Bilancio consolidato al 31 dicembre 2005

Consolidated financial statements 2005

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Introduction (application of IAS/IFRS)

With the entry into force of Regulation (EC) 1606/2002 dated 19 July 2002, starting with reporting year 2005, companies with securities authorised for trading on regulated markets of member states of the European Union must prepare consolidated accounts in accordance with the International Accounting Standards (IAS/IFRS) ratified by the European Commission.

In accordance with the provisions of this regulation, the Campari Group adopted the International Accounting Standards (IAS/IFRS) from 1 January 2005.

The accounts for the year ending 31 December 2005 were therefore prepared by applying the valuation and measurement criteria set by IAS/IFRS and adopted by the European Commission.

The same criteria were adopted for preparing comparison profit and loss accounts and balance sheets.

Note 36 of the notes to the accounts describes the impact of the transition to IAS/IFRS on these accounts, and provides the reconciliations required by IFRS 1 – "First-time Adoption of International Financial Reporting Standards" – accompanied by the related explanatory notes.

Pursuant to Consob notice DEM/5025723 dated 15 April 2005, the balances presented in the reconciliations for 1 January 2004 and 31 December 2004 were subject to a complete audit.

Highlights

	2005 € million	2004 € million	% change	% change at constant exchange rates
Net sales	**809.9**	**751.1**	**7.8%**	**6.6%**
Trading profit	234.8	219.2	7.1%	6.8%
EBITDA before one-offs	196.6	182.3	7.8%	7.9%
EBITDA	201.3	184.5	9.1%	8.9%
Operating income	**183.9**	**166.7**	**10.3%**	**10.3%**
ROS % (1)	**22.7%**	**22.2%**		
Profit before tax	174.2	157.1	10.9%	10.7%
Net profit	123.0	114.0	7.9%	7.6%
Group net profit	**118.0**	**96.9**	**21.8%**	**22.1%**
Earnings per share (€)	**0.42**	**0.35**	**20.0%**	
Personnel costs	77.6	74.3	4.4%	
Average number of employees	1.536	1.545	–0.6%	
Free cash flow	82.1	98.4		
Acquisitions of companies and trademarks	130.7	14.1		
Net debt (3)	371.4	226.7		
Net equity	695.8	629.2		
Fixed assets	953.2	787.7		
ROI % (2)	19.3%	21.2%		

(1) Operating income/net sales.
(2) Operating income/fixed assets.
(3) Net debt at 31 December 2005 includes a debt of € 45.5 million for the possible exercise of put options held by minority shareholders of Skyy Spirits, LLC.

Corporate Officers

BOARD OF DIRECTORS (1)

Luca Garavoglia
Chairman

Vincenzo Visone
Managing Director and Chief Executive Officer

Stefano Saccardi
Managing Director and Legal Affairs and Business Development Officer

Paolo Marchesini
Managing Director and Chief Financial Officer

Pierleone Ottolenghi (2)
Director

Cesare Ferrero (3)
Director and member of the Audit Committee

Franzo Grande Stevens (4)
Director and member of the Remuneration and Appointments Committee

Marco P. Perelli-Cippo (4)
Director and member of the Remuneration and Appointments Committee

Giovanni Rubboli (3) (4)
Director, member of the Audit Committee
and member of the Remuneration and Appointments Committee

Renato Ruggiero
Director

Anton Machiel Zondervan (3)
Director and member of the Audit Committee

At the shareholders' meeting of 29 April 2004, Luca Garavoglia was confirmed as Chairman for three years until the approval of the 2006 accounts, and granted powers in accordance with the law and the company's articles of association.
A reduction in the number of Directors from 14 to 11 was also approved.
The Board of Directors' meeting of 10 May 2004 vested Managing Directors Vincenzo Visone, Stefano Saccardi and Paolo Marchesini with the following powers for three years until approval of the 2006 accounts:
- with individual signature: powers of ordinary representation and management, within the value or time limits established for each type of function;
- with joint signature: powers of representation and management for specific types of function, within value or time limits deemed to fall outside ordinary activities.

BOARD OF STATUTORY AUDITORS (5)

Umberto Tracanella
Chairman

Antonio Ortolani
Permanent Auditor

Alberto Lazzarini
Permanent Auditor

Alberto Garofalo
Deputy Auditor

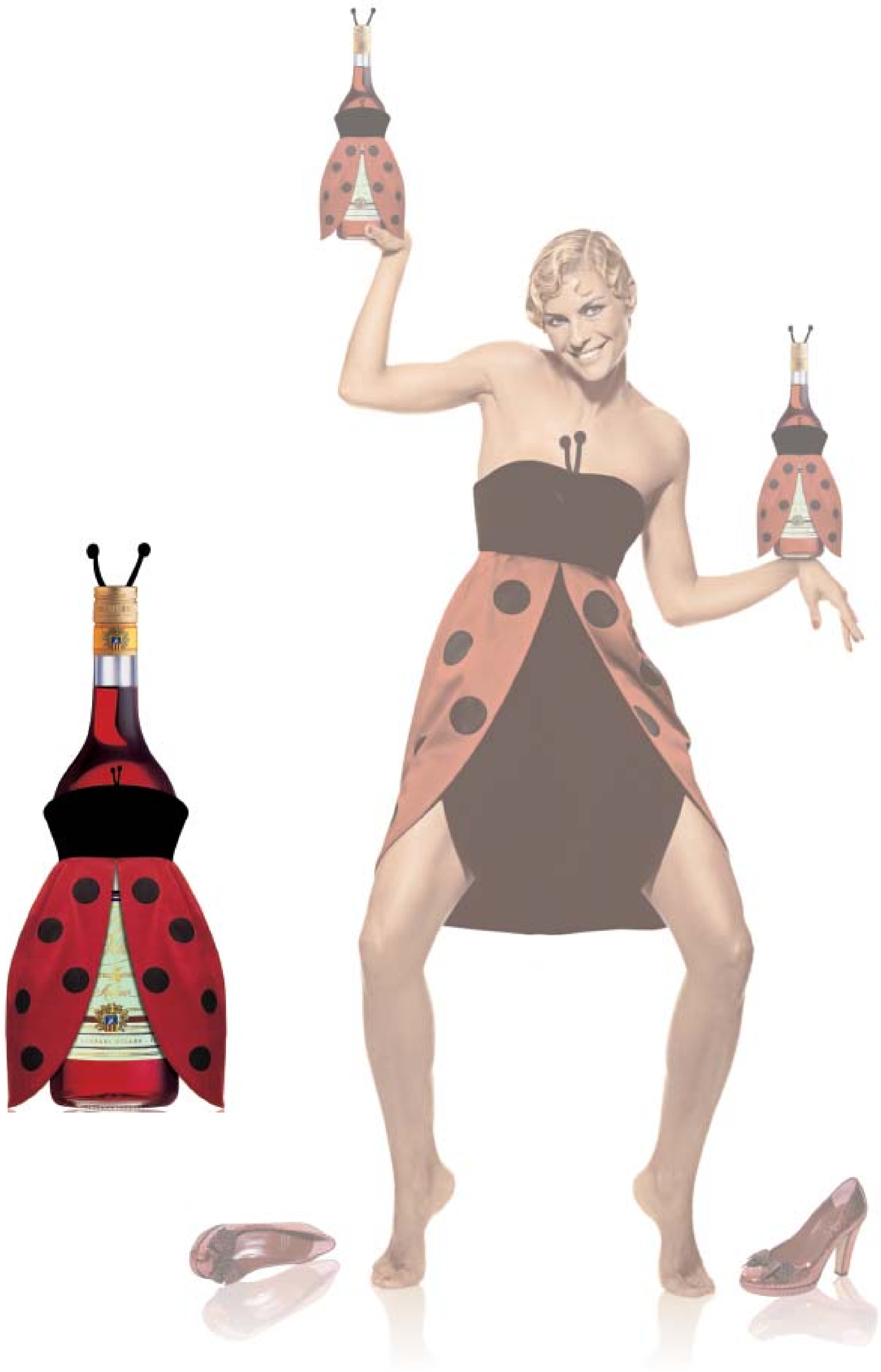
Giuseppe Pajardi
Deputy Auditor

Paolo Proserpio
Deputy Auditor

INDEPENDENT AUDITORS (6)

Reconta Ernst & Young S.p.A.

(1) In post until approval of the 2006 accounts, in accordance with the resolution of the shareholders' meeting held on 29 April 2004.
(2) Appointed by the Board of Directors on 26 September 2005 until the next shareholders' meeting.
(3) Member of the Audit Committee nominated by the Board of Directors on 10 May 2004, in post until approval of the 2006 accounts.
(4) Member of the Remuneration and Appointments Committee nominated by the Board of Directors on 10 May 2004, in post until approval of the 2006 accounts.
(5) In post until approval of the 2006 accounts, in accordance with the resolution of the shareholders' meeting held on 29 April 2004.
(6) Appointed to audit the 2004, 2005 and 2006 accounts by the shareholders' meeting of 29 April 2004.



SIGNIFICANT EVENTS DURING THE YEAR

Acquisition of a further 30.1% of Skyy Spirits, LLC

On 25 February 2005, the Campari Group acquired a further 30.1% shareholding in Skyy Spirits, LLC via the exercise of a call option, under the terms agreed in January 2002 when Campari acquired the majority stake in the company.

Following the operation, the Group's total shareholding in Skyy Spirits, LLC now stands at 89%.

The sale price, paid in cash, was US$ 156.6 million.

The transaction was financed partly with own funds and partly with a bank loan.

Please see the notes to the accounts for comments on the effects of this acquisition.

Note that the remaining 11% of the capital of Skyy Spirits, LLC is owned by the company's management team.

The agreement signed in January 2002 also includes a call/put option for the purchase/sale of these holdings at a strike price of between 5x and 15x the average pro rata pre-tax profit generated by Skyy Spirits, LLC in the period 2002-2006.

The option may be exercised between 31 January 2007 and 30 November 2007.

In line with the interpretations of the IASB (International Accounting Standards Board), the Group has recorded a liability for the exercise of the put option.

Please see section 5 – Business combinations – of the notes to the accounts for further details.

Launch of SKYY90

In May, Skyy Spirits, LLC, a US market leader in the super premium vodka segment with the SKYY Vodka brand, launched SKYY90.

This product is positioned in the ultra premium vodka segment – that is, the segment with the highest prices and growth rates.

Currently the new brand is sold only in selected bars and restaurants in major US states.

Distribution of Martin Miller's London Dry Gin

The Campari Group was awarded the contract to distribute the ultra premium gin brand, Martin Miller's, owned by the UK-based Reformed Spirits Company Ltd.

The agreement was initially entered into for the US market, where the distribution of the brand through Skyy Spirits, LLC began in April.

Later, in June, the Group expanded the distribution agreement worldwide, with the sole exception of the United Kingdom and Ireland, where the brand owner will continue to distribute the product.

Martin Miller's was launched successfully in 2003 in London's most trendy bars, and since the end of 2004 has also been available on the American market, where the early signs of development are encouraging.

The Reformed Spirits Company Ltd. and Davide Campari-Milano S.p.A. also signed an agreement giving the latter an option to purchase the Martin Miller's gin brand.

The option may be exercised from January 2009 at a price set according to the sales generated in 2008.

The agreement does not give the Reformed Spirits Company Ltd. a put option.

Increased duty on alcohol products

Italy's Legislative Decree 35 of 14 March 2005 (known as the "competition decree") set out new rates of excise duty on both pure alcohol and intermediate products (which include vermouth).

The increases stipulated were 4.7% and 11.0% respectively, with immediate effect, and the same amounts with effect from 1 January 2006.

Distribution of Brown-Forman spirits in Italy

On 1 May 2005, the Campari Group was awarded the Italian distribution contract for the spirits portfolio of the American company Brown-Forman, one of the largest operators in the sector worldwide.

This agreement covers all the Brown-Forman spirits currently available on the Italian market, including Jack Daniel's Tennessee Whiskey, the world's best-selling American whisky and one of the best-performing premium brands in Italy.

The other brands covered by the agreement are Southern Comfort, the premium bourbon Woodford Reserve, Tuaca (a brandy-based liquor originating in Italy) and Finlandia vodka.

The awarding of the Italian rights to Campari was part of a reorganisation by Brown-Forman of its distribution agreements in some European markets.

This partnership has enabled the Campari Group to further consolidate its presence in the Italian market thanks to a wider range of premium spirits.

The agreement also represents a significant opportunity for the Group to increase its presence in its traditional sales channel of bars and restaurants, particularly the most fashionable ones, which are of strategic importance for Campari.

Distribution of C&C spirits in the US and Brazil

In December, the Campari Group was awarded the contract to distribute the range of spirits produced by the Irish Group C&C, a key operator in the sector, in the US and Brazil, with effect from 1 January 2006.

The agreement relates to all brands of spirits owned by C&C, which the Group already distributed in Italy, especially Carolans Irish Cream, Tullamore Dew Irish Whiskey and the liqueurs Irish Mist and Frangelico (with the exception of the US market for the latter).

The Campari Group was awarded the rights to the US and other international markets as a result of a review carried out by C&C of its distribution agreements, following the acquisition of the Allied Domecq group, which previously owned the distribution rights.

This partnership has further strengthened the Campari Group's presence in the above-mentioned markets, especially the US where these brands have a strong foothold.

Distribution of Midori in the US

In December, the Campari Group, via Skyy Spirits, LLC was awarded the US distribution contract for Midori melon liqueur, owned by the Suntory Group, a key operator in the sector, with effect from 1 January 2006.

Distribution rights for the brand, which the Group already distributed in Italy, were awarded to Skyy Spirits, LLC following the acquisition of the Allied Domecq Group, which previously owned the rights.

This partnership has further strengthened Skyy Spirits, LLC's presence in the market, in which Midori has a significant foothold.

Acquisition of Teruzzi & Puthod

On 1 December 2005, the Campari Group announced it had signed an agreement, via Sella & Mosca S.p.A., for the 100% acquisition of Teruzzi & Puthod S.r.l., owned by the families of the same name) for a sale price of € 12 million, which equates to a multiple of 6.6x 2004 EBITDA.

Teruzzi & Puthod was created in 1974 and is currently the largest company in the San Gimignano region and one of the largest in Tuscany, with a 194-hectare estate, of which 90 hectares are vineyards.

In 2004, Teruzzi & Puthod's revenues came in at over € 4 million: over 80% of this related to export markets, especially Germany and the US.

The company's brands include a number of wines, mainly white wines, including the classic and complex Terre di Tufi and the fresh and fruity Vernaccia di San Gimignano.

Please see paragraph 5 – Business combinations – of the notes to the accounts for details of the impact of this new consolidation on the Group's accounts.

COMMENTS ON THE ANNUAL RESULTS

Sales performance

Introduction

With the introduction of new international accounting standards, the Campari Group, in line with the practices of the main international players in the wines and spirits sector, has adopted a strict interpretation of IAS 18 in relation to expenses that may be classed as discounts in calculating its revenues.

According to the standard interpretation, trade allowances for promotional activities carried out by retailers and invoiced to Group companies have been reclassified as discounts, and therefore have a direct impact on net sales. Previously, these expenses were classified as promotions, and were therefore recorded in the profit and loss account under "advertising and promotional costs".

As a result, sales for 2005 and 2004 are reported in accordance with the new interpretation.

The reclassified trade allowances totalled € 31.5 million in 2005 and € 28.1 million in 2004.

For ease of reference, all figures in this section of the report are expressed in million euro, while the tables and the notes to the consolidated accounts are shown in thousand euro.

In certain cases, this rounding method has resulted in small inconsistencies due to the fact that all figures, especially percentage changes and percentages, are always calculated using the original amounts expressed in thousand euro.

Overall performance

Consolidated net sales came in at € 810.0 million in 2005, an increase of 7.8% on the previous year.

	€ million	% change on 2004
– Net sales 2005	809.9	
– Net sales 2004	751.1	
Total change	**58.8**	**7.8%**
of which		
organic growth before exchange rate effect	31.1	4.1%
external growth	18.8	2.5%
exchange rate effect	8.9	1.2%
Total change	**58.8**	**7.8%**

The overall change resulted from organic growth of 4.1%, external growth of 2.5% and a positive impact of 1.2% from exchange rates.

The organic growth of 4.1% was achieved thanks to a positive performance from the core brands Campari, SKYY Vodka, Cinzano, Aperol and Crodino, and from almost all the Group's other brands.

This helped offset the negative impact of poor sales of Campari Mixx, which suffered as a result of a sharp downturn in the ready-to-drink market, and of Lipton Ice Tea, a third-party product distributed by Campari in Italy.

Stripping out the sales of these two (low-margin) brands, the Group registered organic growth of 5.8% and total growth of 9.7%.

External growth of 2.5% came from sales of third-party brands that the Group began distributing during the year, primarily the American whisky Jack Daniel's on the Italian market, and to a lesser extent, the ultra premium gin Martin Miller's in the US.

The change in average exchange rates in 2005 compared with 2004 had a positive impact of 1.2% on sales overall, due mainly to the revaluation of the Brazilian real (+19.5%).

As the table below shows, the average US dollar exchange rate was practically unchanged on the previous year, despite significant fluctuations during the period.

Average exchange rates	2005	2004	% change
US$ x 1 €	1.245	1.243	
€ x 1 US$	0.8035	0.8043	–0.1%
BRL x 1 €	3.040	3.634	
€ x 1 BRL	0.3289	0.2752	19.5%
CHF x 1 €	1.548	1.544	
€ x 1 CHF	0.6459	0.6477	–0.3%
JPY x 1 €	136.867	134.387	
€ x 1000 JPY	7.3064	7.4412	–1.8%

Sales by region

Net sales were positive in all regions last year, although growth rates varied.

The breakdown of sales at the end of 2005 was therefore slightly different from that of 2004: sales in Italy dipped from 48.4% to 47.1% of the total, and in the Americas increased from 28.6% in 2004 to 30%.

Sales in Europe and the rest of the world (which includes global duty free sales) remained broadly unchanged as a percentage of the total, at 18.7% and 4.3% respectively.

The first table below shows the breakdown and growth of net sales by region, while the second breaks down the total change in each region by organic growth, external growth and exchange rate effect.

Sales by region	2005		2004		% change
	€ million	%	€ million	%	2005/2004
Italy	381.5	47.1%	363.6	48.4%	4.9%
Europe	151.7	18.7%	141.8	18.9%	6.9%
Americas	242.0	29.9%	214.6	28.6%	12.8%
Rest of the world and duty free	34.8	4.3%	31.1	4.1%	11.9%
Total	**809.9**	**100.0%**	**751.1**	**100.0%**	**7.8%**

Breakdown of % change in sales by region	Total % change 2005/2004	of which external growth	of which organic growth before exchange rate effect	of which exchange rate effect
Italy	4.9%	4.8%	0.1%	0.0%
Europe	6.9%	0.0%	6.9%	0.0%
Americas	12.8%	0.3%	7.9%	4.6%
Rest of the world and duty free	11.9%	1.9%	13.0%	–3.0%
Total	**7.8%**	**2.5%**	**4.1%**	**1.2%**

In **Italy**, sales totalled € 381.5 million in 2005, a rise of 4.9% on the previous year.

The Group’s sales in Italy were boosted following the start-up in May of distribution of Jack Daniel’s and other Brown-Forman brands, which generated external growth of 4.8%.

Organic sales growth remained broadly flat, however, at 0.1%.

This overall result was achieved thanks to good performances from all the main brands, and despite poor sales of Campari Mixx and Lipton Ice Tea.

Stripping out the negative impact of these two products (which, as stated above, generate low margins), the Italian market posted total sales growth of 8.2%, with organic growth at 2.8%.

Looking at the major brands, 2005 was another very good year for Aperol and Cinzano vermouth, while Campari, Campari Soda and Crodino posted solid but lower growth.

SKYY Vodka also continued to perform well, and although Italian distribution is carried solely out via the on-trade channel, Italy is now the second-biggest export market for the brand after Canada.

In **Europe** net sales came in at € 151.7 million, an increase of 6.9% thanks to positive performances in Germany and Switzerland, the region’s two main markets, and in other European countries of strategic importance for the Group’s growth.

2005 was an important year for the German market, as the efforts made in the previous three years finally bore fruit.

The upturn in the local economy undeniably boosted consumption, while the sales reorganisation at local level and the repositioning of the main brands fuelled sales growth for the entire brand portfolio – Campari and Cinzano sparkling wines first and foremost, but also Ouzo 12 and Cinzano vermouth.

In the **Americas**, total sales rose by 12.8% versus 2004 to € 242.0 million.

This change was due to strong organic growth (7.9%), a positive exchange rate effect (4.6%) and, to a much lesser extent, to external growth (0.3%).

The tables below give a breakdown of figures for the US and Brazil, which account for more than 95% of sales in this area.

Sales in the Americas	2005		2004		% change
	€ million	%	€ million	%	2005/2004
US	170.4	70.4%	158.2	73.7%	7.7%
Brazil	61.0	25.2%	46.9	21.9%	29.9%
Other countries	10.6	4.4%	9.5	4.4%	11.6%
Total	**242.0**	**100.0%**	**214.6**	**100.0%**	**12.8%**

Breakdown of % change in sales in the Americas	Total % change 2005/2004	of which external growth	of which organic growth before exchange rate effect	of which exchange rate effect
US	7.7%	0.4%	7.5%	–0.1%
Brazil	29.9%	0.0%	8.7%	21.2%
Other countries	11.6%	0.0%	11.0%	0.6%
Total	**12.8%**	**0.3%**	**7.9%**	**4.6%**

Sales in the **United States** continued to register positive organic growth (7.5%) thanks to the core brand SKYY Vodka, which once again posted double-digit growth in 2005.

Another good performance came from 1800 Tequila, a third-party brand distributed by the Group on the US market.

The distribution of Martin Miller's ultra premium gin added 0.4% to external growth, while exchange rates had a negligible impact.

Sales in **Brazil** were more than satisfactory too: this market posted year-on-year organic growth of 8.7%, driven by sales of Dreher aguardiente, Old Eight and Drury's admix whiskies and Cynar.

As a result of the major revaluation of the Brazilian real, which generated a significant positive exchange rate effect of 21.2%, overall net sales growth on the Brazilian market was 29.9%.

Elsewhere in the Americas region, organic sales growth was 11.0%, with positive performances achieved in the three main markets of Canada, Mexico and Argentina.

In the **rest of the world**, sales came in at € 34.8 million in 2005, an increase of 11.9%.

This segment includes duty free sales (which showed double-digit growth in 2005), and accounts for 4.3% of the total.

Sales were positive across all continents (Asia, Africa and Oceania), although the best performances were achieved on the Australian and New Zealand markets.

Sales by business area

In 2005 the Campari Group saw further sales growth in the core wine and spirits businesses, and a slight contraction in soft drink sales, as the tables below highlight.

Sales by segment	2005		2004		% change
	€ million	%	€ million	%	2005/2004
Spirits	551.5	68.1%	493.1	65.6%	11.9%
Wines	125.2	15.5%	120.8	16.1%	3.6%
Soft drinks	124.9	15.4%	127.4	17.0%	–1.9%
Other sales	8.3	1.0%	9.9	1.3%	–15.9%
Total	**809.9**	**100.0%**	**751.1**	**100.0%**	**7.8%**

Breakdown of % change in sales by segment	Total % change 2005/2004	of which external growth	of which organic growth before exchange rate effect	of which exchange rate effect
Spirits	11.9%	3.8%	6.2%	1.8%
Wines	3.6%	0.0%	3.7%	–0.1%
Soft drinks	–1.9%	0.0%	–1.9%	0.0%
Other sales	–15.9%	0.0%	–16.2%	0.3%
Total	**7.8%**	**2.5%**	**4.1%**	**1.2%**

Spirits

Net sales of spirits came in at € 551.5 million in 2005 and accounted for 68.1% of the Group total.

Overall growth, at 11.9%, was driven by a good performance from the main brands, which generated solid organic growth of 6.2%.

New distribution agreements resulted in external growth of 3.8%, while exchange rates added 1.8%.

Sales of **Campari** rose by 4.1%, or 5.8% at actual exchange rates, thanks to the positive exchange rate effect relating to the Brazilian real.

Looking at the brand's three key markets, sales were particularly buoyant in Germany, where the product showed encouraging signs of a recovery following a challenging 2004, which was affected by negative macroeconomic conditions and bad weather.

In Italy, the brand continued to perform solidly, recording a modest but steady increase in sales.

An effective new TV advertising campaign was launched during the year, backed up by significant media investment.

In Brazil, stripping out the significant exchange rate impact, year-on-year sales growth of Campari was flat in 2005, owing to several price rises implemented in the preceding years.

Elsewhere, sales were strong in France, Spain, the UK and Japan.

The **SKYY** brand (vodka, flavoured vodkas and SKYY90) posted organic growth of 8.9% in 2005, or 7.7% stripping out the positive impact of the launch of SKYY90.

The positive trend was once again generated by an excellent performance from the brand in the US (+6.9% in local currency), where the core brand SKYY Vodka again posted double-digit sales growth, although the flavoured lines declined compared with 2004.

International sales of SKYY posted growth of more than 30%.

These sales are making an ever-increasing contribution to the brand's overall growth, accounting for 15% of its total sales volumes.

SKYY's two main export markets are still Italy and Canada, but the list of countries where sales are significant is growing steadily, and includes Australia, Mexico, the UK, Germany and Greece.

Sales of **CampariSoda**, almost totally concentrated on the Italian market, were up 1.4% at the end of 2005.

In the last quarter, the brand made up the ground lost in the early part of the year, thanks partly to the impact of a consumer promotion and the related advertising campaign, which in 2004 were launched in an earlier period than in 2005.

Aperol put in another outstanding performance, registering net sales growth of 23.2%.

The Italian market accounts for more than 90% of the brand's sales and is still the main driver of this strong growth, which is solidly in the double digits, thus further bearing out the Group's decision to buy the brand.

Internationally, sales on the German market also did very well.

The **Brazilian brands** saw their sales in local currency rise by 9.6% overall thanks to positive performances of **Dreher** aguardiente and the **admix whiskies** Old Eight and Drury's.

The increase at actual exchange rates was 31%, thanks to the sharp revaluation of the Brazilian real.

Cynar sales shot up by 16.2% at constant exchange rates and by 20.4% at actual exchange rates.

This particularly strong performance was due to the launch of this product on the Brazilian market, and, to a lesser extent, to the change of distributor in Switzerland.

After the third-party licensing rights to the Cynar brand in Brazil expired, Campari do Brasil Ltda. commenced production and distribution of the brand – the local market leader – in the second half of 2004.

On the Swiss market, the Group began distributing the product directly via Campari Schweiz A.G.

Sales fell slightly on the Italian market, however.

Sales of **Ouzo 12**, which posted growth of 2.1% overall compared with 2004, did well on the two main markets of Germany and Greece, where the Group successfully introduced new packaging for the product.

In Greece, although volumes posted a double-digit increase, there was a slight decline in value sales due to a lower proportion of higher-priced gift packs, which in 2004 benefited from the Olympic Games in Athens.

Sales of **Campari Mixx** dropped by almost 60%, owing entirely to a sharp contraction in consumption of ready-to-drink products in Italy.

Italy is now the only active market for this product, since the Group suspended distribution to other European markets in early 2004 following the sharp rise in duty on ready-to-drink products.

As sales of this category fell in Italy, the Group gradually reduced its advertising spend in this area.

This helped minimise the negative impact on profitability caused by the drop in sales, but did not prevent the brand from expanding its market share in 2005.

Net sales of Mirto di Sardegna and other **Zedda Piras** liqueurs were around the 2004 level (+ 0.5%).

The Group's other spirit brands – Biancosarti, Aperol Soda and Barbieri liqueurs – saw a slight decline in sales in 2005.

Looking now at **third-party brands**, the distribution agreements reached during 2005 generated sales growth of 3.8% compared with 2004, and brought a number of prestigious brands to the Group, including the American whisky Jack Daniel's.

Sales of the other main products distributed by Campari were as follows:

– a 14.9% increase in sales of **1800 Tequila** on the US market (14.8% at actual exchange rates). This is the third consecutive year of double-digit growth for this brand (sales of which appeared to be stagnating before the start-up of the distribution agreement with Skyy Spirits, LLC), highlighting a sharper focus on the part of the Group's sales and marketing divisions;

– a rise of 3.7% for **Jägermeister**, which, on the mature Italian bitters market continues to perform relatively well;

– a drop of 5.6% overall for **Scotch whiskies** (–4.0% at actual exchange rates) due to a contraction in sales on the three markets – the US, Brazil and Italy – in which the Group distributes third-party brands belonging to this category.

Wines

Net sales of wines came in at € 125.2 million in 2005, up 3.6% on the previous year.

External growth made no contribution, and the exchange rate effect was negligible (–0.1%).

Of the core brands, **Cinzano vermouth** posted an excellent performance, with sales growth of 16.0% (+16.6% at actual exchange rates).

Note, moreover, that this growth, which was previously limited to a small number of markets, has now spread to many more of them.

Here, Germany, Italy, Spain, Russia and Poland are the biggest success stories.

Cinzano sparkling wines saw their sales rise by 1.0% (+0.9% at actual exchange rates).

This result, following varying performances in the two main markets of Germany and Italy, can be considered good overall: sales went up on the German market, where new packaging was introduced in July, and growth accelerated in the second half of the year in particular.

Equally positive growth opportunities are expected from the Italian market, where the new packaging is set for launch in 2006.

Sales of **Riccadonna continued** on their upward path, +14.1% at constant exchange rates and +11.7% at actual rates.

The brand, acquired by the Group at the start of 2004 and already distributed prior to that on major international markets including Australia, strengthened its market position.

