

A close-up photograph of several dark brown, roasted coffee beans resting on a vibrant green coffee leaf. The leaf is slightly curled, and the background is a soft, out-of-focus light green.

SEED:S

Social
Environmental
Economic
Development
Sustainability

2018 Sustainable Value Report

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Letter to stakeholder

This year, we are once again providing a comprehensive overview of the social, environmental and economic impact of our business in the Sustainable Value Report. With a view to supporting an ever increasing integration between economic and financial criteria, on one hand, and social and environmental criteria, on the other, this integrated Report describes the mission, the strategy and the business approach of our organisation on the basis of different forms of capital: financial, production, intellectual, human, relational and natural capital.

People are always our focus, as we provide excellence in the services to our customers and consumers and we are committed to keeping up a dialogue with our communities on a continuous basis. Sustainability is an integral part of our business attitude and it guides us into our growth strategy. For illycaffè, 2018 was a significant year: the consolidated turnover rose by 3.5% and profits increased by 8.4% over 2017. We introduced new solutions to promote social growth, focussing on rural coffee communities, and to reduce the environmental impact of our business. We enhanced the partnerships between the private and the public sectors, such as in Colombia with SENA (Servicio Nacional de Aprendizaje) in the framework of the Peace Agreement between the former FARC and the Republic of Colombia; we had already worked with this organisation, as we successfully trained former fighters and their victims in the coffee regions to enable them to go back to civilian life. We signed an agreement with UNIDO (United Nations Industrial Development Organisation) on the implementation of a project in Mozambique to develop the coffee supply chain and increase the income of small producers in the province of Cabo Delgado. In Honduras, we worked with Cohondu Foundation to build an extension of the school in El Suntular for children of coffee pickers.

In 2018, we continued to review best practices and technology to minimize the environmental impact of our products, focussing on the implementation of the circular economy for coffee machines in line with the notions of "modular design" and "design of disassembling".

We had an active role in the debate on climate change, as it affects agriculture on a global scale, including coffee, and we promoted the C-GAP Project to engage entrepreneurs, governments and associations, supporting investments on feasible solutions. Our research labs have contributed to a number of international projects to mitigate the impact of climate change, such as Breedcafs, a 4-year programme, supported by the EU, on coffee varieties

adapting to the climate change. In 2018, we also provided the scientific community with public access to the raw data on the reconstruction of the genome of *Coffea arabica* in the Web site of World Coffee Research (a non-profit organization on research and development of the coffee sector at international level), enabling researchers to isolate the agronomic traits that are relevant for coffee growers and consumers.

In the framework of all these efforts, we are aware that the actual value of our work stems from our contribution to improving the quality of life for people and communities. And this would not have been possible without the dedication and the passion of the people working at illycaffè and their relentless commitment to build together the virtuous growth path which is our distinguishing feature.

Andrea Illy
Chairman

Massimiliano Pogliani
CEO



SEED:S

Social
Environmental
Economic
Development
Sustainability

IDENTITY



1.1

il.lycaffè

il.lycaffè key figures

144
countries

100,000
Selling points serving
il.ly coffee

1,294
employees worldwide

483
million Euro:
total sales in 2018

259
single-brand stores
at global level

il.lycaffè is based in Trieste and it is led by the third and fourth generations of Illy family. The company produces and sells, at global level, a unique blend of premium quality coffee, consisting of 100% Arabica from 9 different origins that are selected, each season, from over 20 growing areas. The balance obtained by combining these beans – from South America, Central America, Asia and Africa – results into the distinctive il.lycaffè flavour and aroma: consistent in each single espresso cup, all over the world, and perfect for any occasion. il.ly espresso is distributed in the premium hospitality channel (high-end hotels, restaurants and coffee shops), in corporate stores and in single-brand coffee shops; it is available for home and office consumption (portioned systems and vending machines) as well as on air-planes, cruise ships, trains and on-line direct and indirect e-commerce platforms. il.lycaffè is available in 3-kg. and 1.5-kg. cans for coffee bars, in small 250-gram cans for home consumption, and in capsules and E.S.E. (Easy Serving Espresso) pods. Currently il.lycaffè is distributed in over 140 countries, in all continents, and it is served in about 100,000 coffee bars and shops. About 8 million il.lycaffè cups are estimated to be served every day at global level. There's a great focus on the culture of coffee, and this is why the company founded Università del Caffè (University of Coffee) in 1999, which has now 28 branches worldwide; study programmes and courses have been conceived to cater for three categories: coffee growers, baristas and consumers.



■ 1.1.1 illy Group

Gruppo illy S.p.A. is the Illy family holding company and it includes a number of subsidiaries: Domori (manufacturers of high-quality chocolate products and exclusive distribution of Tattinger champagne in Italy), Dammann Frères (house of tea) and Mastrojanni (a winery in Montalcino, Tuscany). Agrimontana (a leader in the production of high-end pastry products, including marrons glacés and fruit preserves) and it works with the British

Prestat, official royal chocolate supplier. Gruppo illy S.p.A. was established to develop a premium food and beverage hub including companies that are leaders in their high-end markets. Each company is led by its respective founders or the relevant successors to preserve a substantial managing independence and to boost the drive to research and innovation of individual brands. Each company has its own history and know-how. The holding company constantly strives to identify synergies also in terms of sustainability.



1.2

illycaffè history



THE FIRST PATENT

The application for the patent on the pressurization process was filed in Italy (it was released in 1934). This patent was released in Germany in 1933.

ILLETTA

Francesco Illy invented "Illetta", the prototype of coffee machines, and the pressurization process: a revolutionary method for food preservation



PODS:

ILLY WAS THE FIRST illycaffè was the first company in the world to introduce coffee pods for high-quality coffee everywhere.



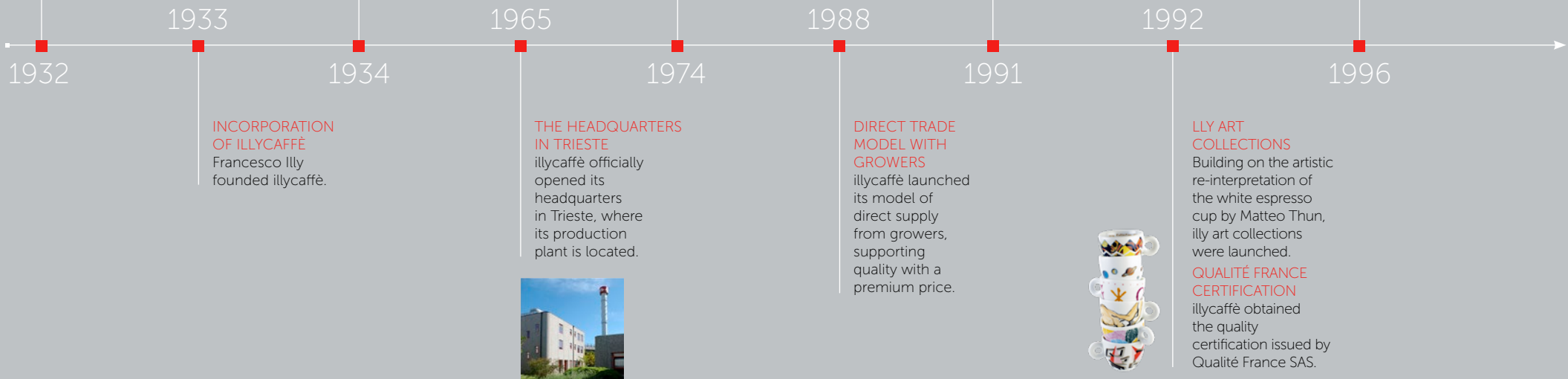
COFFEE QUALITY AWARD

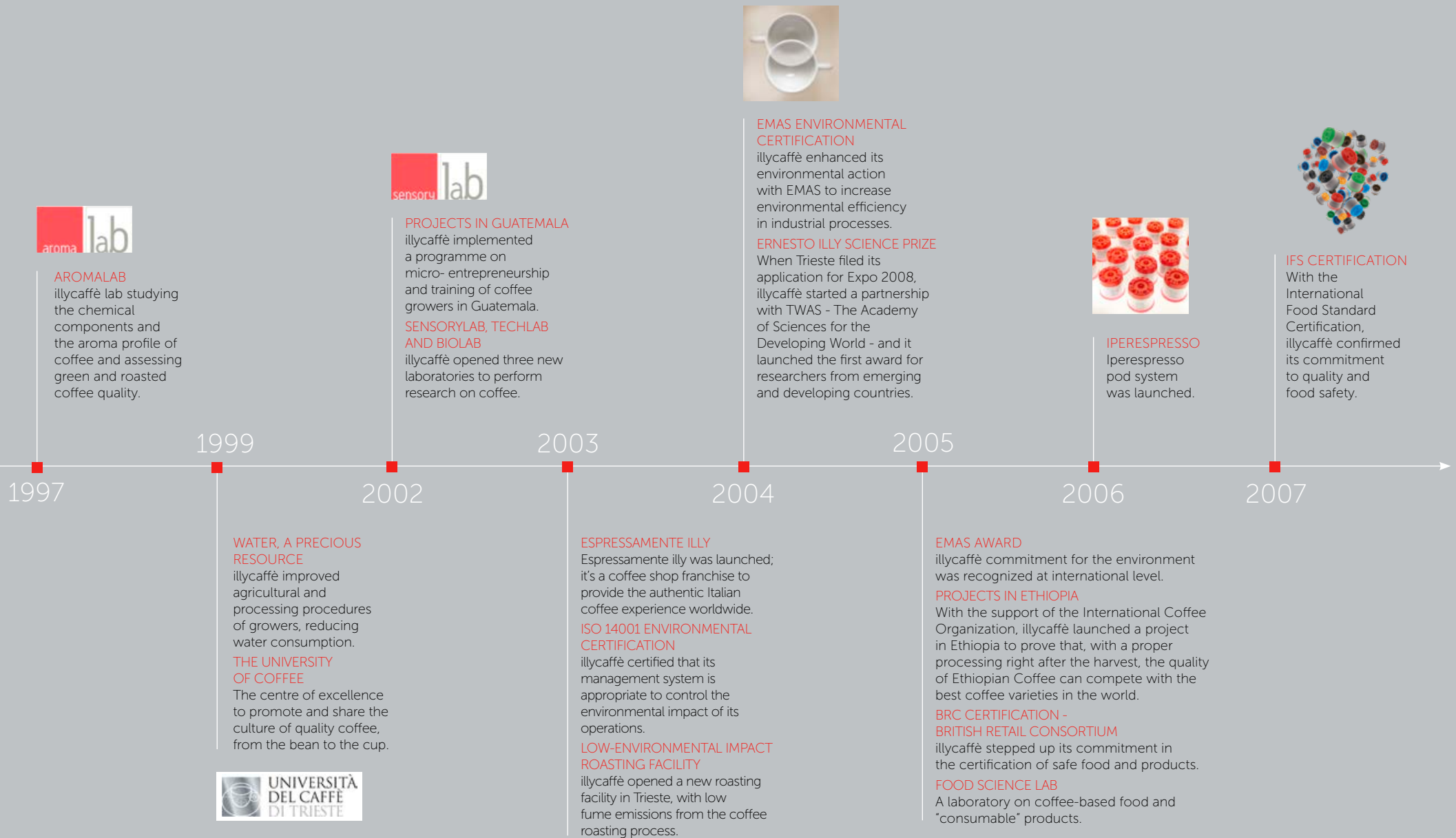
First Edition of Ernesto Illy por la Qualidade do Café para Espresso Award in Brazil. This event has always been coordinated by Anna Illy.



INTRODUCTION OF THE CURRENT LOGO

Artist James Rosenquist created the new illy logo. FIRST TO OBTAIN ISO 9001 ACCREDITATION illycaffè was the first coffee company to obtain the ISO 9001 certification for its quality management system







**ISO 17025
ACCREDITATION**
illycaffè AromaLab
and SensoryLab
were certified
by Accredia.

1st SUSTAINABLE VALUE REPORT

illycaffè launched
a communication
and engagement process
for its stakeholders
on sustainability.

GLOBAL COMPACT

illycaffè signed the UN Global
Compact.

CARBON FOOTPRINT

In cooperation with the Italian
Ministry of the Environment,
illycaffè launched a project
to calculate its carbon footprint
over the whole product life-cycle.

ICRT - INTERNATIONAL CONSUMER RESEARCH & TASTING

illycaffè obtained the highest
score among coffee roasters
in the framework of the
independent ICRT survey
for its action on social and
environmental responsibility
for coffee growers.

2008

ILLY ISSIMO

illy issimo, a new ready-to-drink coffee, resulting
from a joint venture with The Coca Cola Company.

ERNESTO ILLY FOUNDATION

This Foundation was set up to promote the legacy
of Ernesto Illy.

OXFORD UNIVERSITY

In cooperation with the Environmental Change Institute
of the Oxford University, illycaffè supported a research
project on coffee growing sustainability.

ATLANTIC RAINFOREST IN BRAZIL

illycaffè launched a partnership with Istituto Terra for
a reforestation project in a large area of the Atlantic
forest region in Brazil.

SUSTAINABILITY AWARD IN BRAZIL

illycaffè launched the "Sustainable Conduct Award"
initiative, a prize for coffee growers achieving
sustainability objectives in Brazil.



2011

RESPONSIBLE SUPPLY CHAIN PROCESS CERTIFICATION

illycaffè obtains from DNV GL,
first in the world, the certification
who place at the center of the
sustainability's concept the quality
and the creation of value for all the
stakeholders, with a particular focus
to the phase of cultivation and
selection of the green coffee.

ILLYSHOP AND ILLYTECA

illyshop: single-brand boutique
shop with the complete range
of illy products. ILLYTECA is a point
of sale offering any available products,
technology and accessories of
all five Group proprietary brands.



2012

2013

WORLD MOST ETHICAL COMPANY

illycaffè is the only
Italian company
in the list of the
world most ethical
companies for
the year 2013, by
Ethisphere Institute.

**WORLD'S MOST
ETHICAL
COMPANIES**

2014

2014-2015

WORLD MOST ETHICAL COMPANY

illycaffè was listed
in the World's Most
Ethical Company.

**WORLD'S MOST
ETHICAL
COMPANIES**



EXPO 2015

illycaffè was the Official Coffee Partner, also in terms of sustainability. illycaffè, Official Coffee Partner of Expo Milan 2015, was exclusively appointed for the Expo Coffee Cluster, with the responsibility to design and manage contents and events of the cluster, hosting and supporting the participation of the ten countries representing coffee growers globally. illycaffè search for excellence, passion, innovation and its focus on sustainable development were the drivers of the project. Entirely devoted to coffee and countries where coffee beans are grown, the Coffee Cluster hosted the greatest celebration of coffee in history. Created jointly with the International Coffee Organization (ICO), it was conceived as a meeting place between production and consumption.

PRIVATE-PUBLIC PARTNERSHIP WITH UNIDO

In cooperation with UNIDO, illycaffè worked on the project "Improving the Sustainability and Inclusiveness of the Ethiopian Coffee Value Chain through Private and Public Partnership" to develop the whole Ethiopian coffee sector.

PARTNERSHIP WITH SENA IN COLOMBIA

illycaffè signed a memorandum of understanding with SENA - Servicio Nacional de Aprendizaje, a Colombian public authority - to launch an international cooperation aimed at transferring know-how and good practices on coffee production and preparation to the benefit of both producers and consumers.

COOPERATION WITH SENA ON THE PEACE AGREEMENT IN COLOMBIA

Cooperation with SENA - Servicio Nacional de Aprendizaje, a Colombian public authority, was extended and it became part of the Peace Agreement between FARC and the Republic of Colombia; in this framework, illycaffè provides training sessions in areas that were affected by the civil war, for the victims, former fighters trying to go back to civilian life, associations of women coffee growers and teachers of rural schools whose curricula include a module entirely focussing on quality coffee production.

2015

2016

ERNESTO ILLY INTERNATIONAL COFFEE AWARD

An award was created for the best coffee selected in the regions contributing to illy unique blend and it involves all growers the company works with. It is also a tribute to Ernesto Illy, a visionary leader, who always supported scientific research.



2017

2016-2018

WORLD MOST ETHICAL COMPANY
illycaffè was awarded as the World's Most Ethical Company.

**NEW GOVERNANCE
AND SUSTAINABILITY POLICY**
illycaffè commitment in the area of sustainability is implemented with a new Governance and Sustainability Policy in line with the UN SDGs.



■ 1.3

Corporate governance and organisation system

The company has implemented a governance and control system to achieve a sustainable development in its business, in compliance with any applicable regulation, and to pursue a balance between economic, social and environmental priorities. The system is based on the traditional administration and control system model, with a General Meeting, a Board of Directors and a Board of Auditors.

Board of Directors

illycaffè Board of Directors plays a central role in guiding and directing the company. It has the authority to take major financial and strategic decisions and it has the responsibility to control and direct the corporate business.

The Board of Directors includes the following committees:

- Internal Control and Risk Committee
- Nomination and Compensation Committee
- Sustainability Committee

Internal Control and Risk Committee

It supervises the operation and the effectiveness of the internal control and risk management system. It includes 3 non-executive directors, and 2 of them are independent directors.

Nomination and Compensation Committee

It includes 3 independent directors. It presents proposals to the Board of Directors on the remuneration of the CEO and directors, and on the criteria for the determination of the remuneration of the top management. In determining the remuneration of the top management, illycaffè is also assisted by external independent consultants.

Chief Risk Manager

The Chief Risk Manager has the responsibility to assess risks on the supply chain, products, safety, environment, intellectual property, market, information technology, legal, finance and reputation associated with corporate operations in the short and medium term. The Chief Risk Manager has also the responsibility to draft a Risk Assessment Program and it reports, on regular basis, to the Chairman, the Board of Auditors and the Supervisory Board.

Internal Audit

This function performs audits to analyse and check the adequacy, regularity, reliability and operation of processes as well as the effectiveness of the control systems.

Sustainability Committee

It is appointed by the Board of Directors and it includes at least 2 non-executive independent directors (in 2019, with the new BoD, members are all independent directors). This Committee is in charge of supervising sustainability issues and to assist the Board of Directors, providing advice and recommendations on reviews and decisions on sustainability. The company set out the rules, the activities and the scope of its responsibilities and it launched a Board induction session to explore and address key sustainability issues with the top management. The Director in charge of Corporate Reputation & Sustainability reports to the Committee on the global sustainability scenario and on any initiatives, tools and systems that illycaffè has developed on socially responsible management. He/she is also in charge of relations with company stakeholders and a multi-function working group established with the specific task to define the Sustainability Strategy and the relevant Operational Plan to the Committee. This Plan is part of the Long-Term Strategic Plan.

The first Sustainability Plan was debated and approved by the Sustainability Committee together with the analysis on materiality and the assessment on the effectiveness of the relevant policies. This resulted into the identification of the key topics of the actions for 2018, with a focus on risk assessment.



■ 1.4

Mission, Vision, Values

MISSION

Delighting everyone who loves the quality of life all around the world with the greatest coffee nature can provide, enhanced by the best technologies and sustainable practices, and the pursuit of beauty in everything we do.

VISION

Offering the greatest coffee experience to the world as our contribution to live happily.

VALUES

We are a stakeholder company whose aim is to contribute to people's happiness through ethics, excellence, passion and innovation.

↓ DOWNLOAD

For downloading

- [Code of Ethics and Organizational Model 231](#)
- [Sustainability Policy](#)



■ ORGANIZATIONAL MODEL AND CODE OF ETHICS

illycaffè adopted its Organization, Management and Control Model on a voluntary basis in line with Legislative Decree no. 231/2001. The latest update of the Model was introduced in December 2017. The Supervisory Board, which is in charge of supervising its operation, efficacy and compliance, did not detect any corruption case in 2018.

illycaffè adopted the Code of Ethics, introducing values and provisions that are in line with corporate principles, and it applies to corporate bodies, employees and third parties. In February 2018, the Board of Directors updated the Code of Ethics, sharing it with all subsidiaries and branches. The Italian version of the Code of Ethics was translated and published in seven languages.

illycaffè also adopted a Code of Conduct for Suppliers, requiring suppliers to comply with any applicable regulation; for any further information, see the section on suppliers.

■ 1.5

The market – external conditions and outlook

In 2018, the world economy kept growing. However, by the end of the year, there were signs that growth had picked and that the economy in the US, Europe and Asia was slowing down. The world economy is expected to grow by 3.2% in 2019 and 3.4% in 2020. The Euro area grew by 1.8% in 2018 and it is expected to grow by 1.2% in 2019 and 1.4% in 2020. In line with the OECD economic outlook, the escalation of trade conflicts, starting from US and China, and major financial issues may significantly affect the economic growth, reducing investments and confidence on a global scale. The unemployment rate remained unchanged at 7.9%, the lowest level in ten years.

The Italian economy started losing momentum at the beginning of 2018 and it decreased in the second semester with the GDP going down by 0.2% in the last quarter. While the slowdown was the result of sluggish trade at global level, the recent economic downturn was the result of a poor domestic demand.

The company trades in over 140 countries. In 2018, performance trends in a number of countries were mixed, depending on macroeconomic conditions. In 2018, the volume of sales rose by about 5% over 2017.

In general all consumption segments (ground, decaffeinated, beans) decreased in terms of volumes vs. last year, save as for capsules, which have kept up a double digit growth (+14% in terms of volume, +10% in terms of value vs. 2017) and pods that have been growing in terms of volume.

■ 1.6

Risks and opportunities

illycaffè has adopted a detailed policy on corporate risks. Financial risks are assessed to stabilize cash flows and ensure consistency with the relevant budget. As for non-financial risks, the Company enhanced the Risk Management Function to map and regularly monitor any risks that may have a significant impact on the corporate objectives and value.

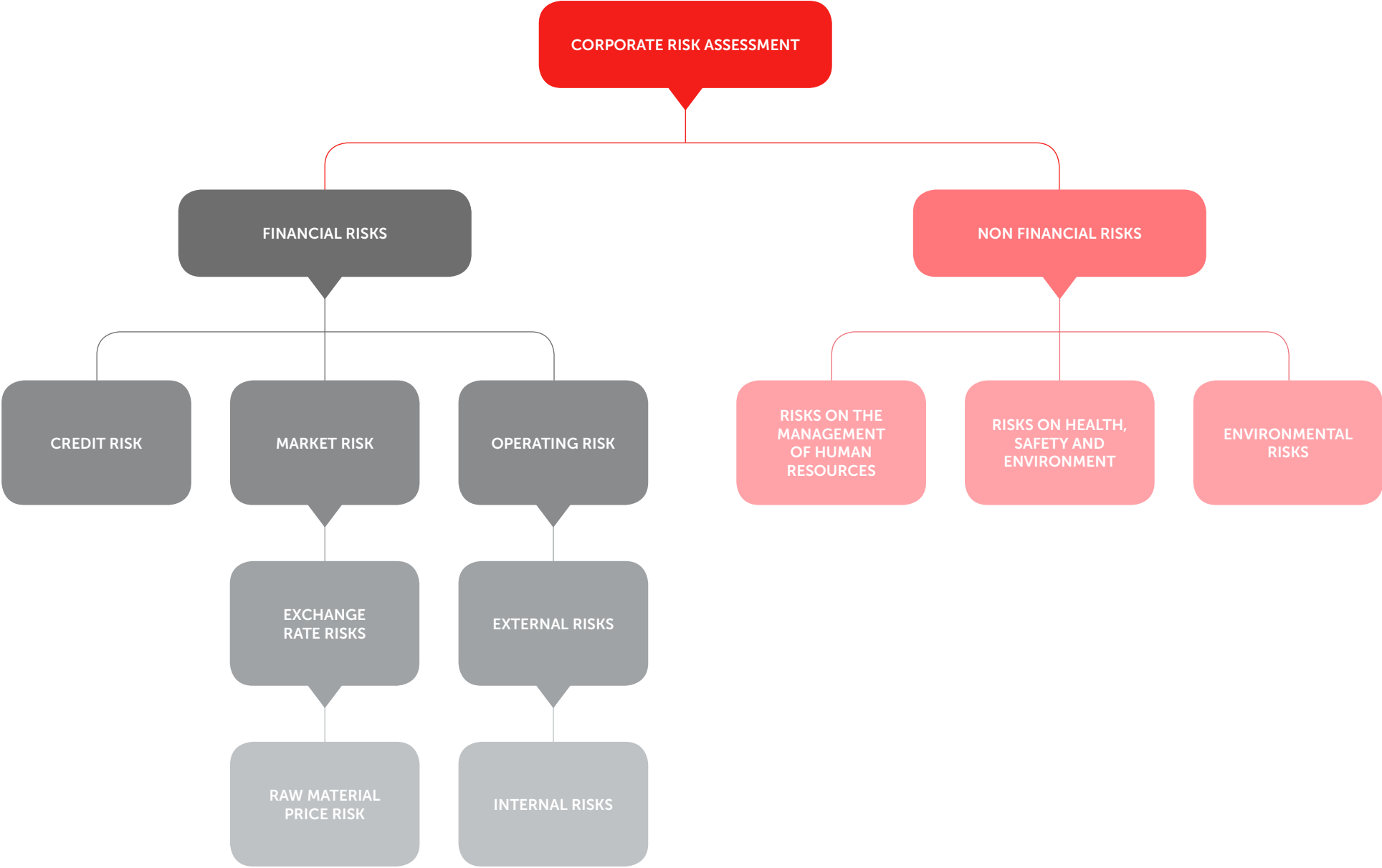
The Administration, Finance and Control Department is responsible for financial risks at central level, in line with the guidelines that have been defined with the top management, i.e.: credit risk resulting from insolvent customers; operating risks resulting from external conditions (i.e. difficulty in obtaining coffee) and internal conditions (factors that may affect strategic decisions or any adverse impact of processes or business management); and market risk which includes the exchange rate risk (resulting from variations in the equivalent amounts in Euro for cash flows in foreign currencies deriving from the difference between the exchange rate included in the budget and the actual exchange rate); raw material price risk (resulting from fluctuations in the price of the raw material, as the coffee market is very volatile).

