



SUSTAINABLE VALUE REPORT
2012



The function of industrial firms is fundamental and undeniable,
but business alone cannot legitimise its conduct,
which must encompass respect for human beings,
the community, and the environment.

Ernesto Illy – 1976

President of the European Association of Brand-name Industries – 1976

Some promises last a lifetime... and some ideas change the world.

Francesco Illy Founded illycaffè based on a simple idea: making the best coffee in the world and offering it to everyone. Our work continues.

In today's world, the lack of situation of social, economic and environmental sustainability is evident. Economic and social imbalances, environmental degradation, and intolerance are a constant reminder of this.

illycaffè has always considered ethics and quality its founding values. Through its behaviour and its products, it concretely adheres to the idea of sustainability as defined in the Brundtland report.



For illycaffè company, sustainability is important for two reasons, one being economical and the other ethical.

The economic one is based on the supply chain of the best coffee in the world corresponding to our mission.

The coffee in the world has to be produced by farmers in countries in the southern hemisphere who have to be able to do that with time and over the time.

With time means they must have time to learn to achieve standards of quality which are higher than those generally accepted by the market. Over time means that they should be able to continue, potentially forever, to provide us with this excellent coffee.

It is clear that this is, perhaps, the axiom of sustainability due to its being able to ensure an economic and productive activity over time which is critical.

The second reason is ethical, one of the core values of illycaffè company: ethics is understood as building long-term value by means of transparency, sustainability and enhancement of stakeholders interests, and therefore of the people who work with illy company.

This goal leads us naturally to be a stakeholder company, as stakeholder when translated into Italian means being an interested party.

These stakeholders are very clearly identified and ordered: the first ensuring that the consumer is the one for whom the company exists and the company's fundamental purpose is to satisfy its consumers.

Then there are those customers who are also our partners offering consumers the pleasure of coffee.

There are followed by our company employees without whom we could have neither customers nor enthusiastic consumers, much less an excellent product.

Subsequently there are our suppliers who provide us with the raw material for a product of excellence.

Finally, is the community of which these are all part.

There are in addition to the shareholders who are in the service of the company itself.

So, for all of these six categories of stakeholders the company pursues its so-called triple bottom line that is: economic sustainability, social sustainability and environmental sustainability.

Economic sustainability, which, perhaps, is at the origin of the other two, is pursued by a strategy of common values, the shared value, so that profit becomes a means and not an end in this paradigm to generate the resources which allow company business to continue to reinvest and share this profit, this enterprise value, with its stakeholders.

This is shared equally with customers, employees, company business to continue to reinvest suppliers and with communities in general.

Social sustainability is pursued through a strategy of growth. Growth of the individual: we live in a society where more and more basic needs are met and increasingly, the individual aims at self-fulfilment and so tips individual growth in terms of socio-economic development which mainly implies a cultural aspect. Therefore culture is at the heart of this social sustainability, in which we are particularly active with the program itself and especially with the University of Coffee and the Ernesto Illy Foundation.

Last but not least is environmental sustainability that is pursued with a very simple strategy of respect.

What does respect for the environment mean? Mainly, by not polluting and then, secondly by reducing waste, and thirdly by using renewable resources as much as possible.

So, it is clear that with this system we are able to adhere to the United Nations' definition of sustainability which means quite simply satisfying our own needs without compromising the ability of future generations to satisfy theirs.

This year, important goals have been achieved as part of our commitment to sustainability: primary, the company has joined the Global Compact, and has therefore pledged to observe ten criteria. Secondly a Memorandum of Understanding was formalised with the Ministry of Environment aimed at the development of practices and programs for the reduction of the carbon footprint.

Illycaffè therefore positions itself as a pilot company globally as part of this important project which is already providing answers and results.

Not least is the report, for which I have the pleasure of addressing this welcome message, and which this year no longer just addresses Italy but which is the entire perimeter of the subsidiary companies and organizational units of illycaffè around the world.

Once again this year, of course we have new initiatives in the pipeline which started in 2012 and make up our commitment to achieving our objectives in 2013 especially in the wider area of attention besides the continuing programs to promote the consumption of coffee undertaken in 2012 for the definition of a strategy for the promotion and development of coffee markets with the International Coffee Organization.

This strategy, based on the idea that coffee is a drink on which the quality of life is based thanks to its three virtues pleasure, health and sustainability which has seen the company being busy with its candidacy at Expo 2015 which will be the most important event focused on the history of coffee and which will be carried out in collaboration with the International Coffee Organization and where we will give a strong message with regard to the sensation that this drink is and thus stimulate consumption.

The other major endeavour keeping us busy in 2013 is working on reducing the carbon footprint starting in particular with the packaging.

So today the entire line of illy's packaging is as sustainable as it is renewable; we have also given ourselves some objectives with regard to reducing the carbon footprint and the materials used, thereby adhering to a concept applied to packaging of 20-20-20 which is a 20% reduction in emissions through a 20% use of renewable materials and a 20% decrease in consumption by 2020.

This is therefore our large undertaking for 2013.

ANDREA ILLY
Chairman and CEO

Identity and numbers of illycaffè



illycaffè's key numbers



140

available in 140 countries



100.000

100,000 establishments serve illy coffee



990

990 employees as of 31/12/2012 at the consolidated level



361

361 million Euros of total revenue (+5.4% compared to 2011)



1,8%

net profits of 1.8% of sales



59%

59% of total sales via export

Company profile

Founded in 1933 by Francesco Illy, illycaffè produces and sells worldwide a single blend of premium quality coffee made from nine varieties of pure Arabica beans. The perfect balance of the finest beans from South America, Central America, India and Africa produces the distinctive illy flavour and aroma, cup after cup, anywhere in the world.

illy products are enjoyed in fine hotels, restaurants and cafés, in homes, in offices and on-the-go. The illy blend is available in 3 kg bean cans for HoReCa, in small cans (250 gr.) for home use, in capsules, in pods and in slim cans (illy issimo, the ready-to-drink coffee beverage). illy products are enjoyed in more than 140 countries, on all five continents, and are served in about 100,000 establishments.

With the goal of providing as complete and enjoyable experience as possible with every cup of, illy has developed a series of tools and elements that contribute to perfect enjoyment: from cafes – with the espressamente illy coffee boutiques chain, and the Artisti del Gusto, program, an international network of the world's finest cafes that exclusively serve illy products – to the illyshop boutiques selling all illy brand products, to coffee machines preparation systems.

Great attention is paid to the culture of coffee, which is why the company has set up the Università del Caffè (University of Coffee). Its courses have been organized to provide different levels of study and are dedicated to training coffee growers, retailers and HoReCa staff, consumers and coffee lovers. Based in Trieste, the company is led by the third generation of the Illy family: illycaffè S.p.A. belongs (100%) to the Illy family's holding company – Gruppo illy S.p.A.

illy Group

Gruppo illy S.p.A. is the Illy family's holding company; it controls illycaffè, Domori (makers of high-quality chocolate), Dammann Frères (French tea house) e Mastrojanni (winery in Montalcino). It is also a shareholder in Agrimontana (a leader in the production of high-end bakery products, including marrons glacés and preserves) and Grom (top-quality ice cream chain). The Gruppo illy S.p.A. was created with a long-term mission to establish a "hub of flavour," by acquiring and operating companies that serve as benchmarks for quality and individuality in their categories. Each individual company is headed by its founder or their heirs, in order to maintain a high level of managerial autonomy and to keep each brand's research and innovation spirit unaltered. The President of the Group is Riccardo Illy.

- › Domori produces and sells a wide array of gourmet chocolates, destined both for use in the dessert kitchens of high-end restaurants and for retail sale in selected, specialized stores. Domori was founded in 1994 and is based in None, on the outskirts of Turin. Since 2006 it is part of the illy Group.

Domori's corporate philosophy is based on the search for quality, which is achieved through the monitoring of the entire production process, starting with the conservation of cocoa biodiversity through the preservation of ancient varieties of the cocoa plant to prevent their extinction. Furthermore, Domori is the first company in the world to have created a chocolate testing code that involves all five senses in a unique sensorial experience.

- › Damman Frères, established in 1692, is the oldest French tea house. It selects and produces high-end tea – exclusive blends, flavoured teas, and top producers – for consumption at home and in the world's leading hotels, restaurants, and cafes. In the early 1950s, it was the first company to produce teas with natural aromas. Based in Dreux, about sixty kilometres west of Paris, the tea house works with tea from Sri Lanka, India, China, South Korea, Vietnam, and Japan, in addition to Africa and Brazil. In 2007 the illy Group purchased a majority share in the company.

- › Established in 1975, the Mastrojanni winery is located in Castelnuovo dell'Abate, Siena province, in the south-easternmost corner of the Municipality of Montalcino. The true star of the Mastrojanni vineyards is Sangiovese Grosso, a grape variety that is the main component of Brunello di Montalcino. Mastrojanni prizes quality over quantity and produces the following wines: Brunello di Montalcino Vigna Schiena d'Asino, the winery's cru, which is only marketed during the best years; the ruby-red Brunello di Montalcino; and Rosso di Montalcino. Other wines produced include San Pio, a blend of 20% Sangiovese Grosso and 80% Cabernet Sauvignon; Botrys Moscadello di Montalcino, a blend of Moscato, Malvasia di Candia, and Sauvignon grapes; Grappa di Brunello di Montalcino, and starting in 2012, Brunello Vigna Loreto. In 2008 the winery joined the Illy Group's hub of good taste.

- › Agrimontana, founded in 1972 in Borgo San Dalmazzo, Cuneo province, is Italy's leading company in high-quality fruit processing: from preserves to candied fruit, and from glazed violets to marrons glacés. For over 35 years, Agrimontana has been processing farm-fresh fruit without the use of additives, using exclusively Italian fruit in order to ensure maximum quality. Agrimontana's products include high-quality preserves, 'fruit+fruit' preserves sweetened with grape juice for an extra-low sugar content, tinned fruit in syrup, marrons glacés, fruit preserved in liquor, honey, and other specialties. In 2004, the Agrimontana plant obtained the ISO 9001 quality certification and the ISO 14001 environmental management certification. Illy Group became a shareholder in 2006.

- › The illy Group also owns a small share of Grom, the top-quality ice cream chain whose driving principle is to use the highest quality ingredients in producing artisanal ice cream.

Each one of these companies has its own history and know-how: in respect for this and in light of the great degree of managerial autonomy that the illy Group confers upon them, the holding company is committed to constantly searching for the best synergies, especially with an eye towards sustainability.

As of 31/12/2012, illycaffè SpA is composed of the Parent Company with its Permanent Establishments, 14 Subsidiary Companies, and two Associate Companies (with a share of 50%): it operates at the international level and is present on the reference markets in Europe, Asia, and the Americas. It employs about 990 people, with a turnover of € 361 million, and 59% of its total sales come from exports.

With reference to branches, the following are operational as of 31 December 2012: illycaffè S.p.A. Sucursal en Espana in Barcelona (Spagna), Niederlassung Deutschland in Germany and illycaffè S.p.A. vestiging Nederland in The Netherlands; these branches are active in marketing illycaffè products in their respective countries. As of 1 January 2012, the Austrian branch illycaffè S.p.A. Niederlassung Oesterreich is also operational; it purchased the company branch from the local distributor Espresso Caffè Vertrieb GmbH. September 2012 saw the founding of the permanent establishment illycaffè Spa Asia Pacific Branch in Hong Kong, which is in charge of coordinating activities in Asia. In February 2013, the Group's liaison office in Shanghai was formally closed.

Companies of the illycaffè S.p.A. Group as of 31.12.12

MAIN COMPANIES

ILLYCAFFÈ S.P.A. - NIEDERLASSUNG DEUTSCHLAND

Distribution branch, Monaco (Germany)
no. of employees as of 31/12/12: 43

ILLYCAFFÈ S.P.A. VESTIGING NEDERLAND

Distribution branch, Rotterdam (The Nederland)
no. of employees as of 31/12/12: 41

ILLYCAFFÈ SPA ASIA PACIFIC BRANCH.

Distribution branch, Honk Kong (China)
no. of employees as of 31/12/12: 0

ILLYCAFFÈ SPA SUCURSAL EN ESPANA

Distribution branch, Barcelona (Spain)
no. of employees as of 31/12/12: 22

ILLYCAFFÈ FRANCE SAS

Distribution in France
no. of employees as of 31/12/12: 41

ESPRESSAMENTE FRANCE S.A.S.

Management of cafes in France
no. of employees as of 31/12/12: 35

ILLYNL BV

Set in 2012 for fund raising on foreign markets, The Nederland
no. of employees as of 31/12/12: 4

MAGIC L'ESPRESSO SL

Espresso coffee machine manufacturing (Spain)
no. of employees as of 31/12/12: 20

ILLYCAFFÈ NORTH AMERICA INC.

Distribution in the USA, New York
no. of employees as of 31/12/12: 91

ESPRESSAMENTE ILLY AMERICA INC.

USA franchising development

no. of employees as of 31/12/12: 0

ILLY ESPRESSO CANADA INC.

(subsidiary of Illycaffè North America Inc) Distribution in Canada
no. of employees as of 31/12/12: 4

ILLYCAFFÈ SHANGHAI CO. LTD

Office in Shanghai – closed in February 2013
no. of employees as of 31/12/12: 47

ILLYCAFFÈ SUD AMERICA L.T.D.A.

Distribution in Brazil
no. of employees as of 31/12/12: 17

EXPERIMENTAL AGRICOLA DO BRASIL L.T.A.

Intermediation and research on green coffee
no. of employees as of 31/12/12: 6

BAR FINANCE INTERNATIONAL SPA

Trieste (Italy)
no. of employees as of 31/12/12: 0

ENTERPRISE Srl

Real estate company, Trieste
no. of employees as of 31/12/12: 0

ILLY REAL ESTATES

Real estate company, Trieste
no. of employees as of 31/12/12: 0

SUBSIDIARIES

MITACA SRL

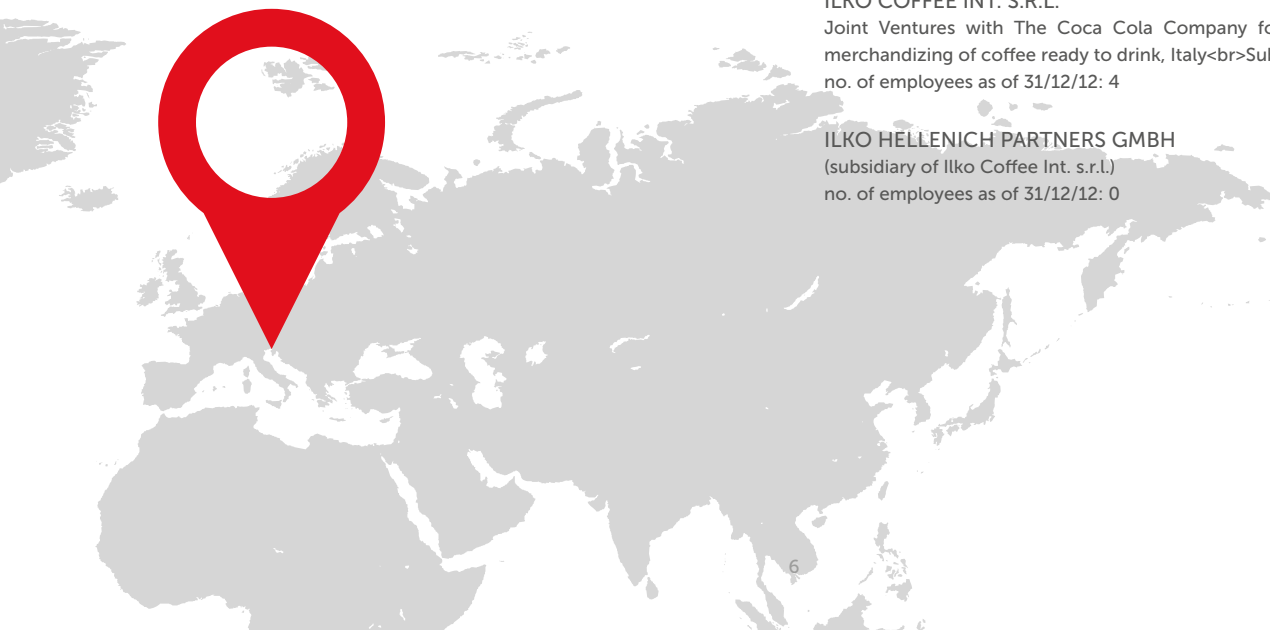
Production of espresso capsule systems, Milan
Subsidiary (50%);
no. of employees as of 31/12/12: 35

ILKO COFFEE INT. S.R.L.

Joint Ventures with The Coca Cola Company for production and merchandizing of coffee ready to drink, Italy
Subsidiary (50%);
no. of employees as of 31/12/12: 4

ILKO HELLENICH PARTNERS GMBH

(subsidiary of Ilko Coffee Int. s.r.l.)
no. of employees as of 31/12/12: 0



Mission, vision and values

Mission

Our mission, passion and obsession is to delight people around the world who value quality of life by offering the finest coffee nature can provide, enhancing its perfection through the exploration of coffee's biology and chemistry, and by seeking beauty in everything we do.

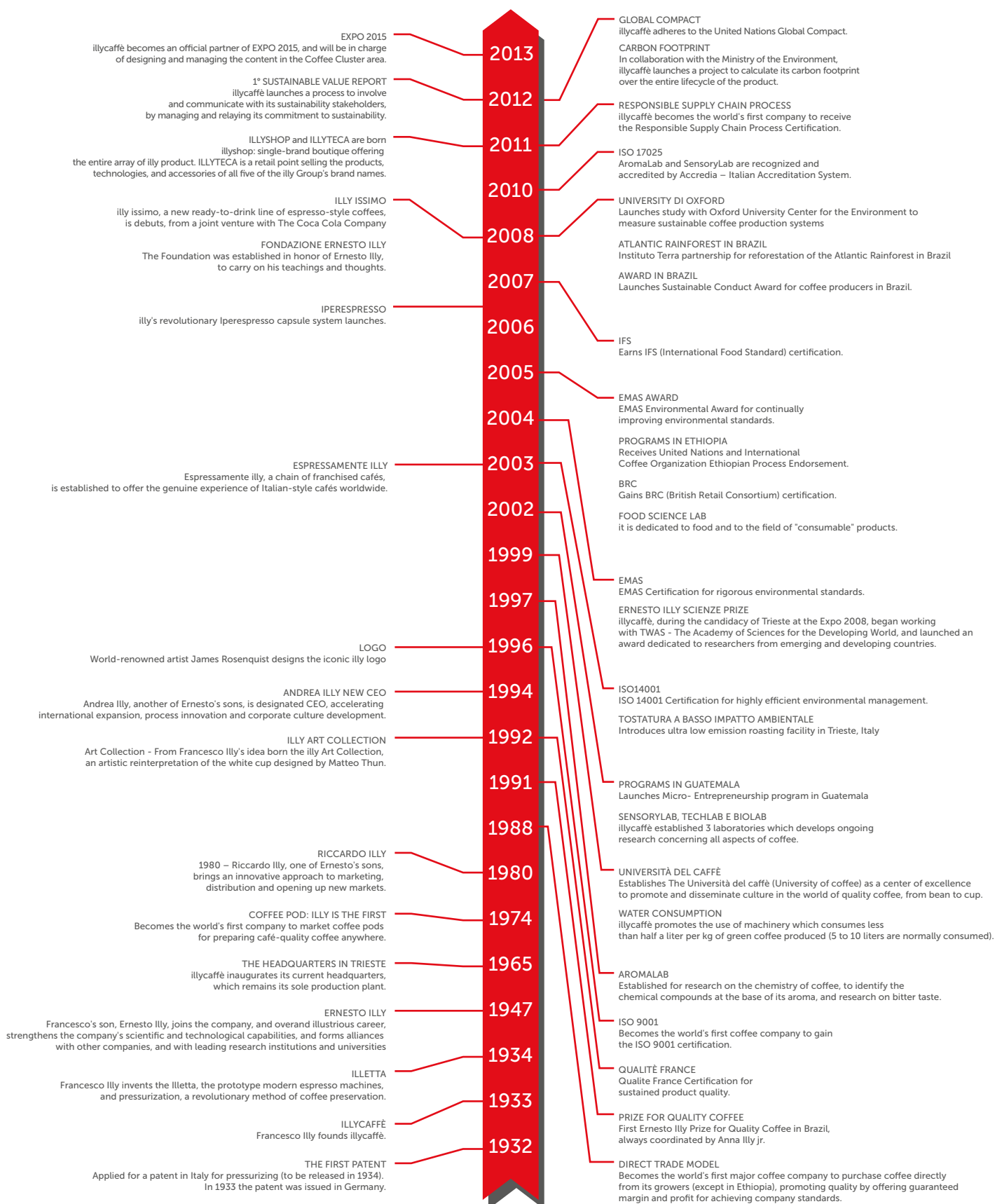
Vision

We aim to be the benchmark for coffee culture and excellence, and the world's most innovative coffee company, offering the finest products, preparation systems and places of consumption. And as a result, to grow and become the world's high-end coffee segment leader, creating value for our stakeholders.

Values

Our cornerstone values are passion for excellence -- meaning love for beauty and well-made things, and ethics, expressed by building long term value through sustainability, transparency and human development.

Key events in the history of illycaffè SpA





Scenario

Over the course of 2012, the state of the global economy remained precarious, in spite of some signs of strengthening, especially in emerging markets.

In Italy, internal demand remains weak: in 2012, GDP fell by an estimated 2%, with weak signs of stabilization. Foreign demand continues to positively contribute to the economy thanks to an increase in exports and fall in imports. Regarding employment, the effects of the recession led to an increase in temporary unemployment compensation and an increase in the number of people looking for work.

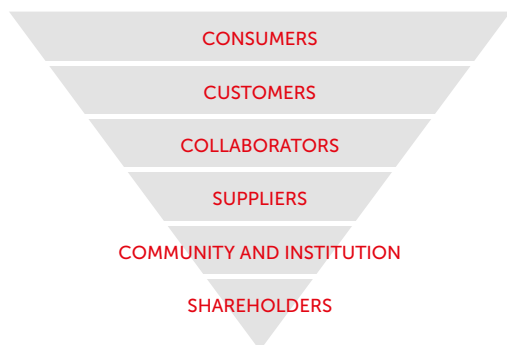
With reference to the green coffee market, as of January 2013 the ICO (International Coffee Organization) estimated the global production of coffee for 2012/13 to amount to 144.5 million bags, 7.3% over the previous reference period thanks to high biannuality in Brazil. With regards to total exports, for 2012 the ICO estimates 113.1 million bags (+8,2% compared to 2011). Of note is the fact that in 2012, exports of Robusta coffee increased by 24.2% compared to the previous year.

According to the ICO, in 2008 - 2011 consumption grew by 4.7% to a total of 139 million bags. Growth is expected to continue in 2012 and 2013. During 2012, prices on the New York stock exchange gradually fell, and this trend is continuing in 2013.

Sustainability strategy and governance

The pursuit of perfection is illycaffè's guiding principle, and expressed through passion for excellence - meaning love for what is beautiful and well-made- and through ethics, meaning building long term value through sustainability, transparency and human development, creating value by promoting social growth and respecting the environment.

illycaffè is a stakeholder company which pursues the improvement of life through economic, social and environmental sustainability.



In the hierarchy of stakeholders, consumers are at the top, followed by customers who are partners of the company in serving consumers; next are the talent that work at illycaffè without whose expertise and passion nothing could exist; followed by the suppliers who ensure the production of an excellent product; then there are communities with which illycaffè enters into relationships; and, finally, the shareholders, who own the company.

To share its business strategy with its stakeholders, in 2010

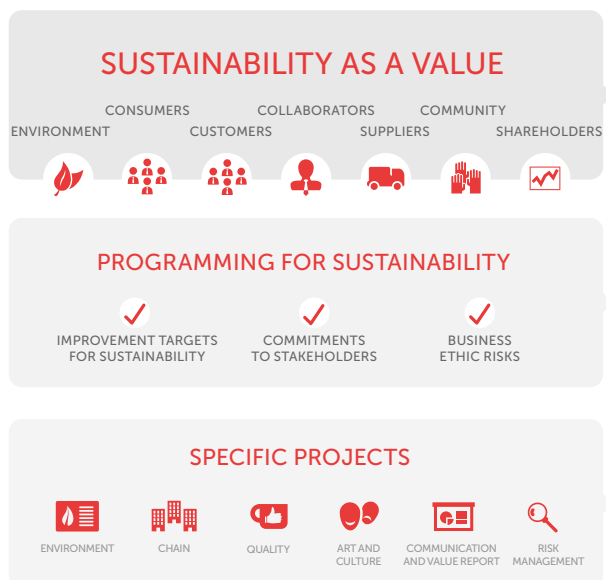


illycaffè established a Sustainability Manifesto, which, with the Code of Ethics, represents illycaffè's commitment to responsible business management in economic, social, and environmental terms.

Over the course of 2012, the Group has put together additional programmes and specific initiatives to implement the sustainability strategies and improve its impact, including adherence to the Global Compact, the signing of a voluntary agreement with the Ministry of the Environment and Protection of Land and Sea for the analysis, education, and neutralization of the coffee sector's impact on climate, and participation in major international conference on sustainable development.

As sustainability is an integral part of the corporate vision and business strategy, in 2010 the President strengthened the governance and control mechanisms by establishing a Sustainability Committee chaired by the Global PR and Chief Sustainability Officer. In 2012 the Sustainability Committee dealt with the most relevant sustainability issues for illycaffè, including the drafting of a dedicated road map; the full integration of sustainability programmes in the corporate strategic plan; relations with institutions and communities in coffee-producing countries with regards to sustainable agriculture and investments in the local community; the drafting of the first Sustainable Value Report; Responsible Supply Chain Process certifications; projects for calculating illycaffè's carbon footprint in collaboration with the Ministry of the Environment, the environmental impact of espresso capsules; and various feasibility studies to reduce the environmental impact and improve the energy efficiency of our productive facilities.





STRATEGIC COMMITTEE

- Analysis and approval of policies and strategies
- Analysis and approval of plans
- Monitoring of the communication and strategic reporting activities

SUSTAINABILITY COMMITTEE

- Support for the elaboration of corporate plans and assessment of sustainability in processes and objectives
- Periodic monitoring of planned actions
- Coordination of chain certification process
- Proposals to the Strategic Committee
- Communication and dissemination of corporate principles of sustainability

SENIOR MANAGEMENT BUSINESS FUNCTIONS

- Management of individual undertakings and relevant budget

The Global PR and Chief Sustainability Officer serves as illycaffè's corporate spokesperson for sustainability issues on a global scale, supervises sustainability-related communication programs and issues management, and facilitates and coordinates relations with corporate stakeholders. He/she is also a member of the Strategic Committee and reports to the latter on the activities, tools and management systems developed for the practice of responsible management.

The illycaffè Strategic Plan also includes special sections dedicated to sustainability projects. The Strategic Committee analyzes and updates the plan periodically to reflect current sustainability issues, and to set objectives and targets. The approach that illycaffè has adopted for some time now allows it to make management choices that are sustainable from an economic, social, and environmental point of view: thanks to an appropriate monitoring and risk management system which takes into account both traditional corporate risk and risks concerning sustainability and reputation, it is able to limit related costs and thus produces more added value for all stakeholders.



illycaffè adheres to the **Global Compact**

illycaffè adhered to the Global Compact on 5 July 2012.

The UN Global Compact is an initiative launched by the United Nations in 2000 to encourage the private sector – and particularly businesses – to adhere to ten global ethical principles regarding human rights, environmental protection, workers' rights, and the fight against corruption. These principles are universally shared since they are based on the Universal Declaration of Human Rights, the ILO Declaration, the Rio Declaration, and the United Nations Convention against Corruption.

So far, over 10,000 organizations in over 145 countries have signed the Global Compact's voluntary code of ethics.

In the table below, for each of the 10 principles we include a link to the section in the Value Report which provides information on illycaffè's position and management.

illycaffè and respect for the principles of the Global Compact

Human rights

- › Businesses should support and respect the protection of internationally proclaimed human rights in their respective spheres of influence; and
- › make sure that they are not complicit, even indirectly, in human rights abuses.

Labour standards

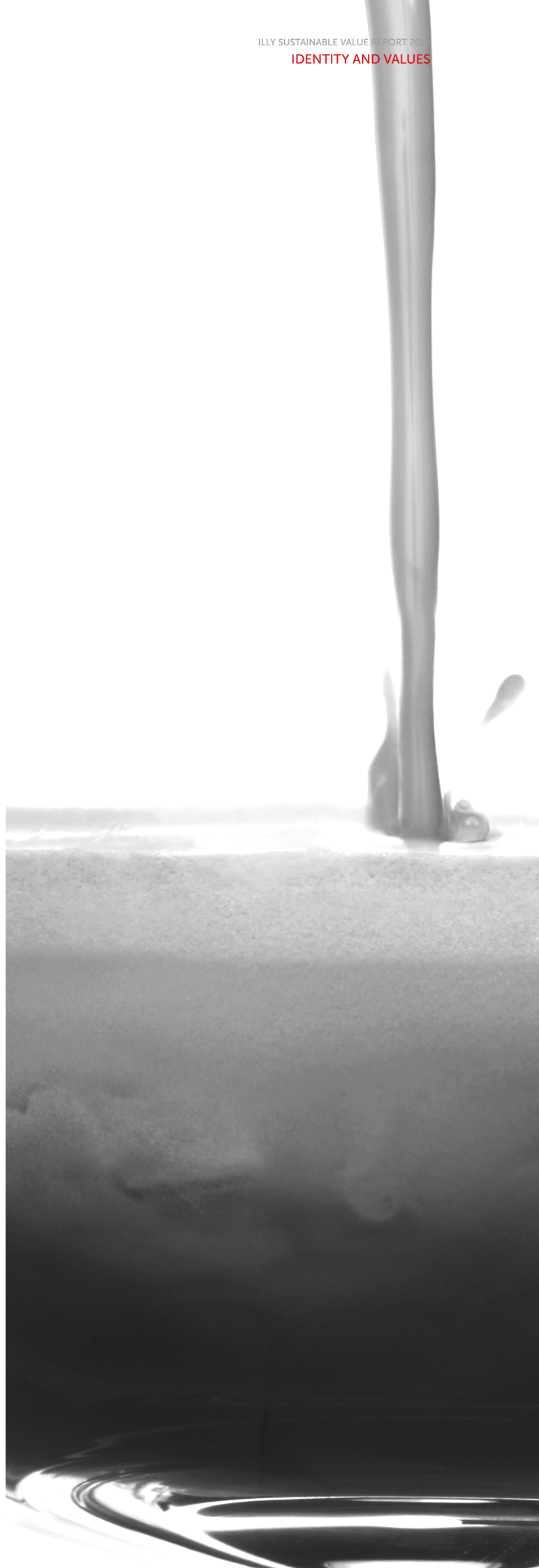
- › Business should uphold the freedom of association of workers and the effective recognition of the right to collective bargaining;
- › the elimination of all forms of forced or compulsory labour;
- › the effective abolition of child labour, and;
- › the elimination of discrimination in employment and occupation.

