 31 December 2016	**(2.9)**	**0.7**	**(2.2)**

For completeness, the changes in current and non-current financial payables during 2017 are shown below.

	31 December 2016[(*)]	perimeter effect	new financing	repayment[(**)]	exchange rate effect	interestes expenses/ amortized cost	equity impact	reclassification	other movements	31 December 2017
	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million
Bonds	992.4	-	200.0	(200.0)	0.0	3.2	-	-	-	995.6
Payables to banks non-current	302.3	-		(0.2)	(0.0)	0.0	-	(1.6)	-	300.4
Property leases non-current	2.2	(1.0)	0.6	(0.4)	(0.1)	-	-	0.0	-	1.3
Payables for put options and earn outs non-current	144.4	25.1	-	-	(2.1)	3.5	-	(1.8)	(0.1)	169.1
Fair value non-current liabilities on bond derivatives	2.1	-			-	-	(1.4)		-	0.7
Total non-current financial liabities (note 36)	**1,443.4**	**24.2**	**200.6**	**(200.6)**	**(2.2)**	**6.7**	**(1.4)**	**(3.4)**	**(0.1)**	**1,467.1**
Revolving credit facility	50.0	-	180.0	(230.0)	-	-	-	-	-	-
Payables to banks current	52.6	(20.0)	1.0	(19.8)	(1.7)	0.0	-	1.6	0.2	13.8
Factoring liabilties	4.4	-	3.8	(4.4)	(0.0)	-	-	-	-	3.8
Property leases current	0.0	(0.0)	0.3	(0.1)	0.0	-	-	(0.0)	(0.1)	0.1
Payables for put options and earn outs current	45.6	4.7	-	(2.3)	(0.5)	-	-	1.8	(0.3)	49.1
Accrued interests on bonds	7.5	-	-	(16.1)	(0.0)	17.5			-	8.9
Other financial liabilities at fair value	5.4	(0.1)	-	(4.8)	(0.0)	-	(0.4)	-	-	0.2
Total current financial liabities (note 37)	**165.5**	**(15.4)**	**185.1**	**(277.4)**	**(2.3)**	**17.5**	**(0.4)**	**3.4**	**(0.2)**	**76.0**

(*) For reclassifications of opening book values, see note 7 – 'Reclassifications of opening book values'
(**) Includes early-payment of property leases

45. Assets and liabilities measured at fair value

The following information is provided in accordance with the provisions of IFRS 13 - Fair Value Measurement.
The models currently used by the Group to measure the fair value of financial instruments provide for the inclusion of counterparty non-performance risk rating components. The method used for determining fair value is described below.

Fair value of financial instruments:

- for financial assets and liabilities that are liquid or nearing maturity, it is assumed that the carrying amount equates to fair value; this assumption also applies to term deposits, securities that can be readily converted to cash and variable-rate financial instruments.
- for the valuation of hedging instruments at fair value, the Company used valuation models based on market parameters.
- the fair value of non-current financial payables was obtained by discounting all future cash flows to present value under the conditions in effect at the end of the year.

For commercial items and other receivables and payables, fair value corresponds to the carrying amount.

	carrying amount		Fair value	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
	€ million	€ million	€ million	€ million
Cash and cash equivalents	514.5	354.1	514.5	354.1
Assets for hedge derivatives, not reported using hedge accounting procedures	1.5	0.1	1.5	0.1
Assets for forex hedge derivatives	0.6	0.5	0.6	0.5
Other short-term financial receivables	7.2	6.6	7.2	6.6
Other non-current financial assets	37.8	55.3	37.8	55.3
Financial assets	**561.6**	**416.5**	**561.6**	**416.5**
Payables to bank	318.1	409.2	318.1	409.2
Real estate lease payables	1.4	2.2	1.4	2.2
Bond (Eurobond)issued in 2012	218.1	397.2	237.1	400.0
Bond (Eurobond)issued in 2015	577.5	595.3	621.1	599.9
Bonds issued in 2017	200.0	-	214.7	-
Accrued interest on bonds	8.9	7.5	8.9	7.5
Non-current liabilities for IRS derivatives on future transaction	0.7	2.1	0.7	2.1
Current liabilities for derivatives on foreign exchange transactions	0.2	5.4	0.2	5.4
Liabilities for hedging derivatives, not reported using hedge accounting procedures	-	0.1	-	0.1
Payables for put options and earn outs	218.2	197.2	218.2	197.2
Financial liabilities	**1,543.1**	**1,616.0**	**1,620.5**	**1,623.5**

Fair value of non-financial instruments:

- for the fixed biological assets, the cost method net of accumulated depreciation was used to calculate their reported value;

- for current biological assets (agricultural produce), the fair value was determined based on the sale price net of estimated sales costs.

Investment property is valued at cost, which is considered a reliable approximation of its fair value.

The tables below detail the hierarchy of financial and non-financial instruments measured at fair value, based on the valuation methods used:

- level 1: the valuation methods use prices listed on an active market for the assets and liabilities subject to valuation;
- level 2: the valuation methods take into account inputs other than previous prices, but only those that can be observed on the market directly or indirectly;
- level 3: the methods used take into account inputs that are not based on observable market data.

In 2017, no changes were made in the valuation methods applied.

Financial instruments

Derivatives, valued using techniques based on market data, are mainly interest rate swaps and forward sale/purchases of foreign currencies to hedge both the fair value of the underlying instruments and cash flows.
The most commonly-applied valuation methods include the forward pricing and swap models, which use present value calculations.
The models incorporate various inputs, including the credit rating of the counterparty, market volatility, spot and forward exchange rates and current and forward interest rates.
The table below analyses financial instruments measured at fair value based on three different valuation levels.

31 December 2017	Level 1 € million	Level 2 € million	Level 3 € million
Assets valued at fair value			
Futures currency contracts		0.6	
Hedging derivatives not reported using hedge accounting procedures		1.5	
Liabilities valued at fair value			
Interest rate swap on future transactions		0.7	
Forward currency contracts		0.2	

31 December 2016	Level 1 € million	Level 2 € million	Level 3 € million
Assets valued at fair value			
Futures currency contracts		0.5	
Hedging derivatives not reported using hedge accounting procedures		0.1	
Financial assets measured at fair value with changes recognized in the statement of comprehensive income			
Liabilities valued at fair value			
Interest rate swap on future transactions		2.1	
Forward currency and interest rate contracts		5.4	
Hedging derivatives not reported using hedge accounting procedures		0.1	

No assets or liabilities were valued using the level 1 method at 31 December 2017.

The level 2 valuation method used for financial instruments measured at fair value is based on parameters such as exchange rates and interest rates, which are priced on active markets or are observable on official rate curves.
In 2017, there were no reclassifications between the above-mentioned levels in the fair value hierarchies.

Non-financial instruments

The table below analyses non-financial instruments measured at fair value, which only include biological assets.

31 December 2017	Level 1 € million	Level 2 € million	Level 3 € million
Assets valued at fair value			
Biological assets		0.4	

31 December 2016	Level 1 € million	Level 2 € million	Level 3 € million
Assets valued at fair value			
Biological assets	-	7.5	-

The level 2 valuation used for biological assets is generally based on expected cash flows resulting from the sale of agricultural products. The sale prices of sugar are linked to the official prices in the reference markets, appropriately adjusted to take account of sales costs.
In 2017, there were no reclassifications between the above-mentioned levels in the fair value hierarchies.

46. Nature and scale of the risks arising from financial instruments

The Group's main financial instruments include current accounts, short-term deposits, short and long-term bank loans, finance leases and bonds.
The purpose of these is to finance the Group's operating activities.
In addition, the Group has trade receivables and payables resulting from its operations.
The main financial risks to which the Group is exposed are market (currency and interest rate risk), credit and liquidity risk. These risks are described below, together with an explanation of how they are managed.
To cover these risks, the Group makes use of derivatives, primarily interest rate swaps, cross currency swaps and forward contracts, to hedge interest rate and exchange rate risks.

Credit risk
With regard to trade transactions, the Group works with medium-sized and large customers (mass retailers, domestic and international distributors) on which credit checks are performed in advance.
Each company carries out an assessment and control procedure for its customer portfolio, partly by constantly monitoring amounts received. In the event of excessive or repeated delays, supplies are suspended.
Historical losses on receivables recorded represent a very low percentage of revenues and annual outstanding receivables, and significant coverage and/or insurance.
The maximum risk at the reporting date is equivalent to the carrying amount of trade receivables.
Financial transactions are carried out with leading domestic and international institutions, whose ratings are monitored, in order to minimise counterparty insolvency risk. The maximum risk at the reporting date is equivalent to the carrying amount of these assets.

Liquidity risk
The Group's ability to generate substantial cash flow through its operations allows it to reduce liquidity risk to a minimum. This risk is defined as the difficulty of raising funds to cover the payment of the Group's financial obligations.
The table below summarises financial liabilities at 31 December 2017 by maturity based on the contractual repayment obligations, including non-discounted interest.
For details of trade payables and other liabilities, see note 40 – Trade payables and other current liabilities.

31 December 2017	On demand	Within 1 year	Due in 1 to 2 years	Due in 3 to 5 years	Due after 5 years	Total
	€ million	€ million	€ million	€ million	€ million	€ million
Payables and loans due to banks	-	19.6	3.6	303.6	-	326.8
Bonds	-	30.0	249.0	659.3	156.5	1,094.8
Property leases	-	0.1	0.1	0.3	0.9	1.4
Other financial payables	-	0.8	-	-	-	0.8
Total financial liabilities	**-**	**50.6**	**252.7**	**963.2**	**157.4**	**1,423.9**

31 December 2016	On demand	Within 1 year	Due in 1 to 2 years	Due in 3 to 5 years	Due after 5 years	Total
	€ million	€ million	€ million	€ million	€ million	€ million
Payables and loans due to banks	-	109.4	3.2	301.3	-	413.9
Bonds	-	34.5	34.5	434.5	616.5	1,120.0
Property leases	-	0.1	0.1	0.1	2.0	2.2
Other financial payables	-	7.5	-	-	-	7.5
Total financial liabilities	**-**	**151.5**	**37.8**	**735.9**	**618.5**	**1,543.6**

The Group's financial payables, with the exception of non-current payables with a fixed maturity, consist of short-term bank debt.
Thanks to its liquidity and close management of cash flow from operations, the Group has sufficient resources to meet its financial commitments at maturity.
In addition, there are unused credit lines that could cover any liquidity requirements.

Market risks
Market risk consists of the possibility that changes in exchange rates, interest rates or the prices of raw materials or commodities (alcohol, aromatic herbs, sugar) could negatively affect the value of assets, liabilities or expected cash flows.

Price risk
The price of raw materials depends on a wide variety of factors, which are difficult to forecast and are largely beyond the Group's control. Although historically the Group has not encountered particular difficulties in purchasing sufficient high-quality raw materials, we cannot rule out the possibility that the emergence of any tensions in this area could lead to difficulties in obtaining supplies, causing costs to rise, which would have negative consequences on the Group's financial results.

Interest rate risk
The Group is exposed to the risk of fluctuating interest rates in respect of its financial assets, payables to banks and lease agreements.
The Parent Company's 2012, 2015 and 2017 bond issues pay interest at a fixed rate.
Overall, at 31 December 2017, 65% of the Group's total financial debt was fixed-rate debt.

Sensitivity analysis
The following table shows the effects on the Group's income statement of a possible change in interest rates, if all other variables remain constant.
A negative value in the table indicates a potential net reduction in profit and equity, while a positive value indicates a potential net increase in these items.
The assumptions used with regard to a potential change in rates are based on an analysis of the trend at the reporting date.

The table illustrates the full-year effects on the income statement in the event of a change in rates, calculated for the Group's variable-rate financial assets and liabilities.
As regards the fixed-rate financial liabilities hedged by interest rate swaps, the change in the hedging instrument offsets the change in the underlying liability, with practically no effect on the income statement.
Net of tax, the effects are as follows:

	Increase/decrease in interest rates in basis point		Income statements
31 December 2017		Increase in interest rates € million	Decrease in interest rates € million
Euro	+/- 5 basis points	(0.6)	0.6
Dollar	+30/-10 basis points	0.3	(0.1)
Other currencies		0.8	(1.0)
Total effect		**0.5**	**(0.5)**
31 December 2016			
Euro	+/- 5 basis points	(0.5)	0.5
Dollar	+30/-10 basis points	0.1	(0.0)
Other currencies		1.1	(1.3)
Total effect		**0.8**	**(0.9)**

Exchange rate risk
The Group develops its business activities on an international scale, and sales achieved in non-EU markets are progressively increasing. However, the establishment of Group entities in countries such as the United States, Brazil, Australia, Argentina, Russia and Switzerland allows the exchange rate risk to be partly hedged, given that both costs and income are denominated in the same currency.
Therefore, exposure to foreign exchange transactions generated by sales and purchases in currencies other than the Group's functional currencies represented an insignificant proportion of consolidated sales in 2017. For these transactions, Group policy is to mitigate the risk by using forward sales or purchases.

Sensitivity analysis
The analysis was performed on the economic effects of a possible change in the exchange rates against the euro, keeping all the other variables constant.
This analysis does not include the effect on the consolidated financial statements of the conversion of the financial statements of subsidiaries denominated in a foreign currency following a possible change in exchange rates.
The assumptions adopted regarding a potential change in rates are based on an analysis of forecasts provided by financial information agencies at the reporting date.
The types of transaction included in this analysis are sales and purchase transactions in a currency other than the Group's functional currency.
The effects on shareholders' equity are determined by changes in the fair value of forward contracts on future transactions, which are used as cash flow hedges.
The results of this analysis showed that the effects would not be significant.

47. Commitments and risks

The main commitments and risks of Gruppo Campari on the reporting date are shown below.

- Contractual commitments for the use of third-party assets

The following table shows the amounts owed by the Group in future periods, broken down by maturity, relating to the main contractual commitments for the use of third-party assets.

	31 December 2017	31 December 2016
	€ million	€ million
Within 1 year	13.4	10.0
1-5 years	34.9	18.2
After 5 years	32.4	4.9
Total	**80.7**	**33.1**

- Non-cancellable financing leases

The table below shows the commitments relating to the purchase of vehicles.
The contract stipulates future minimum payments as set out in the table, which also shows the relationship between the payments and their present value.

	31 December 2017		31 December 2016	
	Minimum future payments	Present value of future payments	Minimum future payments	Present value of future payments
	€ million	€ million	€ million	€ million
Within 1 year	0.6	0.5	0.4	0.3
1-5 years	1.5	1.3	1.5	1.3
After 5 years	-	-	-	-
Total minimum payments	**2.2**	**1.8**	**1.9**	**1.5**
Financial charges	(0.3)	-	(0.4)	
Present value of minimum future payments	**1.8**	**-**	**1.5**	

- Existing contractual commitments for the purchase of goods or services

These amounts total €179.1 million, of which an amount of €159.1 million falls due by the end of the year.
Commitments mainly relate to the purchase of raw materials, semi-finished goods and merchandise (€ 57.6 million), the purchase of advertising & promotion and sponsorship services (€ 32.6 million), and the purchase of packaging and pallets (€ 58.3 million).

- Existing contractual commitments for the purchase of property, plant and equipment, and intangible assets.

These commitments total € 1.2 million, of which € 1.1 million matures by the end of the year and relates to the purchase of tangible assets.

- Restrictions on the title and ownership of property, plant and equipment pledged to secure liabilities

The Group has some existing loans, with a residual balance of € 3.5 million, secured by mortgages on land and buildings.

- Other guarantees

The Group has issued other forms of security in favour of third parties, totalling € 195.3 million at 31 December 2017. These mainly include customs bonds for excise duties totalling € 83.4 million, guarantees for the grant of credit lines totalling € 102.1 million, and € 3.6 million for the promotion of wines.

48. Related parties

Davide Campari-Milano S.p.A. is controlled by Alicros S.p.A., which is, in turn, controlled by Lagfin S.C.A.
Davide Campari-Milano S.p.A. and its Italian subsidiaries have adopted the national tax consolidation scheme governed by articles 117 *et seq* of the consolidated law on income tax (TUIR), for 2014 and 2019.
The income tax receivables and payables of the individual Italian companies are therefore recorded as payables and receivables to/from the Parent Company's ultimate shareholder, Alicros S.p.A.

Moreover, Alicros S.p.A., Davide Campari-Milano S.p.A. and some of its Italian subsidiaries have joined the Group-wide VAT scheme, pursuant to article 73, paragraph 3 of Presidential Decree 633/72.
At 31 December 2017, the Parent Company and its Italian subsidiaries owed Alicros S.p.A. € 4.3 million for VAT.
The receivables and payables arising as a result of the tax consolidation scheme are non-interest-bearing.

Dealings with related parties form part of ordinary operations and are carried out under market conditions (i.e. conditions that would apply between two independent parties) or using criteria that allow for the recovery of costs incurred and a return on invested capital.
All transactions with related parties were carried out in the Group's interest.
The amounts for the various categories of transaction entered into with related parties are set out in the table below.

31 December 2017	Receivables for tax consolidation € million	Payables for tax consolidation € million	Payables for Group VAT € million	Other non-current tax receivables € million
Alicros S.p.A.	15.5	(1.1)	(4.3)	2.2
Total	**15.5**	**(1.1)**	**(4.3)**	**2.2**
%	**54%**	**5%**	**3%**	**26%**

31 December 2016	Receivables for tax consolidation € million	Payables for tax consolidation € million	Receivables (payables) for Group VAT € million	Other non-current tax receivables € million
Alicros S.p.A.	2.0	(0.5)	(2.4)	2.2
Total	**2.0**	**(0.5)**	**(2.4)**	**2.2**
%	**16%**	**3%**	**2%**	**25%**

2017	Other income and charges € million
Alicros S.p.A.	0.1
Total	**0.1**
%	**0%**

2016	Other income and charges € million
Alicros S.p.A.	0.1
Total	**0.1**
%	**0%**

Remuneration paid to the Parent Company's board of directors was as follows:

	2017 € million	2016 € million
Short-term benefits	5.7	6.2
Stock options	0.9	1.3
Total	**6.6**	**7.5**

At the date of this report, a payable to directors of €1.8 million was recorded in the accounts.

49. Employees

The following tables indicate the average number of employees of the Group, broken down by business sector, category and region.

Business segment	2017	2016
Production	1,767	1,865
Sales and distribution	1,435	1,493
General	817	814
Total	**4,020**	**4,172**
Category	2017	2016
Managers	195	200
Office staff	2,461	2,450
Manual workers	1,364	1,522
Total	**4,020**	**4,172**
Region	2017	2016
Italy	787	872
Abroad	3,233	3,300
Total	**4,020**	**4,172**

50. IFRS15 first time adoption-Revenue from contracts with customers (applicable starting from 1 January 2018)

The aim of the new standard is to improve the quality and uniformity of revenue recognition and the comparability of Financial Statements prepared in accordance with IFRS and US accounting principles. Under the new standard, revenue recognition may no longer be based on the earnings method but on the asset-liability method, which focuses on the time when the control over the asset is transferred. The Group has finalized the assessment of the revenues recognition model, as required by the new standard. Based on the analysis performed, no differences in the revenue cut-off recognition have been identified and consequently no impact on Group net result is expected. However, the Group identified the following components, at present accounted for as advertising and promotion expenses, which will be allocated as reduction of sales, relating to payments to customers not attributable to products or services that can be separated from the sales transaction.
The main components can be identified as following:
- Extra visibility trade initiatives in points of sale;
- Listing fees;
- Coupons;
- Incentives and contributions granted to distributors, not attributable to advertising and other marketing activities.

The Group decided to approach the transition by making retrospective application, as provided for by the new standard. It has therefore presented the financial figures for 2017 in line with the above mention accounting, in force from 1 January 2018. As mentioned above, the adoption of IFRS 15 had no effect on the opening shareholders' equity at 1 January 2018.

Income statement

Income statement at 31 December 2017

	31 December 2017 published		31 December 2017 after IFRS 15 reclassifications	
	€ million	%	€ million	%
Net sales	**1,816.0**	**100.0**	**1,753.4**	**100.0**
Cost of goods sold	(741.1)	-40.8	(741.1)	-42.3
Gross margin	**1,075.0**	**59.2**	**1,012.3**	**57.7**
Advertising and promotional costs	(342.5)	-18.9	(279.9)	-16.0
Contribution margin	**732.4**	**40.3**	**732.4**	**41.8**
Overheads	(351.9)	-19.4	(351.9)	-20.1
Adjusted result from recurring activities	**380.5**	**21.0**	**380.5**	**21.7**
Adjustments to operating income (charges)	13.9	0.8	13.9	0.8
Operating result	**394.3**	**21.7**	**394.3**	**22.5**
Net financial income (charges)	(40.0)	-2.2	(40.0)	-2.3
Adjustments to financial income (charges)	(24.8)	-1.4	(24.8)	-1.4
Income (charges) relating to put options and earn outs and related effects of discounting them to present value	(2.8)	-0.2	(2.8)	-0.2
Profit before tax and non-controlling interests	**326.7**	**18.0**	**326.7**	**18.6**
Taxes	29.7	1.6	29.7	1.7
Net profit	**356.4**	**19.6**	**356.4**	**20.3**
Non-controlling interests	-	-	-	-
Group net profit	**356.4**	**19.6**	**356.4**	**20.3**
Adjusted Group net profit	**239.2**	**13.2**	**239.2**	**13.6**
Total depreciation and amortisation	(57.1)	-3.1	(57.1)	-3.3
Adjusted EBITDA	**437.6**	**24.1**	**437.6**	**25.0**
EBITDA	**451.4**	**24.9**	**451.4**	**25.7**

Income statement at 30 September 2017

	30 September 2017 published		30 September 2017 after IFRS 15 reclassifications	
	€ million	%	€ million	%
Net sales	**1,275.8**	**100.0**	**1,231.2**	**100.0**
Cost of goods sold	(506.4)	-39.7	(506.4)	-41.1
Gross margin	**769.4**	**60.3**	**724.8**	**58.9**
Advertising and promotional costs	(247.1)	-19.4	(202.5)	-16.4
Contribution margin	**522.3**	**40.9**	**522.3**	**42.4**
Overheads	(265.0)	-20.8	(265.0)	-21.5
Adjusted result from recurring activities	**257.3**	**20.2**	**257.3**	**20.9**
Adjustments to operating income (charges)	38.2	3.0	38.2	3.1
Operating result	**295.5**	**23.2**	**295.5**	**24.0**
Net financial income (charges)	(29.7)	-2.3	(29.7)	-2.4
Adjustments to financial income (charges)	(24.6)	-1.9	(24.6)	-2.0
Income (charges) relating to put options and earn outs and the effects of discounting them to present value	(3.0)	-0.2	(3.0)	-0.2
Profit before tax and non-controlling interests	**238.2**	**18.7**	**238.2**	**19.4**
Group profit before tax	**238.2**	**18.7**	**238.2**	**19.4**
Adjusted Group profit before tax	**224.6**	**17.6**	**224.6**	**18.2**
Total depreciation and amortisation	(42.1)	-3.3	(42.1)	-3.4
Adjusted EBITDA	**299.3**	**23.5**	**299.3**	**24.3**
EBITDA	**337.5**	**26.5**	**337.5**	**27.4**

Income statement at 30 June 2017

	30 June 2017 published		30 June 2017 after IFRS 15 reclassifications	
	€ million	%	€ million	%
Net sales	**844.7**	**100.0**	**816.3**	**100.0**
Cost of goods sold	(339.2)	-40.2	(339.2)	-41.6
Gross margin	**505.4**	**59.8**	**477.1**	**58.4**
Advertising and promotional costs	(162.7)	-19.3	(134.3)	-16.5
Contribution margin	**342.8**	**40.6**	**342.8**	**42.0**
Overheads	(179.4)	-21.2	(179.4)	-22.0
Adjusted result from recurring activities	**163.4**	**19.3**	**163.4**	**20.0**
Adjustments to operating income (charges)	(5.0)	-0.6	(5.0)	-0.6
Operating result	**158.4**	**18.8**	**158.4**	**19.4**
Net financial income (charges)	(23.0)	-2.7	(23.0)	-2.8
Adjustments to financial income (charges)	(24.4)	-2.9	(24.4)	-3.0
Income (charges) relating to put options and earn outs and related effects of discounting them to present value	(2.5)	-0.3	(2.5)	-0.3
Profit before tax and non-controlling interests	**108.5**	**12.8**	**108.5**	**13.3**
Taxes	0.2	0.0	0.2	0.0
Net profit	**108.6**	**12.9**	**108.6**	**13.3**
Non-controlling interests	-	-	-	-
Group profit before tax	**108.5**	**12.8**	**108.5**	**13.3**
Adjusted Group profit before tax	**137.8**	**16.3**	**137.8**	**16.9**
Adjusted Group net profit	**93.5**	**11.1**	**93.5**	**11.5**
Total depreciation and amortisation	(28.4)	-3.4	(28.4)	-3.5
Adjusted EBITDA	**191.7**	**22.7**	**191.7**	**23.5**
EBITDA	**186.8**	**22.1**	**186.8**	**22.9**

Income statement at 31 March 2017

	31 March 2017 published		31 March 2017 after IFRS 15 reclassifications	
	€ million	%	€ million	%
Net sales	**376.6**	**100.0**	**366.2**	**100.0**
Cost of goods sold	(158.8)	-42.2	(158.8)	-43.4
Gross margin	**217.9**	**57.8**	**207.4**	**56.6**
Advertising and promotional costs	(66.5)	-17.7	(56.0)	-15.3
Contribution margin	**151.4**	**40.2**	**151.4**	**41.3**
Overheads	(87.0)	-23.1	(87.0)	-23.8
Adjusted result from recurring activities	**64.4**	**17.1**	**64.4**	**17.6**
Adjustments to operating income (charges)	(0.8)	-0.2	(0.8)	-0.2
Operating result	**63.6**	**16.9**	**63.6**	**17.4**
Net financial income (charges)	(10.0)	-2.7	(10.0)	-2.7
Adjustments to financial income (charges)	0.1	0.0	0.1	0.0
Profit before tax and non-controlling interests	**53.6**	**14.2**	**53.6**	**14.6**
Group profit before tax	**53.6**	**14.2**	**53.6**	**14.6**
Adjusted Group profit before tax	**54.4**	**14.4**	**54.4**	**14.8**
Total depreciation and amortisation	(14.2)	-3.8	(14.2)	-3.9
Adjusted EBITDA	**78.6**	**20.9**	**78.6**	**21.5**
EBITDA	**77.8**	**20.7**	**77.8**	**21.2**

Sales performance

Sales performance at 31 December 2017

	31 December 2017 published		31 December 2017 after IFRS 15 reclassifications	
	€ million	%	€ million	%
Americas	794.2	43.7%	783.6	44.7%
Southern Europe, Middle East and Africa	536.3	29.5%	501.2	28.6%
Northern, Central and Eastern Europe	361.1	19.9%	347.2	19.8%
Asia-Pacific	124.4	6.9%	121.3	6.9%
Total	**1,816.0**	**100.0%**	**1,753.4**	**100.0%**

