Davide Campari – Milano S.p.A.

Consolidated report for the quarter ending 30 September 2004

This document contains the translation into English of the Quarterly report of Davide Campari - Milano S.p.A. as at 30 September 2004.
The translation is provided for your convenience only, for any information in respect of Davide Campari - Milano S.p.A. the original Quarterly report in Italian “Relazione trimestrale al 30 settembre 2004” should be exclusively relied upon.

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INTRODUCTION

The Group's consolidated results for the first nine months of 2004 showed a 7.7% rise in sales, a 7.2% increase in EBITA and 7.2% growth in EBIT.
However, profit before taxes declined sharply owing to the large drop in extraordinary income compared with 30 September 2003 (when results benefited from a capital gain of € 34.0 million on the sale of real estate).

1 January – 30 September 2004 figures (€ million)	2004	2003	% change
Sales net of discounts and excise duties	544.7	505.7	7.7%
Trading profit	153.8	136.4	12.7%
EBITDA	127.4	118.7	7.4%
EBITA	114.1	106.4	7.2%
EBIT	87.7	85.5	2.5%
Group profit before taxes	70.5	102.1	–30.9%

Results were boosted by the full consolidation of Barbero 1891 S.p.A., acquired in December 2003, but this was offset by exchange rate fluctuations during the period.
A more detailed analysis of the results is given below, under the headings "Sales performance" and "Consolidated profit and loss account".

SIGNIFICANT EVENTS

Acquisition of the Riccadonna brand

In January 2004, the purchase of the Riccadonna brand from Sabevis S.r.l. was completed for € 11.3 million.
In February 2004, ownership of the Riccadonna brand was transferred to the Group company Barbero 1891 S.p.A.
All Riccadonna sparkling wine and vermouth is now produced and distributed by Barbero 1891 S.p.A.

Acquisition of Coutsicos S.A.

In January 2004, N. Kaloyannis Bros A.E.B.E. purchased Greek company Coutsicos S.A. which is based in Piraeus.
The acquisition cost was € 2.8 million and includes some of the brands already acquired by the Group in December 2003.
Coutsicos S.A. owns a plant in Volos that the Group will use for the production of Ouzo 12, which is currently bottled by third parties.
The total investment in plant and machinery and upgrading buildings is estimated at € 4.0 million.

Ongoing start-up of production at Novi Ligure.

After sparkling wines and vermouth entered production late last year, the Novi Ligure plant is now fully up and running for the production of Cynar, Jägermeister and Biancosarti.
These were formerly bottled at the Termoli plant that closed in 2003.

Sale and lease-back of the Novi Ligure property

In February 2004, Campari-Crodo S.p.A. completed a sale and lease-back transaction with Sanpaolo Leasint S.p.A. on the industrial property in Novi Ligure, consisting of a factory building and its plant.
The sale price was € 27.5 million.
The leasing contract, for which instalments also total € 27.5 million, took effect on the sale date (16 February 2004) and will run for eight years with an option to purchase the property at maturity for 10% of that amount.
The fixed monthly rent is indexed to the Euribor rate; the interest rate is the Euribor rate plus 59.5 basis points.

Sale of Sovinac S.A.

In March 2004, Sovinac S.A. (100%-owned through Lacedaemon B.V.), which became a dormant cash company after the sale of its Brussels premises to third parties, was sold for the value of its cash holdings (€ 1.0 million).
The sale had no effect on the consolidated accounts.

Ongoing Group rationalisation

Campari-Crodo S.p.A. was merged into Davide Campari-Milano S.p.A. and S.A.M.O S.p.A. into Campari Italia S.p.A. in this quarter, as previously approved at their respective shareholders' meetings.
These mergers were effective for accounting purposes and corporate income tax from 1 January 2004.

US launch of SKYY Melon, SKYY Orange and SKYY Sport

The Group announced two further line extensions of SKYY Vodka through Skyy Spirits, LLC (in addition to the existing flavours SKYY Berry, SKYY Citrus, SKYY Spiced and SKYY Vanilla): the new products, SKYY Melon, launched in January and SKYY Orange, launched in July, strengthen the company's position in the flavoured vodka segment.
In addition, in the first few months of the year, the Group announced the launch of SKYY Sport, a new low-calorie ready-to-drink beverage.
SKYY Sport is produced and distributed by SABMiller, as is SKYY Blue, the ready-to-drink introduced in 2002.

Launch of Campari Mixx Lime and Campari Mixx Peach

In February, in order to extend its range of ready-to-drink beverages, the Group launched Campari Mixx Lime and Campari Mixx Peach, the new lime and peach flavour versions of Campari Mixx.
These low-alcohol drinks join the two other versions already available: Campari Mixx and Campari Mixx Orange.

New partner Allied Domecq in joint venture with MCS S.c.r.l.

On 1 August 2004, Allied Domecq Spirits & Wines B.V. (an Allied Domecq Group company), became part of the MCS S.c.r.l. joint venture, based in Brussels, by acquiring the 33.3% share previously held by Veuve Clicquot Ponsardin (an LVMH group company).
The joint venture, in which the Campari Group and the Marnier Lapostolle Group own equal parts of the remaining 66.6% holding, manages the sales, distribution and marketing for its three members' portfolios in Belgium and Luxembourg.
Allied Domecq will bring important brands to the joint venture including Ballantine's, Mumm, Perrier Jouët and Malibu.

SALES PERFORMANCE IN THE PERIOD 1 JANUARY-30 SEPTEMBER 2004

All figures in the report are expressed in € for ease of reference.
All percentage changes and effects have been calculated on figures which were originally expressed in thousand €.
Therefore, some of the percentages in the report may differ slightly from those that would have been obtained if the figures had been calculated directly in million €, especially the very small figures.

All sales figures reported in this section (whether given as sales or net sales) are shown net of excise duties and discounts.

In the first nine months of 2004, the Group's consolidated sales increased by 7.7% to € 544.7 million, from € 505.7 million in the same period last year.
The table below breaks down sales growth into three components: external growth, organic growth and differences due to exchange rate effects.

