CAMPARI

Relazione trimestrale al 31 marzo 2005 Redatta su base consolidata

Consolidated report for the quarter ending 31 March 2005

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DIRECTORS' REPORT

INTRODUCTION

The results of the Campari Group in the first quarter of 2005 were positive, with net sales and profitability showing growth against the same period of last year: sales rose by a modest 0.9%, while trading profit and all other operating profit indicators did better, posting increases of between 6% and 9%.

The table below shows the main profit and loss items together with the percentage changes from last year, at both current average exchange rates and constant average rates from the first quarter of 2004.

We can see that the rise in the euro had a negative effect on the profit and loss account, but to a lesser extent than was seen in the whole of 2004.

Figures for the quarter 1 January-31 March € million	2005 at actual exchange rates	% real change vs. 2004	2005 at actual exchange rates	% change at constant exchange rates vs. 2004	exchange rate effect
Sales net of discounts and excise duties	152.6	0.9%	153.9	1.7%	–0.8%
Trading profit	46.2	6.1%	46.7	7.3%	–1.2%
EBITDA	37.6	7.9%	38.1	9.3%	–1.4%
EBITA	33.2	9.0%	33.6	10.6%	–1.6%
EBIT	23.0	6.3%	23.4	8.5%	–2.2%
Profit before tax and minority interests	20.4	1.5%	20.8	3.7%	–2.2%
Net attributable profit before taxes	20.0	7.1%	20.3	8.8%	–1.7%

SIGNIFICANT EVENTS

Acquisition of a further 30.1% of Skyy Spirits, LLC

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

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 at the date of the operation).

Under the terms of the agreement, the call option was exercised at a price of 10 times the pro rata pre-tax profit generated 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 the company's 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 price of between 5 and 10 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

Skyy Spirits, LLC (which, through its SKYY Vodka brand, is a market leader in the USA in the super premium vodka segment) has announced the launch of SKYY90 in the ultra premium vodka segment – that is, the segment with the highest prices and biggest 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 stark, modern design, has strong visual appeal.

SKYY90 will be on sale from May in selected bars and restaurants of major US states.

Distribution of Martin Miller's London Dry Gin

The Campari Group (through Skyy Spirits, LLC) was awarded the US distribution rights for the ultra premium gin Martin Miller's starting from April 2005.

The brand is owned by the UK-based Reformed Spirits Company Ltd.

Martin Miller's was launched successfully in 2003 in London's most trendy bars.

The brand was introduced onto the American market a few months ago, where the early signs are encouraging.

Thanks to its solid success and proven ability to market high-range products, Skyy Spirits, LLC is the ideal launchpad from which to seize the excellent opportunities for growth in the ultra premium gin market, a new sector for the Campari Group.

The Reformed Spirits Company Ltd. and Davide Campari-Milano S.p.A. have 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 new decree 35 of 14 March 2005 (the "competition decree") raised the excise duty on pure alcohol by 4.7% and that on intermediate products (which include vermouth) by 11.0%.

The increases were introduced with immediate effect.

BASIS OF CONSOLIDATION

The increase in the Group's stake in Skyy Spirits, LLC from 58.9% to 89.0% on 25 February 2005 did not lead to any change in the basis of consolidation, since the company was already consolidated line-by-line.

The effects of the transaction on the profit and loss account can be seen in higher goodwill and trademark amortisation, higher financial charges and lower minority interests.

Conversely, sales and EBIT were not affected, and can therefore be compared with those of the first quarter of last year.

In December 2004, the Group acquired a further 30% of Longhi & Associati S.r.l., thus increasing its shareholding in the company to 70%; as a result, Longhi & Associati S.r.l. was included in the basis of consolidation in the first quarter of 2005 (unlike in the same period of last year).

Longhi & Associati S.r.l. schedules and purchases advertising space for both Campari Group companies and third parties.

Its revenues for the whole of 2004 stood at € 1.3 million.

