

A close-up photograph of several roasted coffee beans. The beans are dark brown with a visible crease down the middle. They are arranged in a diagonal line from the top left towards the bottom right, with the foreground beans in sharp focus and the background ones blurred.

SEED:S

Social
Environmental
Economic
Development:
Sustainability

Sustainable value report 2016

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SEED:S

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Environmental
Economic
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Sustainability



identity and values

Values that make a difference, actions that serve a purpose

illycaffè is publishing its Sustainable Value Report for 2016 too, continuing its commitment to reporting its activities in the field of sustainability that it has adopted since 2012, with the desire to communicate this theme, but most importantly to assess it and improve economic, social and environmental impact on stakeholders.

Through our commitment to promoting sustainability and the actions it consists of, we intend to promote the development of positive behavior models and of a culture oriented towards understanding the real needs of the communities we work with, helping them grow and making use of the technical and professional experience we have acquired in over eighty years in business.

The results this year - in terms of value creation - confirm illy's ability to continue to develop its virtuous process, in spite of the difficult economic times that we haven't experiencing for some time now, and the threat of climate change, which is increasingly pressing and is having a notable impact on coffee growing in almost all areas.

In 2016, at the same time as the 25th Anniversary of the Ernesto Illy per la Qualidade do Café para Espresso Award, a milestone for social sustainability and knowledge sharing, that illycaffè has always pioneered, we established the Ernesto Illy International Coffee Award dedicated to coffee farmers who promote quality and sustainability, no longer just in Brazil, but in the main coffee producing countries, emphasizing the importance of working together with them, hand in hand, to continue to pursue the company's dream and mission of offering the best coffee in the world. 2016 was also the year in which we perfected and extended the concept of our single-brand illy Caffè POS concept, to make them increasingly unique, where consumers can



have the full illy experience, provided by the best interpreter of the Italian lifestyle. Creating value for all our stakeholders and pursuing the highest ethical standards in our operating model have won illycaffè, for the fifth year running, the title of one of the World's Most Ethical Companies, as selected by the Ethisphere Institute. This result, together with all the others, whether large or small, encourages us to continue on this path and to always do better.

Andrea Illy
President



■ 1.2

il.lycaffè profile

■ 1.2.1 Identity and numbers

Key numbers of stakeholders

140

countries in which il.lycaffè operates

100,000

retailers serving il.ly coffee

236

il.ly stores worldwide

1,500

and more Artisti del Gusto worldwide

22

new single-brand stores opened in 2016

1,269

employees as of 31 December 2016,
at the consolidated level, + 8% compared to 2015

460,387

million Euros in overall turnover (+ 5.3% compared to 2015)

5

certifications: 4 quality certifications and 1 sustainability
certification

5

specialized laboratories

4

cutting-edge innovations from research activities conducted by
il.lycaffè

25

Università del Caffè campuses

illycaffè produces and sells worldwide a **unique blend of premium quality coffee**, consisting of 100% **Arabica** coffee from 9 different sources. The perfect balance obtained by combining ingredients from South America, Central America, India, Africa and China produces the distinctive illy flavor and aroma in every single cup of coffee, all over the world.

illy blend products are available in the Premium Hospitality sector (hotels, restaurants and cafés), and for home, office and take-away consumption. They are available in 3kg tins for cafés, in small 250-gram tins for domestic use, capsules, E.S.E. pods and ready-to-drink cans. illycaffè products are on the market in **more than 140 countries, on all five continents and are served in about 100,000 selling points**.

Great attention is paid to the culture of coffee, and this is why the company founded the **Università del Caffè** in 1999. Study programs and courses have been formulated to address different levels of specialized profiles and are dedicated to training selected coffee growers and retail staff as well as consumers. illycaffè is based in Trieste and is led by the third generation of the Illy family.

Main companies of the illycaffè Group on December 31, 2016

The list does not show ancillary services undertakings (e.g. Real estate) that have no employees.

