Relazione semestrale al 30 giugno 2006

Half-year report as at 30 June 2006

HALF-YEAR REPORT
AS AT 30 JUNE 2006

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INTRODUCTION

In accordance with the provisions of Regulation (EC) 1606/2002 dated 19 July 2002, the Campari Group adopted the International Accounting Standards (IAS/IFRS) from 1 January 2005; pursuant to the same regulation, the Parent Company Davide Campari-Milano S.p.A. adopted these principles from 1 January 2006.

As a result, this half-year report was prepared by applying the valuation and measurement criteria set by IAS/IFRS and adopted by the European Commission.

The same criteria were used to prepare comparable profit and loss accounts and balance sheets.

As regards the Parent Company, pursuant to Consob resolution 11971 dated 14 May 1999 as amended, the financial statements of the Company, prepared in accordance with international accounting standards, are shown at the end of the document.

As required by Consob notice DEM/6064313 dated 28 July 2006, the effects of the transition of the Parent Company to IAS/IFRS at 1 January and 31 December 2005 are also shown in the Appendix to this report, together with the reconciliations required by IFRS 1 (First-time Adoption of International Financial Reporting Standards), accompanied by the related explanatory notes, which will be subject to a full audit by Reconta Ernst & Young S.p.A.

Highlights

	First half 2006 € million	First half 2005 € million	change %	% change at constant exchange rates
Net sales	**417.8**	**363.9**	**14.8%**	**12.2%**
Trading profit	115.3	107.5	7.3%	5.1%
EBITDA before one-offs	95.3	89.4	6.6%	4.8%
EBITDA	**95.2**	**92.0**	**3.5%**	**1.7%**
EBIT before one-offs	86.0	81.0	6.2%	4.4%
EBIT	**85.9**	**83.6**	**2.8%**	**1.0%**
ROS % [1]	20.6%	23.0%		
Profit before tax	80.4	78.6	2.3%	0.4%
Group net profit and minorities' profit	57.9	55.2	4.8%	2.4%
Group net profit	**55.5**	**53.4**	**4.0%**	**2.0%**
Base earnings per share (€)	**0.20**	**0.19**		
Free cash flow	30.9	39.9		
Acquisitions of companies and trademarks	(128.9)	(118.2)		

	30 June 2006 € million	31 December 2005 € million
Net debt	479.5	371.4
Group shareholders' equity and minorities' equity	725.1	695.8
Fixed assets	1,018.8	925.7

[1] Operating income / net sales

Corporate Officers

BOARD OF DIRECTORS (1)

Luca Garavoglia
Chairman

Vincenzo Visone
Managing Director and Chief Executive Officer

Stefano Saccardi
Managing Director
and Legal Affairs and Business Development Officer

Paolo Marchesini
Managing Director and Chief Financial Officer

Pierleone Ottolenghi (2)
Director

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

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

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

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

Renato Ruggiero
Director

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

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

BOARD OF STATUTORY AUDITORS (5)

Umberto Tracanella
Chairman

Antonio Ortolani
Statutory Auditor

Alberto Lazzarini
Statutory Auditor

Alberto Garofalo
Deputy Auditor

Giuseppe Pajardi
Deputy Auditor

Paolo Proserpio
Deputy Auditor

INDEPENDENT AUDITORS (6)

Reconta Ernst & Young S.p.A.

(1) In post until approval of the 2006 accounts, in accordance with the resolution of the shareholders' meeting held on 29 April 2004.
(2) In post until approval of the 2006 accounts, in accordance with the resolution of the shareholders' meeting held on 24 April 2006.
(3) Member of the Audit Committee nominated by the Board of Directors on 10 May 2004, in post until approval of the 2006 accounts.
(4) Member of the Remuneration and Appointments Committee nominated by the Board of Directors on 10 May 2004, in post until approval of the 2006 accounts.
(5) In post until approval of the 2006 accounts, in accordance with the resolution of the shareholders' meeting held on 29 April 2004.
(6) Appointed to audit the 2004, 2005 and 2006 accounts by the shareholders' meeting of 29 April 2004.

Bitter

SIGNIFICANT EVENTS IN THE FIRST HALF

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.

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, which was announced on 22 December 2005, was part of a programme of disposals imposed on the French company by the European Commission following its acquisition of Allied Domecq together with the US group Fortune Brands.

Under the terms of the agreement, the Campari Group acquired the three aforementioned brands, their stocks (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).

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

On 30 January 2006 the Board of Directors of Longhi & Associati S.r.l. voted to wind up the company, which has therefore ceased trading.

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.

The agreement governing relations with the Sesto San Giovanni local authority for the urban regeneration and the construction of new buildings is expected to be signed by the end of September 2006.

If so, demolition work will begin in October, and a building application will be submitted so that work may begin in early 2007. The project is expected to take around two years to complete.

Reorganisation of sales network in Italy

The Group launched a drive to rationalise its Italian sales network 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.

COMMENTS ON THE FIRST-HALF RESULTS

Sales performance

Introduction

All figures in this section of the report are expressed in million euro.

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

All sales figures are shown net of excise duties and trade discounts.

Overall performance

In the first half of 2006, the Group's net sales totalled €417.8 million, an overall increase of 14.8% compared with the same period of last year.

This increase was chiefly due to external growth of 9.8%, organic growth of 2.5%, and a positive impact of 2.6% from exchange rate changes.

Breakdown of change in sales	€ million	% compared to first half of 2005
– net sales 1 January-30 June 2006	417.8	
– net sales 1 January-30 June 2005	363.9	
Total change	53.9	14.8%
of which:		
organic growth before exchange rate effect	9.1	2.5%
external growth	35.6	9.8%
exchange rate effect	9.3	2.6%
Total change	**53.9**	**14.8%**

External sales growth in the period amounted to €35.6 million and, as shown in the table below, comprised new acquisitions of €9.2 million, and sales of third-party brands of €26.4 million, covered by new distribution agreements.

As regards new acquisitions, the first half of 2006 included both sales of the Scotch whisky brands Glen Grant, Old Smuggler and Braemar (included from 15 March 2006, the date on which the acquisition was finalised), and sales of Teruzzi & Puthod wines, which were consolidated from the beginning of the year.

With regard to third-party brands, in the second half of 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 the UK company Reformed Spirits Company Ltd, on the US market.

Also, at the start of 2006, the Group began distributing Midori, a melon-flavoured liqueur owned by the Suntory group, and the spirits portfolio of the C&C Group (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.

Sales - first half of 2006: breakdown of external growth	€ million
Glen Grant (including bulk sales to third parties)	4.7
Old Smuggler and Braemar	2.7
Teruzzi & Puthod wines	1.8
Sub-total: Campari Group brands	9.2
Jack Daniel's and other Brown-Forman Group brands	7.7
C&C Group brands	12.6
Suntory Group brands	6.6
Martin Miller's	0.1
Halted distribution of third-party whisky brands in Brazil	–0.6
Sub-total: third-party brands	26.4
Total external growth	**35.6**

Organic growth resulted from a positive performance by spirits, (especially SKYY Vodka and Aperol), while sales of wines and soft drinks were broadly in line with last year.

In general, sales of some brands, including Campari and Cinzano vermouth slowed in the second quarter.

This was due, in the case of Campari, to the launch of completely new packaging, and in the case of Cinzano vermouth, to the more volatile sell-in of brands whose main markets are covered by third-party distributors.

Sales in the first half of 2006 were boosted by a positive exchange rate effect of 2.6%, as the two foreign currencies with the biggest impact on the Group's results, i.e. the US dollar and the Brazilian real, both rose relative to their average values in the first half of 2005, gaining 4.6% and 23.1% respectively.

Average exchange rates for the period 1 January-30 June	2006	2005	% change
US$ x 1	1.229	1.285	
€ x 1 US$	0.8137	0.7781	4.6%
BRL x 1	2.693	3.315	
€ x 1 BRL	0.3714	0.3017	23.1%
CHF x 1	1.561	1.546	
€ x 1 CHF	0.6405	0.6467	–1.0%
JPY x 1 €	142.155	136.228	
€x 1000 JPY	7.0346	7.3406	–4.2%

Sales by region

Sales in all four regions were generally positive during the first half of the year: however, growth was significantly stronger in the Americas, where the combined effect of robust organic growth and strong external growth, as mentioned above, led to an overall increase in sales of 29.3% (+38.5% including the positive exchange rate effect), which meant that for the first time in the Group's history, this region represented exactly one third of total sales.

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

Sales by region	First half of 2006		First half of 2005		% change
	€ million	%	€ million	%	2006 / 2005
Italy	194.2	46.5%	185.6	51.0%	4.6%
Europe	69.5	16.6%	64.4	17.7%	7.9%
Americas	137.5	32.9%	99.3	27.3%	38.5%
Rest of the world and duty free	16.6	4.0%	14.5	4.0%	14.0%
Total	**417.8**	**100.0%**	**363.9**	**100.0%**	**14.8%**

Analysis of the % change in sales by region	Total change in the first half	external growth	organic growth	exchange rate effect
Italy	4.6%	4.8%	–0.2%	0.0%
Europe	7.9%	9.1%	–1.2%	–0.1%
Americas	38.5%	20.4%	8.9%	9.3%
Rest of the world and duty free	14.0%	3.2%	9.4%	1.4%
Total	**14.8%**	**9.8%**	**2.5%**	**2.6%**

In **Italy** net sales for the first half rose by 4.6% thanks to strong external growth of 4.8%, due especially to Jack Daniel's and Glen Grant whiskies; sales of Teruzzi & Puthod Italian wines, which the Group acquired at the end of 2005, did not feature significantly as they are mainly concentrated in other European markets.

Organic growth, however, was broadly stable: the performance in the first quarter was offset by a less than positive trend in the second, which meant that overall sales fell very slightly in the first six months of the year (–0.2%).

Of the core brands, Aperol, and to a lesser extent, Crodino, put in positive performances, while Campari sales, and wine sales generally, lagged behind those of the same period last year.

In **Europe**, sales increased by 7.9%, and in this case too the performance was entirely due to external growth of the new brands (Glen Grant, Old Smuggler, Braemar and Teruzzi & Puthod), which together totalled 9.1%. Organic sales growth was slightly negative, at –1.2%.

Among the region's key markets, Germany performed particularly well, with increased sales in all its core brands, as did Russia; other European markets put in less positive performances.

Overall sales in the **Americas** were up 38.5% in the first half thanks to the contributions of all three components of growth: organic growth of 8.9%, external growth of 20.4% and a positive exchange rate effect of 9.3%.

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

Sales in the Americas	First half of 2006		First half of 2005		% change
	€ million	%	€ million	%	2006 / 2005
US	104.1	75.7%	72.5	73.0%	43.6%
Brazil	28.3	20.6%	22.4	22.6%	26.1%
Other countries	5.2	3.8%	4.4	4.4%	17.3%
Total	**137.5**	**100.0%**	**99.3**	**100.0%**	**38.5%**

Analysis of the % change in sales in the Americas	Total change in the first half	external growth	organic growth	exchange rate effect
US	43.6%	28.0%	10 5%	5.1%
Brazil	26.1%	–0.9%	3.7%	23.4%
Other countries	17.3%	2 8%	7.8%	6.6%
Total	38.5%	20.4%	8.9%	9.3%

Sales in the **United States** were extremely robust, leading to growth of 43.6% compared to the first half of 2005.

SKYY Vodka and the other brands already distributed by the Group showed double-digit organic growth of 10.5%.

Conversely, the new distribution agreements covering the C&C Group and Suntory Group, in effect since the start of January 2006, boosted sales by more than US$ 23 million, helping to generate an external growth figure of 28.0%.

Lastly, the rise in the value of the US dollar added a positive exchange rate effect of 5.1%.

The situation in **Brazil** was different to that of the US, although still very positive.

Overall sales grew by 26.1%, thanks chiefly to the strong positive impact of the revaluation of the Brazilian real (23.4%).

Following a difficult start to the year, sales of nearly all brands improved in the second quarter, leading to total organic growth of 3.7% in the first half.

Growth on the Brazilian market was negative, at –0.9%, due to the loss of Grant's and Glenfiddich Scotch whiskies, when local distribution of these third-party brands ceased in 2006.

Note, however, that the Group intends to be present in Brazil in the significant imported whiskies segment, and is preparing to launch its own Glen Grant brand.

Sales growth in the **other countries in the Americas**, chiefly Canada, was positive, with organic growth of 7.8%.

Sales in the rest of the world, which includes duty free sales in all regions, posted organic growth of 9.4% in the first half, but accounted for only 4.0% of the Group total.

Sales by business area

Overall sales growth of 14.8% for the first half was largely driven by spirits, which made up 70% of the Group's total sales; wines and the "other sales" segment also contributed, albeit to a lesser extent, to business growth, while soft drink sales were broadly in line with last year.

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

Sales by segment	First half of 2006		First half of 2005		% change
	€ million	%	€ million	%	2006 / 2005
Spirits	293.2	70.2%	243.1	66.8%	20.6%
Wines	47.5	11.4%	45.8	12.6%	3.9%
Soft drinks	71.9	17.2%	71.8	19.7%	0.2%
Other sales	5.1	1.2%	3.2	0.9%	61.1%
Total	**417.8**	**100.0%**	**363.9**	**100.0%**	**14.8%**

Analysis of the % change in sales by segment	Total change in the first half	external growth	organic growth	exchange rate effect
Spirits	20.6%	13.3%	3.7%	3.7%
Wines	3.9%	3.9%	–0.8%	0.8%
Soft drinks	0.2%	0.0%	0.2%	0.0%
Other sales	61.1%	48.9%	10.6%	1.6%
Total	**14.8%**	**9.8%**	**2.5%**	**2.6%**

Spirits

Net sales of spirits totalled €293.2 million, a rise of 20.6% on the first half of 2005.

Stripping out the significant contribution of external growth (13.3%) and the positive exchange rate effect (3.7%), the segment registered organic growth of 3.7%.

Net sales of **Campari** posted an organic decline of 6.7%.

Thanks to the positive exchange rate effects, chiefly due to the Brazilian real, this was reduced to 4.6% at actual exchange rates.

This negative result was due to slowing sales in the second quarter of the year, as stocks were reduced pending the introduction of new packaging.

The redesign of the products' styles and graphics has created a more modern look for the brand.

Sales of **Campari** on some important European markets where the group operates via third-party sales networks suffered by comparison with the performance registered in the same period of last year, when sales were boosted by the replacement of some distributors.

As regards consumption of the brand in the Group's main markets, Germany posted a more than satisfactory performance in the first quarter of the year.

The **SKYY** brand (SKYY Vodka and flavoured lines), generated first-half organic sales growth of 12.9% (+17.9% at actual exchange rates, including the positive effect of the revaluation of the US dollar).