The company regularly maps and monitors risks, including non-financial risks, that may have a significant impact on the corporate objectives and value, coordinating the business with a uniform method for its functions in the framework of the Enterprise Risk Management.

The Supervisory Board reviewed the operation and the compliance of the organization, management and control models and it updated them, focussing on crime prevention. It confirmed that the Organizational Model pursuant to ex Leg. Decree no. 231/01 is appropriate, it takes into account the actual situation of the company, and organisation, management and control procedures are appropriate and compliant with the prevention objectives specified in Leg. Decree no. 23/101.

As for the risks resulting from HR management, illycaffè is aware of the central role of human resources, who are strategic partners, and the importance of transparency based on mutual fairness and trust and on the principles of the Code of Ethics that the Company has recently adopted. Management and cooperation in employment relations are based on compliance with the workers' rights and full awareness of their contribution with a view to supporting their professional development and growth.

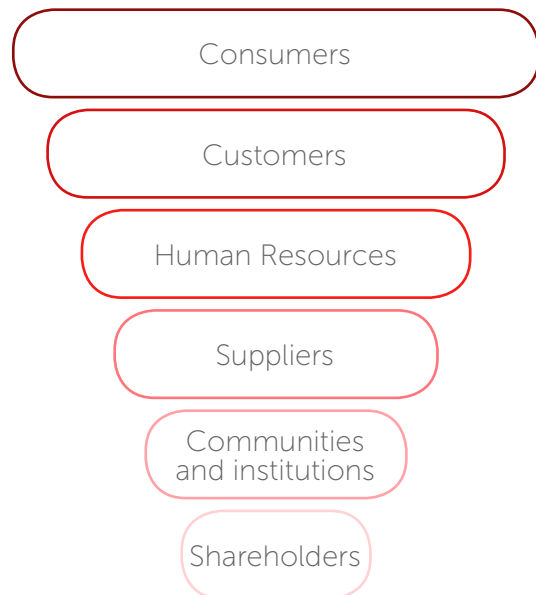
As for the risks on health, safety and environment, the Company has implemented occupational improvement projects on these issues. Training courses and workshops have also been implemented for employees, especially on safety. From 2003 illycaffè is certified with the Environmental Management System pursuant to ISO 14001 and in 2004 it obtained the EMAS registration certificate.



■ 1.7

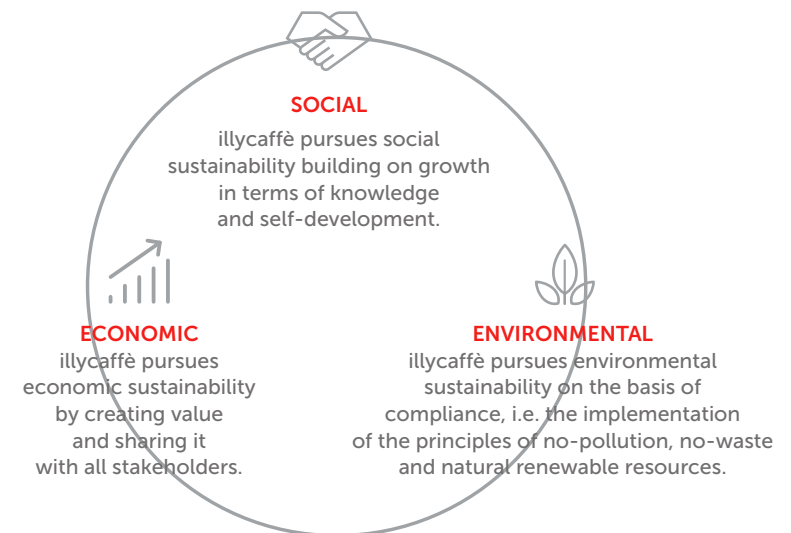
Sustainability, strategy and governance

Since the start, illycaffè, has shaped its strategies to achieve a sustainable business model generating competitive business advantages and combining economic and profit issues with social and environmental issues.



illycaffè is a stakeholder-oriented company striving to improve the quality of life of its stakeholders. Its hierarchy is a reverse pyramid starting from consumers and customers who are partners of the company to serve consumers; talents working with dedication and professional skills, suppliers contributing to achieving excellent products; communities that are engaged with illycaffè; and finally the shareholders serving the Company.

illycaffè pursues sustainability by sharing the value it has generated (economic sustainability), personal growth (social sustainability) and respect for the ecosystem (environmental sustainability).





WORLD'S MOST ETHICAL COMPANIES

Every year, Ethisphere Institute, a global leader in the definition and the promotion of ethical business standards and principles, rates the World's Most Ethical Companies®, i.e. companies investing in local communities at global level, adopting strategies based on diversity and integration and focussing on long-term results. Sustainability is not just an advantage, but it's also an objective. illycaffè has been in this list since 2013, and this proves its commitment to promote and implement ethical standards and practices.

METHOD AND SCORING

The evaluation of the Worlds' Most Ethical Companies is based on the Ethical Quotient® (EQ), i.e. a quantitative method to assess corporate performance objectively, consistently and homogeneously. Data are collected and processed on the basis of a complete series of final criteria on basic skills as well as on other areas such as corporate management, risk, sustainability, compliance and ethics. Scores are assigned to five categories: ethic and compliance programme (35%), ethical culture assessment (20%), corporate citizenship (20%), management (15%), leadership, innovation and reputation (10%).

■ 1.8

Business Model

INPUT

Tangible and intangible resources contributing to value creation

FINANCIAL CAPITAL

Economic resources that illycaffè uses in production processes

PRODUCTION CAPITAL

Own real estate assets and infrastructures for the production of illycaffè goods and services

HUMAN CAPITAL

Skills, abilities and expertise of illycaffè employees

INTELLECTUAL CAPITAL

Intangible resources, i.e. illycaffè organizational expertise and intellectual property

RELATIONAL CAPITAL

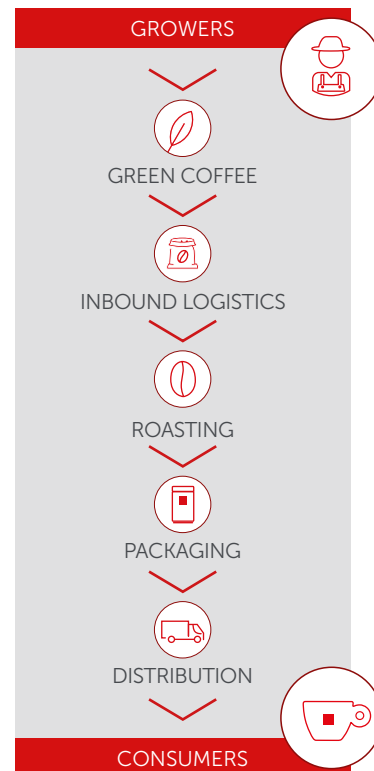
Corporate ability to create relations with external stakeholders and share values to contribute to individual and collective wellbeing

NATURAL CAPITAL

All environmental processes and resources contributing to the production of illycaffè goods and services

OUR BUSINESS

In illycaffè, the guiding business principle is value creation for all those involved in the production chain, building on a continuous improvement process:



OUTPUT

SHARED VALUE FOR STAKEHOLDERS

DISTRIBUTED ECONOMIC VALUE:
€ 439.07 MLN*

*For any further information, see the chapter "Financial Capital"

OUTCOME

2030 objectives in illycaffè strategy to achieve sustainability in three areas:

Responsible value chain and sustainable agriculture

- Constantly improving knowledge and the analysis of the impact in the supply chain, with reliable traceability
- Contributing to development and sustainability of the coffee supply chain with research, transfer of know-how and local projects
- Supporting integrated agriculture to preserve and improve, globally, the quality and sustainability of coffee that illycaffè uses in its production processes.



Happiness and quality of life

- Promoting and sharing the principle and culture of sustainability and its inner link with human happiness
- Actively contributing to the international debate on happiness, well-being and improvement of the quality of life
- Supporting global partnerships to foster sustainability

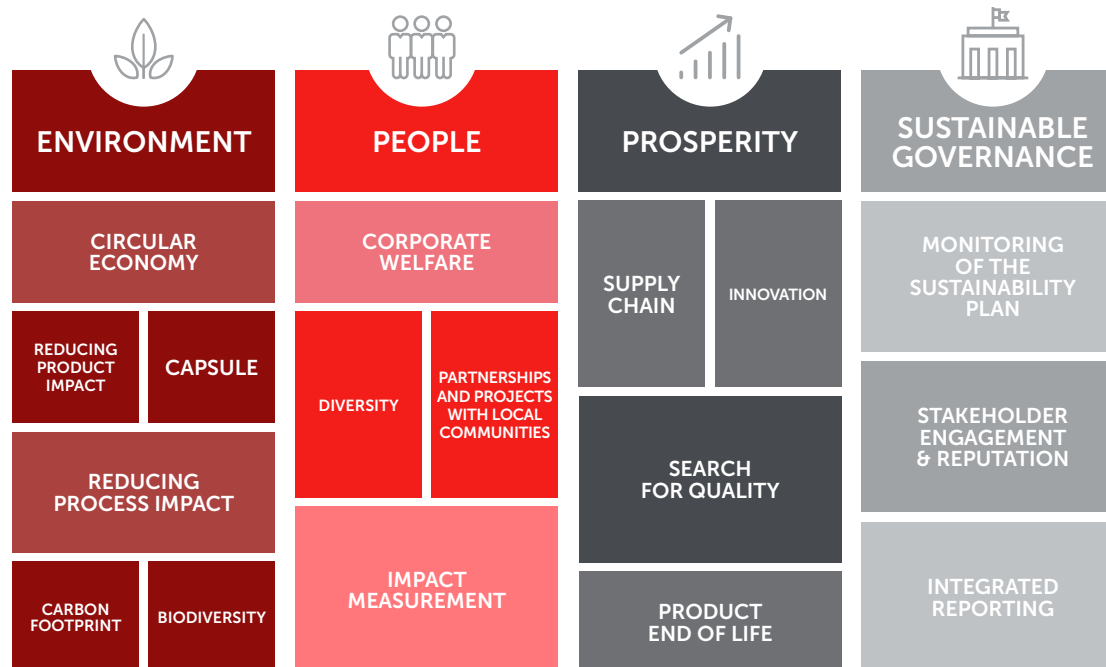


Circular economy and innovation

- Designing products and systems in line with the principles of sustainability and circular economy
- Improving energy efficiency and resource consumption, with increasingly better practices and innovative solutions
- Promoting respect for the environment as a fundamental principle for innovation and sustainability in the sector along the whole value chain



2019-2021 SUSTAINABILITY OPERATING PLAN



■ 1.9

2030 Sustainability Policy and Plan

In 2017, illycaffè reviewed its sustainability policy to provide a more accurate and updated overview of its values, objectives, commitments and corporate governance system relating to sustainability. This policy has been implemented, together with any applicable regulations, in all geographic areas and countries where illycaffè is active, shaping the corporate culture on the basis of the rules of conduct that have been defined in the Code of Ethics as well as in other corporate policies and strategies.

To define the 2030 Sustainability Policy, the Company developed the following actions:

- Analysis on the relevance of the 17 Sustainable Development Goals (SDGs) in the coffee value chain;
- Identification of the commitments and the relevant 9 macro-level objectives, identified as targets for 2030 and outlined in the 2030 Sustainability Policy;
- In 2018 has been implemented the 2017-2021 Sustainability Plan, in line with the company long-term Strategic Plan, identifying medium-term objectives and actions that are measurable and monitored internally with specific indicators.

■ 1.10

Dialogue with stakeholders and materiality analysis

Listening to its stakeholders and relations with them are the tools that illycaffè has been using to guide its sustainable development strategies. With a view to creating a shared value, the company has been focussing on a constant process to combine its own interests and the interests of its stakeholders.

With its Sustainable Value Report, illycaffè intends to respond to a number of issues that are important to stakeholders, describing its social, economic and environmental impact – i.e. material/relevant issues and relevant reporting.

In 2018, the company updated its materiality matrix with to improve its ability to identify emerging trends in national and international markets and include them in its reports.



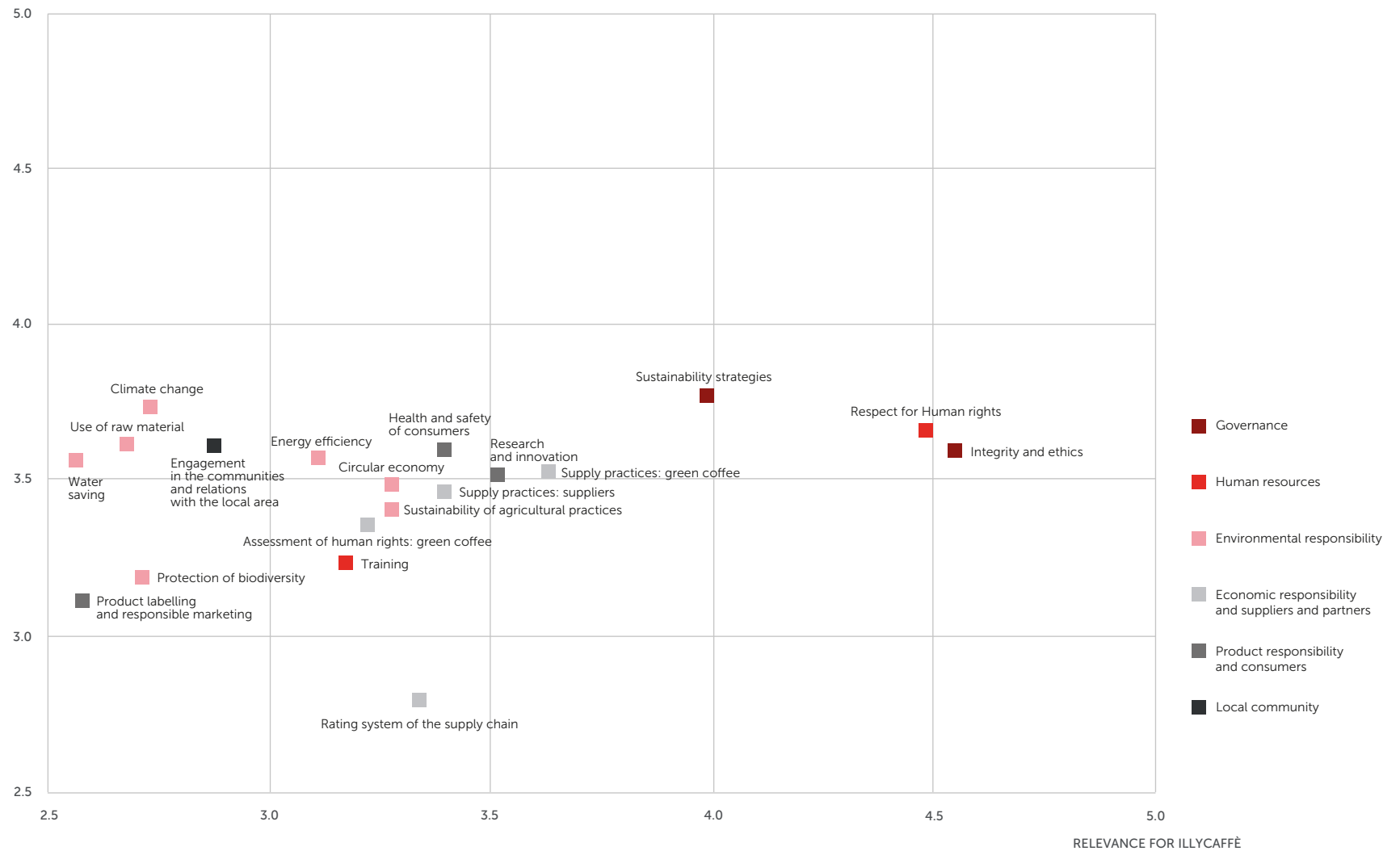
The method that was applied to update the matrix and the definition of potentially significant themes included:

- an internal analysis based on different internal public and non-public sources;
- a direct external stakeholder engagement action with a survey;
- a sector analysis and an analysis of other external sources to identify any other potential relevant issues.

In the light of these analyses, 33 relevant themes were identified in illycaffè sector and they have been arranged in a theme tree chart. Each theme, on the basis of quantitative and qualitative scores, were rated on a scale from 1 to 5 in terms of "Relevance for the company" and "Relevance for stakeholders". These two areas respond to the need to identify, for each of theme, the degree of relevance as perceived by the stakeholders and the degree of the current or future commitment of the company.



RELEVANCE FOR STAKEHOLDERS



To better identify the relevant materiality areas, 2.5 was set as materiality threshold for the relevance for illycaffè and the relevance for stakeholders respectively.

■ 1.10.1 Impact perimeter

The table below highlights the link between material themes for illycaffè and GRI standards and their (internal and/or external) impact. Existing policies that have been implemented by illycaffè

on materiality themes and the relevant sections of the Sustainable Value Report are also reported.

MATERIAL THEMES IDENTIFIED FROM ILLYCAFFÈ	TOPIC-SPECIFIC GRI STANDARD	IMPACT ON THE COMPANY	IMPACT OUTSIDE THE COMPANY	AREA	POLICY
Circular economy		Entire company	Suppliers and customers	Natural Capital	
Training	Training and education (GRI 404)	Entire company	Suppliers	Human Capital	Policies on management and development of human resources
Assessment of human rights: green coffee	Human rights assessment (GRI 412)	Entire company	Suppliers	Human Capital	
Sustainability of agricultural practices		Entire company	Suppliers	Natural Capital	
Respect of human rights	Human rights assessment (GRI 412)	Entire company	Employees, suppliers, customers	Human Capital	
Integrity and ethics	General disclosure (GRI 102)	Entire company	External staff, partners, advisers, agents		
Strategies on sustainability		Entire company	Suppliers, partners, distributors	Sustainability strategy and governance	
Rating system of the Supply chain	Supplier environmental assessment; supplier social assessment (GRI 308 – 414)	Entire company	Suppliers		
Water saving	Water (GRI 303)	Production companies			

MATERIAL THEMES IDENTIFIED FROM ILLYCAFFE	TOPIC-SPECIFIC GRI STANDARD	IMPACT ON THE COMPANY	IMPACT OUTSIDE THE COMPANY	AREA	POLICY
Climate change	Materials (GRI 301) Emissions (GRI 305)	Production companies	Suppliers		
Energy efficiency	Energy (GRI 302)	Production companies	Suppliers		
Use of raw material	Materials (GRI 301)	Production companies	Suppliers		
Protection of biodiversity	Biodiversity (GRI 304)	Production companies	Suppliers		
Health and safety of consumers	Customer health and safety (GRI 416)	Entire company	Suppliers of green coffee, other suppliers, B2B customers and B2C	Product responsibility	Policy on quality: guidelines on food safety and product compliance; HACCP, BRC, IFS, Qualité France
Product labelling and responsible marketing	Marketing and labeling (GRI 417)	Entire company	Customers		
Research and innovation		Entire company	Suppliers		
Supply practices: suppliers	Procurement practices (GRI 204)	Parent company	Suppliers		
Supply practices: green coffee	Indirect economic impacts (GRI 203); Procurement Practices (GRI 204); Local Communities (GRI 413)	Parent company	Suppliers of green coffee, local authorities		
Engagement in local communities and relations with local areas	Local Communities (GRI 413)	Entire company			

■ 1.11

Green coffee supply chain

illycaffè works closely with key actors of its supply chain in countries where the finest Arabica grows, to obtain the finest quality coffee. Sustainable quality cannot be just the result of a selection of final products, but it involves the whole production process, including its initial and intermediate steps. In this respect, illycaffè chain is based on three clear principles:

- **Traceability** of resources and raw material in the whole production process to guarantee quality;
- **Mutuality** in relations with producers;
- **Sustainable quality** in terms of economic, social and environmental sustainability.

The stakeholders of the supply chain are:

- **Farmers** with small plots of land; they can only perform some preliminary processes on crops.
- **Producers**, i.e. companies (consortia, cooperatives and medium or large farming companies) processing coffee, such as separation, washing and drying operations.
- **Exporters**, who buy green coffee from cooperatives, select coffee directly from the producers and package batches for their customers, resellers or roasters. Exporters are very familiar with the production areas and local producers, and they guarantee traceability and quality of the raw material. They are also involved in audits and supply chain actions on the basis of the integrated supply chain approach.

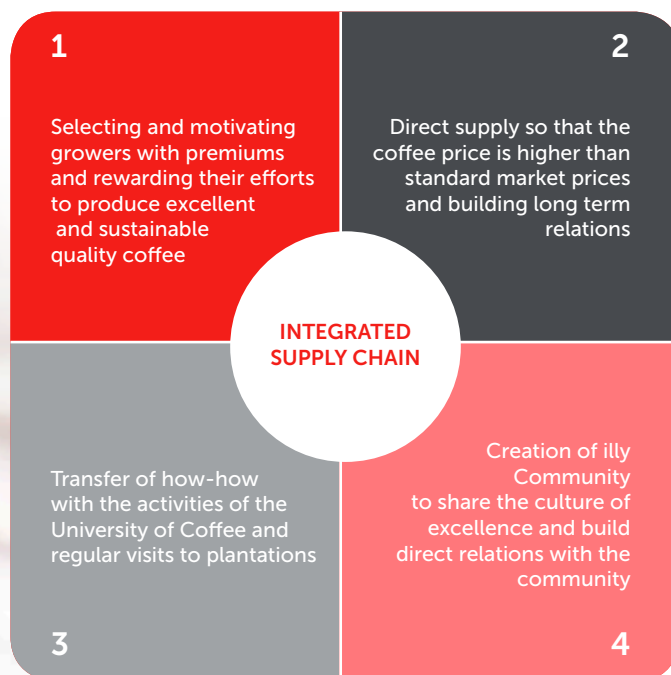
illycaffè monitors and guarantees the sustainable quality of the raw material with a process based on traceability and long term direct cooperation with the stakeholders of the green coffee supply chain. Producers are directly involved and the company transfers its know-how, also in training sessions, depending on local needs.

To this end, cooperation with local institutions, government agencies (i.e. Coffee Boards in African countries and in India), international organisations (i.e. the International Coffee Organisation), research organisations (i.e. the university of Sao Paulo, the World Coffee Research) plays a central role; in this framework, illycaffè is in a position to monitor its operations and share sustainability principles at community level.

Over the past 28 years, illycaffè has defined a system of direct relations with its supplies based on four pillars:

- I. Selecting and working with the best producers, i.e. producers striving to constantly develop a high-quality sustainable production.
- II. Transferring the corporate know-how with the activities of the University of Coffee, regular visits to coffee plantations and support suppliers to produce a sustainable quality.
- III. Providing economic premiums for the quality producers have obtained and supporting a constant improvement.
- IV. Building an illy community for the creation of a culture of excellence as a basis to establish direct relations building on knowledge, exchange and growth.

The table below shows the "Integrated Supply Chain":



The company has introduced management and evaluation systems to identify and communicate responsible value creation all along the supply chain.

