Consolidated financial statements 2006

CONSOLIDATED ACCOUNTS FOR THE YEAR ENDING
31 DECEMBER 2006

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Highlights

	2006 € million	2005 € million	% change	% change at constant exchange rates
Net sales	**932.4**	**809.9**	**15.1%**	**14.4%**
Trading profit	256.9	234.8	9.4%	8.8%
EBITDA before one-offs	210.6	196.6	7.1%	6.8%
EBITDA	209.7	201.3	4.2%	3.9%
EBIT before one-offs	191.4	179.1	6.8%	6.5%
EBIT	**190.5**	**183.9**	**3.6%**	**3.3%**
ROS % (1)	**20.4%**	**22.7%**		
Profit before tax	175.5	174.2	0.7%	0.3%
Group net profit and minorities' profit	120.3	123.0	–2.2%	–2.9%
Group net profit	**117.1**	**118.0**	**–0.8%**	**–1.4%**
Earnings per share (€)	**0.41**	**0.42**	**–2.4%**	
Average number of employees	1,605	1,536	4.5%	
Free cash flow	93.4	82.1		
Acquisitions of companies and trademarks	(179.4)	(130.7)		
Net debt	379.5	371.4		
Group shareholders' equity and minorities' equity	797.8	695.8		
Fixed assets	990.3	925.7		
ROI % (2)	**19.2%**	**19.9%**		

(1) EBIT/net sales.
(2) EBIT/fixed assets.

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

Cesare Ferrero (2)
Director and member of the Audit Commitee

Franzo Grande Stevens (3)
Director and member of the Remuneration and Appointments Committee

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

Giovanni Rubboli (2) (3)
Director, member of the Audit Committee
and member of the Remuneration and Appointments Committee

Renato Ruggiero
Director

Anton Machiel Zondervan (2)
Director and member of the Audit Committee

At the shareholders' meeting held on 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.
With the resolutions passed on 10 May 2004 and 21 March 2005 (powers in respect of environmental and health and safety matters), the Board of Directors 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 (4)

Umberto Tracanella
Chairman

Antonio Ortolani
Statutory Auditor

Alberto Lazzarini
Statutory Auditor

Alberto Garofalo
Deputy Auditor

Giuseppe Pajardi
Deputy Auditor

Paolo Proserpio
Deputy Auditor

INDEPENDENT AUDITORS (5)

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.
Director Pierleone Ottolenghi tendered his resignation on 9 November 2006.
(2) Member of the Audit Committee nominated by the Board of Directors on 10 May 2004, in post until approval of the 2006 accounts.
(3) 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.
(4) In post until approval of the 2006 accounts, in accordance with the resolution of the shareholders' meeting held on 29 April 2004.
(5) Appointed to audit the 2004, 2005 and 2006 accounts by the shareholders' meeting of 29 April 2004.


CAMPARI

SIGNIFICANT EVENTS DURING THE YEAR

Distribution of the C&C and Midori brands in the United States

The Group's US portfolio was extended at the start of January 2006 following the conclusion of two major distribution agreements by Skyy Spirits, LLC, relating to prestigious international brands owned by the Suntory group (notably Midori, a melon-flavoured liqueur) and C&C group (including Carolans Irish Cream, a whiskey-based cream liqueur, the Irish whiskey Tullamore Dew and the Irish Mist liqueur).

The distribution agreement with C&C covers a number of other markets besides the US, including Brazil.

Reorganisation of sales network in Italy

The Group launched a drive to rationalise its Italian sales networks at the start of 2006.

The project entailed the creation of two separate sales organisations, one focusing on spirits and non-alcoholic beverages and controlled by Campari Italia S.p.A.; the other dedicated mainly to the distribution of wines and managed by Sella & Mosca S.p.A. in Sardinia and by Sella & Mosca Commerciale S.r.l. elsewhere in Italy.

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

Acquisition of Glen Grant, Old Smuggler and Braemar

The Campari Group completed the acquisition of the Glen Grant, Old Smuggler and Braemar Scotch whisky brands from the Pernod Ricard group on 15 March 2006.

The acquisition of Glen Grant, which followed an agreement announced on 22 December 2005, was part of a programme of disposals imposed on Pernod Ricard by the European Commission following its acquisition of Allied Domecq.

Under the terms of the agreement, the Campari Group acquired the three aforementioned brands, the related inventory (including finished products and stock in the ageing process) and the Glen Grant distillery in Rothes, Scotland.

The price of the transaction was around € 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).

Sesto San Giovanni site

In early June 2006, the local authority of Sesto San Giovanni definitively approved the integrated programme of action put forward by the Campari Group for the urban regeneration of its former site.

The local authority ruling was implemented at the end of July when it was published in the Regional Official Bulletin.

On 20 September 2006, the agreement governing dealings with the Sesto San Giovanni local authority for the urban regeneration and construction of new buildings was signed.

On 4 October 2006, demolition work began on the industrial buildings, and on 12 October, the Group submitted a building application.

The work began as scheduled in January 2007, and the construction of the new buildings is likely to be completed within two years.

Merger of Barbero 1891 S.p.A. into Davide Campari-Milano S.p.A.

On 6 September 2006, the Board of Directors of Barbero 1891 S.p.A. approved the proposed merger of Barbero 1891 S.p.A. into Davide Campari-Milano S.p.A; the proposal was subsequently approved by the Board of Directors of Davide Campari-Milano S.p.A. on 11 September 2006.

On 8 November 2006, the merger was formally approved by the respective Boards of Directors pursuant to article 2502 of the Italian civil code; the merger deed, drawn up on 20 November 2006, provided for the merger to become effective on 1 December 2006 (backdated for tax purposes to 1 January 2006).

Acquisition of a further 11% of Skyy Spirits, LLC

The purchase of a further 11% of Skyy Spirits, LLC was completed on 2 November 2006, taking the Group's stake in the US company to 100%.

The cost of the transaction was US$ 62 million (equivalent to € 49 million at the exchange rate in force on the date of the transaction).

In order to complete the acquisition, the Group exercised its call / put options in accordance with the terms agreed in January 2002 when the Group acquired a majority shareholding in the company.

The transaction was completed in advance of the original deadline of 2007 following an agreement between the parties.

The acquisition was paid for in cash using the Group's own funds.

The transaction price, calculated on the basis of average results obtained in the last five years, in line with the terms of the agreement signed in January 2002, equates to a multiple of less than 10x the pre-tax profit generated by Skyy Spirits, LLC in 2005.

Termination of the distribution contract for Lipton Ice Tea

Campari Italia S.p.A. and Unilever agreed not to renew the distribution contract for products under the Lipton Ice Tea brand, which expired at the end of December 2006.

The change of distributor for the Italian market is a consequence of the agreements struck by Unilever and the PepsiCo group, which are already operational in the US and on some European markets.

Net sales of Lipton Ice Tea, which was sold on the Italian market only and offered very limited profitability, totalled € 30.0 million in 2006.

COMMENTS ON THE ANNUAL RESULTS

Sales performance

Introduction

As previously, the sales figures for 2006 and 2005 are reported net of excise duties and trade discounts, in accordance with IAS 18.

In addition, sales figures are expressed in million euro; in certain cases, this rounding may have resulted in minor inconsistencies, since all changes and percentages are calculated using the original amounts, which are expressed in thousand euro.

Overall performance

Consolidated net sales totalled € 932.4 million in 2006, an increase of 15.1% on the previous year.

This increase resulted from organic growth of 4.6%, external growth of 9.9% and a positive exchange rate effect of 0.7 %.

Breakdown of change in sales	€ million	% change on 2005
– net sales 1 January-31 December 2006	932.4	
– net sales 1 January-31 December 2005	809.9	
Total change	**122.4**	**15.1%**
of which:		
organic growth before exchange rate effect	37.1	4.6%
external growth	79.8	9.9%
exchange rate effect	5.6	0.7%
Total change	**122.4**	**15.1%**

Organic growth came from a positive performance in all three areas of the business (spirits, wines and soft drinks), and almost all of the Group's main brands.

Notably, SKYY Vodka, Aperol and Cinzano sparkling wines recorded double-digit growth, while Campari, Crodino and Cinzano vermouth all posted year-on-year increases.

External growth totalled € 79.8 million (see table below), of which € 31.1 million came from new acquisitions and € 48.6 million from sales of third-party brands covered by new distribution agreements.

As regards new acquisitions, sales of the Scotch whisky brands Glen Grant, Old Smuggler and Braemar were included for nine months of the year (consolidated from 15 March 2006, the date on which the acquisition was finalised), while sales of Teruzzi & Puthod wines were included for the full year (consolidated from 1 January).

With regard to third-party brands, in May 2005 the Group began distributing Jack Daniel's and other Brown-Forman brands on the Italian market, plus Martin Miller's ultra premium gin (owned by Reformed Spirits Company Ltd.) on the US market.

Sales of these brands for the first half of 2006 are therefore included under external sales.

In addition, at the start of 2006, the Group began distributing Midori (a melon-flavoured liqueur owned by the Suntory group) and the C&C Group's spirits brands (Carolans, Tullamore Dew and Irish Mist) in the US.

The new agreement with the C&C Group also covers Brazil where, in addition to the aforementioned brands, the Campari Group is now distributing the liqueur Frangelico.

In October 2006, the Group began distributing Russky Standard vodka in a number of key European markets.

Lastly, the distribution of third-party whisky brands on the Brazilian market ended at the beginning of the year, so these were no longer included in the basis of consolidation.

External growth in 2006	€ million
Glen Grant, Old Smuggler and Braemar	26.6
Teruzzi & Puthod	4.5
Sub-total: Group brands	**31.1**
Jack Daniel's and other Brown Forman brands	7.9
C&C Group brands	29.2
Suntory Group brands	13.3
Other third-party brands	0.9
Third-party whisky brands no longer distributed in Brazil	–2.6
Sub-total: third-party brands	**48.7**
Total external growth	**79.8**

Sales were also boosted by a positive exchange rate effect (0.7%), largely in relation to the Brazilian real.

In annual average terms, this currency strengthened by 11.3% year-on-year against the euro, while the US dollar fell by 0.9%.

Exchange rates	2006	2005	% change
US$ x 1 € annual average	1.256	1.245	–0.9%
US$ x 1 € at 31 December	1.317	1.180	–10.4%
BRL x 1 € annual average	2.732	3.040	11.3%
BRL x 1 € at 31 December	2.813	2.743	–2.5%
CHF x 1 € annual average	1.573	1.548	–1.6%
CHF x 1 € at 31 December	1.607	1.555	–3.2%
JPY x 1 € annual average	146.061	136.867	–6.3%
JPY x 1 € at 31 December	156.930	138.900	–11.5%
GBP x 1 € annual average	0.682	0.684	0.3%
GBP x 1 € at 31 December	0.672	0.685	2.1%

The general trend in currency movements over the year was a gradual but significant fall versus the euro.

Specifically, a comparison of exchange rates at 31 December 2005 and 31 December 2006 shows a substantial differential with average exchange rates: the US dollar was down 10.4% versus the euro, and the Brazilian real was 2.5% lower.

Sales by region

Sales in all regions were positive in 2006, with Europe, the Americas and the rest of the world posting double-digit growth.

The biggest increase in sales, of 30.0%, was recorded in the Americas, thanks to a combination of robust organic growth, strong external growth and a moderately positive exchange rate effect.

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

Sales by region	2006		2005		% change
	€ million	%	€ million	%	2006/2005
Italy	401.4	43.1%	381.5	47.1%	5.2%
Europe	175.2	18.8%	151.7	18.7%	15.5%
Americas	314.6	33.7%	242.0	29.9%	30.0%
Rest of the world and duty free	41.2	4.4%	34.8	4.3%	18.5%
Total	**932.4**	**100.0%**	**809.9**	**100.0%**	**15.1%**

Breakdown of % change in sales by region	Total % change	Of which external growth	Of which organic growth before exchange rate effect	Of which exchange rate effect
Italy	5.2%	4.6%	0.6%	0.0%
Europe	15.5%	11.2%	4.4%	–0.1%
Americas	30.0%	18.2%	9.4%	2.4%
Rest of the world and duty free	18.5%	3.3%	15.4%	–0.1%
Total	**15.1%**	**9.9%**	**4.6%**	**0.7%**

In **Italy**, net sales rose 5.2% year-on-year. The increase comprised external growth of 4.6% and organic growth of 0.6%.

External growth came from both new acquisitions (Glen Grant and Teruzzi & Puthod) and new distribution agreements (Jack Daniel's and other Brown Forman brands).

The existing business put in a positive performance overall, achieving modest growth of 0.6% despite difficult market conditions.

Regarding the main brands, Aperol performed especially well, followed by the Cinzano brands (vermouths as well as sparkling wines), and to a lesser extent, Crodino; while sales of Campari, Cynar, Sella & Mosca wines and the other wine brands fell slightly year-on-year.

Italian sales were again affected, though less so than the previous year, by the ongoing contraction of the ready-to-drink segment, and therefore of Campari Mixx (the fall in sales of this product had a negative effect of 0.4% on organic growth).

In **Europe**, sales increased by 15.5% overall, comprising external growth of 11.2% (Glen Grant, Old Smuggler and Braemar, and Teruzzi & Puthod) and organic growth of 4.4%.

In particular, the positive trend in Germany – the region's biggest market – continued, with organic growth highly satisfactory for all core brands.

The **Americas** posted excellent sales growth of 30.0% in 2006, largely thanks to a significant contribution from external growth (18.2%) and strong organic growth (9.4%).

The tables below give more details of the Group's performance in the Americas.

Sales in the Americas	2006		2005		% change
	€ million	%	€ million	%	2006/2005
US	234.4	74.5%	170.4	70.4%	37.5%
Brazil	69.6	22.1%	61.0	25.2%	14.2%
Other countries	10.6	3.4%	10.6	4.4%	0.2%
Total	**314.6**	**100.0%**	**242.0**	**100.0%**	**30.0%**

Breakdown of % change in sales by region Americas	Total % change	Of which external growth	Of which organic growth before exchange rate effect	Of which exchange rate effect
US	37.5%	26.8%	11.7%	–1.0%
Brazil	14.2%	–2.7%	5.4%	11.4%
Other countries	0.2%	0.2%	–3.7%	3.6%
Total	**30.0%**	**18.2%**	**9.4%**	**2.4%**

Sales in the **United States** were extremely robust, up 37.5% in total.

SKYY Vodka and other brands distributed by the Group posted organic growth of 11.7%, while the new distribution agreements relating to C&C and Suntory group brands (effective as of 1 January 2006) boosted sales by around USD 52 million; these products, together with Old Smuggler (acquired in March 2006), generated external growth of 26.8%.

Sales in **Brazil** were also positive, with organic growth at 5.4%, mainly driven by a good performance from Campari and Dreher aguardiente.

Moreover, total growth in euro was much higher, at 14.2%, thanks to the positive impact of the revaluation of the Brazilian real (11.4%).

The distribution of third-party brands belonging to the William Grant group (Grant's and Glenfiddich), which came to an end at the start of 2006, had a negative effect of 2.7% but this was mitigated by sales of the C&C brands, and from December, of Glen Grant.

The launch of Glen Grant, one of the Group's own brands, strengthens its presence in Brazil's imported whisky segment – a very attractive and potentially strategic market niche.

Overall, sales in **the other countries of the Americas** edged up slightly (+0.2%), although in real terms a positive exchange rate effect masked a fall in sales.

The sales trend in Canada, a key market in the region, continues to be positive.

Rest of the world and duty free sales, which accounted for 4.4% of the Group total, posted overall growth of 18.5%, including organic growth of 15.4%.

Sales on the Chinese market were particularly buoyant, as were duty free sales, which account for around a third of this category's total sales. During the year, a dedicated duty free sales organisation was set up for this business.

Sales by business area

In 2006, all business areas made progress year-on-year.

The strongest growth was generated by spirits and wines, which were boosted by higher organic growth and positive external growth as a result of new acquisitions and distribution agreements.

The first of the two tables below shows the change in net sales by business area, while the second breaks down the overall change by external growth, organic growth and the effect of exchange rate movements.

Net sales by segment	2006		2005		% change
	€ million	%	€ million	%	2006/2005
Spirits	657.1	70.5%	551.5	68.1%	19.1%
Wines	134.9	14.5%	125.2	15.5%	7.8%
Soft drinks	128.0	13.7%	124.9	15.4%	2.4%
Other sales	12.4	1.3%	8.3	1.0%	49.1%
Total	**932.4**	**100.0%**	**809.9**	**100.0%**	**15.1%**

Breakdown of % change in net sales by segment	Total % change	Of which external growth	Of which organic growth before exchange rate effect	Of which exchange rate effect
Spirits	19.1%	12.9%	5.3%	0.9%
Wines	7.8%	3.6%	3.9%	0.3%
Soft drinks	2.4%	0.0%	2.4%	0.0%
Other sales	49.1%	52.4%	–3.8%	0.5%
Total	**15.1%**	**9.9%**	**4.6%**	**0.7%**

Spirits

Net sales of spirits totalled € 657.1 million. Year-on-year overall growth in this segment (19.1%) pushed its contribution to total sales above 70%.

A major contribution to this performance (€ 70.9 million) came from external growth (+12.9% year-on-year), while the exchange rate effect was slightly positive, at 0.9%.

Organic growth was 5.3%; please see the comments on the main brands below for more details.

Net sales of **Campari** went up by 1.3% at constant exchange rates (2.6% at actual exchange rates, mainly as a result of the revaluation of the Brazilian real).

The last quarter of the year saw no change in trend in the three main markets, with Germany and Brazil posting positive results and a slight contraction in Italy.

The weak performance in Italy was mainly due to the unfavourable comparison with 2005, when the previously announced increase in excise duties boosted orders at the end of the year, as well as to the lacklustre economy, which impacted on consumption in bars and restaurants.

The **SKYY** brand (including the core SKYY Vodka brand and the flavoured vodka range) again achieved excellent results, with organic growth of 12.0% at constant exchange rates (11.3% at actual exchange rates), thanks to buoyant sales in both the US and internationally.

In Italy, the SKYY brand continues to record double-digit growth on a regular basis: overall growth was 10.8% year-on-year in 2006, with the core brand posting an advance in sales, while sales of the flavoured range remained stable.

In the export markets, which represent around 15% of total sales volumes, growth continued to be robust, at over 20%; the most important international markets in terms of size and growth rates at present are Canada, Australia, Italy and Germany.

Sales of **CampariSoda**, which are almost entirely recorded in Italy, were down slightly year-on-year (-0.1%), despite benefiting from a positive trend in the second half, helped by a new TV ad campaign from September.

In 2006, **Aperol** sales increased by 19.9%. The brand has recorded uninterrupted double-digit growth since its acquisition in 2003.

This performance was driven by strong and sustained growth in consumption on the Italian market, which accounts for 90% of the brand's sales, as well as a significant rise in exports, which are posting attractive growth rates, both in established (Germany) and new markets (the US).

Sales of **Aperol Soda** (+11.2%) were also very positive. This brand is sold exclusively on the Italian market; in this case too, the resumption of the advertising campaign, with a new TV ad broadcast in the second half of the year, undoubtedly contributed to the improvement.

Sales of Group brands in Brazil grew by 8.6% overall in local currency, or 20.9% at actual exchange rates, thanks to the sharp rise in value of the Brazilian real.

Dreher aguardiente again performed well, while sales of **admix whiskies** (Old Eight and Drury's) fell slightly year-on-year.

Sales of **Ouzo 12** rose by 10.3% overall, thanks to the excellent result achieved on the German market, where spending on advertising helped produce a better than expected performance.

In Greece, however, difficult market conditions led to a fall in sales of this brand.

Sales of **Cynar** fell by 12.3% versus last year (-10.6% at actual exchange rates) as a result of a negative sales performance in both Brazil and Italy, the brand's two main markets.

Campari Mixx suffered another setback due to the significant contraction of the Italian ready-to-drink market, with market share unchanged but sales down by 40.3%.

Although the importance of this brand within the spirits segment had fallen significantly by the end of the year from its prominent position in 2003, the sales slump in 2006 had a negative effect of just 1.3% on the organic growth of the segment as a whole.

The performance of **third-party brands** is summarised below:

- 1800 Tequila sales on the US market rose by 15.7% at constant exchange rates;
- sales of Scotch whiskies edged up by 0.2% at constant exchange rates, largely driven by the performance of Cutty Sark in the US;
- sales of Jägermeister, which are almost entirely recorded on the Italian market, fell by 0.9%;
- sales of Grand Marnier, distributed in Germany, Italy and Switzerland, were down 0.1%.

Wines

Net wine sales were € 134.9 million, an increase of 7.8% compared to the same period of 2005; this comprised organic growth of 3.9%, a contribution of 3.6% from Teruzzi & Puthod wines (consolidated from January 2006) and a positive exchange rate effect of 0.3%.

Regarding the main brands, **Cinzano sparkling wines** performed especially well, showing organic growth of 13.6% (13.5% at actual exchange rates), thanks to good results in the two main markets, Germany and Italy, which both recorded double-digit growth.

In Germany, where the range was relaunched with new packaging and expanded to include new types of sparkling wine, the sales figure reflected an increase in consumption and an improvement in the wine's market share.