| SOCIETY | BUSINESS | EMPLOYEES AS OF 12/31/16 |
|--|--|--------------------------------|
| ILLYCAFFÈ SPA - Parent company | Parent company: roasting and distribution (Trieste) | 822 |
| ILLYCAFFÈ S.P.A. NIEDERLASSUNG ÖSTERREICH | Branch: distribution (Vienna - Austria) | |
| ILLYCAFFÈ S.P.A. - NIEDERLASSUNG DEUTSCHLAND | Branch: distribution (Munich - Germany) | |
| ILLYCAFFÈ S.P.A. VESTIGING NEDERLAND | Branch: distribution (Rotterdam - Netherlands) | |
| ILLYCAFFÈ SPA ASIA PACIFIC BRANCH | Marketing and retail Asian area (Hong Kong - China) | |
| ILLYCAFFÈ SPA SUCURSAL EN ESPANA | Branch: distribution (Barcelona - Spain) | |
| ILLYCAFFÈ SPA DWC BRANCH | Marketing and retail (United Arab Emirates and Middle East) | 46 |
| ILLYCAFFÈ FRANCE SAS | Distribution (France, Belgium and Luxembourg) | |
| ESPRESSAMENTE FRANCE S.A.S. | Lease retail management (France) | 32 |
| MAGIC L'ESPRESSO SL | Espresso machine manufacture (Spain) | 18 |
| ILLYCAFFÈ NORTH AMERICA INC. | Distribution (U.S.A. and Mexico) | 97 |
| ESPRESSAMENTE ILLY AMERICAS INC. | Franchising development (United States) | 3 |
| ILLY ESPRESSO CANADA INC. | illycaffè subsidiary North America: distribution (Canada) | 3 |
| ILLY CAFFÈ SAN FRANCISCO LLC | Indirect subsidiary: lease retail management (San Francisco) | 23 |
| ILLYCAFFÈ SHANGHAI CO. LTD | Distribution (China) | 61 |
| ILLYCAFFÈ SUD AMERICA L.T.D.A. | Distribution (Brazil) | 23 |
| EXPERIMENTAL AGRICOLA DO BRASIL L.T.A. | Green coffee intermediation and green coffee research | 13 |
| MITACA SRL | Production of capsule systems for espresso coffee (Milan) | 67 |
| ESPRESSAMENTE RETAIL LONDON LTD | Franchising development (UK) | 23 |

■ 1.2.2 The illy Group

Gruppo illy S.p.A. is the holding company of the Illy family. The Group controls **illycaffè**, **Domori** (manufacturers of high quality chocolate products), **Dammann Frères** (a company of specialist tea dealers) and **Mastrojanni** (a winery located in Montalcino, Tuscany). The Group is also a shareholder in other companies, such as **Agrimontana** (a leader in the production of high-end pastry products, including marrons glacés and fruit preserves). Gruppo illy S.p.A. was created with the long-term goal of developing a gastronomic hub,

in which each company is a reference point of top quality. Each company is led by its respective founder or by relevant successors, in order to guarantee a high level of independence in managerial leadership, as well as maintain intact the spirit of research and innovation of the individual brands. **Riccardo Illy** is the President of the Group.

Each individual company possesses its own personal history and traditional know-how and the holding company is committed to constantly searching out the best possible synergies, also with regard to sustainability.





■ 1.3

History, Mission, Vision and Values

■ 1.3.1 Mission, Vision and Values

MISSION

To delight all those people, throughout the world, who cherish the quality of life and beauty, through the best coffee nature can provide, enhanced by the best available technologies and by art.

VISION

Our objective is to become a worldwide **reference point** in the **culture** and excellence of coffee: an innovative company offering the best products together with the best locations to enjoy them, thereby becoming a **leader in the top-quality sector**.

VALUES

illy is a stakeholder company with the intention of improving quality of life through ethics and excellence.

Excellence. Understood as a passion for quality, beauty and continuous improvement.

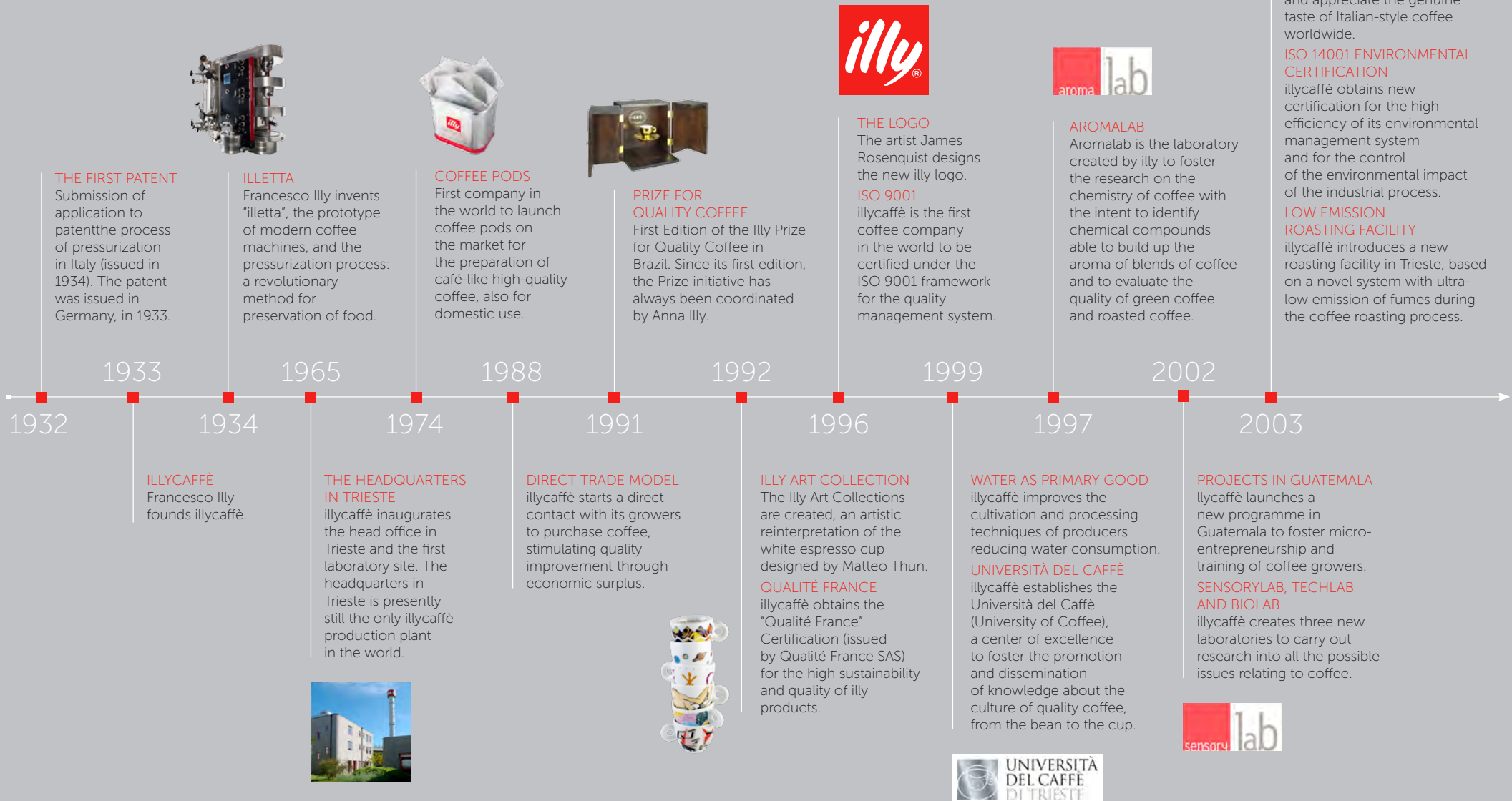
Ethics. Understood as the creation of long-term value through transparency, sustainability and personal development.

