



***2006 Annual Report  
on Corporate Governance***

This Report was prepared in accordance with the provisions of the Code of Conduct published by Borsa Italiana and is consistent with best international practice. It describes the practice of corporate governance at Parmalat S.p.A. in 2006.

## **1. Governance Structure**

Parmalat's corporate organization is based on the so-called "conventional" model, which consists of the following corporate governance bodies and the independent auditors: Shareholders' Meeting, Board of Directors (supported by Consulting Committees), Board of Statutory Auditors and Independent Auditors.

The corporate governance model also includes a series of powers, delegations of power, and internal control procedures, as well as a Code of Ethics, a Code of Conduct, the Internal Dealing Handling Code and the Organization, Management and Control Model required by Legislative Decree No. 231/01, with which all members of the Company — Directors, Statutory Auditors and employees — are required to comply.

## **2. Shareholders' Meeting**

Shareholders' Meetings are convened in Ordinary or Extraordinary Session pursuant to law, unless one is called to vote on resolutions concerning amendments to Article 10 (Convening, Chairing and Handling Shareholders' Meeting), Article 11 (Board of Directors), Article 12 (Requirements of Independent Directors), Article 15 (Meetings of the Board of Directors), Article 16 (Resolutions of the Board of Directors), Article 17 (Powers of the Board of Directors — Delegation of Powers) or Article 18 (Committees) of the Bylaws, which, until the approval of the financial statements for the 2009 fiscal year, will require the favorable vote of shareholders representing at least 95% of the share capital.

Insofar as the handling of Shareholders' Meetings is concerned, the Company has chosen not to propose the adoption of specific Meeting Regulations, since the powers attributed to the Chairman of the Meeting pursuant to the Bylaws should be sufficient to enable the Chairman to conduct orderly Meetings. This approach avoids the risks and inconveniences that could result if the Shareholders' Meeting should fail to comply with all of the Regulations' provisions. According to Article 10 of the Bylaws, the Chairman is responsible for determining that a Shareholders' Meeting has been properly convened, overseeing the Meeting's activities and discussions and verifying the outcomes of votes.

## **3. Share Capital and Shareholders**

On October 1, 2005, upon the Court approving the Proposal of Composition with Creditors of the Parmalat Group Under Extraordinary Administration, all of the assets of the companies that were included in the Proposal of Composition with Creditors (Parmalat SpA, Parmalat Finanziaria SpA, Eurolat SpA, Lactis SpA, Parmalat Netherlands BV, Parmalat Finance Corporation BV, Parmalat Capital Netherlands BV, Dairies Holding International BV, Parmalat Soparfi SA, Olex SA, Geslat Srl, Parmengineering Srl, Contal Srl, Panna Elena CPC Srl, Centro Latte Centallo Srl and Newco Srl) and all of their rights to personal and real property, tangible and intangible assets, business operations, outstanding contracts and all other rights and actions formerly belonging to the abovementioned companies were transferred to the Company.

In exchange for acquiring the assets listed above, the Company assumed the obligation toward the creditors of the Parmalat Group Under Extraordinary Administration to proceed (through Fondazione Creditori Parmalat) with the process of issuing the shares allocated to eligible unsecured creditors and distribute shares and warrants to the abovementioned creditors in accordance with the provisions of the Proposal of Composition with Creditors.

As of March 20, 2007, following the distribution of shares in the manner described above, the Company's approved share capital amounted to 2,010,087,908 euros, of which 1,648,337,620 euros had been subscribed, allocated as follows:

- 1,620,876,225 shares, equal to 98.3% of the share capital, had been distributed to eligible creditors;
- 43,540,879 shares, equal to 2.6% of the share capital, are still held on deposit by Parmalat S.p.A. A breakdown of these shares is as follows:
  - 16,147,888 shares, equal to 1.0% of the share capital, are owned by commercial creditors who have been identified by name and are held by S.p.A. as intermediary through the Monte Titoli centralized securities clearing system;
  - 27,392,991 shares, equal to 1.7% of the share capital, which are registered in the name of Fondazione Creditori Parmalat, broken down as follows:
    - 120,000 shares, representing the initial share capital of Parmalat S.p.A.;
    - 27,272,991 shares, equal to 1.7% of the share capital, which belong to creditors who have not yet claimed them.

As of the same date, a total of 84,937,145 warrants had been issued, 8,836,761 of which had been exercised.

Because the process of distributing shares and warrants is still ongoing, the Company's share capital could vary on a monthly basis until it reaches the amount of 2,010,087,908.00 euros, which was approved by the Shareholders' Meeting on March 1, 2005, or until the expiration of the warrant conversion deadline, i.e., December 31, 2015.

Based on the data contained in the Stock Register, the communications received pursuant to law and other information available as of March 12, 2007, it appears that:

- The shareholders listed below own, either directly or through representatives, nominees or subsidiaries, an interest in the Company that is greater than 2% of the voting shares. The ownership percentages shown have been computed based on a share capital of 1,648,337,620 euros, which is the amount filed on March 20, 2007.

Shareholder	N° of shares	of which pledged shares		Percentage
		number of shares	percentage	
<b>Capitalia</b>	<b>84,845,406</b>			<b>5.147%</b>
Capitalia S.p.A.	84,761,390	59,346	0.004%	5.142%
Banca di Roma S.p.A.	59,346			0.004%
BIBOP CARIRE S.p.A.	0			0.000%
MCC S.p.A.	745			0.000%
Banco di Sicilia S.p.A.	23,925	23,925	0.001%	0.001%
<b>Stark Offshore Management LLC</b> as manager of Stark Master Fund holding the share	<b>33,137,846</b>			<b>2,010%</b>
<b>JP Morgan Securities Ltd</b>	<b>34,756,384</b>			<b>2,109%</b>
<b>Barclays Bank Plc</b>	<b>38,057,651</b>			<b>2,309%</b>
Indexchange Investment AG	352,827			0.021%
Barclays Bank France SA	1,200			0.000%
Barclays Capital Securities Ltd	24,845,493			1.507%
Barclays Bank Suisse	2,734,026			0.166%
Barclays Bank Plc	10,124,105			0.614%
<b>Lehman Brothers Holdings Inc.</b>	<b>35,395,512</b>			<b>2.147%</b>
<b>TOTAL</b>	<b>226,192,799</b>			<b>13.722%</b>

- The Company has 145,327 shareholders.