However, in Italy – a more competitive and difficult market because of stagnating consumption and the heavy concentration of sales around the Christmas period – sales of Cinzano sparkling wines were very positive thanks to balanced investment in advertising and promotion.

2006 was a positive year for sales of **Cinzano vermouths**: after regaining the ground lost in the first half of the year, these products showed growth of 4.2% at the year end at constant exchange rates (+5.1% at actual exchange rates).

Russia confirmed its status as key growth market for this brand, together with Italy and many other markets that have now reached significant sales levels.

Sella & Mosca wines fell by 3.2% (-3.0% at constant exchange rates), due to stagnating consumption in Italy and to export delays.

Despite this, the new sales organisation is expected to boost growth in this brand in 2007.

As regards the Group's other brands, sales of **Mondoro** sparkling wine and the Brazilian wine **Liebfraumilch** increased, while sales of **Riccadonna** sparkling wines and **Cantina Serafino** wines declined**.**

Mondoro continues to show healthy growth in Russia, its main market, where it is strengthening its position in the premium sparkling wines segment.

Soft drinks

Soft drinks posted net sales of € 128.0 million in 2006, a rise of 2.4% on the previous year.

In this segment, sales of the Group's main brand, the non-alcoholic drink **Crodino**, increased by 1.9%.

Sales of the **Lemonsoda, Oransoda and Pelmosoda** range rose by 1.6% compared to the previous year, while mineral waters and the other soft drinks fell overall by 6.5%.

Growth for **Lipton Ice Tea** was **6.9**%: the contract for distribution of this third-party brand ended in December 2006.

Other sales

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

In 2006, "other sales" totalled € 12.4 million, equating to an overall advance of 49.1%, wholly due to external growth.

Sales of new filling, i.e. the malt distillate produced and sold by the Glen Grant Distillery Company Ltd to the Pernod Ricard Group pursuant to the agreements concluded at the time of the Glen Grant acquisition have been included under this segment since 15 March 2006.

CONSOLIDATED PROFIT AND LOSS ACCOUNT

	31 December 2006		31 December 2005		Change
	€ million	%	€ million	%	%
Net sales	**932.4**	**100.0%**	**809.9**	**100.0%**	**15.1%**
Cost of goods sold	(410.2)	–44.0%	(345.1)	–42.6%	18.9%
Gross profit	**522.2**	**56.0%**	**464.9**	**57.4%**	**12.3%**
Advertising and promotional costs	(163.1)	–17.5%	(139.7)	–17.3%	16.7%
Sales and distribution costs	(102.1)	–11.0%	(90.3)	–11.1%	13.1%
Trading profit	**256.9**	**27.6%**	**234.8**	**29.0%**	**9.4%**
General and administrative expenses and other operating expenses and income	(65.5)	–7.0%	(55.7)	–6.9%	17.7%
EBIT before one-offs	**191.4**	**20.5%**	**179.1**	**22.1%**	**6.8%**
Other one-offs: income and charges	(0.8)	–0.1%	4.7	0.6%	–118.0%
EBIT	**190.5**	**20.4%**	**183.9**	**22.7%**	**3.6%**
Net financial income (charges)	(15.2)	–1.6%	(9.9)	–1.2%	53.3%
Profit (loss) of companies valued at equity	0.2	0.0%	0.3	0.0%	–34.8%
Profit before tax and minority interests	**175.5**	**18.8%**	**174.2**	**21.5%**	**0.7%**
Tax	(55.2)	–5.9%	(51.2)	–6.3%	7.9%
Net profit	**120.3**	**12.9%**	**123.1**	**15.2%**	**–2.2%**
Minority interests	(3.2)	–0.3%	(5.0)	–0.6%	–35.8%
Group net profit	**117.1**	**12.6%**	**118.0**	**14.6%**	**–0.8%**
Depreciation of tangible fixed assets	(17.4)	–1.9%	(15.7)	–1.9%	10.6%
Amortisation of intangible fixed assets	(1.8)	–0.2%	(1.7)	–0.2%	9.3%
Total depreciation and amortisation	**(19.2)**	**–2.1%**	**(17.4)**	**–2.1%**	**10.5%**
EBITDA	**209.7**	**22.5%**	**201.3**	**24.8%**	**4.2%**
EBITDA before one-offs	**210.6**	**22.6%**	**196.6**	**24.3%**	**7.1%**

Net sales in 2006 totalled € 932.4 million, an increase of 15.1% compared to 2005; as explained in the previous paragraph, the total increase was due to organic growth of 4.6%, a change in the basis of consolidation of 9.9% and a 0.7% positive exchange rate effect.

The **cost of goods sold** rose by 1.4% on the previous year, standing at 44.0% of net sales. The increase was wholly due to the first-time consolidation of third-party brands subject to new distribution agreements, which generate lower margins than the Group’s own business.

The above-mentioned effect arising from changes in consolidation had a negative impact on the variable component of the cost of goods sold, equivalent to 1.6% as a percentage of sales.

Production costs, which are the main fixed component of the cost of goods sold, fell by 0.4 points as a percentage of sales, thus mitigating the negative effect referred to above.

In absolute terms, production costs increased by 7.8% versus 2005, as although they benefited from the effects of the industrial restructuring programme carried out in Italy, this was offset by the costs of the consolidation of the new businesses acquired (Glen Grant and, to a lesser extent, Teruzzi & Puthod).

Advertising and promotional costs as a percentage of sales were slightly up on the prior year, rising by 0.2%. They stood at 17.5% of sales.

Consolidation of new third-party brands distributed by the Group had a positive impact of 0.2% on margins, while investment in advertising and publicity on Glen Grant had a dilutive effect of 0.4 percentage points.

Sales of Glen Grant in 2006 reflected the fact that distribution only started in mid-March, together with excessive stocks in the distribution channels at the time of purchase: despite this, it was considered appropriate to increase investment in advertising and promotion (including a TV advertising campaign for the Italian market) in order to accelerate growth.

Initial confirmation from the market on the brand's good response to this advertising confirms the effectiveness of this decision.

Stripping out the two above-mentioned effects (-0.2% and +0.4%), advertising and promotional costs for 2006 relating to the Group's organic business were exactly in line with those for 2005, at 17.3%.

Sales and distribution costs as a percentage of sales were largely unchanged, coming out at 11.0% in 2006, compared with 11.1% in 2005.

Distribution costs, which by their nature are almost entirely variable, went up by a similar amount to the growth in sales.

Although sales costs have a larger fixed component, they rose substantially compared to the previous year (+13.0%) following the strengthening of the company's sales, marketing and trade marketing operations.

Specifically, systems were strengthened both in the US to effectively manage the distribution of new brands, and in other international markets considered of key importance for the future development of the Group's core brands.

Conversely, the financial benefits obtained through the reorganisation of the sales network in Italy were partly diluted by one-off costs relating to the complex management of the project.

Trading profit for 2006 was € 256.9 million, rising overall by 9.4% compared to the previous year, due to a 4.0% increase in organic growth, external growth of 4.9% and a positive exchange rate effect of 0.6%.

General and administrative expenses and other operating costs went up by 17.7% in total, and stood at 7.0% of sales, broadly in line with 2005 (6.9%).

The significant increase in absolute terms was due to a number of specific factors: € 2.1 million less operating income versus 2005, a change in the basis of consolidation amounting to 6.5% and a 1.1% exchange rate effect.

Stripping out these factors, organic growth of general and administrative expenses was 6.5%.

Note also that in order to comply with IAS accounting standards, the inclusion of costs relating to the new stock option plan on the profit and loss account gives rise to a further negative effect of 1.8% on the 2006 results.

EBIT before one-offs in 2006 was € 191.4 million, an increase of 6.8% compared to 2005. The EBIT margin narrowed from 22.1% to 20.5%.

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, "goodwill and trademark amortisation" no longer appears as an item in the profit and loss account prepared using IFRS in the two periods under comparison.

The book values of goodwill and trademarks with an indefinite life are subject to impairment tests at least once a year, in accordance with IAS 36.

Impairment tests carried out on the values of goodwill and trademarks at 31 December 2006 confirmed the book values.

One-offs showed a negative balance of € 0.8 million in the profit and loss account for the year. The most important items included under this heading are:

– a net extraordinary capital gain of € 9.2 million relating to the sale of building land for residential use as part of the integrated programme of action in Sesto San Giovanni (the capital gain was shown net of scrap costs and costs incurred for demolition work undertaken);
– a charge of € 4.8 million, allocated as a restructuring reserve following the Group's decision to cease production at the Sulmona plant;
– a charge of € 2.0 million relating to other future personnel costs;
– a charge of € 1.0 million in anticipation of the demolition of a building adjacent to the Crodo production plant, a charge of € 0.7 million for the reserve for the write-down of real estate and a charge of € 0.3 million for the demolition expenses reserve;
– a charge of € 0.9 million for the write-down of the Termoli plant that formerly operated as a production plant and subsequently as a warehouse.

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

The impact of the change in this item on the group's results between 2005 and 2006 was therefore to reduce operating profit by € 5.5 million.

EBIT was 3.6% higher in 2006 than in 2005, at € 190.5 million, and the EBIT margin was 20.4% (compared with 22.7% in 2005).

Total **depreciation and amortisation** for the period stood at € 19.2 million, a substantial rise on the prior year (+10.5%); as a result, EBITDA before one-offs posted a higher growth rate than EBIT before one-offs, while EBITDA grew more rapidly than EBIT.

EBITDA before one-offs came in at € 210.6 million, up 7.1%. **EBITDA** rose by 4.2% to € 209.7 million.

Net financial charges for 2006 amounted to € 15.2 million, a rise on those reported in 2005 (€ 9.9 million).

The increase in interest expenses stems mainly from increased debt reflecting the two significant acquisitions made during the year: Glen Grant was purchased for around € 130 million, while the Group's minority stake in Skyy Spirits, LLC, was acquired for € 49 million.

The effect of the higher debt was also exacerbated by the hike in interest rates in all the major currencies.

The Group's share in the **profits or losses of companies valued at equity** showed a net profit of € 0.2 million, in line with the result posted in 2005.

Note that the companies accounted for by 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 tax and minority interests totalled € 175.5 million, a rise of 0.7% on the previous year.

Taxes for the year were € 55.2 million, an increase of 7.9% compared to the figure of € 51.2 million recorded in 2005.

The increase in the overall tax burden was due to the more than proportional profit growth achieved by Skyy Spirits, LLC, which is subject to a higher tax rate than the Group's average, as well as to recent tax rises in Italy.

Net profit came in at € 120.3 million, a decline of 2.2% on 2005; the slight fall is entirely due to the absence of one-off items of income this year and to higher interest and taxes.

Minority interests (the share of net profit attributable to third parties) came to € 3.2 million, down on the € 5.0 million recorded in 2005.

The reduction in the profit due to minority interests followed the Group's acquisition of the remaining 11% share of the capital of Skyy Spirits, LLC, which thus became 100%-controlled by the Group from November 2006.

Excluding minority interests, the **Group's net profit** for 2006 was € 117.1 million, down 0.8% on the previous year, while its net sales margin was 12.6%.

Profitability by business area

IAS 14 states that financial information should be provided in relation to both business area and region, and that 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 for each of these four business areas is therefore given.

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 2006, the Group's consolidated trading profit was € 256.9 million, an increase of 9.4% compared to the previous year.

Trading profit	2006		2005		2006/2005
	€ million	% of total	€ million	% of total	% change
Spirits	210.6	82.0%	189.6	80.2%	11.1%
Wines	15.2	5.9%	14.1	6.0%	8.0%
Soft drinks	28.6	11.1%	31.1	13.2%	–8.1%
Other	2.4	0.9%	1.5	0.6%	66.1%
Trading profit - all segments	**256.9**	**100.0%**	**236.3**	**100.0%**	**8.7%**
Unallocated production costs			(1.4)		
Consolidated trading profit	**256.9**		**234.8**		**9.4%**

The table above shows trading profit for each business area, and the change compared with 2005.

The Novi Ligure plant came fully on stream only in late 2005, when the transfer of production of Campari and CampariSoda was completed as planned.

Therefore, although in that year a portion of the production costs for Novi Ligure (€ 1.4 million) was recorded in the Group's profit and loss account, it was not allocated to any brand or thus to any business area.

The rise in the Group's trading profit in 2006 came from spirits, wines and the "other sales" segment. Conversely, soft drinks saw a fall in trading profit, although this remained healthy at over 20% as a percentage of sales.

Spirits

	2006		2005		2006/2005
	€ million	% of segment sales	€ million	% of segment sales	% change
Net sales	657.1	100.0%	551.5	100.0%	19.1%
Gross profit	400.6	61.0%	353.4	64.1%	13.3%
Trading profit	210.6	32.1%	189.6	34.4%	11.1%

Spirits strengthened their position as the Group's core business, generating trading profit of € 210.6 million, up 11.1% on the previous year. This was 32.1% of net sales in the segment.

Spirits also remained the Group's most profitable business, despite the impact of external growth (especially the distribution of new brands), which trimmed 2.3 percentage points off trading profit as a percentage of sales, reducing it from 34.4% to 32.1%).

As regards the effects of external growth, note the table below, which shows that while net sales went up by 12.9%, trading profit rose by only 4.6%.

The new brands being distributed (belonging to Brown Forman, C&C and Suntory), generate naturally lower gross profit than do the Group's spirit brands. Although Glen Grant generates excellent gross profitability, this was lower than the organic result as a result of a one-off factor: advertising costs incurred even though the brand was acquired during the year.

	% of total	Of which organic growth before exchange rate effect	Of which exchange rate effect	Of which in basis of consolidation
Net sales	19.1%	5.3%	0.9%	12.9%
Gross profit	13.3%	4.7%	0.7%	8.0%
Trading profit	11.1%	5.9%	0.6%	4.6%

Looking now at the Group's spirit brands, trading profit registered organic growth of 5.9%, slightly above the 5.3% increase posted by net sales. This was thanks to excellent performances from SKYY Vodka and Aperol.

Wines

The Group's wine brands generated a trading profit of € 15.2 million in 2006, up 8.0% on the previous year. The figure stood at 11.3% of sales, unchanged on 2005.

	2006		2005		2006/2005
	€ million	% of segment sales	€ million	% of segment sales	% change
Net sales	134.9	100.0%	125.2	100.0%	7.8%
Gross profit	60.8	45.1%	53.4	42.6%	14.0%
Trading profit	15.2	11.3%	14.1	11.3%	8.0%

The only change in the basis of consolidation came from the acquisition of Teruzzi & Puthod, which, as the table below shows, added 3.6% to sales and 8.5% to trading profit.

	% of total	Of which organic growth before exchange rate effect	Of which exchange rate effect	Of which in basis of consolidation
Net sales	7.8%	3.9%	0.3%	3.6%
Gross profit	14.0%	10.2%	0.3%	3.5%
Trading profit	8.0%	–1.6%	1.1%	8.5%

Looking at the organic performance, the profitability of the wines business clearly reflects two different trends.

Gross profit went up by 10.2%, a faster pace than the recorded growth in sales (3.9%). This was thanks to lower sales costs, especially fixed costs for the production of vermouths and Cinzano sparkling wines.

Sales and production volumes of these two products were excellent during 2006, and their gross profit improved since fixed costs had a lower impact. In addition, thanks to the entry on stream of the Novi Ligure facility, which occurred only in late 2005, some of the industrial overheads in 2006 were taken up by the production of Campari and CampariSoda, which further benefited the gross profit of the Cinzano brands.

Further down the profit and loss account however, trading profit contracted slightly, by 1.6%, owing to higher advertising and promotional spending for the Cinzano brands, and to a higher proportion of sales costs on the Italian market, where in January 2006 the group created a new sales unit for wines.

Soft drinks

Trading profit for the soft drinks business came out at € 28.6 million (22.4% of net sales), a decrease of 8.1% compared to the previous year.

Profitability in this segment, whose sales are almost totally concentrated in Italy, came entirely from the organic business, since there were no changes in the basis of consolidation in 2006.

	2006		2005		2006/2005
	€ million	% of segment sales	€ million	% of segment sales	% change
Net sales	128.0	100.0%	124.9	100.0%	2.4%
Gross profit	58.0	45.4%	57.7	46.2%	0.6%
Trading profit	28.6	22.4%	31.1	24.9%	–8.1%

While net sales rose by 2.4%, gross profit in the soft drinks business grew less strongly (+0.6%), owing to an unfavourable sales mix: sales of the third-party product Lipton Ice Tea, which has high sales costs, rose by more than sales of Crodino and the Lemonsoda, Oransoda and Pelmosoda range of drinks.

In the case of soft drinks too, the decline in trading profit was due mainly to higher spending on advertising and promotions, as a new advertising campaign for Lemonsoda, Oransoda and Pelmosoda was launched and marketing expenditure on Crodino was increased.

Other sales

Trading profit in the "other sales" segment, which includes co-packing and sales of raw materials and semi-finished goods to third parties, came in at € 2.4 million, an increase of € 0.9 million (66.1%) on 2005.

	2006 € million	2006 % of segment sales	2005 € million	2005 % of segment sales	2006/2005 % change
Net sales	12.4	100.0%	8.3	100.0%	49.1%
Gross profit	2.7	22.1%	1.9	22.4%	47.1%
Trading profit	2.4	19.5%	1.5	17.5%	66.1%

As the table below shows, the sharp growth was due entirely to the change in the basis of consolidation, following the sale of the malt distillate produced by Glen Grant Distillery Company Ltd. to third parties.

	% of total first half total	Of which % organic growth before exchange rate effect	Of which exchange rate effect	Of which % in basis of consolidation
Net sales	49.1%	–3.8%	0.5%	52.4%
Gross profit	47.1%	–32.3%	–0.7%	80.1%
Trading profit	66.1%	–35.2%	–0.9%	102.3%

FINANCIAL SITUATION

Cash flow statement

The table below shows the reclassified cash flows contributing to the change in the Group's net debt: cash flows relating to changes in short- and long-term debt 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 over the year.

	2006 € million	2005 € million
Net profit	117.1	118.0
Depreciation and other non-cash items	22.6	26.8
Changes in non-financial assets and liabilities	(1.9)	2.6
Cash flow from operating activities before changes in working capital	**137.7**	**147.4**
Changes in operating working capital	(25.5)	(50.2)
Cash flow from operating activities	**112.2**	**97.1**
Cash flow used for investment	**(18.8)**	**(15.0)**
Free cash flow	**93.4**	**82.1**
Acquisitions	(179.4)	(130.7)
Other changes	32.9	2.1
Dividend paid out by the Parent Company	(28.1)	(28.1)
Total cash flow from other activities	**(174.7)**	**(156.7)**
Exchange rate differences and other changes	27.6	(24.6)
Change in net debt as a result of operating activities	**(53.6)**	**(99.2)**
Payable for the exercise of the put options on Skyy Spirits, LLC	45.5	(45.5)
Change in net debt	**(8.1)**	**(144.8)**
Net debt at the start of the period	(371.4)	(226.7)
Net debt at the end of the period	(379.5)	(371.4)

Net debt (broken down by type and duration in the next section) rose by € 8.1 million in the period.

Cash flow from operating activities was positive, at € 112.2 million, up 15.5% on the € 97.1 recorded the previous year.

Net working capital was reduced during the year: at constant exchange rates and on a like-for-like basis, it fell from € 50.2 million in 2005 to € 25.5 million.

This performance can be considered highly positive given that net working capital at 31 December 2006 included the figure for new third-party brands, which the Group began distributing during the year.

Note that on the cash flow statement, the elimination of the effect of changes in the basis of consolidation refers only to the opening book values of the companies acquired during the year (Glen Grant transaction), while it does not include the impact on working capital of new distribution contracts acquired by existing companies.

Cash flow used for investment, excluding disposals, was € 18.8 million, of which:
- € 18.9 million was spent on new investments (described in detail later in this report);
- € 13.1 million related to the proceeds from the sale of building land in Sesto San Giovanni;
- € 13.0 million was paid in advance to suppliers for the construction of the Group's new headquarters, also in Sesto San Giovanni.

Free cash flow therefore stood at € 93.4 million in 2006, an increase of 13.8% versus 2005.

Other non-operating items that absorbed or generated cash flow during the year were:
- acquisitions totalling € 179.4 million, of which € 130.5 related to the Glen Grant transaction and € 48.8 million to the 11% shareholding in Skyy Spirits, LLC;
- the sale of own shares for € 32.9 million;
- a dividend of € 28.1 million for 2005.

After positive exchange rate differences and other positive accounting effects totalling € 27.6 million, **cash flows from operating activities** were negative to the tune of € 53.6 million, compared with a negative figure of € 99.2 million in 2005.

In addition, the absence of the payable recorded in 2005 for the put options held by minority shareholders of Skyy Spirits, LLC, following the exercise of the options (the cost of which appears among other non-operating cash flows), led to a positive cash flow of € 45.5 million, thus benefiting the financial position at 31 December 2006.