Environment

- › Businesses should support a precautionary approach to environmental challenges;
- › undertake initiatives to promote environmental responsibility;
- › encourage the development and diffusion of environmentally friendly technologies.

Anti-corruption

- › Businesses should work against corruption in all its forms, including extortion and bribery.



Diffusion of a culture of sustainability

In February 2012, in Geneva, Andrea Illy described the company's sustainable approach during Feeding the world - The 9 billion people question - a conference promoted by The Economist where over 200 experts in agribusiness, politics, and science from 25 countries met to discuss what could happen - unless steps are taken - in 2050, when the world's population will be over 9 billion: climate change, water shortages, and agricultural production under increasing threat. Andrea Illy related the company's experience: by adopting a sustainable approach in all its processes and in relations with stakeholders, it is able to create value along the entire chain of production. This innovative model assigns a crucial role to quality and to the well-being of all.

In June 2012 Andrea Illy testified to illy's commitment to sustainability during the Rio+20 Conference in Rio de Janeiro, as part of the Sustainable sourcing section of the Corporate Sustainability Forum, organized by the United Nations Global Compact. This was also the occasion to carry out an analysis on how the private sector can supply itself with agricultural raw materials in a sustainable manner, and how civil society, governments, and companies are training small-scale producers to respond to market requests. Andrea Illy described the close relationship between illycaffè and the growers from which it purchases green coffee, without any brokers, and the particular attention the company pays to its supply chain, as demonstrated by the fact that it obtained the "Responsible Supply Chain Process" certification from DNV BA - Det Norske Veritas Business Assurance in 2011.

illycaffè became official partner of EXPO 2015 "Feeding the Planet. Energy for Life" for the Coffee Cluster, and it will be responsible for designing and managing content in the



dedicated area. The company was chosen for its holistic approach to the issue, which can enhance the participation of guest countries by fostering collaboration between different cultures, in keeping with the EXPO's core values. illycaffè will submit a full programme of cultural events, debates, demos, tastings, and exhibitions to disseminate the culture of coffee and sustainability, and to highlight its importance for the world's socio-economic system.

The Ethisphere Institute included illycaffè as the only Italian company in the World's Most Ethical Companies for 2013, in

WORLD'S MOST ETHICAL COMPANIES

light of its having obtained the highest scores in terms of corporate governance, corporate social responsibility, and sustainability; the criteria adopted for the rankings include codes of ethics, statistics on litigation and infraction of regulations, investments in innovation, sustainable business practices, activities to improve corporate social responsibilities, and the opinions of executives, professionals from the same sector, suppliers, and clients.

This recognition places illycaffè among a select group of leading companies who have previously been listed, such as Whole Foods, Marriott International, Intel and the Ford Motor Company.

Additionally, the company was involved in a study carried out by the Global Compact which led to the publication of the "Scaling Up Global Food Security and Sustainable Agriculture",



whose purpose is to study and present the most salient and pressing issues that the private sector must face in the fields of food security and sustainable agriculture. In particular, illycaffè's sustainable supply chain mode, certified by DNV through the Responsible Supply Chain Process, was presented as one of the approaches that can be used by companies to establish their own set of principles and rules, often in coordination with local stakeholders and civil society.

Institutional relations

illycaffè is a member of various national and international associations and/or institutions that contribute to the diffusion of quality, innovation, coffee culture, and sustainability in general. In 2012, the main associations of which it is a member include:

- › ASIC – International Coffee Science Association
- › ISIC - Institute for Scientific Information on Coffee
- › Comitato Italiano Caffè
- › Associazione Caffè Trieste
- › TRIESTE COFFEE CLUSTER - Consorzio Promozione Caffè
- › A.D.A.C.I. - Associazione Italiana di Management degli Approvvigionamenti
- › AIIPA - Associazione Italiana Industrie Prodotti Alimentari
- › ASSOKNOWLEDGE - Associazione Italiana dell'Education e del Knowledge del sistema di Confindustria
- › CENTROMARCA
- › CONSORZIO SVILUPPO-TUTELA
- › EIRMA - European Industrial Research Management Association
- › INDICAM Istituto di Centromarca per la lotta alla contraffazione
- › ISTITUTO ITALIANO IMBALLAGGIO
- › ISTITUTO PER I VALORI d'IMPRESA
- › UPA - Utenti Pubblicità Associati
- › World Economic Forum
- › Altagamma
- › Confindustria
- › Federalimentare
- › Confimprese

The group's foreign companies are also members of their relevant national associations

FRANCE

- › Syndicat Français du Café
- › Alliance 7
- › Ania (Association Nationale des Industries Agro-alimentaires)
- › Aria (Association Régionale des Industries Agro-alimentaires)

THE NETHERLANDS

- › Dutch federation of food and consumergoods (FNLI)
- › Association of Dutch coffee roasters and tea packers (VNKT)
- › Confederation of Netherlands Industry and Employers (VNONCW)

NORTH AMERICA

- › Specialty Coffee Association of America
- › National Coffee Association

BRAZIL

- › Participation at ABIC (Brazilian Coffee Industry Association)

TRieste COFFEE CLUSTER

Of particular importance is illycaffè's work within the coffee industrial district in the province of Trieste, which is recognized by the Autonomous Region of Friuli Venezia Giulia as an economic resource for the growth of the province and the region as a whole.

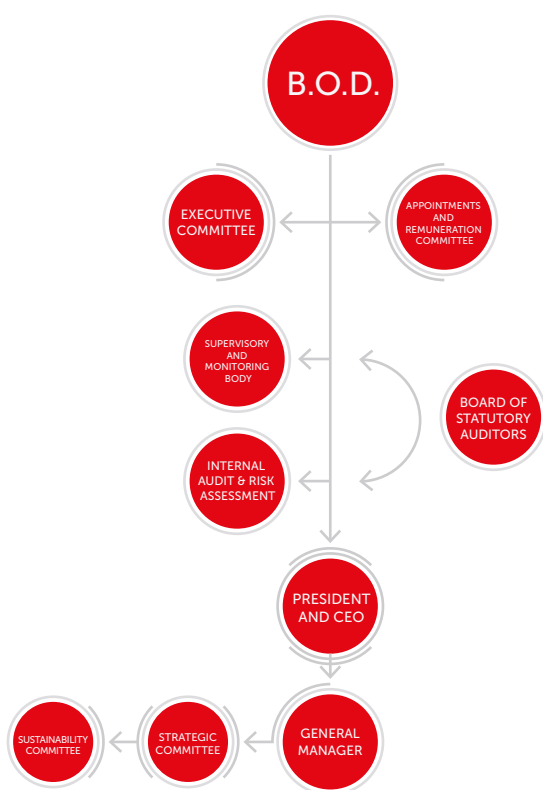
Trieste Coffee Cluster S.r.l. (TCC) is a company that draws together all local operators in the coffee sector to enhance the quality of products and services and promote joint projects to stimulate innovation and growth.

name Qualicaf Trieste S.r.l., in 2008 TCC strengthened its holding structure with the addition of new public and private partners, and obtained on the part of the Friuli Venezia Giulia Region recognition as an Agency for the Development of the Coffee Industrial District (Agenzia per lo Sviluppo del Distretto Industriale del caffè - ASDI).



Corporate governance

illycaffè has instituted specific mechanisms for sustainability strategy and governance, and has broad governance and monitoring systems in place to ensure the sustainable development of our business in accordance with both the law and economic, social and environmental harmony. This requires transparency in word and deed: fairness in management, compliance with regulations, protection of the rights and interests of the shareholders and all stakeholders, and responsible behaviour in all functional areas.



B.o.D.

The Board of Directors represents the stakeholders. The Directors take on special roles and assume full responsibility for the environmental, social, and economic results, which are subject to annual approval on the part of the Stakeholders' Assembly. The Chairman of the Board of Director also serves as Chief Executive Office. There are five independent directors, and a total of 9 non-executive directors. Three directors are women.

The Board of Directors is composed of:

- › Andrea Illy (Chairman)
- › Riccardo Illy (Vice President)
- › Anna Rossi Illy (Honorary President)
- › Anna Illy

- › Pierluigi Celli
- › Maurizio Dallochio
- › Giancarlo Michellone
- › Mario Cannata
- › Marina Salamon

Executive Committee

The Executive Committee is composed of independent (1) and dependent directors (2), and has wide powers regarding the ordinary and extraordinary management of the company. It has the authority to carry out any action it deems opportune for the fulfilment of corporate goals, with the exclusion of those actions which according to the law and the company's by-laws are the exclusive preserve of the Board of Director and the Stakeholders' Assembly.

Supervisory and Monitoring body

This body is composed of independent (2) and dependent directors (1). It oversees and supervises the functioning and effectiveness of and compliance with the Organizational Model for the prevention of corporate offences, with the goal of preventing offences for which illycaffè may be found administratively responsible, pursuant to the dispositions set out in Legislative Decree 231/2001 (such as corruption, fraudulent accounting, exploitation of workers, etc.). To complete this Model, illycaffè has adopted a Code of Ethics which sets out the ethical commitment and responsibilities of executive, employees, and contractors in conducting corporate business and affairs, and a dedicated channel of communications to prevent or report any behaviour contrary to the Code of Ethics. In 2012 there was a report to the Supervisory and Monitoring Body which was not relevant to the 231 Organizational Model (an employee reported an illness which he felt was incompatible with his workplace), which was nevertheless dealt with and solved within two weeks. Apart from this episode, there were no disputes related to Model 231.

Appointments and Remuneration Committee

Composed of independent (2) and dependent directors (1), it drafts proposals to the BoD related to the remuneration of the Chief Executive Officer and the Directors, and on criteria for determining the remuneration of the company's senior executives.

Internal Audit & Risk Assessment

Reports directly to the BoD on the modalities for the management of economic risk and risks related to overall sustainability, and drafts plans for their containment, in order to achieve an acceptable overall risk profile.

Management and innovation systems

The illycaffè chain of quality is widely recognized through the awarding of numerous, major voluntary Italian and international certifications and standards.

Quality



QUALITY MANAGEMENT SYSTEM

illycaffè was the first company in the coffee industry in Europe to receive the certification for its quality management system.

Standard: UNI EN ISO 9001:2008

Certification body: Det Norske Veritas Italia s.r.l.

Scope:

Development, roasting, packaging and sale of coffee blends, training and "coffee culture" of the clients regarding the transformation process. Design of promotional, advertising, primary and secondary packaging products and illycollection kits and coffee machines. Sector EA:03, 18, 35.



PRODUCT CONFORMITY

Guarantees product compliance with agreed-upon standards of production that can ensure the highest customer.

Standard: Qualite-France

Certification body: Qualite-France SAS

Scope:

Selection of 100% Arabica green coffee, roasting, preservation through pressurization, decaffeinated coffee.

HACCP

HACCP

Prevention or minimization of safety hazards in food and drink preparation (mandatory in many countries, including the EU).

Standard: HACCP, Codex Alimentarius Principles, Uni 10854:1999

Certification body: Det Norske Veritas Italia s.r.l.

Scope:

Selection, roasting and packaging coffee. Roasting and packaging decaffeinated coffee.



IFS FOOD CERTIFICATE

It guarantees the quality and food safety of retailer- and wholesaler-branded food.

Standard: IFS - international Food Standard, Versione 5 agosto 2007

Certification body: Det Norske Veritas Italia s.r.l.

Campo di applicazione:

Selection, roasting and packaging coffee.



BRC FOOD CERTIFICATE

Guarantees that an organization is suitable for the production, packaging, storage and distribution of safe food and safe consumption products.

Standard: Global Standard for food safety Issue 6: luglio 2011

Certification body: Det Norske Veritas Italia s.r.l.

Scope:

Selection, roasting and packaging coffee in a protective atmosphere using jars, capsules, pods, foil-lined bags, and sealed composite containers. Roasting and packaging decaffeinated coffee in a protective atmosphere using jars, capsules, pods, foil-lined bags, and sealed composite containers.



LABORATORIES

Aromalab and SensoryLab are recognized and accredited by Accredia.

Standard: ISO 17025:2005

Certification body: ACCREDIA – Ente Italiano di Accreditamento

Scope:

AromaLab and Sensorylab

Environment



ENVIRONMENTAL MANAGEMENT SYSTEM

Defines how an effective environmental management system must be developed.

Standard: UNI EN ISO 14001:2004

Certification body: Det Norske Veritas Italia s.r.l.

Scope:

Selection and blending of raw coffee, roasting, packaging and sales of coffee blends. Manufacture of tin plated cans through the phases of pressing, forming and welding. Design and development of new products.



EMAS REGULATION

It promotes continuous improvement in the environmental efficiency of its industrial activities.

Standard: Regolamento EMAS (Eco-Management and Audit Schem)

Certification body: APAT (Italian Agency for Environmental Protection and Technical Services) Ecolabel - Ecoaudit Committee

Scope:

Selection and blending of raw coffee; roasting, packaging, and sale of coffee blends. Self-production of tin-plate cans through die stamping, moulding, and welding. Design and development of new products.

Supply chain



RESPONSIBLE SUPPLY CHAIN PROCESS

illycaffè is the world's first company to receive a certification attesting the sustainability of its entire supply chain.

Standard: Responsible Supply Chain Process

Certification body: Det Norske Veritas – DNV Business Assurance

Scope:

Supply chain

Innovation in illycaffè

Innovation and research at the service of sustainability and excellence

Highlights



500

Patents requested (393 already registered) by illycaffè as of 31/12/2012



3,32

million euros in research and development from 2012



3,3

an additional 3,3 million euros for innovative projects



12

publications in science congresses and organization of 1 scientific events

illycaffè's approach to innovation is focused on the creation of sustainable value for its customers, consumers and stakeholders in general, by providing products, solutions and services in line with expectations, and at the highest levels of excellence and quality. The company's achievements in these areas have been made possible through investments made in technology and research and development, through relationships with strategic partners and, first and foremost, through the professionalism and expertise of the people working in the company.

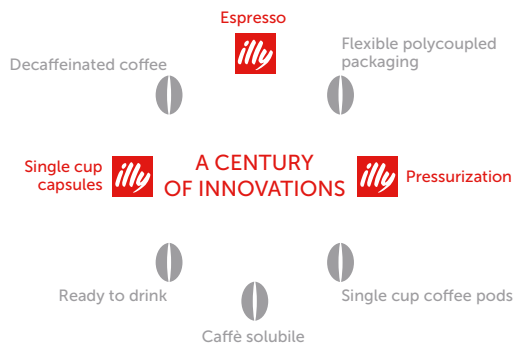
At illycaffè innovation means riding the waves of technology: computer science, microelectronics, and now, biotechnology.

This entails:

- experimenting in molecular biology to study the genetics of raw materials, in order to characterize coffee varieties and create coffee "gene libraries", thus facilitating product traceability;
- combining multiple disciplines: agronomy, botany, physics, mathematics, chemistry, biology, physiology, genetics, and engineering to achieve continuous improvement and innovation.



A technological and scientific approach and the recourse to science and technology as essential sources of inspirations for innovation permeate the entire history of the company, contributing to its growth and success.



Three of the eight radical innovations that revolutionized the coffee industry over the last century were conceived at illycaffè:

- > in 1933 pressurization (preservation system replacing the air inside packaging with pressurized inert gas), which enhances and maintains the quality of coffee over time, allowing it to be exported to distant countries;
- > in 1935 illetta, the prototype of modern-day professional coffee machines, which reinvented the espresso formula and made it possible for espresso machines to be installed in cafes;
- > in 1974 the pod, a single serving of coffee in paper, developed for the purpose of producing consistently high-quality espresso in places where baristas are not coffee professionals.

Illycaffè recently focused on strategic research such as the study of monoarabica coffee, the world of nutraceuticals, functional food and health.

In terms of industrial research, activities have continued on product sustainability with the University of Trieste, and on the use of waste materials for the production of fine chemicals with the University of Padua.

Innovation also takes place in the heart of the plantations where coffee is grown, through research and development on sustainable growing practices, conducted in partnership with coffee growers and scientific institutions.

Research and innovation

The department of Research and Innovation – recognized internationally as a centre of excellence – is composed of two research centres for quality control (one in Trieste and one in Sao Paulo, Brazil) and five laboratories, linked to promote the horizontal transfer of knowledge, and working in conjunction with universities: Aromalab and SensoryLab (both certified ISO 17025.2005 by Accredia, the sole Italian accreditation body), BioLab, TechLab and FoodScienceLab. The workforce within the laboratories is made up of: 5 chemists, 1 molecular biologist, 3 engineers, 3 food technologists, 1 neuroscientist.

Taking a multidisciplinary approach to research spanning agronomy, botany, physics, mathematics, chemistry, biochemistry, biology, statistics and information technology, over the years, illycaffè has reached agreements with academies, scientific institutions and research centres on far-reaching initiatives. During 2010, for example, illycaffè-led a research consortium with the Area Science Park in Trieste, the Universities of Trieste, Padua and Udine, and the Slovak Academy of Sciences in Bratislava. The company cooperates on an ongoing basis with the world's most authoritative international coffee organizations including the ICO (International Coffee Organization), and ASIC (Association for Science and Information on Coffee).

The Company's patent portfolio as of 31 December 2012 included 500 (+15%) patents deposited, of which 393 accepted (+30%) and 107 pending, divided into 45 families. During

the year the company invested € 331,974 for depositing patents and spent € 302,441 in taxes to maintain its patent portfolio.

Creating value for stakeholders and achieving sustainable development depend on the ability to innovate constantly. In its conviction that innovation is a strategic asset, illycaffè has maintained its investment in research and development constant over time (in 2012 the costs of illycaffè's R&D Department amounted to € 3.3 million, including dedicate staff, intellectual property rights costs, services, purchasing of material and equipment, depreciation, etc.) . Taking into account additional activities such as the innovative projects of the External Relations and Marketing departments, research and investment in art, developments in the management system and in new certifications, product development, and research projects aimed at green coffee and producers, this amount rises to € 6.628 million for 2012.

In February 2012, the Research and Technological Development Division organized at illycaffè headquarters a seminar on "Sensory analysis as an innovative tool for quality control in food products", while in November 2012 it organized in Trieste the "4th Conference of the Italian Society of Sensory Science".



illycaffè labs

AROMALAB

Established in 1998 at the Area Science Park in Trieste
Research on the chemistry of coffee, to identify the chemical compounds at the base of its aroma of taste, texture, and biological activity...

SENSORYLAB

Scientific study of the relationship between sensory stimuli (taste and smell) and the sensations they evoke
Union of chemistry, physics, and psychology
Use of human and non-human sectors to catalogue the array of tastes and fragrances perceived
Product and process validation

TECHLAB

Works on technological development

BIOLAB

Studies the various aspects of the biology of coffee: from genetics to the characterization of variety in the molecular biology unit (at AREA Science Park) to its morphological, anatomical, and ultra-structural characteristics in the microscopy unit (at headquarters)

FOODSCIENCELAB

It is dedicated to food and to the field of "consumable" products

Università del Caffè

Giovanni Antonio Busio

Highlights



24

campuses worldwide



1

new campus inaugurated in 2012 (Latvia)



106.700

since 2000, the Università del Caffè has trained 106,700 people.



28.508

students in 2012 (including 892 producers, 17.665 professionals, and 9.961 consumers)



6.761

new students compared to 2011 (+31%)

The Università del Caffè was born in Naples in 1999. In 2002 it moved to illycaffè's headquarters in Trieste. It is a centre of excellence created to promote, support and disseminate, through education, the culture of high-quality coffee throughout the world. It is the ideal place where professionals from the coffee and hospitality industries – in addition to the public at large, coffee buffs, and aspiring connoisseurs – can meet to share the passion for knowledge that is illycaffè's calling card. The training and educational activities of the Università del Caffè are designed to offer all professionals in the coffee production chain – without distinction between those who are illy clients and those who are not – the opportunity to grow and improve quality levels in every single phase in their respective sectors of competence: a virtuous circle of knowledge, a market-oriented attitude that focuses on the creation of value over time through growth, sustainability, and transparency, broadening its activities from relationships with professionals to encompass direct sharing with final consumers. The authoritativeness of the Università del Caffè is grounded in illycaffè's commitment – since 1933 – to research and process and product innovation.

The activities to support producers are the outgrowth of a collaborative effort launched in 2000 with Pensa, the Agribusiness Intelligence Centre of the University of Sao Paulo. Today, the Università del Caffè in Brazil is a cornerstone for the training of local growers and entrepreneurs. Attention for local communities in coffee-producing countries is manifested through on-site training and partnerships launched with local institutions to carry out projects with a wide-ranging social impact. The sharing of knowledge proposed by the agronomists and technicians of the Università del Caffè to produce superior quality coffee allows them to obtain above-market prices once excellence in production has been achieved.

SUPPORT ACTIVITIES

illycaffè trains coffee growers on how obtaining the best coffee through the sharing of sustainable and updated cultivation techniques and through proper harvest and processing methods. Growers are trained also on economic and administrative issues.

DISSEMINATION COURSES

For coffee lovers, illycaffè organizes at its premises, at shops or during cultural events, tastings and courses to teach how to appreciate and recognize the taste and aromas of coffee and of other colonial products.

TRAINING COURSES

The University of coffee offers, to professionals working in the HoReCa sector, training and updating courses and activities, held in its or in the "student"'s premises, about coffee and the management and promotion of their commercial activity.

A few projects to support producers

BRAZIL: Curso em Agronegocio, over 500 hours of course work on agribusiness, in addition to participation in the Semana del Fazendero with the University of Viçosa.

CENTRAL AMERICA: development of educational material to be distributed through e-learning courses in order to reach as many users as possible.

AFRICA: in Tanzania, a pilot project aims to encourage coffee growers to invest in quality through simple, effective visual messages, and employs part of its resources to generate new know-how to be transferred to producers.

Ernesto Illy Foundation

Highlights



350.000

Euro initial endowment fund from illycaffè S.p.A.



2%

illycaffè allocates an annual fund for the management of the Foundation equal to at least 2 percent of its pre-tax earnings



19

scholarships for 2011 and 2012 editions of the Ernesto Illy Master's Degree in Coffee economics and science

illycaffè established a Foundation, administered by the Illy family, to build upon the moral and cultural heritage of Ernesto Illy: the Ernesto Illy Foundation is a nonprofit organization established with the goal of developing and incrementing ethics and sustainability through the promotion of research and the organization and dissemination of initiatives open to all possible stakeholders, in order to generate wealth and added value in both the reference territory and in coffee-producing countries.

The Foundation's work involves scientific and cultural projects which it manages directly and/or in partnership with others: organization of events, study conferences and seminars; publishing and multimedia activities, and collaborative efforts with leading universities, institutions, and organizations.

Some of the Foundation's activities and initiatives for 2012 include:

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

This second-level inter-university Master's Degree includes about 400 hours of coursework and 18 lesson plans. The Master's Degree, which had 15 students in 2011 and 18 in 2012, is promoted and organized by a group of leading institutions of higher learning: the University of Cambridge, the University of Trieste, the University of Udine, the Ernesto Illy Foundation, the Università del Caffè, the SISSA International School of Advanced Studies in Trieste, the Molecular Biomedicine Consortium (Area Science Park – Trieste), the industrial coffee district of the province of Trieste (Trieste Coffee Cluster). The Ernesto Illy Foundation made available 9 scholarships in 2011 and 10 in 2012, in order to cover (fully or in part) the costs of the Master's and associated travel and housing expenses for deserving youth from countries that produce green coffee.

"More value to compete"

A conference on ethics and corporate sustainability, with the collaboration of Bocconi University and Centromarca, the Italian association of brand-name industries that was presided by Ernesto Illy for 13 years. The conference was accompanied by the publication of "Valore, Impresa e Sistema Paese - Strategie d'azienda per la generazione di Valore Sostenibile" ["Value, enterprise, and the Italian system – Corporate strategies for generating sustainable value" (Egea)]. The conference "Profit for whom? Sustainable economy, well-being, and quality of life: a new concept of wealth from the enterprise to the nation" was held in May with the participation of Amartya Sen (LINK TO INTERVIEW WITH ADRIANI AND SEN AT CIRCOLO ILLY), winner of the Nobel Prize in Economic Sciences and professor at the University of Harvard.

International Coffee Genome Network (ICGN)

ICGN is a global network of scientists from universities, research institutes, and industries located in countries that produce or consume coffee. The Ernesto Illy Foundation is a member of the ICGN, which is engaged in research on the coffee genome thanks to international partnerships, and with the ultimate goal of producing high-quality, sustainable coffee.

Coffee and climate change.

In collaboration with the ICTP (International Centre for Theoretical Physics), the Foundation sponsors a two-year post-doc scholarship to study mathematical models on the growth of coffee plants in response to climate factors.

Bee-keeping and honey production in coffee plantations.

A pilot project developed in the coffee plantations of central Colombia with the goal of using bee-keeping to create a sustainable economic activity to go alongside coffee farming. The project is managed in large part by the wives of coffee growers; in 2012 construction on a second bee-keeping centre began, as did contacts with the University of Tolima to test the hypothesis that the presence of bees in a coffee plantation may lead to larger beans (at least three years of harvest data will be analyzed).

Germplasm project.

In collaboration with the University of Addis Ababa, the Foundation launched a research, conservation, and development project focusing on the original variety of the Arabica coffee plant. In 2011 wild coffee was collected and stored in a germplasm bank, and information material was distributed. The germplasm bank will help disseminate the selected plant and function as a genetic bank that will hold all of the genetic

material present in Ethiopia, which accounts for most of the history of Arabica coffee.

Research on Computational Toxicology

In September 2009, the Ernesto Illy Foundation and the SISSA International School of Advanced Studies in Trieste launched a research project on computational toxicology that analyzes interactions between different molecular substances. The goal is to discover the associations that influence the toxicity of a given substance. The project, which was borne out of one of Ernesto Illy's ideas, was initially funded by illycaffè and subsequently by the Ernesto Illy Foundation, and continued in 2012 with a screening of the effects of acrylamide on proteins in human and mice, and on the identification of the most likely target. The project also published an article in the book Computational Biology and Applied Bioinformatics.

illycaffè Stakeholder

*“illycaffè is a stakeholder company
founded on ethics, whose goal is the
improvement of the quality of life”*

— illycaffè Sustainability Manifesto

For several years now, illycaffè has steered its strategies towards a sustainable business model that can create competitive advantages for the company through the integration of economic/profit objectives with social and environmental ones. In order to achieve this result, it has oriented its relationships with its stakeholders towards the creation of shared value, meaning a set of operational practices and policies that strengthen the company's competitiveness while improving the social and economic conditions of its stakeholders and the communities in which it works.



MAP OF STAKEHOLDER



A careful mapping of stakeholders and the activation of channels for listening and communicating allow illycaffè to identify and analyze stakeholder expectations and indications, and to take them into consideration in its activities and objectives. The information in this report takes into account the outcome of the analyses carried out to identify relevant topics and specific aspects related to the company's social responsibilities and deemed to be of most significance for the stakeholders of reference.

Additionally, the drafting and online publication of the previous Sustainable Value Report provided illycaffè with the opportunity to meet with stakeholders, who contributed ideas for improvement: the most significant initiatives related to the Report or specific sustainability issues implemented in 2012 include:

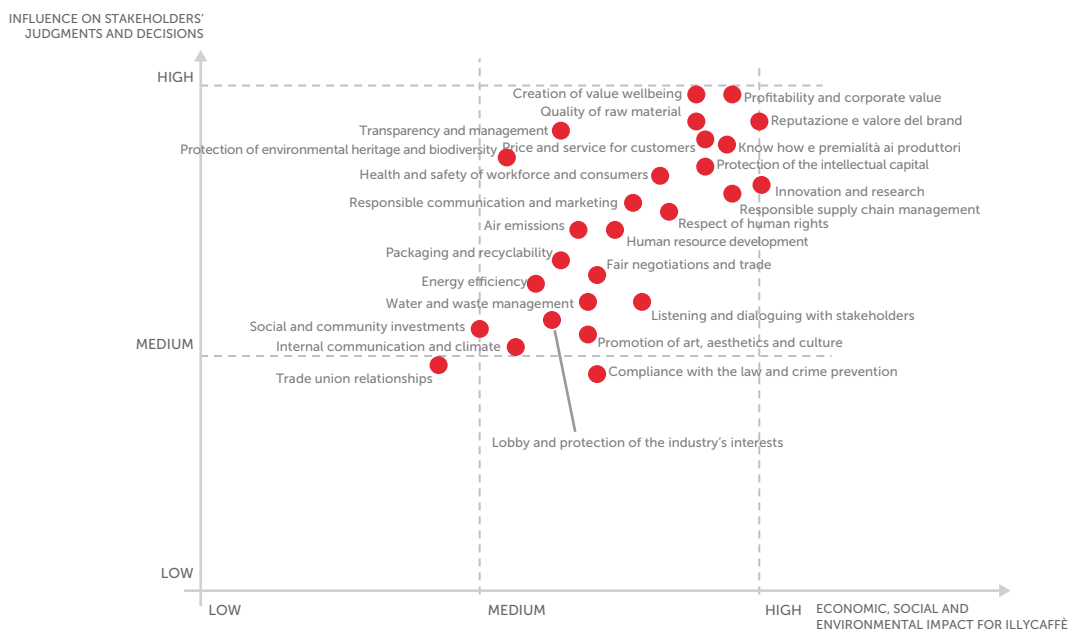
- Involvement of Illy Frabelux staff through ad-hoc training sessions which resulted in feedback from participants (especially regarding the usability of the website);
- Involvement of the Group's foreign branches through a dedicated meeting as part of the Global PR Meeting of January 2013: the goals of the projects were shared along with the modalities for active participation on the part of foreign representatives in the collection and transmission of information (with this edition, the scope of the report was extended to the group's foreign branches);
- Project with the Ministry of the Environment to calculate the company's carbon footprints: many opportunities for improvement in the environmental field emerged. This report features a dedicated section;
- International workshop organized by illycaffè in collaboration with UNIDO on the sustainability of the coffee supply chain in East Africa;
- Discussions with student groups on sustainability issues, including the participants in the post-graduate Master's Course in Corporate Management and Ethics (Fondazione Marcianum, Venice);

- Discussions with international institutions on the occasion of various public events, including the RIO +20 International Conference and The Economist Conference 2012, with a final discussion on the issue of illycaffè's sustainability.