Net sales performance	€ million	% change vs. 1 January to 30 September 2003
– sales for the period 1 January - 30 September 2004	544.7	
– sales for the period 1 January - 30 September 2003	505.7	
Total increase	**39.0**	**7.7%**
of which:		
external growth	44.5	8.8%
organic growth before exchange rate effect	9.2	1.8%
exchange rate effect	–14.7	–2.9%
Total increase	**39.0**	**7.7%**

External growth came to 8.8% and is almost wholly attributable to sales of Barbero 1891 S.p.A. (mainly Aperol but also Aperol Soda, Barbieri liqueurs and Mondoro and Enrico Serafino wines) which totalled € 43.8 million in the period under review.
The remaining external growth of € 0.7 million is from wine sales of Qingdao Sella & Mosca Winery Co. Ltd. and Société Civile Immobilière du Domaine de la Margue, which were consolidated on a line-by-line basis for the first time in 2004.

Organic growth for the first nine months of 2004, valued at constant exchange rates compared to the period January-September 2003, was 1.8%.
Growth has slowed, compared to the first-half figure of 4.6% for organic growth at the end of June 2004, mainly due to the sharp decline in sales of soft drinks and Campari Mixx in the third quarter.
Sales of these products were affected, in absolute terms, by adverse weather in the third quarter 2004 and in relative terms, compared with the exceptionally fine weather experienced in 2003 which benefited drinks sales.

Exchange rate fluctuations had a negative impact on sales of 2.9%, or € 14.7 million, of which € 11.8 million was due to the fall in value of the US$.
The US$ lost 9.3% of its value against the € compared to the same period last year, while the Brazilian real fell by only 4.5%.
The table below shows exchange rate trends in the most important currencies for the Campari Group.

Average exchange rates for the period 1 January - 30 September	2004	2003	% change
US$ x 1 €	1.226	1.111	
€ x 1 US$	0.8158	0.8997	–9.3%
BRC x 1 €	3.641	3.478	
€ x 1 BRC	0.2747	0.2875	–4.5%
CHF x 1 €	1.548	1.510	
€ x 1 CHF	0.6461	0.6624	–2.5%
JPY x 1 €	133.502	131.440	
€ x 1000 JPY	7.4905	7.6080	–1.5%

Sales by region

Sales increased by 7.7% overall in the first nine months of the year, largely due to a buoyant performance on the Italian market, where sales grew by 12.9% to € 282.2 million.
Also noteworthy was a 42.7% year-on-year rise in sales in the rest of the world, to € 16.5 million.
The tables below show, firstly, the breakdown of net sales by region, and secondly, the performance of each region, external and organic growth figures, and the effect of exchange rate movements.

Net sales by region	1 January - 30 September 2004		1 January - 30 September 2003		% change
	€ million	%	€ million	%	2004 / 2003
Italy	282.2	51.8%	249.9	49.4%	12.9%
Europe	101.7	18.7%	98.1	19.4%	3.7%
Americas	144.3	26.5%	146.2	28.9%	–1.3%
Rest of the world	16.5	3.0%	11.5	2.3%	42.7%
Total	**544.7**	**100.0%**	**505.7**	**100.0%**	**7.7%**

Breakdown of % change in net sales by region	Total % change 1 January - 30 September 2004	of which external growth	of which organic growth before exchange rate effect	of which exchange rate effect
Italy	12.9%	13.4%	–0.5%	0.0%
Europe	3.7%	9.1%	–4.8%	–0.6%
Americas	–1.3%	0.6%	7.0%	–8.9%
Rest of the world	42.7%	10.8%	42.5%	–10.7%
Total	**7.7%**	**8.8%**	**1.8%**	**–2.9%**

Italy benefited much more than the other regions from the first-time consolidation of Barbero 1891 S.p.A., as sales of this company's products are largely recorded on the Italian market (just under 80% of sales in the period under review).
External growth was 13.4%, and had a major impact on the overall performance of Italian sales (+12.9%).
Organic growth dipped by 0.5%, as unfavourable weather conditions impacted on soft drink and Campari Mixx sales.
Adverse weather had its biggest impact in Italy, since:
– this market accounts for almost all sales of soft drinks and ready-to-drink products;
– in the third quarter, the period most affected by seasonal factors, sales of soft drinks and Campari Mixx generally represent around 50% of the total (58% in 2003).

However, the sales trend for all the Group's most important brands (Campari, Campari Soda, Crodino and Cinzano) in the first nine months of the year remained positive.

In **Europe**, net sales for the first nine months of the year came in at € 101.7 million, an increase of 3.7%. Here too, external growth was substantial, at 9.1%, more than offsetting the contraction in organic growth (–4.8%) and slightly negative effect of exchange rates (–0.6%).
External growth was almost entirely due to Barbero 1891 S.p.A. brands, especially Aperol sales in Germany and Mondoro sales in Russia.
The contraction in organic growth was largely attributable to the German market, where the distribution of Campari Mixx was suspended following the sharp rise in duty on ready-to-drink products.
In addition, German sales of the two main brands, Campari and Asti Cinzano, faltered over the first nine months of the year, although the third quarter showed signs of improvement after bad weather in the important second quarter dampened sales.
Aside from seasonal factors, Germany's economy remains beset by uncertainty, which is depressing private consumption and retail sales (with the exception of hard discount stores, whose sales are rising steadily).
On all other important European markets, particularly Greece, Spain, France and the UK, organic growth continues to rise at an encouraging rate.
Exchange rate movements in Europe were only slightly negative over the first nine months, at 0.6%, mainly due to depreciation in the Swiss franc (–2.5%).

In the **Americas**, net sales fell by 1.3% to € 144.3 million in the first nine months of the year.
Here, currency depreciation (–8.9%) completely wiped out organic growth of 7.0% and external growth (relating to Barbero 1891 S.p.A. brands) of 0.6%.

The two tables below break down sales in the Americas into the US, Brazil and other countries.