Breakdown of net debt

	31 December 2006 € million	31 December 2005 € million	%
Cash, bank and securities	240.3	247.5	(7.2)
Payables to banks	(209.3)	(112.8)	(96.4)
Real estate lease payables	(3.1)	(3.1)	0.0
Private placement and bond issue	(17.7)	(9.6)	(8.2)
Other financial assets and liabilities	0.3	(1.4)	1.7
Short-term debt	**10.4**	**120.6**	**(110.2)**
Payables to banks	(1.2)	(26.7)	25.6
Real estate lease payables	(16.0)	(19.0)	3.0
Private placement and bond issue	(370.6)	(397.7)	27.2
Other financial payables	(2.2)	(3.0)	0.8
Medium / long-term net debt	**(390.0)**	**(446.5)**	**56.6**
Net debt from operating activities	**(379.5)**	**(325.9)**	**(53.6)**
Payables for the exercise of the put options on Skyy Spirits, LLC	0.0	(45.5)	45.5
Net debt	**(379.5)**	**(371.4)**	**(8.1)**

Net debt at 31 December 2006 stood at € 379.5 million, a rise of € 8.1 million versus 31 December 2005.

The increase is relatively small considering that acquisitions over the year cost € 179.4 million in total, including € 130.5 million for the Glen Grant transaction and € 48.8 million for 11% of Skyy Spirits, LLC (€ 3.3 million stripping out the payable of € 45.5 million recorded in 2005 for the possible exercise of the put options held by minority shareholders).

Breaking down the changes in the figure, note that the debt in US dollars relating to the private placement by Redfire, Inc. fell due to the repayment of US$ 4.0 million in July 2006 and, with respect to the remaining US$ 162.0 million portion, due to a positive exchange rate effect of € 14.3 million.

The short-term portion of the private placement and bond issue includes both coupon payments for the period and the repayment of further tranches of the private placement in 2007, for a total of US$ 12.3 million.

Balance sheet

	31 December 2006 € million	31 December 2005 € million
Fixed assets	990.3	925.7
Other non-current assets and liabilities	(56.3)	(45.4)
Operating working capital	265.1	222.5
Other current assets and liabilities	(21.8)	(35.6)
Total invested capital	**1,177.3**	**1,067.2**
Shareholders' equity	797.8	695.8
Net debt	379.5	371.4
Total financing sources	**1,177.3**	**1,067.2**

At 31 December 2006, the Group had total net invested capital of € 1,177.3 million, an increase of € 110.1 million compared to the previous year.

The most significant change related to fixed assets, which went up by € 64.6 million, due almost entirely to changes in intangible assets, as follows:

– € 103.1 relating to the book values of the Glen Grant and Old Smuggler brands
– € 6.4 million in respect of the adjustment in the value of SKYY's goodwill following the purchase by the Group of the remaining shareholding in Skyy Spirits, LLC
– € 43.6 million due to the decline in the overall value of goodwill owing to exchange rate differences.

The net book value of other fixed assets: that is, tangible assets, biological assets, financial investments and intangible assets with a finite life, fell by € 1.1 million in total, since increases caused by investments and changes in the basis of consolidation were more than offset by depreciation, amortisation and write-downs.

The value of other non-current assets and liabilities declined by € 10.9 million compared with 2005, mainly because of the recording of deferred taxes for the local tax depreciation of some brands and goodwill.

The growth in operating working capital (€ 42.6 million) made a significant contribution to the total rise in invested capital.

However, this change also includes negative effects of external growth (€ 22.7) owing to the Glen Grant acquisition, and a positive exchange rate effect (€ 5.7 million).

Stripping out these items, operating working capital rose by only € 25.6 million (as stated in the cash flow section above).

Other current assets and liabilities were negative to the tune of € 21.8 million at 31 December 2006, a € 13.8 million improvement on the previous year, due mainly to the rise in the "other receivables" item, which includes advance payments to suppliers of € 13.0 million for the construction of the Group's new headquarters in Sesto San Giovanni.

The Group's debt to equity ratio improved, decreasing from 53.4% to 47.6% at the end of 2006.

INVESTMENTS

Ordinary investments made by the Group during 2006 totalled € 18.9 million, which includes investment in tangible assets, biological assets and intangible assets with a finite life.

The main spending items for tangible assets were: € 11.8 million for industrial investments, spread among the Group's various manufacturing units; € 1.9 million for the integrated programme of action in Sesto San Giovanni, of which € 1.1 million related to urban regeneration costs and € 0.9 million to hardware and miscellaneous equipment.

The € 2.1 million spent on biological assets related to vines purchased by Sella & Mosca S.p.A.

Intangible assets with a finite life went up by € 2.1 million, following new investments, chiefly in software and SAP.

STRUCTURE OF THE CAMPARI GROUP

For information on changes to the structure of the Group in 2006, please see Note 7 (Acquisitions of the notes to the accounts).

EVENTS TAKING PLACE AFTER THE END OF THE YEAR

Industrial restructuring

On 10 January 2007, the Group announced its decision to halt production at the Sulmona facility, and to transfer its operations to other sites.

The Sulmona factory became part of the Campari Group following the acquisition of Bols in 1995, and has never reached a sustainable level of efficiency, despite investments made and the transfer of production, and despite efforts to find new manufacturing opportunities, including on behalf of third parties.

Following the dramatic decline in the ready-to-drink market and the general downturn in the non-alcoholic fizzy drinks market, capacity utilisation at the Sulmona plant has fallen so low that it cannot continue operating.

The company has a long tradition of working closely with trade unions in order to minimise the social consequences of its financial decisions; with this in mind, and in order to ease the impact of the closure on staff, the Group has undertaken, in partnership with workers' representatives, to set out a programme of alternative and support measures.

This programme – which will be discussed at the appropriate time – may include the transfer of staff to other Group facilities where possible, as well as outplacement and retraining in order to minimise the impact of this painful but inevitable decision.

New trading company in China

The first quarter of the year saw the launch of the Campari Beijing Trading Company, 100%– owned by the Campari Group. The new company's headquarters are in Beijing, and a second office will shortly be opened in Shanghai.

The company was set up with the aim of seizing the enormous opportunity offered by the Chinese market. It will comprise two separate commercial units, which will be responsible respectively for distributing the Group's wines and spirits.

The Campari Beijing Trading Company will distribute wines produced locally by Qingdao Sella & Mosca Winery Co. Ltd. (of which the Group owns 93.67%), as well as imported wines from Sella & Mosca, Chateau Lamargue and Teruzzi & Puthod.

New company in Argentina

For the acquisition of Old Smuggler (a part of the Glen Grant transaction), the group reached two separate agreements: one for the purchase of the brand in Argentina and one for the rest of the world. This last came into effect on 15 March 2006 when the deal was finalised.

Following the recent authorisation from the local competition regulator, on 12 March 2007 the Group formalised the acquisition of the Old Smuggler brand in Argentina too, and thus the new company Campari Argentina S.R.L., set up previously and 100%-controlled by the Group, became operational.

The company imports malt from Scotland, and co-ordinates the production and sale of Old Smuggler whisky locally via an external bottling plant and an external distributor.

Merger of Glen Grant S.r.l. into the Campari Group

During the year, it was decided to merge the 100%-owned subsidiary Glen Grant S.r.l., owner of the Glen Grant brands, into the Group. The aim was to continue streamlining the Group by reducing the number of companies, and to create a more efficient and functional financial and balance sheet structure.

OUTLOOK

In 2006 the Campari Group successfully dealt with a number of undoubtedly difficult challenges, such as stagnating consumption on the domestic market (which still represents 43% of total Group sales) and the complex process of integrating small but strategically significant new companies (Glen Grant), as well as ambitious organisational initiatives that had a big impact on the Group's commercial units.

Against this backdrop, the Group's results were good overall. Moreover, while a number of one-off and sometimes negative factors dragged down the results to some extent in 2006, in future they should bring about good growth opportunities in 2007.

For example, while the integration of Glen Grant proved very successful, results were harmed to some extent because of excess stocks in the distribution channels at the time the deal was concluded.

However, in the short and medium term this brand is expected to generate good earnings for the Group.

In addition, the complex project to restructure the sales networks in Italy, launched in 2006, encountered initial teething difficulties, which partly offset the expected efficiency gains. One-off costs were higher than expected, while one of the two divisions, wines, suffered from the impact of radical changes in the product portfolio and in the structure of the commercial division.

Nevertheless, the brands in this division are expected to benefit from the reorganisation in the near future.

Looking at the particular markets in which the Group operates, the outlook is fairly positive for Italy and Europe as a whole, since in the last few months, forecasts for 2007, which already showed growth compared with 2006, have been revised further up.

In the United States, expectations of positive results for Skyy Spirits, LLC are based on the strength of the brand rather than on forecasts of economic or market growth.

In Brazil, the Group can bank both on its excellent portfolio, comprising strong local international brands, and on the good health of the Brazilian economy.

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 2006, some 23% of consolidated net sales came from the 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.

Moreover, the unfavourable economic situation in certain markets is dampening consumers' confidence, making them 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 43% 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 relation to the US dollar and the Brazilian real.

As regards financial risks, please see Note 37 of the notes to the accounts (Risk management procedures and hedging transactions).

RECONCILIATION OF THE PARENT COMPANY'S NET PROFIT AND SHAREHOLDERS' EQUITY AND THOSE OF THE GROUP AS A WHOLE

Pursuant to the Consob communication of 28 July 2006, the table below shows a reconciliation between the net profit for 2006 and shareholders' equity at 31 December 2006 for the Group and for the Parent Company Davide Campari-Milano S.p.A.:

	2006	
€ / 000	Shareholders' equity	Profit
Shareholders' equity and net profit as reported in the di Davide Campari-Milano S.p.A. balance sheet at 31 December	**531,150**	**119,584**
Elimination of book value of consolidated shareholdings:		
Difference between book value and pro rata value of shareholders' equity of shareholdings	330,938	
Pro rata results of subsidiaries		218,959
Elimination of the effects of transactions between consolidated companies:		
Elimination of intragroup dividends		(120,856)
Elimination of intragroup profits (losses)	(15,022)	(100,763)
Other operations:		
Effect of consolidation adjustments	(27,131)	135
Conversion differences	(24,047)	–
Group shareholders' equity and net profit	**795,888**	**117,059**
Shareholders' equity and net profit attributable to minorities	1,895	3,234
Shareholders' equity and net profit as reported in the consolidated balance sheet at 31 December	**797,782**	**120,292**

Investor information

In 2006 the global economy recorded solid growth, thanks partly to the positive contribution of the major European economies, which showed signs of an upturn.

The biggest contributor to global expansion was the emerging markets, while the US, after recording brisk growth in the first half of the year, showed some signs of slowing in the second half.

The slowdown in economic growth in the US drove up the euro, which gained against both the US dollar and the yen.

Against such an economic backdrop, government bond markets saw a general rise in yields, with a consequent adjustment in securities prices.

2006 was a positive year for equity markets, which benefited from abundant liquidity, the absence of strong macroeconomic tensions and further improvements in company fundamentals.

The Campari stock performed well over the year, boosted by the announcement of solid financial results and new business development initiatives.

Positive performance by the Italian stock market

All Italian stock market indices registered a positive performance.

Specifically, the Mibtel gained 19.1%, the S&P / MIB advanced 16.0% and the Midex was up 32.4% over the year.

Fears of high oil prices and expectations of further interest rate hikes sparked a reversal in the trend in share prices in May, due to expectations of an economic slowdown, which mainly affected large caps.

With commodity prices falling and structural inflation under control, the upward trend of indices continued for the remainder of the year, confirming the positive performance of the last three years, and taking equity markets to their highs for the year.

The rise in indices in 2006 was mainly attributable to the automotive, food, cement and utilities sectors.

Spirits sector

In 2006, the spirits sector confirmed the positive trend of the previous year, with the FTSEurofirst Beverages benchmark index registering growth of 21.2%.

Companies in the beverage sector were affected by the general fall on the stock markets in May.

The very strong performance of equities in 2006 was supported by the solid fundamentals of spirits companies, which benefited from sustained growth in the premium segment in the US market and particularly favourable conditions in emerging markets.

Consolidation in the sector was less intense than in the previous year, but market expectations of a new phase of mergers and acquisitions nevertheless helped support the valuations of spirits companies in 2006.

Positive 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, advanced by 20.5% in absolute terms over the year compared with its closing price at 30 December 2005.

Compared to the main Italian market and sector indices, the Campari share outperformed the Mibtel by 1.4% and the S&P / MIB by 4.5%, while it underperformed the Midex by 11.9% and the FTSEurofirst Beverages by 0.7%.

On 30 June 2006 Campari shares reached a record high of € 8.10.

The minimum closing price for the year, recorded on 17 January 2006, was € 6.28.

An average of 594,000 shares were traded daily in 2006, with an average daily value of € 4.4 million.

At 29 December 2006, Campari’s market capitalisation was € 2,183 million.

In the period under review, the strong performance of Campari shares was supported by positive company newsflow and solid financial results.

This included the purchase of the remaining 11% stake in US company Skyy Spirits, LLC (taking the total holding to 100%), the Group's annual results for 2005 and interim results for 2006, which continue to demonstrate solid fundamentals, and the company's initiatives to reorganise the existing structure and expand its business.

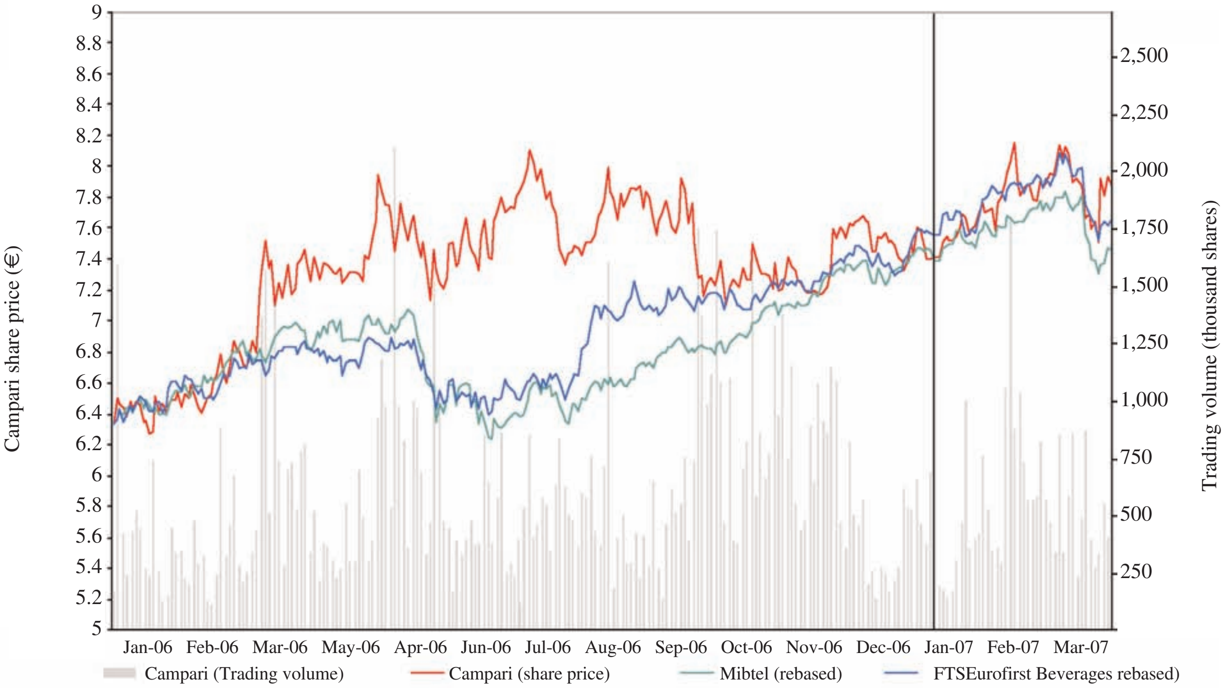
Specifically, from January 2006, the Group began distributing some prestigious international brands, such as the spirits belonging to the Irish group C&C (Carolans Irish Cream, Irish whiskey Tullamore Dew and Irish Mist liqueur, and – except on the US market – Frangelico) in the US and other international markets including Brazil, and Midori, a melon-flavoured liqueur owned by the Suntory group, in the US.

The Group launched a drive to rationalise its Italian sales networks at the start of 2006.

This project, intended to optimise and improve the efficiency of the sales organisation in Italy, led to the creation of two sales structures: one focusing on spirits and non-alcoholic beverages, the other dedicated to the distribution of wines.

Moreover, in mid-March 2006, the Group completed the acquisition of the Glen Grant, Old Smuggler and Braemar Scotch whisky brands from the Pernod Ricard group, further expanding its spirits portfolio and entering a market segment with attractive growth prospects.

Performance of the Campari share price and the Mibtel and FTSEurofirst Beverages indices since 1 January 2006



Revised shareholder base

At 31 December 2006, 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	21,857,798	7.527%
Janus Capital Management	10,551,136	3.633%
Lazard Asset Management	6,036,870	2.079%

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

Dividend

The dividend proposed for 2006 is € 0.10 per share outstanding, unchanged from the previous year.

The dividend will be paid on 4 May 2007 (coupon no. 3 should be detached on 30 April 2007) except on own shares.

Stock information (1)		2006	2005	2004	2003	2002	2001
Reference share price							
Price at end of period	€	7.52	6.24	4.73	3.85	3.00	2.64
Maximum price	€	8.10	6.78	4.78	3.85	3.78	3.10
Minimum price	€	6.28	4.48	3.57	2.74	2.53	2.18
Average price	€	7.32	5.74	4.04	3.30	3.16	2.72
Capitalisation and volumes:							
Average daily trading volumes (2)	No. of shares	594,348	487,006	429,160	378,940	530,930	723,750
Average daily trading value (2)	€ million	4.4	2.8	1.7	1.3	1.7	2.1
Stock market capitalisation at the end of the period	€ million	2,183	1,812	1,372	1,117	871	766
Dividend:							
Dividend per share (3)	€	0.100	0.100	0.100	0.088	0.088	0.088
Total dividend (3) (4)	€ million	29.0	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 2006 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; in 2005, 281,356,013 shares carried dividend rights; for 2006, 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 20 March 2007 this figure stood at 290,399,453).

Stock market indicators (1)		2006 IAS/IFRS	2005 IAS/IFRS	2004 IAS/IFRS	2003 Italian accounting standards	2002 Italian accounting standards	2001 Italian accounting standards
Shareholders' equity per share	€	2.74	2.39	2.15	1.89	1.65	1.48
Price / book value	x	2.74	2.61	2.20	2.04	1.82	1.78
Earnings per share (EPS) (2)	€	0.41	0.42	0.35	0.27	0.30	0.22
P/E (price/earnings)	x	18.3	14.9	13.7	14.0	10.1	12.1
Payout ratio (dividend/net profit) (3)	%	24.7	23.8	29.0	30.9	28.5	38.9
Dividend yield (dividend/price) (3) (4)	%	1.3	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, 2005 and 2006 financial years, this is calculated using the weighted average number of ordinary shares outstanding as defined in IAS 33.
(3) Proposed dividend for the 2006 financial year.
(4) Dividend yield calculated on the price of the share at the end of the period.

Investor relations

The company attaches great importance to its relations with shareholders and institutional investors.

As part of the company's reporting procedures, including regular results disclosure and the announcement of extraordinary operations, the Campari Group spoke to investors at important international and sector conferences and organised a number of meetings in Italy and all the main financial centres in Europe, the United States and Japan.

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.camparigroup.com/investors).

This page contains not only financial information (press releases, presentations, 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, and details of corporate governance.


CAMPARI

CONSOLIDATED ACCOUNTS

FINANCIAL STATEMENTS

Consolidated profit and loss account (*)

	Note	2006 € / 000	2005 € / 000
Net sales		**932,358**	**809,944**
Cost of goods sold		(410,203)	(345,073)
Gross profit		**522,155**	**464,871**
Advertising and promotional costs		(163,106)	(139,736)
Sales and distribution costs		(102,146)	(90,290)
Trading profit		**256,903**	**234,845**
General and administrative expenses and other operating costs		(65,544)	(55,699)
One-offs		(846)	4,710
EBIT		**190,513**	**183,856**
Net financial income (charges)		(15,189)	(9,907)
Profit (loss) of companies valued at equity	8	184	283
Profit before tax		**175,508**	**174,232**
Tax	11	(55,215)	(51,180)
Net profit		**120,293**	**123,052**
Minority interests		(3,234)	(5,039)
Group net profit		**117,059**	**118,013**
Basic earnings per share (€)	12	0.41	0.42
Diluted earnings per share (€)	12	0.41	0.41

(*) Pursuant to Consob resolution 15519 of 27 July 2006, the effects of dealings with related parties on the consolidated profit and loss account are indicated in a table under Note 38.