In September 2013, illycaffè plans to host a special workshop featuring a qualified panel of stakeholders that is representative of employees, suppliers, institutions, clients, partners, banks, and other food industry companies. The goal is to collect ideas and suggestions to improve illycaffè's performance in terms of sustainability and to verify whether the activities carried out by the company (described in the Sustainable Value Report) are a good match for the needs and requests of stakeholders. The outcome of the workshop will be detailed in the next edition.

illycaffè also examines relevant questions for its stakeholders through communication channels and tools, which allows for constant interaction and the monitoring of the evolution of all topics that are directly or indirectly related to sustainability.

The following graph depicts a non-exhaustive summary of the analytical process that has been launched. The main social responsibility issues are depicted via a matrix whose variables are the economic, environmental, and social impacts that are significant for illycaffè and their influence on stakeholder decisions. The assessment was conducted on the basis of a three-level scale (low, medium, high).



The outcome of this exercise is the basis for an increasingly timely and precise identification of the interests which the company's work affects, and for strengthening stakeholder engagement strategies. The reporting process of which the Sustainability Value Report is an expression confirms illycaffè's constant focus on value creation and brand management, but also on the reduction of the impact of productive processes and facilities on the ecological balance. Additionally, the company is called upon to respond to new and old demands, such as expectations of safety and security for employees and consumers, problems related to energy efficiency, and the adoption of sustainability criteria along the entire value production chain.



The real added value of life is in human relations

Together, through shared purpose and motivation,
we can forge the pathway to success.
Only through this combined effort
will we be both coffee producers,
and creators of value,
just as we want it to be.



Social sustainability in illycaffè is based on the concept and on the theme of growth.

First of all individual growth. This creates value for all the stakeholders, this means for all the people who come into contact with the company. Let's think first of all on our suppliers, in primis the coffee growers. The company transfers them knowledge through the Università del caffè and the agronomists who constantly visit the coffee farms. Thanks to this knowledge they can increase the quality of their production and as a consequence increase the quality of their life thanks to the fact that they can sell a high quality product at prices higher than the market. Furthermore there is the reputation that, thanks to working with illycaffè, they can get.

Pensiamo a quelli che sono i collaboratori dell'azienda, cioè le persone che in tutto il mondo lavorano per illy. Ecco, l'azienda punta tantissimo a valorizzare le persone, a valorizzarne la crescita professionale, personale, l'autorealizzazione e questo lo fa attraverso molta formazione, la possibilità di essere in contatto con un ambiente internazionale, la possibilità veramente di sviluppare a 360° le proprie competenze.

Let's think at the employees of the company people who work with illycaffè all around the world. The company aims to promote the employees to promote their professional and personal growth, auto realization this is done through a lot of training, the possibility to be in contact with an international world the possibility to develop at 360° their skills let's finally think at our client, those who offer our product, the baristi, the chefs and the final consumers, who choose our brand, our product for all of them there is a very important concept of culture of coffee from one side from Università del caffè which offers important training courses both the barista and to whom works in HORECA as well as for the final consumer who can learn how to taste a good coffee how to recognize it on the other hand there is all what illycaffè has done in the world of culture, especially in contemporary art it's more than 20 years that the company has a relationship with the artists thanks to the project illy art collection thanks to important projects like the Biennale in Venice or the big art fairs this is one of the values that is recognized to our brand and is one of the reason why people choose us.

ANNA ADRIANI
Global PR and corporate responsibility director

Highlights



125

this is the number of quality controls over coffee, from when it arrives at the company to when its packaging is complete



990

employees as of 31/12/2012 at global level



140

illy blend is sold in 140 countries on 5 continents and served in about 100,000 establishments (company estimate)



55.600

contacts with its clients through the customer care service



736.000€

worth of donations granted worldwide to socially useful institutions in 2012



THE CREATION OF SOCIAL VALUE

The purpose of the business model developed by illycaffè creates social value through the concept of growth.



Quality, safety, and innovation for consumers

Highlights



5.300

Every year nearly 5,300 samples of green coffee are inspected in illycaffè labs



5.500

Every year nearly 5,500 samples of roasted coffee are inspected in illycaffè labs



450

Every day illycaffè performs an average of 450 sample tastings to guarantee the quality of its product

Illycaffè's strategy calls for giving consumers a perfect cup of coffee in every serving establishment anywhere in the world, for a memorable, multisensory experience. In order to achieve this, it is vital to offer – in addition to an excellent process – all that contributes to its preparation, service, and setting. This is why illycaffè is committed to the constant improvement of quality standards in all their aspects: production, processes, and client services. This is reflected in the company's commitment to making safe products, in full compliance with the rules and regulations disciplining the food sector.

Illycaffè has developed and implemented sophisticated systems to monitor and control the production process phases (selection, roasting, packaging, etc.), based on a wide range of regulations, protocols, and certifications.

PRESSURIZATION

1.500 substances (800 of which are volatile) and more than 13 chemical-physical variables combine to make a complex espresso beverage and influence its preparation. illycaffè has been using the pressurization technology since the Thirties: this exclusive conservation method substitutes the air inside the packages with inert gas under pressure. Thanks to this technology, designed by the founder Francesco Illy, all the aromas of roasted coffee are trapped inside, and are prevented from naturally leaking out of the bean. Therefore, all the aromas are concentrated in the coffee's emerging oils, and

add a long-lasting roundness, sweetness, and intensity to taste. At the same time, pressurization keeps ensures that the coffee aroma remains unaltered for a long time. This pressurization technology has allowed coffee to be successfully exported far from its growing areas, and has driven the company's international mission. *ondità, dolcezza e intensità al gusto e conservandone immutata, a lungo, la fragranza. Proprio la pressurizzazione ha consentito le esportazioni di caffè al di fuori della zona di produzione, avviando la vocazione internazionale dell'azienda.*

RAW MATERIALS

illy's quality begins with raw materials. In order to guarantee it, the company has been purchasing green coffee for twenty years direct from its source (except for Ethiopia where local legislation does not allow this). To this end, illycaffè has developed long-term relationships with the best coffee growers in the world, in conformity with its principle that only a relationship of mutual exchange and improvement can guarantee quality, as well as an increase of the product's value. illycaffè's Analysis and Quality Labs evaluate and control all samples of green coffee before purchasing them: besides checking mandatory phyto-sanitary certificates that have to be enclosed with all stocks imported into Italy, they perform tests to rule out any presence of heavy metals, plant protection products, weed-killers, and pesticides. When green coffee arrives at the company, it is stored in a 9.000 square-meter, insulated, covered warehouse and protected and shaded from sunlight. Before the roasting phase, the nine ingredients of Arabica are blended in order to make the final coffee cup taste more homogenous and balanced. At last, the packaging phase is performed with the most advanced industrial, automated and computerized technologies: each product (capsule, can, and pod) is pressurized and sample-checked scrupulously by lab experts all through the production phases. From when it reaches the company to the moment it leaves, 125 checks have been performed on illy coffee.

CERTIFICATIONS AND QUALITY CONTROL

In order to guarantee product quality and safety, illycaffè has developed management systems that have earned the most important international certifications for its industry.

Thanks to the Product Conformity Certificate earned in 1992 by Qualité France, illycaffè guarantees that all the quality and constancy of product standards, as well as the hygienic-sanitary standards, are met. In addition, this certificate guarantees that illycaffè products conform with existing coffee laws (DPR 470/73) and with even more stringent voluntary standards. Constant inspections are performed on product samples in order to evaluate the analytic and qualitative conformity required by the certification, and to assess the document and physical verification. The Quality System Certificate, according to UNI EN ISO 9001:2008 law (illycaffè was the first company in the world to earn it in 1994), guarantees compliance with all hygienic-sanitary regulations in force and with some procedures of product certification, especially

those concerning the purchasing criteria, the raw material control, the finished product inspection, and the product storage and freight phases. illycaffè certificated its Environmental Management System according to UNI EN ISO 14001:1996 and ISO 14001:2004; the company has also obtained the registration certificate EMAS (Eco-Management

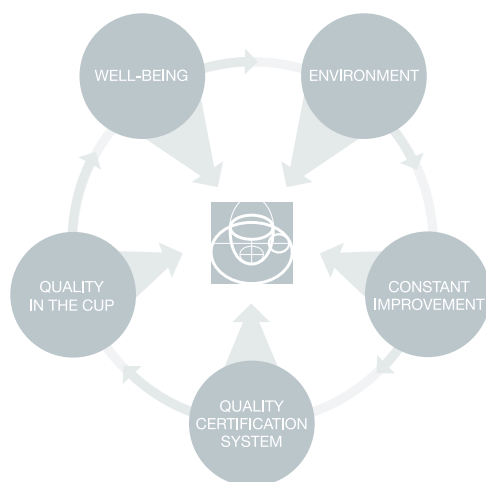
with the auditing plans established by company certification procedures directly by illycaffè's expert auditors.

In 2012, all of the company's certifications were updated and maintained; a total of 29 internal and external audits were conducted in compliance with the various monitoring plans:

- Quality System 16
- Hygiene and Food Security System 6
- Environment System 7
- Total 29

Thanks to this monitoring and control system, in 2012 illycaffè did not receive any sanctions for failing to comply with laws or regulations regarding quality, food safety, traceability, and related matters.

AN EXCELLENT AND SUSTAINABLE PRODUCT



and Audit Scheme) In addition, illycaffè has earned the BRC certificates according to the BRC GLOBAL STANDARD-FOOD scheme (the first time in 2005, then in 2008-version 5) and IFS according to the IFS-INTERNATIONAL FOOD STANDARD scheme (version 4 in 2007 and version 5 in 2008). These are world-renowned regulations for processing methods and hygienic criteria adopted by companies that produce and sell food.

All blending and toasting of coffee takes place in our Trieste facility, and is controlled and certified in accordance with the management systems described here. The only exception are IES capsules, which are manufactured in the Mitaca srl plant in Milan province, which plant is regularly supplied with toasted coffee beans in pressurized silos. Mitaca srl and all other establishments where functional activities take place (assembly, packaging, labeling, etc.) are monitored in compliance



Product innovation

When illycaffè launches product or coffee-making system innovations, its goal is clear: improve the customers' satisfaction level.

This requires improvements in functionality, aesthetics, design, quality of materials, comfort and enjoyment of use.

Through product research in recent years, illycaffè has been able to introduce some important innovations:



The Iperespresso system is comprised of a coffee maker and innovative capsule, which features a full extraction chamber protected by five international patents. Unlike the traditional preparation of espresso in just one phase, the capsule enables two phases: hyper-infusion and emulsion. This double process guarantees optimal extraction of all coffee aromas, and creates a rich, velvety and long-lasting crema.



illy issimo is a ready to drink product, developed to be enjoyed away from home. By adopting the latest technology, it is now possible to offer a sensorial profile very close to freshly prepared coffee, without colorants and added preservatives. illy issimo is made by Ilko, a joint-venture between illycaffè and The Coca Cola Company.



illycrema is the cream of illy coffee made from simple ingredients such as micro-particles of ice, and it is colorant, preservative, and aroma-free. The coffee is made from the classic illy blend, using the best technologies to protect the uniqueness of the illy taste. illycrema was the first product listed in the soft drink category of the 2012 Mixer Awards for the Horeca channel.



illy Monoarabica: Arabica single origin coffees that make up the traditional illy blend. Monoarabica derives its distinct characteristics from region-specific soil, altitude, rainfall, sun and cultivation profiles, all of which exert a strong influence on the aromas and body of illy coffee.



Idillium, with its low natural content of caffeine, is the first mono-variety coffee, grown in El Salvador.

"Cuor di Moka" is an innovative moka-pot launched in 2006, that derives its benefit from research and knowledge acquired in the espresso field and applied to the preparation of coffee in the moka. Thanks to the collaboration with Bialetti Industries and a six-year study, Cuor di Moka has no final phase, the one called "extraction tail," which is the main cause of negative aromas generally present in coffee prepared with a regular moka.





Innovations in packaging have led illycaffè to change and improve theirs three times in the last 15 years. Packaging is an important, distinctive, element and an added value for consumers from an aesthetic, information and technological perspective. Coffee is packaged by pressurization, a process that guarantees its quality over time. In 2011 the packaging of the single dose was awarded the first prize in the sustainability category of Pro Carton/ECMA CARTON AWARD 2011 (one of Europe's most important packaging awards).

preparation systems marry the unique illy blend to the technology of the pots. When introducing new models, the Company is also very attuned to environmental innovation, ensuring the use of non-polluting materials, maximizing component recycling, cutting consumption, and becoming more aware of waste. Product eco-innovation is therefore pursued with a vision that encompasses each model's complete life cycle. In 2012 the company produced the X7.1 and Y1 touch machines, the next step in coffee machines, which meet ErP regulations on energy consumption. The Y2 machine was also created. Additionally, the company introduced the "double adapter" kit for using "Iperespresso" Ho.Re.Ca capsules with professional machines that use ground coffee.



PRODUCT INNOVATION

**Y1 TOUCH**

Y1 touch evolution of the Y1 with touch technology and electronic system.

**X2.1**

X2.1 evolution of the X2, with thermoblock technology in line with regulations on the disposal of heavy metals.

**X1**

X1 the second machine for Horeca made in steels with Iperespresso capsules and boiler mechanisms.

**ILLYCREMA**

creamy take on illy's singular taste, borne of illy espresso and micro crystals of ice, without hydrogenated fats, dyes or preservatives.

**X2**

X2 the first professional machine for Horeca with Iperespresso capsules; it's made entirely of stainless steel, and comes with two separate boiler mechanisms.

**COFFEE CAPSULES: IPERESPRESSO**

Iperespresso system consists of a coffee machine that combines an innovative capsule, a revolutionary two-phase extraction process, protected by five global patents.

2012

Double adapter

kit for using IPSO Horeca capsules with professional machines that use ground coffee

2011

**Y1**

Y1 machine for home, with a square base fashioned from tempered glass and brushed aluminum. The machine automatically ejects the capsules, has thermal system and

**X7.1**

X7.1 evolution of the X7 with thermoblock technology in line with regulations on the disposal of heavy metals.

2010

2009

**ILLY ISSIMO**

the ready-to-drink coffee beverage made in collaboration with The Coca Cola Company. All illy issimo products are prepared with illy unique 100% arabica coffee blend and the finest ingredients without artificial colors,

**X7**

X7 the first machine for Home with Iperespresso capsules and boiler mechanisms.

**IDILLYUM**

the first single variety that has a low natural levels of caffeine, refined and unique sensory profile.

2008

2007

**CUOR DI MOKA**

illycaffè has transferred the research and knowledge acquired in the field of espresso coffee to the coffee prepared by a steam pressure moka coffee pot. From a six-year research collaboration between illy

2006

2004

illycaffè customers

Highlights



361 million

Coffee product consolidated sales reach € 361 million (+5.4% with compared to 2011)



19 million

Coffee machines reach 19 million euro



4,4%

illycaffè market share in Italy as of 31/12/2012



8,5%

illycaffè market share in Italy in 2011 (source Databank)



illycaffè is served in more than 100,000 of the best bars, hotels, restaurants, and coffee shops in more than 140 countries worldwide. And more than 6 million espressos are drunk every day at and away from home. (internal estimate based on sales and number of clients).

The customer's centrality is the prerequisite of the company's strategy and is manifested by building long-term relationships and paying constant attention to his/her satisfaction, by providing him/her with innovative products and services of supreme quality, and with a high know-how content.

The distribution strategy favors the pursuit of value over the long-term.

The growth of illy's customer base is prompted by applying the strategic model of the –"4Cs," which was invented by illy and combines the commercial aspect to sustainability, always with the main goal of creating value for everybody. So far this strategy has allowed the company to grow, even in recent years, despite the consumption crisis.



♥ CARE
 👤 CUSTOMER
 📊 CASH
 📈 INCREASE

The social values practiced by illycaffè contribute to positive economic results for its customers as well. In Italy, illycaffè customers generated coffee sales in terms of volume as follows (company data).

Highlights



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Highlights



230
Espressamente illy



34
Espressamente illy in 34 countries worldwide



36 million
serving 36 million customers every year



1753
establishments worldwide involved in Artisti del Gusto project as of December 2012

Both illycaffè's customers and consumers are offered the same blend, made of 100% Arabica coffee, the product of a selection process aimed at maintaining and enhancing quality. The main places/moments to enjoy illy coffee are:

- At the bar (Horeca channel: hotel, restaurant and coffee bars);
- At home (Retail channel);
- At work (Vending: sales in the workplace or community other than the Retail or Horeca channels).

Besides using these channels, consumers have shown more interest in purchasing products online on illy e-shop: in 2012 illycaffè website registered 974,000 visits, 24,9000 online payments, and 57,163 online purchases (+17% compared to 2011) for a total amount of 5.3 million Euros (+6%). Italian clients who use the e-shop are concentrated in northern Italy.

Recent surveys show that illycaffè is the most requested brand of coffee in bars. Over 5.5 million Italians pay attention to the brand of coffee they are served in bars and cafes, and over 2.4 million of them prefer illy (Source: GfK Eurisko, Sinottica 2012 survey conducted on a sample of 10,000 coffee drinkers representative of the Italian population).



ESPRESSAMENTE ILLY

espressamente illy is a franchising formula that calls for establishing partnerships for an average renewable duration of five years.

With 230 stores in 34 countries, espressamente illy boutiques are located on the main thoroughfares of the world's most important cities, in airports, and in shopping malls.

espressamente illy aims to be the "house of illy"; a place where clients can soak in illy's philosophy, luxuriate in its aromas, and admire its art and design. Espressamente illy's menu is very broad and includes a complete selection of coffee recipes, from classic to the most innovative. And, of course, the main ingredient is the best coffee that nature can provide. Besides the coffee menu, there is a wide variety of quality, fresh, and light, sweet and savory food, inspired by the best Italian traditions. Appetizers, hors d'oeuvres, salads, rolls, cakes and the unique taste of homemade Italian ice cream.

The menu has been developed in order to meet customer's needs throughout the day.

Espressamente illy's educational program is administered by Università del caffè, which supports the international network by offering full training, theory and practice about all issues related to bars, coffee and how to prepare it.

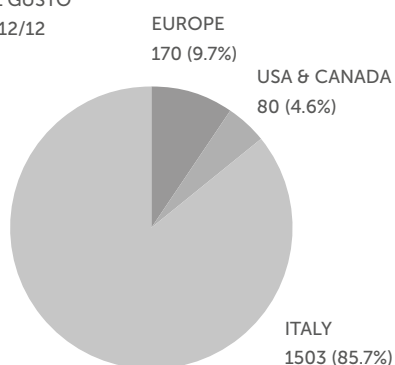
ARTISTI DEL GUSTO

The Artisti del Gusto project was born in 2007 in order to establish a network of professionals who share a passion for excellence. The project was an immediate hit on the Italian market, with about 250 clients joining the project each year. Some of them are listed in the Gambero Rosso guide to Italy's bars and cafes, as establishments that stand out for the quality of their services and products.

Out of the 1,759 bars listed, as many as 257 are illy Artisti del Gusto clients (14.6% of the total).

National Geographic took an interest in these opinion leaders and special baristas, with a story in ten installments detailing the rite of coffee-making in Italy and the professional barista's mission to obtain the perfect coffee: "Artisti del Gusto" thus became the name of a series dedicated to Italian baristas, with

1.753 ARTISTI DEL GUSTO
CERTIFIED AS 31/12/12



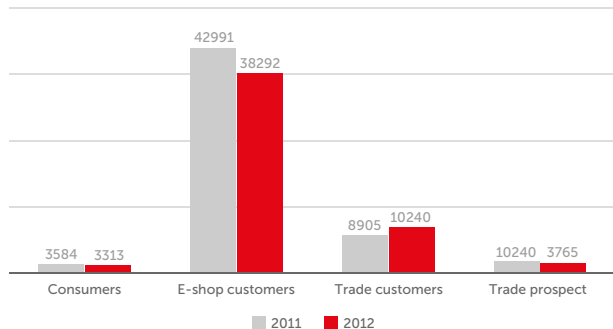
10 cities and 10 protagonists who turned their profession into an art by dedicating themselves heart and soul to it. The program was filmed in various Italian cities, from Trieste to Naples, for a veritable journey through the world of coffee. The Università del Caffè in Trieste provided support in order to dispel some of the most common false claims about one of the world's most beloved drinks.

In addition to being a good way to reward excellence, give visibility to those who deserve it, and raise awareness on the Artisti del Gusto project, the television program did very well in terms of audience (one million viewers, with an average +68% viewers in its time slot) and resulted in extensive spontaneous interaction online and in social networks (235,000 interactions), leading to a 10% increase in Artisti del Gusto contracts.

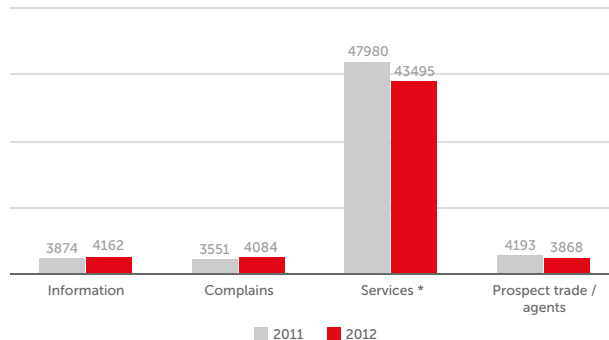


Listening to and satisfying the customer

Contacts to illycaffè customer care



Reasons for contact



* the item "services" includes request for assistance and outgoing phone calls indicated as different items in Value Report 2011

The ongoing research and long-lasting relationships with the customer improve illycaffè's ability to address and meet their needs. In order to do this, illycaffè bases its relationship strategy on factors that influence the quality of service, such as accessibility, transparency in processes, response times, homogeneity of treatment in different channels and the offer of high value-added services. illycaffè manages its relationships with customers (link to dialogue channels) through tools such as its website, social networks, customer care service, educational classes at Università del caffè, relationships with the media, and so on.

The company has planned and implemented a Customer Care service, whose main purpose is to provide them with advice before and after the sale.

In 2012 there were over 55,600 contacts. The procedures to classify and manage contacts were improved compared to 2011, so that the data presented in this report are not perfectly comparable with those in the previous one. Nevertheless, certain trends emerge:

- Requests for assistance/service and commercial requests on the part of potential clients have diminished;
- consumer calls to request information have grown;
- calls to report the quality of coffee have grown too;

In addition to Customer Care services managed from headquarters, there are dedicated teams for managing client relations in all of the company's branches: for example, the Customer Care team for North America is composed of 12 people, while the one for Brazil of 4. Germany also has a dedicated team, which manages about 70 contacts a day. Activities include contacts with both existing and potential clients, and contacts can have a wide variety of motives: news on products, services, and use of the website.

Starting in 2013 illycaffè will extend the monitoring of customer care contacts to its North American branch.

Though its quality management system and thanks to

constant aspiration to improvement, illycaffè responds with appropriate actions to address problems and to keep the customers' and consumers' satisfaction at the highest level possible.

Besides the Customer Care activity, other channels have been implemented to get in touch with and listen to customers, such as:

- presence on social networks such as (2012 data)
 - Facebook - more than 180,000 fans
 - Twitter - more than 18,000 followers (illyIT, illyUSA, illycaffè, illyNL)
 - YouTube - more than 477,000 views and 600 registrations
- research on customers' satisfaction: 500 Artisti del Gusto involved in a quality-quantity study; 335 illy bars in the Northwest of Italy; 900 online customers
- educational programs at the Università del caffè (28,508 attendants in 2012 and 21,747 in 2011);
- actions by Quality Promoters and Technical Advisors who interact directly with customers.
- ad hoc tours of the factory – almost 2,000 guests in 2012.

In 2012 in The Netherlands illycaffè carried out a qualitative study using panels of consumers, which showed, among other things, that:

- illy is an established brand known for its quality;
- illy consumers have above-average – albeit relatively low – knowledge about coffee and its preparation;
- price is thought to be high, but in line with perceived quality;
- In the Horeca sector, illy is also a well-known brand synonymous with quality, service, and good taste.

illycaffè North America also carried out several studies in 2011 and 2012:

- According to a telephone survey, customer satisfaction was at 88% in 2011 and 74% in 2012 (the drop in 2012 is due to the renewal of the web platform, which caused some problems related to data management);
- An additional survey looked at the renewal of the website:

66% of customers were satisfied or very satisfied;

- A survey examined the FrancisFrancis coffee machine: 73% of users were satisfied or very satisfied.

In France, a survey on illy products - particularly illy-issimo - showed that they are much appreciated by consumers. An annual survey on customer satisfaction is carried out via the e-shop in Italy, France, Germany, the Netherlands, and Spain.

Quality In The Cup

The project, "Quality In The Cup" has been implemented in order to further support customers in the Horeca channel. A qualified team of technicians offers special assistance and advice to the bars' managers. This initiative includes the following:

- monitoring of the illycaffè cup quality for Horeca and Vending Customers (upon request) all over Italy (11,100 audits in 2012);
- managing and monitoring of the shop design;
- training and managing concerning the quality standards of illycaffè and tools;
- managing new product testing;
- involvement of managers and workers thanks to the opportunities offered by Università del caffè.

In September 2012 an agreement was signed with the Ministry of Agricultural, Food, and Forestry Policies (department of the central inspectorate for quality and fraud prevention in food and agricultural products) with the goal of preserving the superior quality of the 100% Arabica illy blend and to protect virtuous establishments which contribute on a daily basis to bringing illy's flavor and excellence to Italian consumers. The agreement calls for analyses of coffee samples along with experimentation with a new method of analysis to more rapidly detect the presence of other types of coffee mixed in with the illy blend. These instruments, in addition to the numerous controls performed by the company along the entire chain of production, provide additional guarantees to ensure fair competition between commercial establishments and to guarantee that consumers will be able to enjoy an excellent illy espresso in every bar and cafe that bears the illy logo.

Managing of reports and improvements

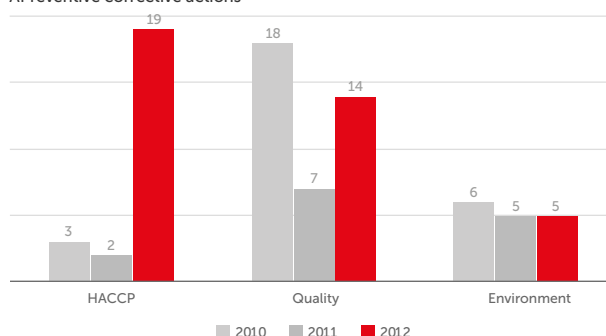
Customers' and consumers' reports and claims to the Customer care service are gathered by the Quality Insurance Direction team, which analyzes and manages them in collaboration with the company, in order to identify critical issues and the real causes of dissatisfaction.

Following the reports on quality, environment and HECCP, 40 improvements have been implemented in 2012, 29 of which have been successfully brought to completion in the same year. Total Quality Management at illycaffè has made it possible to improve the percentage of non-conformity in the product: compared to the company goal for 2012 (0.85%), the percentage of non-conformity for the year was 0.74%. In

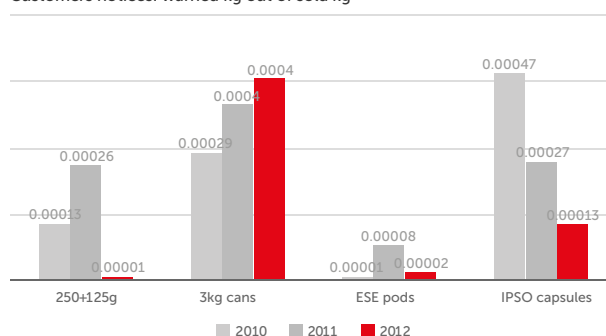
particular, positive results were achieved with regards to rejection of Iperespesso projects, where the percentage of rejections fell by 50% (customer complaints reflect the results achieved). ESE and 125/250 gram jars showed results that were similar to those of past years.

Illycaffè's branches also manage and solve customer complaints related to national market issues, although all actions concerning products are approved by the Quality Control Directorate at headquarters. In The Netherlands, for example, there were 229 customer complaints in 2011 and 258 in 2012; in 90-95% of cases they were solved satisfactorily; in Spain there were 20 complaints in 2011 and 15 in 2012; all have been solved.

APreventive corrective actions



Customers notices: warned kg out of sold kg



Emotional communication and responsible information

illycaffè is committed to engaging consumers with its brand emotionally and intellectually and offering them a multi-sensorial experience.

Adhering to these goals, the company decided that in addition to offering a high-quality product – with its aroma, taste and body, all essential to engaging the consumer in an extraordinary experience – it was also essential to achieve excellence in its coffee cups, the most important way to enjoy the coffee. That's how the illy Art Collection was born in 1993.

Encouraging consumers to live the coffee experience means sharing the passion for aesthetics and culture with them. This is why art and creativity convey illycaffè's values and philosophy.