## **4. Board of Directors**

### Election and Composition

The Company is governed by a Board of Directors comprising 11 (eleven) Directors, who are elected from slates of candidates. Only shareholders who, alone or together with other shareholders, hold a number of shares equal in the aggregate to at least 1% of the Company's shares that convey the right to vote at Regular Shareholders' Meetings are entitled to file slates of candidates.

As required by Article 11 of the Bylaws, in addition to a slate of candidates, the shareholders must file, no later than five days prior to the Shareholders' Meeting, affidavits by which each candidate accepts to stand for election and attests, on his/her responsibility, that there is nothing that would bar the candidate's election or make the candidate unsuitable to hold office and that he/she has met the requirements for election to the respective office. Each candidate must file a curriculum vitae together with his/her affidavit, listing his/her personal and professional data and, if applicable, showing his/her suitability for being classified as an independent Director.

The five-day deadline for filing slates of candidates is set forth in Article 11 of the Bylaws. According to Article 10 of the Bylaws, Article 11 may be amended only with the favorable vote of shareholders representing at least 95% of the share capital, until the financial statements for the fiscal year ended December 31, 2009 have been approved. On the occasion of the next Shareholders' Meeting convened to elect new corporate governance bodies, the Board of Directors intends to recommend that shareholders file slates within the 15 (fifteen) days deadline recommended by Borsa Italiana Spa in the Code of Conduct approved on March 2006, even though the deadline set forth in the Bylaws will remain at 5 (five) days.

The Shareholders' Meeting that elects the Directors determines the length of their term of office, which, however, may not be longer than three fiscal years. The term of office of the Directors thus appointed expires on the date of the Shareholders' Meeting convened to approve the financial statements for the last year of their term of office. Directors may be reelected.

In the course of an election, at least 6 (six) of the Directors elected by the Shareholders' Meeting must be independent Directors possessing the requirements set forth in Article 12 of the Bylaws.

Directors must meet the requirements of the applicable statutes or regulations (and of the code of conduct published by the company that operates the regulated market in Italy on which the Company's shares are traded). The following individuals may not be elected to the Board of Directors and, should such an individual currently be serving in such capacity, he/she shall be removed from office automatically: (i) individuals against whom the Company or its predecessors in title have filed legal actions at least 180 (one hundred eighty) days prior to the date of the Shareholders' Meeting convened to elect the Board of Directors; (ii) individuals who, prior to June 30, 2003, served as Directors, Statutory Auditors, General Managers or Chief Financial Officers of companies that at that time were part of the Parmalat Group; (iii) individuals who are defendants in criminal proceedings related to the insolvency of the Parmalat Group or who have been found guilty in such proceedings and ordered to pay damages, even if the sentence is not final.

With regard to corporate governance posts, the Bylaws state that the same person may not serve both as Chairman of the Board of Directors and Chief Executive Officer.

### Functions of the Board of Directors

In the corporate governance system adopted by Parmalat SpA, the Board of Directors plays a central function, enjoying the most ample ordinary and extraordinary powers needed to govern the Company, with the sole exception of the powers reserved for the Shareholders' Meeting.

The Board of Directors has sole jurisdiction over the most important issues. Specifically, it is responsible for:

- reviewing and approving the strategic, industrial and financial plans of the Company and the Group and the structure by which the group of companies headed by the Company is organized;

- reviewing and approving transactions (including investments and divestitures) that, because of their nature, strategic significance, amount or implied commitment, could have a material effect on the Company's operations, particularly when these transactions are carried out with related parties;
- ascertaining the effectiveness of the system of organization and general administration adopted by the Company and the Group;
- drafting and adopting the rules that govern the Company and its Code of Ethics, and defining the applicable Group guidelines, while acting in a manner that is consistent with the principles of the Bylaws;
- granting and revoking powers to Directors and the Executive Committee, if one has been established, defining the manner in which they may be exercised, and determining at which intervals these parties are required to report to the Board of Directors on the exercise of the powers granted them;
- determining whether Directors meet and continue to satisfy requirements of independence;
- adopting resolutions concerning the settlement of disputes that arise from the insolvency of companies that are parties to the Composition with Creditors. These resolutions may be validly adopted with the favorable vote of 8/11 of the Directors who are in office.

The Code of Ethics approved by the Board of Directors of Parmalat S.p.A. on March 1, 2005, reserves for the exclusive jurisdiction of the Board of Directors all transactions (including investments and divestitures) that, because of their nature, strategic significance, amount or implied commitment, could have a material effect on the Company's operations, particularly when these transactions are carried out with related parties and identifies for this purpose the following transactions that may be executed by Parmalat S.p.A. or its subsidiaries:

- Placements of issues of financial instruments with a total value of more than 100 million euros;
- Granting of loans and guarantees, investments in and disposals of assets (including real estate) and acquisitions and divestitures of equity investments, companies, businesses, assets and other property valued at more than 100 million euros;
- Mergers and demergers, when at least one of the parameters listed below, when applicable, is equal to or greater than 15%:
  - a) Total assets of the absorbed (merged) company or assets that are being demerged/total assets of the Company (taken from the consolidated financial statements, if available);
  - b) Profit before taxes and extraordinary items of the absorbed (merged) company or assets earmarked for demerger/income before taxes and extraordinary items of the Company (taken from the consolidated financial statements, if available);
  - c) Total shareholders' equity of the absorbed (merged) company or business earmarked for demerger/total shareholders' equity of the Company (taken from the consolidated financial statements, if available).

For the purposes of this mergers of publicly traded companies and mergers between a publicly traded company and a privately held company are always deemed to be material operating, financial and asset transactions.