Sales performance at 30 September 2017

	30 September 2017 published		30 September 2017 after IFRS 15 reclassifications	
	€ million	%	€ million	%
Americas	568.2	44.5%	560.8	45.5%
Southern Europe, Middle East and Africa	380.2	29.8%	356.1	28.9%
Northern, Central and Eastern Europe	244.0	19.1%	232.9	18.9%
Asia-Pacific	83.5	6.5%	81.4	6.6%
Total	**1,275.8**	**100.0%**	**1,231.2**	**100.0%**

Sales performance at 30 June 2017

	30 June 2017 published		30 June 2017 after IFRS 15 reclassifications	
	€ million	%	€ million	%
Americas	375.5	44.5%	371.1	45.5%
Southern Europe, Middle East and Africa	258.8	30.6%	243.4	29.8%
Northern, Central and Eastern Europe	157.0	18.6%	150.0	18.4%
Asia-Pacific	53.3	6.3%	51.9	6.4%
Total	**844.7**	**100.0%**	**816.3**	**100.0%**

Sales performance at 31 March 2017

	31 March 2017 published		31 March 2017 after IFRS 15 reclassifications	
	€ million	%	€ million	%
Americas	176.4	46.8%	173.9	47.5%
Southern Europe, Middle East and Africa	109.2	29.0%	103.8	28.3%
Northern, Central and Eastern Europe	65.7	17.4%	63.7	17.4%
Asia-Pacific	25.4	6.7%	24.8	6.8%
Total	**376.6**	**100.0%**	**366.2**	**100.0%**

Operating segments

Operating segments at 31 December 2017

Americas

	31 December 2017 published		31 December 2017 after IFRS 15 reclassifications	
	€ million	%	€ million	%
Net sales	**794.2**	**100.0**	**783.6**	**100.0**
Gross margin	**464.7**	**58.5**	**454.1**	**58.0**
Advertising and promotional costs	(152.7)	-19.2	(142.1)	-18.1
Overheads	(141.0)	-17.7	(141.0)	-18.0
Result from recurring activities	**171.1**	**21.5**	**171.1**	**21.8**

Southern Europe, Middle East and Africa

	31 December 2017 published		31 December 2017 after IFRS 15 reclassifications	
	€ million	%	€ million	%
Net sales	**536.3**	**100.0**	**501.2**	**100.0**
Gross margin	**330.1**	**61.5**	**295.0**	**58.9**
Advertising and promotional costs	(108.7)	-20.3	(73.6)	-14.7
Overheads	(135.1)	-25.2	(135.1)	-27.0
Result from recurring activities	**86.2**	**16.1**	**86.2**	**17.2**

Northern, Central and Eastern Europe

	31 December 2017 published		31 December 2017 after IFRS 15 reclassifications	
	€ million	%	€ million	%
Net sales	**361.1**	**100.0**	**347.2**	**100.0**
Gross margin	**219.6**	**60.8**	**205.7**	**59.2**
Advertising and promotional costs	(60.8)	-16.8	(46.9)	-13.5
Overheads	(51.7)	-14.3	(51.7)	-14.9
Result from recurring activities	**107.1**	**29.6**	**107.1**	**30.8**

Asia-Pacific

	31 December 2017 published		31 December 2017 after IFRS 15 reclassifications	
	€ million	%	€ million	%
Net sales	**124.4**	**100.0**	**121.3**	**100.0**
Gross margin	**60.5**	**48.6**	**57.4**	**47.3**
Advertising and promotional costs	(20.3)	-16.3	(17.2)	-14.2
Overheads	(24.1)	-19.4	(24.1)	-19.9
Result from recurring activities	**16.2**	**13.0**	**16.2**	**13.3**

Operating segments at 30 June 2017

Americas

	30 June 2017 published		30 June 2017 after IFRS 15 reclassifications	
	€ million	%	€ million	%
Net sales	**375.5**	**100.0**	**371.1**	**100.0**
Gross margin	**220.4**	**58.7**	**216.0**	**58.2**
Advertising and promotional costs	(72.7)	-19.4	(68.2)	**-18.4**
Overheads	(75.1)	-20.0	(75.1)	**-20.2**
Result from recurring activities	**72.6**	**19.3**	**72.6**	**19.6**

Southern Europe, Middle East and Africa

	30 June 2017 published		30 June 2017 after IFRS 15 reclassifications	
	€ million	%	€ million	%
Net sales	**258.8**	**100.0**	**243.4**	**100.0**
Gross margin	**161.4**	**62.4**	**146.0**	**60.0**
Advertising and promotional costs	(50.6)	-19.6	(35.2)	-14.5
Overheads	(66.6)	-25.7	(66.6)	-27.4
Result from recurring activities	**44.1**	**17.1**	**44.1**	**18.1**

Northern, Central and Eastern Europe

	30 June 2017 published		30 June 2017 after IFRS 15 reclassifications	
	€ million	%	€ million	%
Net sales	**157.0**	**100.0**	**150.0**	**100.0**
Gross margin	**99.4**	**63.3**	**92.3**	**61.5**
Advertising and promotional costs	(30.6)	-19.5	(23.5)	-15.7
Overheads	(25.2)	-16.0	(25.2)	-16.8
Result from recurring activities	**43.6**	**27.8**	**43.6**	**29.1**

Asia-Pacific

	30 June 2017 published		30 June 2017 after IFRS 15 reclassifications	
	€ million	%	€ million	%
Net sales	**53.3**	**100.0**	**51.9**	**100.0**
Gross margin	**24.2**	**45.5**	**22.8**	**44.0**
Advertising and promotional costs	(8.8)	-16.5	(7.4)	-14.2
Overheads	(12.5)	-23.4	(12.5)	-24.0
Result from recurring activities	**3.0**	**5.6**	**3.0**	**5.8**

Sales by major brands at consolidated level

Sales by major brands at 31 December 2017

	Percentage of Group sales published	Percentage of Group sales published – after IFRS 15 reclassifications
	31 December 2017	
global priority brands	**52.5%**	**52.1%**
regional priority brands	**16.7%**	**16.5%**
local priority brands	**12.3%**	**12.5%**
rest of the portfolio	**18.5%**	**18.9%**
Total	**100.0%**	**100.0%**

51. Events taking place after the end of the year

For further details on the above-mentioned transactions see the 'Significant events during the year' section of the Report on operations.

Acquisition of Bisquit

On 31 January 2018, the Group closed the agreement to acquire Bisquit Dubouché et Cie. from South African group Distell. The enterprise value is € 53.9 million.

Disposal of the Lemonsoda business

On 2 January 2018, the Group closed an agreement to sell the Lemonsoda business to Royal Unibrew A/S, a beer and alcoholic drinks manufacturer with its registered office in Denmark.
The enterprise value is € 80.0 million on a cash-free/debt-free basis for 100% of the issued share capital of a wholly-owned subsidiary of Davide Campari-Milano S.p.A., to which the business in question was transferred, subject to the customary price adjustment mechanisms.

Termination of the agreement to distribute Brown Forman products in Italy

The agreements to distribute Brown Forman products in Italy will cease in April 2018. Sales – mainly relating to the Jack Daniel's brand – represented around 1.7% of Group sales in the full year 2017.

Restructuring activities

The Group has launched the following activities, most of the costs of which are expected to be recognised in 2018, in order to improve the efficiency of its production facilities and move its sales structures closer to the business:

- Relocation of the Campari America office to New York City;
- Outsourcing of US and Canadian accounting and administrative activities;
- Optimisation of production plants in Brazil.

Sesto San Giovanni (MI), Tuesday, 27 February 2018

Chairman of the Board of Directors

Luca Garavoglia

Davide Campari-Milano S.p.A.
Annual financial statements at 31 December 2017

Financial statements

Income statements

	Notes	2017	2016
		€	€
Net sales	7	**661,094,145**	**605,228,014**
Cost of goods sold	8	(291,915,963)	(270,877,061)
Gross profit		**369,178,181**	**334,350,953**
Advertising and promotional costs	9	(63,133,425)	(63,298,203)
Contribution margin		**306,044,756**	**271,052,750**
Overheads	10	(75,409,038)	(102,209,473)
Of which adjustments to operating income (charges)[1]	*10*	*37,298,873*	*(1,764,507)*
Operating result[1]		**230,635,719**	**168,843,277**
Financial income (expenses)	14	(70,349,990)	(73,667,033)
Of which adjustments to financial income (expenses)[1]		*(24,818,675)*	*(11,518,703)*
Put option costs	15	(3,294,016)	
Dividends	14	41,119,880	138,336,249
Profit before tax		**198,111,593**	**233,512,493**
Income tax expense	16	10,744,941	(28,009,167)
Profit for the period		**208,856,534**	**205,503,326**

[1] For information on the definition of alternative performance indicators, see the section in the Report on operations 'Alternative performance indicators'.

Statement of comprehensive income

	2017	2016
	€	€
Profit for the period (A)	**208,856,534**	**205,503,326**
B1) Items that may be subsequently reclassified to profit or loss		
Cash flow hedge:		
(Profit) losses classified to other profit and loss	258,395	2,319,875
Profit (loss) for the period to net equity	1,606,975	(1,072,042)
Net gains (losses) from cash flow hedge	1,865,370	1,247,833
Tax effect	(447,689)	(321,709)
Total cash flow hedge	**1,417,681**	**926,124**
Total: items that may be subsequently reclassified to profit or loss (B1)	**1,417,681**	**926,124**
B2) Items that may not be subsequently reclassified to profit or loss		
Remeasurements of post-employment benefit obligations:		
Profit(loss) for the period	(64,210)	41,208
Tax effect	15,410	(11,332)
Remeasurements of post-employment benefit obligations	**(48,800)**	**29,876**
Total: items that may not be subsequently reclassified to profit or loss (B2)	**(48,800)**	**29,876**
Other comprehensive income (expenses) (B=B1+B2)	**1,368,881**	**956,000**
Total comprehensive income (A+B)	**210,225,415**	**206,459,326**

Statement of financial position

	Notes	31 December 2017	31 December 2016
		€	€
ASSETS			
Non-current assets			
Net tangible fixed assets	17	91,199,972	105,681,996
Investment properties	18	1,303,297	1,483,762
Goodwill and brands	19	452,515,354	459,478,282
Intangible assets with a finite life	21	22,337,883	15,907,881
Investments in subsidiaries	22	2,184,112,990	2,251,446,921
Other non-current assets	23	37,867,221	37,056,566
Total non-current assets		**2,789,336,716**	**2,871,055,407**
Current assets			
Inventories	24	77,970,573	87,552,634
Trade receivables	25	119,210,485	116,698,255
Short-term financial receivables	27	58,639,572	550,001
Cash and cash equivalents	28	217,537,932	96,655,660
Income tax receivables	26	13,857,278	245,046
Other receivables	25	13,274,403	10,522,911
Total current assets		**500,490,243**	**312,224,508**
Assets held for sale	29	7,674,171	1,022,246
Total assets		**3,297,501,131**	**3,184,302,161**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Shareholders' equity			
Share capital	30	58,080,000	58,080,000
Reserves	30	1,215,874,509	1,104,516,385
Total shareholders' equity		**1,273,954,509**	**1,162,596,385**
Non-current liabilities			
Bonds	31	995,588,627	992,436,235
Other non-current liabilities	31	645,455,814	686,363,876
Post-employment benefit obligations	33	4,970,815	6,032,794
Provisions for risks and charges	34	3,715,389	2,275,955
Deferred tax liabilities		21,087,072	19,462,422
Total non-current liabilities		**1,670,817,717**	**1,706,571,283**
Current liabilities			
Payables to banks	32	42,318	53,688,944
Other financial liabilities	32	215,586,088	125,146,038
Trade payables	35	99,217,820	106,202,157
Income tax payables	36	830,759	508,566
Other current liabilities	35	37,051,921	29,588,788
Total current liabilities		**352,728,905**	**315,134,493**
Total liabilities		**2,023,546,622**	**2,021,705,776**
Total liabilities and shareholders' equity		**3,297,501,131**	**3,184,302,161**

Statement of cash flows

	Notes	2017	2016
		€	€
Operating profit		**230,635,719**	**168,843,277**
Depreciation and amortisation	11	15,454,392	13,424,200
Gains on sales of fixed assets	5	(53,049,463)	(1,946,593)
Write-downs of tangible fixed assets		-	413
Write-downs of investments		-	(8,467,375)
Accruals of provision	34	2,740,615	3,010,093
Utilizations of provisions	34	(2,165,655)	(605,457)
Devaluation of receivable		1,223,246	-
Other non-cash items	24-25-35	6,035,134	(414,024)
Changes in net operating working capital		(8,518,359)	14,905,621
Other changes in non-financial assets and liabilities		6,008,060	(5,263,153)
Income taxes paid		(1,830,794)	(21,863,173)
Cash flow generated from (used in) operating activities		**196,532,896**	**161,623,827**
Purchase of tangible and intangible fixed assets	17-21	(23,103,856)	(23,549,081)
Disposal of assets		3,521,366	2,517,180
Trademark and rights acquisition and disposal		-	1,201,600
Disposal (investments) in affiliated companies	22	134,085,520	(643,611,423)
Interests received		-	929,143
Net changes in securities	27	744,000	49,985,581
Dividends received		41,127,940	138,803,729
Cash flow generated from (used in) investing activities		**156,374,970**	**(473,723,271)**
Eurobond issue (repayment)		(1,000)	-
Medium-long term financial liabilities issue		-	300,000,000
Revolving facility loan issue		180,000,000	50,000,000
Revolving facility loan repayments		(230,000,000)	-
Repayment of private placement		-	(535,151,921)
Net change in short-term financial payables and bank loans		(3,646,626)	(6,010,358)
Interests paid		(63,460,756)	(80,577,758)
Change in other financial payables and receivables		(9,146,187)	174,715,513
Purchase and sale of own shares	30	(53,627,179)	(8,088,053)
Dividend paid	30	(52,143,847)	(52,132,866)
Cash flow generated from (used in) financing activities		**(232,025,595)**	**(157,245,443)**
Other exchange rate differences and changes in shareholders' equity		-	4,856,061
Exchange rate differences and other changes in shareholders' equity		**-**	**4,856,061**
Net change in cash and cash equivalents: increase (decrease)		**120,882,271**	**(464,488,826)**
Cash and cash equivalents at the beginning of period	28	96,655,660	561,144,487
Cash and cash equivalents at end of period	28	217,537,932	96,655,660

Statement of changes in shareholders' equity

	Notes	Share capital	Own shares at nominal value	Legal reserve	Other reserve	Retained earnings	Total equity
		€	€	€	€	€	€
31 December 2016		**58,080,000**	**(134,234)**	**11,616,000**	**275,710,913**	**817,323,706**	**1,162,596,385**
Dividend payout	30	-	-	-	-	(52,143,847)	(52,143,847)
Own shares acquired	30	-	(545,500)	-	-	(63,273,477)	(63,818,977)
Own shares sold	30	-	227,079	-	-	9,964,720	10,191,798
Stock options	37	-	-	-	3,744,413	-	3,744,413
Stock options - subsidiaries	37	-	-	-	3,159,722	-	3,159,722
Stock options utilization	37	-	-	-	(3,133,048)	3,133,048	-
Other movements		-	-	-	-	(400)	(400)
Profit for the period		-	-	-	-	208,856,534	208,856,534
Other comprehensive income (expense)		-	-	-	1,368,881	-	1,368,881
Total comprehensive income		**-**	**-**	**-**	**1,368,881**	**208,856,534**	**210,225,415**
31 December 2017		**58,080,000**	**(452,656)**	**11,616,000**	**280,850,881**	**923,860,284**	**1,273,954,509**

	Share capital	Own shares at nominal value	Legal reserve	Other reserve	Retained earnings	Total equity
	€	€	€	€	€	€
31 December 2015	**58,080,000**	**(172,144)**	**11,616,000**	**269,518,882**	**669,753,768**	**1,008,796,504**
Dividend payout	-	-	-	-	(52,132,866)	(52,132,866)
Own shares acquired	-	(232,614)	-	-	(18,699,525)	(18,932,138)
Own shares sold	-	270,524	-	-	10,573,561	10,844,085
Stock options	-	-	-	4,270,291	-	4,270,291
Stock options - subsidiaries	-	-	-	3,353,778	-	3,353,778
Stock options utilization	-	-	-	(3,505,119)	3,505,119	-
Other movements	-	-	-	1,117,583	(1,179,678)	(62,095)
Profit for the period	-	-	-	-	205,503,326	205,503,326
Other comprehensive income (expense)	-	-	-	955,500	-	955,500
Total comprehensive income	**-**	**-**	**-**	**955,500**	**205,503,326**	**206,458,826**
31 December 2016	**58,080,000**	**(134,234)**	**11,616,000**	**275,710,916**	**817,323,706**	**1,162,596,385**

Notes to the financial statements

1. General information

Davide Campari-Milano S.p.A. is a company listed on the Italian stock market with its registered office at Via Franco Sacchetti 20, 20099 Sesto San Giovanni (MI), Italy.
The Company is recorded in the Milan companies register and REA (business administration register) under no. 1112227.
Davide Campari-Milano S.p.A. is controlled by Alicros S.p.A., which has a 51% holding and is, in turn, 53.71% controlled by Lagfin S.C.A., whose registered office is in Luxembourg.
Davide Campari-Milano S.p.A. is the Parent Company of Gruppo Campari. It operates directly on the national market, and through its subsidiaries, on the international markets of alcoholic and non-alcoholic drinks.

The Group operates in around 190 countries with prime positions in Europe and the Americas. It has 18 production plants around the world, a distribution network in 20 countries, and employs around 4,000 people.

These financial statements are presented in euro while the relevant notes to the financial statements are prepared in thousands of euro, unless otherwise stated.
As the Parent Company, Davide Campari-Milano S.p.A. has also drawn up the consolidated financial statements of the Campari Group for the year ending 31 December 2017.
The financial statements of Davide Campari-Milano S.p.A. for the year ending 31 December 2017 were approved on 27 February 2018 by the Board of Directors, which has authorised their publication.
The Board of Directors reserves the right to amend the results should any significant events occur that require changes to be made, up to the date of the shareholders' meeting.

2. Preparation criteria

The annual financial statements of Davide Campari-Milano S.p.A. (which represent the 'separate financial statements') for the years ending 31 December 2017 and 2016, were prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and ratified by the European Union, including all the revised international accounting standards (International Accounting Standards – IAS) and interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and its predecessor, the Standing Interpretations Committee (SIC).
No exceptions to the application of the international accounting standards were made in the preparation of these separate accounts.
The accounts were prepared on a cost basis, taking into account, where appropriate, any value adjustments, except for balance sheet items that, according to the IFRS, must be recognised at fair value, such as financial derivatives, and except in cases where the IFRS allow a different valuation criterion to be used.
The carrying amount of assets and liabilities subject to fair value hedging transactions, which would otherwise be recorded at cost, has been adjusted to take account of the changes in fair value attributable to the risk being hedged.

Form and content

Under the structure of the financial statements chosen by the Group, and also adopted in the annual financial statements of the Company, the income statement has been classified by function, and the statement of financial position based on the division between current and non-current assets and liabilities.
We consider that this format will provide a more meaningful representation of the items that have contributed to the Company's results and its balance sheet and financial position.
In the income statement, transactions or events that may generate income and charges that are not relevant for assessing performance, such as capital gains/losses on the sale of fixed assets, restructuring and reorganisation costs, financial charges and any other non-recurring income/expenses, are shown separately; this provides a clearer picture of the operating performance. Adjustments to operating, financial and tax items are also discussed in detail in these notes.
This presentation complies with the requirements of Consob communication DEM/6064293 of 28 July 2006, as subsequently amended and consolidated (Consob communication no. 0092543 of 3 December 2015, which incorporates the Guidelines on Alternative Performance Measures (ESMA/2015/1415).
Lastly, in accordance with Consob Resolution 15519 of 27 July 2006, transactions with related parties are shown separately, in the statement of financial position and income statement, as also required by IAS 24. The cash flow statement was prepared using the indirect method.

3. Summary of accounting principles

Intangible assets

Intangible assets include all assets without any physical form that are identifiable, controlled by the Company and capable of producing future economic benefits, as well as goodwill when purchased for consideration.

Intangible assets acquired are recorded under assets, in accordance with IAS 38 – Intangible Assets, when it is likely that the use of the assets will generate future economic benefits, and when the cost can be reliably determined.

If acquired separately, these assets are reported at acquisition cost including all allocable ancillary costs.

Assets produced internally, excluding development costs, are not capitalised and are reported in the income statement for the financial year in which they are incurred.

Intangible assets with a finite life are amortised on a straight-line basis in relation to their remaining useful life, taking into account losses due to a reduction in accumulated value.

The period of amortisation of intangible assets with a finite life is reviewed at least at the end of every financial year in order to ascertain any changes in their useful life, which if identified will be considered as changes in estimates.

The costs of development projects and studies are recorded in the income statement in full in the year in which they are incurred.

Advertising and promotional costs are recorded in the income statement when the Company has received the goods or services in question.

Costs relating to industrial patents, concessions, licences and other intangible fixed assets are recorded on the assets side of the statement of financial position only if they are able to produce future economic benefits for the Company. These costs are amortised according to the period of use, if this can be defined, or according to contract duration.

Software licences represent the cost of purchasing licences and, if incurred, external consultancy fees or internal personnel costs necessary for development. These costs are recorded in the year in which the internal or external costs are incurred for training personnel and other related costs.

Costs recorded under intangible assets are amortised over their useful life, generally taken to be three years.

Goodwill and brands, which result from acquisitions and qualify as intangible assets with an indefinite life, are not amortised. The possibility of recovering their carrying amount is ascertained at least annually and, in any case, when events occur leading to the assumption of a reduction in value using the criteria indicated below in the section entitled 'Impairment'.

For goodwill, a test is performed on the smallest cash-generating unit to which the goodwill relates. On the basis of this, management directly or indirectly assesses the return on investment including goodwill.

Write-downs in goodwill can no longer be recovered in future years. When control of the previously acquired company is transferred, the capital gain or loss from the transfer takes into account the corresponding residual value of the previously recorded goodwill.

Tangible fixed assets

Property, plant and equipment are recorded at acquisition or production cost, gross of capital grants (if received) and directly charged expenses, and are not revalued.

Subsequently, tangible fixed assets are recorded at cost net of accumulated depreciation and any impairment losses.

Any costs incurred after purchase are only capitalised if they increase the future financial benefits generated by using the asset.

The replacement costs of identifiable components of complex assets are allocated to assets on the statement of financial position and depreciated over their useful life. The residual value recorded for the component being replaced is allocated to the income statement; other costs are expensed in profit and loss when the expense is incurred.

The financial charges incurred in respect of investments in assets which take a significant period of time to be prepared for use or sale (qualifying assets as defined in IAS 23 – Borrowing Costs) are capitalised and depreciated over the useful life for the class of assets to which they belong. All other financial charges are posted to the income statement when incurred.

Ordinary maintenance and repair expenses are expensed in profit and loss in the period in which they are incurred.

If there are current obligations for dismantling or removing assets and cleaning up the related sites, the assets' reported value includes the estimated (discounted to present value) costs to be incurred when the structures are abandoned, which are reported as an offsetting entry to a specific reserve.

The impact of revising the estimate of these costs is explained in the 'Provisions for risks and charges' section.

Assets held under finance lease contracts, which essentially assign to the Company all the risks and benefits tied to ownership, are recognised as Company assets at their current value, or the present value of the minimum lease payments, whichever is lower.
The corresponding liability to the lessor is reported in the financial statements under financial payables.
These assets are depreciated using the policies and rates indicated below.
Leasing arrangements in which the lessor retains substantially all the risks and benefits relating to the ownership of the assets, are classified as operating leases, and the related costs are reported in the income statement over the term of the contract.
Depreciation is applied using the straight-line method, based on each asset's estimated useful life as established in accordance with the Company's plans for use of such assets, taking into account wear and tear and the superseding of technology, and the likely estimated realisable value net of disposal costs.
When the tangible asset consists of several significant components with different useful lives, depreciation is applied to each component individually.
The amount to be depreciated is represented by the reported value less the estimated net market value at the end of its useful life, if this value is significant and can be reasonably determined.
Land, even if acquired in conjunction with a building, is not depreciated, and nor are available-for-sale tangible assets, which are reported at the lower of their carrying amount and fair value less disposal costs.

Rates are as follows:

Property	
Buildings	3%
Light buildings	10%
Plant and machinery	
Plant and machinery	10%
Tanks	10%
Industrial and commercial equipment	
Various equipment	20%
Commercial equipment	20%
Other tangible fixed assets	
Furniture	12%
Office equipment	12%
Electronic equipment	20%
Miscellaneous minor equipment	20%
Goods vehicles	20%
Cars	25%

Depreciation ceases on the date that the asset is classified as available for sale, in accordance with IFRS 5, or on the date on which the asset is derecognised for accounting purposes, whichever occurs first.
A tangible asset is derecognised from the statement of financial position at the time of sale or when there are no future economic benefits associated with its use or disposal.
Any profits or losses are included in the income statement in the year of this derecognition.

Capital grants
Capital grants are recorded when there is a reasonable certainty that all requirements necessary for access to such grants have been met and that the grant will be disbursed.
This generally occurs at the time the decree acknowledging the benefit is issued.
Capital grants that relate to tangible fixed assets are recorded as deferred income and credited to the income statement over the whole period corresponding to the useful life of the asset in question.

Impairment
The Company ascertains, at least annually, whether there are indicators of a potential loss in value of intangible and tangible assets. If the Company finds that such indicators exist, it estimates the recoverable value of the relevant asset.
Moreover, intangible assets with an indefinite useful life or not yet available for use, and goodwill are subject to impairment tests every year or more frequently, whenever there is an indication that the asset may be impaired.
The ability to recover the assets is ascertained by comparing the carrying amount to the related recoverable value, which is represented by the greater of the fair value less disposal costs, and the value in use.
In the absence of a binding sale agreement, the fair value is estimated on the basis of recent transaction values in an active market, or based on the best information available to determine the amount that could be obtained from selling the asset.

The value in use is determined by discounting expected cash flows resulting from the use of the asset, and if significant and reasonably determinable, the cash flows resulting from its sale at the end of its useful life.
Cash flows are determined on the basis of reasonable, documentable assumptions representing the best estimate of the future economic conditions that will occur during the remaining useful life of the asset, with greater weight given to outside information.
The discount rate applied takes into account the implicit risk of the business segment.
When it is not possible to determine the recoverable value of an individual asset, the Company estimates the recoverable value of the cash-generating unit to which the asset belongs.
Impairment is reported if the recoverable value of an asset is lower than its carrying amount.
This loss is posted to the income statement unless the asset was previously written up through a shareholders' equity reserve.
In this case, the reduction in value is first allocated to the revaluation reserve.
If, in a future period, a loss on assets, other than goodwill, does not materialise or is reduced, the carrying amount of the asset or cash-generating unit is increased up to the new estimate of recoverable value, and may not exceed the value that would have been calculated if no impairment had been reported.
The reversal of impairment is posted to the income statement, unless the asset was previously reported at its revalued amount.
In this case, the reversal of the impairment is first allocated to the revaluation reserve.

