Annual report 2006

Barilla Holding S.p.A.

Annual report 2006

Barilla Holding Società per Azioni

Summary

Luca, Paolo and Guido Barilla

Chairman's letter

The year 2006 was a period of transition and change that led to instability and fluctuation, especially in Europe. The larger economic picture was rendered unstable by ongoing changes in the cultures of industrialized countries. Overall, there were moments of confidence and equilibrium, but those tended to alternate with moments of caution. In early 2007, the same scenario appears to continue to play itself out.

We remain committed to evaluating our products and guiding people all over the world in making sound nutritional choices. We offer our corporate culture and our values, which guarantee the Company the stable financial base that will be needed in order to deal with the competitive challenges of the next few years.

With this in mind, we are redefining the pasta category. Our goal is to identify newly discovered benefits and also to stimulate the impulse to buy pasta, which definetely is at the center of our national gastronomy. When it comes to bakery products, both in Italy and throughout Europe, we are reviewing some core brands that will make possible for us either to pull back on certain categories or to develop them further.

Energy and raw material costs will increasingly affect the economies of individual countries. Currently, costs continue to grow and can be offset only partially by companies raising their prices. Our strategy, then, is to continue to seek efficient industrial solutions, with the sole goal of offering to the public excellent products at fair prices, while exploiting to the maximum our Group's abilities and economies of scale.

As for distribution, this area is increasingly competitive and there continues to be a large number of promotional offers. Our relationships with our Customers, which we aim to see as true partnerships, are evolving toward valuing individuals more highly.

Still, the real challenge in our business is to make the public understand that food is just one part of a complex system that includes lifestyle, psychology, physical activity, the environment and genetic background. Healthfulness is both an existential and a behavioral issue (not a trend), and it requires companies to provide positive models.

A company's ability to remain competitive will be a direct reflection of that company's ability to communicate information on nutritional balance in ways that the public hears and understands.

Guido Barilla

Guido Barilla

Director and officers

Board of directors

Chairman

Guido Maria Barilla

Deputy chairmen

Luca Barilla

Paolo Barilla

Chief executive officer

Robert Singer

Directors

Emanuela Barilla

Paolo Biancardi (until 22 May 2007)

Giuseppe Vita

Board of statutory auditors

Chairman

Giampiero Alinovi

Auditors

Alberto Pizzi

Augusto Schianchi

Alternate auditors

Franco Chierici

Ugo Tribulato

Independent Auditors

PricewaterhouseCoopers S.p.A.

Management report for year ending 31 December 2006

In 2006 the worldwide economy showed signs of recovery although this trend varied significantly across the different geographical segments. Within this context the performance of the group, comprising the subsidiaries of Barilla Holding S.p.A. (hereinafter: “Barilla Holding Group” or “the Group”) is in line with the previous financial year, with growth in market share across the principal international markets.

In 2006 Group revenue amounted to euro 4,117 million (2005 - euro 4,127 million) representing a decrease of 0.2% compared to the previous year. This represents an increase of 1.4% (2005 - euro 4,060 million, applying same scope) where the scope of consolidation remains constant.

The consolidated profit for the year of the Group amounted to euro 75 million compared to a loss of euro 222 million recorded in the previous financial year. The prior year loss was essentially due to the impairment loss recorded on the goodwill of the Kamps group (euro 699 million), resulting from the difference between the carrying value and the recoverable value of the Kamps group (determined applying the discounted cash flow method).

Barilla Holding Società per Azioni recorded a profit for the year of euro 88 million in the separate company financial statements, which have been prepared in accordance with Italian accounting standards. This result, compared to a loss of euro 363 million in 2005 (influenced by the above impairment write-down on equity investments), was essentially contributed to by dividends received and gains realised on the sale of securities.

It should be noted that in 2006, Barilla Holding Società per Azioni continued to perform managerial and coordination activities, as defined in Art.2497 of the Italian Civil Code, on behalf of Italian subsidiaries included in the scope of consolidation. The scope of consolidation is defined in attachment 1 of the notes to the financial statements.

The following commentary provides a detailed review of the activities of the individual companies and that of Barilla Holding Società per Azioni, in accordance with the disclosure information required under Art.2428 Italian Civil Code and Art.40 of Legislative Decree 127 of 9 April 1971.

Accounting policies and transition to International Financial Reporting Standards IFRS

The consolidated financial statements of the Group (hereinafter “the Financial Statements”) have been prepared in accordance with international accounting standards - International Financial Reporting Standards - IFRS (hereinafter “IAS/IFRS”) endorsed by the European Union. The Financial Statements presented up until 31 December 2005 were prepared in accordance with Italian accounting standards. As a result, comparative information as of 31 December 2005 has been restated in order to conform to the newly adopted international accounting standards.
Further information is provided in the notes to the Financial Statements and specifically in section 9, First Time Adoption (FTA) Appendix - Transition to International Financial Reporting Standards, hereinafter FTA Appendix.

General note

All amounts are expressed in thousands of euro except where otherwise indicated. All comparisons made throughout this report and the Financial statements are made with respect to financial information for the previous financial period (disclosed in brackets). Percentages (on margins and changes) have been calculated based on the values expressed in thousands of euro. As above said, the group, of which Barilla Holding Società per Azioni is the holding company, is hereinafter defined as "the Group". Where comments relate specifically to the parent company, or the individual subsidiaries, the full name and legal form of the companies are stated.

Consolidated financial highlights

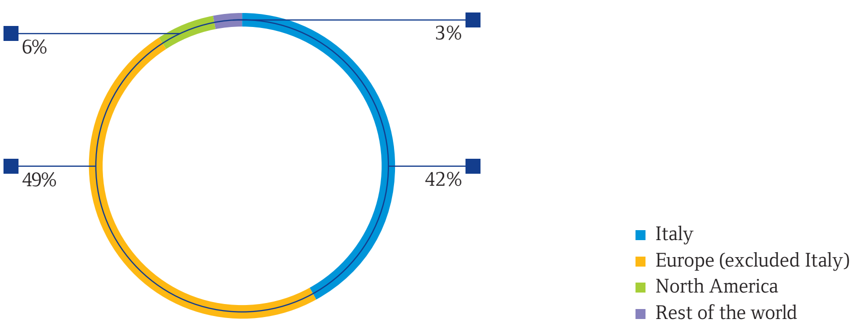
The table below illustrates the principal Group financial indicators:

(euro million)

	31/12/2006	31/12/2005	Change %
Revenue	4,117.5	4,127.1	(0.2%)
Gross profit	1,740.5	1,795.8	(3.1%)
% of revenue	42.3%	43.5%	
Operating profit recurring (EBIT) (1)	255.6	277.2	(7.8%)
% of revenue	6.2%	6.7%	
Net financial income/(costs)	(85.6)	(93.2)	9.7%
Net income/(expense) non-recurring	(50.2)	7.2	-
Impairment of intangible	(12.5)	(698.6)	-
Profit before tax	107.4	(507.4)	-
% of revenue	2.6%	(12.3%)	
Total net result	60.4	(551.3)	-
% of revenue	1.5%	(13.3%)	
Profit attributable to minority interests	(14.5)	(328.7)	-
% of revenue	(0.4%)	(8%)	
Profit attributable to Group	75.0	(222.6)	-
% of revenue	1.8%	(5.4%)	
EBITDA (2)	479.9	504.1	(4.6%)
% of revenue	11.7%	12.2%	

1. Operating profit recurring (EBIT - Earnings Before Interest and Taxes): operating profit disclosed in the consolidated profit and loss account before goodwill impairment and income and expenses non-recurring.
2. EBITDA (Earning Before Interest Taxes Depreciation and Amortisation): the recurring operating profit before depreciation and amortisation.

Revenue by geographical area



Revenue by business segment and geographical segment may be analysed as follows:

(euro million)	Barilla G. e R. Fratelli		Kamps		GranMilano		Harry's		Intercompany		Total	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
Italy	1,575	1,547			151	152	14	32	(15)	(17)	1,725	1,714
Europe (excluding Italy)	428	413	1,204	1,294	4	4	375	330	(16)	(15)	1,995	2,026
North America	263	233									263	233
Rest of the world	106	100					30	54			136	154
Total	**2,371**	**2,293**	**1,204**	**1,294**	**155**	**156**	**419**	**416**	**(31)**	**(32)**	**4,117**	**4,127**

Operating profit recurring amounted to euro 255.6 million (euro 277.2 million), while the percentage of revenue was 6.2% (6.7%).

Profit before tax amounted to euro 107.4 million (euro -507.4 million), corresponding to 2.6% of revenue (-12.3%), while net profit totalled euro 60.4 million (euro -550.5 million). The changes compared to the previous year largely relate to the impairment write-down of euro 698.6 million, recognised in 2005 in relation to the goodwill of the Kamps group.

Current and deferred taxes for the year amounted to euro 46.9 million (euro 43.1 million). The effective tax rate in 2006 was 44% while that of 2005, excluding the impact of the impairment write-down on the goodwill of the Kamps group, was equal to 23%. The change is principally due to the reversal of deferred taxes that took place in 2005 following application, by a number of the Italian subsidiaries, of the procedure that allowed realignment of the tax asset bases in relation to certain assets in property, plant and equipment, to their statutory carrying value.

EBITDA may be analysed by company as follows:

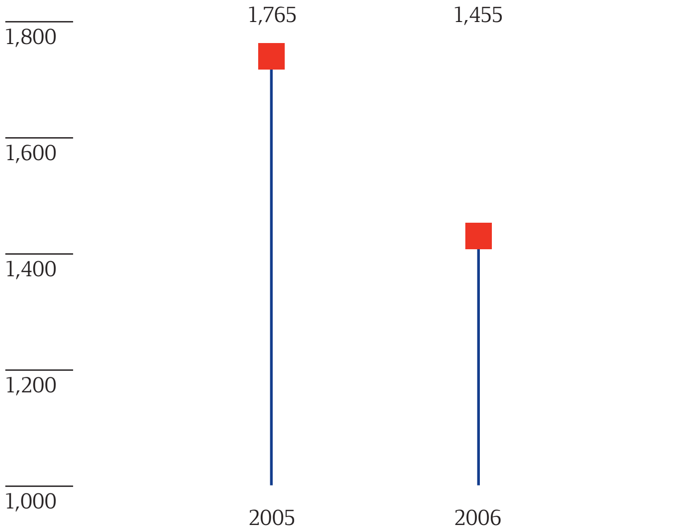
(euro million)	2006			2005		
	EBITDA	*% of company revenue*	*% of total*	*EBITDA*	*% of company revenue*	*% of total*
Barilla G. e R. Fratelli	353.0	14.9%	73.6%	342.4	14.9%	67.9%
Kamps	66.6	5.5%	13.9%	81.1	6.3%	16.1%
GranMilano	22.4	14.5%	4.7%	21.2	13.6%	4.2%
Harry's	56.4	13.5%	11.8%	61.9	14.9%	12.3%
Others	(18.5)		(3.9%)	(2.5)		(0.5%)
Total	**479.9**	**11.7%**	**100%**	**504.1**	**12.2%**	**100%**

Summary consolidated financial information

(euro million)	31/12/2006	31/12/2005
Trade receivables	591.7	630.4
Inventories	241.9	231.5
Other current assets	184.6	239.1
Property, plant and equipment	1,566.8	1,596.1
Intangible assets	1,096.3	1,179.6
Investments in associates and other companies	10.3	42.4
Other non-current assets	8.1	13.0
Total assets	**3,699.7**	**3,932.1**
Net financial position	1,454.8	1,765.0
Trade payables	799.4	746.4
Other payables and liabilities	196.8	209.3
Provisions	108.8	88.9
Deferred and current taxes	16.2	32.8
Employee benefits	178.3	179.9
Other medium/long-term liabilities	7.6	8.4
Put option of minority shareholders	171.5	171.0
Total liabilities	**2,933.3**	**3,201.7**
Minority interest in equity	298.9	325.2
Total shareholders' equity	467.4	405.2
Total equity	**766.3**	**730.4**
Total equity and liabilities	**3,699.7**	**3,932.1**

The net financial position at the end of 2006 amounted to euro 1,455 million, against euro 1,765 million for the previous year, representing a net improvement of euro 310 million (-17.6% compared to the net indebtedness at the beginning of the financial year).

Net financial indebtedness (euro million)



The net financial position of the Group consisted of the following:

	31/12/2006	31/12/2005
Cash and cash equivalents	87,973	62,823
Current financial assets	-	61,879
Bank overdrafts and other financial liabilities	(742,394)	(435,873)
Short-term net financial position	**(654,423)**	**(311,171)**
Medium/long-term financial liabilities	(800,347)	(1,453,857)
Medium/long-term net financial position	**(800,347)**	**(1,453,857)**
Total net financial position	**(1,454,770)**	**(1,765,028)**

Further details are provided in the notes to the financial statements and the consolidated statements.

On 1 September 2006 the debenture loan issued by Kamps, which was due to mature on 15 February 2009, was repaid in advance for the full nominal value of euro 323,025,000, which was above par value at 104.25% (representing an additional net cost of euro 12.5 million, taking into consideration the portion of the debenture loan held by the Group). This was carried out mainly using financial resources made available by the Group (in the form of a loan repayable by Kamps in 2013), which were in turn raised through credit lines from the sale of financial assets.

The Barilla Holding Group continues with the aim of extending the average residual debt period, which commenced with the issue of debenture bonds in 2002 and 2003. Negotiations are underway in relation to a new credit line in the form of a five year syndicated loan which, if successful, will be used to refinance the similar operation carried out in 2004 for a value of euro 250 million (maturity date - August 2009), other medium term credit lines, the debenture loan that is due to mature in December 2007 and other loans close to maturity.
Barilla Holding S.p.A. and its subsidiaries have the following debentures outstanding:

Issuer	Type	Listed/ not listed	Coupon	Coupon payment	Issue amount (thousands)	Maturity	Swap - hedge (thousands)
Barilla Finance	Guaranteed Note	Listed	4.625%	Annual	Eur 300,000 (a)	3 Dec. 2007	No
	US Private Placement	Not listed (b)	4.83%	Six-monthly	Usd 78,000	9 Dec. 2010	Eur 66,724 - rate 3.45% half yearly fixed
			5.55%	Six-monthly	Usd 180,000	9 Dec. 2013	Eur 153,978 - rate 4.15% half yearly fixed
			5.69%	Six-monthly	Usd 92,000	9 Dec. 2015	Eur 78,700 - rate 4.10% half yearly fixed
Total					Eur 599,402		
Amount owed by the Group					Eur (10,000)		
Total					**Eur 589,402**		

(a) Of which euro 10 million nominal value held by the Group companies.
(b) Security placed with US institutional investors (insurance companies, pension funds, etc).

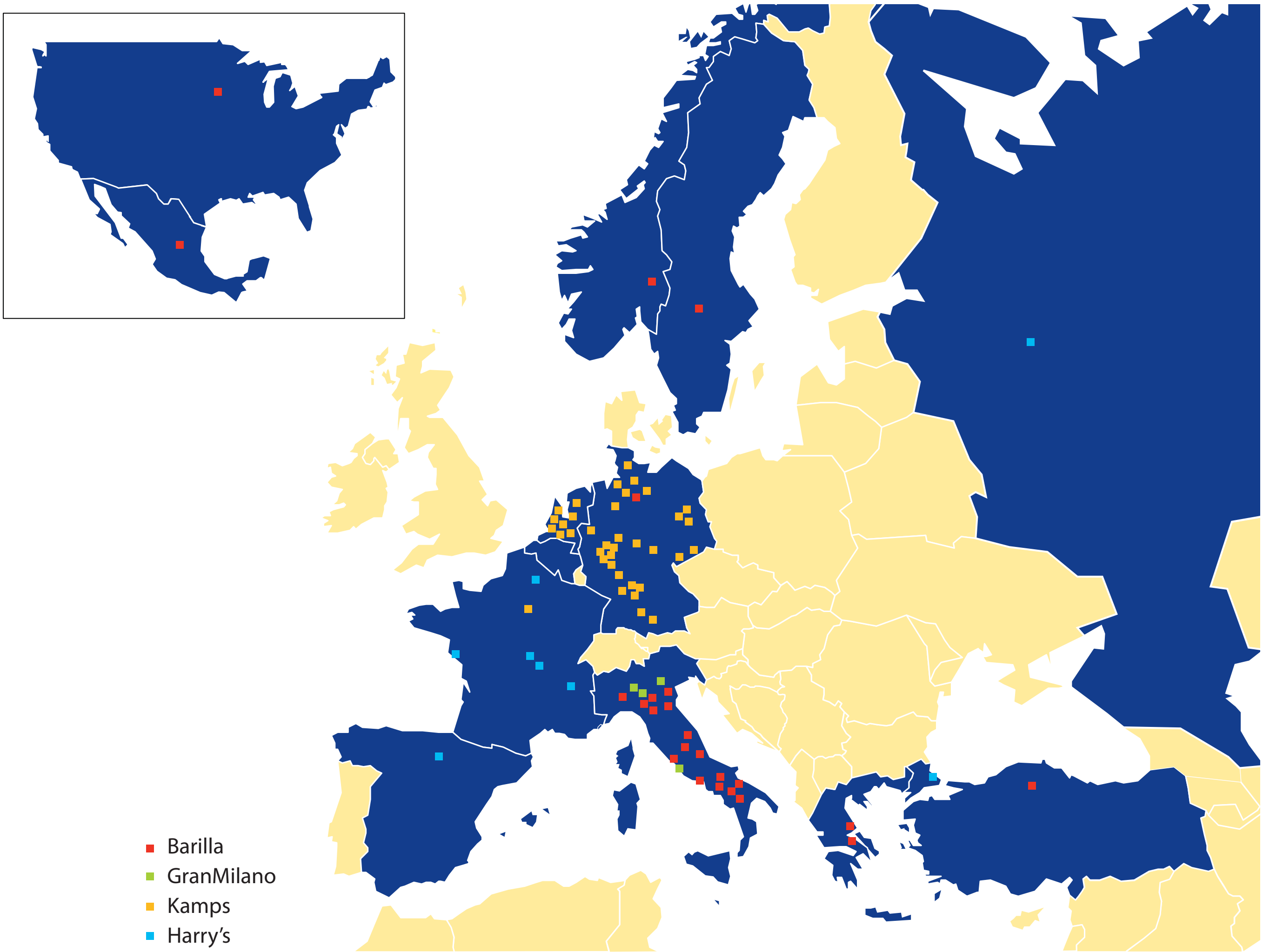
Total debentures at year-end amounted to euro 552 million, corresponding to 37.9% of the total net financial position.

In 2006 free cash flow, representing available cash flows net of changes in working capital, medium/long-term operating activities and cash used in investing activities, increased on the previous year from euro 121 million to euro 310 million and may be analysed as follows:

(euro million)	31/12/2006	31/12/2005
Profit/(loss) for the year	60	(551)
Depreciation and amortisation	224	230
Impairment of goodwill	12	699
Changes in working capital and medium/long-term activities	129	2
Acquisition of property, plant and equipment	(286)	(277)
Dividends	(11)	(28)
Net decrease in other investment activities	182	46
Free cash flow	**310**	**121**
Opening net financial position	**(1,765)**	**(1,886)**
Closing net financial position	**(1,455)**	**(1,765)**

Structure and organisation

Barilla manufacturing sites in Europe and North America



The subsidiaries of Barilla Holding Società per Azioni manufacture and sell pasta, fresh and frozen sauces and bakery products and ice-cream, both in Italy and worldwide.
The current organisational structure of the Group is divided into four sub-holdings:
Barilla G. e R. Fratelli S.p.A., GranMilano S.p.A., Kamps AG and Harry's SCA and their respective subsidiaries.

Barilla Holding Società per Azioni

BARILLA G. E R. FRATELLI S.p.A.

Board of directors
Chairman
Guido Maria Barilla

Deputy chairmen
Luca Barilla
Paolo Barilla

CEO
Gianluca Bolla

Directors
Emanuela Barilla
Paolo Biancardi
Nicolaus Issenmann
Manfredo Manfredi
Robert Steven Singer

Board of statutory auditors
Chairman
Augusto Schianchi

Auditors
Giampiero Alinovi
Mario Tardini

Alternate auditors
Franco Chierici
Alberto Pizzi

GRANMILANO S.p.A.