Information must also be provided about transactions that, while on their own involve amounts lower than the threshold listed above or that trigger the exclusive jurisdiction of the Board of Directors, are linked together in a strategic or executive project and taken together exceed the materiality threshold.

Consequently, transactions such as those listed above are not covered by the powers that the Board of Directors granted to the Chief Executive Officer on November 11, 2006.

A table showing the other requirements of the Code of Ethics approved by Board of Directors of Parmalat S.p.A. is provided on the following page.

<i>Additional Requirements of the Code</i>	Yes	No	Brief explanation of the reason for not following the Code's recommendations
<b>System for the Delegation of Powers and Transactions with Related Parties</b>			
Did the BoD delegate powers defining:			
a) the scope of the powers	X		
b) the manner in which they may be exercised	X		
c) the reporting intervals	X		
Has the BoD reserved jurisdiction over reviewing and approving transactions that could have a material effect on the Company's operating performance, balance sheet or financial position (including transactions with related parties)?	X		
Has the BoD defined guidelines and criteria to identify "material transactions"?	X		
Are these guidelines and criteria described in this Report?	X		
Has the BoD established specific procedures for the review and approval of transactions with related parties?	X		
Are the procedures for the approval of transactions with related parties described in this Report?	X		
<b>Latest procedures for the election of Directors and Statutory Auditors</b>			
Were the slates of candidates to the post of Director filed at least 15 days before the Shareholders' Meeting?		X	The Bylaws allow the filing of the slates of candidates up to five days prior to the date of the Shareholders' Meeting, convened on the first calling.
Were the slates of candidates to the post of Director filed together with adequate information?	X		
Were the slates of candidates to the post of Director filed together with affidavits by the candidates attesting that they qualified as independent Directors?	X		
Were the slates of candidates to the post of Statutory Auditor filed at least 15 days before the Shareholders' Meeting?		X	The Bylaws allow the filing of the slates of candidates up to five days prior to the date of the Shareholders' Meeting, convened on the first calling.
Were the slates of candidates to the post of Statutory Auditor filed together with adequate information?	X		
<b>Shareholders' Meetings</b>			
Did the Company approve Shareholders' Meeting regulations?		X	For the time being, the Company has not proposed the adoption of specific Shareholders' Meeting regulations because it believes that the power attributed by the Bylaws to the Chairman of the Meeting are sufficient to maintain an orderly performance of Shareholders' Meetings, thereby avoiding the risks and inconveniences that could result, should a Shareholders' Meeting fail to comply with Meeting regulations. Pursuant to article 10 of the Bylaws, the Chairman of the Meeting is responsible for ascertaining whether the Meeting has been properly convened, managing the progress of the Meeting and discussion of the items on the Agenda and verifying voting results.
Are these Regulations annexed to this Report?		X	
<b>Internal Control</b>			
Did the Company appoint Internal Control Officers?	X		
Are these Officers hierarchically independent of operational managers?	X		
Is there an organizational unit responsible for the internal control system (as per Article 9.3 of the Code)?	X		
<b>Investor Relations</b>			
Did the Company appoint and Investor Relations Officer?	X		
Contact information			Cristina Girelli - Tel: +39 0521 808550 E-mail: c.girelli@parmalat.net

### The Current Board of Directors

The current Board of Directors was elected by the Shareholders' Meeting on November 8, 2005. It will remain in office until the Shareholders' Meeting that will be convened to approve the financial statements at December 31, 2007.

The current Board of Directors has 11 members:

Raffele Picella	Chairman
Enrico Bondi	Chief Executive Officer (*)
Vittorio Mincato	Independent Director
Marco De Benedetti	Independent Director (**)
Piergiorgio Alberti	Independent Director
Andrea Guerra	Independent Director
Carlo Secchi	Independent Director
Massimo Confortini	Independent Director
Marzio Saà	Independent Director
Erder Mingoli	Independent Director
Ferdinando Superti Furga	Independent Director

(\*) Also serves as Chairman of Fondazione Creditori Parmalat.

(\*\*) Also serves a Chief Executive Officer of the Carlyle Fund.

As of the date of this Report, the Parmalat Directors also served in different capacities at other publicly traded companies; financial, banking and insurance institutions, and large businesses. The table below show the posts held at other companies by Parmalat Directors:

<b>Name of Director</b>	<b>Posts held at other companies</b>
Raffaele Picella	Chairman of Banca Campania S.p.A. Statutory Auditor of Ansaldo Breda S.p.A. Chairman of the Board of Statutory Auditors of Ansaldo Trasporti Sistemi Ferrovia S.p.A.
Vittorio Mincato	Chairman of Poste Italiane SpA Director of FIAT SpA
Marco De Benedetti	Director of Cofide SpA Director of Pierrel SpA
Piergiorgio Alberti	Independent Director of Finmeccanica SpA
Andrea Guerra	Chief Executive Officer of Luxottica SpA Director of BNL
Carlo Secchi	Independent Director of Pirelli & C. SpA Independent Director of Tangenziali esterne di Milano (TEM) SpA Independent Director of Lloyd Adriatico SpA Independent Director of Mediaset SpA Independent Director of RAS SpA
Massimo Confortini	Independent Director of Caltagirone Editore SpA

<b>Name of Director</b>	<b>Posts held at other companies</b>
Marzio Saà	Director of Eridano Finanziaria Spa Independent Director of Juventus Football Club SpA Director of Same Deutz-Fahr Group SpA
Ferdinando Superti Furga	Chairman of the Board of Statutory Auditors of Fininvest SpA Chairman of the Board of Directors of Banca Intesa Infrastrutture e Sviluppo SpA Deputy Chairman of the Board of Directors of Società Européenne de Banque SA Chairman of the Board of Statutory Auditors of Arnoldo Mondadori Editore SpA Statutory Auditor of Edison SpA Statutory Auditor of Telecom Italia SpA Chairman of the Board of Publitalia'80 SpA Chairman of the Board of Snamprogetti SpA
Erder Mingoli	Chairman of the Board of Directors of Lucchini Sidermeccanica SpA Chairman of the Board of Directors of Bari Fonderie Meridionali SpA Chairman of the Board of Directors of Lucchini UK Ltd Chairman of the Board of Directors of Lucchini Sweden AB Chairman of the Board of Directors of Lucchini Poland Sp. z.o.o.