Consolidated balance sheet (*)

	Note	31 december 2006 € / 000	31 december 2005 € / 000
ASSETS			
Non-current assets			
Net tangible fixed assets	13	146,284	152,479
Biological assets	14	15,008	13,497
Investment property	15	4,017	4,586
Goodwill and trademarks	16	816,391	750,610
Intangible assets with a finite life	18	4,116	3,810
Investments in affiliated companies and joint ventures	8	528	591
Deferred tax assets	11	18,495	16,543
Other non-current assets	19	7,719	10,004
		1,012,558	**952,120**
Current assets			
Inventories	20	169,872	135,283
Trade receivables	21	257,120	237,416
Short-term financial receivables	22	1,025	3,150
Cash, bank and securities	23	240,300	247,535
Other receivables	21	41,265	24,244
		709,582	**647,628**
Non-current assets intended for sale	24	3,918	78
Total assets		**1,726,058**	**1,599,826**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Shareholders' equity			
Share capital		29,040	29,040
Reserves		766,848	664,525
Parent Company's portion of shareholders' equity	25	795,888	693,565
Minorities' portion of shareholders' equity	26	1,895	2,215
		797,782	**695,780**
Non-current liabilities			
Bonds	27	322,699	374,556
Other non-current liabilities	27	70,142	122,812
Staff severance fund and other pension funds	30	12,631	13,216
Reserve for risks and future liabilities	31	10,930	10,115
Deferred tax liabilities	11	56,066	43,304
		472,468	**564,003**
Current liabilities			
Payables to banks	27	209,273	112,839
Other financial payables	27	21,603	17,193
Payables to suppliers	32	161,907	150,199
Payables to tax authorities	34	26,699	25,058
Other current liabilities	32	36,326	34,754
		455,808	**340,043**
Total liabilities and shareholders' equity		**1,726,058**	**1,599,826**

(*) Pursuant to Consob resolution 15519 of 27 July 2006, the effects of dealings with related parties on the consolidated balance sheet are indicated in a table under Note 38.

Consolidated cash flow statement

	Note	2006 € / 000	2005 € / 000
Cash flow from operating activities			
Group net profit		117,059	118,013
Adjustments to reconcile net profit with cash flow			
Depreciation		19,228	17,406
Gains on sales of fixed assets		(11,647)	(2,301)
Depreciation of tangible fixed assets		3,306	–
Allocations to funds		10,157	4,166
Use of funds		(8,679)	(9,983)
Deferred tax		12,954	19,315
Valuation effects		(197)	(143)
Other items not resulting in cash flows		(1,081)	(1,673)
Changes in tax payables and receivables		206	3,921
Changes in operating working capital		(25,515)	(50,238)
Other changes in non-cash items		(3,600)	(1,362)
		112,191	**97,122**
Cash flow used in investing activities			
Purchase of tangible and intangible fixed assets		(18,874)	(18,849)
Gains on sales of tangible fixed assets		13,090	3,847
Payments on account for construction of new headquarters		(13,000)	–
Acquisition of holding in Skyy Spirits, LLC	7	(48,905)	(118,534)
Acquisition of Glen Grant, Old Smuggler and Braemar	7	(130,542)	–
Acquisition of companies or holdings in other subsidiaries		–	(12,150)
Other changes		(19)	2,062
		(198,250)	**(143,625)**
Cash flow from financing activities			
New long-term financing		–	25,430
Repayment of medium / long-term financing		(6,875)	(7,765)
Net change in short-term bank debt		96,433	57,268
Change in other financial payables and receivables		(23,572)	4,016
Sale of own shares		32,950	–
Net change in marketable securities		1,149	3,993
Dividend paid out by the Parent Company		(28,136)	(28,105)
		71,949	**54,838**
Exchange rate differences			
Effect of exchange rate differences on operating working capital		5,667	(15,667)
Other exchange rate differences		2,357	12,910
		8,024	**(2,757)**
Net cash flow for the year		**(6,086)**	**5,578**
Cash and cash equivalents at start of period		245,061	239,483
Cash and cash equivalents at end of period	23	238,975	245,061

Statement of change in shareholders' equity

	Group shareholders' equity						
	Share capital € / 000	Legal reserve € / 000	Retained earnings € / 000	Other reserves € / 000	Total € / 000	Minorities € / 000	Total € / 000
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 minority shareholders	–	–	–	–	**–**	(4,922)	(4,922)
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
Valuation of hedging instruments (cash flow hedge)	–	–	–	(452)	**(452)**	–	(452)
Application of IAS 32 to put option	–	–	–	–	**–**	(2,652)	(2,652)
Net profit 2005	–	–	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**
Dividend payout to Parent Company shareholders	–	–	(28,136)	–	**(28,136)**	–	(28,136)
Dividend payout to minority shareholders	–	–	–	–	**–**	(3,301)	(3,301)
Purchase of minority holdings	–	–	–	–	**–**	(245)	(245)
Sale of own shares	–	–	23,867	–	**23,867**	–	23,867
Stock options	–	–	–	2,092	**2,092**	–	2,092
Conversion difference	–	–	–	(24,047)	**(24,047)**	(8)	(24,055)
Capital gain on sale of own shares	–	–	9,082	–	**9,082**	–	9,082
Valutation of hedging instruments (cash flow hedge)	–	–	–	3,193	**3,193**	–	3,193
Tax effect on profits (losses) allocated directly to shareholders' equity	–	–	(787)	–	**(787)**	–	(787)
Net profit 2006	–	–	117,059	–	**117,059**	3,234	120,292
Balance at 31 December 2006	**29,040**	**5,808**	**765,360**	**(4,320)**	**795,888**	**1,895**	**797,782**

Statement of total Group profits and losses

	Full year 2006 € / 000	Full year 2005 € / 000
Profits (losses) on valuations at fair value, net of related tax effect	3,193	(452)
Capital gain on sale of own shares	9,082	–
Tax effect on profits (losses) allocated directly to shareholders' equity	(787)	–
Conversion difference	(24,047)	10,065
Profits (losses) allocated directy to shareholders' equity	**(12,559)**	**9,613**
Net profit	117,059	118,013
Total profits (losses) reported by the Group for the year	**104,500**	**127,626**
Minorities' profits (losses)	3,234	5,039
Conversion difference	(8)	378
Total profits (losses) reported for the year	**107,726**	**133,043**

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.

The Campari Group operates in 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, Zedda Piras, 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 Liebfraumilch, Mondoro, Riccadonna, Sella & Mosca 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 2006 were approved on 20 March 2007 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 reference currency of the Parent Company and many of its subsidiaries.

2. Preparation criteria

The consolidated accounts for the year ending 31 December 2006 were prepared in accordance with the international accounting standards (IFRS) issued by the International Accounting Standards 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).

The Campari Group adopted IFRS from 1 January 2005, in accordance with Regulation (EC) 1606 of 19 July 2002.

The information required by IFRS 1 (First-time Adoption of International Financial Reporting Standards) on the effects of the transition to IFRS was reported under Note 36 of the consolidated accounts for the year ending 31 December 2005.

The accounts were prepared on the basis of the cost (with the exception of financial derivatives used for hedging purposes) of 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 accounting principles.

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

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 accounted for by the equity method.

Form and content

In accordance with the format selected 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.

In the profit and loss account (classified by function), the EBIT line is shown before and after one-offs, such as capital gains / losses on the sale of shareholdings, restructuring costs and any other non-recurrent income/expenses.

The definition of "non-recurrent" conforms to that set out in the Consob communication dated 28 July 2006.

In 2006, the Group did not carry out any atypical and / or unusual transactions, which are defined in the Consob communication as significant / substantial transactions that are atypical and / or unusual because the counterparties, the object of the transaction, the method used to determine the price and timing of the transaction (proximity to year end) could give rise to doubts over the accuracy / completeness of the information provided in the accounts, conflicts of interest, safeguarding of company assets and the protection of minority shareholders.

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.

Lastly, with reference to the requirements of Consob resolution 15519 of 27 July 2006, the balance sheet, profit and loss account and cash flow statement do not contain specific items relating to dealings with related parties as the amounts are immaterial; we therefore confirm that this presentation has not distorted the financial, asset and business position of the Group.

Please refer to Note 38 for details on dealings with related parties.

Basis of consolidation

The tables below list the companies included in the basis of consolidation at 31 December 2006.

	Share capital at 31 december 2006		% 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, Via Filippo Turati 27, 20121 Milan	€	29,040,000			
FULLY CONSOLIDATED COMPANIES					
Italy					
Campari Italia S.p.A., trading company, Via Filippo Turati 27, 20121 Milano	€	1,220,076	100.00		
Sella & Mosca S.p.A., manufacturing and trading company, Località I Piani, 07041 Alghero (Ss)	€	13,838,916		100.00	Zedda Piras S.p.A.
Sella & Mosca Commerciale S.r.l., trading company, Località I Piani, 07041 Alghero (Ss)	€	100,000		100.00	Sella & Mosca S.p.A.
Teruzzi & Puthod S.r.l., manufacturing and trading company, Località Canale 19, San Gimignano (Si)	€	1,000,000		100.00	Sella & Mosca S.p.A.
Giannina S.r.l., manufacturing and trading company, Località Canale 20, San Gimignano (Si)	€	20,000		100.00	Sella & Mosca S.p.A.

Name, activity, location	Share capital at 31 december 2006 Currency	Amount	% owned by the Parent Company Direct	Indirect	Direct shareholder
Zedda Piras S.p.A., manufacturing and trading company (operational headquarters in Alghero), Piazza Attilio Deffenu 9, Cagliari	€	16,276,000	100.00		
Glen Grant S.r.l., trading company, Via Bonaventura Cavalieri 4, 20121 Milano	€	97,067,533	100.00		
Turati Ventisette S.r.l., manufacturing and trading company, Via Filippo Turati, 27, 20121 Milano	€	10,000	100.00		
Europe					
Campari Deutschland GmbH, trading company, Bajuwarenring 1, (Postfach 1364) 82041 Oberhaching, LandKreis Munich	€	5,200,000		100.00	DI.CI.E. Holding B.V.
Campari Finance Belgium S.A., finance company, Avenue Emile Maxlaan 152 - 154, B.5 Bruxelles 1030	€	246,926,407	61.00	39.00	Davide Campari-Milano S.p.A.
Campari Teoranta, finance and services company, Merchants Hall, 25 - 26 Merchants Quay, Dublin 8, Ireland	€	1,000,000		100.00	DI.CI.E. Holding B.V.
Campari France, manufacturing company, 15 ter, Avenue du Maréchal Joffre 92000 Nanterre, France	€	2,300,000		100.00	DI.CI.E. Holding B.V.
Campari International S.A.M., trading company, 7 Rue du Gabian, BP 237 MC 980004 Monaco	€	100,000,000		100.00	DI.CI.E. Holding B.V.
Campari Schweiz A.G., trading company, Lindenstrasse 8, 3641 Baar	CHF	2,000,000		100.00	DI.CI.E. Holding B.V.
Koutsikos Distilleries S.A., manufacturing company, 6 & E Street - A' Industrial Area - Volos 38500	€	2,239,405		100.00	N, Kaloyannis Bros S.A.
DI.CI.E. Holding B.V., holding company, Atrium, Strawinskylaan 3105, 1077 ZX Amsterdam	€	15,015,000		100.00	
Lacedaemon Holding B.V., holding company, Atrium, Strawinskylaan 3105, 1077 ZX Amsterdam	€	10,465,000		100.00	Campari Schweiz A.G.
N. Kaloyannis Bros S.A., trading company, 6 & E Street - A' Industrial Area - Volos 38500	€	8,884,200		100.00	O-Dodeca B.V.
O-Dodeca B.V., holding company, Atrium, Strawinskylaan 3105, 1077 ZX Amsterdam	€	2,000,000		75.00	Lacedaemon Holding B.V.
Prolera LDA, services company, Rua Dos Murças n° 88 3° Andar, 9000 - 058 Funchal, Portugal	€	5,000		100.00	
Société Civile du Domaine de Lamargue, manufacturing and trading company, Domaine de la Margue, 30800 Saint Gilles, France	€	4,793,183		100.00	Sella & Mosca S.p.A.
Glen Grant Whisky Company Ltd., *dormant*, Glen Grant Distillery, Rothes, Morayshire, AB38 7BN	GBP	10,820,000		100	DI.CI.E. Holding B.V.
Glen Grant Distillery Company Ltd., manufacturing and trading company (*), Glen Grant Distillery, Rothes, Morayshire, AB38 7BN	GBP	14,800,000		100	DI.CI.E. Holding B.V.
Glen Grant Ltd., holding company, Glen Grant Distillery, Rothes, Morayshire, AB38 7BN	GBP	67,050,000		100	DI.CI.E. Holding B.V.
Old Smuggler Whisky Company Ltd., manufacturing and trading company (*)	GBP	6,850,000		100	DI.CI.E. Holding B.V.

	Share capital at 31 december 2006		% owned by the Parent Company		
Name, activity, location	Currency	Amount	Direct	Indirect	Direct shareholder
Americas					
Campari Argentina S.R.L., trading company, Bouchard 710, Buenos Aires	AR$	100,000		100.00	DI.CI.E. Holding B.V. (95%), Lacedaemon Holding B.V. (5%)
Campari do Brasil Ltda., manufacturing and trading company, Av. Juruá, 820, esquina com a Alameda Tocantins, Centro Industrial e Empresarial Alphaville, Barberi / SP CEP 06455-908	BRC	243,202,100		100.00	
Gregson's S.A., trademark holder, Plaza de Cagancha 1335, Oficina 604, Montevideo	UYU	175,000		100.00	Campari do Brasil Ltda
Redfire, Inc., holding company, One Beach Street Suite 300 - San Francisco - California 94133	US$	163,450,000		100.00	
Skyy Spirits, LLC, trading company, One Beach Street Suite 300 - San Francisco - California 94133	US$	15,348,729		100.00	Redfire, Inc. (89%), Mt Acquisition Corp. (11%)
Mt Acquisition Corp., holding company, 1209 Orange Street, Wilmington, 19801 County of New Castle	US$	48,000,000		100.00	Redfire, Inc.
Other					
Qingdao Sella & Mosca Winery Co Ltd., manufacturing and trading company, 8 Pingu Horticultural Farm, Yunshan County, Pingdu City, Qingdao, Shandong Province	RMB	24,834,454		93.67	Sella & Mosca S.p.A.

Other holdings	Share capital at 31 December 2006		% owned by the Parent Company		Valuation method
Name, activity, location	Currency	Amount	Indirect	Direct shareholders	
Fior Brands Ltd., trading company, Springfield House, Laurelhill Business Park, Stirling, FK7 9JQ	GBP	100	50.00	DI.CI.E. Holding B.V.	Equity
International Marques V.o.f., trading company, Nieuwe Gracht 11, Haarlem, 2011NB	€	210,000	33.33	DI.CI.E. Holding B.V.	Equity
M.C.S. S.c.a.r.l., trading company, Millenium Park, Avenue de la Métrologie 10, 1130 Bruxelles	€	464,808	33.33	DI.CI.E. Holding B.V.	Equity
SUMMA S.L., trading company, Alcobendas, Calle Cantabria no. 2, Planta 2, Officina B1, Edificio Amura, 28100 Alcobendas, Madrid	€	342,000	30.00	DI.CI.E. Holding B.V.	Equity

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

For information on the changes occurring in the basis of consolidation in 2006, please refer to Note 7 (Acquisitions).

Subsidiaries

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

This method specifies that all assets and liabilities, and 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.

The minority interest in shareholders' equity and net profit is reported under appropriate items in the accounts. The minority interest in shareholders' equity is 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 share 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 intragroup 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 are 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 2006		31 December 2005	
	Average rate	Final rate	Average rate	Final rate
US dollar	1.2555	1.3170	1.2446	1.1797
Swiss franc	1.5731	1.6069	1.5483	1.5551
Brazilian real	2.7318	2.8133	3.0403	2.7432
Uruguayan peso	30.1323	32.1394	30.4492	27.9648
Chinese renminbi	10.0079	10.2793	10.2033	9.5204
UK pound	0.6818	0.6715	0.6839	0.6853

3. Summary of accounting principles

Intangible assets

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

Intangible assets acquired 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 financial benefits, and when the cost can be reliably determined.

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 fixed 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 financial 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 on the balance sheet 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 and amortisation

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 weight 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, when first reported and at each subsequent reporting date, at their fair value, less estimated point-of-sale costs. The related agricultural produce is valued at cost, which is approximately the fair value less estimated point-of-sale costs at harvest.

Financial instruments

Details of individual categories

Financial instruments held by the Group are categorised as follows.

Financial assets include holdings in affiliated companies and joint ventures, short-term securities and financial receivables, which in turn include the positive fair value of financial derivatives, trade and other receivables and cash and cash equivalents.

Specifically, cash and cash equivalents include cash, bank deposits and highly marketable securities that can be quickly converted into cash, and which carry an insignificant risk of a change in value.

Short-term securities include securities maturing in one year or less, and marketable securities representing a temporary investment of cash that do not meet the requirements for classification as cash equivalents.

Financial liabilities include financial payables, which in turn include the negative fair value of financial derivatives, trade payables and other payables.

Valuation methods

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 those 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.

Where 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.

Elimination of financial assets and liabilities

Financial assets

A financial asset (or where applicable, part of a financial asset or part of a group of similar financial assets) is eliminated from the accounts when:

- the rights to receive income from financial assets are no longer held;
- the Group reserves the right to receive income from financial assets, but has taken on a contractual obligation to pay such income in full and without delay to a third party;
- the Group has transferred the right to receive income from financial assets and: (i) has transferred all the risks and benefits relating to the ownership of the financial asset, or (ii) has not transferred nor retained all the risks and benefits relating to the ownership of the financial asset, but has transferred control of the asset.

Financial liabilities

A financial liability is eliminated from the accounts when the underlying obligation of the liability is no longer held, or cancelled, or has been settled.

In cases where an existing financial liability is substituted by another with the same lender under different conditions, or where the conditions of an existing liability are changed, the substitution or change is treated in the accounts as an elimination of the original liability, and a new liability is reported, with any difference in the accounting values allocated to the profit and loss account.

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.

Where 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 present value of an asset or liability attributable to a particular risk that could have an impact on the profit and loss account, the profit or loss resulting from the subsequent valuations of the present 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 one 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 sale 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 the 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 reserve for risks and future liabilities concerns 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.

Where 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. Estimate 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, where 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.

Recording 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 systematic apportionment or when the future utility of such goods and services cannot be determined.

Personnel and service costs include stock options (in keeping with their largely remunerative nature) that were 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 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 force on the date the transaction is completed.

Monetary assets and liabilities in foreign currencies are converted to euro at the exchange rate in effect on the reporting date with any related impact posted to the 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 the management to make estimates and assumptions that have an impact on the value of balance sheet assets and liabilities and on disclosures concerning contingent assets and liabilities at the reporting date.

The actual results could therefore differ from these estimates.

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

4. Changes in accounting standards

In April 2005, the IASB issued an amendment to IAS 39 (Financial Instruments: Recognition and Measurement), which allows the foreign currency risk of a highly probable intragroup transaction to qualify as the hedged item in a cash flow hedge in consolidated financial statements, provided that the transaction is denominated in a currency other than the functional currency of the company entering into that transaction and that the foreign currency risk will affect the consolidated financial statements.

The amendment also specifies that if the hedge of a forecast intragroup transaction qualifies for hedge accounting, any gain or loss that is recognised directly in shareholders' equity, in accordance with the hedge accounting rules of IAS 39, must be reclassified in the profit and loss account in the same period in which the currency risk of the hedged transaction affects the consolidated profit or loss account.

In June 2005, the IASB issued another amendment to IAS 39 (Financial Instruments: Recognition and Measurement), which restricts the use of the option to designate any financial asset or financial liability to be measured at fair value on the profit and loss account (the "fair value option").

This amendment restricts the use of the fair value option to financial instruments that meet certain conditions:

– the fair value option designation eliminates or significantly reduces an accounting mismatch;
– a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and
– a financial instrument contains an embedded derivative that meets certain conditions.

The Group has applied these amendments to IAS 39 since 1 January 2006.

The adoption of these amendments did not, however, have a significant effect on shareholders' equity or net profit in the period.

In August 2005, the IASB issued a further amendment to IAS 39 and IFRS 4 dedicated to the accounting treatment of guarantees.

Based on this amendment, the liability deriving from financial guarantee contracts must be recognised in the accounts of the guarantor as follows:

– initially at fair value;
– subsequently, at the higher of (i) the best estimate of the amount required to fulfil the obligation at the reference date, in accordance with IAS 37 (Provisions, Contingent Liabilities and Contingent Assets) and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with IAS 18 (Revenue).

This amendment does not apply to the Campari Group.

In August 2005, the IASB issued a new accounting standard IFRS 7 (Financial Instruments: Disclosures) and a supplementary amendment to IAS 1 (Presentation of Financial Statements: Capital Disclosures).

IFRS 7 requires additional information on the importance of financial instruments to a company's performance and financial position.

This information incorporates some of the requirements previously included in accounting standard IAS 32 (Financial Instruments: Disclosure and Presentation).

The new accounting standard requires the disclosure of additional information on the level of exposure to risk arising from the use of financial instruments, together with a description of the objectives, policies and procedures put in place by management to minimise such risks.

The amendment to IAS 1 introduced requirements on the information to be provided on a company's capital.

IFRS 7 and the amendment to IAS 1 are effective from 1 January 2007.

The Campari Group has chosen not to apply the requirements of this statement in advance.

On 2 November 2006, the International Financial Reporting Interpretation Committee (IFRIC) issued an interpretation document, IFRIC 11 – IFRS 2 (Group and Treasury Shares Transactions), which establishes that share-based payment plans where the company receives services in exchange for its own shares must be accounted for as capital instruments.

The Campari Group will adopt this interpretation from its effective date of application, i.e. 1 January 2008.

In addition, IFRIC 4 (Determining whether an Arrangement contains a Lease) and IFRIC 5 (Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds) came into effect on 1 January 2006, but these interpretation documents do not apply to the Campari Group.

Lastly, IFRIC 6 (Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment) came into effect on 1 December 2005, but this does not apply to the Campari Group either.