Breakdown of net sales in the Americas	1 January - 30 September 2004		1 January - 30 September 2003		% change
	€ million	%	€ million	%	2004 / 2003
US	110.3	76.4%	116.2	79.5%	–5.1%
Brazil	26.6	18.4%	24.8	17.0%	6.9%
Other countries	7.4	5.1%	5.1	3.5%	45.4%
Total	**144.3**	**100.0%**	**146.2**	**100.0%**	**–1.3%**

Breakdown of % change in net sales in the Americas	Total % change 1 January - 30 September 2004	of which external growth	of which organic growth before exchange rate effect	of which exchange rate effect
US	–5.1%	0.0%	4.7%	–9.8%
Brazil	6.9%	0.0%	11.9%	–5.0%
Other countries	45.4%	16.1%	36.0%	–6.7%
Total	**–1.3%**	**0.6%**	**7.0%**	**–8.9%**

Sales in the US grew by 4.7% year-on-year in local currency in the first nine months of the year; however US$ depreciation (–9.8%) turned this into a net fall of 5.1%.

The Group performed well in Brazil, with sales up by 11.9% in local currency, thanks to good results from all important brands (Campari, Dreher and admix whiskies).

After a 5% fall in value of the Brazilian real in the first nine months of the year, sales converted into € were up 6.9%.
While sales in the other countries in this region make a limited contribution, they advanced sufficiently to largely offset the impact of currency depreciation, mainly relating to the US$.

In the **rest of the world**, which accounts for just 3.0% of Group sales, despite a positive performance so far this year, sales for the first nine months rose by 42.7% year-on-year, to € 16.5 million.
External growth broadly offset negative exchange rate movements, while organic growth was 42.5%.
Strong sales growth was mainly due to the expected trend reversal in Japan, a key market, where the local distributor had implemented a gradual destocking policy in 2003, harming quarterly sales of Group brands.
In the period under review, sales were particularly good in Australia, while external growth (10.8%) was driven by the export of Barbero 1891 S.p.A. brands and – to a lesser extent – to the first time-consolidation of wine sales on the Chinese market by Qingdao Sella & Mosca Winery Co. Ltd.

Sales by business area

In the first nine months of the year, the overall rise in Group sales of 7.7% was driven by a good performance in spirits, wines and "other sales"; growth in these three business areas, which benefited from the first-time consolidation of Barbero 1891 S.p.A., more than offset the drop in soft drink sales.
The first of the two tables below breaks down sales by segment, while the second shows external growth, organic growth and the effect of exchange rate movements.

Net sales by segment	1 January - 30 September 2004		1 January - 30 September 2003		% change
	€ million	%	€ million	%	2004 / 2003
Spirits	352.8	64.7%	323.5	64.0%	9.1%
Wines	73.4	13.5%	58.8	11.6%	24.8%
Soft drinks	111.1	20.4%	118.0	23.3%	–5.9%
Other sales	7.4	1.4%	5.4	1.1%	36.3%
Total	**544.7**	**100.0%**	**505.7**	**100.0%**	**7.7%**

Breakdown of % change in net sales by segment	Total % change 1 January - 30 September 2004	of which external growth	of which organic growth before exchange rate effect	of which exchange rate effect
Spirits	9.1%	10.5%	2.7%	–4.2%
Wines	24.8%	10.4%	16.3%	–1.9%
Soft drinks	–5.9%	0.0%	–5.9%	0.0%
Other sales	36.3%	79.9%	–42.9%	–0.7%
Total	**7.7%**	**8.8%**	**1.8%**	**–2.9%**

Spirits

In the first nine months of the year, spirits sales totalled € 352.8 million, an increase of 9.1% compared with the same period of last year.
This increase was the result of organic growth of 2.7%, a negative exchange rate effect of 4.2% and external growth of 10.5%, which was entirely attributable to sales of Barbero 1891 S.p.A. brands.

Sales of **Barbero 1891 S.p.A. spirits** in the period topped € 30 million, reinforcing a decidedly positive trend. In particular, **Aperol**, which accounts for around two-thirds of Barbero 1891 S.p.A. spirits sales, delivered double-digit growth (20.3%).

Sales of **Campari** rose by 5.1% at constant exchange rates, or 3.3% at actual exchange rates.
On the Italian market, sales advanced modestly in the first nine months of the year: this result can be considered satisfactory as sell-in of the brand was very low in the first two months of the year, since trade stocks were increased in December 2003, following the announcement of sharp rises in excise duty on alcohol, which came into effect on 1 January 2004.
In Brazil sales of Campari remained robust, while in Germany the brand did not do as well as last year; this clearly related to the poor weather that depressed sales in the second quarter, especially when compared to the particularly hot weather experienced in the same period of last year.
Other major markets contributed to the positive performance of Campari overall, especially Japan, Spain, Greece and France.

Sales of **CampariSoda**, which are almost entirely recorded on the Italian market, rose by 4.1% in the first nine months of the year, compared with the same 2003 period.

SKYY Vodka sales for the first nine months were up 4.0% year-on-year before the exchange rate effect, while sales of the **SKYY flavoured** range, which accounts for around 15% of total SKYY brand sales, fell by 7.2% compared to the first nine months of 2003.
The flavoured range, which originally consisted only of SKYY Citrus, was extended in March of last year with the launch of SKYY Berry, SKYY Spiced and SKYY Vanilla.
Last year, second-quarter sales benefited from the large-scale sell-in typical of the launch of the new products, so the comparison of 2004 with 2003 figures does not reveal the real rate of depletions (sales by wholesalers to retailers), which showed double-digit growth versus 2003.
Total net sales of the SKYY brand (vodka and flavoured products) rose by 2.1% at constant exchange rates, and fell by 7.1% at actual exchange rates, due to the depreciation of the US$.
Export sales of SKYY Vodka remain buoyant, thanks to the extension of distribution to new countries, and in particular, to greater penetration in markets such as Canada and Italy, where the brand was already sold.

Sales of **Campari Mixx** fell by 46.1% compared to the first nine months of 2003.
This negative result was attributable to two different factors.
The first, and main reason, was that in early 2004 distribution of the brand was suspended in Germany, where it had been launched exactly a year earlier, following a sharp rise in duty on ready-to-drink products (the same thing happened in Switzerland, although the effect on sales was less marked).
The second factor affecting Campari Mixx sales is the trend in the ready-to-drink market in Italy, where consumption fell unexpectedly over the last four months (June-September) compared with the same period of last year, partly due to adverse weather conditions.
However, while Campari Mixx suffered a double-digit slump in net sales, its market share remained unchanged.

