



Report for the quarter ending 30 September 2005

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INTRODUCTION

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

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

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

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

The Appendix describes the impact of the transition to IAS / IFRS and provides the reconciliations required by IFRS 1 (First-Time Adoption of International Financial Reporting Standards) for the period to 30 September 2004, presented for comparative purposes and accompanied by the related explanatory notes.

HIGHLIGHTS

€ million	2005	2004	% change	% change at constant exchange rates
Figures for the first nine months				
Net sales	543.3	526.2	3.3%	3.4%
Trading profit	158.6	153.9	3.1%	4.2%
EBITDA	135.9	128.4	5.8%	7.3%
Operating income	123.1	115.7	6.4%	8.2%
ROS	22.7%	22.0%		
Group profit before tax	112.8	96.6	16.8%	18.5%

€ million	30 September 2005	30 June 05	change	1 January 2005	change
Net debt	(327.5)	(355.8)	28.3	(230.0)	(97.5)

CORPORATE OFFICERS

BOARD OF DIRECTORS ⁽¹⁾

Luca Garavoglia
Chairman

Vincenzo Visone
Managing Director and Chief Executive Officer

Paolo Marchesini
Managing Director and Chief Financial Officer

Stefano Saccardi
*Managing Director
and Legal Affairs and Business Development Officer*

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

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

Pierleone Ottolenghi ⁽⁴⁾
Director

Marco P. Perelli-Cippo ⁽³⁾
Director and member of the Remuneration and Appointments Committee

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

Renato Ruggiero
Director

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

At the shareholders' meeting of 29 April 2004, Luca Garavoglia was confirmed as Chairman for three years until the approval of the 2006 accounts, and granted powers in accordance with the law and the company's articles of association.

A reduction in the number of Directors from 14 to 11 was also approved.

The Board of Directors' meeting of 10 May 2004 vested Managing Directors Vincenzo Visone, Stefano Saccardi and Paolo Marchesini with the following powers for three years until approval of the 2006 accounts:

- with individual signature: powers of ordinary representation and management, within the value or time limits established for each type of function;
- with joint signature: powers of representation and management for specific types of function, within value or time limits deemed to fall outside ordinary activities.

BOARD OF STATUTORY AUDITORS ⁽⁵⁾

Umberto Tracanella
Chairman

Antonio Ortolani
Permanent Auditor

Alberto Lazzarini
Permanent Auditor

Alberto Garofalo
Deputy auditor

Giuseppe Pajardi
Deputy auditor

Paolo Proserpio
Deputy auditor

INDEPENDENT AUDITORS ⁽⁶⁾

Reconta Ernst & Young S.p.A.

- (1) In post until approval of the 2006 accounts, in accordance with the resolution of the shareholders' meeting held on 29 April 2004.
- (2) Member of the Audit Committee nominated by the Board of Directors on 10 May 2004, in post until approval of the 2006 accounts.
- (3) Member of the Remuneration and Appointments Committee nominated by the Board of Directors on 10 May 2004, and in post until approval of the 2006 accounts.
- (4) Appointed by the Board of Directors on 26 September 2005 and in post until the following shareholders' meeting, in place of Luca Cordero di Montezemolo following his resignation on 10 June 2005.
- (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.

MANAGEMENT REPORT

SIGNIFICANT EVENTS DURING THE FIRST NINE MONTHS OF 2005

Acquisition of a further 30.1% of Skyy Spirits, LLC

On 25 February 2005 Parent Company Davide Campari-Milano S.p.A. acquired a further 30.1% shareholding in Skyy Spirits, LLC via the exercise of a call option, under the terms agreed in January 2002 when a majority stake in the company was acquired.

The shareholding was acquired from companies owned by Maurice Kanbar, who founded Skyy Spirits, LLC in 1992 and remained the company's controlling shareholder until January 2002.

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

The cost of the acquisition was US\$ 156.6 million, paid in cash (equivalent to around € 118 million at the exchange rate in force on the date of the operation).

Under the terms of the agreement, the call option was exercised at a strike price of ten times the pro rata pre-tax profit reported by Skyy Spirits, LLC in 2004.

The acquisition was carried out via Redfire, Inc., and was financed partly with own funds and partly with bank debt.

The remaining 11% of Skyy Spirits, LLC is owned by its management team.

The agreement, signed in January 2002, also includes a call / put option between Redfire, Inc. and the Skyy Spirits, LLC management team for the purchase / sale of the management team's stake, at a strike price of between five and fifteen times the average pro rata pre-tax profit generated by Skyy Spirits, LLC between 2002 and 2006.

The option may be exercised after 31 January 2007.

Launch of SKYY90

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

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

SKYY90, which defines itself as a “modern luxury vodka”, is highly innovative in its flavour, formula and packaging.

Thanks to top-quality ingredients and a unique production process, SKYY90 is an exceptionally pure product, while the packaging, with its ultra-modern design, has strong visual appeal.

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

Distribution of Martin's Miller London Dry Gin

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

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

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

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

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

The option may be exercised from January 2009 at a price set according to the sales generated in 2008. The agreement does not give the Reformed Spirits Company Ltd. a put option.

Increased duty on alcohol products

Italy's Legislative Decree 35 of 14 March 2005 (the so called "competition decree") raised, with immediate effect, the excise duty on pure alcohol by 4.7% and that on intermediate products (which include vermouth) by 11.0%. Further similar increases are expected to be introduced from 1 January 2006.

Distribution of Brown-Forman's spirits in Italy

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

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

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

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

This initiative, which gives the Group a synergetic and complementary portfolio, has further strengthened Campari's presence on the Italian market thanks to a wider range of premium spirits.

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

Ordinary shareholders' meeting of the Parent Company

On 29 April 2005, the shareholders' meeting of Davide Campari-Milano S.p.A. approved the results to 31 December 2004.

The shareholders approved total dividends of € 28.1 million, distributed from the 2004 net profit.

Furthermore, the Board of Directors was authorised to purchase, in one or more operations, a number of own shares which, when added to the shares already held by the Company, do not exceed 10% of the share capital.

It was also authorised to sell, in one or more operations, all own shares held or a quantity of shares to be determined by the Board.

The authorisation, granted until 30 June 2006, has two purposes: to service the stock option scheme for the Group's management, and to be used by the Board of Directors in any operations and/or strategic alliances it considers appropriate, including via share swaps.

Extraordinary shareholders' meeting of the Parent Company

The extraordinary shareholders' meeting approved the proposed ten-for-one split of the 29,040,000 outstanding ordinary shares of Davide Campari-Milano S.p.A., worth a nominal € 1.00 each, into 290,400,000 newly-issued ordinary shares with a nominal value of € 0.10, with the same characteristics as the shares currently circulating.

The meeting then voted to amend article 5 of the articles of association, which describes the number of existing shares and their nominal value.

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

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

The same day was the ex-date for the dividend of € 0.10 (coupon 1), which was calculated based on the new number of shares in circulation; the payment date was 12 May 2005.

SALES PERFORMANCE

Introduction

With the introduction of new international accounting standards, which were used to prepare the half-year report to 30 June 2005, the Campari Group, in line with the practices of the main international operators in the wines and spirits sector, has adopted a strict interpretation of IAS 18 in relation to expenses that may be classed as trade discounts in calculating its revenues.

According to this interpretation, trade allowances for promotional activities carried out by retailers and invoiced to Group companies have been reclassified as discounts, and therefore have a direct impact on net sales.