In the United States, which accounts for around 85% of brand sales by volume and regularly records double-digit growth in sales to consumers, the sales performance was 12.3% for the first half.

Moreover, overall sales on the export markets continued to be buoyant, (+17.9%), especially in Italy, Germany and Canada, albeit at lower rates than last year.

Sales of **CampariSoda**, which are almost entirely concentrated on the Italian market, dipped by 1.7% in the first half of the year.

Aperol sales are still extremely healthy, posting growth of 23.3% in the first six months.

This result was driven primarily by the Italian market where the brand has shown healthy and uninterrupted double-digit growth since its acquisition.

Growth in exports of the brand to new markets was also buoyant: in addition to the German market, which continues to show encouraging sales growth, Aperol was launched in a selected number of markets, including the attractive US market.

The first half of 2006 was also strong for sales of **Aperol Soda** (+12.4%), a product sold exclusively on the Italian market.

In 2006, advertising of the brand was resumed with a new TV commercial.

Sales of Group brands in Brazil grew by 10.4% overall in local currency, or 35.9% at actual exchange rates, thanks to the sharp rise in value of the Brazilian real.

Dreher aguardiente and the **admix whiskies** Old Eight and Drury's posted double-digit sales growth.

Sales of **Ouzo 12** recorded overall growth of 13.8%, thanks to the excellent results achieved on the important German market.

However, the sales figure declined in Greece, as the sell-in of the brand in the important second quarter of the year was affected by an unfavourable comparison base with last year, which saw new packaging launched in April.

Sales of **Cynar** fell by 12.9% versus last year (–9.5% at actual exchange rates) as a result of the negative sales performance in both Brazil and Italy, the brand's two main markets.

On the Italian ready-to-drink market, meanwhile, the severe downturn apparent in 2005 continued, leaving sales of **Campari Mixx** 42.8% lower than in the first half of 2005**.**

Of the Group's other spirit brands, sales of Mirto by Zedda Piras fell slightly, while those of Biancosarti showed a modest upturn.

Sales of the principal **non-Group brands** were positive overall, as follows:

- organic growth of 12.6% for Scotch whiskies at constant exchange rates (16.8% at actual exchange rates), due mainly to a good performance by the Cutty Sark label in the United States;
- growth of 9.2% in local currency for 1800 Tequila (+14.3 % at actual exchange rates) also on the US market;
- an increase of 5.1% for Jägermeister on the Italian market;
- overall growth of 6.3% for Grand Marnier, distributed in Germany, Italy and Switzerland, with a good showing in Italy.

Wines

Net wine sales stood at €47.5 million in the first half of 2006.

Growth in the segment was 3.9% globally versus last year, due entirely to sales of Teruzzi & Puthod wines, which were consolidated in January 2006.

Stripping out the modest positive exchange rate impact (+0.8%), sales in the wines segment saw a slight organic decline (–0.8%).

Of the core brands, **Cinzano sparkling wines** put in a good performance, registering organic growth of 15.7% (15.4% at actual exchange rates).

Sales were extremely buoyant in Germany, where the entire range was relaunched with new packaging and expanded to include new types of sparkling wine.

Sales fell in Italy, but first-half sales here are of relatively minor importance, in contrast to the German market.

Sales of **Cinzano vermouth** fell by 9.1% at constant exchange rates (–7.3% at actual exchange rates).

Unlike with the other core brands, sales of Cinzano vermouth are not clearly concentrated in the markets in which the Group has its own direct sales network.

This leads to greater volatility in performance, in that sales are dependent on the stock policies of many local distributors.

Sella & Mosca wines generated organic sales growth of 3.5% in the first half (3.7% at actual exchange rates), reflecting considerable stability in Italy, the brand's main market, and an increase in international sales.

First-half results for the Group's other brands were mixed. Sales of **Riccadonna** sparkling wines and **Cantina Serafino** wines fell, but sales of **Mondoro** sparkling wine rose, due to very healthy growth in Russia, its primary market, which is helping to strengthen its position in the Italian premium sparkling wines segment.

Soft drinks

Sales of soft drinks in the first half of 2006 stood at €71.9 million, which was broadly in line with the same period last year (+0.2%).

Sales were positive for **Crodino** (+3.3%) but declined for **Lemonsoda, Oransoda and Pelmosoda** (–3.4%) and **mineral waters.**

Lipton Ice Tea, a third-party brand distributed on the Italian market, saw modest growth of 1.4%.

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 the first half of 2006, "other sales" totalled €5.1 million, equating to an overall advance of 61.1%.

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 acquisition of Glen Grant, Old Smuggler and Braemar, have been included under this segment since 15 March 2006.

These sales were classified as external growth in the period and showed an increase of 48.9%.

Consolidated profit and loss account for the first half of 2006

	First half 2006		First half 2005		Change
	€ million	%	€ million	%	%
Net sales	**417.8**	**100.0%**	**363.9**	**100.0%**	**14.8%**
Cost of goods sold	(181.6)	–43.5%	(150.3)	–41.3%	20.8%
Gross margin	**236.3**	**56.5%**	**213.6**	**58.7%**	**10.6%**
Advertising and promotional costs	(70.9)	–17.0%	(62.9)	–17.3%	12.8%
Sales and distribution costs	(50.0)	–12.0%	(43.2)	–11.9%	15.7%
Trading profit	**115.3**	**27.6%**	**107.5**	**29.5%**	**7.3%**
General administrative expenses and other operating expenses and income	(29.4)	–7.0%	(26.5)	–7.3%	10.8%
EBIT before one-offs	**86.0**	**20.6%**	**81.0**	**22.3%**	**6.2%**
One-offs	(0.1)	0.0%	2.6	0.7%	–102.9%
EBIT	**85.9**	**20.6%**	**83.6**	**23.0%**	**2.8%**
Net financial income (charges)	(5.5)	–1.3%	(4.7)	–1.3%	16.2%
Profit (loss) of companies valued at equity	(0.0)	0.0%	(0.2)	–0.1%	–92.7%
Profit before tax	**80.4**	**19.2%**	**78.6**	**21.6%**	**2.3%**
Tax	(22.5)	–5.4%	(23.4)	–6.4%	–3.7%
Net profit	**57.9**	**13.9%**	**55.2**	**15.2%**	**4.8%**
Minority interests	(2.3)	–0.6%	(1.8)	–0.5%	28.4%
Group net profit	**55.5**	**13.3%**	**53.4**	**14.7%**	**4.0%**
Total depreciation and amortisation	(9.3)	–2.2%	(8.5)	–2.3%	10.4%
EBITDA	**95.2**	**22.8%**	**92.0**	**25.3%**	**3.5%**
EBITDA before one-offs	**95.3**	**22.8%**	**89.4**	**24.6%**	**6.6%**

Net sales totalled €417.8 million in the first half of 2006, an increase of 14.8% compared to the first half of 2005; as mentioned in the previous section, organic growth was 2.5%, while external growth was strong, at 9.8%.

A positive exchange rate effect of 2.6% also contributed to the overall result.

The **cost of goods sold** was equivalent to 43.5% of net sales, which is higher than the 41.3% recorded in the same period last year.

The increase was due to the dilutive effect of external growth; note that the profitability of third-party brands covered by new distribution agreements is lower than that of the Group's organic business.

The effect of changes in the basis of consolidation on the cost of goods sold was negative and thus had a dilutive effect on the gross margin (–2.8 percentage points).

However, production costs fell by 0.6 percentage points as a proportion of sales, as although expenses relating to the Glen Grant distillery were included for the first time, production costs fully benefited from the industrial restructuring programme carried out in Italy.

Advertising and promotional costs were 17.0% of sales in the first half of 2006, slightly lower than in the same period last year (17.3%).

This decrease (like the increase in the cost of goods sold referred to above) was attributable to the new brands distributed by the Group.

These brands necessitated high advertising and promotional expenditure, although this was in part offset by contributions received from the owners of the brands in question.

Note that advertising and promotional costs recorded in the profit and loss account are always shown net of contributions received through distribution agreements.

Excluding the effect of changes in the basis of consolidation, advertising and promotional costs relating to the group's organic business rose by 0.5 percentage points in the first half of the year, owing to new advertising campaigns launched during the period.

Sales and distribution costs as a percentage of sales were largely unchanged, coming out at 12.0%, compared with 11.9% in the first half of 2005.

Distribution costs, which are by nature highly variable, rose in proportion to sales growth, as expected.

Total sales and marketing costs, which have a greater fixed cost component, grew in absolute terms and remained unchanged as a percentage of sales compared to the same period last year.

This was due to the strengthening of the Group's sales and marketing operations.

In the US, this was necessary to effectively manage the distribution of new brands; in other markets, considered of strategic importance for future business growth, the Group invested in strengthening sales and marketing operations in order to capitalise on opportunities offered by these markets.

As sales in the second half of the year are normally higher than in the first half, over the full year, sales and marketing costs will be lower as a percentage of sales in 2006 than they were in 2005.

Trading profit for the first half of 2006 was € 115.3 million, a 7.3% advance on the same period last year, attributable to:

- organic growth of 2.0%;
- external growth of 3.2%;
- a positive exchange rate effect of 2.2%.

General and administrative expenses and **other operating expenses and income** fell as a percentage of sales, dipping from 7.3% in the first half of 2005 to 7.0% in the same period of 2006, but grew by 10.8% overall.

However, excluding the impact of changes in the basis of consolidation and the exchange rate effect, organic growth in these costs was 5%, largely determined by non-recurring charges for organisational consultancy services.

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 IAS/IFRS in the two periods under comparison.

EBIT before one-offs was € 86.0 million, an increase of 6.2% compared to the same period last year. The EBIT margin narrowed from 22.3% to 20.6%.

One-offs showed a negative net balance of € 0.1 million in the first half of 2006, compared to a positive figure of € 2.6 million in the first half of 2005, which included a capital gain generated by the sale of real estate in Switzerland (€ 1.9 million) and a windfall gain in Brazil (€ 0.7 million).

The impact of the change in this profit and loss account item on the group's results was therefore to reduce operating profit by € 2.7 million.

EBIT was 2.8% higher than in the first half of 2005, at € 85.9 million, and the EBIT margin was 20.6% (compared with 23.0% in the first half of 2005).

The total charge for **depreciation and amortisation** of tangible and intangible fixed assets recorded in the period was € 9.3 million, an increase of € 0.8 million compared with the same period last year; as a result, the EBITDA before one-offs and EBITDA lines show higher growth rates than the EBIT before one-offs and EBIT lines respectively.

EBITDA before one-offs was € 95.3 million, an increase of 6.6%, while **EBITDA** advanced 3.5% to € 95.2 million.

Net financial charges stood at € 5.5 million in the first half, an increase on the figure of € 4.7 million recorded in the same period last year.

This change was due to the rise in debt following the acquisition of Glen Grant for around € 130 million, which was completed on 15 March 2006.

Profit (loss) of companies valued at equity showed a nil balance in the first half of 2006, compared with a loss of € 0.2 million in the first half of last year.

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 grew 2.3% compared to the first half of 2005, to € 80.4 million.

After **tax** for the period of € 22.5 million, **net profit** for the first half was € 57.9 million, an increase of 4.8% on the same period last year.

Minority interests, that is the share of net profit pertaining to third parties, came to € 2.3 million, higher than the figure of € 1.8 million for the first half of 2005.

This item mainly comprises the minorities' portion of the profits of Skyy Spirits, LLC, which registered double-digit growth in the first half.

Moreover, the value of minority interests increased in the first half of 2006 because of the revaluation of the US dollar.

After minority interests, **net profit attributable to the Group** rose 4.0% to € 55.5 million in the first half of 2006, representing 13.3% of consolidated net sales for the period.

Profitability by business area

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

The Campari Group's primary reportable segment is business area, where its results are broken down into spirits, wines, soft drinks and other sales. An analysis of the financial results 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 the first half of 2006 consolidated trading profit was € 115.3 million, an increase of 7.3% compared to the same period last year.

Trading profit	First half 2006 € million	% of total	First half 2005 € million	% of total	2006 / 2005 % change
Spirits	94.1	81.6%	84.8	78.1%	11.0%
Wines	4.3	3.8%	6.2	5.7%	–29.5%
Soft drinks	15.7	13.6%	17.0	15.6%	–7.7%
Other	1.2	1.1%	0.7	0.6%	86.3%
Trading profit - all segments	115.3	100.0%	108.6	100.0%	6.2%
Unallocated production costs			(1.1)		
Consolidated trading profit	**115.3**		**107.5**		**7.3%**

The table above shows trading profit performance for each business area, and growth in the Group's consolidated trading profit compared to the first half of 2005.

In 2005 the Group recorded the portion of production costs relating to the Novi Ligure plant that cannot be directly allocated to the brands produced there, which totalled € 1.1 million in the first half.

The Group's large new plant has been operational since the beginning of 2004, producing Cinzano, Cynar, Jägermeister and Biancosarti, but the restructuring plan was only completed as expected in the second half of 2005, when the Novi Ligure plant began production of Campari and CampariSoda.

In the first half of the year, spirits and the "other sales" segment registered growth in trading profit, while wines and soft drinks posted a decline in profitability.

Spirits

Spirits generated a trading profit of € 94.1 million in the first half of 2006 (32.1% of net sales), an increase of 11.0% compared to the first half of last year.

	First half 2006 € million	% of segment sales	First half 2005 € million	% of segment sales	2006 / 2005 % change
Net sales	293.2	100.0%	243.1	100.0%	20.6%
Gross profit	180.7	61.6%	162.0	66.6%	11.5%
Trading profit	94.1	32.1%	84.8	34.9%	11.0%

Spirits, which remain the Group's most profitable business, registered a decline of 5.0 percentage points in the gross margin, which narrowed from 66.6% to 61.6% owing to the significant dilutive effect of external growth during the period (mainly relating to the distribution of third-party brands).

Looking at the Group's brands, the poor performance of Campari and CampariSoda were more than offset, in terms of profitability, by the excellent performance of SKYY Vodka and Aperol, leading to an improvement in profitability measured on a same-structure basis.

In terms of trading profit, spirits recovered part of the profitability lost at the level of costs of goods sold, and the decrease was limited to 2.8 percentage points.

Third-party brands are marked by much lower net advertising and promotional expenditure compared to the Group's brands.

Excluding external growth and the exchange rate effect, spirits registered organic growth in trading profit of 5.2%, higher than the organic sales growth figure of 3.7%.

Wines

In the first half of 2006 wines generated trading profit of € 4.3 million, a significant decrease compared to the same period last year (–29.5%).