Each independent Director certified that he or she qualified as independent when his name was placed in nomination. These qualifications were checked by the Board of Directors at the first Board meeting after the election and were verified again by the Board of Directors at its meeting of November 10, 2006. The Board of Directors concurs with the recommendation of the new Code of Conduct published by Borsa Italiana S.p.A., which states that substance rather than form should be the primary consideration when assessing the independence of Directors. Accordingly, it has agreed to review on a timely basis, after the approval of the draft of the 2006 Annual Report, the issues related to the independence requirements of Directors without executive authority in accordance with the recommendations of the new Code of Conduct published by Borsa Italiana S.p.A.

In addition to verifying the qualifications of independent Directors, as mentioned above, the Board of Directors conducted a review with regard to its size, composition and operating procedures, which it concluded with a positive overall assessment.

#### The Chairman and the Chief Executive Officer

On November 15, 2005, the Board of Directors appointed Raffaele Picella Chairman and Enrico Bondi Chief Executive Officer. Pursuant to the Bylaws, both are empowered to represent the Company vis-à-vis third parties and in court proceedings.

The Chief Executive Officer has been given the most ample powers to manage the Company's business. He may take all actions that are consistent with the Company's purpose, with the limits imposed by the applicable laws and excluding those transactions that fall under the sole jurisdiction of the Board of Directors.

At each meeting of the Board of Directors, as required by Article 2381 of the Italian Civil Code and Article 150 of Legislative Decree No. 58/98, the Chief Executive Officer reports to the Board of Directors and the Board of Statutory Auditors on the work he or she has performed, the use of the powers of attorney he has been granted and the material transactions not requiring the prior approval of the Board of Directors that were executed by the Company and its subsidiaries.



### Meetings of the Board of Directors

To the extent that it is feasible, Directors and Statutory Auditors must receive, together with the notice of a meeting, documents explaining the items on the Agenda, except in urgent cases or when special confidentiality must be maintained. In these cases, a comprehensive discussion of the issues must take place. When necessary, the Chief Executive Officer may ask Company executives to attend Board meetings to provide useful information about the items on the Agenda.

In 2006, the Board of Directors met eight times. The attendance percentage of each Director is listed below:

R. Picella	100,0%
E. Bondi	100,0%
V. Mincato	100,0%
M. De Benedetti	87,5%
P. Alberti	75,0%
A. Guerra	75,0%
C. Secchi	100,0%
M. Confortini	100,0%
M. Saà	100,0%
E. Mingoli	100,0%
F. Superti Furga	100,0%

The independent Directors have indicated that they plan to meet separately in 2007. No such meeting were held in 2006.

A calendar of Board meetings that will be convened to review annual and interim results is communicated to Borsa Italiana in January and published on the Company website ([www.parmalat.com](http://www.parmalat.com)).

### Interests of Directors and Transactions with Related Parties

The Board of Directors is responsible for verifying that transactions in which a Director has a personal interest, either directly or for the benefit of a third party, are executed transparently and in a manner that is fair both substantively and procedurally.

Transactions with related parties, including intra-Group transactions, must be approved in advance by the Board of Directors, except for typical or regular transactions (i.e., transactions that in view of their purpose, type, characteristics or conditions are part of the Company's normal course of business and do not entail particular problems because of their characteristics or the risks presented by the counterpart or the timing of their execution) or transactions executed on standard terms (i.e., on terms consistent with market practices).

Transactions that require the approval of the Board of Directors are transactions that, because of their purpose, amount involved or implementation timing could have an impact on the safety of the Company's assets or on the fairness or completeness of accounting and other information.

When justified by the type or characteristics of a transaction, in order to avoid executing it on unfair terms, the Board of Directors may request that the transaction be executed with the support of one or more experts, who will be asked to render an opinion about the financial terms and/or conditions and/or fairness of the transaction.

### Compensation

The total compensation allotted to the Directors currently in office was set at the Shareholders' Meeting held on November 8, 2005, which elected the current Board. On December 15, 2005, the Board of Directors approved a resolution that set the individual compensation of its members. This information is provided in the section of this report entitled "Compensation of Directors and Statutory Auditors."

## 5. Committees

The Board of Directors has established several internal committees that provide consulting support and submit proposals to the Board of Directors. The Board of Directors is informed about the activities of these Committees whenever a Board meeting is held.

### Internal Control and Corporate Governance Committee

This Committee, which comprises three independent Directors without executive authority (Marzio Saà, Chairman; Carlo Secchi; and Ferdinando Superti Furga), performs a consulting and proposal-making function. Sessions of the Committee will be attended by the Chairman of the Board of Statutory Auditors.

The specific functions of this Committee include the following:

- It verifies that the internal control system is working effectively and supports the Board of Directors in defining guidelines for the internal control system. It also supports the Chief Executive Officer in defining the tools and methods needed to implement the internal control system.
- It assists the Board of Directors in performing the tasks described in Article 17, Letters d) and k), of the Bylaws.
- It evaluates the work plans prepared by the Internal Control Officers and reviews the reports these Officers are required to submit on a regular basis.
- It evaluates, together with the Company's accounting officials and the independent auditors, the effectiveness of the accounting principles and their consistent use in the preparation of the consolidated financial statements.
- It evaluates proposals put forth by independent auditors who are seeking the award of the audit assignment, their audit work plans and the findings contained in the audit report and the suggestion letter.
- It approves the annual audit plan.
- It reports to the Board of Directors at least semiannually (in conjunction with the approval of the annual and semiannual reports) on the work done and the adequacy of the internal control system.
- It performs any additional assignments it receives from the Board of Directors, particularly with regard to the relationship with the independent auditors.
- It supports the Board of Directors in the task of establishing the Oversight Board required by Legislative Decree No. 231/2001 and reviews the work performed by the Oversight Board.
- It ensures that the rules of corporate governance are complied with and updates these rules. It performs any other activity that it may deem useful or consistent with the performance of its functions.