Board of directors
Chairman
Luca Barilla

Directors
Andrea Allodi
Paolo Biancardi
Franco Ferrarini

Board of statutory auditors
Chairman
Giampiero Alinovi

Auditors
Mario Tardini
Stefano Tronconi

Alternate auditors
Guido Ascer Guetta
Claudio Valz

KAMPS AG

Supervisory board
Wolfgang Keller - *Chairman* (until 31.10.2006)
Paolo Barilla
Guido Maria Barilla
Emmanuel Bonnaud (from 11.10.2006)
François Carrard
Ulrich Huppe (from 18.12.2006)
Nicolaus Issenmann
Fabio Labruna (from 11.102006)
Augusto Schianchi
Enrico Fagioli Marzocchi (until 30.08.2006)
Mazzone Francesco (until 30.08.2006)

Employee representatives
Ernst Busch
Barbara Erath
Herbert Gluma
Ernst Ingber
Carsten Kelbch
Peter Störling (from 01.03.2006)
Hans Werner Wasmund
Norbert Weiner

Management board
Wolfgang Keller - *Chairman* (from 01.11.2006)
Nicolaus Sophocleous - *Chairman*
(until 13.09.2006)
Massimo Ambanelli
Karl-Heinz Dullinger (until 31.03.2006)
Stefan von Klebelsberg
Gerd Meyer (until 31.03.2006)
Martin Rüter (from 21.04.2006)
Jaap Schalken

HARRY'S SCA

Supervisory board
Chairman
Guido Maria Barilla
Paolo Barilla
Marco Biagioni (from 12.09.2006)
Laurent Dolfi
Francesco Gianni (until 26.04.2006)
Nicolaus Issenmann
Enrico Fagioli Marzocchi

Management Board
Alain Strasser - *Manager*
Richard Handscombe - *Manager*
(until 22.02.2007)

The Group operates directly in 20 countries and exports its products to more than 100 countries.
The Group owns 70 production facilities across 11 countries.
The number of employees at 31 December 2006 was 19,770 (20,414), of which 5,695 (6,033) were employed in Italy and 14,075 (14,381) overseas. This change is mainly due to the different scope of consolidation.
The number of employees comprised:

	31/12/2006	31/12/2005
Managers and white-collar staff	5,299	5,471
Blue-collar staff	14,471	14,943
Total	**19,770**	**20,414**

Group companies and related brands

Barilla G. e R. Fratelli S.p.A.

The Barilla brand has its roots in a small bread and pasta store opened in Parma in 1877. Today it is the number one pasta in Italy and around the world. Thanks to the best hard wheat and impressive modern technologies, Barilla supplies millions around the world with pasta that always cooks to a perfect al dente texture, as well as ready-to-eat pasta sauces.

Founded in 1975, Mulino Bianco is truly a part of the cultural fabric of Italian food and part of the everyday diet of Italian families. This brand offers simple, genuine bakery products in all categories that are perfect for eating at home or on the go.

Voiello was established in 1879 as a small store in Torre Annunziata, a small town outside Naples that has been a world capital of pasta making since the 16th century. Voiello pasta comes in all the most popular Neapolitan shapes.Its secret is the uneven surface achieved with bronze dies. Voiello was acquired by Barilla in 1973.

The Pavesi brand was established in 1937 by Mario Pavesi, an inventive baker and entrepreneur in the city of Novara. It offers a wide range of bakery products and pastries, all of which have unique flavor and rely on well-developed production technologies. Pavesi was acquired by Barilla in 1992.

Founded in Sweden in 1919, Wasa is the world's largest producer of crispbreads.It distributes its many rye and wheat products in more than40 countries. Barilla acquired Wasa in 1999.

Academia Barilla is an international project implemented in 2004. It is dedicated to developing and promoting regional Italian gastronomy as a unique part of the world's cultural heritage.

The leading pasta brand in Greece, Misko was established in 1927 and represents Greece's substantial pasta tradition; its logo depicts the monk Akakio on his donkey, going to buy pasta at the village market. Barilla acquired Misko in 1991.

Established in 1977, Filiz is one of the top pasta producers in Turkey, which is one of the biggest pasta consumers.
Barilla acquired Filiz in 1994.

Yemina, created in 1952, and Vesta, in 1966, are two leading Mexican brands. Barilla entered that market by forming a joint venture with the MexicanGrupo Herdez in 2002.

Founded in 1997, an avant-garde organization created in order to compete effectively in the area of logistics.

GranMilano S.p.A.

Symbol of the Milanese baking tradition, Tre Marie represents the very best of Italian patisserie and offers panettone and other traditional Italian celebration foods, such as pandoro. Tre Marie joined Barilla in 1987.

Founded in Verona in 1955, Sanson is a primary player in the Italian ice cream market, with strong penetration in the northern part of the country. Sanson joined Barilla in 2001.

Harry's SCA

Launched in 1970 on the baked goods market in France, the Harry's brand today is leader in the soft bread market and an important player in the morning goods market. Quality and innovation are two of the most important key success factors.

Born in 1968 and part of the Harry's group since 1990, La Bella Easo today is the leading brand in Spain for the croissant and brioches markets, thanks to its strong position in the breakfast segment.

Kamps AG

The first Kamps bakery shop opened in Düsseldorf in 1982. Today Kamps has become the market leader of German bakery chains offering a wide range of products.

Since its establishment in 1963, Golden Toast has been a key player in the toast bread market. It is now expanding into pre-baked rolls and bread. Golden Toast has been part of the Kamps group since 2000.

Fritz Lieken was the first to offer packaged long-shelf-life bread in Germany in 1925. Today the Lieken Urkorn name is synonymous with bread in Germany. Lieken Urkorn joined the Kamps group in 2000.

International economic scenario

The rate of expansion of the worldwide economy continued despite signs of slowdown.
2006 ended with high growth in both worldwide GDP and trading, although a reduction in the rate of expansion is expected due to a cyclical downturn in the US market driven by poor internal demand, in particular in relation to consumer spending.
The euro area, on the other hand, performed well, with a 2.7% growth in GDP in the EMU (Economic and Monetary Union) - the highest recorded since 2001 - which was determined by a sustained level of net foreign trade, strong recovery in internal demand that was supported by investment and a modest improvement in labour market conditions.
International prices of raw materials in dollars remained at their highest level, despite a slowdown in growth rates in line with the marginal downturn in worldwide demand.
Germany experienced continued improvement in the labour market, although growth in employment was accompanied by the same level of real income. Foreign trade performed well, with sustained growth in exports that benefited from strong worldwide demand and a favourable mix of German products for the international markets. Consequently 2006, with a 2.7% growth in GDP compared to 2005, marked the highest growth in the German economy over the last six years.
France, on the other hand, confirmed a weak economic situation, not so much due to the level of demand for consumer goods below expectations but the fall in exports, which was reflected in a modest growth in manufacturing production that resulted in a 2% growth in GDP.
The Spanish economy achieved positive growth rates that, thanks to less restrictive money conditions than in other European countries and solid growth in employment, recorded a 3.8% increase in GDP.
With regard to the United States, 2006 witnessed an overall decline, with strong negative pressure on household consumption. Net real exports contributed negatively to growth in GDP (3.3%), with a higher absorption of foreign goods that was not compensated by exports. The weak dollar and energy prices also contributed to the worsening in the trade balance. The labour market was substantially stable, which confirmed the division that marked a decline in the manufacturing and construction sectors and growth in the service sector.
Russia performed well in 2006, recording strong development in internal demand and growth in consumption and investments. GDP increased by 6.8% and the trade balance was in surplus due to the high price of oil and other raw materials.
Japan suffered a slowdown in the economy that saw a significant contraction in consumption. Despite this, in 2006 GDP increased by 2.2%, mainly as a result of growth in net real exports that were favoured by the depreciation of the Yen.
With regard to the Italian economy, which grew by 1.8% in 2006, economic information confirmed a consolidation of the cyclical recovery, although the negative differential, albeit reduced, compared to the principal companies in the euro area, still exists, highlighting the presence of specific difficulties in maintaining the pace of the international cycle. The recovery of the competitive advantage of the companies favoured an upturn in exports, which in turn had a positive impact on investment. This was compounded by a growth in household consumption, aided by better conditions in the labour market and a real increase in salaries; the incremental expenditure mainly focused on semi-durable goods and services, while the food sector was stagnant. Inflation was kept under control with the help of the strong currency and despite rising oil prices, which contributed to the increase in consumer confidence.

Group operating review

Barilla G. e R. Fratelli

In 2006 Barilla G. e R. Fratelli group recorded a 1.3% increase in sales volumes and total revenue of euro 2,371 million, representing an increase of 3.4% on the previous year of which half a percentage point is due to exchange rate fluctuations. The significant contribution of revenue generated in international markets continued, which increased by 6.7% to euro 796 million, while the Italian market recorded revenue of euro 1,575 million corresponding to an increase of 1.8% compared to 2005. In particular, revenue increased by 12.9% in North America and by 11% in Number1, a company operating in the logistics segment in Italy. Cost management achieved through structural projects and an increase in productivity, facilitated increased margins despite higher costs of the factors of production.

Italy

With regard to the Pasta segment in Italy, Barilla G. e R. Fratelli group revenue amounted to euro 500 million, representing a decrease from 2005 (513.4 million). This resulted from the fact that the growth in market share in this segment did not compensate the overall contraction in this market, with volumes down 3.2%. More specifically, in 2006 the market share in value terms increased by 0.3 percentage points to 42.5%, while the market value of semolina pasta fell by 2.0%. The dry egg pasta segment consolidated its position recording a market share in value terms of 50.1%, an increase of 0.4 percentage points.

The ready made sauces segment increased by 7%, while the market share in value terms amounted to 30.9%, corresponding to a slight decrease compared to 2005.

In the course of 2006 revenue from bakery products in Italy totalled euro 918 million, an increase of 2% compared to 2005. Volumes also performed well recording a total of 331 thousand tons and an increase of 1.8% compared to 2005.

Positive growth was recorded in the breakfast segment (32.5% of market share in value terms, an increase of 1.3 percentage points compared to the previous year), which was principally driven by the strong performance of morning goods (30.8% market share in value terms representing a 6.6 percentage point increase compared to last year, principally due to new product launches during 2006) and rusks (52.8% market share in value terms and growth of 2.0 percentage points compared to the previous year).

The biscuits segment decreased slightly (40.1% market share in value terms down 0.6 percentage points compared to previous year).

Growth was recorded in the results of the bread segment compared to the performance in 2005 (36.1% market share in value terms, representing an increase of 0.2 percentage points on previous year). The positive performance of soft breads (40.4% market share in value terms, +1.6 percentage points on the previous year) was offset by the poorer performance in the dry breads segment.

The Out of Meal segment suffered a downturn (16.9% market share in value terms, down 0.8 percentage points on previous year), which was essentially due to a fall in both dry snacks (25.8% market share in value terms, -1.7 percentage points compared to previous year) and soft snacks (28.6% market share in value terms, -0.4 percentage points on the previous year).

Growth in revenue resulting from new product launches, represented by products introduced in the previous two years and in the course of the current year, amounted to 4.1%.

European countries

Revenue generated in European countries totalled euro 428 million, corresponding to a 3.5% increase compared to the the previous year.

The Barilla G. e R. Fratelli group market shares recorded growth across all countries and product categories.

In France revenue amounted to euro 82 million, representing an increase of 4.6% on the previous year. Once again pasta products contributed to the increase in market share in value terms which at year-end was equal to 19.6% (a 0.2 percentage point increase compared to 2005) with an increase also in the market share in the ready made sauces segment to 6.3% (+0.4 percentage points on 2005).

Total revenue generated in Germany amounted to euro 97 million, representing a 6.5% increase on the previous year. This result was generated from the positive performance achieved across all product categories. Pasta products recorded a market share in value terms of 11% (+1.1 percentage points on 2005); ready made sauces increased and achieved a record market share in value terms of 21.9% (+2.1 percentage points on 2005).

With regard to the market in Greece, which is strong due to the presence of two pasta brands – Barilla and Misko –, revenue increased once again this year, recording a 4% rise on the previous year and total revenue of euro 39 million. After two years of a drop in pasta consumption in Greece, the Group market share in value terms achieved a record level of 47.4% (+0.2 percentage points on 2005).

In Northern Europe total revenue remained in line with the previous year at euro 99 million.
In Sweden pasta products recorded a market share in value terms of 25.6% (down on 2005), the share in Finland was stable at 8.4% and in Norway the share was 15.3% (+3.8 percentage points compared to 2005).
The WASA brand, despite falling market shares, maintained its position as leader in the crispbread segment, with market shares in value terms of 63.7% in Sweden (-1.4 percentage points on 2005), 87% in Denmark (in line with the previous year) and 76% in Norway (-1 percentage point on 2005).

North America
Performance in North America was outstanding, recording a 12.9% increase compared to 2005 with revenue of euro 263 million. In the United States the Barilla brand further strengthened its position as market leader with a market share in value terms of 23.2% (+1.8 percentage points on 2005) and 20.3% in terms of volume (+1.3 percentage points on 2005), which resulted in total revenue of euro 236 million compared to euro 207 million 2005.

International markets
Significant growth was also recorded in relation to the other international markets, with a 6% increase in total revenue to euro 107 million.
In Turkey revenue amounted to euro 48.1 million, which was in line with the previous year despite recording losses on exchange of approximately euro 6.5 million. The market share in value terms of pasta products was 30.7%.
Japan confirmed the same level of revenue as the previous year, which amounted to euro 10.7 million. In Asia, the principal market is Hong Kong with a 33% market share, while in Brazil the market share of durum wheat pasta amounted to 30.4%.

At 31 December 2006, the Barilla G. e R. Fratelli Società per Azioni group owned and managed 26 production facilities: seven dedicated to the production of pasta, nine to bakery products, nine mills and one factory dedicated to the production of deep-frozen pasta based dishes. Factories and processes have been designed, and are managed, in order to meet safety requirements and ensure that products meet customer tastes and demands, at the same time optimising efficiency and maintaining the highest levels of product quality control.
The pasta production factory near Pedrignano and the bakery products factory in Castiglione delle Stiviere, near Mantova, represent respectively the largest production facilities in the world and in Europe for these segments.
The pasta production factory in Ames, Iowa - United States, continues to sustain the Group's expansion in the US market, and from summer 2007 it will be supported by the new factory in Avon (New York), located in the North-East of the US.

GranMilano

The frozen breads business under the brand “Il Forno della Rotonda”, was sold on 1 November 2006.
Total revenue for the group recorded a slight decrease compared to the previous year, however the result with the same scope of consolidation improved slightly.
In the festivity cakes products segment, revenue increased by approximately 2%, while the frozen foods segment recorded a fall.
The GranMilano group owns four factories in Italy: one is dedicated to the production of frozen and festivity cakes products, two to the production of frozen products and one to the production of ice-cream and festivity cakes products.

Kamps

In 2006 the Kamps group recorded revenue of euro 1,204 million, representing a 7% decrease compared to the previous year. Applying the same scope of consolidation, this decrease reduces to approximately 2.0%.
More in detail, the Kamps group is structured in the divisions Retail Germany, Retail Netherlands and Bakeries (Kamps brand shops).
The retail division in Germany recorded a decrease of approximately 2.0%; the Dutch retail division recovered slightly (+0.4%), while the Bakeries division suffered the greatest impact with a decrease of 3.5% compared to the previous year.
With regard to the group brands, Golden Toast recorded approximately 6% growth in revenue compared to 2005, while that of Lieken Urkorn decreased by 6%.
Some tension was felt at market share level, reflected in a fall of 0.3% in the market share for bread in Germany in terms of volume, (practically unchanged in terms of value) and also in Germany, a decrease of 0.6 percentage points in the share for cakes, both in volume and value.
In general, the German economy demonstrated, following many years of slowdown and difficulties, clear signs of recovery, a process that had commenced at the end of 2005, which is reflected in 2.5% growth in GDP.
This growth was driven by exports, which increased by more than 12.0%. Encouraging signals were also noted on the domestic front, with an upturn in the entire manufacturing industry, with the exception of the construction business.
The uncertainties relating to labour market demand and raw material price increases, curbed expansion in consumption.
Within the group, in the course of 2006 the measures taken to reduce costs and increase efficiency, which commenced in previous years, continued.
The objective of these measures is the integration of the production and supply chain in order to be first in terms of cost on the German market for bread and growth in revenue through the two brands, Golden Toast and Lieken Urkorn, and private labels. Additional objectives include the consolidation of the position of market leader in the Bakeries segment and rationalisation of the retail division in the Netherlands.
In this context, the logistics company of the Kamps group, Logi-K GmbH, was sold to a company in the Barilla Group with effect from 1 October 2006. Logi-K GmbH will continue to provide logistic services to the Retail Germany divisions of the group under the terms of a long-term contract, whereby it acts as an independent supplier applying arms length rates. This transaction has allowed the Kamps group to increase profitability in 2006 by approximately euro 10 million in terms of operating profit from continuing operations (EBIT). The long-term objective of this transaction is also the provision of logistics services to the market in order to create and expand a new business segment, taking advantage of synergies with the Barilla Holding Group.
Alongside these cost reductions, the group also defined the development strategies for the Golden Toast and Lieken Urkorn brands. This was favoured by the establishment of the “European Bakery Organization” (EBO), which has the aim of maximising the value of each subsidiary in the Barilla Holding Group, with particular focus on continuous improvement in terms of the product portfolio and brand awareness and diffusion.

In particular, the image of the Lieken Urkorn brand will move towards a health bread concept and be categorised as "natural bread" and "functional food" (food with additional functions), within the bread market, and it grew by 0.4% in 2006 and noted a change in demand from stores to big distributors.
With regard to Bakeries division, the group closed 43 stores in 2006, at the same time 37 were opened in positions with greater customer potential. As a result, in 2006 the total number of stores fell from 930 to 924.
In respect of the financial position, the debenture loan that was due to mature in February 2009 was repaid in advance for a total of euro 323 million, and was replaced by a Barilla Group loan bearing lower interest and real benefits in terms of net profit.
In the future the cost reduction program will remain of utmost importance. For this purpose important organisational changes will take place, including the centralisation of the Retail Germany division offices in Garrel, in Northern Germany. This will be accompanied by consolidation of the co-ordination activities of the EBO unit, through product developments and brand support in an economic climate that is expected to stabilise further.
The principal risks are tipically economic and comprise increasing competition, price pressure and a move towards lower margin-earning products.
Kamps currently produces bread and bakery products in 31 production facilities across Germany and the Netherlands, which are delivered daily to its owned stores and to the big distributors. Kamps directly owns the majority of its manufacturing centres. In the course of the financial year, construction work on the plant in Ludersdorf, situated approximately 80 kilometres from Hamburg, was completed.

Harry's SCA

In 2006, the Harry's group recorded an increase in revenue of approximately 1.0%.
In May 2006, the 70% controlling interest in Morato Pane was sold to the Morato family, previously the minority shareholder. Applying the same scope of consolidation, growth in revenue increased to approximately 8.0%.
More specifically, France recorded a 3% increase in revenue, with growth in the bread market, in particular in relation to health products, while the market share in value terms of breakfast products fell by almost 3.0%.
As a result the group stabilised its market share in the bread market in France, contributed also by the success of the American Sandwich "Mie" and the strong performance in the pre-baked market (+17% compared to the previous year).
With regard to the breakfast segment, in the latter part of the year a number of products were delisted by an important client. This resulted in a loss in market share, both in value and volumes, which is being slowly regained. The product "Doo Wap" is still not performing well.
In Spain, the subsidiary La Bella Easo consolidated on the results of the previous year, recording an almost 5% increase in revenue that also includes the distribution of Barilla brand products that commenced in 2005. The new five years plan is to be introduced, which foresees, in addition to quality improvements, new product launches and a wider range of brand products, thanks to the support and coordination of the EBO.
In Russia, on the other hand, profitability suffered in absolute terms as it was affected by the impact of reimbursements recorded in relation to the insurance claim on the fire that took place in November 2004, which were higher in 2005 than 2006.
Removing the impact of this claim, EBITDA increased compared to the previous year, as a result of a 15% growth in volumes and an increase of almost 30% in revenue.
Harry's owns nine production facilities: five in France, one in Spain, one in Turkey, and two in Russia.

Capital expenditure

In 2006, the Group continued to invest in assets designed to increase the productive capacity of plants both in Italy and abroad.

Total capital expenditure of the Barilla Holding Group in 2006 amounted to euro 286.4 million.

During the year Barilla G. e R. Fratelli group, in its constant search for technological improvements and increased production capacity, invested euro 155.1 million.

The principal investments largely relate to the rationalisation of the manufacturing structure particularly the pasta production plants in Caserta and Foggia. In addition, a new automated warehouse in the Foggia area and a new ready made sauces production line were built.

GranMilano undertook investments designed to automate the factories in Pomezia and Verona and restructuring work was carried out on one of the lines of the latter.

Kamps group carried out investments totalling euro 82 million, mainly in relation to completion of the new production facility in Ludersdorf and to optimise production in general throughout the manufacturing locations.

Harry's group reconstruction of the Solnechnogorsk factory in the outskirts of Moscow, and the new "American Sandwich" production line, were finalised.

Barilla Holding Società per Azioni did not carry out significant investment in property, plant and equipment during the year.

Research and development

Barilla Holding Group continued its research and development activities, which are still aimed at manufacturing products of the highest quality and best nutritional content possible, developing new products and studying alternative technologies.

The Nutritional Advisory Board of Barilla G. e R. Fratelli group, an internal body set up to monitor topics linked to food science, continues to provide valid guidelines to ensure a product portfolio that is able to provide assurance to consumers regarding the safety and nutritional value of food products.

The research and development department of Kamps, which was set-up in 2004 and is divided into product development, and research and quality insurance, which serve both the Retail and Bakeries divisions, continued its activities designed to support product quality and innovation.

Group expenditure on product and process research and development totalled euro 35 million, in line with 2005.

Barilla Holding Società per Azioni did not directly carry out research and development activities.

Corporate governance

Corporate governance represents the methods, models, and planning, management and control systems that are required to ensure the effective performance of the activities of the company officers. An appropriate system of corporate governance is based on a number of fundamental principles, including the central role of the Board of directors, transparency in relation to disclosure of company management decisions and effectiveness of the system of internal control.