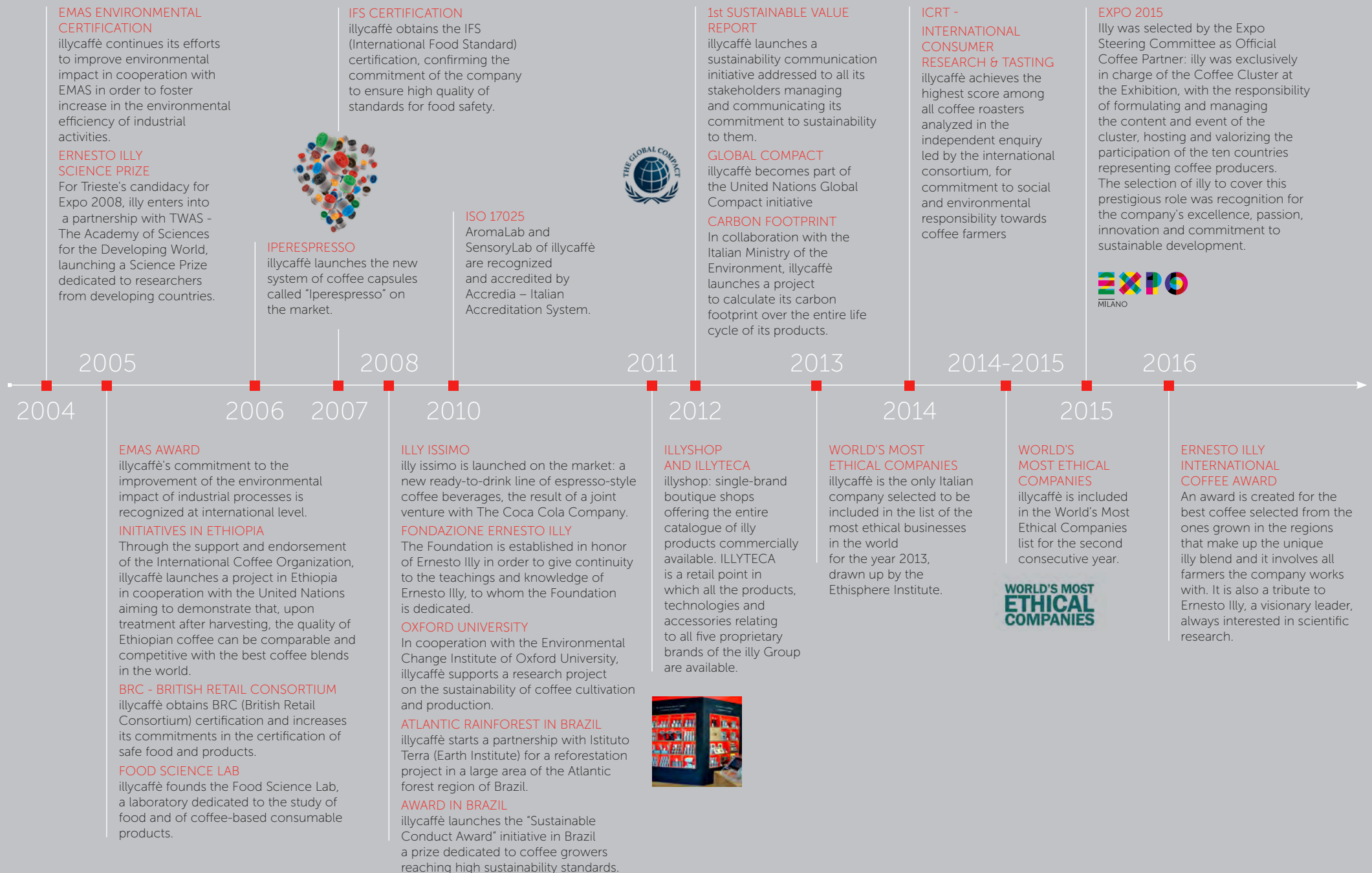
**DOWNLOAD**

Material available
to download

- [Code of ethics and organizational model 231](#)
- [Sustainability manifesto](#)

1.3.2 The history of illycaffè and the stages of sustainability





■ 1.3.3 The Ernesto Illy Foundation

Highlights

350,000 Euros donated by illycaffè s.p.a.

illycaffè created the Foundation, administered by the Illy family, with the aim of providing continuation to the moral and cultural heritage handed down by Ernesto Illy. The Foundation is a non-profit organization and was created with the goal of developing and increasing ethics and sustainability through the promotion of research, and the organization and dissemination of activities open to all stakeholders.

The Foundation's Mission

To cultivate and develop knowledge, ethics and sustainability as absolute values in running a business, and research as a method for the truth and the development of humankind, in keeping with Ernesto Illy's teachings. To pursue values and the method both to enable communities to grow economically, socially and culturally, and as a tool that gives the company a competitive advantage.

The Foundation's Vision

Values and profits are fed by each other. Ethical companies, leaders of the modern economy, aim to turn values into profit and pursue the quality of profit as something that builds lasting value.

The Foundation deals with scientific and cultural projects that it manages directly and in partnership with Universities, Institutes and Bodies of

Excellence, with the aim of looking more in depth at issues such as ethics, sustainability, scientific research and coffee culture. For more information, see paragraph 4.3.3.