In 2006, the Internal Control and Corporate Governance Committee met six times. Each meeting was attended by all Committee members and by the Chairman of the Board of Statutory Auditors. The Committee reviewed the valuation criteria and accounting principles applied to prepare the income statement and balance sheet prior to their submission to the Board of Directors, the Group's independent audit plan, the annual internal audit plan, the projects carried out to implement the Company's governance rules, the programs launched in connection with Legislative Decree No. 231/2001 and those concerning market abuse, focusing on the implementation of the Register of Parties that Have Access to Insider Information required pursuant to Article 115 *bis* of the Uniform Financial Code.

The Committee also provided the Board of Directors with a report reviewing the effectiveness of the internal control system.

### Appointments and Compensation Committee

This Committee, which has three members (Carlo Secchi, Chairman; Andrea Guerra; and Marco De Benedetti), performs a proposal-making function.

The specific functions of this Committee include the following:

- It submits proposals to the Board of Directors regarding the appointment of a Managing Director and the names of Directors who will be coopted by the Board when necessary, as well as proposals regarding the compensation of Directors who perform special functions. A portion of the overall compensation paid to

the abovementioned individuals may be tied to the operating performance of the Company and the Group and may be based on the achievement of specific predetermined targets.

- At the request of the Chief Executive Officer, it evaluates proposals for the appointment and compensation of Chief Executive Officers and Board Chairmen of the main subsidiaries. A portion of the overall compensation paid to the abovementioned individuals may be tied to the operating performance of the Company and the Group and may be based on the achievement of specific predetermined targets. In performing this task, the Committee may request the input of the Manager of the Group Human Resources Department.
- At the request of the Chief Executive Officer, it defines the parameters used to determine the compensation criteria applicable to the Company's senior management and the adoption of stock option and share award plans or other financial instruments that may be used to provide an incentive to and increase the loyalty of senior management. In performing this task, the Committee may request the input of the Manager of the Group Human Resources Department.

In 2006, the Appointments and Compensation Committee met twice. Committee members Carlo Secchi and Marco De Benedetti attended both meetings. Committee member Marco Guerra attended one meeting. At those meetings, the Committee provided its input with regard to the appointments of Board Chairmen and Chief Executive Officers of Group subsidiaries and the Company's senior management team. It also reviewed the program for the management and development of the corporate staff.

#### Litigation Committee

This Committee, which comprises three independent Directors without executive authority (Massimo Confortini, Chairman; Ferdinando Superti Furga; and Vittorio Mincato), provides consulting support to the Chief Executive Officer on litigation related to the insolvency of the companies included in the Composition with Creditors. The Company's Corporate Counsel attends the meetings of this Committee.

The opinions rendered by the Committee with regard to individual issues in litigation are also forwarded to the Board of Directors ahead of the meeting that has the issues in question on its Agenda.

In 2006, the Litigation Committee met eight times. Each meeting was attended by all Committee members, who reviewed all settlement proposals prior to their approval by the Board of Directors

#### Compensation

On November 8, 2005, the Shareholders' Meeting approved a resolution awarding Directors who serve as committee members an additional variable compensation amount based on the actual number of committee meetings. This additional compensation is listed in the section of this Report entitled "Compensation of Directors and Statutory Auditors."

## **6. Board of Statutory Auditors**

The Board of Statutory Auditors ensures that the Company operates in compliance with the law and the Bylaws and performs a management oversight function. By law, it is not responsible for auditing the financial statements, as this function is performed by independent auditors selected by the Shareholders' Meeting.

The Board of Statutory Auditors comprises three Statutory Auditors and two Alternates, all of whom are elected on the basis of slates of candidates to ensure that a Statutory Auditor and an Alternate are elected by minority shareholders. Only shareholders who, alone or together with other shareholders, hold a number of shares equal in the aggregate to at least 1% of the Company's shares that convey the right to vote at Regular Shareholders' Meetings are entitled to file slates of candidates.

As required by the Bylaws, in addition to a list of candidates, the shareholders must file, no later than five days prior to the Shareholders' Meeting, affidavits by which each candidate accepts to stand for election and attests, on his/her responsibility, that there is nothing that would bar the candidate's election or make the candidate unsuitable to hold office and that he/she has met the requirements for election to the respective

office. Each candidate must file a curriculum vitae together with his/her affidavit, listing his/her personal professional data.

The Parmalat Bylaws also contain provisions according to which individuals who serve as Statutory Auditors for more than 5 (five) Italian companies with shares are traded on a regulated Italian market may not be elected to the post of Statutory Auditor and, if elected, will be removed from office automatically.

The current Board of Statutory Auditors was elected at the Shareholders' Meeting of November 8, 2005. It will remain in office until the Shareholders' Meeting convened to approve the financial statements at December 31, 2007. It includes the following three Statutory Auditors:

Alessandro Dolcetti     Chairman  
Enzio Bermani  
Mario Magenes

The Board of Statutory Auditors, at a meeting held on November 9, 2006, ascertained that its members were qualified to serve in their capacity.

#### Compensation

On November 8, 2005, the Shareholders' Meeting approved a resolution concerning the compensation payable to the Board of Statutory Auditors. This compensation is listed in the section of this Report entitled "Compensation of Directors and Statutory Auditors."

### **7. Independent Auditors**

The law requires that each year a firm of independent auditors ascertain that the Company's accounting records are properly maintained and faithfully present the results of operations, and that the statutory and consolidated financial statements fairly reflect the data in the accounting records, are consistent with the findings of the audits performed and comply with the applicable statutes.

Price Waterhouse Coopers has audited the Company's financial statements since the 2005 Annual Report. This assignment will end with the approval of the approval of the 2007 Annual Report.

At the Shareholders' Meeting convened to approve the financial statements at December 31, 2006, the shareholders will be asked to extend the audit assignment for the duration allowed by Legislative Decree No. 303/06, i.e., until the approval of the financial statements at December 31, 2013.