As for the Brazilian brands, both **Dreher** aguardiente (+15.4% at constant exchange rates; +10.2% at actual exchange rates) and the Old Eight, Drury's and Gold Cup admix whiskies did very well (+17.8% at constant exchange rates; +12.6% at actual exchange rates).

Looking now at other Group products in the spirits segment, the first nine months of the year have been extremely positive for **Ouzo 12**, with sales up by 16.4%, thanks to an excellent performance in its two main markets, Germany and Greece.

Cynar sales increased by 5.5% at constant exchange rates and 4.8% at actual exchange rates.
This result was attributable both to a positive performance on the Italian market and the launch of this product on the Brazilian market.
Furthermore, the third-party licensing rights to the Cynar brand on the Brazilian market expired in July 2004; as a result, the brand, which is category leader on the Brazilian market, will be produced and distributed locally by the Group via Campari do Brasil Ltda.

Sales of Mirto di Sardegna and other **Zedda Piras** brands, which are mostly sold in Italy, fell slightly, after a poor summer in the main market, Sardinia, which saw a substantial drop in visitor numbers.

Sales of the main **third-party brands** were as follows:
– +26.6% for 1800 Tequila, at constant exchange rates (+14.9% at actual exchange rates);
– +1.9% for Jägermeister;
– –10.6% for Scotch whiskies (organic growth: –5.1%; exchange rate effect: –7.7%; external growth +2.3%, relating to the whiskies distributed by Barbero 1891 S.p.A.).

Wines

In the first nine months of the year, net sales of wines were very good, at € 73.4 million, an increase of 24.8% compared with the same period of last year.
This increase was the result of organic growth of 16.3% (before the exchange rate effect) and external growth of 10.4%, which was chiefly attributable to the first-time consolidation of Barbero 1891 S.p.A.
The wines that were added to the Group's product portfolio following this acquisition (mainly sparkling wine Asti Mondoro and Enrico Serafino wines) recorded sales of over € 5 million.
Compared with the figures provided by Barbero 1891 S.p.A. for 2003, sales of Barbero wines were slightly lower in the first nine months of 2004, which was entirely due to overseas markets, where a commercial policy aimed at improving profitability rather than sales volumes was applied.
A minor contribution to external growth came from Qingdao Sella & Mosca Winery Co. Ltd. and Société Civile Immobilière du Domaine de la Margue, which were fully consolidated for the first time during the period.
Organic growth was achieved in all main wine brands over the period.

Sales of **Cinzano sparkling wines** rose by 7.3% at constant exchange rates (+5.5% at actual exchange rates).
This positive result was due to a good performance in Italy and on other important markets, including Japan and Sweden.
In Germany, the main market for Cinzano sparkling wines (particularly Asti products) sales were lacklustre over the nine months, despite picking up in the third quarter.
In addition to the general comments made in relation to the Campari brand (weakness of the German economy; adverse weather conditions), Asti Cinzano faces aggressive competition from competitors on the German market that are cutting prices and implementing widespread advertising campaigns.

Sales of **Cinzano vermouth** increased by 14.1% at constant exchange rates (11.0% at actual exchange rates).
Growth of this brand was driven by a good performance on the main European markets, together with the extension of distribution in eastern Europe.
This brand also benefited from a positive performance in Japan, after the rapid destocking carried out last year.

Sella & Mosca wines, for which the Italian market represents over 80% of sales, recorded double-digit growth in the first nine months of the year: +11.4% at constant exchange rates and +11.0% at actual exchange rates.

In addition to the rise in sales volumes, this positive result also benefited from a greater proportion of higher priced wines in the sales mix.

Sales of **Riccadonna** sparkling wines and vermouth were excellent, and contributed significantly to the sound overall performance of the wines segment.
Although Riccadonna products have been distributed by the Group since 1995, the company was acquired at the beginning of 2004 and production is now carried out internally, as well as distribution on the Italian market.
The strong performance achieved in the first nine months of the year is attributable both to the first-time consolidation of sales on the Italian market and the growth recorded on international markets (particularly Australia and Denmark), of 20.0% at constant exchange rates, or 13.8% at actual exchange rates.

Soft drinks

Sales of soft drinks, which are almost entirely recorded on the Italian market, fell by 5.9% year-on-year in the first nine months of the year, to € 111.1 million.
The performance of this business area, which in May and June saw a slight drop in sales, was further hit by bad weather in the third quarter.
However, the comparison of these results with the same period of last year is somewhat misleading, as temperatures were significantly above the seasonal average in 2003.
The soft drinks segment also includes **Crodino**, which continues to perform well on the Italian market (+5.7%), thanks to its strong brand reputation.
Excluding sales of Crodino (as a non-alcoholic aperitif, its sales are less affected by the weather), soft drink sales fell by 12.9% over the period.
In particular, sales of **Lemonsoda, Oransoda and Pelmosoda** fell by 14.4%, while mineral water sales were down by 6.8%.
Lipton Ice Tea (a third-party brand distributed in Italy) sales were also down in the first nine months of the year, by 13.4%.

Other sales

This minor segment includes revenues from co-packing and sales to third parties of raw materials and semi-finished goods.
In the first nine months of the year, "Other sales" totalled € 7.4 million, an increase of 36.3% compared with the same 2003 period.
The increase was entirely due to the expansion in the basis of consolidation.
Following the acquisition of Barbero 1891 S.p.A., this segment now includes production of Frangelico for its brand owners Cantrell & Cochrane.
On a like-for-like basis, sales in this segment recorded a sharp fall during the first nine months of the year owing to the suspension of production on behalf of third parties in Brazil.

THIRD-QUARTER SALES PERFORMANCE

For the third quarter of 2004, consolidated net sales amounted to € 177.3 million, an increase of 2.5% on the same period in 2003.
The table below shows how this improvement was caused solely by external growth (+9.0%), essentially consisting of Barbero 1891 S.p.A. sales. Sales in the organic part of the business were down by 3.6%, and the exchange rate effect was a negative 3.0%.