Sales of **Sella & Mosca** wines rose by 1.0%, or 1.3% at actual exchange rates.

Although growth was positive overall, it was affected by fiercer competition on the international markets.

Mondoro sparkling wine also saw its sales rise in 2005 (+7.6% at constant exchange rates and +7.3% at actual rates), thanks to a good performance in Russia, the brand's core market, and, to a lesser extent, to the extension of distribution to new markets.

Soft drinks

Total sales of soft drinks stood at € 124.9 million, a 1.9% decrease on 2004.

Within this segment, however, **Crodino** posted growth of 3.2%, entirely on the Italian market, where the brand holds a firm leadership position.

Sales of **Lemonsoda**, **Oransoda** and **Pelmosoda** also grew, by 1.2%, while the minor **mineral water** business saw a decline of 4.1%.

The overall dip in sales was due largely to the poor performance of **Lipton Ice Tea**, a third-party brand distributed on the Italian market, whose sales dropped by 12.6%.

Other sales

This minor segment includes revenues from co-packing and sales to third parties of raw materials and semi-finished goods.

It represents around 1.0% of the Group's sales.

In 2005, other sales came in at € 8.3 million, a drop of 15.9% overall compared with 2004.

Consolidated profit and loss account

The table below shows the consolidated profit and loss account of 2005, prepared in accordance with international accounting standards and compared with the reclassified results for the previous year.

In 2005 the Campari Group achieved positive financial results, with growth in all profitability indices, particularly EBIT, which rose by 10.3%.

	2005		2004		%
	€ million	%	€ million	%	change
Net sales	**809.9**	**100.0%**	**751.1**	**100.0%**	**7.8%**
Cost of goods sold	(345.1)	–42.6%	(316.6)	–42.1%	9.0%
Gross profit	**464.9**	**57.4%**	**434.6**	**57.9%**	**7.0%**
Advertising and promotional costs	(139.7)	–17.2%	(131.3)	–17.5%	6.4%
Sales and distribution costs	(90.3)	–11.1%	(84.1)	–11.2%	7.4%
Trading profit	**234.8**	**29.0%**	**219.2**	**29.2%**	**7.1%**
General and administrative expenses and other operating income and charges	(55.7)	–6.9%	(54.7)	–7.3%	1.8%
EBIT before one-offs	**179.1**	**22.1%**	**164.4**	**21.9%**	**8.9%**
One-offs	4.7	0.6%	2.2	0.3%	113.6%
EBIT	**183.9**	**22.7%**	**166.7**	**22.2%**	**10.3%**
Net financial income (charges)	(9.9)	–1.2%	(9.6)	–1.3%	3.1%
Profit (loss) of companies valued at equity	0.3	0.0%	0.0	0.0%	
Profit before tax	**174.2**	**21.5%**	**157.1**	**20.9%**	**10.9%**
Tax	(51.2)	–6.3%	(43.1)	–5.7%	18.8%
Net profit	**123.1**	**15.2%**	**114.0**	**15.2%**	**8.0%**
Minority interests	(5.0)	–0.6%	(17.1)	–2.3%	–70.8%
Group net profit	**118.0**	**14.6%**	**96.9**	**12.9%**	**21.8%**
Depreciation of tangible fixed assets	(15.7)	1.9%	(15.7)	–2.1%	0.0 %
Amortisation of intangible fixed assets	(1.7)	0.2%	(2.1)	–0.3%	–19.0%
Total depreciation and amortisation	**(17.4)**	**–2.1%**	**(17.8)**	**–2.4%**	**–2.2%**
EBITDA	**201.3**	**24.9%**	**184.5**	**24.5%**	**9.1%**
EBITDA before one-offs	**196.6**	**24.3%**	**182.3**	**24.2%**	**7.8%**

Net sales grew 7.8% to more than € 800 million in 2005; sales by region and brand are analysed above.

With regard to other items on the profit and loss account, **gross profit** grew by 7.0%, and was 57.4% as a proportion of sales, a slight drop compared to last year, when the incidence of **cost of goods sold** was 0.4 percentage points lower.

The cost of materials, a completely variable item that represents the bulk of the cost of goods sold, came in at 35.9% of sales in 2005, an increase of 0.7 percentage points compared to 2004.

This performance was entirely due to the slight increase in the importance of third-party brands, which are less profitable than the group's own, following the launch in 2005 of new distribution agreements.

Production costs, in contrast, fell by 0.3 percentage points as a percentage of sales, and increased by only 3.7% compared to 2004.

This result may be considered positive, given that during the year, the Group completed the final phase of its industrial restructuring plan launched in 2002; specifically, production of Campari and CampariSoda was suspended at the Sesto San Giovanni plant, and began at the new facility in Novi Ligure.

From 2006 therefore, the Group will reap the full benefits of the synergies expected to be released by this restructuring programme.

Advertising and promotional costs were 17.2% of sales, slightly lower than the previous year (17.5%).

As expected, advertising investment in all the Group's core brands grew in absolute terms, and remained stable as a percentage of sales.

The slight overall decline (0.3%) in advertising spending as a percentage of sales was due to the distribution of new products; in particular, the Group received a significant contribution towards the high advertising and promotional costs of Jack Daniel's from the brand's owner.

Sales and distribution expenses remained broadly flat as a proportion of sales at 11.1% (11.2% in 2004); overall, these costs increased by 7.4%, due to a rise in variable sales and marketing costs, while transport costs remained broadly stable.

The Group's **trading profit** for 2005 was € 234.8 million, an overall increase of 7.1% compared to the previous year. This breaks down as follows:

– organic growth of 5.7%;
– external growth of 1.1% (relating to new distribution agreements);
– a positive exchange rate effect of 0.3%.

General and administrative expenses and **other operating income and charges** grew by 1.8% overall, but fell as a percentage of sales, from 7.3% in 2004 to 6.9% in 2005.

General expenses alone rose by slightly more than inflation, partly due to non-recurring charges for organisational consultancy services; however, the 2005 profit and loss account benefited from greater windfall gains and other operating income than that of the previous year.

With the adoption of the new international accounting standards (IAS 38), the value of consolidation differences and trademarks with an indefinite life may no longer be amortised.

Consequently, the item "goodwill and trademark amortisation" does not appear in the profit and loss account prepared using IAS/IFRS in the two periods under comparison.

Furthermore, a new measure of profitability, EBIT before one-offs, has been introduced into the new format of the profit and loss account adopted by the Campari Group in order to provide continuity of analysis with respect to profitability indicators used previously.

The introduction of international accounting standards has meant that some income and charges items considered "extraordinary" according to the standards previously in use must now be reclassified above the EBIT figure.

These include capital gains and losses, write-downs of non-current assets and restructuring provisions.

One-offs therefore continue to be recorded in a separate item, between EBIT before one-offs and EBIT.

EBIT before one-offs was € 179.1 million in 2005, an increase of 8.9% compared to the previous year.

One-offs were positive to the tune of € 4.7 million in 2005, mainly due to a capital gain generated by the sale of real estate in Switzerland (€ 1.9 million) and a windfall gain relating to an acquisition made in Brazil in 2001 (€ 2.2 million).

In 2004, this item showed a net positive balance of € 2.2 million.

EBIT was € 183.9 million in 2005, an increase of 10.3% compared to the previous year.

The EBIT margin rose from 22.2% to 22.7%.

The figure includes **depreciation and amortisation** of € 17.4 million, a slight decrease compared to the previous year's figure of € 17.8 million; this broke down as depreciation of tangible assets of € 15.7 million, in line with 2004, and the amortisation of intangible assets of € 1.7 million, a decline of € 0.4 million compared to the previous year.

Note that following the adoption of IAS/IFRS, the amortisation of intangible assets no longer includes goodwill and trademark amortisation, which accounted for most of the amortisation recorded in the profit and loss account prepared according to Italian accounting standards, and which was shown under a separate item.

Consequently, as "goodwill and trademark amortisation" is no longer reported, the EBITA item is no longer required, as its equivalent is now "EBIT before one-offs".

EBITDA rose by 9.1% compared with the previous year, to € 201.3 million.

EBITDA before one-offs increased by 7.8% to € 196.6 million.

This figure was lower – and grew by a smaller amount – than the EBITDA figure, because one-offs showed a net positive balance and were higher than in 2004.

With regard to the main items in the profit and loss account shown below the EBIT line, **net financial charges** for the period totalled € 9.9 million, and grew by € 0.3 million compared to the previous year.

In 2005, average debt was higher than in the previous year, owing to the acquisition of 30.1% of Skyy Spirits, LLC, completed at the end of February; its negative impact on net financial charges was however offset partly by the gradual reduction of debt over the year thanks to cash flow generated, and partly by the positive exchange rate effect on the financial income generated by the cash and equivalents held by Campari do Brasil Ltda.

The Group's portion of **profits or losses of companies valued at equity** showed a profit of € 0.3 million, after reaching break-even point the previous year.

The companies consolidated using the equity method are four trading companies that distribute products made by the Group and its partners in the major European markets of Belgium, the Netherlands, the UK and Spain.

Profit before taxes grew 10.9% compared to the previous year, to € 174.2 million.

Taxes for the period were € 51.2 million, an increase of 18.8% compared to the figure of € 43.1 million registered for 2004.

Minority interests, that is the share of profits pertaining to third parties, were € 5.0 million, markedly lower than the figure of € 17.1 million for the previous year.

This item consists almost exclusively of the share of the profits generated by Skyy Spirits, LLC attributable to minorities; although these profits increased, minority interests fell as a result of the Group's acquisition of a 30.1% stake in the company in February.

Group net profit for 2005 was therefore € 118.0 million, and registered a significant double-digit increase of 21.8% compared to the previous year.

Profitability by business area

IAS 14 states that financial information should be provided in relation to both business area and region, and companies must determine which of these is the primary reportable segment, and therefore subject to greater disclosure.

The Campari Group's primary reportable segment is business area, where its results are broken down into spirits, wines, soft drinks and other sales.

An analysis of the financial results broken down by business is provided below; please see the notes to the accounts for both financial information on the Group's four business areas, and secondary information in relation to region.

Trading profit is considered the best measure of the performance of individual areas, as it shows the profitability generated by the revenues and costs directly attributable to individual products.

In 2005, the Group's consolidated trading profit was € 234.8 million, an increase of 7.1% compared to the previous year.

The table below shows trading profit performance for each business area and for the Group as a whole for 2005 and 2004.

Trading profit	2005		2004		2005/2004
	€ million	% of total	€ million	% of total	% chg
Spirits	189.6	80.2%	176.7	79.9%	7.3%
Wines	14.1	6.0%	13.6	6.1%	3.9%
Soft drinks	31.1	13.2%	29.2	13.2%	6.5%
Other	1.5	0.6%	1.6	0.7%	–7.5%
Trading profit – all segments	**236.3**	**100.0%**	**221.1**	**100.0%**	**6.9%**
Indirect production costs	(1.4)		(1.9)		
Consolidated trading profit	**234.8**		**219.2**		**7.1%**

As in the previous year, the Company has recorded the portion of industrial costs relating to the Novi Ligure plant that cannot be directly allocated to the brands produced there: € 1.4 million compared to € 1.9 million in 2004.

The major new plant only began production of Campari and CampariSoda in the second half of the year, following the transfer of production of Cinzano, Cynar, Jägermeister and Biancosarti to Novi Ligure at the beginning of 2004.

Two tables are shown below for each of the Group's four segments: the first summarises the main profit and loss figures (in terms of absolute value, their proportion as a percentage of sales and changes compared to the previous year); the second breaks down the changes into the three components of organic growth, exchange rate effect and the impact of the change in the basis of consolidation.

Spirits

In 2005 spirits generated trading profit of € 189.6 million, or 34.4% of sales in the segment, confirming that spirits are the Group's most profitable business.

Net sales rose by 11.9%, while trading profit registered a smaller increase of 7.3%, owing to the dilutive effect of external growth and the exchange rate effect.

Organic growth added 5.3% to trading profit, in line with sales growth thanks to the strong performance of SKYY Vodka, Aperol and Campari.

In contrast, the new distribution agreements, which contributed 3.8% to total sales growth of the Group's spirits, only contributed 1.4% to growth in trading profit.

	2005		2004		%
	€ million	% contribution to segment sales	€ million	% contribution to segment sales	changes
Net sales	551.5	100.0%	493.1	100.0%	11.9%
Gross profit	353.4	64.1%	327.1	66.3%	8.0%
Trading profit	189.6	34.4%	176.7	35.8%	7.3%

Breakdown of % change in profitability of spirits	% change total	of which organic growth before exchange rate effect	of which exchange rate effect	of which change in basis of consolidation
Net sales	11.9%	6.2%	1.8%	3.8%
Gross profit	8.0%	5.6%	1.2%	1.2%
Trading profit	7.3%	5.3%	0.7%	1.4%

Wines

In 2005, the wines segment registered a trading profit of € 14.1 million, an increase of 3.9% compared to the previous year.

This figure is equivalent to 11.3% of segment sales, which is normal for this segment, and is lower than the figure for the spirits segment.

At constant exchange rates, organic growth in trading profit from wines was 8.0%, and the increase in profitability for 2005 was attributable to Cinzano vermouth and Riccadonna sparkling wines.

2005 was however a year of transition for the profitability of Cinzano sparkling wines.

While sales growth was relatively modest, there was a considerable increase in advertising and promotional investments, particularly on the German market, where the brand is currently being repositioned.

	2005		2004		%
	€ million	% contribution to segment sales	€ million	% contribution to segment sales	changes
Net sales	125.2	100.0%	120.8	100.0%	3.6%
Gross profit	53.4	42.6%	50.8	42.1%	4.9%
Trading profit	14.1	11.3%	13.6	11.2%	3.9%

Breakdown of % change in profitability of wines	% change total	of which organic growth before exchange rate effect	of which exchange rate effect	of which change in basis of consolidation
Net sales	3.6%	3.7%	–0.1%	
Gross profit	4.9%	5.8%	–0.8%	
Trading profit	3.9%	8.0%	–4.1%	

Soft drinks

Trading profit for the soft drinks business was € 31.1 million, or 24.9% of sales, an increase of 6.5% compared to the previous year.

Fluctuations in exchange rates and changes in the basis of consolidation had no effect during the year.

As set out above, net sales for the segment fell by 1.9% overall; in contrast, profitability grew thanks to a good performance from the segment's most profitable brand, Crodino.

The Lemonsoda, Oransoda and Pelmosoda line also made a positive contribution however, and saw more significant growth in trading profit than in sales, thanks to the diversification of advertising and promotional costs, which reduced overall costs for the year.

	2005		2004		%
	€ million	% contribution to segment sales	€ million	% contribution to segment sales	changes
Net sales	124.9	100.0%	127.4	100.0%	–1.9%
Gross profit	57.7	46.2%	56.5	44.4%	2.1%
Trading profit	31.1	24.9%	29.2	23.0%	6.5%

Other sales

Trading profit for the "other sales" segment came out at € 1.5 million, a slight drop of € 0.1 million compared to 2004.

	2005		2004		%
	€ million	% contribution to segment sales	€ million	% contribution to segment sales	changes
Net sales	8.3	100.0%	9.9	100.0%	–15.9%
Gross profit	1.9	22.4%	2.0	20.4%	–7.8%
Trading profit	1.5	17.5%	1.6	15.9%	–7.5%

Breakdown of % change in profitability of other sales	% change total	of which organic growth before exchange rate effect	of which exchange rate effect	of which change in basis of consolidation
Net sales	–15.9%	–16.2%	0.3%	–
Gross profit	–7.8%	–7.2%	–0.6%	–
Trading profit	–7.5%	–11.0%	3.5%	–

FINANCIAL SITUATION

Cash flow statement

The cash flow statement shown in the table below contains all the cash flows contributing to the change in the Group's net debt: cash flows relating to changes in short- and long-term debt and to investment in marketable securities are not included, as they have no effect on the net financial position.

Furthermore, these changes can be found in the cash flow statement, in the section containing the financial statements, which sets out the net change in cash, securities and equivalents over the year.

	31 December 2005 € million	31 December 2004 € million
Net profit	118.0	96.9
Adjustments to reconcile net profit with cash flow	29.3	13.7
Cash flow from operating activities before changes in working capital	**147.3**	**110.6**
Changes in operating working capital	(50.2)	4.2
Cash flow from operating activities	**97.1**	**114.8**
Cash flow from investing activities	**(15.0)**	**(16.4)**
Free cash flow	**82.1**	**98.4**
Acquisitions	(130.7)	(14.1)
Other changes	2.1	2.1
Dividend paid out by the Parent Company	(28.1)	(24.7)
Total cash flow from other activities	**(156.7)**	**(36.7)**
Other exchange rate differences and changes	(24.6)	6.4
Change in net debt on ordinary activities	**(99.2)**	**68.1**
Future exercise of put option on Skyy Spirits, LLC	(45.5)	
Change in net debt	**(144.7)**	**68.1**
Net debt at the start of the period	(226.7)	(294.8)
Net debt at the end of the period	(371.4)	(226.7)

Net debt grew by € 99.2 million in 2005, excluding the future exercise of the put option on Skyy Spirits, LLC, and rose by € 144.7 million including this reclassification.

Cash flow generated by operating activities was positive to the tune of € 97.1 million and compares with € 114.8 million the previous year.

Operating working capital increased by € 50.2 million in 2005 at constant exchange rates and on a like-for-like basis.

This significant change was determined by two main factors: first, the distribution of new third-party products, which began during the year, and which raised net working capital by € 18.3 million; and second, the (temporary) increase of trade receivables, determined by the excellent sales performance of the last quarter.

Excluding the impact of the change in working capital, operating activities generated cash flow of € 147.3 million in 2005, an increase of 33% compared to the previous year.

Cash flow used in investing activities, excluding disposals, was € 15.0 million, slightly below the figure for the previous year.

Free cash flow was therefore € 82.1 million in 2005.

The main non-operating cash flow items that absorbed financial resources during the year were:

- acquisitions of € 130.7 million, including the 30.1% stake in Skyy Spirits, LLC for € 118.5 million in February and 100% of Teruzzi & Puthod for € 12.2 million in December;
- the 2004 dividend payment of € 28.1 million;
- other minor positive changes of € 2.1 million.

After negative exchange rate differences and other accounting effects, which totalled € 24.6 million, net cash flow, that is the change in net debt on ordinary activities, was negative to the tune of € 99.2 million.

For further details on the debt entry of € 45.5 million relating to the put option held by minority shareholders in Skyy Spirits, LLC, please see note 5 – Business combinations – of the notes to the accounts.

Breakdown of net debt

	31 December 2005 € million	31 December 2004 € million
Cash, banks and securities	247.5	246.0
Payables to banks	(112.8)	(55.6)
Real estate lease payables	(3.1)	(2.9)
Private placement and bond issues	(9.6)	(7.8)
Other assets and liabilities	(1.4)	(1.1)
Short-term debt	**120.6**	**178.5**
Payables to banks	(26.7)	(0.8)
Real estate lease payables	(19.0)	(22.0)
Private placement and bond issues	(397.7)	(378.0)
Other financial payables	(3.0)	(4.4)
Medium-/long-term debt	**(446.5)**	**(405.2)**
Debt on ordinary activities	**(325.9)**	**(226.7)**
Debts for exercise of Skyy put option	(45.5)	–
Net debt	**(371.4)**	**(226.7)**

Net debt at 31 December 2005 stood at € 371.4 million, an increase of € 144.7 million compared to 31 December 2004. As shown in the table, this final figure at 31 December 2005 includes the debt of € 45.5 million for the put options, which may be exercised in 2007 and relate to the 11.0% stake in Skyy Spirits, LLC, currently held by minority shareholders.

Excluding this item, net debt at the end of the period was € 325.9 million, an increase of € 99.2 million compared with the previous year.

The largest component of this item related to the acquisition of a further stake of 30.1% of Skyy Spirits, LLC, for € 118.5 million, financed with cash and both short- and medium-/long-term bank debt, through the subsidiary Redfire, Inc.

The short-term portion of the private placement and bond issues includes both the interest for the period and the repayment of US$ 4 million relating to the private placement of Redfire, Inc.

Group balance sheet

	31 December 2005 € million	31 December 2004 € million
Fixed assets	925.7	767.2
Other non-current assets and liabilities	(45.4)	(33.9)
Operating working capital	222.5	153.0
Other current assets and liabilities	(35.6)	(30.4)
Total invested capital	**1,067.2**	**855.8**
Shareholders' equity	695.8	629.2
Net debt	371.4	226.7
Total financing sources	**1,067.2**	**855.8**

At 31 December 2005, the Group had total net invested capital of € 1,067.2 million, an increase of € 211.4 million compared to the previous year.

The most significant change concerns fixed assets, which increased on account of a goodwill entry of € 175.0 million relating to the acquisition of two tranches of Skyy Spirits, LLC, the first completed in 2005 and the second related to put/call options, which may only be exercised in 2007.

The net negative balance of other non-current assets and liabilities increased owing to the recording of deferred tax assets on goodwill, whose fiscal effects are eliminated in the consolidated profit and loss account, in line with the elimination of related depreciation following the application of International Accounting Standards.

The increase in operating working capital had a significant impact on the overall rise in invested capital.

This change, covered above in the section on the cash flow statement, was € 69.5 million, and includes both the effect of the change in the basis of consolidation (€ 3.6 million) and the significant impact of exchange rates (€ 15.7 million).

The Group's financial structure at the end of 2005 showed a more than proportional increase in debt in relation to shareholders' equity: the debt-to-equity ratio rose from 36.0% in 2004 to 53.4%; note that this end-of-year figure was lower than the 57.4% registered at 30 June 2005.

INVESTMENTS

The Group's ordinary investments, excluding acquisitions of companies and brands, totalled € 18.8 million.

These included € 3.9 million invested in the new plant of Koutsikos Distilleries S.A. for the production of Ouzo 12, € 2.2 million invested in vineyards by Sella & Mosca S.p.A., € 7.7 million invested in plant and equipment for production by various Group companies, and € 1.0 million invested in works on land and buildings.

Furthermore, the Group invested € 1.9 million in various software and work on the SAP R/3 system.

The remaining investments relate to electronic and miscellaneous equipment.

STRUCTURE OF THE CAMPARI GROUP

Changes to the Group's structure that have taken place since 31 December 2004 are detailed below.

- Skyy Spirits, LLC has been consolidated at 89% since 25 February 2006 (The Group's stake in the company was previously 58.1%);
- the companies Teruzzi & Puthod S.r.l. and Giannina S.r.l., which were acquired on 27 December 2005, have been fully consolidated since that date;

– on 21 December 2005, the business assets relating to the distribution activities of Sella & Mosca S.p.A. and Barbero S.p.A. were transferred to a new company, Sella & Mosca Commerciale S.r.l., which was established in 2005 to distribute Sella & Mosca products and other wines in Italy (except Sardinia) and abroad from January 2006; the asset transfer, effective from 1 January 2006, will have no effect on the consolidated accounts for 2005 or 2006.

Please see paragraph 5 – Business combinations – of the notes to the accounts for more detail on the effect of individual acquisitions.

EVENTS TAKING PLACE AFTER THE END OF THE YEAR

Acquisition of Glen Grant

On 22 December 2005, the Campari Group announced that it had signed an agreement to acquire the Scotch whiskies Glen Grant, Old Smuggler and Braemar from Pernod Ricard.

These transactions were part of a programme of disposals imposed on the French company by the European Commission following its acquisition, together with the US group Fortune Brands, of Allied Domecq.

Campari also acquired the distillery where Glen Grant is produced in Rothes, Scotland, as part of the deal.

The transaction, which was completed on 15 March 2006, is worth € 130 million: € 115 million for Glen Grant (equivalent to 9.2x the brand's contribution margin in 2004) and € 15 million for Old Smuggler and Braemar (equivalent to 2.5x the brands' contribution margin in 2004).

Please see paragraph 5 – Business combinations – of the notes to the accounts for more detail on the impact of the acquisition on the consolidated accounts.

Winding-up of Longhi & Associati S.r.l.

On 30 January 2006, the Board of Directors of Longhi & Associati S.r.l. voted to wind up the company, which will therefore cease trading once all outstanding transactions have been completed.

Sesto San Giovanni site

The urban regeneration of the Sesto San Giovanni site owned by the Parent Company has begun, following the adoption of an integrated programme of action, with the aim, inter alia, of building the company's new Italian headquarters there.

This project should be completed by the end of May 2006.

Reorganisation of sales network in Italy

During the year, a project to rationalise the Group's sales network in Italy was completed.

This project led to the creation of two separate sales organisations: one focuses on spirits and non-alcoholic beverages, and is controlled by Campari Italia S.p.A., while the other mainly looks after the distribution of wines, and is managed by Sella & Mosca S.p.A. (which continues to operate directly on the Sardinian market) and its subsidiary Sella & Mosca Commerciale S.r.l.

The aim is to achieve growth throughout the Italian market.

As part of this reorganisation, Barbero 1891 S.p.A. has discontinued its sales and distribution activities.

OUTLOOK

In the year ending 31 December 2005, the Campari Group again delivered a highly satisfactory performance in terms of both sales and profits, thanks to the commitment of the Group's employees and the excellent performance of its brands as a result.

2005 was a significant year for the Group, with some important projects completed or begun during the period; these should start to bear fruit from 2006.

Italy, which accounts for just under 50% of total sales, is both the Group's biggest market, and the area with the most uncertain macroeconomic outlook, at least over the next six months.

However, the positive transactions carried out last year allow us to take a moderately optimistic view of 2006:

- the acquisition of Glen Grant, Italy's leading brand of whisky (both Scotch and single malt);
- the reorganisation and rationalisation of the sales networks of the different Group companies, with the creation of separate divisions for wine and spirits, which should generate attractive synergies;
- the completion of the transfer of production from Sesto San Giovanni to Novi Ligure in the second half of 2005, bringing to a close the implementation of the industrial reorganisation plan conceived in 2002 (which came in on time and on budget); in 2006 the Group should also benefit from the higher levels of productivity expected as a result;
- the distribution of Jack Daniel's and other Brown Forman group brands; in 2006, the Italian results will benefit fully from sales of these brands, which were launched in May 2005.

In other European markets, particularly Germany, the signs of economic recovery are clearer than in Italy: after a good year in 2005, the Group is targeting further growth of its own core brands, as well as of the newly-acquired Glen Grant brand (in certain countries).

In Brazil, where over the last few years the Group has steadily increased its sales, 2006 should be another good year, boosted by expectations of buoyant economic growth.

The US should continue to be the Group's main source of growth, with positive results again expected for SKYY Vodka and 1800 Tequila.

In 2006 these will be further enhanced by two major new distribution agreements that have supplemented the product portfolio of Skyy Spirits, LLC with prestigious international brands owned by the Suntory group (notably Midori, a melon-flavoured liqueur) and the C&C group (such as Carolans Irish Cream, a whiskey-based cream liqueur, the Irish whiskey Tullamore Dew, the classic liqueur Irish Mist and – except in the US – Frangelico).

On the foreign exchange markets, 2005 saw a substantial rise in the value of the Brazilian real, which is now expected to fall back slightly.

The most positive factor of the last few months was the US dollar's return to a stable level, which after a long period of volatility seems to have found an equilibrium at around 1.20.

Given the Group's substantial exposure to the US dollar, this new-found stability is an encouraging trend for the short/medium term.

RISK MANAGEMENT

Risks relating to international trade and operations in emerging markets

In line with its strategy for international growth, the Group currently operates in several markets, and plans to expand into certain developing countries, especially in Asia and Latin America.

Operating in emerging markets makes the Group vulnerable to certain risks typical of international activity, including exposure to an often unstable local political and economic environment, exchange rate fluctuations (and related hedging issues), export and import quotas, and limits or curbs on investment, advertising or repatriation of dividends.

Risks relating to licences for the use of third-party brands and licences granted to third parties for use of the Group's brands

At 31 December 2005, a significant portion (around 19%) of the Group's consolidated net sales came from production and/or distribution under licence of third-party products.

Should any of these contracts be cancelled, terminated for any reason or not renewed, this could have a negative effect on the Group's activities and operating results.

Risks relating to market competition

The Group operates in the highly-competitive alcoholic and soft drinks segments, which attract a large number of players.

The main competitors, however, are large-scale international groups involved in the current wave of mergers and acquisitions, which are operating aggressive strategies at global level.

The Group's competitive position is very close to the biggest global players.

As these companies often have greater financial resources and are more diversified in terms of brand portfolios and geographical locations, the Group's exposure to the risks inherent in market competition is particularly significant.

Risks relating to consumer preference and propensity to spend

An important determinant of success in the drinks 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 decline significantly, this could considerably affect its activities and operating results.

The unfavourable economic situation in certain markets is dampening consumer confidence; consumers are reducing their spending and are therefore less likely to buy drinks.

A risk factor that relates to the demand for spirits in particular is the possible increase in alcohol awareness campaigns, which could hit all sector players, including the Group, in the medium/long term.

Risks relating to legislation in the drinks industry

Activities relating to the alcoholic 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 protect the health of consumers, particularly young people, could in the future lead to the adoption of new laws and regulations (some from the EU) to discourage or reduce the consumption of alcoholic drinks.

Such measures could include limits 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.

Exchange rate risk

Around 34% of the Group's consolidated net sales in 2005 were recorded in markets 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, particularly in relation to the US dollar and the Brazilian real.

For more information on risks of a financial nature, please refer to section 33 of the notes to the accounts "Risk management procedures and hedging transactions".

Investor information

Despite the unfavourable macroeconomic situation (notwithstanding the signs of recovery appearing towards the end of 2005), the Campari stock put in an excellent performance over the year, boosted by the announcement of sound financial results, a number of new business development initiatives and the wave of consolidation under way in the wine and spirits sectors.