Investment property
Property and buildings held to generate lease income (investment property) are valued at cost less accumulated depreciation and losses due to a reduction in value.
The depreciation rate for buildings is 3%, while land is not depreciated.
Investment property is derecognised from the statement of financial position when sold or when it becomes permanently unusable and no future economic benefits are expected from its disposal.

Equity investments
Investments in subsidiaries are recorded at cost and adjusted for any loss in value.
The positive difference arising at the time of the acquisition between the acquisition cost and the current value of the Company's stake is included in the carrying amount of the holding; any write-downs of this positive difference are not reinstated in subsequent periods, even if the reasons for the write-down no longer apply.
If the Company's portion of the subsidiary's losses exceeds the carrying amount of the holding, the carrying amount is eliminated and the portion of any further losses is posted to liabilities as a specific reserve to the extent to which the Parent Company is required to fulfil legal or implicit obligations with respect to the subsidiary or in any event to cover its losses.
Investments in subsidiaries are subject to impairment tests on an annual basis, or more frequently if necessary.
If the tests show evidence of impairment, the loss in value must be recorded as a write-down in the income statement.
Investments in other companies that are not held for trading (available for sale) are recorded at fair value, if determinable, and this value is allocated to shareholders' equity up to the date of sale or the identification of a loss in value, at which time the effects previously booked to shareholders' equity are recorded in the income statement for the period.
When the fair value cannot be reliably determined, investments are valued at cost, adjusted for any impairment.
Dividends received are recognised in the income statement when the right to receive payment is established, in cash or in kind, only if they arise from the distribution of profits subsequent to the acquisition of the subsidiary.

Financial instruments
Financial instruments held by the Company are categorised as follows:
Financial assets include holdings in subsidiaries, associates and joint ventures, short-term securities and financial receivables, which in turn include the positive fair value of financial derivatives, trade and other receivables and cash and cash equivalents.
Specifically, cash and cash equivalents include cash, bank deposits and highly liquid securities that can be quickly converted into cash, and which carry an insignificant risk of a change in value.
The maturity of deposits and securities in this category is less than three months.
Current securities include short-term securities or marketable securities representing a temporary investment of cash that do not meet the requirements for classification as cash equivalents.
Financial liabilities include financial payables, which, in turn, include the negative fair value of financial derivatives, trade payables and other payables.

Financial assets and liabilities, other than equity investments, are recorded in accordance with IAS 39 – Financial Instruments: Recognition and Measurement in the following categories:

i. Financial assets at fair value with changes recorded in the income statement.
   This category includes all financial instruments held for trading and those designated at the time they were initially reported at fair value with changes recorded in the income statement.
   Financial instruments held for trading are all those instruments acquired with the intention of sale in the short term.
   This category also includes derivatives that do not meet the hedging criteria set out in IAS 39.
   These instruments, measured at fair value with changes recorded in the income statement, are reported in the statement of financial position at fair value, while the related profits and losses are reported in the income statement.
ii. Investments held to maturity.
   Current financial assets and securities to be held until maturity are reported on the basis of the trading date, and, at initial recognition, are valued at acquisition cost, represented by the fair value of the initial consideration given in exchange plus transaction costs (e.g. commission, consulting fees, etc.).
   The initial reported value is then adjusted to take into account repayments of principal, any write-downs and the amortisation of the difference between the repayment amount and the initial reported value. Amortisation is applied on the basis of the effective internal interest rate represented by the rate which, at the time of the initial reporting, would make the present value of expected cash flows equal to the initial reported value (known as the amortised cost method).
   The profits and losses are recorded on the income statement when the investment is derecognised for accounting purposes or when impairment occurs beyond the amortisation process.
iii. Loans and receivables.
   Loans and receivables are non-derivative financial instruments with fixed or determinable payments, which are not listed on an active market.
   After the initial reporting, these instruments are valued according to the amortised cost method using the effective discount rate net of any provision for impairment.
   Profits and losses are recorded in the income statement when loans and receivables are derecognised for accounting purposes or when an impairment occurs beyond the amortisation process.
iv. Financial assets available for sale.
   Financial assets available for sale, excluding derivatives, are those designated as such or not classified under any of the three previous categories.
   After initial recognition, financial instruments available for sale are valued at fair value. If the market price is not available, the present value of financial instruments available for sale is measured using the most appropriate valuation methods, such as the analysis of discounted cash flows performed using market information available on the reporting date. In the absence of reliable information, they are held at cost.
   Profits and losses on financial assets available for sale are recorded directly in shareholders' equity up to the time the financial asset is sold or written down. At that time the accumulated profits and losses, including those previously posted to shareholders' equity, are included in the income statement for the period.

Financial assets available for sale
Financial assets available for sale, excluding derivatives, are those designated as such or not classified under any of the three previous categories.
After initial recognition, financial instruments available for sale are valued at fair value.
If the market price is not available, the present value of financial instruments available for sale is measured using the most appropriate valuation methods, such as the analysis of discounted cash flows performed using market information available on the reporting date. In the absence of reliable information, they are held at cost.
Profits and losses on financial assets available for sale are recorded directly in comprehensive income or expense up to the time the financial asset is sold or written down. At that time, the accumulated profits and losses, including those previously posted to comprehensive income or expense, are included in the income statement for the period.

Impairment of a financial asset
The Company assesses, at least annually, whether there are any indicators that a financial asset or a group of financial assets could have lost value.
A financial asset or group of financial assets is written down only if there is objective evidence of impairment caused by one or more events that occurred following the initial reporting date of the asset or group of assets, and which had an impact that can be reliably estimated on the future cash flows that may be generated by the asset or group of assets.

Derecognition of financial assets and liabilities
A financial asset (or where applicable, part of a financial asset or part of a group of similar financial assets) is derecognised from the financial statements when:
- the rights to receive income from financial assets no longer exist;
- the Company reserves the right to receive income from financial assets, but has taken on a contractual obligation to pay such income in full and without delay to a third party;
- the Company has transferred the right to receive income from financial assets and (i) has transferred substantially all the risks and benefits relating to the ownership of the financial asset, or (ii) has neither transferred nor retained all the risks and benefits relating to the ownership of the financial asset, but has transferred control of the asset.

When the Company has transferred the rights to receive financial income from an asset, and it has neither transferred nor retained all the risks and benefits, or it has not lost control of the same, the asset is reported in the statement of financial position to the extent of the Company's continuing involvement in the asset.
A financial liability is derecognised from the financial statements when the underlying obligation of the liability is no longer held or has been cancelled or settled.
In cases where an existing financial liability is replaced by another of the same lender under different conditions, or where the conditions of an existing liability are changed, the replacement or change is treated in the financial statements as a derecognition of the original liability, and a new liability is reported, with any difference in the accounting values allocated to the income statement.

Financial derivatives and hedging transactions
Financial derivatives are used solely for hedging purposes to reduce exchange and interest rate risk.
In accordance with IAS 39, financial derivatives are recorded using hedge accounting procedures only if, at the beginning of the hedge, a formal designation has been made and the documentation for the hedging relationship exists, and if it is assumed that the hedge is highly effective; it must be possible for this effectiveness to be reliably measured, and the hedge must prove highly effective during the accounting periods for which it is designated.
All financial derivatives are measured at their fair value pursuant to IAS 39.
Where financial instruments meet the requirements for being reported using hedge accounting procedures, the following accounting treatment is applied:

i. fair value hedge: if a financial derivative is designated as a hedge against exposure to changes in the fair value of an asset or liability attributable to a particular risk that could have an impact in the income statement, gains or losses resulting from subsequent valuations of the fair value of the hedging instrument are posted to the income statement. The gain or loss on the hedged item, which is attributable to the hedged risk, is shown as a portion of the carrying amount of this item and as an offsetting entry in the income statement;
ii. cash flow hedge: if a financial instrument is designated as a hedge against exposure to fluctuations in future cash flows arising from an asset or liability reported in the accounts, or against a highly probable transaction that could have an impact on the income statement, the effective portion of any gains or losses on the financial instrument is recognised in the statement of comprehensive income. Accumulated profits or losses are removed from comprehensive income or expense and recorded in the income statement in the same period in which the transaction being hedged has an impact on the income statement. The profit or loss associated with a hedge, or the portion of the hedge that has become ineffective, is posted to the income statement when the ineffectiveness is reported.

If a hedging instrument or hedging relationship is closed out, but the transaction being hedged has not been carried out, the accumulated profits and losses, which, until then had been posted to comprehensive income or expense, are reported in the income statement at the time the related transaction is carried out.
If the transaction being hedged is no longer considered likely to take place, the unrealised profits or losses suspended in comprehensive income or expense are recorded in the income statement.
If hedge accounting cannot be applied, any gains or losses resulting from the valuation of the financial derivative at its present value are posted to the income statement.

Own shares
Own shares are reported as a reduction to shareholders' equity.

The original cost of the own shares and the financial effects of any subsequent sales are recognised directly in shareholders' equity.

Inventories

Inventories of raw materials and semi-finished and finished products are valued at the lower of purchase or production cost, determined using the weighted average method, and market value.
Work in progress is recorded at the acquisition cost of the raw materials used including the actual production costs incurred up to the point of production reached.
Inventories of raw materials and semi-finished products that are no longer of use in the production cycle and inventories of unsaleable finished products are fully written down.
Low-value replacement parts and maintenance equipment not used in connection with a single asset item are reported as inventories and recorded in the income statement when used.

Non-current assets classified as held for sale

Non-current assets classified as available for sale include fixed assets (or asset disposal groups) whose carrying amount will be recovered primarily from their sale rather than their ongoing use, and whose sale is highly probable in the short term (within one year) and in the assets' current condition.
Non-current assets classified as held for sale are valued at the lower of their net carrying amount and present value, less sale costs, and are not amortised.

Employee benefits

Post-employment benefit plans

The Company provides post-employment benefits through defined contribution and/or defined benefit plans.

i. Defined benefit plans.
   The Company's obligation and annual cost reported in the income statement are determined by independent actuaries using the projected unit credit method.
   The net cumulative value of actuarial profits and losses is recorded directly on the statement of comprehensive income and is not subsequently recognised in the income statement.
   The costs associated with an increase in the present value of the obligation, resulting from the approaching time when benefits will be paid, are included under financial charges. Service costs are posted to the income statement. The liability recognised represents the present value of the defined benefit obligation. In the event of a modification to the plan that changes the benefits accruing from past service, the costs arising from past service are expensed in profit and loss at the time the change to the plan is made. The same treatment is applied if there is a change to the plan that reduces the number of employees or that varies the terms and conditions of the plan (treatment is the same regardless of whether the final result is a profit or a loss).
ii. Defined contribution plans.
   Since the Company fulfils its obligations by paying contributions to a separate entity (a fund), with no further obligations, it records its contributions to the fund in respect of employees' service, without making any actuarial calculation.
   Where these contributions have already been paid at the reporting date, no liabilities are recorded in the financial statements.

Compensation plans in the form of stock options
The Company pays additional benefits in the form of stock option plans to employees, directors and individuals who regularly carry out work for one or more Group companies.
Pursuant to IFRS 2 – Share-based Payment, the total fair value of the stock options on the grant date is recognised as a cost in the income statement, with an increase in the respective shareholders' equity reserve, in the period beginning when the shares are granted and ending on the date on which the employees, directors and individuals who regularly carry out work for one or more Group companies become fully entitled to receive payment.
Changes in the present value following the allocation date have no effect on the initial valuation, while in the event of changes to the terms and conditions of the plan, additional costs are recorded for each change in the plan that determines an increase in the present value of the recognised option.
The cost is recognised as a portion, for each period in which the vesting conditions have been met, while in the event of the cancellation of an option, the cost recorded until that date is released to income on the income statement.
The fair value of stock options is represented by the value of the option calculated by applying the Black-Scholes model, which takes into account the conditions for exercising the option, the current share price, expected volatility and the risk-free rate, as well as the non-vesting conditions.
The stock options are recorded at fair value with an offsetting entry under the stock option reserve.

Provision for risks and charges
Accruals for the provision for risks and charges are reported when:
- there is a current legal or implicit obligation resulting from a past event;
- it is likely that the fulfilment of the obligation will require some form of payment;
- the amount of the obligation can be reliably estimated.

Accruals are reported at a value representing the best estimate of the amount the Company would reasonably pay to discharge the obligation or transfer it to third parties on the reporting date.
Where the financial impact of time is significant, and the payment dates of the obligations can be reliably estimated, the accrual is discounted. The change in the related provision over time is allocated to the income statement under Financial income (charges).
Provisions are periodically updated to reflect changes in estimates of cost, timescales and discount rates. Revisions to estimates of provisions are allocated to the same item in the income statement where the accrual was previously reported or, if the liability relates to tangible assets (e.g. dismantling and restoration), these revisions are reported as an offsetting entry to the related asset.
When the Company expects that all or part of the provisions will be repaid by third parties, the payment is recorded under assets only if it is virtually certain, and the accrual for the provision is posted to the income statement net of the related repayment.

Restructuring provisions
The Company reports restructuring provisions only if there is a legal or implicit obligation and a detailed formal restructuring programme that has led to the reasonable expectation by the third parties concerned that the Company will carry out the restructuring, either because it has already started the process or because it has already communicated the main aspects of the restructuring to the third parties concerned.

Recording of revenues, income and expense in the income statement
Revenues are reported to the extent to which it is likely that the financial benefits will accrue to the Company and in respect of the amount that can be reliably determined.
Revenues are reported at the fair value of the sum received, net of current and deferred discounts, allowances, excise duties, returns and trade allowances.
Specifically:
- sales revenues are recorded when the risks and benefits associated with owning the items are transferred to the buyer, and the revenue amount can be reliably determined;
- service revenues are reported when services are rendered; allocations of revenues related to partially performed services are reported on the basis of the percentage of the transaction completed at the reporting date, when the revenue amount can be reliably estimated;
- financial income and charges are recorded in the period to which they relate;
- capital grants are credited to the profit and loss account in proportion to the useful life of the assets to which they relate;
- dividends are reported on the date the shareholders' meeting passes the related resolution;

- lease income from investment property is recorded on a straight-line basis for the duration of the existing leasing contracts.

Costs are recognised in the income statement when they relate to goods and services sold or consumed during the period, or as a result of systematic apportionment or when the future utility of such goods and services cannot be determined.
Personnel and service costs include stock options (in keeping with their largely remunerative nature) that were granted to employees, directors and individuals who regularly carry out work for the Company. The cost is determined in relation to the fair value of the option granted. The portion applicable to the period is determined proportionally over the period to which the incentive applies (known as the vesting period).
Costs incurred in studying alternative products or processes, or in conducting technological research and development, are considered current costs and charged to the income statement in the period in which they are incurred.

Taxes
Current income taxes are calculated on the basis of estimated taxable income.
Current tax payables and receivables are recorded in the amount expected to be paid to/received from tax authorities by applying the tax rates and regulations in force or effectively approved on the reporting date.
Current taxes relating to items posted directly to comprehensive income or expense are recorded in comprehensive income or expense.
Other non-income taxes, such as property and capital taxes, are included in operating expenses.
Deferred tax assets and liabilities are calculated on temporary differences between the asset and liability values recorded in the accounts and the corresponding values recognised for tax purposes using the liability method.
Deferred tax assets are reported when their recovery is likely.
Deferred tax assets and liabilities are determined on the basis of tax rates that are expected to apply in those periods when the temporary differences are generated or eliminated.
Current and deferred tax assets and liabilities are offset when these relate to income taxes levied by the same tax authority and a legal right of set-off exists, provided that realisation of the asset and settlement of the liability take place simultaneously.
The balance of any set-off is posted to deferred tax assets if positive and deferred tax liabilities if negative.
Deferred tax assets and liabilities are classified under non-current assets and liabilities.
The Company has also opted for the national tax consolidation procedure, governed by article 117 *et seq* of the consolidated law on corporate income tax (TUIR) for 2016, 2017 and 2018, pursuant to the regulation drawn up by Alicros S.p.A, the direct controlling entity of the Company.
The decision to adopt this procedure is reflected in the accounting entries.

Transactions in foreign currencies (not hedged with derivatives)
Revenues and costs related to foreign currency transactions are reported at the exchange rate in force on the date the transaction is completed.
Monetary assets and liabilities in foreign currencies are converted to euro at the exchange rate in effect on the reporting date, with any related impact posted to the income statement.

Use of estimates
The preparation of the accounts and related notes in accordance with IFRS requires the management to make estimates and assumptions that have an impact on the value of balance sheet assets and liabilities and on disclosures concerning contingent assets and liabilities at the reporting date.
The actual results could differ from these estimates.
Estimates are used to identify provisions for risks in respect of receivables, obsolete inventory, depreciation and amortisation, asset write-downs, employee benefits, taxes, restructuring provisions and provisions for other risks and related accruals.
Figures for the individual categories are set out in the notes to the financial statements.
Estimates and assumptions are reviewed periodically, and the effects of each change are reflected in the income statement in the period in which the review of the estimate occurred if such review had an impact on that period only, or additionally in subsequent periods if the review had an impact on both the current and future years.
Goodwill is subject to an annual impairment test to check for any loss in value.
The calculations are based on expected financial flows from the cash-generating units to which the goodwill is attributed, as inferred from multi-year budgets and plans.

4. Changes in accounting principles

The accounting standards adopted by the Group are the same as those applied to the annual financial statements at 31 December 2017, with the exception of those set out below.

a. Accounting standards, amendments and interpretations that have been ratified or are applicable/have been adopted by the Company in advance

Amendment to IAS 12 – Income Tax (applicable from 1 January 2017 and ratified by the European Union on 6 November 2017)
On 19 January 2016, the IASB published some amendments to IAS 12. These amendments are intended to clarify how to account for deferred financial assets relating to debt instruments measured at fair value. The introduction of the new amendment did not have an impact on the Company's financial position and profitability.

Amendment to IAS 7 – Statement of Cash Flows (applicable from 1 January 2017 and ratified by the European Union on 6 November 2017)
On 29 January 2016, the IASB issued an amendment to IAS 7 – Statement of Cash Flows. The amendment requires that information relating to the changes in financial liabilities is reported, with the aim of improving the information provided to investors to help them better understand the changes to such payables. This amendment relates exclusively to the presentation of the financial statements and did not therefore affect the Company's financial position or profitability.

The annual cycle of improvements to IFRS 2014-2016: the document 'Annual cycle of improvements to IFRS 2014-2016', ratified by the European Union on 7 February 2018, containing essentially technical and drafting amendments to the international accounting standards, has not yet been ratified. The main clarifications relate to IFRS 1, IAS 28 and IFRS 12. These improvements had not an impact on the Company's financial position.

b. Accounting standards, amendments and interpretations that have been ratified but are not yet applicable/have not been adopted by the Group in advance

IFRS 9 – Financial Instruments (applicable from 1 January 2018)
From 1 January 2018, IFRS 9 – Financial Instruments, published by the IASB in July 2014 and ratified by the European Union in November 2016, replaces IAS 39 – Financial Instruments: *Recognition and Measurement.* IFRS 9 introduces new criteria for the classification and measurement of financial assets and financial liabilities, a new model for calculating the impairment of financial assets and new provisions for hedge accounting.

IFRS 9 will be applied retrospectively by the Company as of 1 January 2018, with the exception of the following:

- The Company intends to use the exemption that allows it not to recalculate the comparative information of the previous year for changes in classification and measurement (including the new provisions regarding the methods for calculating the impairment of financial assets). In general, any differences in the carrying amounts of financial assets and liabilities arising from the adoption of IFRS 9 will be recognised under retained earnings and reserves at 1 January 2018;
- with reference to hedge accounting, the Group has decided to continue applying the previous provisions of IAS 39 and postpone the application of hedge accounting, as required by IFRS 9, as permitted by paragraph 7.2.21.

The Group has already begun, and is about to finalise, an analysis of the impact of the first-time adoption of IFRS 9. As the analysis currently stands, and as reported in detail below, we do not expect any significant impact on the financial statements for the year ending 31 December 2017. However, since all the detailed analyses have not yet been completed, the actual effects of adopting IFRS 9 on 1 January 2018 may change up until the date of preparation of the financial statements to be published in 2018.

a) New criteria for the classification and measurement of financial assets

Summary of the changes

Under IFRS 9, receivables, loans and debt securities recorded under financial assets are classified in the following three categories based on the characteristics of the financial flows of these assets and the business model used to manage them:

- assets measured at amortised cost;
- assets measured at fair value reported in other items of comprehensive income (FVOCI);
- assets measured at fair value reported through profit or loss (FVTPL).

Derivatives incorporated in contracts where the primary element is a financial asset that falls within the scope of the standard no longer have to be separated. Instead, this hybrid instrument is examined for the purpose of classifying it as a whole.

The above-mentioned categories laid down by IFRS 9 replace the previous categories of IAS 39: assets held to maturity, loans and receivables, assets available for sale and assets valued at FVTPL.

Furthermore, IFRS 9 provides as a general rule that all interests other than those in subsidiaries, associates and joint ventures are valued at FVTPL. If these investments are not held for trading purposes, it is possible to adopt the option, on an investment-by-investment and irrevocable basis, to present subsequent changes in fair value through other comprehensive income, and only recognise the effects of distributing dividends through profit or loss; in this case, cumulative amounts in other comprehensive income will never be reclassified to profit (loss) for the year, even when the investment is sold.

Potential impacts for the Company

Given the type of financial assets and liabilities of the Company as at 31 December 2017, no significant impacts are expected from the application of IFRS 9. However, we are still finalising some analyses of the characteristics of the cash flows of certain debt instruments in the portfolio and the business model used to manage some trade receivable clusters.

b) New criteria for the classification and measurement of financial liabilities

Summary of the changes

IFRS 9 essentially maintains the provisions of IAS 39 on the classification and measurement of financial liabilities, with the exception of financial liabilities valued at FVTPL, for which changes in fair value related to changes in issuer credit risk (‘own credit risk’) are recognised under other comprehensive income rather than through profit (loss) for the period, unless this results in an accounting asymmetry.

Potential impacts for the Company

The Company did not hold significant financial liabilities valued at FVTPL as at 31 December 2017 and the first-time adoption of IFRS 9 is therefore not expected to have significant impact on financial liabilities.

c) New model for determining impairment of financial assets

IFRS 9 replaces the impairment model based on ‘incurred loss’, as laid down by IAS 39, with a forecast model based on ‘expected credit loss’ or ECL.

The new impairment model applies to all financial assets that are not already valued at FVTPL or that are valued at amortised cost or FVOCI.

According to IFRS 9, credit loss provisions will be valued using one of the following bases:

- *12-month ECLs*, i.e. ECLs arising from the possibility of default events within twelve months of the closing date of the financial year; and
- *Lifetime ECLs*, i.e. ECLs that result from all possible default events over the expected life of a financial instrument.

Valuation based on lifetime ECLs is always used for trade receivables, including impaired trade receivables, and other financial assets whose credit risk at the end of the accounting year has increased significantly since initial recognition. If the credit risk of a financial asset that is not a trade receivable subsequently decreases significantly,12-month ECLs will be applied.

Potential impacts for the Company

The Company's main financial assets, which are valued at amortised cost and to which the new impairment model is applied, are trade receivables. Given the Company's ordinary trading activities, the management of relations with counterparties, the analysis of historic insolvencies and the outlook for future economic conditions, we do not expect, as the analysis currently stands, any significant disparities in the measurement of provisions for doubtful receivables deriving from the first-time adoption of the new impairment model under IFRS 9.

Amendment to IFRS 4: Application of IFRS 9 – Financial Instruments, to IFRS 4 – Insurance Contracts (applicable from 1 January 2018).
The amendment introduces different methods of accounting treatment for insurance contracts that fall within the scope of application of IFRS 4. The amendment is not applicable to the annual financial statements.

IFRS 15 – Revenue from Contracts with Customers (applicable from 1 January 2018)
The aim of the new standard is to improve the quality and uniformity of revenue recognition and the comparability of Financial Statements prepared in accordance with IFRS and US accounting principles. Under the new standard, revenue recognition may no longer be based on the earnings method but on the asset-liability method, which focuses on the time when the control over the asset is transferred. The Company has finalized the assessment of the revenues recognition model, as required by the new standard. Based on the analysis performed, no differences in the revenue cut-off recognition have been identified and consequently no impact on Company net result is expected. However, the Company identified the following components, at present accounted for as advertising and promotion expenses, which will be allocated as reduction of sales, relating to payments to customers not attributable to products or services that can be separated from the sales transaction.
The main components can be identified as following:
- Extra visibility trade initiatives in points of sale;
- Listing fees;
- Coupons;
- Incentives and contributions granted to distributors, not attributable to advertising and other marketing activities.The Company decided to approach the transition by making retrospective application, as provided for by the new standard. As mentioned above, the adoption of IFRS 15 had no effect on the opening shareholders' equity at 1 January 2018, which will solely entail the restatement of the financial figures for 2017, with a decrease in net sales revenues and in advertising and promotional costs of € 10,538,000.

Clarification to IFRS 15 – Revenue from Contracts with Customers (applicable from 1 January 2018)
The IASB has provided practical information on some of the issues covered by IFRS 15 (identification of performance obligations, principal versus agent considerations and licensing). The potential impact of this amendment will be analysed when IFRS 15 is adopted, as described above.

IFRS 16 – Leases (applicable from 1 January 2019 with the option for early adoption)
On 13 January 2016, the IASB published the new accounting standard IFRS 16 – Leases. The new standard replaces IAS 17 and provides methods of accounting presentation that more appropriately reflect the type of leases in the balance sheet. The new IFRS 16 is applicable from 1 January 2019, but early adoption is permitted for companies that also apply IFRS 15 – Revenues from Contracts with Customers. In particular, IFRS 16 introduces a single lessee accounting model in the financial statements of lessees, requiring lessees to recognise an asset for the right to use the underlying asset and a liability for the obligation to pay rent. Furthermore, the nature of the costs of the above-mentioned leases will change since IFRS 16 will replace the recognition on a straight-line basis of the costs of operating leases with depreciation of the right-of-use asset and the financial charges of the lease liabilities. IFRS 16 will be adopted by the Company from 1 January 2019 as follows:

- regarding first-time adoption of the standard, the Company intends to adopt the modified retrospective application of the model. Therefore, the data for the comparative period will not be restated; some simplifications and practical expedients will be applied, as permitted by the standard;
- in the definition of the scope of application, low-value asset leases (i.e. unit value lower than USD 5,000) and short-term leases (i.e. less than 12 months) are managed separately. Costs relating to these leases will continue to be recognised in the income statement as separately identified operating costs and will mainly relate to some IT equipment;
- we are in the process of finalising the measurement of residual and large contracts for the purposes of applying IFRS 16. Based on our provisional analysis, the greatest impact will be on existing contracts relating to buildings, vehicles and industrial equipment.