FIRST-QUARTER SALES PERFORMANCE

Introduction

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

All percentage changes and effects have been calculated on figures which were originally expressed in thousand Euro.

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 Euro, 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.

General performance

In the first quarter of 2005, the Group's consolidated net sales increased by 0.9% to € 152.6 million, from € 151.3 million in the same period last year.

This was the combined effect of organic growth of 1.7% and a negative exchange rate effect of 0.8%, as the table below shows.

There was no change in the basis of consolidation compared with last year (unlike in 2004, when the first quarter saw the first-time full consolidation of Barbero 1891 S.p.A.'s sales, which moreover were very high).

	€ million	% change versus first quarter 2004
– net sales: first quarter 2005	152.6	
– net sales: first quarter 2004	151.3	
Total increase	**1.3**	**0.9%**
of which:		
organic growth before exchange rate effect	2.5	1.7%
changes in basis of consolidation	0.0	0,0%
exchange rate effect	–1.2	–0,8%
Total increase	**1.3**	**0.9%**

The organic sales growth of 1.7% was the combined result of uneven sales performances across the various brands, some of which were due to one-off factors that will disappear as the year progresses.

Sales of SKYY Vodka and Cinzano vermouths were excellent, while Campari and Cinzano sparkling wines saw their sales decrease.

Note that the first quarter of the year is traditionally low season for the Group, and generally accounts for only around 20% of full-year sales.

The negative exchange rate trend compared with the first quarter of 2004 was due mainly to the decline in the US dollar, which slid by 4.6% against the euro year on year.

Conversely, the Brazilian real gained 3.6% compared with the average registered in the same period of last year.

The table below shows the trend in the main currencies that have a direct impact on the consolidated profit and loss account.

Average exchange rate 1 January-31 March	2005	2004	% change
US$ x 1 €	1.311	1.251	
€ x 1 US$	0.7631	0.7995	–4.6%
BRL x 1 €	3.497	3.622	
€ x 1 BRL	0.2859	0.2761	3.6%
CHF x 1 €	1.549	1.569	
€ x 1 CHF	0.6456	0.6375	1.3%
JPY x 1 €	136.984	134.012	
€ x 1000 JPY	7.3001	7.4620	–2.2%

Sales by region

The total sales growth of 0.9% (or 1.7% stripping out the exchange rate effect) was due to a strong performance in the Americas and the rest of the world, more modest growth on the Italian market and a decline in Europe.

The first of the tables below shows net sales and growth by region, while the second breaks down the total change in each region by organic growth and the exchange rate effect (there was no external growth during the quarter).

Net sales by region	1 January-31 March 2005		1 January-31 March 2004		% change
	€ million	%	€ million	%	2005 / 2004
Italy	87.4	57.3%	86.3	57.0%	1.3%
Europe	26.2	17.2%	28.1	18.6%	–6.8%
Americas	34.8	22.8%	33.2	21.9%	5.0%
Rest of the world	4.2	2.7%	3.7	2.5%	11.3%
Total	**152.6**	**100.0%**	**151.3**	**100.0%**	**0.9%**

Breakdown of % change in net sales by region	Total % change 1 January-31 March	of which organic growth before exchange rate effect	of which exchange rate effect
Italy	1.3%	1.3%	0.0%
Europe	–6.8%	–7.0%	0.2%
Americas	5.0%	8.3%	–3.3%
Rest of the world	11.3%	16.9%	–5.6%
Total	**0.9%**	**1.7%**	**–0.8%**

Sales in **Italy** grew by 1.3% in the first quarter.

This was the combined result of a good performance from Campari and the other main spirit brands, offset by a slight dip in wine sales and a more marked drop for soft drinks and Campari Mixx.

This last was severely affected by an unfavourable comparison with the same period of 2004, which registered higher volumes following the launch of Campari Mixx Lime and Campari Mixx Peach.

The negative trend shown by wine sales was chiefly driven by the drop in Cinzano sparkling wine sales, although this in turn may have been partly due to a reduction in stocks following the excellent performance posted towards the end of 2004.