TRACED AND GUARANTEED SUPPLY CHAIN

illycaffè has the traceability of coffee it buys

1

illycaffè only buys its supplies from producers guaranteeing high quality and sustainability, remunerating them with a premium price

2

With the courses of the University of Coffee and visits of its agronomists and experts, illycaffè transfers agronomic know-how and best practices.

3

illycaffè performs audits to review compliance with required quality and sustainability standards

4

illycaffè implements loyalty programmes with producers, building long term relations. As, for example, Clube illy and Ernesto Illy International Coffee Award.

5

■ ILLYCAFFÈ: RESPECT FOR HUMAN RIGHTS AND PREVENTION OF CHILD LABOUR

illycaffè strives to ensure respect for human rights all along the supply chain. To this end, many actions have been implemented over the years, such as:

- Compliance with the principles of ILO - International Labour Organization: the company only purchases its supplies in countries that have ratified ILO standards and with a legal minimum age of 14 years for employment.
- Implementation of and explicit reference to the Code of Ethics in all contracts, with a clause on the respect for human rights for procurements and in the whole the supply chain. The Supervisory Board has the responsibility to review the application of the Code of Ethics and to monitor any infringement.
- Audits on coffee suppliers to review compliance with local labour regulations in the framework of the Responsible Supply Chain Process certification. The RSCP requires regular monitoring and the active management of such aspects as child labour, forced and compulsory labour, etc., and access to the farming company books or direct visits. This is the minimum requirement for the supply of coffee to the company. Suppliers that are not compliant are included in a black list and must remedy before they can start supplying coffee to illycaffè again.
- Identification of the Sustainability Policy to describe illycaffè values, objectives, commitments and governance on sustainability.
- Compliance with the UN Global Compact since 2012.

Thanks to these instruments, the company promotes a responsible conduct, ensuring respect for human rights, and it monitors any discrimination against employees. In this respect, no unfair practices or breaches were reported in 2018.

To support access to education in coffee-producing countries, illycaffè has been working with many associations on projects aimed at improving schools, support access to education, improve training programmes, reduce drop-out rates, prevent and mitigate child labour.

ESCUELA E CAFÈ PROJECT IN COLOMBIA

In Cauca (Colombia), illycaffè supports the Escuela y Cafè project in 64 rural public schools in the region, providing training on coffee in the four subjects included in the ministerial curricula and a module on practical work in the plantation of the school and in the nearby "beneficio" (the area where the pulp is removed from the coffee beans and dried). Every student joining the project (students are only eligible if their families support them by providing a plot of land) receives between 500 and 1500 seeds. By the time they graduate, these students have their own business generating an income for them. With these resources, they may decide to access either higher education or the labour market. This project has substantially reduced child labour and school drop-out rates. In a perspective of improvement, illycaffè intends to continue supporting the Escuela y Cafè project with training and buying coffee supplies, and it might extend it to other countries with a long standing traditions in coffee production.

EDUCATION PROJECT OF SEEDS FOUNDATION IN NICARAGUA

illycaffè support the projects of Seeds For Progress Foundation to improve access to high quality education, a fundamental human right contributing to social development and to sustainable economic growth, creating opportunities to increase the quality of life of students, teachers and their families in rural areas in coffee-growing regions in Nicaragua. In these areas, access to education is more difficult than in urban areas. The Foundation projects have been conceived to improve education both by training teachers and improving schools. The Foundation supports 20 schools, about 5,000 students and 272 teachers in 5 regions of the country. For many years now, illycaffè has been buying coffee from these communities which are very productive¹.

¹ For any further information:
<https://www.seedsforprogress.org/134-2/?lang=en>
<https://www.seedsforprogress.org/wp-content/uploads/2019/04/SFP-AnnualReport18.pdf>

■ 1.12

Responsible Supply Chain Process

illycaffè has certified its management system in the green coffee supply chain since 2011 in line with the “Responsible Supply Chain Process (RSCP)” standard by DNV GL, an international certification authority that has used illycaffè supply chain as a model to develop its own standards.

RSCP has certified that illycaffè:

- adopts a direct approach in its supply and in the traceability up to the producer, save for institutional barriers, such as the ECX market in Ethiopia, which is mandatory for Ethiopian coffee transactions; however, this system has been reviewed and now it enables a better product traceability;
- transfers to the green coffee supply chain knowledge to constantly improve product quality and sustainability;
- pays a higher-than-market price to reward growers for the superior quality they produce.

The RSCP standard applies to every player of the coffee supply chain and it requires the company to monitor its suppliers, checking that minimum legal requirements are met (this is mandatory to continue to do business with the company), and it also requires regular reviews in the following areas:

ETHIOPIA COMMODITY EXCHANGE (ECX)

In the past, Ethiopian coffee had to be sold through ECX – Ethiopian Commodities Exchange, in Addis Abeba, where coffee was rated by region and quality. In 2017, a new regulation was introduced and now coffee can be exported directly, only requiring a check by this organisation. Ethiopian farmers have four options to sell their coffee: direct sale, sale to the processing industry or to suppliers or with the Ethiopia Commodity Exchange. Currently 90% of exported coffee is still traded at ECX which was introduced in 2008 in an attempt to launch a modern trading system.

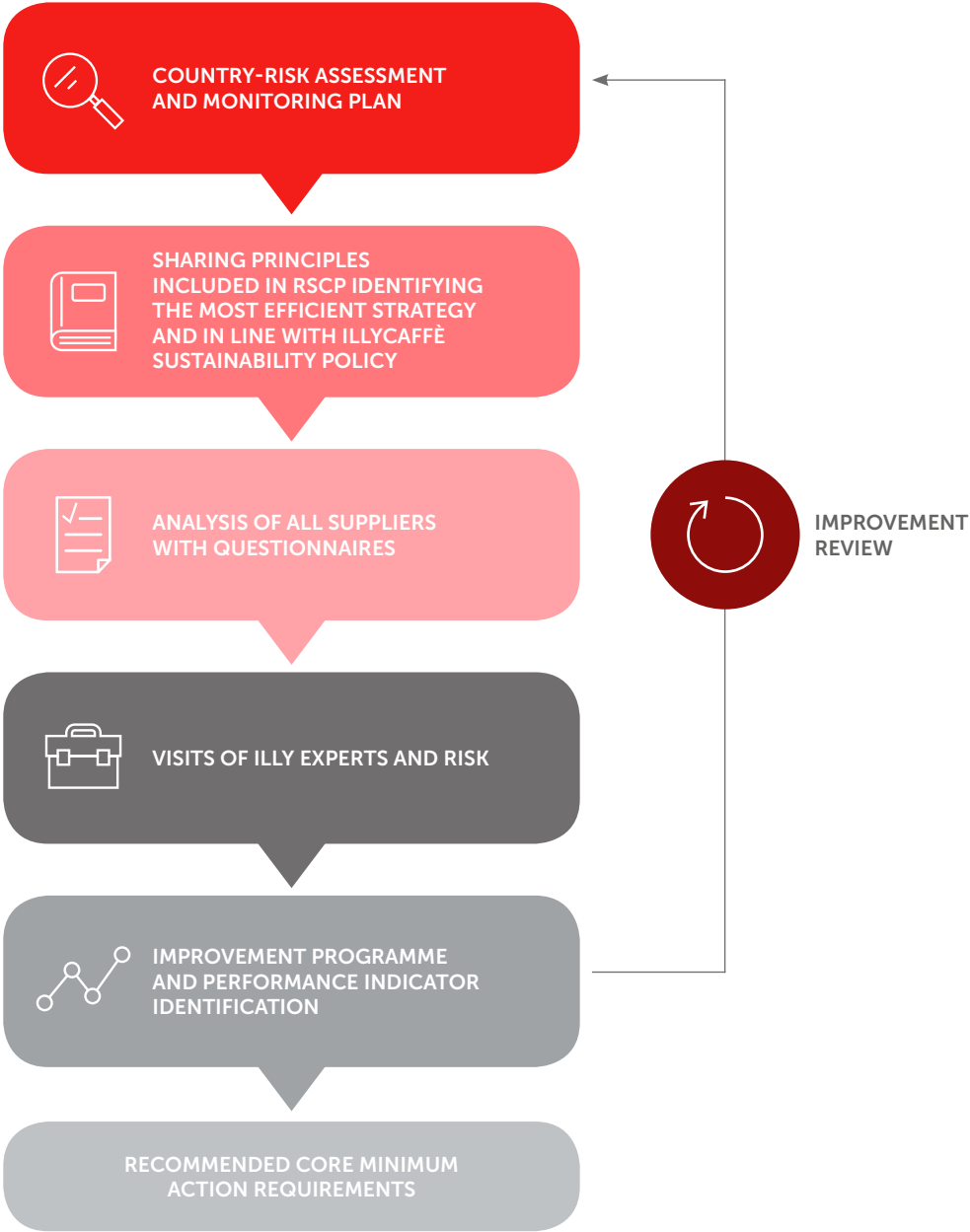
AREA	THEMES
ENVIRONMENT	<ul style="list-style-type: none">• Use of soil• Water management• Water quality• Impact on the local community• Biodiversity
EMPLOYMENT	<ul style="list-style-type: none">• Agronomic practices• Equipment used in the production• Labour conditions• Risk of accidents and injuries• Skills and competences of workers
PRODUCT	<ul style="list-style-type: none">• Use of active agents• Agronomic practices• Tools used in the productions and labour conditions• Hygiene



IT'S ALWAYS
A QUESTION
OF CHAIN.

illycaffè process to monitor the supply chain and identify improvement actions is summed up in the following chart:

■ The supplier monitoring system has been reviewed and improved on a continuous basis to account for, for instance, the increase in the supplies from South-American and African countries, where the production chain is more complex and growers contribute with small supplies to trading batches, often in ways that cannot be defined in advance.



Since 2013, the Company has been publishing and updating its Risk Assessment Report on environmental risks, risks of corporate ethics, occupational risks and product risks, assessing them by country, organization and supply chain. This tool enables a continuous monitoring and the definition of future actions.

In the latest monitoring actions, in 2018, illycaffè confirmed the trend that has been identified in recent years:

- Social risks are mainly limited to the supply chain, which mostly include small producers.
- Administration issues resulting from poor attention to certain environmental criteria are common in some countries, not just in coffee production.

Therefore, there's a need to share a culture of sustainability, further enhancing partnerships with public and private institutions in a number of coffee origin areas, scientific organisations, communities, international organisations as well as all stakeholders of illycaffè supply chain.

The process also includes inspections and monitoring visits that are the basis to review compliance with the performance criteria of illycaffè supply chain, i.e.:

- **Minimum actions requirements:** minimum requirements that suppliers are required to meet, otherwise the supply is suspended.
- **Key performance indicators (KPIs):** Indicators describing the corporate chain, i.e.:
 - **Core KPIs:** requirements exceeding legal minimum requirements that the Company deems fundamental in its relations with suppliers.
 - **Recommended KPIs:** non-mandatory requirements, which however are highly recommended in the relations with suppliers.

Starting from these indicators, the Company can define the most appropriate actions for each target. KPIs are reviewed and updated constantly to keep them in line with local changes that are generally gradual and can only be detected in the mid-long term.



■ 1.13

Control over the supply chain and know-how transfer

In 2018, origin countries involved in the field review on principles and requirements of the Responsible Supply Chain Process were: Brazil, Columbia, El Salvador, Guatemala, Honduras, India and Rwanda. Sampling of producers was based on illycaffè risk assessment (considering the country, the supply chain and the relevant organisation), supply volume and the outcome of previous reviews. Visits were performed on 337 producers and 13 organisations processing/selecting green coffee for export.

In terms of area, direct reviews were performed on 73,000 hectares of plantations. Reviews focussed on the most critical areas, taking into account critical indicator data from previous years.

	2016	2017	2018
ON-FIELD VISITS	298	304	337

Since the launch of the programme, direct visits were performed to over 2,600 producers.

The findings of these visits were compared with the data of the country risk assessments and, as a result, four macro areas were identified for corporate actions over the next three years:

- Sewage processing in compliance with national regulations
- Prevention in the use of highly toxic agrochemical products
- Compliance with minimum salaries
- Prevention and mitigation of child labour risk

Training and dissemination of Best Agronomical Practices, in 2018, directly involving 876 producers, mainly with:

- direct meetings;
- targeted actions;
- institutional relations on training;
- quality training;
- webinars;
- online courses;
- literature.

Brazil

In 2018, the University of Coffee of Brazil, illycaffè, PENSA, FIA and Faculdade de Economia, Administração e Contabilidade of the University of São Paulo held a webinar on "Rethinking research models" to explore the role of research in the promotion of the economy and how coffee growing can adapt to the climate change.

88 participants attended the course.

Online training courses by PENSA (see <http://universidadedocafe.com/>) continued in 2018 on a range of topics: from the elementary agro-business course to legal requirements for Brazilian farming companies. In March, 27 MBA Agribusiness students attended the course "Case Study illycaffè: a case of coordination in Agribusiness".

India

This origin country continues to be the focus of attention and awareness on good practices that must be adopted to reduce the use of phytosanitary products.

Every initiative is implemented in collaboration with local suppliers in line with the typical approach of integrated supply chains.

Colombia

Complex administrative issues, such as legal compliance and unregulated labour, affect the supply of raw material from small producers. In this framework, business is more sensitive in areas that are constantly exposed to economic risks and that are more inclined to contract out harvesting operations at the lowest price. Being aware of

this, illycaffè has launched a training programme for small suppliers, in cooperation with SENA (Servicio Nacional de Aprendizaje) in the framework of the agreement signed in 2015. Training is aimed at improving the organization of farming companies and supporting good agronomic practices, which are indispensable to increase productivity, reduce production costs and boost profits for producers.

Nicaragua

A number of critical environmental issues were further investigated in the monitoring action on the supply chain in Central America to gain a better understanding of the causes and identify future actions. In Nicaragua, illycaffè implemented a project for a limited number of producers regularly supplying coffee, located in one of the poorest areas of the country. In the light of the excellent results that have been achieved, illycaffè has continued to support the project, building four sewage water processing plants, and becoming a model for the whole regional coffee community.

Ethiopia

In cooperation with UNIDO (United Nations Industrial Development Organization), illycaffè is implementing a project involving the whole Ethiopian coffee sector to raise quality and coffee producing capacity, enabling small producers to increase their income and supporting local economic development. illycaffè and Ernesto Illy Foundation contributed with all key competences of their sector: know-how, networks, human and financial resources. The project is expected to improve coordination among all players in the coffee value chain and to increase quality and quantity of exported coffee, increasing the share of Ethiopian coffee in the international market.

Adding to the projects implemented in individual countries, actions impacting on other players of the supply chain have been launched:

- Sustainable quality has been at the core of a large training project involving 50 lab technicians from different origin countries with training courses in the areas of sensory, visual and aroma analysis of green coffee samples.
- During the “Ernesto Illy International Coffee Award” event, acknowledging the efforts and the investments of producers to obtain a sustainable and high quality coffee, a workshop was held for attending producers to debate the following two topics:
 - o “Improving Sustainability and Inclusiveness of Coffee Value Chain through Private and Public Partnerships”;
 - o “Coffee Sustainability: Shared responsibility Shared Prosperity”.



■ 1.14

Suppliers of goods and services

In the light of the principles of sustainability and business ethics, illycaffè has mutually beneficial relations with its suppliers, as it also selects them on the basis of its values. As detailed in its Code of Ethics (art. 3.5), "illycaffè S.p.A. constantly monitors relations with its suppliers, which includes financial and consultancy contracts. When a contract is stipulated with a supplier it must be based on relations that are entirely transparent".

Specifically, this approach translates into:

- **Safety of products – services – processes.** Accountability and the value created by the Company in the long term for its stakeholders must ensure first and foremost – well before qualitative excellence – that products, services and processes comply with the strictest regulations; therefore, suppliers must be selected and managed appropriately;
- **Quality excellence and welfare.** illycaffè business sustainability and the added value that the company creates are inextricably connected to the qualitative excellence and welfare that it offers to its stakeholders;
- **Integrity, value sharing and business advantage.** All supply contracts include a clause requiring suppliers to review and comply with illycaffè Code of Ethics.

In 2018, with the Supplier Lifecycle Management project, the company continued to improve the supplier strategic management.

illycaffè Procurement Portal has become a standard in the company and, with the implementation of its modules, processes have been gradually included and the system, from supply to distribution, has been adjusted.

illycaffè Procurement Portal has a number of objectives:

GOVERNANCE and COMPLIANCE

- Traceability of processes to mitigate risks
- Comprehensive management of suppliers
- Performance monitoring and improvement
- Compliance with rules

METHOD

- Implementation of a shared method
- Standard procedures
- Fast response to internal and external stakeholders
- Continuous improvement also by sharing best practices

TRANSPARENCY

- Ethical process guarantee
- Accessibility and use of information

ECONOMIC RETURN

- Economic benefits (work-flow digitalization)
- Reduction of the Total Cost of Ownership (TCO) in all supply categories.

In 2018, in the framework of the Sourcing Risk Management project, illycaffè continued to map - on the basis of the relevant criteria - actual and potential risks in its supply chain (including environment, health and safety, social and ethical issues, compliance, innovation, etc.) as well as risks resulting from external factors (country and market). In 2018, the Vendor Evaluation process was fully implemented; strategic and/or critical suppliers were evaluated with a method based on a vendor rating measuring the purchasing performance. This process was applied to 89 strategic and/or critical suppliers with subjective and objective KPIs (defined in the Enterprise Resource Planning system) on the supplier performance and it was improved on the basis of an approach which is increasingly aiming to establish partnership relations and to continuously improve the overall performance with permanent monitoring and measuring actions.

With a new purchasing procedure, the Company introduced new standard methods to select suppliers and evaluate offers for the supply of indirect material, services, investments, raw material and finished products. In 2018, the Matrix decision-making model and the Procurement Portal - which is designed to collect, summarize and compare a significant quantity of data with a simple procedure on the basis of a pre-qualification questionnaires with questions on the corporate organisation, business per area, economic and financial data, references, certifications, innovation, ethical and sustainable issues - were extensively applied.

The Portal includes the Code of Conduct for Suppliers, listing and describing the principles that illycaffè requires its suppliers to implement in their business relations. These principles are based on illycaffè Code of Ethics and they emphasize the need to operate transparently, focussing on economic, social and environmental sustainability. The most relevant issues are:

- Business ethics and integrity
- Human and labour rights
- Environment



The “Supplier List” module was introduced, populating the Procurement Portal with 963 current and potential suppliers and offering a structured access platform to collect applications from potential suppliers in the market. Strategic suppliers are required to provide more information on environmental and/or social issues, such as:

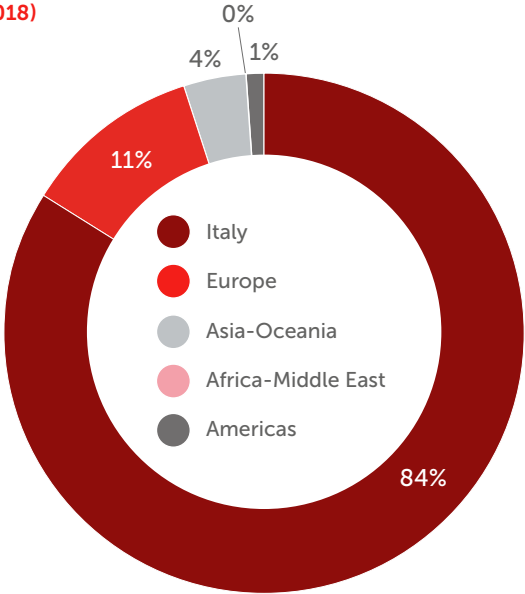
- Social report, sustainability report, integrated report or any other tools measuring the social and environmental impact.
- Supply chain sustainability
- Anti-corruption policies, anti-competition practices in writing, respect for copyright and/or responsible marketing practices
- Policies in writing or objective evidence on the respect for diversity, against race or gender discrimination and child labour
- Training of employees on topics other than those prescribed by law
- Water and energy consumption monitoring and saving
- Reduction and/or recycling of waste
- Actions reducing the environmental impact

In 2019, the Supplier Risk Management will be introduced in the Procurement Portal to cover the supplier risk and the supply of primary raw material and products. A virtuous and structured process has been launched and, starting from the identification of major risk areas, it will map major suppliers on the basis of a Risk Matrix.

The process on the development of the Supplier Risk Management includes the following:

- Identification, mapping and evaluation of risks:
 - risks resulting from macro-economic factors (geopolitical, social and economic conditions)
 - technical/qualitative risk
 - logistic risk
 - financial risk
 - environmental/ethical-social
 - legal risk
 - supplier risk
- Risk management and strategy plan to mitigate risks
- Implementation of risk management strategies
- Monitoring and reassessment, if needed, of the Supplier Risk Management Plan

SUPPLIER ORIGIN
(% VOLUME
OF SUPPLIES, 2018)



SUPPLIER ORIGIN - 2018	NUMBER OF SUPPLIERS	% ON THE TOTAL	PVO IN 000/€	% OF COSTS
Italy	1,230	87%	121,414	84%
Europe	134	10%	15,701	11%
Asia – Oceania	12	1%	5,779	4%
Africa - Middle East	6	0%	283	0%
Americas	31	2%	1,340	1%
Total	1,413	100%	144,516	100%

This table does not include a share of costs and services that are not under the direct responsibility of illycaffè purchasing department.

■ 1.15

Logistics and sales

Logistics and the transport management approach reflect illycaffè commitment to implement innovative solutions, to reduce emissions and to make distribution efficient. Transport and logistics for incoming green coffee and other raw material and the distribution of finished products to customers are carefully monitored, also with the LCA method, to assess any relevant impact and to identify improvement strategies. Transport for product distribution is still based on fossil fuels and the company is striving to identify innovative and sustainable processes and solutions. As for distribution, illycaffè regularly requires its qualified suppliers to fill out questionnaires on specific environmental issues, such as resource consumption, emissions, waste production, liquid effluents, soil contamination and noise pollution. The supplier providing most delivery services in Italy has obtained ISO 14001 certification on environment for its actions on monitoring and mitigation of environmental impacts.

INBOUND LOGISTICS

Origin: Italy

In Italy, deliveries are almost entirely performed by truck. Incoming goods are purchased on a DAP (delivery at place) basis, which means that illycaffè has no control over the couriers. The only exceptions are the capsule components, which are purchased EXW (ex works). To optimize inventory management activities, the company launched the Milk Run project coordinating the shipping of all capsule components from all its suppliers to gain storage volume.

Origin: foreign countries

Green coffee accounts for most inbound shipments. All incoming material is transported by ship, the means of transport with the lowest impact. The selection of the shipping companies, on the basis of their qualitative service, identifies primary service providers and large shippers that have sustainability policies to lower the environmental impact. Where possible the company transports the coffee in big bags that have the capacity to carry up to a ton and half of product and to reduce, consequently, the logistics costs.

OUTBOUND LOGISTICS

Destination: Italy

illycaffè has the responsibility to ship its products to customers. In Italy, shipments are delivered by truck, which is a cheaper and better means of transport than the railways. About 60% of shipments is managed by a leading logistic operator that has adopted an Integrated Policy for Quality, Environment and Safety and a Policy for Ethical and Social Responsibility. In Italy, intermediate warehouses optimize the distribution to the points of sale.

Destination: foreign countries

Shipments to other European countries are mainly delivered by truck, with some exceptions (see below), while shipments to the rest of the world are transported by sea, with 3 primary international shipping companies. Two of these companies, accounting for 90% of shipments, have clear and comprehensive sustainability policies. A number of intermodal transport solutions have been

adopted for shipments to Norway and Greece, with a combination of means of transport, i.e. truck/rail/truck, with the potential to reduce the environmental impact. To promote shipments with full containers, the company only exports on a CIF (cost, insurance, freight) basis if the buyer has a full container load (FCL)

or on a free carrier (FCA) basis if the buyer has a full truck load (FTL). This applies to transport to illycaffè branches (France, Germany, Netherlands, Spain, Austria, USA and Canada, Asia Pacific, Brazil) and distributors (Sweden, United Kingdom, Switzerland, Slovenia, Norway, Romania, Czech Republic, Denmark).



SEED:S

Social
Environmental
Economic
Development
Sustainability



FINANCIAL CAPITAL



■ 2.1

Economic results

Highlights

+2.5%

the value of production
in 2018

439

million Euro: the economic
distributed value at 31 December
at consolidated level

+5%

sales by volume
vs. 2017

In 2018, illycaffè grew both in terms of income and financial outcome: as a result of an increased sales volume and the reduction in net financial costs, the production rose by 2.5% vs. 2017. Financial and economic data show an increase in the EBITDA in 2018 over 2017 and a sharp increase in net profits vs. the previous year, as a result of the decrease both in the net financial costs and a substantial tax relief, i.e. "Patent Box" in 2018 and on previous years (2015, 2016 e 2017).