Espressamente Illy is an experiment in contemporary communication, promotion, and progress of international cultural events.

illycaffè takes the right to information as a prerequisite for communication with its customers and stakeholders into great consideration; each communication complies with laws, regulations, and best practices of professional behaviour, and is implemented with clarity, transparency, and timeliness. No sanctions due to non-compliance of regulations and standards for marketing activities (including advertising, promotion, and sponsorship) have ever occurred.

- illycaffè complies with the advertising code of self-discipline;
- in order to emphasize the congruity and compliance assessment regarding the rules of countries where it does business, illycaffè ensures that its labels undergo the professional evaluation by Total Quality Food Consultants (a company specialized in promoting and developing agro-industrial quality).

In 2012, the company won the following awards related to corporate communications :

- www 2012 – organized by Il Sole 24 Ore in the category "Interactive advertising and media" for the email marketing project;
- Netcomm ecommerce award organized by Netcomm in the food category for the company's case history.



illycaffè
people



Highlights



+10%

employees compared to 2011 (part of the increase is due to the purchase of the Austrian branch)



85%

of the employees have an open-ended contract



11.800

More than 11,800 hours of training in 2012



-18%

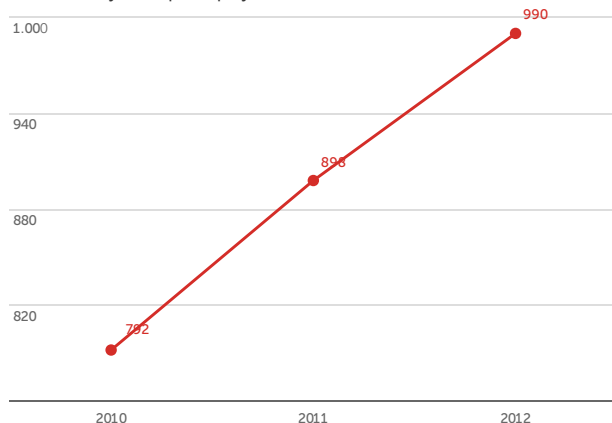
industrial injuries



-19%

workdays lost to injury compared to 2011

Number of illycaffè SpA employees at 31/12



illycaffè acknowledges the critical resources of its people and strategic stakeholders. It also acknowledges the importance of transparent relationships, based on mutual loyalty and trust, and on the behaviors as indicated in the company's Code of Ethics.

Management and collaborative working relationships support the rights of workers and their contributions, which favor development and growth. The company promotes the importance of its people and is committed to improve the skills of each associate. It is also committed to encourage and promote its associate's skills, potential and interests, even if they are personal. It pursues professional achievement by leveraging integrated and consistent staff management: some processes, such as goal attainment, education, training, and role

development are contained within the company's strategic plan.

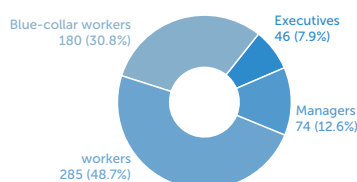
The company is committed to providing annual performance evaluations on the basis of a clear definition of shared goals, quantifiable in numbers, economic and individual terms.

The company defends and promotes the improvement of its associates' and their families' quality of life. It offers them a safe and relaxed working environment; stimulates the skills, potential, and personal interest of its human resources; and monitors and develops agreements and easy terms of payment that may assist them.

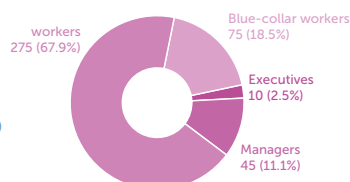
As of December 31st, 2012, 990 people (+10.2% compared to 2012, some of this increase is due to the purchase of the Austrian branch) were employed by illycaffè SpA.; 70% of them are employees of the parent company and 41% are women.

The company also avails itself of a mobile workforce, which comprised 69 people in 2012.

Male employees by positions



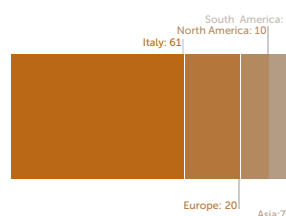
Female employees by positions



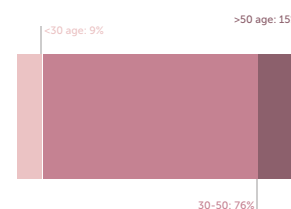
About 61% of employees work in Italy, while 20% work in the group's European branches. The rest are in North America (10%), Asia (7%), and South America (2%).

As of 31/12/2012 full-time staff account for 85% of illycaffè's

Employees by origin



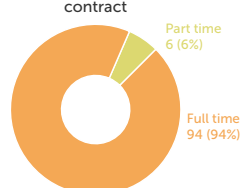
Employees by age



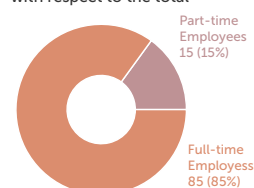
employees. 2011 data are not comparable because of a change in the reporting parameters: if we consider only employees of illycaffè SpA in Italy, this percentage rises to 96% (97% in 2011).

Part-time workers account for 6% employees, and in the majority of cases (94%) workers who request part-time employment are women.

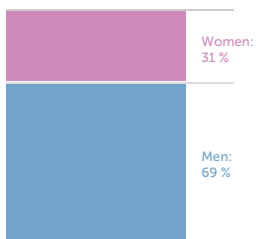
% Employees with an open-ended contract



% Percentage of full time employees with respect to the total



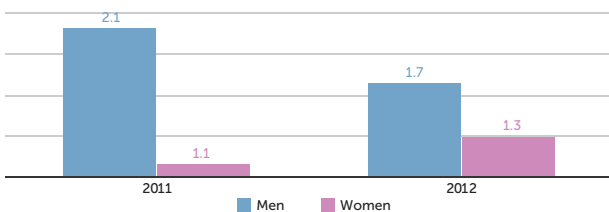
% Women in management, Italy



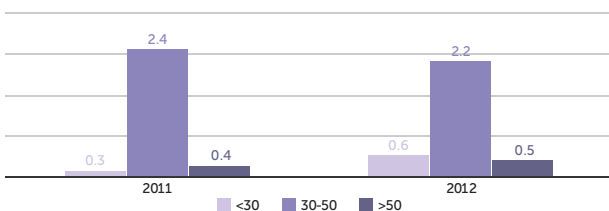
According to its Code of Ethics, illycaffè awards merit and offers its employees equal opportunities on the basis of their professional skills and output. In terms of retribution, the company applies dispositions contained in the national collective bargaining contracts and the norms in force in the countries in which it works.

The annual gross retribution (AGR) of women is equal to 1 that of men for managers, 0.9 for blue-collar workers, and 0.8 for executives and office workers. The AGR is equal to the basic salary provided by the National Labour increased by seniority, post allowance, contingency, bonuses and / or benefits, overtime pay, payments for unused holidays etc... The ratio was calculated by dividing the sum total of AGR perceived by women to the sum total of AGR by men, for each category.

Turnover by gender



Turnover by age



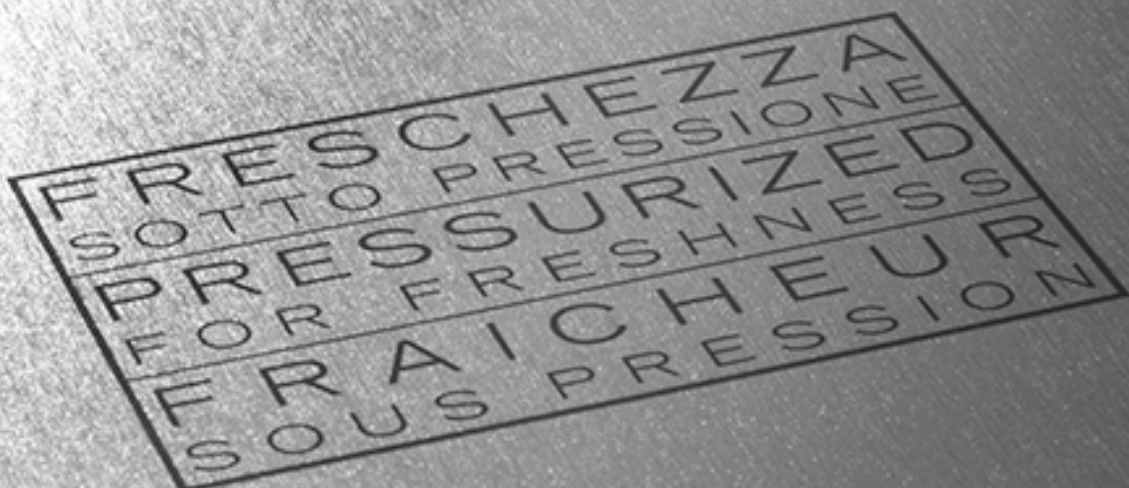
In 2012 the company's turnover ratio in Italy was lower than it was in 2011; all requests for parental leave were granted and there were no cases of employees leaving their jobs after parental leave. Workers belonging to protected classes account for 2.92% of the total workforce in Italy.

Incoming employees

Title	2011		2012	
	Men	Women	Men	Women
Executives	1	0	0	0
Managers	2	2	3	2
workers	16	20	16	12
Blue-collar workers	5	2	7	1
total	24	24	26	15

Outgoing employees: motives

	2011	2012
Retirement	14	8
Resignation	11	10
Termination	4	7
Other	0	5
total	29	30
% of total	3.2%	3%



Staff training and development

People are a crucial component of the company's evolution and growth strategy. With regard to collaborative relationships, illycaffè recruits professionals that bring experience and skills to complement those already present. Additionally, it promotes the development of its internal collaborators for all positions that become available. The associates' training and education are therefore, key factors for their learning and professional advancement. Management has a wide range of complementary and high-level skills, which ensures the company's competitiveness.

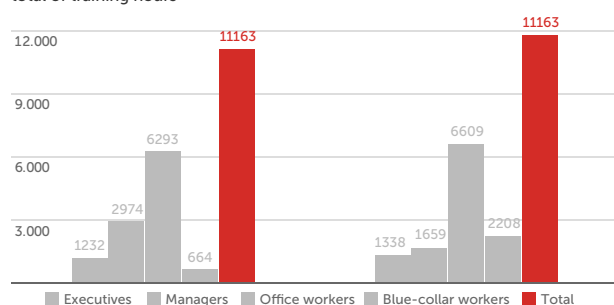
While education and training are key elements to support the company's development process, the people are the drivers of their own change and the company's success. Education and training aim at transforming associates into business partners (to support the company in its existing plans, in pursuing its goals, and in developing the distinctive skills useful to illycaffè); into people partners (to help management to improve their staff); and into company partners (to help the company to develop its identity and culture and build a broad leadership).

The training program (on a triennial basis) is prepared by considering the strategic goals, evolution of the organization and the training needs of each person. The analysis of the individual needs is made by openly involving the function/service head, by examining the associates' development charts and their observations, and the progress that the company is hoping to achieve in the future.

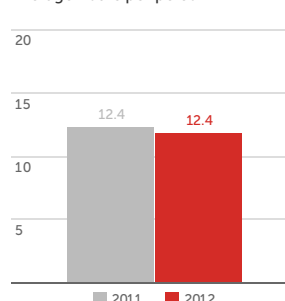
There are many kinds of "educational and training courses," which are customized for employees and subdivided into courses aimed at developing technical and behavioral skills. Teaching methods may vary according to the class or course (classroom courses or technical training). In 2012 the company continued to offer one of its qualified employees a scholarship to attend the Master 'sin International Business at Trieste's MIB.

In order to offer quality training to its associates, illycaffè works with the best corporate training schools, such as SDA Bocconi in Milan, MIB in Trieste, the London School of Economics, the Sole 24 ore Training Program, Infinity, and others.

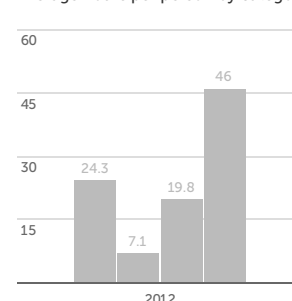
total of training hours



Average hours per person



Average hours per person by category



The most important educational and training initiatives promoted by illycaffè in 2012, alongside with those about health and safety, have been the following:

- Courses at the Università del Caffè for the illy sales force;
- illy citizen: a multi-year programme involving both headquarters and the company's branches and focused on values, identity, sense of belonging, active citizenship, and especially the centrality of the client;
- A Team Coaching programme for the strategic committee;
- A three-day leadership programme for all second-level managers (not on the strategic committee);
- A course for all department heads at the illycaffè plant to improve understanding of the organizational context, functions, and specific roles, and to improve skills in the management of contractors;
- A team-building course for the Planning & Control team to boost cooperation and interfunctionality in validating decision-making and group problem-solving processes;
- For the International Account group, a programme that provided the tools to improve execution and assertiveness on the one hand, and on the other a series of tools related to budgeting and economic and financial analyses, in order to define specific action plans for certain clients;
- For the Export group, a course to delve into and share a series of concepts related to budgeting and economic and financial analyses and to develop a shared method for creating client/market management plans to assist in relations and negotiation;
- For the Executive Assistants group, a course in communications and problem solving;
- Language classes (English, French, German, Spanish, Portuguese);
- Courses on the use of Office automation tools and iPad tablets.

Outside of Italy, the group's branches also carry out various training activities (about 2,500 hours in 2012), especially with regards to technical, organizational, information, and commercial issues (sales ability, client management, customer care). Of note are several specific initiatives in the United States concerning the prevention of harassment in the workplace, teambuilding, change and time management, project management, and Italian language and culture.

In 2012 consolidated spending for staff training amounted to € 490,000. The increase compared to last year is explained in part by the fact that reporting parameters have been expanded.

illycaffè is very committed to enhancing knowledge and promoting innovation. In order to share this experience internally, it has created a knowledge centre, Illy Knowledge Management (IKM), supported by Knowledge Management Architecture (KMA), a technological infrastructure. All available knowledge, skills and their sources have been mapped and made available to top management, the teachers of Università del Caffè and all internal users in order to implement it.

The management and development program for illycaffè's human resources offers equal opportunities and professional development, to all associates on the basis of merit criteria.

TAll employees are involved every year through performance evaluations and career improvement. Performance management is a manager's tool aimed at achieving three specific goals: improving the communication between those responsible and the associate; supporting organizational development, by explaining the function and specific responsibilities for each role; and clearly connecting the individual contribution to the strategic plan. All of the above rely upon Key Performance Indicators, which are economic in nature and linked to clients, operative procedures, and the growth and learning process. KPIs are identified as they relate to the strategic plan, and allocated to each manager, whose actions influence the company's achievements.

In 2012 a job posting service was activated on the company's intranet, which allows employees to directly submit applications for vacancies. This is a transparent selection system which allows the company to speed up recruitment processes and employees to take advantage of new opportunities for development in keeping with their skills and aspirations. Employees interested in the vacancy can submit their application, which is then acknowledged and evaluated. Candidates who meet the requirements are contacted by the Staff Management and Development Service and invited to an interview. If the vacancy is not filled by internal staff within the deadline, the job search is extended outside the company through traditional recruitment channels.

The Kaizen Project, launched in 2009, is a process aimed at constantly improving. It involves the whole company by applying the principles of lean production (the productive process is treated in a global way, to reduce losses and production complexities, and to keep focusing on flexibility).

The Kaizen office, created to simplify the activities of the production divisions, has implemented the following:

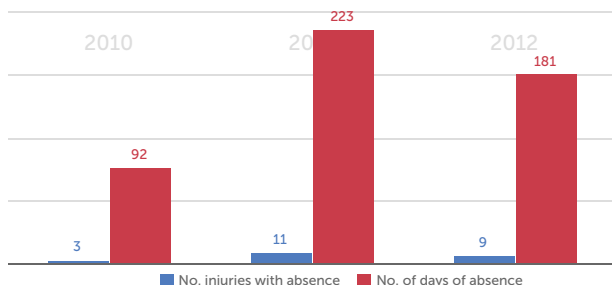
- training for the division workers and operators;
- automation and computerization of the efficiency monitoring for most plants and ordinary work;
- risoluzione delle criticità e dei problemi grazie ad approcci di problem solving;
- solution of problems and critical situations through problem solving approaches;
- review of the department layout organization and optimization of production activities;
- constant monitoring of extraordinary maintenance (costs and spare supplies);
- resetting of the logistics, in line with a "just in time" approach both from an internal point of view (supplies and production planning improvement), and from an external one (supply collection at the suppliers).

Yearly, new workshops are dedicated to implement these approaches with increasing stringency.



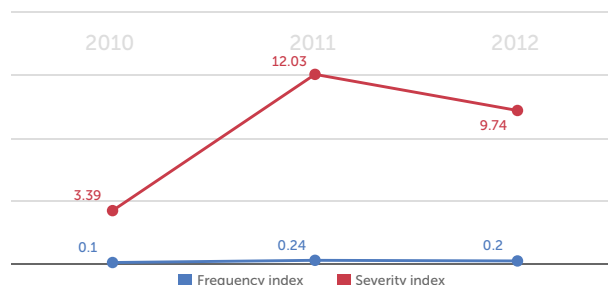
Health and safety

Frequency and seriousness of injuries in illycaffè Italy



Note: all data refer to illycaffè SpA in Italy. The company shall implement a process that will allow it to monitor in a uniform manner all such data for all of the Group's subsidiaries. Only one injury was reported in our branch offices, for a total of 5 working days lost (The Netherlands).

Injuries and days of absence in illycaffè Italy



illycaffè takes workplace safety very seriously and is committed to increasing it with its associates, by creating awareness of all workplace hazards and by promoting responsible behaviour. The company is committed to defending the health and safety of its workers first of all through prevention, and by compliance with anti-industrial accident policies, health and hygiene regulations, and through education. Before beginning to work, each new staff member is required to attend a special course administered by the Prevention and Protection Service: the team was further expanded early in 2013.

At company headquarters a trained response team of nearly 40 employees is prepared to deal with emergencies and to practice first aid and fire-fighting.

In 2012 nine injuries were sustained: two, for a total of 28 days of absence, occurred due to technical issues, for which the company has immediately implemented the necessary measures, such as the improvement of protection or monitoring software to prevent a recurrence. The remaining 7 injuries, for a total of 153 days of absence, were caused by the workers' unsafe behaviour.

On this front, illycaffè is committed to developing training programs in the production departments with the goal of increasing the culture of safety, and sharing the process of analysis and risk assessment with workers.

If we add to the data above the absences in 2012 due to illness, maternity, doctor's appointments, leave, etc., it emerges that the total absenteeism rate for workers in Italy (hours of absence – holidays excluded – as a percentage of working hours) amounts to 7.20%, of which:

- illness: 3,40%
- maternity: 2,75%
- injury: 0,10%
- others (doctor's appointments, leave to attend to children's needs...): 0,95%

Training and prevention

Education also has a primary role in promoting safety.

The reduction in hours compared to 2011 is due to the fact that certain training courses planned for 2012 were postponed and carried out early in 2013 (for a total of about 500 hours). Since 2008 the "Zero Industrial Incident Project" has aimed at creating sensitivity among all workers, and promoting cultural attitudes that prize responsibility and awareness of workplace safety. The project was launched by involving associates, who have helped define some of its elements, such as the project mascot, Chicco. Awareness-raising activities promoting a culture of prevention reached every single one of the company's employees: Ten training sessions, many sensitivity campaigns, and special meetings for each person according to their responsibilities, have resulted in the adoption of more appropriate and safe workplace behavior.

Safety courses: overall hours, illycaffè SpA Italy	2011	2012
New hires	40	84
Staff in charge of electrical work	40	--
Staff in charge of forklift trucks	48	56
Staff in charge of safety	--	--
Staff in charge of machinery (technical office)	--	--
Emergencies and first aid	--	--
Workers' health and safety representatives	24	16
Consolidated Act of Public Safety Law 81/08 for office and bluecollar workers	--	--
Elevator course	80	--
TOTAL HOURS OF TRAINING	232	156

System of safety and risk management

In order to ensure a steady improvement in workplace conditions, illycaffè constantly monitors all changes that occur with respect to safety regulations, specifically, the evaluation of new dangers recently introduced by the 81/2008 d/l (Consolidated Act on Safety 81/08), and in particular the risk of work-related stress. The company adopted this evaluation before it became legally binding. Additionally, due to the efficacy with which illycaffè has implemented it, and considering the interpretation and implementation complexity of the law, illycaffè has been invited to present its experience as a case study in a meeting organized by Confindustria of Gorizia and Confindustria of Trieste.

The company has also decided to implement a system of safety management that requires the presence of an ad hoc committee, comprised of experts on this subject: the health and safety executive; the representatives of the workers for safety; the doctor in charge; the function delegates for safety, and the employer. Inside illycaffè there are three representatives for the workers for safety for all worker categories.

illycaffè is also involved in working to obtain certification according to OHSAS 18001 standard for safety.

In 2012, fire prevention measures at the Trieste plants were improved by installing or modifying the existing plants in Via Malaspina and Via Flavia through linear or sampling-point VESDA (Very Early Smoke Detection Apparatus) systems.

Where there is no feasible solution to reduce risk, the company is working to provide its workers with appropriate individual protection devices (DPI). Each year illycaffè invests almost 22,000 Euros to provide its associates with safety footwear, protective gloves, and ear protection devices. Each worker exposed to loud noise has been provided with a custom-made ear protection device built especially for him/her.

The monitoring of safety in the workplace is extended to employees of contracting firms: subcontractors operating on illycaffè premises must follow all existing laws and regulations concerning injury prevention and hygiene in the workplace. The company extends its information and vigilance activities to anyone working on its premises: in addition to the DUVRI single document for the assessment of risk from interference, the company requires the immediate communication of any injury that may occur in order to verify whether illycaffè can be held responsible for the causes of the accident and act accordingly.



Internal communication and staff satisfaction

illycaffè pays special attention to internal relationships in order to improve the collaboration among its staff, to increase their sense of belonging, and to boost the dissemination of the company's values and culture. In 2012, internal communication has focused on involving and talking to the company's staff about sustainability, the company's approach to this value and what each person may do. At the same time the basic goals of the internal communication have always been kept alive to develop mutual knowledge, cohesion, and a sense of belonging; to share the same values, and to promote inter-functional integration.

The "Momenti Exchange" meetings took place throughout the year; they are planned to give a preview of projects and products, or simply news about the company.

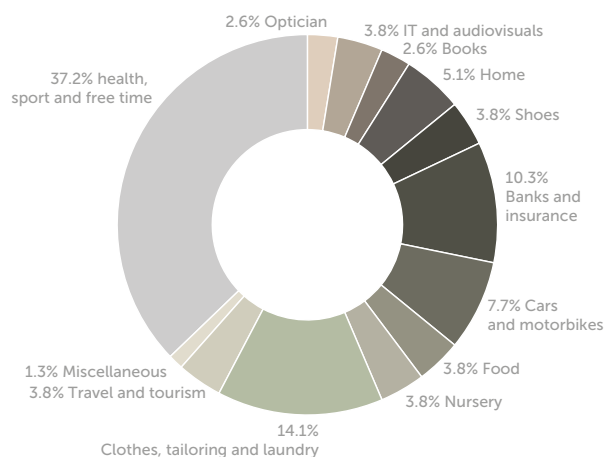
More informal meetings "Un caffè con i manager" ("A cup of coffee with managers") have been planned, with the main goal of improving the relationship among employees and managers in a casual atmosphere, and of giving everyone the chance to address management with questions on different issues. In order to develop awareness on important issues, more meetings with external testimonials have been organized.

The project "Made in illy" is still in progress: some of the company's employees share their skills and experiences and volunteer in organizing parties.

Internal and external communication activities are integrated with the training plan and with industrial relations. Thanks in part to the great deal of attention the company pays to human resources and its active Corporate Social Responsibility policies, only a few of its employees – about 2% - belong to labour unions. The internal relations that illycaffè has built over time aim to maintain a transparent and proper relationship with its employees, in full compliance with national collective bargaining agreements and national and international labor agreements. In the first months of 2013 was resolved a dispute opened in 2012 in France, while a case is still work in progress. In 2012 the FLAI CGIL labor union appointed a company union representative.

illycaffè offers all staff members (even collaborators with a part-time or forward contract) benefits of a financial and social nature. In some cases these benefits are geared toward improvement of the collaborators' and their families' personal well-being, while others aim at satisfying needs of an extra-work nature.

Type and numbers of special agreements for illycaffè employees



nursery, pre-school, and text books.

The company has supported parents since 2007 by financing 33% of the monthly charges of some private nurseries and pre-schools with which it has an agreement. In 2011 four schools had signed an agreement with the company and 24 children received the company's contribution.

Health assistance and supplementary allowance

The company has been paying for the supplementary health allowance of its employees and their families since 2003. In 2012 there were 600 refunds of expenses..

The company pays a larger premium than the one included in the employees' contract for supplementary health allowance, for a total amount of 132,377 euro (in 2012). As of 12/31/2012 there were 352 persons registered to the company's single open retirement program.

Free school guidance service to children and students

illycaffè also offers testing, evaluation and psychological counseling to its collaborators' children attending school (6th and 7th grade, and the last two years of high school) in order to help them to choose their school or job. The main purpose of this guidance is to support their future choices through a better understanding and awareness of their decision process.

Canteen, conventions, and other time-saving services

At the Trieste headquarters, all employees have access to the company's canteen (operated by an external contractor), which served 78,100 meals in 2012, with a 10% increase compared to the previous year and with the same prices as in 2011. The company covers the 67% of the price of each meal, and employees only have to add 2 Euros. In order to help them with household tasks, illycaffè also offers time-saving services to its employees at its Trieste headquarters, such as an automatic teller and a laundry service that regularly picks up and delivers their laundry.

There are also many other benefits with shops, health clubs, theatres, stores, medical clinics, studios and agencies that aim at improving the employees' quality of life and well-being both in and outside the company. Those benefits support their and their families' health, provide assistance with their purchases, and satisfy their cultural, sport, and other off-duty interests.

Purchasing facilities for illycaffè products

illycaffè also offers an exclusive benefit policy for its employees at its Trieste headquarters' store, which is open exclusively for them, as well as collaborators and registered guests. The store offers discounted products such as re-conditioned espresso machines, coffee with a short-term expiration date (at least 3 months), and quality coffee with defective packaging, all of which are not for sale on the regular market. In 2012 the store had registered purchases worth 419,753 Euros.



Suppliers

illycaffè, in keeping with the values of sustainability and ethical business, establishes mutually beneficial relationships with its suppliers, which it selects and steers based in part on shared values. It develops long-term relationships with them, in the conviction that only a relationship based on mutual growth and exchanges can guarantee quality and, as a consequence, an increase in added value. In particular, illycaffè constantly transfers to producers of green coffee the knowledge necessary for an excellent harvest, and pays them – on the basis of the quality achieved – above-market prices (see The sustainable supply chain process and awards and incentives for producers in the section dedicated to green coffee growers). illycaffè also constantly monitors its relationships with all other suppliers, which relationships are based on extreme sincerity.

Illycaffè's main suppliers (excluding green coffee) can be divided as follows:

- suppliers of raw materials and other consumer goods;
- suppliers of services (transport, energy, consulting services);
- suppliers of technological facilities and other real estate.

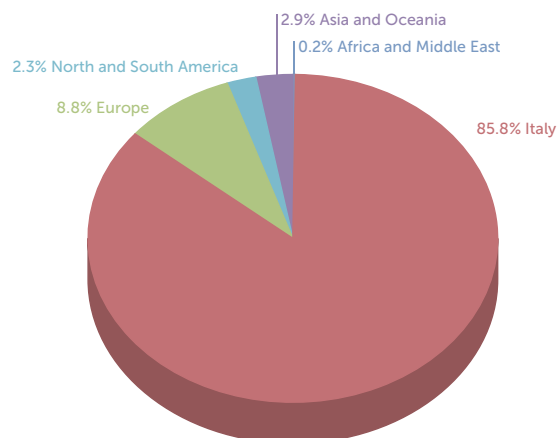
New suppliers are assessed preventively, while established suppliers are continually assessed using performance indicators in accordance with the various corporate management systems.

The first significant aspect is the mapping of the main suppliers excluding green coffee (spending > € 10,000): 85.8% of them are based in Italy, of which over 77% in the north of the country.

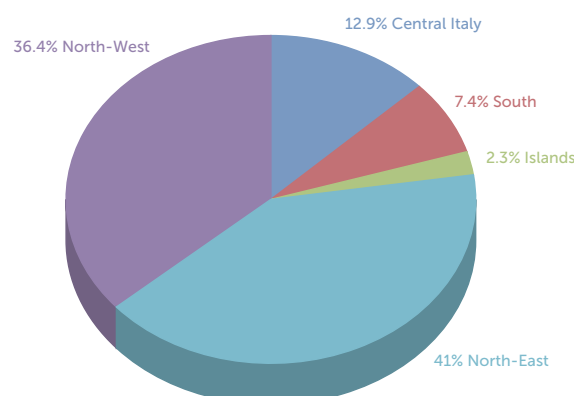
illycaffè believes that the efficiency and sustainability of the industrial supply chain is based on the selection of local suppliers who meet the following key requirements:

- safety of products – services – processes. Illycaffè's responsibility and the long-term value it creates for its stakeholders lies in guaranteeing – even before qualitative excellence – products, processes, and services that are safe and that comply with the most stringent safety regulations. For this reason, it is important to select and manage suppliers with the goal of total security;
- qualitative excellence and well-being. The sustainability of illycaffè's business and the added value that the company is able to create are inextricably tied to the qualitative excellence and well-being that it can offer to its stakeholders;
- integrity, shared values, and commercial advantages. Every supply contract has a clause committing the supplier to abide by illycaffè's code of ethics.

Global profile of integrated suppliers net (2012)



National profile of integrated suppliers net (2012)





illycaffè and the community

Highlights



A variety of projects to promote and develop initiatives having a major social impact in coffee-growing countries



illycaffè respects human rights in the communities of coffee growers, as certified by the manager in charge of the Supply Chain Process



Grants amounting to 736,000 Euros for social purposes in 2012



illycaffè supports the artists' communities by contributing to national and international events and directly promoting cultural and artistic projects

illycaffè has responsible relations with any community involved in the value chain, and special attention is paid to the benefits it may generate.