Net sales performance	€ million	% change versus third quarter 2003
– net sales: third quarter 2004	177.3	
– net sales: third quarter 2003	173.0	
Total increase	**4.3**	**2.5%**
of which:		
external growth	15.7	9.0%
organic growth before exchange rate effect	–6.2	–3.6%
exchange rate effect	–5.2	–3.0%
Total increase	**4.3**	**2.5%**

Spirits, wines, and "other sales" were up for the quarter, while soft drinks – as discussed in the section on sales for the first nine months – were significantly hurt by the adverse weather and suffered a quarterly decline of 21.6%.
The first of the following tables shows net sales and growth by business area, while the second breaks down the total change in each business by external growth, organic growth and the exchange rate effect.

Sales by business area	Third quarter 2004		Third quarter 2003		% change
	€ million	%	€ million	%	2004 / 2003
Spirits	112.2	63.3%	105.7	61.1%	6.2%
Wines	28.7	16.2%	22.4	12.9%	28.0%
Soft drinks	33.4	18.8%	42.6	24.6%	–21.6%
Other sales	3.0	1.7%	2.4	1.4%	25.3%
Total	**177.3**	**100.0%**	**173.0**	**100.0%**	**2.5%**

Breakdown of % change in net sales by business	Total % change third quarter	of which external growth	of which organic growth before exchange rate effect	of which exchange rate effect
Spirits	6.2%	10.1%	0.4%	–4.3%
Wines	28.0%	11.6%	18.7%	–2.3%
Soft drinks	–21.6%	0.0%	–21.6%	0.0%
Other sales	25.3%	95.2%	–69.8%	–0.1%
Total	**2.5%**	**9.0%**	**–3.6%**	**–3.0%**

Adjusting sales figures for both the positive impact of external growth and the negative exchange rate effect, spirits and especially wines still enjoyed organic sales growth during the quarter.
The organic decline of 3.6%, therefore, is wholly attributable to the sharp decline in soft drinks and (to a lesser degree) "other sales".

The organic growth of spirits, held back by falling sales of Campari Mixx, was 0.4%. Of the major brands, sales were positive for Campari (+3.4%) and SKYY (regular and flavoured vodka, +7.3%).
Sales of the Brazilian brands were down, but thanks to outstanding results during the first half of the year, they still show double-digit growth for the first nine months.

The organic growth of wines came to 18.7% and the quarter was a fine one for all brands, with double-digit growth for Cinzano sparkling wines and vermouth.

Consolidated financial statements

PREPARATION CRITERIA

This consolidated report for the quarter ending 30 September 2004 has been drawn up in accordance with article 82, paragraph 1 of Consob resolution 11971 of 14 May 1999.
The formats and valuation criteria are the same as those used in the accounts to 31 December 2003 and the half-year financial statements at 30 June 2004.
For ease of comparison, the figures have been reclassified and are itemised in the same way as those contained in the annual and half-year reports.

BASIS OF CONSOLIDATION

There have been no changes in the basis of consolidation with respect to 30 June 2004. Therefore, the only changes with respect to the corresponding period in 2003 are those mentioned in previous reports:

- Qingdao Sella & Mosca Winery Co. Ltd. and Société Civile Immobilière du Domaine de la Margue, subsidiaries of Sella & Mosca S.p.A. and previously consolidated using the equity method, have been consolidated on a line-by-line basis since the start of 2004;
- Coutsicos S.A. was acquired at the start of the year and is consolidated on a line-by-line basis;
- Sovinac S.A. is no longer consolidated following its sale;
- Barbero 1891 S.p.A. has been consolidated since its acquisition date of 3 December 2003. Therefore:
  - the consolidated profit and loss account for the first nine months of 2004 enjoys the full benefit of that company's results, in comparison with the first three quarters of 2003;
  - the net financial position in the consolidated financial statements at 31 December 2003 already reflected the acquisition.

CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE PERIOD 1 JANUARY-30 SEPTEMBER 2004

Comment on exchange rate effects

The table below shows key consolidated profit and loss figures for the first three quarters of 2004.
The figures and changes with respect to 2003 are shown at both actual and constant exchange rates.
Note that if the figures are stripped of the negative exchange rate effect caused by the stronger €, the Group has achieved double-digit growth in sales, trading profit, EBITDA and EBITA.
EBIT showed an increase of 7.7%, while the pre-tax profit, even without the exchange rate effect, went down due solely to the extraordinary income realised in 2003.

1 January - 30 September 2004	2004 € million actual rates	% change 2004 / 2003 actual rates	2004 € million constant rates	% change 2004 / 2003 constant rates	Exchange rate effect %
Sales net of discounts and excise duties	544.7	7.7%	559.4	10.6%	–2.9%
Trading profit	153.8	12.7%	159.0	16.5%	–3.9%
EBITDA	127.4	7.4%	132.0	11.2%	–3.8%
EBITA	114.1	7.2%	118.5	11.3%	–4.2%
EBIT (operating profit)	87.7	2.5%	92.1	7.7%	–5.2%
Group profit before tax	70.5	–30.9%	73.6	–27.9%	–3.0%

The table below shows the consolidated profit and loss account for the first nine months of 2004, reclassified in accordance with international practice.