Positive performance by the Italian stock market

In 2005, the Italian economy showed no signs of growth, and appeared to remain stagnant, with consumption and investment levels below expectations and industrial output continuing to fall.

The period saw interest rates at record lows, particularly weak macroeconomic conditions and continually rising oil prices.

In spite of Italy's weak economy, the stock market continued the steady rise that started two years previously, and volatility remained low.

In 2005, all Italian stock market indices recorded positive results.

Specifically, the Mibtel gained 13.8%, the S&P/MIB advanced 15.5% and the Midex was up 6.6% over the year.

The rise in these indices was largely attributable to oil and financial sector stocks and certain groups involved in M&A activity.

Consolidation in the spirits sector

There were a number of major consolidations in the beverage sector in 2005, including the acquisition of Allied Domecq by Pernod Ricard and Fortune Brands.

Spirits sector stocks, which had started to rise at the end of 2004, saw growth accelerate significantly in the first few months of 2005, when the share prices of the companies involved in the transaction rallied sharply on news of the acquisition, boosting the sector as a whole.

In a mature market, M&A activity acts as a strong stimulus to investors.

A combination of consolidation activity and solid fundamentals bolstered the valuations of spirits companies in 2005, which translated into growth of 24.0% on the benchmark index, FTSEurofirst Beverages.

Excellent performance by Campari shares

Against this economic and sector backdrop, the Campari stock, which is listed on the blue chips segment of the Italian stock market, shot up by 32.0% over the year compared with the closing price at 31 December 2004. It also outperformed the Mibtel by 18.2% and the FTSEurofirst Beverages index by 8.0%.

On 1 September 2005, Campari shares reached their maximum closing price (€ 6.78) since the IPO in July 2001.

The minimum closing price for the year, recorded on 12 January 2005, was € 4.48.

An average of 487,000 shares were traded daily in 2005, with an average daily value of € 2.8 million.

At 31 December 2005, Campari's market capitalisation was € 1,812 million.

In the period under review, Campari's excellent share price performance was supported not only by external factors, including sector consolidation activity and favourable currency trends (particularly the US dollar), but also by positive newsflow relating to the company.

This included the purchase of a further 30.1% stake in Skyy Spirits, LLC (taking the total holding to 89%), as well as the Group's annual results for 2004 and interim results in 2005, which continue to demonstrate solid fundamentals, and the company's recent business development initiatives.

In particular, the Campari Group announced two new projects in the United States in March: the launch of SKYY90, a new ultra premium vodka, and the agreement for distribution of Martin Miller's ultra premium gin with an option to purchase ownership of the brand.

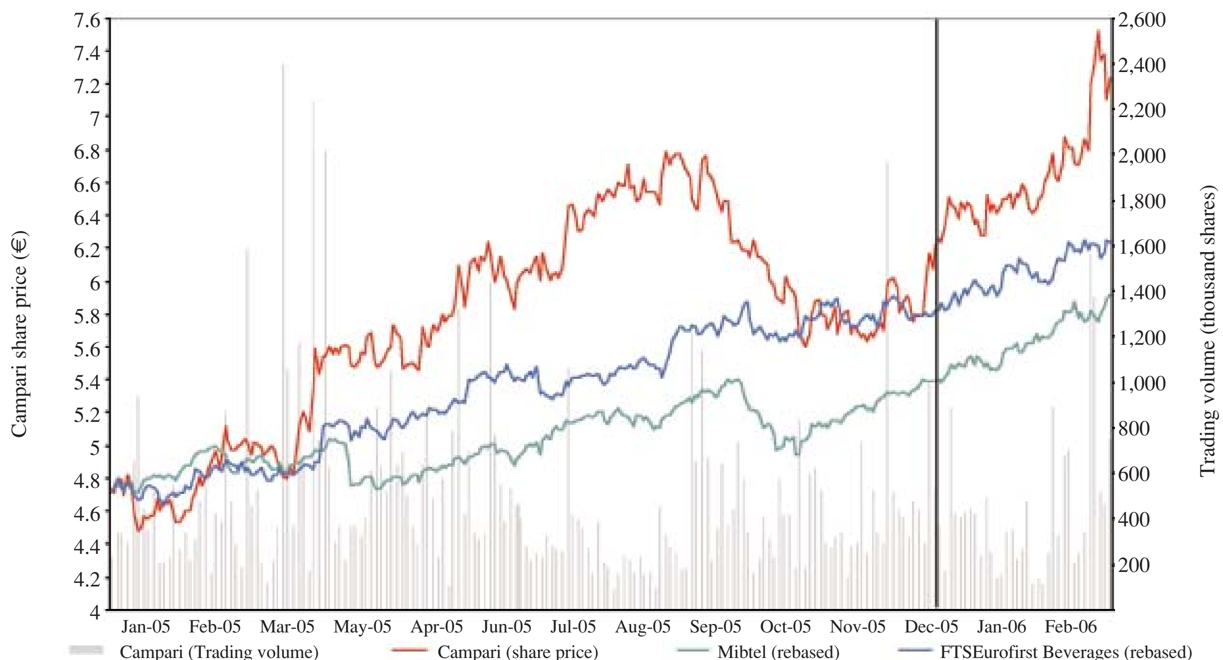
Another trigger boosting the Campari share price was the acquisition of distribution rights in Italy for the US company Brown-Forman's range of spirits, including Jack Daniel's Tennessee Whiskey.

In the last quarter of 2005 two new distribution agreements were announced for the sale on the US and other international markets of spirits brands belonging to the Irish group C&C (Carolans Irish Cream, Irish whiskey Tullamore Dew and Irish Mist liqueur, and – except on the US market – Frangelico) and for the sale in the US of Midori, a melon-flavoured liqueur owned by the Suntory group.

In December, the Campari Group announced the acquisition of Teruzzi & Puthod S.r.l., the Tuscany-based leading producer of Vernaccia di San Gimignano wines, for € 12 million, and of the Glen Grant, Old Smuggler and Braemar brands, from the Pernod Ricard group, for € 130 million.

The most notable among these was the transaction including Glen Grant, the world's second-ranking single malt brand and the leading whisky brand in Italy, which gave a fresh boost to Campari's share price in the last week of 2005.

Performance of the Campari share price and the Mibtel and FTSEurofirst Beverages indices since 1 January 2005



Share split

On 29 April 2005, the extraordinary shareholders' meeting approved the ten-for-one split of the 29,040,000 outstanding ordinary shares in Davide Campari-Milano S.p.A. (nominal value: € 1.00 each), into 290,400,000 newly-issued ordinary shares with a nominal value of € 0.10 and the same characteristics as the ordinary shares issued previously.

The share capital therefore remains unchanged at € 29,040,000, but is now split into 290,400,000 shares with a nominal value of € 0.10 each.

From 9 May 2005, the shares were traded ex-split under the new ISIN code IT0003849244.

Revised shareholder base

At 31 December 2005, the main shareholders were:

Shareholder [1]	Number of ordinary shares	% of share capital
Alicros S.p.A.	148,104,000	51.000%
Cedar Rock Capital	16,192,820	5.576%
Davide Campari-Milano S.p.A. [2]	9,043,987	3.114%
Lazard Asset Management	6,036,870	2.079%
Morgan Stanley Investment Management	5,978,750	2.059%

(1) No shareholders other than those indicated above have notified Consob and Davide Campari-Milano S.p.A. (pursuant to article 117 of Consob regulation 11971/99 on notification of significant holdings) of having shareholdings greater than 2%.

(2) Purchase of own shares for the purposes of the stock option scheme.

Subsequent to notification received after 31 December 2005, at the date of approval of the annual accounts for 2005, Cedar Rock Capital held 7.53% of the share capital of Davide Campari-Milano S.p.A. (21,857,798 shares).

Dividend

The dividend proposed for 2005 is € 0.10 per share outstanding, unchanged from the previous year.

The dividend will be paid from 11 May 2006 (coupon no. 2 should be detached on 8 May 2006) except on own shares.

Stock information [1]		2005	2004	2003	2002	2001
Reference share price						
Price at 31 December	€	6.24	4.73	3.85	3.00	2.64
Maximum price	€	6.78	4.78	3.85	3.78	3.10
Minimum price	€	4.48	3.57	2.74	2.53	2.18
Average price	€	5.74	4.04	3.30	3.16	2.72
Capitalisation and volume:						
Average daily trading volume [2]	Number of shares	487,006	429,160	378,940	530,930	723,750
Average daily trading value [2]	€ million	2.8	1.7	1.3	1.7	2.1
Stock market capitalisation at 31 December	€ million	1,812	1,372	1,117	871	766
Dividend: [3]						
Dividend per share	€	0.100	0.100	0.088	0.088	0.088
Total dividend [4]	€ million	28.1	28.1	24.7	24.7	24.7

(1) Ten-for-one share split effective as of 9 May 2005.

(2) Initial Public Offering on 6 July 2001 at the price of € 3.10 per share; average daily volumes after the first week of trading were 422,600 shares in 2001; the average daily value after the first week of trading was € 1,145,000 in 2001.

(3) Proposed dividend for the 2005 financial year.

(4) In 2001, 2002 and 2003, 280,400,000 shares carried dividend rights, equivalent to the number of shares comprising the share capital minus 10,000,000 own shares; in 2004, 281,048,090 shares carried dividend rights; for 2005, the number of shares making up the share capital at the ex-date, minus own shares, will carry dividend rights (at the time of the meeting of the Board of Directors on 22 March 2006 this figure stood at 281,356,013).

Stock market indicators [1]	2005 IAS/IFRS	2004 IAS/IFRS	2003 Italian GAAP	2002 Italian GAAP	2001 Italian GAAP
Shareholders' equity per share (€)	2.39	2.15	1.89	1.65	1.48
Price/book value	2.61	2.20	2.04	1.82	1.78
Earnings per share (EPS) (€) [2]	0.42	0.35	0.27	0.23	0.22
P/E (price/earnings ratio) [2]	14.8	13.7	14.0	10.1	12.1
Payout ratio (total dividend/net profit) (%) [3]	23.8	29.0	30.9	28.5	38.9
Dividend yield (dividend/share price) (%) [3]	1.6	2.1	2.3	2.9	3.3

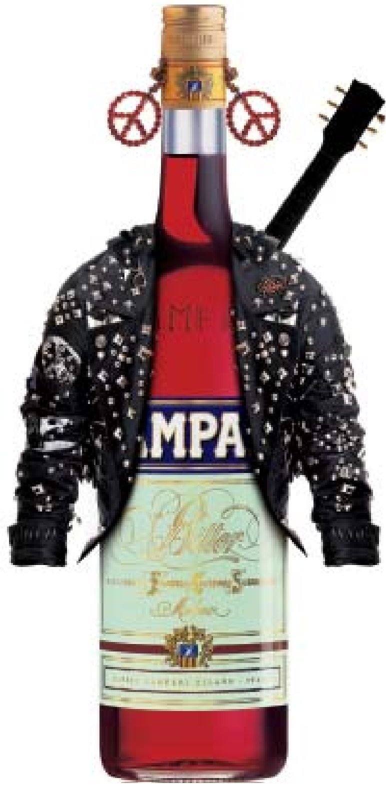
(1) Ten-for-one share split effective as of 9 May 2005.
(2) For the 2004 and 2005 financial years, this is calculated using the weighted average number of ordinary shares outstanding as defined in IAS 33.
(3) Price per share at 31 December; the proposed dividend for 2005.

Investor relations

In 2005, the Campari Group's disclosures to the financial community focused on its financial results and business development initiatives.

During the year, the Group spoke to investors at important international and sector conferences and organised a number of meetings with investors in Italy and the main financial centres in Europe, the United States and Asia.

As part of the Group's efforts to provide regular and timely information to its investors, the website ***www.campari.com/investors*** continues to be an important medium for the disclosure of information to the market.



FINANCIAL STATEMENTS

Consolidated profit and loss account

	Note	31 December 2005 (€/000)	31 December 2004 (€/000)
Net sales		**809,944**	**751,129**
Cost of goods sold		(345,073)	(316,564)
Gross margin		**464,871**	**434,565**
Advertising and promotional costs		(139,736)	(131,323)
Sales and distribution costs		(90,290)	(84,062)
Trading profit	7-8	**234,845,**	**219,180,**
General and administrative expenses and other operating expenses and income	8	(55,699)	(54,734)
One-offs	8	4,710	2,215
EBIT		**183,856**	**166,661**
Net financial income (charges)	8	(9,907)	(9,622)
Profit (losses) of companies valued at equity	6	283	19
Profit before tax		**174,232**	**157,058**
Tax	9	(51,180)	(43,076)
Net profit		**123,052**	**113,982**
Minority interests		(5,039)	(17,061)
Group net profit		**118,013**	**96,921**
Basic and diluted earnings per share (€)	10	0.42	0.35

Consolidated balance sheet

	Note	31 December 2005 (€/000)	31 December 2004 (€/000)
ASSETS			
Non-current assets			
Net tangible fixed assets	11	152,479	144,224
Biological assets	12	13,497	9,528
Investment property	13	4,586	4,071
Goodwill and trademarks	15-16	750,610	575,628
Intangible assets with a finite life	14	3,810	3,422
Investments in affiliated companies and joint ventures	6	591	385
Deferred tax assets	9	16,543	15,532
Other non-current assets	17	11,076	34,870
		953,192	**787,660**
Current assets			
Inventories	18	135,283	114,410
Trade receivables	19	237,416	166,253
Short-term financial receivables	21	3,150	3,893
Cash, bank and securities	20	247,535	245,950
Other receivables	19	24,244	22,868
		647,628	**553,374**
Non-current assets intended for sale	22	78	127
Total assets		**1,600,898**	**1,341,161**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Shareholders' equity			
Share capital	23	29,040	29,040
Reserves	23	664,525	595,752
Parent company's portion of shareholders' equity		693,565	624,792
Minority interests		2,215	4,372
		695,780	**629,164**
Non-current liabilities			
Bonds	24	374,556	377,956
Other non-current liabilities	24	122,812	27,209
Staff severance fund and other pension funds	29	14,288	15,224
Reserve for risks and future liabilities	25	10,115	14,278
Deferred tax	9	43,304	25,051
		565,075	**459,718**
Current liabilities			
Payables to banks	24	112,839	55,571
Other financial payables	24	17,193	15,277
Payables to suppliers	26	150,199	127,646
Payables to tax authorities	28	25,058	20,459
Other current liabilities	26	34,754	33,326
		340,043	**252,279**
Total liabilities and shareholders' equity		**1,600,898**	**1,341,161**

Consolidated cash flow statement

	Note	31 December 2005 (€/000)	31 December 2004 (€/000)
Cash flow generated from (used in) operating activities			
Group net profit		118,013	96,920
Adjustments to reconcile net profit and cash flow			
Depreciation and amortisation		17,406	17,820
Gains on sales of fixed assets		(2,301)	(1,532)
Fund provisions		4,166	3,616
Use of funds		(9,983)	(5,344)
Deferred tax		19,315	11,320
Valuation effects		(143)	
Other items not resulting in cash flows		(1,673)	2,357
Changes in tax payables and receivables		3,921	(16,098)
Changes in operating working capital		(50,238)	4,243
Other changes in non-cash items		(1,362)	1,567
		97,122	**114,869**
Cash flow generated from (used in) investing activities			
Purchase of tangible and intangible fixed assets		(18,849)	(30,213)
Gains on sales of tangible fixed assets		3,847	2,551
Purchase of companies or holdings in subsidiaries	5	(130,684)	(2,829)
Net change in equity investments		3,993	(4,557)
Other changes		2,062	1,087
		(139,632)	**(33,961)**
Cash flow generated from (used in) financing activities			
New long-term financing		25,430	27,564
Repayment of medium-long-term financing		(7,765)	(2,901)
Net change in short-term bank debt		57,268	26,574
Change in other financial payables and receivables		4,016	1,727
Dividend paid by Group		(28,105)	(24,675)
		50,845	**28,289**
Exchange rate differences and other changes in shareholders' equity			
Effects of the application of IAS 32-39 (1 January 2005) on shareholders' equity		(452)	
Effect of exchange rate differences on operating working capital		(15,666)	2,789
Other exchange rate differences and changes in shareholders' equity		13,362	(6,085)
		(2,756)	**(3,296)**
Net increase (decrease) in cash and cash equivalents		**5,579**	**105,902**
Cash and cash equivalents at start of period	20	239,483	133,583
Cash and cash equivalents at end of period	20	245,061	239,484

Statement of changes in shareholders' equity

	Group shareholders' equity						Minority	Total
	Share capital	Legal reserve	Own shares	Retained earnings	Other reserves	Total	interest	
	(€ 000)	(€ 000)	(€ 000)	(€ 000)	(€ 000)	(€ 000)	(€ 000)	(€ 000)
Balance at 1 January 2004	**29,040**	**5,808**	**31,000**	**483,135**		**548,983**	**4,668**	**553,651**
Dividend payout to Parent Company shareholders	–		–	(24,675)		**(24,675)**	–	(24,675)
Dividend payout to minorities						**–**	(17,354)	(17,354)
Conversion difference	–		–	–	3,142	**3,142**		3,142
Purchase of own shares			4,606	(4,606)		**–**		–
Use of own shares			(5,826)	5,826		**–**		–
Stock options					419	**419**		419
Profit for the year	–		–	96,923		**96,923**	17,058	113,981
Balance at 31 December 2004	**29,040**	**5,808**	**29,780**	**556,603**	**3,561**	**624,792**	**4,372**	**629,164**
Application of IAS 32 and IAS 39:								
Financial instruments stated at fair value – fair value hedging	–		–	(2,726)		**(2,726)**	–	(2,726)
Financial instruments stated at fair value – cash flow hedging					259	**259**		259
Own shares	–		(29,780)			**(29,780)**	–	(29,780)
Balance at 1 January 2005	**29,040**	**5,808**	**–**	**553,877**	**3,820**	**592,545**	**4,372**	**596,917**
Dividend payout to Parent Company shareholders	–		–	(28,105)		**(28,105)**		(28,105)
Dividend payout to minorities						**–**	(4,922)	(4,922)
Changes in minority shareholdings following acquisitions					–	**–**		–
Purchase of own shares	–		–	(1,095)	–	**(1,095)**	–	(1,095)
Use of own shares	–		–	1,585		**1,585**	–	1,585
Stock options	–		–	–	1,009	**1,009**	–	1,009
Conversion difference	–		–	–	10,065	**10,065**	378	10,443
Net profit (loss) on cash flow hedging	–		–	–	(452)	**(452)**	–	(452)
Application of IAS 32 to put option						**–**	(2,652)	(2,652)
Profit from the year	–		–	118,013		**118,013**	5,039	123,052
Balance at 31 December 2005	**29,040**	**5,808**	**–**	**644,275**	**14,442**	**693,565**	**2,215**	**695,780**

NOTES TO THE ACCOUNTS

1. General information

Davide Campari S.p.A. is a company listed on the Italian stock market, with registered office at Via Filippo Turati 27, 20121 Milan, Italy.

It operates through the Group's subsidiaries in more than 190 countries, boasting a leading position on the Italian and Brazilian markets and prime positions in the US, Germany and Switzerland.

The Group has an extensive product portfolio in three segments: spirits, wines and soft drinks.

The spirits segment encompasses internationally-recognised brands such as Campari, SKYY Vodka and Cynar, as well as brand leaders in local markets including Aperol, CampariSoda, Glen Grant, Ouzo 12 and Zedda Piras and, in Brazil, Dreher, Old Eight and Drury's.

In the wines segment, apart from Cinzano, which is well-known all over the world, the main brands are Sella & Mosca, Riccadonna, Mondoro, Liebfraumilch and Teruzzi & Puthod.

Lastly, the soft drinks segment covers the extended ranges of Crodino and Lemonsoda, which are leading brands on the Italian market.

The consolidated accounts of the Campari Group for the year ending 31 December 2005 were approved on 22 March 2006 by the Board of Directors of the Parent Company Davide Campari-Milano S.p.A., 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 of the Parent Company.

The accounts are presented in euro, the currency used by the Parent Company and many of its subsidiaries.

2. Preparation criteria

The accounts were prepared on a cost basis, with the exception of financial derivatives used for hedging purposes, the underlying hedged items, assets held for sale, biological assets and new acquisitions; these categories were stated at fair value as required by the relevant principles.

Unless otherwise indicated, the figures reported in these notes are expressed in thousand euro.

Compliance with IFRS

The consolidated accounts of the Campari Group for the year ending 31 December 2005 and the comparison period were prepared in accordance with the International Financial Reporting Standards, applied by the Group from 1 January 2005.

The consolidated report and accounts for the year ending 31 December 2005 is the first Campari Group document prepared in accordance with the international accounting standards issued by the International Accounting Standard Board (IASB) and ratified by the European Union. These also include all the interpretations of the international standards (International Accounting Standards – IAS) and interpretations of the International Financial Reporting Interpretation Committee (IFRIC) and its predecessor, the Standing Interpretations Committee (SIC).

For ease of comparison, the profit and loss account and balance sheet figures for the year ending 31 December 2004 have been restated, where applicable, in accordance with these standards.

Note 36 describes the impact of the transition to IAS/IFRS on the figures at 1 January 2004 and 31 December 2004, and provides the reconciliations required by IFRS 1 (First-time Adoption of International Financial Reporting Standards), accompanied by the relevant explanatory notes.

No exceptions to the application of the international accounting standards were made in the preparation of these consolidated accounts.

Consolidation principles

The consolidated accounts include the profit and loss accounts and balance sheets of the Parent Company and the Italian and foreign companies over which the Parent Company exercises direct or indirect control, as defined in IAS 27 (Consolidated and separate financial statements).

The accounts of the subsidiaries, which have the same financial year as the Parent Company, were approved by the respective boards of directors and drafted in accordance with the international accounting standards adopted by the Group.

Joint ventures and companies over which the Group exercises a significant influence are consolidated using the equity method.

Form and content

In accordance with the format chosen by the Campari Group, the profit and loss account is classified by function, and the balance sheet shows current and non-current assets and liabilities separately.

We consider that this format will provide a more meaningful representation of the items that have contributed to the Group's results and its balance sheet and financial position.

The cash flow statement was prepared using the indirect method.

With regard to the segment information required by IAS 14, the Group's primary reporting is by business segment and its secondary reporting by geographical segment.

Basis of consolidation

Please see the "Structure of the Campari Group" section of the report on operations for details of changes to the basis of consolidation.

The tables below list the companies included in the basis of consolidation at 31 December 2005.

	Share capital at 31 December 2005		% owned by the Parent Company		
Name, activity, location	Currency	Amount	Direct	Indirect	Direct shareholder
PARENT COMPANY					
Davide Campari-Milano S.p.A., holding and manufacturing company, Milan	€	29,040,000			
FULLY CONSOLIDATED SUBSIDIARIES					
Italy					
Barbero 1891 S.p.A., manufacturing and trading company – Canale	€	22,350,000	100.00		
Campari Italia S.p,A., trading company – Milan	€	1,220,076	100.00		
Sella & Mosca S.p.A., manufacturing and trading company – Alghero	€	13,838,916		100.00	Zedda Piras S.p.A.
Sella & Mosca Commerciale S.r.l., trading company – Alghero	€	10,000		100.00	Sella & Mosca S.p.A.
Teruzzi & Puthod S.r.l., manufacturing and trading company – San Gimignano	€	1,000,000		100.00	Sella & Mosca S.p.A.
Giannina S.r.l., manufacturing and trading company – San Gimignano	€	20,000		100.00	Sella & Mosca S.p.A.
Zedda Piras S.p.A., manufacturing and trading company – Cagliari (operational headquarters in Alghero)	€	16,276,000	100.00		
Longhi & Associati S.r.l., services company – Milan	€	10,400		70.00	Lacedaemon Holding B.V.

Name, activity, location	Share capital at 31 December 2005 Currency	Amount	% owned by the Parent Company Direct	Indirect	Direct shareholder
Europe					
Campari Deutschland GmbH, trading company – Oberhaching (Munich)	€	5,200,000		100.00	DI.CI.E. Holding B.V.
Campari Finance Teoranta, finance company, Dublin	€	1,000,000		100.00	DI.CI.E. Holding B.V.
Campari France, manufacturing company, Nanterre	€	2,300,000		100.00	DI.CI.E. Holding B.V.
Campari International S.A.M., trading company, Munich	€	100,000,000		100.00	DI.CI.E. Holding B.V.
Campari Schweiz A.G., trading company, Zug	CHF	2,000,000		100.00	DI.CI.E. Holding B.V.
Koutsikos Distilleries S.A., manufacturing company – Volos	€	2,239,405		75.00	N. Kaloyannis Bros, S.A.
DI.CI.E. Holding B.V., holding company – Amsterdam	€	15,015,000	100.00		
Lacedaemon Holding B.V., holding company – Amsterdam	€	10,465,000		100.00	Campari Schweiz A.G.
N, Kaloyannis Bros. S.A., trading company – Volos	€	8,884,200		75.00	O-Dodeca B.V.
O-Dodeca B.V., holding company – Amsterdam	€	2,000,000		75.00	Lacedaemon Holding B.V.
Prolera LDA, services company – Funchal	€	5,000	100.00		
Société Civile du Domaine de la Margue, manufacturing and trading company, Saint Gilles (France)	€	4,793,184		100.00	Sella & Mosca S.p.A.
Dunwilco (1290) Ltd, Stirling (*)	GBP	1		100,00	DI.CI.E. Holding B.V.
Dunwilco (1291) Ltd, Stirling (*)	GBP	1		100,00	DI.CI.E Holding B.V.
Americas					
Campari do Brasil Ltda, manufacturing and trading company – Barueri	BRL	243,202,100	100.00		
Gregson's S.A., trademark holder – Montevideo	UYP	175,000		100.00	Campari do Brasil Ltda.
Redfire, Inc., holding company – Wilmington, Delaware	US$	115,450,000	100.00		
Skyy Spirits, LLC, manufacturing company – Wilmington, Delaware (operational headquarters in San Francisco)	US$	15,348,729		89.00	Redfire, Inc.
Other					
Qingdao Sella & Mosca Winery Co, Ltd, manufacturing and trading company – Qingdao (China)	RMB	24,834,454		93.67	Sella & Mosca S.p.A.

Other holdings Name, activity, location	Share capital at 31 December 2005 Currency	Amount	% owned by the Parent Company Indirect	Direct shareholder	Valuation
Fior Brands Ltd., trading company – Stirling	GBP	100	50.00	DI.CI.E. Holding B.V.	equity
International Marques V.o.f., trading company – Haarlem	€	210,000	33.33	DI.CI.E. Holding B.V.	equity
M.C.S. S.c.a.r.l., trading company – Brussels	€	464,808	33.33	DI.CI.E. Holding B.V.	equity
SUMMA S.L., trading company, Madrid	€	342,000	30.00	DI.CI.E. Holding B.V.	equity

(*): renamed Glen Grant Distillery Co. Ltd (formerly Dunwilco 1290) and Old Smuggler Co. Ltd (formerly Dunwilco 1291) on the 19 January 2006.

Subsidiaries

All subsidiaries are consolidated on a line-by-line basis,

This method specifies that all assets, liabilities, expenses and revenues for consolidated companies are to be fully reflected in the consolidated accounts. The book value of the equity investments is eliminated against the corresponding portion of the shareholders' equity of the subsidiaries. Individual assets and liabilities are assigned the value given to them on the date control was acquired.

Any remaining surplus is recorded under the assets item "goodwill", and any negative amount is allocated to the profit and loss account.

Minority interests in shareholders' equity and net profit are reported under appropriate items in the accounts. Specifically, minority interests in shareholders' equity are determined on the basis of current values assigned to assets and liabilities on the date control was assumed, excluding any related goodwill.

Joint ventures

Joint ventures are reported in the consolidated accounts using the equity method, starting on the date when joint control begins and ending when such control ceases to exist.

Affiliated companies

Affiliated companies are reported in the consolidated accounts using the equity method, starting on the date when significant influence begins and ending when such influence ceases to exist.

If the Group's interest in any losses of affiliates exceeds the book value of the equity investment in the accounts, the value of the equity investment is eliminated, and the Group's portion of further losses is not reported, unless, and to the extent to which, the Group is responsible for covering such losses.

Transactions eliminated during the consolidation process

When preparing the consolidated accounts, unrealised profits and losses resulting from intra-group transactions are eliminated, 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 affiliated or joint venture companies are eliminated to the extent of the Group's percentage interest in those companies.

Dividends collected from consolidated companies are eliminated.

Currency conversion criteria and exchange rates applied to the accounts

Figures expressed in currencies other than the accounting currency (euro) are converted as follows:

- profit and loss items are converted at the average exchange rate for the year, while balance sheet items are converted at year-end exchange rates; exchange rate differences resulting from the application of the different methods for conversion to euro of profit and loss and balance sheet items are recorded under the shareholders' equity reserve "foreign currency conversion reserve", until the holding in question is sold;
- any conversion differences between the value of shareholders' equity at the beginning 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 is also recorded under the "foreign currency conversion reserve".

When preparing the consolidated cash flow statement, average exchange rates were used to convert the cash flows of foreign subsidiaries.

The exchange rates used for conversion transactions are shown below.

	31 December 2005		31 December 2004	
	Average rate	Final rate	Average rate	Final rate
US dollar	1.2446	1.1797	1.2433	1.3604
Swiss franc	1.5483	1.5551	1.5440	1.5440
Brazilian real	3.0403	2.7432	3.6340	3.6682
Uruguayan peso	30.4492	27.9648	35.6909	36.9756
Chinese renminbi	10.2033	9.5204	10.2944	11.2641
UK pound	0.6839	0.6853	0.6585	0.7088

3. Change in accounting standards

The same accounting standards as last year were used in the preparation of the accounts, with the exception of the new or revised standards adopted in 2005, namely:

IAS 32/IAS 39

The Group opted to apply IAS 39 (Financial instruments: recognition and measurement) and IAS 32 (Financial instruments: disclosure and presentation) from 1 January 2005.