	First half 2006		First half 2005		2006 / 2005
	€ million	% of segment sales	€ million	% of segment sales	% change
Net sales	47.5	100.0%	45.8	100.0%	3.9%
Gross profit	22.3	46.9%	20.2	44.1%	10.5%
Trading profit	4.3	9.1%	6.2	13.5%	–29.5%

Given that the positive impact of external growth and exchange rates had a negligible effect on the segment's profitability, the negative result for the first half was entirely due to the organic business and in particular growth in advertising and promotional expenditure in the period.

As the summary profit and loss table for the segment shows, with sales rising by 3.9% and gross profit advancing by 10.5%, it was only at trading profit level that a sharp decline (29.5%) was recorded.

The trend in the gross margin highlights two positive points: first, at organic level, thanks to the synergies generated by the industrial restructuring plan, profitability improved (particularly for the Cinzano brand); second, the contribution of Teruzzi & Puthod wines did not have a distortive effect on the total cost of goods sold.

Trading profit, however, registered a decline (entirely due to a higher marketing spend), which seems significant in percentage terms, but only amounts to € 1.9 million in absolute terms.

Soft drinks

Trading profit for the soft drinks business came out at € 15.7 million (21.8% of net sales), a decrease of 7.7% compared to the first half of last year.

	First half 2006		First half 2005		2006 / 2005
	€ million	% of segment sales	€ million	% of segment sales	% change
Net sales	71.9	100.0%	71.8	100.0%	0.2%
Gross profit	31.8	44.2%	31.9	44.4%	–0.2%
Trading profit	15.7	21.8%	17.0	23.7%	–7.7%

Sales in this segment are concentrated entirely in Italy.

During the period, the business was not affected by exchange rate effects or any changes in the basis of consolidation.

While sales and gross profit remained broadly stable, the decline in trading profit was again due to greater advertising and promotional spending, particularly the cost of a new advertising campaign for Lemonsoda, Oransoda and Pelmosoda, produced and broadcast during the period.

Crodino, a non-alcoholic aperitif and the segment's most important brand in terms of sales and profitability, continues to be supported by an extensive ongoing and effective advertising campaign.

Other sales

The "other sales" segment, which includes co-packing and sales of raw materials and semi-finished goods to third parties, registered sales of € 1.2 million in the period, an increase of € 0.5 million or 86.3%.

	First half 2006		First half 2005		2006 / 2005
	€ million	% of segment sales	€ million	% of segment sales	% change
Net sales	5.1	100.0%	3.2	100.0%	61.1%
Gross profit	1.5	28.9%	0.7	21.1%	120.6%
Trading profit	1.2	24.1%	0.7	20.9%	86.3%

Growth is related to the recent acquisition of Glen Grant, and is entirely due to the sale to third parties of malt distillate produced by Glen Grant Distillery Company Ltd.

Financial situation

Cash flow statement

The table below shows a simplified and reclassified cash flow statement (see the section containing the financial statements for the full cash flow statement).

The main reclassification is the exclusion of cash flows relating to changes in short-term and long-term debt, and in investment in marketable securities: in this way, the total cash flow used (or generated) in the period coincides with the change in net debt.

	30 June 2006 € million	30 June 2005 € million
Net profit	55.5	53.4
Depreciation, amortisation and other adjustments to reconcile net profit with cash flow	10.2	14.4
Changes in tax payables and receivables and other changes in non-financial assets and liabilities	2.1	8.8
Cash flow from operating activities before changes in working capital	**67.8**	**76.6**
Changes in operating working capital	(27.3)	(29.3)
Cash flow from operating activities	**40.5**	**47.3**
Cash flow from investing activities	**(9.5)**	**(7.4)**
Free cash flow	**30.9**	**39.9**
Acquisitions	(128.9)	(118.2)
Other changes	(0.1)	0.5
Dividend paid by the Parent Company	(28.1)	(28.1)
Cash flow used in other activities	**(157.1)**	**(145.8)**
Exchange rate differences and other changes	18.1	(19.9)
Total net cash flow for the period = change in net debt	**(108.1)**	**(125.8)**
Net debt at the start of the period	(371.4)	(230.0)
Net debt at the end of the period	(479.5)	(355.8)

Financial resources of € 108.1 million were used in the first half of 2006, resulting from free cash flow generation of € 30.9 million and a cash outflow of € 157.1 million, and reflecting exchange rate differences and other accounting changes, which were positive overall to the tune of € 18.1 million.

Free cash flow for the period of € 30.9 million was generated by operating activities before changes in operating working capital of € 67.8 million.

This last figure was € 8.8 million lower than in the first half of last year, which benefited from higher deferred taxes.

The change in operating working capital had a negative impact on cash flow for the period of € 27.3 million, but represents an improvement compared to the first half of last year, when it was negative to the tune of € 29.3 million.

Note however that operating working capital at 30 June is naturally higher than at 31 December, and the figure also includes the greater impact of the distribution of new brands, estimated at € 11.7 million.

In the first half of 2006 industrial investments were € 9.5 million, an increase of € 2.1 million compared to 2005.

As well as dividends of € 28.1 million, unchanged compared to last year, the Group spent € 128.9 million on the acquisition of Glen Grant, Old Smuggler and Braemar in March.

Breakdown of net debt

	30 June 2006 € million	31 December 2005 € million
Cash, bank and securities	361.0	247.5
Payables to banks	(353.5)	(112.8)
Real estate lease payables	(3.1)	(3.1)
Private placement and bond issues	(9.1)	(9.6)
Other financial payables	(1.3)	(1.4)
Short-term debt	**(5.9)**	**120.6**
Payables to banks	(24.9)	(26.7)
Real estate lease payables	(17.5)	(19.0)
Private placement and bond issues	(386.7)	(397.7)
other financial payables	(2.6)	(3.0)
Medium- and long-term debt	**(431.6)**	**(446.5)**
Debt from operating activities	**(437.5)**	**(325.9)**
Payables for exercising the Skyy Spirits, LLC put option	(42.0)	(45.5)
Net debt	**(479.5)**	**(371.4)**

Net debt was € 479.5 million at 30 June 2006, an increase of € 108.1 million due to the changes in the cash flows mentioned above.

This negative change was mainly due to the acquisition of Glen Grant, Old Smuggler and Braemar for € 128.9 million.

The acquisition was financed by short-term bank debt, which led to the increase in bank debt shown in the table.

The increase in this item resulted from both the acquisition of Glen Grant, Old Smuggler and Braemar and an increase in the Group's financial resources, as shown by the rise in the cash, bank and securities item.

The change in payables for the exercise of the put option held by the management of Skyy Spirits, LLC relates to changes in the interest rates and exchange rates used to discount the debt.

Group balance sheet

	30 June 2006 € million	31 December 2005 € million
Fixed assets	1,018.8	925.7
Other non-current assets and liabilities	(43.6)	(45.4)
Operating working capital	269.2	222.5
Other current assets and liabilities	(39.8)	(35.6)
Total invested capital	**1,204.6**	**1,067.2**
Shareholders' equity	725.1	695.8
Net debt	479.5	371.4
Total financing sources	**1,204.6**	**1,067.2**

At 30 June 2006 the Group had invested capital of € 1,204.6 million, an increase of € 137.4 million compared to 31 December 2005.

This rise was due to two significant changes.

First, the increase in working capital, described above, of € 46.7 million, which includes the effects of changes in the basis of consolidation in the Group; second, fixed assets, which rose by € 93.2 million, as they now include the newly acquired brands of Glen Grant, Old Smuggler and Braemar.

Following the increase in net debt described above, the Group's financial structure showed an increase in its debt to equity ratio from 53.4% at the end of December 2005 to 66.1% at 30 June 2006.

EVENTS TAKING PLACE AFTER THE END OF THE PERIOD

Acquisition of the remaining stake in Longhi & Associati S.r.l.

On 2 August 2006 Lacedaemon BV completed the acquisition of the remaining minority stake of 15% in Longhi & Associati S.r.l.

The Group therefore now owns 100% of the company.

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.

The merger will take place in the last quarter of the year, and its accounting and tax effects will be backdated to 1 January 2006.

OUTLOOK

The general performance of the Campari Group in the first half of the year was positive in terms of both sales and profitability, which were supported by sound external growth and more limited organic expansion.

Growth slowed somewhat in the second quarter of the year, however, and although the main cause was some one-off costs, rather than clear negative trends on the markets in general, this requires us to be more cautiously optimistic in our short-term forecasts.

While on some markets consumption trends remain positive, and brands continue to put in a solid performance (for example in the US, Brazil and Germany), it is undeniable that in others, for example Italy, the situation is more complex, and internal growth remains limited.

In relation to the trend on the domestic market, the Group believes that it will be able to return to the growth rates registered in the recent past, as the first concrete signs of an economic recovery should have a positive impact on consumption in the sector.

INVESTOR INFORMATION

Campari shares in the first half of 2006

The macroeconomic situation remained positive in the first half of 2006, despite fears of rising inflation and a strengthening euro.

The main European economies are showing signs of a recovery, with confidence and consumer indices at their highest levels for the last few years.

All Italian stock market indices registered a positive performance in the first half of 2006.

This rise was however negatively affected by fears of high oil prices and expectations of further interest rate hikes.

After the long rally that began at the end of 2005, these fears sparked a reversal in the trend in share prices in May, which mainly affected large caps.

Compared to the end of 2005 the Mibtel gained 3.4%, the S&P/MIB advanced 1.3% and the Midex was up 11.4%.

Against a macroeconomic backdrop marked by growing optimism, the Campari stock put in an excellent performance over the first half of the year, mainly driven by the announcement of sound financial results.

In the first half, the Campari stock, which is listed on the blue chips segment of the Italian stock market, shot up by 29.8% compared with the closing price at 31 December 2005.

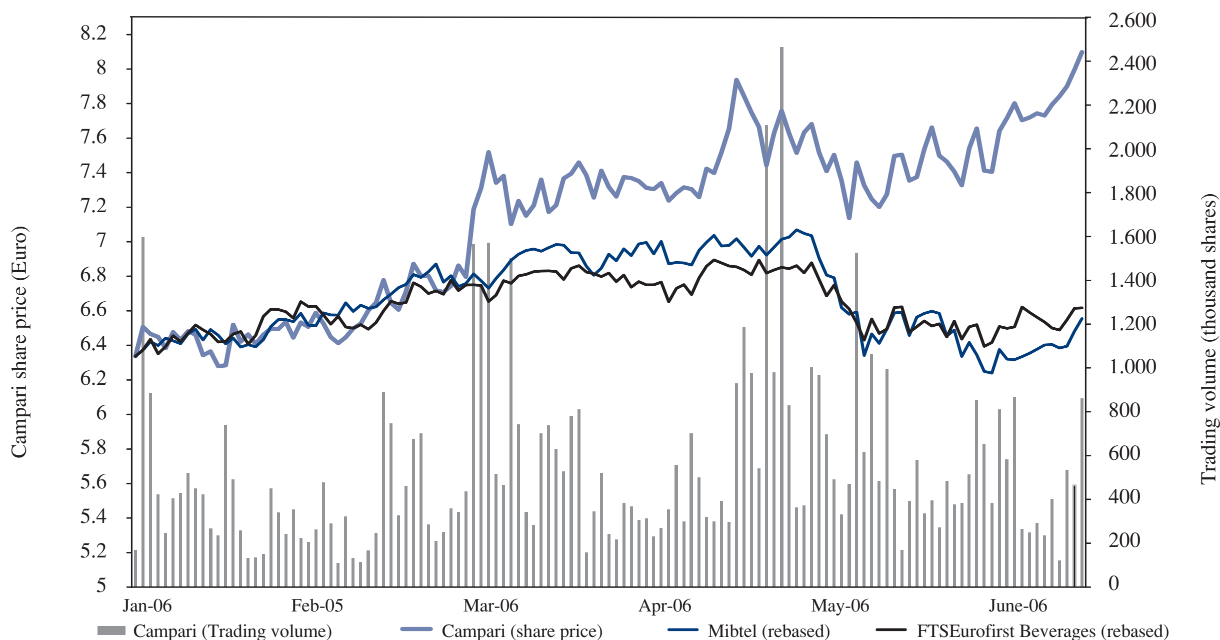
It also outperformed the Mibtel by 26.4% and the FTSEurofirst Beverages index by 25.4%.

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 540,000 shares were traded daily in the first half of 2006, with an average daily value of € 3.9 million.
At 30 June 2006, Campari's market capitalisation was € 2,352 million.

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



Revised shareholder base

At 30 June 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%
Davide Campari-Milano S.p.A.[(2)]	9,043,987	3.114%
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. (pursuant to article 117 of Consob regulation 11971/99 on notification of significant holdings) of having shareholdings greater than 2%.
(2) Own shares for the purposes of the stock option scheme.

Subsequent to 30 June 2006, at the date of approval of the half-year report, Davide Campari-Milano S.p.A. held 3,350,547 own shares, corresponding to 1.154% of the share capital.

Stock information

On 26 April 2006 the shareholders' meeting approved the full-year results for 2005 and the distribution of a dividend of € 0.10 per share with an ex-date (coupon 2) of 8 May 2006.
The dividend was paid out from 11 May.
This dividend represents a yield of 1.3%, calculated on the ex-date.

Stock information [(1)]		First half 2006	2005	2004	2003	2002	2001
Reference share price							
Price at end of period	€	8.10	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	€	7.15	5.74	4.04	3.30	3.16	2.72
Capitalisation and volumes							
Average daily trading volume [(2)]	No. of shares	539,689	487,006	429,160	378,940	530,930	723,750
Average daily trading value [(2)]	€ million	3.9	2.8	1.7	1.3	1.7	2.1
Stock market capitalisation at the end of the period	€ million	2,352	1,812	1,372	1,117	871	766

(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.