As part of our ongoing analysis, the Company is also considering arrangements which are not legally a lease but contain a lease pursuant to IFRIC 4. In these situations, the Company may decide to:
- apply the definition of a lease contained in IFRS 16 to all contracts; or
- as a practical expedient, not reassess whether the arrangements contain a lease.

The Company is deciding whether or not to apply the practical expedient and is assessing the potential impact on the annual financial statements and whether this will affect the number of contracts identified as leases at the time of transition to the new standard.

Lastly, it should be noted that analysis is under way to identify an appropriate IT system to provide accounting support for the new way of presenting leases in terms of the Company's income, capital and financial position.

c. Accounting standards, amendments and interpretations not yet ratified

IFRS 17 – Insurance contracts (applicable from 1 January 2021)
This standard aims to regulate accounting for insurance contracts (previously known as IFRS 4 Phase II). The accounting model under the standard is known as the building block approach (BBA), based on discounted expected cash flows; this includes a specific risk adjustment and contractual service margin, which are released through amortisation thereof. The new accounting standard is not applicable to the annual financial statements.

IFRS 14 – Regulatory Deferral Accounts (applicable from 1 January 2016)
Under the new standard, only first-time adopters of IFRS are allowed to continue to recognise amounts relating to the rate regulation according to the previous accounting standards adopted. In order to improve comparability with entities that already apply IFRS and hence do not recognise such amounts, the standard requires the rate regulation effect to be presented separately from the other items. The European Commission has decided not to start the approval process for this interim standard and to wait for the definitive standard. The new accounting standard is not applicable to the annual financial statements.

Amendment to IFRS 10-IAS 28 – Sales or Contributions of Assets between an Investor and its Associate/Joint Venture (applicable from 1 January 2016)
The amendment, published in September 2014, is intended to resolve a conflict between the requirements of IFRS 10 and IAS 28 in the event that an investor sells or contributes a business to an associate or joint venture. The main change introduced by the amendment is that the gain or loss resulting from the loss of control must be recorded in full at the time of the sale or contribution of the business. A partial gain or loss is only recorded in the event of a sale or contribution involving individual assets only. The IASB has suspended publication and approval of this amendment until a date still to be determined.

Amendment to IFRS 2 – Classification and Measurement of Share-based Payment Transactions (applicable from 1 January 2018)
This includes clarifications on the accounting treatment of stock options that are subject to performance-linked vesting conditions. The amendment is not applicable to the annual financial statements.

IFRIC 22 interpretation – Foreign Currency Transactions and Advance Consideration (issued on 8 December 2016)
IFRIC 22 aims to clarify the accounting treatment of transactions that involve the receipt or payment of advance consideration in a foreign currency, and, specifically, when an entity recognises a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration before the entity recognises the related asset, expense or income. IFRIC 22 is applicable from 1 January 2018, and early adoption is permitted.

Amendment to IAS 40 – Transfers of Investment Property (issued on 8 December 2016)
One of the main changes introduced by the amendment is that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use.

Interpretation IFRIC 23 – Uncertainty over Income Tax Treatments (issued on 7 June 2017)
IFRIC 23 aims to clarify how to calculate current and deferred taxes when there is uncertainty about the tax treatment adopted by the entity drawing up the financial statements and which may not be accepted by the tax authorities.

Amendment to IFRS 9 – Prepayment features with negative compensation (issued on 12 October 2017)
The main aim of the amendment is to evaluate the information provided by the application of amortised cost for instruments that contain symmetric prepayment options and have contractual cash flows that are solely payments of principal and interest (SPPI). This amendment is not considered likely to have a significant impact on the Company's financial position.

Amendment to IAS 28 – Long-term interests in associates and joint ventures (issued on 12 October 2017)
The amendment introduced aims to clarify the application of IFRS 9 to long-term investments in associates and joint ventures that form part of the net investment but to which the equity method is not applied.

5. Extraordinary transactions during the year

- On 1 August 2017, the Company finalised agreements to sell the Carolans and Irish Mist brands to Heaven Hill Brands, a US company operating in the alcoholic distillates sector. The enterprise value was € 135.4 million at the exchange rate on the transaction closing date, on a cash-free/debt-free basis, and it is subject to the usual price adjustment mechanisms. The sold business includes the Carolans Irish Cream and Irish Mist (Irish Mist Liqueur and Irish Mist Whiskey) brands, inventory and production assets.
  The signing of this agreement forms part of Campari Group's continued rationalisation of its non-strategic portfolio in order to focus more on its priority spirits brands, especially in the United States, the Group's core market and main geographical region.
  The transaction took the form of the sale by Davide Campari-Milano S.p.A. of its interest in T.J. Carolan & Son Ltd., which was created specifically in 2017 from the spin-off from Campari Distribution Ireland Ltd. (formerly T.J. Carolan & Son Ltd.) of the assets relating to the sold business, as described above. The sale generated a capital gain of around € 52,291 thousand, which is shown under Adjustments to operating income (charges).

- On 4 October 2017, the Group closed an agreement to sell the Lemonsoda business to Royal Unibrew A/S, a beer and alcoholic drinks manufacturer with its registered office in Denmark. The deal was closed on 2 January 2018. The enterprise value was € 80.0 million (on a cash-free/debt-free basis and subject to the usual price adjustment mechanisms) for 100% of the share capital of Nettuno, a wholly-owned subsidiary of Davide Campari-Milano S.p.A., to which the business in question has been transferred. The business includes the alcohol-free fruit-flavoured carbonated variants Lemonsoda, Oransoda, Pelmosoda and Mojito Soda, grouped under the Freedea brand name, as well as the Crodo brands (except for the Crodino brand). Besides the brands, the perimeter of the sale includes the manufacturing and bottling facility, located in Crodo, the water springs and the inventory. The agreement also entailed the reclassification of the related carrying amount of goodwill under Assets available for sale.
  The total consideration for the deal corresponds to a multiple of approximately 13 times the CAAP (contribution after A&P), before allocated costs and depreciation, relating to the brands sold.
  As part of the transaction, and effective from closing, the Company and Royal Unibrew entered into a multi-year manufacturing agreement, under which Royal Unibrew will continue to manufacture certain of Campari Group's own products which are currently produced at the bottling facility in Crodo.
  This transaction also demonstrates Campari Group's commitment to streamlining its portfolio to increase its focus on its priority spirits brands.

The asset values and financial values of the assets transferred to Nettuno S.r.l. are set out in the table below.

(€ Thousand)	Nettuno S.r.l.
Net tangible fixed assets	12,516
Investment property	170
Deferred tax assets	368
Total non-current assets	**13,054**
Inventories	5,240
Cash and cash equivalents;	1,341
Total current assets	**6,582**
TOTAL ASSETS	**19,636**
Deferred tax liabilities	196
Non-current liabilities	**196**
Other current liabilities	84
Current liabilities	**84**
TOTAL LIABILITIES	**280**
Value of interest transferred	**19,356**

The transfer led to a recognition of a total investment of € 19,356 thousand in Nettuno S.r.l..

6. Segment reporting

Segment information is provided in more detail in the notes to the consolidated financial statements.

7. Net sales

	2017 € Thousand	2016 € Thousand
Sale of goods	400,166	391,546
Sales to associates	260,929	213,682
Total net sales	**661,094**	**605,228**

In 2017, net sales of € 661,094 thousand, up 9.2% on the previous year, included sales of € 400,166 thousand to Italian clients, an increase of 2.2% compared with sales realised in 2016.
Sales to Group companies that primarily conduct their businesses on the international markets totalled € 260,929 thousand, an increase on the previous year's figure of € 47,247 thousand.

8. Cost of goods sold

	2017 € Thousand	2016 € Thousand
Materials and manufacturing costs	264,766	245,140
Distribution costs	27,150	25,737
Total cost of good sold	**291,916**	**270,877**
Breakdown by type:	-	-
Raw materials and finished goods acquired from third parties	227,208	206,625
Inventory write-downs	1,091	2,534
Personnel costs	21,170	21,021
Depreciation/amortisation	7,195	6,863
Utilities	3,754	4,005
External production and maintenance costs	8,540	7,143
Variable transport costs	20,038	19,385
Other costs	2,921	3,302
Total cost of goods sold	**291,916**	**270,877**

The cost of goods sold in 2017, at € 291,916 thousand, was higher due to the growth in sales volumes. As a percentage of net sales, the figures are broadly in line with those for 2016.

9. Advertising and promotional costs

	2017 € Thousand	2016 € Thousand
Advertising space	22,495	25,007
Sponsorships, trade fairs and events	5,712	10,685
Media production	14,446	9,581
Promotion aimed at consumers and customers	21,582	19,318
Market research	2,310	2,675
Other advertising and promotional costs	3,681	2,610
Depreciation/amortization	113	130
Trade allowance for promotional purposes	(7,205)	(6,708)
Total advertising and promotional costs	**63,133**	**63,298**

Advertising and promotional costs, which totalled € 63,133 thousand in 2017, were broadly in line with the previous year's figure in absolute terms, while they decreased as a percentage of net sales by 1.0%.

10. Overheads

	2017 € Thousand	2016 € Thousand
Sales costs	28,282	26,305
General and administrative expenses	84,426	74,140
Adjustments to operating income (charges)[1]	(37,299)	1,765
Total overheads	**75,409**	**102,209**
Agents and other variable sales costs	4,512	6,397
Depreciation/amortisation	8,147	6,431
Personnel costs	56,955	52,670
Travel, business trip, training and meetings	2,070	1,368
Utilities	609	598
Services, maintenance and insurance	25,501	23,067
Operating leases and rental expenses	4,087	1,714
Other	10,827	8,200
Adjustments to operating income (charges)[1]	(37,299)	1,765
Total overheads	**75,409**	**102,209**

[1] For information on the definition of alternative performance indicators, see the previous section of this report on operations ('Alternative performance indicators').

Overheads, which totalled € 75,409 thousand in 2017, decreased by € 26,800 thousand compared with the previous year, mainly due to positive net Adjustments to operating and financial income (charges) of € 37,299 thousand this year, which are discussed in detail in the table below.
The increase in the ordinary component of overheads, i.e. personnel, services, maintenance and insurance costs, is associated with the increase in net sales.

Details of adjustments to operating income and charges are set out in the table below.

	2017 € Thousand	2016 € Thousand
Capital gains from the sale of buildings	35	847
Capital gains from sales of equity interests	53,035	9,151
Capital gains on the sale in intangible assets	-	1,202
Other income	301	236
Total income adjustment items	**53,371**	**11,436**
Penalties	-	-
Capital losses on sale of assets	(7)	(102)
Write-down of Group company assets	-	-
Charges from adaptations	-	(1,166)
Accruals for staff restructuring	(9,032)	(948)
Accrual for future expenses	(2,492)	-
Pernalty for the termination of distribution relationship	-	(655)
Acquisition costs	(4,314)	(9,910)
Other expenses	(227)	(420)
Total expense adjustment items	**(16,072)**	**(13,201)**
Total	**37,299**	**(1,765)**

In 2017, capital gains generated from the sale of interests, totalling € 53,035 thousand, included a capital gain of € 52,291 thousand relating to the sale of T.J. Carolan & Son Ltd. For further information, see the comments under note 5 – Extraordinary transactions during the year and note 21 – Investments in subsidiaries.
Adjustments to operating charges include personnel restructuring costs of € 9,032 thousand, provisions for future risks of € 2,492 thousand and charges relating to extraordinary transactions of € 4,314 thousand.

11. Depreciation/amortisation

Depreciation and amortisation recorded in the income statement, by function, is shown below; it should be noted that there were no impairment losses in the two years shown.

	2017 € Thousand	2016 € Thousand
- Tangible fixed assets	6,884	6,852
- Intangible fixed assets	311	11
Depreciation and amortization included in cost of goods sold	**7,195**	**6,863**
- Tangible fixed assets	3,415	3,258
- Intangible fixed assets	4,731	3,173
Depreciation and amortization included in structure costs	**8,147**	**6,431**
- Tangible fixed assets	111	128
- Intangible fixed assets	1	1
Depreciation and amortization included in advertising and promotional expenses	**113**	**130**
- Tangible fixed assets	10,411	10,239
- Intangible fixed assets	5,043	3,186
Total depreciation and amortization in the income statement	**15,454**	**13,424**
Total	**15,454**	**13,424**

12. Personnel costs

The item breaks down as shown in the table below.

	2017 € Thousand	2016 € Thousand
Salaries and wages	52,135	48,288
Social security contributions	16,469	15,432
Cost of defined contribution plans	3,836	3,457
Cost of defined benefit plans	10	19
Other costs relating to mid/long-term benefits	1,926	2,389
Cost of share-based payments	3,747	4,105
Total personnel costs	**78,124**	**73,691**
of which:	-	-
Included in cost of goods sold	*21,170*	*21,021*
Included in overhead	*56,955*	*52,670*
Total	**78,124**	**73,691**

13. Research and development costs

The Company's research and development activities mainly relate to ordinary production and commercial activities, in particular product quality control and research on packaging, the cost of which (€ 633 thousand) is included in advertising and promotional expenses. These costs are not capitalized, but recognized to income statements in the period they incurred.

14. Net financial income and charges

The table below shows the changes in the items relating to financial income and charges between the years under comparison.

	2017 € Thousand	2016 € Thousand
Bank term deposit interest	534	728
Dividends from third parties	8	467
Other income	24	2,214
Total financial income	**566**	**3,409**
Net interest payable on bonds	(33,246)	(55,667)
Interest payable on leases	-	-
Interest payable to banks	(2,406)	(2,952)
Interest payable capitalized		-
Total interest payable	**(35,652)**	**(58,619)**
Net interest on defined benefit plans	(75)	(108)
Bank charges	(455)	(189)
Other charges and exchange rate differences	(1,996)	1,721
Total financial charges	**(2,525)**	**1,424**
Interest received (paid) from/to related parties	(7,920)	(8,363)
Total interest received (paid) from/to related parties	**(7,920)**	**(8,363)**
Financial costs on bond closing	-	(10,861)
Liability management effect	(24,816)	-
Acquisition costs		(646)
Financial charges relating to tax inspections	-	(14)
Other	(2)	3
Net financial charge adjustments	**(24,819)**	**(11,519)**
Net financial income (charges)	**(70,350)**	**(73,667)**
Dividends received from related parties	41,120	138,336
Total dividends from related parties	**41,120**	**138,336**

In 2017, net financial charges, which include the net effects of exchange rate differences, stood at € 70,350 thousand, a decrease on the previous year's figure of € 3,317 thousand.
The total cost of debt includes net interest payable on the bond, of € 55,667 thousand in 2016 and € 33,246 thousand in 2017.
Net financial charges include charges totalling € 24,816 thousand generated by the liability management transactions carried out in the first half of 2017. The item includes the difference paid when the existing bonds were bought back at their nominal value (€ 23.2 million) and the non-cash effects of discounting them to present value.

The financial income and charges arising from bond issues and the related hedging instruments are shown below.

	2017 € Thousand	2016 € Thousand
Financial charges payable to bondholders	(31,145)	(55,667)
Financial charges on private placement closing	-	(10,861)
Liability management effect	(24,816)	-
Net financial income (charges) on swaps	-	2,037
Net cost (coupons)	**(55,962)**	**(64,491)**
Net changes in fair value and other amortized cost components	(1,843)	283
Cash flow hedge reserve reported in the income statement during the year	(258)	(2,320)
Net interest payable on bonds and private placements	**(58,063)**	**(66,528)**

The decrease in financial charges payable to bondholders is broadly due to the liability management transactions carried out in the third quarter of 2016 and the first half of 2017 intended to reduce the average cost of debt.
In 2017, dividends of € 41,120 thousand were collected from subsidiaries (€ 138,336 thousand in 2016) and interest of € 7,920 thousand received from related parties was recognised (€ 8,363 thousand in 2016). For more details, see note 41 – Related Parties. More detailed information on financial management performance is provided in the notes on the financial situation and financial instruments (note 39 – 'Nature and extent of risks arising from financial instruments').

15. Put option income (charges)

In 2017, this item (€ 3,294 thousand) included financial charges relating to the payable created after the signing of agreements with members of the family that used to be the controlling shareholder of SPML, for the purchase, by 2021, of all the remaining shares held by them.

16. Income taxes

Taxes are calculated based on the prevailing regulations, applying the rates in force, which, in 2017, were 24.0% for IRES and 3.9% for IRAP.
Deferred tax income and expense is calculated each year based on the rates in force at the time the temporary differences are reversed; appropriate adjustments are made if the rate is different from that of previous years, provided that the related law has already been issued on the date the financial report is drafted.

The amounts of current and deferred taxes recorded directly in the statement of comprehensive income relate to the effects of the remeasurement of pension funds and the valuation at fair value of cash flow hedging contracts.

Details of current and deferred taxes included in the income statement and the statement of comprehensive income are as follows:

	2017 € Thousand	2016 € Thousand
- current taxes for the year	(15,292)	(25,600)
- taxes relating to previous years and tax rate changes	27,017	1,565
- deferred tax expenses	(979)	(3,975)
Taxes recorded in the income statement	**10,745**	**(28,009)**
Taxes recorded in the statement of comprehensive income	**(432)**	**(333)**

In 2017, tax income for previous years, totalling € 27,017 thousand, was mainly due to the recognition of the tax benefit in respect of the Patent Box scheme. In this regard, on 28 April 2017, Davide Campari-Milano S.p.A. signed an agreement with the relevant tax authority, which defines the methods and criteria to be used to calculate the portion of income that is exempt from IRES and IRAP for the purposes of a 'patent box', i.e. the size of the financial contribution to the company's income generated by intangible assets.
Under this regulation, a preferential tax regime applies to companies that generate income through the direct use of intellectual property or the granting to third parties of the rights to it.
The agreement relates to the tax years 2015-2019.

For 2015, the tax reduction is calculated by excluding 30% of the income attributable to the use of eligible intangible assets from the tax base; for 2016, the portion is 40%, while for the three-year period 2017-2019 it will be 50%.
The tax benefit (for IRES and IRAP purposes) was € 44.8 million, of which:
- € 12.0 million relates to the 2015 tax period;
- €15.5 million relates to the 2016 tax period;
- € 17.3 million is estimated for the 2017 tax period.
The tax benefit for 2015 and 2016 was recorded on the income statement under taxes relating to previous years.

Reconciliation of tax charges

The following table shows a reconciliation of the theoretical tax charge with the Company's actual tax charge.
The theoretical rate used is that in force during the relevant year, based on legal provisions, taking into account the rates for both IRES and IRAP, which have different tax bases.
Tax base differences are included under the permanent differences item.

	2017 € Thousand	2016 € Thousand
Group profit before tax	**198,112**	**233,512**
Applicable tax rate in Italy	27.90%	31.40%
Theoretical Group taxes at current tax rate in Italy	**55,273**	**73,323**
Tax incentives	(19,028)	(4,465)
Permanent differences	(19,985)	(38,463)
Taxes relating to previous financial years	(27,042)	(1,565)
Item with different theorical tax rate	12	(2,173)
Other differences	25	1,349
Actual tax liability in income statement	**(10,745)**	**28,009**
Actual tax rate	**-5.42%**	**11.99%**

Pre-tax profit represents the basis on which tax is calculated, in accordance with current tax regulations.
In 2017, the tax incentives, totalling € 19,028 thousand, mainly related to the benefit from the Patent Box scheme and the allowance for corporate equity (ACE).
Permanent differences mainly concern the tax effect of dividends received from subsidiaries and capital gains from the sale of interests.
Tax relating to previous years mainly comprises the recognition of the benefit from the Patent Box scheme for tax years 2015 and 2016.
Lastly, taxes at rates other than the nominal rate are due to the difference in the taxable bases of IRAP and IRES.

Breakdown of deferred taxes by type

Details of deferred tax income/assets and expenses/liabilities posted to the income statement and statement of financial position are broken down by nature below.

	Statement of financial position		Income statement		Comprehensive Income Statements	
	31 December 2017 € Thousand	31 December 2016 € Thousand	2017 € Thousand	2016 € Thousand	2017 € Thousand	2016 € Thousand
Deferred expenses	514	757	(243)	(52)	-	-
Taxed funds	973	978	(5)	(444)	-	-
Other	2,862	2,903	729	(1,378)	(402)	(366)
Reclassified in reduction of deferred tax liabilities	(4,349)	(4,638)	-	-	-	-
Deferred tax assets	**-**	**-**	**481**	**(1,874)**	**(402)**	**(366)**
Accelerated depreciation	(111)	(245)	57	156	-	-
Capital gains subject to deferred taxation	(288)	(602)	314	(104)	-	-
Goodwill and brands deducted locally	(21,617)	(19,827)	(1,790)	(1,820)	-	-
Cash flow hedging	(55)	(9)	-	-	(46)	32
Exchange differences not realized	(665)	(556)	(109)	(347)	-	-
Leasing	(1,944)	(1,944)	(0)	-	-	-
Other	(754)	(918)	45	13	-	-
Reclassification of deferred tax assets	4,349	4,638	-	-	-	-
Deferred tax liabilities	**(21,087)**	**(19,462)**	**(1,484)**	(2,102)	**(46)**	**32**
Change in tax rate						
Total	**(21,087)**	**(19,462)**	**(1,003)**	**(3,976)**	**(448)**	**(334)**

Deferred taxes arise from temporary differences and mainly relate to costs that are deductible on the basis of certain tax measures, the creation of taxed provisions, such as provisions for inventory write-downs, provisions for risks, bad debt provisions, various charges such as taxes and directors' remuneration and, finally, non-realised exchange rate losses.

Temporary differences involving the reporting of deferred tax liabilities relate mainly to the amortisation of brands, the deferral of capital gains carried out in previous years, accelerated depreciation and amortisation and, finally, non-realised exchange rate gains.
The amounts credited and debited to this item are recognised in the income statement for the period or under comprehensive income or expense if the temporary difference is also recorded under comprehensive income or expense.

17. Net tangible fixed assets

	Land and buildings € Thousand	Plant and machinery € Thousand	Other € Thousand	Total € Thousand
Carrying amount at the beginning of the period	119,222	142,779	20,030	282,030
Accumulated depreciation at the beginning of the period	(44,640)	(115,125)	(16,583)	(176,348)
Balance at 31 December 2016	**74,581**	**27,654**	**3,447**	**105,682**
Investments	2,097	4,914	1,434	8,446
Disposals	()	(11)	-	(11)
Depreciation	(3,254)	(5,889)	(1,257)	(10,400)
Other reclassifications	(1,681)	1,675	6	-
Contribution effect to Nettuno S.r.l.	(4,560)	(7,378)	(578)	(12,516)
Balance at 31 December 2017	**67,183**	**20,965**	**3,052**	**91,200**
Carrying amount at the end of the period	102,834	116,057	17,122	236,013
Accumulated depreciation at the end of the period	(35,650)	(95,093)	(14,070)	(144,813)

Land and buildings
This item includes the land occupied by the Novi Ligure facility, the buildings essential for carrying out the business (i.e. the building that accommodates the Company's headquarters), and the Canale and Alghero production units. This item also includes the water system, plumbing works and light buildings.
The increases for the year, totalling € 2,097 thousand, relate to restructuring works in the Canale and Novi units, and at the head office at Sesto San Giovanni.
The decrease of € 4,560 thousand in extraordinary transactions is due to the transfer of the assets of the Crodo unit to Nettuno S.r.l., following the signing of the agreement to sell the Lemonsoda business to Royal Unibrew A/S. The interest in Nettuno S.r.l. is recorded under Investments in subsidiaries; for more information, see note 22 – Investments in subsidiaries.

Plant and machinery
The item includes plant and machinery and tanks for the production units, as well as the facilities attached to the building that houses the Company's headquarters.
The increases over the year amounted to € 4,914 thousand. During the year, investments were made in production lines and new plants, in particular at the Novi Ligure facility in an amount of € 2,479 thousand. Investment of € 1,038 thousand was also made in the Canale facility.
The decrease of € 7,378 thousand in extraordinary transactions was due to the above-mentioned transfer.

Other
This item includes various equipment, including laboratory apparatus and other assets such as furniture, office machines, electronic machines, minor equipment, cars and goods vehicles.
Of the total increase of €1,434 thousand, € 176 thousand relates to purchases of equipment and € 413 thousand to office furnishings.
The decrease of € 578 thousand in extraordinary transactions was due to the transfer of assets to Nettuno S.r.l.

Tangible assets by ownership
It should be noted that there are no fixed assets under finance leases, so all the fixed assets reported in the table above are owned by the Company.

18. Investment property
At 31 December 2017, investment property, totalling € 1,303 thousand, mainly relates to a plot of land in the municipality of Finale Emilia, valued at € 1,235 thousand, and a building in Asti, valued at € 68 thousand.
These buildings were recorded in the financial statements at their approximate fair value at the reporting date.

19. Goodwill and brands

At 31 December 2017, goodwill and brands were recorded at € 332,283 thousand and € 120,233 thousand respectively.
Changes to goodwill during the period are as follows:

	Goodwill € Thousand
Carrying amount at the beginning of the period	338,935
Balance at 31 December 2016	**338,935**
Reclassification as assets held for sale	(6,652)
Balance at 31 December 2017	**332,283**

The decrease of € 6,652 thousand recorded in the year is due to the reclassification of goodwill for the Lemonsoda business under Assets held for sale.

The goodwill amounts recorded were generated by the merger of subsidiaries.
In addition to goodwill, intangible assets with an indefinite life include brands deriving from acquisitions. The Company expects to obtain positive cash flow from these assets for an indefinite period of time.

The details of the brands are as follows:

	31 December 2017 € thousand
Brands with indefinite useful life	
Riccadonna-Mondoro, of which:	12,330
Riccadonna	*11,300*
Mondoro (USA)	*1,030*
Glen Grant	98,263
Old Smuggler	6,000
Cinzano	772
Cynar	1,626
Total	**118,991**
Brand with definite useful life	
X-Rated Fusion Liqueur	1,242
Balance at 31 December 2017	**120,233**

Goodwill and brands with an indefinite life are not amortised, but are instead subject to impairment tests which are carried out annually, or more frequently if events or changes in circumstances indicate a possible loss. At 31 December 2017, the impairment tests carried out on both brands and goodwill reported in the financial statements did not reveal any permanent loss of value.
Brands with a finite life include the value of the X-Rated Fusion Liqueur brand. During 2015, its useful life was reviewed and determined as a period of 10 years from 2016. Amortisation for 2017 totalled € 155 thousand.