The effects of applying IAS 32 and IAS 39 to the opening balances at 1 January 2005 are shown in the appendix to this report (Transition to international accounting standards).

IAS 21

The Group adopted the revised version of IAS 21 (Effects of changes in foreign exchange rates) from 1 January 2005.

As a result, any goodwill deriving from acquisitions of foreign subsidiaries, and any adjustments to the book value of the assets and liabilities resulting from the acquisition are now treated as the foreign subsidiary's assets and liabilities and converted at the year-end exchange rate.

In accordance with the transitional provisions of IAS 21 and the IFRS 1 implementation guidance, this adjustment was applied in advance.

Goodwill acquired in company mergers and acquisitions before 1 January 2005 was therefore treated as a Parent Company asset.

At 31 December 2005, the exchange rate adjustment of goodwill booked on the acquisition of the 30.1% stake in Skyy Spirits came to € 14.5 million.

IAS 33 – Earnings per share

The Group adopted the revised IAS 33 from 1 January 2005.

IFRS 7 – Financial instruments: disclosures

The Campari Group has not applied this standard, which is effective from 1 January 2007, in advance. The information required by IAS 32 (Financial Instruments: disclosure and presentation) is included in the notes.

IAS 1 (amendment) – Capital disclosures

This amendment to IAS 1 (Presentation of Financial Statements) is effective from 1 January 2007 and has not been applied in advance by the Campari Group.

4. Summary of accounting principles

The main accounting principles applied by the Group to individual balance sheet items are summarised below.

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 or produced internally are posted to assets, in accordance with IAS 38 (Intangible assets), when it is likely that the use of the assets will generate future benefits, and when the cost can be determined reliably.

These assets are reported at purchase or internal production cost including all allocable ancillary costs.

Intangible assets with a finite life

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 costs of development projects and studies are recorded in the profit and loss account in full in the year in which they are incurred.

Advertising costs are recorded in full in the year in which they are incurred; according to the matching principle, if these costs relate to two financial years they are allocated based on the duration of the advertising campaign.

Costs relating to industrial patents, concessions, licences and other intangible assets are listed on the assets side of the balance sheet 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 training. These costs are booked in the year in which the internal or external costs are incurred for training personnel in their use and other related costs. Costs recorded under intangible assets are amortised over their useful life.

These assets are generally amortised over three years.

Intangible assets with an indefinite life

Goodwill and trademarks, which result from acquisitions and qualify as intangible assets with an indefinite life, are not amortised. The possibility of recovering their reported value 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 “Impairment” section.

For goodwill, a test is performed on the smallest aggregate to which the goodwill relates. On the basis of this, management directly or indirectly assesses the return on investment including goodwill.

Write-downs of goodwill are not subject to adjustments in value.

Tangible fixed assets

Cost

Property, plant and equipment are recorded at acquisition or production cost, gross of capital grants (if received) and directly charged expenses.

Any costs incurred after purchase are capitalised provided that they increase the future economic benefits generated by using the asset.

All other costs are posted to the profit and loss account when incurred.

The replacement costs of identifiable components of complex assets are allocated to assets and depreciated over their useful life. The residual value recorded for the component being replaced is allocated to the profit and loss account; other costs are charged to the profit and loss account when the expense is 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) costs to be incurred when the structures are abandoned, which are reported as a contra entry to a specific reserve.

The impact of revising the estimate of these costs is indicated in the "Reserve for risks and future liabilities" section.

Ordinary maintenance and repair expenses are charged to the profit and loss account in the period in which they are incurred.

Improvements to third-party assets are classified under tangible assets, in keeping with the nature of the cost incurred.

The depreciation period corresponds to the shorter of the remaining useful life of the tangible asset and the remaining term of the lease contract.

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 accounts under financial payables.

These assets are depreciated using the policies and rates indicated below.

Leasing arrangements in which the lessor, in essence, retains all the risks and benefits tied to the ownership of the assets, are classified as operating leases, and the related costs are reported in the profit and loss account over the term of the contract.

Depreciation

The depreciation period runs from the time the asset is available and ready for use, and the depreciation charge is allocated directly to the asset.

Depreciation ceases on the date when the asset is classified as held for sale, in accordance with IFRS 5, or on the date on which the asset is eliminated for accounting purposes, whichever occurs first.

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 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 recorded value and fair value less disposal costs.

Rates are as follows:

– major real estate assets and light construction	3%-5%
– plant and machinery	10%-25%
– furniture, and office and electronic equipment	10%-30%
– motor vehicles	20%-40%
– miscellaneous equipment	20%- 30%

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 relating to tangible assets are reported as deferred revenues and credited to the profit and loss account over the period corresponding to the useful life of the asset concerned.

Impairment

The Group ascertains, at least annually, whether there are indications of a potential loss in value of intangible and tangible assets. If the Group finds that such indications exist, it estimates the recoverable value of the relevant asset.

In addition, intangible assets with an indefinite useful life, or that are not available and ready for use, are subject to a test for a reduction in value each year, or more frequently if there is an indication that the asset may have been subject to a loss in value.

The ability to recover the assets is ascertained by comparing the reported value to the related recoverable value, which is represented by the greater of the fair value less disposal costs and the usage value.

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 usage value 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 relevance given to outside information.

The discounting is done using a rate that 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.

A loss of value is reported if the recoverable value of an asset is lower than its book value.

This loss is posted to the profit and loss account 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 book value of the asset or unit generating cash flows 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 a loss of value is posted to the profit and loss account, 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 losses due to a reduction in value. The depreciation rate for buildings is 3%, while land is not depreciated.

Biological assets

Biological assets are valued, at the first entry and at each balance sheet date, at their fair value net of estimated costs at point of sale. The related agricultural product is valued at the cost closest to fair value net of estimated costs at point of sale at the moment of harvest.

Financial instruments

Financial assets and liabilities are booked in accordance with IAS 39 (Financial instruments: recognition and measurement).

Investments in joint ventures and affiliated companies are valued using the equity method.

Investments in other companies which are not held for trading are recorded at fair value, and this value is allocated to shareholders' equity. When fair value cannot be reliably determined, the equity investments are valued at cost adjusted for losses in value.

If the reasons for the write-downs no longer apply, the equity investments valued at cost are revalued up to the amount of the write-downs, and the result of this valuation is allocated to the profit and loss account.

The risk resulting from any losses exceeding shareholders' equity is reported in a specific reserve to the extent that the parent company is required to fulfil certain legal or implicit obligations with respect to the subsidiary, or, in any case, to cover its losses.

Receivables and financial assets to be held to maturity are reported at cost, represented by the fair value of the initial consideration given in exchange plus transaction costs (e.g. commissions, 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).

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 reported in the accounts, they are valued at purchase cost including ancillary transaction costs.

After the first reporting, the financial instruments available for sale and held for trading are valued at their current value.

If the market price is not available, the current 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, or, in the absence of reliable information, they are maintained 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 profit and loss account for the period.

Loans and receivables that the Group is not holding for trading purposes (loans and receivables originating from typical business operations), held-to-maturity securities and all financial assets for which prices in an active market are not available, and whose fair value cannot be determined reliably, are measured, if they have a pre-set maturity, at amortised cost using the effective interest method.

When financial assets do not have a pre-set maturity, they are valued at purchase cost.

Receivables with maturities over one year, non-interest-bearing receivables or receivables that accrue below-market interest are discounted using market rates.

Valuations are performed regularly in order to verify whether there is objective evidence that a financial asset or group of assets has declined in value.

If such objective evidence exists, the loss in value must be recorded as a cost in the profit and loss account for the period.

Financial liabilities are reported at amortised cost using the effective interest method.

Financial liabilities hedged by derivatives are reported at their current value in accordance with hedge accounting procedures that are applicable to fair value hedges: profits and losses resulting from subsequent valuations at the current value, which are due to interest rate changes, are recorded in the profit and loss account and offset by the effective portion of the loss or profit resulting from subsequent valuations of the hedged instrument at the current value.

Financial derivatives

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, a formal designation has been made and the documentation for the hedge 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 current value pursuant to IAS 39.

When financial instruments meet the requirements for being reported using hedge accounting procedures, the following accounting treatment is applied:

- *Fair value hedge* – if a financial derivative is designated to hedge exposure to changes in the current value of an asset or liability attributable to a particular risk that could have an impact on the profit and loss account, the profits or losses resulting from the subsequent valuations of the current value of the hedging instrument are reported in the profit and loss account. The gain or loss on the hedged entry, which is attributable to the hedged risk, changes the book value of this entry and is recorded in the profit and loss account.

- *Cash flow hedge* – if a financial instrument is designated as a hedge of exposure to the cash flow fluctuations of an asset or liability reported in the accounts, or of a highly likely expected transaction that could have an impact on the profit and loss account, the effective portion of the profits or losses on the financial instrument is reported under shareholders' equity.

Accumulated profits or losses are removed from shareholders' equity and recorded in the profit and loss account in the same period in which the transaction being hedged is reported.

The profit or loss associated with a hedge, or the portion of the hedge that has become ineffective, is posted to the profit and loss account 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 moment had been posted to shareholders' equity, are reported in the profit and loss account 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 profit and loss account.

If hedge accounting cannot be applied, the profits or losses resulting from the valuation of the financial derivative at its current value are posted to the profit and loss account.

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 manufacturing cost, determined using the weighted average method, and market value.

Work in progress is recorded at the purchase cost of the raw materials used including the actual manufacturing costs incurred at the point of manufacturing reached.

Inventories of raw materials and semi-finished products no longer useable 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 profit and loss account when used.

Non-current assets held for sale

Non-current assets classified as held for sale include non-current assets (or disposal groups) whose book value will be recovered primarily from their sale rather than their ongoing use, and whose sale is highly probable in the short term.

Non-current assets classified as held for sale are valued at the lower of their net book value and current value, less sales costs.

Employee benefits

Post-employment benefit plans

For Italian companies, the staff severance fund (TFR) is considered a post-employment defined benefit plan and is reported in accordance with the provisions for other defined benefit plans.

The Group's obligation and annual cost reported in the profit and loss account are determined by independent actuaries using the projected unit credit method.

The net accumulated value of actuarial profits and losses is reported in the profit and loss account.

The costs associated with an increase in the current value of the obligation, resulting from the approach of the time when benefits will be paid, are included under financial charges.

The liability related to benefits to be paid upon termination of employment, which is reported on the balance sheet, represents the present value of the defined benefit obligation adjusted for actuarial gains and losses and costs related to past work that were not reported previously.

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 do work for one or more Group companies.

Pursuant to IFRS 2 (Share-based payment), the total current value of the stock options on the allocation date is to be reported in the profit and loss account as a cost.

Changes in the current value following the allocation date have no effect on the initial valuation.

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

The stock options are recorded at fair value with a contra entry under "stock option reserve".

The Group applied the transitional provisions of IFRS 2, and therefore applied the principle to allocations of stock options approved after 7 November 2002 that had not accrued on the effective date of IFRS 2 (1 January 2005).

Reserve for risks and future liabilities

The reserves for risks and future liabilities concern specific costs and charges, the existence of which is certain or likely, and the amount and occurrence of which could not be determined on the reporting date.

Provisions are reported when:

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

Provisions 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 for the period.

When the financial impact of time is significant, and the payment dates of the obligations can be reliably estimated, the provision is discounted. The increase in the related reserve over time is allocated to the profit and loss account under "financial income (charges)".

If the liability relates to tangible assets and can be reasonably predicted, or if there is a site restoration obligation, the reserve is reported as a contra item in respect of the related asset.

Reserves are periodically updated to reflect changes in cost estimates, collection periods and discount rates. Estimated revisions made in respect of reserves are allocated to the same item in the profit and loss account where the provision was previously reported, or when the liability relates to tangible assets (e.g. dismantling and restoration), these revisions are reported as a contra entry to the related asset.

Restructuring reserves

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

Statement of revenues, income and charges in the profit and loss account

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 determined reliably.

Revenues are reported net of current and deferred discounts, allowances, excise duties, returns and trade allowances.

In particular:

- 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 on the reporting date when the revenue amount can be reliably estimated;
- financial income and charges are booked 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 related assets;
- dividends are entered on the date that the shareholders' meeting adopts the resolution; dividends received from affiliated companies are deducted from the value of the shareholding.

Costs are recognised in the profit and loss account when they relate to goods and services sold or consumed during the period, as a result of regular distribution, 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 allocated to employees, directors and individuals who regularly do work for one or more Group companies starting in 2004. The cost is determined in relation to the fair value of the option assigned. 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 any event, in conducting technological research and development are considered current costs and allocated to the profit and loss account in the period when they are incurred.

Tax

Current income taxes are calculated on the basis of an estimate of taxable income, and the related payable is recorded under "payables to tax authorities".

Payables and receivables in respect of current taxes are recorded in the amount expected to be paid to/received from tax authorities by applying tax rates and regulations in force or effectively approved on the reporting date for the period.

Other non-income-based taxes, such as property and capital taxes, are included in operating expenses.

Deferred tax assets and liabilities are calculated on temporary differences between asset and liability values recorded in the accounts and the corresponding values recognised for tax purposes.

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 in the countries where the Group operates, 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.

Deferred tax assets and liabilities are classified under non-current assets and liabilities.

The balance of any set-off, if positive, is reported under "deferred tax income," or if negative, under "deferred tax expense."

If the results of transactions are posted directly to shareholders' equity, then current taxes, and deferred tax assets and liabilities are also allocated to shareholders' equity.

Transactions in foreign currencies (not hedged with derivatives)

Revenues and costs related to foreign currency transactions are reported at the exchange rate in effect 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 profit and loss account.

Earnings per share

Base earnings per share are calculated by dividing the Group's net profit by the weighted average of the 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 accounts and related notes in accordance with IFRS requires management to make estimates and assumptions that have an impact on the value of assets and liabilities in the accounts and on disclosures concerning assets and potential liabilities at the reporting date.

The actual results could therefore differ from these estimates.

Estimates are used to identify provisions for risks in respect of receivables, obsolete inventory, amortisation and depreciation, asset write-downs, employee benefits, taxes, restructuring reserves and other provisions and allowances.

The estimates and assumptions are reviewed periodically and the impact of any change is reflected in the profit and loss account.

Goodwill is subject to annual impairment tests to verify any losses in value. The calculations are based on the financial flows expected from the cash-generating units to which the goodwill is attributed, as inferred from the budget and multi-year plans.

5. Acquisitions

Skyy Spirits, LLC

In February 2005, the Group exercised a call option enabling it to acquire a further shareholding of 30.1% in Skyy Spirits, LLC.

The Group's stake in the company thus increased to 89%.

The financial outlay for the acquisition was US$ 156.6 million (€ 118.1 million at the effective exchange rate on the date of the transaction).

Including expenses, the net outlay for this acquisition was € 118,534 thousand.

The acquisition was partly financed with available cash and partly through bank debt, both short- and long-term, taken out by the subsidiary Redfire, Inc.

The items in the consolidated cash flow statement, adjusted as a result of the acquisition, were the reduction in minority interests (€ 1,295 thousand) and the increase in intangible fixed assets, via the booking of goodwill (€ 131,778 thousand at the exchange rate on 31 December 2005).

Furthermore, in accordance with recent interpretations of IAS 32 (Financial instruments: disclosure and presentation) issued by the IASB (International Accounting Standard Board), the payable for the put options exercisable by the minority shareholders between January and November 2007 was recorded in the accounts.

This had no effect on liquidity because a corresponding payable of € 45,546 thousand was booked against the adjusted increase in intangible fixed assets due to the booking of goodwill of € 43,203 thousand and a reclassification of minority interests of € 2,343 thousand. The consolidated cash flow statement is shown without these items.

Teruzzi & Puthod S.r.l.

On 27 December 2005 the Group acquired 100% of Teruzzi & Puthod S.r.l. and Giannina S.r.l. The fair value on the date of the exchange of the assets given and the liabilities assumed are as follows:

	Fair value (€ 000)	Book value (€ 000)
Non-current assets		
Tangible fixed assets	9,899	9,899
Other fixed assets	9	9
	9,908	**9,908**
Current assets		
Inventories	2,518	2,518
Receivables from customers	1,562	1,562
Other current assets	155	155
Cash and bank	171	171
	4,405	**4,405**
Total assets	**14,313**	**14,313**
Shareholders' equity	**12,650**	**13,147**
Non-current liabilities		
Non-current financial payables	14	14
Staff funds	127	127
Other previsions	497	
	639	**142**
Current liabilities		
Current financial payables	205	205
Payables to suppliers	500	500
Other current liabilities	319	319
	1,024	**1,024**
Total liabilities and shareholders' equity	**14,313**	**14,313**

The total cost of the acquisition was € 12,650 thousand and includes the purchase of the shareholdings in the companies concerned for € 12 million and costs directly attributable to the operation of € 150 thousand.

The remaining € 500 thousand represented a payable in respect of the vendor, which is to be settled through the sale of a building (recorded at the same value), after certain conditions set out in the purchase contract have been met.

The financial outlay for the acquisition of the shares was therefore € 12,150 thousand, paid in cash, which had a direct effect on the Group's liquidity.

The balance sheet items shown above have therefore been eliminated from the relative changes in the cash flow statement and shown under the item "purchase of companies or holdings in subsidiaries" in the amount of the consideration paid.

If the acquisition had been consolidated at the start of the financial year, based on the results of the companies acquired, the Group's revenues would have increased by about € 4.7 million, while the two companies would have contributed € 0.9 million to net profit.

Glen Grant

On 22 December 2005, the Group announced that it had signed an agreement to acquire the Scotch whisky brands Glen Grant, Old Smuggler and Braemar.

As part of the deal, Campari also acquired the distillery where Glen Grant is produced in Rothes, Scotland.

The transaction value, net of GBP 3.2 million in cash, was € 130 million, including € 115 million for Glen Grant and € 15 million for Old Smuggler and Braemar.

The transaction was completed on March 15, following authorisation from the European Commission, and the consideration was paid in cash.

The acquisition was not recorded in the accounts for the year ending 31 December 2005, since it was finalised after this date; it therefore had no effect on the consolidated accounts for 2005.

The key data for the assets acquired, which will be consolidated from 15 March 2006, are shown below. Please note that these are preliminary data that may be subject to adjustment in the first consolidation.

	Fair value (€/milioni)
Tangible fixed assets	4.7
Trademarks	102.2
Total non-current assets	**106.9**
Inventories	22.8
Other current assets	0.3
Cash and bank	4.6
Total current assets	**27.7**
Total assets	**134.6**

6. Investments in affiliated companies and joint ventures

The Group has shareholdings in various joint ventures with the aim of promoting and marketing its own products in the markets where these joint ventures operate: Fior Brands Ltd., operating in the UK (50%), International Marques V.o.f., operating in the Netherlands (33.33%), MCS S.c.a.r.l., operating in Belgium (33.33%) and Summa S.L., operating in Spain (30%).

These companies are all consolidated using the equity method. The Group's portion of their net profit is consolidated on the basis of the accounts prepared by the companies with the same reporting date as that of the Group, and in the case of Summa S.L., based on data prepared specifically by the latter to report its

accounting position at 31 December to the Group (for the purpose of the preparation of the consolidated accounts), since for reasons relating to its majority shareholder, its reporting date is 30 September.

The Campari Group's portion of the assets, liabilities, revenues and costs of these companies is shown in total below.

	31 dicembre 2005 (€/000)	31 dicembre 2004 (€/000)
Group's portion of balance sheet:		
Non-current assets	277	322
Current assets	24,556	24,363
	24,832	**24,684**
Non-current liabilities	689	704
Current liabilities	23,551	23,596
	24,241	**24,300**
Group's portion of revenues and costs:		
Revenues	24,057	23,578
Cost of goods sold	(18,006)	(16,964)
Sales and administrative expenses	(5,571)	(6,414)
Financial charges	(100)	(97)
Profit before tax	379	103
Tax	(96)	(84)
Net profit	283	19
Book value of shareholdings	**591**	**385**

7. Segment reporting

Pursuant to IAS 14, the segment reporting tables for the primary segment structure are shown below.

The Group's primary reporting is for segments that are defined as a clearly identifiable part of the Group that provide a group of similar products, and which are subject to risks and benefits that differ from those of the Group's other segments.

Secondary reporting gives certain information by geographical region.

The accounting standards used for reporting segment information in the notes are consistent with those used for preparing the consolidated accounts.

The segments in which the Group operates are the manufacture and sale of:

- spirits: alcohol-based beverages with alcohol content below and above 15% by volume, with the latter defined by law as "spirit drinks"
- wines: both sparkling and still wines including "aromatic wines", such as vermouth
- soft drinks: non-alcoholic beverages
- other: sales related to the business of co-packing, raw materials and semi-finished products

Information given by region is based on the geographical location of the activities and – for revenues deriving from foreign customers – on the geographical location of the customers.

This information is shown for Italy, Europe, the Americas and the rest of the world.

Primary reporting

The following two tables show the Group's revenues and costs as well as balance sheet assets and liabilities broken down by segment as at 31 December 2005 and 31 December 2004.

31 December 2005	*Spirit* (€ 000)	*Wine* (€ 000)	*Soft drink* (€ 000)	Other sales (€ 000)	Total operations (€ 000)
Revenues (*)					
Net sales to third parties	551,528	125,163	124,940	8,313	809,944
Income and profits					
Income by segment	189,584	14,090	31,136	1,457	236,267
Unallocated expenses					(52,411)
Operating profit					183,856
Net financial income (charges)					(9,907)
Profit (loss) of companies valued at equity	191	65	28	–	283
Tax					(51,180)
Minority interests					(5,039)
Group net profit					118,013
Assets and liabilities					
Assets allocated to segments	948,431	254,838	60,000	–	1,263,269
Equity investments valued at equity	402	105	84	–	591
Other unallocated assets					337,038
Total assets					**1,600,898**
Liabilities allocated to segments	97,550	33,045	20,691	–	151,286
Other unallocated liabilities					753,832
Total liabilities					**905,118**
Other information					
Investments in tangible fixed assets (**):					
– allocated to segments	7,616	16,513	1,286	–	25,415
– unallocated to segments					1,403
Total					**26,818**
Investments in intangible fixed assets (**):					
– allocated to segments	175,079	27	17	–	175,123
– unallocated to segments					1,795
Total					**176,918**
Depreciation of tangible fixed assets:					0
– allocated to segments	5,647	5,251	2,642	–	13,540
– unallocated to segments					2,203
Total					**15,743**
Amortisation of intangible fixed assets:					
– allocated to segments	39	18	5	–	62
– unallocated to segments					1,601
Total					**1,663**
Other expenses that did not involve a cash outflow	956	1,009	–	–	1,965

(*) There were no inter-segment sales.
(**) In accordance with IAS 14.57, investments also include assets acquired during the period.

31 December 2004	*Spirit* (€ 000)	*Wine* (€ 000)	*Soft drink* (€ 000)	Other sales (€ 000)	Total operations (€ 000)
Revenues [*]					
Net sales to third parties	493,060	120,801	127,378	9,890	751,129
Income and profits					
Income by sector	176,716	13,563	29,235	1,576	221,089
Unallocated expenses					(52,411)
Operating profit					166,661
Net financial income (charges)					(9,622)
Profit (loss) of companies valued at equity	13	4	1	–	19
Tax					(43,076)
Minority interests					(17,061)
Group net profit					96,921
Assets and liabilities					
Assets allocated to segments	705,016	241,845	57,826	–	1,004,687
Equity investments valued at equity	264	48	73	–	385
Other unallocated assets					336,089
Total assets					**1,341,161**
Liabilities allocated to segments	83,451	34,311	25,460	–	143,222
Other unallocated liabilities					568,775
Total liabilities					**711,997**
Other information					
Investments in tangible fixed assets [**]:					
– allocated to segments	5,776	12,268	847	–	18,891
– unallocated to segments					3,177
Total					**22,068**
Investments in intangible fixed assets [**]:					
– allocated to segments	1,380	11,510	10	–	12,900
– unallocated to segments					2,585
Total					**15,485**
Depreciation of tangible fixed assets:					0
– allocated to segments	5,390	4,746	2,533	–	12,669
– unallocated to segments					3,020
Total					**15,689**
Amortisation of intangible fixed assets:					
– allocated to segments	86	62	29	–	177
– unallocated to segments					1,954
Total					**2,131**
Other expenses that did not involve a cash outflow	438	462	–	–	900

(*) There were no inter-segment sales.
(**) In accordance with IAS 14.57, investments also include assets acquired during the period.

Secondary reporting

The following tables show revenues, expenditure on investment in fixed assets and information on the group's assets broken down into geographical segments as at 31 December 2005 and 31 December 2004.

31 December 2005	Italu (€ 000)	Europe (€ 000)	Americas (€ 000)	Rest of world (€ 000)	Total operations (€ 000)
Revenues					
Net sales to third parties	381,505	151,673	242,001	34,765	809,944
Assets					
Allocated assets	582,460	80,266	592,107	8,436	1,263,269
Equity investments valued at equity	–	591	–	–	591
Unallocated assets					337,038
Total assets					**1,600,898**
Other information					
Investments in tangible fixed assets (*):					
– allocated to segments	20,486	4,415	514	–	25,415
– unallocated to segments					1,403
Total					**26,818**
Investments in intangible fixed assets (*)					
– allocated to segments	72	71	174,980	–	175,123
– unallocated to segments					1,795
Total					**176,918**

31 December 2004	Italu (€ 000)	Europe (€ 000)	Americas (€ 000)	Rest of world (€ 000)	Total operations (€ 000)
Revenues					
Net sales to third parties	363,617	141,849	214,592	31,071	751,129
Assets					
Allocated assets	541,730	69,718	388,759	4,480	1,004,687
Equity investments valued at equity	–	385	–	–	385
Unallocated assets					336,089
Total assets					**1,341,161**
Other information					
Investments in tangible fixed assets (*):					
– allocated to segments	10,078	6,569	1,244	1,000	18,891
– unallocated to segments					3,177
Total					**22,068**
Investments in intangible fixed assets (*):					
– allocated to segments	11,667	1,233	–	–	12,900
– unallocated to segments					2,585
Total					**15,485**

(*) In accordance with IAS 14.57, investments also include assets acquired during the period.

8. Revenues and costs

The report on operations provides detailed comments on changes in sales and individual cost categories in the profit and loss account.

A breakdown is provided below of certain revenues and costs, which, in terms of their nature and amount, are significant for the purposes of understanding net profit for the year.

Revenues from the sales of goods and services

	31 December 2005 (€ 000)	31 December 2004 (€ 000)
Sale of goods	803,344	743,505
Provision of services	6,600	7,624
Total net sales	**809,944**	**751,129**

The provision of services mainly relates to bottling the products of third parties.

Other income

The following revenues had a positive effect on operating profit:

	31 December 2005 (€ 000)	31 December 2004 (€ 000)
Royalties	693	967
Other ordinary income		
Capital grants	228	172
Income from the lease of property	1,122	271
Reversals of reserves for risks and charges or other liabilities	3,144	801
Total other ordinary income	**4,494**	**1,244**
One-offs		
Release of unutilised reserves	2,056	1,833
Other windfall gains	1,693	1,073
Capital gains from the sale of tangible fixed assets	2,301	1,058
Total one-offs	**6,050**	**3,964**

Ordinary income for the year includes € 2,518 thousand for the reversal of payables for deposits on packaging previously posted under “other current liabilities.”

Following the suspension of the production of returnable bottles in 2003, the payables for which reimbursement was not requested were reversed in the current year.

The release of funds classified under one-off charges relates to the finalisation of pending tax-related lawsuits in respect of Campari do Brasil Ltda.

Other windfalls include reimbursements received by the Parent Company and Campari do Brasil Ltda for costs incurred in previous years.

A portion of the capital gains generated (€ 1.959 million) relates to the sale of a property by Campari Schweiz A.G.

Other costs

The table below gives details of operating expenses relating to the management of operating and finance leases, the Group's property investments and one-off charges.

	31 December 2005 (€ 000)	31 December 2004 (€ 000)
Operating leases		
– Minimum payments under operating leases	(3,261)	(2,935)
Finance leases		
– Potential lease payments (index-linked)	(25)	(13)
Other costs		
– Expenses relating to the management of property investments that generated lease income (including maintenance expenses)	(8)	(15)
– Expenses relating to the management of property investments that did not generate lease income (including maintenance expenses)	(17)	(1)
Other one-off operating expenses	(1,340)	(1,749)

Other one-off operating expenses included € 715 thousand for the restructuring of a subsidiary's sales network and miscellaneous staff disputes in respect of Campari do Brasil Ltda.

In the previous year, these one-off costs primarily related to Campari do Brasil Ltda for the provision of miscellaneous tax and staff disputes.

Depreciation and amortisation

The depreciation and amortisation reported in the profit and loss account are broken down by asset type as follows. It should be noted that there were no impairment losses in the two periods reported.