	2017	2018
ROI	11.7%	10.7%
ROE	10.2%	13.2%
ROS	6.5%	5.7%
PFN/Ebitda Adjusted	1.91	1.56
PFN/Ebitda	2.00	1.65
PFN/Equity	1.02	0.85
No. of employees	1,290	1,294





With a view to highlighting the economic value that the business has generated and allocated to major categories of stakeholders, illycaffè applies the Distributed Economic Value that, at 31 December 2018 at consolidated level, was equal to 439.07 million Euro, with an increase of 0.11% over 2017.

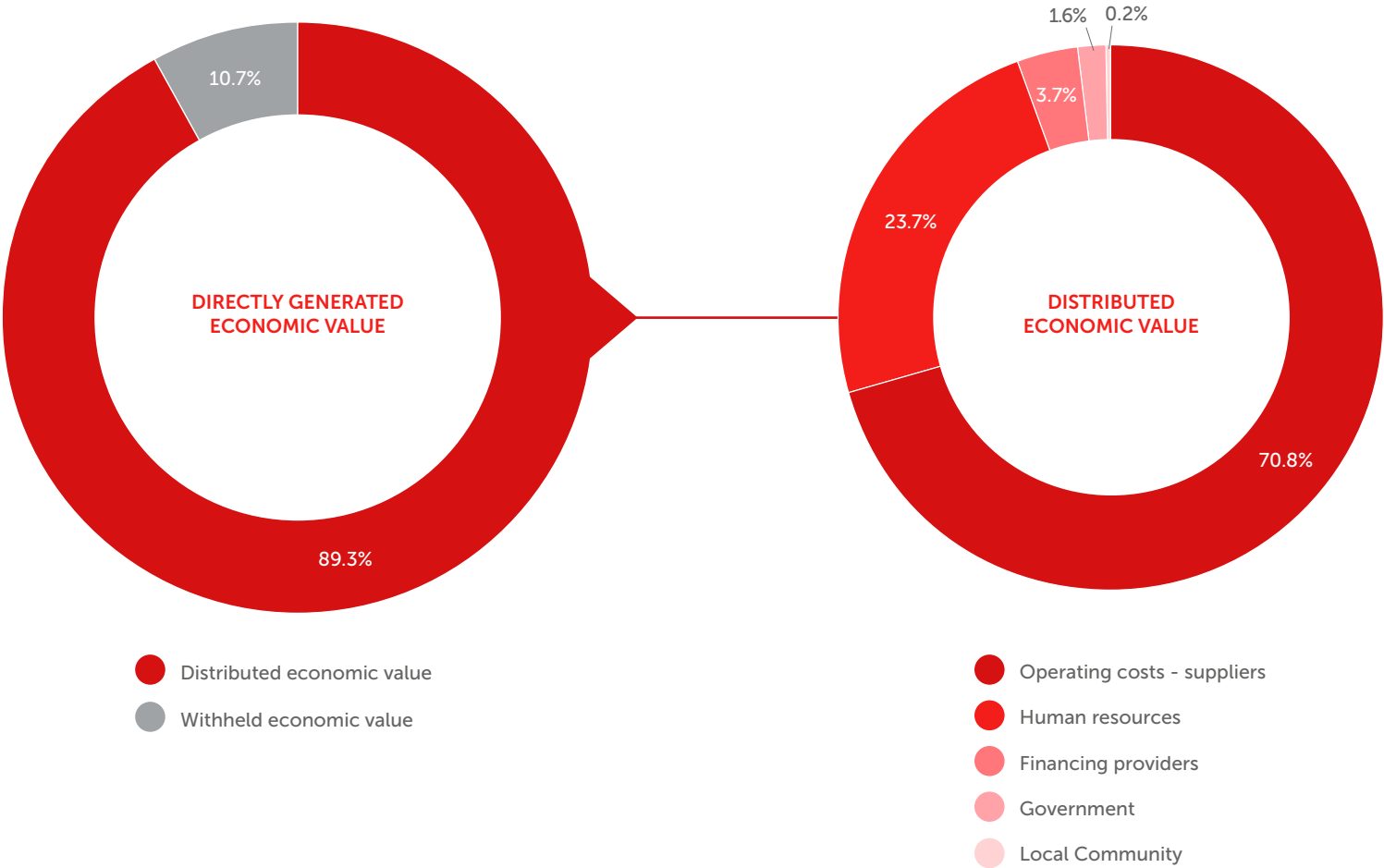
ITEMS (in euro)	2017	2018	VAR 2017 -2018
GENERATED ECONOMIC VALUE			
a) Revenue	478,431,805	490,510,114	2.5%
b) Financial income	1,012,789	1,006,441	-0.6%
(A) Total generated economic value	479,444,594	491,516,555	2.5%
DISTRIBUTED ECONOMIC VALUE			
a) Operating costs	312,715,561	310,760,509	-0.6%
b) Staff remuneration	98,135,752	103,973,057	5.9%
c) Debt and equity	13,787,727	16,268,439	18.0%
d) Taxes	12,832,216	7,014,988	-45.3%
e) Donations and association fees	1,129,423	1,057,833	-6.3%
(B) Total distributed economic value	438,600,679	439,074,825	0.1%
(A-B) ECONOMIC VALUE HELD BY THE GROUP	40,843,915	52,441,729	28.4%

The above table shows the flows between the company and the relevant social and economic system, with a focus on the following stakeholders:

- **Suppliers:** supplies of raw materials and other services;
- **Human Resources:** direct and indirect remuneration of employees and other staff;
- **Government:** payment of taxes and levies;
- **Financing providers:** costs on debt and equity;
- **Community:** membership fees and donations

The consolidated Economic Value that illycaffè has generated and distributed (€438.6 million) in 2018 shows that:

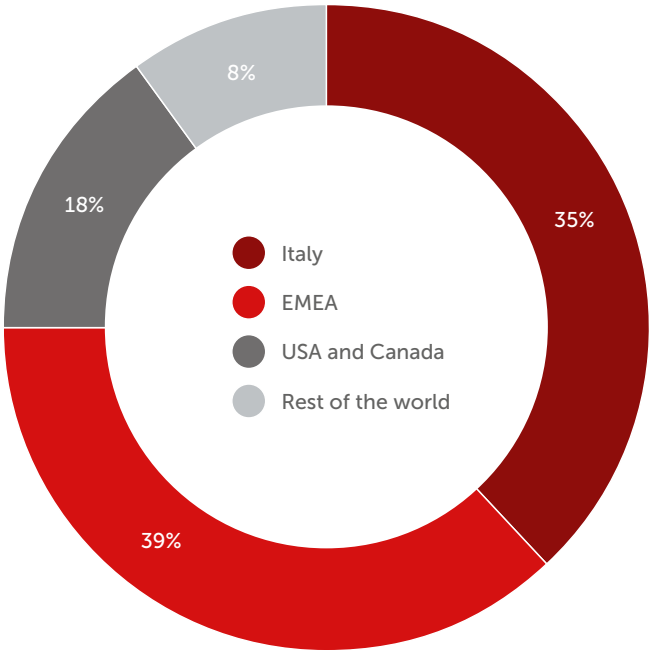
- The largest share, i.e. 70.8%, was allocated for the payment of suppliers, especially operating and management services and supplies raw material.
- A share of 23.7% was allocated for the remuneration of human resources.
- Financing providers were allocated 3.7% of the economic value, including dividends to shareholders, profits of third parties and financial costs.
- A share of 1.6% was paid to the public administration (government and local authorities) for taxes.
- The community accounted for 0.2%, in the form of socially-oriented expenses (mostly the contributions made to the Ernesto Illy Foundation) and membership fees).



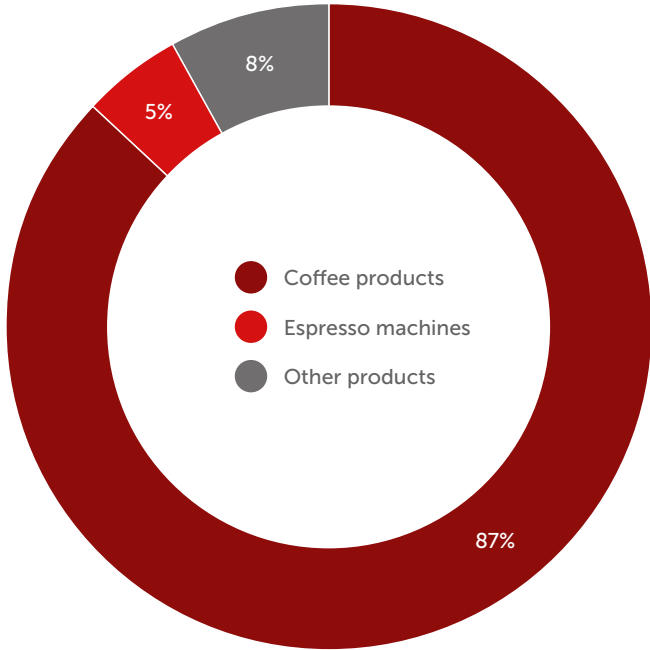
In 2018, sales increased over the previous year in terms of coffee quantity and turnover. The breakdown shows the growth in countries where the company distributes directly and in the countries with independent distributors. In 2018, exports accounted for 65% of the turnover.

The turnover increased for coffee products and coffee machines in terms of value and in terms of quantity.

2018 REVENUE BY GEOGRAPHIC AREA



2018 REVENUE BY PRODUCT



SOWING SEEDS,
HARVESTING
BEANS.



SEED:S

Social
Environmental
Economic
Development
Sustainability

PRODUCTION CAPITAL



3.1

Infrastructure and network

Highlights

259

points of sale: 179 illy Caffè, 17 directly owned and 80 illy shops out of which 6 under direct management

100,000

Selling points where illy coffee is served

37

new single-brand coffee shops in 2018

4,500

green coffee samples that were tested in illycaffè labs and

55,000

roasted coffee samples tested in illycaffè labs in 2018

575

average number of daily tastings to ensure product quality

Illy blend is traded in 144 countries in all 5 continents. It is served in over 100,000 selling points and about 8 million cups a day are consumed.

The company also trades in the market with single-brand shops: 179 illy Caffès in major cities in 34 countries. These shops are located in airports, city centres, high-end shopping centres, museums, cultural venues.

In 2018, 37 new points of sale were opened:

- 32 illy Caffès, out of which 1 directly owned in Vienna
- 5 illy Shop

The new points of sales were opened in EMEA, i.e. 19 illy Caffès; Asia, 10 illy Caffès and 5 illy Shops in South Korea, in the Philippines and in Japan; in North America 3 illy Caffès.²

	2017	2018
ILLY CAFFÈ Gestione diretta e franchising	170	179
ILLY SHOP Gestione diretta e franchising	77	80

²For any further information, see "Value creation in B2C".



● Locations of

■ 3.2

Quality and safety of illy products

Sustainable coffee quality is the result of a processing combining advanced technology and over 80 years of experience in the sector and family and business traditions.

To achieve this objective, it is fundamental to offer, together with a high quality product, anything contributing to the preparation, serving and consumption experience. In this framework, the company constantly strives to improve quality in production, processes and services to customers. This is also reflected in its commitment to manufacture safe products in compliance with any applicable regulations in the agricultural and food sector and to develop sophisticated monitoring systems: 100% of the production is processed in certified plants in line with international quality standards on food safety.³

**SUPPLY OF RAW MATERIAL:**

The company develops a direct cooperation and, preferably, long term relations with its producers to ensure quality for its products. Before actually purchasing supplies, illycaffè quality and analysis labs test coffee samples both to obtain the relevant phytosanitary certificates and to exclude that they contain heavy metals, phytopharmaceutical products, herbicides and insecticides.

**PRESERVATION AND BLENDING:**

Green coffee is stored in insulated warehouses and it is blended in line with the 100% Arabica recipe to obtain the unique consistent and balanced illy aroma.

**PACKAGING AND PRESSURIZATION:**

Espresso is a complex beverage, requiring 1,500 substances (including 800 volatile substances) and 13 physical and chemical variables that affect its proper preparation. illycaffè patented pressurization, a process replacing air in the package with pressurized inert gases and capturing the aroma of freshly roasted coffee. Aromas concentrate into the coffee oils, providing roundness, sweetness and intensity to the taste, preserving and even enhancing fragrance over the time.

³In 2018, no sanctions were imposed on the Company for non-compliance with regulations on quality, food safety, traceability and similar issues.

To guarantee the product quality and safety, from the time coffee is delivered to the company until it is shipped out, 370 checks are performed. In 2018, the company updated and maintained all its certifications. Over the year, Internal and external audits were performed in line with the relevant monitoring plans, including:

- **30** internal audits (of which: 12 SGQAE, 8 SGA, 19 food safety and hygiene)
- **12** third-party audits
- **308** audits of suppliers (of which 304 green coffee suppliers) by the Quality Assurance team.

The British Retail Consortium (BRC), International Food Standard (IFC), Hazard Analysis and Critical Control Points (HACCP) certifications guide all illycaffè activities to guarantee health and safety standards for customers; these apply to all illycaffè products.



■ ACTIONS PERFORMED IN 2018 TO ENHANCE MONITORING ON FOOD SAFETY

- Specific monitoring for directly-operated retail stores: illy Stores, in Milan and Rome, and tailored support for pre-defined actions.
- Implementation of the Protocol of acceptance of the green coffee coming from Brazil in quality labs: accurate acceptance at the origin on 100% of coffee samples.
- Increased control over roasting consistency in the production phase to optimize quality in the cup.

- Implementation of an internal database to harmonize the wording of product labels and IT solutions for a better dissemination of mandatory information in the EU (Reg. 1169/2011/EC).
- Continuation of the activities on the compliance of food contact materials both for current products (monitoring) and for new products (scouting for improvement or validation).
- Completion of monitoring on furan and acrylamide to identify the actions that are required pursuant to Regulation no. 2158/2017.

■ 3.3

Management and certification systems

Quality in illycaffè supply chain is guaranteed by the adoption, on a voluntary basis, of a number of national and international standards. In 2018, the company performed maintenance and re-certification activities in relation to the following standards:

MANAGEMENT SYSTEM

ISO 9001 QUALITY



illycaffè was the first company in the coffee sector in Europe to obtain the certification for its quality management system. This standard defines how an efficient quality management system must be developed so that final customers can be certain that services and products in the market are in line with the relevant company specifications.

The system applies to illycaffè S.p.A. and Experimental Agricola do Brasil Ltda.

ENERGY ISO 50001



It defines the development of an efficient energy management system. The management system has been designed to implement a continuous improvement by systematically managing energy and reducing energy costs.

It applies to illycaffè S.p.A.

SUSTAINABILITY ISO 14001



It defines how an effective environmental system must be developed to launch a dynamic and cycle-based process that, pursuing continuous development, enables to manage the environmental risk of the company.

It applies to illycaffè S.p.A.

EMAS REGISTRATION



EMAS (Eco-Management and Audit Scheme) certification shows that illycaffè S.p.A. complies with EU Regulation no. 1221/2009, supporting a streamlined management of environmental issues not only on the basis of legal constraints, but also with the continuous improvement of the environmental performance, active engagement of employees and transparency with institutions and the general public.

illycaffè S.p.A. certification

SUSTAINABILITY

RESPONSIBLE SUPPLY CHAIN PROCESS



illycaffè is the first coffee company certified with the RSCP standards of DNV-GL, confirming that the company can implement a sustainable approach to processes and relations with stakeholders all along the production chain, especially the supply chain.

It applies to illycaffè S.p.A.

FOOD SAFETY AND HYGIENE

REG. (EC)
852/2004
-TOPIC
HACCP-



Implementation of the EU regulation on the prevention and mitigation of food safety risks in food and beverage preparation processes (mandatory in many EU countries).

Regulation applied by illycaffè S.p.A.

FSMA (FOOD
SAFETY
MODERNIZATION
ACT)

Implementation of the FDA (Food and Drug Administration) regulation for all operators in the food industry exporting or trading food products in the US market. Adoption of an FSP (Food Safety Plan) based on HARPC (Hazard Analysis and Risk-Based Preventive Controls) Protocols for the food safety management system.

Regulation applied by illycaffè S.p.A.

BRC (BRITISH
RETAIL
CONSORTIUM)
FOOD
CERTIFICATE



These are both quality and food safety standards, required in different markets and accepted by most retailers of agricultural food products. The shared GFSI (Global Food Safety Initiative) platform, comparing food safety certification programmes, rates them as equivalent. These standards are based on quality management systems (ISO 9001), the HACCP method (Hazard Analysis and Critical Control Points) and on a series of GMP (Good Manufacturing Practice), GLP (Good Laboratory Practice) and GHP (Good Hygiene Practice) requirements. The aim of these schemes is to ensure compliance with quality and food safety requirements as well as compliance with any applicable sector regulations.

Schemes applied in illycaffè S.p.A.

IFS
(INTERNATIONAL
FOOD
STANDARD)
FOOD
CERTIFICATE



PRODUCT COMPLIANCE

BUREAU VERITAS
CERTIFICATION
FRANCE
Qualité France



This certifies that products comply with mutually agreed standards to ensure the best satisfaction of consumers.

Released by Qualité France (Bureau Veritas Certification France since 2012) and concerning excellence criteria and product quality consistency as well as a whole range of criteria on hygiene and health under the applicable regulations on coffee as well as voluntary criteria that are stricter than the regulations in force or not included in the applicable regulations.

Certification adopted by illycaffè S.p.A.

HALAL



It certifies compliance with Islam ethic and hygiene-health rules.

Certification adopted by illycaffè S.p.A.

KOSHER



It certifies compliance with Jewish food rules.

Certification adopted by illycaffè S.p.A.





SEED:S

Social
Environmental
Economic
Development
Sustainability

HUMAN CAPITAL



■ 4.1

Policies on human resources

Highlights

1,294

employees at 31.12.18
at consolidated level

90.2%

long term staff

24.0%

recruitment rate

People are the heart of sound and viable companies. That's why qualified talents are fundamental for illycaffè. In this respect, the company has a policy on the management and development of human resources based on respect for workers' rights and on the full attainment of their potential, promoting their personal and professional growth as well as their career development. illycaffè is aware of the central role of human resources and the importance of cooperation based on transparency, fairness and trust, in line with the principles of its Code of Ethics⁴ and the co-responsibility pact promoted through the illycitizen project.

The company protects and promotes the quality of life of its employees and their families. It provides a comfortable and safe workplace and it promotes their abilities, their potential and personal interests, by implementing and developing arrangements and benefits. To enhance motivation and the sense of belonging, illycitizen, the active citizenship program, also continued in 2018, with the objective to transfer the knowledge and information that make each and every employee a brand ambassador. This project will also continue in 2019.

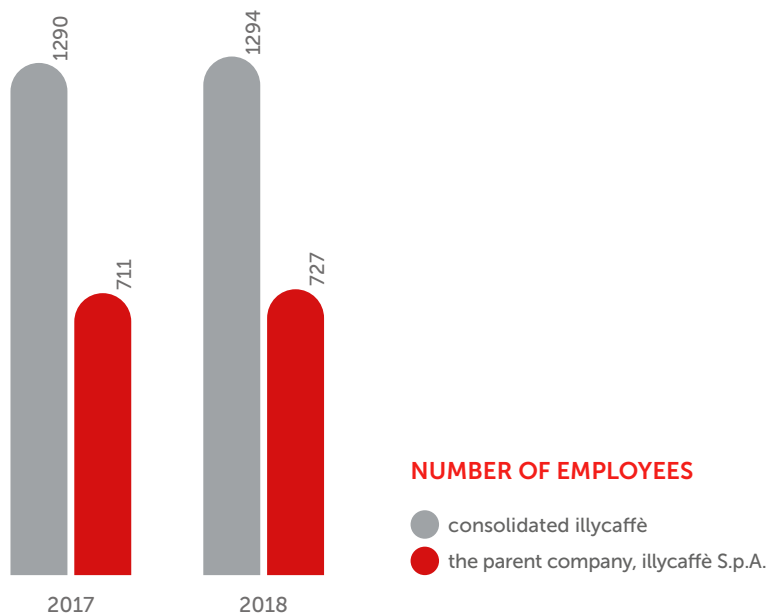
⁴ See the Code of Ethics in the Web site www.illy.com



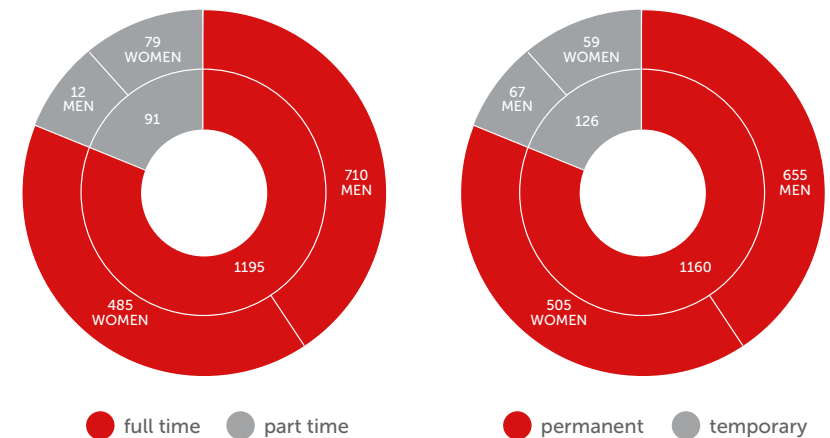
■ 4.2

Employment

Growth trends in recent years have been confirmed: the number of employees at consolidated level is equal to 1,294, including 727 in Italy.



The policy to stabilise temporary positions continued: 90.2% of employees in Italy and abroad are hired on a permanent basis and most of them have full time positions. Part-time contracts have increased to meet the needs of employees, as these contracts are fundamental to ensure the balance between professional and personal life: 91 employees in Italy and abroad have part-time contracts.



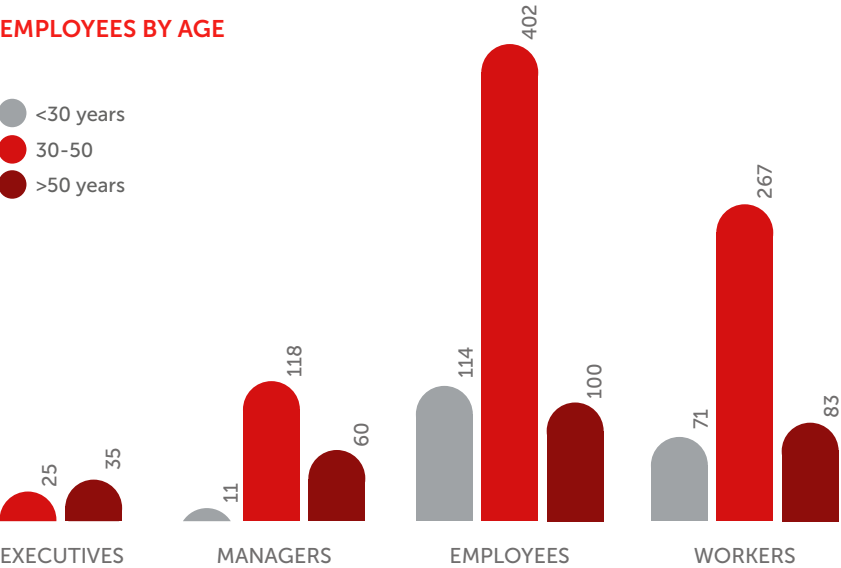
With reference to the companies included in the scope of consolidation (which account for approximately 99.4% of the total number of employees), women account for 43.9%. Based on the breakdown by age, employees between 30 and 50 years of age account for most staff (63.0% of the total number of employees).⁵



⁵ For any further information on HR data, see the methodological note.

In Italy, in 2018, 6 people were hired with cooperation contracts and 6 people were upgraded to staff leasing contracts; 6 intern contracts were signed and 3 people were hired at the end of the intern.

EMPLOYEES BY AGE



It must be noted that 76.2% of senior managers abroad come from the communities where they work. In Italy, 9.09% of executives hired in 2018 come from the region where the company is based.

MEMBERS OF THE BOARD OF DIRECTORS BY GENDER	WOMEN	MEN
Board of Directors	4	7
Board of Auditors	1	2

GOVERNING BODIES PER AGE GROUP	<30 ANNI	30-50 YEARS	>50 YEARS
Board of Directors	0	1	10
Board of Auditors	0	0	3

illycaffè rewards merits and respect its employees, preventing any form of discrimination, providing equal opportunities, ensuring suitable work conditions to vulnerable employees. To date, approximately 3% of the workforce in Italy belongs to protected categories. Additionally, in line with the Code of Ethics, career opportunities are strictly related to performance and capabilities.