Board of directors

In respect of Barilla Holding Società per Azioni, the Board of directors has been vested with the widest powers possible and is responsible for the company's management and evaluation of the adequacy of the organisation, administration and accounting functions, and reviews the overall operating performance.

Executive committee

The Executive committee is a separate body within the Board composed of four members and is delegated important strategic and financial management duties on behalf of the Company and the Group.

Remuneration committee

The Board has also set up a Remuneration Committee of five directors. In the course of 2006 the committee met a number of times in order to determine the remuneration policy and incentive plans for top management of the Group.

Board of statutory auditors

The Board of Statutory Auditors oversees compliance with the law and the articles of association, compliance with principles of correct administration and in particular, the effectiveness of both the system of internal control, and the organisation, administration and accounting system and its correct performance. This board is not responsible for the control of the accounting records, which was assigned by the shareholders to a firm of independent auditors as further detailed below. The members of the Board of statutory auditors - three permanent and two substitutes - are appointed for three financial years and may be reappointed. The current statutory auditors possess the requisites of honour and independence required by law.

The control of the accounting records required by law is carried out by PricewaterhouseCoopers S.p.A.
The audit of the financial statements and those of the principal Group subsidiaries was assigned to PricewaterhouseCoopers S.p.A.

Barilla Holding S.p.A. has also adopted an organisation model in accordance with the requirements of Legislative Decree 231/2001 (hereinafter “the Model”), designed to prevent the possibility of the offences defined in the decree from being committed and consequently, the administrative liability of the Company. The Model adopted, based on an accurate analysis of the business activities of the Company in order to identify areas potentially at risk, is a collection of general principles, rules of conduct, control processes and organisation procedures, training and information activities and disciplinary proceedings, designed to ensure reasonbly the prevention of offences.
The Model comprises the Code of Ethics, which contains a set of principles and values that are the result of a strong and recognised corporate culture, which Barilla Holding Group identifies with and aspires to in carrying out its business.

Supervisory body

In order to evaluate the effective and correct operation of the Model, the Board of directors has appointed a Supervisory body that will remain in office until 4 March 2008, which is composed of three members, two internal and one independent. In the course of 2006 the Supervisory body met a number of times in order to review the activities performed in relation to the implementation process of the Model.
During the year the Company updated the procedures required to conform to Legislative Decree 196/2003, the Data Protection Act.

Risk management

The Risk management culture of the Group has developed significantly in recent years.
The Company is committed to ensuring business continuity, product quality, the integrity and value of its assets and safeguarding its employees, which is also achieved through Risk Management procedures.
As the Company has adopted the principle of prevention, further investment on safety systems, employee training and installation of automatic fire extinction systems in all Group companies was made during 2006, and is planned for 2007.

Furthermore, common procedures have been adopted in relation to the insurance aspects of relations with suppliers and/or freelance workers or consultants.
Details of financial risk management policies are set out in section 7 of the notes to the financial statements.

Information relating to intercompany and related party transactions

Transactions with other Group companies and related parties may not be classified as atypical or unusual as they are carried out in the normal course of business. These transactions take place on an arm's length basis, taking into account the quality of the goods and the services provided.
The nature of the principal transactions with the above parties and detailed information required under IAS/IFRS, are set out in section 8 of the notes to the financial statements.

Information relating to the Company officers

Directors' emoluments amounted to euro 4,928 thousand.
The emoluments of the board of statutory auditors are euro 343 thousand (of which euro 165 thousand is paid to the Chairman and euro 178 thousand to the permanent members).

Holding of own shares or parent company shares

In the course of the financial year, Barilla Holding Società per Azioni did not hold, purchase or sell, either directly or through trust companies or through a third party, its own shares and/or those of the Parent company.

Management outlook

In the first months of 2007, the business performed substantially in line with budget. Achievement of the budget objectives will be significantly affected by developments in production costs.

Consolidated financial statements for the year ended 31 December 2006

The Board of Directors approved the financial statements for the year ended 31 December 2006 on 20 April 2007.

Consolidated balance sheet

(euro thousands)

Assets	Note	31/12/2006	31/12/2005
Current assets			
Cash and cash equivalents	6.1	87,973	62,823
Trade receivables	6.2	591,720	630,359
Tax credits	6.3	108,618	142,849
Other receivables	6.4	64,395	85,541
Inventories	6.5	241,924	231,519
Derivative financial instruments	6.6	108	1,112
Financial assets held for trading	6.7	-	61,879
Assets held for sale	6.8	11,423	9,603
Total current assets		**1,106,161**	**1,225,685**
Non-current assets			
Property, plant and equipment	6.9	1,566,766	1,596,102
Goodwill	6.10	829,844	903,649
Other intangible assets	6.11	266,502	275,956
Trade and other receivables	6.12	8,085	12,990
Deferred tax assets	6.13	75,850	70,881
Financial assets available for sale	6.14	10,275	42,399
Total non-current assets		**2,757,322**	**2,901,977**
Total assets		**3,863,483**	**4,127,662**

(euro thousands)

Liabilities	Note	31/12/2006	31/12/2005
Current liabilities			
Trade payables	6.15	799,440	746,417
Borrowings	6.16	742,396	435,873
Derivative financial instruments	6.17	110	1,108
Retirement benefit obligations	6.18	1,876	2,396
Current income tax liabilities	6.19	8,464	31,116
Other payables	6.20	195,579	209,275
Provisions for other liabilities and charges	6.21	59,788	7,687
Put option held by minorities	6.22	171,470	171,000
Liabilities held for sale	6.23	1,174	-
Total current liabilities		**1,980,297**	**1,604,872**
Non-current liabilities			
Borrowings	6.24	775,060	1,447,567
Derivative financial instruments	6.25	25,287	6,290
Retirement benefit obligations	6.18	176,462	177,499
Deferred tax liabilities	6.13	83,550	72,459
Other payables	6.26	7,474	7,280
Provisions for other liabilities and charges	6.21	49,008	81,227
Total non-current liabilities		**1,116,841**	**1,792,322**
Equity			
Share capital		110,900	110,900
Reserves:			
- Currency translation reserve		2,791	14,010
- Retained earnings		279,061	511,262
- Other reserves		(251)	(8,258)
Profit/(loss) for the year		74,925	(222,616)
Shareholders' equity	6.27	*467,426*	*405,298*
Capital and reserves attributable to minority interest		313,457	653,840
Loss for the year attributable to minority interest		(14,538)	(328,670)
Total minority interest in equity		*298,919*	*325,170*
Total equity		**766,345**	**730,468**
Total equity and liabilities		**3,863,483**	**4,127,662**

Consolidated income statement

(euro thousands)		Year ended 31 December	
	Note	**2006**	**2005**
Revenue	6.28	4,117,474	4,127,056
Cost of sales	6.29	(2,376,979)	(2,331,300)
Gross profit		**1,740,495**	**1,795,756**
Logistics costs	6.29	(652,275)	(637,036)
Selling costs	6.29	(263,835)	(293,454)
Marketing costs	6.29	(301,434)	(312,634)
Research and development costs	6.29	(35,060)	(32,652)
General and administrative expenses	6.29	(218,573)	(220,411)
Other income and expenses	6.30	(63,928)	(15,155)
Impairment losses	6.11 - 6.29	(12,461)	(698,621)
Operating profit		**192,929**	**(414,207)**
Finance income		(163,535)	(176,917)
Finance costs		77,963	83,756
Finance costs - net	6.31	(85,572)	(93,161)
Profit before income tax		**107,357**	**(507,368)**
Income tax expense	6.32	(46,970)	(43,918)
Profit/(loss) for the year		**60,387**	**(551,286)**
Loss for the year attributable to minority interest		**(14,538)**	**(328,670)**
Profit/(loss) for the year attributable to Group		**74,925**	**(222,616)**

"SoRIE" - Statement of Recognised Income and Expenses

(euro thousands)	Year ended 31 December	
	2006	**2005**
Actuarial gains/(losses)	80	(12,551)
Movements in the cash flow hedges riserve and financial assets available for sale	11,866	(856)
Put Option held by minorities	(470)	(15,000)
Currency translation adjustment	(17,113)	20,601
Income tax effect	(4,462)	9,700
Total profit/(loss) recognised directly in equity	**(10,099)**	**1,894**
Net profit/(loss) for the year attributable to Group and minority interest	**60,387**	**(551,286)**
Total recognised profit/(loss) for the year	**50,288**	**(549,392)**
of which:		
Loss attributable to minority interest	**(19,825)**	**(323,841)**
Profit/(loss) attributable to Group	**70,113**	**(225,551)**

Consolidated cash flow statement

(euro thousands)	Year ended 31 December	
	2006	**2005**
Profit before income tax	107,357	(507,368)
Adding back:		
- Finance costs - net, excluding gains on disposals of equity investments	105,176	94,254
- Impairment losses	12,461	698,621
- Amortisation and depreciation	224,263	229,865
- Profit/(loss) on disposal of property, plant and equipment, intangible and financial assets	(17,013)	(3,853)
Change in trade receivables/payables	91,662	(22,937)
Change in inventories	(10,405)	4,732
Change in provisions (including employee provisions)	18,324	4,164
Changes in other assets and liabilities	35,643	24,779
Taxes on income paid	(36,861)	(54,565)
Foreign exchange gains/(losses) and other minor differences	(2,874)	(993)
Net cash generated from operations (A)	**527,733**	**466,699**
Purchases of property, plant and equipment	(269,563)	(261,124)
Purchases of software	(16,870)	(15,528)
Proceeds from sale of property, plant and equipment	34,753	26,870
Purchases of other intangible assets	(1,887)	(4,752)
Acquisition of minority interests	(12,461)	-
Proceeds from sale of financial assets	129,460	48,142
Acquisition of financial assets and other investments	-	(19,793)
Proceeds from capital grants	23,129	3,745
Sale of financial assets	61,879	44,900
Cash flows used in investing activities (B)	**(51,560)**	**(177,540)**
Net change in borrowings	(393,595)	(204,944)
Dividends paid to minority interests	(2,704)	(19,975)
Dividends paid to the equity holder of the parent	(7,985)	(8,000)
Interest paid	(93,477)	(95,801)
Cash flows used in financing activities (C)	**(497,761)**	**(328,720)**
Total change in cash and cash equivalents (A+B+C)	**(21,588)**	**(39,561)**
Cash and cash equivalents net of bank overdrafts at beginning of the year	(55,072)	(15,890)
Cash and cash equivalents net of bank overdrafts at end of the year	(76,530)	(55,072)
Exchange losses on cash and bank overdrafts	(130)	(379)
Total change in cash and cash equivalents	**(21,588)**	**(39,561)**
	31/12/2006	**31/12/2005**
Bank balances	87,973	62,823
Bank overdrafts	(164,503)	(117,895)
Total cash and cash equivalents net of bank overdrafts	**(76,530)**	**(55,072)**

Notes to consolidated financial statements

1. Group structure and business

Barilla Holding Società per Azioni, a company incorporated in Italy with registered offices in Parma (Italy), is the parent company of the Barilla Holding group (hereinafter "the Group"). The Group operates in the production and selling of pasta, sauces, fresh and frozen bakery products and ice creams, both in Italy and worldwide.

The sole shareholder of Barilla Holding Società per Azioni is Guido Maria Barilla S.a.p.A.
A list of the companies included in the scope of consolidation is provided in Appendix 1.

2. Significant post balance sheet events

No significant events took place after the balance sheet date.

3. Compliance with International Financial Reporting Standards (IFRS) and transition to IFRS

The Group consolidated financial statements have been prepared in accordance with all of the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and endorsed by the European Union (EU). IFRS comprises all of the International Financial Reporting Standards, the International Accounting Standards (IAS), and the interpretations of the International Financial Reporting Interpretations Committee (IFRIC), previously named the Standing Interpretations Committee (SIC).

The Group has not changed the accounting policies applied in the preparation of the comparative information at 31 December 2005 and for the current period ended 31 December 2006.

Details of the transition from previous accounting standards to IFRS are set out in note 9 - First Time Adoption (FTA) - Transition to International Financial Reporting Standards.

4. Basis of preparation - accounting policies

In accordance with Regulation 1606 issued by the European Parliament and the European Council in July 2002, the Group consolidated financial statements (hereinafter "the financial statements") have been prepared in accordance with international accounting standards IAS/IFRS in force at 31 December 2006.

IFRS have been recently adopted for the first time in Italy and also in other countries. A high number of IFRS have been recently issued or revised. Therefore no established practice exist for their interpretation.
The financial statement have been prepared on the bases of the latest information and technical guidance currently available. Any new or revised interpretation of industry practice will prospectively affect the financial statements of future periods.

The financial statements for the year ended 31 December 2006 are compared to the prior year financial statements (amounts included in brackets in the notes to the financial statements), and comprise the balance sheets, income statement, cash flow statements and statements of recognised income and expense and the notes to the financial statements. The income statement is presented using a classification by function of expenses. The balance sheet is prepared presenting a separate classification of current and non-current assets and liabilities.

Cost of sales includes all production costs of goods sold, comprising raw materials, production services, components, direct and indirect production labour costs (both internal and third party), industrial depreciation and amortisation and all other production expenses.

The cash flows statement is presented in accordance with the indirect method.

Accounting policies

Basis of preparation

The financial statements are presented in thousands of euro and the amounts included in the financial statements are stated in thousands of euro (unless otherwise stated). The financial statements have been prepared applying the historical cost method as adjusted for impairment losses where applicable, except for financial instruments measured at fair value. Uniform accounting policies are adopted by all Group companies. Purchase or sale of financial assets are recognised or derecognised using settlement date accounting.

Estimates and assumptions

The preparation of financial statements requires management to use estimates based on subjective assumptions derived from historical experience that is considered reasonable and realistic in relation to the specific circumstance. These estimates affect the reported amounts of assets and liabilities, revenues and expenses and the disclosure relating to contingent assets and liabilities at the balance sheet date.
Estimates and assumptions principally relate to evaluation of the recoverable amount of intangible assets, definition of the useful lives of property, plant and equipment, the recoverability of trade and other receivables and the recognition and measurement of provisions.
Estimates and assumptions are based on best knowledge available at the date of the preparation of the financial statements.

Accounting policies that are more significant and involve a higher degree of judgement

A summary of the accounting policies that require management to exercise more critical judgement in forming estimates, and for which a change in the underlying conditions of the assumptions used could have a significant impact on the financial statements, is set out below:

a. Goodwill
The value of goodwill is tested for impairment on an annual basis to identify any potential impairment losses (impairment test). This assessment requires goodwill to be allocated to the group of cash generating units (CGU) and the determination of the recoverable amount, representing the higher of fair value and value in use.
When the recoverable amount of a group of cash generating unit is lower than the carrying amount, the amount of goodwill is reduced. Allocation of goodwill to the CGU's and determination of their value in use requires estimates to be made that are based on subjective assumptions and factors that may change over time with potentially significant effects on the reported results.

b. Depreciation
The cost of property, plant and equipment is depreciated systematically over its estimated useful lives of the related assets. The useful life of Group assets is determined by the management at the acquisition date. It is based on historical experience for similar assets, market conditions and information regarding future events that could affect the useful life, for example, changes in technology. As a result, the effective economic life of an asset may differ from the estimated use-

ful life. The Group reviews on a regular basis changes in technology and business factors in order to update the useful lives. This update may result in a change in the depreciation period and in an adjustment to the depreciation charge for future periods.

c. Impairment of property, plant and equipment
The carrying amount of property, plant and equipment is tested for impairment to identify any impairment losses, when there is any indication that the carrying value cannot be recovered through future use.
The identification of any such impairment indicators requires management to carry out subjective valuations based on both internally and externally available information, and subjective assumptions based on historical experience. Moreover, when there is an indication of a potential impairment, this should be determined applying suitable valuation techniques. The proper identification of impairment indicators and the estimates used to determine the recoverable amounts depend on subjective assumptions and factors that may vary over time affecting the valuations and estimates made by the management.

d. Deferred taxation
Accounting for deferred tax assets is based on expectations relating to the generation of future taxable income, and the evaluation of technical and institutional factors relating to the fiscal regime to which the taxes relate (for example: time limits for the recovery of tax losses). The estimate of future taxable income for the purpose of recording deferred tax assets depends on factors and assumptions that may vary over time and could have a significant impact on the valuation of deferred tax assets.

e. Provisions
Provisions are made to cover the potential liability relating to legal and tax risks. The measurement of provisions recognised in the financial statements in relation to these risks, represents management's best possible estimate at the balance sheet date. This estimate requires assumptions to be made that depend on factors that may change over time and could therefore have a significant affect on the current estimates made by management for the preparation of the financial statements.

Principles of consolidation
The financial statements comprise the financial statements of the Parent company Barilla Holding, and the subsidiaries in which Barilla Holding holds, either directly or indirectly, a controlling interest.
In addition to subsidiaries, the scope of consolidation also includes associates and joint ventures.

Subsidiaries represent those companies in relation to which Barilla Holding exercises control as it has the power, either directly or indirectly, to govern the entity's financial and operating policies so as to obtain benefits from its activities. Generally, subsidiaries are those companies in which Barilla Holding owns more than 50% of the voting rights. The financial statements of the subsidiaries are consolidated on a line-by-line basis from the date on which the Parent gains effective control up to the date on which control ceases. The effect of all transactions between the subsidiaries and the Group are eliminated. The reporting date of all of the Group companies is 31 December.

Investments in joint ventures are consolidated applying the proportional consolidation method. The effect of intragroup transactions is eliminated to the extent to which they do not relate to third parties.

Foreign currency transactions

All transactions are measured using the currency of the primary economic environment in which each Group company operates (the functional currency). Transactions denominated in currencies different from the functional currency of the Group companies are translated at the rate of exchange prevailing at the dates of the transactions. Monetary assets and liabilities are translated using year-end exchange rates and exchange differences are recognised in income statement. Non-monetary assets and liabilities, which are measured at historical cost and denominated in foreign currency, are converted at the exchange rate prevailing at the dates of the transactions.

Translation of financial statements denominated in foreign currencies

The financial statements of subsidiaries denominated in non-euro functional currencies, which do not operate in hyperinflationary economies, are translated as follows:

- assets and liabilities are translated at the year-end rate;
- revenue and expenses are translated at average exchange rates for the period;
- all resulting translation differences are reported as a separate component of shareholders' equity.

On disposal of those entities that gave rise to exchange differences, the cumulative amount of exchange differences deferred in a separate component of equity are recycled to income statement.

Accounting policies for hyperinflationary countries

Subsidiaries operating in countries in which the cumulative inflation rate over a three year period approaches or exceeds 100% adopt hyperinflationary accounting. Hyperinflationary accounting is discontinued when the cumulative inflation rate over a three year period falls below this level.

The financial statements of subsidiaries operating in hyperinflationary countries, prior to translation to euro, are adjusted to reflect the change in purchasing power of the local currency. The inflation rate used in order to adopt hyperinflationary accounting corresponds to the consumer price index. Gains and losses on the net monetary position are recognised in the income statement.

Intangible assets

Intangible assets with a finite useful life are valued at cost, net of amortisation and impairment losses, while those with an indefinite useful life are reviewed annually for impairment. Cost does not include capitalised borrowing costs. Amortisation commences from when the asset is available for use.

Goodwill

The positive difference between the purchase price and the Group's share of the fair value of assets, liabilities and contingent liabilities at the date of acquisition is recorded as goodwill and is classified as an intangible asset with an indefinite useful life.

Trademarks and licences

Trademarks and licences are valued at cost less amortisation and impairment losses. Trademarks are amortised over their useful life while licences are amortised over the lower of the contract period and their useful life.

Software

The cost of software licences, including other incremental costs, is capitalised and recorded in the financial statements net of amortisation and impairment losses.

Research and development costs

The research costs relating to new products and/or processes are expenses as incurred. No development costs qualifying for capitalisation are incurred.

The useful lives of intangible assets are as follows:

Trademarks	5 to 20 years
Software	3 to 5 years

Property, plant and equipment

Property, plant and equipment are recorded at acquisition or production cost, including directly attributable expenses, less accumulated depreciation and accumulated impairment losses, with the exception of land, which is not amortised but valued at cost less accumulated impairment losses. Cost does not include borrowing costs.
Depreciation is recorded from the month in which the asset is available for use, or that it is able to provide economic benefits.
Depreciation is calculated systematically on a monthly basis applying rates that allocate the depreciable amount of the asset over its useful life or, where the asset is disposed of, up until the last month of use.
The useful lives are as follows:

Category	**Useful life**
Buildings	33 years
Plant and machinery:	
- generic	13 years
- specific	10 - 20 years
- highly technological	5 - 8 years
Industrial and commercial equipment:	
- furniture and fittings	8 years
- electronic machinery	3.5 years
Motor vehicles	5 years
Other equipment	2.5 years

Government grants relating to property, plant and equipment are recorded as a reduction in the value of the related asset and are recognised as income over the depreciation period.
Leasehold improvements are classified in property, plant and equipment in line with the nature of the cost incurred. The depreciation period is the lower of the residual useful life of the asset and the residual period of the leasecontract.
Spare parts that are significant in value are capitalised and depreciated over the useful life of the asset to which they relate; the cost of other spare parts is expensed in the income statement as incurred.
Assets acquired under finance leases are included in property, plant and equipment with the corresponding obligation to pay future rentals recognised as a liability. The lease payment is apportioned between the finance charge, expensed to the income statement, and the capital repayment, recorded as a reduction of the outstanding liability.