New accounting principles

On 3 March 2006, IFRIC issued IFRIC 9 (Reassessment of Embedded Derivatives), which requires a company to assess whether any embedded derivatives contained in the contract are required to be separated from the host contract and accounted for as if they were stand-alone derivatives when it first becomes a party to the contract.

Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract.

This interpretation takes effect from 1 January 2007.

On 30 November 2006, the IASB issued accounting standard IFRS 8 - *Operating Segments*, which will replace IAS 14 (Segment Reporting) on 1 January 2009.

IFRS 8 requires companies to report information on its segments based on the elements used by management to make operating decisions. This therefore requires the identification of operating segments whose results are reviewed regularly by management to make decisions about resources to be allocated to the segment and assess its performance.

As at the date of drafting this report, the Group is assessing the impact of adopting this principle.

Lastly, note that in 2006 the following accounting standards and interpretation documents were issued:

- IFRIC 8 (Scope of IFRS 2), effective from 1 January 2007;
- IFRIC 12 (Service Concession Arrangements), effective from 1 January 2008.

5. Seasonal factors

Sales of some Group products are more affected than others by seasonal factors, because of different consumption patterns or consumer habits.

In particular, soft drink consumption tends to increase during the hottest months of the year (May – September), and summer temperature variations from one year to the next may have a substantial effect on comparative sales figures.

For other products, such as sparkling wines, sales in some countries are concentrated in certain periods of the year, largely around Christmas.

While exogenous factors do not affect sales of these products, the commercial risk is higher, since the full-year sales result is determined in just two months.

In general, the Group’s diversified product portfolio, which includes spirits, soft drinks and wines, and the geographical spread of its sales, help to reduce substantially any risks relating to seasonal factors.

6. Default risk: negative pledges and debt covenants

The contracts relating to the bond issued by the Parent Company, the private placement and two committed credit lines negotiated by Redfire, Inc. include negative pledges and covenants.

In the first two cases, these contractual clauses are intended to limit the Group's options to grant significant rights to the Group's assets to third parties; in particular, the contracts establish specific restrictions on selling or pledging assets.

The covenants include the Group's obligation to respect certain financial indicators, the most significant of which relate to the ratio of net debt to particular measures of Group profitability.

If the group fails to fulfil these obligations, after an observation period in which any breach has not been rectified, it could be served with notice to repay the residual debt.

These ratios are monitored by the Group at the end of each quarter and have so far been a long way off the thresholds that would constitute non-compliance.

7. Acquisitions

Glen Grant, Old Smuggler and Braemar

The Campari Group completed the acquisition of the Glen Grant, Old Smuggler and Braemar Scotch whisky brands on 15 March 2006.

As part of the transaction, the Group acquired, in addition to the three brands, the related inventory (including finished products and stock in the ageing process) and the Glen Grant distillery in Rothes, Scotland.

The following table shows the book values and fair values on the date the assets were acquired:

	Book value € / 000	Fair value € / 000
Fixed assets		
Tangible fixed assets	4,737	4,737
Trademarks	–	103,067
Total fixed assets	**4,737**	**107,804**
Current assets		
Inventories	22,738	22,738
Total current assets	**22,738**	**22,738**
Total assets	**27,475**	**130,542**
Purchase cost		**130,542**

The total cost of the operation, including related costs, came to € 130,542 thousand, which was fully paid at the time of acquisition using short-term bank loans.

There are no differences between the book values and current values of the assets acquired, as the transaction was effected by purchasing shareholdings in a special purpose vehicle created by the vendor with values close to their current values, with the exception of trademarks created internally, for which specific sale valuations were undertaken, which did not include amounts for goodwill.

Trademarks with an indefinite useful life were subject to an impairment test.

If the acquisition had been made at the beginning of the year, we estimate that the Group's revenues and net profit would have been around € 7.3 million and € 0.7 million higher respectively.

Skyy Spirits, LLC

The purchase of a further 11% of Skyy Spirits, LLC was completed on 2 November 2006, taking the Group's stake in the US company to 100%.

The total cost of the acquisition, including related costs, came to US$ 62,437 thousand (€ 48,905 thousand at the exchange rate on the transaction date), of which US$ 59,086 thousand (€ 46,280 thousand) related to goodwill.

In order to complete the acquisition, the Group exercised its call/put options in accordance with the terms agreed in January 2002 when the Group acquired the majority shareholding in the company.

The transaction was completed in advance of the original deadline of 2007, thanks to an agreement between the parties.

The acquisition was paid for in cash using the Group's own funds.

Please see the comments in the report on operations under "significant events during the year" for further information on the acquisitions made in the year.

8. 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 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 following table shows the Group's portion of assets, liabilities, revenues and costs of its joint ventures:

	31 December 2006 € / 000	31 December 2005 € / 000
Portion of affiliated companies' balance sheets:		
Non-current assets	310	277
Current assets	22,518	24,556
	22,828	**24,832**
Non-current liabilities	674	689
Current liabilities	21,626	23,551
	22,300	**24,241**
Portion of affiliated companies' revenues and costs:		
Revenues	22,998	24,057
Cost of goods sold	(17,373)	(18,006)
Sales and administrative costs	(5,214)	(5,571)
Financial charges	(155)	(100)
Profit before tax	256	379
Tax	(72)	(96)
Net profit	184	283
Book value of shareholdings	**528**	**591**

9. 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 2006 and 31 December 2005.

31 December 2006	Spirits € / 000	Wines € / 000	Soft drinks € / 000	Other sales € / 000	Total operations € / 000
Revenues (*)					
Net sales to third parties	657,087	134,916	127,954	12,400	932,358
Income and profits					
Income by sector	210,648	15,209	28,625	2,420	256,903
Unallocated expenses					(66,391)
Operating income					**190,511**
Net financial income (charges)					(15,189)
Portion of result of companies valued at equity	124	42	18	–	184
Tax					(55,215)
Minority interests					(3,234)
Group net profit					**117,059**
Assets and liabilities					
Assets allocated to segments	1,060,910	252,619	67,910	–	1,381,439
Equity investments valued at equity	373	97	58	–	528
Other unallocated assets					344,091
Total assets					**1,726,058**
Liabilities allocated to segments	114,707	35,220	30,907	–	180,834
Other unallocated liabilities					747,442
Total liabilities					**928,276**
Other information					
Investments in tangible fixed assets (**):					
— allocated to segments	11,463	4,993	1,552	3	18,011
— unallocated to segments					3,483
Total					**21,494**
Investments in intangible fixed assets (**):					
— allocated to segments	109,621	42	2	–	109,665
— unallocated to segments					1,886
Total					**111,551**
Depreciation of tangible fixed assets:					
— allocated to segments	6,979	5,790	2,609	–	15,378
— unallocated to segments					2,033
Total					**17,411**
Amortisation of intangible fixed assets:					
— allocated to segments	101	28	14	–	143
— unallocated to segments					1,674
Total					**1,817**
Other expenses that did not involve a cash outflow	4,340	315	248	882	5,784

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

31 December 2005	Spirits € / 000	Wines € / 000	Soft drinks € / 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 sector	189,584	14,090	31,136	1,457	236,267
Unallocated expenses					(52,411)
Operating income					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	947,715	254,482	60,000	–	1,262,197
Equity investments valued at equity	402	105	84	–	591
Other unallocated assets					337,038
Total assets					**1,599,826**
Liabilities allocated to segments	96,834	32,689	20,691	–	150,214
Other unallocated liabilities					753,832
Total liabilities					**904,046**
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:					
— 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 year.

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 2006 and 31 December 2005.

31 December 2006	Italy € / 000	Europe € / 000	Americas € / 000	Rest of the world € / 000	Total operations € / 000
Revenues					
Net sales to third parties	401,382	175,153	314,612	41,211	932,358
Assets					
Allocated assets	689,791	124,198	565,906	1,545	1,381,440
Equity investments valued at equity	–	527	–	–	527
Unallocated assets					344,091
Total assets					**1,726,058**
Other information					
Investments in tangible fixed assets (*):					
— allocated to segments	10,451	7,197	362	–	18,010
— unallocated to segments					3,484
Total					**21,494**
Investments in intangible fixed assets (*):					
— allocated to segments	48	103,257	6,360	–	109,665
— unallocated to segments					1,886
Total					**111,551**

31 December 2005	Italy € / 000	Europe € / 000	Americas € / 000	Rest of the 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	79,194	592,107	8,436	1,262,197
Equity investments valued at equity	–	591	–	–	591
Unallocated assets					337,038
Total assets					**1,599,826**
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**

(**) In accordance with IAS 14,57, investments also include assets acquired during the year.

10. Revenues and costs

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

	2006 € / 000	2005 € / 000
Sale of goods	926,186	803,344
Provision of services	6,172	6,600
Total net sales	**932,358**	**809,944**

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

For further information on the breakdown of sales revenues, please refer to the relevant section in the report on operations.

Other one-offs: income and charges

Note that the EBIT figure is affected by the following one-off items of income and charges, as set out in the Consob communication of 28 July 2006.

	2006 € / 000	2005 € / 000
One-offs: income		
Release of unutilised reserves		
Capital gain on integrated programme for Sesto San Giovanni	12,176	–
Other capital gains on the sale of fixed assets	124	2,301
Other one-off windfall gains	485	1,693
Release of reserves	–	2,056
Total one-offs: income	**12,785**	**6,050**
One-offs: charges		
Provisions for risks and future liabilities	(6,042)	–
Other extraordinary windfall losses		
Demolition and scrapping costs	(2,638)	–
Write-downs of fixed assets	(1,753)	–
Losses on the sale of fixed assets	(641)	–
Personnel restructuring costs	(776)	(715)
Other one-offs: charges	(1,781)	(625)
Total one-offs: charges	**(13,631)**	**(1,340)**
Total one-offs: income and charges	**(846)**	**4,710**

As shown in the report on operations (please see the relevant section for further details), 2006 saw the start of the proposed integrated urban regeneration programme for the Sesto San Giovanni site, to convert it into the Group's new headquarters.

As part of this building project, the following operations were effected during the year:

– the sale of building land for residential use, which realised a capital gain of € 12,176 thousand;

– the sale of a building, which had already been converted into a refectory, which realised a capital loss of € 582 thousand, included under the item “capital losses on the sale of fixed assets”;
– the demolition of part of the adjacent buildings and power plants, and the resulting restoration and environmental rehabilitation, which incurred costs of € 2,638 thousand, shown under the item “demolition and scrapping costs”.

“Provisions for risks and future liabilities” of € 6,042 thousand mainly relate to a provision of € 4,810 thousand for the restructuring reserve, following the decision to cease production at the Sulmona plant.

“Write-downs of fixed assets” totalling € 1,753 thousand include the write-down of € 667 thousand relating to a building next to the Crodo production plant in anticipation of its future demolition, and the write-down of € 927 thousand in respect of the Termoli building in order to adjust the book value to its fair value, which was established in the sale negotiations under way.

Other costs

The following table shows details of costs relating to the management of operating and finance leases and the Group’s property investments:

	2006 € / 000	2005 € / 000
Operating leases		
— Minimum payments under operating leases	(4,381)	(3,261)
Finance leases		
— Potential lease payments (index-linked)	(27)	(25)
Other costs		
— Expenses relating to the management of property investments that generate lease income (including maintenance expenses)	(9)	(8)
— Expenses relating to the management of property investments that did not generate lease income (including maintenance expenses)	(20)	(17)

Depreciation

The following table shows details of depreciation and amortisation, by type and by function, included in the profit and loss account:

	2006 € / 000	2005 € / 000
Depreciation, amortisation and any losses in value		
— Depreciation of tangible fixed assets	(17,411)	(15,743)
— Amortisation of intangible fixed assets	(1,817)	(1,663)
of which:		
Amounts included in cost of goods sold:		
— Depreciation of tangible fixed assets	(14,488)	(13,386)
— Amortisation of intangible fixed assets	(59)	(45)
Amounts included in sales and distribution expenses:		
— Depreciation of tangible fixed assets	(838)	(656)
— Amortisation of intangible fixed assets	(21)	(16)
Amounts included in general and administrative expenses:		
— Depreciation of tangible fixed assets	(2,085)	(1,700)
— Amortisation of intangible fixed assets	(1,737)	(1,603)

There were no impairment losses in the two years concerned.

Net financial income (charges)

This item breaks down as follows:

	2006 € / 000	2005 € / 000
Net financial charges on bonds	(16,949)	(12,604)
Interest payable to banks	(11,512)	(6,097)
Bank charges	(1,041)	(997)
Other charges	(3,217)	(537)
Total financial charges (at cost)	**(32,719)**	**(20,235)**
Unrealised loss on derivatives used for hedging	216	(323)
Actuarial interest	(352)	(611)
Total financial charges	**(32,855)**	**(21,168)**
Bank and term deposit interest	10,033	5,642
Other income	7,305	5,443
Total financial income (at cost)	**17,338**	**11,085**
Unrealised profit on derivatives used for hedging		180
Total financial income	**17,338**	**11,265**
Net realised exchange rate differences	(437)	(454)
Net unrealised exchange rate differences	765	450
Net financial income and charges	**(15,189)**	**(9,907)**

Below are details of the financial charges on the bonds issued by the Parent Company Davide Campari-Milano S.p.A. and the private placement issued by the subsidiary Redfire, Inc., and the financial charges and income that accrued on related derivatives:

	Full year 2006			Full year 2005
	Parent Company € / 000	Redfire, Inc. € / 000	Total € / 000	Total € / 000
Financial charges to bondholders	(10,600)	(8,264)	(18,864)	(19,875)
Financial charges relating to swaps	(9,263)	(50)	(9,313)	(7,186)
Financial income from swaps	10,601	627	11,227	14,457
	(9,262)	**(7,687)**	**(16,949)**	**(12,604)**

For further information, see comments under Note 29 (Financial instruments).

Personnel costs

This item breaks down as follows:

	2006 € / 000	2005 € / 000
Wages and salaries	(68,821)	(60,063)
Social security contributions	(15,498)	(14,836)
Costs for post-employment benefits	(3,246)	(1,726)
Cost for share-based payments	(2,093)	(1,009)
	(89,658)	**(77,635)**

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.

Related costs are recorded in full in the profit and loss account for the year in which they are incurred.

11. Tax

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

	2006 € / 000	2005 € / 000
Corporate income tax for the period		
— Taxes for the current year	(42,344)	(31,619)
— Taxes relating to previous financial years	83	(246)
Deferred income tax		
— Newly reported and cancelled temporary differences	(12,954)	(19,315)
Income tax posted to the profit and loss account	**(55,215)**	**(51,180)**

The table below gives details of current and deferred taxes posted directly to shareholders' equity:

	2006 € / 000	2005 € / 000
Current taxes relating to profits (losses) posted directly to shareholders' equity	(270)	–
Deferred taxes relating to profits (losses) posted directly to shareholders' equity	(517)	–
Deferred taxes on profits (losses) from cash flow hedging	(1,112)	14
	(1,899)	**14**

The table below shows a reconciliation of the theoretical tax charge with the Group's actual tax charge. Note that, in order to provide a clearer picture, IRAP has not been taken into account since, being a tax calculated on a tax base other than pre-tax profit, it would have had distortive effects.

Theoretical taxes were, therefore, calculated solely by applying the current tax rate in Italy for IRES (i.e. 33% for both 2006 and 2005), to the pre-tax result.

	2006 € / 000	Rate %	2005 € / 000	Rate %
Group profit before tax	172,273		169,193	
Theoretical tax rate	33%		33%	
Theoretical corporate income tax	**(56,850)**	**33.0%**	**(55,834)**	**33.0%**
Tax effect deriving from foreign tax rates differing from the theoretical Italian tax rate	10,024	(5.8%)	5,446	(3.2%)
Permanent differences	(2,595)	1.5%	3,698	(2.2%)
Other differences on consolidation entries	244	(0.1%)	639	(0.4%)
IRAP	(6,038)	3.5%	(5,129)	3.0%
Corporate income tax recorded in the accounts (current and deferred)	**(55,215)**	**32.1%**	**(51,180)**	**30.2%**

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

	Balance sheet		Profit and loss account	
	31 December 2006 € / 000	31 December 2005 € / 000	2006 € / 000	2005 € / 000
Deferred tax assets				
Deferred expenses	1,802	949	635	(253)
Taxed reserves	9,141	5,733	4,645	(2,944)
Past losses	6,018	6,502	(258)	913
Fair value valuations	–	1,553	(1,194)	26
Other	1,534	1,806	(354)	(354)
	18,495	**16,543**	**3,474**	**(2,612)**
Deferred tax liabilities				
Accelerated depreciation	(7,297)	(6,752)	(605)	(1,845)
Capital gains subject to deferred taxation	(3,703)	(407)	(3,308)	(9)
Goodwill and trademarks deductible locally	(35,865)	(27,870)	(11,778)	(12,854)
Reserves subject to taxation in the event of dividend payments	(8,331)	(8,331)	–	–
Adjustment to Group accounting principles	5,116	3,437	1,679	(1,209)
Leasing	(2,261)	(1,440)	(821)	(786)
Other	(3,725)	(1,942)	(1,595)	–
	(56,066)	**(43,304)**	**(16,428)**	**(16,702)**

Deferred tax assets for tax losses are entirely attributable to Campari do Brasil Ltda.

Local legislation does not set a time limit for their use, but does set a quantitative limit for each individual year, based on declared taxable income.

12. Base and diluted earnings per share

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

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

Base earnings per share are calculated as follows:

Base earnings	31 December 2006			31 December 2005		
	Profit € / 000	Shares number	Earnings per share €	Profit € / 000	Shares number	Earnings per share €
Net profit attributable to ordinary shareholders	117,059			118,013		
Weighted average of ordinary outstanding shares		284,400,932			281,194,137	
Base earnings per share			**0.41**			**0.42**

Diluted earnings per share are calculated as follows:

Diluted earnings	31 December 2006			31 December 2005		
	Profit € / 000	Shares number	Earnings per share €	Profit € / 000	Shares number	Earnings per share €
Net profit attributable to ordinary shareholders	117,059			118,013		
Weighted average of ordinary outstanding shares net of dilution		284,817,474			284,710,990	
Diluted earnings per share			**0.41**			**0.41**

13. 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	129,772	182,753	58,695	371,220
Opening accumulated amortisation	(48,016)	(119,202)	(51,523)	(218,741)
Balance at 31 December 2005	**81,756**	**63,551**	**7,172**	**152,479**
Investments	1,921	6,192	6,518	14,631
Change in basis of consolidation	3,014	1,508	216	4,737
Disposals	(1,299)	(69)	(7)	(1,375)
Depreciation	(4,024)	(10,151)	(2,615)	(16,790)
Reclassifications	(665)	1,281	(3,962)	(3,346)
Reclassification under fixed assets in progress at year-end	580	2,274	(2,912)	(58)
Write-downs and eliminations	(2,278)	(1,011)	(17)	(3,306)
Exchange rate differences and other changes	387	(4,087)	3,012	(688)
Balance at 31 December 2006	**79,392**	**59,488**	**7,405**	**146,284**
Closing book value	127,623	195,343	28,503	351,468
Closing accumulated amortisation	(48,231)	(135,855)	(21,098)	(205,184)

Land and buildings investments amounting to € 1,921 thousand, were primarily attributable (€ 643 thousand), to the Parent Company and include costs for the preparation of land in Sesto San Giovanni, on which the new Group headquarters is to be built, as well as costs for improvements to the Novi Ligure and Crodo industrial premises. € 821 thousand related to Koutsikos Distilleries S.A. for work completed at the Volos plant to produce Ouzo 12.

Disposals, amounting to € 1,375 thousand, were mainly due to the sale of part of the Sesto San Giovanni site not intended for use in the construction of the new headquarters. For further information about the integrated programme of action for the urban regeneration of the Sesto San Giovanni site please refer to the paragraph on Investments in the Report on operations.

This sale resulted in a capital gain of € 12,176 thousand, included, due to the extraordinary nature of the sale, under the item “Other one-offs: income and charges”.

Write-downs and eliminations, amounting to € 3,306 thousand, were mainly attributable to:

– demolition and dismantling of part of the Sesto San Giovanni premises, completed during 2006, which involved total costs of € 2,638 thousand, also included under the item "Other one-offs: income and charges";
– the € 927 thousand write-down of the Termoli plant for which sales negotiations are at an advanced stage. This write-down aimed to adjust the book value to the estimated realisable value;
– the write-down of a building near the Crodo plant, which is due be demolished.

Investments in plant and machinery, amounting to € 6,192 thousand, primarily included:

– Parent Company investments, amounting to a total of € 3,730 thousand, in the Canale, Crodo, Sulmona and Novi Ligure facilities. In this last case, these related to cellars, the liqueur and CampariSoda production line, the wines and multi-purpose production line, the bulk product and syrup production area and general services;
– investments made by Sella & Mosca S.p.A., totalling € 757 thousand, for the purchase of agricultural machinery and miscellaneous equipment.

Investments in other tangible fixed assets, amounting to € 6,518 thousand, were primarily attributable to the Parent Company, and included:

– fixed assets in progress at 31 December 2006 relating to building work on the new headquarters in Sesto San Giovanni (€ 1,518 thousand), investments in the Novi Ligure facility (€ 1,569 thousand), and investments in Crodo (€ 893 thousand);
– investments in plant and laboratory equipment and apparatus of € 491 thousand.