### **8. Internal Control System**

The Company's internal control system is designed to ensure the efficient management of its corporate and business affairs; to make management decisions that are transparent and verifiable; to provide reliable accounting and operating information; to ensure compliance with the applicable statutes; to protect the Company's integrity; and to prevent fraud against the Company and the financial markets in general.

The Board of Directors defines the guidelines of the internal control system and verifies its effectiveness in managing business risks.

The Chief Executive Officer defines the tools and procedures needed to implement the internal control system in a manner that is consistent with the guidelines established by the Board of Directors and ensures that the overall system is adequate, functions correctly and is updated in response to changes in the operating environment and in the statutory and regulatory framework.

The internal control system defined by the Board of Directors must have the following general characteristics:

- at the operating level, authority must be delegated in light of the nature, typical size and risks involved for each class of transactions, and the scope of authority must be consistent with the assigned task;
- the organization must be structured to avoid function overlaps and concentration under one person, without a proper authorization process, of multiple activities that have a high degree of danger or risk;

- each process must conform with an appropriate set of parameters and generate a regular flow of information that measures its efficiency and effectiveness;
- the professional skills and competencies available within the organization and their congruity with the assigned tasks must be checked periodically;
- operating processes must be geared to produce adequate supporting documents, so that their congruity, consistency and transparency may be verified at all times;
- safety mechanisms must provide adequate protection of the Company's assets and ensure access to data when necessary to perform required assignments;
- risks entailed by the pursuit of stated objectives must be identified and adequately monitored and updated on a regular basis, and negative elements that can threaten the organization's operational continuity must be assessed carefully and protections adjusted accordingly;
- the internal control system must be supervised on an ongoing basis and reviewed and updated periodically.

Specifically, the Group's internal control system performs two distinct functions at the operational level:

- Line control, which includes all of the control activities that the Group's individual operating units and companies apply to their processes. These control activities are a primary responsibility of operational managers and are deemed to be an integral part of all Company processes.
- Internal auditing, which is performed by a separate Company organization. The purpose of the internal auditing function is to help the Risk Management office identify and minimize the different types of risks to which the Company is exposed. It accomplishes this goal by monitoring line controls in terms of their effectiveness and the results they produced.

The Board of Directors uses the support of the Internal Control and Corporate Governance Committee to ensure that the guidelines provided above are complied with.

In 2006, the Board of Directors asked the manager of the Group Internal Audit Office to also serve as Internal Control Officer. The Internal Control Officer is hierarchically independent of executives that oversee operational departments and report directly to the Chief Executive Officer. The Internal Control Officer provides information on an ongoing basis to the Internal Control and Corporate Governance Committee and the Board of Statutory Auditors.

The internal control system has been upgraded with the adoption of the Organization and Management Model required by Legislative Decree No. 231/2001. On November 10, 2006, the Board of Directors approved the Model and appointed an Oversight Board that, in accordance with the abovementioned Decree, will be responsible for overseeing the implementation of the Model. The members of the Oversight Board are an independent Director, a Statutory Auditor and the Internal Audit Manager.

Following the approval of the Organization and Management Model by the Parent Company, the Group implementing the process of helping the Italian subsidiaries implement/upgrade similar Models.

Lastly, the Company began to carry out the activities required to achieve compliance with the regulatory requirements of Law No. 262/05, as amended by Legislative Decree No. 303/06, particularly with regard to the provisions concerning the Officer responsible for the preparation of accounting documents.

The Board of Directors accepted and concurs with the recommendation expressed by the Internal Control and Corporate Governance Committee on the occasion of a meeting held on March 8, 2007, according to which: *"the Committee, based on the report submitted by the Internal Control Officer, finds that the internal control system of Parmalat S.p.A. is adequate and operates effectively and recommends the completion of the risk assessment program (already partly implemented with the Management Control project carried out as part of the Organization Model required by Legislative Decree 231 and the SCI - Internal Control System Project), with the goal of providing Parmalat S.p.A. with a comprehensive risk management system."*

## **9. Handling of Corporate Information**

Company Directors, Statutory Auditors and employees are required to treat as confidential the documents and information to which they may become privy in the performance of their functions and must comply with the procedure specifically established for the public disclosure of said documents and information.

Among other issues, the Company's Code of Ethics defines the functions, operating procedures and responsibilities that relate to the communication and dissemination of information concerning the Company and the Group. In all cases, the dissemination of such information requires the prior approval of the Company's Chief Executive Officer.

The Company has also adopted an Internal Dealings Handling Code, which governs the disclosure requirements and conduct obligations associated with transactions involving financial instruments issued by the Company in an amount greater than 5,000.00 euros, as required by Consob Regulation No. 11971, by so-called Significant Persons who may have access to insider information about the Company and the Group.

Lastly, the Company established the Register of Parties that Have Access to Insider Information required pursuant to Article 115 *bis* of the Uniform Financial Code. This register, which is operated with a special software, has been prepared in accordance with Consob guidelines in order to provide an accurate flow of corporate data and is operated in a manner that specifically takes into account the risks inherent in all material corporate information. The Corporate Affairs Office is responsible for managing the register.

## **10. Communications with Shareholders and Institutional Investors**

The Company supports any initiative that encourages the largest possible number of shareholders to attend Shareholders' Meetings and helps them exercise their rights.

As requires by the relevant provisions of the statutes currently in force, all relevant information is promptly communicated to the financial markets and is made available at the Company website: [www.parmalat.com](http://www.parmalat.com).

In addition to the opportunities provided by the Shareholders' Meetings, the Company's dialog with its shareholders and institutional investors continues on the occasion of regular meetings with members of the Italian and international financial communities organized by the Investor Relations Office and with the support of the Corporate Affairs Office.

## **11. Information About Compliance with the Recommendations of the Code of Conduct for Listed Companies Published by Borsa Italiana S.p.A. in March 2006 ("the Code")**

The instructions contained in Section IA.2.6 of the Market Regulations approved by Borsa Italiana on January 15, 2007 require that the Corporate Governance Report published concurrently with the approval of the 2006 financial statements provide information about the implementation of the Code of Conduct published by Borsa Italiana S.p.A. in March 2006 ("the Code").