Impairment of property, plant and equipment and intangible assets (impairment test)

In the presence of specific indicators that an asset may be impaired, an impairment test should be carried out on property, plant and equipment and intangible assets.
The impairment test consists in the measurement of the recoverable value of the assets and comparison with the related carrying amount.
If the recoverable amount of an asset is lower than its carrying amount, the latter should be reduced to the recoverable amount. This reduction represents an impairment loss and should be recognised as an expense in the income statement.
With regard to assets that are not amortised, property, plant and equipment that are no longer used, and intangible assets and property, plant and equipment not yet available for use, the impairment test is carried out on an annual basis, irrespective of whether specific indicators exist.

During the year, the Group assesses whether there is any indication that property, plant and equipment and intangible assets with a definite useful life may be impaired. For this purpose both internal and external sources of information are taken into consideration. With regard to internal sources the following indicators are considered: obsolescence or physical deterioration of the asset, significant adverse changes in the extent to which an asset is used and deterioration in the expected level of the assets' performance. With regard to external sources these include: performance of the market price of the assets, significant adverse changes in the technological, market, and legal environment, the trend in market rates of return and the discount rate used in valuing investments.

The recoverable value of an asset is defined as the higher of the fair value less costs to sell and value in use. The value in use is determined as the current value of expected future cash flows calculated applying a discount rate that reflects the current market valuation of the time value of money and the risks inherent in the asset. Where it is not possible to estimate the recoverable value of a single asset, the Group estimates the recoverable value of the cash generating unit or group of cash generating units to which it belongs. Where the conditions that led to the reduction in value no longer exist, the carrying value of the asset or the cash generating unit is increased to the new estimated recoverable value, which may not exceed the carrying value that would have been recognised had the original impairment not incurred. This reversal is recorded in the income statement.

Purchased goodwill that is allocated to units or groups of cash generating units during the year is subjected to an impairment test prior to the end of the financial period in which the purchase and allocation took place.
In order to assess its recoverability goodwill, it is allocated from the acquisition date to each of the CGU's or groups of CGU's that are expected to benefit from the acquisition.
Where the carrying value of the CGU (or groups of CGU's) is higher than the respective recoverable amount, an impairment loss is recognised as an expense in the income statement.
The impairment loss is initially recorded as a reduction in the carrying amount of the goodwill allocated to the CGU (or group of CGU's) and secondly to other assets in the CGU on a pro-rata basis based on the relative carrying amount of each asset in the CGU up to the recoverable amount of individual assets with a definite useful life.
The future cash flows derive from business plans approved by the Board of directors (or a similar body), which normally cover a period not exceeding five years. The long-term growth rate used for the purpose of estimating the terminal value of the CGU (or group of CGU's) does not usually exceed the average long-term growth rate for the industry, the country or the market in which the CGU (or group of CGU's) operates.
The future cash flows are estimated with reference to current conditions of the CGU's and do not consider benefits that may arise from future restructuring to which the company is not yet committed, or future investments intended to improve or enhance the performance of the CGU.
The Group has identified the following cash generating units:

- Property, plant and equipment at production line, factory and store level.
- Goodwill allocated to groups of CGU's (Businesses), represented by Harry's, Kamps, Pavesi, Wasa and GranMilano.

Financial assets

On initial recognition, financial assets are measured at fair value and designated in one of the following categories depending on their nature and the purpose for which they were acquired:
(a) Financial assets "at fair value through profit or loss" as they are held-for-trading;
(b) Loans and receivables;
(c) available-for-sale.

The purchase and sale of financial assets are recognised when the entity becomes party to the contractual provisions of the instrument. Following initial recognition in the financial statements, financial assets are measured as follows:

(a) At fair value through profit or loss

This includes financial assets, represented by equity securities, acquired principally with the intention of short-term profit making. These securities are classified in current assets and are initially measured at cost and subsequently adjusted to fair value with any change taken through the income statement.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payment terms, principally trade receivables, which are not quoted in an active market [*]. Trade receivables and loans are included in current assets, with the exception of those that mature more than twelve months after the balance sheet date, which are classified as non-current assets. These assets are initially measured at fair value and are subsequently measured at amortised cost based on the effective interest rate. Where there is objective evidence of impairment, the asset is reduced to its recoverable amount representing the present value of the expected future cash flows. The impairment loss is included in the profit or loss for the period. In subsequent periods where the reasons that led to impairment no longer exist, the value of the asset is restated to the value that would have been obtained applying the amortised cost method.
Trade receivables due in less than one year, are measured at fair value, which generally approximates the face value. Securitised or factored receivables, either with or without recourse, which do not meet all of the conditions that permit derecognition from the Financial statements, are maintained in the balance sheet; and a corresponding financial liability is recognised as "Payables for advances on the sale of receivables".
With regard to the sale of receivables that meets all of the derecognition criteria the financial assets is removed from the balance sheet at the time of sale. Gains or losses arising from the sale of these assets are recognised when the assets are derecognised from the balance sheet.

(c) Available for sale financial assets

This heading includes equity securities and other debt securities not held-for-trading. These are classified as non-current assets when management does not intend to sell the assets in the 12 months period after the balance sheet date. These are measured at fair value with fair value changes recorded in a specific reserve in shareholders' equity. These are tested for impairment and any reduction in value is taken to the income statement. Impairment loss recognised in income statement for an investment in an equity instrument is not reversed through income statement. When the fair

[*] IAS36 defines an active market as one in which the following conditions exist:
(a) the securities traded on the market are of the same type;
(b) acquirers and sellers may be identified at any time;
(c) published price quotations are publicly available.

value of an equity instrument is not reliably measurable, financial assets is measured at cost less cumulative impairment losses.

Inventories

Inventories are stated at the lower of cost, measured applying the FIFO (first in - first out) method, and net realisable value.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, bank and post office deposits and short-term highly liquid investments that are readily convertible to cash (three months or less from the date of acquisition), and are measured at nominal value as they are not subjected to significant fluctuations in value.

Employee benefits

(a) Pension funds

Group companies operate both defined contribution and defined benefit plans.
A defined contribution plan is a plan where the Group pays fixed contributions to a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employees benefits relating to employee service in the current and prior periods. With regard to defined contribution plans, the Group pays contributions, either voluntary or specified in the plan rules, to public and private insurance pension funds. Contributions are recognised as payroll costs applying the accrual basis.

Defined benefit plans are post-employment plans other than defined contribution plans. For defined benefit plans, which also comprises the Italian "Trattamento di Fine Rapporto - TFR" - staff termination indemnity payable to Italian employees under the provisions of Art. 2120 of the Italian Civil Code, the amount of the benefit to be paid to an employee may only be measured once employment ceases, and is linked to one or more factors including age, years of service and level of pay; as a result the related defined benefit obligation is measured on an actuarial basis. The defined benefit obligation recorded in the Financial statements corresponds to the present value of the obligation at the balance sheet date, less the fair value of any plan assets. The defined benefit obligations is determined on an annual basis by an independent actuary using the projected unit credit method. The present value of the defined benefit plan is determined discounting future cash flows by a rate equal to that of high-quality corporate bonds of equivalent currency and term to the benefit obligations. Actuarial gains and losses arising on the above adjustments and changes in the actuarial assumptions are reflected in shareholders' equity when they arise.

(b) Termination benefits

Termination benefits are those payable on termination of an employment before the normal retirement date, or when an employee accepts voluntary redundancy. The Group recognises termination benefits when a demonstrable commitment exists that is governed by a detailed formal plan specifying details of the employment termination, or when payment of the benefit is the result of an offer made to encourage voluntary redundancy. Termination benefits are discounted when the effect of the time value of money is material.

Provisions

Provisions are recorded to cover the Group's legal, contractual or constructive obligations that derive from a past event. A provision is recognised where it is probable that an outflow of resources will be required and a reliable estimate of the amount may be made. Where it is estimated that these obligations will arise more than twelve months after the balance sheet date, they are recorded at present value applying a discount rate that reflects current market assessments of the time value of money and the risks specific to the liability. Any adjustment to the estimated provision is recognised in the income statement in the period in which the adjustment occurred. Where discounting is used, any increase in the provision to reflect the passage of time and the impact of changes in the discount rate are recognised as borrowing costs.
Restructuring provisions are recognised when there is a constructive obligation, which takes place when the Group has a detailed formal plan and has informed those affected by the plan or when the Group has announced the plan in sufficient detail to raise valid expectation in those affected by the plan that the restructuring will be carried out.
Provisions for tax risks are recognised following assessments notified to the Group but not yet settled at the balance sheet date.

Financial liabilities

Financial liabilities are initially recorded at fair value adjusted for transaction costs, and subsequently are measured at amortised cost applying the effective interest rate. The difference between amortised cost and the amount to be repaid is recognised in the income statement over the term of the liability. Financial liabilities are classified as current liabilities except where the Group, at the balance sheet date, has an unconditional right to extend the maturity of the loan to at least more than twelve months after the balance sheet date. Trade and other payables with normal trading terms, generally less than one year, are recorded at fair value, which normally approximates the nominal value.

Derivative financial instruments

Accounting for derivative financial instruments

On initial recognition, financial instruments are measured at fair value. Subsequent measurement is also at fair value; any subsequent adjustments are taken to the income statement, with the exception of cash flow hedges, where gains or losses are recognised to a separate component of equity.

Derivatives that qualify for hedge accounting

In all cases where derivatives are designated as hedging instrument, the Group formally documents, from inception of the hedge, the relationship between the hedging instrument and the related hedged item or transaction, the risk management objective and the hedging strategy adopted.
The Group also documents the hedging instrument's effectiveness to compensate changes attributable to the hedged risk based on changes in the fair value of the hedging instruments compared to changes in the fair value of the hedged item. This assessment is carried out at inception and on a continuous basis throughout the life of the hedge.

Categories of hedges

Hedging instruments are categorised as follows:

i) Fair value hedge: if the hedge is designated to cover the exposure to changes in the fair value of a recognised asset or liability (hedged item), the gain or loss arising on changes in fair value of the hedging instrument is recognised to the income statement, and the hedged item is measured at fair value with fair value changes recognised to income statement.

ii) Cash flow hedge: if the hedge is designated to cover the exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction, the gains or losses on the effective portion of the hedging instrument are recognised to a separate component of equity; the ineffective portion of the gain or loss on the hedging instrument is recognised in income statement.

The amounts recognised directly to equity are recycled to the income statement in the period in which the hedged item affects profit or loss.
When a hedging instrument reaches maturity or is sold, or no longer meets the conditions required to be classified as a hedge, the related fair value adjustments accumulated in equity will be retained in equity until the hedged item affects profit or loss. If the forecast transaction that was subject to the hedge is no longer expected to affect income statement, the fair value adjustments accumulated in equity are immediately recognised in the income statement.

Determination of the fair value of a hedging instrument

The fair value of an interest rate swap is determined based on the present value of the expected future cash flows. The fair value of forward foreign exchange contracts is determined using the forward rate at the balance sheet date.
The fair value of other hedging instruments quoted on an active market is based on the market prices prevailing at the balance sheet date. The fair value of instruments that are not quoted on an active market is determined using valuation techniques, based on a series of methods and assumptions, and market information at the balance sheet date.

Non-current assets and liabilities held for sale and discontinued operations

A non-current asset, or group of non-current assets and liabilities, is classified as held for sale when the carrying amount is to be recovered primarily from a sale transaction rather than through continuing use. The assets (or groups of assets) held for sale is measured at the lower of their carrying amount and their fair value, less estimated costs to sell.
The results and the carrying amount of a component of an entity that represents a separate major line of business or geographical area of operations are classified separately in the income statement and in the balance sheet at the time of the sale or when it meets the conditions to be classified as held for sale.

Shareholders' equity

Costs directly attributable to share capital increase are expensed against shareholders' equity.

Revenue recognition

Revenue is recognised at the fair value of the amount received for the sale of products or services, net of returns or discounts.

Sale of products

Revenue from product sales is recognised when all of the following conditions are met, and normally takes place on delivery to the customer:
- the significant risks and rewards arising from ownership of the goods are transferred to the buyer;
- effective control over the goods ceases;
- the amount of revenue can be reliably measured;
- it is probable that the economic benefits associated with the transaction will flow to the entity;
- the costs incurred or to be incurred in respect of the transaction can be reliably measured.

Provision of services

Revenue from rendering services is recognised based on the effective stage of completion of the service at the balance sheet date.

Government grants

Revenue based government grants are recognised in the income statement when the right to receive the payment is established.

Dividends

Dividends are recognised when the right to receive the payment is established, which normally corresponds to the approval of distribution by the shareholders of disbursing entity.
Dividends received from associates are recorded as a reduction in the value of the equity investment.

Financial income and expenses

Financial income and expenses comprise interest payable matured on all borrowings, interest income on cash and cash equivalents and similar securities, dividends, foreign exchange gains and losses and the financial impact arising from hedging the exposure to interest rate and foreign exchange risk that are taken to income statement.

Taxation

Taxation includes both current and deferred taxes. Taxation is recognised in the income statement with the exception of transactions that are taken directly to equity, in which case the tax effect is also taken to equity. Current income taxes are calculated based on the estimate which the Group expects to pay by applying enacted tax rates, or those substantively enacted, at the balance sheet date in each of the relevant tax jurisdictions.
Deferred tax assets and liabilities are determined applying the liability method, whereby all of the temporary differences between the tax bases of assets and liabilities and the carrying amounts at the balance sheet date, except for goodwill, are calculated. Deferred tax assets and liabilities are measured using the tax rates in effect on the period when the asset is expected to be realised or the liability is expected to be settled, based on tax rates that have been enacted by the balance sheet date. Income taxes arising on the distribution of dividends are recognised on distribution.
For the purpose of recognising deferred tax assets, the Group assesses the likelihood that sufficient future taxable income will be available to recover these assets. Tax assets and liabilities, both current and deferred, may only be offset where the amounts relate to the same tax jurisdiction, where the reversal period is the same and there is a legally enforceable right to offset the recognised amounts.

Put Option of minority shareholders

The unconditional Put Options granted to minority shareholders in relation to shareholder agreements are accounted for in the financial statements through the recognition of the liability that is expected to arise on the exercise of the option, determined using the expected exercise price based on best estimates available at the time of preparation of the financial statements.
The liability is discounted where the option may only be exercised from a future date.
The corresponding entry is taken to minority interest in equity where the terms of the option immediately transfer to the Group the risks and rewards associated with the ownership interest. In all other cases, the corresponding entry is taken to shareholders equity, allocating to the minority shareholders their share of profit or loss for the period and their interest in equity.

International Financial Reporting Standards recently endorsed by the European Union

As required by IAS 8 "Accounting policies, accounting estimates and errors", new standards and interpretations that have been published but have not yet come into effect or have not yet been endorsed by the EU are illustrated below. None of these standards or interpretations have been early adopted by the Group.

New standards or interpretations not yet effective but already endorsed by the EU

• IFRS 7 - Financial instruments: Disclosure.

This standard, adopted by the EU in January 2006 encompasses the disclosure section of IAS 32 (Financial instruments: disclosure and presentation) modified and extended; consequently IAS 32 has been renamed "Financial instruments: Presentation".

IFRS 7 is effective for annual periods beginning on or after 1 January 2007.

• IFRIC 7 - Applying the restatement approach under IAS 29.

Accounting information in hyperinflationary economies.

This interpretation, endorsed by the EU in May 2006 (EC Regulation 708/2006), provides guidance on the method of applying the provisions of IAS 29 in an accounting period in which an entity identifies for the first time the existence of hyperinflation in the economy of its functional currency. According to IFRIC 7, the entity must restate the amounts recognised in the financial statements in conformance with IAS 29 as though the economy had always been hyperinflationary.

IFRIC 7 will be applied from 1 January 2007.

The future application of the above standard and interpretation is not expected to have a significant impact on the consolidated financial statements.

5. Change in scope of consolidation

During the financial year the scope of consolidation changed as a result of the disposal of the following companies:

- Erkens Bakkerijen B.V.;
- Market Food Group B.V.;
- Harry's Morato S.p.A.;
- Fresh Cake A/S; and
- Harry's Delta SRO.

In the course of 2006 the dormant company Dolcetto Sette S.r.l., which was subsequently renamed Logi-K S.p.A., was acquired; in addition, the investment company Fin.Ba. Iniziative S.r.l. and Barilla America New York Inc. were incorporated.

6. Notes to the consolidated financial statements

Consolidated balance sheet

6.1 Cash and cash equivalents

Cash and cash equivalents, which amounted to euro 87,973 (euro 62,823), comprise bank and post office deposit accounts, cheques and other cash on hand. The change in cash and cash equivalents recorded during the year is reported in the consolidated cash flow statement.

6.2 Trade receivables

	31/12/2006	31/12/2005
Trade receivables	612,799	653,079
Bad debt provision	(21,079)	(22,720)
Total	591,720	630,359

Trade receivables consist of amounts due to customers in relation to the sale of goods and rendering of services, less accumulated bad debt provision that amount to euro 21,079 (euro 22,720).
The change in the bad debt provision is illustrated below:

	2006	2005
Opening balance	**22,720**	**28,920**
Charges	5,024	4,001
Utilisation	(5,923)	(10,183)
Reversals	(633)	(151)
Exchange difference	(109)	133
Closing balance	**21,079**	**22,720**

The Group sells a part of its trade receivables through a rotating securitisation programme.
Trade receivables sold under the securitisation programme amounted to euro 84,124 at 31 December 2006 (euro 92,828) and are classified in the balance sheet within trade receivables.
On 31 December 2006 factoring arrangements without recourse amounted to euro 47,900 (euro 25,300), in reference to trade receivables for which all of the related risks and rewards had been transferred and consequently they have been derecognised from the balance sheet.

6.3 Tax credits

Tax credits represent amounts due from tax authorities in the various countries in which the Group operates and principally relate to income tax instalments and VAT recoverable. These credits may be analysed as follows:

	31/12/2006	31/12/2005
Income tax	43,189	42,734
VAT	63,970	97,162
IRPEF (income tax) on TFR advances	1,459	2,953
Total	**108,618**	**142,849**

6.4 Other receivables

Other receivables and other current assets consisted of the following:

	31/12/2006	31/12/2005
Supplier advances	5,659	9,916
Amounts due from employees	3,221	2,394
Insurance recoveries	1,033	23,047
Amounts due from factoring entities	5,519	6,623
Other receivables	13,542	13,934
Guarantee deposits	3,547	1,394
Receivable from government grants	6,450	1,771
Receivable from social security institution	3,622	4,010
Accrued income and prepayments	21,802	22,452
Total	**64,395**	**85,541**

On 31 December 2005 the amounts due for insurance recoveries were principally related to damages suffered by the subsidiary Harry's following the fire at the plant in Solnechnogorsk in Russia that took place at the end of 2004.

Accrued income and prepayments include advances on rent and insurance premiums and accrued interest income.

Other receivables are recognised net of bad debt provision that amounted to euro 1,988 (euro 2,994).

Movements in the bad debt provision may be analysed as follows:

	2006	2005
Opening balance	**2,994**	**1,216**
Charges	72	2,002
Utilisation	(1,077)	(224)
Foreign exchange differences	(1)	-
Closing balance	**1,988**	**2,994**

6.5 Inventories

Inventories may be analysed as follows:

	31/12/2006	31/12/2005
Raw materials and semi-finished goods	127,865	124,825
Finished goods	113,030	106,473
Advances	1,029	221
Total	**241,924**	**231,519**

The inventory obsolescence provision amounted to euro 16,574 (euro 17,411) and the amount provided during the period totalled euro 3,830.

6.6 Derivate financial instruments
An analysis of the financial risk management policies is set out in section 7 below.

6.7 Financial assets held for trading
At the end of the prior year, the balance principally included securities issued by international organisations, such as World Bank and the European Investment Bank (EIB) (securities with a Standards & Poor's rating of AAA or equivalent) denominated in foreign currency, which were sold during the year.

6.8 Assets held-for-sale
Assets held-for-sale include property, plant and equipment and intangible assets that were reclassified at year-end as "Assets held-for-sale", as they relate to the Turkish subsidiary Fresh Cake A/S, which is expected to be sold in 2007.
The Assets held-for-sale consisted of the following:

	31/12/2006	31/12/2005
Property, plant and equipment	8,171	9,603
Intangible assets	3,252	-
Total	**11,423**	**9,603**

6.9 Property, plant and equipment
At year-end the change in the net book value of property, plant and equipment, compared to 31 December 2005, amounted to euro 29,336. This is principally due to additions of euro 269,563 and net disposals of euro 37,346. The remaining difference in the carrying values is due to foreign exchange differences and the depreciation charge for the year that amounted to euro 193,345.
Property, plant and equipment totalling euro 233 million have been pledged as security for mortgages.