Previously, these expenses were classified as promotions, and were therefore recorded in the profit and loss account under “advertising and promotional costs.”

Sales in the first nine months of 2005 and those of the same period last year are disclosed in accordance with the new interpretation.

Reclassified trade allowances therefore amounted to € 20.5 million in this period and € 18.5 million in the same period of 2004.

All figures in the report are expressed in million euro for ease of reference.

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

SALES PERFORMANCE IN THE FIRST NINE MONTHS OF 2005

Overall performance

During the first nine months of 2005, the Group’s consolidated net sales stood at € 543.3 million representing a 3.3% increase over the corresponding period of last year.

Breakdown of change in sales	€ million	% change (first nine months)
– sales for the period 1 January - 30 September 2005	543.3	
– sales for the period 1 January - 30 September 2004	526.2	
Total change	17.1	3.3%
of which:		
organic growth before exchange rate effect	11.6	2.2%
external growth	5.8	1.1%
exchange rate effect	-0.3	-0.1%
Total change	17.1	3.3%

The overall change resulted from organic growth of 2.2%, external growth of 1.1% and a small, negative impact of 0.1% from exchange rates.

The total organic growth of 2.2% was achieved thanks to positive sales performances by nearly all the Group's core brands.

Sales growth in the first nine months of the year was however severely hampered by two products: Campari Mixx, which suffered from the sharp drop in sales in the whole ready-to-drink category, and Lipton Ice Tea, a third-party brand distributed by the Group in Italy.

Stripping out the sales of these two brands, the Group would have seen organic growth of 4.2% and total growth of 5.3%.

Among the Group's brands, sales of SKYY Vodka, Aperol, Cinzano vermouth and Riccadonna sparkling wines put in an excellent performance.

External growth of 1.1% came from sales of third-party brands that the Group began distributing in May, primarily the American whisky Jack Daniel's on the Italian market, and to a lesser extent, the ultra premium gin Martin Miller's in the US.

Lastly, exchange rates had hardly any effect on sales in this period (−0.1%), as the fall in the value of the US dollar (−3.0%) was offset by the sharp rise in the Brazilian real (+15.1%).

Average exchange rates for the period 1 January - 30 September	2005	2004	% change
US\$ x 1 €	1.263	1.226	
€ x 1 US\$	0.7916	0.8158	−3.0%
BRC x 1 €	3.163	3.641	
e x 1 BRC	0.3162	0.2747	15.1%
CHF x 1 €	1.549	1.548	
€ x 1 CHF	0.6457	0.6461	−0.1%
JPY x 1 €	136.020	133.502	
€ x 1000 JPY	7.3518	7.4905	−1.9%

Sales by region

In the first nine months of the year, positive sales growth was achieved in all regions, albeit at widely differing rates.

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

Sales by region	1 January - 30 September 2005		1 January - 30 September 2004		% change 2005 / 2004
	€ million	%	€ million	%	
Italy	265.0	48.8%	264.1	50.2%	0.3%
Europe	100.8	18.6%	95.3	18.1%	5.8%
Americas	152.1	28.0%	143.4	27.2%	6.1%
Rest of the world and duty free	25.4	4.7%	23.4	4.5%	8.4%
Total	543.3	100.0%	526.2	100.0%	3.3%

Breakdown of % change in sales by region	Total % change 1 January - 30 September	of which external growth	of which	
			organic growth before exchange rate effect	exchange rate effect
Italy	0.3%	1.9%	-1.6%	0.0%
Europe	5.8%	0.0%	5.8%	0.0%
Americas	6.1%	0.3%	5.3%	0.5%
Rest of the world and duty free	8.4%	1.3%	11.3%	-4.2%
Total	3.3%	1.1%	2.2%	-0.1%

Sales in **Italy** inched up 0.3% to € 265.0 million in the first nine months of the year, compared to the same period in 2004.

Although still the most important market by far, sales in Italy declined from 50.2% to 48.8% of the Group total.

Italy benefited from a positive 1.9% contribution from external growth after the Group started distributing Jack Daniel's and other Brown-Forman brands, but also suffered from a contraction of 1.6% in organic sales. As mentioned above, sales were heavily affected by the poor performance of Campari Mixx and Lipton Ice Tea, two low-margin products whose sales are concentrated almost entirely in Italy.

It is worth mentioning that, stripping out the negative effect of these two products, sales in Italy would have shown total growth of 3.9%, including organic growth of 1.7% (rather than a fall of 1.6%).

Among the main brands, sales of Aperol and Cinzano vermouth were particularly strong, while Campari and Crodino showed more modest growth.

Sales of CampariSoda and Cinzano sparkling wine dipped slightly, although it should be noted that their overall performance for the year will depend entirely on sales in November and December.

In **Europe**, the area which represents 18.6% of the Group's total business, net sales for the period increased by 5.8%, buoyed up by the good results achieved in Germany and Switzerland, the two most important markets.

Sales of the core brands Campari and Cinzano sparkling wines also showed satisfactory growth on the German market.

The **Americas**, which represent 28.0% of Group sales, recorded overall growth of 6.1%.

In both the US and Brazil (the two markets which together represent 95% of this area), the sales performance was positive, with organic growth of 5.0% for both areas.

As shown in the two tables below (expressed in euro), the decline in value of the US dollar and the sharp rise in the Brazilian real had opposite effects on these two markets.

Sales in the Americas	1 January - 30 September 2005		1 January - 30 September 2004		% change 2005 / 2004
	€ million	%	€ million	%	
US	112.9	74.2%	110.3	77.0%	2.3%
Brazil	31.7	20.8%	26.2	18.3%	20.8%
Other countries	7.5	4.9%	6.8	4.7%	10.4%
Total	152.1	100.0%	143.4	100.0%	6.1%

Breakdown of % change in sales in the Americas	Total % change 1 January - 30 September	of which external growth	of which organic growth before exchange rate effect	of which exchange rate effect
US	2.3%	0.4%	5.0%	-3.1%
Brazil	20.8%	0.0%	5.0%	15.8%
Other countries	10.4%	0.0%	11.5%	-1.1%
Total	6.1%	0.3%	5.3%	0.5%

Organic growth in the US was driven by sales of the SKYY brand, which were positive overall, comprising double-digit growth for the core brand SKYY Vodka, a decrease in the flavoured vodka range and a positive contribution from SKYY 90, the ultra premium vodka launched on the US market in the first half of the year. The distribution of Martin Miller's gin, which commenced in 2005, added 0.4% to external growth, whereas the fall in value of the US dollar hit growth by 3.1%.

As a result, the total change in US sales was 2.3%.

In Brazil, organic growth of 5.0% mainly came from sales of Cynar and local brands (especially Dreher aguardiente), whereas sales of Campari were rather sluggish during the period.

It should be borne in mind, however, that 45% of annual sales in Brazil occur in the last quarter.

The substantial increase in the average value of the Brazilian real (+15.8%) meant that sales growth in euro was 20.8%.

Sales growth in the other countries in the Americas, albeit low in absolute terms, was positive both at constant exchange rates (+11.5%) and at actual exchange rates (+10.4%).

Rest of the world and duty free sales, which account for 4.7% of the Group total, increased by 8.4% overall; stripping out the negative exchange rate impact, growth was 11.3%.

Sales growth in Australia and New Zealand was particularly significant, whereas duty free sales, which represent around a third of sales in this area, remained broadly flat.