Depreciation, amortisation and any losses in value	31 December 2005 (€ 000)	31 December 2004 (€ 000)
Depreciation of tangible fixed assets	(15,743)	(15,689)
Amortisation of intangible fixed assets	(1,663)	(2,131)
of which:		
Amounts included in cost of goods sold		
– Depreciation of tangible fixed assets	(13,386)	(12,946)
– Amortisation of intangible fixed assets	(45)	(163)
Amounts included in sales and distribution expenses		
– Depreciation of tangible fixed assets	(656)	(527)
– Amortisation of intangible fixed assets	(16)	(14)
Amounts included in general and administrative expenses		
– Depreciation of tangible fixed assets	(1,700)	(2,217)
– Amortisation of intangible fixed assets	(1,603)	(1,955)

Net financial income (charges)

Details of net financial income (charges) reported during the period are as follows:

	31 December 2005 (€ 000)	31 December 2004 (€ 000)
Net financial charges on bonds	(12,604)	(10,265)
Interest payable to banks	(6,097)	(1,631)
Bank charges	(997)	(836)
Other charges	(537)	(550)
Total financial charges (at cost)	**(20,235)**	**(13,282)**
Unrealised loss on derivatives used for hedging	(323)	
Actuarial interest	(611)	(581)
Total financial charges	**(21,168)**	**(13,863)**
Bank and term deposit interest	5,642	2,944
Other income	5,443	1,843
Total financial income	**11,265**	**4,787**
Net realised exchange rate differences	(454)	(405)
Net unrealised exchange rate differences	450	(141)
Net financial income and charges	**(9,907)**	**(9,622)**

The item "other income" relates primarily to net income generated by the Parent Company on securities no longer held in the Group's portfolio.

With regard to the bonds and private placements issued by the Parent Company and Redfire Inc., the expenses reported above are shown net of the effects of interest rate hedging and, for the Parent Company, exchange rate hedging. Details of gross expenses are as follows:

	31 December 2005			31 December 2004
	Parent Company (€ 000)	Redfire, Inc. (€ 000)	Total (€ 000)	Total (€ 000)
Financial charges to bondholders	(11,355)	(8,520)	(19,875)	(19,117)
Financial charges relating to swaps	(7,186)		(7,186)	(7,189)
Financial income from swaps	11,355	3,102	14,457	16,041
	(7,186)	**(5,418)**	**(12,604)**	**(10,265)**

Personnel costs

This item breaks down as follows:

	31 December 2005 (€ 000)	31 December 2004 (€ 000)
Wages and salaries	(60,063)	(57,044)
Social security contributions	(14,836)	(14,433)
Costs for post-employment benefits	(1,726)	(2,436)
Cost for share-based payments	(1,009)	(419)
	(77,635)	**(74,332)**

Research and development costs

The Group's research and development activities relate solely to ordinary production and commercial activities; namely, ordinary product quality control and packaging studies in various markets.

These costs are not capitalised, but fully expensed to the profit and loss account in the period when incurred.

9. Current and deferred taxes

Details of current and deferred taxes included in the Group's profit and loss account are as follows:

	31 December 2005 € 000	31 December 2004 € 000
Corporate income tax for the period		
– Taxes for the current year	(31,619)	(31,757)
– Taxes relating to previous financial years	(246)	
Deferred income tax		
– Newly reported and cancelled temporary differences	(19,315)	(11,319)
Income tax posted to the profit and loss account	(51,180)	(43,076)

The amounts of current and deferred taxes credited and debited directly to shareholders' equity during the period relate only to the valuation at fair value of cash flow hedging on future transactions involving sales and purchases in foreign currency.

	31 December 2005 € 000	31 December 2004 € 000
Deferred taxes relating to items debited or credited to shareholders' equity		
Net profit from cash flow hedging valuations	14	–
	14	**0**

The following table shows a reconciliation of the theoretical tax charge with the Group's actual tax charge.

The theoretical rate used is that of the Parent Company which takes into account two rates (IRES and IRAP) that have different tax bases.

Tax base differences are included under the "permanent differences" item.

	31 December 2005 € 000	31 December 2004 € 000
Group profit before tax	**169,193**	**139,997**
Applicable tax rate in Italy	37.25%	37.25%
Group's theoretical taxes at current tax rate in Italy	(63,024)	(52,149)
Lower (higher) tax percentage of foreign companies compared to the theoretical rate	9,290	8,220
Lower (higher) tax percentage of Italian companies compared to the theoretical rate	3,671	3,540
Permanent differences	(2,008)	(2,657)
Other differences on consolidation entries	891	(30)
Effective tax charge	**(51,181)**	**(43,076)**
Effective rate	–30.0%	–31.0%

Details of deferred tax income and expense posted to the end-of-period profit and loss account and balance sheet are broken down by type as follows:

	Balance sheet		Profit and loss account	
	31 December 2005 € 000	31 December 2004 € 000	31 December 2005 € 000	31 December 2004 € 000
Deferred tax income				
Deferred expenses	949	1,105	(253)	(674)
Taxed reserves	5,733	8,279	(2,944)	(141)
Past losses	6,502	3,875	913	(1,424)
Fair value valuations	1,553	126	26	126
Other	1,792	2,147	(336)	953
Items debited to shareholders' equity	14		(18)	
	16,543	**15,532**	**(2,612)**	**(1,160)**
Deferred tax expense				
Accelerated depreciation	(6,752)	(5,184)	(1,845)	(1,668)
Capital gains subject to deferred taxation	(407)	(834)	(9)	(2,391)
Goodwill and trademarks deductible locally	(27,870)	(13,110)	(12,854)	(6,531)
Reserves				
subject to taxation if distributed	(8,331)	(8,331)		
Adjustment to Group accounting principles	3,437	4,646	(1,209)	1,087
Leasing	(1,440)	(654)	(786)	(655)
Other	(1,942)	(1,583)		
	(43,304)	**(25,051)**	**(16,702)**	**(10,158)**

The tax benefit recognised on past losses relates to deferred tax income reported in previous periods by Campari do Brasil Ltda on the basis of its tax losses. Local laws specify that there is no time limit for the temporary use of these losses, but only a limit on usage each year based on taxable income reported in the same year.

The company has already begun to recover these losses in the current year.

10. Basic and diluted earnings per share

Basic earnings per share are determined 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. The own shares held by the Group are excluded from the denominator of this ratio.

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 earnings per share are calculated as follows:

Basic earnings	31 December 2005			31 December 2004		
	Net profit € 000	Shares number	Earnings per share €	Net profit € 000	Shares number	Earnings per share €
Net profit attributable to ordinary shareholders	118,013			96,921		
Weighted average of ordinary outstanding shares		281,194,137			280,806,135	
Basic earnings per share			**0.42**			**0.35**

Diluted earnings per share are calculated as follows:

Diluted earnings	31 December 2005			31 December 2004		
	Net profit € 000	Shares number	Earnings per share €	Net profit € 000	Shares number	Earnings per share €
Net profit attributable to ordinary shareholders	118,013			96,921		
Weighted average of ordinary shares outstanding net of dilution		284,710,990			281,283,481	
Diluted earnings per share			**0.41**			**0.34**

11. Net tangible fixed assets

Changes in this item are indicated in the table below.

	Land and buildings € 000	Plant and machinery € 000	Other € 000	Total € 000
Opening book value	118,647	167,303	61,696	347,646
Opening accumulated depreciation	(44,426)	(109,786)	(49,210)	(203,422)
Balance at 31 December 2004	**74,221**	**57,517**	**12,486**	**144,224**
Investments	3,281	7,569	3,865	14,715
Change in basis of consolidation	5,303	2,548	152	8,003
Disposals	(140)	(149)	(1,247)	(1,536)
Depreciation and amortisation	(3,590)	(9,416)	(2,313)	(15,319)
Reclassifications	590	1,481	(2,072)	(1)
Reclassification of fixed assets in progress at year-end	654	2,218	(2,871)	–
Write-downs	(1)	–	–	(1)
Exchange rate differences and other changes	1,438	1,783	(828)	2,394
Balance at 31 December 2005	**81,756**	**63,551**	**7,172**	**152,479**
Closing book value	129,772	182,753	58,695	371,220
Closing accumulated depreciation	(48,016)	(119,202)	(51,523)	(218,741)

Investments totalling € 14,715 thousand for the year included € 3,934 thousand for work done on buildings and equipment at the Volos plant in Greece for the start-up of production of Ouzo 12 by the subsidiary Koutsikos Distilleries S.A. The plant commenced operations in the second half of the year.

The Parent Company made investments in its own plants, mainly Novi Ligure, totalling € 5,217 thousand. Of this amount, € 3,244 thousand relates to equipment and machinery for various areas including the liqueur and CampariSoda line, the bulk product and syrup production area, cellars and general plant services.

In addition, € 1,815 thousand was invested by Sella & Mosca S.p.A. in the purchase of agricultural machinery, miscellaneous equipment and a new barrel cellar.

Finally, Barbero 1891 S.p.A. contributed to the Group’s investments with € 1,263 thousand for a new line of sparkling wines, electrical equipment and sterilisers.

The only change in the basis of consolidation was the inclusion of Teruzzi & Puthod S.r.l., which was consolidated on 1 December 2005.

For the purposes of clearer reporting, fixed assets in progress at the year end were reclassified under various categories in order to reflect the type of investment.

At 31 December 2005, fixed assets in progress totalled € 2,915 thousand.

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

	Owned fixed assets € 000	Fixed assets under finance leases € 000	Total € 000
Land and buildings	57,721	24,035	81,756
Plant and machinery	61,571	1,980	63,551
Other tangible fixed assets	7,078	94	7,172
	126,369	**26,109**	**152,479**

Additional information is provided below:

	Land and buildings € 000	Plant and machinery € 000	Other € 000	Total € 000
Gross value of fully depreciated assets still in operation	3,350	69,091	11,606	84,048
Net value of assets removed from service and not classified as held for sale	–	1,042	2	1,044

12. Biological assets

This item includes biological assets consisting of fruit-bearing and mature vines that provide grapes for wine production.

The vines are located in about 500 hectares of vineyards north of Alghero in Sardinia owned by Sella & Mosca S.p.A., 90 hectares of vineyards in San Gimignano owned by the newly-acquired Teruzzi & Puthod S.r.l. and 73 hectares of vineyards in Saint Gilles, France, which are owned by Société Civile du Domaine de la Margue.

Changes in this item are indicated in the table below. The only change in the basis of consolidation was for Teruzzi & Puthod S.r.l.

	€/000
Opening book value	12,511
Opening accumulated depreciation	(2,983)
Balance at 31 December 2004	**9,528**
Investments	2,203
Change in basis of consolidation	1,395
Disposals	(10)
Depreciation	(426)
Exchange rate differences and other changes	808
Balance at 31 December 2005	**13,497**
Closing book value	16,906
Closing accumulated depreciation	(3,409)

All the investments shown relate to the vineyard equipment of Sella & Mosca S.p.A. With respect to the application of IAS 41 on the accounting treatment for biological assets (vines) and biological products

(grapes), given the unique situation of Sella & Mosca S.p.A. vis-à-vis the territory in which it operates, as described below, it was decided to continue recording these assets at cost, less accumulated depreciation; valuation at fair value would require the following assumptions to be met, which do not apply in the context in which the company operates:

– the presence of an active market in biological products and assets, which in Sardinia is not able to absorb grapes and vines in the quantities concerned due to the lack of buyers and the inability to set potential market prices in a scenario in which all products or biological assets are made available for sale;
– the adoption of the alternative cash flow valuation method, which cannot be used due to both the inability to set a reliable price for the biological products concerned in the quantity concerned, and the inability to determine or measure the projected cash flows.

The depreciation rate used by Sella & Mosca S.p.A. is 5%.

At 31 December 2005, non-productive biological assets totalled € 6,907 thousand (€ 4,745 thousand in 2004). Agricultural output during the year totalled approximately 43,000 quintals. Given that it was all processed during the year, there were no inventories of this production at the year-end.

13. Investment properties

Investment properties with the highest value consisted of land located near Rome.

This item also includes the residual amount relating to ten apartments, one shop and three warehouses located in the provinces of Milan, Bergamo and Verbania.

With the exception of two occupied apartments, all the properties are vacant.

There were no significant changes during the year apart from a change in the basis of consolidation of € 500 thousand due to the acquisition of Teruzzi e Puthod S.r.l.

The fair value of these properties does not differ significantly from the reported value.

14. Intangible assets with a finite life

Changes in this item are indicated in the table below.

	Software € 000	Other € 000	Total € 000
Opening book value	6,881	13,260	20,141
Opening accumulated amortisation	(4,915)	(11,804)	(16,719)
Balance at 31 December 2004	**1,966**	**1,456**	**3,422**
Change in basis of consolidation	4	–	4
Investments	1,173	758	1,931
Decreases	(10)	–	(10)
Amortisation for the period	(887)	(777)	(1,664)
Reclassifications of fixed assets in progress	20	(20)	–
Exchange rate differences and other changes	172	(45)	127
Balance at 31 December 2005	**2,438**	**1,372**	**3,810**
Closing book value	7,347	13,954	22,194
Closing accumulated amortisation	(5,352)	(12,582)	(18,384)

Intangible assets with a finite life are amortised on a straight-line basis each year in relation to their remaining useful life, taking into account accumulated losses due to a reduction in value. Losses of this type were not reported for these assets.

Increases relating to software mainly relate to the purchase of licenses for software programmes, and for work done to develop the SAP R/3 system at certain Group companies that did not have this system.

15. Goodwill and trademarks

Changes during the year are indicated in the table below:

	Goodwill € 000	Trademarks € 000	Total € 000
Opening book value	553,239	22,389	575,628
Opening impairment	–	–	–
Balance at 31 December 2004	**553,239**	**22,389**	**575,628**
Change in basis of consolidation	–	2	2
Investments	160,442	–	160,442
Exchange rate differences and other changes	14,538	–	14,538
Balance at 31 December 2005	**728,219**	**22,391**	**750,610**
Closing book value	728,219	22,391	750,610
Closing impairment			–

The goodwill reported in the accounts relates to the purchase of companies. From 1 January 2004 goodwill is no longer amortised, but is instead subject to impairment tests annually, or more frequently if events or changes in circumstance indicate a potential loss.

Please see the paragraph below for further details on these valuations.

The increase in goodwill reported during the year was attributable to two factors: Redfire, Inc. acquired a further 30.1% stake in Skyy Spirits, LLC through the exercise of a call option.

The transaction in February 2006 generated goodwill of US$ 155.5 million (€ 117,239 thousand at the exchange rate on the transaction date). This amount was adjusted to year-end exchange rates as required by accounting standard IAS 21 (Effects of changes in foreign exchange rates), and stood at € 131,778 thousand at year-end. The difference between the two amounts is equal to the exchange rate difference shown in the table above.

In addition, the company reported a payable for the remaining portion of the 11% interest held by the company's management team during the year, which is subject to reciprocal put/call option mechanisms to be exercised in 2007. The goodwill generated by this second entry totalled € 43,203 thousand.

The trademarks reported in the accounts are intangible assets with an indefinite useful life resulting from company acquisitions.

They were valued using the cost method. Since 1 January 2004, trademarks are no longer amortised but are instead subject to impairment tests annually, or more frequently if events or changes in circumstances indicate a potential loss.

16. Impairment

The Campari Group performs impairment tests of the value of goodwill annually, or more frequently if there are signs of a loss in value.

For the purposes of evaluating the impairment tests, the amounts for goodwill and trademarks were allocated to the respective units (or groups of units) that generated cash ("cash generating units") on the closing date of the accounts.

Specifically, the cash flow generated by individual products or groups of products (i.e. the Group's trademarks) was used.

The allocation of goodwill and trademarks to individual units is reported in the table below:

	31 December 2005		31 December 2004	
	Goodwill	Trademarks	Goodwill	Trademarks
	€ 000	€ 000	€ 000	€ 000
Former Bols brands	4,612	1,992	4,612	1,992
Ouzo12	9,976	7,429	9,976	7,429
Cinzano	51,457	772	51,457	772
Brazilian acquisition	65,941	–	65,941	–
Skyy Spirits, LLC	401,120	–	226,140	–
Zedda Piras S.p.A. and Sella & Mosca S.p.A.	57,254	21	57,254	21
Barbero 1891 S.p.A.	137,859	–	137,859	–
Riccadonna	–	11,300	–	11,300
Other	–	877	–	875
	728,219	**22,391**	**553,239**	**22,389**

The main assumptions for determining the value used by the cash generating units (i.e. the present value of estimated future cash flows that are assumed to result from the continuing use of the asset) are based on the discount and growth rates.

In particular, the Group used discount rates, which are believed to properly reflect market valuations (on the reference date of the estimate) of the present value of money and specific risks connected to individual cash generating units. These rates are between 6.6% and 11.0%.

The projections for operating cash flow are derived from those included in the most recent budgets and plans prepared by the Group for the next three years and extrapolated over ten years on the basis of medium-/long-term growth rates depending on the various characteristics of the assets, but in any event, at rates no higher than the average long-term growth rate in the market in which the Group operates.

The use of a ten-year period is justified by the life cycle of the products with respect to the reference market.

Cash flow projections relate to current operating conditions, and thus do not include cash flows connected with any one-off operations.

The composition of future cash flow estimates was determined on the basis of prudential criteria which hold sales volume constant after the projected horizon of the analysis.

In addition, the projections are based on reasonableness and consistency with respect to the allocation of future general expenses, expected trends in capital investment, conditions of financial equilibrium and macroeconomic assumptions with a particular focus on product price increases, which take into account forecast inflation rates.

None of the impairment tests produced a valuation resulting in a permanent loss of value in 2005 or 2004.

17. Other non-current assets

This item breaks down as follows:

	31 December 2005 (€ 000)	31 December 2004 (€ 000)
Financial assets for interest rate swaps	5,274	–
Equity investments in other companies	237	257
Security deposits given	1,104	456
Receivables from employee benefit funds	1,165	1,055
Other receivables	3,296	3,322
Own shares (*)	–	29,780
	11,076	**34,870**

Starting on 1 January 2005, the Group applied IAS 32 and 39, with the following effects on the item concerned:

– financial derivatives are recorded at fair value, i.e. the market price for the reference period. As a result of this valuation, the existing interest rate swap to hedge interest rate risk relating to the private placement of Redfire, Inc. led to the posting of a financial asset of € 5,280 thousand, a small amount of which was posted under current financial assets. Please see Note 24 (Financial liabilities) for further details

– shares, which were previously reported under assets at an amount equal to purchase cost, were reported as a reduction to shareholders' equity reserves.

The item "other receivables" includes € 2,966 thousand due from Core One S.r.l. in connection with the 2003 sale to that company of the property located in Via Filippo Turati in Milan, which was the head office of the Parent Company and of several of the Group's Italian companies. The loan carries interest at market rates and matures on 30 July 2008.

Receivables from employee benefit funds relate to insurance contracts linked to benefits granted to current or former employees at some subsidiaries.

The amount of this asset was adjusted for any actuarial gains or losses.

Please see Note 29 (Employee benefits and pension funds) for further details.

18. Inventories

This item breaks down as follows:

	31 December 2005 (€ 000)	31 December 2004 (€ 000)
Raw materials, supplies and consumables	25,969	35,299
Work in progress and semi-finished products	47,418	29,455
Finished products and goods for resale	61,895	49,656
Payments on account		
	135,283	**114,410**

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

	(€ 000)
Balance at 31 December 2004	**3,084**
Provisions	1,965
Amounts used	(1,507)
Exchange rate differences and other changes	150
Balance at 31 December 2005	**3,692**

19. Trade receivables and other receivables

	31 December 2005 (€ 000)	31 December 2004 (€ 000)
Trade receivables		
Trade receivables from external customers	218,897	153,677
Trade receivables from Joint venture	6,319	5,420
Receivables in respect of contributions to promotional costs	12,201	7,156
	237,416	**166,253**
Other receivables		
Pre-payments and other receivables from suppliers	3,163	692
Tax credits	12,160	10,357
Receivables from agents and miscellaneous customers	2,628	3,577
Pre-paid expenses	1,440	1,843
Short-term financial receivables from affiliates and joint ventures	2,446	2,387
Other	2,407	4,012
	24,244	**22,868**

These receivables are all due within 12 months.

Trade receivables are reported less year-end bonuses and payables for promotional costs. The latter were reclassified in keeping with adjustments made in the profit and loss account.

Figures for 2004 were adjusted for comparison purposes.

Changes in the provisions for bad debts during the year were as follows.

	(€ 000)
Balance at 31 December 2004	**4,950**
Provisions	826
Amounts used	(1,965)
Exchange rate differences and other changes	578
Balance at 31 December 2005	**4,389**

20. Cash, bank and securities

The table below provides a reconciliation of the "cash, bank and securities" item with the item defined as "cash and cash equivalents" in the cash flow statement.

	31 December 2005 (€ 000)	31 December 2004 (€ 000)
Bank current accounts and cash	31,362	27,752
Term deposits	186,137	211,731
Securities readily convertible to cash	27,561	–
Cash and cash equivalents	245,061	239,483
Other securities	2,474	6,467
Total cash, banks and securities	**247,535**	**245,950**

The “cash and cash equivalents” item consists of bank current accounts and other bank deposits available on demand that pay variable rate interest based on LIBOR for the currency and period concerned.

They also include securities that can be readily converted to cash consisting of short-term, highly liquid financial investments that can be quickly converted to known cash instruments with an insignificant risk of change in value.

The other securities consist of SICAVs (open-end investment companies) and other securities, all maturing within 12 months.

21. Short-term financial receivables

This item breaks down as follows:

	31 December 2005 (€ 000)	31 December 2004 (€ 000)
Net accrued swap interest income/expense on bonds	3,139	3,381
Valuation at fair value of instruments used to hedge private placement	6	
Other financial assets and liabilities	5	512
	3,150	**3,893**

“Accrued income” relates to accrued interest income on financial instruments maturing in January 2006 used to hedge bonds and private placements.

This item also includes the current portion of the valuation at fair value of the Redfire, Inc. derivative.

Please see the comments under Note 24 (Financial liabilities) for additional information.

22. Non-current assets held for sale

This item includes non-current real estate assets with a high probability of being sold, or for which there is an irrevocable commitment to sell with a third party.

These assets, which are valued at the lower of net book value and fair value net of sales costs, totalled € 127 thousand at 31 December 2004 and € 78 thousand at 31 December 2005.

The reduction was due to the sale of a property that generated a capital gain of € 136 thousand.

23. Share capital and reserves

Share capital

Pursuant to a resolution passed at the extraordinary shareholders’ meeting of 29 April 2005, the Parent Company’s ordinary shares were split, based on a ratio of ten new ordinary shares with a nominal value of € 0.10 to every ordinary share with a nominal value of € 1.00.

As a result, at 31 December 2005, the share capital was made up of 290,400,000 fully paid-up ordinary shares with a nominal value of € 0.10 each.

Outstanding shares and own shares

Changes in outstanding shares during the year were as follows:

	Number of shares		Nominal value	
	31 December 2005 (*)	31 December 2004	31 December 2005 €	31 December 2004 €
Outstanding shares at the beginning of the period	281,048,090	280,400,000	28,104,809	28,040,000
Purchases for the stock option plan	(193,800)	(1,231,330)	(19,380)	(123,133)
Sales	501,723	1,879,420	50,172	187,942
Outstanding shares at the end of the period	281,356,013	281,048,090	28,135,601	28,104,809
Total own shares held	**9,043,987**	**9,351,910**	**904,399**	**935,191**
Own shares as a % of share capital	3.1%	3.2%		

(*) This number was recalculated following the share split approved by the extraordinary shareholders' meeting of 29 April 2005.

Dividends paid and proposed

The table below indicates dividends approved and paid in 2005 and 2004 and dividends subject to the approval of the shareholders' meeting to approve the accounts at 31 December 2005:

	Total amount		Dividend per share	
	31 December 2005 (€ 000)	31 December 2004 (€ 000)	31 December 2005 (€)	31 December 2004 (€)
Dividends approved and paid during the year on ordinary shares	28,105	24,675	0.100	0.088
Dividends proposed on ordinary shares	28,136 (*)		0.100	

(*) Calculated on the basis of outstanding shares at the date of the Board of Directors meeting on 22 March 2006.

Other reserves

	Stock options (€ 000)	Cash flow hedging (€ 000)	Conversion of accounts in foreign currencies (€ 000)	Total (€ 000)
Balance at 31 December 2004	**419**		**3,142**	**3,561**
Application of IAS 32 and IAS 39 Cash flow hedging		259		259
Balance at 1 January 2005	**419**	**259**	**3,142**	**3,820**
Cost of stock options for the year	1,009			1,009
Profits (losses) reported in the profit and loss account		(278)		(278)
Amount reported under shareholders' equity		(207)		(207)
Tax effect reported in profit and loss account		19		19
Tax effect reported under shareholders' equity		14		14
Conversion difference			9,963	9,963
Balance at 31 December 2005	**1,428**	**(193)**	**13,105**	**14,340**

Please see Note 30 (Stock option plan) for information on the stock option reserve which is the contra entry for the cost reported in the profit and loss account over the life of the plans.

Please see Note 34 (Financial instruments) for information on the cash flow hedging reserve which reflects the fair value of existing hedges on future sale and purchase transactions.

The conversion reserve reflects all exchange rate differences for accounts of subsidiaries denominated in currencies other than euro.

24. Financial payables

The table below provides a breakdown of the Group's financial liabilities with an indication of the actual interest rate and maturity for each.

	Effective interest rate [*]	Maturity	31 December 2005 (€ 000)	31 December 2004 (€ 000)
Non-current liabilities				
Bond and private placement:				
Private placement	6-month US$ LIBOR + 60-87 basis points	July 2012	143,150	121.583
Bonds	3-6 month € LIBOR + 59 basis points	July 2015 -2018	231,406	256.373
			374,556	**377.956**
Other non-current financial liabilities:				
Payables to banks	1-month US$ LIBOR + 20 basis points	2007-2009	26,749	831
Real estate lease payables	3-month € LIBOR + 59 basis points	February 2012	19,037	22,005
Financial payables for bond-related cross currency swaps			28,438	–
Payables for exercising Skyy put option		2007	45,546	
Other financial payables	€ fixed rate 1.85-4.60%	2007-2015	3,042	4,373
			122,812	**27,209**
Current liabilities				
Payables to banks [**]	1-month US$ LIBOR + 20 basis points	March 2006	112,839	55,571
Other financial payables:				
Real estate lease payables (current portion)	3-month € LIBOR + 59 basis points	2006	3,070	2,942
Bonds (current portion)	6-month US$ LIBOR + 59 basis points	July 2006	3,308	2,940
Accrued interest on bonds and private placement	6-month LIBOR + 59 basis points	January 2006	9,402	8,280
Other financial payables	€ fixed rate 1.85-4.60%	2006	912	1,115
Valuation at fair value of forward contracts			501	
			17,193	**15,277**

(*) The effective interest rate for the private placement and bond takes into account derivatives established for these securities, and thus represents the net cost for the Group.
(**) A portion of the short-term bank debt is denominated in US dollars (equivalent to € 31.4 million), with the remainder denominated in euro.

Please see Note 34 (Financial instruments) for a breakdown of maturities of these liabilities.

Bond and private placement

The financial payable for the private placements issued by the Parent Company and Redfire, Inc., reported at cost at 31 December 2004, was adjusted at 1 January 2005 in accordance with IAS 39, which was applied by the Group starting on that date. Please see Note 36 (Transition to International Accounting Standards) for details on the initial impact of applying these standards.

The Parent Company loan, which is denominated in US dollars at a rate that was originally fixed, was modified using a cross currency swap that eliminated exchange rate risk and converted interest from a fixed to variable rate.

The Redfire, Inc. loan, which also had the same features initially, was the subject of an interest rate swap that changed the rate profile from fixed to variable.

Both of these hedging instruments were valued at fair value and the relevant changes reported in the profit and loss account. Having determined the effectiveness of the hedging transactions, the hedged instrument was also valued at fair value with changes in the opposite direction (+/–) also reported in the profit and loss account. Thus, the amounts reported in the "bond" and "private placements" items represent the fair value of the payable concerned. The Parent Company's cross currency swap has a negative fair value of € 28,438 thousand, which is reported under non-current financial liabilities, while the Redfire, Inc. interest rate swap has a positive fair value of € 5,280 thousand, which is reported under non-current and current financial assets.

The current portion of these loans relates solely to the principal portion of US$ 4 million maturing in 2006 for the Redfire, Inc. private placement.

Accrued interest on bonds

This relates to the portion of interest accrued in 2005 that will be paid in January 2006. The positive effect of the accruals resulting from the hedge transactions noted above is classified under short-term financial receivables.

Payables to banks

The non-current portion of payables to banks includes € 25,430 thousand for a medium/long-term line of credit in the amount of US$ 30 million opened by Redfire, Inc. for the purpose of acquiring the 30.1% stake in Skyy Spirits, LLC in February 2005.

It also includes two medium/long-term bank loans of Société Civile du Domaine de la Margue and Koutsikos Distilleries S.A. totalling € 705 thousand and € 600 thousand respectively.

The current portion of these loans includes, in addition to the short-term portion, short-term lines of credit or other short-term loans used by the Parent Company and Redfire, Inc.

A portion of these payables (€ 5,520 thousand) is due after the reporting year.

Payables for exercising the Skyy Spirits, LLC put option

The payable for exercising the Skyy Spirits, LLC put option relates to a contract that sets out a mechanism of reciprocal options maturing in 2007 which were provided to Redfire, Inc. and the management of Skyy Spirits, LLC for the purchase/sale of equity investments held by them at a price of between 5-15 times average pro-rata earnings before taxes generated by the company during the life of the option.

The amount was determined by discounting the expected disbursement on the basis of expected final profits.

The posting of the payable resulted in the reclassification of the minority shareholders' equity relating to Skyy Spirits, LLC and the posting of goodwill of € 43,203 thousand.

Other financial payables

This item relates to medium- and long-term loans and mortgages obtained by Sella & Mosca S.p.A. and Zedda Piras S.p.A. secured by mortgages on land and buildings and by liens on equipment and machinery.

This item also includes a loan agreement of the Parent Company with the industry ministry, with repayment in 10 annual instalments starting in February 2006.