Environmental protection is a fundamental value in all corporate activities. The illycaffè plant was built and has been constantly maintained in the fullest respect of the local territory and its community. Through the relevant authorities, illycaffè has promoted the creation of a Coffee District in the province of, providing opportunities for constant growth in this sector and any other relevant sector at the international level. Whenever skills are available locally, illycaffè hires human and technical resources in its home region.

The focus on communities of coffee-growing countries means local training and partnerships with local institutions -- and major social projects are implemented. The sharing of knowledge with growers, with the Università del Caffè or illy agronomists and technical staff for higher quality production is rewarded with abovemarket prices, as excellent results are achieved. Examples of projects that illycaffè implements to add value in the local communities include the building of infrastructures -- such as roads between villages and processing plants -- or projects enhancing the quality of life in the coffee growing community -- such as schools.

illycaffè's communication is based on contemporary art. Together with the community of artists and creative people, it has launched a project based on the dissemination of art, aesthetics and culture, supporting national and international institutions, directly organizing events and initiatives, and offering opportunities to many young artists.

Finally, relations with communities also mean the support of local initiatives and projects and the practical involvement in the field of human rights, i.e. absolute respect for people in every way.



Art, aesthetics and culture

Coffee has always played a role in the world of culture, especially in art. It was the official drink of the Enlightenment, and over the centuries, has inspired thoughts and cultural movements.

Cafés were meeting places where people held discussions accompanied by their cups of coffee. Coffee has thus become a symbol of socialization and social sharing. This dual role of coffee and the café has been a constant feature in the history of coffee. Therefore, the company has chosen art to express its values and its mission. Today, 20 years into the support of contemporary art, illycaffè is a skilful and active stakeholder, and has supported and promoted many renowned and emerging artists, by providing visibility in major international exhibitions.

Though initiatives are different, but the underlying drive remains the same, i.e. the dissemination and support for a quest for culture and the promotion of beauty combined with mastery. The results of such a quest are the projects and the contents developed in the framework of partnerships, such as with the Visual Art Biennale in Venice, which enhances the experience of visitors of major exhibitions.

With its art initiative, illycaffè is attempting to bridge the gap between the public and contemporary art. With illy art collection illycaffè is successful in spotlighting art, and providing original insight into major contemporary artists.

The choice to involve itself with art has been consistent, as shown in the last 20 years of work on the illy art collection, and in the last 12 years with illywords the magazine on values and the philosophy of the Company a strategic asset for illycaffè.

Desiring to offer a culturally immersed experience, illycaffè has produced the Galleria illy, the event that is fully focused on the brand, and has contributed to the Literature Festival in Mantua, Arco in Madrid, Artissima in Turin.

Other initiatives based on the notion of cultural immersion are the creation of web communities, such as the illywords blog or the website ilysustainart.org both of which are meeting points for artists, lovers of literature and the brand.

Galleria illy

Galleria illy is one of the main events organized by the company with its own internal creative talent. It is a temporary event held in the world's leading cities which promotes the brand through the expression of values, the sharing of experiences, and cultural knowledge of the elite regions identified by the company, where good taste, art, and beauty converge to provide an extraordinary experience for visitors. After the events in New York City (20,000 visitors), Milan in 2006 (7,000 visitors), Trieste in 2008 (30,000 visitors), Berlin and Istanbul in 2010 (120,000 visitors), and London in 2011 (6,000 visitors), in 2012 Galleria illy arrived in Beijing, China with the goal of comparing and contrasting two different cultures which both strive to gain skills and share knowledge: over 85 million readerships of which 19 million in Italy, and

1,509,700 people reached through social networks after producing 54 posts, 11 videos, and 142 photographs.

illy Art Collection

Since 1992, the series of art cups from the illy Art Collection is one of the clearest examples of the relationship that illycaffè has with contemporary art. The most prominent international artists and many emerging artists have transformed a cup, an ordinary object – designed by architect and designer Matteo Thun – into a collectible, cult object. Michelangelo Pistoletto, Marina Abramovic, Jeff Koons, Francesco Clemente, James Rosenquist, Anish Kapoor and Julian Schnabel are just some of the great artists who have contributed to this project. The profits from the sale of the cups are reinvested in the world of art to support projects and institutions. Through the production and sale of illy Art Collection cups the company intends to give visibility to young artists who will participate in international art fairs by establishing prizes and identifying projects. In 2013, three artists – Vanessa Safavi (Switzerland-Chert Gallery, Berlin) Santo Tolone (Italy, Galleria Limoncello, London) and Naufus Ramirez-Figueroa (Guatemala- Galleria Proyectos Ultravioleta, Guatemala City) will stage an exhibition at Rivoli Castle thanks to illycaffè.

James Rosenquist and illy logo

The partnership with James Rosenquist started out when he created his first illy Art Collection cup. In 1996, this artist also designed the corporate logo, reinforcing the alliance between illycaffè and culture.

illy SustainArt

The illy SustainArt project started out in 2007 to provide the international artists' community with opportunities for visibility and communication, offering a space to artists from developing countries. In 2011, the ilysustainart.org digital platform was implemented. It is an observatory to see and appraise works and collective exhibitions with the aim of fostering cultural exchanges in a common area. After awarding cash prizes to support the activities of the artist awarded by the jury presided by Michelangelo Pistoletto and featuring, among others, Angela Vettese and Carlos Basualdo, the project evolved in 2012 by awarding a scholarship to the 2012 winner, with the same jury in place. The prize is a three-month residency at the Bevilacqua La Masa Foundation in Venice running concurrently with the Venice Biennale. The winning artist (or curator) will have the opportunity to take classes, visit art studios, and attend conferences organized by the Foundation. At the end of the residency he or she will have the opportunity to present the works produced during the three-month period as part of an exhibition. At the end of 2012, there were 126 candidates from 25 countries.

illycaffè and the Festivaletteratura in Mantua

The festival had over 100,000 participants, with about 62,000 tickets purchased and over 40,000 visitors estimated to have attended ticketless events. The festival also drew a strong online following – with over 70,000 unique visitors to the festival's website during its last week, and 300,000 page views, an increase of 20% compared to 2011. Festivaletteratura was also well-received on social networks.

illycaffè received many accolades for its products and activities and distributed the following: 25,000 coffee samples of various types (regular, decaf, canned) and 5,000 copies of illywords magazine.

illycaffè and editorial projects

The role of coffee as a drink associated with culture is illustrated by the magazine *illywords* and in the partnership with the Festivaletteratura in Mantua that has been ongoing for more than ten years now, and provides a contemporary framework. As in the Enlightenment, the cup of coffee is associated with a break, an intellectual drive and a new boost of creative energy. In particular, illycaffè has been supporting for more than ten years the "Scrittura Giovani project" within the framework of the Literature Festival in Mantua with the aim of contributing to promoting and providing visibility to emerging young authors. The project also involves some of the major literature festivals in Europe, such as the Telegraph Hay Festival in the UK and the International Literature Festival, Berlin in Germany. *illywords* is a magazine on dialogue, opinions and points of view supported by the Company. It is an interface with the contemporary world, and its words are those of people belonging to different cultures and professions, and who are part of the human network of illycaffè. Each edition is about a special topic. Authors, artists, designers and entrepreneurs express their thoughts and describe their experience. The graphics and images are exclusively created by students from international design schools, who thus obtain global visibility.

illywords: 10 years of art and culture

- more than 12 years old, about 9,000 subscribers, an average of 20,000 copies per issue.
- 33 International Graphics Schools have illustrated 33 issues (plus issue zero), giving visibility and recognition to students.
- 2 issues per year with distribution throughout the world, particularly in the best international museum bookstores.
- 2,000 Facebook friends.



Communities and institutions in coffee growing countries

“Communities where the Company is involved benefit from the employment opportunities that are provided locally with an impact in terms of visibility and image”

— illycaffè Sustainability Manifesto

illycaffè is sensitive to the needs of local communities, with which it is involved, and its long-term relationships focus on the detection of actual needs, dialogue and involvement with a view toward achieving steady improvement.

The bond with the development of communities – and the quality of coffee – is fundamental: in the past 20 years, illycaffè has been implementing a system of selection and training of the best coffee growers, based on the know-how it has acquired in over 80 years of business in this sector. This is all aimed at achieving the best product straight from the source.

To meet the needs of the coffee growing communities, illycaffè implements partnerships and has relationships with major global institutions, and supports coffeegrowing communities. Over the years the company has built schools, donated resources, and brought basic infrastructure to serve coffee plantations in villages worldwide.



ILLYCAFFÈ IN ETHIOPIA

illy contributes to community development, and over time it has built a road linking production area to washing stations in order to make it easier for small producers to make the journey, and two powerlines bringing electricity and water to over 60,000 people. It also supported the building of rural stations to dispense pharmaceuticals and the construction of radio, TV, and telephone stations. In 1998 it began to collaborate with Share Our Strength (SOS) – a non-profit that aims to fight hunger in the world – and over the course of more than ten years it has donated over USD 2 million to the cause. Thanks to its collaboration with SOS, in 2004 illycaffè introduced the Cup of Kindness project. Over the last several years, the project has raised funds to build and support a school in Moyale Woreda, a drought-stricken region of Ethiopia.

illycaffè also contributed to the construction of a primary and a secondary school in Sisota (Sidamo region) near one of the main coffee washing stations. This helped improve the area's educational system and encouraged children under 14 to stay in school.

illycaffè has established an on-going dialogue with a number of government organizations, institutions and associations, research institutes and universities relating to the global coffee sector or active in coffee growers countries.

Country	Organizations
Brazil	CECAFÉ – 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	Federación Nacional de Cafeteros de Colombia Fundación Natura
Guatemala	Anacafé Guatemalan Government
El Salvador	Consejo Salvadoreño del Café
Ethiopia	Ethiopian Coffee Exporters Association
India	Coffee Board of India
Tanzania	Coffee Board of Tanzania
Cina	Institute of Tropical and Subtropical Cash Crops (ITSCC)
International	ICO - International Coffee Organization In 2012 Andrea Illy became 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's commitment to raising the quality of producer practices and improving the quality of life of local communities is also evidenced by the recognition bestowed upon the company by various authorities.

Brazil

Ernesto Illy is awarded honorary citizenship of Monte Carmelo (Brazil) for his achievements in promoting high-quality coffee in 2002.

Colombia

Café Award in Tamara (Colombia) for the work performed to improve the quality of the region's coffee.

Guatemala

Ernesto Illy Knight Commander of Flor del Café Anacafé (Guatemala) for his achievements in promoting quality in 2004.
Orden del Quetzal on the part of the Government of Guatemala awarded in 2011 to Anna Illy Jr for her work as honorary consul and for promoting high-quality coffee in Guatemala.

"Ernesto Illy Trieste Science Prize" in cooperation with Twas

TWAS - The Academy of Sciences for the Developing World supports research by scientists and offers them opportunities for exchange:

it is the meeting place for more than 700 scientists from emerging and developing countries.

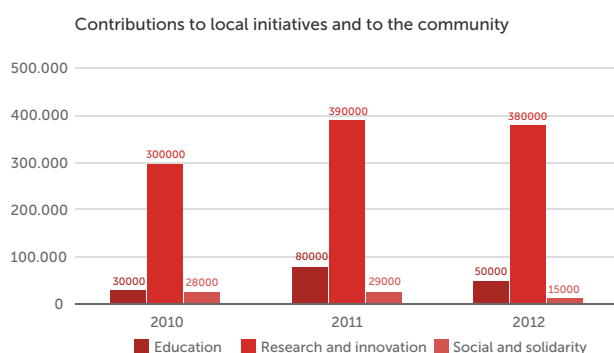
Since 2005, to sustain the candidacy of Trieste at the Expo 2008, illycaffè and TWAS have sponsored the Trieste Science Prize, a USD 100,000 prize, supported by illycaffè and awarded each year to an eminent scientist from the developing world for his or her contribution to science and progress. Researchers are selected by an international scientific jury on the basis of the value of their projects on topics concerning life on Earth.

The contest is open to researchers from emerging and developing countries, who live and work in the global south and who have achieved significant results in their research in their own countries. In the scientific community, this Prize is informally called the "Nobel Prize of emerging and developing countries".

The 2012 Prize was won by Yuk Ming Dennis Lo, the father of the non-invasive pre-natal diagnosis, director of the Li Ka Shing Institute of Health Sciences, and professor of medicine at the Chinese University of Hong Kong. The prize was awarded in recognition of his discovery of high concentration of fetal DNA in the plasma of pregnant women, a discovery that Lo made using non-invasive techniques and which can be used for pre-natal diagnoses, particularly for determining the sex of the fetus and detecting the presence of gender-related diseases.

Contributions to initiatives in the territory and in the community

With reference to "social investment", in addition to strategic collaborations with local communities in coffee-producing countries, the Group's various branches work to create added value and benefits for the communities in which they operate. Based on a long-term approach, actions have been implemented in the sectors of social services, education, solidarity and scientific research. In 2012 the parent company alone (illycaffè SpA) supported actions in this sector for a total of € 446,000. Foreign branches added a total of about € 290,000. Tra le iniziative di ricerca e innovazione sostenute da illycaffè



Research and innovation actions supported by illycaffè in Italy, such as contributions to Ernesto Illy Foundation and to support to Unesco/Twas - Ernesto Illy Trieste Science Prize. In the sector of education, illycaffè has provided support to partner universities, MIB XXII and the Rastrelly Fund. In the social sector and in terms of solidarity, support is provided to ONGs and various non-profit organizations.

In many cases, illycaffè contributes to solidarity initiatives by offering its products free of charge. For instance, in 2011, a flood devastated the Liguria region and illycaffè supported an aid centre in the most affected area with illy products and other material for the population and the customers who most affected. The year 2012 saw the people of Emilia devastated by a major earthquake. illycaffè supported numerous initiatives to collect products and materials for the collection and hospitality centres established in the area struck by the earthquake, and with the help of volunteers it set up a purchasing centre for the region's typical products.

illycaffè also supports volunteer activities on the part of employees who set up auctions to raise funds for worthy causes (Azzurra Onlus, Fondazione Rava, Fondazione Bambini in Emergenza, Associazione Centro di Accoglienza Balducci, Calicanto Onlus, Sos Villaggi dei Bambini Onlus) On an on-going basis and before public holidays, illycaffè provides its products for free to a number of local institutions, some of which are in charge of charity canteens and home delivery of food (for instance, Centro aiuto alla vita, Caritas Trieste and Emporio della solidarietà della Caritas, Frati Carmelitani di

Gretta, Frati Carmelitani di Montuzza, Suore Carità dell'Assunzione, various parishes, Centro Balducci, Banco Alimentare, Telethon, Fondazione bambini in emergenza, Famiglie Nuove per il Friuli Venezia Giulia, Calicanto onlus etc.)



Several initiatives are also carried out by the Group's foreign branches:

In Spain, illycaffè supports, among others, Banco Alimenti, Ciculo Bellas Artes, Museo Guggenheim, Palau de la Musica, Teatro Liceu.

In France, it contributes to schools specialized in training students in Horeca sales.

In The Netherlands, every year illycaffè donates products to local associations for charity and other worthy causes, and also sponsors sports teams such as the national baseball team and local basketball teams.

In North America, the best-known and most important initiative is "Share Our Strength", which illy North America has supported for over 15 years in order to fight child poverty and hunger. During this time, the company helped raise tens of millions of dollars and directly donated almost two million dollars, with many funds going to coffee-growing regions (about € 75,000 or USD 100,000 per year). Additionally, in North America illycaffè supports specific projects identified by its Horeca partners through direct sponsorships (about USD 50,000 per year) and fund-raising campaigns which raise millions of dollars each year for schools, health care, and charity organizations throughout North America.

Human rights

Over the years, illycaffè has been active in the field of Human Rights with a number of initiatives including:

- compliance with ILO principles - International Labour Organization: illycaffè purchases its coffee from countries which comply with ILO standards such as a minimum age of 14 years for child employment.
- application of and an explicit call to comply with the Code of Ethics which includes clauses for the respect of human rights in all actions and purchasing contracts. Certain parts of the Code, such as those related to human rights, are applied to purchases and to the entire supply chain. The application of the Code of Ethics and the monitoring of any violations thereof are ensured by the presence of the Supervisory Board.
- monitoring of its supplies to ensure compliance with national labour regulations with the Responsible Supply Chain Process Certification. The RSCP calls for the monitoring and active management of issues such as child labour, forced labour, union rights, overtime, health and safety, diversity and equal opportunities, and equal retribution for men and women. In the on-site monitoring, auditors may access the farm registers, visit the premises where the staff work and the equipment they are using, with a view to assessing compliance with national labour regulations. This is a minimum requirement for supplying coffee to illycaffè. Suppliers not complying with the national labour regulations are added to a blacklist and they must remedy the situation to resume supplies to illycaffè. Other suppliers along the supply chain (especially non-EU suppliers) are also expected to undergo regular audits (performed by illy) which take into account social aspects along with those strictly related to supply conditions;
- drafting of the Sustainability Manifesto;
- In 2012 illycaffè adhered to the Global Compact.

With these tools, illycaffè promotes responsible conduct aligned with human rights with any stakeholder. Illycaffè is also active in the monitoring of any discrimination against workers and suppliers through the relevant supervision board. Thanks to these measures, no illicit practices or human rights violations have been reported.

Foreign branches apply national laws, international conventions on human rights, and illycaffè's corporate policy. They disseminate the corporate code of ethics within the branch, together with related handbooks and regulations, and carry out specific training activities. In the United States, for example, all managers must complete sexual harassment training every two years.



Social value improvement goals

What, how and when

illycaffè is developing a Sustainability Road Map that will define the strategic objectives through 2020 in a more systematic plan. The following improvement objectives are planned for the short term.



Client dialogue development through webbased channels

Increase the use of social networks, web sites and digital newsletters use, in order to reinforce the engagement and relations with all clients and customers.

When: 2012 – 2013



Health and safety at work

Achieve OHSAS 18001 certification and put in a widespread system of fire monitoring for prevention

When: 2013 – 2014



Improving customer care

Extending the monitoring systems for contacts from customer care to the group's foreign branches

When: 2013 – 2014



Sustainability along the supply chain

Improving the mapping of sustainability risk associated with non-coffee purchases and adding sustainability requirements to the Industrial Purchasing Plan.

When: 2014 – 2015



Coffee machine development

Updated machines with a stand-by system (following EuP legislation 1275/2008/CE) and develop a remote data transfer module, to improve the response to client's particular requirements.

When: 2012 – 2013

Starting anew from the future. Beginning with the present

Less light does not mean seeing less,
less water does not mean being thirstier,
less energy does not mean stopping the world.
At illy we understand that
with conscious use of energy today,
we can add to tomorrow's future.

illycaffè's environment policy starts from the heart of the coffee farmers who, through the training of sustainable and environmentally friendly behavior will get a high quality product with less environmental impact.

illycaffè is known to be an innovative company this innovation, especially in a global market, recommended us to be familiar with all the processes from the coffee farm to the productive process with the aim to minimize the environmental impact while maximizing the quality of the product.

In fact illycaffè through the satisfaction of its stakeholders has brought the best quality of coffee to its clients and consumers with the less possible impact and the whole traceability. illycaffè offers to its employees a healthy and friendly work place which permits them to live the work as they were at home.

For what concerns the coffee growers illycaffè gives them the best agronomical techniques shares with them the best practices with the aim not only to respect the environment and preserve resources and biodiversity but also obtain the best quality of the product.

For what concerns the community illycaffè is certified with 2 specific environmental certifications with the objective of a continuous improvement in order to reduce the environmental impact of the production plant.

For what concerns nature, it is one of the key elements the company takes into account. Through a careful management of all the resources with the complete respect not only of nature but also of people who work with we can obtain a high quality coffee. Today and tomorrow. This is the focus we recommend to the producing countries and at the production plant to grant the smaller environmental impact.

For the shareholders the careful management of all the processes from the farm to the plant allows to minimize the environmental risks in order to make the entrepreneurial activity more sustainable.

DAVID BRUSSA
Head coffee procurement dept and quality supervisor

Highlights



1

Signed a voluntary agreement with the Ministry of the Environment concerning the analysis and reporting of the impact of climate on the coffee sector



1/2 l/kg

illycaffè promotes the use of machinery which consumes less than half a liter of water per kg of parchment coffee produced



850 ton

Between 30 June 2011 and 31 December 2012 the solar power plant installed on the roofing of illycaffè's plants and owned by a third party has resulted in savings of emissions amounting to 850 tonnes of CO₂



369 ton

The heat recovery unit in the roasting plant has resulted in savings of emissions amounting to 369 tonnes of CO₂



1,15 kg

Each employee produces 1.15 kg of municipal solid waste per day



92,75 %

92.75% of waste produced at the Via Flavia and Via Malaspina plants has been recovered



80/90 %

80-90%: 80% of paper and cardboard purchased for packaging and 90% of pallets are recycled



20 %

20% of suppliers are environmentally certified as ISO14001 and/or EMAS compliant

The company's environmental policy is embodied by a journey that begins in the heart of the plantations, continues with the adoption and promotion of responsible behaviours helping safeguard the ecosystem, and ends with the creation of sustainable, quality-focused products with the lowest possible impact on the environment.

With this approach illy becomes a company that innovates, competes at world level and bases its work on sustainability: a strategy based on the future and realized now.



THE CREATION OF THE ENVIRONMENTAL VALUE

Along the way, illycaffè creates benefits and sustainable value for all its stakeholders in both the short and the long term.



Climate changes have led responsible companies to rethink their activities and adopt new strategies in order to minimize their environmental impact.

Commitment to the environment is of particular significance to illycaffè. On the one hand there is management of its own organization's direct impact on the ecosystem. On the other, there are sustainable development processes for promoting and spreading values and responsible actions on the part of all those with whom illy collaborates, from the coffee plantations to the coffee in the cup.

To these ends, the company has implemented a comprehensive environmental management system capable of maintaining

a certified environmentally friendly worksite, and has made significant investments to minimize any direct impact arising from production, in terms of both energy efficiency and sustainable waste management.

illycaffè promotes low-environmental-impact farming practices with green coffee suppliers, considering economic factors related to productivity, costs for sustainable production, product quality and agricultural techniques requiring the adoption of methods compatible with environmental conservation and food safety, achieved partially through minimizing use of synthetic products. The sense of responsibility that illycaffè has for the environment and future generations is reflected in the improvement goals it has set for itself, and is committed to maintaining and disclosing in the future.

Environmental commitment

Since 10 years illycaffè has a certified Environmental Management System (EMS) (the first ISO 14001 certification dates back to 2003), which was born from management's desire to improve production efficiency in a sustainable manner. Towards developing an efficient system, an initial analysis was conducted to reveal the most significant environmental impact and related critical issues throughout the production process. The comprehensive study's results, guide the company's defined decision-making regarding management, control, prevention and improvement, all of which impact the Management System.

The Environmental Policy and the Environmental Declaration are critically important documents, detailing the strategy and specific activities undertaken by the company. A culture of respect for the ecosystem is instilled company-wide through training programs designed to ensure that these environmental policies and objectives are understood and implemented at all levels in the organization. In addition to ISO 14001 certification, illycaffè's commitment to the environment is also evidenced by its having obtained EMAS (Eco-Management and Audit Scheme) registration.

In 2012, illycaffè began to implement the Life Cycle Assessment methodology, using the SIMAPRO 7 software to reduce the environmental impact of its productive processes: LCA methodology is now used to support decision-making beginning with the planning of new products or forms of packaging.

Thanks to its S.G.A, integrated with those concerning quality and safety, the company guarantees the local community and territory industrial sites that are environmentally friendly and certified. Trieste hosts two production facilities: one at Via Flavia, and the Distripark warehouse at Via Malaspina. Neither is located in a protected area or in high-biodiversity areas.

Coffee processing takes place solely in the via Flavia plant, which generated the majority of the company's direct impact, whereas in via Malaspina, most impact is felt from the lighting and heating of the premises. The group's foreign branches focus on the marketing of products and their activities are mostly administrative in nature.

Each year, thousands of sacks of coffee and packaging and boxing materials are delivered to the two sites in Trieste.

The energy utilized for production derives almost exclusively from electricity and methane. The company is developing strategies for reducing energy consumption and improving the efficiency of its waste management.

Moreover, illycaffè, closely monitors the indirect impacts and other impacts stemming from its activities, and establishes indices enabling comparison to future environmental performance. The company has never been fined or otherwise sanctioned for noncompliance with environmental laws or regulations.

In addition to the activities planned and managed from central headquarters in Trieste, the illycaffè group's foreign branches carry out numerous activities to reduce their environmental impact and obtain benefits from the sound management of energy resources, waste, and materials. The planning and

implementation of these activities are managed at the national level in order to find the best solutions for the local context (environmental laws, sector practices, market sensibility): nevertheless, the goal of illycaffè is to design a global roadmap for sustainability, based on shared values and corporate commitment, which integrates into a single platform the main environmental programmes of the countries in which it is based.

In The Netherlands, where the stated goal is to introduce sustainability as a standard factor in every feasibility study (market research, product launches, trade practices, etc.) a programme has been launched to encourage the adoption of sustainable behaviours on the part of employees. In order to

increase everyone's involvement and awareness, each employee has been asked to submit proposals to improve illycaffè's impact in The Netherlands: the best projects that are deemed to be realistic and feasible will be awarded and implemented.

In France, behaviours deemed sustainable by the company are also encouraged: using public transport instead of automobiles as often as possible; using video conferences whenever possible to avoid unnecessary travel, correct use of electrical appliances and turning them off when not in use (computers, printers, coffee machines, lamps, etc. ...).

In North America, organizational solutions have been adopted that improve the quality of life of employees and reduce energy consumption: for example, in 2012, after an initial feasibility study, employees were given the opportunity to work from home, reducing both fuel consumption and energy use. More generally, in North America illycaffè has worked to reduce energy and water consumption and to optimize the management of stockpiles by selling, recycling, or donating to NGOs obsolete provisions and materials from its offices and warehouses. In the future, illy North America plans to adhere to and use Credit 360, a system to analyze environmental data developed by the Specialty Coffee Association of America (SCAA) to measure all environmental impacts and set specific targets for improving environmental performance.

In Brazil, a programme for the optimal use of water and energy has been adopted in all offices and facilities.

Note on methodology: environmental consumption perimeter

illycaffè Spa in Trieste comprises the production plant at Via Flavia 110, the logistics hub at Via Malaspina 32 and a third site, located in Via Caboto 19, where certain marginal activities take place, concerning the designing of coffee machines and quality control for coffee machines from Italian and foreign suppliers. illycaffè has environmental certifications only for the sites at Via Flavia and Via Malaspina: the EMAS environmental statement aims to describe the activities, environmental aspects, management systems, and environmental improvement programmes and goals as relates to the certificates. Nevertheless the environmental management system constantly monitors and archives data on energy consumption and waste management for all three sites.



Carbon footprint and management of emissions

The emissions produced by the plant at Via Flavia 110 are related to the coffee roasting facility, and concern in particular green or roasted coffee dust generated during the handling and roasting of coffee. The warehouse at Via Malaspina is the company's logistical hub, and serves the plant at Via Flavia; it is not responsible for any emissions.

The sources of emissions are the following:

- Coffee roasting plant;
- Coffee dust draught plant;
- Label printing plant.

The emissions produced, comprising fine particulates and volatile organic substances, are conveyed into a catalytic chamber and purified by the high temperature and the oxidizing activity of the catalyst, thus lowering their impact to a level that is twenty times lower than that of the current legal threshold. illycaffè aims to continue to improve, and to this end it has launched a project to recover heat from the roasting plant's smokestack, with additional environmental benefits. On 7 June 2012 illycaffè signed a voluntary agreement with the Ministry of the Environment and Protection of Land and Sea for the analysis, reduction, and neutralization of the coffee sector's impact on climate.

The goal of this programme is to define a management system for CO₂ emissions that can serve as a model for every industry working in the coffee sector.

The carbon footprint will be calculated over the entire lifecycle of coffee destined for consumption through the network of bars and mass retailers.

The programme drafted in collaboration with the Ministry calls for four steps:

- Designing a methodology to calculate the carbon footprint, following internationally-recognized protocols;
- Identifying the interventions for the reduction of CO₂ emissions;
- Defining an emissions management system for the coffee sector with the aim of reducing the carbon footprint;
- Assessing the remaining emissions and identifying potential actions for their neutralization.

The project was illustrated by the Minister of the Environment Corrado Clini and by Andrea Illy on 18 June in Rio De Janeiro during the RIO +20 Conference as part of a meeting on "CARBON FOOTPRINTING: PUBLIC-PRIVATE PROJECTS". In particular, Andrea Illy presented an innovative study on calculating the emissions of greenhouse gases associated with coffee productions, which study was carried out in Brazil thanks to a collaborative effort with Carlos Clemente Cerri of the University of Sao Paulo. The project will help identify the energy inefficiency problems that will need to be redressed.

The project's first results arrived early in 2013 and concerned some of illycaffè's main products: together with the Ministry of the Environment's task force, the company will process and analyze this data to identify future actions to reduce its carbon footprint.

In conformity with the illycaffè production process, there are no other emissions of harmful substances.

Via Flavia-Malaspina-Caboto facilities	2012
Electricity: indirect emissions (from the use of electricity) of greenhouse gases (tonnes)*	4.943,03
Natural gas: indirect emissions (from combustion in plants and fixed machinery) of greenhouse gases (tonnes)**	2.740,75
Particulate matter (PM10) (KG)	1.683

* Italian electrical mix 0.470 kg/CO₂ /kWh (Source: ENEL Environmental Report 2011)

** Coefficient for CO₂ emissions inventory. UNFCCC National Inventory (Valid until December 2012) tCO₂ /Un = 1,961

– oxidation coefficient = 0,995

The Sustainable Agriculture Initiative (SAI) Platform Coffee Working Group identified greenhouse gas emissions from the production of green coffee as having a significant impact on sustainability. After having invested in research on the opportunities and challenges related to this aspect, the Group collaborated with the Dutch sustainable trade initiative (IDH) to develop Product Category Rules (PCR) for green coffee in order to properly communicate the results of the analyses of the lifecycle of coffee in environmental statements. illycaffè is an active member of this project both within the steering committee and as part of the technical working group to which it contributes with its network of internal and external experts.