Sales by business area

In the first nine months of 2005, the Group saw positive growth in its wines and spirits core business, and a decline in soft drinks (although sales of Crodino held up well) and the minor, secondary "other sales" segment.

The first table below shows net sales growth by business area, while the second gives a breakdown of organic growth, external growth and exchange rate movements.

Sales by segment	1 January - 30 September 2005		1 January - 30 September 2004		% change 2005 / 2004
	€ million	%	€ million	%	
Spirits	358.3	66.0%	341.8	65.0%	4.8%
Wines	75.6	13.9%	71.4	13.6%	5.9%
Soft drinks	103.3	19.0%	105.5	20.1%	-2.1%
Other sales	6.1	1.1%	7.4	1.4%	-18.4%
Total	543.3	100.0%	526.2	100.0%	3.3%

Breakdown of % change in sales by segment	Total % change 1 January - 30 September	of which external growth	of which organic growth before exchange rate effect	of which exchange rate effect
Spirits	4.8%	1.7%	3.1%	0.0%
Wines	5.9%	0.0%	6.5%	-0.6%
Soft drinks	-2.1%	0.0%	-2.1%	0.0%
Other sales	-18.4%	0.0%	-18.5%	0.1%
Total	3.3%	1.1%	2.2%	-0.1%

Spirits

Sales of spirits totalled € 358.3 million in the period, an increase of 4.8% compared with the same period last year. This increase was the result of organic growth of 3.1% at constant exchange rates (or 4.8% after stripping out the effect of the poorly performing Campari Mixx), a positive contribution of 1.7% from external growth, and a total exchange rate effect of zero.

As for the major brands, sales of **Campari** posted modest organic growth of 1.1% (1.7% at actual exchange rates, thanks to the positive exchange rate effect of the Brazilian real).

Trends in each of the three key markets for the Campari brand varied significantly.

In Italy, the brand continued to perform solidly, recording improved sales in a market that is undergoing a temporary slowdown in consumption.

In Brazil, sales of the brand slowed, as expected, following price increases levied during the year.

Note, however, that in this market, over half of the brand's annual sales occur in the fourth quarter.

The above-mentioned rise in the value of the Brazilian real meant that sales growth was very healthy.

In Germany, Campari showed encouraging growth: the brand benefited from a positive comparison with the same period last year, when sales were affected by bad weather, and was also boosted by the first positive signs of a brand recovery.

Sales of the **SKYY** brand (vodkas, flavoured vodkas and SKYY 90) recorded organic growth of 8.8% (or 7.6% excluding the effect of the launch of SKYY 90) in the first nine months of the year.

Stripping out the negative effect of the 3.1% fall in value of the dollar, sales increased by 5.8% over the same period last year.

This buoyant performance was due to steady growth in the United States (+6.2% in local currency), and to exports, which grew at a steady rate of around 30% throughout the period.

On the US market, SKYY Vodka continued to post sound double-digit growth in final consumption, while SKYY flavoured vodkas showed signs of slowing.

For export sales, which represent 15% of the brand's total sales, Canada and Italy remain the two most important markets, but the number of countries in which SKYY Vodka has reached a critical volume of sales is growing, and includes Australia, Mexico, the UK, Germany and more recently, Greece.

Sales of **CampariSoda**, which are almost entirely concentrated in Italy, fell slightly compared to last year (–1.8%), following the postponement to the fourth quarter of consumer promotions that traditionally bring in considerable sales volumes.

Aperol sales remained healthy (+19.2%), thanks to excellent results in Italy – where double-digit growth has been recorded since the acquisition of the brand – and to rising sales in Germany.

As mentioned earlier, sales of **Campari Mixx** were very poor, largely due to the sharp drop in consumption of ready-to-drink products in Italy.

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

Campari Mixx maintained its share of the Italian market.

The decline in sales – over 60% compared to last year – was exacerbated by a comparison with the first half of 2004, when sales of Campari Mixx in Italy benefited from a high sell-in linked to the launch of the two new product lines, Campari Mixx Lime and Campari Mixx Peach.

Moreover, sales on the international markets (which subsequently dwindled to zero) were still relatively significant in the first half of 2004.

Sales of the **Brazilian brands** increased by 4.0% in local currency.

This equates to an increase of 19.7% at actual exchange rates as a result of the rise in value of the Brazilian real.

Sales of **Dreher** aguardiente held up well, while **admix whiskies** (Old Eight, Drury's and Gold Cup) fell slightly.

Cynar sales shot up by 19.4% at constant exchange rates and by 22.4% at actual exchange rates.

This excellent performance was due to the change of distributor in Switzerland and, to a greater extent, to the Brazilian market where, following the expiry of the third-party licensing rights to the Cynar brand in Brazil, Campari do Brasil Ltda. commenced production and distribution of the brand, a leader on the local market.

Sales of **Ouzo 12** were down by 3.1% on the same period last year, as a result of the slight downturn in Greece and Germany, its two main markets.

In Greece, sales by volume were up on 2004, following the successful launch of new packaging during the year.

In value terms, however, they were affected by an unfavourable comparison with the period covering the Olympic Games, when higher-priced gift packs made a much greater percentage contribution to sales.

In Germany, the introductory phase of the new packaging caused sales to slow temporarily, while market data show a steady increase in consumption.

Sales of **Zedda Piras** liqueurs, which are distributed solely on the Italian market, grew by 4.6%, overall: in Sardinia the trend was stable, while the rest of Italy saw growth.

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

- 12.2% growth in the United States (in local currency) for **1800 Tequila** (+8.9% at actual exchange rates)
- broadly stable at –0.2% for **Jägermeister** in Italy
- an overall decline of 12.1% for **Scotch whiskies** (–13.2% at actual exchange rates), due in large part to the Cutty Sark label in the United States.

Wines

Net wine sales in the first nine months of 2005 stood at € 75.6 million, a rise of 6.5% at constant exchange rates, or 5.9% after stripping out the negative exchange rate effect.

A satisfactory performance by all the major brands contributed to the positive sales growth in this segment. Particularly noteworthy were sales of Cinzano vermouth, which posted growth of 15.0% (+14.9% at constant exchange rates).

The most significant growth came from Italy, Spain, Russia and Poland.

Sales of **Cinzano sparkling wines** increased by 3.3% (+3.1% at constant exchange rates).

Germany saw particularly healthy sales following the launch of new packaging in July 2005.

The upturn in sales on this market enabled the brand to regain the ground lost in June, and to close the first nine months with positive growth.

The slight decline in performance in Italy does not give cause for alarm at the moment, as sales are strongly seasonal and mainly occur in the fourth quarter.

Sales of **Sella & Mosca** wines were broadly stable: a slight increase in volumes during the period was offset by a decline of 0.4% in net sales by value.

However, strong sales continued to be recorded by **Riccadonna**, acquired at the beginning of last year by the Group, which already distributed it on some of the main international markets.

The increase of 32.1% at constant exchange rates (27.5% at actual exchange rates) was mainly due to excellent results in Australia and, to a lesser extent, to the expansion of European distribution.

Sales of **Mondoro** also increased by 15.3% at constant exchange rates (+15.6% at actual exchange rates) in the period, thanks to the expansion of distribution into new markets.

Soft drinks

From January to September 2005, total sales of soft drinks stood at € 103.3 million, a 2.1% drop on the same period last year.

Whilst sales of traditional soft drinks were poor, **Crodino**, a non-alcoholic aperitif included in this segment, enjoyed growth of 3.3%. Crodino continues to show volume growth and increased market share in Italy, which accounts for 95% of sales, thanks to its strong brand reputation.