Valuation of forward contracts at fair value

This item relates to the fair value of forward purchases and sales of foreign currency carried out by Campari International S.A.M. to cover its projected purchases and sales of goods in currencies other than euro.

A portion of these transactions (€ 193 thousand) was posted as a contra entry to the shareholders' equity reserves since they involved the hedging of cash flows that had not been generated.

25. Reserves for risks and charges

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

	Tax provisions (€ 000)	Reserve for industrial restructuring (€ 000)	Agent severance fund (€ 000)	Other (€ 000)	Total (€ 000)
Balance at 1 January 2005	**1,789**	**4,571**	**1,454**	**6,464**	**14,278**
Change in basis of consolidation				475	475
Provisions	618	–	938	918	2,474
Amounts used	(531)	(2,400)	(218)	(2,685)	(5,834)
Releases	(2,056)		(82)	(544)	(2,682)
Exchange rate differences and other changes	825		–	531	1,356
Effects of discounting			49	–	49
Balance at 31 December 2005	**644**	**2,171**	**2,140**	**5,159**	**10,115**
of which, projected disbursement					
due within 12 months	381	2,171	1,325	3,913	7,409
due after 12 months	263		815	1,247	2,062

The release of the tax reserve was due to the favourable final judgment issued in February 2006 by the Supreme Court of Brazil concerning a tax dispute. The company then released the reserve set aside for this liability.

The reserve for industrial restructuring reported by the Parent Company was created in 2002 to cover the restructuring programme for the Group's industrial sites.

The agent severance fund covers the estimate of the probable liability to be incurred for disbursing the compensation due to agents at the end of the relationship, taking into account all variables that could affect the amount.

In addition, this amount was discounted using the appropriate rate.

At 31 December 2005, "other reserves" included reserves for miscellaneous lawsuits of € 2,232 thousand and reserves for group restructuring and rationalisation totalling € 2,404 thousand.

26. Trade payables and other current liabilities

	31 December 2005 (€ 000)	31 December 2004 (€ 000)
Trade payables to external suppliers	148,195	124,399
Trade payables to affiliated companies	2,004	3,247
Payables to suppliers	150,199	127,646
Other current liabilities		
Deposits on packaging	–	2,667
Payroll	15,745	13,931
Amounts due to agents	5,836	5,260
Deferred income	3,368	2,825
Accrued realised capital gains	4,942	5,765
Unconfirmed contributions received	2.020	1,590
Other	2,844	1,288
	34,754	**33,326**

Following the suspension of returnable bottles production in 2003, the payable for deposits on packaging, which is related to the returnable packaging for some products, was reversed for the portion of unreturned packaging with the resulting entry of a windfall gain of € 2,518 thousand.

The payable for "contributions received" relates to advances collected by Sella & Mosca S.p.A. in respect of the regional operating programme (POR) for Sardinia, for investments in progress, and contributions received for vineyard equipment during the pre-production phase.

The contributions are confirmed only after the equipment has been tested, and are then moved to deferred income and reported in the profit and loss account based on the useful life of the equipment.

The accruals for realised capital gains refer to the amount posted by the Parent Company in 2003 as an adjustment to the capital gain generated on the sale of the property in Via Filippo Turati in Milan to take into account expected future expenses.

The portion of the amount over 12 months (but less than 5 years) was € 4,119 thousand.

27. Capital grants

Changes in grants certain to be received, and posted under deferred income, are shown below.

	31 December 2005 (€ 000)	31 December 2004 (€ 000)
Amounts included in deferred income at 1 January	2,486	1,719
Amounts received during the period	110	1,201
Amounts posted to the profit and loss account	(443)	(342)
Amounts included in deferred income at 31 December	2,153	2,579

28. Payables to tax authorities

This item breaks down as follows:

	31 December 2005 (€ 000)	31 December 2004 (€ 000)
Corporate income tax	2,316	1,094
Value-added tax	7,742	5,749
Tax on alcohol production	13,477	11,649
Withholding and other taxes	1,523	1,967
	25,058	**20,459**

Corporate income tax payable is shown net of advance payments and taxes withheld at source.

These payables are all due within 12 months.

29. Employee benefits and pension funds

The staff severance fund, which relates to employees of the Group's Italian companies, falls under the category of defined benefit plans covered by IAS 19 (Employee benefits).

In addition, other Group companies have the same type of plans for their current or former employees. These other plans have the benefit of dedicated assets.

They are subject to actuarial valuations to express the present value of benefits payable upon the termination of employment that employees have accrued as at the date of the accounts.

A summary of obligations and related assets for 2005 and the two previous years is shown below.

Since it is an internally-financed obligation, the staff severance fund does not hold any dedicated assets.

Staff severance fund obligations for the last 3 years	Staff severance fund 31 December 2005 (€ 000)	Staff severance fund 31 December 2004 (€ 000)	Staff severance fund 31 December 2003 (€ 000)
Defined benefit obligations	12,534	13,534	12,958

Other plans with defined benefit obligations, which are financed by dedicated assets, are summarised below.

Obligations for other plans for the last 3 years	Other plans 31 December 2005 (€ 000)	Other plans 31 December 2004 (€ 000)	Other plans 31 December 2003 (€ 000)
Defined benefit obligations	1,754	1,690	1,061
Assets dedicated to the plan	(1,165)	(1,055)	(1,584)
Plan surplus (deficit)	589	635	(523)

The tables below summarise the components of the net cost of benefits reported in the consolidated profit and loss account in 2005 and the previous period:

Net cost in profit and loss account	Staff severance fund 31 December 2005 (€ 000)	Staff severance fund 31 December 2004 (€ 000)	Other plans 31 December 2005 (€ 000)	Other plans 31 December 2004 (€ 000)
Current service cost	1,727	1,090	–	–
Net actuarial (gains) losses	(402)	1,346	55	7
Interest charges	468	581	143	–
	1,793	**3,017**	**198**	**7**

Changes in the present value of defined benefit obligations over the year are shown below.

Changes in present value of obligations	Staff severance fund 31 December 2005 (€ 000)	Staff severance fund 31 December 2004 (€ 000)	Other plans 31 December 2005 (€ 000)	Other plans 31 December 2004 (€ 000)
Present value at 1 January	13,534	12,958	1,690	1,061
Current service cost	1,727	1,090	–	692
Benefits paid	(2,793)	(2,441)	(134)	(79)
Financial charges	468	581	143	
Actuarial gains (losses)	(402)	1,346	55	16
Present value at 31 December	**12,534**	**13,534**	**1,754**	**1,690**

Changes during the year in the fair value of assets relating to other plans were as follows:

Changes in the fair value of assets supporting other plans	Other plans 31 December 2005 (€ 000)	Other plans 31 December 2004 (€ 000)
Present value at 1 January	1,055	1,584
Benefits paid	(100)	(536)
Actuarial gains (losses)	210	7
Present value at 31 December	1,165	1,055

Dedicated assets linked to the plans are classified under "non-current assets" with comments under Note 17.

The main assumptions used in determining the obligations resulting from the plans described are indicated below.

Assumptions used	Staff severance fund 31 December 2005	Staff severance fund 31 December 2004	Other plans 31 December 2005	Other plans 31 December 2004
Discount rate	4.0%	4.5%	3-6%	3-6%
Future salary increases	3.0%	3.0%	1.5%	1.5%
Future pension increases	1.2%	1.6%		
Staff turnover rate	5.0%	5.0%		
Inflation rate	1.5%	2.0%		

The trend in medical cost are not included in the assumptions used in determining the above obligations. Thus, any changes in these rates would not have any effect.

On the basis of information available when the accounts were prepared, the Group expects to make payments of about € 1.6 million in 2006 for disbursements relating to the plans described.

30. Stock option plan

Pursuant to Consob resolution 11971 of 14 May 1999 and subsequent revisions, 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 the Campari Group, approved by the shareholders' meeting on 2 May 2001:

i) the purpose of offering stock options is to enable beneficiaries who occupy key positions in the Group to own shares in Davide Campari-Milano S.p.A., so that they have the same interest in the company's success as other shareholders, and to encourage loyalty in view of the major strategic goals to be achieved;

ii) plan recipients are employees, directors and/or individuals who regularly do 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 shares were allocated, were employees and/or directors of a Group company without interruption;

iii) the allocation of options is unconditional and enables beneficiaries to exercise options on the day after the plan expires, i.e. 30 June 2006 (the partial exercise of options is not allowed). The subscription price corresponds to the price of placing the stock on the stock market;

iv) the regulations for the stock option plan do not provide for loans or other incentives for share subscriptions pursuant to article 2358, paragraph 3 of the Italian civil code;

v) in 2004 and 2005, another four allocations of stock options were approved which are also governed by the framework agreement approved by the shareholders' meeting of 2 May 2001. These allocations enable beneficiaries to exercise options for a period of 30 days starting on the day after the maturity of options assigned in 2004, i.e. 30 June 2009, while for allocations in 2005, the window for exercising options is

from November 2009 to November 2011; the share subscription price is equal to the weighted average market price for the month preceding the date on which the options were allocated in this case too, the regulations for the stock option plan do not provide for loans or other incentives for share subscriptions pursuant to article 2358, paragraph 3 of the Italian civil code;

vi) the Board of Directors has the right to prepare regulations, select beneficiaries and determine the 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 Regulations as necessary or appropriate to reflect revisions to laws in force, or for other objective reasons that would warrant such modification.

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

	2005		2004	
	Number of shares €	Average allocation/ exercise price €	Number of shares	Average allocation/ exercise price
Options outstanding at the beginning of the period	**12,007,160**	**3.51**	**9,806,310**	**3.10**
Options granted during the period	852,177	6.10	5,767,190	3.99
(Options cancelled during the period)	(283,417)	3.58	(1,686,740)	3.13
(Options exercised during the period) (**)	(501,723)	3.16	(1,879,600)	3.10
(Options expired during the period)	–	–	–	–
Options outstanding at the end of the period (*)	**12,074,197**	**3.72**	**12,007,160**	**3.51**
of which, those that can be exercised at the end of the period.	–	–	–	–

(*) The options reported included options for 5,639,440 shares at 31 December 2005 (6,290,200 at 31 December 2004) which were not recognised under IFRS 2 since they were allocated prior to 7 November 2002.

(**) The average market price on the exercise date was € 5.88 in 2005 (€ 3.86 in 2004).

The average remaining life of outstanding options at 31 December 2005 was 2.18 years (2.93 years at 31 December 2004).

The exercise price interval for these options was from € 3.10 to € 6.43.

The average fair value of options granted during the year was € 1.07 (€ 0.75 in 2004).

The fair value of stock options is represented by the value of the option determined by applying the Black-Scholes model, which takes into account the conditions for exercising the option, as well as the current share value, expected volatility and risk-free rate. The key data included in the model for options assigned in 2004 and 2005 are shown in the following table:

	2005	2004
Expected dividends (%)	1.66	2.17
Expected volatility (%)	21.41	19
Historical volatility (%)	21.41	19
Market interest rate	2.93%	3.53%
Expected option life (years)	4.93	5
Exercise price (€)	6.23	3.99

Volatility was estimated with the help of data supplied by a market information provider and shared with a leading bank, and it corresponds to volatility recorded in the 365 days before the plan allocation.

This estimate is required since there is no historical volatility with a duration equal to the plan period concerned.

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.

	Number of own shares		Purchase price	
	31 December 2005	31 December 2004 (*)	31 December 2005	31 December 2004
Balance at 1 January	9,351,910	10,000,000	29,774,604	31,000,000
Purchases	193,800	1,231,330	1,095,355	4,606,000
Sales	(501,723)	(1,879,420)	(1,585,488)	(5,826,000)
Balance at 31 December	9,043,987	9,351,910	29,284,471	29,780,000
% of share capital	3.1%	3.22%		

(*) Recalculated based on the stock split in 2005.

31. Commitments and risks

The main commitments and risks of the Campari Group on the closing date of the accounts are shown below.

Non-cancellable operating leases with the Campari Group as lessor

The amounts due by the Group in future periods for operating leases on personal property are indicated in the table below.

	31 December 2005 Minimum future payments (€ 000)
Under one year	2,632
One to five years	2,773
Over five years	631
	6,036

Of this amount, € 2.8 million relates to motor vehicles, € 1.1 million for computers and the remainder for various types of machinery.

Non-cancellable finance leases with the Campari Group as lessor

The commitment in relation to the finance lease entered into by the Parent Company in 2003 for the property complex in Novi Ligure stipulates the following future minimum payments. The relationship between these and their present value is also reported.

	31 December 2005	
	Minimum future payments (€ 000)	Present value of future payments (€ 000)
Under one year	2,945	3,495
One to five years	15,964	17,474
Over five years	3,020	3,036
Total minimum payments	**21,929**	
Financial charges	2,076	
Present value of minimum future payments	**24,005**	**24,005**

Existing contractual commitments for the purchase of properties, equipment and machinery

These commitments totalled € 1.1 million, and all expire within the year.

Other commitments

The Group's other commitments for purchases of goods or services were as follows:

	31 December 2005			
	Purchases of raw materials (€ 000)	Sponsorship pledges (€ 000)	Leasing (€ 000)	Total (€ 000)
Under one year	11,717	1,335	3,330	13,052
One to five years	11,571	1,402	10,541	12,972
Over five years	–	–	648	–
	23,288	**2,737**	**14,519**	**26,025**

Purchases of raw materials primarily relate to the Parent Company's commitments for purchases of wine and grapes for the production of Cinzano still and sparkling wines. These multi-year contracts are entered into directly with the sellers pursuant to the Moscato d'Asti producers agreement.

Leases and rentals include € 10.1 million for the Parent Company's lease agreement with Core One S.r.l. for the property located at Via Filippo Turati in Milan, the head office of the company and other Italian subsidiaries.

Restrictions on the title and ownership of properties, equipment and machinery pledged to secure liabilities

The Group has several existing loans, with a current balance of € 932 thousand, secured by mortgages on land and buildings and liens on machinery and equipment. The original amount of these securities was € 13,281 thousand.

Other guarantees

The Group has issued other forms of security in favour of third parties. Specifically, it reported customs bonds for excise taxes totalling € 43,521 thousand at 31 December 2005 (€ 36,970 thousand at 31 December 2004) and other guarantees totalling € 5,180 thousand.

32. Related parties

The Parent Company Davide Campari-Milano S.p.A. is controlled by Alicros S.p.A., with which the Group has not entered into transactions except for the purchase from Alicros S.p.A. of excess 2004 income tax payments of € 1,460,808 resulting from the 2005 tax return.

Dealings with related parties are entered into solely with affiliated companies and joint ventures. They 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 completed with related parties were carried out in the Group's interest.

The amounts of trade and financial transactions entered into with related parties are set out below.

	31 December 2005				2005			
	Trade receivables	Trade payables	Financial receivables	Other	Sale of merchandise	Trade allowances	Financial income	Other
Fior Brands Ltd.	1,285	(454)	1,446	9	3,192	(1,578)	74	29
International Marques V.o.f.	847	(197)			3,440	(984)		(3)
M.C.S. S.c.a.r.l.	1,916	(339)	1,000	5	5,489	(1,744)	23	25
SUMMA S.L.	2,270	(1,014)			6,862	(3,441)		20
	6,319	**(2,004)**	**2,446**	**14**	**18,982**	**(7,747)**	**97**	**71**

	31 December 2004				2004			
	Trade receivables	Trade payables	Financial receivables	Other	Sale of merchandise	Trade allowances	Financial income	Other
Fior Brands Ltd.	1,014	(3)	1,387	9	3,218	(1,550)	68	
International Marques V.o.f.	820	(10)		113	3,397	(965)		
M.C.S. S.c.a.r.l.	2,154	(1)	1,000	5	5,722	(1,991)	224	
SUMMA S.L.	1,432	(3,233)			6,917	(3,274)		
	5,420	**(3,247)**	**2,387**	**127**	**19,254**	**(7,780)**	**292**	**0**

Remuneration paid to the Parent Company's directors who held management positions in the Group with strategic responsibility was as follows:

	31 December 2005 (€ 000)	31 December 2004 (€ 000)
Short-term benefits	3,309	6,349
Post-employment benefits (staff severance fund)	18	17
Employment termination benefit	–	–
Share-based payments	342	171
Other long-term benefits	–	–
	3,669	**6,537**

33. Risk management procedures and hedging transactions

The Group's main financial instruments include current accounts, short-term deposits, short- and long-term loans from banks, 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 Group makes use of derivatives, primarily interest rate swaps, cross currency swaps and forward contracts to hedge interest rate and foreign exchange risk.

The main financial risks to which the Group is exposed are market risks (currency and interest rate), credit and liquidity risks. These risks are listed below, together with an explanation of how they are managed.

Foreign exchange risk

Around 34% of the Group's consolidated net sales in 2005 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, particularly in respect of the US dollar and the Brazilian real at the present time.

In addition, the Group has several loans outstanding – including a private placement and bond – in US dollars, which were obtained to cover the acquisitions of a number of companies.

With regard to the United States, Brazil and Switzerland, the presence of the Group's permanent facilities in those countries means that this risk is partially hedged against since both expenses and revenues are denominated in the same currency. In addition, a portion of the cash flow from ordinary operations is used to repay outstanding debt in the United States.

With regard to sales outside the eurozone made by Campari International, the Group's policy is to control this risk using forward sales.

In addition, the Group decided to hedge the foreign exchange risk relating to the bond using a cross currency swap.

Interest rate risk

In order to take advantage of opportunities offered by low market interest rates, the Group has taken steps to convert long-term financial instruments issued with fixed rates (and thus exposed to fair value risk) into variable-rate debt through an interest rate swap.

All other financial liabilities, except certain loans obtained by Sella & Mosca S.p.A., Zedda Piras S.p.A. and one of the Parent Company's small loans, are at variable rates, as are financial assets.

This exposes the Group to the risk of rate fluctuations.

The recent interest rate hike in both the eurozone and US dollar areas has led the Group to convert a portion of its euro-denominated debt to fixed rates, although this conversion will take effect only in July 2008 (negotiated amount and rate).

This transaction took place after the reporting date through a forward-starting interest rate swap.

Credit risk

Financial transactions are carried out with leading domestic and international institutions with a high rating. This risk is therefore deemed to be insignificant.

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.

In addition, the trade conditions initially granted are particularly tight.

Each company subsequently initiates an assessment and control procedure for its customer portfolio.

As a result, historical losses on receivables are very low as a percentage of revenues and do not require special coverage and/or insurance.

Liquidity risk

The Group's exceptional ability to generate cash through its operations allows it to reduce liquidity risk to a minimum. The latter is defined as the difficulty of raising funds to cover the payment of the Group's financial obligations.

34. Financial instruments

Fair value

For each category of financial assets and liabilities, a comparison between the fair value for the category and the corresponding book value is shown below.

	Book value		Fair value	
	31 December 2005 (€ 000)	31 December 2004 (€ 000)	31 December 2005 (€ 000)	31 December 2004 (€ 000)
Financial investments				
Cash and bank	217,500	239,483	217,500	239,483
Marketable securities	30,035	6,467	30,035	6,467
Financial liabilities				
Payables to banks	(139,588)	(56,402)	(139,588)	(56,402)
Real estate lease payables	(22,107)	(24,946)	(22,107)	(24,946)
Bonds	(259,844)	(256,373)	(259,844)	(259,390)
Private placement	(141,178)	(124,523)	(141,178)	(125,477)
Accrued interest on bonds	(6,263)	(4,899)	(6,263)	(4,899)
Payables for exercising put option of Skyy Spirits, LLC	(45,546)	–	(45,546)	–
Other debt	(3,954)	(5,488)	(3,954)	(4,373)
Other financial assets and liabilities	(501)	–	(501)	665

The method used for determining fair value was as follows:

- for the valuation of hedging instruments at fair value, the company used data provided by a leading financial information agency;
- the fair value of underlying debt was obtained by discounting all remaining cash flows at rates in effect at the end of the year;
- for the other financial assets and liabilities, fair value corresponds to their nominal value since these are items that can be readily converted to cash.

Interest rate risk

A breakdown by maturity of the book values of individual categories of financial instruments based on their exposure to the risk of rate fluctuations is shown below.

31 dicembre 2005	Up to 1 year (€ 000)	1-2 years (€ 000)	2-3 years (€ 000)	3-4 years (€ 000)	4-5 years (€ 000)	Over 5 years (€ 000)	Total (€ 000)
VARIABLE RATE							
Financial investments							
Bank current accounts and term deposits	217,500						217,500
Marketable securities	30,035						30,035
							0
Financial liabilities							0
Debt and loans							
due to banks	(112,839)	(25,555)	(117)	(706)	(66)	(305)	(139,589)
Bonds	(3,243)					(259,843)	(263,086)
Private placement	(6,322)	(10,081)	(10,531)	(10,531)	(7,116)	(99,621)	(144,202)
Property leases	(3,070)	(3,051)	(3,132)	(3,193)	(3,277)	(6,386)	(22,107)
Financial liabilities for forward contracts	(501)						(501)
Payables for exercising the Skyy Spirits, LLC put option		(45,546)					(45,546)
Other financial payables	(912)	(802)	(335)	(345)	(325)	(1,232)	(3,950)
Projected net cash flows	**120,648**	**(85,035)**	**(14,114)**	**(14,775)**	**(10,783)**	**(367,387)**	**(371,446)**
FIXED RATE							
Other financial payables	**(912)**	**(802)**	**(335)**	**(345)**	**(325)**	**(1,232)**	**(3,950)**

31 dicembre 2004	Up to 1 year (€ 000)	1-2 years (€ 000)	2-3 years (€ 000)	3-4 years (€ 000)	4-5 years (€ 000)	Over 5 years (€ 000)	Total (€ 000)
VARIABLE RATE							
Financial investments							
Current accounts at banks and term deposits	239,483						239,483
Marketable securities	6,467						6,467
Financial liabilities							
Debt and loans due to banks	(55,571)			(117)	(358)	(356)	(56,402)
Bonds	(3,369)					(256,386)	(259,755)
Private placement	(4,470)	(2,940)	(9,066)	(9,066)	(9,053)	(91,446)	(126,040)
Property leases	(2,942)	(3,070)	(3,051)	(3,132)	(3,090)	(9,662)	(24,946)
Other financial payables	(1,115)	(1,072)	(1,226)	(335)	(345)	(1,395)	(5,488)
Projected net cash flows	**178,483**	**(7,082)**	**(13,343)**	**(12,649)**	**(12,845)**	**(359,245)**	**(226,681)**
FIXED RATE							
Other financial payables	**(1,115)**	**(1,072)**	**(1,226)**	**(335)**	**(345)**	**(1,395)**	**(5,488)**

Credit risk

The only case of a significant concentration of trade receivables is the US market where all players in the beverage sector face the risk of concentration.

Thus, the maximum possible risk relates to total trade receivables of the US subsidiary, which amounted to € 36.7 million at 31 December 2005.

Hedging activities

Cash flow hedging

At 31 December 2005, Campari International S.A.M. had outstanding forward contracts to hedge its 2006 budget for sales and purchases in currencies other than euro.

The following table summarises the terms of the major contracts.

	Nominal amount	Maturity	Average exchange rate
Forward contracts to hedge cash flows from future sales			
Sales			
US$	25,418	30 March 2007	1.25
CHF	8,150	31 January 2007	1.58
Forward contracts to hedge cash flows for future purchases			
Purchases			
US$	9,826	30 March 2007	1.25

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

The hedging met the requirements for effectiveness, and an unrealised loss of € 193 thousand was suspended in shareholders' equity reserves with a related deferred tax effect of € 14 thousand.

Fair value hedging

In addition to the above hedging arrangements, Campari International S.A.M. had outstanding forward contracts on receivables and payables in its accounts at 31 December 2005.

An interest rate swap with a total notional amount of US$ 166 million and a cross currency swap on interest and exchange rates with a total notional amount of US$ 300 million were used as hedging instruments for the bond and private placement noted above. Both have the same maturities as the underlying debt.

During the year, the fair value of the financial instruments declined by € 143 thousand; this reduction in value was posted to the profit and loss account.

35. Employees

The average number of employees, by business area, is as follows:

	31 dicembre 2005	31 dicembre 2004
Produzione	713	733
Vendita e distribuzione	501	493
Generale	323	320
Totale	**1.536**	**1.545**

57% of employees are based in Italy and the remainder abroad. By category, the breakdown is as follows:

	31 dicembre 2005	31 dicembre 2004
Dirigenti	83	80
Impiegati	844	840
Operai	609	625
Totale	**1.536**	**1.545**

36. Transition to International Accounting Standards (IAS/IFRS)

In accordance with the provisions of Regulation (EC) 1606/2002 of July 2002, the Campari Group adopted the international accounting standards (IAS/IFRS) issued by the International Accounting Standards Board from 1 January 2005.

This section shows reconciliations between the profit and loss account and shareholders' equity figures calculated according to Italian accounting standards, and those resulting from the application of IAS/IFRS for the preceding comparison periods, as required by IFRS 1 (First-Time adoption of international financial reporting standards), as well as the related explanatory notes.

The standards applied in the preparation of the following figures are the same as those applied at 31 December 2005. Please see Note 4 (Summary of accounting principles) of the notes to the accounts for further details.

Note that we have made some balance sheet adjustments to the figures at 31 December 2004 shown in the appendix published with the half-yearly report at 30 June 2005 to better reflect the new structure of the balance sheet.

First-time adoption of international accounting standards

The Campari Group has applied the international accounting standards retrospectively, except where exemptions granted by IFRS 1 have been applied.

Specifically, the accounting options adopted by the Group for the first-time application of the international accounting standards are as follows:

- business combinations: the Group chose not to apply IFRS 3 (Business combinations) retrospectively to the transactions that took place before the date of transition to IAS/IFRS (1 January 2004); amortisation of goodwill and trademarks has therefore not been calculated since 1 January 2004;
- fair value or revaluation as deemed cost:
  the Group chose to maintain the historical cost as an alternative to fair value or revalued cost at the date of transition, maintaining the revaluations carried out before 1 January 2004. At the date of revaluation, the new value was comparable to the fair value;
- employee benefits:
  the Group decided to recognise all cumulative actuarial gains and losses as of 1 January 2004, resulting from the valuations of employee benefits as defined benefit plans;
- cumulative translation differences:
  the Group reset to zero the cumulative translation differences resulting from the consolidation of foreign subsidiaries outside the eurozone as of the date of transition to IAS/IFRS (1 January 2004);
- financial instruments:
  the Group opted to apply IAS 39 (Financial instruments: recognition and measurement) and IAS 32 (Financial instruments: disclosure and presentation) from 1 January 2005;
- share-based payments:
  in the case of equity-settled transactions, the Group applied IFRS 2 (Share-based payments) to the allocation of stock options issued after 7 November 2002, which had not expired when IFRS 2 came into force (1 January 2005);
- non-current assets held for sale:
  the Group chose to apply IFRS 5 (Non-current assets held for sale and discontinued operations) in advance to periods ending before the effective date of IFRS 5 (1 January 2005).

The valuation and measurement of figures shown in the reconciliation statements below are based on the International Accounting Standards and interpretations thereof, and guidelines issued by the International Financial Reporting Interpretation Committee (IFRIC), effective from 31 December 2005.

Reconciliations required by IFRS 1

In compliance with the requirements of IFRS 1, this note illustrates the reconciliation between the profit and loss account figures for the year ending 31 December 2004 and the shareholders' equity figure at 1 January 2004 and 31 December 2004, prepared according to Italian accounting principles, with the corresponding values reclassified under IAS/IFRS.

The figures shown here at 1 January 2004 and for the year ending 31 December 2004 have been audited.