Movements in property, plant and equipment were as follows:

	Land	Buildings	Plant and machinery	Industrial and commercial equipment	Other assets	Assets under construction	Total
Movements during 2005							
Net book amounts at 01/01/2005	104,218	478,690	738,415	118,277	32,730	84,043	1,556,373
Capital expenditure	-	-	-	-	-	261.124	261.124
Capitalisations	2,204	39,734	143,439	30,740	18,596	(234,713)	-
Grants received	(1,279)	(141)	(2,239)	(86)	-	-	(3,745)
Disposals	(977)	(7,376)	(58,673)	(46,903)	(8,576)	(539)	(123,044)
Utilisation of accumulated depreciation	-	4,096	44,380	45,086	4,759	-	98,321
Depreciation	-	(27,843)	(122,633)	(37,379)	(15,695)	-	(203,550)
Foreign exchange differences	925	8,718	9,612	149	214	608	20,226
Reclassification to assets held-for-sale	(1,625)	(2,982)	(3,924)	(919)	(141)	(12)	(9,603)
Net book amounts at 31/12/2005	103,466	492,896	748,377	108,965	31,887	110,511	1,596,102
Historical cost	105,282	858,332	2,325,208	469,391	148,874	110,511	4,017,598
Accumulated depreciation and impairment losses	(1,816)	(365,436)	(1,576,831)	(360,426)	(116,987)	-	(2,421,496)
Movements during 2006							
Capital expenditure	-	-	-	-	-	269,563	269,563
Capitalisations	1,491	54,888	176,808	37,413	10,504	(281,104)	-
Grants received	-	(7,171)	(15,648)	(310)	-	-	(23,129)
Disposals	(3,519)	(46,186)	(46,200)	(56,624)	(2,227)	(386)	(155,142)
Utilisation of accumulated depreciation	527	32,952	38,823	42,706	2,788	-	117,796
Impairment losses	(338)	(647)	(400)	(1,043)	-	-	(2,428)
Depreciation	-	(26,346)	(119,521)	(31,280)	(16,198)	-	(193,345)
Change in scope of consolidation	(5,409)	(8,679)	(5,333)	(124)	(23)	(33)	(19,601)
Reclassification to assets-held-for-sale	(1,208)	(2,241)	(4,703)	(13)	-	(6)	(8,171)
Foreign exchange differences	(742)	(6,143)	(7,461)	(69)	(165)	(299)	(14,879)
Net book amounts at 31/12/2006	94,268	483,323	764,742	99,621	26,566	98,246	1,566,766
Historical cost	96,521	842,968	2,391,006	411,090	155,300	98,246	3,995,131
Accumulated depreciation and impairment losses	(2,253)	(359,645)	(1,626,264)	(311,469)	(128,734)	-	(2,428,365)

At year-end the Group held capital expenditure commitments approved by management totalling approximately euro 218 million (euro 202 million).

Finance leases

The net book amounts of assets held under finance leases amounted to euro 65,606 (euro 83,025) and include:

	Land	Buildings	Plant and machinery	Industrial and commercial equipment	Other assets	Total
At 31/12/2005	**822**	**26,051**	**29,977**	**7,660**	**18,515**	**83,025**
At 31/12/2006	**822**	**22,957**	**13,105**	**1,714**	**27,008**	**65,606**

Details of the principal lease contracts outstanding at 31 December 2006 are provided below:

• Harry's has entered into a number of finance lease contracts with a maximum expiry date of November 2015 that have the option to purchase the asset at the end of the lease term. The principal contracts relate to property leases which expire in April 2007, December 2007, December 2008, December 2009, May 2011, January and November 2015 for a total net book amount of euro 22,082.

• Kamps has entered into finance lease contracts in relation to industrial plants for a total net book amount of euro 14,296, for which an option exists to purchase the assets for an agreed amount, and contracts for goods transport vehicles with a 72 month term and a net book amount of euro 1,189.

• The subsidiary Logi-K GmbH has entered into finance lease contracts for 142 goods transport vehicles, with an expiry date of April 2008 and a net book amount of euro 3,781. In addition, the company holds leasing contracts for 445 goods transport vehicles that expire in November 2009, which have a net book amount of euro 16,424; these contracts include an option to purchase the leased assets at the end of the lease term.

The minimum future lease payments and the related payment period are as follows:

Not later than 1 year	18,487
Later than 1 year and not later than 5 years	25,608
Later than 5 years	1,578
Total minimum future lease payments	**45,673**

The reconciliation between the minimum future lease payments and the present value of the lease payments is as follows:

	31/12/2006	31/12/2005
Total future payments	49,292	56,224
Interest	(3,619)	(4,128)
Present value of lease payments	**45,673**	**52,096**

Operating leases

The minimum future lease payments under operating leases and the related repayment period are as follows:

Not later than one year	72,694
Later than 1 year and not later than 5 years	171,292
Later than 5 years	103,318
Total minimum future lease payments	**347,304**

The principal assets held under operating leases are:

• Properties in Germany used as Kamps Bakery shops, with total minimum future lease payments of euro 192,522, of which euro 49,741 is due not later than 1 year, and euro 100,387 is due later than one year but not later than five years and the remainder is due later than five years;

• Properties in Italy used as warehouses and depots for the Barilla G. e R. Fratelli group, for which the minimum future lease payments amount to euro 120,140. These contracts, entered into by the logistics company Number 1 S.p.A., have original terms of between 12 and 15 years. The contracts provides for annual indexation (Istat) of the rent due. The contracts do not provide for the possibility to renew or repurchase the assets.

• In Italy rental contracts exist in relation to semitrailers used for logistics activities, for which the total minimum future lease payments are euro 18,800. The contract provides for annual indexation (Istat) of the rent due.

Total operating lease payments recognised in the income statement amounted to euro 88,740 (euro 96,778)

6.10 Goodwill

Movements in goodwill - representing the only intangible asset with an indefinite useful life - were as follows:

	Goodwill
Movements in 2005	
At 01/01/2005	1,616,213
Acquisitions	584
Reclassifications	(2,421)
Disposals	(12,696)
Foreign exchange differences in the period	1,315
Impairment losses in the period	(699,346)
Total at 31/12/2005	903,649
of which:	
Historical cost	1,778,187
Accumulated impairment losses at 31/12/2005	(874,540)
Movements in 2006	
Change in scope of consolidation- increases	12,461
Change in scope of consolidation - decreases	(74,043)
Foreign exchange differences in the period	771
Impairment losses in the period	(12,992)
Total at 31/12/2006	829,844
of which:	
Historical cost	1,508,382
Accumulated impairment losses at 31/12/2006	(678,538)

At 31 December 2006 the allocation of goodwill by business segment and groups of cash generating units for the purpose of performing impairment tests are illustrated in the table below:

Business segment - Groups of Cash Generating Units	Amount
Kamps	270,445
Harry's	334,424
Pavesi	27,544
Wasa	184,467
GranMilano	12,964
Total	**829,844**

The assessment consists in estimating the recoverable amount of the groups of cash generating units and comparison with the carrying value of the related assets including goodwill.

The recoverable amount of the groups of cash generating units was determined based on the value in use, calculated as present value of expected future cash flows relating to the groups of cash generating units.

The cash flows utilised to determine value in use cover a five year period (Plan) and distinguish between "development of existing business" and "development of new initiatives".

The plans are developed based on the significance of the variables chosen, commencing with a series of key macroeconomic indicators (e.g. interest rates, inflation rates, expect market conditions) and economic-financial targets for each business segment.

The Plan, including the related key assumptions, is approved by management.
The flows deriving from groups of cash generating units at the end of the plan period correspond to the perpetual income based on last year's plan, normalised where necessary.

At 31 December 2006 the key assumptions utilised to discount the future cash flows of the principal groups of cash generating units were as follows:

Business segment - Groups of Cash Generating Units	Discount rate	Growth rate
Kamps	6.1%	0.50%
Harry's	6.4%	2.00%
Wasa	6.7%	1.50%

Based on these assumptions the differences between the recoverable value and the carrying value of the groups of cash generating units were as follows:

(euro million)

Business segment - Groups of Cash Generating Units	Difference
Kamps	107
Harry's	3
Wasa	62

The Group has carried out sensitivity analyses on the principal groups of cash generating units, varying the key assumptions. The results of these analyses showed that for the Harry's groups of cash generating units a minimum change in the interest rate and the growth rate would determine the alignment of the recoverable amount and the carrying amount. With regard to Kamps, a 1% increase in the interest rate would cancel the difference between recoverable amount and carrying amount while a nil growth rate would determine a recoverable amount that is higher than the carrying value. With regard to the groups of cash generating units of Wasa, a 1.4% increase in the interest rate is required to align the recoverable amount with the carrying value, while a nil growth rate determines a recoverable amount that is still higher than the carrying value.

The change in the consolidation area during the period which has affected goodwill relates to:

- decreases for the disposals carried out during the year in relation to the following companies and business:
  - Harry's Morato S.p.A.
  - Erkens Bakkerijen B.V.
  - Market Food Group B.V
  - The frozen bread business of GranMilano S.p.A., called "Forno della Rotonda".
- increases for the purchase of a minority holding in Logi-K GmbH.

In addition, the goodwill related to the Turkish company Fresh Cake A/S, which was sold in 2007, was reclassified to non-current assets held for sale.
The impact of changes in exchange rates on goodwill denominated in foreign currency are summarised as follows:

- with regard to the Wasa group, denominated in Swedish and Norwegian Krones, the effect of retranslation at 31 December 2006 amounted to euro 5,809;
- with regard to Harry's, denominated in Russian Roubles, the effect of retranslation at 31 December 2006 amounted to euro 649;

• with regard to Zao Kondi, denominated in Russian Roubles, the effect of retranslation at 31 December 2006 amounted to euro 76.
Goodwill allocated to groups of CGU's such as Harry's, Kamps, Pavesi, Wasa and GranMilano is subjected to an annual impairment test in order to identify any losses in value.
This assessment was carried out at 31 December 2005 and 2006 and determined the following impairment losses:
• the loss in the previous financial year of euro 698,621 attributable to the Kamps group, which was principally due to a significant drop in sales volumes, strong pressure on prices and margins, increases in labour and production costs linked to movements in oil prices.
• the loss recorded in 2006, amounting to euro 12,461, relating to the goodwill on Logi-K GmbH, which operates in the logistics segment and was included in the scope of consolidation at 31 December 2005, in relation to which during 2006 the Group increased its holding from 51% to 100%.

6.11 Other intangible assets

Other intangible assets consisted of the following:

	Licences and software	Trademarks	Other	Assets under construction	Total
Movements in 2005					
Balance at 01/01/2005	**7,583**	**269,719**	**1,145**	**2,604**	**281,051**
Acquisitions and capitalisations	5,959	1,945	205	11,703	19,812
Disposals	-	(14)	(111)	-	(125)
Foreign exchange differences	(4)	287	(87)	-	196
Amortisation and impairment	(3,989)	(20,777)	(212)	-	(24,978)
Total at 31/12/2005	**9,549**	**251,160**	**940**	**14,307**	**275,956**
of which:					
Historical cost	18,151	327,184	23,970	14,307	383,612
Accumulated amortisation and impairment at 31/12/2005	(8,602)	(76,024)	(23,030)	-	(107,656)
Movements in 2006					
Acquisitions and capitalisations	21,071	1,110	1,692	(2,613)	21,260
Disposals	(62)	(1,979)	(40)	(430)	(2,511)
Foreign exchange differences	1	(198)	(44)	-	(241)
Amortisation and impairment losses	(6,857)	(20,758)	(347)	-	(27,962)
Total at 31/12/2006	**23,702**	**229,335**	**2,201**	**11,264**	**266,502**
of which:					
Historical cost	30,558	250,093	2,548	11,264	294,463
Accumulated amortisation and impairment at 31/12/2006	(6,856)	(20,758)	(347)	-	(27,961)

Trademarks principally relate to Pavesi, Harry's and the brands of the Kamps group (Lieken Urkorn and Golden Toast). The trademarks of Barilla G. e R. (Barilla, Mulino Bianco Barilla) were developed internally.
Assets under construction principally relate to the acquisition of new "Enterprise Resources Planning" (ERP) software, an accounting, finance, management and control system.
During the financial year, no indications of impairment were identified in respect of other intangible assets.

6.12 Trade and other receivables

Other non-current assets comprise:

	31/12/2006	31/12/2005
Amounts due from the associate Bart's Retail B.V. (6.14)	3,450	3,450
Guarantee deposits	860	1,252
Other non-current assets	3,775	8,288
Total	**8,085**	**12,990**

6.13 Deferred tax assets and liabilities

Deferred tax assets and liabilities are recognised separately on the balance sheet, exclusively in relation to temporary differences between the carrying value of assets and their tax bases. Deferred tax assets on tax losses carried forward are only recognised where it is probable that sufficient future taxable profits will be earned to allow recovery of these assets.

The composition and movements in deferred tax assets and liabilities are illustrated in the table below:

	At 31/12/2005	Reversals/charges through income statement	Impact on equity	Change in scope of consolidation	Foreign exchange impact	At 31/12/2006
Property, plant and equipment	(78,074)	(14,303)	-	4,442	770	(87,165)
Leasing	(6,837)	(410)	-	129	5	(7,113)
Intangible assets	(31,108)	8,423	-	710	40	(21,935)
Financial assets	(326)	(69)	-	-	(14)	(409)
Inventories	11,223	(1,751)	-	-	2	9,474
Spare parts	2,709	319	-	-	-	3,028
Financial liabilities and derivatives	(3,593)	2,246	(3,633)	(5)	-	(4,985)
Provisions	14,731	5,730	-	279	14	20,754
Pension funds	3,531	(1,000)	(829)	44	(91)	1,655
Tax losses carried forward	32,328	(13,889)	-	10	(192)	18,257
Other	53,838	4,274	-	2,045	582	60,739
Total	**(1,578)**	**(10,430)**	**(4,462)**	**7,654**	**1,116**	**(7,700)**
Deferred tax assets	70,881					75,850
Deferred tax liabilities	(72,459)					(83,550)
Total	**(1,578)**					**(7,700)**

6.14 Financial assets available for sale

Financial assets available for sale principally comprise equity investments in which, generally, the holding in share capital or voting rights is less than 20% and other non-current financial assets.

These may be detailed as follows:

	31/12/2005	Increases	Disposals	Exchange differences	Separation of put options	31/12/2006
Banca Popolare Italiana S.c.ar.l. (*)	31,476	-	(29,572)	-	(425)	1,479
Buongiorno S.p.A. (*)	2,463	-	(2,463)	-	-	-
Gunnebo AB (*)	1,223	-	-	247	-	1,470
BRW S.p.A.	1,527	-	-	-	-	1,527
Bart's Retail B.V.	5,103	-	-	-	-	5,103
Other minor investments	607	125	(36)	-	-	696
Total	**42,399**	**125**	**(32,071)**	**247**	**(425)**	**10,275**

(*) Securities quoted on active markets.

Equity investments held by the Group are in both listed and non-listed companies; with regard to investments in non-listed companies the fair value may not be reasonably determined, consequently they are recognised at cost.
The Group does not exercise a significant influence on Bart's Retail B.V. and BRW S.p.A., despite holding interests of between 20% and 50%.
In May 2006 Buongiorno Vitaminic S.p.A. was renamed Buongiorno S.p.A. In the course of the financial year the holding in Buongiorno S.p.A. was sold realising a gain on disposal of euro 6,102.
In July 2006 Banca Popolare Italiana undertook a share capital increase. Barilla Holding, which did not subscribe to this increase, sold its pre-emption rights realising a gain on disposal of euro 888.
In December 2006 3,999,500 shares in Banca Popolare Italiana Scarl were sold realising a net gain on disposal of euro 12,617, including the reversal of the negative reserve in equity relating to the fair value adjustments carried out in previous years for a total of euro 856.

In December 2006 warrants of Banca Popolare Italiana Scarl were sold realising a gain on disposal of euro 853.

6.15 Trade payables

Trade payables, which amounted to euro 799,440 (euro 746,417), represent amounts due in relation to the purchase of goods and services. Trade payables are recorded at nominal value, which substantially corresponds to the fair value. All amounts are payable within one year.
The total includes euro 469 due to related parties.

6.16 Borrowings

Current borrowings relate to amounts due within twelve months and may be analysed as follows:

	31/12/2006	31/12/2005
Bank borrowings	164,503	117,895
Current portion of bank loans	169,263	207,553
Current portion of other loans	100,851	84,812
Current portion of bonds	289,292	228
Current portion of leasing obligations	18,487	20,577
Current portion due under factoring arrangements	-	4,808
Total borrowings	**742,396**	435,873

6.17 Derivative financial instruments

Derivative financial instruments comprises euro 110 (euro 1,108) representing the fair value of hedging instruments. The Group's financial risk management policies are set out in section 7 below.

6.18 Retirement benefit obligations

Retirement benefit obligations comprise amounts paid to defined benefit plans in relation to the staff termination indemnity provision (TFR), equivalent plans and pension schemes.

Total obligations relating to future benefits payable to employees amounted to euro 178,338 (euro 179,895), of which amounts due within one year equal euro 1,876 (euro 2,396) and due after more than one year total euro 176,462 (euro 177,499).

Staff leaving termination (TFR) represents the deferred compensation payable by companies operating in Italy to employees on termination of employment, in accordance with Art. 2120 of the Italian Civil Code. For the purpose of applying IAS 19, TFR is designated a defined benefit plan.

Commencing 1 January 2007 the "Legge Finanziaria" - Finance Act and its related implementation decrees - introduced significant changes in the rules governing TFR, among which the choice of the beneficiary regarding the destination of TFR matured to date. In particular, the employee may decide to allocate new charges provided in respect of TFR to pre-defined pension schemes or maintain them within the company (in the case of the latter option the company must pay the TFR contributions into a treasury fund held by INPS - department of social security). At present, the interpretation of the above act is unclear, which makes it too early to assess any possible adjustments to the actuarial calculation of the TFR balance at 31 December 2006, due to the different possible interpretations of the calculation of TFR matured to date in accordance with IAS 19 and the fact that it is not impossible to anticipate the choice of the employees regarding the allocation of the TFR matured to date (each employee has until 30 June 2007 to decide).

Equivalent plans and pension schemes of the companies operating in France, Greece, Germany, Sweden, Turkey, Norway and Mexico.
The principal features of a number of the more significant plans are as follows:
• France: "Retirement Indemnity Plan". The plan is based on collective bargaining and confers the right to receive a sum of money on termination of employment, in proportion to the number of years of service, final salary levels and whether termination was voluntary or not. For example, normally an employee with more than five years of service has the right to receive, on voluntary termination of employment, an amount equal to 1/10 of the final salary for each year of service, up to a maximum of two and a half months salary.
• Greece: "Retirement Indemnity Plan". The plan provides that the employer is required to pay an indemnity when the employee has reached pensionable age or employment is terminated non voluntarily.
The indemnity depends on a number of factors including years of service, the equivalent monthly salary in the last year of service (including bonuses) and the reason for termination. A scale of multiples is also defined in order to determine the parameters of the last monthly salary (calculated as described above) in relation to years of service, also taking into consideration the reason for termination (60% of the scale is applied for ordinary retirement and 100% for non voluntary retirement). For example, on retirement an employee with ten years service has the right to receive an amount equal to 60% of 1/12 x 6 of the monthly equivalent of the final salary.
• Germany: "Pension Plan". This plan, unlike the others, provides for the payment of an ongoing pension and not a one-off lump sum. The plan is based on a percentage of annual salary for a maximum of 30 years.

The retirement benefit obligations are determined applying actuarial calculations carried out by an independent expert or company, and are adjusted for events that require changes to be reflected therein.
The last actuarial valuation was performed at 31 December 2006 using the projected unit credit method, under which the present value of future retirement obligations is determined.

	31/12/2006	31/12/2005
Opening balance	**179,895**	**161,720**
Costs of employee services	11,791	14,105
Finance costs	6,790	6,462
Actuarial (gains)/losses	(80)	12,551
Exchange differences for the year	440	(421)
Benefits paid	(16,926)	(14,066)
Other	(3,572)	(456)
Closing balance	**178,338**	**179,895**
of which:		
Due within one year	1,876	2,396
Due after one year	176,462	177,499

Other amounts principally relate to the impact of the sale of Harry's Morato S.p.A., which is no longer included in the scope of consolidation.
The balance comprises plan assets totalling euro 2,590 (euro 2,582).

The assumptions used to determine retirement benefit obligations are summarised as follows:

2006	Discount rate	Expected rate of return on plan assets	Estimated salary growth	Inflation rate
Italy	4.50%	n.a.	3% - 3.40% - 3.51%	2.00%
Germany	4.50%	n.a.	2.50%	2.00%
France	4.25%	4.00%	2.5% - 3.00%	2.00%
Greece	4.25%	n.a.	4.00%	2.50%
Mexico	8.10%	n.a.	4.50%	3.50%
Norway	4.20%	5.20%	3.30%	2.25%
Sweden	3.70%	n.a.	3.00%	2.00%
Turkey	11.00%	n.a.	5.00%	5.00%

2005	Discount rate	Expected rate of return on plan assets	Estimated salary growth	Inflation rate
Italy	4.20%	n.a.	2.30%	2.00%
Germany	4.25%	n.a.	3.00%	1.75%
France	4.00%	4.00%	2.5% - 3.00%	2.00%
Greece	4.00%	n.a.	3.50%	2.50%
Mexico	9.25%	n.a.	4.75%	3.75%
Norway	3.80%	4.80%	2.70%	2.70%
Sweden	3.60%	n.a.	3.00%	2.00%
Turkey	12.00%	n.a.	6.18%	6.18%

The cost of future employee retirement benefits recognised in the income statement is included in the following headings:

	31/12/2006	31/12/2005
Cost of sales	13,761	15,232
Logistics costs	348	385
Selling costs	1,262	1,397
Marketing costs	139	153
General and administrative expenses, technical and development costs	3,071	3,400
Total	**18,581**	**20,567**

6.19 Current income tax liabilities

Current income tax liabilities amounted to euro 8,464 (euro 31,116) and comprise the provision for current taxes on profit for the year.