In **Europe** total net sales dropped by 6.8%, or 7.0% before a slightly positive exchange rate effect.

The decline can be attributed mainly to two important markets, Austria and Russia, where a reorganisation of distribution systems led to a drastic but temporary reduction in sales, especially of Campari.

As for the other European countries, Germany saw a slight contraction (due to a fall in Asti Cinzano sales), while sales in Switzerland, Spain, France and the UK increased compared with the same period of 2004.

Sales in the **Americas** jumped by 5.0% overall.

Positive organic growth of 8.3% was partly cancelled out by a negative exchange rate effect of 3.3%.

The two tables below provide further details of net sales data from the Americas.

Breakdown of net sales in the Americas	1 January-31 March 2005 € million	%	1 January-31 March 2004 € million	%	% change 2005 / 2004
US	26.1	74.9%	26.4	79.7%	–1.3%
Brazil	6.5	18.8%	4.6	13.9%	42.4%
Other countries	2.2	6.3%	2.1	6.4%	3.0%
Total	**34.8**	**100.0%**	**33.2**	**100.0%**	**5.0%**

Breakdown of % change in net sales in the Americas	Total % change 1 January-31 March	of which organic growth before exchange rate effect	of which exchange rate effect
US	–1.3%	3.4%	–4.7%
Brazil	42.4%	37.5%	4.9%
Other countries	3.0%	6.0%	–3.0%
Total	**5.0%**	**8.3%**	**–3.3%**

In the **United States**, sales by Skyy Spirits, LLC in local currency went up by 3.4%.

However, when converted into Euro, they posted a decline of 1.3% as a result of a 4.7% drop in the US Dollar.

It was an excellent period for sales of SKYY Vodka, as well as for 1800 Tequila, which is distributed under licence.

Sales of whisky fell, however, compared with the first quarter of 2004.

Sales in **Brazil** in local currency shot up by 37.5%, while the rise in the Brazilian Real against the Euro added a further 4.9%.

Sales in this area were driven by strong growth from Dreher aguardiente, but were positive for all the main brands.

This dynamic performance should however be viewed with caution, since sales on the Brazilian market in this period of the year make only a very small contribution to total sales for the year.

Sales in other countries in the Americas (although small values in themselves) grew strongly, rising 6.0% at constant exchange rates and 3.0% at actual rates.

The **rest of the world**, which accounts for only 2.7% of total Group sales, posted growth of 16.9% at constant exchange rates and 11.3% at actual rates.

The two main markets here are Japan and Australia, and growth compared with the first quarter of last year was particularly sizeable for the latter.

Sales by business area

In the first quarter of 2005, spirit sales grew, wine sales remained broadly flat, while soft drink sales declined; the significant drop of the minor "other sales" segment had a negligible impact on the general trend of the period.

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

Net sales by segment	1 January-31 March 2005 € million	%	1 January-31 March 2004 € million	%	% change 2005 / 2004
Spirits	100.8	66.0%	97.6	64.5%	3.3%
Wines	20.1	13.2%	20.0	13.2%	0.3%
Soft drinks	30.3	19.8%	31.7	20.9%	–4.4%
Other sales	1.5	1.0%	2.0	1.3%	–27.3%
Total	**152.6**	**100.0%**	**151.3**	**100.0%**	**0.9%**

Breakdown of % change in net sales by segment	Total % change 1 January-31 March	of which organic growth before exchange rate effect	of which exchange rate effect
Spirits	3.3%	4.4%	–1.1%
Wines	0.3%	0.9%	–0.6%
Soft drinks	–4.4%	–4.4%	0.0%
Other sales	–27.3%	–27.0%	–0.3%
Total	**0.9%**	**1.7%**	**–0.8%**

Spirits

Net sales of spirits in the first quarter totalled € 100.8 million, an increase of 4.4% at constant exchange rates, and 3.3% at actual rates.