The Ernesto Illy Foundation is a co-founder of three other organizations:

- **Fondazione Italia Patria della Bellezza:** whose mission is to enhance Italy's place in the world by reinforcing the collective perception that Italy is the home of beauty.
- **The International Coffee Genome Network (ICGN)** a worldwide network of scientists dedicated to the development of research on the coffee genome.
- **Jacques Attali - the Positive Economy Forum:** founded by Jacques Attali's Planet Finance group. Its main objective is to create a virtuous group of positive economy ambassadors in Italy.

To find out more about the work of the Ernesto Illy Foundation, you can visit the website [here](#).

The Foundation has supported the World Happiness Report 2017 by the Sustainable Development Solutions Network (SDSN) with a three-year donation.

■ THE ERNESTO ILLY FOUNDATION LOGO

Designed in '60s, the Ernesto Illy Foundation logo depicts a pair of cups on two joined saucers, indicating the connection and the precious, close relationship that grows between two people through dialogue and friendship. "They are two espresso cups seen from above. They symbolize the message that drinking coffee is a social act, it triggers friendships and conversations, and it should never be consumed alone. It must always be consumed in company." Ernesto Illy.



FONDAZIONE ERNESTO ILLY

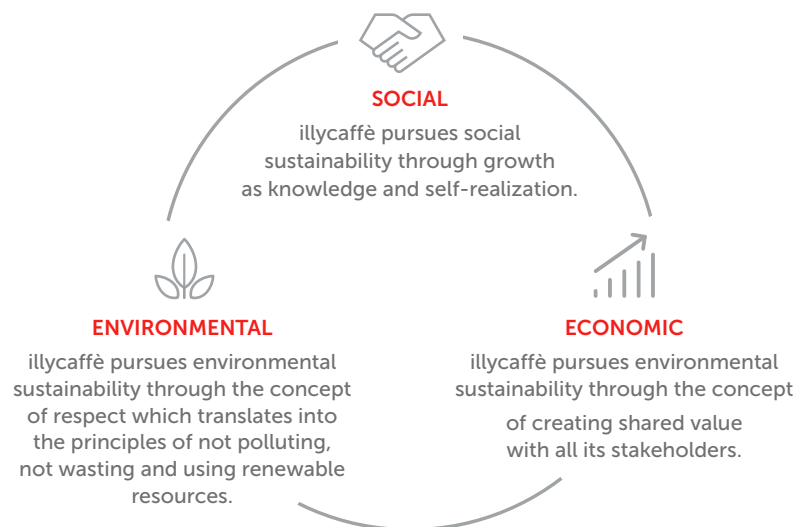
■ 1.4

Sustainability Strategy and Governance

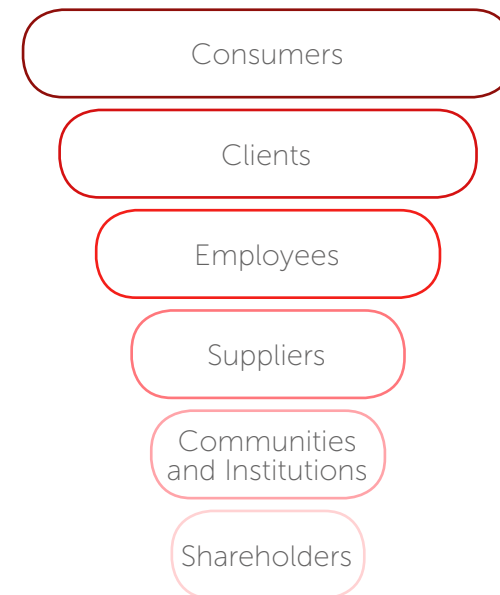
■ 1.4.1 Sustainability Strategy and Governance