FINANCIAL STATEMENTS

Consolidated profit and loss account

	Note	30 June 2006 (€ / 000)	30 June 2005 (€ / 000)
Net sales		**417,820**	**363,854**
Cost of goods sold		(181,567)	(150,288)
Gross margin		**236,253**	**213,566**
Advertising and promotional costs		(70,898)	(62,856)
Sales and distribution costs		(50,013)	(43,232)
Trading profit		**115,342**	**107,478**
General and administrative expenses and other operating expenses and income		(29,368)	(26,511)
One-offs		(75)	2,591
EBIT		**85,899**	**83,558**
Net financial income (charges)		(5,489)	(4,724)
Profit (loss) of companies valued at equity		(16)	(216)
Profit before tax		**80,394**	**78,618**
Tax	17	(22,498)	(23,374)
Net profit		**57,896**	**55,244**
Minority interests		(2,350)	(1,831)
Group net profit		**55,546**	**53,413**
Basic earnings per share (€)		0.20	0.19
Diluted earnings per share (€)		0.19	0.19

Consolidated balance sheet

	Note	30 June 2006 (€/000)	31 December 2005 (€/000)
ASSETS			
Non-current assets			
Net tangible fixed assets	8	156,457	152,479
Biological assets	9	14,436	13,497
Investment property		4,586	4,586
Goodwill and trademarks	10	838,976	750,610
Intangible assets with a finite life		3,679	3,810
Investments in affiliated companies and joint ventures		632	591
Deferred tax assets		16,653	16,543
Other non-current assets	11	6,391	11,076
Total non-current assets		**1,041,811**	**953,192**
Current assets			
Inventories	12	186,992	135,283
Trade receivables		229,233	237,416
Short-term financial receivables		2,762	3,150
Cash, bank and securities	15	360,965	247,535
Other receivables		22,590	24,244
Total current assets		**802,541**	**647,628**
Non-current assets held for sale		78	78
Total assets		**1,844,431**	**1,600,898**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Shareholders' equity			
Share capital		29,040	29,040
Reserves	16	693,857	664,525
Parent company's portion of shareholders' equity		722,897	693,565
Minority interests		2,191	2,215
Total shareholders' equity		**725,088**	**695,780**
Non-current liabilities			
Bonds	13	335,832	374,556
Other non-current financial liabilities	13	138,033	122,812
Staff severance fund and other pension funds		14,359	14,288
Reserve for risks and future liabilities	14	6,421	10,115
Deferred tax		45,611	43,304
Other non-current liabilities		–	–
Total non-current liabilities		**540,256**	**565,075**
Current liabilities			
Payables to banks	13	353,462	112,839
Other financial payables		16,160	17,193
Payables to suppliers		147,035	150,199
Payables to tax authorities		29,221	25,058
Other current liabilities		33,209	34,754
Total current liabilities		**579,088**	**340,043**
Total liabilities and shareholders' equity		**1,844,431**	**1,600,898**

Consolidated cash flow statement

	Note	**30 June 2006** (€/000)	**30 June 2005** (€/000)
Cash flow generated from (used in) operating activities			
Group net profit		55,546	53,413
Adjustments to reconcile net profit and cash flow			
Depreciation and amortisation		9,338	8,459
Gains on sales of fixed assets		(450)	(1,886)
Fund provisions		555	(499)
Use of funds		(1,575)	
Deferred tax		4,287	7,693
Valuation effects		158	
Other items not resulting in cash flows		(2,135)	634
Changes in tax payables and receivables		8,978	5,832
Change in operating working capital		(27,325)	(29,307)
Other changes in non-cash items		(6,891)	2,957
		40,488	**47,296**
Cash flow generated from (used in) investing activities			
Purchase of tangible and intangible fixed assets		(9,986)	(10,666)
Gains on sales of tangible fixed assets		438	3,254
Purchase of companies or holdings in subsidiaries	6	(128,904)	(118,164)
Net change in equity investments		882	(15,492)
Other changes		(361)	89
		(137,932)	**(140,979)**
Cash flow generated from (used in) financing activities			
Repayment of medium-long-term financing		(1,678)	(1,475)
Net change in short-term bank debt		240,623	60,407
Change in other financial payables and receivables		(2,597)	25,847
Dividend paid by Parent Company		(28,136)	(28,105)
		208,212	**56,674**
Exchange rate differences and other changes in shareholders' equity			
Effect of exchange rate differences on operating working capital		3,364	(13,177)
Other exchange rate differences and changes in shareholders' equity		179	9,228
		3,543	**(3,949)**
Net increase (decrease) in cash and cash equivalents		**114,311**	**(40,958)**
Cash and cash equivalents at start of period		245,061	239,484
Cash and cash equivalents at end of period	15	359,373	198,526

Statement of changes in shareholders' equity

	Group shareholders' equity					Minority	Total
	Share capital (€ / 000)	Legal reserve (€ / 000)	Retained earnings (€ / 000)	Other reserves (€ / 000)	Total (€ / 000)	interests (€ / 000)	shareholder's equity (€ / 000)
Balance at 1 January 2006	**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 minorities					**–**	(2,158)	(2,158)
Purchase of own shares	–		–		**–**	–	–
Use of own shares	–		–		**–**	–	–
Stock options	–		–	526	**526**	–	526
Conversion difference	–		–	(95)	**(95)**	(216)	(311)
Net gain (loss) on cash flow hedging	–		–	1,490	**1,490**	–	1,490
First-half profit	–		55,546		**55,546**	2,350	57,896
Balance at 30 June 2006	**29,040**	**5,808**	**671,686**	**16,363**	**722,897**	**2,191**	**725,088**
Balance at 1 January 2005	**29,040**	**5,808**	**553,877**	**3,820**	**592,545**	**4,372**	**596,917**
Dividend payout to Parent Company shareholders	–		(28,105)	–	**(28,105)**		(28,105)
Dividend payout to minorities					–	(1,274)	(1,274)
Purchase of own shares	–		–	(1,095)	**(1,095)**	–	(1,095)
Use of own shares	–		–	610	**610**	–	610
Stock options	–		–	418	**418**	–	418
Conversion difference	–		–	(3,622)	**(3,622)**	430	(3,192)
Valuation of hedging instruments (cash flow hedge)	–		–	(164)	**(164)**	–	(164)
First-half profit	–		53,413	–	**53,413**	1,831	55,244
Balance at 30 June 2005	**29,040**	**5,808**	**579,185**	**(33)**	**614,000**	**5,359**	**619,359**

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 publication of this half-year report was authorised by the Board of Directors on 11 September 2006.

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

2. Preparation criteria

This half-year report has been prepared in accordance with IAS 34 (Interim Financial Reporting) and article 81 of Consob Issuer Regulation 11971/1999.
Interim reports do not include all of the information required in the annual report, so this half-year report should be read in conjunction with the Group's annual report for the year ending 31 December 2005.

Basis of consolidation

In the first six months of 2006, following the acquisition of Glen Grant, Old Smuggler and Braemar, the following companies, which are wholly-owned by DI.CI.E. Holding B.V., were included in the basis of consolidation for the first time:

- Glen Grant Whisky Company Ltd.;
- Glen Grant Distillery Company Ltd.;
- Glen Grant Ltd.;
- Old Smuggler Whisky Company Ltd.

In addition, a new Group company, Campari Finance Belgium S.a.r.l., which is wholly owned by the Parent Company and has its registered office in Brussels, was established.

A new company owned by DI.CI.E Holding B.V. (95%) and Lacedaemon Holding B.V. (5%), Campari Argentina S.R.L., was also set up to distribute the Old Smuggler brand in Argentina.

The company was not yet operational at the date of this report as a suspensive condition in the terms for completing the acquisition of the Old Smuggler brand in Argentina had not been fulfilled, since the transaction was still under consideration by the Argentine competition authorities.

Moreover, this is the first consolidated half-year report to include the profit and loss figures of Teruzzi & Puthod S.r.l., although its balance sheet items were included in the 2005 annual report, as the acquisition of this company was concluded at the end of December.

The tables below list the companies included in the basis of consolidation at 30 June 2006.

Name, activity, location	Share capital at 30 June 2006		% owned by the Parent Company		
	Currency	Amount	Direct	Indirect	Direct Shareholder
PARENT COMPANY					
Davide Campari-Milano S.p.A., holding company and manufacturing company, Milan	€	29,040,000			
FULLY CONSOLIDATED SUBSIDIARIES					
Italy					
Barbero 1891 S.p.A., manufacturing and trading company, Canale	€	22,350,000		100.00	
Campari Italia S.p.A., trading company, Milan	€	1,220,076		100.00	

Name, activity, location	Share capital at 30 June 2006		% owned by the Parent Company		
	Currency	Amount	Direct	Indirect	Direct Shareholder
Sella & Mosca S.p.A., manufacturing and trading company, Alghero	€	13,838,916		100.00	Zedda Piras S.p.A.
Sella & Mosca Commerciale S.p.A., trading company, Alghero	€	100,000		100.00	Sella & Mosca S.p.A. (90%) Barbero 1891 S.p.A. (10%)
Teruzzi & Puthod S.r.l., manufacturing and trading company, San Giminiano	€	1,000,000		100.00	Sella & Mosca S.p.A.
Giannina S.r.l., manufacturing and trading company, San Giminiano	€	20,000		100.00	Sella & Mosca S.p.A.
Zedda Piras S.p.A., manufacturing and trading company, Cagliari (operational headquarters in Alghero)	€	16,276,000	100.00		
Longhi & Associati S.r.l., services company, Milan	€	10,400		70.00	Lacedaemon Holding B.V.
Europe					
Campari Deutschland GmbH, trading company, Oberhaching (Munich)	€	5,200,000		100.00	DI.CI.E. Holding B.V.
Campari Finance Belgium S.A., finance company, Brussels	€	246,926,407	100.00		
Campari Teoranta, finance company, Dublin	€	1,000,000		100.00	DI.CI.E. Holding B.V.
Campari France S.A.S., manufacturing company, Nanterre	€	2,300,000		100.00	DI.CI.E. Holding B.V.
Campari International S.A.M., trading company, Monaco	€	100,000,000		100.00	DI.CI.E. Holding B.V.
Campari Schweiz A.G., trading company, Zug	CHF	2,000,000		100.00	DI.CI.E. Holding B.V.
Koutsikos Distilleries S.A., manufacturing company, Volos	€	2,239,405		75.00	N. Kaloyannis Bros. S.A.
DI.CI.E. Holding B.V., holding company, Amsterdam	€	15,015,000	100.00		
Lacedaemon Holding B.V., holding company, Amsterdam	€	10,465,000		100.00	Campari Schweiz A.G.
N. Kaloyannis Bros. S.A., trading company, Volos (Greece)	€	8,884,200		75.00	O-Dodeca B.V.
O-Dodeca B.V., holding company, Amsterdam	€	2,000,000		75.00	Lacedaemon Holding B.V.
Prolera LDA, services company, Funchal	€	5,000	100.00		
Société Civile du Domaine de Lamargue, manufacturing and trading company, Saint Gilles	€	4,793,184		100.00	Sella & Mosca S.p.A.
Glen Grant Whisky Company Ltd., dormant company, Stirling	GBP	2,533,500		100	DI.CI.E. Holding B.V.
Glen Grant Distillery Company Ltd., trading company, Stirling (*)	GBP	100,000		100	DI.CI.E. Holding B.V.
Glen Grant Ltd., manufacturing and trading company, Stirling	GBP	100,000		100	DI.CI.E. Holding B.V.
Old Smuggler Whisky Company Ltd., manufacturing and trading company, Stirling (*)	GBP	100,000		100	DI.CI.E. Holding B.V.
Americas					
Campari Argentina S.R.L, trading company, Buenos Aires	AR$	100,000		100.00	DI.CI.E. Holding B.V. (95%), Lacedaemon Holding B.V. (5%)

Name, activity, location	Share capital at 30 June 2006		% owned by the Parent Company		
	Currency	Amount	Direct	Indirect	Direct Shareholder
Campari do Brasil Ltda., manufacturing and trading company, Barueri	BRC	243,202,100	100.00		
Gregson's S.A., trademark holder, Montevideo	UYP	175,000		100.00	Campari do Brasil Ltda.
Redfire, Inc., holding company, Wilmington, Delaware	US$	115,450,000	100.00		
Skyy Spirits, LLC, trading company, Wilmington, Delaware (operational headquarters in San Francisco)	US$	15,348,729		89.00	Redfire, Inc.
Other					
Qingdao Sella & Mosca Winery Co. Ltd., manufacturing and trading company, Qingdao	US$	3,000,000		93.67	Sella & Mosca S.p.A.

Other holdings	Share capital at 30 June 2006		% owned by the Parent Company		Valuation
Name, activity, location	Currency	Amount	Indirect	Direct shareholder	
Fior Brands Ltd., trading company, Stirling	GBP	100	50.00	DI.CI.E. Holding B.V.	equity
International Marques V.o.f., trading company, Haarlem	€	210,000	33.33	DI.CI.E. Holding B.V.	equity
M.C.S. S.c.a.r.l., trading company, Brussels	€	464,808	33.33	DI.CI.E. Holding B.V.	equity
SUMMA S.L., trading company, Madrid	€	342,000	30.00	DI.CI.E. Holding B.V.	equity

(*): 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.

Currency conversion criteria and exchange rates applied to the accounts

The exchange rates used for conversion transactions are shown below.

	30 June 2006		31 December 2005		30 June 2005	
	Average rate	Final rate	Average rate	Final rate	Average rate	Final rate
US dollar	1.2289	1.2713	1.2446	1.1797	1.2852	1.2092
Swiss franc	1.5612	1.5672	1.5483	1.5551	1.5463	1.5499
Brazilian real	2.6925	2.7575	3.0403	2.7432	3.3150	2.8476
Uruguayan peso	29.5389	30.2617	30.4492	27.9648	32.0798	29.7886
Chinese renminbi	9.8700	10.1648	10.2033	9.5204	10.6412	10.0079
UK pound	0.6870	0.6921	0.6839	0.6853	0.6861	0.6742

Use of estimates

The preparation of the accounts and related notes in accordance with IFRS requires management to make estimates and assumptions that have an impact on the value of 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.

3. Changes in accounting standards

The same accounting standards as last year were used in the preparation of the accounts, with the exception of the new or revised standards adopted in 2006, namely:

IAS 39 amendment relating to hedging of forecast intragroup transactions

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 have a significant effect on shareholders' equity or net profit in the first six months of the year.

IAS 39 and IFRS 4 (Financial Guarantee Contracts)

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.

IAS 19 amendment

In December 2004, the IASB issued an amendment to IAS 19 (Employee Benefits), allowing the option of recognising actuarial profits or losses in full in the period in which they occur, outside the profit and loss account, but in a separate statement of recognised income and expense.

This option may be applied from 1 January 2006; however, it has not yet been applied by the Campari Group.

4. 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.

5. Default risk: negative pledges and debt covenants

With regard to the Group's financial payables, 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.

6. 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 fair values on the date the assets were transferred and the liabilities assumed were:

	Book value (€ / 000)	Fair value (€ / 000)
Non-current assets		
Tangible fixed assets	4,737	4,737
Trademarks	100,452	100,452
Total non-current assets	105,190	105,190
Current assets		
Inventories	22,728	22,728
Cash and bank	2,940	2,940
Total current assets	25,668	25,668
Total assets	130,858	130,858
Shareholders' equity	130,858	130,858

At the date of this report, the last stage in the acquisition of the brands, for € 1.2 million, had yet to be completed, so this item does not appear in the table above.

The total cost of the acquisition, excluding the cash acquired and excluding the cost of the brands (not yet disbursed), was € 128,915 thousand; this figure includes the costs directly attributable to the transaction (€ 997 thousand).