20. Impairment

With reference to the impairment testing of the intangible assets of Davide Campari-Milano S.p.A., aggregate goodwill was measured using the fair value criterion minus cost of sales.
This methodology applies parameters inferred from the valuation assigned to comparable businesses acquired, in an active market, in terms of type of business acquired and transaction structure. These are implicit parameters or multiples derived from the ratio between the acquisition price and specific economic and financial values relating to those companies. The fair value method was used to determine the recoverable amount for goodwill, using the EV/EBITDA multiple, inferred from a sample of transactions comparable to the acquisition. The use of this multiple is considered particularly effective as it avoids distortions caused by the different tax regulations and financial structures; is less sensitive to distortions caused by variations in extraordinary profit; and facilitates comparison at international level.

At 31 December 2017, based on the methodology set out above, the impairment test revealed that the value of goodwill was fully recoverable.
In addition, in view of the current volatility on the markets and uncertainty as to the future economic outlook, a sensitivity analysis was carried out on the recoverable value of the goodwill of Davide Campari-Milano S.p.A., assuming a reduction of up to 20% of the financial value to which the multiple is applied. The sensitivity analysis described above confirmed that goodwill values are fully recoverable.
The impairment test of the value of the goodwill of Davide Campari-Milano S.p.A. at 31 December 2017 confirmed the value of € 332,283 thousand shown in the previous note. Moreover the Company performs the impairment test of the value of the brands with indefinite useful life, using the methodology detailed in note '26-Impairmet' of Consolidated Financial Statements. The impairment test of the value of the brands with indefinite useful life of Davide Campari-Milano S.p.A. at 31 December 2017 confirmed the value of € 118,991 thousand shown in the previous note.

21. Intangible assets with a finite life

Changes in this item are shown in the table below.

	Software	Other	Total
	€ Thousand	€ Thousand	€ Thousand
Carrying amount at the beginning of the period	27,009	11,048	38,057
Accumulated amortization at the beginning of the period	(17,884)	(4,265)	(22,149)
Balance at 31 December 2016	**9,125**	**6,783**	**15,908**
Investments	14,660	(2)	14,658
Disposal	(3,495)	-	(3,495)
Amortisation for the period	(4,014)	(719)	(4,733)
Reclassification	(177)	177	-
Balance at 31 December 2017	**16,099**	**6,239**	**22,338**
Carrying amount at the end of the period	37,905	11,227	49,132
Accumulated amortization at the end of the period	(21,806)	(4,988)	(26,794)

Intangible assets with a finite life are amortised according to their remaining useful life.
Net investment in information technology, totalling € 14,660 thousand, relates to the completion of some major projects to integrate Company IT systems with the new global platform. The systems of all Group companies will also be migrated to the new platform over the next few years. These investments were not only for operational purposes, but also related to business intelligence and business process management.

22. Investments in subsidiaries

The following changes relating to investments in subsidiaries should be noted.

- In 2017, the value of the equity investment in Société des Produits Marnier Lapostolle S.A. shown under Commitments acquired relating to remaining shares was adjusted based on estimated values obtained from the purchase price allocation work carried out by the Group. An amount of € 6,711 thousand was deducted from the value of the investment; the commitment assumed and recorded as a financial payable was reduced at the same time.

- On 1 August 2017, the Company completed the sale of its holding in T.J. Carolan & Son Ltd., which was created specifically in 2017 from the spin-off from Campari Distribution Ireland Ltd. (formerly T.J. Carolan & Son Ltd.) of the assets relating to the sold business, as described above. The sale of the holding, booked at a value of € 83,136 thousand, generated a capital gain of € 52,291 thousand, which is shown under Adjustments to operating income (charges). For further information, see note 5 – Extraordinary transactions during the year.

- On 4 October 2017, the Group closed an agreement to sell the Lemonsoda business to Royal Unibrew A/S, a drinks manufacturer with its registered office in Denmark. The deal was closed on 2 January 2018. The enterprise value is € 80.0 million on a cash-free/debt-free basis for 100% of the share capital of Nettuno S.r.l., a wholly-owned subsidiary of Davide Campari-Milano S.p.A., to which the business in question was transferred. At 31 December 2017, the carrying amount of the interest in Nettuno S.r.l. was € 19,356 thousand. For further information, see note 5 – Extraordinary transactions during the year.

- Other changes recorded in the value of shareholdings relate to the booking of units in stock option plans issued by the Company and allocated to directors and employees of subsidiaries, and the related recognition of the capitalisation at the subsidiaries themselves. The negative difference between the cost recorded for the equity investment in Campari do Brasil Ltda. and the related portion of shareholders' equity still remains. However, this difference does not represent impairment, according to the impairment tests carried out.

(€ Thousand)	31 December 2016	Stock options	Increases	Decreases	Other changes	31 December 2017
Campari America, LLC	501,712	969	-	-	-	502,681
Campari Benelux S.A.	171,175	51	-	-	-	171,226
Campari do Brasil Ltda.	127,555	137	-	-	-	127,691
Campari España S.L.	327,914	333	-	-	-	328,247
Campari International S.r.l.	776	79	-	-	-	855
Campari Services S.r.l.	474	73	-	-	-	547
DI.CI.E. Holding B.V.	39,393	1,106	-	-	-	40,499
Fratelli Averna S.p.A.	98,041	-	-	-	-	98,041
Glen Grant Ltd	176,321	351	-	-	-	176,672
Société des Produits Marnier Lapostolle S.A.	489,848	59	-	-	-	489,907
SPML commitments acquired relating to remaining shares	181,782	-	-	-	(6,711)	175,071
Sorfinn Ltd.	46,297	-	-	-	-	46,297
Campari Distribution Ireland Ltd (formerly T.J. Carolan & Son Ltd.)	90,159	-	-	-	(83,136)	7,023
T.J. Carolan & Son Ltd.	-	-	-	(83,136)	83,136	-
Nettuno S.r.l.	-	-	19,356	-	-	19,356
Total	**2,251,447**	**3,157**	**19,356**	**(83,136)**	**(6,711)**	**2,184,113**

The list of participations, including the additional information required by Consob communication DEM/6064293 of 28 July 2006 is as follows.

31 December 2017			Share capital value	Shareholders' equity at 31 December 2017	Profit (loss) 2017	Percentage investment		Company value
Name	Registered office	Currency	Amount	(€ Thousand)	(€ Thousand)	Direct	Indirect	(€ Thousand)
Campari (Beijing) Trading Co. Ltd.	Beijing	RMB	104,200,430	1,517	529		100	
Campari America, LLC	San Francisco	USD	566,321,274	1,142,785	135,074	100		502,681
Campari Argentina S.A.	Buenos Aires	ARS	576,865,930	24,268	(1,265)		100	
Campari Australia Pty Ltd.	Sydney	AUD	21,500,000	34,500	384		100	
Campari Austria GmbH	Vienna	€	500,000	2,201	1,202		100	
Campari Benelux S.A.	Brussels	€	1,000,000	278,539	7,421	61	39	171,226
Campari Deutschland GmbH	Oberhaching	€	5,200,000	15,104	8,996		100	
Campari Distribution Ireland	Dublin	€	245	9,639	2,629	100		7,023
Campari do Brasil Ltda.	Barueri	BRL	239,778,071	63,648	(7,009)	100		127,691
Campari España S.L.	Barcellona	€	3,272,600	318,685	1,326	100		328,247
Campari India Private Ltd	New Delhi	INR	100,000	27	17		100	
Campari International S.r.l.	Sesto San Giovanni	€	700,000	5,034	2,819	100		855
Campari Japan Ltd.	Tokyo	JPY	3,000,000	142	16		100	
Campari Mexico S.A. de C.V.	Jalisco	MXN	820,187,150	38,787	5,560		100	
Campari New Zealand Ltd.	Maritime Suar	NZD	10,000	914	(83)		100	
Campari Peru SAC	Lima	PEN	15,333,589	4,450	127		100	
Campari RUS OOO	Moscow	RUB	2,010,000,000	34,392	5,714		100	
Campari Schweiz A.G.	Baar	CHF	500,000	1,912	883		100	
Campari Services America, LLC	San Francisco	USD	381,625	295	(61)		100	
Campari Services S.r.l.	Sesto San Giovanni	€	160,000	70	(528)	100		547
Campari Singapore Pte Ltd.	Singapore	SGD	100,000	213	72		100	
Campari South Africa Pty Ltd.	Cape Town	ZAR	166,247,750	10,126	(229)		100	
Campari Ukraine LLC	Kiev	UAH	87,396,209	2,870	35		100	
DI.CI.E. Holding B.V.	Amsterdam	€	15,015,000	316,168	22,377	100		40,499
Forty Creek Distillery Ltd.	Grimsby	CAD	105,500,100	80,437	2,454		100	
Fratelli Averna S.p.A.	Caltanissetta	€	3,900,000	28,127	3,945	100		98,041
Glen Grant Ltd	Rothes	GBP	24,949,000	143,604	7,075	100		176,672
Grand Marques Nederland B.V.	Paris	€	189,000	157	11		85.71	
Gregson's S.A.	Montevideo	UYU					100	
J. Wray & Nephew Ltd.	Kingston	JMD	750,000	165,692	4,125		100	
Kaloyannis - Koutsikos Distilleries S.A.	Volos	€	6,811,220	21,246	5,565		100	
Marnier Lapostolle Inc.	New York	USD	1,000,000	14,766	21		100	
Nettuno S.r.l.	Sesto San Giovanni	€	10,000	19,239	(117)	100		19,356
Société Civile Immobilière du Val	Paris	€	16,769,392	45,382	28,568		99.99	
Société des Produits Marnier Lapostolle S.A.	Paris	€	27,157,500	149,735	9,403	71.16		664,979
Sorfinn Ltd.	Dublin	€	2,600	55,411	1,102	100		46,297
Total investments in subsidiaries								**2,184,113**

23. Other non-current assets

	31 December 2017 € Thousand	31 December 2016 € Thousand
Financial receivables	6,030	5,670
Term deposit	26,979	26,528
Non current assets for hedging derivatives		
Non-current financial assets	**33,009**	**32,198**
Equity investment in other companies	149	149
Other non-current receivables from related parties	2,241	2,241
Other non-current tax receivables	2,468	2,468
Other non-current assets	**4,858**	**4,858**
Other non-current assets	**37,867**	**37,057**

Financial assets relate to:
- financial receivables, which include the still uncashed payment of € 5 million, due within three years, from Terra Moretti S.r.l., in connection with the sale of Sella & Mosca S.p.A. and Teruzzi & Puthod S.r.l. This receivable is interest-bearing;
- term deposits, of € 26,979 thousand, include investments in cash and cash equivalents, and related interest, maturing in 2019.

Non-financial assets include tax receivables of € 2,468 thousand, which derive from the right to a refund of the additional income tax paid in previous years due to the non-deductibility of IRAP, in relation to employee costs, for which the Company has submitted the relevant refund applications.

24. Inventories

This item breaks down as follows.

	31 December 2017 € Thousand	31 December 2016 € Thousand
Raw materials, supplies and consumables	10,362	12,496
Maintenance materials	1,074	1,589
Work in progress	32,114	36,560
Finished products and goods for resale	34,420	36,908
Inventories	**77,971**	**87,553**

The decrease in this item compared with the previous year, which affected all categories of inventories, is mainly due to the transfer of the inventories of Freedea and Crodo products to Nettuno S.r.l.

Inventories are reported minus the relevant provisions for write-downs. The changes are shown in the table below.

	€ Thousand
Balance at 31 December 2016	**473**
Accruals	1,433
Utilisation	(342)
Balance at 31 December 2017	**1,563**

25. Trade receivables and other receivables

	31 December 2017 € Thousand	31 December 2016 € Thousand
Trade receivables from external costumers	49,549	54,933
Trade receivables from related parties	64,289	56,277
Receivables in respect of contributions to promotional costs	5,373	5,489
Trade receivables	**119,210**	**116,698**
Advances to suppliers	23	-
Advances and other receivables from suppliers	1,800	-
Other receivables from tax authorities	129	184
Receivables from related parties	4,441	6,906
Prepaid expenses	3,952	1,247
Receivables from pension organizations	752	645
Other	2,176	1,540
Other receivables	**13,274**	**10,523**

All receivables are due within 12 months. Their carrying amount is considered to be close to their fair value.

Despite the increase in sales, explained in note 7 – Net sales, to which reference is made for further information, trade receivables as a whole were broadly unchanged during the comparison periods.
The trade receivables item is reported net of the related provision for write-downs, which reflects the actual risk of uncollectability.
Receivables from tax authorities consist of various tax refund applications.
For further details on receivables from related parties, please refer to note 41 – Related parties.

The table below shows receivables (excluding advances and those deferred) broken down by maturity.

31 December 2017	Trade receivables	*of which related parties*	Other receivables	*of which related parties*	Total
	€ Thousand	*€ Thousand*	€ Thousand	*€ Thousand*	€ Thousand
Not overdue and not impaired	**90,783**	**54,079**	**9,138**	**4,386**	**99,921**
Due and not impaired:	-	-	-	-	-
Less than 30 days	15,974	1,723	-	-	15,974
30-90 days	5,351	2,577	37	37	5,388
Within 1 year	5,888	5,878	-	-	5,888
Within 5 years	8	-	-	-	8
Due after 5 years	38	32	18	18	57
Total due and not impaired:	**27,259**	**10,210**	**55**	**55**	**27,314**
Due and impaired	**2,459**		**-**	**-**	**2,459**
Amount impaired	(2,459)		-		(2,459)
Total receivables broken down by maturity	**118,042**	**64,289**	**9,193**	**4,441**	**127,235**

31 December 2016	Trade receivables	*of which related parties*	Other receivables	*of which related parties*	Total
	€ Thousand	*€ Thousand*	€ Thousand	*€ Thousand*	€ Thousand
Not overdue and not impaired	**85,538**	**52,015**	**5,070**	**2,781**	**90,608**
Due and not impaired:	-	-	**-**	-	-
Less than 30 days	17,285	398	**1,203**	1,203	18,488
30-90 days	6,441	1,548	**-**	-	6,441
Within 1 year	2,839	2,316	**-**	-	2,839
Within 5 years	1,841	-	**2,922**	2,922	4,763
Total due and not impaired:	**28,406**	**4,262**	**4,125**	**4,125**	**32,531**
Due and impaired	**3,322**		**103**	**-**	**3,425**
Amount impaired	(3,322)		(103)		(3,425)
Total receivables broken down by maturity	**113,944**	**56,277**	**8,989**	**6,906**	**123,567**

The table below shows the changes in bad debt provision during the period.

	Bad debt provision	
€ Thousand	Trade receivables	Other receivables
Balance at 31 December 2016	**3,219**	**103**
Accruals	1,209	-
Utilizations	(1,969)	-
Releases	-	(103)
Balance at 31 December 2017	**2,459**	**-**

Utilisations for the year were mainly due to the settlement of lawsuits outstanding from previous years, while accruals for the period were based on an accurate analysis of the recoverability of receivables at 31 December 2017.

26. Current tax receivables

	31 December 2017	31 December 2016
	€ Thousand	€ Thousand
Income taxes		59
Receivables from main shareholders for tax consolidation	13,857	186
Income tax receivables	**13,857**	**245**

Receivables from the Parent Company derive from the decision to belong to the national tax consolidation procedure, governed by article 117 *et seq* of the consolidated law on corporate income tax (TUIR) for 2016, 2017 and 2018, pursuant to the regulation drawn up by Alicros S.p.A, the direct controlling entity of the Company. For further details on these transactions, see note 41 – 'Related parties'.

At 31 December 2017, the receivable of € 13,857 thousand is mainly due to the effect of the tax benefit arising from the Patent Box scheme, described in note 16 – Income taxes.
The tax benefit for 2015 and 2016 was deducted from the tax payments of Davide Campari-Milano S.p.A. from June 2017.

27. Current financial receivables

	31 December 2017	31 December 2016
	€ Thousand	€ Thousand
Financial receivables from related parties	56,447	60
Valuation at fair value of forward contracts	1,810	56
Other financial assets	382	433
Other current financial receivables	**58,640**	**550**
Current financial receivables	**58,640**	**550**

At 31 December 2017, financial receivables from related parties, totalling € 56,447 thousand, were mainly due to the short-term loan granted by Davide Campari-Milano S.p.A. to Glen Grant Ltd., at a fixed rate of 2.336% and maturing on 1 August 2018 with a bullet repayment. For more details, see note 41 – Related Parties.

28. Cash and cash equivalents and reconciliation with net debt

The table below provides a reconciliation of this item with cash and cash equivalents shown on the statements of cash flows.

	31 December 2017 € Thousand	31 December 2016 € Thousand
Bank current accounts and cash	217,538	96,656
Term deposit maturing within 3 months		
Cash and cash equivalents	**217,538**	**96,656**

At 31 December 2017, cash and cash equivalents totalled € 217,538, an increase on the previous year's figure of € 120,882 thousand.

The reconciliation with the Company's net financial position is shown in the table below.

	31 December 2017 € Thousand	31 December 2016 € Thousand
Cash and cash equivalents	217,538	96,656
Cash (A)	**217,538**	**96,656**
Other current financial receivables	58,640	550
Current financial receivables (B)	**58,640**	**550**
Current bank payables	(2,040)	(53,689)
Bonds current		
Other current financial payables	(174,318)	(125,146)
Put option-current	(39,271)	-
Current financial payables (C)	**(215,628)**	**(178,835)**
Net current financial position (A+B+C)	**60,549**	**(81,629)**
Non-current bank payables	(300,000)	(300,000)
Non-current portion of private placement and bonds	(996,290)	(994,552)
Other financial payables	(200,000)	(200,000)
Non-current portion of payables for put option and earn-outs	(139,094)	(181,782)
Non-current financial debt (D)	**(1,635,384)**	**(1,676,334)**
Net debt (A+B+C+D)(*)	**(1,574,835)**	**(1,757,963)**
Reconciliation with the financial position, as shown in the Directors' report:		
Term deposits	26,979	26,528
Non-current financial receivables	6,030	5,670
Net financial position	**(1,541,826)**	**(1,725,765)**

(*) In accordance with the definition of net debt set out in Consob communication DEM 6064293 of 28 July 2006.

For all information concerning the items that make up the net financial position excluding liquidity, see note 23 – Other non-current assets, note 27 – Current financial receivables, note 31 – Bonds and other non-current liabilities, and note 32 – Payables to banks and other current financial payables.

29. Assets classified as held for sale

At 31 December 2017, assets held for sale, totalling € 7,674 thousand, included:
- goodwill relating to the Lemonsoda business of € 6,652 thousand, while the remaining assets were transferred into Nettuno S.r.l., a 100% subsidiary, and recorded under Investments in subsidiaries (see note 22 – Investments in subsidiaries);
- a residual portion of the Termoli site, recorded at a value of € 1,022 thousand.

30. Shareholders' equity

The Company manages its capital structure and makes changes to it depending on the economic conditions and the specific risks of the underlying asset.
To maintain or change its capital structure, the Company may adjust the dividends paid to the shareholders and/or issue new shares.
It should be noted that risk capital management is carried out at Group level. Please see the relevant notes to the consolidated financial statements.
For information on the composition and changes in shareholders' equity for the periods under review, please refer to 'Statement of changes in shareholders equity'.

Share capital

On 28 April 2017, the Extraordinary Shareholders' Meeting of Davide Campari-Milano S.p.A. approved the split of its paid-up share capital of 580,800,000 shares with a nominal value of € 0.1 per share to be carried out via the

issue of two new shares with a nominal value of € 0.05 per share for each existing share, carrying dividend rights effective from 1 January 2016.
The current paid-up share capital of € 58,080,000.00 (unchanged) is therefore divided into 1,161,600,000 shares with a nominal value of € 0.05 each.

Outstanding shares and own shares
Changes in outstanding shares and own shares during the year were as follows:

	No. of shares			Nominal value		
	31 December 2017	31 December 2016	31 December 2015	31 December 2017	31 December 2016	31 December 2015
				€	€	€
Outstanding shares at the beginning of the period	1,158,915,312	1,158,157,108	1,153,837,434	57,945,766	57,907,855	57,691,872
Purchases for the stock option plan	(10,910,000)	(4,652,270)	(23,036,836)	(545,500)	(232,614)	(1,151,842)
Disposals	4,541,575	5,410,474	27,356,510	227,079	270,524	1,367,826
Outstanding shares at the end of the period	1,152,546,887	1,158,915,312	1,158,157,108	57,627,344	57,945,766	57,907,855
Total own shares held	9,053,113	2,684,688	3,442,892	452,656	134,234	172,145
Own shares as a % of share capital	0.78%	0.23%	0.30%			

(*) Figures for 2015 have been re-stated following the share split, for comparison purposes

In 2017 10,910,000 own shares were acquired at a purchase price of €63,819 thousand, which equates to an average price of €5.85 per share. In the same period, 4,541,575 shares were sold for a sum of €10,192 thousand. Moreover, after 31 December 2017 and before the approval of these financial statements, a further 2,896,000 own shares were purchased at an average price of € 6.28 and 2,028,522 shares were sold for the exercise of stock options. The number of own shares on the date this report was approved was therefore 9,920,591.

Dividends paid and proposed
The dividends approved and paid in 2017 and 2016, and the dividend submitted for the approval of the shareholders' meeting called to approve the accounts for the year ending 31 December 2017 are as follows:

	Total amount		Dividend per share	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
	€ Thousand	€ Thousand	€ Thousand	€ Thousand
Dividends approved and paid during the year on ordinary	52,144	52,133	0.045	0.045
Dividends proposed on ordinary shares(*)	57,584		0.050	

(*) Calculated on the basis of outstanding shares at the date of the Board of Directors' meeting on 27 February 2018.

The number of shares outstanding, on which the dividends are calculated, is 1,151,679,409 and the number of own shares held is 9,920,591. The dividend per share is € 0.05, an increase on the dividend distributed for 2016.

Other reserves

(€ Thousand)	Stock options	Cash flow hedging	Financial revaluation reserve	Remeasurement reserve for actuarial effects relating to defined benefit plans	Extraordinary reserve	Reserve for 4%-6% VAT deductions (various laws)	Reserve for grants (Law 696/83)	Reserve for grants under Regional Law 15/94	Equity investment transfer reserve (Leg. Decree 544/92)	Merger difference	Total
Balance at 31 December 2016	**26,234**	**(2,349)**	**807**	**(443)**	**243,222**	**1,086**	**26**	**188**	**3,041**	**3,898**	**275,711**
Stock option costs	3,747	-	-	-	-	-	-	-	-	-	3,747
Stock options in subsidiaries	3,157	-	-	-	-	-	-	-	-	-	3,157
Stock options exercised	(3,133)	-	-	-	-	-	-	-	-	-	(3,133)
Losses (profits) reclassified in the income statement	-	258	-	(64)	-	-	-	-	-	-	194
Cash flow hedge reserve allocated to shareholders' equity	-	1,607	-	-	-	-	-	-	-	-	1,607
Tax effect recognised in shareholders' equity	-	(448)	-	15	-	-	-	-	-	-	(432)
Balance at 31 December 2017	**30,005**	**(931)**	**807**	**(492)**	**243,222**	**1,086**	**26**	**188**	**3,041**	**3,898**	**280,851**

Stock option reserve
Provisions made to the stock option reserve during the year in respect of share-based payments totalled € 6,904 thousand, with an offsetting entry posted to the related shareholdings of € 3,157 thousand, for the grant of stock options to directors and employees of subsidiaries.
Lastly, options exercised during the year by beneficiaries at Davide Campari-Milano S.p.A. and its subsidiaries amounted to € 3,133 thousand and € 1,859 thousand respectively.
For full information regarding stock option plans, see note 37 – Stock option plan.

Cash flow hedge reserve
The cash flow hedge reserve contains amounts (net of the related tax effect) pertaining to changes from fair value adjustments to financial derivatives recorded using cash flow hedging methodology; for further information, see note 38 – Financial instruments: disclosures.

Reserve for grants under Regional Law 15/94 and financial revaluation reserve
The reserve for grants under Regional Law 15/94 and the financial revaluation reserve exist as a result of the merger with Zedda Piras S.r.l. Specifically, the financial revaluation reserve was created when the Zedda Piras spirits production business was spun off by Tenute Sella & Mosca S.p.A.

Remeasurement reserve for actuarial effects relating to defined benefit plans
The reserve includes the effects of changes to the actuarial assumptions used to calculate net obligations for defined benefits.

Retained earnings
Following the resolution of the Shareholders' Meeting of 28 April 2017, the profit for the year to 31 December 2016, amounting to € 205,503 thousand, was allocated as follows:

- € 52,144 thousand to dividends;
- € 153,359 thousand earnings carried forward.

Availability of items under shareholders' equity

	Amount	Possible utilizations(3)	Portion available	Summary of utilizations in the three previous years:	
	€ Thousand		€ Thousand	to hedge losses	for other reasons
Share capital(1)	**58,080**	- - -	-		
Capital reserve:	-	-	-		
Reserve for own shares	(453)	- - -	-		
Legal reserve(2)	1,500	B	1,500		
Earnings reserve:	-	-	-		
Legal reserve	10,116	B	10,116		
Extraordinary reserve	243,222	A, B, C	243,222		
Equity investment transfer reserve (Leg. Decree 544/92)	3,041	A, B, C	3,041		
Reserve for VAT deduction 4% Law 64/86	592	A, B, C	592		
Reserve for VAT deduction 6% Law 67/86	451	A, B, C	451		
Reserve for VAT deduction 6% Law 130/83	22	A, B, C	22		
Reserve for VAT deduction 4% Law 675/77	2	A, B, C	2		
Reserve for VAT deduction 6% Law 526/82	18	A, B, C	18		
Reserve for capital grants (Law 696/83)	26	A, B, C	26		
Program contract reserve	-	- - -	-		
Grant reserve Law 15/94	188	A, B, C	188		
Revaluation reserve	807	A, B, C	807		
Merger surplus reserve	3,898	A, B, C	3,868		
Profit carried forward from previous year	715,004	A, B, C	715,004		
Other reserves:	-	-	-		
Cash flow hedge reserve	(931)	- - -	- - -		
Pension funds remeasurement reserve	(492)	- - -	- - -		
Stock option reserve	30,005	- - -	- - -		
Total reserves and share capital	**1,065,098**	-	**978,859**		
Non-distributable portion	-		11,616		
Residual distributable portion	-		967,243		
Profit for the year	**208,857**		-		
Grand total	**1,273,955**		-		

(1) of which € 50,581 thousand in earnings and € 7,499 thousand for shareholder payments
(2) for shareholder payments
(3) A: to increase capital; B: to hedge losses; C: to distribute to shareholders

31. Bonds and other non-current liabilities

The breakdown of bonds and other non-current liabilities is as follows.