Effects of the transition to IAS/IFRS on the balance sheet at 31 December 2004

(€ 000)	Italian accounting standards (*)	Reclassification owing to changes in accounting treatment	Effect of transition to IAS/IFRS Reclassification	Note	Adjustments	Note	IAS/IFRS	
Assets								**Assets**
Non-current assets								**Non-current assets**
Net tangible fixed assets	156,923	–	(12,747)	i, ii, iii	48	C	144,224	Net tangible fixed assets
	–	–	9,528	i	–		9,528	Biological assets
	–	–	4,071	ii	–		4,071	Investment property
Goodwill, net of amortisation	519,715	20,856	–		35,057	B	575,628	Goodwill and trademarks
Other intangible fixed assets, net of amortisation	29,356	(20,856)	(2,560)	iii, iv	(2,518)	A	3,422	Intangible assets with a finite life
Equity investments	642	(257)	–		–		385	Investments in affiliated companies and joint ventures
Own shares	29,780	–	–		–		29,780	Own shares
	–	15,201	–		331	H	15,532	Deferred tax assets
Other assets	5,035	257	(410)	v	208	D	5,090	Other non-current assets
Total non-current assets	**741,451**	**15,201**	**(2,118)**		**33,126**		**787,660**	**Total non-current assets**
Current assets								**Current assets**
Inventories	114,410	–	–		–		114,410	Inventories
Receivables from customers, net of provisions for bad debts and year-end bonuses	173,129	7,606	(14,482)	viii	–		166,253	Trade receivables
Receivables in respect of contributions to promotional costs	7,606	(7,606)	–		–		–	
Short-term financial receivables	512	–	3,381	vi	–		3,893	Short-term financial receivables
Cash and bank	239,483	6,467	–		–		245,950	Cash, bank and securities
Marketable securities	6,467	(6,467)	–		–		–	
Tax credits	10,357	(10,357)	–		–		–	
Deferred tax assets	15,201	(15,201)	–		–		–	
Other current assets	19,802	10,357	(7,291)	iv, v, vi	–		22,868	Other receivables
Total current assets	**586,967**	**(15,201)**	**(3,910)**		**–**		**553,374**	**Total current assets**
	–	–	127	ii	–		127	Non-current assets held for sale
Total assets	**1,328,418**	**–**	**(5,901)**		**33,126**		**1,341,161**	**Total assets**

Effect of transition to IAS/IFRS

(€ 000)	Italian accounting standards (*)	Reclassification owing to changes in accounting treatment	Effect of transition to IAS/IFRS Reclassification	Note	Adjustments	Note	IAS/IFRS	
Liabilities and shareholders' equity								**Liabilities and shareholders' equity**
Shareholders' equity								**Shareholders' equity**
Share capital	29,040	–	–		–		29,040	Share capital
Reserves	566,932	–	–		28,820		595,752	Reserves
Group's portion of shareholders' equity	595,972	–	–		28,820		624,792	Group's portion of shareholders' equity
	–	4,268	–		104		4,372	Minorities' share capital
Total shareholders' equity	**595,972**	**4,268**	**–**		**28,924**		**629,164**	**Total shareholders' equity**
Non-current liabilities								**Non-current liabilities**
Payables to banks	3,580	(3,580)	–		–		–	
Property lease payments less current portion	22,004	(22,004)	–		–		–	
Bonds	257,954	122,023	(2,021)	iv	–		377,956	Bonds
Private placement	122,023	(122,023)	–		–		–	
Non-current payables to other financial organisations	1,625	(1,625)	–		–		–	
Non-current financial liabilities	–	27,209	–		–		27,209	Other non-current financial liabilities
Staff severance fund and other employee-related funds	15,154	1,621	(499)	v	(1,052)	D	15,224	Staff severance fund and other employee-related funds
	–	16,217	–		(1,939)	E, F	14,278	Reserve for risks and future liabilities
Non-current payables to tax authorities	1,789	(1,789)	–		–		–	
Deferred tax liabilities	17,858	–	–		7,193	H	25,051	Deferred tax liabilities
Other non-current liabilities	16,049	(16,049)	–		–		–	Other non-current liabilities
Minority interests	4,268	(4,268)	–		–		–	
Total non-current liabilities	**462,304**	**(4,268)**	**(2,520)**		**4,202**		**459,718**	**Total non-current liabilities**
Current liabilities								**Current liabilities**
Payables to banks	56,686	(1,115)	–		–		55,571	Payables to bank
Property lease payments current portion	2,942	(2,942)	–		–		–	
Private placement	2,940	(2,940)	–		–		–	
Other financial payables	–	–	–		–		–	
	–	6,997	8,280	vii	–		15,277	Other financial payables
Payables to suppliers	142,108	–	(14,462)	viii	–		127,646	Payables to suppliers
Corporate income tax	1,094	(1,094)	–	–	–			
Payables to tax authorities	19,365	1,094	–		–		20,459	Payables to tax authorities
Other current liabilities	45,007	–	(11,681)	vi, vii, viii	–		33,326	Other current liabilities
Total current liabilities	**270,142**	**–**	**(3,381)**		**–**		**252,279**	**Total current liabilities**
Total liabilities and shareholders' equity	**1,328,418**	**–**	**(5,901)**		**33,126**		**1,341,161**	**Total liabilities and shareholders' equity**

(*) Reclassified figures inserted in the report on operations for the year ending 31 December 2004.

Reconciliation of Group shareholders' equity as of 1 January 2004 and 31 December 2004

(€ 000)	Note	1 January 2004	31 December 2004
Group shareholders' equity according to Italian accounting standards		**548,211**	**595,972**
Start-up and expansion costs and other intangible fixed costs	A	(3,109)	(2,518)
Goodwill and trademarks	B	–	35,057
Land	C	–	48
Benefits to employees	D	2,047	1,260
Agent severance fund	E	1,221	1,102
Reserve for risks and future liabilities	F	1,310	837
Net deferred tax assets (liabilities) on adjustments	H	(697)	(6,862)
Total adjustments		**772**	**28,924**
Less portion of adjustments pertaining to minorities			(104)
Group shareholders' equity according to IAS/IFRS		**548,983**	**624,792**
Minority interests		4,668	4,372
Total shareholders' equity according to IAS/IFRS		**553,651**	**629,164**

Effects of the transition to IAS/IFRS on the profit and loss account for 2004

(€ 000)	Italian accounting standards (*)	Reclassification owing to changes in accounting treatment	Effect of transition to IAS/IFRS Reclassification	Note	Adjustments	Note	IAS/IFRS	
Net sales	**779,204**	**–**	**(28,075)**	**ix.**	**–**		**751,129**	**Net sales**
Cost of materials	(264,173)							
Production costs	(52,472)							
Total cost of goods sold	**(316,645)**	**–**	**–**		**82**		**(316,563)**	**Cost of goods sold**
Gross profit	**462,559**	**–**	**(28,075)**		**82**		**434,566**	**Gross profit**
Advertising and promotional costs	(159,502)	–	28,075	ix.	104		(131,323)	Advertising and promotional costs
Sales and distribution costs	(83,943)	–	–		(119)		(84,062)	Sales and distribution costs
Trading profit	**219,114**	**–**	**–**		**67**		**219,181**	**Trading profit**
General and administrative expenses	(53,258)	(1,023)	200	iv	(653)		(54,734)	General and administrative expenses and other operating expenses and income
Other operating income	1,822	(1,822)	–		–		–	
Goodwill and trademark amortisation	(35,135)	78	–		35,057	B	–	
			2,206	xi.	8		2,214	Capital gains and losses, write-downs of non-current assets
EBIT before one-offs	**132,543**	**(2,767)**	**2,406**		**34,479**		**166,661**	
One-offs	(2,767)	2,767	–		–		–	
EBIT	**129,776**	**–**	**2,406**		**34,479**		**166,661**	**Operating income**
Net financial income (charges)	(8,842)	–	(200)	iv	(580)		(9,622)	Net financial income (charges)
			19	x.	–		19	Profit (loss) of companies valued at equity
Other non-operating income (charges)	2,225	–	(2,225)	x, xi	–		–	
Profit before tax	123,159	–	–		33,899		157,058	Profit before tax
Minority interests	(16,954)	16,954	–		–		–	
Group profit before tax	**106,205**	**16,954**	**–**		**33,899**		**157,058**	
Tax	(36,911)	–	–		(6,166)	H	(43,077)	Tax
Group net profit	**69,294**	**16,954**	**–**		**27,733**		**113,981**	**Net profit**
		(16,954)	–		(104)		(17,058)	Minority interests
		–	**–**		**27,629**		**96,923**	**Group net profit**

(*) Reclassified figures inserted in the report on operations for the year ending 31 December 2004.

Reconciliation of the Group's net profit for the year 2004

(€ 000)	Note	2004
Group net profit according to Italian accounting standards		**69,294**
Start-up and expansion costs and other intangible fixed costs	A	593
Goodwill and trademarks	B	35,057
Land	C	48
Benefits to employees	D	(787)
Agent severance fund	E	(119)
Reserve for risks and future liabilities	F	(473)
Stock options	G	(419)
Net deferred tax income (expense) on adjustments	H	(6,167)
Total adjustments		**27,733**
Less portion of adjustments pertaining to minorities		(104)
Group net profit according to IAS/IFRS		**96,923**
Net profit attributable to minorities		17,058
Net profit according to IAS/IFRS		**113,981**

EXPLANATORY NOTES

The following explanatory notes are provided on the main reclassifications and reconciliations made to the Group's shareholders' equity and net profit, following the transition to IAS/IFRS standards.

RECLASSIFICATIONS

Balance sheet

i. Biological assets

IAS/IFRS standards require that biological assets are shown as a specific item on the balance sheet. For the Group, this relates to vines located in Sella and Mosca S.p.A.'s vineyards.

This change in disclosure requirements means that assets amounting to € 9,528 thousand at 31 December 2004 were reclassified from "net tangible fixed assets" to "biological assets".

These assets are valued at cost less accumulated depreciation.

As regards the application of IAS 41 concerning the accounting treatment of biological assets (vines) and biological products (grapes), in light of the particular market situation in which Sella & Mosca S.p.A. operates, as described below, it was decided to continue recording these assets at cost, less accumulated depreciation; valuation at fair value would require a number of assumptions to be met, which do not apply in the context in which the company operates:

– the existence of an active market for biological products and assets this is not the case in Sardinia, as the market cannot absorb grapes and vines in the quantities concerned, due to a lack of buyers, and it is not possible to set potential market prices in a scenario in which all products or biological assets are made available for sale;
– the adoption of the alternative cash flow valuation method this cannot be used as it is not possible to set a reliable price for the biological products concerned in the quantities concerned, nor to determine or measure the projected cash flows.

ii. Investment property

IAS/IFRS standards require investment property to be disclosed as a specific item on the balance sheet. In this category, the Group has non-current real estate assets consisting of residential housing, warehouses, a shop and a plot of land.

These investment properties are valued at cost.

This change in disclosure requirements means that assets amounting to € 4,071 thousand at 31 December 2004 were reclassified from "net tangible fixed assets" to "investment property".

Moreover, non-current real estate assets with high re-sale potential, or where there is an irrevocable commitment to sale to a third party, have been reclassified from "net tangible fixed assets" to "non-current assets held for sale".

These assets, valued at the lower of net book value and fair value less selling costs were worth € 127 thousand at 31 December 2004.

iii. Improvements to third-party assets

Under Italian accounting principles, costs incurred for improvements to third-party assets with a useful life of several years were capitalised under intangible fixed assets.

According to IAS/IFRS standards, however, costs that can be identified separately from the asset to which they relate are to be recorded under tangible assets.

Since the costs incurred in undertaking improvements to the Group's third-party assets (€ 979 thousand at 31 December 2004) satisfy the criteria described above, they have been reclassified from "intangible assets with a finite life" to "net tangible fixed assets".

iv. Bond issue expenses

Under Italian accounting principles, bonds must be shown at the residual nominal value (principal); any issue premiums or discounts, as well as issue expenses, are deferred and amortised over the bond period.

In accordance with IAS/IFRS principles, however, the value of bonds must be shown net of these costs.

The resulting reclassification of issue costs capitalised under intangible fixed assets, together with the other non-current assets, jointly totalling € 2.254 thousand at 1 January 2004 and € 2.021 thousand at 31 December 2004, directly reduced "payables to bondholders" by these amounts.

v. Tax credits on staff severance fund (TFR)

In compliance with IAS/IFRS standards, withholding tax paid on allocations to the staff severance fund must be shown as a direct reduction in the amount payable.

This accounting treatment means that the "staff severance fund and other employee-related funds" was reduced by the amount of the reclassified tax credit (€ 499 thousand at 31 December 2004).

vi. Accrued financial income (charges) relating to derivatives

"Short-term financial receivables" increased chiefly as a result of the reclassification of accrued income (of € 6,762 thousand at 31 December 2004) relating to accrued interest income on the bond and private placement derivative hedging transactions (cross currency swaps), and decreased following the reclassification of accrued liabilities (of € 3,381 thousand at 31 December 2004) relating to accrued interest liabilities on these hedging operations.

vii. Interest payable on bonds and private placement

Other current financial liabilities increased mainly as a result of the reclassification of the accrued interest on bonds and the private placement (from other current liabilities), which totalled € 8,280 thousand at 31 December 2004.

viii. Trade payables

Accrued liabilities of € 20 thousand and trade payables for promotional services of € 14,482 thousand at 31 December 2004 were reclassified under this item.

Profit and loss account

ix. Net sales

In line with the approach adopted by the sector, the value of product sales to major retailers was determined by disclosing the related revenues net of promotional costs. The promotional costs, which are invoiced by the retailer, are generally valued according to actual sales volumes and represent an essential condition for the agreement of product sales contracts. The amount is negotiated at the same time as the sales contract, of which it forms an integral part.

These costs, totalling € 28,075 thousand in 2004, have thus been reclassified, which has directly reduced the sales figure.

x. Profit relating to companies valued at equity

In accordance with IAS/IFRS standards, the portion of profit or loss relating to affiliated companies or joint ventures valued at equity should be disclosed as a specific item in the profit and loss account. This has led to the reclassification of the amount under this item (€ 19 thousand in 2004) from “other non-operating income (charges)” to “portion of profit (loss) relating to companies valued at equity”.

xi. Other non-operating income (charges)

Under IAS/IFRS, all costs and income are deemed to relate to operational activity, even if they are unforeseen, unrelated to normal activity or non-recurring. Therefore, no cost or income item may be classified as “extraordinary”.

This has led to the reclassification of net income amounting to € 2,206 thousand in 2004 from “other non-operating income (charges)” to “capital gains and losses, write-downs of non-current assets”, which is included in the calculation of EBIT.

ADJUSTMENTS

A – Start-up and expansion costs and other intangible fixed assets

Under IAS/IFRS, start-up and expansion costs and other intangible fixed assets that do not meet the requirements for recognition as assets are allocated to the profit and loss account.

The effects of this alternative accounting treatment are:

- a decrease in shareholders’ equity of € 3,109 thousand at 1 January 2004 and € 2,518 thousand at 31 December 2004;
- an increase in net profit of € 593 thousand for 2004, as these items are no longer amortised.

B – Goodwill and trademarks

Under IAS/IFRS, goodwill and trademarks may no longer be amortised as they are deemed to be intangible assets with an indefinite useful life.

A test is carried out at least annually to determine whether there has been any loss in value in respect of the book value (impairment test).

As the Group chose not to apply IFRS 3 (Business combinations) retrospectively to the transactions that took place before the date of transition, values for goodwill and trademarks continued to be recorded under Italian accounting standards.

To this end, cash generating units were identified for goodwill and trademarks. Impairment tests carried out on them confirmed the book values recorded under Italian accounting principles at 1 January 2004.

In addition, the application of IAS/IFRS meant that amortisation on these items was eliminated via:

– an increase in net profit for 2004, and in shareholders' equity at 31 December 2004, of € 35,057 thousand.

C – Land

Under Italian accounting principles, land belonging to buildings is depreciated with the buildings, while in accordance with IAS/IFRS, it must be classified separately and may no longer be depreciated.

The effects of this alternative accounting treatment are:

– an increase in net profit for 2004, and in shareholders' equity at 31 December 2004 (of € 48 thousand) due to lower depreciation charges.

D – Employee benefits

Italian accounting principles require recognition of the liability for the staff severance fund based on the nominal liability accrued, in accordance with statutory regulations in force at the end of the reporting period. Under IAS/IFRS, the staff severance fund falls under the category of defined benefit plans, which are subject to actuarial valuation to determine the present value of the amounts (payable upon termination of employment) that have accrued to employees at the reporting date.

Under this alternative accounting treatment, all actuarial gains and losses have been recognised at the date of transition, as follows:

– an increase in shareholders' equity of € 2,047 thousand at 1 January 2004 and € 1,260 thousand at 31 December 2004;

– a decrease in net profit of € 787 thousand for 2004, as a result of an increase in allocations to the staff severance fund and the related financial component.

E – Agent severance fund

IAS/IFRS standards require an estimate to be made of the expected liability for payment of the additional compensation due to agents after termination of their contracts, taking into account all factors that could affect this amount.

The amount should also be discounted based on an appropriate rate.

Using these criteria for the calculation has had the following impact:

– an increase in shareholders' equity of € 1,221 thousand at 1 January 2004 and € 1,102 thousand at 31 December 2004;

– a decrease in net profit for 2004 of € 119 thousand.

F – Reserve for risks and future liabilities

The recognition of reserves for risks and future liabilities is subject to the existence of specific, objective conditions under IAS/IFRS.

At the date of transition, the Group eliminated the reserve for risks and future liabilities that had been recorded in the accounts under Italian accounting principles, as the new criteria were not met.

The impact of this was:

– an increase in shareholders' equity of € 1,310 thousand at 1 January 2004 and € 837 thousand at 31 December 2004;

– a decrease in net profit for 2004 of € 473 thousand, as a result of the derecognition of these funds in the profit and loss account.

G – Stock options

IAS/IFRS standards require that the total current value of stock options on the date of issue is recorded in the profit and loss account as a cost.

For this reason, in line with the significant salaries component involved, personnel and services costs include stock options issued on 8 July 2004 to employees, directors and individuals who regularly do work for one or more Group companies.

The cost is calculated with reference to the fair value of the options allocated, determined by applying the Black-Scholes model; the portion relating to the accounting period in question is determined on a pro-rata basis for the period to which the benefit relates (known as the vesting period).

The stock options are recorded at fair value with a contra entry under "stock option reserve".

Under this alternative accounting treatment, the net profit figure for 2004 was reduced by € 419,000 due to higher personnel costs.

H – Net deferred tax assets/income (liabilities/expense) on these adjustments

As a result of applying a different accounting treatment, as required to comply with IAS/IFRS, the recording of deferred tax assets/liabilities and deferred tax income/expense to reflect the adjustments detailed above, had the following impact:

– a decrease in shareholders' equity of € 697 thousand at 1 January 2004 and € 6,862 thousand at 31 December 2004;
– a decrease in net profit for 2004 of € 6,167 thousand.

Please note also that the deferred tax expense relating to the tax deductibility of trademark and goodwill amortisation was € 6,497 thousand for 2004.

Effects of the transition to IAS/IFRS on net debt at 31 December 2004

The table below shows the effects of the adjustments arising from the transition to IAS/IFRS on net debt at 1 January 2004 and 31 December 2004.

(€ 000)	Note	1 January 2004	31 December 2004
Group's net debt under Italian accounting principles		**(297,085)**	**(228,703)**
Bond issue expenses	iv	2,254	2,021
Group's net debt under IAS/IFRS		**(294,831)**	**(226,682)**

The change in the Group's net debt at 1 January 2004 and 31 December 2004 is wholly due to the reclassification of bond issue expenses, described in detail under point i) of the reclassifications shown in the previous section.

Significant adjustments to the 2004 cash flow statement following the transition to IAS/IFRS

In accordance with IAS 7, the cash flow statement must classify cash flows separately under operating, investing and financing activities.

The cash flow statement presented by the Campari Group in the accounts for the year ending 31 December 2004 conforms to this requirement and discloses these cash flows separately.

In particular, cash flow from operations was determined indirectly by adjusting the profit for the period for the effects of changes in items that did not involve expenditure or generate cash (non-cash items).

The application of IAS/IFRS standards did not therefore require any significant adjustments to the cash flows shown in the 2004 cash flow statement.

Reconciliation of the balance sheet at 1 January 2005 following the adoption of IAS 32 and IAS 39

The statement below summarises the effects on the consolidated balance sheet figures at 1 January 2005, as determined by the application of IAS 32 and IAS 39 from that date.

As allowed by IFRS 1, paragraph 36A, the comparative balance sheet and profit and loss statements were not prepared in accordance with IAS 32 and IAS 39.

(€ 000)	Application of IAS 32 and IAS 39 IAS/IFRS prior to the application of IAS 32 and IAS 39	Reclassifications	Adjustments	IAS/IFRS after the the application of IAS 32 and IAS 39	Note	Effect on net debt
Assets						
Non-current assets						
Net tangible fixed assets	144,224	–	–	144,224		
Biological assets	9,528	–	–	9,528		
Investment in intangible assets	4,071	–	–	4,071		
Goodwill and trademarks	575,628	–	–	575,628		
Intangible assets with a finite life	3,422	–	–	3,422		
Investments in affiliated companies and joint ventures	385	–	–	385		
Own shares	29,780	(29,780)	–	–		
Deferred tax assets	15,532	–	1,402	16,934		
Other non-current assets	5,090	–	9,603	14,693	A	9,603
Total non-current assets	**787,660**	**(29,780)**	**11,005**	**768,885**		
Current assets						
Inventories	114,410	–	–	114,410		
Trade receivables	166,253	–	–	166,253		
Short-term financial receivables	3,893	–	665	4,558	B	665
Cash, bank and securities	245,950	–	–	245,950		
Other receivables	22,868	–	(1,034)	21,834		
Total current assets	**553,374**	**–**	**(369)**	**553,005**		
Non-current assets held for sale	127	–	–	127		
Total assets	**1,341,161**	**(29,780)**	**10,636**	**1,322,017**		
Liabilities and shareholders' equity						
Shareholders' equity						
Share capital	29,040	–	–	29,040		
Reserves	595,752	(29,780)	(2,467)	563,505		
Group's portion of shareholders' equity	624,792	(29,780)	(2,467)	592,545		
Minorities' share capital	4,372	–	–	4,372		
Total shareholders' equity	**629,164**	**(29,780)**	**(2,467)**	**596,917**		
Non-current liabilities						
Bonds	377,956	–	(45,786)	332,170	C	(45,786)
Other non-current liabilities	27,209	–	59,360	86,569	D	59,360
Staff severance fund and other employee-related funds	15,224	–	–	15,224		
Reserve for risks and future liabilities	14,278	–	–	14,278		
Deferred tax	25,051	–	7	25,058		
Other non-current liabilities	–	–	–	–		
Total non-current liabilities	**459,718**	**–**	**13,581**	**473,299**		
Current liabilities	**–**	**–**	**–**			
Payables to banks	55,571	–	–	55,571		
Other financial payables	15,277	–	–	15,277		
Payables to suppliers	127,646	–	–	127,646		
Payables to tax authorities	20,459	–	–	20,459		
Other current liabilities	33,326	–	(478)	32,848		
Total current liabilities	**252,279**	**–**	**(478)**	**251,800**		
Total liabilities and shareholders' equity	**1,341,161**	**(29,780)**	**10,636**	**1,322,017**		
Net debt (A + B – C – D)						**(3,306)**

The table below shows a reconciliation of shareholders' equity at 1 January 2005, which highlights the effects of applying IAS 32 and IAS 39.

(€ 000)	Note	1 January 2005
Group shareholders' equity (IAS/IFRS) before application of IAS 32 and IAS 39		**624,792**
Own shares	A	(29,780)
Hedging instruments at fair value, net of deferred tax assets (liabilities)	B	(2,467)
Total adjustments		**(32,247)**
Group shareholders' equity (IAS/IFRS) after application of IAS 32 and IAS 39		**592,545**
Minority interests		4,372
Shareholders' equity (IAS/IFRS) after application of IAS 32 and IAS 39		**596,917**

Explanatory notes on the main reclassifications and reconciled items of the Group's shareholders' equity on the consolidated balance sheet on 1 January 2005, as determined by the application of IAS 32 and IAS 39 from that date, are set out below.

RECLASSIFICATIONS

A – Own shares

Under Italian accounting standards, own shares were recorded under assets, and a specific earmarked reserve was created under shareholders' equity. IAS/IFRS standards require, however, that own shares are accounted for as a reduction in shareholders' equity.

This accounting treatment led to a reduction in shareholders' equity of € 29,780 thousand on 1 January 2005 after the elimination of the "own shares" item under assets in the same amount.

ADJUSTMENTS

B – Derivative hedging instruments

Derivatives were classified as an off-balance sheet item under Italian accounting standards, whereas IAS 39 requires their obligatory disclosure in the accounts at fair value.

They are classified according to usage:

- fair value hedging instruments must be recorded under assets or liabilities; the derivative and underlying hedged item are valued at fair value and the differences accounted for in the profit and loss statement;
- cash flow hedging instruments should be included under assets or liabilities; the derivative is valued at fair value and differences in value relating to the hedged item are recorded, net of tax, in a reserve under shareholders' equity, and released to the profit and loss account in the financial years in which the relevant cash flows are generated;
- the effect of this classification, excluding the tax effect, reduced shareholders' equity at 1 January 2005 by € 2,467 thousand.

The table below shows the effects of the adjustments arising from the application of IAS 32 and IAS 39 on net debt at 1 January 2005:

	(€ 000)
Group's net debt according to Italian accounting principles at 31 December 2004	**(228,703)**
Reclassification of bond issue expenses	2,021
Group's net debt prior to the application of IAS 32 and IAS 39 at 31 December 2004	**(226,682)**
Effect of the application of IAS 32 and IAS 39	(3,306)
Group's net debt after the application of IAS 32 and IAS 39 at 1 January 2005	**(229,988)**

The change in the Group's net debt (€ 3,306 thousand) at 1 January 2005 is due to the recording of financial instruments at fair value in the accounts.

ANNUAL REPORT OF THE BOARD OF DIRECTORS ON CORPORATE GOVERNANCE

Davide Campari-Milano S.p.A. (“the Company” and, together with its subsidiaries, “the Group”) has adopted the provisions of the Code of Conduct for Listed Companies (“the Code”) as its model for corporate governance.

This report has been drawn up in accordance with the guidelines for the preparation of corporate governance reports issued by Borsa Italiana S.p.A. and by Assonime (the association of Italian limited liability companies).

Its aim is to provide the market and shareholders with comprehensive details of the company’s chosen corporate governance model and of how the company is putting the recommendations of the Code into practice.

Section I – 1. The company’s corporate governance model

The company’s Articles of Association, as amended by the recent reform of company law, confirmed the Company’s choice of a traditional administration and control model, consisting of a Board of Directors and a Board of Statutory Auditors.

1.1. Board of Directors

In accordance with article 14 of the Articles of Association, the Company is run by a Board of Directors comprising between three and fifteen members, appointed by the ordinary shareholders’ meeting, which also decides on the number of members.

The Board of Directors has full powers to manage the Company and achieve the corporate purpose.

It constitutes the central body of the Company’s corporate governance system.

The Board is responsible for setting out strategic and management guidelines for the company and the Group and for overseeing general performance, as well as defining and applying the corporate governance rules and examining internal audit procedures.

The members of the Board of Directors serve for a period ranging from one to three years, and may be re-elected.

1.2. Board of Statutory Auditors

Article 27 of the Articles of Association states that the Board of Statutory Auditors comprises three Permanent Auditors and three Deputy Auditors.

The Board of Statutory Auditors is responsible for the audit function and for verifying, in complete autonomy and independence, the proper administrative and accounting management of the Group, and for ensuring that the law and the Articles of Association are observed.

The accounts audit is carried out by an external auditing company.

The members of the Board of Statutory Auditors serve for three years, and may be re-elected.

1.3. Shareholders’ meetings

Shareholders’ meetings are governed by specific regulations approved by the ordinary shareholders’ meeting of 2 May 2001 (“the Regulations”).

Meetings must be attended by all Directors and the entire Board of Statutory Auditors.

The Regulations govern ordinary and extraordinary shareholders' meetings, as well as special shareholders' meetings. They set out the rules concerning meeting attendance, verification of proof of identity with particular reference to proxies, the powers of the Chairman with respect to declaring the meetings valid, opening the meeting, directing discussion, voting and vote counting.

In accordance with the provisions of article 11 of the Articles of Association, all those wishing to attend the shareholders' meeting must present appropriate certification issued by the appointed intermediary as previously communicated to the company, in accordance with applicable law, with two days' notice.

Shareholders may send a representative to the meeting provided that the written proxy is signed by the holder of the aforementioned certification or by his legal representative or by a specific representative.

Those attending as representatives of one or more shareholders with voting rights must provide proof of identity and a written proxy, and sign a declaration stating that there is no obstacle to their acting as a representative.

Any shareholder with voting rights attending the meeting may not at the same time issue a proxy for some of his votes; however, he may appoint proxies for the various items on the agenda, who must use all the shareholder's votes for each item.

In this case, the written proxy must state the items on the agenda to which it refers.

In accordance with article 13 of the Code, Directors must do their utmost to encourage and facilitate the widest possible attendance at shareholders' meetings.

Shareholders' meetings are also an opportunity to provide shareholders with information on the company and the Group, with due regard for the regulations on price-sensitive information.

1.4. Share capital

The share capital consists entirely of ordinary shares.

Alicros S.p.A. is the company's controlling shareholder pursuant to article 93 of legislative decree 58/1998.

Section II – Implementation of the Code

2. Board of Directors

2.1. Division of powers and duties

Article 17 of the Articles of Association gives the Board of Directors full powers for the ordinary and extraordinary management of the company.

In accordance with the Code and article 2381 of the Italian civil code, as amended by legislative decree 6 of 17 January 2003, the Board of Directors meets to assess the Group's performance and examine the reports of the Managing Directors on their activities and the most significant transactions carried out by the Group, as well as verifying the adequacy of the company's organisational, administrative and accounting systems.

The Board of Directors also has all possible powers that may be awarded by law and in accordance with the company's Articles of Association, including the power to approve the merger into the Parent Company of wholly-owned subsidiaries or those in which a stake of 90% or more is held, the power to set up or close secondary offices, branches, representative offices and subsidiaries in Italy and overseas, the power to decide which Director or Directors has/have powers to represent the company, the power to approve a capital decrease if a shareholder redeems his shares, the power to approve any amendments to the Articles of Association to comply with new legislation, the power to transfer the registered office elsewhere within Italy, and the power to issue bonds within the limits and according to the means set out by applicable laws.

Even though not expressly stated in the Articles of Association, the Board of Directors has the powers set out in article 1.2. of the Code; that is, to examine and approve the company's strategic, business and financial plans and the structure of the Group as a whole.

The Board of Directors is also responsible for passing the resolutions relating to actions which, by their nature or value lie outside the powers of the Managing Directors or which represent the personal interests of the Directors or third parties, or which the Directors themselves deem it appropriate to examine for particular reasons.

In accordance with article 18 of the Articles of Association, the Board of Directors may, within the limits allowed by law, delegate such powers as it deems appropriate for the management of the Company, as well as powers of representation and signature, to one or more members holding the title of Managing Director.

These mandates allow Managing Directors to operate individually as regards matters of ordinary management within financial limits set according to the type of action in question, and jointly with one other signature for matters of ordinary management exceeding these thresholds and for certain matters of extraordinary management.

In accordance with article 19 of the Articles of Association, Directors who have been awarded powers must report on at least a quarterly basis to the Board of Directors and the Board of Statutory Auditors on the activities carried out within their mandates, on the most significant transactions carried out by the company or Group subsidiaries, and on transactions in which they have a personal or third–party interest.