The amount was paid in cash, financed by short-term bank debt.

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

If the acquisition had been consolidated at the start of the period, the Group's revenues would have increased by around € 7.3 million, while the contribution to net profit would have been about € 0.7 million.

7. Results by business area

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

- spirits;
- wines;
- soft drinks;
- other sales.

The wines segment includes sparkling and still products, and "aromatic wines", such as vermouth.

The soft drinks segment includes all non-alcoholic drinks, including non-alcoholic aperitifs.

The other sales segment covers co-packing activities and sales of raw materials and semi-finished goods.

The two tables below show the Group's revenues and costs attributed to the individual segments for the first half of 2005 and 2006.

30 June 2006	*Spirits* (€ / 000)	*Wines* (€ / 000)	*Soft drinks* (€ / 000)	Other sales (€ / 000)	Total operations (€ / 000)
Revenues (*)					
Net sales to third parties	293,217	47,535	71,934	5,134	417,820
Income and profits					
Income by segment	94,090	4,338	15,674	1,240	115,342
Unallocated expenses					(29,443)
Operating profit					85,899
Net financial income (charges)					(5,489)
Profit (loss) of companies valued at equity	(11)	(4)	(2)	–	(16)
Tax					(22,498)
Minority interests					(2,350)
Group net profit					55,546

(*) There were no inter–segment sales.

30 June 2005	*Spirits* (€/000)	*Wines* (€/000)	*Soft drinks* (€/000)	Other sales (€/000)	Total operations (€/000)
Revenues (*)					
Net sales to third parties	243,101	45,747	71,820	3,187	363,854
Income and profits					
Income by segment	84,795	6,157	16,988	665	108,605
Unallocated expenses					(29,443)
Operating profit					83,558
Net financial income (charges)					(4,724)
Profit (loss) of companies valued at equity	(145)	(50)	(21)	–	(216)
Tax					(23,374)
Minority interests					(1,831)
Group net profit					53,413

(*) There were no inter-segment sales.

8. 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 depreciation	(48,016)	(119,202)	(51,523)	(218,741)
Balance at 31 December 2005	81,756	63,551	7,172	152,479
Investments	781	3,166	4,161	8,108
Change in basis of consolidation	2,924	1,449	365	4,737
Disposals	–	–	17	17
Depreciation and amortisation	(1,999)	(4,797)	(1,385)	(8,181)
Reclassifications	1,105	2,111	(3,553)	(337)
Write-downs	–	(2)	(14)	(16)
Exchange rate differences and other changes	532	(3,832)	2,951	(349)
Balance at 30 June 2006	**85,099**	**61,644**	**9,715**	**156,457**
Closing book value	139,063	210,314	30,698	383,379
Closing accumulated depreciation	(53,958)	(148,797)	(20,863)	(226,922)

The change in the basis of consolidation item (€ 4.7 million) represents the values relating to the acquisition of Glen Grant, Old Smuggler and Braemar; in particular the distillery's land, buildings and machinery.

Investments for the period of € 8.1 million largely relate to the Parent Company's investment in the Novi Ligure plant, and to a lesser extent, to certain subsidiaries.

9. Biological assets

Changes in this item relate solely to the € 1.3 million investment in vineyard equipment and depreciation of 0.3 million.

10. 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	–	101,128	101,128
Investments	–	4	4
Exchange rate differences and other changes	(12,766)	(0)	(12,766)
Balance at 30 June 2006	**715,453**	**123,523**	**838,976**
Closing book value	715,453	123,523	838,976
Closing impairment	–	–	–

The change in the basis of consolidation relates to the value of the Glen Grant, Old Smuggler and Braemar brands acquired during the period and related costs.

Exchange rate differences relate to goodwill, denominated in euro, deriving from the acquisition of a further stake in Skyy Spirits, LLC in 2005.

11. Other non-current assets

The reduction in non-current assets is due solely to the elimination of the asset value of the derivative on the Redfire, Inc. private placement, which was worth € 5.3 million at 31 December 2005.

The contra entry of this change is the reduction in the fair value of the corresponding liability, under the item "bonds".

12. Inventories

Inventories are shown minus the related provision for write-downs; during the period, the Group wrote down inventories of products that could no longer be sold by € 0.1 million.

From this fund, € 0.5 million was used during the period.

The increase in this item is partly due to the first-time consolidation of the warehouses that came with the acquisition of Glen Grant, Old Smuggler and Braemar (€ 22.7 million).

The remainder of the increase was due both to seasonal factors and the Group's new distribution contracts; in particular, the change in the item reflects the greater impact of the distribution of new brands (see Report on operations), as well as its naturally higher level compared with end-December.

The greater impact of the distribution of new brands was quantified at € 6.5 million.

13. Financial liabilities

Bond and private placement

The increase in interest rates and appreciation of the euro versus the US dollar led to a reduction in the fair value of the bond issued by the Parent Company and of the Redfire, Inc. private placement; in addition, the reduction in the latter liability was due to the effect of translating the item into the Group's reference currency.

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

However, with the aim of benefiting from lower short-term interest rates for a few more months, 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.

In accordance with IAS accounting principles, 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 bond matures, the cash flow hedge method is used for the portion of the liability on which a fixed rate is paid.

Payables to banks

The increase in short-term bank debt partly resulted from the funds needed to pay for the acquisition of Glen Grant, Old Smuggler and Braemar, and partly from the increase in liquid funds made available to the Group.

14. Reserve for risks and future liabilities

The sum of € 0.3 million was used from the reserve for industrial restructuring reported by the Parent Company and containing provisions made in previous years in relation to the restructuring of the Group's industrial sites.

A residual fund of € 1.9 million provisioned in previous years in respect of Group reorganisation and restructuring charges was also released.

From the agent severance fund, € 0.9 million was used, while from tax provisions and other provisions, € 0.4 million and € 0.5 million were used respectively.

The amount allocated to other provisions was € 0.5 million.

15. Cash, bank and securities

	30 June 2006 (€ / 000)	31 December 2005 (€ / 000)
Bank current accounts and cash	34,173	31,362
Term deposits and securities readily convertible to cash	325,200	213,698
Cash and cash equivalents	359,373	245,061
Other securities	1,592	2,474
Total cash, bank and securities	**360,965**	**247,535**

The increase in this item relates to the increase in short-term bank debt commented on in the Report on operations under the “Breakdown of net debt” section.

16. Dividends

The dividends approved by the shareholders’ meeting (which also approved the annual report and accounts for the year ending 31 December 2005) and distributed during the period, were as follows:

	Total amount		Dividend per share	
	30 June 2006 (€ / 000)	30 June 2005 (€ / 000)	30 June 2006 (€)	30 June 2005 (€)
Dividends approved and paid during the period on ordinary shares	28,136	28,105	0.100	0.100

17. Tax

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

	30 June 2006 (€ / 000)	30 June 2005 (€ / 000)
Current income tax		
– tax for the current year	(18,265)	(15,681)
– tax relating to previous years	54	
Deferred income tax		
– newly-reported and cancelled temporary differences	(4,287)	(7,693)
Income tax posted to the profit and loss account	(22,498)	(23,374)

18. Related parties

The amounts of trade and financial transactions entered into with affiliated companies and joint ventures are set out below.

	30 June 2006				First half 2006			
	Trade receivables	Trade payables	Financial receivables	Other	Sale of merchandise	Trade allowances	Financial income	Other
Fior Brands Ltd.	1,064	(301)	1,455	9	1,364	(564)	36	20
International Marques V.o.f.	911		0		1,872	(655)	0	10
M.C.S. S.c.a.r.l.	2,165	(30)	1,006	5	3,314	(1,039)	14	24
SUMMA S.L.	2,138	(626)	0		2,893	(1,806)	0	(34)
	6,279	**(957)**	**2,462**	**14**	**9,443**	**(4,065)**	**50**	**19**

	30 June 2005				First half 2005			
	Trade receivables	Trade payables	Financial receivables	Other	Sale of merchandise	Trade allowances	Financial income	Other
Fior Brands Ltd.	1,668	(76)	1,396		1,912	(455)		
International Marques V.o.f.	936		114		1,690	(485)	1	
M.C.S. S.c.a.r.l.	1,594		1,005		2,434	(736)		
SUMMA S.L.	3,137				4,323	(1,520)		
	7,335	**(76)**	**2,515**	**0**	**10,359**	**(3,196)**	**1**	0

No transactions with related parties, as defined in IAS 24 (Related Party Disclosures), took place during the period.

19. Hedging transactions

Hedging transactions entered into by the Group concern both the hedging of financial liabilities and forward contracts used to hedge future sales and purchases in currencies other than euro taken out by Campari International S.A.M.

The hedging of financial liabilities commented on in Note 13 generated a positive effect on the cash flow hedging reserve of € 0.9 million before theoretical tax effects.

With regard to the hedging transactions of Campari International S.A.M., the main contracts outstanding at 30 June 2006 concerned the US dollar and Swiss franc.

As regards the former, currency sales contracts cover US$ 18.9 million, of which US$ 11.5 million relates to sales not yet recorded at 30 June.

These contracts are therefore considered as cash flow hedging.

In addition, currency purchase contracts cover US$ 6.9 million, of which US$ 6.3 million relates to future purchases.

Swiss franc contracts concern the future sale of CHF 6.7 million, of which CHF 6.1 million relates to future sales in the currency recorded by the subsidiary.

The fair value of these transactions totals € 0.8 million.

20. Reconciliation of shareholders' equity and profit of Parent Company Davide Campari-Milano S.p.A.

The table below shows a reconciliation of profit for the period and shareholders' equity for the Group and Parent company.

	30 June 2006	
	Shareholders' equity	Profit for the period
Parent company accounts	**456,937**	**36,438**
Difference between book value of consolidated subsidiaries and corresponding shareholders' equity	288,124	160,906
Elimination of dividends distributed by consolidated companies		–43,856
Elimination of intragroup profit net of tax effect	–12,774	–100,214
Alignment of accounting policies	–9,389	2,272
Consolidated accounts	**722,897**	**55,546**

21. Commitments and risks

Following a tax inspection of one of the Group's Italian subsidiaries, certain charges deducted by the company in previous years were contested.

An appeal is being considered but if this is unsuccessful, the maximum amount the company will be required to pay in additional tax is around € 0.5 million.

At the date this report was approved, the Group's tax advisers considered this a possible, but not probable, risk.

As a result, no provisions for this eventuality were made during the period.

22. Events taking place after the end of the period

Stock options

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.

The Parent Company used a proportion of own shares held for this purpose.

After the transaction, the number of own shares held by the Parent Company was 3,350,547.

On 3 July 2006, more options were assigned under a new plan, 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 5,365,020, with the average allocation price at € 7.67, equivalent to the weighted average market price in the month preceding the day on which the options were granted.

Introduction (application of IFRS)

The accounting statements for the period ending 30 June 2006 for the Parent Company Davide Campari-Milano S.p.A. reported in the following pages have been prepared in accordance with Consob regulation 11971/1999.

The accounting standards used to prepare these statements are the same as those that will be used to prepare the annual accounts for the year ending 31 December 2006.

Pursuant to the provisions of Regulation (EC) 1606/2006 dated 19 July 2002, starting with reporting year 2005, companies with securities authorised for trading on regulated markets of member states of the European Union must prepare annual accounts in accordance with the international accounting standards (IFRS) ratified by the European Commission.

In accordance with this regulation, Davide Campari-Milano S.p.A. adopted the international accounting standards (IFRS) from 1 January 2006.

As a result, the figures in the half-year report for 2006, as well as the profit and loss account and balance sheet figures provided for comparison, were prepared by applying the valuation and measurement criteria set by IFRS and adopted by the European Commission.

The relevant explanatory notes are not provided, as they are not considered necessary for the purposes of providing accurate information to the public.

The Appendix describes the impact of the transition to IFRS and provides the reconciliations required by IFRS 1 (First-time Adoption of International Financial Reporting Standards) accompanied by the relevant explanatory notes.

The balances shown in the reconciliation statements for 1 January and 31 December 2005 were subject to a complete audit.

Accounting statements for Davide Campari-Milano S.p.A. at 30 June 2006

Profit and loss account

2005	(€ / 000)	First half 2006	First half 2005
243,746	**Net sales**	**113,938**	**111,146**
(182,403)	Cost of goods sold	(85,331)	(80,213
61,343	**Gross profit**	**28,607**	**30,933**
(7,863)	Advertising and promotional costs	(3,831)	(3,214)
(4,763)	Sales and distribution costs	(3,409)	(2,095
48,717	**Trading profit**	**21,367**	**25,624**
(24,556)	General and administrative expenses and other operating costs	(11,042)	(9,597)
1,099	Other one-offs	2	–
25,260	**Operating income**	**10,327**	**16,027**
28,307	Dividends from subsidiaries	35,389	26,307
(10,373)	Net financial income (charges)	(6,590)	(5,389)
43,194	**Profit before tax**	**39,126**	**36,945**
(2,635)	Tax	(2,688)	(4,051)
40,559	**Net profit**	**36,438**	**32,894**

Balance sheet

(€ / 000)	30 June 2006	31 December 2005
ASSETS		
Non-current assets		
Net tangible fixed assets	89,459	89,827
Investment property	3,964	3,964
Goodwill and trademarks	171,621	171,621
Intangible assets with a finite life	1,465	1,392
Investments in affiliated companies	727,786	597,753
Deferred tax assets	4,753	5,199
Other non-current assets	3,094	3,034
Total non-current assets	**1,002,142**	**872,790**
Current assets		
Inventories	52,033	44,684
Trade receivables	30,280	41,620
Short-term financial receivables	69,925	53,544
Cash, bank and securities	105,682	101,984
Other receivables	28,616	20,773
Total current assets	**286,536**	**262,605**
Non-current assets held for sale	38	38
Total assets	**1,288,716**	**1,135,433**
LIABILITIES AND SHAREHOLDERS' EQUITY		
Shareholders' equity		
Share capital	29,040	29,040
Reserves	427,897	418,254
Total shareholders' equity	**456,937**	**447,294**
Non-current liabilities		
Bonds	207,706	231,406
Other non-current liabilities	69,927	48,945
Staff severance fund	7,058	6,814
Reserve for risks and future liabilities	2,495	2,905
Deferred tax liabilities	8,709	8,011
Other non-current liabilities	–	216
Total non-current liabilities	**295,895**	**298,297**
Current liabilities		
Payables to banks	215,057	71,505
Other financial payables	247,226	248,841
Trade payables	51,405	52,900
Payables to tax authorities	4,727	5,918
Other current liabilities	17,469	10,678
Total current liabilities	**535,884**	**389,842**
Total liabilities and shareholders' equity	**1,288,716**	**1,135,433**