Turning to the Group's main brands, net sales of **Campari** in the first quarter of 2005 fell 4.6% at constant exchange rates, and 4.9% at actual rates.

Note that first-quarter Campari sales suffer from a very unfavourable comparison with the same period of last year, firstly because the brand registered significant organic growth (9%) in the first quarter of 2004, and secondly because the reorganisation of the distribution system in Austria and Russia, two important European markets, triggered a temporary sharp drop in sales, which will gradually be recovered over the year.

If sales on these two markets were excluded from the periods under comparison, Campari would show overall growth of 1.5% at constant exchange rates and 1.2% factoring in the negative exchange rate effect.

Sales in Campari's three main markets – Italy, Germany and Brazil – were positive overall, with a slight recovery in Germany.

Campari sales also grew in France and Spain, were stable in Japan, and fell in Switzerland.

The **SKYY** range (vodka and flavoured vodka) registered organic sales growth of 14.6% in the first quarter; even after the negative effect of currency movements (4.8%), the brand showed growth of 9.8% compared to last year.

This positive trend was due to both strong growth in the US (+9.6% in local currency) and exports to the rest of the world, which jumped by more than 50%.

Sales of the brand on the US market continue to show encouraging double-digit growth.

Exports were ahead of expectations, and accounted for over 20% of total sales by volume.

As well as in Italy, Germany and Canada, SKYY Vodka is reporting significant growth in the new markets of Australia and the UK.

Sales of **CampariSoda,** which are almost entirely recorded on the Italian market, were broadly in line with last year (–0.3%).

Sales of **Campari Mixx** in the first quarter, which is traditionally low season for this product category, fell by over 60% compared to the same period last year.

Sales of Campari Mixx are mainly concentrated on the Italian market, after distribution of the brand on other European markets was suspended at the beginning of last year following a sharp rise in duty on this type of product (ready-to-drink).

As stated in the previous section on sales by region, sales in Italy in the first quarter were severely affected by the unfavourable comparison with the first quarter of 2004, in which volume sales of Campari Mixx were very high owing to the launch of two new flavours, Campari Mixx Lime and Campari Mixx Peach.

Aperol had a very strong first quarter: after closing 2004 with volume growth of over 20%, its sales further advanced by 11.5% in early 2005, thanks to an excellent performance in Italy, its main market.

The development of the brand on the German market is also showing encouraging signs.

As for the Brazilian brands, both **Dreher** aguardiente and Old Eight, Drury's and Gold Cup **admix whiskies** put in excellent performances: overall growth was 50.4% in local currency and 55.8% after the positive effect of the appreciation of the Brazilian real.

This performance, which was recorded in the low season, also benefited from the price increases introduced in March.

Sales of **Ouzo 12** fell 33% in the first quarter of the year, following destocking by the Group's Greek subsidiary in the run-up to the launch of new packaging scheduled for April.

In Germany, the brand's other main market, sales in the first quarter rose slightly, and the new packaging will be introduced in the second half of the year.

Cynar sales increased by 32.4% at actual exchange rates, or 31.6% at constant rates.

This extremely positive performance was mainly due to the launch of this product on the Brazilian market and the change in distributor for Switzerland.

In Brazil, following the expiry of the third-party licensing rights to the brand, July 2004 saw Campari do Brasil Ltda. begin to produce and distribute Cynar, which is category leader on this market.

Zedda Piras liqueurs also put in an excellent performance, registering double-digit growth during this period of typically low sales affected by seasonal factors.

Trends in sales of **third-party brands** were as follows:

- growth of 14.3% for Jägermeister on the Italian market;
- an increase of 8.1% in local currency for 1800 Tequila on the US market (+3.3% at constant exchange rates);
- an overall drop of 9.6% for Scotch whiskies (–12.5% at actual exchange rates), mainly due to falling sales of Cutty Sark in the US.