The most significant transactions, such as the acquisition and sale of companies of a certain size, must receive prior approval from the Board of Directors.

Significant transactions are considered as all transactions whose value exceeds the limits set for actions requiring joint signature.

According to the Articles of Association, Directors may delegate some of their powers, including the relative powers of representation, to an Executive Committee, which may pass resolutions by majority vote.

At present, there is no such Executive Committee.

2.2. Chairman of the Board of Directors

The Chairman of the Board of Directors represents the company in respect of third parties and in any legal matters.

The Chairman co-ordinates the activities of the Board of Directors and conducts its meetings; he also officiates at shareholders’ meetings and ensures they are conducted in accordance with the company’s Articles of Association and the Regulations.

As he has no management mandate, he qualifies as a non-executive Director.

The Internal Audit department reports directly to the Chairman.

2.3. Transactions with related parties

In accordance with article 19 of the Articles of Association and pursuant to article 150 of legislative decree 58/1998, Managing Directors must report on at least a quarterly basis to the Board of Directors and the Board of Statutory Auditors with respect to transactions in which they have a personal or third-party interest.

Please see the report on operations for details of the most significant transactions with related parties carried out in 2005.

The company has a specific procedure for carrying out transactions in which the Directors have a personal interest or translations with related parties.

Directors of Group companies, as well as managers who have the power to enter into binding agreements with third parties on behalf of Group companies, must comply with these procedures.

In the case of any transaction in which they have a personal or third-party interest, or any transaction with related parties, with a value of € 1,000.00 or above, said Directors and managers must refrain from completing such transactions until they have provided complete details thereof to an Executive Director of their company, or, where the party with the interest is himself an Executive Director, to his Board of Directors.

The Executive Director (or the Board of Directors) then evaluates the general and financial suitability of the transaction, and may decide to authorise it.

The Company has thus incorporated the recommendations of the Code with respect to setting out guidelines for identifying transactions with related parties, and thereby complies with both Consob communications on this matter and articles 2391 and 2391 bis of the Italian civil code.

Pursuant to article 11 of the Code, those holding a personal interest may not attend the discussion, and the Executive Director or the Board of Directors may seek a legal or fairness opinion.

2.4. Composition of the Board of Directors

As stated above, in accordance with article 14 of the Articles of Association, the Company is managed by a Board of Directors comprising between three and fifteen members, as decided by the shareholders' meeting, which is responsible for appointing them.

The Board of Directors currently comprises eleven members.

The list below shows the names of the members of the Board of Directors in office at 31 December 2005, with the job titles of the Executive Directors indicated in italics:

Luca Garavoglia	Chairman – non-executive
Cesare Ferrero	non-executive – independent
Franzo Grande Stevens	non-executive – independent
Paolo Marchesini	Chief Financial Officer (*)
Pierleone Ottolenghi	non-executive – independent
Marco Pasquale Perelli-Cippo	non-executive – not independent
Giovanni Rubboli	non-executive – independent
Renato Ruggiero	non-executive – independent
Stefano Saccardi	Legal Affairs and Business Development Officer (*)
Vincenzo Visone	Chief Executive Officer (*)
Anton Machiel Zondervan	non-executive – independent

Directors marked with an asterisk have operational roles within the Company and have the title of Managing Director.

These Directors, in post until the approval of the accounts for the year ending 31 December 2006, were appointed by the ordinary shareholders' meeting of 29 April 2004, with the exception of Pierleone Ottolenghi, who was appointed by the Board of Directors on 29 September 2005 until the next shareholders' meeting, in place of Luca Cordero di Montezemolo, who stepped down on 10 June 2005.

According to the Regulations, nominations for the post of Director must be presented on lists, accompanied by a detailed curriculum vitae of each candidate. They must be filed at the company's headquarters at least ten days before the date of the shareholders' meeting.

The CVs of all the current Directors are available from the Company's Investor Relations office, while a short description of the professional backgrounds of the management is available at www.campari.com/ir.

There is no minimum number of Board of Directors' meetings set out in the Articles of Association.

In 2005 six board meetings were held. All Directors attended regularly and the few absences were explained. In 2006 the company expects to hold a similar number of board meetings.

Please see table 1 attached to this Report for the attendance records of each Director.

Before each board meeting, Directors are provided with all the documentation and information necessary to pass resolutions as far in advance of the meeting as is reasonably possible.

Information passed to the Board of Directors is comprehensive and provided promptly.

2.5. Other jobs held by Directors

Directors who at 31 December 2005 were directors or auditors of other companies listed on Italian and foreign regulated markets, or financial companies, banks, insurance companies or large companies, are listed below:

- Luca Garavoglia: member of the Board of Directors of FIAT S.p.A.;
- Cesare Ferrero: Vice-chairman of the Board of Directors of PKP S.p.A.; member of the Board of Directors of Autostrada Torino-Milano S.p.A. and Pininfarina S.p.A.; Chairman of the Board of Auditors of ERSEL Finanziaria S.p.A., ERSEL S.I.M. S.p.A., Ferrero S.p.A., FIAT S.p.A., FIAT Auto S.p.A., Giovanni Agnelli & C. S.A.p.A., I.F.I. S.p.A. and I.F.I.L. S.p.A.; Statutory Auditor of Banca Passadore S.p.A., Ferrero & C. S.p.A., R.C.S. Investimenti S.p.A. and Toro Assicurazioni S.p.A.;
- Franzo Grande Stevens: Chairman of the Board of Directors of P. Ferrero & C. S.p.A. and Juventus F.C. S.p.A.; member of the Board of Directors of Exor Group S.A., I.F.I. S.p.A., I.F.I.L. S.p.A., Pictet International Capital Management, Pininfarina S.p.A., RCS MediaGroup S.p.A. and S.E.I. S.p.A.;
- Renato Ruggiero: Vice-chairman of Citigroup European Investment Bank;
- Anton Machiel Zondervan: Chairman of the Supervisory Board of Doeksen Transport Group.

2.6. Non-executive and independent Directors

The Articles of Association do not set out a minimum number of non-executive or independent Directors; nonetheless, in accordance with article 2 of the Code, the Company has taken on non-executive Directors who, in terms of their numbers and authority, have significant influence on the decision-making process.

At the date of approval of the draft annual report for the year ending 31 December 2005, most of the company’s directors were non-executive.

These Directors may also be considered independent, with the exception of Luca Garavoglia and Marco Pasquale Perelli-Cippo.

Six Directors out of eleven are independent.

The degree of independence of Directors has been verified by the Board of Directors in accordance with the principles of the Code, particularly the criteria set out in article 3.

Note also that Franzo Grande Stevens provides some legal advice to the Group, but this is not sufficient to compromise his independence.

2.7. Committees

The Articles of Association state explicitly that the Board of Directors may set up an internal audit committee (“Audit Committee”), and a committee for remuneration and appointments (“Remuneration and Appointments Committee”).

Both committees are sub-groups of the Board of Directors and are responsible for providing advice and making proposals.

2.7.1. Remuneration and Appointments Committee

The Board of Directors formed a Remuneration Committee, which was then merged with the Appointments Committee for rationalisation purposes.

The Remuneration and Appointments Committee chiefly comprises independent Directors, and is composed of Franzo Grande Stevens (Chairman), Marco Pasquale Perelli-Cippo and Giovanni Rubboli.

It has the task of formulating proposals for the remuneration of Directors who have been given specific functions and powers, and those who play key roles in the management of the Company, as well as proposals for improving the allocation of human resources within the Group.

The Remuneration and Appointments Committee does not make proposals on behalf of its own members.

The Remuneration and Appointments Committee met three times in 2005, with all meetings attended by all members. The Committee presented the Board of Directors with the proposals falling within its remit without consulting external advisors.

The Board of Directors then approved these proposals.

The issues discussed by the Remuneration and Appointments Committee last year included the Group's structure and organisation chart, the remuneration of executive Directors and the senior management, and the updating of the stock option scheme.

The remuneration of executive Directors and senior management is closely linked to the financial results achieved by the Group and the individual companies for which they work.

Further details of Directors' remuneration are given elsewhere in these notes to the accounts.

During the year stock options were issued to certain Group employees under the conditions set out in the current stock option plan.

No stock options were issued to company Directors.

2.7.2. Internal Audit Committee

The Board of Directors also formed an Audit Committee, made up entirely of independent Directors: Giovanni Rubboli (Chairman), Cesare Ferrero and Anton Machiel Zondervan.

In accordance with the tasks set out in article 10 of the Code, the function of the Audit Committee is to assess the adequacy of the company's internal audit system and of the internal audit department's work plan, and to report thereon to the Board of Directors.

In 2005, the Audit Committee examined the criteria for assessing and auditing the profitability of the Cinzano brand, as well as analysing problems associated with production and quality control arising in the company, and in Campari do Brasil Ltda., Sella & Mosca S.p.A. and Barbero 1891 S.p.A.

The Audit Committee also focused on the analysis of problems relating to the implementation of IT systems that connect Group companies, as well as the sales policies adopted by Skyy Spirits, LLC.

Meetings of the Audit Committee are usually attended by the Chairman of the Board of Statutory Auditors or another Auditor mandated by him.

Please see table 1 attached to this report for the attendance records of each Committee member.

The relationship between the Audit Committee and the Board of Statutory Auditors is one of a continual exchange of information on the most important matters dealt with during the regular audits that take place, in accordance with the annual audit plan, and on the updating of risk assessment procedures for the Group and its subsidiaries.

3. Company functions and procedures

3.1. Handling of confidential data

The Company has drawn up procedures for the handling of confidential data ("Procedures").

These Procedures clearly set out which information is considered confidential or price-sensitive, the person(s) responsible internally for dealing with such information, the conduct required of anyone privy to the information, and the procedures for making it public, including to the press.

The Procedures apply to Directors, Auditors and employees of the company and other companies belonging to the Group.

Management of confidential data is the responsibility of the Managing Directors of Group companies. The task also falls to the Chief Executive Officer and the Legal Affairs and Business Development Officer as regards acquisitions and disposals, and to the Chief Financial Officer for financial information.

In 2005 the company applied the Code of Conduct on Internal Dealing, drawn up pursuant to article 2.6.3. of the regulations of Borsa Italiana S.p.A.; this will be observed until the entry into effect of Consob ruling

15232 of 29 November 2005 (scheduled for 1 April 2006) on transactions involving shares in the company undertaken by relevant persons, which amended Consob regulation 11971 of 14 May 1999.

The company also has a Code of Ethics setting out the fundamental values on which its conduct will continue to be based.

This was an appropriate time to adopt such a code, given the company's sharp growth on the Italian and international markets, the increasing complexity of its organisation in the last few years (especially following recent acquisitions) and the awareness that the company is now operating in a highly sophisticated socioeconomic environment.

The full Code of Ethics can be found on the Campari Group's website, at www.campari.com/investors.

3.2. Appointment of Directors and Auditors

According to the Regulations, nominations for Director must be presented on lists, accompanied by a detailed curriculum vitae of each candidate. They must be filed at the company's headquarters at least ten days before the date of the shareholders' meeting.

A list vote system is not used for the election of Directors representing minority shareholders.

All current Directors were nominated by the majority shareholder.

Under the Articles of Association, a list voting system is used for the appointment of members of the Board of Statutory Auditors, in order to allow minority shareholders to appoint a Statutory Auditor and a Deputy Auditor, as required by article 148 of legislative decree 58/1998.

The Board of Statutory Auditors is appointed on the basis of lists presented by shareholders and filed at the Company's headquarters at least ten days before the date of the shareholders' meeting.

Only those shareholders who, alone or jointly with others, hold shares totalling at least 5% of the share capital with voting rights at the ordinary shareholders' meeting, may present lists.

Again in accordance with the Articles of Association, candidates who already hold the position of Statutory Auditor in five or more listed companies (excluding parent companies and/or subsidiaries of the company), or who do not meet the requisites of trustworthiness and professionalism demanded by applicable law, may not be included on the lists.

The procedure for the election of Auditors is described in article 27 of the Articles of Association.

3.3. Internal audit system

The company is fully aware of the need for an adequate internal audit system, and has set up a specific department headed by a Group Internal Auditor.

This unit, which operates across and supervises the whole Group, is hierarchically separate from the executive Directors, reporting directly to the Chairman of the Company.

It reports on its activities on at least a quarterly basis to the Managing Directors, the Audit Committee and the Board of Statutory Auditors.

Following favourable reports from the Audit Committee, the Board of Directors judges that the company's internal audit system is satisfactory, effectively safeguarding against the typical risks arising from the Group's activities and monitoring its economic and financial situation.

3.4. Investor relations

The company attaches great importance to its relations with shareholders and institutional investors.

It has an Investor Relations office, headed by an Investor Relations Manager.

As part of the Company's reporting procedures, including regular results disclosure and the announcement of extraordinary operations, the Investor Relations department has organised numerous meetings with Italian and foreign institutional investors and the financial press, many of which are also attended by members of the senior management.

In order to facilitate its dialogue with shareholders, the Company has developed and continually updates a special section of its website dedicated to investor relations (www.campari.com/ir). This page contains not only financial information (annual, interim and quarterly reports, trading performance of Campari securities on the market, etc), but also information and documents of interest to shareholders, such as the composition of the Board of Directors and Board of Statutory Auditors, details of corporate governance, the Code on Internal Dealing and the Procedures for carrying out transactions in the case of a personal or third-party interest.

Shareholders may request additional information via email from investor.relations@campari.com.

The company follows the guidelines set out in the Guide for market disclosure.

4. Auditors

The members of the Board of Statutory Auditors appointed by the ordinary shareholders' meeting of 29 April 2004 for the three-year period 2004-2006 are listed below:

Umberto Tracanella	Chairman
Alberto Lazzarini	Statutory Auditor
Antonio Ortolani	Statutory Auditor
Alberto Giarrizzo Garofalo	Deputy Auditor
Giuseppe Pajardi	Deputy Auditor
Paolo Proserpio	Deputy Auditor

Auditors who at 31 December 2005 were Directors or Auditors of other companies listed on Italian regulated markets are listed below:

- Umberto Tracanella: member of the Board of Directors of Risanamento S.p.A.;
- Alberto Lazzarini: Deputy Auditor of Giovanni Crespi S.p.A.;
- Antonio Ortolani: Deputy Auditor of Banca Popolare di Milano S.c.a.r.l.;
- Alberto Giarrizzo Garofalo: Deputy Auditor of Mirato S.p.A.

Since no alternative list was put forward, none of the current Auditors represents minority shareholders, who, it is presumed, are happy with the professionalism and independence of the Auditors appointed by the majority shareholders.

The proposals to the shareholders' meeting for the appointment of the Auditors currently in place were accompanied by a detailed curriculum vitae of each candidate.

The Board of Auditors held six meetings in 2005.

Please see table 2 attached to this report for the attendance records of each Auditor.

Almost all the meetings of the Board of Directors in 2005 were attended by all members of the Board of Statutory Auditors.

5. Events taking place after the end of 2005

Pursuant to article 114 of legislative decree 58 of 24 February 1998, on 22 March 2006 the Board of Directors approved the "Procedures for reporting requirements in respect of internal dealing", in accordance with article 152 sexies et seq. of Consob regulation 11971 of 14 May 1999, which will replace the Code of Conduct on Internal Dealing from 1 April 2006.

Based on these procedures and in accordance with the criteria set out in the above law, the Audit Committee will identify relevant persons, i.e. those whose transactions involving shares in the company must be communicated to the market and Consob if their overall value exceeds € 5,000 by the end of every year.

According to the procedures, the Manager of the Group's legal department, supported by the Investor Relations department, is responsible for collecting, managing and circulating information relating to these transactions.

On the same date, the Board of Directors also authorised the Managing Directors to set up a register of persons with access to confidential data pursuant to article 115 bis of legislative decree 58 of 24 February 1998, in accordance with the procedures set out in article 152 bis of Consob regulation 11971. The board thereby put in place procedures that allow this register to be maintained and updated and the Procedures for the Handling of Confidential Data to be revised.

Milan, 22 March 2006

The Chairman
Luca Garavoglia

TABLE 1: BOARD OF DIRECTORS AND COMMITTEES

Board of Directors							Internal Audit Committee		Remuneration Appointments Committee	
Position	Name	Executive	Non-executive	Independent	****	Number of other position held **	***	****	***	****
Chairman	Luca Garavoglia				100%	1				
Managing Director	Paolo Marchesini	X			100%					
Managing Director	Stefano Saccardi	X			100%					
Managing Director	Enzo Visone	X			100%					
Director	Cesare Ferrero		X	X	83%	15	X	86%		
Director	Franzo Grande Stevens		X	X	50%	9			X	100%
Director	Pierleone Ottolenghi		X	X	100%					
Director	Marco Pasquale Perelli-Cippo		X		67%					
Director	Giovanni Rubboli		X	X	100%		X	100%	X	100%
Director	Renato Ruggiero		X	X	100%	1			X	100%
Director	Anton Machiel Zondervan		X	X	100%	1	X	100%		

Total number of meetings held during the year	Board of Directors: 6	Internal Audit Committee: 7	Remuneration and Appointments Committee: 3

NB

* Director appointed via lists presented by minority shareholders.

** Positions held as Director or Auditor in other companies listed on Italian and foreign regulated markets, or financial companies, banks, insurance companies or large companies; full details are given in the report on corporate governance.

*** Member of Committee as well as member of the Board of Directors.

**** Percentage attendance of Directors at board meetings and committee meetings in the form required by the new Articles of Association; the percentage stated for Pierleone Ottolenghi's attendances refers to the number of sessions attended since his appointment.

TABLE 2: BOARD OF STATUTORY AUDITORS

Position	Name	Percentage attendance at meetings of the Board of Statutory Auditors	Number of other positions held**
Chairman	Umberto Tracanella	83%	1
Statutory Auditor	Alberto Lazzarini	67%	1
Statutory Auditor	Antonio Ortolani	100%	1
Deputy Auditor	Alberto Giarrizzo Garofalo	–	1
Deputy Auditor	Giuseppe Pajardi	–	
Deputy Auditor	Paolo Proserpio	–	

Total number of meetings held during the year: 6
In accordance with article 27 of the Articles of Association, only those shareholders who, alone or jointly with others, hold shares totalling at least 5% of the share capital with voting rights at the ordinary shareholders' meeting, may present lists.

NB

* Auditor appointed via lists presented by minority shareholders.

** Positions held as Director or Auditor in other companies listed on Italian regulated markets; full details are given in the report on corporate governance.

TABLE 3: OTHER MEASURES SET OUT IN THE CODE OF CONDUCT

	yes	no	Brief reasons for any non-compliance with the Code's recommendations
System of mandates and transactions with affiliated parties			
Has the Board of Directors awarded mandates and established:			
a) their limits	X		
b) ways in which they may be exercised	X		
c) reporting frequency?		X	Reporting frequency is set out in the Articles of Association.
Are significant transactions involving the company's business, finances or assets (including those with related parties) submitted for examination and approval by the Board of Directors ?	X		
Does the Board of Directors have defined guidelines and criteria to identify "significant" transactions?		X	The Company considers that the thresholds indicated in Managing Directors' mandates mean that the Board of Directors is always responsible for approving the most significant transactions.
Are the guidelines and criteria set out in the report?	X		
Does the Board of Directors have specific established procedures for the examination and approval of transactions with related parties?	X		
Are the procedures for the approval of transactions with related parties set out in the report?	X		
Procedures for the most recent appointment of Directors and Auditors			
Were the names of the candidates for Director filed at least ten days before the shareholders' meeting?	X		
Were the candidatures for the post of Director accompanied by detailed information?	X		
Were the candidatures for the Board of Directors accompanied by evidence of their independence?	X		
Were the names of the candidates for Auditor filed at least ten days before the shareholders' meeting?	X		
Were the candidatures for the post of Auditor accompanied by detailed information?	X		
Shareholders' meetings			
Has the company approved a set of Regulations governing shareholders' meetings?	X		
Are the Regulations attached to the report (or does the report indicate where they can be obtained/downloaded)?		X	The Regulations can be obtained from the Company's headquarters.
Internal audit			
Has the company appointed an internal audit department?	X		
Are the internal auditors hierarchically separate from the heads of the operational units?	X		
Is there an internal audit department (in accordance with article 9.3 of the Code)?	Group Internal Auditor		
Investor relations			
Has the Company appointed an Investor Relations Manager?	X		
Contact details for the Investor Relations Manager	Investor Relations Manager Via Filippo Turati, 27, 20121 Milano, tel. 02.6225330 – fax 02.6225479 e-mail: investor.relations@campari.com		

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20123 Milano

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INDEPENDENT AUDITORS' REPORT
pursuant to article 156 of Legislative Decree of February 24, 1998, n. 58
(Translation from the original Italian text)

To the Shareholders
of Davide Campari - Milano S.p.A.

1. We have audited the consolidated financial statements of Davide Campari – Milano S.p.A. and subsidiaries (the "Campari Group") as of and for the year ended December 31, 2005, comprising the consolidated balance sheet, the consolidated statements of income, changes in shareholders' equity and cash flows and the related explanatory notes. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. These consolidated financial statements represent the first consolidated financial statements prepared by Davide Campari – Milano S.p.A. in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

2. We conducted our audit in accordance with auditing standards and procedures recommended by CONSOB (the Italian Stock Exchange Regulatory Agency). In accordance with such standards and procedures, we planned and performed our audit to obtain the information necessary to determine whether the consolidated financial statements are materially misstated and if such financial statements, taken as a whole, may be relied upon. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, as well as assessing the appropriateness and correct application of the accounting principles and the reasonableness of the estimates made by management. We believe that our audit provides a reasonable basis for our opinion.

   For comparative purposes, the consolidated financial statements include the corresponding information for the prior year prepared in accordance with the same accounting principles except for the effects of IAS 32 and IAS 39 which have been applied from January 1, 2005 in accordance with the exemption allowed by IFRS 1. In addition, note 36 of the consolidated financial statements explains the effects of transition to IFRS as adopted by the European Union and includes the reconciliation statements required by IFRS 1, which were previously approved by management and published as an attachment to the Campari Group half-year interim financial statements, and which have been audited by us. Reference should be made to our audit report dated October 3, 2005.

■ Reconta Ernst & Young S.p.A.
Sede Legale: 00196 Roma - Via G.D. Romagnosi, 18/A
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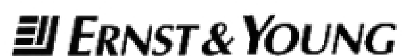

■ Reconta Ernst & Young S.p.A.

3. In our opinion, the consolidated financial statements present clearly and give a true and fair view of the financial position, the result of operations, the changes in shareholders' equity and the cash flows of Campari Group as of December 31, 2005, and for the year then ended in accordance with IFRS as adopted by the European Union.

Milan, April 7, 2006

Reconta Ernst & Young S.p.A.
signed by:
Pellegrino Libroia
(Partner)

DAVIDE CAMPARI MILANO S.p.A.

Registered office: Via Filippo Turati, 27 – MILAN

Share capital: 29,040,000 euro

Tax code – Companies Register no. 06672120158 – REA (business administration register) no. 1112227

Report of the Board of Auditors on the Campari Group's consolidated accounts for the year ending 31 December 2005 pursuant to article 41 of Legislative Decree 127 of 9 April 1991

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To the shareholders of the Parent Company Davide Campari Milano S.p.A.

As part of our remit, we have audited the consolidated accounts of the Parent Company Davide Campari Milano S.p.A. for the year ending 31 December 2005, pursuant to article 41 of Legislative Decree 127/91. These accounts were drafted in accordance with the international accounting standards (IAS / IFRS), pursuant to Legislative Decree 38 of 28 February 2005 implementing Regulation (EC) no. 1606 of 18 July 2002. In 2005, the group reported a net profit of EUR 123,052,000 (including EUR 5,039,000 pertaining to minorities), assets worth EUR 1,600,898 and shareholders' equity of EUR 695,780,000 (including EUR 2,215,000 pertaining to minorities). Following the adoption of IAS, memorandum accounts were no longer included, nor posted as payables to the balance sheet or classified individually as commitments; these are as shown in the accounts and accompanying documents submitted for your review.

A) Audit of the consolidated accounts

1. We conducted our audit in accordance with the standards for internal audit provided by the Italian association of chartered accountants. In keeping with these standards, we referred to the legislation governing consolidated accounts, interpreted and supplemented by accounting principles issued by the Italian association of chartered accountants and Consob recommendations where relevant, as well as IAS / IFRS

accounting standards, pursuant to Legislative Decree 38 of 28 February 2005 implementing Regulation (EC) no. 1606 of 18 July 2002, in accordance with the interpretation provided by the International Accounting Body (OIC).

2. The compliance audit of subsidiaries' accounts was conducted by the respective boards of statutory auditors, as required for Italian companies, and the accounting audit was performed by the external auditors Reconta Ernst & Young S.p.A, in their capacity as principal auditor.

   We have not audited the accounts of subsidiaries directly as this task was beyond our remit, and therefore our view applies solely to the consolidated accounts.

3. We have examined the basis of consolidation and the existence of conditions that permit line-by-line consolidation. Please note that the inclusion at year-end of the two acquisitions Giannina S.r.l. and Teruzzi & Puthod S.r.l. (100%-owned by Sella & Mosca S.p.A.) complies with the principle of substance over form.

4. Please note that the following minority subsidiaries were consolidated using the equity method: FIOR BRAND Ltd, International Marque V.o.f., M.C.S. S.c.a.r.l. and Summa S.L.

5. We have seen the letter giving approval from Reconta Ernst & Young, the audit firm appointed to audit the consolidated accounts, and no observations arise therefrom.

6. The documentation examined and the information obtained do not show any departure from the legislation governing consolidated accounts as supplemented by the above-mentioned accounting principles or from the laws governing the conduct of statutory audit boards.

7. The form and content of the notes to the accounts were adopted in accordance with the provisions of articles 29 and 32 of Legislative Decree 127/91, and in particular:

   – IAS/IFRS principles in force at the end of the accounting year were applied, as interpreted by the OIC;

– the use of the fair value method as set out or permitted under IAS/ IFRS standards represents a change of principle, but does not deviate from the IAS/ IFRS principles, given that it was used in accordance with the legislation; the Directors report on the effects of this;

– pursuant to article 32 of Legislative Decree 127/91, the presentation of the balance sheet, profit and loss account and notes to the accounts complied with the layouts permitted by articles 2424, 2425 and 2427 of the civil code, with all the items stipulated in articles 2424 and 2425 of the civil code presented separately;

– the provisions of article 2424-*bis* of the Italian civil code relating to individual balance sheet items were observed, and therefore assets destined for long-term use were included under fixed assets;

– the notes to the accounts were prepared in accordance with article 38 of Legislative Decree 127/91; specifically, the list of equity investments provided and the consolidation methods chosen comply with the provisions of article 39 of the same decree, and the Directors state that they have provided full information on the consolidation methods and analysis of individual items, as well as on the most significant events (including those that occurred after the year-end), in the report on operations.

8. The consolidation principles adopted comply with article 31 of Legislative Decree 127/91, in particular:

– the basis of consolidation is defined in accordance with the principles set out at articles 26 and 28 of Legislative Decree 172/91;

– asset and liability items and income and charges items relating to consolidated companies are recorded in full in the consolidated accounts, except for payables and receivables, income and charges and profits and losses arising from transactions carried out between consolidated companies, which were eliminated (article 31 of Legislative Decree 127/91);

- the use of the fair value method as set out or permitted under IAS/ IFRS standards represents a change of principle, but does not deviate from the IAS/ IFRS principles, given that it was used in accordance with the legislation; the Directors report on the effects of this;
- pursuant to article 32 of Legislative Decree 127/91, the presentation of the balance sheet, profit and loss account and notes to the accounts complied with the layouts permitted by articles 2424, 2425 and 2427 of the civil code, with the fact that the items stipulated in articles 2424 and 2425 of the civil code are separately presented;
- the provisions of article 2424-*bis* of the Italian civil code relating to individual balance sheet items were observed, and therefore assets destined for long-term use were included under fixed assets;
- the notes to the accounts were prepared in accordance with article 38 of Legislative Decree 127/91; specifically, the list of equity investments provided and the consolidation methods chosen comply with the provisions of article 39 of the same decree, and the Directors state that they have provided full information on the consolidation methods and analysis of individual items, as well as on the most significant events (including those that occurred after year end) in the report on operations.

8. The consolidation principles adopted comply with article 31 of Legislative Decree 127/91, in particular:
   - the basis of consolidation is defined in accordance with the principles set out at articles 26 and 28 of Legislative Decree 172/91;
   - asset and liability items and income and charges items relating to consolidated companies are recorded in full in the consolidated accounts, except for payables and receivables, income and charges and profits and losses arising from transactions carried out between consolidated companies, which were eliminated (article 31 of Legislative Decree 127/91);

- IFRS 2: Share-based payment

Information on the nature and workings of these standards and the effects of their application are given in the notes to the accounts.

10. In our opinion, the above-mentioned consolidated accounts give a true and fair view of the Davide Campari Milano S.p.A Group’s balance sheet and profit and loss account at 31 December 2005, in accordance with legislation governing consolidated accounts, as referred to in section A, paragraph 1.

B) **Review of the report on operations**

1. We have reviewed the report on operations, which accompanies the consolidated financial statements, to verify that it complies with the minimum content specified by article 40 of Legislative Decree 127/91, and that it is consistent with the consolidated accounts pursuant to article 41 of Legislative Decree 127/91.
2. As a result of the checks carried out, the Board of Auditors considers that the Group’s report on operations is accurate and consistent with the consolidated financial statements.

Milan, 6 April 2006

Chairman of the Board of Auditors

Umberto Tracanella

Statutory Auditors

Antonio Ortolani

Alberto Lazzarini

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