The change in the basis of consolidation, of € 4,737 thousand, was due to the acquisition of Glen Grant, which included the distillery's land, buildings and machinery.

Reclassifications for the period, amounting to € 3,346 thousand, related to the inclusion, under non-current assets classified as held for sale, of the Termoli facility, further to cessation of production at the site and the opening of sales negotiations.

Finally, please note that, for greater clarity, fixed assets in progress are included under the categories to which they relate, depending on the type of investment.

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	55,077	24,314	79,391
Plant and machinery	58,770	719	59,489
Other tangible fixed assets	7,323	81	7,404
	121,170	**25,114**	**146,284**

14. 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 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.

	€/000
Opening book value	16,906
Opening accumulated amortisation	(3,409)
Balance at 31 December 2005	**13,497**
Investments	2,126
Disposals	(3)
Depreciation	(618)
Reclassifications	6
Balance at 31 December 2006	**15,008**
Closing book value	19,271
Closing accumulated amortisation	(4,263)

Investments for the year, amounting to € 2,126 thousand, relate to new vineyards.

As for Sella & Mosca S.p.A, with respect to the application of IAS 41 on the accounting treatment of 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 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, 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 2006, non-productive biological assets totalled € 7,352 thousand (€ 6,907 thousand at 31 December 2005). Agricultural output during the year totalled approximately 56,000 quintals. Given that it was all processed during the year, there were no inventories of this production at the year-end.

15. Investment property

Investment property includes land located near Rome, which has the highest value of the total property.

This item also includes a residual amount relating to eleven apartments and a shop located in the provinces of Milan, Bergamo and Verbania, as well as two rural premises, located in the province of Cuneo.

With the exception of a rented apartment, all the above properties are vacant.

Changes in this item are indicated in the table below.

	€/000
Opening book value	4,586
Opening accumulated amortisation	–
Balance at 31 December 2005	**4,586**
Disposals	(68)
Reclassification under assets available for sale	(500)
Depreciation	(1)
Balance at 31 December 2006	**4,017**
Closing book value	4,017
Closing accumulated amortisation	–

Decreases, amounting to € 500 thousand, were attributable to the reclassification under non-current assets classified as held for sale of the property owned by Teruzzi & Puthod S.r.l., located in San Gimignano, for which sales negotiations are under way.

The reported value of investment property is close to its fair value.

16. Goodwill and trademarks

Changes during the year are indicated in the table below.

	Goodwill € / 000	Trademarks € / 000	Total € / 000
Opening book value	728,219	22,391	750,610
Opening impairment	–	–	–
Balance at 31 December 2005	**728,219**	**22,391**	**750,610**
Change in basis of consolidation	6,360	103,067	109,427
Exchange rate differences and other changes	(43,646)	–	(43,646)
Balance at 31 December 2006	**690,933**	**125,458**	**816,391**
Closing book value	690,933	125,458	816,391
Closing impairment	–	–	–

Intangible assets with an indefinite life are represented by goodwill and trademarks, both deriving from the purchase of companies.

The Group expects to obtain positive cash flow from these assets for an indefinite period of time.

Goodwill and trademarks are not amortised but are subject to impairment tests.

The form taken by these tests is shown in Paragraph 18 - Impairment, below.

In In November 2006, the Group exercised, in advance of the original deadline, a call option enabling it to acquire a further shareholding of 11% in Skyy Spirits, LLC.

The Group's stake in the company thus increased to 100%.

The purchase cost was US$ 62 million (€ 49 million at the exchange rate on the transaction date), including € 46,280 thousand recognised as goodwill.

Note that, in the accounts at 31 December 2005, the put/call option for the purchase of the aforementioned 11% holding in Skyy Spirits, LLC was posted with goodwill of € 43,203 thousand and a corresponding financial payable of € 45,546 thousand.

The change in the goodwill item during the year was, therefore, attributable to the difference between the estimated goodwill value deriving from the recording of the puttable liability at 31 December 2005 and the amount actually paid when the option was exercised.

Exchange rate differences of € 43,646 thousand were due to adjustment of Skyy Spirits, LLC and Campari do Brasil Ltda goodwill to year-end exchange rates.

The change in the basis of consolidation relating to trademarks, amounting to € 103,067 thousand, was attributable to the value of Glen Grant, Old Smuggler and Braemar trademarks, acquired during 2006.

For further information, see Note 7 (Acquisitions).

17. Impairment

The Group ascertains the possibility of recovering the goodwill and trademarks posted to the accounts (impairment test) 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 2006		31 December 2005	
	Goodwill	Trademarks	Goodwill	Trademarks
	€ / 000	€ / 000	€ / 000	€ / 000
Former Bols brands	4,612	1,992	4,612	1,992
Ouzo 12	9,976	7,429	9,976	7,429
Cinzano	51,457	772	51,457	772
Brazilian acquisition	64,298	–	65,941	–
Skyy Spirits, LLC	365,477	–	401,120	–
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
Glen Grant, Old Smuggler and Braemar	–	103,067	–	–
Other	–	877	–	877
	690,933	**125,458**	**728,219**	**22,391**

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.

The projections for operating cash flow are derived from 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.

18. 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	7,790	13,954	21,744
Opening impairment	–	–	–
Opening accumulated amortisation	(5,352)	(12,582)	(17,934)
Balance at 31 December 2005	**2,438**	**1,372**	**3,810**
Investments	1,019	1,105	2,124
Decreases	–	(8)	(8)
Amortisation for the period	(1,288)	(528)	(1,816)
Reclassifications of fixed assets in progress	68	(10)	58
Exchange rate differences and other changes	104	(156)	(52)
Balance at 31 December 2006	**2,341**	**1,775**	**4,116**
Closing book value	7,422	13,097	20,519
Closing impairment	–	–	–
Closing accumulated amortisation	(5,081)	(11,322)	(16,403)

Intangible assets with a finite life were amortised on a straight-line basis in relation to their remaining useful life.

Investments of € 2,124 thousand were mainly attributable to the Parent Company for the purchase of software licenses and for developing the SAP R/3 system, which includes personnel management software, and for the consolidation process and product traceability.

19. Other non-current assets

This item breaks down as follows:

	31 December 2006 € / 000	31 December 2005 € / 000
Financial assets for interest rate swaps	2,882	5,274
Equity investments in other companies	206	237
Security deposits given	1,219	1,104
Receivables from employee benefit funds	205	93
Other receivables (due after 12 months)	3,207	3,296
	7,719	**10,004**

Financial derivatives were 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 € 2,882 thousand, a small amount of which was posted under current financial assets.

For further information, see comments under Note 27 (Financial liabilities).

Receivables from employee benefit funds represent a surplus of assets servicing the plan in respect of the current value of benefit obligations at year-end.

For further information see under Note 30 (Staff severance fund and other pension funds).

Other receivables included a receivable of € 2,966 thousand relating to Core One S.r.l., which in 2003 bought the property located in Via Filippo Turati, Milan, the headquarters of the Parent Company and some Italian subsidiaries.

The receivable, maturing on 30 July 2008, bears interest at market rates.

20. Inventories

This item breaks down as follows:

	31 December 2006 € / 000	31 December 2005 € / 000
Raw materials, supplies and consumables	24,006	25,969
Work in progress and semi-finished products	66,129	47,418
Finished products and goods for resale	79,737	61,895
	169,872	**135,283**

The increase in this item was primarily due to the change in the basis of consolidation.

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

	€ / 000
Balance at 31 December 2005	**3,692**
Provisions	1,828
Amounts used	(447)
Change in basis of consolidation	–
Exchange rate differences and other changes	(897)
Balance at 31 December 2006	**4,176**

21. Trade receivables and other receivables

This item breaks down as follows:

	31 December 2006 € / 000	31 December 2005 € / 000
Trade receivables		
Trade receivables from external customers	223,014	218,897
Trade receivables from affiliated companies	6,903	6,319
Receivables in respect of contributions to promotional costs	27,203	12,201
	257,120	**237,416**
Other receivables		
Pre-payments and other receivables from suppliers	17,302	3,163
Tax credits	9,609	12,160
Receivables from agents and miscellaneous customers	2,312	2,628
Pre-paid expenses	5,813	1,440
Short-term financial receivables from affiliates and joint ventures	2,499	2,446
Other	3,730	2,407
	41,265	**24,244**

All the receivables shown above are due within twelve months.

Their book value is considered to be close to their fair value.

Trade receivables, amounting to € 237,416 thousand at 31 December 2005 and € 257,120 thousand at 31 December 2006, were up by € 19,704 thousand and were the result of a rise in income. They are shown net of year-end bonuses and payables for promotional costs: this is consistent with the recording of revenues to the profit and loss account.

In addition, this item is reported net of the related provision for write-downs, which reflects the actual risk of uncollectibility.

At 31 December 2006, pre-payments and other receivables from suppliers included a pre-payment of € 13,000 thousand, paid by the Parent Company for a contract stipulated at year-end for the design and build of the new Sesto San Giovanni headquarters, as well as the sum of € 1,219 thousand in relation to town planning standards for the Sesto San Giovanni site.

The following table indicates the changes in bad debt provisions during the period:

	€ / 000
Balance at 31 December 2005	**4,389**
Provisions	1,763
Amounts used	(491)
Exchange rate differences and other changes	(177)
Balance at 31 December 2006	**5,484**

22. Short-term financial receivables

This item breaks down as follows:

	31 December 2006 € / 000	31 December 2005 € / 000
Net accrued swap interest income / expense on bonds	(84)	3.139
Valuation at fair value of instruments used to hedge private placement	6	6
Valuation at fair value of forward contracts	1,093	–
Other financial assets and liabilities	10	5
	1,025	**3,150**

The accrued income relates to accrued interest on financial instruments used to hedge bonds and the private placement.

In addition, this item includes 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.

The portion of this item relating to cash flow hedging transactions that had not yet been generated has been allocated directly to shareholders' equity, net of the related tax effect.

For further information, see Note 27 (Financial liabilities).

23. Cash, bank and securities

This item breaks down as follows:

	31 December 2006 € / 000	31 December 2005 € / 000
Bank current accounts and cash	103,385	31,362
Term deposits	135,590	186,137
Securities readily convertible to cash	–	27,561
Cash and cash equivalents	**238,975**	**245,061**
Other securities	1,325	2,474
Total cash, banks and securities	**240,300**	**247,535**

The amount booked in the accounts for this item is in line with the fair value at the reporting date.

The "cash and cash equivalents" item consists of bank current accounts and other sight deposits held at leading banks 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.

Other securities mainly include short-term or marketable securities representing a temporary investment of cash, but which do not satisfy all the requirements for classification under cash and cash equivalents.

In particular, the item includes SICAVs and other securities, all maturing within one year.

24. 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 € 78 thousand at 31 December 2005 and € 3,918 thousand at 31 December 2006.

The increase in 2006 is attributable to the inclusion in this item of:

– the facility at Termoli, currently the subject of advanced-stage sale negotiations, where following an industrial reorganisation launched in 2003, production was never resumed. The € 3,340 thousand booked in the accounts for this item at 31 December 2006 is the estimated realisable value of the building, net of related sale expenses. The adjustment to this figure involved a write-down of € 927 thousand, included under the item "other one-offs: charges and income";

– the building owned by Teruzzi & Puthod S.r.l., in San Gimignano, with book value of € 500 thousand.

25. Shareholders' equity

For information on the composition and changes in shareholders' equity for the periods under review, please refer to "changes in shareholders equity".

Share capital

At 31 December 2006, the share capital was made up of 290,400,000 ordinary shares with a nominal value of € 0.10 each.

Outstanding shares and own shares

The table below shows the reconciliation between the number of shares outstanding at 31 December 2004 and 31 December 2006.

	Number of shares			Nominal value		
	31 December 2006	31 December 2005	31 December 2004 (*)	31 December 2006 €	31 December 2005 €	31 December 2004 (*) €
Outstanding shares at the beginning of the period	281,356,013	281,048,090	280,400,000	28,135,601	28,104,809	28,040,000
Purchases for the stock option plan	–	(193,800)	(1,231,330)	–	(19,380)	(123,133)
Sales	7,693,440	501,723	1,879,420	769,344	50,172	187,942
Outstanding shares at the end of the period	289,049,453	281,356,013	281,048,090	28,904,945	28,135,601	28,104,809
Total own shares held	**1,350,547**	**9,043,987**	**9,351,910**	**135,055**	**904,399**	**935,191**
Own shares as a % of share capital	0.5%	3.1%	3.2%			

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

In 2006, 5,693,440 own shares were sold (book value: € 17,650 thousand) as the result of the exercise of stock options.

In addition, 2,000,000 own shares were sold on the market (book value: € 6,217 thousand), resulting in a capital gain of € 9,082 thousand, which was allocated directly to shareholders' equity.

Note that a further 1,350,000 own shares were sold on the market in February 2007.

Dividends paid and proposed

The table below shows the dividends approved and paid in 2006 and 2005, and dividends subject to the approval of the shareholders' meeting to approve the accounts at 31 December 2005:

	Total amount		Dividend per share	
	2006 € / 000	2005 € / 000	2006 (€)	2005 (€)
Dividends approved and paid during the year on ordinary shares	28,136	28,105	0.100	0.100
Dividends proposed on ordinary shares	29,040 (*)	28,136	0.100	0.100

(*) Calculated on the basis of outstanding shares at the date of the Board of Directors meeting on 20 March 2007.

Other reserves

This item breaks down as follows:

	Stock option € / 000	Cash flow hedging € / 000	Conversion of accounts in foreign currencies € / 000	Total € / 000
Balance at 31 December 2005	**1,428**	**(193)**	**13,207**	**14,442**
Cost of stock options for the year	2,092			2,092
Profits (losses) reported in the profit and loss account		207		207
Profits (losses) allocated to shareholders' equity		4,112		4,112
Tax effect reported in the profit and loss account		(14)		(14)
Tax effect allocated to shareholders' equity		(1,112)		(1,112)
Conversion difference			(24,047)	(24,047)
Balance at 31 December 2006	**3,520**	**3,000**	**(10,840)**	**(4,320)**

The stock option reserve contains the provision made as a contra entry for the cost reported in the profit and loss account for stock options allocated. The provision is determined based on the fair value of the options established using the Black-Scholes model.

At 31 December 2005 and 31 December 2006, the reserve stood at € 1,428 thousand and € 3,520 thousand respectively.

For information on the Group's stock option plans, see Note 35 (Stock option plans).

The hedging reserve contains amounts (net of the related tax effect) pertaining to changes resulting from fair value adjustments of financial derivatives recorded using the cash flow hedging methodology.

For further information, see Note 29 (Financial instruments).

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

26. Minority interests

The minorities portion of shareholders' equity, which was € 1,895 thousand at 31 December 2006 and € 2,215 thousand at 31 December 2005, relates to the following fully-consolidated companies:

	31 December 2006 minorities %	31 December 2005 minorities %
Qingdao Sella & Mosca Winery Co. Ltd.	6.33%	6.33%
O-Dodeca B.V.	25.00%	25.00%
Longhi & Associati S.r.l.	–	30.00%
Skyy Spirits, LLC	–	0% (*)

(*) This figure became zero following the exercise of the put / call options whereby the Group acquired the 11% of the company owned by minority shareholders.

27. Financial liabilities

The table below shows a breakdown of the Group's financial liabilities, together with effective interest rates and maturities.

	Effective interest rate (*)	Maturity	31 December 2006 € / 000	31 December 2005 € / 000
Non-current liabilities				
Bond and private placement				
Private placement	6 month US$ LIBOR + 60/87 basis points	July 2012	116,974	143,150
Bonds	6 month € LIBOR + 60 basis points	July 2015 - 2018	205,725	231,406
			322,699	**374,556**
Other non-current liabilities				
Payables to banks	1 month LIBOR + 20 basis points	2008 - 2009	1,184	26,749
Real estate lease payables	3 month € LIBOR + 60 basis points	February 2012	15,998	19,037
Financial liabilities for cross currency swap on bond			50,738	28,438
Puttable liability Skyy Spirits, LLC			–	45,546
Other financial payables	Fixed rate 1.85% – 4.60%	2008 - 2015	2,222	3,042
			70,142	**122,812**
Current liabilities				
Payables to banks (**)	1 month US$ LIBOR + 20 basis points	March 2007	209,273	112,839
Other financial payables				
Real estate lease payables (current portion)	3 month € LIBOR + 60 basis points	2007	3,091	3,070
Bonds (current portion)	6 month US$ LIBOR + 60/87 basis points 6 month € LIBOR + 60 basis points	July 2007	9,291	3,308
Accrued interest on bonds	6 month US$ LIBOR + 60/87 basis points 6 month € LIBOR + 60 basis points	January 2007	8,372	9,402
Other financial payables	Fixed rate 1.85% – 4.60%	2007	849	912
Valuation of forward contracts at fair value			–	501
			21,603	**17,193**

(*) The effective interest rate of the private placement and bond take into account the related derivative hedging agreements.
(**) The figure at 31 December 2006 includes payables in currencies other than euro of US$ 49,623 thousand (€ 37,679 thousand).

Bond and private placement

The item "bonds" includes the liability relating to the bond issue with a nominal value of US$ 300 million placed by the Parent Company in the US institutional market in 2003.

The transaction was structured in two tranches of US$ 100 million and US$ 200 million, maturing in 12 and 15 years respectively, with a bullet repayment at maturity.

Coupons, which are to be paid semi-annually, bear interest at a fixed rate. Using a cross currency swap hedging instrument, whose maturity coincides with that of the bond being hedged, the risk related to exchange rate fluctuations of the US dollar was neutralised, and the US dollar-based fixed interest rate was changed to a variable euro rate.

In addition, in early 2006, the Group fixed the rate on a portion of the liability.

However, with the aim of benefiting from low short-term interest rates for a longer period, a forward starting interest rate swap was taken out, whereby a fixed rate will be paid on part of the residual liability from July 2008.

For further information, see Note 29 (Financial instruments).

The difference in the bond amount reported at 31 December 2006 versus a year earlier was entirely due to the change in fair value.

The item "private placement" includes the liability relating to a bond issue with a nominal value of US$ 170 million placed by Redfire, Inc. in the US institutional market in 2002.

The transaction was structured in three tranches of US$ 20 million, US$ 50 million and US$ 100 million, maturing in 7 years (average life of 5 years) and 10 years (average life of 7.5 years), and in 10 years with a bullet payment, respectively.

Coupons, which are to be paid semi-annually, bear interest at a fixed rate.

Using an interest rate swap hedging instrument, whose maturity coincides with that of the private placement, the fixed interest rate changed to a variable rate.

For further information on hedging, please refer to Note 29 (Financial instruments).

The current portion of the private placement, which is included in financial liabilities under current liabilities, was € 9,291 thousand (US$ 12,333 thousand).

Payables to banks

At 31 December 2005, the non-current portion of payables to banks (€ 26,749 thousand) mainly consisted of the medium / long-term credit line of US$ 30 million (expiring in 2007) taken out by Redfire, Inc. to finance the purchase of 30.1% of Skyy Spirits, LLC in February 2005; at 31 December 2006, this liability was reclassified under short-term bank debt.

At 31 December 2006, the non-current portion of payables to banks also included the residual amount of two medium / long-term bank loans taken out by Société Civile du Domaine de la Margue and Koutsikos Distilleries S.A. of € 584 thousand and € 600 thousand respectively.

The current portion of payables to banks (€ 209,273 thousand) relates to the portion of the two aforementioned loans and the short-term credit lines and other loans used mainly by the Parent Company and by Redfire, Inc. and Di.Ci.E. Holding B.V.

Puttable liability Skyy Spirits, LLC

This item includes the puttable liability relating to the reporting in the accounts at 31 December 2005 of the put / call option for the purchase of 11% of Skyy Spirits, LLC.

At 31 December 2006, this item is reported as zero following the exercise of the option to purchase 11% Skyy Spirits, LLC in November 2006 for US$ 62 million (€ 49 million at the exchange rate in force on the date of the transaction), fully paid in cash at the time of the acquisition.

Other financial payables

Other financial payables include 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 Parent Company loan agreement with the industry ministry, for repayment in 10 annual instalments starting in February 2006.

Valuation of forward contracts at fair value

At 31 December 2005, this item related 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.

The portion of this item relating to the hedging of cash flows that had not been generated has been allocated directly to shareholders' equity, net of the related tax effect.

28. Net debt

As required by the Consob communication of 28 July 2006, and in accordance with the recommendation of the Committee of European Securities Regulators (CESR) of 10 February 2005 (Recommendations for the consistent implementation of the European Commission's regulations on prospectuses), the Group's debt position at 31 December 2006, compared with a year earlier, is set out below.

	31 December 2006 € / 000	31 December 2005 € / 000
Cash, bank and securities	240,300	247,535
Payables to banks	(209,273)	(112,839)
Real estate lease payables	(3,091)	(3,070)
Private placement and bond	(17,740)	(9,565)
Other financial payables	254	(1,413)
Short-term debt	**10,450**	**120,648**
Payables to banks	(1,184)	(26,749)
Real estate lease payables	(15,998)	(19,037)
Private placement and bond	(370,555)	(397,720)
Other financial payables	(2,222)	(3,042)
Medium/long-term debt	**(389,959)**	**(446,548)**
Debt resulting from operating activities	**(379,509)**	**(325,901)**
Puttable liability Skyy Spirits, LLC	–	(45,546)
Net debt	**(379,509)**	**(371,446)**

For full information on the above items, please refer to notes 22, 23 and 27, and to the Report on operations.