Wines

Net sales of wines totalled € 20.1 million in the first quarter of 2005, up 0.9% at constant exchange rates and 0.3% at actual rates.

This general stability in sales was the combined result of different trends among the main brands.

First-quarter sales of **Cinzano sparkling wines** were disappointing, registering a decline of 9.3% compared to the same period last year, as a result of falling sales in both the main markets of Italy and Germany.

This result is not at present a major cause for concern, given the limited bearing first-quarter sales have on the full year (in 2004, they accounted for less than 15%).

Sales of **Cinzano vermouth** rose by an impressive 21.7% at constant exchange rates and 21.0% factoring in the negative exchange rate effect.

This was due to positive sales growth in Italy and the most important European markets.

Sella & Mosca wines closed the quarter with a 12.3% decline in overall sales, owing to a flat performance in Italy and a slowdown on international markets.

The Group witnessed an excellent performance by **Riccadonna**, a brand it acquired at the beginning of last year although it had previously distributed Riccadonna products in the main international markets.

Growth was 39.9% at constant exchange rates and 36.6% at actual rates, and was due to the outstanding result in Australia and, to a lesser extent, Italy.

First-quarter sales were also up for **Mondoro** (+20.5% at constant exchange rates and 20.1% at actual rates), thanks to greater penetration of new markets.

Soft drinks

Soft drink sales for the quarter totalled € 30.3 million, a decline of 4.4% compared to the same period last year.

Sales of soft drinks excluding non-alcoholic aperitifs fell more sharply, while **Crodino** sales dipped by just 0.5%, a respectable performance considering the impressive growth of 7.9% posted in the first quarter of last year.

Lemonsoda, Oransoda and Pelmosoda net sales were down by 14.3%, **mineral waters** slid by 2.4% and **Lipton Ice Tea** (a third-party brand distributed on the Italian market) was down 3.7%.

Soft drinks appear to suffer more than other products from seasonally low sales in the first quarter.

Looking forward to high season, we are fairly optimistic with respect to the highly important second quarter of the year, since the relative performance of these products at least should benefit from a favourable comparison base, given the adverse weather that hit 2004.

Other sales

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

Other sales totalled € 1.5 million in the first quarter of 2004, a decline of 27.3% compared with the same period last year.

CONSOLIDATED ACCOUNTING STATEMENTS

CRITERIA FOR ACCOUNTS PREPARATION AND THE ADOPTION OF INTERNATIONAL ACCOUNTING STANDARDS (IFRS)

Under the terms of EC regulation 1606/2002 of 19 July 2002 adopted by the European Parliament and Council on the application of international accounting standards, European companies listed on regulated markets must, for every financial year from 1 January 2005 onwards, prepare their consolidated accounts in accordance with IAS / IFRS international accounting standards issued by the International Accounting Standards Board and approved by the European Union.

The accounting criteria and information required to be disclosed in interim reports under the new IAS accounting standards are governed by IAS 34 ("Interim financial reporting").

In a consultation document dated 17 February 2005, and the subsequent resolution 14990 of 14 April 2005, Consob established that for the first year, companies may introduce the new standards in stages, and specifically that the use of valuation and measurement criteria set out in pre-existing regulations for the preparation of accounting statements is permitted for the first quarterly report, while the current regulations in attachment 3D of the Consob Regulation for Issuers may be used for the notes to the accounts and the content of the report.

As a result, the Board of Directors of Davide Campari-Milano S.p.A. has chosen to prepare this report for the quarter ending 31 March 2005 on a consolidated basis, using the valuation criteria and content established by pre-existing regulations.

The figures relating to consolidated shareholders' equity at 1 January 2004 and at 31 December 2004, together with the net profit or loss for that year, prepared using IAS / IFRS accounting standards, and the reconciliation required by IFRS 1 ("First-time adoption of International Financial Reporting Standards") will be published with the half-year report to 30 June 2005.

An analysis of the main effects that the introduction of these principles will have on the consolidated accounts of the Campari Group is included in the report on operations for the accounts to 31 December 2004.