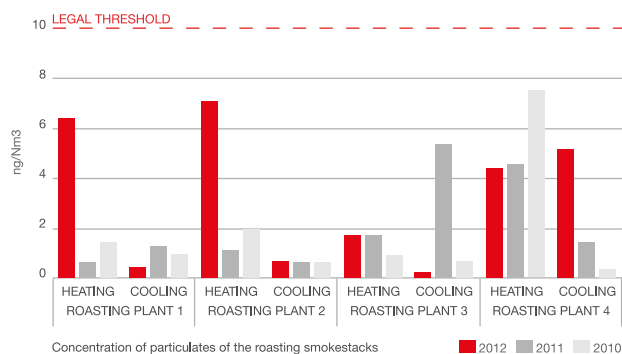
Atmospheric emissions

The emissions produced, including particulates and volatile organic substances, are conveyed into a catalytic chamber and purified by the high temperature and the oxidizing activity of the catalyst. Analyses of the concentration of particulates related to the eight smokestacks (roasting and cooling stacks) of the roasting plants showed results far below the legal threshold.

There are no other plants and/or sources of emissions of pollutant gases.

The company is working on several fronts for the assessment of impacts and emissions of transports and subsequent implementation of improvement actions through the methodology of Life Cycle Assessment.

Other types of emissions that illycaffè constantly monitors and manages are sound emissions (noise pollution) and odours: in both cases the company is in full compliance with legal thresholds



Raw materials

The main raw material for coffee production is green coffee.

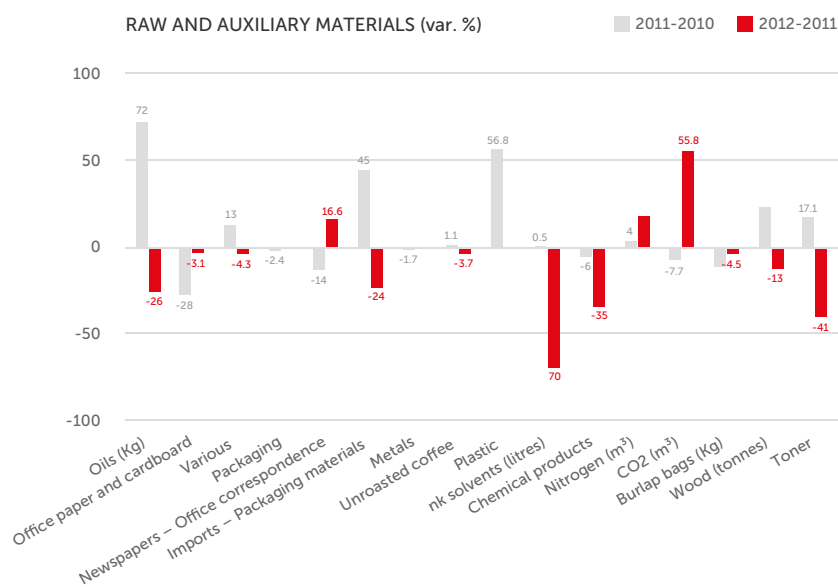
illycaffè purchases thousands of sacks of Arabica coffee every year, from producers in Latin America (Brazil, Colombia, Costa Rica, El Salvador, Guatemala), from African countries (chiefly Ethiopia and Tanzania) and countries in Asia (India and China).

The company recognizes that the processing of raw materials in source countries by non-company-owned entities is an important contributor to its indirect environmental impact, and regularly monitors each phase toward minimizing this impact, from coffee cultivation in the heart of the plantations through shipping.

Besides green coffee, illycaffè also monitors the consumption of all packaging materials used.

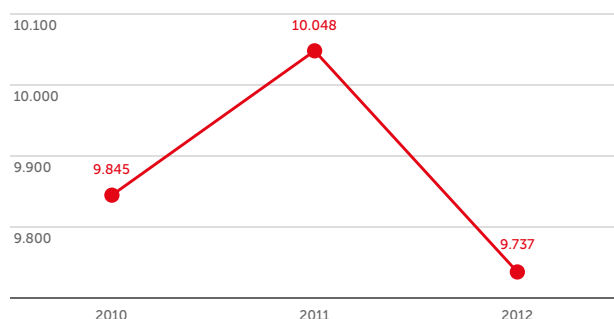
Also of note are several initiatives to reduce the use of raw materials and encourage the use of environmentally-friendly materials in our group's foreign branches. For example, illy North America has switched to cups made with paper certified by the FSC (Forest Stewardship Council), which comes from sustainably managed forests. FSC paper is also used for print advertising and marketing. Additionally, soy-based inks are used. The Brazil branch also reduced the use of paper in offices by encouraging its re-use for internal printing.

In France, in addition to a specific campaign to reduce printing, all employees received a recyclable plastic water bottle to discourage the use of disposable cups. Additionally, a special paper wastebasket was installed. After every collection, employees are told how many trees they saved.



Energy management

electricity (MWh)



The energy sources used by illycaffè are electricity and methane, and for its company cars, gasoline and diesel fuel. In 2012, changes were made to several lines of production and the number of employees working at the Trieste facilities (those to which the data in this section refer) increased by 4.48% compared to the previous year. Thanks to efforts to improve efficiency and reduce waste (building automation, domotics, heat recovery unit, low-energy light bulbs) the company reduced consumption from the main sources. The energy management system of illycaffè in Italy is coordinated and monitored by an internal energy managers: this figure has been prepared voluntarily by the company.

With regards to electricity, total consumption in 2012 amounted to 37,861,516.8 MJ at the Via Flavia, Via Malaspina and Via Caboto facilities (Source: GRI 3.1 indicator EN3, 1Kwh=0.0036GJ).

Methane is used predominantly during roasting (91% of the total), with the rest used for heating and for producing hot water. Consumption in 2012 amounted to 54,521,585.31 MJ (source as above) at the Via Flavia and Via Caboto facilities (methane is not used at the Via Malaspina logistics hub). The only consumption for the production of thermal energy is functional for non-working days in the roasting plant on weekend and holidays. As of 31.12.2012, emissions amounting to 369 tonnes of CO₂ equivalent were prevented.

Illycaffè aims to maximize the re-use of thermal waste, and installed a heat recovery unit in the compressor room to help heat part of the plant. The unit is already in function and it is estimated that it will help save an additional 40 – 60 tonnes of CO₂ each year. The project builds upon a similar successful project launched by the company in 2012 and which concerned the recovery of hot air from the roasting plant's smokestacks: the air (over 400°C and with adequate speed and flow rate) was recovered for significant economic savings and, more importantly, tangible environmental benefits. The heat recovered is used to heat the Via Flavia facilities and to produce domestic hot water. The unit has been in function since the first week of January 2012 and during the course of the year the energy recovered and re-used amounted to 1,428,000kWh (5.141GJ).

During the same period, estimated CO₂ savings amounted to 368 t.

In 2012 illycaffè focused on additional energy efficiency efforts, such as the activation of an absorption refrigeration system that transforms thermal energy into cold water. The system does not use fossil fuels.

With reference to the company fleet (comprising 90 vehicles fueled by diesel), 274,122 litres of fuel (gasoline/diesel) were used in 2012, for a total of 3,426,525 km (the average consumption diesel car is equal to 12.5 km / liter). Estimated CO₂ emission amounted to 535 tonnes.

In terms of renewable energy, the 1-megawatt photovoltaic power station which extends for 11,000 m² on the roofing of the Distripark logistics hub at Via Malaspina in Trieste was kept fully efficient. illycaffè is not the owner of the plant, but it has leased some of its roofing space to a third party in order to contribute to the development of renewable energy. The plant has been connected to the electrical grid since 1 July 2011, and between that date and 31 December 2012 it has produced 1,586,937 kWh (data sent to GSE) and prevented emissions equivalent to 746 tonnes of CO₂ (coefficient used: 0.470 Kg CO₂ for every kWh of electricity used, source ENEL Environmental Report 2011)

Additionally, illycaffè has decided to exclusively use electricity from renewable sources. Effective as of 1 January 2013, it signed a contract with Edison Energia Spa which certifies that all electricity supplies come from proven renewable sources with suitable guarantee of origin in compliance with Resolution of the Authority for Electricity and Gas ARG/elt104/11 for all illycaffè spa distribution points located in Trieste.

All of illycaffè's foreign branches are actively improving their energy management: in The Netherlands, data useful for cutting energy consumption are being monitored and a feasibility study for the installation of solar power was carried out. Additionally, company printers were cut 50%, and the service was outsourced with a "pay per use" contract.

Water management

The water used by illycaffè comes exclusively from the Trieste municipal waterworks. The total amount of water used in 2012 at the Via Flavia, Via Malaspina and Via Caboto facilities amounted to 44,818 m³. A minimal amount of water is consumed during production at via Flavia, during testing of coffee cans.

Numerous water conserving measures have been put into place. All shower nozzles and flushing devices have been replaced with modern, efficient devices.

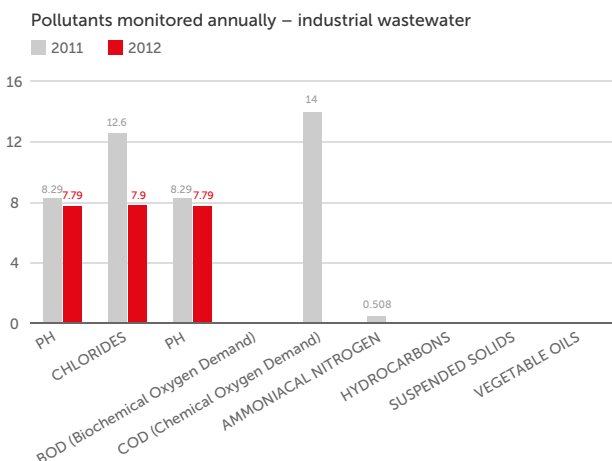
Irrigation of green spaces was better staffed and planned, using equipment that optimizes the quantity of water delivered in light of the area to be irrigated.

The company has initiated a project to modify the sewer system, striving to eliminate the mixing of civil water and industrial wastewater. Each year, an external laboratory conducts an analysis of wastewater produced by the facility, and of the parameters identified as significant as well as types of effluents, such as pH, chlorides, BOD, COD, ammonia, hydrocarbons, suspended solids and oils and vegetable fats. The current quantities of these pollutants fall well within legal limits.

illycaffè does not use recycled or reused water. All wastewater is discharged into the public sewer, as mandated by law.

Industrial wastewater from the plant is authorized under Prot. gen. n. 160845, Prot. corr. n. 41/200/32-99-17623. Every year an independent laboratory analyzes the following significant parameters of wastewater in light of process phases and effluent types:

Measurements taken in June 2013 showed all parameters to be under the legal threshold.



In addition to this, illycaffè manages to reduce water use among its coffee growers, by transferring techniques that lower the use of water in washing harvested coffee.

Waste management

Waste management at the production plant and logistics hub in Trieste – Italy is closely monitored during all production phases and by-products, in day-to-day operation of offices and throughout post-production, including transport and disposal. These activities comply with all applicable regulations, and conform to illycaffè's own environmental management system.

The company has implemented numerous procedures for improving waste management, such as identifying different types of waste in order to improve separation for collection purposes, placing waste separator bins inside the plant and offices, and training staff on waste management. In 2012, illycaffè reclaimed 92.75% of its produced waste. Waste produced by the company amounted to 1,903,310 kg, of which 91.5% was special waste from productive activities and byproducts and 0.6 % was considered hazardous and disposed of according to law.

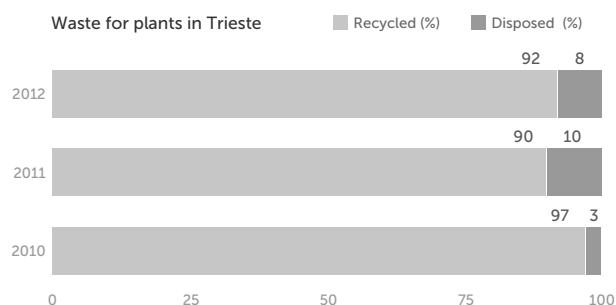
The percentage of municipal solid waste produced in 2012 was equal to 8.45% of the total waste, and 9.2% of the industrial waste produced by the company. illycaffè managed to obtain a competitive advantage from efficient separate collection thanks to the sale of certain waste products, such as

Waste produced by illycaffè in Trieste – Italy (kg)	Hazardous	Non hazardous
Disposed	3.358	134.700
Recycled	7.738	1.757.514
TOTAL (1.903.310 kg)	11.096	1.892.214

scrap metal and scraps of copper and tin plate (€145,949).

A complete list of the waste generated over the last three years is included in the illycaffè environment statement, available upon request.

All foreign branches are actively engaged in separate waste collection: in Spain toner is recycled thanks to a local company; in The Netherlands, in addition to the separate collection of paper, plastic, and organic waste, environmental friendly solutions (air cushions) have been adopted for packaging materials. The Austrian, French, and North American branches also engage in separate collection and reduce the use of paper in meetings and communications.



Soil contamination

There are no sources that can lead to a risk of soil contamination, although unsuitable practices during the stocking and management of hazardous substances, however limited, could become a possible source of pollution. It should nevertheless be noted that a possible source of soil contamination may exist in the spilling of battery acid in the recharge stations for pallet trucks and forklifts. The company thus adopted Ministerial Decree n. 20 of 24 January, which establishes the amount of absorbent and neutralizing substances which must be present in facilities destined for the stocking, recharging, maintenance, deposit, and substitution of accumulators. Company staff is responsible for all illycaffè documentation which describes the system's activities (handbook, procedures, instructions), since said documentation contains the proper rules of execution for key environmental protection activities and allows for the prevention and/or reduction of soil contamination. In fact, there has not been any spillage with the exception of minor oil leaks during maintenance activities in the machinery repair area.



Product disposal and recyclable packs

illycaffè designs and implements solutions to make product disposal as environmentally efficient as possible. The approach is based on the following concepts :

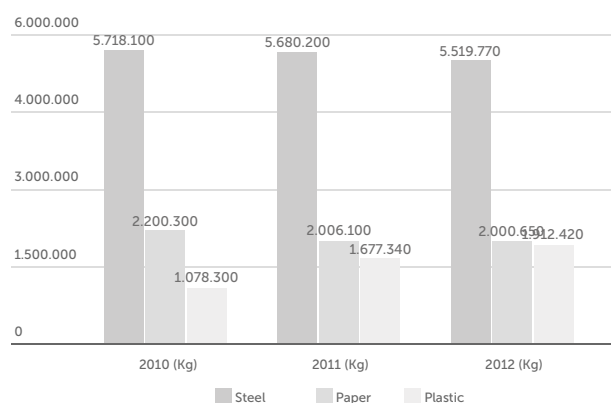
- Prevention and minimization: during the planning phase, preference is given to the lightest primary and secondary packaging materials, those with low consumption, and if possible made from recycled materials or material that can be recycled over its entire lifecycle;
- Reuse: institution of special renewal programs, extending the functionality and life of espresso machines. Furthermore, unusable machine components are collected and reused;
- Recycling: the collection of primary and secondary packaging and of the components of espresso machines for recycling are always encouraged. illycaffè has carefully selected partners with "zero waste" policies.

illycaffè adopts environmentally-friendly solutions for packaging its products: it uses tinplate for jars (3 kg, 250 g, serving) and polypropylene for Iperespresso capsules; both materials are 100% recyclable. For secondary and tertiary packaging, recycled materials are preferred: 80% of paper and cardboard purchased and 90% of pallets used are recycled.

The table below lists the type and quantity of packaging materials sold in Italy and abroad from 2010 to 2012.

Iperespresso capsules also meet illycaffè's sustainability models: starting in 2011 the company joined the AIIPA working group for the coffee sector, which includes numerous companies that produce plastic capsules, in order to find a solution for the collection and treatment of used capsules.

Quantity of packaging materials sold in Italy



The same working group commissioned the University of Naples – Federico II to carry out an LCE/LCE study with the goal of identifying an operational disposal model for trial runs in three Italian cities.

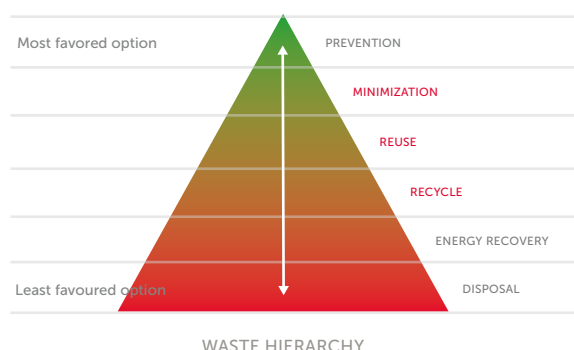
In Trieste, illycaffè is running a trial project to collect used capsules (still in the testing phase at the end of 2012) from its illyteca boutique. A "reverse vending machine" was installed in the store where clients can throw away used capsules and jars, which are then collected and disposed of.

Additionally, the company is experimenting with a machine that can crush the capsules and separate plastic from coffee. illycaffè took part in the roundtable on innovation in coffee capsules organized by the Zero Waste Research Centre of the Municipality of Capannori in order to discuss how best to separate coffee from its container.

For the U.S. market only, illy North America has launched a trial "IperEspresso Capsule Recycle Program" together with Terracycle for the collection and recycling of capsules through the involvement of consumers. Launched in 2012, the trial programme has so far collected 40,000 capsules (about 2% of sales). In 2013 the programme will be extended beyond the trial phase.

Capsules in plastic can be disposed of in two ways: they can be recycled, or they can be disposed of in the Waste-to-Energy facility, thus producing energy. The existing Italian legislation states that the recycling of such material is only possible for objects belonging to the category of packaging: capsules do not fall into that category, and cannot be mixed with other products, such as bottles. In all the provinces in which they operate, the incinerators the plastic, and exhausted coffee is contained within, and can be used as fuel, producing electricity and heat.

The company collaborates with universities, research centres, associations and pre-competitive working groups in order to find alternatives, such as the use of biodegradable or eco-friendly materials.



Finally, even the company-manufactured espresso machines are designed for complete and safe disposal. illycaffè pursues this goal from the design and production phases, ensuring the materials that comprise every machine can be easily recycled at the end of their lives.

The company has brought about major changes for all actors involved in the production chain in light of Law Decree n. 151 of 2005 on Waste from Electric and Electronic Appliances (RAEE). For designing and producing its new coffee machines, the company is completing a series of activities focused on their components: elimination of the brass boiler in the various models and elimination of all zinc fittings.

Transport and logistic

Transports and logistics concerning incoming raw materials, as well as the distribution logistics of delivering the end products to customers are processes that illycaffè monitors carefully for their potential impacts in terms of emissions: the company is working on several fronts for the impact assessment and the subsequent implementation of improvements through the methodology of Life Cycle Assessment.

Transport of raw materials from coffee plantations to the roasting facilities in Trieste takes place via ship to the city, and via rail for the remaining leg to the roasting facilities, always with the utmost care.

Transport to delivery products is still firmly tied to fossil fuels: the company has set the goal of monitoring these flows and evaluating innovative choices. In terms of distribution, illycaffè periodically submits to its qualified supplies (non-coffee industrial purchases) questionnaires on specific environmental issues such as the consumption of water and energy, atmospheric emissions, waste production, liquid effluents, soil contamination, and noise pollution.

In 2011, the environmental performance of a primary company active in distribution and logistics – a company responsible for most of illycaffè's deliveries in Italy – was assessed. The analysis showed that its emissions in terms of grCO₂/Km were extremely low considering the high number of deliveries throughout the country and the use of electric means of transport (in urban centres with limited traffic).

According to a recent study carried out by the Italian Ministry of the Environment on the carbon footprint of illycaffè products sold on direct channel, the distribution phase (which includes stocking, transport to the illycaffè warehouse, transport to the distribution centre, and transport to retail outlets) has a variable impact depending on the product:

- 250 g jar: 4.7%
- 125 g jar: 2%
- lperespresso home: 5,9%
- ESE: 5,6 %

Although the environmental impact from the logistics sector is low, illycaffè has launched several policies to improve its performance.

LOGISTICS FOR INCOMING GOODS

Origin: Italy

In Italy transport takes place almost exclusively via road due to the poor development of the rail network (with high costs and low levels of services for companies). Incoming goods are purchased with a DAP (delivery at place) clause, and thus illycaffè has no control over the couriers used. The only exception regards components for coffee capsules, for which transport costs are included in the purchasing price.

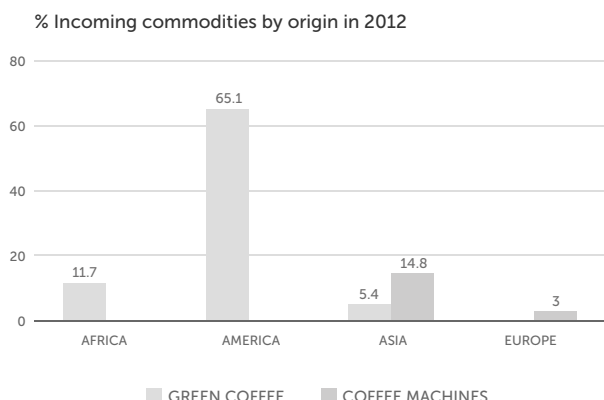
illycaffè has launched the innovative Milk Run project: in order to optimize warehouse flows and stock illycaffè coordinates the transport of capsule components from all its suppliers in order to optimize the flow and maximize industrial cubic capacity. So far, 250 m³ of industrial space have been gained.

Origin: Abroad

Green coffee accounts for most incoming goods in terms of weight (82.2%).

All incoming goods arrive via ship, which has the lowest environmental impact. The selection of sailing companies on the basis of their qualitative service has made it possible to identify leading service suppliers and major merchant sailing companies with clear sustainability policies to reduce their environmental impact.

In 2013 illycaffè reduced by 1.5% (compared to 2012) the number of containers handled for the transport of raw materials thanks to an increase – after careful assessment of qualitative risk – of the number of bags per certain containers. In 2014, after additional qualitative assessments, a further reduction will be possible.



LOGISTICS FOR OUTGOING GOODS

Destination: Italy

illycaffè is in charge of shipping its goods to its clients in Italy. In Italy, all transport takes place via road since rail transport is not competitive in economic and qualitative terms. About 60% of shipping is handled by a major logistics company that adopted an Integrated Quality, Environmental, and Safety Policy and an Ethical and Social Responsibility Policy. In Italy there are intermediate warehouses that help optimize distribution to retail outlets.

Destination: Abroad

All transport within Europe (58.6%) takes place via road with certain specific exceptions (see below) while all transport outside of Europe (41.4%) takes place via sea using three leading international shipping companies. Two of the three, which account for almost 90% of the total, have clear and detailed sustainability policies.

illycaffè has adopted intermodal transport solutions (road/rail/road) for transport to Norway and Greece (intermodal transport refers to a combination of transport methods): these two cases result in savings of about 0.1 kg CO₂/ton-Km (WEF, 2009).

Thanks to these results, the company has explored the possibility of extending the use of rail transport to other European countries. However, an analysis showed that this solution is not feasible, since the quality of the service would not be guaranteed due to long transit times, and costs would be significantly higher. Therefore, the project would not be in line with two of the three pillars of sustainability: the social pillar since it does not add qualitative value to the process, and the economic pillar because it takes away economic value.

In order to encourage full-container shipping, the company exports with a CIF* clause only if the buyer loads the container to full capacity, or with FCA (free carrier) clause if the buyer loads the truck to full capacity. This holds true for illycaffè's foreign branches (France, Germany, The Netherlands, Spain, Austria, USA and Canada, Asia Pacific, Brazil) and for distributors in Sweden, UK, Switzerland, Slovenia, Norway, Romania, Czech Republic, and Denmark.



Environmental commitment in the plantations

illycaffè's environmental commitment is not confined to the impact generated by its own activities. It extends to monitoring and enhancing performance by third parties related to the production of its raw material, green coffee.

Thanks to its international development projects in coffee-producing countries, in 2006 illycaffè's commitment was recognized with the Impresa Ambiente Prize set up by the Ministry of the Environment, Ministry of Productive Activities, Unioncamere, and the Rome Chamber of Commerce, which represents the most prestigious Italian recognition to firms who, in carrying out their productive activities, have given an innovative contribution in terms of environmental sustainability and social responsibility.

In coffee-producing areas, illycaffè promotes agricultural techniques with low environmental impact, covering the four most significant impacts during cultivation:

- Water consumption. The company supports the use of machinery which consumes less than half a litre per kg of green coffee produced (5 to 10 litres are normally consumed).
- Treatment of wastewater. The water leaving washing stations is high in organic matter and needs treating before it can enter the ecosystem. The company fosters the use of calculation methods indicating when water is ready to be introduced into the ecosystem, and promotes education on reusing water for the production of compost and biogas.
- Nitrogen fertilization and employment of chemicals. illycaffè promotes the principles of integrated farming by limiting the use of chemicals and promoting good farming practices: for example, the use of vegetative cover of soil; the reduction of soil erosion by means of growing crops along contour lines; the reduction of land tillage to maintain its fertility, and the application of macronutrients, via organic fertilization.

illycaffè spreads a culture of respect for the environment both through the Università del Caffè, which constantly updates farmers on advances in farming techniques. The company supports activities of non-profit organizations such as the Instituto Terra, dedicated to protecting the Atlantic Forest.

The company provides special incentive programs and recognition for producers who promote quality and environmental sustainability, such as the Premio Ernesto Illy por la Qualidade do café para Espresso, the Club illy do Café, and the sustainability Diploma.

Additionally, in 2012 illycaffè continued to study the energy efficiency of coffee plantations thanks to collaborative efforts with Prof. Cerri in Brazil and with the Italian Ministry of the Environment, and as part of the Sustainable Agriculture Initiative platform.

SIGNING OF A MEMORANDUM OF UNDERSTANDING WITH EMBRAPA - Empresa Brasileira de Pesquisa Agropecuária

Illycaffè, together with the Brazilian Ministry of Agriculture and Embrapa (the Brazilian Agency for Agrozootechnical Research), has signed a memorandum of understanding on the issue of the sustainability of Brazilian coffee agriculture. Areas of possible collaboration with the company concern the creation of natural reserves on coffee farms, the mitigation and adaptation to climate change of coffee production in Brazil, the dissemination of agricultural best practices, and sustainable technology.



Improvement goals relating to environmental value

What, how and when

illycaffè is developing a Sustainability Road Map that will help systematically define the strategic goals for 2020. The following improvement objectives are planned for the short term. In 2012 illycaffè will subscribe to the United Nations Global Compact, a strategic policy initiative for businesses that are committed to aligning their operations and strategies with ten universally accepted principles in the areas of human rights, labour, environment and anti-corruption.



IPERESPRESSO CAPSULES BETTER RECYCLE

Research and apply innovative recycle methods in collaboration with universities, research institutions and industry associations.

When: 2013 – 2014



PLANNING OF ENVIRONMENTAL IMPACT

Reduce environmental impact from the design and planning stage, through Life Cycle Assessment methodologies and the support of SIMAPRO software.

When: 2012 – 2013



GREEN ENERGY

Using 100% electricity from renewable sources

When: 2013 – 2014



CARBON FOOTPRINT

Complete advanced research and survey in order to better calculate carbon footprint, work closely with committed Institutions and reduce greenhouse gas emissions.

When: 2012 – 2020



TRANSPORT AND GREEN LOGISTICS

Improving the efficiency of the transport of raw materials and finished products by adopting more sustainable solutions

When: 2014 – 2015



Balancing on a coffee bean

Well-being first of all is a matter of balance. Illy is a universe that grows in the name of sustainability and well-being for everyone. It generates value by delighting consumers and enhancing the lives of our associates and suppliers, as well as by improving the life of the communities in which it works.

I would like to begin by telling you about our definition of economic value.

Illy company is a universe growing in the name of sustainability and shared prosperity, which creates value not only by pleasing its consumers and valuing its people, employees and suppliers, but also by improving the lives of the communities in which it operates.

Ethics are the mainstay of the company, a compass which indicates the direction from which to create sustainable economic values.

Economic value is based on trust and transparency, through behaviour throughout the company, and especially with regard to our stakeholders.

Illycaffè company promotes economic sustainability as a result of rigorous behaviour with regard to all of its clients especially in relation to consumers who pay a higher price for our product but who recognize both its quality and the processes that enabled us to achieve such a level of quality.

Then there are our producers with whom our negotiations are based on the quality of the product on offer to us and therefore, in relation to the results that we can achieve from the quality of this product, this being able to grant them a better price so that they can enjoy greater well-being whilst at the same time developing the communities they serve and the countries in which they operate.

We are able to guarantee our staff a safe working environment, stimulating them through our philosophy of teamwork whilst at the same time reducing resource consumption.

As a result, we have benchmark communities in both producing and consuming countries that benefit through the activities promoted by the partnerships and collaborations of our University of Coffee and the Ernesto Illy Foundation.

Finally, we have shareholders who are not only rewarded through the greater value of the company itself but also through the value of the increased brand awareness.

This creation of value will be advantageous not only for illycaffè company but also for the communities in which illycaffè works both in the medium and long term.

Giovanni Loser
General Manager

Highlights



+4%

the added value created and distributed in 2012



95%

of coffee producers were audited in 2012 in keeping the Responsible Supply Chain Process



60%

of producers have additional sustainability certifications (a better guarantee for illy)



2,2

million Euros invested to monitor and provide the green coffee supply chain with specific support activities in 2011 and 2012

“Well-being first of all is a matter of balance.

Illy is a universe that grows in the name of sustainability and well-being for everyone.

It generates value by delighting consumers and enhancing the lives of our associates and suppliers, as well as by improving the life of the communities in which it works.”



The creation of economic value

illycaffè encourages economic sustainability, with short- and long-term benefits both for the company and the communities it works in.

This value is shared with:



“The company works in communities that benefit from the employment opportunities created in the field, and from a return of visibility and image as well”

Ethics has always been the company's main foundation, the compass that shows what direction it should take to create sustainable economic value to share with its stakeholders.

The economic value is based on trust and reputation, achieved thanks to transparent and scrupulous behaviour.