	31 December 2017	31 December 2016
	€ Thousand	€ Thousand
Bond (Eurobond) issued in 2012	218,055	397,166
Bond (Eurobond) issued in 2015	577,534	595,270
Bonds issued in 2017	200,000	-
Total bonds and private placement	**995,589**	**992,436**
Payables and loans due to banks	300,000	300,000
Non-current liabilities for hedging derivatives	701	2,116
Payables for put option and earn-outs	139,094	181,782
Other financial liabilities from related parties	200,000	200,000
Non-current financial liabilities	**639,795**	**683,898**
Other non-financial liabilities	5,660	2,466
Other non-current liabilities	**645,456**	**686,364**

The table below shows a breakdown of the Company's main financial liabilities, together with effective interest rates and maturities.
As regards the effective interest rate of hedged liabilities, the rate reported includes the effect of the hedging itself. Furthermore, the values of hedged liabilities include the value of the related derivative, whether it is an asset or liability.

	Nominal interest rate	Maturity	31 December 2017	31 December 2016
	€ Thousand	€ Thousand	€ Thousand	€ Thousand
Non-current payables and loans due to banks	variable Euribor + 50/85 basis point	2016-2021	300,000	300,000
Bond issues:				
- issued in 2012 (Eurobond)	fixed rate 4.5%	2019	218,055	397,166
- issued in 2015 (Eurobond)	fixed rate 2.75%	2020	577,534	595,270
- issued in 2017 (termination 2022)	fixed rate 1.768%	2022	50,000	-
- issued in 2017 (termination 2024)	fixed rate 2.165%	2024	150,000	-
Loan from other related parties	4.19-4.25%	2019	200,000	200,000

Bonds

On 30 March 2017, Davide Campari-Milano S.p.A. placed two unrated bonds (a seven-year and a five-year bond for € 150 million and € 50 million respectively), reserved for institutional investors only. This transaction constituted an exchange for existing notes previously issued by Davide Campari-Milano S.p.A. and purchased by BNP Paribas, for a total amount of € 200 million.

The bonds redeemed were as follows:
- a total nominal amount of € 180.9 million of existing notes issued in 2012 with a nominal value of € 400 million, fixed interest of 4.50% and due on 25 October 2019;
- a total nominal amount of € 19 million of existing notes issued in 2015 with a nominal value of € 600 million, fixed interest of 2.75% and due on 30 September 2020.

The transaction incurred non-recurring financial liabilities of € 24.5 million; these mainly constituted the difference in the price of the outstanding bonds being repurchased and their nominal value, as well as various other transaction-related expenses.

At 31 December 2017, the bonds item included the following issues placed by the Company:
- Eurobond 2012, with a duration of seven years and a nominal value of € 219.1 million, due on 25 October 2019. The bond pays a fixed annual coupon of 4.5% and the issue price was 99.068% of par, corresponding to a gross return of 4.659%.
- Eurobond 2015, due on 30 September 2020 and with a nominal value of € 580.9 million. The offer was placed at 99.715% of the nominal value. Coupons are payable at a nominal fixed interest rate of 2.75%. The gross return on the bond is therefore 2.81%;
- bond loan issued in 2017, due on 5 April 2022, with a nominal value of € 50 million. The bond pays a fixed annual coupon of 1.768%;
- bond loan issued in 2017, due on 05 April 2024, with a nominal value of €150 million. The bond pays a fixed annual coupon of 2.165%.

Changes to the reported bond values during 2017 relate to both the new placements described earlier and amortised cost effects (these effects are negative and total € 1,843 thousand).

Payables and loans due to banks
At 31 December 2016 and 2017, the item included a bullet bank facility of € 300 million, with an original maturity of three years, at a rate of 3-month Euribor plus a 0.75% spread, made available by Banco Popolare, Intesa Sanpaolo and UniCredit.
In conjunction with the term loan, a revolving credit facility (RCF) was granted in an amount of € 200 million, maturing in three years, which had not been used as at 31 December 2017.
It should be noted that on 3 August 2017, Davide Campari-Milano S.p.A. took the opportunity to extend by two years the € 300 million bullet bank facility taken out in August 2016. The new maturity of the loan and associated revolving credit facility (RCF) of € 200 million is now August 2021, from the original date of August 2019. However, the agreement retains its advantageous financial conditions.

Payables for put options and earn-outs
At 31 December 2017, this item relates to the payable (€ 139,094 thousand) created after the signing of agreements with members of the family that used to be the controlling shareholder of SPML, for the purchase, by 2021, of all the remaining shares held by them. The short-term portion of this liability is € 39,271 thousand.

Other loans from related parties
At 31 December 2016 and 2017, the item included loans made available by Group companies. They will be settled with a bullet repayment in 2019. For more details, see note 41 – Related Parties.

Other non-financial liabilities
At 31 December 2016 and 2017, the item mainly related to long-term liabilities accrued for employee incentive schemes.

32. Payables to banks and other current financial payables

	31 December 2017 € Thousand	31 December 2016 € Thousand
Payables and loans due to banks	**42**	**53,689**
Accrued interest on bonds	8,892	7,463
Financial liabilities on hedging contracts	108	1,235
Current liabilities for hedge derivatives, not reported using hedge accounting procedures	-	7
Payables for put options and earn-outs	39,271	
Financial liabilities with related parties	165,318	116,441
Other financial liabilities	1,997	
Total other financial payables	**215,586**	**125,146**

Payables to banks
At 31 December 2017, payables to banks only included current account overdrafts.

At 31 December 2016, the item also included the revolving credit facility of € 50 million granted as part of the refinancing transaction described in the previous section. At 31 December 2017, this credit facility had not been used.

Bonds
Accrued interest of € 8,892 thousand includes the portion of accrued coupons for 2017 on the bonds described in the previous note.

Payables for put options and earn-outs
At 31 December 2017, the item related to the short-term portion (€ 39,271 thousand) of the above-mentioned payable in respect of members of the family that used to be the controlling shareholder of SPML.

Other financial liabilities in respect of related parties
The item includes liabilities arising from cash pooling management by some Companies in respect of other Group companies. For further details of dealings with related parties see note 41 – 'Related parties'.

33. Defined benefit plans

The employee liability indemnity (TFR), which relates to the Company's employees, pursuant to article 2120 of the Italian civil code, falls under the scope of IAS 19.
Employee indemnity liability (TFR) contributions accrued up to 31 December 2006 remain in the company; for contributions accruing from 1 January 2007, employees have the choice to allocate them to a complementary pension scheme, or keep them in the company, which will transfer the TFR contributions to a fund held at the INPS (Italian social security agency).
Consequently, TFR contributions accrued from 1 January 2007 are classified as defined contribution plans.
Since the Company usually pays contributions through a separate fund, without further obligations, it records its contributions to the fund for the year to which they relate, in respect of employees' service, without making any actuarial calculation. Since the contributions in question had already been paid by the Company at the reporting date, no liability is recorded in the statement of financial position.
Conversely, TFR contributions accrued up to 31 December 2006 will continue to be classified as defined benefit plans, with the actuarial valuation criteria remaining unchanged in order to show the current value of the benefits payable on the amounts accrued at 31 December 2006 when employees leave the Company.

The tables below summarise the components of the net cost of benefits reported in the income statement and in the statement of comprehensive income in 2017 and 2016.

€ Thousand	Liabilities
Liabilities (assets) at 31 December 2016	**6,033**
Amounts included in the income statement:	
- current service costs	10
- net interest	75
Total	**85**
Amounts included in the statement of comprehensive income:	
- gain/(losses) resulting from changes in actuarial assumptions	64
Total	**64**
Other changes:	
- benefits paid	(1,276)
- benefits transferred	65
Total	**(1,211)**
Liabilities (assets) at 31 December 2017	**4,971**

€ Thousand	Liabilities
Liabilities (assets) at 31 December 2015	**5,784**
Amounts included in the income statement:	
- current service costs	19
- net interest	108
Total	**127**
Amounts included in the statement of comprehensive income:	
- gain/(losses) resulting from changes in actuarial assumptions	(75)
Total	**(75)**
Other changes:	
- benefits paid	(397)
- benefits transferred	69
- merger	524
Total	**196**
Liabilities (assets) at 31 December 2016	**6,033**

The main assumptions used in determining the obligations resulting from TFR are indicated below.

	2017	2016
Discount rate	1.28%	1.38%
Staff turnover rate	3.36%	2.65%
Forecast inflation rate	1.00%	1.00%

A quantitative sensitivity analysis of the significant assumptions used at 31 December 2016 is shown below.

	Change in the assumptions	Impact of positive change	Impact of negative change
Discount rate	+\- 0.5%	-3,55%	3,81%
Staff turnover, disability and early retirement	+\- 0.5%	-0,20%	0,22%
Forecast inflation rate	+\- 0.5%	2,3%	-2,3%

The sensitivity analysis shown above is based on a method involving extrapolation of the impact on the obligation of reasonable changes to the key assumptions made at the end of the financial year.
The methodology and the assumptions made in preparing for the sensitivity analysis remain unchanged from the previous year.
Given that pension liabilities have been adjusted on the basis of the consumer prices index, the pension plan is exposed to the inflation rate, to interest rate risks and to changes in the life expectancy of former employees. In view of the fact that there are no activities that support the plans, the Company is not exposed to market risk in the sectors in which the plan is invested.

The table below shows the expected payments in future years.

	31 December 2017 € Thousand
Within 12 months	161
From 1 to 5 years	631
From 5 to 10 years	760
Total	**1,553**
Average plan duration (years)	**8.7**

Cash flows expected for future payments into the plan are not likely to have a significant effect on the Company's statement of financial position or income statement.

34. Provisions for risks and charges

The table below indicates changes to this item during the period.

	Tax provision	Agent severance fund	Other	Total
	€ Thousand	€ Thousand	€ Thousand	€ Thousand
Balance at 31 December 2016	**301**	**1,845**	**131**	**2,276**
Accruals		238	2,492	2,730
Utilizations	-	(861)	(93)	(955)
Realeses	(301)	(35)		(336)
Other changes				-
Balance at 31 December 2017		**1,186**	**2,530**	**3,715**
of which estimated outlay:				
- due within 12 months				-
- due after 12 months		1,186	2,530	3,715

At 31 December 2016, the recorded tax provision included contingent liabilities, estimated at € 301 thousand, relating to pending disputes. This provision was released in 2017 as the contingent liability no longer existed.
At 31 December 2017, Other provisions for risks, totalling € 2,530 thousand, were mainly due to the accrual made during the year for the risk relating to a unilateral termination of an agreement with an IT services provider.

35. Payables to suppliers and other liabilities

	31 December 2017 € Thousand	31 December 2016 € Thousand
Trade payables to external suppliers	91,537	105,796
Trade payables to affiliates	7,680	406
Trade payables	**99,218**	**106,202**
Payables to staff	23,150	16,181
Payables to agents	1,116	1,472
Deferred income	895	1,054
Amounts due to controlling shareholder for Group VAT	4,275	2,389
Tax on alcohol production	2,182	2,009
Withholding and miscellaneous taxes	2,026	2,821
Other payables to related parties	2,172	3,324
Other	1,236	337
Other current liabilities	**37,052**	**29,588**

The above-listed payables are all due within 12 months.
For further details on payables to related parties, see note 41 – Related parties.

The following table shows a breakdown of payables by due date (excluding advance payments).

31 December 2017	On demand € Thousand	Within 1 year € Thousand	Due in 1 to 2 € Thousand	Due in 3 to 5 € Thousand	Due after 5 € Thousand	Total € Thousand
Trade payables	24,210	75,008	-	-	-	99,218
of which related parties		*7,680*				*7,680*
Other payables	278	31,671	-	-	-	31,949
of which related parties	*10*	*412*				*422*
Total	**24,488**	**106,679**	**-**	**-**	**-**	**131,167**

31 December 2016	On demand € Thousand	Within 1 year € Thousand	Due in 1 to 2 € Thousand	Due in 3 to 5 € Thousand	Due after 5 € Thousand	Total € Thousand
Trade payables	30,582	75,620	-	-	-	106,202
of which related parties	*248*	*158*				*406*
Other payables	-	29,043	-	-	-	29,043
of which related parties		*648*				*648*
Total	**30,582**	**104,663**	**-**	**-**	**-**	**135,245**

The payment terms applied to suppliers are generally 60 days from the end of the month of invoice.

Capital grants

Capital grants mainly relate to the funds received for investments in production plants at Novi Ligure.
The following table provides details of changes in deferred income relating to capital grants.

	Deferred income € Thousand
Balance at 31 December 2016	**1,029**
Amounts posted to the income statements	(175)
Reclassifications	
Balance at 31 December 2017	**854**

36. Current tax payables

This item breaks down as below.

	31 December 2017 € Thousand	31 December 2016 € Thousand
Taxes payable	831	509
Total income tax payables	**831**	**509**

At 31 December 2017, tax payables mainly consisted of IRAP payables.

37. Stock option plan

Pursuant to Consob resolution 11971 of 14 May 1999 as amended, and Consob communication 11508 of 15 February 2000, the following information is provided on the stock option plan (the ‘Plan’) approved by the Board of Directors of Davide Campari-Milano S.p.A. on 15 May 2001, which incorporated the framework plan for the general regulation of stock options for Campari Group, approved by the Shareholders’ Meeting of 2 May 2001.
The purpose of the Plan is to offer beneficiaries who occupy key positions in the Group the opportunity of owning shares in Davide Campari-Milano S.p.A., thereby aligning their interests with those of other shareholders and fostering loyalty, in the context of the strategic goals to be achieved.
The recipients are employees, directors and/or individuals who regularly work for one or more Group companies, who have been identified by the Board of Directors of Davide Campari-Milan S.p.A., and who, on the Plan approval

date and until the date that the options are exercised, have worked as employees and/or directors and/or in any other capacity at one or more Group companies without interruption.
The Plan regulations do not provide for loans or other incentives for share subscriptions pursuant to article 2358, paragraph 3 of the Italian Civil Code.
The Board of Directors of Davide Campari-Milano S.p.A. has the right to draft regulations, select beneficiaries and determine the share quantities and values for the execution of stock option plans. In addition, Davide Campari-Milano S.p.A. reserves the right, at its sole discretion, to modify the Plan and the regulations as necessary or appropriate to reflect revisions of laws in force, or for other objective reasons that would warrant such modification.
Subsequently, further stock options have been granted each year, governed by the framework plan approved by the shareholders' meeting on 2 May 2001.

The shareholders' meeting of 28 April 2017 approved a new stock option plan, establishing the maximum number of shares that may be granted (specifying how many may be granted to directors of the Company and how many to any other beneficiary) and authorising the board of directors of the Company to identify, within the limits established by the shareholders' meeting, the beneficiaries and the number of options that may be granted to each.

The options were therefore assigned on 03 August 2017 to the individual beneficiaries, with the right to exercise options in the two-year period following the end of the fifth year from the allocation date.

The total number of options granted in 2017 for the purchase of further shares was 1,179,323, with an average grant price of € 6.19, equivalent to the weighted average market price in the month preceding the day on which the options were granted.

The following table shows changes in stock option plans during the periods concerned.

	31 December 2017		31 December 2016	
	No. of shares	Average allocation/exercise price (€)	No. of shares	Average allocation/exercise price (€)
Options outstanding at the beginning of the period	61,671,300	3.19	54,189,506	2.75
Options granted during the period	1,179,323	6.19	15,105,018	4.29
(Options cancelled during the period)	(1,905,575)	3.38	(2,075,058)	2.87
(Options exercised during the period)(*)	(4,541,575)	2.25	(5,410,474)	2.01
(Options expired during the period)	(1,000)	-	(137,692)	-
Options outstanding at the end of the period	56,402,473	3.32	61,671,300	3.19
of which those that can be exercised at the end of the period	15,128,339	2.63	3,623,930	1.89

(*) The average market price on the exercise date was € 5.40

The average remaining life of outstanding options at 31 December 2017 was 2.67 years (3.3 years at 31 December 2016).
The exercise prices for the options allocated each year range as below.

	Average exercise price
Allocations: 2011	2.73
Allocations: 2012	2.63
Allocations: 2013	2.97
Allocations: 2014	3.14
Allocations: 2015	3.54
Allocations: 2016	4.29
Allocations: 2017	6.19

The average fair value of the options granted during 2017 was € 1.2 (€ 1.1 in 2016 following the share-split transaction).
The fair value of stock options is represented by the value of the option calculated by applying the Black-Scholes model, which takes into account the conditions for exercising the option, as well as the current share price, expected volatility and the risk-free rate, and the non-vesting conditions for the plans.

Volatility was estimated using data supplied by a market information provider together with a leading bank, and corresponds to the estimate of volatility recorded in the period covered by the Plan.

The following assumptions were used for the fair value measurement of options issued in 2017 and 2016.

	2017	2016
Expected dividends (€)	0.05	0.05
Expected volatility (%)	21%	28%
Historic volatility (%)	21%	23%
Market interest rate	0.51%	0.93%
Expected option life (years)	7.00	7.00
Exercise price (€)	6.19	4.29

Davide Campari-Milano S.p.A. has a number of own shares that can be used to cover the stock option plan. The following table shows changes in the number of own shares held during the comparison periods.

	No. of own shares		Purchase price (€ Thousand)	
	2017	2016	2017	2016
Balance at 1 January	2,684,688	3,442,892	11,604	12,727
Purchases	10,910,000	4,652,270	63,819	18,932
Disposals	(4,541,575)	(5,410,474)	(20,377)	(20,055)
Final balance	9,053,113	2,684,688	55,045	11,604
% of share capital	0.78%	0.23%		

In relation to the sales of own shares in the year, which are shown in the above table at the original purchase cost (€ 20,377 thousand), carried out at a market price totalling € 10,192 thousand, the Company recorded a negative difference of € 10,185 thousand, which was recorded under shareholders' equity and partly offset by the use of € 3,133 thousand from the stock option reserve.

38. Financial instruments - disclosures

The value of individual categories of financial assets and liabilities held by the Company is shown below.

31 December 2017 € Thousand	Loans and receivables	Financial liabilities at amortized cost	Assets and liabilities measured at fair value through profit or loss	Hedging transactions
Cash and cash equivalents	217,538			
Current financial assets	56,829			
Other non-current financial assets	33,009			
Trade receivables	119,210			
Payables to banks		(300,042)		
Bonds		(995,589)		
Accrued interest on bonds		(8,892)		
Other financial liabilities		(367,315)		
Put option payables		(178,365)		
Trade payables		(99,218)		
Current assets for hedge derivatives, not in hedge accounting			1,482	
Current assets for hedging derivatives				328
Non-current liabilities for hedging derivatives				(701)
Current liabilities for hedging derivatives				(108)
Total	**426,587**	**(1,949,422)**	**1,482**	**(480)**

31 December 2016 € Thousand	Loans and receivables	Financial liabilities at amortized cost	Assets and liabilities measured at fair value through profit or loss	Hedging transactions
Cash and cash equivalents	96,656			
Current financial assets	480			
Other non-current financial assets	32,198			
Trade receivables	116,698			
Payables to banks		(353,689)		
Bonds		(992,436)		
Accrued interest on bonds		(7,463)		
Other financial liabilities		(316,441)		
Put option payables		(181,782)		
Trade payables		(106,202)		
Non-current assets for hedge derivatives, not in hedge accounting			13	
Current assets for hedging derivatives				56
Non-current assets for hedging derivatives				-
Non-current liabilities for hedging derivatives				(2,116)
Current liabilities for hedging derivatives				(1,235)
Non-current liabilities for hedging derivatives, not reported using hedge accounting procedures			(7)	
Total	**246,032**	**(1,958,013)**	**6**	**(3,294)**

Assets and liabilities measured at fair value

The method used for determining fair value was as follows:

- for financial assets and liabilities that are liquid or nearing maturity, it is assumed that the carrying amount equates to fair value; this assumption also applies to term deposits, securities that can be readily converted to cash and variable-rate financial instruments;
- for the valuation of hedging instruments at fair value, the Company used valuation models based on market parameters;

the fair value of non-current financial payables was obtained by discounting all future cash flows to present value under the conditions in effect at the end of the year.
Investment property is valued at cost, which is considered a reliable approximation of its fair value.

For commercial items and other receivables and payables, fair value corresponds to the carrying amount; these are not reported in the table below.

	carrying amount		fair value	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
	€ Thousand	€ Thousand	€ Thousand	€ Thousand
Cash and cash equivalents	217,538	96,656	217,538	96,656
Assets for hedge derivatives, not reported using hedge accounting procedures	1,482	13	1,482	13
Current assets for forex derivatives	328	56	328	56
Current financial assets	382	480	382	480
Other financial current receivables from related parties	56,447	60	56,447	60
Other non-current financial assets	33,009	32,198	33,009	32,198
Financial assets	**309,186**	**129,464**	**309,186**	**129,464**
Payables to bank and other	302,040	353,689	302,040	353,689
Bond (Eurobond)issued in 2012	218,055	397,166	237,125	399,960
Bond (Eurobond)issued in 2015	577,534	595,270	621,143	599,940
Bond 2017-2022	50,000	-	52,735	
Bond 2017-2024	150,000	-	161,991	
Accrued interest on bonds	8,892	7,463	8,892	7,463
Non-current liabilities for interest rate swap derivatives on future transaction	701	2,116	701	2,116
Financial liabilities on forex derivatives	108	1,235	108	1,235
Other financial liabilities	-	7	-	7
Other financial liabilities in respect of related parties	365,318	316,441	365,318	316,441
Put option and earn out liabilities	178,365	181,782	178,365	181,782
Financial liabilities	**1,851,012**	**1,855,169**	**1,928,418**	**1,862,633**
Net financial assets (liabilities)	**(1,541,826)**	**(1,725,705)**	**(1,619,231)**	**(1,733,169)**

Fair value - hierarchy

The Company enters into derivatives contracts with a number of top-rated banks.
Derivatives are valued using techniques based on market data, and largely consist of interest rate swaps.
The most commonly applied valuation methods include the forward pricing and swap models, which use present value calculations.
The models incorporate various inputs, including the credit rating of the counterparty, market volatility, spot and forward exchange rates and current and forward interest rates.
The table below details the hierarchy of financial instruments measured at fair value, based on the valuation methods used:

- level 1: the valuation methods use prices listed on an active market for the assets and liabilities subject to valuation;
- level 2: the valuation methods take into account inputs other than previous prices, but only those that can be observed on the market directly or indirectly;
- level 3: the methods used take into account inputs that are not based on observable market data.

In 2017, no changes were made in the valuation methods applied.

31 December 2017	Level 1 € Thousand	Level 2 € Thousand	Level 3 € Thousand
Assets valued at fair value			
Futures currency contracts	-	328	-
Hedging derivatives not reported using hedge accounting procedures	-	1,482	-
Liabilities valued at fair value			
Interest rate swap on future transactions	-	701	-
Forward currency and interest rate contracts	-	108	-

31 December 2016	Level 1 € Thousand	Level 2 € Thousand	Level 3 € Thousand
Assets valued at fair value			
Futures currency contracts	-	56	-
Hedging derivatives not reported using hedge accounting procedures	-	13	-
Liabilities valued at fair value			
Interest rate swap on bonds	-	2,116	-
Forward currency and interest rate contracts	-	1,235	-
Hedging derivatives not reported using hedge accounting procedures	-	7	-

The level 2 valuation method used for financial instruments measured at fair value is based on parameters such as exchange rates and interest rates, which are priced on active markets or are observable on official rate curves. In 2017, no reclassifications were made between the levels indicated above in the fair value hierarchies.

Hedging transactions

Hedging derivatives

The Company currently holds various derivative instruments to hedge both the fair value of underlying instruments and cash flows.

The table below shows the fair value of these derivative instruments, recorded as assets or liabilities.

	31 December 2017		31 December 2016	
	Assets € Thousand	Liabilities € Thousand	Assets € Thousand	Liabilities € Thousand
Interest rate and cross currency swap on bond (USD)	-	-	-	-
Accrued interest on bond swap		-		-
Futures currency contracts	83	(94)	5	(1,223)
Hedging derivatives at fair value	**83**	**(94)**	**5**	**(1,223)**
Interest rate swap on bond (USD)	-	-	-	-
Interest rate swap on future operations	-	(701)	-	(2,116)
Forward currency contracts for future operations	245	(14)	51	(12)
Derivatives used for cash flow hedging	**245**	**(715)**	**51**	**(2,128)**
Hedging derivatives not reported using hedge accounting procedures	**1,482**	**-**	**13**	**(7)**
Total derivatives	**1,810**	**(809)**	**70**	**(3,358)**

Fair value hedging derivatives

At 31 December 2017, the Company had in place the following contracts for hedging payables and receivables in foreign currency that meet the definition of hedging instruments based on IAS 39.

Specifically, it has forward contracts on receivables and payables in currencies other than the Euro recorded in its financial statements at 31 December.

The contracts were negotiated to match maturities with incoming and outgoing cash flows resulting from sales and purchases in individual currencies.

The valuation of these contracts at the reporting date gave rise to the reporting of assets of €83 thousand and liabilities of €94 thousand.

The gains and losses on the above-mentioned fair value hedging instruments and on the items hedged by them are shown below.

	31 December 2017 € Thousand	31 December 2016 € Thousand
Gains on hedging instruments	93	3
Losses on hedging instruments	(25)	(4,282)
Total gains (losses) on hedging instruments	**68**	**(4,280)**
Gains on hedged items	125	8,503
Losses on hedged items	(204)	(1,099)
Total gains (losses) on hedging instruments	**(79)**	**7,405**

Derivatives used for cash flow hedging

The Company uses the following contracts to hedge its cash flows:

- interest rate swaps on the Eurobond issued in 2015. Around the time the loan was granted, the Company had entered into a number of interest rate hedging agreements. On the date the bond was listed, due to the changes in interest rates, this agreement had entailed an initial financial liability of € 1,326 thousand, recorded under comprehensive income and expense, and released to the income statement with the cash flows generated by the underlying debt. In 2017, an effect of € 258 thousand was recycled to the income statement.
- Hedging of future sales and purchases in currency and interest rates on future transactions.

The following table shows when the hedged cash flows are expected to be received, as of 31 December 2017. These cash flows only relate to interest and have not been discounted to present value.

31 December 2017	Within one year € Thousand	1-5 years € Thousand	Total € Thousand
Cash outflows	(2,686)	1,999	(687)
Cash inflows	245	-	245
Net cash flows	**2,931**	**(1,999)**	**932**

31 December 2016	Within one year € Thousand	1-5 years € Thousand	Total € Thousand
Cash outflows	2,131	-	2,131
Cash inflows	33	-	33
Net cash flows	**(2,098)**	**-**	**(2,098)**

The overall changes in the cash flow hedge reserve and the associated deferred taxes are shown below.

	Gross amount € Thousand	Tax effect € Thousand	Net amount € Thousand
Reserve as of 31 December 2016	(3,091)	742	(2,349)
Booked to the income statement during the period	258		258
Recognized in equity during the period	1,607	(448)	1,159
Reserve as of 31 December 2017	**(1,225)**	**294**	**(931)**

For completeness, the changes in current and non-current financial payables during 2017 are shown below.