The inspiring principle of illycaffè is the continuous striving for perfection. This driving force is expressed through two different founding values: the passion for **excellence**, intended as a love of beauty and a job well done; and **ethics**, the creation of long-term value through sustainability, transparency, the betterment of people, fostering social growth, and respecting the environment.

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



In the hierarchy of stakeholders, consumers are placed at the top, followed by customers, who are partners of the company in offering the best products and services to consumers. Then, talents collaborating with the company are placed in the next step, as the excellence of products could not be achieved without their passion, competence and professional commitment to the company. Suppliers also have a crucial role in ensuring the delivery of our products, as well as all the communities sharing relations with illycaffè. Shareholders form the base which sustains the company.



In order to ensure a better share of its sustainability strategy with all the stakeholders, the company formulated the [Sustainability Manifesto](#) which, together with the [Code of Ethics](#), forms illycaffè's core commitment within the framework of responsible business management in the three main areas of sustainability.

SUSTAINABILITY AS VALUE



PLANNING AS A FUNCTION OF SUSTAINABILITY

OBJECTIVES OF IMPROVEMENT
FOR SUSTAINABILITY



BUSINESS ETHICS RISKS



COMMITMENT TO
SHAREHOLDERS



SUSTAINABILITY COMMITTEE

The Committee comprises 3 members of the Board of Directors and principally performs the following functions:

- Supporting the development of company plans and assessing sustainability objectives
- Periodically monitors the actions called for

SPECIFIC PROJECTS



SUSTAINABILITY WORK GROUP

An inhouse team led by the *Corporate Reputation & Sustainability Director* who manages individual initiatives for sustainability and coordinates the relative budget.

■ SUSTAINABILITY PLAN

In 2016, illycaffè decided to update and develop a new "Sustainability Plan", in keeping with its values, with its industrial strategy and with its management systems. To focus on its commitment and trends in sustainability in an increasingly better way.

The purpose of the document is to illustrate the general guidelines and, after presenting it to the Sustainability Committee, it has enabled further analysis via a specific "Sustainability Operational Plan" which by mid-2017 will explain

the actions and objectives that illycaffè intends to achieve in the medium to long term: defining real planning, roles and responsibilities for the areas involved, quantitative targets, and relative performance indicators.

The Sustainability Operational Plan is therefore a planning and control tool to support the management and the board for monitoring responsible management.

In 2016, for the fourth year running, illycaffè was included on the list of the "World's Most Ethical Companies" and has continued its participation in specific programs and initiatives to implement strategies of sustainability and improve its own impact, such as the Global Compact, the International Coffee Organization and Positive Planet.

Global Compact

illycaffè has been an adherent of the Global Compact since 2012. This initiative was launched by the United Nations in 2000 with the aim of promoting the involvement of the private sector, in particular private enterprise, in ten global ethical principles relevant to important themes such as human rights, environment protection, labor rights and the fight against corruption. These principles are universally shared and subscribed to, since they are based on based on the Universal Declaration of Human Rights, the ILO Declaration, the Rio Declaration and the United Nations Convention Against Corruption.

World's Most Ethical Companies

For the fourth consecutive year, illycaffè has made the list of the World's Most Ethical Companies, created by the Ethisphere Institute, a global leader in defining and promoting ethical standards and commercial practices. illycaffè is one of the four companies awarded in the Food, Beverage & Agriculture category for 2016 and is the only Italian company, thus taking its place among the very best companies and sector leaders.



■ 1.4.2 Scenario of reference and risk management

Economic scenario

illycaffè operates in about 140 countries worldwide: during the year, the economic trends of the countries evidenced contrasting signals, in connection with the macroeconomic scenario. In more advanced countries, the scenario reflects slight improvement; nonetheless, the weakness of the emerging countries hinders the expansion of global exchanges and constricts the prices of raw materials. In emerging economies, the picture remains generally weak, with different trends: in Brazil, the crisis is intensifying; India presents a positive evolution; Russia's fall is slowing down; and China's trend is disappointing. In the Euro area, there is weak growth but the confidence of companies and families, supported by positive employment signals, indicates a recovery is underway.

According to data provided by IRI, the institute which measures Italian Modern Trade market data, illycaffè has a quota equal to 4% of the overall coffee total (stable, compared to its percentage in 2015) and 10.5% in the sector of ground espresso beans. According to the Databank Cerved Group, illy is the number one roaster in the Ho.Re.Ca sector in terms of turnover, with a 2015 share of 8.4%.