Reclassified profit and loss account	30 September 2004		30 September 2003		change
€ million	€ million	%	€ million	%	%
Net sales	**544.7**	**100.0%**	**505.7**	**100.0%**	**7.7%**
Cost of materials	(182.6)	–33.5%	(180.3)	–35.7%	1.3%
Production expenses	(39.4)	–7.2%	(30.9)	–6.1%	27.6%
Total cost of goods sold	**(222.0)**	**–40.8%**	**(211.2)**	**–41.8%**	**5.1%**
Gross margin	**322.6**	**59.2%**	**294.5**	**58.2%**	**9.5%**
Advertising and promotion	(106.7)	–19.6%	(102.1)	–20.2%	4.5%
Sales and distribution expenses	(62.1)	–11.4%	(56.0)	–11.1%	11.0%
Trading profit	**153.8**	**28.2%**	**136.4**	**27.0%**	**12.7%**
General and administrative expenses	(38.7)	–7.1%	(33.9)	–6.7%	14.0%
Other operating income	1.3	0.2%	5.1	1.0%	–75.5%
Goodwill and trademark amortisation	(26.4)	–4.8%	(20.9)	–4.1%	26.1%
Operating income = EBIT before non-recurring costs	**90.0**	**16.5%**	**86.7**	**17.2%**	**3.7%**
Non-recurring costs	(2.3)	–0.4%	(1.2)	–0.2%	84.1%
EBIT	**87.7**	**16.1%**	**85.5**	**16.9%**	**2.5%**
Net financial income (charges)	(6.3)	–1.2%	(7.0)	–1.4%	–9.2%
Exchange rate gains (losses)	0.0	0.0%	1.9	0.4%	–98.0%
Other non-operating income (charges)	0.3	0.1%	33.7	6.6%	–99.2%
Profit before tax and minority interests	**81.7**	**15.0%**	**114.1**	**22.6%**	**–28.4%**
Minority interests	(11.2)	–2.1%	(12.0)	–2.4%	–6.6%
Group profit before tax	**70.5**	**12.9%**	**102.1**	**20.2%**	**–30.9%**
Depreciation of tangible fixed assets	(11.4)	–2.1%	(10.2)	–2.0%	12.5%
Amortisation of intangible fixed assets	(28.3)	–5.2%	(23.0)	–4.5%	23.2%
Total depreciation and amortisation	**(39.8)**	**–7.3%**	**(33.1)**	**–6.6%**	**19.9%**
EBITDA before non-recurring costs	**129.7**	**23.8%**	**119.9**	**23.7%**	**8.2%**
EBITDA	**127.4**	**23.4%**	**118.7**	**23.5%**	**7.4%**
EBITA before non-recurring costs	**116.3**	**21.4%**	**107.7**	**21.3%**	**8.0%**
EBITA	**114.1**	**20.9%**	**106.4**	**21.0%**	**7.2%**

The **net sales** performance, boosted by the consolidation of Barbero 1891 S.p.A., is covered in detail in the previous section.
The other profit and loss account items are analysed below, with particular reference to their performance as a percentage of net sales.

In the first nine months of 2004, the total **cost of goods sold** decreased as a percentage of sales, from 41.8% in 2003 to 40.8%.
That improvement was the result of the falling incidence of materials costs (down 2 percentage points), which was partially offset by a one-point rise in production costs.
The two opposing trends were mainly caused by the new production arrangements for Cinzano vermouth and sparking wines.
Production of these brands had been fully outsourced, but since late 2003 they have been moved back gradually to the new plant in Novi Ligure: as a result, the Group is no longer paying the bottling fees that it booked as materials costs in 2003, but production expenses have gone up.
With regard to production costs, note that the expense of running the Novi Ligure plant was not completely offset by the absence of costs at the facility in Termoli, whose production lines were closed in July 2003 and transferred to Novi Ligure.
In addition, only when the lines now being produced at Sesto San Giovanni are also transferred to Novi Ligure – during the second half of 2005 – will the Group start to benefit fully from the synergies envisaged in the reorganisation plan.
As for materials costs in relation to sales, aside from the above factors pertaining to wines, during the first nine months there was also a major benefit afforded by the sales mix.
Sales volumes for spirits, whose materials costs are much lower, enjoyed double-digit growth, while the more materials-intensive soft drinks suffered a dramatic decline in sales.

Advertising and promotional costs rose by 4.5% in absolute terms, but decreased as a percentage of sales, from 20.2% in the first nine months of 2003 to 19.6%.
The decrease as a percentage of sales was caused by two factors, one long-term and the other temporary.
Firstly, with regard to Campari Mixx, the suspension of distribution in Germany and the decline in advertising and promotional investments in Italy had a dilutive effect in 2004, since in both cases these investments were well above the Group average in 2003 (20%).
Secondly, the Group is planning a more intensive advertising campaign in Italy and the United States in the last quarter of this year than it did in the last quarter of 2003.

Sales and distribution expenses rose as a proportion of sales, from 11.1% in 2003 to 11.4% in 2004.
The change is mainly due to the consolidation of Barbero 1891 S.p.A., whose sales and distribution expenses are higher as a percentage of sales than those of the Group's own brands.

Trading profit for the first nine months of 2004 increased by 1.2 points as a percentage of sales, from 27.0% in 2003 to 28.2%.
In absolute terms it came to € 153.8 million, rising by 12.7%; at constant exchange rates and on a like-for-like consolidation basis, trading profit registered organic growth of 8.3%.
The acquisition of Barbero 1891 S.p.A. contributed a further 8.3% to overall growth, but this was partially offset by negative exchange rate movements (–3.9%).

General and administrative expenses increased as a percentage of sales from 6.7% to 7.1%.
The most significant factor behind that trend was the rent paid for the office in Via Filippo Turati in Milan (sold in 2003), which was significantly higher than the relative depreciation.
Net of that effect, general and administrative expenses would have amounted to 6.8% of sales.

The item **other operating income** came to a net € 1.3 million for the first nine months of the year, significantly lower than the 2003 figure of € 5.1 million.
The difference stems essentially from the fact that the 2003 result included € 3.4 million in royalties paid to Skyy Spirits, LLC for the ready-to-drink line SKYY Blue, produced and distributed by SABMiller in the United States.
Under the terms of the agreement, which has this year been extended to the new SKYY Sport brand, Skyy Spirits, LLC receives royalties in proportion to sales but also contributes proportionally to SABMiller's promotion and advertising costs.
Because of the offsetting of these two items (note that the contribution paid by Skyy Spirits, LLC can never exceed the royalties it earns), Skyy Spirits, LLC has accrued no income in 2004, while for the first two years of the agreement (2002 and 2003) it collected a guaranteed net minimum of US$ 5 million per year in royalties.

Goodwill and trademark amortisation stood at € 26.4 million, up € 5.5 million versus the first nine months of last year.
The net change in this item is due to two factors: € 5.2 million relates to the higher goodwill amortisation costs in respect of the acquisition of Barbero 1891 S.p.A., while the remainder is due to goodwill and trademark amortisation for Riccadonna and Coutsicos S.A., recently acquired by the company.

The period closed with **EBIT before non-recurring costs** of € 90.0 million, an increase of 3.7% versus 2003.