As for remuneration, provisions of national employment contracts and national regulations of the relevant country apply. Performance evaluation systems apply to employees with a clear definition of shared, measurable (in numerical terms) and individual objectives, whose achievement is rewarded with a bonus. The performance of executives and middle managers is reviewed every year, while a more streamlined and flexible system applies to clerks and blue collar workers. The ratio between the gross annual remuneration (basic remuneration specified in National Labour Agreement plus seniority raises, occupational allowance, cost-of-living adjustments, extra allowance, job-specific pay) paid on average to female workers in Italy and the gross annual remuneration of men is equal to 0.82 for executives, 0.89 for clerks, 0.92 for middle managers and 0.92 for blue-collar workers. This ratio is calculated by dividing women total gross annual remuneration by men total gross annual remuneration, for each category.

In 2018, the turnover rate, calculated as the ratio of terminated employment contracts and the total number employees at the end of the period was equal to 19.8%. The rate between newly-hired staff and the total number of employees at the end of the period was equal to 24.0%. These figures include coffee bars and shops; in the light of the nature of their business, the relevant turnover is much higher.⁶

⁶ As a result of the increase in the perimeter of the reported data, figures on 2017 were re-calculated to enable comparability.

	No. HIRINGS		No. TERMINATIONS		HIRING RATE*		TERMINATION RATE*	
	2017	2018	2017	2018	2017	2018	2017	2018
Men	179	171	131	120	25.2%	23.7%	18.4%	16.6%
<30 years	104	96	69	69				
30-50	63	69	42	40				
>50 years	12	6	20	11				
Women	121	137	86	135	21.3%	24.3%	15.1%	23.9%
<30 years	65	80	41	74				
30-50	43	48	36	42				
>50 years	13	9	9	9				
Total	300	308	217	255	23.5%	24.0%	17.0%	19.8%

* The calculation has been performed by dividing either the number of hirings or the number of terminations by the total number of employees at the end of 2018

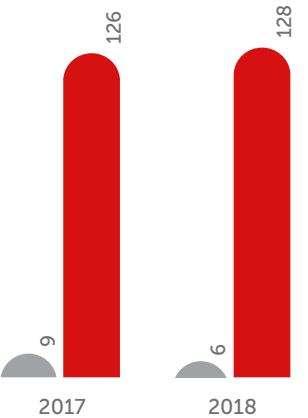


4.3

Occupational health and safety⁷

NUMBER OF ACCIDENTS AND DAYS OF ABSENCE IN ILLYCAFFÈ IN ITALY

No. of accidents with absence
work no. of days of absence



illycaffè regards the dissemination of a safety culture among its employees as a key strategic component to raise the awareness on occupational risks and promote responsible behaviours. The protection of workers’ health and safety is based on preventive actions (in line with any applicable regulations) and training activities. The company implements training activities for the production areas, to raise awareness among workers about their own safety and to share the risk analysis and assessment process. A rapid response team is constantly available at the company premises to handle any first-aid and fire-fighting emergency event. At the end of 2018, the fire-fighting team had 31 members, while the first-aid team had 46 members. In 2014 the company purchased four semi-automatic defibrillators (AEDs) and members of the first-aid team obtained the certification in AED use, with practice drills every two years .

In 2018, in Italy, there were 6 occupational accidents, involving 6 men for a total of 128 days of absence; and there were no cases of occupational illness. The 2018 absenteeism rate⁸ was 3.25% - 3,76% for women and 2,87% for men. In addition, 3 accidents occurred to employees of contractors working in illycaffè plants, for a total of 230 days of absence.

INCIDENT RATES ILLYCAFFÈ ITALIA	WOMEN	MEN	TOTAL
Frequency Index	0	5.01	5.01
Severity Index	0	0.11	0.11
Occupational disease index (No. of professional disease/tot. hours of work)*1000000	0	0	0

⁷ Relevant perimeter: data on illycaffè S.p.A. in Italy. The frequency index is the ratio between the number of accidents in a year and the hours of work, X 1,000,000. The severity index is the ratio between the days of absence per accident and the hours of work, X 1,000.

⁸ Actual number of days of absence as a percentage on the total number of working days of the workforce in the same period. Absenteeism means the absence from work for any inability not only as a result of disease or occupational accidents. Authorised leaves, such as vacation, study, maternity, paternity and family leaves, are excluded.



Risk management and evaluation system

illycaffè has a safety management system involving any relevant professional positions: the head of the prevention and protection department, the workers' safety representatives, the occupational physician, the safety representative, the employer. The company has three workers' safety representatives for all workers' categories. Since noise is the main source of risk for workers, certain plant workers are required to wear soundproof earmuffs, i.e. customized protective ear-protectors.

In 2013, a procedure was introduced to report any significant safety-related event. A report is drafted on a monthly basis on the status of the cases that have been closed, opened and in progress. The report is shared with all the function heads, the CEO, the "231" Supervisory Board, the Board of Auditors and union representatives.

Training and prevention

To prevent health and safety risks, illycaffè significantly invests on training and information. In 2018, 1,527.5 training hours were devoted.

With a view to enabling illycaffè to work safely and productively, 65% of the safety staff received training on human rights.

Safety for employees of outsourcers

Monitoring on occupational safety also includes the employees of outsourcers: contractors working in any corporate plant are required to comply with any relevant regulations. illycaffè monitors all contractors that are involved in all information and supervisory activities, and DUVRI (single document on the assessment of interference risks) requirement applies. Accidents must be promptly reported to determine any responsibility on illycaffè part and act accordingly.

■ 4.4

Internal communication and corporate welfare

The company implements internal communication actions to support cooperation between functions, increase the sense of belonging and promote the dissemination of corporate values and principles. In 2018, illyXpress was launched. It's a digital magazine on internal communication in two languages, Italian and English, and it is sent every month to illycaffè staff in Italy and abroad to provide everyone with the opportunity to voice their opinions and form a large coffee community. Articles are written by a pool of internal staff members and some external consultants.

Over the year, a series of "Momenti Xchange" meetings were held on previews of projects and products or simply to announce news concerning the company.

The "Made in illy" project continued; it was launched in 2009: employees offer their skills and their time on a voluntary basis to contribute to corporate events. Actions on internal communication and relations are integrated with the training plan and the plan on industrial relations.

■ ILLYCAFFÈ IN THE WORLD: EXAMPLES AND GOOD PRACTICES

Branches too have a set of benefits for their employees. Besides the healthcare insurance, corporate cars, discounts, meal vouchers, time saving services and parental leaves, legal assistance and counselling services are also available. In Spain for example, when a child is born, the relevant employee receives 500 Euro to buy books or to pay for the nursery fees and a saving deposit account with 250 Euro is opened.

BENEFIT

illycaffè provides all employees – including part-time staff and staff with fixed-term contracts – with the following benefits.

- Kindergarten arrangements (three kindergartens)
- Purchase of books for employees attending university courses or other courses
- Supplementary healthcare insurance (1832 accounts)
- Supplementary pension scheme
- Temporary shop with products at reduced prices
- Internal shop.

In 2018, 7 people benefited from the smart working option.

A pilot project on smart working has been scheduled in July 2019. The company has decided to adopt this form of more flexible work to meet the needs of employees, both those who live far from the head office and to enable them to reconcile professional life with family life.

At the end of 2018, members of pension schemes increased to 380. The company paid a contribution of € 148,821 for supplementary pension accounts, and this amount is higher than the contractual amount, as it did in previous years.

A photograph of an elderly woman with a joyful expression, looking upwards and to the left. She is wearing a wide-brimmed straw hat and a white polo shirt with a red cord. The background is a lush green coffee plantation with banana trees and dense foliage under a bright sky.

COFFEE CREATING
SATISFACTION.

■ 4.5

Training and development of the human capital

The recruitment system supports career opportunities for internal staff for any available position. Training is fundamental to acquire new skills and grow professionally and it is also an important leverage to support the development process included in the corporate strategic plan.

With specific training programmes, illycaffè intends to empower its employees as:

- Business partners supporting the company in pursuing its projects, objectives and in the development of skills;
- People partners helping the top management to develop human resources.
- Company partners supporting the company in the evolution of its identity and culture to build a wide leadership.

Among other training programmes, illycitizen continued; it's a programme on training and engagement of illy human resources, it was launched in 2011 and it progressively involved both the headquarters and the branches. In 2017 and 2018, the program focussed on the role of company Ambassadors to raise the awareness of employees on the brand value and contribute to its success. The topics that were explored over the year were the pillars of the brand: art&beauty, sustainability, quality and communication, especially on social media.

Over the year, a training path was built on the principles of complexity management, involving 70 people from the first and second lines and all those who are in charge of a service and manage at least one resource. Managers acquired

4 meta-skills: context reading, result orientation, complex thinking, context generation. At the end, they all contributed to a Think Tank workshop and they developed a model of corporate leadership. Blue collar workers attended 12 workshops. In these workshops, advice was provided to build actions to improve the wellbeing in the company, achieve full engagement and corporate citizenship.

■ EXPERIENCE MAKERS

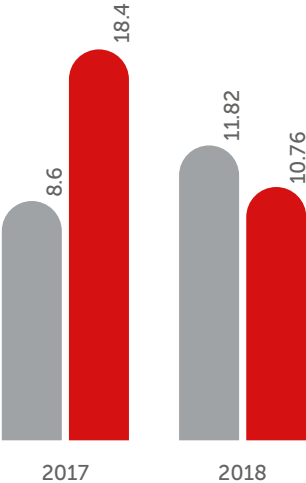
In the first semester 2018, Experience Makers, a project that was launched in 2018 for the Ho.Re.Ca. channel, was completed. In 2018, modules were devoted to the development of soft skills, such as on-line and off-line communication and negotiation. At the end, participants (155 Agents, 18 Area Managers and 13 Quality Promoters) presented their final projects that they individually discussed with corporate managers.

In the second semester, a training project, "Io sono illy", was launched for people in the (direct and franchise) retail channel on the a digital course that will be implemented in 2019 in connection with a "train the trainer" course.

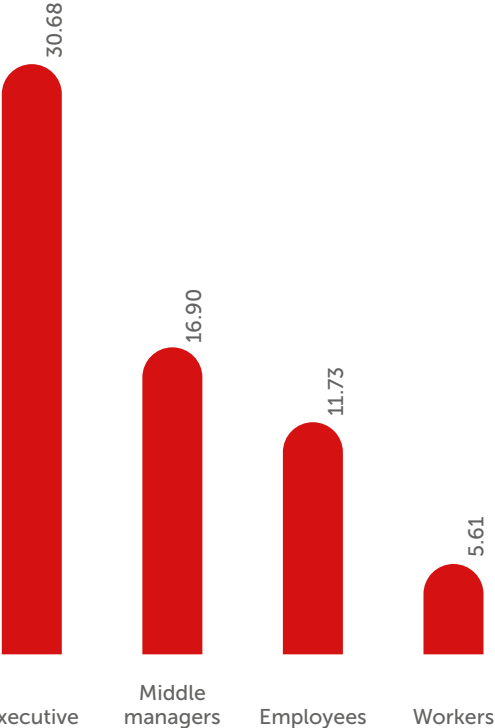


PER CAPITA
AVERAGE
OURS BY
ENDER IN ITALY
AND ABROAD

Men
Women



PER CAPITA
AVERAGE HOURS
PER CATEGORY
IN ITALY
AND ABROAD
IN 2018





SEED:S

Social
Environmental
Economic
Development
Sustainability

INTELLECTUAL CAPITAL



■ 5.1

Innovation and research

Highlights

28

University of Coffee
branches at global level

270,579

trained people since 2000

6

million Euro investment
in Research & Development

329

patents, 261 were approved
and 68 are pending

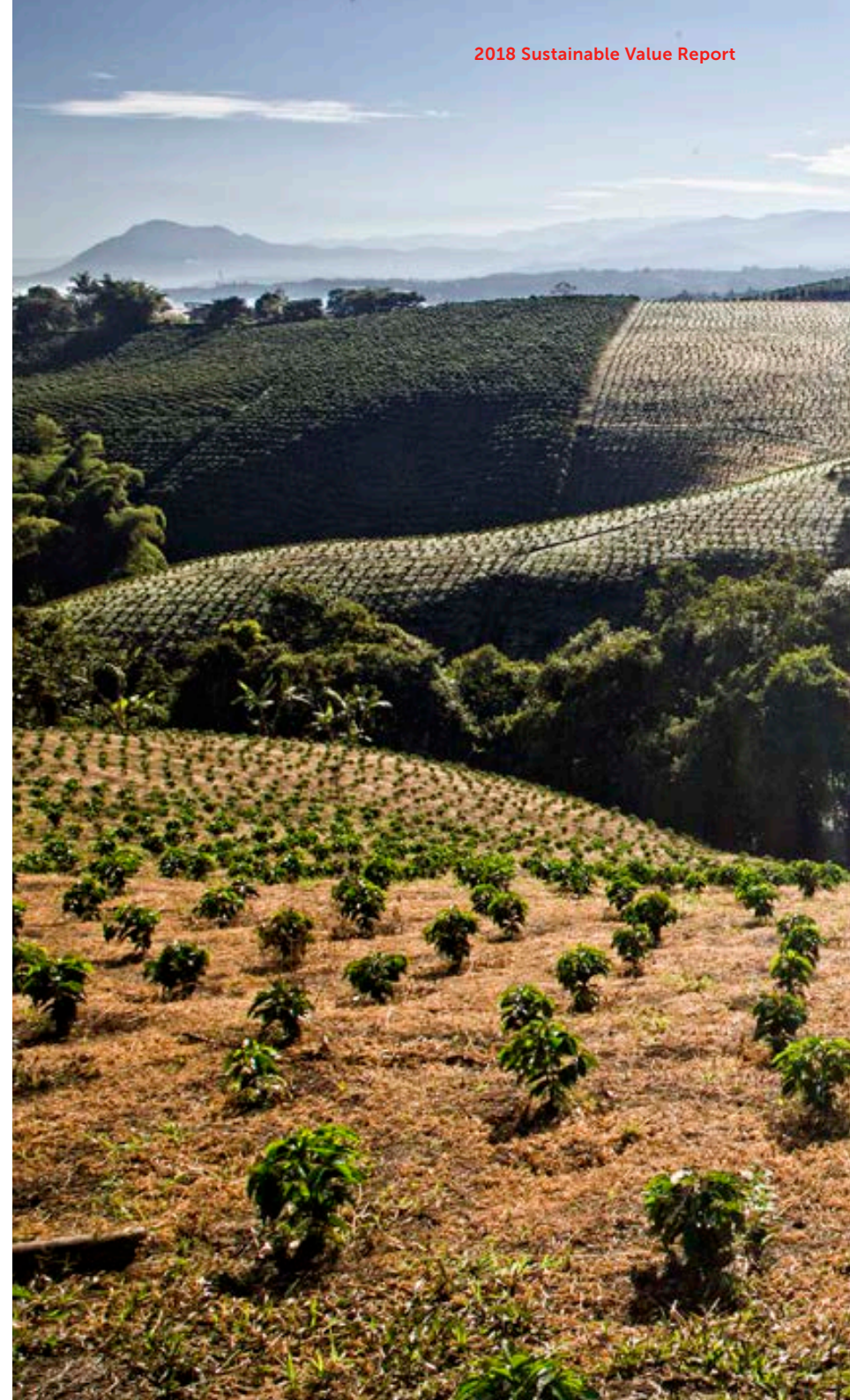


The approach based on science and technology is fundamental for illycaffè and it has been a distinguishing feature in the whole history of the company, contributing to its growth and success. Over the past century, eight ground-breaking innovations radically transformed the world of coffee, and 3 of them were introduced by illycaffè:

- **Pressurization in 1933:** a preservation system replacing air with high-pressure inert gas in the package to maintain the freshness of coffee and to enhance its aroma;
- **Illetta in 1935:** the forerunner of current professional coffee machines with high-pressure espresso formula, launching espresso machines in coffee bars;
- **Paper pods in 1974:** the first portioned system, created to export espresso in countries with a shortage of highly skilled baristas.

In 1988 illycaffè patented the system to sort coffee beans digitally – the bichromate sorter – which only selects perfectly ripe beans. Actually, it takes just one defective bean, out of the fifty beans that are needed to make a cup of espresso coffee, to disrupt quality. Lastly, illycaffè most recent innovation is l'perspresso, a capsule system that extracts coffee in two phases – hyperinfusion and emulsion – producing a unique qualitative result and an extraordinary rich and velvety crema.

The company is constantly at the forefront in the research and development of innovative technological solutions thanks to its R&D Department, which is recognized as an international excellence centre.



It performs studies and research on the characterization of volatile and non-volatile chemical compounds as well as the identification of aroma precursors and substances that determine flavour and body. The laboratory also studies methods and processes on product traceability, authenticity and safety as well as reuse of processing waste.

AROMALAB

It focuses on research on coffee-based consumable products.

FOODSCIENCELAB

It studies technological development in packaging and portioned products, also to reduce the environmental impact of packaging materials while maintaining their performance.

SENSORYLAB

By integrating chemistry, physics and psychology, the laboratory focuses on the scientific study of the relations between sensory stimuli – taste and smell – and evoked sensations.

BIOLAB

Divided into two operational units, devoted to microscopy and molecular genetics/biology, this laboratory studies the genetic information in both green coffee and espresso coffee.

TECHLAB

illycaffè experts, supported by the research labs, AromaLab, SensoryLab and FoodScienceLab, developed a new roasting curve for each origin of the new illy Arabica Selection line, the selection of Arabica coffee from Ethiopia, Colombia, Brazil and Guatemala, emphasising unique aromatic notes and the distinguishing taste of coffee origins, such as flower taste from Ethiopia and fruity taste from Colombia, caramel from Brazil and chocolate from Guatemala.

In 2018, the Prolific project was launched. It will create 16 different product prototypes from waste of beans and mushrooms and illycaffè, the only coffee company that was involved in this project, will provide silvers skin and coffee from production waste. Prototypes have been tested in the pre-industrial phase and they are suited for four types of markets: food, cosmetics, animal food and packaging.

In 2018, raw data on the reconstruction of *Coffea arabica* genome - that were presented for the first time in 2014 - were made fully available to the scientific community in the Web site of the World Coffee Research (a non-profit organisation on research and development in the coffee sector at international level). Access to genome sequence enables researchers to understand and isolate the main agronomic traits that are relevant for growers and consumers, such as new or better sensory features, homogeneous ripening of the fruit, resistance to disease, adaptation to future hotter and drier climate conditions and adaptability to cultivation in the shade. All these efforts are expected to generate huge advantages for coffee growers, consumers and the environment. Genetic sequencing of other crops enabled genetic improvers to identify genetic and molecular mechanisms synchronising the ripening process, improving resistance to disease and adapt crops to changing climate conditions, including increasingly high temperatures, long droughts and severe flooding.

MACHINES

- High-performance heaters will soon be completed, which, by using increasingly efficient exchange heaters, will reduce energy consumption in the water heating process;
- Design for disassembly has been adopted: machines are designed so that they can be disassembled and most of their components can be reused and recycled.
- Coffee machines are built to last increasingly longer and the company provides maintenance services to support the full life cycle.

PROCESS & COFFEE

- illycaffè is constantly searching for compostable barrier materials for capsules to minimize the environmental impact without compromising the quality of illy coffee and price competitiveness.
- In 2016, the company launched the new 3-kg. cans, which entail lower energy consumption in the sealing phase, with seaming replacing the welding method, with a reduction in the material and a 10% drop in weight. This type of technology permitted to reduce the CO₂, guaranteeing the high quality of the product
- Since 2017, the Easy Capsule Opener has been available to sort the plastic of l'Espresso capsules from coffee at home, in an environment-friendly manner.
- Best practices for the collection and treatment of exhausted capsules are being reviewed and upgraded in compliance with local regulations.

INNOVATION IN RECENT YEARS: PRODUCTS



2004

IPERESPRESSO CAPSULES

Iperespresso system includes a coffee machine combined with an innovative capsule system: the capsule is a complete extraction chamber protected by 5 international patents.



2008

X7

X7 was the first home boiler machine with Iperespresso capsules.

IDILLYUM

The first mono-variety coffee with a natural low-caffeine content, with a unique and fine sensory profile.

ILLY ISSIMO /READY TO DRINK

It's a ready-to-drink product to drink everywhere. No added colours and no preservatives, illy issimo, the result of cooperation between illy and Coca-Cola Company, offers the finest ready-to-go quality in a cold beverage.



2010

X7.1

X7.1 is the evolution of X7 with thermoblock technology in line with regulation on heavy metals.

Y1

Y1 is the home Iperespresso machine in glass and aluminium with automatic expulsion of capsules. Thermal control and electromechanic commands.

2012

X7.1 E Y1.1 TOUCH

Machine evolution in line with ErP regulations on energy consumption.

DOUBLE ADAPTER

Kit to use IPSO Ho.Re.Ca capsules in professional machines.

2007

X2

X2 was the first professional Ho.Re. Ca machine with Iperespresso capsules.



2009

X1

X1 second home Iperespresso machine in steel and top of the range.

ILLYCREMA

Frozen coffee cream, with illy 100% Arabica coffee and micro crystal of ice without hydrogenated fat, added colours and preservatives.



2011

X2.1

X2.1 is the evolution of X2 with thermoblock in line with regulation on heavy metals.

Y1 TOUCH

Y1 touch is the evolution of Y1 with soft touch commands and electronic board.

Y2

The new capsule machine for the Ho.Re.Ca channel.



2013

Y5

The new home Iperespresso machines with automatic discharge extending the "Y" family range.

X7.1

Limited Edition. Limited edition machine with "neon" colours for the 2013 Christmas campaign.





2014

Y5 MILK, X9 E KISS

New models of Francis Francis for illy espresso machines.

REFILLY / SOFT CAN

Recharge conceived to reduce the environmental impact.

SINGLE DOSE ESE POD

Reduced primary, secondary and tertiary packaging.

CUBO IPERESPRESSO

Conceived to replace cans and reduce the packaging environmental impact.

2016

COLD BREW SYSTEM

Ground coffee for water infusion.

PILLOW PACK

Paper filter pods for drip coffee.

2018

COLD BREW AIR/FLAT SYSTEM

Thanks to the tapping system, illy patented, Cold Brew can be tasted in the smooth version with ice and in the illy cold brew "air" version with a persistent soft foam, naturally obtained with no added ingredients.

ARABICA SELECTION

It's the range of the most distinguishing origins of Arabica coffee making the illy blend, from Ethiopia, Colombia, Brazil and Guatemala. Pure and going from delicate to intense, each origin has an individual roasting curve to single out its aromatic notes and the distinguishing taste of coffee origins.

2017

Y5 DRS ESPRESSO & COFFEE SYSTEM

The coffee machine can be controlled from the smartphone via Bluetooth, automatically reordering capsules with Amazon Dash technology.

2019

ALUMINIUM CAPSULES

Launch of the new line of compatible aluminium capsules*, resulting from a licence agreement with JAB.

* Compatible with many Nespresso® coffee machines.

2015

MOKA PULCINA

Thanks to its internal shape and its special boiler, Pulcina automatically interrupts coffee flows at the right time, eliminating the strombolian phase - i.e. the final extraction phase producing a burnt and bitter after-taste - to get the best from coffee, enhancing its full round aroma.