€ Thousand	31 December 2016	new financing	repayment	interests expenses and amortized cost	equity impact	reclassification (*)	other movements(*)	31 December 2017
Bonds	992,436	200,000	(200,001)	3,153	-	-	-	995,589
Payables to banks non-current	300,000			-				300,000
Put option non-current	181,782			3,294		(39,271)	(6,711)	139,094
Fair value non-current liabilities on bond derivatives	2,116			-	(1,415)			701
Financial non-current liabilities - ICO	200,000			-				200,000
Total non-current financial liabilities	**1,676,334**	**200,000**	**(200,001)**	**6,447**	**(1,415)**	**(39,271)**	**(6,711)**	**1,635,384**
Payables to banks current	50,027	179,973	(230,000)	13			29	42
Factoring liabilities	3,662	1,997	(3,662)	-	-	-		1,997
Put option current				-		39,271		39,271
Interests on bonds	7,463	-	(16,089)	17,518				8,892
Other financial liabilities at fair value	1,242	-	(943)	-	(192)	-		108
Financial current liabilities - ICO cash pooling	114,253	48,695	-	-	-	-		162,949
Financial current liabilities - ICO other	2,188			-			181	2,369
Total current financial liabilities	**178,835**	**230,666**	**(250,693)**	**17,531**	**(192)**	**39,271**	**210**	**215,628**

(*) Note that following the completion of the process to calculate the purchase price allocation for SPML, the non-current portion of the payable for put options was reclassified under short-term payables, while the ‘Other changes’ column shows the adjustment made at the end of this process.

39. Natura e entità dei rischi derivanti dagli strumenti finanziari

Credit risk

Davide Campari-Milano S.p.A. enters directly into commercial transactions on the Italian market, and on the foreign markets via its Group companies.

The composition of receivables from Italian customers is extremely varied in terms of the different market channels, their size and commercial characteristics. The market includes a high number of clients from all over Italy, evenly balanced between the two sales channels (large-scale retail and supermarket chains, and traditional retail) with a significant presence in the hotel and catering sector.

The Company has an extremely broad product portfolio, formed of both Gruppo Campari's products and products distributed under licence. Given that the Company sells internationally both within the Group and with third parties, there are no market concentration risks.
The Company has a Credit Management department exclusively dedicated to monitoring the progress of receivables, chasing up payment and managing in a targeted and timely manner the exposure of individual customers using internal risk monitoring procedures.
Bad debts are pursued regularly with the assistance of lawyers in order to continuously update progress on individual cases. This is then reflected in the provisions for doubtful receivables.
Trade receivables from third parties for which there is impairment are classified as doubtful; these have mainly been due for more than one year and are the subject of legal proceedings.
The other trade receivables are in respect of Group companies.
Receivables from clients are mainly denominated in euro.

The maximum risk at the reporting date is equivalent to the carrying amount of trade receivables.

Debt management

The Company's debt management objectives are based on its ability to ensure that it retains an optimal level of financial soundness, while maintaining an appropriate level of liquidity that enables it to make an economic return and access external sources of funding. The Company monitors changes to its net debt/EBITDA ratio on an ongoing basis. Net debt is the Company's net financial position calculated at average exchange rates for the previous 12 months; EBITDA is the Company's operating result before depreciation, amortisation and non-controlling interests, pro-rated to take account of acquisitions in the past 12 months.
These indicators are calculated at consolidated level, i.e. taking into account all the companies directly or indirectly controlled by the Company. The Company therefore monitors both the restrictions and the levels of the financial indicators.

Liquidity risk

The Company's ability to generate substantial cash flow through its operations allows it to reduce liquidity risk. This risk is defined as the difficulty of raising funds to meet financial obligations.
The Company manages financial flows with the Italian subsidiaries through a centralised cash management department, with transactions settled at market rates (see note 41 – Related parties, for more information).
Detailed information is provided below on payables and financial liabilities at 31 December 2017, compared with the previous year.
The tables below summarise financial liabilities at 31 December 2017 and 2016 by maturity based on the contractual repayment obligations, including non-discounted interest.

31 December 2017	On demand	Within 1 year	Due in 1 to 2 years	Due in 3 to 5 years	Due after 5 years	Total
	€ Thousand	€ Thousand	€ Thousand	€ Thousand	€ Thousand	€ Thousand
Payables and loans due to banks	-	3,840	1,800	303,600	-	309,240
Bonds	-	29,965	249,022	659,312	156,495	1,094,794
Financial payables to related parties	-	171,449	208,500	-	-	379,949
Other financial payables	-	162,949	-	-	-	162,949
Other derivatives	-	9,201	208,500	-	-	217,701
Total financial liabilities	**-**	**377,404**	**667,822**	**962,912**	**156,495**	**2,164,633**
Assets for derivatives on currencies	-	(1,810)	-	-	-	(1,810)
Financial liabilities net of hedging assets	**-**	**375,594**	**667,822**	**962,912**	**156,495**	**2,162,823**

31 December 2016	On demand	Within 1 year	Due in 1 to 2 years	Due in 3 to 5 years	Due after 5 years	Total
	€ Thousand	€ Thousand	€ Thousand	€ Thousand	€ Thousand	€ Thousand
Payables and loans due to banks	-	55,039	1,350	300,900	-	357,289
Bonds	-	34,500	34,500	434,500	616,500	1,120,000
Derivatives on bond issues	-	-	-	-	-	-
Financial payables to related parties	-	98,562	8,500	208,500	-	315,562
Other financial payables	-	3,358	-	-	-	3,358
Total financial liabilities	**-**	**191,459**	**44,350**	**943,900**	**616,500**	**1,796,209**
Assets for derivatives on currencies	-	(70)	-	-	-	(70)
Financial liabilities net of hedging assets	**-**	**191,389**	**44,350**	**943,900**	**616,500**	**1,796,139**

Payables to banks for current accounts and lines of credit represent the negative balance of cash management. Moreover, the Company has granted loans to subsidiaries, with interest charged at market rates.

Market risks
Market risk consists of the possibility that changes in exchange rates, interest rates or the prices of raw materials or commodities (alcohol, aromatic herbs, sugar) could negatively affect the value of assets, liabilities or expected cash flows.

Price risk
The price of raw materials depends on a wide variety of factors, which are difficult to forecast and are largely beyond the Company's control. Although historically the Company has not encountered particular difficulties in purchasing sufficient high-quality raw materials, we cannot rule out the possibility that the emergence of any tensions in this area could lead to difficulties in obtaining supplies, causing costs to rise, which would have negative consequences on the Company's financial results.

Interest rate risk
The Company has bonds that pay interest at a fixed rate, issued directly under an agreement. The Company is therefore exposed to fair value risk.
The portion of debt at fixed rates was 65% of total financial payables at 31 December 2017.
Other financial liabilities, which are broadly taken out at variable rates, account for only a modest proportion of total debt. The Company is therefore only partially exposed to the risk of interest rate fluctuations.

Sensitivity analysis
The following table shows the effects on the income statement of a potential change in interest rates, if all the Company's other variables are held constant.
The assumptions used in terms of a potential change in rates are based on an analysis of the trends at the reporting date.
The table illustrates the full-year effects on the income statement in the event of a change in rates, calculated for the Company's variable-rate financial assets and liabilities.
The impact on the income statement is shown net of taxes.

Increase/decrease in interest in basis point	Increase in interest rates	Decrease in interest rates
31 December 2017	Income statements (€ Thousand)	
Euribor +/- 5 basis points	(397)	397
31 December 2016		
Euribor +/- 5 basis points	(707)	707

Exchange rate risk
The Company has hedging instruments in place to minimise the exchange rate risk, aimed at avoiding a situation where unexpected variations in exchange rates occur on purchases and sales transactions. A change of between 0 and 14% in the EUR/USD exchange rate would lead to a change in net shareholders' equity of between € -101 thousand and € 1,974 thousand.
Lastly, there were no significant receivables or payables exposed to exchange rate risk at 31 December 2017.

40. Commitments and risks

Contractual commitments for the use of third-party assets
The amounts owed by the Company in future financial years for the main contractual commitments for the use of third-party assets are shown in the table below.

	31 December 2017	31 December 2016
	€ Thousand	€ Thousand
Within 1 year	5,739	3,293
1-5 years	3,149	1,396
Total	**8,888**	**4,689**

Existing contractual commitments for the purchase of goods or services, property, plant and equipment
The Company's other commitments for purchases of goods or services are shown below.

€ Thousand	Purchase of assets	Purchase of raw materials, semi-finished products and finished products	Advertising and promotional costs	Packaging, habillage	Informations system services	Facility services	Other	Total
Within 1 year	123	30,574	3,562	11,898	2,664	950	1,293	51,065
1-5 years	1	475		9,924	3,465	2,280	163	16,309
After 5 years		-				-	-	-
Total commitments	**123**	**31,049**	**3,562**	**21,823**	**6,129**	**3,231**	**1,457**	**67,373**

Contractual commitments for fixed assets mainly relate to the purchase of equipment and improvements to the Company's production units (€123 thousand) and the implementation of a new IT system and management software (€6,129 thousand).

Commitments in respect of raw materials mainly relate to purchases of wine and grapes for Cinzano wine and sparkling wines.

Guarantees given
Guarantees given by the Company break down as follows:

	31 December 2017	31 December 2016
	€ Thousand	€ Thousand
Guarantees issued to third parties	40,003	48,300
Guarantees issued to third parties in the interest of Group companies	132,521	37,858
Total securities	**172,524**	**86,158**
Other guarantees	7,542	-
Total guarantees given	**180,066**	**86,158**

Sureties to third parties mainly represent customs bonds for excise duties and tax stickers totalling € 39,742 thousand. Sureties issued to third parties in the interests of Group companies are guarantees given by Davide Campari-Milano S.p.A. in favour of third parties for sureties on customs and duties, credit lines and other sureties and guarantees resulting from the commercial or financial activities of Group companies. Other guarantees mainly include guarantees for wine promotions, totalling € 3,189 thousand.

41. Related parties

Pursuant to Consob resolution 17221 of 12 March 2010, the Company has also adopted a procedure for transactions with related parties, approved by the Board of Directors on 11 November 2010 and in force from 1 January 2011.

The procedure sets out the principles to which the Company adheres to ensure the substantial and procedural transparency and probity of transactions with related parties, whether carried out directly or via subsidiaries, and also gives a definition of related parties (providing an updated list of related parties), in a manner consistent with IAS 24.

The procedure also identifies the individuals responsible for reporting the above-mentioned information, defines which transactions should be reported, defines the content of the information required, and sets the timescales within which the information must be submitted.

Relationships with Group companies and the Parent Company
The main intra-group activities, paid for at market prices, are carried out on the basis of contractual relationships, which in particular, relate to:
- ✓ the management of investments;
- ✓ the settlement of financial flows through the centralised intra-Group cash and financial management system;
- ✓ the sharing of general, administrative and legal services;
- ✓ IT support;
- ✓ commercial agreements.

In addition, a fiscal relationship exists with the ultimate shareholder of the Company, Alicros S.p.A., following the decision to adopt the national tax consolidation procedure governed by article 117 *et seq* of the consolidated law on corporate income tax (TUIR) for 2016, 2017 and 2018.
On 1 January 2008, the Company joined the Group-wide VAT scheme, pursuant to article 73, paragraph 3 of Presidential Decree 633/72, in accordance with its status as a subsidiary. The ultimate shareholder, which adopted the Group VAT scheme, is Alicros S.p.A.
The receivables and payables arising as a result of the tax consolidation scheme are non-interest-bearing.

No other transactions have taken place with the controlling entities, nor with their directly and/or indirectly-owned subsidiaries, other than with Group companies.
The Company is not subject to management and coordination activity by other companies, pursuant to articles 2497 *et seq* of the Italian Civil Code, in that all decisions made by the management bodies, including strategic decisions, are taken in complete autonomy and independence.
For further details on the relationships with Group companies, see the following tables.

Financial transactions with related parties

31 December 2017	Trade receivables	Financial receivables	Receivables for tax consolidation	Other receivables	Other non-current assets	Trade payables	Financial payables	Payables for Group VAT	Other non-current liabilities	Other current liabilities
Alicros S.p.A.			13,857		2,241			4,275		
Campari America LLC	464	-	-	1,431	-	1,349	-		-	61
Campari Argentina S.A.	1,220	-	-	28	-	-	-		-	-
Campari Australia Pty Ltd.	4,900	1	-	226	-	106	-		-	10
Campari Austria GmbH	1,368		-	-	-	4	-		-	-
Campari Beijing Trading Co. Ltd.	-	-	-	12	-	107	-		-	-
Campari Benelux S.A.	1,450	6	-	-	-	23	151,603		200,000	-
Campari Deutschland GmbH	11,699	-	-	-	-	-	-		-	17
Campari Distribution Ireland Ltd	96	-	-	35	-	-	-		-	-
Campari do Brasil Ltda	661	-	-	53	-	58	-		-	-
Campari España S.L.	(3)	5	-	286	-	1,370	-		-	-
Campari International S.r.l.	7,543		-	37	-	16	6,916		-	139
Campari Japan Ltd.	124	-	-	-	-	-	-		-	-
Campari Mexico S.A. de C.V.	416	2	-	13	-	535	-		-	-
Campari New Zealand Ltd.	726	-	-	8	-	-	-		-	-
Campari Peru SAC	4,851	1	-	31	-	-	-		-	-
Campari RUS OOO	13,151	-	-	8	-	158	-		-	44
Campari Schweiz A.G.	2,891		-	151	-	7	-		-	-
Campari Services America LLC	37	-	-	-	-	-	-		-	-
Campari Services S.r.l.	433	21	-	-	-	570	271		-	91
Campari Singapore Pte Ltd.	167	-	-	5	-	-	-		-	-
Campari South Africa Pty Ltd.	653	-	-	371	-	-	-		-	-
Campari Ukraine LLC	3,166	-	-	-	-	-	-		-	-
DI.CI.E. Holding B.V.	13	-	-	-	-	-	-		-	-
Forty Creek Distillery Ltd.	209	-	-	60	-	-	-		-	-
Fratelli Averna S.p.A.	150	-	-	1	-	1,710	5,536		-	56
Glen Grant Ltd.	2,145	56,411	-	487	-	2,324	-		-	-
J. Wray&Nephew Ltd.	1,297	-	-	309	-	411	-		-	-
Kaloyannies-Koutsikos Distilleries S.A.	113	-	-	-	-	48	-		-	-
Sella&Mosca S.p.A.	-		-	-	-	-	-		-	-
Societé des Produits Marnier Lapostolle S.A.	4,349	-	-	894	-	(2,067)	-		-	4
Sorfinn Ltd.	-	-	-	-	-	952	991		-	-
Total at 31 December 2017	**64,289**	**56,447**	**13,857**	**4,446**	**2,241**	**7,680**	**165,318**	**4,275**	**200,000**	**422**
%	54%	96%	42%	33%	6%	8%	77%	4%	31%	1%
Total at 31 December 2016	**56,277**	**60**	**186**	**6,906**	**2,241**	**405**	**116,441**	**2,389**	**200,000**	**648**

Intra-group transactions are carried out via the centralised cash management system, with interest charged at market rates (3-month Euribor on the day preceding the end of each calendar quarter, plus a spread that reflects market conditions).

At 31 December 2017, the Company owed the ultimate shareholder Alicros S.p.A. € 4,275 thousand for Group VAT and had a tax consolidation receivable of € 13,857 thousand. A long-term tax receivable is also recorded in the amount of € 2,241 thousand. Amounts due to and from Alicros S.p.A. are non-interest-bearing.

Financial dealings with related parties

	Net sales	Cost of goods sold	Advertising and promotional costs	Overhead	Adjustments to operating income (charges)	Dividends	Financial income and charges
	€ Thousand	€ Thousand	€ Thousand	€ Thousand	€ Thousand	€ Thousand	€ Thousand
Alicros S.p.A.				110			
Campari America LLC	26,267	(2,253)	(401)	628			-
Campari Argentina S.A.	1,263	37	20	1,861			-
Campari Australia Pty Ltd.	14,691	148	127	(800)			1
Campari Austria GmbH	12,593		122	(289)			
Campari Beijing Trading Co. Ltd.	482	1		(39)			-
Campari Benelux S.A.	13,825		85	(195)		4,881	(9,239)
Campari Deutschland GmbH	62,278	7	288	968			-
Campari Distribution Ireland Ltd	17	(93)		377		13,000	-
Campari do Brasil Ltda	1,171	(216)	48	1,758			-
Campari España S.L.	5,286	6	37	(969)			5
Campari International S.r.l.	52,596	441	834	(483)		4,000	(12)
Campari Japan Ltd.				242			-
Campari Mexico S.A. de C.V.	3,512	(1,287)	14	253			2
Campari New Zealand Ltd.	1,139		3	139			-
Campari Peru SAC	4,264	7	17	443			1
Campari RUS OOO	25,109	2	376	(845)			-
Campari Schweiz A.G.	14,105	1	81	574			
Campari Services America LLC				301			-
Campari Services S.r.l.		5		(2,107)			64
Campari Singapore Pte Ltd.				226			-
Campari South Africa Pty Ltd.	1,802	3		(1,205)			-
Campari Ukraine LLC	2,954	(21)	19	234			-
DI.CI.E. Holding B.V.				13			-
Forty Creek Distillery Ltd.	3,257	19	26	560			78
Fratelli Averna S.p.A.	115	(9,230)		(3,378)		13,000	(8)
Glen Grant Ltd.	11,512	(15,478)	410	2,694			1,188
J. Wray&Nephew Ltd.	2,690	(722)	7	2,427			-
Kaloyannies-Koutsikos Distilleries S.A.		(117)		343			-
Societé des Produits Marnier Lapostolle S.A.		(10,287)	3,503	4,581		6,239	-
Sorfinn Ltd.				(1,640)			()
Total at 31 December 2017	**260,929**	**(39,027)**	**5,616**	**6,674**	**-**	**41,120**	**(7,920)**
%	39%	13%	-9%	-6%	0%	100%	17%
Total	**661,094**	**(291,916)**	**(63,133)**	**(112,708)**	**37,299**	**41,120**	**(45,531)**
Total at 31 December 2016	**213,682**	**(27,147)**	**6,081**	**9,489**	**551**	**138,336**	**(8,363)**

For information on remuneration and salaries for directors and general managers, see note 42 – 'Remuneration for directors, general managers and auditors' below.

42. Remuneration owing to directors, general managers and auditors

The remuneration paid to Company's directors with strategic responsibilities is set out below.

	2017	2016
	€ Thousand	€ Thousand
Short-term benefits	5,684	6,210
Defined contribution benefits	56	57
Stock options	940	1,252
Total	**6,680**	**7,519**

At 31 December 2017, payables accrued in relation to directors amounted to €1,750 thousand.

In 2017, the members of the Board of Auditors carried out their audit duties at the Company and in some of the companies included in the perimeter of consolidation, such as Fratelli Averna S.p.A. and Campari International S.r.l. They receive remuneration for these activities approved by the relevant corporate bodies, as indicated in the Report on remuneration pursuant to article 123-*ter* of the TUF, published together with the annual financial report. Amounts of € 190 thousand for activities carried out at the Company and € 68 thousand for work carried out at subsidiaries were approved.

43. Employees

All of the Company's employees are based in Italy. The average number of staff in each category is shown below.

Category	2017	2016
Managers	125	117
Office staff	443	410
Manual workers	163	157
Total	**730**	**684**

44. Publication of payments pursuant to article 149-duodecies of the Issuer Regulation

PricewaterhouseCoopers S.p.A. has been engaged to audit the separate financial statements and the consolidated financial statements of Davide Campari-Milano S.p.A. from 2010 to 2018.

The following table, pursuant to article 149-duodecies of the Consob Issuer Regulation, shows payments made for 2017 for external auditing activities and for non-audit-related services provided by companies from the PricewaterhouseCoopers network. It should also be noted that these services are compatible with the provisions of Legislative Decree 39 of 27 January 2010 and of Regulation (EU) no. 537 of 16 April 2014.

	Service provider	Recipient	Payments in 2017
Financial audit	PricewaterhouseCoopers S.p.A.	Parent Company – Davide Campari-Milano S.p.A.	378
	PricewaterhouseCoopers S.p.A.	Subsidiaries	594
	PricewaterhouseCoopers network	Subsidiaries	882
Other services similar to financial auditing	PricewaterhouseCoopers S.p.A.	Parent Company – Davide Campari-Milano S.p.A.	58
	PricewaterhouseCoopers S.p.A.	Subsidiaries	-
Other services	PricewaterhouseCoopers network	Subsidiaries	657
Total			**2,568**

Services similar to financial auditing mainly include the audit of the non-financial declaration, prepared pursuant to Legislative Decree 254/16. Other services broadly relate to the support on non-accounting information systems related to Human Resources area and assessment referred to the best-applied practices in the sector. The services provided meet the independence requirements required by current legislation.

45. Off-balance sheet transactions

No off-balance sheet agreements, including between affiliates, as described in article 2427, paragraph 1, no. 22-ter, or other regulations, took place during the year that could generate exposures or benefits for the Company. where knowledge of same would be useful for assessing the Company's financial position or operating results.

46. Events Consolidated financial statements

Pursuant to art. 2427, para. 1, no. 22-quinques, the Company, as a subsidiary, is part of the 'larger' group of companies included in the consolidated financial statements of Lagfin S.c.A., with its registered office at rue des Bains, 3, Luxembourg; a copy of the relevant consolidated financial statements may be obtained from this address.

47. Events taking place after the end of the year

Sale of the Lemonsoda business

On 4 October 2017, the Group signed an agreement to sell the Lemonsoda business to Royal Unibrew A/S, a beer and alcoholic drinks manufacturer with its registered office in Denmark. The deal was closed on 2 January 2018. The enterprise value was € 80.0 million (on a cash-free/debt-free basis and subject to the usual price adjustment mechanisms) for 100% of the share capital of Nettuno, a wholly-owned subsidiary of Davide Campari-Milano S.p.A., to which the business in question has been transferred. The business includes the alcohol-free fruit-flavoured carbonated variants Lemonsoda, Oransoda, Pelmosoda and Mojito Soda, grouped under the Freedea brand name, as well as the Crodo brands (except for the Crodino brand). Besides the brands, the perimeter of the sale includes the manufacturing and bottling facility, located in Crodo, the water springs and the inventory. The agreement also entailed the reclassification of the related carrying amount of goodwill under Assets available for sale.

The total consideration for the deal corresponds to a multiple of approximately 13 times the CAAP (contribution after A&P), before allocated costs and depreciation, relating to the brands sold.

As part of the transaction, and effective from closing, the Company and Royal Unibrew entered into a multi-year manufacturing agreement, under which Royal Unibrew will continue to manufacture certain of Campari Group's own products which are currently produced at the bottling facility in Crodo.

This transaction also demonstrates Campari Group's commitment to streamlining its portfolio to increase its focus on its priority spirits brands.

Termination of the agreement to distribute Brown Forman products in Italy
The agreements to distribute Brown Forman products in Italy will cease in April 2018. Sales – mainly relating to the Jack Daniel's brand – represented around 4.4% of the Company's sales in 2017.

48. Proposal for the appropriation of profit

In conclusion to these notes to the accounts, we invite you to approve the financial statements for the year ending 31 December 2017 and to allocate the profit for the year of € 208,856,534.12 as follows:
- distribution of a dividend of € 0.05 per ordinary share outstanding, except for own shares held by the Company at the ex-date; the total dividend, including own shares currently held, is € 57.6 million;
- the remaining amount of around € 151.3 million to be carried forward as retained earnings.

It is proposed that the dividend of € 0.05 per outstanding share be paid on 23 May 2018 (with an ex-dividend date of 21 May 2018 with coupon no. 2, in accordance with the Borsa Italiana calendar, and a record date of 21 May 2018).

Sesto San Giovanni (MI), Tuesday, 27 February 2018

Chairman of the Board of Directors

Luca Garavoglia

Certification of the consolidated financial statements pursuant to article 81-ter of Consob regulation 11971 of 14 May 1999 and subsequent revisions and amendments

1. We, Robert Kunze-Concewitz, as managing director, and Paolo Marchesini, as managing director and the director responsible for preparing the accounting documents of Davide Campari-Milano S.p.A., hereby certify, taking into account the provisions of paragraphs 3 and 4, TUF:

- the appropriateness, in relation to the nature of the business, and
- the effective application of the administrative and accounting procedures used to prepare the consolidated financial statements for 2017.

2. We further certify that

2.1. The consolidated financial statements at 31 December 2017:

a) were prepared in accordance with the applicable international accounting standards recognised in the European Union pursuant to Regulation (EC) no. 1606/2002 of the European Parliament and of the Council of 19 July 2002;

b) correspond to the figures contained in the accounting records;

c) provide a true and fair view of the financial position of the issuer and the group of companies included in the basis of consolidation.

2.2. The report on operations contains an accurate assessment of the company's performance and operating results, and on the position of the issuer and the group of companies included in the basis of consolidation, together with a description of the main risks and uncertainties to which it is exposed.

Sesto San Giovanni (MI), Tuesday 27 February 2018

Chief Executive Officer
Robert Kunze-Concewitz

Chief Executive Officer
and director responsible for preparing
the company's accounting statements
Paolo Marchesini

This report has been translated into English from the Italian original solely for the convenience of international readers.

Certification of the annual financial statements

pursuant to article 81-*bis* of Legislative Decree 11971 of 14 May 1999 as subsequently amended and consolidated

1. We, the undersigned, Robert Kunze-Concewitz, as managing director, and Paolo Marchesini, as managing director and the director responsible for preparing the accounting documents of Davide Campari-Milano S.p.A., hereby certify, taking into account the provisions of paragraphs 3 and 4, article 154-*bis*, of the TUF:

• the appropriateness, in relation to the nature of the business, and

• the effective application

of the administrative and accounting procedures used to prepare the annual financial statements for 2017.

2. We further certify that:

2.1. The annual financial statements to 31 December 2017:

a) were prepared in accordance with the applicable international accounting standards recognized in the European Union pursuant to Regulation (EC) 1606/2002 of the European Parliament and of the Council of 19 July 2002;

b) correspond to the figures contained in the accounting records;

c) provide a true and fair view of the issuer's balance sheet, financial position and operating results.

2.2. The report on operations contains an accurate assessment of the company's performance and operating results, and on the position of the issuer, together with a description of the main risks and uncertainties to which it is exposed.

Sesto San Giovanni (MI), Tuesday, 27 February 2018

Managing Director
Robert Kunze-Concewitz

Managing Director
and Director responsible for preparing
the company's accounting statements
Paolo Marchesini

This report has been translated into English from the Italian original solely for the convenience of international readers.