Non-recurring costs amounted to € 2.3 million: € 1.5 million in extraordinary legal expenses (mostly for the settlement of a trademark dispute) and € 0.8 million in extraordinary personnel costs.
For the corresponding period in 2003 these costs totalled € 1.2 million, of which extraordinary legal expenses came to € 0.7 million and the rest consisted of personnel costs.
Note that the extraordinary personnel costs included in this item are not associated with the reorganisation plan, for which € 10.0 million was earmarked specifically in 2002. At 30 September 2004, the use of that provision stood at € 5.2 million.

Earnings after non-recurring expenses (**EBIT**) in the period 1 January-30 September 2004 stood at € 87.7 million, or 16.1% of sales.
This represents a 2.5% increase on last year.

Earnings before goodwill and trademark amortisation (**EBITA**) grew by 7.2% on the same period last year to € 114.1 million.
This increase was 4.7 percentage points higher than that of EBIT, and reflects the operating result before the goodwill amortisation costs relating to the acquisition of Barbero 1891 S.p.A.

Earnings before depreciation and amortisation (**EBITDA**) rose 7.4% compared with the first nine months of 2003, to € 127.4 million.
The fact that EBITDA grew by 0.2 percentage points more than EBITA was due to depreciation and amortisation costs in respect of the new Novi Ligure plant, which do not show in the former result.

Net **financial charges** stood at € 6.3 million, down on the figure of € 7.0 million recorded in the same period of last year.
Although average debt rose in 2004 compared with the same period last year, interest rates were significantly lower in the first nine months of this year than in 2003.

Specifically, the debt relating to the private placement carried out by Redfire, Inc. in July 2002 was still subject to fixed rates in the first half of 2003. In the second half of the year, taking advantage of low interest rates, the Group took out an interest rate swap and moved this debt onto a variable rate.
By contrast, in 2004, variable rates were applied to almost the entire Group debt.

Exchange rate differences showed a nil balance, as gains and losses were completely offset in the period. Last year this item showed a positive balance of € 1.9 million, the difference between net operating losses of € 0.5 million and income of € 2.4 million in respect of the closing balance of currency positions for the bond issue denominated in US$ which took place in July 2002.

Other non-operating income and charges showed a positive balance of € 0.3 million, compared with € 33.7 million at the end of September 2003; the figure in 2003 was almost wholly attributable to the capital gain from the sale of the building in Via Filippo Turati, Milan in the third quarter of the year.

Together, the three items analysed above show a difference of –€ 34.6 million, in the two periods under comparison.
As a result, **profit before tax and minority interests** fell by 28.4% compared to the first nine months of 2003, due entirely to the drop in extraordinary income in 2003.

Minority interests in the first nine months of 2004 were € 11.2 million, slightly lower than the figure of € 12.0 million last year.
The decrease is wholly attributable to the impact of the fall in value of the US$ on the proportion of profits pertaining to Skyy Spirits, LLC: minority interests in Skyy Spirits, LLC remained unchanged during the period, and its profit in US$ rose slightly despite lower royalties from SKYY Blue.

The Group's profit before taxes fell by 30.9% to € 70.5 million despite the slight benefit from a lower proportion of minority profits.
This was entirely due to the decrease in extraordinary income compared with last year.

CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE THIRD QUARTER 2004

The table below breaks down the profit and loss account for the third quarter of 2004, reclassified according to international accounting practice.
Figures are compared with those from the same period in 2003.

Reclassified profit and loss account € million	Third quarter 2004 € million	%	Third quarter 2003 € million	%	change %
Net sales	**177.3**	**100.0%**	**173.0**	**100.0%**	**2.5%**
Cost of materials	(60.2)	–34.0%	(66.4)	–38.4%	–9.3%
Production costs	(12.9)	–7.3%	(10.1)	–5.9%	27.4%
Total cost of goods sold	(73.1)	–41.2%	(76.5)	–44.2%	–4.5%
Gross margin	**104.2**	**58.8%**	**96.5**	**55.8%**	**7.9%**
Advertising and promotional costs	(35.2)	–19.9%	(32.9)	–19.0%	7.3%
Sales and distribution costs	(19.2)	–10.8%	(18.6)	–10.8%	3.1%
Trading profit	**49.7**	**28.1%**	**45.0**	**26.0%**	**10.4%**
General and administrative expenses	(12.3)	–6.9%	(10.3)	–6.0%	18.8%
Other operating income	0.9	0.5%	1.6	0.9%	–42.1%
Goodwill and trademark amortisation	(8.8)	–4.9%	(7.0)	–4.0%	25.8%
Operating income = EBIT before non-recurring costs	**29.6**	**16.7%**	**29.3**	**16.9%**	**0.9%**
Non-recurring costs	(0.2)	–0.1%	(0.7)	–0.4%	–69.7%
EBIT	**29.4**	**16.6%**	**28.6**	**16.5%**	**2.7%**
Net financial income (charges)	(2.4)	–1.3%	(2.0)	–1.2%	17.6%
Net exchange rate gains (losses)	0.0	0.0%	2.5	1.4%	–99.1%
Other non-operating income (charges)	(0.3)	–0.2%	33.6	19.4%	–101.0%
Profit before tax and minority interests	**26.7**	**15.1%**	**62.7**	**36.2%**	**–57.4%**
Minority interests	(4.9)	–2.8%	(4.1)	–2.4%	18.4%
Group profit before tax	**21.8**	**12.3%**	**58.6**	**33.8%**	**–62.7%**
Depreciation of tangible fixed assets	(3.8)	–2.2%	(3.4)	–2.0%	12.1%
Amortisation of intangible fixed assets	(9.5)	–5.4%	(7.8)	–4.5%	22.2%
Total depreciation and amortisation	**(13.3)**	**–7.5%**	**(11.2)**	**–6.5%**	**19.2%**
EBITDA before non-recurring costs	**42.9**	**24.2%**	**40.5**	**23.4%**	**6.0%**
EBITDA	**42.7**	**24.1%**	**39.8**	**23.0%**	**7.3%**
EBITA before non-recurring costs	**38.4**	**21.6%**	**36.3**	**21.0%**	**5.7%**
EBITA	**38.1**	**21.5%**	**35.6**	**20.6%**	**7.2%**

As explained in the sections on sales performance, the period July-September saw a slowdown in the growth of **net sales**, which increased by 2.5% compared to 10.4% in the first half of the year.
This drop in sales was chiefly attributable to lower soft drinks sales during a poor summer in comparison with sales last year.