6.20 Other payables

Other payables consisted of the following:

	31/12/2006	31/12/2005
Amounts due to employees	108,546	115,643
Social security	23,066	31,864
Withholding taxes from employees, consultants and freelance workers	16,590	16,820
VAT payable	2,369	1,017
Other taxes	4,373	3,909
Amounts due to customers	5,535	6,290
Other payables	21,049	16,212
Accruals and deferred income	14,051	17,520
Total	**195,579**	**209,275**

Accruals and deferred income principally relate to accrued interest payable.

Other payables comprise advances received in relation to the future sale of ex industrial areas for a total of euro 4,675.

6.21 Provisions for other liabilities and charges

Provisions include estimates relating to current and non-current liabilities that are of uncertain timing or amount. Total provisions may be analysed as follows:

	31/12/2005	Charges	Decrease/ utilisation	Exchange difference	31/12/2006
Employee risk provision	10,243	7,306	(3,573)	(92)	13,884
Restructuring provision	32,498	28,694	(13,963)	-	47,229
Tax risk provision	9,024	1,482	(1,440)	-	9,066
Interest rate options and other financial operations provision	92	-	(92)	-	-
Premium dealing risk	-	2,092	-	-	2,092
Contractual risk provision	17,000	-	-	-	17,000
Commercial risk provision	2,002	1,770	(1,094)	-	2,678
Returns and unsold goods provision	4,690	1,290	(2,149)	-	3,831
Revocatory provision	7,250	-	(50)	-	7,200
Litigation provision	2,813	908	(942)	-	2,779
Other provisions	3,302	525	(790)	-	3,037
Total	**88,914**	**44,067**	**(24,093)**	**(92)**	**108,796**
of which:					
Due within one year	7,687				59,788
Due after more than one year	81,227				49,008

The employee risk provision and the restructuring provision have been recognised in relation to reorganisation programmes that include, *inter alia*, redundancy incentives and other future employee obligations.
The contractual risk provision principally relates to unsettled claims against the Group.

6.22 Put option held by minorities

The put option relates to the sale option held by the minority shareholders of Barilla G. e R. Fratelli Società per Azioni, which amounted to euro 171,470 (euro 171,000), and based on the terms of the option has been recognised as a liability at the expected exercise value.
The agreements entered into with the minority shareholders of Barilla G. e R. Fratelli Società per Azioni provide for three months notice to be given prior to exercising the Put Option. Where an option is exercised, the acquisition price of the minority share is determined based on method defined in the contract.

6.23 Liabilities held for sale

Liabilities held for sale comprise the non-current liabilities relating to future employee benefits and deferred tax liabilities reclassified at the year-end as held for sale as they relate to the Turkish subsidiary Fresh Cake A/S, that is expected to be sold in 2007. The total consisted of the following:

	31/12/2006	31/12/2005
Future employee benefits	87	-
Deferred tax liabilities	1,087	-
Total	**1,174**	**-**

6.24 Borrowings

Medium/long-term borrowings may be analysed as follows:

	31/12/2006	31/12/2005
Bonds	262,612	867,848
Bank borrowings	388,736	401,270
Long-term portion of leasing obligations	27,186	31,519
Long-term portion of factoring arrangements	-	24,192
Other loans	96,526	122,738
Total	**775,060**	**1,447,567**

The decrease in debenture loans is due to the advanced reimbursement in September 2006 of the Kamps AG debenture loan.

The maturity dates of medium/long-term borrowings are illustrated in the table below:

	1 to 5 years	Over 5 years	Total
Bonds	58,525	204,087	262,612
Bank borrowings	372,350	16,386	388,736
Other borrowings (leasing and other loans)	121,843	1,869	123,712
Total medium/long-term borrowings	**552,718**	**222,342**	**775,060**

Medium/long-term borrowings comprise euro 28,371 secured under pledges on the shares of subsidiaries.

Borrower	Description	Interest rate	Total 31/12/2006	Maturity
Barilla Holding	Italian banks	Variable	135,294	2008
Barilla Holding	Italian banks	Variable	57,500	2007
Barilla Holding	Banking pool	Variable	46,000	2009
Barilla G. e R. Fratelli	Italian banks	Variable	56,067	2007
Barilla G. e R. Fratelli	Italian banks - borrowing secured on property, plant and equipment	Fixed	12,950	2007
Barilla G. e R. Fratelli	Italian banks - borrowing secured on property, plant and equipment	Fixed	20,267	Over 1 year
Barilla G. e R. Fratelli foreign subsidiaries	Foreign banks	Variable	32,021	2007
GranMilano and subsidiaries	Italian banks	Variable	25,841	2007
Kamps	Italian banks	Variable	2,033	2007
Finba Food	Foreign banks - borrowings secured by pledges on shares of subsidiaries	Variable	26,084	2008
Finbakery Finance	Banking pool - borrowings secured by pledges on shares of subsidiaries and Harry's trademark	Variable	271,209	2008
Kamps	Foreign banks	Variable	19,373	2007
Harry's	Foreign banks	Variable	17,863	2007
Total bank borrowings due within and over more than one year			**722,502**	

Borrowings due within and over more than one year are denominated in the following currencies:

Currency	Carrying value
Euro	1,242,132
Usd	275,324
Total borrowings due within and over more than one year	**1,517,456**

The analysis of borrowings by date of interest rate renegotiation is as follows:

Date of renegotiation	Carrying value
Within 1 year	978,577
1 to 5 years	518,612
Over 5 years	20,267
Total borrowing due within and over more than one year	**1,517,456**

Effective interest rates relating to the Group borrowings are as follows:

Type of borrowing	Interest rates in Euro	Interest rates in Usd
Bonds (Eurobond)	4.89%	-
Bonds (US Private Placement)	4.08%	5.56%
Other borrowings	4.10%	-

Comparison between the carrying value and the fair value of medium/long-term borrowings is as follows:

Type of borrowing	Carrying value	Fair value
Bonds (US Private Placement)	262,612	261,237
Other borrowings	512,448	512,448
Total	**775,060**	**773,685**

The fair value of other borrowings approximates their nominal value.

Debenture loans represent Notes subscribed to by institutional investors (US Private Placements) in December 2003, while the Eurobond (bond issued in 2002 by Barilla Finance S.A.) is classified in current liabilities as it is due to mature in December 2007. The Group has the following bonds (including amounts classified in borrowings, note 6.16):

	Nominal value in foreign currency (thousands)	Nominal value in euro (thousands)	Carrying value	Maturity	Effective interest rate in euro	Nominal coupon Eur or Usd	Hedging transaction
EuroBond	Eur 300,000	300,000	299,286	3 Dec. 2007	4.89%	4.625%	No
Senior Notes - Tranche A	Usd 78,000	66,724	58,522	9 Dec. 2010	3.55%	4.83%	Eur 66,724
							rate 3.45% half yearly fixed
Senior Notes - Tranche B	Usd 180,000	153,978	135,060	9 Dec. 2013	4.25%	5.55%	Eur 153,978
							rate 4.15% half yearly fixed
Senior Notes - Tranche C	Usd 92,000	78,700	69,030	9 Dec. 2015	4.19%	5.69%	Eur 78.700
							rate 4.10% half yearly fixed
Total Notes in Usd	Usd 350,000	299,402					
Total in euro		599,402					
of which held by Group		(10,000)	(10,000)				
Total		**589,402**	**551,898**				

The interest rate and foreign exchange risks relating to the US Private Placement are hedged by Cross Currency and Interest Rate Swap, details of which are provided in section 6.25 Derivative Financial Instruments below.
The Group has non-cancellable credit facilities totalling euro 839 million that mature between 2008 and 2010. At 31 December 2006 these credit facilities had been drawn down for euro 344 million, consequently undrawn facilities amounted to euro 495 million.

Finance covenants and other contractual obligations
The bonds issued and signed borrowing contracts (the "Loans") require compliance with a series of contractual obligations and financial requisites (defined as covenants), measurement of which may be performed either at consolidated level or limited to a specific portion in accordance with the contract as and when it applies.

The principal covenants, mentioned from time to time in one or more contracts, which are in line with practice in the reference market for similar transactions, are as follows:
Loan covenants
- Relationship between EBITDA and net interest on borrowings;
- Relationship between borrowings of operating companies plus borrowings secured by real guarantees (except where permitted contractually) and total assets in the balance sheet;
- Relationship between acquisitions and total assets in the balance sheet;
- Maximum borrowings and/or relationship between net financial indebtedness and EBITDA.

Other limitations and contractual obligations
- Change of control of Barilla Holding S.p.A. and/or a number of Group companies;
- Obligation not to subordinate Loans in respect of new debt operations ("pari passu") and/or grant pledges in favour of third parties (except where permitted contractually);
- Maintenance of fundamental elements of business assets (including trademarks, licences and intellectual property);
- Utilisation of gains on disposals (except where permitted contractually);

Default events (loss of benefits arising from the terms)

Principal events resulting in default, which are not applied to minor Group companies, are summarised as follows:

- Non-payment of amounts due in relation to Loans;
- Non-compliance with finance covenants and other material restrictions and contractual obligations;
- cross default (loss of benefits arising from the terms for other Loans that exceed certain pre-determined limits);
- insolvency, bankruptcy and other administration procedures;
- significant change in business of the Group;

Where a default event occurs, which is not rectified within contractual time limits, the lenders have the right to request repayment of all or part of sums lent in accordance with the Loans, together with interest and any other sums due under the contract terms.

6.25 Derivative financial instruments

	31/12/2006		31/12/2005	
	Assets	Liabilities	Assets	Liabilities
Cross currency and interest rate swap - fair value hedge	-	-	-	6,252
Cross currency and interest rate swap - cash flow hedge	-	25,287	-	-
Others	-	-	-	38
Total non-current portion	**-**	**25,287**	**-**	**6,290**
Forward foreign exchange contracts - held for sale	104	110	336	317
Forwards on commodities- held for sale	4	-	80	-
Interest rate swaps - held for sale	-	-	696	791
Total current portion	**108**	**110**	**1,112**	**1,108**
Total derivative financial instruments	**108**	**25,397**	**1,112**	**7,398**

Cross currency and interest rate swaps:

Risks hedged through Cross Currency and Interest Rate Swap operations principally relate to changes in the value of the US Private Placement bond denominated in dollars. Until December 2005 this contract transformed the dollar fixed rate of the US Private Placement to a variable euro rate and was designated a fair value hedge. Subsequently the derivative contract was renegotiated with the third party and it currently transforms the dollar fixed rate to a euro fixed rate. Commencing 1 January 2006 the Group changed the designation of this derivative to a cash flow hedge. In 2006 the effects of the change on fair value, amounting to euro 19,035, were recognised by increasing the cash flow hedge reserve in net equity by euro 11,010 and by charging the income statement by an amount of euro 31,815. The notional value of the Cross Currency and Interest Rate Swap contracts at 31 December 2006 amounted to euro 299,402.

Forward foreign exchange contracts:

The notional value of forward foreign exchange contracts outstanding at 31 December 2006 amounted to euro 75,371.

6.26 Other payables

Other payables largely represent amounts related to social contribution. A payment plan is in place for this liability.

6.27 Shareholders' equity

Share capital

Share capital consists of 11,090,000 ordinary shares, issued and fully paid, with a nominal value of euro 10 each.

It should be noted that the company does not have holdings in its own shares, either directly or indirectly through its subsidiaries or associates.

Movements in shareholders' equity were as follows:

	31/12/2005	Appro-priation of profit	Trans-lation of fin.stats. in currency	Dividends	Other movements	IAS 19	Mino-rity Put	Cash flow hedge	Fin. assets "available for sale"	Deferred taxation	Profit for the year	31/12/2006
Share capital	110,900	-	-	-	-	-	-	-	-	-	-	110,900
Translation reserve	14,010	-	(11,219)	-	-	-	-	-	-	-	-	2,791
Other reserves												
IAS 19	(11,810)	-	-	-	-	101	-	-	-	-	-	(11,709)
Cash flow hedge	-	-	-	-	-	-	-	11,010	-	-	-	11,010
Financial assets available for sale	(856)	-	-	-	-	-	-	-	856	-	-	-
Put options of minority shareholders	-	-	-	-	-	-	(470)	-	-	-	-	(470)
Deferred taxes	4,408	-	-	-	-	-	-	-	-	(3,490)	-	918
Retained earnings	511,262	(222,616)	(1,600)	(7,985)	-	-	-	-	-	-	-	279,061
Profit for the year	(222,616)	222,616	-	-		-	-	-	-	-	74,925	74,925
Shareholders' equity	**405,298**	**-**	**(12,819)**	**(7,985)**	**0**	**101**	**(470)**	**11,010**	**856**	**(3,490)**	**74,925**	**467,426**
Capital and reserves attributable to minority interest	653,840	(328,670)	(4,294)	(2,704)	(3,722)	(21)	-	-	-	(972)		313,457
Loss for the year attributable to minority interest	(328,670)	328,670	-	-	-	-	-	-	-		(14,538)	(14,538)
Total minority interest in equity	**325,170**	**-**	**(4,294)**	**(2,704)**	**(3,722)**	**(21)**	**-**	**-**	**-**	**(972)**	**(14,538)**	**298,919**
Total equity	**730,468**	**-**	**(17,113)**	**(10,689)**	**(3,722)**	**80**	**(470)**	**11,010**	**856**	**(4,462)**	**60,387**	**766,345**

Commitments and guarantees euro 537,874 (euro 214,309)

Commitments and guarantees comprise:

a) • guarantees issued to third parties euro 132,803 (euro 72,353)

• guarantees issued to the tax authorities in relation to Group VAT receivables and guarantees to third parties on exports.

b) • contractual commitments amounting to euro 405,071 (euro 141,956)

• commitments to purchase wheat, other raw materials and packaging euro 391,260 (euro 58,427)

• commitments for capital expenditure euro 13,811 (euro 83,529).

Contingent liabilities

The Group has contingent liabilities in respect of legal and tax claims arising in the normal course of business. It is not anticipated that any material liabilities will arise from the contingent liabilities other than those provided for in the financial statements.

Consolidated income statement

6.28 Revenue

Revenue may be analysed as follows:

	2006	2005
Total sales of finished goods	3,888,845	3,925,130
Sales of by-products	22,001	19,142
Sales of packaging and other materials	39,777	37,217
Revenue from product distribution and franchising services	166,851	145,567
Total	**4,117,474**	**4,127,056**

6.29 Detail of costs by nature

The composition of costs by nature in relation to cost of sales, logistics expenses, selling expenses, marketing expenses, technical and development costs and administrative expenses, is illustrated in the table below:

	2006	2005
Purchase of raw materials, semi-finished goods, finished goods, materials and change in inventories	1,444,453	1,411,404
Purchase of other materials	52,360	57,657
Employee costs	868,026	901,174
Depreciation of property, plant and equipment and amortisation of intangible assets	224,263	226,922
Goodwill impairment	12,461	698,621
Transport and warehousing services	427,761	375,444
Promotional and advertising services	255,436	275,846
Maintenance costs	54,036	67,087
Printing services for packaging	24,025	15,090
Technical, legal, professional and other consultancy costs	19,927	23,320
Software and EDP services consultancy costs	15,697	13,593
Third party manufacturing costs	93,867	104,671
Sales commissions	39,547	36,261
Utilities	126,897	111,940
Travel and expenses	25,616	23,984
Postage and telephone	10,384	9,251
Insurance	14,281	13,766
Environmental services	28,033	24,745
Security services	4,011	3,633
Rent of property, rentals and operating leases	88,740	96,778
Directors' and Statutory Auditors' emoluments	7,013	6,001
Bank expenses and commission	2,145	2,102
Employee training	3,067	3,549
Staff canteen	3,791	3,974
Material recycling contribution	12,170	14,908
Other	2,610	4,387
Total	**3,860,617**	**4,526,108**

Depreciation on property, plant and equipment and amortisation of intangible assets are included in the following income statement:

	2006	2005
Cost of sales	141,775	129,710
Logistics costs	17,243	17,545
Selling costs	21,292	36,763
Marketing costs	124	142
General and administrative expenses, technical and development costs	43,829	42,762
Total	**224,263**	**226,922**

Total depreciation and amortisation for the previous year, illustrated in the table above, should be increased by euro 2,943 in relation to amounts reclassified in Other income and expenses, as they relate to non-recurring operations. Consequently, total depreciation and amortisation for the previous year amounted to euro 229,865.

6.30 Other income and expenses - net

Other income and expenses, net - which amounted to a net expense of euro 63,928 (euro -15,155) - may be analysed as follows:

	2006	2005
Recurring income and expenses:		
- Gains/(losses) - net on asset disposals	(2,591)	1,661
- Grants	251	1,331
- Insurance recoveries	9,938	9,860
- Release of provisions	10,415	13,870
- Charges to provisions	(4,611)	(4,289)
- Charge to bad debt provisions and impairment losses on receivables	(5,934)	(8,782)
- Real estate and other taxes	(16,235)	(37,341)
- Liberalities	(2,914)	(7,030)
- Membership fees	(2,012)	(2,024)
- Employee incentives	(6,535)	(2,791)
- Miscellaneous income	5,292	12,988
- Net services rendered and other minor amounts	1,240	187
Total recurring income and expenses	**(13,696)**	**(22,360)**
Non-recurring income and expenses:		
Net restructuring expenses	(29,829)	(3,795)
Expenses arising on disposals of investments and lines of business	(20,403)	-
Insurance recoveries	-	11,000
Total non-recurring income and expenses	**(50,232)**	**7,205**
Total	**(63,928)**	**(15,155)**

Net restructuring expenses comprise employee costs, impairment of plants and other structural costs in respect of restructuring plans for which implementation has commenced.

Expenses arising on disposals of investments and lines of business, which amounted to euro 20.403, comprise net income

of euro 1,065, arising on the disposal of Harry's, Morato S.p.A., Harry's Delta SRO, Erkens Bakkerijen B.V., Market Food Group B.V., and the frozen bread business "Forno della Rotonda" of GranMilano; and expenses totalling euro 21,468 arising in the impairment recorded during the year in relation to Fresh Cake A/S, that is expected to be sold in 2007.
Insurance recoveries include the payment received in the previous year for reconstruction of the plant in the Russian factory of the Harry's group that was destroyed by fire at the end of 2004.

6.31 Finance costs - net

Finance income and costs at 31 December 2006 consisted of the following:

	2006	2005
Net expenses relating to net financial position:		
Interest income on bank current accounts	2,041	824
Interest income and income on financial operations	793	402
Interest expense on bank borrowings	(13,344)	(12,504)
Interest expense on medium/long-term borrowings	(23,561)	(16,777)
Interest expense on bonds	(62,628)	(64,981)
Interest expense on finance leases	(4,662)	(5,876)
Commissions on subscription and draw down of non-cancellable credit facilities	(898)	(145)
Income from securities	5,206	6,770
Impairment of securities	(2,580)	(2,765)
Total net finance costs relating to net financial position	**(99,633)**	**(95,052)**
Other finance (costs)/income:		
Foreign exchange gains/(losses)	(3,321)	2,310
Commissions on undrawn amounts	(926)	(676)
Other income and costs	(1,752)	(1,348)
Hyperinflation adjustment under IAS 29	-	202
Gains from minor investments	19,604	1,093
Other income from investments	456	310
Total other finance (costs)/income	**14,061**	**1,891**
Total	**(85,572)**	**(93,161)**

Interest expense on bonds comprises premiums of euro 12,539 in relation to the exercise of the option to reimburse in advance Kamps bond, as permitted under the contract terms.
Other income and costs include interest on delayed payments received from customers and paid to suppliers respectively.

Foreign exchange gains/(losses) consisted of the following:

	2006	2005
Net realised exchange gains/(losses) - commercial	(115)	4,414
Net realised exchange gains/(losses) - financial operations	(634)	(12,938)
Net unrealised exchange gains/(losses) - commercial	(342)	326
Net unrealised exchange gains/(losses) - financial operations	(2,230)	10,508
Total	**(3,321)**	**2,310**

Gains from minor equity investments comprise gains realised, compared to carrying value, on the disposal of the investments in Buongiorno S.p.A. for euro 6,102 and Banca Popolare Italiana Scarl for euro 13,502, including warrants and option rights. In 2005 this account included dividends received from Banca Popolare Italiana Scarl.

6.32 Income tax expense

The reconciliation between the theoretical tax charge and the tax on Group profit before tax is set out below.

The effective taxe rate is 44% (23%). The increase in the rate is principally due to the incidence of its component parts (in particular by the Imposta Regionale sulle Attività Produttive "IRAP"- trade income tax, payable by the Italian Group companies), which are not directly related to the level of profit before tax, and the tax effect of foreign companies and, in particular, taxable losses incurred for which no deferred taxes have been recognised. In addition, in 2005, deferred tax liabilities were reversed following application by a number of Italian subsidiaries of the provision that permitted realignment of the tax bases of certain items in property, plant and equipment to their carrying values in the statutory financial statements.