The information must be detailed and indicate any discrepancies with the Code, explaining the reasons for these discrepancies and the actions that will be taken to comply with the recommendations of Borsa Italiana.

In addition to making reference to the comments provided in Section 4 of this Report, additional information is provided below, reviewing in sequence the chapters of the Code:

### **Functions of the Board of Directors**

The Board of Directors has sole jurisdiction on the issues suggested by Borsa Italiana in the Code and the Code implementation guidelines. However, the exclusive jurisdiction of the Board of Directors is not expressly stated with regard to: i) assessing the overall effectiveness of the accounting systems of the issuer and its strategically significant subsidiaries as implemented by the respective Chief Executive Officers, particularly insofar as it applies to the internal control systems and the handling of conflicts of interest; ii) assessing the Group's overall operating performance, taking into account the specific information provided by Directors to whom it has delegated executive powers, and comparing on a regular basis actual and budgeted results.

In this area, both the Bylaws and the Code of Ethics assign to the Boards of Directors exclusive jurisdiction with regard to: i) assessing the effectiveness of the overall organizational and administrative structure of the Company and the Group; ii) overseeing the Group's overall operating performance, focusing in particular on conflict-of-interest situations and taking into account the specific information provided by Directors to whom it has delegated executive powers, the Executive Committee (if one has been established) and the Internal Control and Corporate Governance Committee, and comparing on a regular basis actual and budgeted results.

As required by Article 10 of the Company Bylaws, until the approval of the financial statements for the year ending December 31, 2009, any amendment to the provisions of the Bylaws that concerns issues over which the Board of Directors has exclusive jurisdiction requires the favorable vote of shareholders representing at least 95% of the share capital.

Even though neither the Bylaws nor the Code of Ethics require that the Board of Directors perform, at least once a year, an assessment of the appropriateness of its size and its effectiveness and of those of its Committees (providing, if appropriate, an indication of the professional skills that would be most desirable), the Board of Directors has performed such an assessment with positive results.

Thus far, the Board of Directors has not expressed an opinion as to the maximum number of Boards of Directors and Boards of Statutory Auditors (of publicly traded companies, financial institutions, insurance companies and large enterprises) on which Company Directors and Statutory Auditors may serve compatibly with an effective performance of their duties.

As to the functions of Directors, the initial section of Article 13 of the Bylaws reads as follows:

**“Article 13 – Obligations Incumbent Upon Directors**

Directors bring to the Company the unique professional skills they possess and must be aware of the tasks and responsibilities entailed by their office. Directors must act and deliberate with full understanding of the issues at hand and with full autonomy, while pursuing the objective of creating value for the shareholders. Directors may accept their appointment only when they believe that they will be able to devote sufficient time to the task of discharging their duties, based on the number of Boards of Directors or Boards of Statutory Auditors of companies with shares traded on regulated markets, in Italy or abroad, or Boards of banking, insurance or large private companies on which they may be serving. Directors will treat as confidential any information to which they may have access through the office they hold. The Chairman and any Managing Directors shall inform the Board of Directors of new legislative or regulatory developments that affect the Company or its corporate governance bodies. .... OMISSIS ”

This provision is consistent with the recommendations of the Code.

**Composition of the Board of Directors**

Article 14 of the Bylaws states that the Chairman of the Board of Directors is never allowed to combine his or her office with that of Managing Director. This provision implements one of the guidelines provided in the Code by Borsa Italiana with the objective of avoiding the concentration of corporate governance function in a single person. It is also consistent with best international practice, according to which it is best to avoid concentrating multiple functions in a single person without appropriate checks and balances. Specifically, a frequent recommendation is to separate the functions of Chairman and Chief Executive Officer, who is a Director that, by virtue of the powers that have been delegated to him or her and the specific manner in which he or she exercises those powers, is chiefly responsible for managing the Company.

The Company is not required to appoint a Lead Independent Director, since the Code published by Borsa Italiana recommends it in those cases in which the Chairman is the person who controls the issuer or is chiefly responsible for managing the Company.

**Independent Directors**

Article 12 of the Bylaws lists the independence requirements for Directors without executive authority (consistent with the recommendations provided by Borsa Italiana in the Code of Conduct published in 2002),

According to Article 10 of the Bylaws, any amendment to the abovementioned Article of the Bylaws will require, until the financial statements for the fiscal year ended December 31, 2009 have been approved, the favorable vote of shareholders representing at least 95% of the share capital, whether the Meeting is held on the first or a subsequent calling.

### **Handling of Corporate Information**

Article 13 (Obligations Incumbent Upon Directors) and Article 22 (Obligations Incumbent Upon the Board of Statutory Auditors) are consistent with the Code's guidelines. Moreover, as explained in Section 9 of this Report, the Company has adopted an Internal Dealing Handling Code.

### **Establishing and Operating Internal Board of Directors Committees and Appointment and Compensation of Directors**

As explained in Section 5 of this Report, the Company has adopted the Code's implementation guidelines. The establishment of Committees is also required by Article 18 of the Bylaws.

As for the appointment of Directors, as explained in Section 4 of this Report, on the occasion of the next Shareholders' Meeting convened to elect new corporate governance bodies, the Board of Directors intends to recommend that shareholders file slates within the 15 (fifteen) days deadline recommended by Borsa Italiana S.p.A. in the Code of Conduct approved on March 2006, even though the deadline set forth in the Bylaws will remain at 5 (five) days.

### **Internal Control System**

As explained in Section 8 of this Report, the Company has adopted the Code's implementation guidelines, taking into account the recommendations provided by the Internal Control and Corporate Governance Committee, which are listed on page 13. The Board of Directors performs a central role with regard to internal controls: it is responsible for adopting a system that is appropriate for the Company's characteristics. The necessary analytical work is the responsibility of the Internal Control and Corporate Governance Committee (whose members are exclusively independent Directors), which provides consulting support and makes recommendations to the Board. The function of this Committee is different from the function performed by the Board of Statutory Auditors. The Chairman of the Board of Statutory Auditors or a Statutory Auditor designated by the Chairman of the Board of Statutory Auditors attends the meetings of the Internal Control and Corporate Governance Committee.