At the start of 2017, the International Coffee Organisation estimates that global green coffee production for 2016/17 will be 151.6 million sacks.

Although production remained virtually unchanged compared to the previous year, the Arabica harvest increased compared to the previous year, but at the same time there was a decrease in Brazil's Robusta production associated with the January 2016 drought. The Robusta coffee production deficit caused prices to rise above the price of Arabica for the first time in the domestic Brazilian market.

2016 closed with record exports, equal to 117.6 million sacks. Exports of both Arabica and Robusta increased compared to the previous year. After a period of turbulence in the coffee financial markets, 2016 was calmer, and the three major coffee producers, Brazil, Colombia and Vietnam invested in increasing production, taking into account the potential difficulties relating to climate change.



■ ILLYCAFFÈ AND THE CHALLENGES INVOLVING GREEN COFFEE

According to the Foreign Agricultural Service of the US Department of Agriculture, coffee is one of the cultivations which is most influenced by climatic conditions.

Climate change has been identified as the main factor of epidemics like coffee leaf rust, a disease which affects over 50% of coffee cultivations in Central America and roughly 30-40% in South America. Moreover, the plantations have also been affected by heatwaves, drought and above-average rainfall.

To deal with these emergencies and similar scenarios in the future, illycaffè believes the solution lies in **research and sharing knowledge**.

Together with the Earth Institute, the company has conducted a study on the impact of climate change in coffee growing countries. Moreover, the Università del Caffè is studying ways to improve farming practices and every year the team of experts organizes about one hundred visits to plantations to analyze the specific situations. Already in the past, solutions have been found which have led to significant improvements.

Coffee farmers will have to find **increasingly sustainable solutions**, such as good farming practices, farming methods which are less and less dependent on water and at the same time allow for an increase in yield, avoiding deforestation. To illycaffè, the quality of the coffee bean is the fundamental value in its relations with producers: this is why the company follows the production chain right from the beginning, from the fields and plantations all the way to the finished product, and it is the only company in the world to offer a Master's degree in Coffee **Economy and Science** at its Università del Caffè.

To invest in the production chain, in knowledge and in sustainable quality means to invest in innovation, even in terms of **new production sites**: estimates indicate that from now until the end of the century, the planet will lose up to 50% of land that can be cultivated with coffee and we will be faced with a major problem. Over the past 20 years, the average growth rate in coffee consumption has risen 1.6% and it is predicted that production will have to double by 2050 to respond to the market demands—but with only half the amount of cultivatable land.

Promoting modern coffee culture, based on the principles of integrated agriculture and aimed at supporting producers as they become modern businesspeople, for illycaffè is a critical mission.

The company has equipped itself with a **Process of Internal Control and Risk Management**. By means of a process of identification, measurement, management and monitoring of the main risks, it ensures that the company is run in a healthy, correct way that is in keeping with the business' established objective of sustainable development.

illycaffè constantly monitors the **financial risks** to which it is exposed (credit risks, liquidity risks and market risks such as exchange rate risks, interest rate risks, and commodity price risks), in order to minimize the impact of negative variations on the company's economic results. These risks are centrally managed by the Office of Administration, Finance and Control, following guidelines stipulated with the company's top management. illycaffè also uses derivative instruments solely for coverage. As part of the continuous development and improvement of corporate practices, a Financial Risk Policy was prepared and approved in 2016, directly related to the governance developments that took place in 2016.

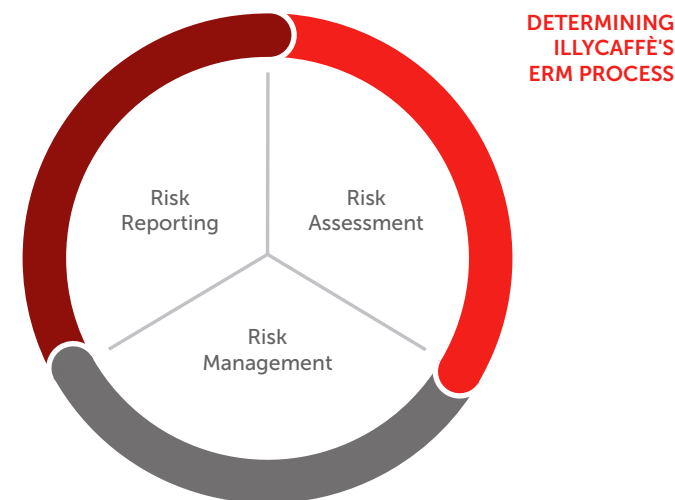
In 2016, a wide-ranging Enterprise Risk Management project was developed, that:

- documents the nature of the main corporate risks and their degree of compatibility with the company's strategic goals;
- integrates risk management practices in planning processes and the economic and financial results of the company;
- examines the main corporate risks on the basis of qualitative and quantitative criteria, tailored to the objectives and the propensity to corporate risk;
- monitors the previous aspects through appropriate management reporting.