Following a decline that lasted until 30 June, sales of **Lemonsoda, Oransoda and Pelmosoda** performed well in the third quarter, and were broadly stable over the nine months compared to last year (-0.1%).

Mineral waters declined by 2.5%, while **Lipton Ice Tea** (a third-party brand distributed in Italy) slumped by 11.3%.

Please note that this brand represents a not insignificant one-third of total soft drink sales.

Other sales

This minor segment includes revenues from co-packing and sales to third parties of raw materials and semi-finished goods. It represents around 1% of the Group's sales.

In the first nine months of the year, "other sales" came in at € 6.1 million, a decline of 18.4% compared with last year, attributable to both activities.

Sales performance in the third quarter of 2005

Consolidated net sales of spirits in the third quarter totalled € 179.4 million, an increase of 4.6% compared with the same period of last year.

Organic growth before the exchange rate effect was 1.0% (or +2.6% after stripping out the poor performances of Lipton Ice Tea and Campari Mixx); a greater contribution to the quarter's total sales came from external growth (2.6%) as the Group began distributing Jack Daniel's and other Brown-Forman brands on the Italian market, and Martin Miller's gin in the US.

Lastly, the changes in the average exchange rates also had a positive effect of 1.0% on the quarter's results, thanks to the sharp rise in value of the Brazilian real (over 20%) and the very slight depreciation of the US dollar.

Breakdown of change in sales	€ million	% change third quarter 2004
– net sales in the third quarter of 2005	179.4	
– net sales in the third quarter of 2004	171.5	
Total change	7.9	4.6%
of which:		
organic growth before exchange rate effect	1.8	1.0%
external growth	4.5	2.6%
exchange rate effect	1.6	1.0%
Total change	7.9	4.6%

The rise in sales in the third quarter occurred in all regions, with the sole exception of Europe, which saw a slight decline (–0.4%).

Sales in Italy, which saw overall growth of 4.4%, benefited from the strong contribution of external growth (5.1%); without this, sales would have fallen by 0.7%, entirely attributable to the sharp decline shown by Lipton Ice Tea and Campari Mixx (+2.5% stripping out this effect).

Sales to the Americas and the rest of the world showed organic growth of 2.7% and 11.3% respectively, stripping out exchange rate effects and the contribution of the new brands distributed in those regions.

Net sales by region	Third quarter 2005		Third quarter 2004		% change 2005 / 2004
	€ million	%	€ million	%	
Italy	79.3	44.2%	76.0	44.3%	4.4%
Europe	36.4	20.3%	36.6	21.3%	–0.4%
Americas	52.8	29.4%	49.1	28.6%	7.6%
Rest of the world and duty free	10.9	6.0%	9.9	5.8%	9.5%
Total	179.4	100.0%	171.5	100.0%	4.6%

Breakdown of % change in sales by region	Total change third quarter	of which external growth	of which organic growth before exchange rate effect	of which exchange rate effect
Italy	4.4%	5.1%	–0.7%	0.0%
Europe	–0.4%	0.0%	–0.3%	–0.1%
Americas	7.6%	0.7%	2.7%	4.3%
Rest of the world and duty free	9.5%	2.5%	11.3%	–4.4%
Total	4.6%	2.6%	1.0%	1.0%

A breakdown by business area shows that wines and spirits grew by 6.3% and 6.1% respectively, while soft drinks and “other sales” fell.

An analysis of the three components of the total change (organic growth, external growth and exchange rate movements) reveals significant differences.

Wines achieved significant organic growth of 6.9%, chiefly due to good performances by the Cinzano and Riccadonna sparkling wines and Sella & Mosca wines.

Spirit sales benefited mainly from the contribution of external growth and the positive exchange rate effects relating to the Brazilian currency.

Organic growth of 0.3% was negatively affected by the poor performance of Campari Mixx (without this, organic growth would have been 1.8%).

Among the Group’s core brands, quarterly sales were positive for Aperol, SKYY Vodka and the Brazilian brands, while Campari and CampariSoda fell back to a certain extent.

Sales by segment	Third quarter 2005		Third quarter 2004		% change 2005 / 2004
	€ million	%	€ million	%	
Spirits	115.2	64.2%	108.5	63.3%	6.1%
Wines	29.9	16.6%	28.1	16.4%	6.3%
Soft drinks	31.5	17.6%	31.9	18.6%	-1.3%
Other sales	2.9	1.6%	3.0	1.7%	-4.6%
Total	179.4	100.0%	171.5	100.0%	4.6%

Breakdown of % change in net sales by segment	Total change third quarter	of which external growth	of which organic growth before exchange rate effect	of which exchange rate effect
Spirits	6.1%	4.2%	0.3%	1.7%
Wines	6.3%	0.0%	6.9%	-0.6%
Soft drinks	-1.3%	0.0%	-1.3%	0.0%
Other sales	-4.6%	0.0%	-4.6%	0.0%
Total	4.6%	2.6%	1.0%	1.0%

CONSOLIDATED FINANCIAL STATEMENTS

PREPARATION CRITERIA

In accordance with the provisions of Regulation (EC) 1606/2002 dated 19 July 2002, the Campari Group adopted international accounting standards (IAS / IFRS) from 1 January 2005.

As a result, this quarterly report as at 30 September 2005 was prepared by applying the valuation and measurement criteria set by IAS / IFRS and adopted by the European Commission.

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

For the reconciliation of the net profit and shareholders' equity figures relating to the consolidated accounts for 2004, please refer to the Appendix of the half-year report to 30 June 2005.

The effects of the transition to IAS / IFRS are also shown in the Appendix to this third-quarter report, together with the reconciliations required by IFRS 1 (First-Time Adoption of International Financial Reporting Standards) for the period to 30 September 2004, presented for comparative purposes and accompanied by the related explanatory notes.

The accounting principles applied in the preparation of the report to 30 September are the same as those used to prepare the opening balances of the consolidated accounts at 1 January 2004 under IAS / IFRS, and the 2004 profit and loss account and balance sheet, reclassified in accordance with IAS / IFRS.

For a description of the main standards adopted by the Group, please refer to the Appendix to the half-year report to 30 June 2005.

It should be noted that the valuation and measurement of accounting figures presented in this report are based on international accounting standards and related interpretations currently in effect.

Thus, these figures could be revised to reflect changes that may occur before 31 December 2005 as a result of the European Commission's future approval of new standards, new interpretations or guidelines issued by the International Financial Reporting Interpretation Committee (IFRIC).

The quarterly report and consolidated financial statements for the period to 30 September 2005 have been prepared in accordance with Issuer Regulation 11971/1999, as amended by Consob resolution 14990 of 14 April 2005.

In particular, as provided for in article 82 ("Quarterly reports") of the aforementioned regulation, this report is not subject to audit, and has been prepared in accordance with Appendix 3D.

The quarterly report to 30 September 2005 was authorised for publication by resolution of the relevant administrative body on 14 November 2005.

Basis of consolidation

The consolidated quarterly report includes the profit and loss accounts and balance sheets of the Parent Company and Italian and foreign subsidiaries at 30 September, which were prepared in accordance with international accounting standards.

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

No significant changes occurred in respect of the basis of consolidation in the first nine months of 2005.

However, please note that the Group completed the acquisition of a further 30.1% of Skyy Spirits, LLC in February 2005.