Cash flow statement

(€ / 000)	First half 2006	First half 2005
Profit before tax	39,126	36,945
Amortisation of intangible fixed assets	330	224
Depreciation of tangible fixed assets	4,794	4,784
Provisions:		
– staff severance fund	726	744
– stock write-down reserve	181	725
Stock option costs	526	418
Net capital losses (gains) from disposals of tangible fixed assets	(3)	(141)
Dividends not paid	(5,200)	–
Net charges (income) in respect of derivative instruments	(311)	(15)
Other non-cash items (net)	(310)	(281)
Cash flow from operating activities for the period	**39,859**	**43,403**
of which:		
– corporate income tax paid	–	–
– interest paid	*5,991*	*4,140*
– dividends paid	*30,189*	*26,307*
Payments from staff severance fund	(517)	(636)
Change in reserve for risks and liabilities	(410)	(1,274)
Change in operating assets and liabilities		
Change in trade receivables	11,340	7,369
Change in inventories	(7,530)	(16,539)
Change in other receivables from subsidiaries	1,225	5,228
Change in receivables and payables to/from tax authorities	(5,176)	(1,804)
Change in other receivables	(1,076)	(501)
Change in trade payables	(1,495)	18,908
Change in other payables	7,116	(2,604)
	4,404	10,057
Cash flow from operating activities	**43,336**	**51,550**
Investment in intangible fixed assets	(403)	(1,767)
Investment in tangible fixed assets	(4,436)	(3,043)
Income from sale of fixed assets	13	1,425
Purchase of a 99.99% stake in Campari Finance Belgium S.a.r.l.	(130,033)	–
Purchase of own shares	–	(1,095)
Income from sale of own shares	–	609
Cash flow from investing activities	**(134,859)**	**(3,871)**
Increase (decrease) in short-term bank loans	143,552	8,071
Decrease (increase) in financial receivables from subsidiaries	(17,283)	(37,827)
Increase (decrease) in financial payables to subsidiaries	(1,297)	48,047
Payment of lease instalments	(1,477)	(1,439)
Payments relating to medium- and long-term debt	(138)	–
Dividend payout	(28,136)	(28,105)
Cash flow from financing activities	**95,221**	**(11,253)**
Net cash flow for the period	**3,698**	**36,426**
Cash and equivalents at the start of the period	**101,984**	**55,738**
Net cash flow for the period	**3,698**	**36,426**
Cash and equivalents at the end of the period	**105,682**	**92,164**

Statement of changes in shareholders' equity

(€ /000)	Share capital	Legal reserve	Extraordinary reserve	Reserve for VAT deductions (Law 64/86 and Law 67/88)	Equity investment transfer reserve (Leg. Decree 544/92)	Reserve for own shares	Own shares	Stock option reserve	Fair value reserve	Retained earnings	Shareholders' equity
Balance at 31 December 2004	**29,040**	**5,808**	**243,222**	**1,043**	**3,041**	**29,780**	**–**	**419**	**–**	**152,789**	**465,142**
Application of IAS 32 and IAS 39:											
Financial instruments stated at fair value	–	–	–	–	–	–	–	–	–	(2,022)	**(2,022)**
Own shares	–	–	–	–	–	(29,780)	(29,780)	–	–	29,780	**(29,780)**
Balance at 1 January 2005	**29,040**	**5,808**	**243,222**	**1,043**	**3,041**	**–**	**(29,780)**	**419**	**–**	**180,547**	**433,340**
Dividend payout	–	–	–	–	–	–	–	–	–	(28,105)	**(28,105)**
Purchase of own shares	–	–	–	–	–	–	(1,095)	–	–	–	**(1,095)**
Use of own shares	–	–	–	–	–	–	610	–	–	–	**610**
Stock option	–	–	–	–	–	–	–	418	–	–	**418**
Profit from first half 2005	–	–	–	–	–	–	–	–	–	32,894	**32,894**
Balance at 30 June 2005	**29,040**	**5,808**	**243,222**	**1,043**	**3,041**	**–**	**(30,265)**	**837**	**–**	**185,336**	**438,062**

(€ /000)	Share capital	Legal reserve	Extraordinary reserve	Reserve for VAT deductions (Law 64/86 and Law 67/88)	Equity investment transfer reserve (Leg. Decree 544/92)	Reserve for own shares	Own shares	Stock option reserve	Fair value reserve	Retained earnings	Shareholders' equity
Balance at 1 January 2006	**29,040**	**5,808**	**243,222**	**1,043**	**3,041**	**–**	**(29,289)**	**1,428**	**–**	**193,001**	**447,294**
Dividend payout	–	–	–	–	–	–	–	–	–	(28,136)	**(28,136)**
Stock option	–	–	–	–	–	–	–	526	–	–	**526**
Cash flow hedging	–	–	–	–	–	–	–	–	815	–	**815**
Profit from first half 2006	–	–	–	–	–	–	–	–	–	36, 438	**36, 438**
Balance at 30 June 2006	**29, 040**	**5, 808**	**243, 222**	**1, 043**	**3, 041**	**–**	**(29, 289)**	**1, 954**	**815**	**201, 303**	**456, 937**

APPENDIX - TRANSITION TO IFRS INTERNATIONAL ACCOUNTING STANDARDS BY DAVIDE CAMPARI-MILANO S.P.A.

In accordance with the provisions of Regulation (EC) 1606 dated 19 July 2002, from 1 January 2005 the Campari Group adopted the international accounting standards (IFRS) issued by the International Accounting Standards Board (IASB) and approved by the European Commission, for the preparation of its consolidated accounts.

In compliance with the Italian legislation implementing this Regulation, the first annual accounts for Davide Campari-Milano S.p.A. to be prepared using these principles will be those for 2006.

The Parent Company has therefore presented the figures for the first half of 2006, and comparative figures for the same period in 2005, under IFRS principles.

This Appendix provides:

– a description of the accounting standards adopted by the Parent Company Davide Campari-Milano S.p.A. from 1 January 2006;
– the reconciliations of net profit and shareholders' equity according to Italian accounting standards, and net profit and shareholders' equity resulting from the application of IFRS relating to the periods presented for comparative purposes, as required by IFRS 1 (First-time adoption of international financial reporting standards), as well as the related explanatory notes.

The accounting statements for 2005 presented here will be included in the annual accounts for the year ending 31 December 2006 for comparative purposes: these figures may be subject to change as required if any of the international accounting standards are revised or amended in 2006.

Note that new interpretations of the IFRS may be issued before publication of the consolidated accounts for Davide Campari-Milano S.p.A. to 31 December 2006, the effects of which may be backdated. In this instance, it could affect the balance sheet and profit and loss account for 2005 reclassified in accordance with the IFRS principles presented in these statements.

This Appendix has been prepared solely for the purposes of the transition to IFRS and the preparation of Davide Campari-Milano S.p.A.'s first full annual accounts according to these standards.

Therefore, the report does not include all statements, comparative information and related explanatory notes that would be necessary to provide a complete representation of the Company's balance sheet and profit and loss account in accordance with IFRS.

ACCOUNTING STANDARDS ADOPTED BY DAVIDE CAMPARI-MILANO S.P.A. FROM 1 JANUARY 2006

Intangible assets

Intangible assets include all assets without any physical form that are identifiable, controlled by the company and capable of producing future financial 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 financial benefits to 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 intangible fixed 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 paragraph entitled "Impairment."

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 must include 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 Company all the risks and benefits tied to ownership, are recognised as Company assets at their current value, or the present value of the minimum lease payments, whichever is lower.

The corresponding liability to the lessor is reported in the 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:

Property	
Buildings	3%
Temporary buildings	10%
Plant and machinery:	
Plant and machinery	10%
Vats	10%
Industrial and commercial equipment:	
Miscellaneous equipment	20%
Commercial equipment	20%
Other tangible fixed assets:	
Furniture	12%
Office equipment	12%
Electronic equipment	20%
Miscellaneous minor equipment	20%
Motor vehicles	20%
Cars	25%

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 Company ascertains, at least annually, whether there are indications of a potential loss in value of intangible and tangible assets.
If the Company 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 Company 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.

Equity investments

Investments in subsidiaries are recorded at cost and adjusted for any loss in value.

The positive difference arising at the time of the acquisition between the purchase cost and the current value of the Company's stake is included in the book value of the holding; any write-downs of this positive difference are not reinstated in subsequent periods, even if the reasons for the write-down no longer apply.

If the Company's portion of the subsidiary's losses exceeds the book value of the holding, the book value is eliminated and the portion of any further losses is posted to liabilities as a specific reserve to the extent to which the parent company is required to fulfil legal or implicit obligations with respect to the subsidiary or in any event to cover its losses.

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

Investments in other companies that are not held for trading (available for sale) are recorded at fair value, if determinable, and this value is allocated to shareholders' equity up to the date of sale or the identification of a loss in value, at which time the effects previously booked to shareholders' equity are recorded in the profit and loss account for the period.

When the fair value cannot be reliably determined, investments are valued at cost, adjusted for any loss in value.

Dividends received are recognised in the profit and loss account when the right to receive payment is established, only if they arise from the distribution of profits subsequent to the acquisition of the subsidiary.
If, however, the dividends relate to the distribution of the subsidiary's reserves preceding the acquisition, these dividends are recorded as a reduction in the cost of the investment.

Financial instruments

Financial assets and liabilities are booked in accordance with IAS 39 (Financial Instruments - Recognition and Measurement).

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.
In the absence of reliable information, they are held at cost.

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

Loans and receivables that the Company 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 due after one year, non-interest-bearing receivables or receivables that accrue below-market interest are discounted using market rates.

Valuations are performed regularly in order to verify whether there is objective evidence that a financial asset or group of assets has declined in value.
If such objective evidence exists, the loss in value must be recorded as a cost in the profit and loss account for the period.

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

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

Financial derivatives

Financial derivatives are used solely for hedging purposes to reduce exchange and interest rate risk.

In accordance with IAS 39, financial derivatives may be recorded using hedge accounting procedures only if, at the beginning of the hedge, a formal designation has been made and the documentation for the hedge relationship exists, and if it is assumed that the hedge is highly effective; it must be possible for this effectiveness to be reliably measured, and the hedge must prove highly effective during the accounting periods for which it is designated.

All financial derivatives are measured at their current value pursuant to IAS 39.

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 current value of an asset or liability attributable to a particular risk that could have an impact on the profit and loss account, the profits or losses resulting from the subsequent valuations of the current value of the hedging instrument are reported in the profit and loss account.

The gain or loss on the hedged entry, which is attributable to the hedged risk, changes the book value of this entry and is recorded in the profit and loss account.

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

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

The profit or loss associated with a hedge, or the portion of the hedge that has become ineffective, is posted to the profit and loss account when the ineffectiveness is reported.

If a hedge instrument or hedge relationship is closed out, but the transaction being hedged has not been carried out, the accumulated profits and losses, which, until that moment had been posted to shareholders' equity, are reported in the profit and loss account at the time the related transaction is carried out.

If the transaction being hedged is no longer considered likely to take place, the pending unrealised profits or losses in shareholders' equity are recorded in the profit and loss account.

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

Own shares

Own shares are reported as a reduction in respect of shareholders' equity.

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

Inventories

Inventories of raw materials, 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

The staff severance fund is considered a post-employment defined benefit plan, and is reported in accordance with the provisions for other defined benefit plans.

The Company'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 Company pays additional benefits in the form of stock option plans to employees, directors and individuals who regularly do work for the Company.

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 Company 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 Company reports restructuring reserves only if there is an implicit restructuring obligation and a detailed formal restructuring programme that has led to the reasonable expectation of the third parties concerned that

the Company will carry out the restructuring, either because it has already started the process or because it has already communicated the main aspects of the restructuring to the third parties concerned.

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

Revenues are reported to the extent to which it is likely that the financial benefits will accrue to the Company and in respect of the amount that can be 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 assets to which they relate;
– 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 the Company 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 that are expected to apply in those periods when the temporary differences are generated or eliminated.

Current and deferred tax assets and liabilities are offset when a legal right of set-off exists, provided that realisation of the asset and settlement of the liability take place simultaneously.

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

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

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

Transactions in foreign currencies (not hedged with derivatives)

Revenues and costs related to foreign currency transactions are reported at the exchange rate in effect on the date the transaction is completed.

Monetary assets and liabilities in foreign currencies are converted to euro at the exchange rate in effect on the reporting date with any related impact posted to the profit and loss account.

Use of estimates

The preparation of the accounts and related notes in accordance with IFRS requires management to make estimates and assumptions that have an impact on the value of assets and liabilities in the accounts and on disclosures concerning potential 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.

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.

FIRST-TIME APPLICATION OF INTERNATIONAL ACCOUNTING STANDARDS (IFRS1)

The opening consolidated balance sheet was prepared at the date of transition to IFRS (1 January 2005) according to the following criteria:

- all assets and liabilities whose recognition is required by IFRS were recorded;
- all assets and liabilities whose derecognition is required by IFRS were eliminated;
- the relevant reclassifications and/or measurements were carried out to ensure that items are shown correctly in accordance with IFRS;
- IFRS have been applied in the valuation of all assets and liabilities recorded, with the exception of those set out below;
- the effect of adjusting the opening asset and liability balances to the new international accounting standards was recognised directly in the opening shareholders' equity figure (at 1 January 2005), taking into account the related tax effect.

Davide Campari-Milano S.p.A. applied the accounting policies set out above retrospectively, except where exemptions granted by IFRS 1 have been applied, as described below.

Moreover, as Davide Campari-Milano S.p.A. adopted international accounting standards for its full-year accounts subsequent to the adoption of these standards for the Campari Group's consolidated accounts (transition date: 1 January 2004), the assets and liabilities were valued under IFRS at the same amounts in both accounts (for the year and consolidated), except for those items subject to consolidation adjustments.