29. 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 2006 € / 000	31 December 2005 € / 000	31 December 2006 € / 000	31 December 2005 € / 000
Financial investments				
Cash and bank	238,975	217,500	238,975	217,500
Marketable securities	1,325	30,035	1,325	30,035
Financial liabilities				
Payables to banks	(210,457)	(139,588)	(210,457)	(139,588)
Real estate lease payables	(19,089)	(22,107)	(19,089)	(22,107)
Bonds	(256,463)	(259,844)	(256,463)	(259,844)
Private placement	(123,377)	(141,178)	(123,377)	(141,178)
Accrued interest on bonds	(8,455)	(6,263)	(8,455)	(6,263)
Puttable liability Skyy Spirits, LLC	–	(45,546)	–	(45,546)
Other debt	(3,071)	(3,954)	(3,071)	(3,954)
Other financial assets and liabilities	1,103	(501)	1,103	(501)
Total	**(379,509)**	**(371,446)**	**(379,509)**	**(371,446)**

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, the fair value corresponds to their nominal value since these items 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 December 2006	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	238,975	–	–	–	–	–	238,975
Marketable securities	1,325	–	–	–	–	–	1,325
Financial investments for forward contracts	1,103	–	–	–	–	–	1,103
Financial liabilities							
Liabilities and payables to banks	(205,704)	(3,561)	(116)	(721)	(67)	(288)	(210,457)
Bonds (*)	(4,711)	–	–	–	–	(256,463)	(261,174)
Private placement	(22,390)	(9,365)	(6,328)	(6,328)	(82,712)	–	(127,123)
Other financial liabilites Property leases	(3,091)	(3,132)	(3,192)	(3,277)	(3,365)	(3,031)	(19,088)
Other financial payables	(494)						(494)
Projected net cash flows	**5,013**	**(16,058)**	**(9,636)**	**(10,326)**	**(86,144)**	**(259,782)**	**(376,933)**
FIXED RATE							
Other financial payables	**(354)**	**(334)**	**(344)**	**(325)**	**(331)**	**(888)**	**(2,576)**

(*) In 2006 a forward starting interest rate swap was taken out to fix the interest rate from 2008 on the residual amount of the debt at 4.25% for half of the tranche maturing in 2015, and at 4.36% for three-quarters of the tranche maturing in 2018.

31 December 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							
Current accounts at banks and term deposits	217,500	–	–	–	–	–	217,500
Marketable securities	30,035	–	–	–	–	–	30,035
Financial liabilities							
Liabilities and payables 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)
Puttable liability Skyy Spirits, LLC	–	(45,546)	–	–	–	–	(45,546)
Projected net cash flows	**121,560**	**(84,233)**	**(13,780)**	**(14,430)**	**(10,458)**	**(366,155)**	**(367,496)**
FIXED RATE							
Other financial payables	**(912)**	**(802)**	**(335)**	**(345)**	**(325)**	**(1,232)**	**(3,950)**

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.

Hedging transactions

Cash flow hedging

At 31 December 2006, 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$	15,015	31/10/07	1.24
CHF	4,855	31/01/08	1.48
Forward contracts to hedge cash flows for future purchases			
Purchases			
US$	2,765	31/05/07	1.32

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 gain of € 873 thousand was suspended in shareholders' equity reserves, net of the related deferred tax effect.

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 2006.

An interest rate swap with a total notional amount of US$ 162 million and a cross currency swap on interest and exchange rates with a total notional amount of US$ 300 million were used respectively as hedging instruments for the private placement and bond mentioned above. The maturities are the same as the underlying debt in each case.

As regards the derivatives contracts entered into in relation to the Parent Company's bond issue, in anticipation of a rise in interest rates, at the beginning of the year the Group fixed the rate on a portion of the liability with a longer residual life.

However, to take advantage of low short-term interest rates for a longer period, a forward starting rate swap was taken out to fix interest payments, from July 2008, at 4.25% for half of the tranche maturing in 2015 and at 4.36% for three-quarters of the tranche maturing in 2018.

In accordance with international accounting standards, for the period up to July 2008, all hedging instruments are valued using the fair value hedge method, while for the period from July 2008 until the bonds mature, the cash flow hedge method is used for the portion of the liability on which a fixed rate is paid.

These hedging instruments (the interest rate swap on the private placement and the cross currency swap on the Parent Company's bond) were valued at fair value and the relevant changes were 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.

The change in the fair value of these instruments reported in the profit and loss account in 2006 was negative to the tune of € 215 thousand.

In addition, at 31 December 2006 the Parent Company's cross currency swap and forward starting interest rate swap had a negative fair value of € 50,738 thousand, reported under non-current financial liabilities, while the interest rate swap taken out by Redfire, Inc. had a positive fair value of € 2,888 thousand, reported under non-current and current financial liabilities.

The cash flow hedge relating to the Parent Company's bond met the requirements for effectiveness, and an unrealised gain of € 3,174 thousand was suspended in shareholders' equity reserves, net of the related deferred tax effect of € 1,047 thousand.

30. Staff severance fund and other pension funds

Group companies provide post-employment benefits for staff, both directly and by contributing to external funds.

The procedures for providing these funds vary according to the legal, fiscal and economic conditions in each country in which the group operates.

Group companies provide post-employment benefits through defined-contribution and defined-benefit plans.

For defined-contribution plans, Group companies pay contributions to private pension funds and social security institutions, based on either legal or contractual obligations, or on a voluntary basis.

The companies fulfil all their obligations by paying the said contributions.

At the end of the financial year, any liabilities for contributions to be paid are included in the "other current liabilities" item; the cost pertaining to the financial year is reported according to function in the profit and loss account.

Defined benefit plans may be unfunded or fully or partially funded by contributions paid by the company, and sometimes by its employees, to a company or fund which is legally distinct from the company and which pays out benefits to employees.

The defined benefit plans to which the Group contributes consist mainly of the staff severance fund (TFR), to which employees of Italian companies are entitled by law.

The amount payable reflects the severance payment that accrues to employees in Italy over the course of their working lives, and is liquidated when the employee leaves the company. Under certain circumstances, it may be partially paid to employees in advance, during the course of their working lives.

This is an unfunded defined benefit plan, and therefore does not hold any dedicated assets.

In addition, Group companies registered under German and French law have some plans of the same type for their current or former employees.

These plans have the benefit of dedicated assets.

The liability related to the Group's defined benefit plans, which is calculated on an actuarial basis using the projected unit credit method, is reported on the balance sheet, net of the fair value of any dedicated assets.

In cases where the fair value of dedicated assets exceeds the value of the post-employment benefit obligation, and where the Group has the right to reimbursement or to reduce its future contributions to the plan, the surplus is reported as an asset, in accordance with IAS 19.

The following table provides details of the staff severance fund in the last four financial years:

	Staff severance fund			
	31 December 2006	31 December 2005	31 December 2004	31 December 2003
	€ / 000	€ / 000	€ / 000	€ / 000
Defined benefit obligations	12,631	12,534	13,534	12,958

The following table provides details of other defined-benefit plans, which are financed by dedicated assets, in the last four financial years:

	Other plans			
	31 December 2006	31 December 2005	31 December 2004	31 December 2003
	€ / 000	€ / 000	€ / 000	€ / 000
Defined benefit obligations	2,405	1,754	1,690	1,061
Assets dedicated to the plan (–)	(2,610)	(1,165)	(1,055)	(1,584)
Plan surplus (deficit)	(205)	589	635	(523)

The following table provides details of the net cost of defined-benefit plans reported in the profit and loss account in 2006 and 2005:

	Staff severance fund 2006	Staff severance fund 2005	Other plans 2006	Other plans 2005
	€ / 000	€ / 000	€ / 000	€ / 000
Current service cost	2,275	1,727	–	–
Financial charges	447	468	(95)	143
Net actuarial (gains) / losses	(255)	(402)	105	55
	2,467	**1,793**	**10**	**198**

The following table reports changes in the present value of defined-benefits obligations in 2006 and 2005:

	Staff severance fund 2006 € / 000	Staff severance fund 2005 € / 000	Other plans 2006 € / 000	Other plans 2005 € / 000
Present value at 1 January	12,534	13,534	1,754	1,690
Current service cost	2,275	1,727	–	–
Benefits paid	(2,510)	(2,793)	(124)	(134)
Financial charges	447	468	(95)	143
Actuarial gains (losses)	(255)	(402)	105	55
Other changes	140		765	
Present value at 31 December	**12,631**	**12,534**	**2,405**	**1,754**
Dedicated assets deducted directly from the obligation	–	–	(2,405)	(1,072)
Staff severance fund and other pension funds at 31 December	**12,631**	**12,534**	**–**	**682**

The following table shows the changes in the fair value of dedicated assets in defined-benefit plans in 2006 and 2005:

	Other plans 2006 € / 000	Other plans 2005 € / 000
Present value at 1 January	1,165	1,055
Contributions from participating employees	1,427	–
Benefits paid	–	(100)
Actuarial gains (losses)	18	210
Present value at 31 December	**2,610**	**1,165**

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

	Staff severance fund 31 December 2006	Staff severance fund 31 December 2005	Staff severance fund 31 December 2004	Other plans 31 December 2006	Other plans 31 December 2005	Other plans 31 December 2004
Discount rate	4.0%	4.0%	4.5%	3-6%	3-6%	3-6%
Future salary increases	3.0%	3.0%	3.0%	1.5%	1.5%	1.5%
Future pension increases	1.3%	1.2%	1.6%			
Expected yield from dedicated assets						
Staff turnover rate	5.0%	5.0%	5.0%			
Inflation rate	1.5%	1.5%	2.0%			

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

31. Reserves for risks and future liabilities

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 2006	**644**	**2,171**	**2,140**	**5,160**	**10,115**
Provisions	372	5,370	221	1,777	7,740
Amounts used	–	(1,953)	(1,248)	(1,343)	(4,544)
Releases	(370)	–	–	(1,891)	(2,261)
Exchange rate differences and other changes	–	–	12	(70)	(58)
Effects of discounting	–	–	(62)	–	(62)
Balance at 31 December 2006	**646**	**5,588**	**1,063**	**3,633**	**10,930**
of which, projected disbursement:					
due within 12 months	379	5,588	–	1,782	7,749
due after 12 months	267	–	1,063	1,851	3,181

The "reserve for industrial restructuring" includes a provision made by the Parent Company in 2002 to cover a programme to restructure the Group's industrial sites.

At 31 December 2006, the reserve totalled € 218 thousand, and € 1,953 thousand was used during the financial year.

The provision for the financial year amounts to € 5,370 thousand, and refers primarily to the estimated direct cost of plans to stop production at the Sulmona plant.

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 2006, the "other reserves" item includes the estimated liability for miscellaneous lawsuits and for reorganisation and restructuring.

Lastly, during the final quarter of 2006, local tax authorities in Brazil issued an assessment of the indirect tax on alcohol production (IPI) owed by Campari do Brasil Ltda. in the 2002 tax year, valuing the liability at BRL 19,508 thousand.

The Group, in consultation with its legal advisers, believes there are no grounds for the findings contained in this assessments, and therefore considers that this measure will not result in liabilities for the companies.

As a result, no provisions were made for this item on the balance sheet at 31 December 2006.

32. Trade payables and other current liabilities

This item breaks down as follows:

	31 December 2006 € / 000	31 December 2005 € / 000
Trade payables to external suppliers	160,493	148,195
Trade payables to affiliated companies	1,414	2,004
Payables to suppliers	**161,907**	**150,199**
Other current liabilities		
Payroll	16,237	15,745
Amounts due to agents	4,824	5,836
Deferred income	3,958	3,368
Deferred realised capital gains	4,119	4,942
Unconfirmed contributions received	2,188	2,020
Other	5,000	2,844
	36,326	**34,754**

The item “deferred realised capital gains” refers to an adjustment to the Parent Company’s capital gains from the sale of the property in Via Filippo Turati in Milan, and takes into account expected future charges.

At 31 December 2006, the portion of the amount due in over 12 months comes to € 3,296 thousand.

The payable for “unconfirmed 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 to contributions received for vineyard equipment during the pre-production phase.

These contributions will be confirmed only after the equipment has been tested, and will then be reported in the profit and loss account based on the useful life of the equipment.

33. Capital grants

The following table provides details of changes in deferred income related to capital grants between one financial year and the next.

	2006 € / 000	2005 € / 000
Amounts included in deferred income at 1 January	2,154	2,486
Amounts received during the period	875	110
Amounts posted to the profit and loss account	(234)	(443)
Amounts included in deferred income at 31 December	**2,795**	**2,153**

34. Payables to tax authorities

This item breaks down as follows:

	31 December 2006 € / 000	31 December 2005 € / 000
Corporate income tax	10,385	2,316
Value-added tax	3,824	7,742
Tax on alcohol production	10,557	13,477
Withholding and other taxes	1,934	1,523
	26,699	**25,058**

Corporate income tax payable is shown net of advance payments and taxes withheld at source. These payables are all due within 12 months.

35. Stock option plan

Pursuant to Consob resolution 11971 of 14 May 1999 as amended, and Consob communication 11508 of 15 February 2000, the following information is provided on the stock option plan (the “Plan”) approved by the Board of Directors of Davide Campari-Milano S.p.A. on 15 May 2001, which incorporated the framework plan for the general regulation of stock options for the Campari Group, approved by the shareholders’ meeting on 2 May 2001.

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.

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.

The first allocation of options made in July 2001 was unconditional and enabled beneficiaries to exercise options on the day after the plan's expiry, i.e. 30 June 2006 (the partial exercise of options was not allowed). The subscription price corresponded to the IPO price.

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.

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 exercise periods will be between November 2009 and 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.

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.

On 1 July 2006, the stock options granted to employees and directors of the Group in July 2001 were exercised.

In total, 5,693,440 options were exercised, at the unit price of € 3.10.

In 2006, new allocations of stock options were approved, which may be exercised in certain monthly windows between July 2011 and July 2013.

The number of options granted for the purchase of further shares was 5,570,554, with the average allocation price at € 7.64, equivalent to the weighted average market price in the month preceding the day on which the options were granted.

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

	2006		2005	
	Number of shares	Average allocation/ exercise price (€)	Number of shares	Average allocation/ exercise price (€)
Options outstanding at the beginning of the period	12,074,197	3.72	12,007,160	3.51
Options granted during the period	5,570,554	7.64	852,177	6.10
(Options cancelled during the period)	–	–	(283,417)	3.58
(Options exercised during the period) (**)	(5,693,440)	3.10	(501,723)	3.16
(Options expired during the period)	–	–	–	–
Options outstanding at the end of the period (*)	11,951,311	5.84	12,074,197	**3.72**
of which, those that can be exercised at the end of the period.	–	–	–	–

(*) At 31 December 2005, includes 5,639,440 options for which the cost was not recognised on the basis of IFRS 2, since they were allocated before 7 November 2002; these options were all exercised in 2006.

(**) The average market price on the exercise date was € 8.10 in 2006 (€ 5.88 in 2005).

The average remaining life of outstanding options at 31 December 2006 was 3.6 years (2.18 years at 31 December 2005).

The exercise price interval for these options was from € 3.98 to € 7.77.

The average fair value of options granted during the year was € 2.37 (€ 1.07 in 2005).

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 the risk-free rate.

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	
	2006	2005	2006	2005
Balance at 1 January	**9,043,987**	**9,351,910**	**29,289,471**	**29,779,604**
Purchases	–	193,800	–	1,095,355
Sales	(7,693,440)	(501,723)	(23,867,101)	(1,585,488)
Balance at 31 December	**1,350,547**	**9,043,987**	**5,422,370**	**29,289,471**
% of share capital	0.465%	3.114%		

36. 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 lessee

The following table shows the amounts owed by the Group in future periods for leases on personal property.
31 December 2006

	31 December 2006 Minimum future payments € / 000
Under one year	2,681
One to five years	4,364
Over five years	–
	7,045

The amount reported in the table refers to leases on cars, computers and other electronic equipment.

Non-cancellable finance leases with the Campari Group as lessee

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 2006	
	Minimum future payments € / 000	Present value of future payments € / 000
Under one year	3,067	3,539
One to five years	15,959	17,016
Over five years	–	
Total minimum payments	19,026	
Financial charges	1,529	
Present value of minimum future payments	**20,555**	**20,555**

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

These commitments totalled € 2.1 million, and all expire within the year.

Other commitments

The Group's other commitments for purchases of goods or services primarily consist of:

- purchases of raw materials relate to commitments to purchase 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;
- purchases of raw materials relating to packaging and consumables;
- leases and rentals related to leasing liabilities amounting to € 9.1 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 Parent Company and the Italian subsidiaries;
- sponsorship contracts.

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 € 972 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 in the shape of customs bonds for excise taxes totalling € 49,618 thousand at 31 December 2006 (€ 43,521 thousand at 31 December 2005) and other guarantees totalling € 5,923 thousand.

37. 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 43% of the Group's consolidated net sales in 2006 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 relation to the US dollar and the Brazilian real.

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 S.A.M., 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.

Variable rates apply to 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) and financial assets.

This exposes the Group to the risk of rate fluctuations.

In addition, as regards the derivatives contracts entered into in relation to the Parent Company's bond, at the beginning of 2006 the Group fixed the rate on a portion of the liability with a longer residual life, in anticipation of a rise in interest rates.

However, in order to benefit from a period of low short-term interest rates, a forward starting interest rate swap was taken out, whereby a fixed rate will be paid, from July 2008, on part of the residual liability relating to the bond issue.

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 represent a very low 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.

38. 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.

Dealings with related parties are entered into solely with affiliated companies and joint venture companies.

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.

In compliance with the requirements of Consob Communication 6064293 of 28 July 2006, the following table details the amounts of trade and financial transactions entered into with related parties.

	31 December 2006				2006			
	Trade receivables	Trade payables	Financial receivables	Other	Sale of merchandise	Trade allowances	Financial receivables	Other
Fior Brands Ltd.	1,318	(448)	1,492	9	3,426	(1,573)	68	67
International Marques V.o.f.	719	(164)	–	–	3,603	(1,334)	–	53
M.C.S. S.c.a.r.l.	2,285	(482)	1,007	5	6,996	(2,422)	37	46
SUMMA S.L.	2,581	(321)	–	–	6,977	(2,877)	–	(398)
	6,903	**(1,415)**	**2,499**	**14**	**21,002**	**(8,206)**	**105**	**(233)**
Percentage of related item in the accounts	3%	1%	6%	0%	2%	5%	1%	0%

	31 December 2005				2005			
	Trade receivables	Trade payables	Financial receivables	Other	Sale of merchandise	Trade allowances	Financial receivables	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**
Percentage of related item in the accounts	3%	1%	10%	0%	2%	6%	1%	0%

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

	2006 € / 000	Full year 2005 € / 000
Short-term benefits	4,649	3,309
Post-employment benefits (staff severance fund)	18	18
	4,667	**3,327**

39. Employees

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

	2006	2005
Production	721	713
Sales and distribution	570	501
General	314	323
Total	**1,605**	**1,536**

	2006	2005
Managers	100	83
Clerical	885	844
Manual	620	609
Total	**1,605**	**1,536**

	2006	2005
Italy	898	869
Abroad	707	667
Total	**1,605**	**1,536**

40. Events taking place after the end of the year

Industrial restructuring

On 10 January 2007, the Group announced its decision to end production at its plant in Sulmona and transfer the plant's activity to other production sites.

The Sulmona plant became a unit of the Campari Group when the latter acquired Bols in 1995.

However, although investments were made and production activities were transferred there, the plant has never reached a sustainable level of efficiency, even after efforts made to find new production opportunities for the Group or third parties.

Following a drastic resizing of the ready-to-drink category and the decline of the market for non-alcoholic carbonated drinks, use of its production lines has fallen to a level that makes it impossible for the business to continue.

The Company has already given assurances of its willingness to co-operate with workers' representatives to identify a specific programme of alternative and support measures, in line with its tradition of industrial relations aimed at mitigating the social consequences of justified business decisions, and in order to minimise the impact on Group employment levels.

This programme – which will be discussed at the appropriate time – may also include a proposal to transfer re-deployable workers to other production facilities, and the creation on site of an outplacement and professional re-training programme to minimise the impact of a painful but inevitable decision.

New trading company in China

In the first quarter of the current year, the Campari Beijing Trading Company commenced operations. This new trading company, which is 100% owned by the Campari Group, currently has its headquarters in Beijing and will soon open a second office in Shanghai.

The new company, created to capture the Chinese market's huge potential, will distribute the Group's wines and spirits through two separate sales operations specialised in the two business areas.

With respect to the wine business, Campari Beijing Trading Company will distribute the local products of Qingdao Sella & Mosca Winery Co. Ltd. (which is 93.67% owned by the Group), as well as imported Sella & Mosca, Chateau Lamargue and Teruzzi & Puthod wines.

New company in Argentina

In relation to the acquisition of Old Smuggler (an integral part of the Glen Grant transaction), the Group entered into two separate agreements: one agreement to acquire the brand in Argentina, and one for the rest of the world, which became operational on the completion date of 15 March 2006.