As a result of this acquisition, the Group's stake in Skyy Spirits, LLC at 30 September 2005 was 89%.

CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE FIRST NINE MONTHS OF 2005

€ million	30 September 2005		30 September 2004		Change %
	€ million	%	€ million	%	
Net sales	543.3	100.0%	526.2	100.0%	3.3%
Cost of goods sold	(228.2)	(42.0%)	(222.0)	(42.2%)	2.8%
Gross profit	315.1	58.0%	304.2	57.8%	3.6%
Advertising and promotional costs	(92.3)	(17.0%)	(88.1)	(16.7%)	4.8%
Sales and distribution costs	(64.2)	(11.8%)	(62.1)	(11.8%)	3.4%
Trading profit	158.6	29.2%	153.9	29.3%	3.1%
General and administrative expenses and other operating expenses and income	(39.0)	(7.2%)	(39.7)	(7.5%)	(1.8%)
EBIT before one-offs	119.5	22.0%	114.3	21.7%	4.5%
One-offs	3.5	0.6%	1.4	0.3%	150.0%
EBIT	123.1	22.7%	115.7	22.0%	6.4%
Net financial income (charges)	(6.8)	(1.3%)	(6.7)	(1.3%)	1.5%
Profit (loss) of companies valued at equity	(0.4)	(0.1%)	(1.2)	(0.2%)	(66.7%)
Profit before tax	115.8	21.3%	107.8	20.5%	7.4%
Minority interests	(3.1)	(0.6%)	(11.3)	(2.1%)	(72.6%)
Group profit before tax	112.8	20.8%	96.6	18.4%	16.8%
Other information:					
Total depreciation and amortisation	(12.8)	(2.4%)	(12.7)	(2.4%)	0.8%
EBITDA	135.9	25.0%	128.4	24.4%	5.8%
EBITDA before extraordinary income and charges	132.4	24.4%	127.0	24.1%	4.3%

The **net sales** performance for the first nine months of 2005 and the changes compared to last year are covered in more detail in the sections above.

With regard to other items on the profit and loss account, the **cost of goods sold** in the period accounted for 42.0% of sales, slightly below last year's figure of 42.2%.

The cost of materials, which represents the largest portion of this item and is entirely variable, was in line with last year: even though the third quarter saw price increases of certain raw materials, average unit costs for the first nine months compared favourably with the same period of 2004. The impact on the cost of materials of the varying profitability of products sold was slightly negative, as wines performed better than spirits, and because of the high proportion of distributed products within the spirits segment.

Production costs fell slightly as a proportion of sales and edged up by 0.8% in absolute terms.

This result can be considered very positive, given the following events that took place between May and September:

- suspension of production of CampariSoda and then Campari at the Sesto San Giovanni plant;
- the transfer of production lines to the Novi Ligure plant and their subsequent preparation phase;
- the start-up of production at Novi Ligure.

The Group will not, therefore, reap the full benefits of the synergies expected to be released by the industrial restructuring programme until 2006.

Advertising and promotional costs were higher in the first nine months of 2005 than in the same period last year, rising as a percentage of sales from 16.7% to 17.0%. This figure was, however, 0.3 percentage points below that recorded at 30 June 2005.

These costs are likely to be proportionally higher in the fourth quarter of the year, the most important for Group sales, although for the full year they should remain in line with 2004.

Sales and distribution costs increased by 3.4% (but remained unchanged at 11.8% of sales), owing to the combination of an increase in sales and marketing costs and a decrease in transport costs.

Trading profit for the first nine months of 2005 was € 158.6 million, up 3.1% versus last year, resulting from organic growth of 4.0%, external growth of 0.2% (new distribution agreements) and a negative exchange rate effect of 1.1%.

General and administrative expenses and other operating income and charges fell both in absolute terms and as a percentage of sales, from 7.5% of sales in the first nine months of 2004 to 7.2% this year.

General expenses alone rose slightly, but the profit and loss account for this year has benefited from greater windfall gains and other operating income.

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

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

EBIT before extraordinary income and charges was € 119.5 million in the first nine months of 2005, an increase of 4.5% compared to the same period last year.

This measure of profitability has been introduced into the new format of the profit and loss account adopted by the Campari Group in order to provide continuity of analysis with respect to profitability indicators used previously in compliance with national accounting standards (namely “EBIT”).

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

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

Extraordinary income and charges therefore continue to be recorded in a separate item, between EBIT before extraordinary income and charges and EBIT.

Note too that, as goodwill and trademark amortisation is no longer reported, the “EBITA” item previously in use is now equivalent to the “EBIT before extraordinary income and charges” item.

Extraordinary income and charges were positive to the tune of € 3.5 million in the first nine months of 2005, mainly due to a capital gain generated by the sale of real estate in Switzerland (€ 1.9 million) and a windfall gain relating to an acquisition made in Brazil in 2001 (€ 1.4 million).

In the first nine months of last year, this item showed a net positive balance of € 1.4 million.

EBIT was € 123.1 million in the first nine months of 2005, an increase of 6.4% compared to the same period of last year. The EBIT margin expanded from 22.0% to 22.7%.

Depreciation and amortisation, unchanged compared to last year, totalled € 12.8 million, of which € 11.4 million related to the depreciation of tangible assets and € 1.4 million to the amortisation of intangible assets.

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

EBITDA rose by 5.8% compared with the first nine months of 2004, to € 135.9 million.

EBITDA before extraordinary income and charges increased by 4.3% to € 132.4 million.

This figure was lower – and grew by a smaller amount – than the EBITDA figure, because the income and charges not included showed a net positive balance and were higher than in the same period of 2004.

The items in the profit and loss account shown below the EBIT line that affect pre-tax profit are financial charges and the profits (losses) of companies consolidated using the equity method.

Net financial charges totalled € 6.8 million in the first nine months of this year, € 0.1 million higher than in the same period of 2004, owing to higher average debt in 2005 following the acquisition of a 30.1% stake in Skyy Spirits, LLC (completed at the end of February), which was only partially offset by a positive exchange rate effect.

US dollar depreciation reduced the value of financial charges relating to the debt denominated in this currency, while appreciation of the Brazilian real increased the value of interest accrued in Brazil, where the operations in question are cash positive.

The Group's portion of **profits or losses of companies valued at equity** showed a net loss of € 0.4 million in the first nine months of 2005, compared to a loss of € 1.2 million last year.

The four companies consolidated using the equity method are trading companies that distribute products made by the Group and its partners in Europe's main markets, such as Belgium, the Netherlands, the UK and Spain.

Profit before taxes grew by 7.4% compared to the same period of last year, to € 115.8 million.

The consolidated results set out above do not include taxes and net profit.

However, for the purpose of providing a more complete and accurate picture, the portion of profit before tax attributable to the Group (i.e. minus minority interests) is shown.

In the period under review, the portion of profit relating to **minority interests** was € 3.1 million, substantially lower than last year's figure of € 11.2 million.

This item consists almost exclusively of the portion of profits generated by Skyy Spirits, LLC; it decreased following the Group's acquisition, completed at the end of February, of a further 30.1% of the company.

As a result, **net profit before taxes attributable to the Group** for the first nine months of 2005 was € 112.8 million, representing a significant increase of 16.8%.

CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE THIRD QUARTER OF 2005

€ million	Third quarter 2005		Third quarter 2004		Change %
	€ million	%	€ million	%	
Net sales	179.4	100.0%	171.5	100.0%	4.6%
Cost of goods sold	(77.9)	(43.4%)	(73.1)	(42.6%)	6.6%
Gross profit	101.5	56.6%	98.4	57.4%	3.2%
Advertising and promotional costs	(29.5)	(16.4%)	(29.5)	(17.2%)	0.0%
Sales and distribution costs	(21.0)	(11.7%)	(19.2)	(11.2%)	9.4%
Trading profit	51.1	28.5%	49.8	29.0%	2.6%
General and administrative expenses and other operating expenses and income	(12.5)	(7.0%)	(11.7)	(6.8%)	6.8%
EBIT before one-offs	38.6	21.5%	38.1	22.2%	1.3%
One-offs	0.9	0.5%	0.1	0.1%	
EBIT	39.5	22.0%	38.2	22.3%	3.4%
Net financial income (charges)	(2.1)	(1.2%)	(2.4)	(1.4%)	(12.5%)
Profit (loss) of companies valued at equity	(0.2)	(0.1%)	(0.4)	(0.2%)	(50.0%)
Profit before tax	37.2	20.7%	35.4	20.6%	5.1%
Minority interests	(1.2)	(0.7%)	(4.9)	(2.9%)	(75.5%)
Group profit before tax	36.0	20.1%	30.5	17.8%	18.0%
Other information:					
Total depreciation and amortisation	(4.3)	(2.4%)	(4.3)	(2.5%)	
EBITDA	43.8	24.4%	42.5	24.8%	3.1%
EBITDA before extraordinary income and charges	42.9	23.9%	42.4	24.7%	1.2%

The consolidated profit and loss account of the Campari Group for the third quarter of 2005 shows an improvement in results compared to the same quarter of 2004, with an increase of 3.4% in EBIT and a rise of 18% in the Group's profit before tax.

EBIT growth was however slightly lower than in both the first half and first nine months of the year.

This slowdown was chiefly due to the sales mix, increases in the price of raw materials and a short-term increase in fixed costs; the result did however benefit from a lower incidence of advertising and promotional costs.

Sales grew 4.6% over the quarter, compared to 3.3% in the first half of the year, with a greater contribution from external growth following new distribution agreements.

Profit before tax grew by 5.1%, partly as a result of lower financial charges and lower losses relating to affiliated companies.

Minority interests were markedly lower following the acquisition of 30.1% of Skyy Spirits, LLC.

As a result, the Group's portion of net profit before taxes was € 36 million in the third quarter, an increase of 18%.

NET DEBT

The table below shows net debt for the Campari Group at 30 September 2005, which is compared with that of 30 June 2005 and 1 January 2005.

A comparison with the figures at 1 January 2005 and 31 December 2004 shows the changes resulting from the application of IAS 32 and 39 from 1 January 2005, which relate to the accounting of financial instruments at fair value.

The net financial position does not include own shares held by the Parent Company, which totalled € 29.3 million at 30 September 2005, € 30.3 million at 30 June 2005 and € 29.8 million at 1 January 2005.

€ million	30 September 2005	30 June 2005	1 January 2005
Cash and bank	222.3	198.5	239.5
Marketable securities	20.9	22.0	6.5
Cash flow hedging	0.4	0.3	0.7
Payables to banks	(118.2)	(117.1)	(56.7)
Real estate lease payables (short - term)	(3.0)	(3.0)	(2.9)
Bonds (current portion)	(3.3)	(3.3)	(2.9)
Interest on bonds	(4.3)	(9.3)	(8.3)
Net interest receivable / payable for swaps on bond issues	1.4	3.7	3.4
Short-term debt	116.3	91.8	179.1
Payables to banks	(28.4)	(28.3)	(3.6)
Financial payables for cross currency swaps on bond issues	(30.5)	(23.6)	(59.4)
Financial receivables for interest rate swaps on private placement	6.9	10.4	9.6
Real estate lease payables	(19.8)	(20.5)	(22.0)
Bonds	(228.7)	(235.9)	(200.0)
Private placement	(141.8)	(148.2)	(132.1)
Other financial payables	(1.5)	(1.5)	(1.6)
Medium-/long-term debt	(443.8)	(447.6)	(409.1)
Net debt	(327.5)	(355.8)	(230.0)

Net debt at 30 September 2005 was € 327.5 million, a decrease of € 28.3 million compared to 30 June 2005; the improvement was mainly due to free cash flow generated in the period.

Exchange rate fluctuations had a marginal effect on the total change between the two periods.

Net debt rose by € 97.5 million, however, compared to the figure at 1 January 2005; this was mainly due to the significant investment (€ 118.2 million) made by Redfire, Inc. in February 2005 for the acquisition of a further 30.1% share in Skyy Spirits, LLC.

Exchange rate fluctuations also had a negative effect of € 18.1 million on net debt at 30 September 2005, mainly due to the debt denominated in US dollars (recorded by Redfire, Inc. and Skyy Spirits, LLC) and the 13% drop in the Euro / US dollar exchange rate between 31 December 2004 and 30 September 2005, from 1.3604 to 1.2042.

OPERATING WORKING CAPITAL

The two tables below provide information relating to operating working capital as at 30 September 2005, and at 31 December and 30 September 2004 for comparison purposes.

€ million	30 September 2005	31 December 2004	Change	Change %
Trade receivables	168.7	180.7	(12.0)	
Inventories	164.8	114.4	50.4	
Payables to suppliers	(136.5)	(142.1)	5.6	
Operating working capital	197.0	153.0	44.0	28.8%

Operating working capital rose € 44 million in the first nine months of the year: note that, stripping out the exchange rate effect, which significantly reduced the value of the subsidiary Campari do Brasil Ltda., the increase compared to 31 December 2004 was € 28.3 million, or 16.8%.

During the period, trade receivables and payables to suppliers fell, as a result of the seasonal nature of the Group's business, which sees most sales concentrated into the last two months of the calendar year; in contrast, inventories, which are likewise at their lowest at the end of the year, were particularly high at the end of September 2005, owing to the storage of finished products following the closure of the Sesto San Giovanni plant and the launch in October of production at the new facility in Novi Ligure.

€ million	30 September 2005	30 September 2004	Change	Change %
Trade receivables	168.7	139.3	29.4	
Inventories	164.8	139.0	25.8	
Payables to suppliers	(136.5)	(123.2)	(13.3)	
Operating working capital	197.0	155.1	41.9	27.0%
12 - month moving average of net working capital over sales (%)	25.6%	21.3%		

Net working capital grew by € 41.9 million compared to the same period last year, due to an increase in trade receivables and inventories that was only partly offset by a rise in payables to suppliers.

Again, the revaluation of the Brazilian real, and to a lesser extent the US dollar, had a significant impact on growth of operating working capital, which, excluding the exchange rate effect, would have totalled € 35.2 million, a 21.7% increase.

Growth in inventories was chiefly due to the factors outlined above concerning the transfer of production of Campari and CampariSoda to the new facility, as well as to new distribution agreements for third-party brands.

Growth in trade receivables, which were partly affected by an expansion in the basis of consolidation, was also due to short-term technical factors that will have no impact in the fourth quarter.

EVENTS TAKING PLACE AFTER 30 SEPTEMBER 2005

No significant events have taken place since 30 September 2005.

OUTLOOK

Campari Group sales are mostly concentrated in the last quarter of the year, owing to the nature of the business itself (as regards spirits and in particular wines) and that of certain markets (especially Brazil), and we therefore do not have complete visibility on results for the full year.