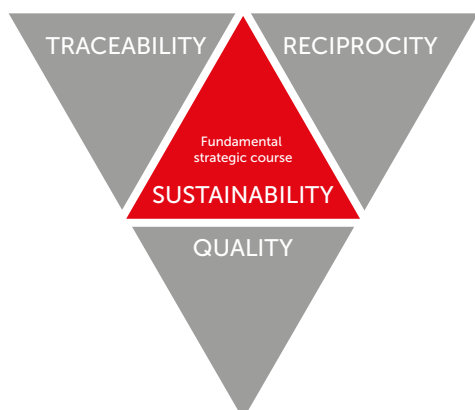
— illycaffè Sustainability Manifesto



*“We cannot rely on intermediaries.
We go directly to the grower –otherwise
there is no traceability.
We select the best possible growers, we
transfer knowledge to them, and then we
buy directly from that grower even though
we are paying more than the market price”*

— Anna Illy

Member of illycaffè's Executive Board,
noted that some farmers have been supplying illy for more than 20 years



Responsible Supply Chain Process certifies that illycaffè:

- purchases 100% of its green coffee straight from coffee growers (with the sole exception of Ethiopia)
- activates a know-how transfer to coffee producers in order to constantly improve their product's quality
- guarantees a pay higher than the market average to reward the coffee growers
- invests to monitor and provide the green coffee supply chain with specific support activities: 2.2 million euro in 2011 and 2012

RSCP is free of certification costs for coffee producers. illycaffè bears all expenses related to certifications and inspections.

In order to obtain illy-quality coffee, it is necessary to work closely with growers in the regions where the best Arabica beans grow. The company's supply policy rests upon three pillars: selecting and working with the best producers; updating their knowledge; and rewarding them economically for the quality obtained. This is a long-standing vision: indeed, illycaffè has been buying 100% of its coffee directly from the source (with the exception of Ethiopia, where local laws do not allow it) skipping intermediaries and international commodity markets.

Thanks to its commitment, illycaffè is the first company in the world that obtained the "Responsible Supply Chain Process" Certification in March 2011, which awards the key role of quality and creation of value for all involved stakeholders in the green coffee supply chain process.

The company had decided to implement this vision in order to introduce management solutions and measurements to enhance and communicate the creation of responsible value all along the supply chain.

The fundamental strategic course of this certification is based upon the principles of traceability, reciprocity, and quality.

Starting in 2013, even the origins that make up a marginal share of the green coffee value chain will become part of the RSCP certification process, broadening and improving the system.

The responsible supply chain process has no direct costs for producers. illycaffè supports all costs relating to certification and inspections on farms.

The Responsible Supply Chain Process Certification

illycaffè has always been a stakeholder company based upon ethics, with the clear goal of improving the quality of life. The concept of quality is at the core of the company's philosophy, and the steady search for quality has activated a virtuous circle that creates value for all involved, from the coffee growers to the final consumers of the cup of coffee.

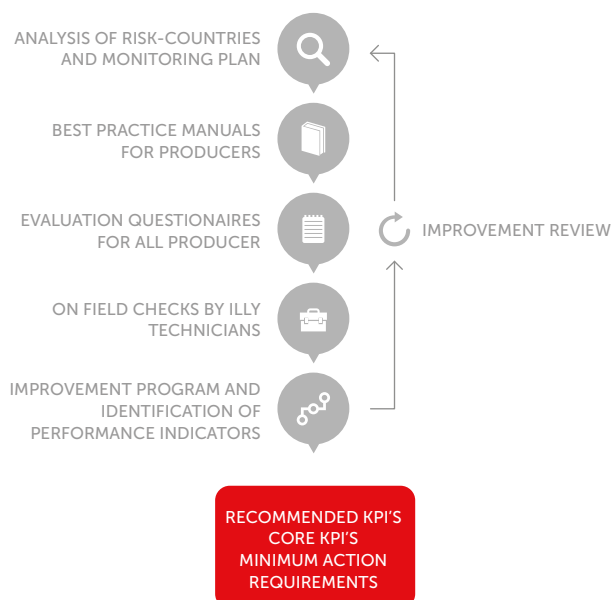
Quality and sustainability are an inseparable pair for the company: quite simply, in order to be excellent, a product has to be sustainable. In the past twenty years illycaffè has developed a system of direct interaction with its suppliers, based on three main pillars: the selection of the best growers; the transfer to them of all know-how and knowledge gained in eighty years of company history and research, essential to reach the peaks of excellence required by illy standards; the purchase of the best productions from the growers, by paying them more than the average market price in order to acknowledge the quality of their production and to encourage constant improvement of a consistent product.

Det Norske Veritas – DNV Business Assurance, an independent international foundation, and leader of the market, has developed the new "Responsible Supply Chain Process" standard by considering illycaffè's supply chain process standard and by integrating it with the most advanced and promising guidelines with reference to sustainability and the company's responsibility; and with the reference standards for certification and credit activities.

The standard includes both the prerequisites regarding the sustainability of the certified company (with reference to business ethics, environment, risks for workers, and social risks, among others.), and specific prerequisites with reference to the green coffee supply chain process (with reference to the relationship with suppliers, the production process, the monitoring of suitable indexes, the controls in the field and on the product itself). Throughout this certification process illycaffè has committed to bring its own internal procedures to perfection, in order to address the required prerequisites, through a strong involvement of all the company's functions, the Board of Directors, the management and the operations resources.

Certification is based on the principles and processes of continuous improvement. The process began by mapping coffee production and supply chains, national legislation, and suppliers and associated risks for each country.

The process followed by illycaffè to obtain certification is summarized by the following figure.



Once the mapping was completed, the company drafted and distributed specific handbooks on best practices for each country. Additionally, the spot checks and inspections that help gauge performance parameters for the illycaffè chain are also part of the process.

These parameters can be broken down as follows:

- minimum actions requirements that producers must abide by, such as environmental and labour legislation; these are requirements for the supplier, and non-compliance may result in the supplier being black-listed.
- Key performance indicators (KPI) for the illycaffè chain, which include:
 - Core KPI, requirements that exceed legal thresholds but are deemed fundamental by illycaffè;
 - Recommended KPI, additional requirements, which are not compulsory but highly desirable.

Based on the results of the KPIs and performance targets, illycaffè establishes activities and processes for improvement.

The monitoring of target indicators, the solution of any problems that emerge, and the indication of improvement projects and processes for the chain of production represent a sustainability plan for the management of said chain.

As an example, the table below lists some of the indicators used by illycaffè for monitoring sustainability along its chain of production

AREA	Key Performance Indicators (specific for each country)
Environmental risks	Quantity of water used during post-harvest processing Wastewater treatment Natural reserves and protection of endemic species Shade-grown coffee Organic and mineral fertilization
Labour risks	Higher salaries than the legal minimum
Ethical risks	Participation and involvement along the entire chain Diffusion of handbooks on agricultural best practices Cost analysis Management of financial risk associated with price volatility
Product risks	Integrated agriculture Coffee picked from the ground Proper coffee drying practices Cleanliness of warehouses Use of new burlap bags

Results for 2010-2012 period

In 2010-2013 handbooks were drafted and distributed to each supply chain.

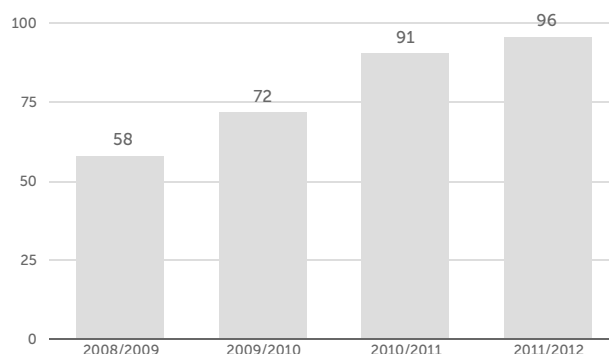
During these three years, field visits were made to over 1,200 producers, which means that 100% of suppliers were visited at least once, and 50% at least twice. Illycaffè technicians totalled about 800 working days carrying out these visits.

In three years, almost 900 hours of training were provided regarding the sustainable production of green coffee. There were over 2,500 participants in these training courses.

A significant example is the case of Brazil and the treatment of wastewater from coffee processing.

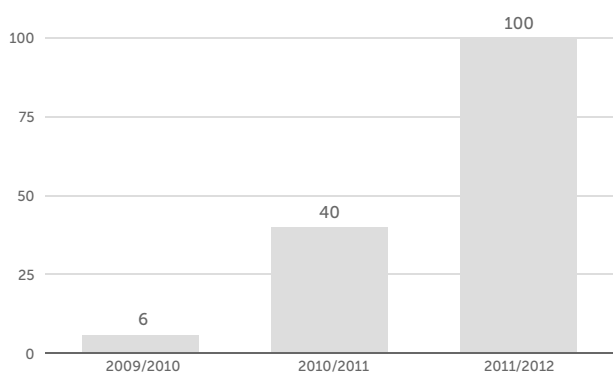
In Brazil, when the process began in 2009, the opportunity arose to improve the treatment of wastewater from coffee processing that would establish a virtuous precedent for Brazilian legislation. For this reason, wastewater treatment was the focus of training activities carried out at the Università del Caffè in Brazil over the last three years. Participation was positive and performance indicators improved markedly.

Brazil: KPI Wastewater treatment % of farmers adopting best practices

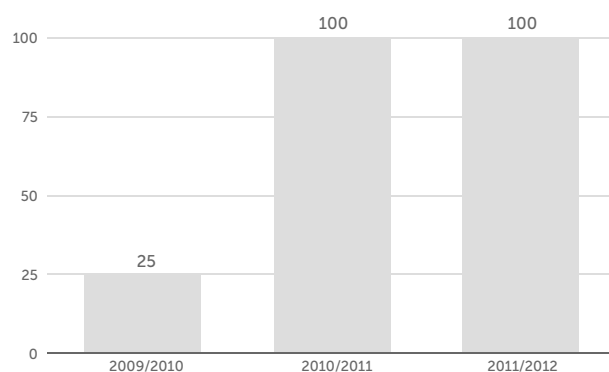


Two other instances of generating tangible added value as a result of the Responsible Supply Chain Process – Green Coffee come from India, where efforts focused on reducing water consumption, and Costa Rica, where illycaffè worked to preserve biodiversity.

India: KPI Processing water use % of farmers consuming less than 3 litres/kg of cherries



Costa Rica: KPI Biodiversity % of farmers planting endemic trees



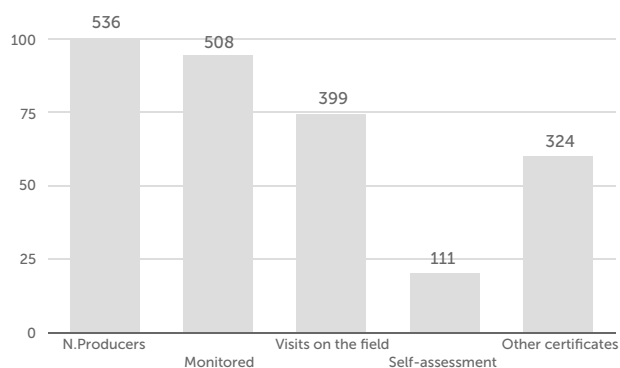
2012 results

A total of 508 producers were involved in the training process, equal to 94.5% of all green coffee suppliers.

Table caption

Tot. Producers = Total number of producers who supplied illycaffè with coffee during the reference period
Monitored = Number of suppliers monitored according to the Responsible Supply Chain Process
Visits on the field = Number of visits on the producers' fields by illy technicians
Self-Evaluation = Number of producers who started the self-evaluation procedure (with illy questionnaire)
Other certificates = Number of suppliers who present other sustainability certification (to guarantee illy even more)

The training program for producers



The training program for producers in 2012, for a total of 250 training hours, is the following:

Brazil:

10 seminars in coffee-producing regions on the issues of quality, water conservation, and environmental best practices.
1 seminar in Sao Paulo with a roundtable with experts on the carbon footprint.
1 long-term course on farm business management.

India:

5 seminars in coffee-producing regions on the issues of quality, water conservation, and the proper treatment of wastewater from coffee production
1 course held on a farm on the issues of quality, coffee varieties, and coffee fertilization.
1 course in Bangalore on quality and the proper treatment of wastewater from coffee production.

Colombia:

8 seminars on best practices in cultivation, processing, and farm management.

Costa Rica / Panama:

1 event on quality and best practices for the management of cultivation by-products.

In order to improve the field visit process among small-scale growers in Colombia, in 2013 illycaffè decided to increase the number of direct visits to small coffee farms using local technicians working for illycaffè.



The Advantages of Certification

The Responsible Supply Chain Process promotes the development of a sustainable supply chain process, its monitoring and traceability, by always keeping in mind the main goal of constant improvement.

One of the main innovations of this rule is that the company, not the growers, seeks the certification. The expenses of all check controls and certifications are therefore borne by illycaffè. The certification generates advantages for all illycaffè stakeholders.

Advantages for coffee growers

The Responsible Supply Chain Process does not include audit expenses and generates significant advantages for coffee growers:

- A constant dialogue with illycaffè aimed at increasing the quality of the product, long-term productivity, and the sharing of know-how according to the principle of constant improvement; more than 250 training hours have been organized;
- An activity of technological development, such as the systems for the residual water treatment and plants with the lowest consumption of water as possible; thanks to the adoption of practices to reduce the use of water during processing, in India in 2012 an estimated 200,000 or more litres of water were saved compared to the previous year.
- Better harmony with illycaffè, in compliance with the sustainability criteria pursued by the company: this generates wellbeing, thanks to the premium price paid by the company for qualitative excellence. It is important to stress that participation in this process is on a voluntary basis, and not a prerequisite to be able to sell one's coffee to illy.

Advantages for customers and consumers

Customers and consumers can now avail themselves of many additional advantages that strengthen and improve what illycaffè has been seeking for many years in terms of quality and safety:

- The purchase of a safe and certified product;
- The observance of the law relating to the environment and the workplace;
- The traceability of the product all along the supply chain process. All the above is true everywhere but for Ethiopia (link to Ethiopia case), where a national ordinance forbids purchasing coffee straight from the producers, and obliges them to pass through government representatives. illycaffè is working side by side with other industry organizations to ask the Ethiopian government to provide better traceability of the purchase coffee lots;
- Awareness and satisfaction coming from purchasing a product that helps the social and economic development of the producing communities.

Organizational Advantages

The certification process has involved many areas and functions inside the company, by allowing illy's employees to increase their knowledge on the issues of sustainability, while becoming active in cultural exchanges, and increasing the inter-functional integration:

- The inauguration of systemic dialogue with the stakeholders to ensure a correlation between illycaffè's strategies and the stakeholders' interests, beginning with the communication process already in progress, according to a vision of constant development;
- Interventions to further improve the governance of sustainability, through the Sustainability Manifesto draft, and the development of management and control methods;
- The rationalization and systematization of all the activities developed throughout the year to guarantee the sustainability of the supply process;
- Specific actions and budgets structured for better and more responsible management, such as the strengthening of the growers' control check activities; the development of internal and external communication; the periodic monitoring of all issues linked to sustainability.

Interventions along the coffee production and supply chain

Illycaffè's commitment along the entire coffee chain is made tangible by its programmes to transfer know-how to producers, promote the culture of quality and sustainability, and pursue study, research, and innovation to improve knowledge about coffee; additionally, it works to improve the quality of life and working conditions of producers.

BRAZIL

Study on the decomodization of coffee. A study carried out by Professor Pierpaolo Andriani of the Durham Business School highlighted the relationship between the increase in the quality of coffee in various areas of Brazil with illycaffè's entrance in the country.

Project to measure emissions of greenhouse gases associated with coffee farming in Brazil. In collaboration with the specialized consultancy DeltaCO2, illycaffè sponsored (in 2011-12 it disbursed over € 13,000) a study to measure greenhouse gas emissions associated with coffee farming in three different regions of Brazil. The project began in 2010 and ended in 2012.

Atlantic Forest project in Brazil. In collaboration with Instituto Terra (created in 1998 by Sebastião Salgado to Lélia Wanick Salgado to develop and support the large-scale reforestation of an area of Atlantic forest in the Rio Doce valley in Brazil), illycaffè sponsored (for a total of € 231.000) the creation of experimental fields for the study of reforestation systems for the Atlantic forest (over 8,000 trees were planted in the nine hectares of experimental fields). The project began in 2008 and ended in 2012.

Environmental handbook for the management of natural reserves in the Atlantic Forest. In 2009 800 theoretical handbooks on the environmental management of the Atlantic Forest were distributed to coffee producers, research institutions, libraries, and universities in Brazil. In 2013, illycaffè is planning to publish and distribute 8000 practical handbooks on environmental management and the repopulation of the Atlantic Forest in coffee plantations.

Training and upgrading:

- 10 seminars in coffee-producing regions on the issues of quality, water conservation, and environmental best practices.
- 1 seminar in Sao Paulo with a roundtable with experts on the carbon footprint.
- 1 long-term course on farm business management.

Università del Caffè in Brazil. 708 producers involved in 2012 with a series of short courses on product quality and environmental quality in coffee-producing areas and an annual course on farm business management for coffee producers. 2 scholarships from the Ernesto Illy Foundation for the Master's

in Coffee Economics and Sciences (2012)

COLOMBIA

Coffee and honey project in Colombia In collaboration with the Calarama coffee-growers association of Chaparral, department of Tolima, the Ernesto Illy Foundation has introduced the production of honey as an alternative source of income and as a pilot project to create a model to be replicated in other coffee-growing areas. The project began in 2010 and is still ongoing.

1 scholarship from the Ernesto Illy Foundation for the Master's in Coffee Economics and Sciences (2012)

Training and upgrading: 8 seminars on best practices in cultivation, processing, and farm management.

COSTA RICA / PANAMA

Training and upgrading: 1 event on quality and best practices for the management of cultivation by-products.

EL SALVADOR

1 scholarship from the Ernesto Illy Foundation for the Master's in Coffee Economics and Sciences (2012)

ETHIOPIA

Germplasm project in Ethiopia. In collaboration with the University of Addis Ababa and Universität Bonn, the Ernesto Illy Foundation sponsors a project for the study and in situ conservation of the Arabica coffee germplasm in the country's primary forests. The project began in 2010 and will last five years

1 scholarship from the Ernesto Illy Foundation for the Master's in Coffee Economics and Sciences (2012) COSTA RICA / Training and upgrading: 1 event on quality and best practices for the management of cultivation by-products

GLOBAL

Technical visits by illy agronomists. Illycaffè's agronomists dedicate about 400 working days each year to transmitting knowledge to producers directly in their coffee farms. In 2012,



536 producers were visited.

SAI Platform. illycaffè is an active member of the SAI Platform, a private sector platform that works on sustainable agriculture in the precompetitive phase, and since 2012 it has presided its coffee working group. A project to define the rules to calculate the carbon footprint of green coffee has been active since 2012.

GUATEMALA

2 scholarships from the Ernesto Illy Foundation for the Master's in Coffee Economics and Sciences (2012)

INDIA

Training and upgrading: 238 producers involved in

- 5 seminars in coffee-producing regions on the issues of quality, water conservation, and the proper treatment of wastewater from coffee production.
- 1 course held on a farm on the issues of quality, coffee varieties, and coffee fertilization.
- 1 course in Bangalore on quality and the proper treatment of wastewater from coffee production.

Handbook on proper water use. In 2011, a handbook on water management during coffee cultivation and processing was distributed to 500 Indian coffee farmers

1 scholarship from the Ernesto Illy Foundation for the Master's in Coffee Economics and Sciences (2012)

LONDON

International Coffee Organization (ICO). illycaffè actively participates in the activities of the ICO, the largest intergovernmental association – launched in collaboration with the UN – to improve cooperation between nations that consume, distribute, and produce coffee. Ernesto Illy presided the Coffee Promotion Committee. Since 2012 Andrea Illy is the Chairman of the Promotion and Market Development Committee.

OXFORD

Research project on sustainable coffee cultivation. In collaboration with the Environmental Change Institute of the University of Oxford, illycaffè contributed 45.000 euro to a research project to develop a model to analyze sustainability in various

coffee cultivation systems. This three-year project ended in 2011.

PERÙ

1 scholarship from the Ernesto Illy Foundation for the Master's in Coffee Economics and Sciences (2012)

In order to reiterate its commitment along the entire coffee value chain and launch an international debate on this topic,

illycaffè promoted and organized together with ICS-UNIDO and the Ernesto Illy Foundation an international workshop on "Technologies and best practices for optimal utilization of by-products in the coffee value chain: how to increase sustainability in the coffee supply chain in East African countries", held at illy headquarters in Trieste in June 2012.

The goal of the workshop was to discuss various coffee production scenarios in developing countries, and the main priority was the sustainable development of the coffee value chain with the goal of improving the supplier/buyer relationship, with an eye towards social realities, ethical aspects, and environmental protection.

Participants included the most representative coffee producers in East Africa, and the following issues were discussed:

- Coffee cultivation technologies: new varieties;
- Mechanization in coffee collection and post-collection;
- Biomass use: the case of biochar;
- Projects in East Africa;
- The need for technology on coffee farms: case studies in East Africa.

A photograph of two men, likely coffee growers, smiling. They are wearing wide-brimmed hats and sunglasses. The man on the right has a name tag that reads "Francisco". The background shows a building with a corrugated metal roof.

Recognition and awards to Coffee Growers

illycaffè values and acknowledges the quality of coffee through many projects and awards. As such, it creates the best conditions to obtain excellent raw materials, while encouraging the producers' entrepreneurial and cultural growth, by transferring to them and practicing the sustainability principles. The selection of illycaffè suppliers is stringent and performed with different methods that take into account the realities of each country.

In Brazil in 1991, for example, illycaffè launched an award for growers in order to encourage a mechanism of identification of the best producers and to promote quality. At first this award was called Prêmio Brazil de Qualidade do Café Para Espresso, but today it is called Premio Ernesto Illy de Qualidade do Café para Espresso. In the early Nineties, Brazilian coffee production guaranteed huge quantities, but low quality. The award has consistently helped to change this situation, by allowing some Brazilian areas, such as the Cerrado, mistakenly considered unfit to grow coffee, to make a name for itself. Today, the Brazilian coffee bean is considered to be one of the best in the world by the international market. Following the success in Brazil, the award has been launched in other producer countries.

In Ethiopia, considering the local reality of thousands of small coffee producers, illycaffè and a local partner built some cleaning stations in order to obtain more homogeneity in the working process phase of the very small coffee berries brought by many growers. Before the national ordinance to regulate the internal market was published, regular training sessions had always been organized to teach the growers how to get a better quality product. This project has significantly helped spread the culture of coffee, of quality, and of the market all over the nation. In addition, illycaffè has participated with the Ethiopian Agriculture Ministry on a project designed to identify the working process that, with a very low investment, allows a huge qualitative improvement of the harvest and at the same time an increase of proceeds for each producer.

During 2012, illycaffè continue to acknowledge the Brazilian producers who were most active in the sustainability project (the sustainability criterion is one of the fundamental prerequisites for selecting the supplier of the year). The following are among the most significant projects that illycaffè has implemented to award the producers' quality:

AWARD ERNESTO ILLY DE QUALIDADE DO CAFÉ PARA ESPRESSO

This initiative promotes the most virtuous growers in the rural and environmental development of wide areas of Brazil, such as those surrounding Piraju, in the state of São Paulo, or the plateaus of the Cerrado and the Zona da Mata in the state of Minas Gerais, by providing them with cash prizes. Since illycaffè launched this award in 1991, more than ten thousand growers have taken part in it, and the total amount of the awards has reached about 2 million dollars. illycaffè also has created a prize for the Best Brazilian supplier of the year, in terms of quality, delivery and sustainability schedules. The

winners and their families are entitled to a journey to Italy that includes a visit to the illycaffè headquarters in Trieste.

CLUBE ILLY DO CAFÉ

In the wake of the success of the Ernesto Illy Prize, in 1999 this award was launched to strengthen the relations with the best coffee producers of Brazil and to promote the best growing practices possible. All coffee growers admitted to this Club are entitled to a fidelity card that changes accordingly to the product supply and the quality. Up to now there were 532 members of Clube illy.

Moreover, since 2011 illycaffè has been providing special identification plates for the most virtuous Brazilian growers' farms. Up to now, 11 plates have been awarded.

Illycaffè's award system has yielded quite a few advantages to the company, to the growers, and to their reference communities. The quality of coffee grown in Brazil has improved, even in areas which were until that time considered unfit to grow coffee. The growers have acquired new sustainable and responsible growing techniques: the know-how and the skills they now have thanks to illycaffè can be appreciated by and on the market, disregarding the supplies provided to illycaffè alone. Research conducted by the Durham Business School describes and analyzes the butterfly effect in the evolution of the quality of coffee in Brazil: small changes introduced in the Brazilian coffee market have resulted in big changes worldwide, and in the long-term behaviour of the whole industry. The research also shows how the creation of the award system has brought a progressive (decommodification) of the green coffee and has developed a network of excellent producers. In addition the research shows that companies can change the balance existing in the market and adopt a butterfly effect that provides gain through the development of a long-term vision, able to combine sustainability and quality.

Fair income for coffee growers

illycaffè calculates the minimum fair price for the coffee it buys through an approach based on a complex set of variables, and developed through years of experience and close collaboration with coffee growers. These variables include the country of origin, the kind of market, the product quality, and the production expenses.

The minimum price is based on the international stock market standard (ICE), on the production expenses, and on the guarantee of a fair margin of gain. Illycaffè recognizes farmers an average of 30% more than the market prices.

This margin rewards the coffee growers for the great care they have paid to their harvests, even when the price of green coffee becomes lower on the international market.

Economic added value

2012 has been significantly influenced – both at income and financial levels - by the decrease of consumptions. illycaffè SpA sales proceeds have grown by 5.5% compared to 2011, due to the average price increase of the coffee sold. In summary, economic and financial data show a lower (EBITDA) and (EBIT) compared to 2011, and the net profitability of the company has dropped compared to the previous financial year due to poorer financial management.

The net financial position has slightly improved compared to the previous financial year, and stands at € -130,3 million. Below is the recalculated economic and financial data:

Recalculated economic and financial data	2012	2011	Delta
TURNOVER	360.618	341.931	5,46%
Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA)	47.583	48.969	-3,38%
Earnings Before Interests and Taxes (EBIT)	20.314	22.231	-10,4%
NET PROFIT	6.403	8.617	-29,67%
NET FINANCIAL POSITION (NFP)	-130.317	-131.460	0,87%



Synthesis indicators	2012	2011
ROI	9,73%	12,5%
ROE	6,58%	8,8%
ROS	5,63%	6,50%
PFN / E equity	1,34	1,34
PFN / EBTDA	2,74	2,88



In order to clearly show the economic value that the company's activities have generated and distributed for some important categories of stakeholders, illycaffè uses the Added Value Standard.

By Added Value illycaffè means the difference between the profits and the production expenses that do not represent a payment to the company's stakeholders. From this point of view the concept stands out from the more traditional accounting definition.

The calculation of the Added Value shows the company's ability to generate wealth, in the reference period, to the different stakeholders' advantage. As of 12/31/20.21, illycaffè Group's Added Value was 120.9 million Euro (+2% compared to 2011).

SUMMARY STATEMENT TO DETERMINE THE GLOBAL ADDED VALUE Gruppo illycaffè - in Euro

	31/12/2011	31/12/2012
Production value	353.873.047	369.096.472
Production costs	-233.462.685	-245.595.207
Non-core expenses	-1.370.208	-4.404.684
Other income and expenses	-268.625	1.897.750
Gross global added value	118.771.529	120.994.331

Data for 2011 differ from those in the previous sustainable value report due to a change in reporting parameters.

The following statement (Allocation of the Added Value) shows in monetary value terms of the relationships between the company and the socio-economic system in which it interacts, with a special reference to some of the most important stakeholders:

- Human Resources: direct and indirect payment of associates (employees and not);
- Public Administration: payment of taxes and duties;
- Banks and Financial Institutions: payment on borrowed capital;
- Stakeholders: payment of the risk capital;
- Business System: payment of the company through reserves and amortization funds;
- Community: membership fees, donations and sponsorships.

DISTRIBUTION OF ADDED VALUE	2011	2012
A) Staff remuneration	70.496.146	74.843.914
Full-time staff (salaries and stipends, severance pay, social security contributions, other costs)	59.767.518	63.814.383
Additional staff remuneration (training costs, canteen costs, seconded staff)	6.929.646	7.518.491
Directors and Board of Auditors	3.798.982	3.511.040
B) Remuneration for the Public Administration	11.921.170	10.543.130
Current income taxes	8.397.673	7.024.362
Deferred tax liabilities		
- grants for current expenses	-136.130	-258.640
Other taxes	3.659.627	3.777.408
C) Remuneration of loan capital	3.300.175	3.768.946
Payable interests on mortgages	2.520.043	2.881.911
Payable interests to banks	490.427	357.846
Payable interests to other financiers (e.g. financial leasing)	289.705	529.189
D) Remuneration of stakeholders	6.277.257	6.610.577
Payouts to parent company shareholders	5.999.805	5.999.805
Profits/losses attributable to minority interest	277.452	610.772
E) Remuneration to the company	25.985.427	24.338.673
Retained earnings	2.616.855	403.361
Depreciation and amortization	23.368.572	23.935.312
F) Community remuneration	791.354	889.091
Voluntary contributions to associations and organizations (social and welfare expenses)	507.178	503.546
Membership fees	284.176	385.545
GROSS GLOBAL ADDED VALUE	118.771.529	120.994.331

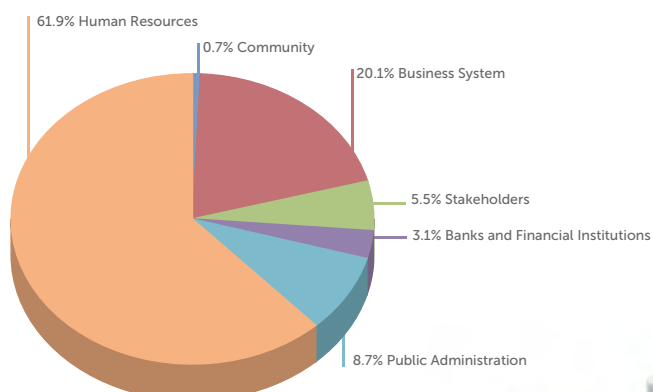
Data for 2011 differ from those in the previous sustainable value report due to a change in reporting parameters.