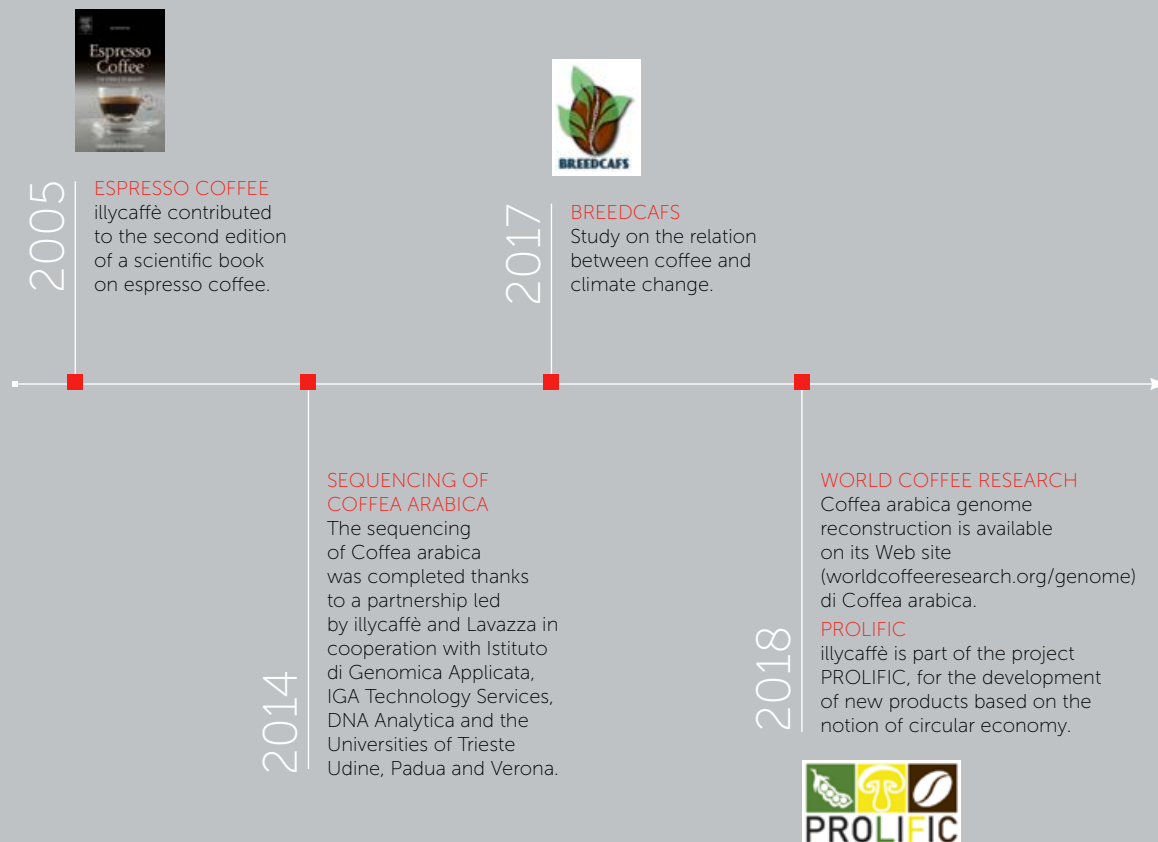
YP1

The new professional YP1 machine developed by illy and Cimbali for a perfect grounding, espresso after espresso, with Bluetooth technology: control on coffee flow and, if needed, it notifies the appropriate adjustment to Conik grinder doser. Technology results into an average 25% energy saving vs. the previous model.

PERSONAL BLENDER

The prototype was presented at the Coffee Cluster at Milan Expo in 2015 and now star-studded chefs use it to create their personal blends. Tailored-made blends can be made starting from the 9 origins of the unique illy blend.

INNOVATION IN RECENT YEARS: PROJECTS



CLIMATE CHANGE

Climate change is the most serious issue currently affecting agriculture, as it has an impact on many crops. illycaffè chose to be involved in major initiatives to mitigate any relevant adverse impact.

Coffee GAP

Starting from July 2017, illycaffè has been a partner in a large international task force, including major actions in the coffee industry, **Coffee GAP**; its objective is to support coffee producing countries to adapt to climate change with three main actions:

- Fund raising with a private/public partnership
- Know-how transfer based on a multi-disciplinary approach
- Coordination between producing countries and sharing of good practices

Breedcafs

Since 2018 illycaffè has been involved in a four-year project, "*Breeding Coffee for Agroforestry Systems*", financed by the European Commission in the framework of the programme "*Horizon 2020*". Coffee is very sensitive to high temperatures, drought and diseases; currently, 60% of crops are grown in environmental conditions that are known as "agro-forestry systems", mitigating the adverse impact of climate change. So far, "varietal selection" techniques have been based on open field plantations only. Conversely, using the new Arabica hybrids, new varieties will be designed and tested, which are more suitable for agro-forestry systems and for climate change to generate quality products. Small growers will greatly benefit, their income will increase and environmental sustainability will also increase; the European industry will access a wider range of special coffee varieties.

■ 5.2

University of Coffee

The University of Coffee (Università del Caffè) is the centre of excellence, promoting and sharing, with training, the culture of quality coffee at global level. It was opened in Naples in 1999 and it moved to Trieste in 2002 at the headquarters of illycaffè.

Training activities of the University of Coffee are conceived to provide opportunities to all those involved in the sector to raise and improve quality in each single phase of their areas. It's a virtuous circle of knowledge, aiming to create value over the time, building on growth, sustainability and transparency, extending the action areas, from relations with professionals to direct sharing with final consumers.

The University of Coffee is based on the efforts that illycaffè has been making since 1933 on product and process research and innovation. The team of teachers provides training both in the classroom and directly at the customer offices, providing advice on topics ranging from processing and recipes to management of coffee bars and staff. Besides the traditional vocational training offer and awareness-raising actions for consumers, one-day courses have been introduced in recent years for the whole staff of a dedicated retail store.

The global team of teachers is based on 3 different levels of skills, as described in an internal protocol:

- Instructors, currently 13
- Associate Professors, currently 39
- Full Professors, currently 61

Teachers are supported with a long and continuous training and review scheme, organised at the headquarters of the University of Coffee. In 2018, the Tel Aviv (Israel) branch was opened, it's the 28th branch of the University of Coffee.

TOTAL NUMBER OF ATTENDEES	2017	2018
Producers	549	306
Professionals	16,945	18,601
Consumers	8,702	7,202
On-line attendees	429	952
TOTAL	25,625	27,061

HIGHER TRAINING FOR PRODUCERS

In 2018, 306 coffee producers were trained.

Supporting activities for producers began in 2000, following the collaboration with PENSA, the Agrobusiness Intelligence Centre of the University of Sao Paulo. Since 2010, over 6,556 growers, partners and operators in the coffee sector have attended training programmes on topics ranging from responsible growing techniques, trading, business management and logistics.

EDUCATIONAL COURSES FOR CONSUMERS

In 2018, 7,202 consumers have attended these courses.

The University of Coffee provides a range of courses for the general public on different topics and in different formats. Educational actions are implemented on a number of macro topics: coffee culture, economy, sustainability, sensory factors, health, traditions.

PROFESSIONAL TRAINING COURSES

In 2018, 18,601 professionals were trained.

The University of Coffee offers professionals working in bars, restaurants and hotels with educational opportunities and updates on coffee as well as on business management and promotion. Courses provide participants with the know-how that can be promptly used — from how to prepare beverages to managerial skills.

In Italy, at the end of the training, professionals are asked to fill out an evaluation questionnaire on the course, assigning a score from 1 to 10. In 2018, the average score was 9.5.

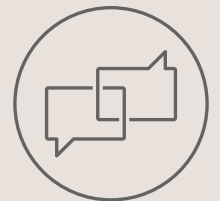
Training of the University of Coffee starts at school. The Maestri dell'Espresso Junior competition for teachers and students of Italian hotel management schools has been conceived to train future professionals. In 2018, 70 schools joined the competition and three training sessions (Trieste, Bari, Milan) were implemented for teachers.



SEED:S

Social
Environmental
Economic
Development
Sustainability

RELATIONAL CAPITAL



6.1

The value of the community and its territory

Highlights

20

schools supported by Seeds for Progress Foundation, with 5,000 students and 272 teachers in 5 regions of the country

65%

export turnover in 2018

37

new points of sale opened in 2018

+ 12%

on-line orders vs. 2017
In 2018, at global level, there were 4,448,032 visits just on the commerce platform

The quality of coffee illy begins with direct collaboration with coffee makers. In this context, it plays a central role in the company's understanding of the needs of communities, through support institutions at the local and global level. Aware of this responsibility, the company has developed several projects support to the local communities in which it operates, consolidating over time a stable dialogue with different government organizations, institutions and trade associations, research institutions and universities linked to the coffee supply chain international or in the producing countries.

From the Prêmio Ernesto Illy de Qualidade do Café para Espresso to the Ernesto Illy International Coffee award

Brazil is the first country in the world where illycaffè has started a collaboration with coffee producers. In 1991, the company established the Premio Ernesto Illy de Qualidade do Café para Espresso, dedicated to the

best coffee producers in the country. The award represented a flywheel for the improvement of the production processes quality, as stated by the most authoritative players in the sector. The Brazilian bean today is recognized by the international market as one of the best in the market.

At the beginning of the 1990s Brazilian coffee guaranteed large quantities but poor quality. The Brazil Award helped to change this situation, allowing regions of the country, wrongly considered unsuitable for cultivation, to assert itself.

The award turned into the Ernesto Illy International Coffee Award, an international award that involves all the best coffee producers who sell to illy the sustainable quality coffee. The recognition intends to affirm the importance of working hand in hand with coffee producers to continue to pursue the dream of offering the best coffee to the world.

COUNTRY	INSTITUTION
Brazil	CECAFÊ - Conselho dos Exportadores de Café do Brasil Embrapa - Empresa Brasileira de Pesquisa Agropecuária Universidade São Paulo Universidade Federal de Viçosa Instituto Terra Funarbe - Fundação Arthur Bernardes
Colombia	Federacion Nacional de Cafeteros de Colombia SENA - Servicio Nacional de Aprendizaje
Guatemala	Anacafé Government of Guatemala
El Salvador	Consejo Salvadoreño del Café
Ethiopia	Ethiopian Coffee and Tea Development and Marketing Authority Ethiopian Coffee Exporters Association
India	Coffee Board of India
Tanzania	Coffee Board of Tanzania
China	Institute of Tropical and Subtropical Cash Crops (ITSCC)
Rwanda	National Agricultural Export Development Board
International	ICO - International Coffee Organization From 2012 until March 2016, Andrea Illy was the Chairman of the Promotion and Market Development Committee. UNIDO - United Nations Industrial Development Organization WB - World Bank ASIC - Association for Science and Information on Coffee ICTP - International Centre for Theoretical Physics SAI - Sustainable Agriculture Initiative platform SCAA - Specialty Coffee Association of America ISIC - Institute for Scientific Information on Coffee

illycaffè for Colombian communities

illycaffè signed an agreement with SENA - Servicio Nacional de Aprendizaje, a Colombian public authority - to launch an international cooperation project and transfer know-how and good practices on coffee production and preparation both to producers and consumers. This cooperation further developed in 2017, as it was added to the peace agreement between FARC and the Republic of Colombia. illycaffè has provided training sessions in areas that were affected by the civil war, for victims, former fighters trying to go back to civilian life, associations of women coffee growers and teachers of rural schools whose curricula include a module entirely focussing on quality coffee production. In 2018, illycaffè signed a memorandum of understanding with ETCR (Espacios Territoriales de Capacitación y Reincorporación) and Ascafè (the association of small coffee producers) to raise quality and coffee producing capacity in the department of Cauca, where former FARC fighters and small producers are based, promoting economic development at local level. Over 600 former FARC fighters in the four ETCR areas will access the benefits described in the memorandum, i.e. 130 former fighters of La Elvira, Buenos Aires, 350 of Los Monos, Caldon, 50 of El Estrecho, Patia and 80 of Monte Redondo, Miranda, as well as 480 producers of local communities.

illycaffè for Honduras communities

With the project *"Note d'Autore"*, illycaffè has supported the children of coffee pickers of El Suntular, in the area of Yoro, Honduras, and it built the school "Vicente Matute". In cooperation with Cohondu Foundation, this project extended the existing school, adding two classrooms and toilets, improving the pre-existing conditions that were quite poor. El Suntula is the second example of support to coffee communities in Honduras. At the end of 2017, illycaffè financed the building of another school in Belén, in the region of Lempira, supporting 105 families. Illycaffè implemented these projects in two of the poorest areas of the country in line with the principle of value creation for all stakeholders of the production chain, with a special focus on education.

illycaffè for communities in Mozambique

illycaffè signed a public-private partnership agreement with UNIDO - United Nations Industrial Development Organization - on the project "Improving inclusive and sustainable agro value chains development, including the Ibo specialty coffee one, of Cabo Delgado Province through Public Private Partnership approach" to develop agriculture in Mozambique, including coffee. This project is aimed at increasing the income of small local producers in the area of the Quiribas National Park, in the province of Cabo Delgado, and to enhance technical and entrepreneurial skills of the students of the Agriculture School of Bilibiza, so that they can have an active role in the development of a sustainable production, a better product processing and more effective trading practices.

Local communities

illycaffè supports initiatives for local communities and charity associations both donating products and promoting projects. It has long standing relations with a number of local associations, such as Caritas and Calicanto - contributing to urban requalification projects. In 2018, the flowerbed traffic island and the roundabout in via Flavia in Trieste were completed, near the corporate plant. illycaffè will provide maintenance for this green area.

■ 6.1.1 Art, Aesthetics and Culture

For over twenty years now, illycaffè has been an active player in contemporary art, supporting and promoting several successful and emerging artists with a view to disseminating the culture of beauty and excellence.

"Padri e Figli", Casa delle Esposizioni di Illegio

In 2018, an agreement was signed with ASSOCIAZIONE CULTURALE "COMITATO DI SAN FLORIANO" based in Illegio, (Tolmezzo - Udine, Italy), and illycaffè became the Ambassador of the exhibition "Padri e Figli" ("Fathers and Sons"). Sixty artworks from major public museums and private collections over twenty-four centuries of the history of art were displayed on the relation between fathers and sons.

"THE CLEANER" Palazzo Strozzi, Florence

In September 2018, illycaffè supported "The Cleaner", Marina Abramović exhibition in Palazzo Strozzi in Florence. The exhibition brought together over 100 artworks of this artist from the 1960s to the 2000s. Abramović also created the "Manifesto Arte di Barcolana50" (the biggest regatta in the world in the Gulf of Trieste), this creative project was supported by illycaffè with the theme "We are all on the same boat" that sparked social and political debates.

illy @ Milano Design Week

In the Design Week, at the Triennale in Milan, illycaffè staged a live performance of the artist Max Petrone; the public interacted with art and visitors, including young visitors, were involved in collective artwork experiencing cultural aggregation together with the artist.

Artissima 2018 – Turin

To celebrate the 18th anniversary of "illy Present Future" award, Artissima and illycaffè released a video on its history featuring the artists that received the award from 2001 to 2017: a dynamic and engaging narrative based on images and quotations, with highlights of each edition on global events and on the winners and their works, pointing out the far-sightedness and courage of the award and its promoters.

■ 6.1.2 Ernesto Illy Foundation

Illycaffè set up this Foundation, led by the Illy family, to promote the moral and cultural legacy of Ernesto Illy. The Foundation is a non-profit organization and it was created with the goal of developing and enhancing ethics and sustainability by promoting research and sharing its activities among all stakeholders.

Mission of the Foundation

To foster and develop knowledge, ethics and sustainability as absolute values in the conduct of the business as well as research as a method in the pursuit of truth and improvement of humankind, in line with Ernesto Illy's teachings. To pursue the values and the method both to enable communities to achieve economic, social and cultural growth and as a competitive advantage tool for the company.

Vision of the Foundation

Values and profits are mutually beneficial. Ethical companies, leading the modern economy, strive to turn values into profits and pursue the quality of profits to build long-term value.

The Foundation implements scientific and cultural projects either directly or in partnership with universities, institutes and organization of excellence, with the aim of gaining insights into issues such as ethics, sustainability, scientific research and coffee culture.

For any further information on the activities of Ernesto Illy Foundation, visit its Web site by [clicking here](#).

■ **THE LOGO OF ERNESTO ILLY FOUNDATION**

Designed in '60s, the Ernesto Illy Foundation logo depicts two cups on two joint saucers, indicating the connection and the precious close relationship that develops between two people through dialogue and friendship. "It's the view from above of two espresso cups. The underlying message is that coffee promotes social life, supporting friendship and conversation, as people should not drink coffee on their own. Coffee should always be enjoyed with a company." Ernesto Illy.



FONDAZIONE ERNESTO ILLY

■ SUSTAINABLE SUPPLY CHAIN: ERNESTO ILLY FOUNDATION ACTIONS SUPPORTING ILLYCAFFÈ

"Ernesto Illy Master's Degree in coffee economics and science"

It's a master's degree promoted and organized by a group of partners of excellence in the area of training and education: University of Trieste, University of Udine, Ernesto Illy Foundation, illycaffè, the University of Coffee, SISSA (Scuola Internazionale Superiore di Studi Avanzati – International School of Advanced Studies, Trieste), the Molecular Biomedicine Consortium (Area Science Park – Trieste). In recent years, there has been a growing interest among producers and people wishing to work in the coffee industry. Over 150 students have attended the master course since its launch. In 2018, 26 student attended the course and achieved the Master's Degree.

Cooperation with El Zamorano University, Honduras

On 17 May 2016, Ernesto Illy Foundation and El Zamorano University, Honduras, signed an agreement to introduce the subject of coffee in the university curricula, which include courses for farming and agro-industrial companies. The agreement has a duration of 3 years (2016, 2017 and 2018); 3rd and 4th year students of El Zamorano University may sign up for the optional course on coffee, or Asignatura Adicional de Café, (30-hour training programme). The course, including 5 sessions running 3 times a year, one each quarter, is held by teachers with Ernesto Illy Master's Degree in Coffee Economics and Science. This project was completed in 2018 with over 300 students and 15 teacher with Ernesto Illy Master's Degree in Coffee Economics and Science, and it has greatly exceeding expectations.

Reforestation of water spring areas in Támara, Colombia

The reforestation project in the region of Támara (Colombia), with native trees near the water springs has been extended until 2020 in light of the good results that have been achieved: 69.2 hectares were preserved and 15 different species were planted for a total of 12,290 plants/native trees. 80 families of growers directly benefited from this project, while 320 people had indirect benefits. The objective is to increase the relevant area, involving 200 families of growers also with a view to improving practices on the use of water in coffee processing. The project will also involve two local schools with schemes on environmental education and recycling.

Computational Science on Coffee in collaboration with Julich Research Center, Germany

The cooperation between Julich Research Center and Ernesto Illy Foundation is aimed to add a position of assistant professor working on research in computational coffee science, to promote the development and the application of computational molecular simulation methods and to address topical questions of coffee research on a molecular level.

Phd Grant - CIRAD: Coffee Leaf Rust thesis

Cooperation between CIRAD, a French research centre working with developing countries on international issues affecting agriculture, and Ernesto Illy Foundation aims at developing a preventive alert system on leaf rust (*Hemileia vastatrix*) in Central America in the framework of the project Procagica (Programa Centroamericano de Gestión Integral de la Roya del Café). The programme has been developed and it's financed by the European Union. It aims at developing an approach to climate change and its environmental impact by adopting and implementing adaptation, mitigation and risk reduction measures.

Currently, coffee rust has been monitored in three areas in Cost Rica and in three different departments in Nicaragua to identify the micro-climate factors affecting coffee leaves and how these factors change depending on different environmental conditions.

World Happiness Report 2018

Since 2017, Ernesto Illy Foundation has been a partner and a supporter of the World Happiness Report, released annually by the UN Sustainable Development Solutions Network (www.unsdsn.org).

In 2018, the Report focussed on "Migrations" and it was presented at the Vatican Pontiff Academy to national and international media based in Rome and to Vatican scholars.



IT'S ALWAYS THE SEASON
FOR PEOPLE.

■ 6.2

illycaffè and its customers

illycaffè customers and consumers are offered a unique 100% Arabica coffee blend, the result of a series of selection and processing steps safeguarding and enhancing quality. Coffee is available in three different degrees of roasting, each with its own colour and organoleptic characteristics: classic for a mellower and more aromatic taste; intense for a more energetic flavour; strong for a persistent dark chocolate and toasted bread flavour.

illycaffè has based its relations with customers on satisfaction to create long term relations by offering quality products and services. The growth plan of the company focusses on three strategic lines:

- Enhance and increase its market share in the premium hospitality segment worldwide, by developing a product/service mix;
- Increase in consumption opportunities, especially at home, with portioned preparation systems;
- Focus on a high-quality offer and experience for consumers, with single-brand retail outlets and e-commerce.

illycaffè products are mainly distributed in the following business channels:

Business to Business (B2B)

- Ho.Re.Ca: Hotels, Restaurants, Cafés
- Traditional retail
- Supermarkets
- Consumer electronics
- Vending (offices and workplaces)

Business to Consumer (B2C)

- illy Shops
- illy Caffès and espressamente illy
- e-commerce

■ 6.3

Value creation and sustainability for customers

The objective of illycaffè to maximise sustainable value creation for its customers is based on the actions to reduce the environmental impact of its products and the relevant packaging with innovative and hi-tech solutions. With the launch of illy box in 2016, the company intends to increase efficiency and service to Ho.Re.Ca. customers with an innovative telemetry system integrated in professional coffee machines.

Value creation in B2B channel

In 2018, illycaffè was once again the coffee brand with the highest demand in coffee bars in Italy, with 57.9% of people in Italy who choose coffee bars where they can have illycaffè.

In the same year, the visual identify of products changed to increase transparency and satisfaction both for trade customers and final customers. The new visual identity for all channels and markets emphasizes the most relevant messages for consumers in the purchasing process, such as the taste, the distinguishing features of the brand vs. competitors (heritage, quality and sustainability). In this framework, the needs of customers that approach coffee in a more sophisticated manner, actively searching for information on the world of coffee, are met.

■ ILLY CHEF AMBASSADOR

The project has been conceived to provide star-studded chefs with the opportunity to customize and shape their coffee in line with the style of their restaurants. The Personal Blender - a patented illy tool assisting chefs to create their tailored-made coffee blends - is based on a complex process with a sensory radar and it produces a tailored-made coffee that illy Chef Ambassadors can serve on an exclusive basis in their restaurants together with the traditional illy blend.

Corporate communication to trade customers

Communication is based on different factors:

- **Sales force.** It's in constant contact with customers of all B2B channels (Ho.Re.Ca, modern trade, consumer electronics, specialty retail, offices) and updates this category of stakeholders on the latest corporate news on products, services, promotions, events, exhibitions, trade fairs and communication actions both at national and at local levels.
- **Reserved area for illycaffè customers.** In 2018, a reserved area was created in illycaffè Web site for all B2B customers, with information based on customer profiles, providing immediate contact with the company. It's accessible from desktops and mobile devices to gain insights in real time on:
 - o purchasing progress to the relevant contractual target (if any)
 - o access to invoices, notes and order tracing
 - o contents that may be viewed or downloaded: course schedules, communication material, training videos, ideas
 - o notifications on new available documents or initiatives for the customers

⁹Source: Brand Health Tracker, Kantar Italia, May 2018; sample 271 cases. On-line survey on 552 consumers in the Italian population who had coffee over the past 30 days.

• **Artisti del Gusto Digital newsletter.** This is a twice-monthly newsletter to "Artisti del Gusto", i.e. baristas who want to elevate their profession to excellence levels and that illycaffè assists in their efforts, offering unique skills and tools. This newsletter keeps customers updated. Usually it includes three sections:

- o Products that are served to customers
- o Resale products
- o New courses of the University of Coffee

Value creation in B2C channel

illycaffè keeps developing its B2C offer through franchised or directly-operated single-brand retail outlets under the "illy Caffè" and "illy Shop" brands, with the twofold objective of exporting the authentic concept of real Italian coffee bar abroad and establishing direct relations with consumers.

The new format is positioned in the market as a symbol of the Italian lifestyle, showing places of beauty, socialization, creativity and enogastronomic culture.

In 2018, 37 new outlets were opened: 32 illy Caffès and 5 illy Shops, which are all franchised outlets except for the directly operated store in Vienna, near the headquarters of the Austrian branch.

In 2018, the network requalification project continued: 25 outlets, i.e. 23 illy Caffès (22 franchised outlets plus the directly operated store in Market Street

in San Francisco) and 2 illy Shops exited the network.

In EMEA, 19 illy Caffès were opened. In Asia, 10 new illy Caffès and 5 illy Shops (China, South Korea, Singapore). In North America, 3 illy Caffès were opened and the shop in The Venetian Palace in Las Vegas was re-opened. In the Middle East, a development plan was launched: 20 outlets will be opened by 2022 in Saudi Arabia.

At the end of 2018, single brand outlets were 259: 179 illy Caffès and 80 illy Shops, i.e. 236 franchise/licensed outlets and 23 directly operated outlets.

Digital transformation

In 2018, figures in the e-commerce sector kept growing with 4,448,032 visitors in the e-commerce platform alone, with an increase of 12% in on-line orders vs. 2017. The e-commerce multi-year plan will deliver new opportunities in strategic markets, such as China, South Korea and Russia, and it will enhance the on-line sales network with increasingly close partnerships with intermediaries such as Amazon, Jet, Bol and Kaola. Moreover, the digital transformation project, launched in 2017, involves all illycaffè entities at global level and all corporate areas. illycaffè aims at harmonising on-line and off-line sales tools, from retail to B2B, from production to marketing, from branding to the customer care service, to offer the best purchasing experience to consumers in all its channels.