The external auditors have been appointed to audit the opening balances at the transition date and comparative data from 2004, in accordance with the terms established by Consob in its communication of 15 April 2005, which sets out the audit work to be undertaken during transition to the IAS / IFRS standards.

CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE PERIOD 1 JANUARY-31 MARCH 2005

The figures for the consolidated profit and loss account are shown below, reclassified in accordance with international practice.

This format has been, until now, the standard presentation for annual and half-year accounts, and will essentially be the new format of the profit and loss account used by the Campari Group, following the adoption of the new IAS / IFRS international accounting standards.

Reclassified profit and loss account	31.03.05		31.03.04		change
€ million	value	%	value	%	%
Net sales	**152.6**	**100.0%**	**151.3**	**100.0%**	**0.9%**
Total cost of goods sold	(59.3)	–38.9%	(60.0)	–39.6%	–1.1%
Gross margin	**93.3**	**61.1%**	**91.3**	**60.4%**	**2.2%**
Advertising and promotional costs	(27.6)	–18.1%	(27.7)	–18.3%	–0.5%
Sales and distribution costs	(19.6)	–12.8%	(20.1)	–13.3%	–2.7%
Trading profit	**46.2**	**30.3%**	**43.5**	**28.8%**	**6.1%**
General and administrative expenses	(13.1)	–8.6%	(13.1)	–8.6%	0.1%
Other operating income	0.1	0.0%	0.0	0.0%	
Goodwill and trademark amortisation	(10.2)	–6.7%	(8.8)	–5.8%	15.5%
EBIT	**23.0**	**15.0%**	**21.6**	**14.3%**	**6.3%**
Net financial income (charges)	(2.4)	–1.6%	(2.1)	–1.4%	15.9%
Net exchange rate gains (losses)	(0.4)	–0.3%	0.1	0.1%	
Other non–operating income (charges)	0.2	0.1%	0.5	0.3%	–52.4%
Profit before tax and minority interests	**20.4**	**13.4%**	**20.1**	**13.3%**	**1.5%**
Minority interests	(0.4)	–0.3%	(1.5)	–1.0%	–70.3%
Profit before tax attributable to the Group	**20.0**	**13.1%**	**18.6**	**12.3%**	**7.1%**
Depreciation of tangible fixed assets	(3.8)	–2.5%	(3.8)	–2.5%	–0.3%
Amortisation of intangible fixed assets	(10.9)	–7.1%	(9.4)	–6.2%	15.0%
Total depreciation and amortisation	**(14.6)**	**–9.6%**	**(13.2)**	**–8.7%**	**10.6%**
EBITDA	**37.6**	**24.6%**	**34.8**	**23.0%**	**7.9%**
EBITA	**33.2**	**21.7%**	**30.4**	**20.1%**	**9.0%**

The **net sales** performance for the quarter and an analysis of changes compared with last year are explained in detail in the previous section.

Looking now at other items in the profit and loss account, the **cost of goods sold** was lower than last year in absolute terms, and therefore declined from 39.6% to 38.9% of sales.

This higher margin was due to the falling incidence of materials costs, which benefited from the combined effect of curbed raw materials costs and a good sales mix geared towards products with a lower unit cost, such as spirits.

Production costs rose slightly as a proportion of sales, in line with forecasts set out in the Group's ongoing rationalisation plan.

Note that the Group will benefit fully from expected synergies only when the rationalisation plan, which started in 2003 with the closure of the Termoli plant, is complete.

This is likely to be in the third quarter, following the transfer of all production to Novi Ligure from Sesto San Giovanni, where production will then cease.

Advertising and promotional costs in the first quarter of 2005 were slightly down on last year.

As a proportion of sales, these costs fell from 18.3% to 18.1% year on year.

Marketing activities were more muted than last year, especially on the Italian market.

Sales and distribution costs declined compared with the same period in 2004, both in absolute terms and as a percentage of net sales (12.8%, from 13.3% in 2004).