	Year ended 31 December 2006	Rate
Profit before tax	107,357	
Theoretical tax charge	35,344	32.9%
Utilisation of previously unrecognised tax losses	(27,308)	(25.4%)
Deferred tax assets not recognised	4,363	4.1%
Expenses not deductible/(income) not included for tax purposes	36,198	33.7%
Tax refunds	(1,627)	(1.5%)
Effective tax charge	**46,970**	**43.7%**

In addition, it should be noted that during the year deferred tax liabilities previously taken to equity were reclassified to the income statement for a total of euro -4,462 (euro 9,700).

The nominal tax rates in the countries in which the principal Group companies operate are as follows:

Europe	Rate	North America	Rate
Italy	37.25%	USA	40%
Germany	39.45%		
Sweden	28%	**Other**	
France	34.43%	Russia	24%
Austria	25%	Brazil	34%
Turkey	20%	Mexico	29%
Greece	25%	Australia	30%

The table below sets out tax losses carried forward and non recognised deferred tax assets:

(euro thousands)

Company	Tax losses	Period for which losses may be carried forward	Rate	Recognised deferred tax assets	Non-recognised tax assets	Total
Academia Barilla	15,017	Unlimited	37.25%	-	5,594	5,594
Barilla America	152,659	15 years	40%	-	61,064	61,064
Barilla Australia	10,713	Unlimited	30%	-	3,214	3,214
Barilla do Brazil	4,349	Unlimited	34%	288	-	288
Filiz Gilda	6,641	5 years	20%	554	774	1,328
Ideal Wasa	373	10 years	28%	-	104	104
Serpasta	10	10 years	29%	-	3	3
Wasa Poland	3,046	5 years	19%	314	265	579
Wasa Sweden	30,656	Unlimited	28%	4,108	4,476	8,580
GranMilano	3,369	5 years	37.25%	-	1,255	1,255
GranMilano Distribuzione	803	5 years	37.25%	-	299	299
Harry's Portugal	644	6 years	27.5%	-	177	177
Harry's Management Services	7,502	Unlimited	30%	-	2,251	2,251
Harry's CIS Russia	8,801	10 years	24%	-	2,112	2,112
La Bella Easo	3,130	8 years	35%	-	1,095	1,095
Financieringsmij. Relou B.V.	3,760	Unlimited	25.5%	-	959	959
Finba Bakery Europe AG	1,885	Unlimited	39.45%	-	744	744
Finba Bakery Holding GmbH	11,477	Unlimited	39.45%	-	4,528	4,528
Finba Luxembourg	611,089	Unlimited	29.63%	-	181,066	181,066
Finbakery NL	2,964	Unlimited	25.5%	-	756	756
Finba Food International	8,637	Unlimited	25.5%	-	2,203	2,203
Kamps AG	287,922	Unlimited	39.5%	12,994	100,589	113,587
Total	**1,175,447**			**18,258**	**373,528**	**391,786**

7. Financial instruments and net financial position

Risk management policies

The Group is exposed to a variety of financial risks, including interest rate risk, foreign exchange rate risk in reference to equity values, and cash flows generated outside the euro area.
In order to minimise these risks the Group uses derivative instruments (financial and non) as part of its risk management program (no speculative instruments are used or held). Other financial instruments are also available including bank borrowings, finance leases, demand deposits, and payables and receivables arising in the normal course of business.
The Group manages almost all hedging transactions at central level. Guidelines have been issued that govern risk management and procedures have been introduced to control all transactions relating to derivative instruments.

Interest rate risk
The exposure to market risk arising from changes in rates is principally linked to changes in euro interest rates, being the currency in which almost all Group borrowings are denominated. Group policy is to maintain a balance between the fixed and variable rate exposure. Commencing in 2005, as a result of expected rises in interest rates, the Group decided to convert the US Private Placement long-term bond to a euro fixed rate through the use of Cross Currency and Interest Rate Swaps. In addition, a number of mortgages and finance leases are denominated in fixed rates. At 31 December 2006 approximately 33% of gross indebtedness was denominated, either directly or through specific derivative financial instruments, in fixed rates.

Foreign exchange risk
The Group operates internationally and is exposed to the impact that fluctuations in foreign exchange rates may have on its assets and liabilities.
In general the Group is not heavily exposed to foreign exchange risk: the risk that arises in the normal course of business is managed through a policy of compensating assets and liabilities, using, when necessary, derivative contracts (principally forward foreign exchange contracts).
Foreign exchange risk also arises from the translation of the financial statement of foreign subsidiaries into the Group's functional currency (euro): at present the Group does not adopt any form of hedging of this risk.

Price risk
The Group is partially exposed to commodity price risk.
The Group manages the reduction of the risks connected with trends in the prices of commodities used in the production process mainly through medium-term purchasing contracts with suppliers, using also (to a limited extent) derivatives (futures and options) on wheat and other raw materials.

Credit risk
Credit risk arises where one of the parties who have entered into a financial transaction does not fulfil one of the obligations. This risk may arise in relation to purely commercial terms as well as financial terms (nature of the third parties involved in the financial transaction). The Group reviews periodically the credit quality of the parties to the transaction and utilises credit limits that are regularly monitored.
With regard to credit risk arising from the investment in financial assets other than equity investments (where present), the Group invests almost exclusively in securities issued by parties with an investment grade rating.

Liquidity risk

The Group's policy is to render liquidity risk reasonably remote. This is achieved in particular through the constant availability of funding through open credit facilities, both cancellable and non, which allows reasonably foreseeable future financial commitments to be met, also taking into account the Group's expected cash flows.

At 31 December 2006, the Group had non-cancellable undrawn credit facilities, which matured after more than 12 months, totalling euro 495 million. The related maturity and amounts are illustrated below:

Financing party	2008	2009	2010	Total	Rate
Syndicated loan multiborrower (issued by 13 banks)	-	204	-	204	Variable
Barilla Holding:					
- Bank of America	-	53	-	53	Variable
- BNP Paribas	-	80	-	80	Variable
- Citibank	50	-	-	50	Variable
- Royal Bank of Scotland	-	-	75	75	Variable
Finba Food International:					
- Rabobank	5	-	-	5	Variable
Finbakery Finance (issued by four banks)	28	-	-	28	Variable
Total	**83**	**337**	**75**	**495**	

At 31 December 2006 the Group also had undrawn cancellable credit facilities that totalled euro 410 million.

Net financial position (alternative indicator of performance not required under accounting standards)

The net financial position of the Group at year-end represents the sum of financial receivables and payables that originated respectively from borrowings and deposits, short-term liquidity, securities classified as current financial assets and bonds, which give rise to a net indebtedness of euro 1,454,770 compared to euro 1,765,028 in 2005.

The Group's net financial position is presented below:

	31/12/2006	31/12/2005
Cash and cash equivalents	87,973	62,823
Current financial assets	-	61,879
Banks and other borrowings	(742,394)	(435,873)
Short-term net financial position	**(654,423)**	**(311,171)**
Medium/long-term borrowings	(800,347)	(1,453,857)
Medium/long-term net financial position	**(800,347)**	**(1,453,857)**
Total net financial position	**(1,454,770)**	**(1,765,028)**

8. Disclosures of related party transactions, key management compensation, and transactions with minority shareholders of Kamps and Harry's.

8.1 Key management compensation

Key management with authority and responsibility for planning, directing and controlling the Group's activities have been identified as the executive and non-executive directors, represented by the General Managers and CFOs of Barilla Holding and its principal operating subsidiaries.
Total compensation paid to these individuals is presented below:

Key management compensation (euro thousands)	
Short-term benefits	21,632
Post-employment benefits	677
Other long-term benefits	7,658
Termination benefits	545
Total	**30,512**

8.2 Related parties

During the year the Group did not enter into any transactions, either commercial or financial, which were not conducted at arm's length and/or were material in value.

8.3 Relations with minority shareholders of Kamps and Harry's

With regard to the acquisitions of the Kamps and Harry's groups, a series of agreements were executed, between the Group and the minority shareholders ("Financial Shareholders"), aimed at governing the relationships between shareholders in relation to governance and reciprocal rights and obligations.
In particular, the subsidiary Finba Luxembourg S.A. is a party to the above agreements and Barilla Holding S.p.A. has obligations in relation to the former company (together defined "Barilla Group").
These agreements stipulate the valuation of the investments in the Kamps and Harry's groups for the purpose of sale or listing by 31 July 2010 (except for the pre-emption rights of Finba Luxembourg S.A.), and attribute to the Financial Shareholders important rights of veto in relation to decisions relevant to the management of the Kamps and Harry's groups. According to these agreements, in the event of sale or listing not taking place by the stipulated date, the Financial Shareholders will have the right to sell their holding (Put Option) to Barilla Group at a price equal to the initial investment, capitalised annually by applying an interest rate equal to the Interest Rate Swap, increased by a spread. The same Put Option may also be exercised on breach of a number of corporate governance requirements. At 31 December 2006 the exercise price of the Put Option amounted to approximately euro 1 billion.

The decision to proceed with the listing of the Kamps and Harry's groups is to be taken by:
1) the parties jointly in the period to 31 December 2009 (each party must give its consent in the event that the listing price is equal to or greater than the original purchase price);
2) Barilla Group exclusively, which Group will be responsible for all decisions in respect of the listing price, in the period from 1 January to 31 July 2010;

On 1 September 2006 a number of Financial Shareholders commenced arbitration proceedings requesting the board of arbitrators to:
i) confirm that conditions for exercising the Put Option took place as a result of Barilla Group's alleged breach of the above mentioned corporate governance requirements and acts of *mala gestio* in relation to the forecast expectations of the Kamps and Harry's Business Plans attached to the original contract;
ii) order the Barilla Group to provide compensation for damages suffered by the Financial Shareholders as a consequence of non-attainment of the Business Plans results;
iii) subordinately, confirm that should no listing or sale occur by 31 July 2008 or, again subordinately, by 31 December 2009, the rules by which the Put Option can be exercised.

The Barilla Group, upon nomination of its arbitrator and with the memorials subsequently presented to the board of arbitrators, fully supported its defence arguments, sustaining:
a) inadmissibility and the impossibility to continue with the arbitrary proceedings based on the numerous procedural exceptions;
b) invalidity of the Put Option due to violation of imperative rules;
c) non existence of breaches or *mala gestio* attributable to Barilla Group, as evidenced by substantial supporting documentation;
d) interpretation of the clauses relating to the listing and the related decisions as they may be deduced from the agreements and from the intention of the parties, in line with the interpretation outlined above.

Barilla Group has also made a counterclaim against Banca Popolare Italiana, aimed at receiving compensation for damages suffered, as a result of illegal conduct allegedly carried out by company representatives of Banca Popolare Italiana. Finally the Barilla Group has commenced separate proceedings with the Court in Parma in order to ascertain the invalidity, or the impossibility to proceed, with the arbitral clauses provided for in the agreements, substantially referring to the same procedural exceptions defined in the above arbitration judgement
The directors of Barilla, based, among other fact and circumstances, on the submitted memorials and the opinions presented by the company's legal counsel:
• consider it probable that the arbitration proceedings will be concluded with no decision expressed in relation to the merits of the claims and arguments put forward by the parties;
• in any event - with regard to the merit of the agreements between the parties and the above legal problems - the directors consider the risk of the company being obliged to purchase, as a result of exercise of the Put Option, the shares of Kamps and Harry's held by the Financial Shareholders, to be improbable.
Consequently, in the consolidated financial statements of Barilla Group, the profit attributable to the Financial Shareholders of the Kamps and Harry's groups have been attributed in proportion to their respective shares and disclosed in the headings "Profit or loss for the year attributable to minority interest" and "Minority interest in equity".

9. First Time Adoption (FTA) Transition to International Financial Reporting Standards

The Group has adopted International Financial Reporting Standards - IAS/IFRS for the preparation of its Financial Statements for the year ended 31 December 2006. The transition date to IFRS is 1 January 2005.
In accordance with the provisions of paragraphs 39 and 40 of IFRS 1, this Appendix provides, reconciliations of profit for the year ended 31 December 2005, and consolidated equity as at 1 January 2005 and 31 December 2005 ("Reconciliation Statement").
The Reconciliation Statement was prepared as part of the transition project in relation to the preparation of the first

consolidated financial statements in compliance with IFRS endorsed by the EU and, as a result, it does not contain comparative information and disclosure notes that would be required to present in full the consolidated state of affairs, financial position and results in accordance with IFRS.

Basis of preparation of opening balance sheet

The opening balance sheet at 1 January 2005 has been prepared in accordance with the following criteria:
- identification of all assets and liabilities recognised under IFRS, as required;
- assets and liabilities for which recognition is not permitted under IFRS were not identified;
- IFRS were applied in measuring all identified assets and liabilities;
- all changes arising from the first-time adoption of IFRS were dealt with as adjustments to equity.

The Group has adopted a retrospective approach in applying IFRS, with the exception of the exemptions from full retrospective application under IFRS 1 and in those cases in which it has chosen to apply the optional exemptions under IFRS 1.

The exceptions to full retrospective application under IFRS 1 relate to:
1. Derecognition of financial assets and liabilities: the provisions of IAS 39 must be applied prospectively from 1 January 2004;
2. Hedge accounting: hedge accounting must be applied prospectively to transactions that qualify under IAS 39 from 1 January 2005;
3. Estimates: estimates made under IAS/IFRS's at the date of transition to IAS/IFRS's shall be consistent with estimates made for the same date under previous GAAP (after adjustments to reflect any difference in accounting policies), unless there is objective evidence that those estimates were in error.

The optional exemptions adopted by the Group are detailed below:
1. business combinations: the Group has taken the exemption to adopt IFRS 3 prospectively commencing 1 January 2005;
2. Cumulative translation differences: the Group has taken the exemption under IFRS 1 whereby the cumulative translation differences existing in the consolidated financial statements at 31 December 2004 are offset against other equity reserves.

The other exemptions under IFRS 1 are not applicable or have not been adopted by the Group.

Reconciliation of equity at 1 January 2005, 31 December 2005 and profit for 2005:

(euro thousands)

	1/1/2005	Profit/(loss) for the year	Dividends translation reserve	Cumulative movements	Other	31/12/2005
Total equity Italian GAAP	**1,464,491**	**(608,275)**	**(27,975)**	**19,634**	**(680)**	**847,395**
1. Put option on minority shares	(156,000)	-	-	-	(15,000)	(171,000)
2. Spare parts	(38,979)	341	-	-	-	(38,638)
3. Financial instruments and derivatives at fair value	(11,891)	15,198	-	-	(856)	2,451
4. Discontinued operating activities	(6,030)	6,030	-	-	-	-
5. Revenue recognition	(2,616)	262	-	-	-	(2,354)
6. Goodwill	9,466	41,803	-	-	-	51,269
7. Provisions	5,362	(590)	-	-	-	4,772
8. Employee benefits	12,233	2,443	-	-	(12,551)	2,125
9. Deferred taxes	35,084	(7,068)	-	-	8,786	36,802
10. Long-term onerous contracts	(4,827)	1,087	-	-	-	(3,740)
11. Other and minor amounts	1,160	(2,513)	-	-	680	(674)
12. Cumulative translation reserve	-	-	-	2,059	-	2,059
Total difference Italian GAAP - IAS/IFRS	**(157,955)**	**56,993**	**-**	**2,059**	**(18,940)**	**(116,927)**
Total equity under IAS/IFRS	**1,307,653**	**(551,283)**	**(27,975)**	**21,693**	**(19,620)**	**730,468**
Minority interest in equity - Italian GAAP	686,186	(340,584)	(19,975)	3,524	(680)	328,471
Difference Italian GAAP - IAS/IFRS	(17,624)	11,915	-	3,237	(830)	(3,301)
Minority interest in equity - IAS/IFRS	**668,562**	**(328,670)**	**(19,975)**	**6,761**	**(1,510)**	**325,170**
Shareholders' equity - Italian GAAP	778,505	(267,691)	(8,000)	16,110	-	518,924
Difference Italian GAAP - IAS/IFRS	(139,414)	45,077	-	(1,178)	(18,110)	(113,626)
Shareholders' equity - IAS/IFRS	**639,091**	**(222,616)**	**(8,000)**	**14,932**	**(18,110)**	**405,298**

Explanatory notes to the reconciliation statements prepared in accordance with IFRS 1

The principal adjustments arising from adoption of IFRS on shareholders' equity at 1 January 2005, 31 December 2005 and profit for 2005 are detailed below.

1. Put Option on minority shares

The reduction in shareholders' equity at 1 January 2005 is due to the recognition in liabilities of the Put option defined in the agreements with the minority shareholders of Barilla G. e R. Fratelli, which are measured at the expected redemption value.

2. Spare parts

Spare parts of significant value related to plant and machinery, which previously were classified in the inventories, must be capitalised and depreciated over the useful lives of the related assets in accordance with IAS 16. Spare parts less than euro 5,000 in value are expensed in the income statement as incurred. Shareholders' equity has been reduced by euro 38.98 million while the profit for 2005 increased by euro 0.34 million.

3. Financial instruments and derivatives at fair value

The reduction of euro 11.89 million in shareholders' equity at 1 January 2005 is due to the combined effect of:

• equity investments included in financial assets under Italian GAAP that are classified under IAS/IFRS as financial assets available for sale, must be measured at fair value with a corresponding adjustment of euro 11.87 million taken to shareholders' equity (IAS 39). The profit for 2005 is affected by the reversal of the write-down of euro 13.95 million as the related investments have been measured at fair value from 1 January 2005;

• measurement of derivatives to hedge the US Private Placement; under IAS/IFRS (IAS 39) these derivatives are classified as fair value hedges, and are recorded in Group liabilities with a corresponding reduction in net equity of euro 45.52 million.

• recognition, in accordance with IAS 39, of borrowings by applying the amortised cost method. This calculation includes in borrowings all of the expenses and base points that form an integral part of the effective interest rate, transaction costs, and all other premiums and discounts. In addition, in compliance with IAS 21, borrowings denominated in foreign currencies are translated at year-end exchange rates. The positive effect on opening shareholders' equity amounts to euro 45.5 million.

4. Discontinued operations

In conformance with IFRS 5 assets classified as held for sale are recognised at the lower of carrying value and fair value less costs to sell.

5. Revenue recognition on sale of goods:

According to IAS 18, revenue relating to the sale of goods must be recognised when ownership is transferred to the buyer. Generally, transfer of ownership terminates the seller's involvement when the risks and rewards of ownership are in fact transferred. Should this not be the case the nature and extent of the seller's involvement will determine the method of recognising the transaction. Opening shareholders' equity at 1 January 2005 under IAS/IFRS has been reduced due to the deferral of a number of transactions for a total of euro 2.62 million. The profit for 2005 has been reduced by euro 0.26 million.

6. Goodwill

In accordance with IAS 38, goodwill is no longer amortised on a systematic basis through the income statement but is subjected to an annual impairment test, in order to identify any losses in value. This change in policy results in an increase of euro 41.8 million in the profit for 2005 due to reversal of amortisation charged during the year in accordance with Italian GAAP.

7. Provisions

IAS 37 defines the criteria for recognition and disclosure of provisions, contingent liabilities and contingent assets. A provision for restructuring costs is only recognised when the required conditions are met. In this context, an obligating event only arises when a detailed formal plan exists and has identified a valid expectation in those affected that the entity will carry out the restructuring. These conditions have resulted in the reversal of previously recognised provisions.

8. Employee benefits

In accordance with IAS 19 post employment benefits such as defined benefit plans and other long-term benefits are subjected to actuarial valuations in order to recognise the present value of the benefits matured at the balance sheet date. Opening shareholders' equity at 1 January 2005 has been increased by euro 12.23 million, which largely relates to TFR (staff termination indemnity) matured to date. The profit for 2005 benefits from lower costs of euro 2.44 million resulting from the full recognition of actuarial gains/losses against shareholders' equity. Shareholders' equity at 31 December 2005 presents a further decrease of euro 12.55 million arising from recognition of the actuarial gains/losses relating to 2005.

9. Deferred taxes

This heading includes the tax effect on all adjustments, where identifiable, specified in this Annex. As a result of these tax effects shareholders' equity at 1 January 2005 increased by euro 35.08 million, Other movements included a positive adjustment of euro 8.79 million, and a negative impact was recognised in income statement for euro 7.07 million.

10. Long-term onerous contracts

This heading includes the effects arising from recognition of long-term onerous contracts.

Analysis of the effects arising from application of IAS/IFRS on the net financial position (alternative performance indicator not required under accounting standards)

A summary of the principal effects arising from application of IAS/IFRS on the consolidated net financial position is as follows:

(euro million)

Net financial position Italian GAAP 31/12/2005	**1,745**
1. Sale of receivables	29
2. Amortised cost and derivatives	(9)
Difference Italian GAAP - IAS/IFRS on net financial position	20
Net financial position - IAS/IFRS 31/12/2005	**1,765**

1. Sale of receivables

The sale of VAT receivables without recourse, results in derecognition of the receivables from the balance sheet and recognition of the related income. Under IAS 39, these receivables continue to be recognised within assets in the balance sheet. This accounting treatment results in a euro 29 million decrease in the net financial position at 31 December 2005.