■ ILLY BOX

illy box has been devised for the Ho.Re.Ca. channel. It is a system connecting professional coffee machines to the Internet to ensure a high-quality service, capable of monitoring the process and, if needed, take immediate and targeted improvement actions. Data collected on the use of the machines may be viewed in real time on smartphones, tablets or desktops and are customised. The medium-term objective is to channel all information for any user into a single digital area. Trade customers will be able to view in their own reserved area both the illy box data and

information that can be used to manage their business more effectively.

Expected benefits for Ho.Re.Ca. customers include:

- Guarantee of consistent high quality in the cups served to consumers in any illy coffee bar;
- Reduction in the customer churn rate, increasing revenues, achieved through the high level of service provided through illycaffè quality promoters and sales force;



VALUE PROMOTERS,
STAKEHOLDERS.

■ 6.4

Feedbacks and customer satisfaction

The company strategies on customer relations are based on major factors affecting the quality of the service, such as accessibility, process transparency, communication management (especially reduction of response time), consistency of treatment in the various channels and provision of high added-value services.

In 2018, contacts with the customer care service were 53,506, decreasing by 10% over 2017, as customers are more independent and, with the instructions of the customer care service, they can implement some actions directly (i.e. maintenance of coffee machines, cleaning, etc.). Complaints dropped by 25%, and this is a highly positive data. Additionally, less than 50% of reports and complaints were about products (coffee, machines, cups, etc.), the rest was about other issues.

	2017	2018
Customers	12041	12107
Prospect Trade	4902	4846
Consumers	42633	36553
Total	59576	53506

	2017	2018
Information	20039	17629
Complaints/reports	2867	2146
Services	32160	29350
Prospect trade/agent visit	4510	4381
Total	59576	53506

At corporate level, the internal customer care department is working on a response time standardization project based on the request.

Besides customer care activities, other channels are available to customers, such as:

- Customer satisfaction surveys on Artisti del Gusto (Artists of Taste), illy bars, on-line customers;
- Actions of Brand Ambassadors and technical experts with training events and/or actions directly at the customer premises.
- Daily activity, calls and presentations, by the sales force (area managers and agents)
- Corporate events (sales, trade marketing, University of Coffee) at local level
- Courses for teachers of the University of Coffee both in Trieste and locally
- Ad hoc company visits

To further support Ho.Re.Ca. customers, the “Brand Ambassador” project was launched: a qualified illycaffè team offers customised assistance services to shop managers to improve the customer experience in the points of sale. This project includes:

- Quality monitoring on illycaffè cups served to Ho.Re.Ca. customers in Italy
- Point of sale image managing and monitoring
- Training and management of know-how based on illycaffè quality criteria and equipment
- Testing of new products
- Engagement of managers and stakeholders based on the opportunities with the University of Coffee.

The agreement with the Ministry of Agriculture, Food and Forestry Policies (Central Inspectorate for quality and repression of food product frauds), to preserve the superior quality of the 100%-Arabica illy blend and to protect the virtuous retail establishments serving illy aroma and excellence in Italy,

is still active. In this framework, tests on coffee samples are performed to rapidly identify any blend created with the addition of roasted beans other than illycaffè. These and other checks that the company already performs along the entire coffee supply chain further ensure fair competition among retail establishments so that customers can have excellent and authentic illycaffè espresso wherever the company name and logo are displayed.

Complaint management and improvement actions

The Quality Assurance department receives complaints and reports from customers and reviews each of them with the relevant corporate function.



■ 6.5

Responsible communication and information

illycaffè communication with its customers and stakeholders is based on the respect for the right to information. Every communication activity is fully compliant with any applicable laws, rules and professional practices and it is performed in a clear, transparent and timely manner. illycaffè has implemented the following policies to further enhance communication and information actions for customers:

- Compliance with the self-regulation code on marketing communication
- Audit on labels by a company specializing in promotion and agro-food quality to test consistency and compliance with any regulations in force in the relevant countries.

The company transfers excellence to the cup, the accessory to taste the product, to engage customers emotionally and intellectually, offering them a multi-sensory experience. This is how illy Art Collections were launched in 1992. Providing the espresso experience means sharing the appreciation of beauty which combines inseparably with goodness. That is the reason why art and creativity have been chosen to express the company values and philosophy. This is also the framework for the development of single brand shops and the implementation of international cultural events.





SEED:S

Social
Environmental
Economic
Development
Sustainability

NATURAL CAPITAL



■ 7.1

Environmental policy

Highlights

100%

electricity from
renewable sources

-5.9%

water consumption
vs. 2017

99.4%

waste recovered
in 2018

The environment and the protection of resources are key factors that must be promoted in the general approach to corporate business; protection and local sustainable development are fundamental in the framework of the rights of the community and future generations. Building on this assumption, illycaffè is based on the principles of environmental sustainability and the mitigation of the impact of its business using the best available processes. illycaffè operates in compliance with any national and regional regulations of the relevant countries.

illycaffè environmental policy starts in the heart of plantations, mitigating any adverse impact on local ecosystems by adopting and promoting responsible conducts and it results into sustainable quality products with the lowest possible impact on the environment, also in terms of consumption and waste disposal.



■ 7.2

Environmental Commitment

illycaffè¹⁰ monitors its direct impact on the ecosystem and it promotes the implementation of sustainable and responsible practices at all levels of the production chain; over the years, it has improved its performance on energy efficiency and sustainable waste management. illycaffè has introduced environmentally efficient innovative solutions in the production process and it has developed new packaging models with a lower environmental impact to comply with the European 20-20-20 Protocol on the reduction of CO₂ emissions. The company is also reviewing and defining its new objectives in line with the 2030 climate and energy framework. It promotes sustainable agronomic practices at economic and environmental levels with growers of green coffee. The use of active agents has been minimized and therefore consumers have sound assurances in terms of food safety.

With the implementation of the Environmental Management System (S.G.A), ISO14001 and EMAS certification, the company constantly monitors its environmental impact with the Initial Environmental Analysis. It's a process investigating any link between the site production activity and the surrounding environment.

¹⁰ Besides the nature of the activities performed by the other companies (mainly administrative):

- The main environmental impact results from production activities, which are all performed in Trieste, at the parent company plants;
- Over 56% of the Group employees work for the parent company. The company shares environmental examples and good practices adopted by the other companies so as to report in the best possible way environmental projects and solutions.

ENVIRONMENTAL MANAGEMENT TOOLS

- **Environmental policy:** effective tool to define the corporate strategy.
- **EMAS Environmental Declaration:** the company leverages on this tool to notify any stakeholder with its guidelines, objectives and the relevant progress. The Declaration is updated on an annual basis.
- **Environmental Management System:** continuous monitoring and storage of data on consumption and waste management at the company three sites.
- **Life Cycle Assessment:** illycaffè uses SIMAPRO 8.3 software to calculate the environmental impact of its production processes. The company uses LCA as a tool to support all its decisions on product and process innovation.
- **Single Environmental Authorization(SEA):** obtained in 2015, SEA replaced a number of authorizations in the environmental area (air emissions, waste water discharge, acoustic impact, etc.) that had to be applied for and obtained separately. It is a legal requirement that acts as an administrative simplification tool intended both to protect the environment and to cut the bureaucracy for companies.
- **ISO 50001 "Energy Management Systems" Certification:** the company obtained the certification in 2015 thanks to a systemic approach to energy efficiency improvement.

Sites and Production Processes

TRIESTE, VIA FLAVIA: coffee roasting plant generating most of the direct environmental impact;

TRIESTE, VIA MALASPINA: Distripark, where storage and shipping activities are performed.

These two Trieste sites have obtained environmental certifications and they are not located in any protected or high-biodiversity areas. The energy sources for the production process are: methane, electricity and diesel fuel (company vehicles).

As for the management of the **company vehicle fleet**, 279,682 litres of **fuel** (gasoline and diesel) were used in 2018 for a total of 3,496,025 km (considering an average diesel consumption of 8 litres/100 km). Emissions were estimated at the equivalent of 545 tCO₂. Conversion gas to diesel –

diesel power – Source: GHG: 0.156 kgCO₂/Km).

The company also adopted specific solutions to reduce energy consumption and increase efficiency in the waste management system. In the third corporate site, in via Caboto 19, some ancillary production activities are performed (coffee machine design and quality control). In line with the **Surveillance and Measurement Plan**, supported by the relevant obligations in the environmental area, the company performs **preventive control and monitoring** of its environmental impact to minimize any potential risk for the environment and the surrounding communities. Any deviations from the plan are monitored and managed promptly with non-compliance reports and, when appropriate, with corrective actions taken on the causes of any relevant issue¹¹.

¹¹ In 2018, the company was not fined nor sanctioned for failing to comply with environmental laws and regulations. No complaints were received regarding environmental impacts.



Environmental protection expenses incurred by the parent company in 2018 amounted to 657,900 Euro (-1,99% vs. 2017):

illycaffè HQ expense	2017	2018
Waste processing and disposal including electronic waste	€ 496,600	€ 531,800
External environmental management services	€ 10,000	€ 10,000
External certification of environmental management systems	€ 1,500	€ 1,500
Research and development	€ 141,400	€ 92,200
Other	€ 21,800	€ 22,400

illycaffè branches sell products and perform low-environmental-impact marketing and administrative activities. Each country plans and implements these initiatives independently to identify the best solutions at the local level, from a regulatory, EU and market standpoint.



7.3


Raw material

The raw material for illycaffè is green coffee. Every year, the company purchases hundreds of thousands of Arabica coffee bags from producers in Latin America, Africa and South-East Asia. The production of this raw material accounts for a considerable share of its indirect environmental impact and the company monitors every step of the supply process, starting from plantations to transport and up to the roasting plant.

In addition to green coffee, the company also strives to reduce **the impact of plastic and metal used in its packaging and the impact resulting from nitrogen**. The rest of the raw material has a lower environmental impact. This material includes: oils, solvents, inks, chemical products, wood, jute bags, carbon dioxide, paper and cardboard (other than packaging material). Paper, cardboard, jute bags and wood used in packing are mostly recycled material. The other material that come into direct contact with coffee is necessarily new.

Total material for products and packaging	In % on the total weight	Renewable material ¹²	Var. % 2017-18
Metal	14.09	No	+0.01
Green coffee	62.12	No	-0.02
Plastic	7.09	No	+0.06
Nitrogen	7.21	No	+0.04
Other	1.80	No	+0.64
Paper/cardboard packaging	7.69	Yes	-0.01

¹² Resources that renew in short time period.



PRODUCT OF EL SALVADOR

OUR GREEN IS
ENVIRONMENTALLY
FRIENDLY.

7.4

Energy management

illycaffè manages energy resources responsibly in a perspective of continuous improvement. In Italy, the company has introduced, on a voluntary basis, the Energy Manager, a professional profile in charge of assessing, monitoring and optimising the use of energy. The environmental managing system covers:

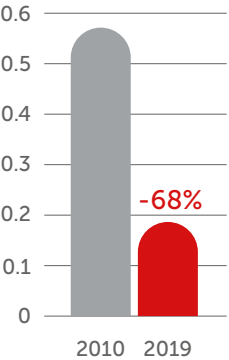
- Training of corporate staff
- Communication between corporate levels and external communication
- Description reports on system activities, which is fundamental for corporate staff
- Control over production processes and any relevant activities, especially on prevention and/or mitigation of the environmental impact
- Identification and management of any potential emergencies for prevention purposes; and, if such events occur, measures are implemented to minimize their impact on people and the environment.

In 2018, assuming the product output was the same, energy consumption rose by 0.96%. In the three sites in Trieste, the total energy consumption was equal to 42,710.4 GJ; this energy need was entirely met with renewable energy (hydroelectric power). Natural gas (methane) accounts for 89% of the energy for roasting, 10% of the heating and hot water production and the remaining 1% for the preparation of meals in the corporate canteen. In 2018, the total energy need amounted to 70,345.5 GJ for the sites in via Flavia and via Caboto; no methane was used in the site in via Malaspina. The reduction in gas consumption for heating and hot water production is the result of number of the days when the roasting plant was off, weekends and bank

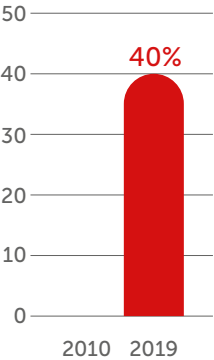
holidays, as the system recovering the heat of the roaster chimney meets the need of the sites in Trieste. Natural gas is directly instrumental to the roasting process and in 2018 its use has increased by 0.94% - below the increase in the roasted coffee.

As a result of the actions that have been recently implemented, illycaffè will soon achieve its 2020 objective. The relevant KPI at the end of 2018 was equal to 5.19GJ/t.

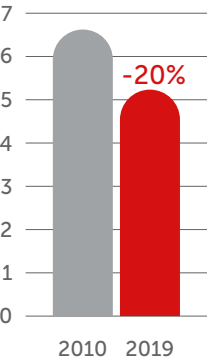
**GREENHOUSE
tCO₂eq/t
ROASTED
COFFEE**



**RENEWABLE
ENERGIES
GWh**



**EFFICIENCY
GJ/t ROASTED
COFFEE**





The introduction of folded cans, with a capacity of 3 and 1.5 kilos, gas-fuelled burners for roasters and a more efficient planning of roasting cycles resulted into a significant energy saving. In 2018, improvement actions on the use of available energy continued, especially on heat isolation of buildings, energy efficiency in heating and cooling systems, domestic systems and an increased efficiency of the equipment in the plants.

ENERGY CONSUMPTION IN THE ORGANIZATION - ENERGY FACTORS IN GJ	2017	2018
Methane consumption	69,687.9	70,345.5
Electricity (100% renewable sources)	42,303.6	42,710.4
Total energy consumption (MJ)	111,991.5	113,055.9
Energy consumption indicator per ton of roasted coffee	5.61	5.83

Conversion factor 1Kwh=0,0036GJ; 1000 mc Methane = 39,01 GJ – Source Global Reporting Initiative, 3.1.

Energy efficiency and renewable energy actions

The company keeps pursuing research and implements efficient energy solutions. In line with the provisions of the Italian Electric Energy and Gas Authority, the installation of LED lighting systems started in Autumn 2016 and it was completed in December 2018. In addition, savings on cooling and air conditioning were achieved by improving the production/manufacturing and service enclosures. Renewable energy is generated by the 1 Mw photovoltaic system, with a total surface of 11,000 square meters over the roof of the logistic hub, Distripark, in via Malaspina in Trieste. Illycaffè does not own the system, but it has rented the roof to contribute to the development of renewable energy. The plant was connected to the distribution network on 1st July 2011 and it generated 788,344 kWh in 2018.

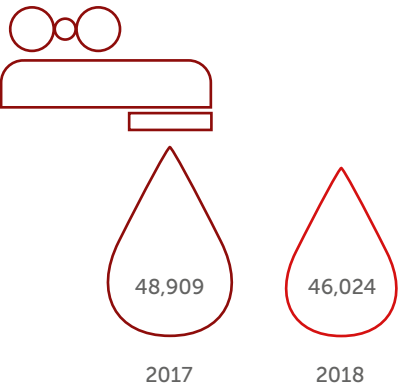
7.5

Water management

In 2018, water consumption at the sites in via Flavia, via Malaspina and via Caboto totalled 46,024 m3 (decreasing by 5.9% vs. 2017 as a result of a continuous monitoring and control process to prevent waste). In the 2017 part of the consumptions are imputable to some hidden losses in the drinking water system, in the 2018 imputable to the conditioning and refrigeration system used to reduce the high temperature registered during the summer. The water used in the roasting plant came entirely from the water distribution system of the Municipality of Trieste and it is partly used for coffee organoleptic tests and partly to test the 3kg, 250g and serving cans. The rest is used for irrigation, fire-fighting, drinking and washing purposes.

**WATER USE -
PRODUCTION
PROCESS
IN VIA FLAVIA,
VIA CABOTO
AND VIA MALASPINA**

Water from the public
distribution system (cm).
Data source: water
consumption meter reports.



■ 7.6

Biodiversity

illycaffè integrates environmental responsibility principles into its business and in the management of raw materials, especially green coffee. It invests in local areas and the relevant communities. In production areas, it provides training and promotes the best agronomic practices to reduce the most significant impact of farming, fully respecting biodiversity and ecosystems. It also runs ad hoc incentive and reward programmes for producers, promoting quality and environmental sustainability, such as Ernesto Illy International Coffee Award, Premio Ernesto Illy de Qualidade do café para Espresso and Clube illy do Café.

Water in the plantations

The company provides guidance to producers on the use of water to prevent waste (e.g. by publishing and distributing specific manuals on water and coffee) and on equipment that uses less than half litre of water for every litre of processed coffee (in general, from 5 to 10 litres are used). Special attention is also paid to coffee waste water. Water used to wash coffee needs to be treated before it is released into the environment. illycaffè keeps promoting its on-line course on the treatment of coffee waste water to raise awareness in the relevant communities and in some countries it contributes to the implementation of efficient treatment systems.

Integrated farming: nitrogen fertilization and use of chemical products.

illycaffè promotes the principles of integrated farming, curbing the use of active agents and fostering good agronomic practices, such as the use of vegetation cover for land, the reduction of soil erosion through contour farming, the reduction of land use to maintain soil fertility unaltered and the use of nutrients, including organic and mineral fertilizers, accepted in organic farming. In this respect, in Brazil, in the framework of University of Coffee, training and awareness activities were implemented, including:

- Ad hoc on-line courses
- Workshop on "Risk of Coffee Contamination from Residues of Phytosanitary Products. Proper Management of Such Products"
- Integrated management of pathogens and harmful insects in coffee plantations

In El Salvador, training sessions were provided for the stakeholders of the supply chain on risk prevention in the use of phytosanitary products, with the distribution of the manual on "Guidelines for a proper use and distribution of plant protection products".

Biodiversity

Biodiversity is a central theme in the promotion of integrated farming techniques by illycaffè experts during visits on the field. In addition to such advice activities, the company has implemented broader actions to improve information and knowledge on this topic as well as on natural ecosystems.

7.7

Emissions into the atmosphere

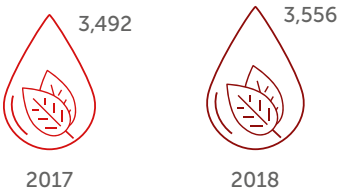
Air polluters are regularly monitored and controlled in line with the measurement and monitoring plan and the schedule on environmental requirements.

The company is committed to protect the environment and to limit the use of natural resources in line with its environmental responsibility policy, which promotes the rational use of energy and renewable sources. Emissions generated in production processes are mainly related to the storage, selection and roasting of green coffee. Dusts, NOx (nitrogen oxides), TOC (total organic carbon), generated in the coffee roasting process, and volatile organic substances are released into the atmosphere. Directive 2010/75/EU on integrated pollution prevention and control has introduced new requirements on NOx and TOC emissions from roaster chimneys.

Accordingly, illycaffè constantly monitors these emissions and, on an annual basis, it reports its findings to the Province of Trieste, ARPA FVG, Healthcare Trust no. 1 Triestina and the Municipality of Trieste. In the region of Friuli Venezia Giulia, the maximum emission limits authorized by the regional authorities are: 350 mg/Nmc for NOx and 50 mg/Nmc for TOC. The table below shows that the 2018 measurements for illycaffè sites were well below legal limits. In the next two years illycaffè intends to complete the renovation of part of the roasting industrial plant.

EMISSIONS OF PRODUCTION SITES IN ITALY: PLANTS IN VIA FLAVIA - VIA MALASPINA - CABOTO, TRIESTE (TONN CO₂eq)*

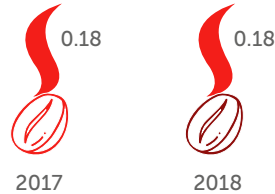
Natural gas (Scope 1): direct significant emissions (from combustion in fixed equipment and machinery) of greenhouse gas (TONN CO₂eq)*



Electricity (scope 2)
(100% from renewable sources)



CO₂ intensity index (=TON CO₂eq/tons coffee roasted for the year). This does not include emissions from the corporate fleet and it includes natural gas consumption for heating and ACS, as it residual.



*National standard criteria at 31/12/18 – Source MATTM. 1,972=1 (tCO₂/quantity)

**NOX AND TOC CONCENTRATIONS IN ROASTER
CHIMNEYS AND COOLING CHIMNEYS IN MG/NM3
YEAR 2018, STANDARD ROASTING LEVEL**

AVERAGE		CHIMNEY VALUE		IN MG/ NMC
Catalyst N	E21 Roaster	NOx	193.7	350
Burner V		COT	5.29	50
Catalyst N	E22 Roaster	NOx	342.8	350
Burner V		COT	4.41	50
Catalyst N	E23 Roaster	NOx	81.68	350
Burner V		COT	29.3	50
Catalyst in renewal	E24 Roaster	NOx	222.4	350
Burner V		COT	10.8	50

A roaster heat recovery system has been active since 2012 for a sustainable roasting process; heat is recovered from the roasting area and it is used to heat production and office areas (cooling in the summer is obtained with "absorption" machines, generating a cooling cycle with salt-based hygroscopic processes). In addition, using a catalyst, pollutants are eliminated at high temperatures and with the oxidant action, reducing the emissions of coffee dusts into the air. Dust from the transport of coffee is managed effectively with the technologies fitted to the vehicles, which are all equipped with exhaust systems and filters for the sedimentation of dusts. The warehouse and loading silos are equipped with the same technology.

Renewable energy (electricity) accounts for 64% of energy sources in TEPs and fossil energy accounts for 36% (natural gas).

Energy source	TEP 2018	Origin	%
Electricity	2,637	Renewable sources	100%
Methane	1,456	Fossil source	100%
Total	4,093		100% out of which 64% from renewable source and 36% from fossil sources

7.8

Waste management

The company is committed to responsible and sustainable management of waste in the entire life cycle to minimize its impact on people’s health and the environment. To that end, waste management at the roasting plant and the logistic site in Trieste is monitored in all its administrative, production and post-production processes, including transport and disposal. illycaffè has implemented a number of procedures to improve waste management, such as the identification of waste types, the use of sorting containers in the plant and in the offices and training. In 2018, 99.4% of waste was recovered, i.e. 1.780.291 kg., decreasing vs. the previous year; despite the increase in roasted coffee, the quantity of tin plate dropped (the unit was closed). 89% of illycaffè waste is included in the special waste category, i.e. resulting from production activity and returns. Hazardous waste accounts for 0.18% and it is disposed of in Italy, as prescribed in the applicable regulation. In 2018, urban solid waste accounted for 11% of the total waste. illycaffè has benefited from efficient sorting, as it sold part of its waste, i.e. paper/cardboard, plastic, metal scraps, copper and tin-plate waste for a total of €43,319.00. This figure dropped from the previous year as a result both of a general decrease in the metal price in the recycle market and the decrease in scraps, especially tin plate, which accounted for 30% of the total annual revenue.

Waste from production

The prototype lab created a system to separate capsules, i.e. production waste, from coffee and to recover them after percolation. This activity, on one hand, has reduced the number of capsules that otherwise had to be disposed of and, on the other, a number of components are sorted to the relevant end-of-life processing. Plastic is used for the production of propylene honeycomb slabs, layer pads and other industrial packaging products and coffee is used for compost. illycaffè has reduced waste from production as a result of the improvements that have been introduced in the production systems and processes.

WASTE IN KG*	TOTAL WASTE %	HAZARDOUS	%	NON HAZARDOUS	%
Disposal	0.6	2,230	70.3	8,420	0.5
Recovery (recovery, compost, energy recovery, etc.)	99.4	942	29.7	1,779,349	99.5
TOTAL		3,172		1,787,769	

* Source MUD 2018

■ 7.9

Product disposal and recyclable packs

illycaffè has been focussing on the notion of circular economy – which has become a key theme for the company and its stakeholders. In this respect, new solutions have been planned and implemented to maximize efficiency in the disposal and disassembly of products at environmental and social level, in line with an approach based on the following criteria:

- **REDUCE:** since the design phase, primary and secondary packaging must be lighter, low consumption, possibly recycled or recyclable and environment-friendly in their life cycles.
- **REUSE:** for secondary packaging material, priority is given to recycled material which, on average, accounts for 80% of paper and cardboard and 100% of pallets.
- **RECYCLE:** preference is given to recyclable packing materials, which are designed and made with non-composite materials (metal or plastic).