Independent auditor's report

in accordance with article 14 of Legislative Decree 39 of 27 January 2010 and article 10 of Regulation (EU) 537/2014

To the shareholders of Davide Campari-Milano SpA

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Davide Campari-Milano SpA and its subsidiaries (Campari group), which comprise the statement of financial position as of 31 December 2017, the income statement, the statement of comprehensive income, the statement of changes in shareholders' equity and the statement of cash flows for the year then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Campari group as of 31 December 2017, and of the result of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union, and with the regulations issued to implement article 9 of Legislative Decree 38/05.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in section Auditor's Responsibilities for the Audit of the Consolidated Financial Statements of this report. We are independent of Davide Campari-Milano SpA (the Company) based on ethic and independence regulations and standards applicable to audits of financial statements under Italian law. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

PricewaterhouseCoopers SpA

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Key Audit Matter	*How our audit addressed the key audit matter*
Recoverability of goodwill and brands with indefinite useful life	
Note 25 "Goodwill and brands " and note 26 "Impairment". As of 31 December 2017 goodwill and brands with indefinite useful life amount to € 1,297 million and € 989.7 million, respectively. Recoverability of the carrying amount of goodwill and brands was tested for impairment at year-end, in accordance with IAS36 – Impairment of Assets. The recoverable amount of goodwill and brands is based on value in use. The value in use of the groups of cash generating units – CGU, to which goodwill is allocated, is measured based on the expected future cash flows of the groups of CGU. The value in use of individual brands is measured based on the estimate of future earnings attributable to the brands, net of the contribution assigned to other supporting assets - multi-period excess earnings method. The value in use of the groups of CGU to which goodwill is allocated is compared with their carrying amount, inclusive of brands and goodwill. The value in use of individual brands is compared with their carrying amount. Recoverability of goodwill and brands with indefinite useful life represented a key matter in the audit of the consolidated financial statements, considering the magnitude of the carrying amount and the judgment used in determining the assumptions underlying the value in use calculation.	We have performed an understanding and evaluation of the internal controls over the key matter identified. We have verified, with the support of PwC experts: • the adequacy of the impairment testing process in accordance with the requirement of the accounting standard; • the allocation of goodwill to the groups of CGU; • the reasonableness of the assumptions used in determining the value in use, with specific reference to growth rates and discount rates, including benchmarking and comparison with historical trend; • the accuracy of the amounts of assets and liabilities attributable to the groups of CGU to which goodwill is allocated; • the mathematical accuracy of the calculation model used. We have assessed variances between projections used in previous years and actual results to evaluate the reliability and consistency with the market trend. We have assessed the accuracy and completeness of the disclosure presented in the notes to the consolidated financial statements.

Key Audit Matter	*How our audit addressed the key audit matter*
Revenue recognition	
Note 3 "Summary of accounting principles" Revenue recognition, considering the high volume of sales transactions, carried out through a global distribution network, different channels, with variable conditions for different markets, represented a key matter in the audit of the consolidated financial statements.	We have performed, for the major revenues streams, an understanding, evaluating and validating of the relevant controls over revenue and receivables process. We have focused our procedures on existence, completeness, accuracy and proper period of sales transactions. We have tested, on a sample basis, the supporting documentation and the contractual terms of sales transactions.
Tax Reform – United States	
Note 20 "Income taxes". On 22 December 2017 the US tax reform was enacted. The reform includes several and significant changes to the taxation of companies resident in the United States of America, which is the main market for the Campari group. The main effects of the US tax reform will take place in 2018 and onwards. The consolidated financial statements as at 31 December 2017 include an income tax benefit of € 81.9 million for the release to income of part of the deferred tax liability recorded in previous years, as a result of the reduction of the tax rate from 35% to 21%. Considering the complexity and the number of changes introduced by the reform, the impact of the US tax reform represented a key matter in the audit of the consolidated financial statements.	We have verified, with the support of our US tax specialists, the changes introduced by new tax reform to assess the impact on the consolidated financial statements. We examined the tax calculation for the financial year 2017 to verify the proper recognition of the changes of the US tax reform.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union, and with the regulations issued to implement article 9 of Legislative Decree 38/05 and, in the terms prescribed by law, for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Management is responsible for assessing the group ability to continue as a going concern and, in preparing the consolidated financial statements, for the appropriate application of the going concern basis of accounting, and for disclosing matters related to going concern. In preparing the consolidated financial statements, management uses the going concern basis of accounting unless management intends either to liquidate Davide Campari-Milano SpA or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing, in the terms prescribed by law, the group financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

As part of an audit conducted in accordance with International Standards on Auditing (ISA Italia), we exercise professional judgment and maintain professional scepticism throughout the audit. Furthermore:

- we identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error; we design and perform audit procedures responsive to those risks; we obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- we obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group internal control;
- we evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- we conclude on the appropriateness of management use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union, and with the regulations issued to implement article 9 of Legislative Decree 38/05 and, in the terms prescribed by law, for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Management is responsible for assessing the group ability to continue as a going concern and, in preparing the consolidated financial statements, for the appropriate application of the going concern basis of accounting, and for disclosing matters related to going concern. In preparing the consolidated financial statements, management uses the going concern basis of accounting unless management intends either to liquidate Davide Campari-Milano SpA or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing, in the terms prescribed by law, the group financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

As part of an audit conducted in accordance with International Standards on Auditing (ISA Italia), we exercise professional judgment and maintain professional scepticism throughout the audit. Furthermore:

- we identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error; we design and perform audit procedures responsive to those risks; we obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- we obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group internal control;
- we evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- we conclude on the appropriateness of management use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists

related to events or conditions that may cast significant doubt on the group ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the group to cease to continue as a going concern;

- we evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- we obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion on the consolidated financial statements.

We communicate with those charged with governance, identified at an appropriate level as required by ISA Italia regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we complied with the regulations and standards on ethics and independence applicable under Italian law and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that are of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our report.

Additional Disclosures required by Article 10 of Regulation (EU) 537/2014

We were appointed by the shareholders of Davide Campari-Milano SpA at the general meeting held on 30 April 2010 to perform the audit of the Company consolidated and separate financial statements for the years ending 31 December 2010 through 31 December 2018.

We declare that we did not provide any prohibited non-audit services referred to in article 5, paragraph 1, of Regulation (EU) 537/2014 and that we remained independent of the Company in conducting the audit.

We confirm that the opinion on the consolidated financial statements expressed in this report is consistent with the additional report to those charged with governance, in their capacity as audit committee, prepared pursuant to article 11 of the aforementioned Regulation.

Report on Compliance with other Laws and Regulations

Opinion in accordance with Article 14, paragraph 2, letter e), of Legislative Decree 39/10 and Article 123-bis, paragraph 4, of Legislative Decree 58/98

Management of Davide Campari-Milano SpA is responsible for preparing a report on operations and a report on the corporate governance and ownership structure of the Campari group as of 31 December 2017, including their consistency with the relevant consolidated financial statements and their compliance with the law.

We have performed the procedures required under auditing standard (SA Italia) 720B to express an opinion on the consistency of the report on operations and of the specific information included in the report on corporate governance and ownership structure referred to in article 123-bis, paragraph 4, of Legislative Decree 58/98, with the consolidated financial statements of the Campari group as of 31 December 2017 and on their compliance with the law, as well as to issue a statement on material misstatements, if any.

In our opinion, the report on operations and the specific information included in the report on corporate governance and ownership structure mentioned above are consistent with the consolidated financial statements of the Campari group as of 31 December 2017 and are prepared in compliance with the law.

With reference to the statement referred to in article 14, paragraph 2, letter e), of Legislative Decree 39/10, issued on the basis of our knowledge and understanding of the group obtained in the course of the audit, we have nothing to report.

Statement in accordance with article 4 of Consob Regulation implementing Legislative Decree 254 of 30 December 2016

Management of Davide Campari-Milano SpA is responsible for the preparation of the non-financial disclosure pursuant to Legislative Decree 254 of 30 December 2016. We have verified that the non-financial disclosure was approved by the board of directors.

Pursuant to article 3, paragraph 10, of Legislative Decree 254 of 30 December 2016, the non-financial disclosure is subject to separate audit reporting by our firm.

Milan, 13 March 2018

PricewaterhouseCoopers SpA

Signed by

Paolo Caccini
(Partner)

This report has been translated into English from the Italian original solely for the convenience of international readers

Independent auditor's report

in accordance with article 14 of Legislative Decree 39 of 27 January 2010 and article 10 of Regulation (EU) 537/2014

To the shareholders of Davide Campari-Milano SpA

Report on the Audit of the Separate Financial Statements

Opinion

We have audited the separate financial statements of Davide Campari-Milano SpA (the "Company"), which comprise the statement of financial position as of 31 December 2017, the income statement, the statement of comprehensive income, the statement of changes in shareholders' equity and the statement of cash flows for the year then ended, and the notes to the separate financial statements, including a summary of significant accounting policies.

In our opinion, the separate financial statements give a true and fair view of the financial position of the Company as of 31 December 2017, and of the result of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union, and with the regulations issued to implement article 9 of Legislative Decree 38/05.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in section Auditor's Responsibilities for the Audit of the Separate Financial Statements of this report. We are independent of the Company based on ethic and independence regulations and standards applicable to audits of financial statements under Italian law. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the separate financial statements of the current period. These matters were addressed in the context of our audit of the separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

PricewaterhouseCoopers SpA

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Key Audit Matter	*How our audit addressed the key audit matter*
Recoverability of goodwill and brands with indefinite useful life	
Note 19 "Goodwill and brands " and note 20 "Impairment". As of 31 December 2017 the goodwill and brands with indefinite useful life amounts to € 332.3 million and € 119 million, respectively. Recoverability of the carrying amount of goodwill and brands was tested for impairment at year-end, in accordance with IAS36 – Impairment of Assets. The recoverable amount of goodwill is based on its fair value, less disposal cost. The recoverable amount of brands is based on their value in use. The fair value of the group of cash generating units – CGU, to which the goodwill is allocated, representing the Company business, is calculated as a multiple of the gross operating income generated by the group of CGU. The value in use of individual brands is measured based on the estimate of future earnings attributable to the brands, net of the contribution assigned to other supporting assets - multi-period excess earnings method. The fair value of the group of CGU to which goodwill is allocated is compared with its carrying amount, inclusive of brands and goodwill. The value in use of individual brands is compared with their carrying amount. Recoverability of goodwill and brands with indefinite useful life represented a key matter in the audit of the separate financial statements, considering the magnitude of the carrying amount and the judgment used in determining the assumptions underlying the calculation of the recoverable amounts of goodwill and brands.	We have performed an understanding and evaluation of the internal controls over the key matter identified. We have verified, with the support of PwC experts: • the adequacy of the impairment testing process in accordance with the requirement of the accounting standard; • the allocation of goodwill; • the reasonableness of the assumptions used in determining the fair of the group of CGU to which goodwill is allocated and the value in use of brands, with specific reference to multiples of gross operating income, growth rates and discount rates, including benchmarking and comparison with historical trend; • the accuracy of the amounts of assets and liabilities attributable to the group of CGU to which goodwill is allocated; • the mathematical accuracy of the calculation model used. We have assessed variances between projections used in previous years and actual results to evaluate the reliability and consistency with the market trend. We have assessed the accuracy and completeness of the disclosure presented in the notes to the separate financial statements.

Key Audit Matter	*How our audit addressed the key audit matter*
Revenue recognition	
Note 3 " Summary of accounting principles" Revenues recognition, considering the high volume of sales transactions, through different channels, with variable conditions for different customers, represented a key matter in the audit of the separate financial statements.	We have performed, for the major revenues streams, an understanding, evaluating and validating of the relevant controls over revenue and receivables process. We have focused our procedures on existence, completeness, accuracy and proper period of sales transactions. We have tested, on a sample basis, the supporting documentation and the contractual terms of sales transactions.

Responsibilities of Management and Those Charged with Governance for the Separate Financial Statements

Management is responsible for the preparation of separate financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union, and with the regulations issued to implement article 9 of Legislative Decree 38/05 and, in the terms prescribed by law, for such internal control as management determines is necessary to enable the preparation of separate financial statements that are free from material misstatement, whether due to fraud or error.

Management is responsible for assessing the Company ability to continue as a going concern and, in preparing the separate financial statements, for the appropriate application of the going concern basis of accounting, and for disclosing matters related to going concern. In preparing the separate financial statements, management uses the going concern basis of accounting unless management intends either to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing, in the terms prescribed by law, the Company financial reporting process.

Auditor's Responsibilities for the Audit of the Separate Financial Statements

Our objectives are to obtain reasonable assurance about whether the separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA

Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the separate financial statements.

As part of an audit conducted in accordance with International Standards on Auditing (ISA Italia), we exercise professional judgment and maintain professional scepticism throughout the audit. Furthermore:

- we identify and assess the risks of material misstatement of the separate financial statements, whether due to fraud or error; we design and perform audit procedures responsive to those risks; we obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- we obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company internal control;
- we evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- we conclude on the appropriateness of management use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern;
- we evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance, identified at an appropriate level as required by ISA Italia regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we complied with the regulations and standards on ethics and independence applicable under Italian law and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that are of most significance in the audit of the separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our report.

Additional Disclosures required by Article 10 of Regulation (EU) 537/2014

We were appointed by the shareholders of Davide Campari-Milano SpA at the general meeting held on 30 April 2010 to perform the audit of the Company consolidated and separate financial statements for the years ending 31 December 2010 through 31 December 2018.

We declare that we did not provide any prohibited non-audit services referred to in article 5, paragraph 1, of Regulation (EU) 537/2014 and that we remained independent of the Company in conducting the audit.

We confirm that the opinion on the separate financial statements expressed in this report is consistent with the additional report to those charged with governance, in their capacity as audit committee, prepared pursuant to article 11 of the aforementioned Regulation.

Report on Compliance with other Laws and Regulations

Opinion in accordance with Article 14, paragraph 2, letter e), of Legislative Decree 39/10 and Article 123-bis, paragraph 4, of Legislative Decree 58/98

Management of Davide Campari-Milano SpA is responsible for preparing a report on operations and a report on the corporate governance and ownership structure of Davide Campari-Milano SpA as of 31 December 2017, including their consistency with the relevant separate financial statements and their compliance with the law.

We have performed the procedures required under auditing standard (SA Italia) 720B to express an opinion on the consistency of the report on operations and of the specific information included in the report on corporate governance and ownership structure referred to in article 123-bis, paragraph 4, of Legislative Decree 58/98, with the separate financial statements of the Company as of 31 December 2017 and on their compliance with the law, as well as to issue a statement on material misstatements, if any.

In our opinion, the report on operations and the specific information included in the report on corporate governance and ownership structure mentioned above are consistent with the separate financial statements of the Company as of 31 December 2017 and are prepared in compliance with the law.

With reference to the statement referred to in article 14, paragraph 2, letter e), of Legislative Decree 39/10, issued on the basis of our knowledge and understanding of the Company obtained in the course of the audit, we have nothing to report.

Milan, 13 March 2018

PricewaterhouseCoopers SpA

Signed by

Paolo Caccini
(Partner)

This report has been translated into English from the Italian original solely for the convenience of international readers

REPORT OF THE BOARD OF STATUTORY AUDITORS

pursuant to art. 153 of Legislative Decree 58/1998 and Article 2429 of the Italian Civil Code

Dear Shareholders,
This report refers to the activities performed by the Board of Statutory Auditors of Davide Campari-Milano S.p.A. (hereinafter the "Company" and, jointly with its subsidiaries, the "Group") for the financial year ended at 31 December 2017 (hereinafter the "Financial year").

1. In carrying out supervisory and control activities, the Board of Statutory Auditors acknowledges that:

    a) it monitored compliance with the Law, Articles of Association and adherence to the principles of correct administration pursuant to legislation in force and taking into account the standards issued by the Italian Association of Chartered Accountants;

    b) it attended the meetings of the Board of Directors and the Control and Risks Committee and it has periodically received information from the directors about the general business and outlook, as well as the most significant economic, financial and capital transactions approved and implemented during the financial year by the Company and Group Companies, also in compliance with Article 150, paragraph 1 of Legislative Decree 58 of 24 February 1998 (hereinafter the "T.U.F.").

    The Board of Statutory Auditors believes that the transactions approved and implemented comply with the law and the Articles of Association, and are not manifestly imprudent or risky, or in potential conflict of interest, or contrary to the resolutions approved by the Shareholders' Meeting, or such that would compromise the integrity of the share capital. The resolutions of the Board of Directors are executed with the utmost compliance by management and by the organization;

    c) it did not identify any atypical and/or unusual transactions with Group companies, third parties or related parties, nor did it receive any information to this effect from the Board of Directors, the independent auditors or the director of the internal control and risk management system. In its Report on Operations, the Board of Directors provided an appropriate description of the impact of the most significant operational, financial and balance-sheet transactions carried out as part of ordinary operations with subsidiaries under normal market conditions. Based on the results of the activities conducted by the Internal Audit Department, the Board of Statutory Auditors also believes that any related-party transactions were adequately managed. In this regard, the Board of Statutory Auditors wishes to point out that the Company adopted procedures for related-party transactions in compliance with the requirements of Consob Regulation 17221 of 12 March 2010 and Consob Communication of 24 September 2010, in addition to specific standards in the Group's Code of Ethics, in order to prevent or manage transactions in which there are situations of conflict of interest or personal interest of the directors. Pursuant to Article 4 of the above-mentioned Regulation, the Board of Statutory Auditors verified that the procedures adopted complied with the principles of this Regulation, and checked that they were being followed;

    d) it reviewed and supervised the adequacy of the Company's organizational structure with regard to competence, compliance with principles of correct administration by gathering information from the heads of the competent corporate functions and holding meetings with representatives of the independent auditors, PricewaterhouseCoopers S.p.A., appointed to conduct the statutory audit, including for the purpose of exchanging important data and information, from which no serious issues arose. In addition, no serious issues arose from the annual reports issued by the Board of Statutory Auditors, pursuant to Article 2429, Paragraph 2 of the Italian Civil Code, of the subsidiaries Campari International S.r.l. and Fratelli Averna S.p.A.;

e) it monitored and verified, to the extent of its responsibility:

- the adequacy of the administration and accounting systems, as well as its reliability for the purpose of providing a true and fair view of operations;
- the adequacy of the controls and processes for the preparation, reporting, measurement and representation of results and non-financial information;

through:

i. the periodic exchange of information with the CEOs, and, specifically, with the director in charge of preparing corporate accounting documents pursuant to Article 154-*bis* of the T.U.F.;

ii. the examination of reports prepared by the head of the Internal Audit department, including information on the outcome of any corrective measures taken following the audit activities;

iii. the obtaining of information from the heads of corporate functions;

iv. meetings and exchanges of information with the administrative and control bodies of Italian subsidiaries pursuant to paragraphs 1 and 2 of Article 151 of the T.U.F., during which the Board of Statutory Auditors obtained information about administrative and control systems and the company's general business performance;

v. performing detailed analysis of activities carried out, and reviewing the results of the work of the external auditor;

vi. participating in the work of the Control and Risks Committee and, when specific issues so required, working with the committee on such issues.

From the work carried out, no irregularities were found that indicated inadequacies in the internal control and risk management system;

f) it held meetings with managers of the appointed independent auditors, PricewaterhouseCoopers S.p.A., for sharing of document and relevant information, and it was informed of the main risks to which the Company is exposed and of the controls put in place, as well as of the procedures performed with reference to the regular keeping of accounts and the true and fair view of operations in the accounting records. No significant comments emerged from the meetings, either on their part or on our part;

g) it monitored the implementation methods of the Code of Conduct for Listed Companies, adopted by the Company, under the terms illustrated in the Report on Corporate Governance and Ownership Structure approved by the Board of Directors on 27 February 2018. The Board of Statutory Auditors verified, *inter alia*, that the criteria and assessment procedures adopted by the Board of Directors to evaluate the independence and professionalism of its members were correctly applied. The Board of Statutory Auditors has also verified compliance with the criteria of independence of its members, as required by the current legislation, also acknowledging compliance with the limit on simultaneous offices as set out in Article 144-*terdecies* of the Regulation adopted by Consob resolution 11971 of 14 May 1999 (“Issuers Regulation”);

h) it looked over and gathered information on the management activities and procedures implemented in accordance with Italian Legislative Decree 231 of 8 January 2001 regarding the administrative responsibilities of Bodies for the violations in the aforementioned regulations.
The Board of Statutory Auditors notes that the meeting of the Board of Directors, exercising its right granted by Article 6, paragraph 4-*bis* of Legislative Decree 231/2001, conferred on the Board of Statutory Auditors the functions pertaining to the Supervisory Body pursuant to Article 6, paragraph 1(b) of the above-mentioned decree. The Board of Statutory Auditors, during its activity, monitored the operation and the effectiveness of the organizational, management and control model adopted by the Company, also with reference to its update and appropriateness.

i) it ensured that the information flows provided by the non-EU subsidiaries are adequate to conduct audits of the annual and interim financial statements pursuant to Article 15 of the Market Regulation adopted through Consob Resolution 20249 of 28 December 2017;

j) it monitored the implementation of organizational measures related to the development of corporate activities.

As Audit Committee pursuant to Article 19 of Legislative Decree 39 of 27 January 2010 as amended by Legislative Decree 135 of 17 July 2016, in implementation of Directive 2014/56/EU, the Board of Statutory Auditors during the financial year:

a) monitored the financial reporting process, in compliance with reference to its integrity;
b) verified the effectiveness of the internal control of the quality and of the risk management systems of the company as well as of the internal audit, as regards the financial information, without violating its independence;
c) monitored the statutory audit of the financial statements;
d) verified and monitored the independence of the audit firm pursuant to the provisions of the law, and, in particular, with regard to the adequacy of the provision of services other than auditing, pursuant to Article 5 of Regulation (EU) N. 537/2014.

The Board of Statutory Auditors met seventeen times during the financial year, also considering the appointment of the new audit engagement and attending the meetings of the Board of Directors and the Control and Risk Committee.

Taking into account the information obtained, the Board of Statutory Auditors believes that activities were performed in compliance with the principles of correct administration, and that the organizational structure, internal control system and the administrative and accounting system are fully adequate for corporate requirements.

2. As far as relations with the independent auditors, PricewaterhouseCoopers S.p.A., are concerned, the Board of Statutory Auditors, as Audit Committee, reports that:

   a) the independent auditors on 13 March 2018 issued, pursuant to Articles 14 of Legislative Decree 39 of 27 January 2010 and Article 10 of the Regulation (UE) N.537/2014, the unqualified audit reports on the separate and consolidated financial statements as at 31 December 2017.
   The audit reports were revised in form and content taking into consideration the amendments made by Legislative Decree 135 of 17 July 2016 to the requirements contained in Legislative Decree 39 of 27 January 2010.
   From the opinions and attestations released in the audit reports, it results:
      i. the annual and consolidated financial statements of Davide Campari-Milano S.p.A. provide a true and fair view of the Company's and Group's balance sheet, financial situation, operating results and cash flows as at 31 December 2017 in accordance with the International Financial Reporting Standards adopted by the European Union, as well as the requirements issued in the implementation of Article 9 of Legislative Decree N. 38 of 28 February 2005.
      ii. the consistency of the Reports on Operations and the information required by Article123-*bis* paragraph 4) T.U.F., included in the Report on corporate governance and ownership structure, with the consolidated and separate financial statements;
      iii. regarding to possible significant errors in the Report on Operations, based on the knowledge and understanding of the company and the related context acquired during the audit, nothing is reported.

   b) the audit company PricewaterhouseCoopers SpA also issued, on 13 March 2018, the additional report for the Board of Statutory Auditors in its role of Audit Committee

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pursuant to article 11 of the aforementioned Regulation (EU). This report will be sent to the Board of Directors as required by current legislation.

c) the audit company also issued, on 13 March 2018, the report on the consolidated non-financial declaration pursuant to Article 3 of Legislative Decree 254 of 30 December 2016 and Article 5 of Consob Regulation N. 20267 of 18 January 2018, in which the same audit company did not report any evidence suggesting that the consolidated non-financial declaration of the Campari Group, for the financial year ended 31 December 2017, has not been prepared, in all the significant aspects, in compliance with the requirements of articles 3 and 4 of the aforementioned decree.

d) finally, the audit company issued, on 13 March 2018, the declaration regarding independence, as required by Article 6 of the Regulation (EU) N. 537/2014, from which no circumstances that could compromise their independence were identified. In addition, the Board of Statutory Auditors took note of the Transparency Report prepared by the audit company and published on its website pursuant to Article 18 of Legislative Decree 39 of 27 January 2010.

e) in addition to the tasks required by the regulations for listed companies, independent auditors PricewaterhouseCoopers S.p.A. and the companies belonging to the PricewaterhouseCoopers S.p.A. network were appointed to carry out services other than auditing, whose fees, shown in the notes of the annual financial statements as required by Article 149-duodecies of the Issuer Regulations, are included in the consolidated financial statements.

Category of services	PwC	PwC Network
Certification audit	58	-
Other services	-	657
Total	58	657

Also taking into account the above, the Board of Statutory Auditors believes that there are no critical issues with regard to the independence of PricewaterhouseCoopers S.p.A..

3. The Board of Statutory Auditors examined the complaint under Article 2408 of the Civil Code, formulated by a shareholder, concerning the exhaustivity of some answer to its submitted thirty-three-pre-shareholders' meeting questions. With this regards, the Board of Statutory Auditors did not find worthy of censorship profiles.

4. The Board of Statutory Auditors is not aware of any facts or statements that should be reported to the Shareholders' Meeting. During the course of the work carried out, and on the basis of information obtained, no omissions, non-conformities, irregularities or other circumstances were identified that would require notification to the Supervisory Body or mention in this report.

5. The Board of Directors provided the financial statements and report on operations to the Board of Statutory Auditors in a timely manner. To the extent of its authority, the Board of Statutory Auditors reports that the layouts used are in compliance with the law, that the accounting principles used, which are described in the notes to the financial statements, are appropriate for the activities and transactions carried out by the Company, that the procedure adopted (impairment test) to identify any impairment losses on assets reported in the financial statements has been approved by the Board of Directors in autonomy and advance with respect to the approval of the Annual Report, and that the financial statements correspond to the facts and the information as identified by the Board of Statutory Auditors following its participation in meetings with corporate bodies and the supervisory activities undertaken.

6. Taking into account the results of the specific tasks performed by the external auditors in its audit of the accounting records and of the reliability of the company financial statements, as well as its own supervisory activities, the Board of Statutory Auditors expresses its favorable opinion concerning the approval of the separate financial statements at 31 December 2017.

Milan, 15 March 2018

The Board of Statutory Auditors

Pellegrino Libroia

Enrico Maria Colombo

Chiara Lazzarini

This report has been translated into English from the Italian original solely for the convenience of international readers.

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