The elements that determine the illycaffè's ERM framework are:

- Risk Strategy / Risk Appetite
- Structure and risk references
- Risk assessment and measurement criteria
- IT infrastructure
- Culture/training
- Integration

In 2017, the company will complete the operational implementation activities of mitigation actions and monitoring and maintenance activities; an additional phase of Risk Quantification will follow that will be integrated into the company's multi-year plans.



■ 1.5

Corporate governance

illycaffè has its own specific systems of governance and control aiming to ensure a sustainable development of the business, paying due respect to the laws and to economic, social and environmental equilibrium.

Board of Directors - B.o.D.

The Board of Directors directly represents the stakeholders. Councilors are elected in part according to their specific competencies and qualifications, in line with the sustainability-oriented vision of illycaffè. They are in charge of special duties and bear the full responsibility for economic, social and environmental results, which are subject to the approval of the General Assembly of Shareholders on a yearly basis. On April 29, 2016, following a Governance reorganization, Andrea Illy was reconfirmed Chairman of the Board of Directors, while the role of CEO is covered by Massimiliano Pogliani. There are five independent directors and a total of nine non-executive directors. Two of the Board members are women.

The Board of Directors comprises:

- Andrea Illy (President)
- **Marina Salamon (Vice President)**
- **Anna Rossi Illy (Honorary President)**
- **Massimiliano Pogliani (CEO)**
- Anna Illy

- Daria Illy
- Robert Eggs
- Pierluigi Celli
- Douglas T. Hickey
- Alberto Baldan
- Licerio Degrassi
- Mario Cannata

The CEO informs the Board of Directors on decisions having a substantial impact on business sustainability; the Sustainable Value Report is approved on voluntary basis; as of today there is no mandatory regulation or a law prescription. Every year, the Board of Directors evaluates and approves all the reports and documents produced by the Surveillance Body and by the other internal controlling functions on issues relevant to risks and opportunities, encompassing all the main concerns involved: strategic, operational, environmental, social and related to governance. Projects showing interesting impact in terms of sustainability are in keeping with the objectives of the corporate strategic plan.

Surveillance and Monitoring Committee

Its main function is to survey and monitor the operations, the efficacy and the compliance of the Organizational Model in order to prevent corporate offences for which illycaffè may result to be administratively responsible, in observance of Legislative Decree 231/2001 (related to corruption, fraud in corporate communication, mistreatment of manpower, etc.). In order to completely define the Model, illycaffè formulated an Code of Ethics which, among the various conduct norms, calls for the prevention of conflicts of interest and a specific, dedicated channel to prevent or notify conduct contrary to the Code. In 2016, there were no reports of violations of the Code of Ethics or the 231 Law.

Audit Committee

Its main function is to oversee the internal control and risk management system. It is composed of 3 non-executive and independent directors.

Nominating and Compensation Committee

Composed of independent (2) and dependent (1) directors and one external individual, it formulates proposals to the Board of Directors related to the Compensation of the CEO and Directors and provides guidance on the criteria for the determination of compensation for the top roles within the company. During this process, illycaffè often avails itself of the support and advice of external independent consultants.

Chief Risk Manager

The Chief Risk Manager is in charge of the evaluation of all the risks connected with the supply chain: product, safety, environment, intellectual property, market, information technology, legal, financial and also of issues relevant to the management of the corporate reputation in the short and medium term. The person in charge of the role designs and formulates a Risk Evaluation Program, reporting on regular basis to the President, the Board of Statutory Auditors and the Surveillance and Monitoring Committee.

Internal Audit

Implements internal audit activities aiming to analyze and verify the compliance to standards, the regular operations, the reliability and functioning of all the processes, as well as of the control systems. As confirmation of the strengthening of the internal control system, in 2016, the Internal Audit carried out various audit activities, working on applying Legislative Decree 231, the HSE system, and the activities of the subsidiary in the USA and Spain.



■ 1.6

Management and Certification Systems

The quality chain of illycaffè is guaranteed by the adoption of several important certifications and standard awards, at national and international level and also on a voluntary basis. During 2016, illycaffè conducted activities to maintain and recertify itself for the following quality and sustainability systems:

QUALITY MANAGEMENT SYSTEM ISO 9001:2008



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

The system is applied by illycaffè S.p.A. and Experimental

HACCP



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

The system is applied by HACCP illycaffè S.p.A.

BRC FOOD CERTIFICATE



Guarantees the ability of an enterprise to achieve suitable standards in packaging, storage and distribution of safe food and consumption of safe products.

Applied by illycaffè S.p.A.

IFS FOOD CERTIFICATE



Guarantees the quality and food safety of branded food products, for retail and wholesale sectors.

Applied by IFS illycaffè S.p.A.

CERTIFICATION FOR COMPLIANCE OF PRODUCTS



Certificates the conformity of a product to a mutually agreed standard, able to ensure the best satisfaction of clients.



Applied by Qualité France and guarantees the religious certification of Halal and Kosher products (Israel, USA, OU, Jewish Community of Venice)

ENVIRONMENTAL MANAGEMENT SYSTEM 14001:2004



Defines the development and implementation of an effective environmental management system.