The accounting options adopted by the Company in the first-time application of the international accounting standards are as follows:

- **valuation of assets and liabilities**: the Company opted to value its assets and liabilities at the date of transition (1 January 2005) at the same values as those used to prepare the balance sheet for the Group's consolidated accounts for the year ending 31 December 2004.
- **business combinations**: the Company chose not to apply IFRS 3 (Business Combinations) retrospectively to the transactions that took place before the date of transition to IFRS; goodwill and trademark amortisation have therefore not been calculated since 1 January 2004 (the date of application of IFRS for the Group);
- **fair value or revaluation as deemed cost**: the Company opted to maintain the historical cost as an alternative to fair value or revalued cost at the date of transition, maintaining the revaluations carried out before 1 January 2004. At the date of revaluation, the valuation was comparable to the fair value;
- **employee benefits**: the Company decided to recognise all cumulative actuarial gains and losses as of 1 January 2004, resulting from the valuations of employee benefits as defined benefit plans;
- **financial instruments**: the Company opted to apply IAS 39 (Financial instruments: Recognition and Measurement) and IAS 32 (Financial Instruments: Disclosure and Presentation) from 1 January 2005;
- **share-based payments**: in the case of equity-settled transactions, the Company applied IFRS 2 (Share-based Payments) to the allocation of stock options issued after 7 November 2002, which had not matured when IFRS 2 came into force (1 January 2005);

With reference to the new accounting formats, in keeping with those used in the Campari Group's consolidated accounts, the Parent Company adopted the following methods of classification:

- assets and liabilities are classified as "current/non-current" on the balance sheet;
- costs are classified according to function on the profit and loss account;
- cash flow is determined by the "indirect method" on the cashflow statement.

Lastly, for a greater understanding of the impact of the transition to IFRS on the Parent Company's balance sheet, note that, with reference to a number of significant items:

– mergers were not considered "business combinations" as they did not involve the acquisition of control, but were only necessary as part of the Group's rationalisation of its organisational structure;
– goodwill recorded in the accounts at the date of transition also includes the effects of previous mergers that were accounted for under Italian accounting standards.
  As these were transactions with companies already controlled by the Company, they were not considered "business combinations".
  In light of current interpretations of the accounting treatment to be applied to such transactions in the Parent Company's separate balance sheet prepared under IFRS, and pending future clarification on this aspect, it was considered appropriate to opt to maintain the values used in the full-year accounts that were prepared under Italian accounting standards.

RECONCILIATIONS REQUIRED BY IFRS 1

In order to illustrate the transition to IFRS, in application of the provisions set out in IFRS 1, the tables below show the:

– effects of the transition to IFRS on the balance sheet at 1 January 2005;
– effects of the transition to IFRS on the balance sheet at 31 December 2005;
– reconciliation of shareholders' equity at 1 January, 30 June and 31 December 2005;
– effects of the transition to IFRS on the profit and loss account for the first half of 2005;
– effects of the transition to IFRS on the profit and loss account for the full year 2005;
– reconciliation of the net profit for the first half and full year 2005;
– explanatory notes;
– significant adjustments to the full year 2005 cashflow statement following the transition to IFRS.

Effects of the transition to IFRS on the balance sheet at 1 January 2005

(€ / 000)	Italian accounting standards (*)	Effects of the transition to IFRS Reclassification	Note	Adjustments	Note	IFRS
ASSETS						
Non-current assets						
Net tangible fixed assets	71,936	(3,073)	i, ii	26,717	C, E	95,580
Investment property	–	3,966	i	–		3,966
Goodwill and trademarks	162,535	–		9,086	B	171,621
Intangible assets with a finite life	3,927	(2,561)	ii, iii	(489)	A	877
Investments in affiliated companies	584,753	–		–		584,753
Own shares	29,780	–		(29,780)	L	–
Deferred tax assets	5,431	–		999	I, M	6,430
Other non–current assets	3,375	(343)	iv	–		3,032
Total non–current assets	**861,737**	**(2,011)**		**6,533**		**866,259**
Current assets	–	–		–		–
Inventories	36,919	–		1,203	D	38,122
Trade receivables	37,670	–		–		37,670
Short–term financial receivables	22,103	(3,381)	v	–		18,722
Cash, bank and securities	55,740	(2)		–		55,738
Other receivables	17,682	2		(259)	E	17,425
Total current assets	**170,114**	**(3,381)**		**944**		**167,677**
Non–current assets held for sale	–	87	i	–		87
Total assets	**1,031,851**	**(5,305)**		**7,477**		**1,034,023**

(€ / 000)	Italian accounting standards (*)	Effects of the transition to IFRS Reclassification	Note	Adjustments	Note	IFRS
LIABILITIES AND SHAREHOLDERS' EQUITY						
Shareholders' equity						
Share capital	29,040	–		–		29,040
Reserves	424,858	–		(20,558)		404,300
Total shareholders' equity	**453,898**	**–**		**(20,558)**		**433,340**
Non-current liabilities						
Bonds	257,954	(1,581)	iii	(56,343)	M	200,030
Other non-current liabilities	1,625	–		81,363	E, M	82,988
Staff severance fund	8,678	(343)	iv	(655)	F	7,680
Reserve for risks and future liabilities	6,225	–		(481)	G	5,744
Deferred tax liabilities	4,152	–		1,499	I	5,651
Total non-current liabilities	**278,634**	**(1,924)**		**25,383**		**302,093**
Current liabilities						
Payables to banks	56,388	(7,955)	v, vi	–		48,433
Other financial payables	183,455	4,574	vi	2,944	E	190,973
Trade payables	40,610	–		(292)	E	40,318
Payables to tax authorities	5,335	–		–		5,335
Other current liabilities	13,531	–		–		13,531
Total current liabilities	**299,319**	**(3,381)**		**2,652**		**298,590**
Total liabilities and shareholders' equity	**1,031,851**	**(5,305)**		**7,477**		**1,034,023**

Effects of the transition to IFRS on the balance sheet at 31 December 2005

(€ / 000)	Italian accounting standards (*)	Effects of the transition to IFRS Reclassification	Note	Adjustments	Note	IFRS
ASSETS						
Non-current assets						
Net tangible fixed assets	67,276	(3,314)	i, ii	25,865	C, E	89,827
Investment property	–	3,964	i	–		3,964
Goodwill and trademarks	153,588	–		18,033	B	171,621
Intangible assets with a finite life	5,645	(2,138)	ii, iii	(2,115)	A	1,392
Investments in affiliated companies	597,753	–		–		597,753
Own shares	29,289	–		(29,289)	L	–
Deferred tax assets	3,355	–		1,844	I, M	5,199
Other non-current assets	3,280	(246)	iv	–		3,034
Total non-current assets	**860,186**	**(1,734)**		**14,338**		**872,790**
Current assets						
Inventories	42,978	–		1,706	D	44,684
Trade receivables	41,620	–		–		41,620
Short-term financial receivables	56,798	(3,254)	v	–		53,544
Cash, bank and securities	101,994	(10)		–		101,984
Other receivables	20,988	7		(222)	E	20,773
Total current assets	**264,378**	**(3,257)**		**1,484**		**262,605**
Non-current assets held for sale	–	38	i	–		38
Total assets	**1,124,564**	**(4,953)**		**15,822**		**1,135,433**

(€ / 000)	Italian accounting standards (*)	Effects of the transition to IFRS Reclassification	Note	Adjustments	Note	IFRS
LIABILITIES AND SHAREHOLDERS' EQUITY						
Shareholders' equity						
Share capital	29,040	–		–		29,040
Reserves	428,967	–		(10,713)		418,254
Total shareholders' equity	**458,007**	**–**		**(10,713)**		**447,294**
Non-current liabilities						
Bonds	257,954	(1,450)	iii	(25,098)	M	231,406
Other non-current liabilities	1,470	–		47,475	E, M	48,945
Staff severance fund	8,293	(246)	iv	(1,233)	F	6,814
Reserve for risks and future liabilities	3,028	–		(123)	G	2,905
Deferred tax liabilities	5,220	–		2,791	I	8,011
Other non-current liabilities	216	–		–		216
Total non-current liabilities	**276,181**	**(1,696)**		**23,812**		**298,297**
Current liabilities						
Payables to banks	80,000	(8,495)	v, vi	–		71,505
Other financial payables	240,588	5,238	vi	3,015	E	248,841
Trade payables	53,192	–		(292)	E	52,900
Payables to tax authorities	5,918	–		–		5,918
Other current liabilities	10,678	–		–		10,678
Total current liabilities	**390,376**	**(3,257)**		**2,723**		**389,842**
Total liabilities and shareholders' equity	**1,124,564**	**(4,953)**		**15,822**		**1,135,433**

Reconciliation of shareholders' equity at 1 January, 30 June and 31 December 2005

(e / 000)	Note	1 January 2005	30 June 2005 (i)	31 December 2005
Shareholders’ equity under Italian accounting standards		**453,898**	**453,454**	**458,007**
Start-up and expansion costs and other intangible fixed assets	A	(489)	(427)	(2,115)
Goodwill and trademarks	B	9,086	13,560	18,033
Land	C	45	67	90
Inventories	D	1,203	2,116	1,706
Finance leases	E	1,758	2,765	3,793
Employee benefits	F	655	655	1,233
Reserve for risks and future liabilities	G	481	450	123
Net deferred tax income (expense) on adjustments	I	(1,495)	(2,302)	(2,048)
Application of IAS 32 and IAS 39				
Own shares	L	(29,780)	(30,265)	(29,289)
Hedging instruments at fair value, net of deferred tax assets (liabilities)	M	(2,022)	(2,012)	(2,239)
Total adjustments		**(20,558)**	**(15,393)**	**(10,713)**
Shareholders’ equity under IFRS		**433,340**	**438,061**	**447,294**

(1) figures not subject to full audit

Effects of the transition to IFRS on the profit and loss account for the first half of 2005 (i)

(€ / 000)	Italian accounting standards (*)	Effects of the transition to IFRS Reclassification	Note	Adjustments	Note	IFRS	
Net sales	**111,146**	**–**		**–**		**111,146**	**Net sales**
Cost of goods sold	(82,507)	–		2,294		(80,213)	Cost of goods sold
Gross profit	**28,639**	**–**		**2,294**		**30,933**	**Gross profit**
Advertising and promotional costs	(3,232)	–		18		(3,214)	Advertising and promotional costs
Sales and distribution costs	(2,098)	–		3		(2,095)	Sales and distribution costs
Trading profit	**23,309**	**–**		**2,315**		**25,624**	**Trading profit**
General and administrative expenses and other operating costs	(9,233)	65	iii	(429)		(9,597)	General and administrative expenses and other operating costs
Depreciation and amortisation and trademarks	(4,474)	–		4,474	B	–	
Other one-offs: (charges) and income	–	–		–		–	Other one-offs: (charges) and income
Operating income	**9,602**	**65**		**6,360**		**16,027**	**Operating income**
Dividends – from subsidiaries	26,307	–		–		26,307	Dividends – from subsidiaries
Net financial income (charges)	(5,008)	(65)	iii	(316)		(5,389)	Net financial income (charges)
Profit before tax	**30,901**	**–**		**6,044**		**36,945**	**Profit before tax**
Tax	(3,239)	–		(812)	I, M	(4,051)	Tax
Net profit	**27,662**	**–**		**5,232**		**32,894**	**Net profit**

(1) figures not subject to full audit

Effects of the transition to IFRS on the profit and loss account for the full year 2005

(€ / 000)	Italian accounting standards (*)	Effects of the transition to IFRS: Reclassification	Note	Adjustments	Note	IFRS	
Net sales	**243,746**	**–**		**–**		**243,746**	**Net sales**
Cost of goods sold	(185,669)	–		3,266		(182,403)	Cost of goods sold
Gross profit	**58,077**	**–**		**3,266**		**61,343**	**Gross profit**
Advertising and promotional costs	(7,901)	–		38		(7,863)	Advertising and promotional costs
Sales and distribution costs	(4,779)	–		16		(4,763)	Sales and distribution costs
Trading profit	**45,397**	**–**		**3,320**		**48,717**	**Trading profit**
General and administrative expenses and other operating costs	(22,412)	131	iii	(2,275)		(24,556)	General and administrative expenses and other operating costs
Depreciation and amortisation Goodwill and trademarks	(8,948)	–		8,948	B	–	
Other one-offs: (charges) and income	1,099	–		–		1,099	Other one-offs: charges and income
Operating income	**15,136**	**131**		**9,993**		**25,260**	**Operating income**
Dividends from subsidiaries	28,307	–		–		28,307	Dividends from subsidiaries
Net financial income (charges)	(9,041)	(131)	iii	(1,201)		(10,373)	Net financial income (charges)
Profit before tax	**34,402**	**–**		**8,792**		**43,194**	**Profit before tax**
Tax	(2,188)	–		(447)	I,M	(2,635)	Tax
Net profit	**32,214**	**–**		**8,345**		**40,559**	**Net profit**

Reconciliation of the net profit for the first half and full year 2005

(€/000)	Note	First half 2005 (i)	Full year 2005
Net profit under Italian accounting standards		**27,662**	**32,214**
Start-up and expansion costs and other intangible fixed costs	A	62	(1,626)
Goodwill and trademarks	B	4,474	8,948
Land	C	22	45
Inventories	D	913	503
Finance leases	E	1,007	2,035
Employee benefits	F	–	578
Reserve for risks and future liabilities	G	(31)	(358)
Stock options	H	(418)	(1,009)
Net deferred tax income (expenses) on adjustments	I	(807)	(553)
Application of IAS 32 and IAS 39			
Fair value hedging instruments,			
net of deferred tax assets (liabilities)	M	10	(218)
Total adjustments		**5,232**	**8,345**
Shareholders' equity under IFRS		**32,894**	**40,559**

(1) figures not subject to full audit

EXPLANATORY NOTES

The following explanatory notes are provided on the main reclassifications and reconciliations made to shareholders' equity and net profit, following the transition to IFRS standards.

RECLASSIFICATIONS

i. Investment property

IFRS standards require investment property to be disclosed as a specific item on the balance sheet. In this category, the Company has non-current real estate assets consisting of residential housing, warehouses, a shop and a plot of land.

These investment properties are valued at cost.

The change in disclosure requirements means that assets amounting to € 3,966 thousand at 1 January 2005 and € 3,964 thousand at 31 December 2005 were reclassified from "net tangible fixed assets" to "investment property".

Moreover, non-current real estate assets with high re-sale potential, or where there is an irrevocable commitment to sale to a third party, have been reclassified from "net tangible fixed assets" to "non-current assets held for sale".

These assets, which are valued at the lower of net book value and fair value net of sales costs, totalled € 87 thousand at 1 January 2005 and € 38 thousand at 31 December 2005.

ii. Improvements to third-party assets

Under Italian accounting principles, costs incurred for improvements to third-party assets with a useful life of several years were capitalised under intangible fixed assets.

According to IFRS standards, however, costs that can be identified separately from the asset to which they relate are to be recorded under tangible assets.

Since the costs incurred in undertaking improvements to the Group's third-party assets, (€ 980 thousand at 1 January 2005 and € 688 thousand at 31 December 2005) satisfy the criteria described above, they have been reclassified from "intangible assets with a finite life" to "net tangible fixed assets".

iii. Bond issue expenses

Under Italian accounting principles, bonds must be shown at the residual nominal value (principal); any issue premiums or discounts, as well as issue expenses, are deferred and amortised over the term of the bond.