In 2016, illycaffè performed a life-cycle assessment (LCA) on its entire product portfolio, from the production of raw material and the production process to the use and disposal of product components. This assessment has raised the company awareness on the main impacts of its business and it has resulted into the implementation of improvement plans. Specifically, the company has increased its focus on product durability and design based on the design-for-disassembly notion to enable an easy recovery of components and material of coffee

machines at the end of their life cycles and on the modular design notion so that components can be used on different machines. In Italy, illycaffè distributes Eco Easy Capsules Opener, a home appliance to properly dispose of Iperpresso capsules. With ECO, the capsule can be opened in a few steps and emptied to sort plastic and coffee.

Collaboration is always active with universities, research centres, trade associations and competition forums to identify viable alternatives, such as the use of biodegradable or environment-friendly material.

■ ILLYCAFFÈ IN THE WORLD: ILLY IPERESPRESSO RECYCLE PROGRAM

In the United States, illy iperpresso Recycle Program has been active for years for the collection of used capsules. In 2018, 1,204,708 capsules were collected – with an increase of 34.4% over 2017. Once the capsule is opened and separated from coffee, the plastic is disposed of in the appropriate end-of-life-recycling (material recovery) process, and coffee used in compost production.



PAVING THE WAY
WITHOUT DAMAGING
THE PLANET.

The image features three white ceramic coffee cups arranged vertically on the left side. The top cup contains a small amount of espresso. The middle cup is filled with a latte, featuring a detailed white leaf-shaped latte art design. The bottom cup is filled with a dark, black coffee. All three cups are placed on white saucers. The background is a soft-focus image of coffee beans, creating a warm and inviting atmosphere.

SEED:S

Social
Environmental
Economic
Development
Sustainability

STANDARD

8.1

Methodological Note

illego has been publishing its annual Sustainable Value Report since 2012 to describe and clearly communicate the integration between economic, social and environmental sustainability in its corporate decision-making processes, strategies, governance and business model, in line with the expectations of every stakeholder that, directly or indirectly, is affected by its business. The Sustainable Value Report is also designed to communicate a responsible approach, based on sustainable conducts, practices and products that the company has adopted over the years.

Guidelines and Reporting Process

The 2018 Sustainable Value Report has been drafted in line with the "Sustainability Reporting Standards" issued by the Global Reporting Initiative (GRI), at "In accordance-Core" level.

The Sustainable Value Report has been drafted with the active involvement of all illego departments and relevant areas of its branches. The reporting process is based on the corporate information systems – audit, accounting, quality, environment, internal audit, safety, HR management, etc. – and appropriate instruments to collect and analyse data. The company objective is to strengthen its reporting system, to extend it progressively to all activities and to enhance the accuracy and reliability of data.

Though not in the scope of the Barnier Directive 2014/95/EU on the disclosure of non-financial information and information on diversity, illego chose to publish its annual non-financial report on a voluntary basis, given the relevance of such topics and in the interest of its stakeholders.

illego 2018 Sustainable Value Report has been audited by DNV GL Business Assurance Italia S.r.l. A copy of the assurance statement is available at the following link:

http://valuereport.illego.com/pdf/ASSURANCE_2018_eng.pdf

Period the Report

Data included in the Sustainable Value Report refer to the period from 01/01/2018 to 31/12/2018, save as otherwise specified.

Significant Changes

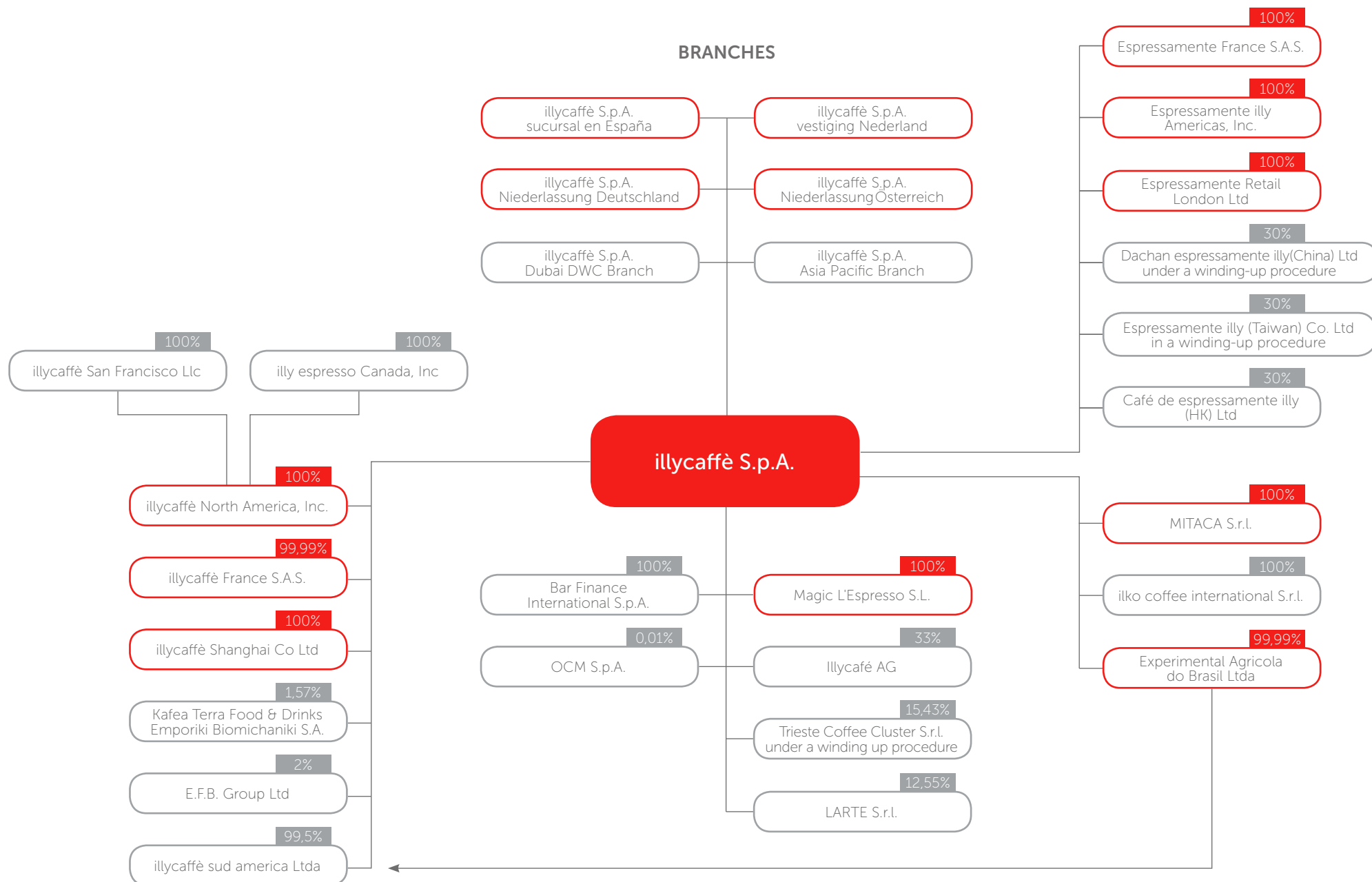
This Sustainable Value Report has changed vs. the reports of previous years. Building on the Integrated Reporting framework, illego has adopted a capital-based structure.

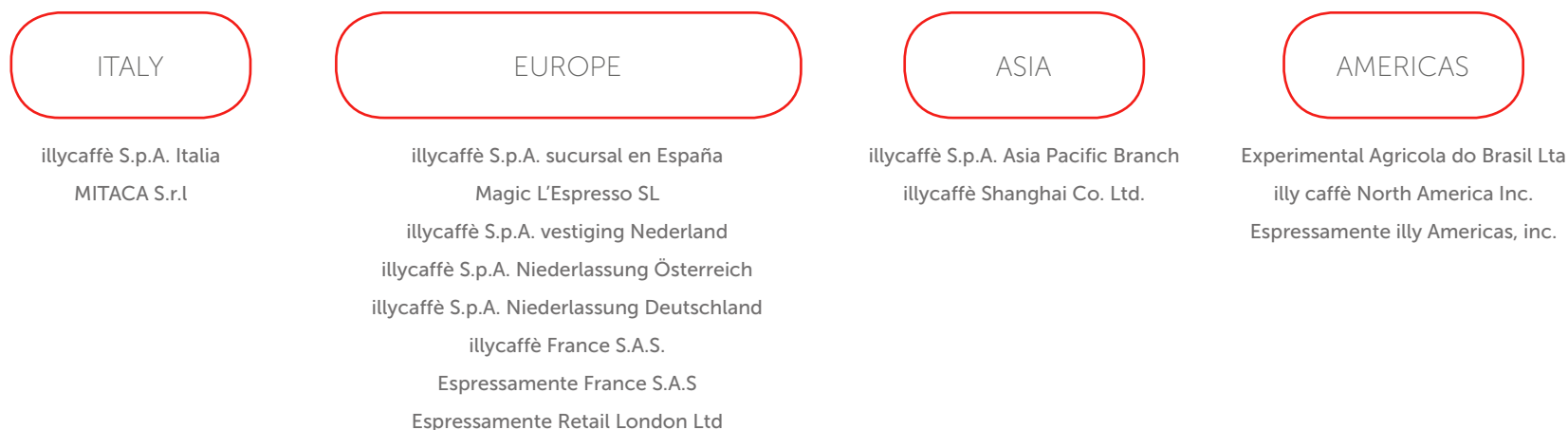
Reporting Perimeter

This Report does not include data or information of companies with a headcount below 3 employees, as small organizations do not have a significant impact (in terms of illego total impact) in social, economic and environmental terms (5 areas specified in Legislative Decree 254/2016), as a result of their turnover, number of employees and, especially their business: these are branches of representation with administrative tasks.

At 31 December 2018, the Group included the companies that are listed below; companies included in the Sustainable Value Report reporting perimeter are highlighted.

BRANCHES





In some cases, information and data on performance refer to some companies only and clear reference is made to this variation in the scope. As GRI standard requires the inclusion of all activities having a substantial impact in terms of sustainability (materiality), to any possible extent, the report also describes in detail the features of the value chain (for instance, the activities in coffee plantations). As explained in the chapter in the Natural Capital, data and information only refer to illycaffè S.p.A., as impacts of other subsidiaries are not significant. Besides the nature of the activities performed by the other companies (mainly administrative):

- major environmental impacts result from production activities, which are all performed in Trieste, in the parent company plants;
- Over 56% of the Group employees works for the parent company.

Contact details:

For any comments, requests, opinions and suggestions on illycaffè sustainability activities and on the information included in this Sustainable Value Report, please send an e-mail to: valuereport@illy.com

■ 8.2

GRI Table

GRI DISCLOSURE NUMBER	GRI DISCLOSURE TITLE	NOTE	PARAGRAP
102-1	Organisation name		illycaffè
102-2	Business, brands, products and services		illycaffè
102-3	Location of headquarters		illycaffè
102-4	Countries		illycaffè
102-5	Ownership and legal status		illycaffè
102-6	Markets		illycaffè
102-7	Organisation size		illycaffè
102-8	Information on employees and other staff		Human Capital
102-9	Supply chain		Sustainability strategy and governance
102-10	Significant changes to the organization and its supply chain	No significant changes have been made to the organisation	
102-11	Implementation of the precautionary principle or approach	illycaffè has adopted the pre-cautionary approach to reduce the environmental impact of its production processes and products, with environmental and health and safety systems, the risk management system and the supervision of the Sustainability Committee	illycaffè – Production Capital – Human Capital – Natural Capital
102-12	External initiatives		Relational Capital
102-13	Participations and associations		The value of the community and its territory
102-14	Statement of the corporate leadership		Letter to stakeholders
102-16	Values, principles, standards and rules of conduct		Mission, Vision, Values
102-18	Governance system		Corporate Governance
102-40	List of stakeholder groups		Sustainability strategy and governance
102-41	Collective bargaining agreements	Employees are applied provisions of the National contracts regulations existing in the different Countries where the company operates	

102-42	Stakeholder identification and selection process		Sustainability strategy and governance
102-43	Approach on stakeholder engagement		Sustainability strategy and governance
102-44	Key themes and relevant issues		Sustainability strategy and governance
102-45	List of companies included in the consolidated financial statements		Methodological Note
102-46	Definition of the report contents and scope		Methodological Note
102-47	List of material issues		Dialogue with stakeholders
102-48	Changes vs. the previous financial statement		Methodological Note
102-49	Significant changes in reporting		Methodological Note
102-50	Scope of the Report		Methodological Note
102-51	Publication date of the latest report		Methodological Note
102-52	Reporting frequency		Methodological Note
102-53	Contacts for queries on the report		Methodological Note
102-54	Statement on the reporting option based on GRI standards		Methodological Note
102-55	Table of GRI contents		Table of GRI identification
102-56	External certification		Assurance
103-1	Scope for the consolidation of each material issue		Dialogue with stakeholders
201-1	Direct generated and distributed economic value		Economic results
202-2	Percentage of top manager hired in the local community		Employment
203-1	Development and impacts of investments on infrastructure and public services		Relational Capital - Intellectual Capital - Sustainability strategy and governance
204-1	Percentage of expenditure for local supplier		Suppliers of goods and services
205-2	Communication and training on anti-corruption policies and procedures	<i>The company has adopted its Organization, Management and Control Model (pursuant to Legislative Decree 231/2001) to prevent a number of offences, including corruption</i>	

206-1	Legal actions for anti-competitive conduct, competition and monopoly practices	<i>Non material issue</i>	
301-1	Material by weight and volume		Raw material
302-1	Energy consumption in the organisation		Energy management
303-1	Water use by source		Water management
304-2	Significant business impact of products and services on biodiversity		Biodiversity
305-1	Direct emissions of greenhouse gases (scope 1)		Emissions into the atmosphere
305-2	Emissions of greenhouse gases for energy production (scope 2)		Emissions into the atmosphere
305-7	Nitrogen oxides (NOx), sulphurs ox-ides (SOx) and other significant emissions		Emissions into the atmosphere
307-1	Non-compliance with laws and regulations on environmental issues	<i>No fines or reports on any environmental issues in Italy and abroad</i>	
308-1	New suppliers that have been assessed on the basis of environmental criteria	<i>In 2018, the company did not acquire any significant new supplier and therefore no new supplier was assessed on the basis of environmental criteria</i>	
401-1	Hiring rate and staff turnover		Employment
401-2	Benefits to full time employees only, excluding temporary and part-time employees		Internal communication and corporate welfare
402-1	Minimum notice for operational changes	<i>None</i>	
403-2	Types and rate of accidents, occupational diseases, lost days, and absenteeism, and number of work-related deaths		Occupational health and safety
403-3	Workers with high frequency or high rate of accidents or occupational diseases		Occupational health and safety
404-1	Average annual training hours per employee		Training and development of human capital
405-1	Diversity among employees and government bodies		Employment
405-2	Remuneration ratio between men and women		Employment
406-1	Discrimination cases and implemented corrective actions	<i>None</i>	

407-1	Business and suppliers whose freedom of association and collective negotiation	<i>The risk is very low, so no action was implemented</i>	
408-1	Operations and suppliers at high risk of child labour		Green coffee supply chain
409-1	Operations and suppliers at high risk of forced or compulsory labour	<i>The risk is very low, so no action was implemented</i>	
410-1	Percentage of security staff trained on procedures and policies on human rights		Occupational health and safety
411-1	Number of breaches of the rights of local communities	<i>None</i>	
412-3	Investment agreement and significant contracts including provisions on human rights or that require a review		Green coffee supply chain
413-1	Business areas implementing programmes on local community engagement, impact assessment, and development		The value of the community and the territory
414-1	New suppliers assessed on the basis of social criteria	<i>In 2018, the company did not acquire any significant new suppliers and therefore no new supplier was assessed on the basis of environment criteria and working practices, human rights and social impact</i>	
415-1	Total value of political contributions	<i>No political contribution was paid to any party and the relevant organisations. illycaffè is a member of industry and representative associations and it pays the relevant membership fees</i>	
416-2	Cases of non-compliance concerning the health and safety impacts of products and services	<i>In 2018, the 250 gr bean coffee can was recalled and insurance reimbursements were paid</i>	
417-3	Cases of non-compliance on marketing communication	<i>None</i>	
418-1	Documental complaints on any breach of data protection and customer data loss	<i>None</i>	
419-1	Non-compliance with laws and regulations on social and economic	<i>None</i>	

■ 8.3

Assurance

Introduzione

DNV GL Business Assurance Italia S.r.l. ('DNV GL') è stata incaricata dal Management di illycaffè S.p.a. ('illycaffè') di condurre una verifica sul suo Sustainable Value Report 2018 ('il Report') rispetto ai Sustainability Reporting Standards della Global Reporting Initiative ('GRI').

La nostra verifica ha riguardato il Report 2018, nella versione resa disponibile da illycaffè agli stakeholder nel proprio sito web.

Per i dettagli sulla composizione di illycaffè e sul perimetro di rendiconto, si rimanda a quanto dichiarato nell'apposito paragrafo del Report.

illycaffè è responsabile della raccolta, analisi, aggregazione e presentazione delle informazioni contenute nel Report. La verifica è fondata sull'assunzione che i dati e le informazioni forniteci in buona fede dall'Organizzazione siano complete, sufficienti e autentiche.

La nostra responsabilità nello svolgimento del lavoro commissionatoci, in accordo con le condizioni concordate con l'Organizzazione, è unicamente verso il management di illycaffè.

Questa Dichiarazione di Assurance Indipendente è destinata esclusivamente agli stakeholder di illycaffè e non è destinata ad essere e non deve essere utilizzata da persone diverse da questi.

Scopo dell'Assurance

Lo scopo del lavoro concordato con illycaffè ha incluso i seguenti aspetti:

- Analisi, secondo un Moderate level di Assurance, delle attività e dei dati legati alla sostenibilità, riconducibili al periodo compreso tra gennaio e dicembre 2018, così come contenuti nel Report 2018.
- Valutazione dei principi di reporting richiamati dai Sustainability Reporting Standards GRI, secondo l'opzione 'Core'.

La nostra verifica è stata condotta nel mese di luglio 2019 presso la sede centrale di Trieste.

Le informazioni e i dati economici sono stati acquisiti dal Bilancio d'esercizio 2018 certificato di illycaffè S.p.A. e non sono compresi nello scopo della nostra verifica.

Metodologia di verifica

La nostra verifica è stata pianificata e condotta nel rispetto del protocollo di verifica 'VeriSustain' di DNV GL, basato sulla nostra esperienza professionale e sulle best practice internazionali in materia di assurance (tra le quali l'International Standard on Assurance Engagements - ISAE 3000).

In accordo con il Protocollo, disponibile su richiesta sul nostro sito internet*, il Report è stato valutato rispetto ai seguenti criteri:

- aderenza ai principi dei Sustainability Reporting Standards GRI;
- Sustainability Reporting Standards GRI, rispetto ai requisiti richiesti per l'opzione Core;
- ISAE 3000, per la verifica delle informazioni non finanziarie.

Abbiamo esaminato e sottoposto a review i dati e le altre informazioni resi disponibili da parte di illycaffè. Abbiamo recepito le informazioni e i dati tecnici dai sistemi di gestione certificati.

Per le informazioni relative alla supply chain del caffè verde, abbiamo recepito le risultanze delle attività di audit condotte nel 2018 in riferimento allo schema "Responsible Supply Chain Process".

Abbiamo condotto audit a campione su:

- i meccanismi attuati da illycaffè per l'implementazione delle proprie politiche di sostenibilità descritte nel Report;
- i processi per la determinazione della materialità dei contenuti da includere nel Report;
- i processi per la generazione, la raccolta e la gestione dei dati quantitativi e qualitativi inclusi nel Report.

Abbiamo intervistato 17 referenti aziendali coinvolti nella gestione operativa degli aspetti riportati nel Report 2018.

* <https://www.dnvgl.com/assurance/reporting/index.html>

Conclusioni

Secondo l'opinione di DNV GL, il Sustainable Value Report 2018 di illycaffè è una rappresentazione accurata e imparziale delle strategie di sostenibilità, dei sistemi di gestione e delle performance dell'Organizzazione.

Sulla base del lavoro svolto, non sono pervenuti alla nostra attenzione elementi che ci facciano ritenere che il Sustainable Value Report 2018 non sia stato redatto, in tutti gli aspetti significativi, in linea con i requisiti "Core" richiamati dai Sustainability Reporting Standards GRI.

Ulteriori conclusioni e osservazioni sull'adozione dei principi di rendicontazione e delle informazioni sulle performance specifiche sono riportate di seguito.

Inclusività

Le attività di coinvolgimento degli stakeholder sono ben strutturate e condivise all'interno dell'Organizzazione, con apprezzabile aderenza tra i programmi implementati e la strategia di sostenibilità.

Contesto di sostenibilità

Le informazioni presentate all'interno del Report riflettono la strategia, gli impegni e le attività svolte da illycaffè in relazione al contesto di sostenibilità all'interno del quale l'Organizzazione opera.

Materialità

Il Report include i principali aspetti materiali riguardanti le prestazioni dell'Organizzazione e le istanze degli stakeholder e aderisce al principio. I contenuti del Report sono il risultato di una mappatura consolidata degli stakeholder e di un processo strutturato per identificare gli argomenti rilevanti.

Completezza

Il Report copre gli impatti materiali in modo soddisfacente per consentire agli stakeholder di valutare le performance di sostenibilità di illycaffè nel 2018. Le informazioni contenute nel report si riferiscono alla struttura definita nel perimetro; nel caso di dati attribuiti a un perimetro più limitato, il documento identifica tale restrizione.

Accuratezza

Dalla nostra analisi dei dati e dei processi aziendali che li generano, i dati riportati nel Report sono frutto di attività stabili e ripetibili. Le informazioni contenute nel Report risultano pertanto accurate e dettagliate.

Bilanciamento

Il Report è una descrizione completa e imparziale dell'impatto della sostenibilità di illycaffè. Il documento riflette la volontà dell'Organizzazione di rappresentare le attività ed i risultati per il 2018 in modo equilibrato e coerente con le strategie aziendali.

Chiarezza

Le informazioni presentate nel Report sono comprensibili e accessibili dagli stakeholder di illycaffè.

Comparabilità

Le informazioni riportate consentono agli stakeholder di analizzare i cambiamenti nelle prestazioni economiche, ambientali e sociali dell'Organizzazione rispetto alle performance passate.

Affidabilità

illycaffè ha sviluppato una metodologia efficace per la raccolta di informazioni da utilizzare nel Report. I dati presentati nel Report oggetto della nostra verifica sono risultati identificabili e rintracciabili; il personale responsabile è stato in grado di dimostrare in modo attendibile l'origine e l'interpretazione dei dati.

Durante la nostra attività, abbiamo rilevato un numero limitato di errori non rilevanti, che sono stati corretti prima della versione finale del Report.

Tempestività

illycaffè rendiconta periodicamente una volta all'anno per consentire alle parti interessate di prendere decisioni informate.

Opportunità di miglioramento

Di seguito si riporta una sintesi delle osservazioni e opportunità comunicate al management di illycaffè che, ad ogni modo, non influiscono sulle nostre conclusioni sul Report:

- per garantire un maggior allineamento con il principio di Tempestività, si raccomanda rendicontare più in prossimità agli impatti descritti nel Report;
- per garantire un completo allineamento con il principio di Completezza, si ritiene importante proseguire nell'attività di rendiconto delle performance di sostenibilità dei fornitori che operano per conto di illycaffè.

Competenza e Indipendenza di DNV GL

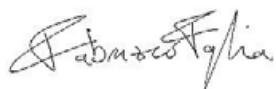
DNV GL è uno dei principali provider di servizi legati alla sostenibilità, tra cui la verifica dei bilanci di sostenibilità. I nostri specialisti di assurance ambientale e sociale lavorano in più di 100 paesi.

DNV GL non è stata coinvolta nella preparazione di alcuna dichiarazione o dato incluso nel Report, ad eccezione della presente Dichiarazione di Assurance. DNV GL conserva la completa imparzialità verso gli stakeholder intervistati durante il processo di verifica.

DNV GL declina ogni responsabilità o corresponsabilità per ogni decisione che qualsiasi persona o entità possa intraprendere basandosi sulla presente Dichiarazione di Assurance.

Per DNV GL Business Assurance Italia S.r.l.

Fabrizio Foglia
Lead Verifier



Zeno Beltrami
Reviewer



Vimercate (MB), 13-11-2019