The change is due to savings made on the variable component of these costs, namely transport and sales commissions, and to the Group's ability to keep fixed marketing and sales costs at last year's levels.

The Group's **trading profit** increased by 6.1% to € 46.2 million, mainly thanks to the control of industrial and commercial operating costs.

At constant exchange rates, trading profit registered organic growth of 7.3%, following a negative exchange rate effect of 1.2%, mainly due to the decline of the US Dollar.

General and administrative expenses remained flat both in absolute terms and as a percentage of sales (8.6%), while **other operating income** (which was zero at 31 March 2004) stood at € 0.1 million due to royalties received from third parties for use of the Group's brands.

Goodwill and trademark amortisation charges were € 10.2 million in the first quarter of 2005, an increase of € 1.4 million compared with the same period last year.

This rise was mainly due to higher goodwill amortisation, following the acquisition of a further 30.1% shareholding in Skyy Spirits, LLC.

EBIT totalled € 23.0 million, or 15.0% of sales, an increase of 6.3% compared to the same period last year.

Both **EBITA** and **EBITDA** displayed higher growth than EBIT:

- **EBITDA** rose by 7.9% to € 37.6 million, while **EBITA** advanced by 9.0% to € 33.2 million.
- EBITDA and EBITA growth was more impressive than that of EBIT because these two levels of profitability are not affected by the higher goodwill amortisation resulting from the increase in the Skyy Spirits, LLC shareholding; EBITA grew to a greater degree than EBITDA because depreciation costs, although inclusive of charges in respect of the new Novi Ligure plant, remained unchanged from last year.

The consolidated profit and loss account does not show taxes or net profit.

However, in order to provide a more complete and accurate picture, profit before tax attributable to the Group, i.e. profit before tax and after minority interests, is shown.

The items on the profit and loss account listed under the EBIT line that affect the Group's profit before tax are financial charges, exchange rate differences, other non-operating income (charges) and minority interests.

Net **financial charges** for the quarter totalled € 2.4 million, up € 0.3 million compared with last year owing to higher debt in the last month of the quarter under review, following the acquisition of a further 30.1% of Skyy Spirits, LLC.

Exchange rate movements in the first quarter of 2005 showed a negative balance of € 0.4 million as a result of operating exchange rate losses, compared to a net gain of € 0.1 million last year.

Other non-operating income and charges showed a positive balance of € 0.2 million for the quarter, a decrease from the € 0.5 million posted in the same period of 2004.

These three non-operating income items reduced profit for the quarter by € 1.1 million compared to the same period last year; consequently, **profit before tax and minority interests** (€ 20.4 million) grew by 1.5%, less than the EBIT growth registered.

Minority interests in the first quarter of 2005 were € 0.4 million, much lower than the figure of € 1.5 million last year.

The difference was due entirely to the decline in minority shares held in Skyy Spirits, LLC mentioned above.

As a result, **profit before tax attributable to the Group** was € 20.0 million in the first quarter, an increase of 7.1% on the € 18.6 million reported for the same period last year.

NET FINANCIAL POSITION

€ million	31 March 2005	31 December 2004	change
Cash and bank	211.3	239.5	(28.2)
Short-term marketable securities	17.2	6.4	10.8
Payables to banks	(111.3)	(56.7)	(54.6)
Real estate lease payables	(3.0)	(2.9)	(0.1)
Private placement	(3.1)	(2.9)	(0.2)
Other financial payables	(0.1)	0.0	(0.1)
Interest on private placement	(2.7)	(4.9)	2.2
Short-term financial position	**108.3**	**178.5**	**(70.2)**
Payables to banks	(26.6)	(3.6)	(23.0)
Real estate lease payables	(21.3)	(22.0)	0.7
Bonds	(258.0)	(258.0)	0.0
Private placement	(128.0)	(122.0)	(6.0)
Other financial payables	(1.5)	(1.6)	0.1
Medium- to long-term debt	**(435.4)**	**(407.2)**	**(28.2)**
Net debt	**(327.1)**	**(228.7)**	**(98.4)**

The financial position in both periods under comparison does not include own shares held by the Parent Company, recorded under financial fixed assets at purchase cost.