Annexes

Annex 1 - List of consolidated companies

Company	Headquarter	Activity
GranMilano S.p.A.	Via Bistolfi, 31 - Milano (Italy)	Manufacturing and marketing
Mongelo S.r.l.	Via Trentacoste, 5 - Milano (Italy)	Manufacturing and marketing
GranMilano Distribuzione S.r.l.	Via Bistolfi, 31 - Milano (Italy)	Manufacturing and marketing
Barilla Finance S.A.	Cote d'Eich, 73 - 1450 (Luxembourg)	Financial company
Logi- K S.p.A.	Via Mantova, 166 - 43100 Parma (Italy)	Logistic
Logi-K GmbH	Düsseldorf (Germany)	Service company
Finba Iniziative S.r.l.	Via Mantova, 166 - 43100 Parma (Italy)	Financial company
Financieringmaatschappij Relou B.V.	Amsterdam (The Netherlands)	Financial company
Finba Luxembourg S.A.	Cote d'Eich, 73 - 1450 Luxembourg	Financial company
Finbakery Netherlands B.V.	Amsterdam (The Netherlands)	Financial company
Relou Italia S.r.l.	Via Farini, 29 - 43100 Parma (Italy)	Financial company
Finba Bakery Europe AG	Düsseldorf (Germany)	Financial company
Finba Bakery Holding GmbH	Düsseldorf (Germany)	Financial company
Finba Food International B.V.	Reeuwijktch (The Netherlands)	Financial company
Kamps AG	Düsseldorf (Germany)	Manufacturing and marketing
Kamps IT Service Kornmark GmbH	Garrel (Germany)	Service company
Kamps Bakeries GmbH	Düsseldorf (Germany)	Manufacturing and marketing
Duet Bakklaar Producten Alkmaar B.V.	Alkmaar (The Netherlands)	In liquidation
Kamps Holding N.V.	Bunschoten (The Netherlands)	Manufacturing and marketing
Kamps Nederland B.V.	Reeuwijk (The Netherlands)	Manufacturing and marketing
Kamps Brot- und Backwaren GmbH	Garrel (Germany)	Manufacturing and marketing
Scherpel GmbH	Pfungstadt (Germany)	Service company
Zimmermann GmbH Erkrath	Unterfeldhaus (Germany)	Manufacturing and marketing
Dahli - Kuchen Franz Dahloff GmbH & Co. KG	Geseke (Germany)	In liquidation
Dahlhoff Verwaltungs GmbH	Geseke (Germany)	In liquidation
Isogone Grundstuecksbeteiligungsgesellschaft mbH & Co.Vermietungs KG	Mainz (Germany)	Leasing
SL Mobilien Leasing Aries GmbH & Co. KG	Mannheim (Germany)	Leasing
Grado Grundstuecksvermietungsgesellschaft mbH	Düsseldorf (Germany)	Leasing
Linda Grundstuecksvermietungsgesellschaft mbH	Düsseldorf (Germany)	Leasing
Silur Grundstuecks Vermietungsgesellschaft mbH	Düsseldorf (Germany)	Leasing
Julia Grundstuecksverwaltungsgesellschaft mbH & Co. Vermietungs KG	Mannheim (Germany)	Real estate
Nexus Grundstuecksverwaltungsgesellschaft mbH & Co. Vermietungs KG	Mainz (Germany)	Real estate
Degemakro Grundstuecksverwaltungs GmbH & Co. Immobilien-Verwaltungs KG	Eschborn (Germany)	Real estate
Harry's S.C.A.	58-60, avenue Kléber - 75116 Paris (France)	Financial company
La Bella Easo S.A.	Poligono de Malpica, Calle B parcella 62-63 50016 Zaragoza (Spain)	Manufacturing and marketing

Currency	Share capital	% Group ownership		Through
Euro	22,500,000	100.000	100.000	Barilla Holding Società per Azioni
Euro	1,040,000	100.000	100.000	GranMilano S.p.A.
Euro	220,000	100.000	100.000	GranMilano S.p.A
Euro	150,000	95.000	95.000	Barilla Holding Società per Azioni
Euro	21,000,000	100.000	100.000	Barilla Holding Società per Azioni
Euro	100,000	100.000	100.000	Logi-K S.p.A.
Euro	10,000	100.000	100.000	Barilla Holding Società per Azioni
Euro	12,934,845	68.880	68.880	Finba Luxembourg S.A.
Euro	236,300,000	99.997	99.997	Barilla Holding Società per Azioni
Euro	3,294,118	51.000	51.000	Finba Luxembourg S.A.
Euro	157,100,000	68.873	100.000	Financieringmaatschappij Relou B.V.
Euro	50,000	51.000	100.000	Finba Bakery Holding GmbH
Euro	25,000	51.000	51.000	Finba Luxembourg S.A.
Euro	18,000	51.000	100.000	Finba Bakery Europe AG
Euro	83,505,000	51.000	100.000	Finba Bakery Europe AG
Euro	26,000	51.000	100.000	Kamps AG
Euro	520,000	51.000	100.000	Kamps AG
Euro	-	51.000	100.000	Kamps Holding N.V.
Euro	3,359,000	51.000	100.000	Finba Food International B.V.
Euro	2,723,000	51.000	100.000	Kamps Holding N.V.
Euro	535,000	51.000	100.000	Kamps AG
Euro	11,248,000	51.000	100.000	Kamps Brot- und Backwaren GmbH
Euro	50,000	51.000	100.000	Kamps Brot- und Backwaren GmbH
Euro	10,226,000	51.000	100.000	Kamps Brot- und Backwaren GmbH
Euro	26,000	51.000	100.000	Kamps Brot- und Backwaren GmbH
Euro	-			de facto control, Kamps AG
Euro	5,000			de facto control, Kamps AG
	-			de facto control, Kamps AG
Euro	26,000			de facto control, Kamps AG
	-			de facto control, Kamps AG
Euro	10,000			de facto control, Kamps AG
Euro	26,000			de facto control, Kamps AG
Euro	1,000			de facto control, Kamps AG
Euro	84,046,096	51.000	100.000	Finbakery Netherlands B.V.
Euro	7,601,178	51.000	100.000	Harry's S.C.A.

Company	Headquarter	Activity
Harry's Portugal S.A.	12 Rua Garrett - 1200-204 Lisbona (Portugal)	Marketing
Harry's Management Services Ltd	Bunnian Place, Basingstoke - RG21 7JE Hants (UK)	Financial company
Finbakery Finance S.N.C.	58-60, avenue Kléber - 75116 Paris (France)	Service company
Quality Bakers Picardie S.àr.l.	Gauchy (France)	Manufacturing and marketing
Harry's France S.A.S.	B.P 193 - Rue du grand Pré 36004 Chateauroux Cedex (France)	Manufacturing and marketing
Harry's C.I.S.	Butyrski Tupik 1- Solnechnogorsk 141500 Moscow (Russia)	Manufacturing and marketing
ZAO KONDI	Ufa (Russia)	Manufacturing company
Harry's Benelux N.V.	Gentstraat 52 - 9971 Lembeke (The Netherlands)	Marketing
Harry's Russia, Denmark, A/S	Hjortsvanger 15 - DK 7232 Give (Denmark)	Financial company
Fresh Cake A/S	San. - Bir 5, Bolge 12, Cadde n° 67 34904 Buyukecekmece (Turkey)	Manufacturing company
Harry's Engineering	The Netherlands	In liquidation
Barilla G. e R. Fratelli S.p.A.	Via Mantova, 166 - 43100 Parma (Italy)	Manufacturing and marketing
Barilla Servizi Finanziari S.p.A.	Via Mantova, 166 - 43100 Parma (Italy)	Leasing
Academia Barilla S.p.A.	Via Mantova, 166 - 43100 Parma (Italy)	Marketing
F.I.R.S.T. Retailing S.p.A.	Via Mantova, 166 - 43100 Parma (Italy)	Trading
F.I.R.S.T. Commerciale S.r.l.	Via Mantova, 166 - 43100 Parma (Italy)	Marketing
Barilla France S.A.	2 Place des Vosges, Immeuble Lafayette, La Défense, Courbevoie 92400 - Paris (France)	Marketing
Misko Pasta Manifacturing A.E.	26 Pappou & Akragantos Str. - Athens (Greece)	Manufacturing and marketing
Barilla America Inc.	1200 Lakeside Drive, 60015-1243 - Bannockburn Lincolnshire (USA)	Marketing
Barilla Do Brasil Ltda	A.V.Pinzon, 144 - 7° Andar CJ 71 e 72, Vila Olimpia Sao Paulo (Brazil)	Marketing
Barilla Japan K.K.	Shuwa Kiochio TBR Building 1001 5-7, Kojimachi chioda-ku - 102-0083 Tokyo (Japan)	Marketing
Barilla Austria GmbH	Valiergasse 61/3/5 - 62020 Innsbruck (Austria)	Marketing
Barilla Mexico S.A. de C.V.	Calzada San Bartolo Naucalpan 360 Col. Argentina Poniente, Deleg. Miguel Hidalgo, 11230 Ciudad del Mexico (Mexico)	Marketing
Serpasta Pastificio S.A. de C.V	Calzada San Bartolo Naucalpan 360 Col. Argentina Ponente. Deleg. Miguel Hidalgo, 11230 Ciudad del Mexico (Mexico)	Manufacturing and marketing
Number1 Logistics Group S.p.A.	Via Mantova, 166 - 43100 Parma (Italy)	Transportation
Filiz Gida Sanayi Ve Ticaret S.A.	Buyukdere cad. - Dogus Han, 42, Mecidiyekoy Istanbul - (Turkey)	Food products manufacturing
Barilla A.G.	Zugerstrasse 76B - 6340 Baar (Switzerland)	Marketing
Wasabrod AB	80 Commune Stockholm (Sweden)	Manufacturing and marketing

Currency	Share capital	% Group ownership		Through
Euro	700,000	51.000	100.000	Harry's S.C.A.
Gbp	1,800,000	51.000	100.000	Harry's S.C.A.
Euro	40,000	51.000	0.025	Harry's Management Services
			99.975	Harry's S.C.A.
Euro	153,000	51.000	100.000	Harry's France S.A.S.
Euro	13,640,800	51.000	100.000	Harry's S.C.A.
Rub	579,707,644	51.000	100.000	Harry's Russia, Denmark, A/S
Rub	10,198,050	48.358	94.820	Harry's C.I.S.
Euro	200,000	30.600	60.000	Harry's S.C.A.
Dkk	97,236,000	51.000	100.000	Harry's S.C.A.
Euro	6,438,000	25.500	50.000	Harry's S.C.A.
	-	51.000	100.000	Harry's S.C.A.
			49.000	Relou Italia S.r.l.
Euro	175,440,000	84.748	51.000	Barilla Holding Società per Azioni
Euro	30,000,000	84.748	100.000	Barilla G. e R. Fratelli Società per Azioni
Euro	100,000	84.748	100.000	Barilla G. e R. Fratelli Società per Azioni
Euro	5,000,000	84.748	100.000	Barilla G. e R. Fratelli Società per Azioni
Euro	10,000	84.748	100.000	F.I.R.S.T. Retailing S.p.A.
Euro	456,000	84.748	100.000	Barilla G. e R. Fratelli Società per Azioni
Euro	13,083,440	84.748	100.000	Barilla G. e R. Fratelli Società per Azioni
Usd	1,000	84.748	100.000	Barilla G. e R. Fratelli Società per Azioni
Brl	19,538,080	84.748	99.990	Barilla G. e R. Fratelli Società per Azioni
			0.010	Barilla Servizi Finanziari S.p.A.
Jpy	10,000,000	84.748	100.000	Barilla G. e R. Fratelli Società per Azioni
Euro	436,000	84.748	100.000	Barilla G. e R. Fratelli Società per Azioni
Mxn	177,748,096	42.374	50.000	Barilla G. e R. Fratelli Società per Azioni
Mxn	50,000	40.679	2.000	Barilla G. e R. Fratelli Società per Azioni
			96.000	Barilla Mexico S.A. de C.V.
Euro	5,000,000	84.748	100.000	Barilla G. e R. Fratelli Società per Azioni
Trl	2,940,000,000,000	84.744	99.995	Barilla G. e R. Fratelli Società per Azioni
Chf	1,000,000	84.324	99.500	Barilla Wasa Benelux B.V.
Sek	5,000,000	84.748	100.000	Barilla G. e R. Fratelli Società per Azioni

Company	Headquarter	Activity
Ideal Wasa A/S	Myrveten 12 - 23T2 Ottestad - 2301 Hamar (Norway)	Manufacturing and marketing
Wasabrod A/S	Mileparken, 18 - 2740 Skovlunde (Denmark)	Marketing
Wasa Barilla Poland Sp. Z.o.o.	Ul. Poleczki 23 - 822 Varsavia (Poland)	Manufacturing and marketing
Barilla Wasa Deutschland GmbH	Ettore Bugatti Strasse, 35 - 51149 Köln (Germany)	Manufacturing and marketing
Barilla Australia PTY Ltd	Deane Street, 9 - Burwood 2134 - NSW Sydney (Australia)	Distribution
Barilla Wasa Benelux B.V.	De Molen 13 - 3994 DA Utrecht (The Netherlands)	Distribution
Gelit S.p.A.	Via Ninfina Km. 2,700 - 04012 Cisterna Latina (LT) (Italy)	Food products manufacturing
Barilla America N.Y. Inc.	Livington County (NY) - USA	Manufacturing company

List of investments in associated and other company		
Bart's Retail B.V.	Beuningen (The Netherlands)	Manufacturing and marketing
Bart's Retail Food B.V.	Beuningen (The Netherlands)	Financial company
BRW S.p.A.	Via Savona, 97 - Milan (Italy)	Advertising
Banca Popolare Italiana S.c.ar.l.	Via Polenghi Lombardo, 13 - Lodi (Italy)	Bank
Fondazione ISTUD per la cultura d'impresa e di gestione	Via Carlo O. Cornaggia, 10 20123 Milan (Italy)	Human resources training (non lucrative)
Fiere di Parma S.p.A.	Via F. Rizzi, 67/A - Baganzola (PR) (Italy)	Trade fair management
CE.P.I.M. S.p.A.	Loc. Bianconese - 43010 Fontevivo (PR) (Italy)	Warehouse management
Immobiliare Caprazucca S.p.A.	Str. Al ponte Caprazucca, 6 - Parma (PR) (Italy)	
S.I.GRA.D. S.c.r.l.,	Via Palestro 35 - Rome (Italy)	Agro-alimentary research consortium
SOGEAP - Aeroporto di Parma Società per la gestione S.p.A.	Via dell'Aeroporto, 44/a - 43010 Fontana (PR) (Italy)	Airport management and services
Pallino Pastaria Company	1207 208th Avenue S.E. - Sammamish 98075 - Washington (USA)	Manufacturing and marketing
Italia del Gusto-Consorzio Export La gastronomia di marca	Galleria Polidoro, 7 - Parma (Italy)	
COMIECO (Italy)		
CO.NA.I.	Via Tomacelli 132 - Rome (Italy)	
DEG Eishockey GmbH	Düsseldorf (Germany)	Other

Currency	Share capital	% Group ownership		Through
Nok	1,950,000	84.748	100.000	Wasabrod AB
Dkk	500,000	84.748	100.000	Wasabrod AB
Pln	12,150,000	84.748	100.000	Wasabrod AB
Euro	51,100	84.748	100.000	Wasabrod AB
Aud	19,050,000	84.748	100.000	Barilla G. e R. Fratelli Società per Azioni
Euro	18,000	84.748	100.000	Barilla G. e R. Fratelli Società per Azioni
Euro	774,750	84.748	100.000	Barilla G. e R. Fratelli Società per Azioni
Usd	10,000	84.748	100.000	Barilla G. e R. Fratelli Società per Azioni
Euro	18,151	10.200	100.000	Bart's Retail Food B.V.
Euro	20,000	10.200	20.000	Kamps Holding N.V.
Euro	6,306,121	24.577	29.000	Barilla G. e R. Fratelli Società per Azioni
Euro	885,127,227	0.0290	0.0290	Barilla Holding Società per Azioni
Euro	1,136,212	0.077	0.091	Barilla G. e R. Fratelli Società per Azioni
Euro	20,235,270	0.275	0.325	Barilla G. e R. Fratelli Società per Azioni
Euro	6,642,928	0.322	0.380	Barilla G. e R. Fratelli Società per Azioni
Euro	7,517,948	0.0000242	0.0000286	Barilla G. e R. Fratelli Società per Azioni
Euro	40,000	2.119	2.500	Barilla G. e R. Fratelli Società per Azioni
Euro	4,357,308	2.975	3.510	Barilla G. e R. Fratelli Società per Azioni
Usd	501,500	11.716	13.824	Barilla America Inc.
Euro	57,500	7.369	7.369	Barilla G. e R. Fratelli Società per Azioni
Euro		0.104	0.104	Barilla G. e R. Fratelli Società per Azioni
Euro	12,721,044	0.080	0.080	Barilla G. e R. Fratelli Società per Azioni
Euro	54,000	6.324	12.400	Kamps AG

Annexes

Annex 2 - Currency rates of exchange

Main rates of exchange used to convert consolidated financial statements are set below:

		Income statement	Balance sheet
		Average rate 2006	Rate at 31 December 2006
AUD	Australian Dollar	1.6669	1.6691
BRL	Brazilian Real	2.7319	2.8133
CHF	Swiss Franc	1.5731	1.6069
DKK	Danish Krone	7.4591	7.4560
JPY	Japanese Yen	146.0951	156.9300
MXN	Mexican Pesos	13.6976	14.2936
NOK	Norwegian Krone	8.0482	8.2380
PLN	Polish Zloty	3.8953	3.8310
SEK	Swedish Krona	9.2523	9.0404
TRL	Turkish Lira	1.8095	1.8640
USD	American Dollar	1.2561	1.3170
GBP	British Pound	0.6817	0.6715
CZK	Czech Republic Krona	28.3357	27.4850
RUB	Russian Rouble	34.1163	34.6800

Report of Independent Auditors

PricewaterhouseCoopers SpA

AUDITORS' REPORT IN ACCORDANCE WITH ARTICLE 2409-TER OF THE CIVIL CODE

To the Shareholders of
Barilla Holding SpA

1 We have audited the consolidated financial statements of Barilla Holding SpA and its subsidiaries ("Barilla Holding Group"), which comprise the balance sheet, income statement, statement of recognised income and expense, cash flow statement and the related notes as of and for the year ended 31 December 2006. These consolidated financial statements are the responsibility of Barilla Holding SpA management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. These consolidated financial statements have been prepared for the first time in accordance with the International Financial Reporting Standards as adopted by the European Union.

2 We conducted our audit in accordance with Italian standards on auditing standards. Those standards require that we plan and perform the audit to obtain the reasonable assurance about whether the financial statements are free of material misstatement and, taken as a whole, are presented fairly. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management. We believe that our audit provides a reasonable basis for our opinion.

The consolidated financial statements present the corresponding figures of the prior year prepared in accordance with the same accounting principles. The effects of the transition to International Financial Reporting Standards as adopted by the European Union are discussed in the note 9 "Appendix FTA- First Time Adoption – Transition to International Financial Reporting Standards". The information contained in note 9 has been audited by us in connection with our opinion on the consolidated financial statements as of and for the year ended 31 December 2006.

Sede legale e amministrativa: Milano 20149 Via Monte Rosa 91 Tel. 0277851 Fax 027785240 Cap. Soc. 3.754.400,00 Euro i.v., C.F. e P. IVA e Reg. Imp. Milano 12979880155 Iscritta al n. 43 dell'Albo Consob – Altri Uffici: **Bari** 70125 Viale della Repubblica 110 Tel. 0805429863 – **Bologna** 40122 Via delle Lame 111 Tel. 051526611 – **Brescia** 25124 Via Cefalonia 70 Tel. 0302219811 – **Firenze** 50129 Viale Milton 65 Tel. 0554627100 – **Genova** 16121 Piazza Dante 7 Tel. 01029041 – **Napoli** 80121 Piazza dei Martiri 30 Tel. 0817644441 – **Padova** 35137 Largo Europa 16 Tel. 0498762677 – **Palermo** 90141 Via Marchese Ugo 60 Tel. 091349737 – **Parma** 43100 Viale Tanara 20/A Tel. 0521242848 – **Roma** 00154 Largo Fochetti 29 Tel. 06570251 – **Torino** 10129 Corso Montevecchio 37 Tel. 011556771 – **Trento** 38100 Via Manzoni 16 Tel. 0461237004 – **Treviso** 31100 Viale Felissent 90 Tel. 0422696911 – **Trieste** 34125 Via Cesare Battisti 18 Tel. 0403480781 – **Udine** 33100 Via Poscolle 43 Tel. 043225789 – **Verona** 37122 Corso Porta Nuova 125 Tel. 0458002561

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3 In our opinion, the consolidated financial statements of Barilla Holding Group comply with International Financial Reporting Standards as adopted by the European Union; accordingly, they give a true and fair view of the financial position as of 31 December 2006, the results of operations, income and expenses recognised in equity and cash flows of Barilla Holding Group for the year then ended.

Milan, 17 May 2007

PricewaterhouseCoopers SpA

Signed by

Paolo Caccini
(Partner)

Corporate information and contacts

Barilla Holding - Società per Azioni
Unique shareholder (art. 2497 c.c.)

Registered office and headquarters
Via Mantova, 166 - 43100 Parma - Italy

Share capitale: euro 110,900,000.00 fully paid-in.
Parma company register, Tax ID
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UIC no. 31011

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