Under IFRS, however, the value of bonds must be shown net of these costs.
The resulting reclassification of issue costs capitalised under intangible fixed assets totalling € 1,581 thousand at 1 January 2005 and € 1,450 thousand at 31 December 2005 directly reduced the "bonds" item by these amounts.

iv. Tax credits on staff severance fund (TFR)

In compliance with IFRS standards, withholding tax paid on allocations to the staff severance fund must be shown as a direct reduction in the amount payable.

This accounting treatment means that the "staff severance fund" was reduced by the amount of the reclassified tax credit, included under "other non-current assets" (€ 343 thousand at 1 January 2005 and € 246 thousand at 31 December 2005).

v. Accrued financial income (charges) relating to derivatives

"Short-term financial receivables" decreased as a result of the reclassification, from short-term bank debt, of accrued income (of € 3,381 thousand at 1 January 2005 and € 3,254 thousand at 31 December 2005), relating to accrued interest income on the bond derivative hedging transactions (cross currency swaps).

vi. Interest payable on bonds

Other current financial payables increased as a result of the reclassification from short-term bank debt of accrued interest payable on the bond issue of € 4,574 thousand at 1 January 2005 and € 5,238 thousand at 31 December 2005.

ADJUSTMENTS

A – Start-up and expansion costs and other intangible fixed assets

Under IFRS, start-up and expansion costs and other intangible fixed assets that do not meet the requirements for recognition as assets must be allocated to the profit and loss account.

The effects of this alternative accounting treatment are:

- a decrease in shareholders' equity of € 489 thousand at 1 January, € 427 thousand at 30 June and € 2,115 thousand at 31 December 2005;
- an increase in net profit in the first half of 2005 of € 62 thousand, as these items are no longer amortised, and a decrease in net profit for the full year 2005 of € 1,626 thousand, mainly because non-capitalised consultancy fees were charged directly to the profit and loss account.

B – Goodwill and trademarks

Under IFRS, goodwill and trademarks may no longer be amortised as they are deemed to be intangible assets with an indefinite useful life.

A test is carried out at least annually to determine whether there has been any loss in value in respect of the book value (impairment test).

As the Company chose not to apply IFRS 3 (Business Combinations) retrospectively to the transactions that took place before the date of transition, values for goodwill and trademarks continued to be recorded under Italian accounting standards.

To this end, cash generating units were identified for goodwill and trademarks. Impairment tests carried out on them confirmed the book values recorded on the balance sheet.

In addition, the application of IFRS meant that amortisation on these items was eliminated, via:

- an increase in shareholders' equity of € 9,086 thousand at 1 January, € 13,560 thousand at 30 June and € 18,033 thousand at 31 December 2005;
- an increase in net profit for the first half of 2006 of € 4,474 thousand, and for the full year 2005 of € 8,948 thousand.

C – Land

Under Italian accounting principles, land belonging to buildings is depreciated with the buildings, while in accordance with IFRS, it must be classified separately and may no longer be depreciated.
The effects of this alternative accounting treatment are:

- an increase in shareholders' equity of € 45 thousand at 1 January, € 67 thousand at 30 June and € 90 thousand at 31 December 2005;
- an increase in net profit for the first half of 2006 of € 22 thousand, and for the full year 2005 of € 45 thousand.

D – Inventories

Under Italian accounting standards, the cost of inventories may be calculated using the weighted average cost method, or the FIFO or LIFO method.

Davide Campari-Milano S.p.A. adopted the LIFO method with annual increments for the valuation of inventories, under Italian accounting standards.

IFRS does not allow this method to be applied, while the FIFO and average weighted cost methods are allowed.

The Company has chosen to value its inventories under IFRS, using the weighted average cost method.

The effects of applying this different valuation method are:

- an increase in shareholders' equity of € 1,203 thousand at 1 January, € 2,116 thousand at 30 June and € 1,706 thousand at 31 December 2005;
- an increase in net profit for the first half of 2006 of € 913 thousand, and for the full year 2005 of € 503 thousand.

E – Finance leases

Under Italian accounting standards, the lessee records finance lease contracts on its balance sheet using the "equity method", showing the leasing charges on the profit and loss account for the year to which they relate. It does not record the assets subject to the lease, as it does not own the assets.

According to international accounting standards, however, the lessee must record on their balance sheet: under assets, any assets held on the basis of a leasing contract, if the risks and rewards associated with their use have been transferred to the lessee, and under liabilities, the corresponding financial payables to the lessor.

The effects of this alternative accounting treatment are:

- an increase in shareholders' equity of € 1,758 thousand at 1 January, € 2,765 thousand at 30 June and € 3,793 thousand at 31 December 2005;
- an increase in net profit for the first half of 2006 of € 1,007 thousand, and for the full year 2005 of € 2,035 thousand.

F – Employee benefits

Italian accounting principles require recognition of the liability for the staff severance fund based on the nominal liability accrued, in accordance with statutory regulations in force at the end of the reporting period. Under IFRS, the staff severance fund falls under the category of defined benefit plans, which are subject to actuarial valuation to determine the present value of the amounts (payable upon termination of employment) that have accrued to employees at the reporting date.

Under this alternative accounting treatment, all actuarial gains and losses have been recognised at the date of transition, as follows:

- an increase in shareholders' equity of € 655 thousand at 1 January, € 655 thousand at 30 June and € 1,233 thousand at 31 December 2005;
- a decrease in net profit of € 578 thousand for 2005, as a result of an increase in allocations to the staff severance fund and the related financial component.

G – Reserve for risks and future liabilities

The recognition of reserves for risks and future liabilities is subject to the existence of specific, objective conditions under IFRS.

At the date of transition, the Company eliminated the reserve for risks and future liabilities that had been recorded in the accounts under Italian accounting principles, as the new criteria were not met.

The impact of this was:

- an increase in shareholders' equity of € 481 thousand at 1 January, € 450 thousand at 30 June and € 123 thousand at 31 December 2005;
- a decrease in net profit for the first half of 2006 of € 31 thousand and € 358 thousand for the full year 2005 as a result of the derecognition of these funds on the profit and loss account.

H – Stock options

IFRS standards require that the total current value of stock options on the date of issue is recorded in the profit and loss account as a cost.

For this reason, since these are deemed to be part of the salaries package, stock options issued on 8 July 2004 to employees, directors and individuals who regularly perform work for the Company are recorded under personnel and services costs.

The cost is calculated with reference to the fair value of the options allocated, determined by applying the Black-Scholes model; the portion relating to the accounting period in question is determined on a pro-rata basis for the period to which the benefit relates (known as the vesting period).

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

The effects of this alternative treatment led to a decrease in net profit of € 418 thousand for the first half of 2006 and € 1,009 thousand for the full year 2005.

I – Net deferred tax assets (liabilities) relating to these adjustments

As a result of applying an alternative accounting treatment, as required to comply with IFRS, the recording of deferred tax assets and liabilities to reflect the adjustments detailed above had the following impact:

- a decrease in shareholders' equity of € 1,495 thousand at 1 January, € 2,302 thousand at 30 June and € 2,048 thousand at 31 December 2005;
- a decrease in net profit for the first half of 2006 of € 807 thousand, and of € 553 thousand for the full year 2005.

L – Own shares

Under Italian accounting standards, own shares were recorded under assets, and a specific earmarked reserve was created under shareholders' equity. IFRS standards require, however, that own shares are accounted for as a reduction in shareholders' equity.

This alternative accounting treatment led to a decrease in shareholders' equity of € 29,780 thousand at 1 January 2005, € 30,265 thousand at 30 June 2005 and € 29,289 thousand at 31 December 2005, while own shares of the same amounts were eliminated from the assets side.

M – Derivative hedging instruments

Derivatives were classified as an off-balance sheet item under Italian accounting standards, whereas IAS 39 requires their obligatory disclosure in the accounts at fair value.

They are classified according to usage:

- fair value hedging instruments must be recorded under assets or liabilities; the derivative and underlying hedged item are valued at fair value and the differences accounted for in the profit and loss statement;
- cash flow hedging instruments should be included under assets or liabilities; the derivative is valued at fair value and the differences in value for the hedging component recorded, net of tax, in a reserve for shareholders' equity, and released to the profit and loss account in the financial years in which the cash flows from the hedged item occur.

The effect of this classification, excluding the tax effect, led to:

- a decrease in shareholders' equity of € 2,022 thousand at 1 January, € 2,012 thousand at 30 June and € 2,239 thousand at 31 December 2005;
- an increase in net profit of € 10 thousand for the first half of 2005, and a decrease in net profit of € 218 thousand for the full year 2005.

Significant adjustments to the 2005 cash flow statement following the transition to IFRS

In accordance with IAS 7, the cash flow statement must classify cash flows separately under operating, investing and financing activities.

The cash flow statement presented by the Company in the accounts for the year ending 31 December 2005 conforms to this requirement and discloses these cash flows separately.

In particular, cash flow from operations was determined indirectly by adjusting the profit for the period for the effects of changes in items that did not involve expenditure or generate cash (non-cash items).

The application of IFRS did not therefore require any significant adjustments to the cash flows shown in the 2005 cash flow statement.

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Auditors' review report on the Management Report as of and for the six months ended June 30, 2006 prepared pursuant to Article 81 of the Consob Regulation, adopted by the Resolution no. 11971 of May 14, 1999 and subsequent modifications and integrations
(Translation from the original Italian text)

To the Shareholders of
Davide Campari - Milano S.p.A.

1. We have reviewed the interim consolidated financial statements, consisting of the balance sheet, the statement of income, the statement of changes in shareholders' equity and the statement of cash flows (the "Statements") and the related explanatory notes, included in the Management Report of Davide Campari - Milano S.p.A. as of and for the six months ended June 30, 2006 (the "Six Months Management Report"). The Six Months Management Report is the responsibility of Davide Campari - Milano S.p.A.'s management. Our responsibility is to issue this review report based on our review. We have also examined that part of the information included in the management's discussion and analysis of operations, solely for the purpose of evaluating its consistency with the remaining part of the Six Months Management Report.

2. Our review was conducted in accordance with auditing standards governing the review of interim financial statements recommended by Consob (the Italian Stock Exchange Regulatory Agency) in its Resolution no. 10867 of July 31, 1997. The review consisted mainly of obtaining information with respect to the accounts included in the Statements and the consistency of the accounting principles applied, through discussions with appropriate members of management, and analytical procedures applied to the financial data presented in such Statements. The review did not include performing auditing procedures such as tests of compliance of internal controls and substantive procedures on assets and liabilities, and the scope of the work performed provides significant less assurance than a full scope audit performed in accordance with generally accepted auditing standards. Accordingly, we do not express an audit opinion on the Six Months Management Report as we do in connection with reporting on our full scope audit of the annual consolidated financial statements.

3. With respect to the comparative data related to the consolidated financial statements of the preceding year and to the Management Report for the same period of the preceding year presented in the Statements, reference should be made to our audit and review reports issued on April 7, 2006 and on October 10, 2005 respectively.

4. Based on our review, we are not aware of any significant modifications that should be made to the Statements and the related explanatory notes, identified in paragraph 1. of this report, in order for them to be in conformity with International Accounting Standard no. 34 and with the criteria for the preparation of the Six Months Management Report required by Article 81 of Consob Regulation as adopted in its Resolution no. 11971 of May 14, 1999 and subsequent modifications and integrations.

Milan, October 9, 2006

Reconta Ernst & Young S.p.A.
Signed by: Pellegrino Libroia, Partner

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Capitale Sociale € 1.259.500,00 i.v.
Iscritta alla S.O. del Registro delle Imprese presso la C.C.I.A.A. di Roma
Codice fiscale e numero di iscrizione 00434000584
P.I. 00891231003
(vecchio numero R.I. 6697/89 - numero R.E.A. 250904)

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Independent Auditors' report on the statements of reconciliation to International Financial Reporting Standards ("IFRS")
(Translation from the original Italian text)

To the Board of Directors of
Davide Campari – Milano S.p.A..

1. We have audited the accompanying statements of reconciliation to International Financial Reporting Standards ("IFRS"), consisting of the balance sheets as of January 1, 2005 and December 31, 2005 and the statement of income for the year ended December 31, 2005, the reconciliations of shareholders' equity as of January 1, 2005 and December 31, 2005 (hereinafter, the "IFRS Reconciliation Statements") of Davide Campari – Milano S.p.A. and of net income for the year ended December 31, 2005 and the related explanatory notes, as presented, in accordance with the criteria and principles set out in CONSOB Communication No. 6064313 of July 28, 2006, in the Section "Appendix – Transition to International Accounting Standards (IFRS) of Davide Campari – Milano S.p.A." of the Six Months Management Report as of and for the six months ended June 30, 2006 (hereinafter "Appendix"). These IFRS Reconciliation Statements are based on the separate financial statements of Davide Campari - Milano S.p.A. as of December 31, 2005 prepared in accordance with the Italian regulations governing the criteria for their preparation, which we have previously audited and on which we issued our auditors' report dated April 7, 2006. The Appendix includes, for comparative purposes, the reconciliations of shareholders' equity as of June 30, 2005 and net income for the six month period then ended related to Davide Campari – Milano S.p.A.'s separate accounts at the same data, which had not been audited and, therefore, we do not express our opinion on these data. The IFRS Reconciliation Statements have been prepared as part of the Company's transition to IFRS as adopted by the EU. These IFRS Reconciliation Statements are the responsibility of the Davide Campari - Milano's management. Our responsibility is to express an opinion on these IFRS Reconciliation Statements based on our audit.

2. We conducted our audit in accordance with generally accepted auditing standards in Italy. In accordance with such standards, we planned and performed the audit to obtain the information necessary to determine whether the IFRS Reconciliation Statements are materially misstated. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the IFRS Reconciliation 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.

3. In our opinion, the IFRS Reconciliation Statements identified in paragraph 1. above, taken as a whole, have been prepared in all material respects in accordance with the criteria and principles set out in CONSOB Communication No. 6064313 of July 28, 2006

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4. As described in the Appendix, since the IFRS Reconciliation Statements have been prepared only as part of the transition to IFRS of the first complete set of separate financial statements in accordance with IFRS as adopted by the EU, they do not include comparative financial information and necessary explanatory notes which would be required for a comprehensive presentation of the financial position and results of operations of Davide Campari - Milano S.p.A. in conformity with IFRS as adopted by the EU.

Milan, October 9, 2006

Reconta Ernst & Young S.p.A.
Signed by: Pellegrino Libroia, Partner

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Realizzazione, impianti e stampa
Marchesi Grafiche Editoriali S.p.A.

Finito di stampare nel ottobre 2006

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Relazione semestrale al 30 giugno 2006 Half-year report as at 30 June 2006