Own shares totalled € 29.8 million in both periods.

In the first quarter of 2005, the Group burnt cash of € 98.4 million.

More particularly, the Group spent around € 118 million on the acquisition of a further shareholding in Skyy Spirits, LLC.

This was financed partly with own funds and partly with short-term and medium- to long-term bank debt through the subsidiary Redfire, Inc.

The Group also spent € 4.5 million on capital investment.

The two tables below show net working capital at 31 March 2005 compared with 31 December 2004 and 31 March 2004.

Net working capital increased by € 9.3 million, or 6.0%, compared to 31 December 2004.

Compared with the same period last year, it jumped by 20.0%, much higher than the 6.9% growth in net sales posted in the twelve months ending in March 2005.

This increase was attributable to both the rise in receivables from customers and in inventories, and the fall in payables to suppliers.

Inventories were also boosted by greater production at the Sesto San Giovanni plant in the run-up to the closure of the site and the transfer of its operations to Novi Ligure.

The stocks of finished products to be transferred, which are expected to rise in the first half of the year, will be used in the second half, thereby reducing working capital.

€ million	31 March 2005	31 December 2004	change	% change
Inventories	134.3	114.4	19.9	
Receivables from customers	144.1	173.1	(29.0)	
Payables to suppliers	(118.3)	(142.1)	23.8	
Receivables in respect of promotional costs	2.2	7.6	(5.4)	
Net working capital	**162.3**	**153.0**	**9.3**	**6.0%**

€ million	31 March 2005	31 March 2004	change	% change
Inventories	134.3	126.5	7.8	
Receivables from customers	144.1	126.3	17.8	
Payables to suppliers	(118.3)	(120.0)	1.7	
Receivables in respect of promotional costs	2.2	2.3	(0.1)	
Net working capital	**162.3**	**135.1**	**27.2**	**20.0%**
Sales: 12-month moving average	780.5	730.2	50.3	6.9%
12-month moving average of net working capital over net sales (%)	**20.8%**	**18.5%**		

SIGNIFICANT EVENTS AFTER 31 MARCH 2005

Distribution in Italy of Brown-Forman spirits

On 4 April 2005, the Campari Group announced that it had won the Italian distribution contract for the spirits portfolio of the American company Brown-Forman, one of the biggest operators in the sector.

The agreement came into effect on 1 May 2005 and covers all the Brown-Forman spirits already 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 are the liqueur Southern Comfort, the premium bourbon Woodford Reserve, Tuaca (a brandy-based liqueur 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 company's 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 allow the Board of Directors to proceed with 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 ordinary shares of Davide Campari-Milano S.p.A. in circulation, 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.

Following the share split described above, shareholders with stakes of more than 2%, who have notified Consob and Davide Campari-Milano S.p.A. of same pursuant to article 117 of Consob regulation 11971/99 on notification of significant shareholdings, are as follows:

Shareholder (1)	Number of ordinary shares	% of share capital
Alicros S.p.A.	148,104,000	51%
Cedar Rock Capital	16,192,820	5.576%
Fidelity Investments	14,513,340	4.997%
Davide Campari-Milano S.p.A.(2)	9,351,910	3.220%
Lazard Asset Management	6,036,870	2.079%
Morgan Stanley Investment Management	5,978,750	2.059%

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

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

Outlook

The first quarter of the year is generally of limited significance in providing guidance for the whole year.

Moreover, the situation on the individual markets and the global backdrop as a whole do not appear to have changed since the beginning of the year.

We therefore confirm our earlier forecasts, which are moderately optimistic and see the Group continuing to benefit from the strength of its main brands despite a difficult macroeconomic situation in Europe.