An analysis of the Added Value produced and distributed by illycaffè group in 2012 at global level shows that:

- The biggest share of illycaffè's Added Value was allocated to the payment of human resources (+6% compared to 2012, especially taking into account newly recruited staff). Under this entry is listed both what the contract foresaw and the expenses borne by the company for educational and training purposes, and to run the canteen.
- 21% of the added value created in 2012 has been reinvested inside the company. This share includes income not distributed to stakeholders and the amortization funds of investments by the companies of the group;
- Almost 9% has been allocated to the Public Administration (State and Local Institutions), as duties and taxes, with a decrease by 12% compared to the previous year.
- Stakeholders have collected dividends in line with those of 2011 (+5%), for an average sum of 5.5% of the Added Value.
- Banks and other Financial Institutions have received resources in loans and funding (3.1% of the added value).
- 0.7% of the added value is allocated to the Community, as donations, sponsorship, aids to common good and membership fees.

La distribuzione del Valore Aggiunto agli stakeholder (2012)



Investments

Investments implemented in 2012 by the group amount to 30.1 million € (+17% if compared to 2010), 9.6 million € of which for intangible assets.

	2011	2012
Start-up and expansion costs		368.064
R&D and advertising costs	1.191.183	255.478
Industrial patent rights and rights for the use of intellectual property	598.932	786.140
Concessions, licences, trade marks, and similar rights	469.725	366.563
Assets under construction and payments on account	3.118.886	1.184.540
Goodwill	2.585.515	2.323.094
Other intangible fixed assets	1.586.002	4.270.252
Land and buildings	316.405	1.091.117
Plants and machinery	5.844.526	1.640.243
Industrial and commercial equipment	9.759.814	10.537.997
Other goods	3.095.645	2.656.412
Assets under construction and payments on account	2.962.694	4.634.276
Total	31.529.327	30.114.177

Data for 2011 differ from those in the previous sustainable value report due to a change in reporting parameters.



Economic value improvements goals

What, how and when

illycaffè is drafting a Sustainability Road Map that will allow it to systemically define its strategic goals for 2020. Below are some of the short-term improvement goals.



100% of producers monitored straight in their fields by illycaffè

Engage a growing number of producers directly assessed buy illycaffè in their fields for the "supply chain responsible process", expanding this certification also in other countries and to new origins.

Quando: 2013 – 2014



Incentives for green coffee quality and sustainability

Develop additional initiatives to reward coffee producers in order to encourage sustainability and better partnership, and generate more knowledge on growing and working approaches to green coffee.

Quando: 2013 – 2014

Standard

Note on methodology

This is the second edition of the illycaffè Value Report. It is intended as a tool to document the company's sustainable management, which aims to increase the capacity to generate value while achieving sustainability (economic, social, and environmental) and paying due attention to the expectations of all the stakeholders who are directly or indirectly interested in illycaffè's activities. Additionally, the Value Report is a tool for the company to communicate the responsible path – based on sustainable behaviours, practices, and products – that it has embarked on over the last several years.

Guidelines and standards used for drafting the Report

The contents of the Value Report are laid out according to the guidelines in the "Global Reporting Initiative: Sustainability Reporting Guidelines version 3.1" and its supplement for the food production sector. The goal was to address the prerequisites set out in level A of the GRI-G3 guidelines. Additionally, we used the guidelines for drafting Social Reports put together by the G.B.S (Gruppo di Studio per il Bilancio Sociale) for calculating the Added Value.

The reporting process

The Sustainable Value Report was drafted through an internal process to involve the entire company structure, with contributions from the various organizational areas. Information was collected via special reporting forms in order to access data from both internal documents and external sources: we focused on the most relevant impacts and put together a basic recording system to make it possible for the process to be further developed in further year and, more importantly, to make the data collection and reporting process traceable and replicable, especially for the information that is generated for the most part by existing management systems (quality, food safety, and personal and environmental security).

The reporting process and the identification of content to be included in the Report took into account illycaffè's stakeholder engagement activities and the materiality analysis set out in the GRI-G3 guidelines for the identification of the most relevant issues..

Schedule of publication and reporting parameters

The schedule of publication and the reporting parameters coincide with those for the consolidated balance sheet of the illycaffè SpA Group and include all of the Group's subsidiaries, fully consolidated in the balance sheet. Data for 2011 differ from those in the previous sustainable value report due to a change in reporting parameters.

In some cases, information and data on performance refer to some of the Group's subsidiaries: in this case the report makes explicit reference to a change in reporting parameters. Since GRI standards mandate that all activities with a significant impact in terms of sustainability (materiality) be considered, whenever possible the report delves into activities along the value chain (for example, activities in coffee plantations). The Sustainability Budget will be audited by the independent third party Det Norske Veritas – DNV Business Assurance.

Copy of the Public Statement can be found at the following link: <http://goo.gl/1GuHR8>



Channels for consultation and dialogue with stakeholders

In formulating its strategies, illycaffè takes into account – and carefully maps – the indications and expectations of a variety of stakeholders. For each stakeholder, the company activates specific channels for consultation and dialogue in order to identify the key issues underlying the relationship and best respond to their needs and expectations.

The main activities concerning dialogue and consultation that illycaffè carried out in 2012 are as follows:

CLIENTS AND CONSUMERS

Stakeholders – Key issues	Main consultation initiatives
<ul style="list-style-type: none"> › Reputation of the product and the brand (brand value) › Quality › Fair and transparent commercial relations › Satisfaction – listening – management of complaints › Health policies › Price › Innovation › Pre- and post-sale services › Proper communications and responsible advertising › Compliance with regulations and information statements <ul style="list-style-type: none"> – product laws – to protect the final consumer › Packaging and recyclability › Product sustainability – associated responsibilities 	<ul style="list-style-type: none"> › Customer care: over 55,600 contacts in 2012 › Ad hoc company visits › Social networks › E-Mail › Customer satisfaction studies › Training at the Università del Caffè (28,500 students in 2012) › Support for activities carried out by clients on behalf of the environment or, more generally, sustainability (such as "cup of kindness" which raises funds for building schools in Ethiopia, the Marriot chain's "Jane Goodall Gala dinner" to raise funds for the environment, Share our Strength, ..) › Pre- and post-sale assistance › Response to requests from consumer associations › The Quality Promoters and Technical Consultants teams interact actively with clients, through activities and/or information sharing directly at the client's business establishment

GREEN COFFEE SUPPLIERS

Stakeholders – Key issues	Main consultation initiatives
<ul style="list-style-type: none"> › Long-term, continuous relationships › Reputation › Collaboration in research and development activities <ul style="list-style-type: none"> – transfer of know how › Social and environmental enhancement › Security understood as well-being › Issues related to quality 	<ul style="list-style-type: none"> › Certification activities as part of the Responsible Supply Chain Process › Clube website in Brazil, with focus groups and a forum on topical arguments › On-site training with local agronomists and/or the Università del Caffè › Technical and periodical visits and meetings with cultivators › Shared projects, such as the joint project with the University of Oxford to improve environmental sustainability › Brazil Award › Projects for coffee producer communities › Systematic feedback on coffee quality after testing at headquarters of illycaffè labs in order to improve production (even without purchases) › Relations and collaborative efforts with trade associations, governmental bodies, and other representatives of producers at the local level

HUMAN RESOURCES

Stakeholders – Key issues	Main consultation initiatives
<ul style="list-style-type: none"> › Professional growth and continuous learning › Meritocracy, delegation of authority › Stability in the workplace › Internal climate – well-being and collaboration- sharing of knowledge › Remunerations and benefits › Equal opportunities, balance between work and private life › Health and well-being in the workplace › Internal communication /// sense of belonging 	<ul style="list-style-type: none"> › Reserved channel and e-mail address for reporting violations of Law 231 › Involvement for the definition of the Code of Ethics › Internal events: "Have coffee with a manager", external testimonials, etc. › Team building › Internal committee for recreational and social activities › Working groups to improve safety and well-being in production › Drafting of the Exchange with illycaffè's "journalist" employees › Company intranet

STAKEHOLDERS

Stakeholders – Key issues	Main consultation initiatives
<ul style="list-style-type: none"> › Corporate sustainability and continuity › Profitability and business value › Protection of company reputation › Proper and transparent management › Economic independence and autonomy 	<ul style="list-style-type: none"> › Stakeholders' Assembly and participation in Board Meetings › Participation in internal events › Involvement in the drafting and revision of the code of ethics

ENVIRONMENT

Stakeholders – Key issues	Main consultation initiatives
<ul style="list-style-type: none"> › Atmospheric emissions › Use of recycled or environmentally sustainable materials › Adoption of responsible behaviours › Conservation and promotion of our environmental and biodiversity heritage › Packaging and recyclability 	<ul style="list-style-type: none"> › Authorizations and agreements › Studies with authoritative environmental institutions › Environmental management audit system › Participation in trade association working tables or in pre-competitive associations (ESE Consortium, AIIPA..) › Support for client activities in behalf of the environment (the Marriot chain's Jane Goodall Gala dinner to raise funds for planting trees,...) › Support for sound environmental management practices in coffee cultivation (reduction of water consumption, joint study with the University of Oxford,...)

PARTNERS

Stakeholders – Key issues	Main consultation initiatives
<ul style="list-style-type: none"> › Sharing of vision and development of partnerships › Fair and coherent commercial relations › Transfer of know-how and sharing of knowledge 	<ul style="list-style-type: none"> › Global PR meeting and international commercial meeting › Meetings to present projects (e.g. Sustainable Value Report) to individual subsidiaries and branches › Annual meetings › Participation in the Board Meetings of subsidiaries › Co-organization of events

COMMUNITY

Stakeholders – Key issues	Main consultation initiatives
<ul style="list-style-type: none"> › Satellite activities – investments and value creation in the local territory › Protection of the environment and quality of life › Respect for human rights › Full and transparent communication with the media and the community › Support for research and development initiatives – innovative capacity › Education, art, and culture 	<ul style="list-style-type: none"> › Projects for schools in Italy and several foreign countries › Support for University projects and collaborative efforts (e.g. University of Durham) › Master's degree in coffee economics and science › Regular invitations for local institutions to visit the company › Competitions and scholarships for young Italian and foreign artists › Media trips to coffee-producing countries and to company headquarters › Joint projects with leading international cultural institutions (Venice Biennale, PS1/ Moma in New York, Frieze in London, Arco in Madrid, Ucca in Beijing,...) › Galleria illy › Dialogue and collaboration with the main international schools of art and design (Eina in Barcelona; Muthesius Academy of Arts in Kiel, Germany; Ensad in Paris; Nka/ICA Independent Centre for Art in Belgrade, Peking University - Graduate Centre of Architecture) › Ily sustain art to support and give visibility to young artists from the global south › Dialogue and collaboration with the leading food and wine institutions (James Beard Foundation in NYC, Gambero Rosso in Rome) › Participation of stakeholders and top management in international conventions on the world of coffee, sustainability (illy is considered a best practice), communication strategies and tools (illy is considered a best practice), and business strategies

PUBLIC INSTITUTIONS

Stakeholders – Key issues	Main consultation initiatives
<ul style="list-style-type: none"> › Compliance with administrative requirements › Fiscal levies › Satellite activities – investments and value creation in the local territory 	<ul style="list-style-type: none"> › Participation in illy events › Regular invitations to the main institutional authorities to visit the company › Institutional prizes and awards for illycaffè's good works worldwide › Participation in working tables › Participation in institutional research or projects promoted by institutions in coffeegrowing countries

MARKET

Stakeholders – Key issues	Main consultation initiatives
<ul style="list-style-type: none"> › Fair competition › Protecting the brand and sector image › Increasing demand › Privacy – protection of know-how 	<ul style="list-style-type: none"> › Direct contacts during trade fairs and other sector events › Active participation in pre-competitive meetings with competitors and universities (ISIC; ASIC, Coffee district) › Active participation in the main trade associations (Confindustria, Associazione Industriali di TS, Distretto del caffè, SCAE Italia, Centromarca, Altagamma, ASIC, ISIC, FERPI) › Participation in conferences

GRI table

The following table contains useful information for evaluating the coverage requirements laid down by the GRI-G3 reporting standard indicating, moreover, the code corresponding to the indicator, an explanatory note when the complexity of the data requires one, and a link to the section of the Report discussing that topic. Furthermore, in line with the protocol developed by the GRI, sector-specific indicators have been inserted relating to the production of food (FP - Food Processing Sector)

STRATEGY AND ANALYSIS		
Profile disclosure	Description	Page
11	Statement from the most senior decision-maker of the organization	2
12	Description of key impacts, risks, and opportunities	9
ORGANIZATIONAL PROFILE		
Profile disclosure	Description	Page
2.1	Name of the organization	4
2.2	Primary brands, products, and/or services	4
2.3	Operational structure of the organization, including main divisions, operating companies, subsidiaries, and joint ventures	16
2.4	Location of organization's headquarters	4
2.5	Number of countries where the organization operates, and names of countries with either major operations or that are specifically relevant to the sustainability issues covered in the report	4
2.6	Nature of ownership and legal form	16
2.7	Markets served (including geographic breakdown, sectors served, and types of customers/beneficiaries)	4
2.8	Scale of the reporting organization	4
2.9	Significant changes during the reporting period regarding size, structure, or ownership. Data for 2011 differ from those in the previous sustainable value report due to a change in reporting parameters	16
2.10	Awards received in the reporting period	17
REPORT PARAMETERS		
Profile disclosure	Description	Page
3.1-3.3	Reporting Period, data and reporting cycle	102
3.4	Contact point for questions regarding the report or its contents	102
3.5-3.7	Process for defining report content, Boundary of the Report, limitations	102
3.8	Basis for reporting on joint ventures, subsidiaries, leased facilities, outsourced operations, and other entities that can significantly affect comparability from period to period and/or between organizations.	4
3.9	Data measurement techniques and the bases of calculations	102
3.10	Explanation of the effect of any re-statements of information provided in earlier reports, and the reasons for such re-statement (e.g., mergers/acquisitions, change of base years/periods, nature of business, measurement methods).	102
3.11	Significant changes from previous reporting periods in the scope, boundary, or measurement methods applied	102
3.12	Table identifying the location of the Standard Disclosures in the report.	106
3.13	Policy and current practice with regard to seeking external assurance for the report	102

GOVERNANCE, COMMITMENTS, AND ENGAGEMENT		
Profile disclosure	Description	Page
4.1	Governance structure of the organization	16
4.2, 4.3	Indicate whether the Chair of the highest governance body is also an executive officer	16
4.4	For organizations that have a unitary board structure, state the number and gender of members of the highest governance body that are independent and/or non-executive members	16
4.5	Linkage between compensation for members of the highest governance body, senior managers, and executives (including departure arrangements), and the organization's performance (including social and environmental performance) Note: see Appointments and Remuneration Committee' functions	16
4.6	Processes in place for the highest governance body to ensure conflicts of interest are avoided	16
4.7	Process for determining the composition, qualifications, and expertise of the members of the highest governance body and its committees, including any consideration of gender and other indicators of diversity	16
4.8	Internally developed statements of mission or values, codes of conduct, and principles relevant to economic, environmental, and social performance and the status of their implementation	7
4.9	Procedures of the highest governance body for overseeing the organization's identification and management of economic, environmental, and social performance	10
4.10	Processes for evaluating the highest governance body's own performance, particularly with respect to economic, environmental and social performance. - Note: don not apply	10
4.11	Explanation of whether and how the precautionary approach or principle is addressed by the organization	10
4.12	Externally developed economic, environmental, and social charters, principles, or other initiatives to which the organization subscribes or endorses	46, 17
4.13	Memberships in associations (such as industry associations) and/or national/international advocacy organizations in which the organization: * Has positions in governance bodies; * Participates in projects or committees; * Provides substantive funding beyond routine membership dues; or * Views membership as strategic	15
4.14	List of stakeholder groups engaged by the organization	28
4.15	Basis for identification and selection of stakeholders with whom to engage	28
4.16	Approaches to stakeholder engagement, including frequency of engagement by type and by stakeholder group	28
4.17	Key topics and concerns that have been raised through stakeholder engagement, and how the organization has responded to those key topics and concerns, including through its reporting	28
PERFORMANCE INDICATORS: ECONOMIC		
Profile disclosure	Description	Page
DMA EC	Disclosure on Management Approach: Economic performance, Market presence, Indirect economic impacts	86
EC1 Core	Direct economic value generated and distributed, including revenues, operating costs, employee compensation, donations and other community investments, retained earnings, and payments to capital providers and governments	97
EC2 Core	Financial implications and other risks and opportunities for the organization's activities due to climate change	82
EC3 Core	Coverage of the organization's defined benefit plan obligations	47, 54
EC4 Core	Significant financial assistance received from government	97
EC5 Add	Range of ratios of standard entry level wage by gender compared to local minimum wage at significant locations of operation	47
EC6 Core	Policy, practices, and proportion of spending on locally-based suppliers at significant locations of operation	56
EC7 Core	Procedures for local hiring and proportion of senior management hired from the local community at significant locations of operation	47
EC8 Core	Development and impact of infrastructure investments and services provided primarily for public benefit through commercial, in-kind, or pro bono engagement	57
EC9 Add	Understanding and describing significant indirect economic impacts, including the extent of impacts	26, 61, 95

PERFORMANCE INDICATORS: LABOR PRACTICES AND DECENT WORK		
Profile disclosure	Description	Page
DMA LA	Disclosure on Management Approach: Employment, Labor/management relations, Occupational health and safety, Training and education, Diversity and equal opportunity, Equal remuneration for women and men	47
LA1 Core	Total workforce by employment type, employment contract, and region, broken down by gender	47
LA2 Core	Total number and rate of new employee hires and employee turnover by age group, gender, and region	47
LA3 Add	Benefits provided to full-time employees that are not provided to temporary or part-time employees, by major operations	47
LA15 Core	Return to work and retention rates after parental leave, by gender	47
LA4 Core	Percentage of employees covered by collective bargaining agreements	47
LA5 Core	Minimum notice period(s) regarding significant operational changes, including whether it is specified in collective agreements	47
LA6 Add	Percentage of total workforce represented in formal joint management-worker health and safety committees that help monitor and advise on occupational health and safety programs	52
LA7 Core	Rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities by region and by gender	52
LA8 Core	Education, training, counseling, prevention, and risk-control programs in place to assist workforce members, their families, or community members regarding serious diseases	52
LA9 Add	Health and safety topics covered in formal agreements with trade unions	52
LA10 Core	Average hours of training per year per employee by gender, and by employee category	50
LA11 Add	Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings	50
LA12 Add	Percentage of employees receiving regular performance and career development reviews, by gender	50
LA13 Core	Composition of governance bodies and breakdown of employees per employee category according to gender, age group, minority group membership, and other indicators of diversity	16, 47
LA14 Core	Ratio of basic salary and remuneration of women to men by employee category, by significant locations of operation	47
PERFORMANCE INDICATORS: HUMAN RIGHTS		
Profile disclosure	Description	Page
DMA HR	Disclosure on Management Approach: Investment and procurement practices, Non-discrimination, Freedom of association and collective bargaining, Child labor, Prevention of forced and compulsory labor, Security practices, Indigenous rights, Assessment, Remediation	64
HR1 Core	Percentage and total number of significant investment agreements and contracts that include clauses incorporating human rights concerns, or that have undergone human rights screening Note: The company applies its Code of Ethics in all relationship and the requirements of the Responsible Supply Chain Process along the supply chain	64
HR2 Core	Percentage of significant suppliers, contractors and other business partners that have undergone human rights screening, and actions taken. - Note: The company applies its Code of Ethics in all relationship and the requirements of the Responsible Supply Chain Process along the supply chain	64
HR3 Core	Total hours of employee training on policies and procedures concerning aspects of human rights that are relevant to operations, including the percentage of employees trained	64
HR4 Core	Total number of incidents of discrimination and corrective actions taken	64
HR5 Core	Operations and significant suppliers identified as having significant risk for incidents of child labor, and measures taken to contribute to the effective abolition of child labor	64

HR6 Core	Operations and significant suppliers identified as having significant risk for incidents of child labor, and measures taken to contribute to the effective abolition of child labor	64
HR7 Core	Operations and significant suppliers identified as having significant risk for incidents of forced or compulsory labor, and measures to contribute to the elimination of all forms of forced or compulsory labor	64
HR8 Add	Percentage of security personnel trained in the organization's policies or procedures concerning aspects of human rights that are relevant to operations.	64
HR9 Add	Total number of incidents of violations involving rights of indigenous people and actions taken	64
HR10 Core	Percentage and total number of operations that have been subject to human rights reviews and/or impact assessments	64
HR11 Add	Number of grievances related to human rights filed, addressed and resolved through formal grievance mechanisms Note: no complaint received	64

PERFORMANCE INDICATORS: SOCIETY

Profile disclosure	Description	Page
DMA SO	Disclosure on Management Approach: Local communities, Corruption, Public policy, Anti-competitive behavior, Compliance	34, 57
SO1 Core	Percentage of operations with implemented local community engagement, impact assessments, and development programs	57
SO9 Core	Operations with significant potential or actual negative impacts on local communities	81
SO10 Core	Prevention and mitigation measures implemented in operations with significant potential or actual negative impacts on local communities	81
SO2 Core	Percentage and total number of business units analyzed for risks related to corruption	16
SO3 Core	Percentage of employees trained in organization's anti-corruption policies and procedures	64
SO4 Core	Actions taken in response to incidents of corruption	64
SO5 Core	Public policy positions and participation in public policy development and lobbying	57, 15
SO6 Add	Total value of financial and in-kind contributions to political parties, politicians, and related institutions by country	63
SO7 Add	Total number of legal actions for anti-competitive behavior, anti-trust, and monopoly practices and their outcomes	64
SO8 Core	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations	64

PERFORMANCE INDICATORS: PRODUCT RESPONSIBILITY

Profile disclosure	Description	Page
DMA PR	Disclosure on Management Approach: Customer health and safety, Product and service labelling, Marketing communications, Customer privacy, Compliance	34, 35
PR1 Core	Life cycle stages in which health and safety impacts of products and services are assessed for improvement, and percentage of significant products and services categories subject to such procedures	35
PR2 Add	Total number of incidents of non-compliance with regulations and voluntary codes concerning health and safety impacts of products and services during their life cycle, by type of outcomes	35
PR3 Core	Type of product and service information required by procedures, and percentage of significant products and services subject to such information requirements	17, 46
PR5 Add	Practices related to customer satisfaction, including results of surveys measuring customer satisfaction	44
PR6 Core	Programs for adherence to laws, standards, and voluntary codes related to marketing communications, including advertising, promotion, and sponsorship	46

PR7 Add	Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion, and sponsorship by type of outcomes	46
PR8 Add	Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data	46
PR9 Core	Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services	46

PERFORMANCE INDICATORS: ENVIRONMENTAL

Profile disclosure	Description	Page
DMA EN	Disclosure on Management Approach: Materials, Energy, Water, Biodiversity, Emissions, effluents and waste, Products and services, Compliance, Transport, Overall	69, 81
EN1 Core	Materials used by weight or volume	74
EN2 Core	Percentage of materials used that are recycled input materials	74
EN3 Core	Direct energy consumption by primary energy source	75
EN4 Core	Indirect energy consumption by primary source	75
EN5 Add	Energy saved due to conservation and efficiency improvements	75
EN6 Add	Initiatives to provide energy-efficient or renewable energy based products and services, and reductions in energy requirements as a result of these initiatives	75
EN7 Add	Initiatives to reduce indirect energy consumption and reductions achieved	81
EN8 Core	Total water withdrawal by source	76
EN9 Core	Water sources significantly affected by withdrawal of water	76
EN10 Add	Percentage and total volume of water recycled and reused	76
EN11 Core	Location and size of land owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas	70
EN12 Core	Description of significant impacts of activities, products, and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas	70
EN13 Add	Habitats protected or restored	70
EN14 Add	Strategies, current actions, and future plans for managing impacts on biodiversity	70
EN15 Add	Number of IUCN Red List species and national conservation list species with habitats in areas affected by operations, by level of extinction risk	70
EN16 Core	Total direct and indirect greenhouse gas emissions by weight	72
EN17 Core	Other relevant indirect greenhouse gas emissions by weight	72
EN18 Add	Initiatives to reduce greenhouse gas emissions and reductions achieved	72
EN19 Core	Emissions of ozone-depleting substances by weight	72
EN20 Core	NOx, SOx, and other significant air emissions by type and weight	72
EN21 Core	Total water discharge by quality and destination	76
EN22 Core	Total weight of waste by type and disposal method	77
EN23 Core	Total number and volume of significant spills	77
EN24 Add	Weight of transported, imported, exported, or treated waste deemed hazardous under the terms of the Basel Convention Annex I, II, III, and VIII, and percentage of transported waste shipped internationally	77
EN25 Add	Identity, size, protected status, and biodiversity value of water bodies and related habitats significantly affected by the reporting organization's discharges of water and runoff	70

EN26 Core	Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation	72, 78
EN27 Core	Percentage of products sold and their packaging materials that are reclaimed by category	78, 74
EN28 Core	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations	70
EN29 Add	Significant environmental impacts of transporting products and other goods and materials used for the organization's operations, and transporting members of the workforce	72
EN30 Add	Total environmental protection expenditures and investments by type	70

PERFORMANCE INDICATORS: FOOD PROCESSING SECTOR

Profile disclosure	Description	Page
FP1 Core	Percentage of purchased volume from suppliers compliant with company's sourcing policy	88
FP2 Core	Percentage of purchased volume which is verified as being in accordance with credible, internationally recognized responsible production standards, broken down by standard	88
FP3 Core	Percentage of working time lost due to industrial disputes, strikes and/or lock-outs, by country	47
FP4 Core	Nature, scope and effectiveness of any programs and practices (in-kind contributions, volunteer initiatives, knowledge transfer, partnerships and product development) that promote healthy lifestyles; the prevention of chronic disease; access to healthy, nutritious and affordable food; and improved welfare for communities in need.v	57, 26
FP5 Add	Percentage of production volume manufactured in sites certified by an independent third party according to internationally recognized food safety management system standards.	35
FP6 Core	Percentage of total sales volume of consumer products, by product category, that are lowered in saturated fat, trans fats, sodium and sugars	35
FP7 Core	Percentage of total sales volume of consumer products, by product category sold, that contain increased fiber, vitamins, minerals, phytochemicals or functional food additives	35
FP8 Core	Policies and practices on communication to consumers about ingredients and nutritional information beyond legal requirements	46
FP9-13	Animal welfare – not applicable	N.A.

Glossary of terms

A

AccountAbility 1000 – AA1000

A voluntary standard developed by the ISEA, Institute of Social and Ethical Accountability. The AA1000 enables the accountability and performance of the organizations to be improved through the identification of a process with which to build a common relationship and mutual trust with key stakeholders.

Artisti del Gusto

Project devised by illycaffè to create an international network of outstanding baristas.

Auditing

Monitoring and audit of the reporting process and, at the same time, of the final verification of the information contained in the Social Report.

C

Coffee supply chain

The aggregate of organizations, activities, technologies and resources contributing to the creation, processing, supply, distribution and marketing of coffee.

Code of ethics

Declaration of principles and values guiding the company's daily operations.

E

EMAS

A voluntary Eco-Management and Audit Scheme, which can be joined by any organization wishing to work at evaluating and improving its own environmental efficiency. EMAS helps improve the environment and provides organizations, supervisory authorities and stakeholders with a tool providing information on the environmental performance of the organizations themselves.

Environmente

The context in which an organization operates: air, soil, water, land, natural resources, flora, fauna, human beings and their interactions.

Environmental impact

Any change to the environment, whether adverse or beneficial, wholly or partially resulting from an organization's activities, products or services.

Espressamente illy

An international chain of franchised designs for coffee bars, offering the experience of the genuine Italian-style café across the world.

F

FAO

The Food and Agriculture Organization of the United Nations whose mandate is to raise levels of nutrition, improve agricultural productivity, better the lives of rural populations and contribute to the growth of the world economy.

G

GLOBAL REPORTING INITIATIVE (GRI)

A multi-stakeholder network composed of companies, NGOs, nonprofit organizations, associations of accountants, business organizations and other stakeholders internationally active on topics related to Social Responsibility. The mission of the GRI is to develop, deliver and promote guidelines for drafting Sustainability Reports describing the economic, environmental and social impact that companies or organizations generate through their activities.

Green coffee

When the seeds found in the fruit of the coffee plant are processed/dried, they are called beans.

K

Key Performance Indicators – KPI

Specific indicators for measuring and detecting qualitative and quantitative data which analyze the results of the company's economic social and environmental management.

I

ILO

Declaration of fundamental principles and rights at work presented by the International Labor Organization.

Iperespresso

illycaffè's coffee capsules protected by five patents.

ISO 14001

A voluntary international standard defining how an effective system of environmental management must be developed. The certification demonstrates that the certified organization has an appropriate management system to monitor the environmental impacts of its activities and systematically seeks improvement in a consistent, effective and sustainable manner.

ISO 26000

A guideline set up as an international reference on Corporate Social Responsibility. The standard is intended to help organizations apply the principles of Social Responsibility and identify issues that must be taken into consideration in the management of economic, social and environmental impacts.

S

STAKEHOLDER

This term refers to all those who have an interest or concern in a particular organization.

STAKEHOLDER ENGAGEMENT

The progressive engagement of stakeholders (internal and external) and the possible detection of legitimate expectations and satisfaction generated by the organization's strategic choices is key to achieving a conscious approach to social responsibility.

Supply Chain

A system of organizations, people, technology, activities, information and resources involved in the production of a product or service.

Sustainable development

The development that meets the needs of the present without compromising the ability of future generations to meet their own needs. The goal is to achieve a balance between the economic, social and environmental dimensions.

If you have any additional questions or comments related to sustainability, we will be glad to provide you with information on our vision and our specific goals and targets.

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