Nevertheless, we believe that the Group will register a satisfactory performance in 2005, despite difficult conditions on the Group's main markets.

In light of this, we believe that the expected recovery of European markets and renewed consumer confidence, combined with the strength of the Group's brands, will lead to greater growth in the medium term.

APPENDIX – TRANSITION TO INTERNATIONAL ACCOUNTING STANDARDS (IAS/IFRS)

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

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

For the reconciliation of the net profit and shareholders' equity figures relating to the consolidated accounts for 2004, please refer to the Appendix of the half-year report to 30 June 2005.

This Appendix has been prepared solely for the purposes of the transition to IAS / IFRS and the preparation of the Group's first full consolidated 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, in accordance with IAS / IFRS, of the Campari Group's balance sheet and profit and loss account at 31 December 2004.

First-time adoption of international accounting standards

The Campari Group has applied the international accounting standards retrospectively, except where exemptions granted by IFRS 1 have been applied.

Specifically, the accounting options adopted by the Group for the first-time application of the international accounting standards are as follows:

- **business combinations:** the Group chose not to apply IFRS 3 (Business Combinations) retrospectively to the transactions that took place before the date of transition to IAS / IFRS (1 January 2004); goodwill and trademark amortisation have therefore not been calculated since 1 January 2004;
- **fair value or revaluation as deemed cost:** the Group chose to maintain the historical cost as an alternative to fair value or revalued cost at the date of transition, maintaining the revaluations carried out before 1 January 2004; at the date of revaluation, the new value was comparable to the fair value;
- **employee benefits:** the Group decided to recognise all cumulative actuarial gains and losses as of 1 January 2004, resulting from the valuations of employee benefits as defined benefit plans;
- **cumulative translation differences:** the Group reset to zero the cumulative translation differences resulting from the consolidation of foreign subsidiaries outside the eurozone as of the date of transition to IAS / IFRS (1 January 2004);
- **financial instruments:** the Group opted to apply IAS 39 (Financial Instruments: Recognition and Measurement) and IAS 32 (Financial Instruments: Disclosure and Presentation), from 1 January 2005;
- **share-based payments:** in the case of equity-settled transactions, the Group applied IFRS 2 (Share-based Payments) to the allocation of stock options issued after 7 November 2002, which had not matured when IFRS 2 came into force (1 January 2005);
- **non-current assets held for sale:** the Group chose to apply IFRS 5 (Non-current Assets Held for Sale and Discontinued Operations) in advance to periods ending before the effective date of IFRS 5 (1 January 2005).

Note that the valuation and measurement of figures shown in the reconciliation statements below are based on international accounting standards and the interpretations thereof currently in force; these figures could therefore be revised to reflect changes that may occur before 31 December 2005 as a result of the European

Commission's future approval of new standards, new interpretations or guidelines issued by the International Financial Reporting Interpretation Committee (IFRIC).

Reconciliations required by IFRS 1

In compliance with the requirements of IFRS 1, this Appendix illustrates the reconciliation between the profit and loss account figures for the first nine months of 2004 and third quarter of 2004, and the shareholders' equity figure at 30 September 2004, prepared according to Italian accounting principles, with the corresponding values reclassified under IAS / IFRS.

The figures provided in this Appendix are unaudited.

Reconciliation of Group shareholders' equity as of 30 September 2004

(€ thousand)	Note	30 September 2004
Group shareholders' equity according to Italian accounting standards		567,449
Start-up and expansion costs and other intangible fixed assets	A	(2,623)
Goodwill and trademarks	B	26,294
Land	C	33
Benefits to employees	D	1,677
Agent severance reserve	E	1,221
Reserve for risks and future liabilities	F	1,207
Stock options	G	–
Net deferred tax assets (liabilities) on adjustments	H	(5,683)
Total adjustments		22,126
Less portion of adjustments pertaining to minorities		(95)
Group shareholders' equity according to IAS / IFRS		589,480
Minority interests		3,786
Total shareholders' equity according to IAS / IFRS		593,266

Effects of the transition to IAS / IFRS on the profit and loss account for the first nine months of 2004

(€ thousand)	Effect of the transition to IAS/IFRS						IAS/IFRS	
	Italian accounting standards (*)	Reclassification owing to changes in accounting treatment	Reclassification	Note	Adjustments	Note		
Net sales	544,656	–	(18,509)	i	–		526,147	Net sales
Cost of materials	(182,641)							
Production costs	(39,405)							
Total cost of goods sold	(222,046)	–	–		54		(221,992)	Cost of goods sold
Gross profit	322,610	–	(18,509)		54		304,155	Gross profit
Advertising and promotional costs	(106,700)	–	18,509	i	77		(88,114)	Advertising and promotional costs
Sales and distribution costs	(62,124)	–	–		–		(62,124)	Sales and distribution costs
Trading profit	153,786	–	–		131		153,917	Trading profit
General and administrative expenses	(38,700)	(1,104)	151	ii	(5)		(39,658)	General and administrative expenses and other operating expenses and income
Other operating income	1,259	(1,259)	–		–		–	
Goodwill and trademark amortisation	(26,372)	78	–		26,294	B	–	
	–	–	1,439	iii	2		1,441	Capital gains and losses, write-downs of non-current assets
EBIT before non-recurring costs	89,973	(2,285)	1,590		26,422		115,700	
Non-recurring costs	(2,285)	2,285	–		–		–	
EBIT	87,688	–	1,590		26,422		115,700	Operating income
Net financial income (charges)	(6,275)	–	(151)	ii	(291)		(6,717)	Net financial income (charges)
	–	–	(1,157)	iv	–		(1,157)	Profit (losses) relating to companies valued at equity
Other non-operating income (charges)	282	–	(282)	iii, iv	–		–	
Profit before tax	81,695	–	–		26,131		107,826	Profit before tax
Minority interests	(11,169)	11,169	–		–		–	
Group profit before tax	70,526	11,169	–		26,131		107,826	
Tax	(26,670)	–	–		(4,986)	H	(31,656)	Tax
Group net profit	43,856	11,169	–		21,145		76,170	Net profit
		(11,169)	–		(95)		(11,264)	Minority interests
		–	–		21,050		64,906	Group net profit

(*) reclassified figures shown in the quarterly report for the period ending 30 September 2004

Effects of the transition to IAS / IFRS on the profit and loss account for the third quarter of 2004

(€ thousand)	Italian accounting standards (*)	Effect of the transition to IAS/IFRS					IAS/IFRS	
		Reclassification owing to changes in accounting treatment	Reclassification	Note	Adjustments	Note		
Net sales	177,279	–	(5,758)	i	–		171,521	Net sales
Cost of materials	(60,209)	–	–		–			
Production costs	(12,904)	–	–		–			
Total cost of goods sold	(73,113)	–	–		5		(73,108)	Cost of goods sold
Gross profit	104,166	–	(5,758)		5		98,413	Gross profit
Advertising and promotional costs	(35,241)	–	5,758	i	27		(29,456)	Advertising and promotional costs
Sales and distribution costs	(19,192)	–	–		–		(19,192)	Sales and distribution costs
Trading profit	49,733	–	–		32		49,765	Trading profit
General and administrative expenses	(12,317)	726	49	ii	(120)		(11,662)	General and administrative expenses and other operating expenses and income
Other operating income	942	(942)	–		–		–	
Goodwill and trademark amortisation	(8,767)	–	–		8,767	B	–	
	–	–	92	iii	2		94	Capital gains and losses, write-downs of non-current assets
EBIT before non-recurring costs	29,591	(216)	141		8,681		38,197	
Non-recurring costs	(216)	216	–		–		–	
EBIT	29,375	–	141		8,681		38,197	Operating income
Net financial income (charges)	(2,345)	–	(49)	ii	–		(2,394)	Net financial income (charges)
	–	–	(425)	iv	–		(425)	Profit (losses) relating to companies valued at equity
Other non-operating Income (charges)	(333)	–	333	iii, iv	–		–	
Profit before tax	26,697	–	–		8,681		35,378	Profit before tax
Minority interests	(4,896)	4,896	–		–		–	
Group profit before tax	21,801	4,896	–		8,681		35,378	
Tax	(8,898)	–	–		(1,712)	H	(10,610)	Tax
Group net profit	12,903	4,896	–		6,969		24,768	Net profit
		(4,896)	–		(31)		(4,927)	Minority interests
		–	–		6,938		19,841	Group net profit