### **Interests of Directors and Transactions with Related Parties**

As explained in Section 4 of this Report, the provisions of the Code of Ethics are consistent with the Code's recommendations. Specifically, Section 14 of the Code of Ethics states that: i) Substantive fairness, particularly with regard to nonrecurring or otherwise material transactions, is achieved by following action guidelines that are consistent with best international practices, which have found widespread acceptance in Italy, and include the use of advisors for the preparation of fairness opinions and outside counsel for the issuance of legal opinions. When highly significant transactions are involved, in keeping with the principles of independence, the Board of Directors must use different experts for each related party. ii) Based on the nature, value and other characteristics of the transaction, the Board of Directors will rely on the advice of one or more experts to determine if the terms of the transaction are fair. Depending on the circumstances, these experts will be called upon to express an opinion about the financial terms and/or lawfulness and/or technical aspects of the transaction. iii) In choosing the abovementioned experts, the Board of Directors must approach individuals of proven professional skill and competence in the applicable subject area, and their independence and lack of conflict of interest must be checked carefully. In the most significant cases, in keeping with the principles of independence, the Board of Directors must use different experts for each related party.



### **Statutory Auditors**

As explained in Section 6 of this Report, the Company has adopted the Code's recommendation.

### **Shareholder Relations**

As explained in Sections 2 and 10 of this Report, the Company has adopted the Code's recommendations. The Board of Directors has not asked shareholders to approve regulation to govern the handling of Shareholders' Meetings, since it believes that, pursuant to Article 10 of the Bylaws, the Chairman of the Board of Directors has sufficient powers, using if needed the support of assistants, to determine whether a Shareholders' Meeting has been properly convened, verify the identities and eligibility of the attendees, conduct an orderly meeting and verify the outcomes of votes. However, Article 10 of the Bylaws does provide the option of adopting Shareholders' Meeting regulations.

### **Planned Activities**

The Board of Directors intends to discuss on a timely basis, but not later than the first meeting it will hold following the approval of the draft 2006 Annual Report, the matter of the clarifications that may be appropriate with regard to a description of the issues that should be reserved for the exclusive jurisdiction of the Board of Directors and the adoption of independence requirements for Directors without executive authority that are consistent with the Code's guidelines, and will express its views with regard to the maximum number of Boards of Directors and Boards of Statutory Auditors on which it is permissible to serve.

## Compensation of Directors and Statutory Auditors

On November 8, 2005, the Shareholders' Meeting approved a resolution granting to the Board of Directors a total annual compensation of 1,000,000.00 euros. On December 15, 2005, the Board of Directors allocated this amount as follows:

- To each Director a fixed fee of €20,000.00 and a variable fee of up to €20,000.00, based on the percentage of attendance at Board meetings, as follows:
  - for less than 50% attendance €0;
  - for an attendance between 50% and 70% €10,000.00;
  - for an attendance greater than 70% €20,000.00;
- For the Chairman an additional fee of €210,000.00;
- For the Chief Executive Officer and additional fee of €350,000.00.

In addition, Directors who serve on Board Committee receive an attendance fee for each meeting amounting to 5,00 euros for the Committee Chairman and 3,000 euros for the other Committee members.

Compensation for 2006 – Amounts in thousands of euros

Directors	Fixed annual fee	Variable fee	Committee attendance fee	Oversight Board fee	Total compensation for posts held at the company preparing annual financial statements at 12/31/06	Non-cash benefits	Bonus and other incentives	Other compensation
Raffaele Picella	230	20			250			
Enrico Bondi	370	20			390			
Vittorio Mincato	20	20	24		64			
Marco De Benedetti	20	20	6		46			
Piergiorgio Alberti	20	20			40			
Andrea Guerra	20	20	3		43			
Carlo Secchi	20	20	28		68			
Massimo Confortini	20	20	40		80			
Marzio Saà	20	20	30	8,8	78,8			
Erder Mingoli	20	20			40			
Ferdinando Superti Furga	20	20	42		82			
	<b>780</b>	<b>220</b>	<b>173</b>	<b>8,8</b>	<b>1.181,8</b>	<b>===</b>	<b>===</b>	<b>===</b>
<b>Statutory Auditors</b>								
Alessandro Dolcetti	50				50			
Enzio Bermani	35				35			13,6
Mario Magenes	35			8,8	43,8			
	<b>120</b>	<b>===</b>	<b>===</b>	<b>8,8</b>	<b>128,8</b>	<b>===</b>	<b>===</b>	<b>13,6</b>

On November 8, 2005, the Shareholders' Meeting also approved the annual compensation payable to the members of the Board of Statutory Auditors, as follows: 50,000 euros for the Chairman and 35,000 euros for each Statutory Auditor.

## EQUITY INVESTMENTS HELD BY MEMBERS OF THE CORPORATE GOVERNANCE BODIES

FIRST AND LAST NAME	INVESTE E COMPANY	NUMBER OF SHARES HELD	NUMBER OF SHARES BOUGHT	NUMBER OF SHARES SOLD	NUMBER OF SHARES HELD
		at January 1, 2006	in 2006	in 2006	at December 31, 2006
<b>Directors</b>					
Raffaele Picella	---	---	---	---	---
Enrico Bondi	---	---	---	---	---
Massimo Confortini	---	---	---	---	---
Marco De Benedetti	---	---	---	---	---
Ferdinando Superti Furga	---	---	---	---	---
Andrea Guerra	---	---	---	---	---
Vittorio Mincato	---	---	---	---	---
Piergiorgio Alberti	---	---	---	---	---
Erder Mingoli	---	---	---	---	---
Marzio Saà	---	---	---	---	---
Carlo Secchi	---	---	---	---	---
<b>Statutory Auditors</b>					
Alessandro Dolcetti	---	---	---	---	---
Enzio Bermani	---	---	---	---	---
Mario Magenes	---	---	---	---	---