Following the recent authorisation issued by the local competition regulator, on 12 March 2007 the Group formalised the acquisition of the Old Smuggler brand in Argentina. Consequently, the new company Campari Argentina S.R.L., which had been created in advance as a wholly-owned subsidiary, became operational.

This company imports malt from Scotland and co-ordinates local production and sales of Old Smuggler whisky through a third-party bottler and distributor.

Merger of Glen Grant S.r.l. into the Parent Company

An ongoing process to simplify and streamline the structure of the Group, and also to rationalise and increase the flexibility of its balance sheet and profit and loss profile, has led to the decision to merge Glen Grant S.r.l., the wholly-owned subsidiary that owns the Glen Grant brand, into the Parent Company.

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 new Code of Conduct for Listed Companies ("the New Code") published in March 2006 as its model for corporate governance.

However, this report has been prepared with reference to the previous version of the Code issued in 2002 (the "Previous Code"), as expressly allowed by the Instructions accompanying the Rules for the Markets Organised and Managed by Borsa Italiana S.p.A. and clarified by the Assonime - Borsa Italiana S.p.A. joint communication dated 16 November 2006.

Therefore, in line with the company's previous report, this document follows the guidelines on corporate governance reporting issued by Assonime in February 2004.

The aim of this report is to provide the market and shareholders with complete information on the Company's chosen corporate governance model and on the implementation, during the 2006 financial year, of the recommendations contained in the Previous Code. It also contains a section describing the implementation thus far of the New Code, and indicates measures to be taken during the current year to achieve its full implementation.

Section I - 1. The company's corporate governance model

The Company's choice of a traditional administration and control model, consisting of a Board of Directors and a Board of Statutory Auditors is established in the Articles of Association.

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 as well as the written proxy.

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 company's Articles of Association gives the Board of Directors full powers for the management of the Company.

In accordance with the New Code and article 2381 of the Italian Civil Code, 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 to monitor the adequacy of the company's organisational, administrative and accounting systems.

The Board of Directors also has all possible powers that may be granted 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 of companies 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 in accordance with the procedures set out by applicable laws.

An extraordinary Shareholders' Meeting on 24 April 2006, modifying article 5 of the Articles of Association, also conferred on the Board of Directors, for a period of five years, the power to increase the company's share capital in one or more transactions, against payment or otherwise (and with or without the option to cancel the transaction if it is not fully subscribed), by a total nominal value of up to € 100,000,000.00 (one hundred million), via the issue of new shares; and also the power to issue, in one or more transactions, bonds convertible into shares and/or other securities (different from bonds) that allow the subscription of new shares totalling a nominal value of up to € 100,000,000.00 (one hundred million), but in amounts which, on each occasion, do not exceed legally established limits for bond issues; the said article also establishes the procedures for exercising these powers.

Even though not expressly stated in the Articles of Association, the Board of Directors has exercised the powers set out in article 1.2 of the Previous Code, and now holds the powers set out in article 1.C.1. of the New Code; in particular, the powers to examine and approve the strategic, business and financial plans of the Company and the Group and the corporate governance system and structure of the Group, including the evaluation of the administrative, organisational and accounting structures of the Company and its strategic subsidiaries.

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 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 granted 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 or important trademarks, 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 related 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.

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, at least on a quarterly basis, to the Board of Directors and the Board of Statutory Auditors, on (inter alia) 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 2006.

The company has a specific procedure for carrying out transactions in which the Directors have a personal interest or transactions 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 interest or an interest on behalf of third parties, or any transaction with related parties, with a value of € 1,000.00 or above, the said directors and managers must refrain from completing such transactions, and provide full details thereof to an Executive Director of their company, or, where the party with the interest is an Executive Director, to the relevant 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.

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 ten members.

The list below shows the names of the members of the Board of Directors in post at 31 December 2006, with the job titles of the Executive Directors indicated in italics:

Luca Garavoglia	Chairman non-executive - not independent
Cesare Ferrero	non-executive - independent
Franzo Grande Stevens	non-executive - independent
Paolo Marchesini	Chief Financial Officer (*)
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' names marked with an asterisk have operational roles within the Company and have the title of Managing Director.

Due to the imminent renewal of directors' posts, the independence or otherwise, and executive or non-executive status of each Board member listed above was evaluated according to the principles set out in the Previous Code, as allowed by the joint communication issued by Assonime (the association of Italian limited liability companies) and Borsa Italiana S.p.A. on 16 November 2006.

These Directors, who will remain in their posts until the approval of the accounts for the year ending 31 December 2006, were appointed by the ordinary shareholders' meeting of 29 April 2004.

Pierleone Ottolenghi resigned from his post as Director on 9 November 2006, and the Board of Directors resolved not to replace him, in light of the imminent expiry of the entire board.

According to the Previous Code and 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.

All current Directors were nominated by the majority shareholder.

The Board of Directors deems that its size, composition and functioning during the 2006 financial year has been adequate for the size of the Company, even considering the Company's progressive growth in Italy and on international markets, and that the professional competencies of its members have enabled them to provide valid and effective assistance in orienting and supporting the decisions taken to support this growth.

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.camparigroup.com/investors.

There is no minimum number of Board of Directors' meetings set out in the Articles of Association.

In 2006, six board meetings were held. All Directors attended regularly and the few absences were explained. In 2007 the company expects to hold an equal or greater 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 2006 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.; Chairman of the Board of Auditors of Alberto Lavazza & C. S.A.p.A., Burgo Factor S.p.A., Emilio Lavazza & C. S.A.p.A., ERSEL Finanziaria S.p.A., ERSEL S.I.M. S.p.A., Ferrero S.p.A., FIAT Auto S.p.A., FIDERSEL S.p.A., Giovanni Agnelli & C. S.A.p.A. and I.F.I.L. S.p.A.; Statutory Auditor of Banca Passadore S.p.A., P. Ferrero & C. S.p.A., FIAT 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 Honorary Chairman of 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, RCS MediaGroup S.p.A. and S.E.I. S.p.A.;
– Renato Ruggiero: Vice-Chairman of Citigroup European Investment Bank; Chairman of the International Advisory Board of Unicredit S.pA. and member of the International Advisory Board of Coca-Cola Company.
– 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 Previous Code, the Company has appointed non-executive Directors who, by dint 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 2006, most of the company's directors were non-executive.

These non-executive Directors may also be considered independent, with the exception of Luca Garavoglia and Marco Pasquale Perelli-Cippo.

Therefore, five out of the ten members of the Board are independent.

As explained above, each Director's degree of independence was verified by the Board of Directors according to the principles set out in the Previous Code.

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 2006, and presented the Board of Directors with 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 in 2006 included the Group's structure and organisation chart, the remuneration of executive Directors and the senior management, and the updating of the stock option plan.

The remuneration of executive Directors and senior management is closely linked to the financial results achieved by the Group and individual companies to which they belong.

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 has also set up 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 Previous 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 2006, the Audit Committee examined risk analyses for the recently acquired companies Teruzzi & Puthod S.r.l., Giannina S.r.l., and the Scottish companies acquired with the Glen Grant, Old Smuggler and Braemar brands.

The Committee also carried out risk assessments of Koutsikos Distillery S.A., Kaloyiannys Bros S.A. and Société Civile Immobiliaire du Domaine de Lamargue, and of the procedures for harvesting the muscat grapes used in Asti Cinzano's products.

The Audit Committee also verified recent analyses carried out during the year of previously examined matters regarding the IT systems, the sales unit of Campari do Brasil Ltda. and the sales and credit management units of Campari Italia S.p.A.

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 regular audits, in accordance with the annual audit plan and the updating of the risk assessment for the Group and its subsidiaries.

In accordance with paragraph c) of article 8.C.1. of the New Code, the Board of Directors assesses the adequacy of the composition and size of the Audit Committee in relation to company risks and to the effective functioning of internal controls.

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, who is 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.

Until the entry into effect (on 1 April 2006) of Consob resolution 15232 of 29 November 2005 regarding transactions involving shares in the Company carried out by relevant persons, the Company applied the Code of Conduct on Internal Dealing issued by the Board of Directors on 12 November 2002.

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 replaced the Code of Conduct on Internal Dealing from the above-mentioned date.

Based on these procedures and in accordance with the criteria set out in the aforementioned law, the Audit Committee identifies relevant persons, i.e. persons whose transactions involving shares in the Company must be communicated to the market and Consob where the overall value exceeds € 5,000 in any one year.

According to the procedures, the Head 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 the above-mentioned Consob Regulations.

The Managing Directors thereby put in place procedures that allow this register to be maintained and updated, and the procedures for communicating the registration of persons who regularly or temporarily acquire access to confidential data.

The Company has a Code of Ethics setting out the fundamental values on which its conduct is 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.camparigroup.com/investors.

3.2. Appointment of Directors and Auditors

In view of Legislative Decree 303 of 29 December 2006, which extended to 30 June 2007 the date by which companies must adapt their articles of association to fulfil the requirements of Law 262 of 28 December 2005, and in view of the fact that Consob has not yet issued provisions for the implementation of the new rules, the new Board of Directors and Board of Statutory Auditors will be appointed according to the procedures currently set out in the Articles of Association.

Consequently, although the Directors are appointed by means of a list vote system, candidate lists will not be used for the election of at least one Director representing minority shareholders.

Instead, as required by Legislative Decree 303 of 29 December 2006, each list for the election of a member of the Board of Directors must contain at least two Directors who fulfil the criteria for independence laid down in article 148 of Legislative Decree 58 of 24 February 1998, and in article 3 of the New Code.

Furthermore, as established in article 6.C.1. of the New Code, proposals for the nomination of Directors must be presented on lists, accompanied by a detailed curriculum vitae of each candidate, as well as an attestation of the candidate's suitability with respect to requirements for the post. In accordance with the Regulations currently in force, these lists must be filed at the company's headquarters at least ten days before the date of the shareholders' meeting.

The lists will be published in a timely manner on the Company's website, along with the candidates' curricula vitae. Nominations for the Board of Statutory Auditors are made by means of a list vote system, as required by article 148 of Legislative Decree 58 of 24 February 1998, and by the Articles of Association, in order to allow minority shareholders to appoint a Statutory Auditor and a Deputy Auditor.

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, as set out in article 27 of the Articles of Association, accompanied by the candidates' CVs and by attestations of the candidates' suitability with respect to requirements for the post.

Specifically, all Auditors must also qualify as independent, according to the New Code's requirements regarding Directors.

These lists will also be posted in a timely manner on the Company's website, accompanied by the candidates' CVs.

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 requirements of trustworthiness and professionalism demanded by applicable law, may not be included on the lists.

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 appointed by the Board of Directors on 22 March 2006.

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.

Based on favourable reports from the Audit Committee, the Board of Directors judges that the size and composition of this Committee is adequate, and that the internal audit system is appropriate for providing effective protection against the typical risks arising from the Group's activities and for monitoring its business 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 department, 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.camparigroup.com/investors). This section 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, procedures for the reporting requirements in respect of the Code on Internal Dealing and the Procedures for carrying out transactions in which Directors have a personal interest or transactions with related parties.

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 2006 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: Chairman of the Board of Auditors of Banca Popolare di Milano S.c. a r.l. and Statutory Auditor of Camfin S.p.A.;
– Alberto Giarrizzo Garofalo: Deputy Auditor of Mirato S.p.A.

Since no alternative list was put forward, none of the current Auditors represent 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 five meetings in 2006.

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. Reporting on the application of the New Code

The Board of Directors resolved to adopt the New Code on 8 November 2006.

It has nonetheless been deemed necessary to adopt the code's recommendations gradually over time, specifically over the course of the 2007 financial year, in view of the expiry of the Corporate Officers' posts with the approval of the 2006 financial year accounts, and the issue, scheduled for 31 March 2007, of the implementation regulations for Law 262 of 28 December 2005. These regulations will set limits for the number of additional posts that Corporate Officers may hold at other companies, and for the presentation of candidate lists for the posts of Director of Auditor.

In light of the above and in accordance with Legislative Decree 303 of 29 December 2006, the Board of Directors will modify the Articles of Association in line with the provisions of the above law by 30 June 2007, pursuant to Article 17 of the Articles of Association.

At the same time, the Board of Directors will also specify the procedures for presenting candidate lists for the posts of member of the Board of Directors and Auditor, and more specifically the procedures for the election of the Director and Auditor representing minority shareholders.

As mentioned above, the election of Corporate Officers will proceed in accordance with the laws and regulations in force at the time of the Shareholders' Meeting, supplemented by the recommendations of the New Code, provided that these do not conflict with the Articles of Association.

After the appointment has been made, the Board of Directors will evaluate the independence of its members, and will inform the market of its findings, following a check by the Board of Statutory Auditors on the correct application of the established criteria, as required by article 3.C., points 4 and 5 of the New Code.

Following the appointment, the Board of Statutory Auditors will also verify that its own members fulfil the requirements of independence pursuant to Legislative Decree 58 of 24 February 1998 and the New Code, and will publish its findings in its next corporate governance report.

Subsequently, the Board of Directors must also renew its internal committees, and determine their respective powers based on the duties listed in the New Code and in accordance with the Articles of Association.

For the Internal Audit Committee, the Board of Directors will first establish guidelines for identifying company risks before choosing an executive Director who will oversee this matter. On the said Director's proposal, the Board will appoint a Group Internal Auditor and establish his remuneration.

In view of the limits which Consob will set for corporate officers, during the next financial year the Board of Directors will announce its stance on the maximum number of other positions that members of the Board of Directors may hold as directors or auditors of other companies, in order that these persons may fulfil their roles as directors effectively.

After consulting the Audit Committee, the new Board of Directors will verify and (if necessary) update the established procedure for carrying out transactions in which the Directors have a personal interest or transactions with related parties, and also define the criteria for identifying such transactions in the light of the New Code. The Internal Audit Committee will be involved in the approval of these procedures.

Milan, 20 March 2007

The Chairman
Luca Garavoglia

TABLE 1: BOARD OF DIRECTORS AND COMMITTEES

Board of Directors							Audit Committee		Remuneration and Appointments Committee	
Position	Name	Executive	Non executive	Indipendent	****	Number of other positions held **	***	****	***	****
Chairman	Luca Garavoglia				100%	1				
Managing Director	Paolo Marchesini	X			100%					
Managing Director	Stefano Saccardi	X			100%					
Managing Director	Vincenzo Visone	X			100%					
Director	Cesare Ferrero		X	X	83%	17	X	83%		
Director	Franzo Grande Stevens		X	X	83%	8			X	100%
Director	Pierleone Ottolenghi		X	X	83%					
Director	Marco Pasquale Perelli-Cippo		X		83%				X	66%
Director	Giovanni Rubboli		X	X	100%		X	83%	X	100%
Director	Renato Ruggiero		X	X	67%	3				
Director	Anton Machiel Zondervan		X	X	100%	1	X	100%		

Total number of meetings held during the year	Board of Directors: **6**	Ineternal Audit Committee: **6**	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 Articles of Association as of 31 December 2006; the percentage stated for Pierleone Ottolenghi's attendances refers to the number of sessions attended until his resignation.

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	100%	1
Statutory Auditor	Alberto Lazzarini	100%	1
Statutory Auditor	Antonio Ortolani	100%	2
Deputy Auditor	Alberto Giarrizzo Garofalo	–	1
Deputy Auditor	Giuseppe Pajardi	–	
Deputy Auditor	Paolo Proserpio	–	

Total number of meetings held during the year: 5

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) frequency of reporting?		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 previous Code)?	Group Internal Auditor		
Investor relations			
Has the Company appointed an Investor Relations Manager?	X		
Contact details for the Investor Relation Manager	Investor Relations Manager Via Filippo Turati, 27 20121 Milan Tel. 02.6225330 - fax 02.6225479 e-mail: investor.relations@campari.com		

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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 Davide Campari – Milano S.p.A. Group), as of and for the year ended December 31, 2006, comprising the consolidated balance sheet, the consolidated statement of operations, changes in shareholder's equity and cash flows and the related explanatory notes. These consolidated financial statements are the responsibility of the Davide Campari – Milano's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

2. We conducted our audit in accordance with the auditing standards and 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 statement, 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 the opinion on the consolidated financial statements of the prior year, which are presented for comparative purposes, reference should be made to our report dated April 7, 2006.

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 shareholder's equity and the cash flows of Davide Campari - Milano S.p.A. as of December 31, 2006 and for the year then ended in accordance with IFRS as adopted by the European Union and the standards issued in accordance with art. 9 of Italian Legislative Decree n° 38/2005.

Milan, April 5, 2007

Reconta Ernst & Young S.p.A.
signed by: Pellegrino Libroia
(Partner)

This report has been translated into the English language solely for the convenience of international readers.

Reconta Ernst & Young S.p.A.
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DAVIDE CAMPARI MILANO S.p.A.

Registered office at 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 Statutory Auditors on the consolidated accounts of the Campari Group

for the year ending 31/12/2006 pursuant to article 41 of Legislative Decree 127 of 9/4/1991

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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 2006, pursuant to article 41 of Legislative Decree 127/91. The consolidated accounts were drafted in accordance with international accounting standards (IAS / IFRS), pursuant to Legislative Decree 38 of 28 February 2005 implementing EC Regulation 1606 of 18 July 2002. In the year ending 31 December 2006, the Group recorded net profit of EUR 120,292,000 (including EUR 3,234,000 pertaining to minorities), assets worth EUR 1,726,058 and shareholders' equity of EUR 797,782,000 (including EUR 1,895,000 pertaining to minorities). Following the adoption of the IAS standards, memorandum accounts are 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 balance sheet

1. We conducted our audit in accordance with the standards for internal auditors 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 38/2005 implementing EC Regulation 1606/2002, in accordance with the interpretation provided by the Italian Accounting Body (OIC);

2. The legal audit of subsidiaries' accounts was conducted by their respective boards of statutory auditors, as required for Italian companies, while the accounting audit was carried out by the external auditor, Reconta Ernst & Young S.p.A, in its capacity as principal auditor.

   We have not audited the accounts of the subsidiaries directly as this task was beyond our remit, and therefore our opinion applies solely to the consolidated accounts;

3. We have examined the basis of consolidation and have noted that all subsidiaries are fully consolidated and that joint venture and affiliated companies have been valued at equity.

4. The consolidation principles adopted comply with the provisions of article 31 of Legislative Decree 127/91, in particular:

   - the basis of consolidation has been defined in accordance with the principles set out in articles 26 and 28 of Legislative Decree 127/91;
   - the accounting reference date coincides with the closing date of the Parent Company's full-year accounts (31/12/2006), and the annual accounts are based on the financial statements of the companies included in the basis of consolidation, which have the same financial year as the Parent Company, with the exception of Summa S.L., which, for reasons relating to its own majority shareholder, closes its annual accounts on 30 September and provides figures to 31 December solely for the purposes of the annual accounts of the Campari Group;
   - the assets and liabilities, and expenses and revenues for consolidated

companies are 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) and any differences are recorded either under the assets item "goodwill", if positive, or allocated to the profit and loss account if negative;

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

5. The following companies, in which the Group owns a minority stake, were consolidated using the equity method: FIOR BRAND Ltd, International Margue V.o.f., M.C.S. S.c.a.r.l. and Summa S.L.
6. Reconta Ernst & Young, the company appointed to audit the annual accounts, has informed us that the auditors' report will be issued on time and that it will make no recommendations.
7. 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 boards of statutory auditors.
8. We confirm that the method of preparing the accounts and the content of the notes to the accounts conform with the provisions of articles 29 and 32 of Legislative Decree 127/91, and in particular that:

   - 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);

- 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 principles, inasmuch as it was used in accordance with legislation. The Directors report on the effects of this;
- the formats stipulated by the relevant international accounting standards for the preparation of the balance sheet, profit and loss account and notes to the accounts have been complied with. In particular, the profit and loss account is classified by function, and the balance sheet shows current and non-current assets and liabilities separately;
- the notes to the accounts have been drafted in accordance with article 38 of Legislative Decree 127/91; in particular, the list of consolidated companies and the consolidation methods chosen comply with article 39 of the same decree, and the Directors provide comprehensive information on the consolidation methods in the comments on individual items and, in the report on operations, on the most significant facts, including events taking place after the end of the period.

  These accounting criteria have been uniformly applied: no extraordinary situations or cases arose requiring exceptions to be applied pursuant to article 29, paragraph IV of Legislative Decree 127/91. There were therefore no changes compared to the previous year.

9. The main IAS / IFRS applied in the consolidated accounts are as follows:
   - IAS 27: Consolidated accounts
   - IAS 14: Segment reporting
   - IAS 39: Financial Instruments: Recognition and Measurement
   - IAS 32: Financial Instruments: Disclosure and Presentation

- IAS 21: the Effects of Changes in Foreign Exchange Rates
- IAS 38: Intangible assets
- IAS 33: Earnings per share
- IFRS 2: Share-based Payment

Information on the nature and workings and effects 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 2006, in accordance with legislation governing consolidated accounts, as referred to in point a) 1.

B) Review of the report on operations

11. We have reviewed the report on operations, which accompanies the consolidated financial statements, to verify that it complies with the minimum content specified in 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.

1. 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, 5 April 2007

Chairman of the Board of Auditors

Umberto Tracanella

Statutory Auditors

Antonio Ortolani

Alberto Lazzarini

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