(*) reclassified figures shown in the quarterly report for the period ending 30 September 2004

Reconciliation of Group net profit for the first nine months and third quarter of 2004

(€ thousand)	Note	1 January - 30 September 2004	Third quarter 2004
Group net profit according to Italian accounting standards		43,856	12,903
Start-up and expansion costs and other intangible fixed assets	A	487	148
Goodwill and trademarks	B	26,294	8,767
Land	C	33	11
Benefits to employees	D	(370)	–
Agent severance fund	E	–	–
Reserve for risks and future liabilities	F	(103)	(35)
Stock options	G	(210)	(210)
Net deferred tax assets (liabilities) on adjustments	H	(4,986)	(1,712)
Total adjustments		21,145	6,969
Less portion of adjustments pertaining to minorities		(95)	(31)
Group net profit according to IAS/IFRS		64,906	19,841
Net profit attributable to minorities		11,264	4,927
Net profit according to IAS/IFRS		76,170	24,768

Explanatory notes

The following explanatory notes relate to the main reclassifications on the profit and loss account, and reconciliations made to the Group's shareholders' equity and net profit, following the transition to IAS / IFRS standards.

Reclassifications

i. Net sales

In line with the approach adopted by the sector, the value of product sales to major retailers was determined by disclosing the related revenues net of promotional costs.

Invoiced by the retailer, promotional costs are generally valued according to actual sales volumes and represent an essential condition for the agreement of product sales contracts.

The amount is negotiated at the same time as the sales contract, of which it forms an integral part.

These costs, totalling € 18,509,000 in the first nine months of 2004 and € 5,758,000 in the third quarter of 2004, have thus been reclassified, which has directly reduced the sales figure.

ii Bond issue expenses

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

In accordance with IAS / IFRS principles, however, the value of bonds must be shown net of these costs.

This has led to the reclassification of issue costs capitalised under intangible fixed assets and other non-current assets, which directly reduced the "bonds" figure, as well as the reclassification of the relevant amounts of amortisation, totalling € 151,000 in the first nine months of 2004 and € 49,000 in the third quarter of 2004, from general and administrative expenses to net financial charges.

iii. Other non-operating income (charges)

Under IAS / IFRS, all costs and income are deemed to relate to operating activity, even if they are unforeseen, unrelated to normal activity or non-recurring. Therefore, no cost or income item may be classified as "extraordinary".

This has led to the reclassification of net income amounting to € 1,439,000 in the first nine months of 2004 and € 92,000 in the third quarter of 2004, from "other non-operating income (charges)" to "capital gains and losses, write-downs of non-current assets", which is included in the calculation of EBIT.

IV. Profit relating to companies valued at equity

In accordance with IAS / IFRS standards, the portion of profit or loss relating to affiliated companies or joint ventures valued at equity must be disclosed as a specific item in the profit and loss account.

This has led to the reclassification of amounts under this item (€ -1,157,000 in the first nine months of 2004 and € 425,000 in the third quarter of 2004) from "other non-operating income (charges)" to "portion of profit (loss) relating to companies valued at equity".

Adjustments

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

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

The effects of this alternative accounting treatment are:

- a decrease in shareholders' equity of € 2,623,000 at 30 September 2004;
- an increase in net profit of € 487,000 in the first nine months of 2004 and of € 148,000 in the third quarter of 2004, as these items are no longer amortised.

B – Goodwill and trademarks

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

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

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

To this end, the cash-generating units relating to goodwill and trademarks were identified. Impairment tests carried out on them confirmed the book values recorded under Italian accounting principles on 1 January 2004.

In addition, the impact of eliminating amortisation on these items, under IAS / IFRS, is shown below:

- an increase in shareholders' equity of € 26,294,000 at 30 September 2004;
- an increase in net profit of € 26,294,000 in the first nine months of 2004 and of € 8,767,000 in the third quarter of 2004.

C – Land

Under Italian accounting principles, land belonging to buildings is depreciated with the buildings, while in accordance with IAS / IFRS, it must be classified separately and may no longer be depreciated.

The effects of this alternative accounting treatment are:

- an increase in shareholders' equity of € 33,000 at 30 September 2004, due to lower depreciation charges;
- an increase in net profit of € 33,000 in the first nine months of 2004 and of € 11,000 in the third quarter of 2004, due to lower depreciation charges.

D – Employee benefits

Italian accounting principles require recognition of the liability for the staff severance fund (TFR) based on the nominal liability accrued, in accordance with statutory regulations in force at the end of the reporting period.

Under IAS / IFRS, the staff severance fund falls under the category of defined benefit plans, which are subject to actuarial valuation to determine the present value of the amounts (payable upon termination of employment) that have accrued to employees at the reporting date.

Under this alternative accounting treatment, all actuarial gains and losses have been recognised, as follows:

- an increase in shareholders' equity of € 1,677,000 at 30 September 2004;
- a decrease in net profit of € 370,000 in the first nine months of 2004, as a result of an increase in allocations to the staff severance fund and the related financial component.

E – Agent severance fund

IAS / IFRS standards require an estimate to be made of the expected liability for payment of the additional compensation due to agents after termination of their contracts, taking into account all factors that could affect this amount.

The amount must also be discounted at an appropriate rate.

Using these criteria for the calculation led to an increase in shareholders' equity of € 1,221,000 at 30 September 2004.

F – Reserve for risks and future liabilities

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

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

The impact of this was:

- an increase in shareholders' equity of € 1,207,000 at 30 September 2004;
- a decrease in net profit of € 103,000 in the first nine months of 2004 and € 35,000 in the third quarter of 2004, as these items are no longer amortised on the profit and loss account.

G – Stock options

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

For this reason, given their nature as a form of staff remuneration, the stock options issued on 8 July 2004 to employees, directors and individuals who regularly work for one or more Group companies 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".

Under this alternative accounting treatment, net profit in the first nine months of 2004 and the third quarter 2004 was reduced by € 210,000, due to higher personnel costs.

H – Net deferred tax assets (liabilities) on these adjustments

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

- a decrease in shareholders' equity of € 5,683,000 at 30 September 2004;
- a decrease in net profit of € 4,986,000 in the first nine months of 2004 and € 1,712,000 in the third quarter of 2004.

Please note also that deferred tax liabilities included the impact of the tax deductibility of goodwill amortisation, and totalled € 5,129,000 in the first nine months of the year and € 1,710,000 in the third quarter of 2004.