The main items in the profit and loss account show that, in the third quarter of 2004, the Group posted **EBIT** of € 29.4 million, an increase of 2.7% on that achieved in the third quarter of 2003.
As a percentage of sales, EBIT was very slightly higher than the result achieved in the third quarter of 2003 (16.6% versus 16.5%).

Profitability remained high, despite a poor quarter for sales, mainly due to significant savings on **materials costs** which came in at 4.4 percentage points lower in the third quarter of 2004; this allowed the Group to offset both the higher incidence of fixed costs typical of low sales periods and higher advertising and promotional costs, which increased by 0.9 percentage points.
Profit before tax for the period was significantly lower than in 2003, as **other non-operating income** did not include the capital gain of € 34.0 million from the sale of buildings generated in the third quarter of 2003.

NET DEBT

The Group had net debt of € 256.6 million at 30 September 2004, an improvement of € 46.4 million compared to 30 June 2004 and € 41.4 million compared to 31 December 2003.
Net debt breaks down as follows:

€ million	30 September 2004	30 June 2004	31 December 2003
Cash and bank	210.6	173.5	133.6
Marketable securities	13.6	7.8	1.9
Payables to banks	(52.1)	(49.8)	(30.1)
Real estate lease payables	(2.9)	(3.1)	0.0
Interest on private placement	(2.3)	(4.5)	(4.4)
Short-term financial position	**166.9**	**123.9**	**101.0**
Payables to banks	(4.2)	(4.2)	(3.9)
Real estate lease payables	(22.7)	(23.2)	0.0
Bonds	(258.0)	(258.0)	(258.0)
Private placement	(137.0)	(139.9)	(134.6)
Other financial payables	(1.6)	(1.6)	(1.6)
Medium to long-term debt	**(423.5)**	**(426.9)**	**(398.1)**
Net debt	**(256.6)**	**(303.0)**	**(297.1)**
Qingdao Sella & Mosca Winery Co. Ltd. and Société Civile Immobilière du Domaine de la Margue	0.0	0.0	(0.9)
Total	**(256.6)**	**(303.0)**	**(298.0)**

The financial position in all periods under comparison does not include own shares held by the Parent Company, recorded under financial fixed assets at purchase cost.
Please also note that Qingdao Sella & Mosca Winery Co. Ltd. and Société Civile Immobilière du Domaine de la Margue were consolidated on a line-by-line basis in 2004.
The financial position at 31 December 2003 has been restated for ease of comparison.

The improved financial position versus 31 December 2003 is almost entirely due to cash flow from operations and a reduction in net working capital.

NET WORKING CAPITAL

The two tables below break down net working capital at 30 September 2004, compared to 31 December 2003 and the same period last year.

€ million	30 September 2004	31 December 2003	change	% change
Inventories	139.0	106.4	32.6	
Receivables from customers	133.3	174.2	(40.9)	
Payables to suppliers	(123.2)	(127.6)	4.4	
Net working capital	**149.1**	**153.0**	**(3.9)**	**–2.6%**

€ million	30 September 2004	30 September 2003	change	% change
Inventories	139.0	118.8	20.2	
Receivables from customers	133.3	128.3	5.0	
Payables to suppliers	(123.2)	(109.6)	(13.6)	
Net working capital	**149.1**	**137.5**	**11.6**	**8.4%**
Sales 12-month moving average	753.1	709.0	44.1	6.2%
12-month moving average of net working capital over net sales (%)	19.8%	19.4%		

The first table shows a slight decrease of € 3.9 million (2.6%) compared to 31 December 2003.
The second table shows that net working capital rose by € 11.6 million (8.4%) compared to the same period last year.
However, this should be set against the 6.2% growth in net sales in the twelve months to September, which led to a slight increase in the twelve-month moving average of net working capital over net sales from 19.4% last year to 19.8% at 30 September 2004.
Please note that the balance sheet figures for this period include Barbero 1891 S.p.A., which was not yet consolidated at 30 September 2003; similarly, Barbero is included in the net sales figure for the 12 months to September 2004, but only from the acquisition date in December 2003 (i.e. for 10 months).

Significant events taking place after 30 September 2004

Grand Marnier distribution rights for the Italian market

On 25 October 2004, the Group announced its acquisition of the distribution rights for Grand Marnier for the Italian market with effect from 1 January 2005.
The agreement with the French company Marnier-Lapostolle (owned for over 170 years by the family of the same name) to distribute its Grand Marnier brand in Italy will initially be for five years.
Grand Marnier is a 40°-proof sweet liqueur, a blend of fine French cognac and orange essence.
Grand Marnier, currently distributed in more than 150 countries, is the third largest-selling sweet liqueur in the world.

Outlook

Forecasts for the last quarter of the year continue to reflect a cautious view.
Uncertainty about the macroeconomic climate, which has deteriorated still further in Italy, Germany and other European countries during the year, is having serious repercussions on consumer spending.
Furthermore, with specific reference to the Group's core business, it should be borne in mind that the final results for the year will also be dependent on the performance of certain markets and products where the last quarter results are crucial; specifically, around 45% of Campari do Brasil Ltda's sales and over 55% of Cinzano sparkling wine sales occur in the last three months of the year.
Within this far from simple framework, all the main brands – Campari, CampariSoda and Crodino in Italy and SKYY Vodka in the US – are expected to put in a solid performance, and an outstanding contribution is forecast from Aperol which became a Campari Group brand in December 2003 following the acquisition of Barbero 1891 S.p.A.
In Brazil, growth in sales of both Campari and local brands is in line with expectations. The contribution of Cynar – produced and distributed by Campari do Brasil Ltda since July, and the local brand leader in its category – will help strengthen the Group's leadership in that market.

Davide Campari – Milano S.p.A.
Capitale sociale: Euro 29.040.000 interamente versato
Registro Imprese Milano: 06672120158
REA: 1112227
Sede: Via Filippo Turati, 27 - 20121 Milano
Telefono: (39) 02 62251
Fax: (39) 02 6225312

Investor Relations
Telefono: (39) 02 6225330
Fax: (39) 02 6225479
e-mail: investor.relations@campari.com

Web site
www.campari.com

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