Applied by illycaffè S.p.A.

ENERGY MANAGEMENT SYSTEM ISO 50001



Defines the development of an efficient energy management system.

RESPONSIBLE SUPPLY CHAIN PROCESS



illycaffè is the first company in the world to obtain the certification which attests the sustainability throughout the production chain.

Applied by illycaffè S.p.A.

ACCREDITED LABORATORIES ISO 17025:2005



The illycaffè Aromalab and Sensorylab laboratories are recognized and accredited by Accredia.

EMAS CERTIFICATION



(Eco-Management and Audit Scheme) Certification to promote the continuous improvement of environmental efficiency of industrial activities and to enable the publishing of the environmental declarations. Certified by APAT (Italian Agency for Environmental Protection and Technical Services), Ecolabel - (Ecoaudit Committee)

The commitment to adopt recognized management systems is extended to all companies in the Group: the Mitaca Company, which produces espresso coffee capsule systems, has independently obtained ISO 9001, OHSAS 18001, ISO 14001, ISO 50001, and SA 8000 (Corporate Social Responsibility Certification and Corporate Ethics) certifications and it has applied the ISO 26000 Corporate Social Responsibility Guidelines.



■ 1.7

Università del Caffè

Highlights

25operating branches
around the world**202,173**

people trained since 2000

more than 22,173 trainees in 2016:
1,134 producers; 16,178 professionals;
4,556 consumers; and 305 online trainees

The University of coffee was founded in Naples in 1999. In 2002, the campus was moved to Trieste, to the illycaffè headquarters. The University of coffee represents a Center of Excellence created to promote, foster and disseminate the culture of high-quality coffee worldwide, through training and education. In this privileged location, professionals from the world of coffee and hospitality, as well as aficionados, interested people and aspiring connoisseurs, can share the passion for knowledge, an illycaffè hallmark.

The educational activities of the University of coffee have been created to allow all professionals involved in the production chain to grow and improve the quality level of every single phase in the various sectors of competence. A virtuous circle of knowledge destined to create value over time through growth, sustainability and transparency.

The prestige of the University of coffee is based on the strong commitment which, since 1933, the company has dedicated to research and the innovation of processes and products. This multidisciplinary patrimony of culture and competence focuses attention on the true demands and needs of producers, professionals in the sectors of coffee bars, restaurants and hospitality; as a result, the University of coffee has diversified its educational proposals on various levels of depth and competence. The teaching team provides

training both in the classroom and with clients, as well as consultancy on issues relating to product transformation and recipes, and issues relating to managing premises and staff.

The University of coffee is constantly committed to improving its training, with the aim of creating more value and promoting a personalized approach to professional culture. The consolidated professional training courses and consumer education have been enhanced over recent years with a series of one-day courses that are personalized and dedicated to a whole team from a single establishment, or genuine one-on-one coaching activities. This is an innovative offer for the market, with a high level of personalization thanks to consultancy and tailor-made courses.

The capillary presence of branches of the University of Coffee allows it to be present in local areas with specialized teachers, who are able to meet the increasingly personalized technical, educational and local demands. The full teaching team is based on three different skills levels governed by an internal protocol:

- **Instructor** (27, to date)
- **Associated professor** (39, to date)
- **Full professor** (44, to date)



The experience and knowledge of the teachers in the various markets is the network's distinguishing resource. In 2016 four training sessions were devoted exclusively to branch trainers, attended by 40 teachers from 17 branches.

In December in Honduras the third convention of University of coffee branches was held, with the aim of bolstering the sense of belonging to the network and instilling knowledge about green coffee so as to enrich the course content.

This is why it was decided to hold the convention in a coffee producing country, so as to give the opportunity to participants to have a genuine training experience and to visit a coffee plantation.

In the context of the annual plan to develop the network of 25 branches of the University of coffee, teaching activities took place at the Asian, Latvian, Spanish and Austrian branches with the aim of coordinating trainers working in these countries in terms of teaching and course content and verifying the type of activities carried out.

In 2016 the University of coffee continued working to increase and improve the company's knowledge base and culture, reorganizing, updating and implementing knowledge.

For this reason, teaching manuals, books and videos covering themes that are important to illycaffè were produced:

- **Book: illy coffee**, part of the illycaffè guides series - 24,000 Copies distributed to branches in 8 languages.
- **Distributor Manual** a sales manual dedicated to foreign distributors, part of the line of manuals that includes the illy culture manual, the barista manual and the retail manual;
- The **Visitor Tour Manual** is dedicated to the guides that take visitors on tours of production plants.
- **Video: illy coffee**, the book of the same name in video format, used for educational purposes to teach coffee culture in the classroom and on the web
- **6 videos made in collaboration with the Marketing department** for the B2B world, which teaches about the topics: Perfect espresso, the adjusting the

grind, compaction, caffè lungo and caffè corto, cleaning the coffee grinder and espresso machine, the perfect cappuccino

- **Box set The aromas of illy coffee**, created to teach people how to taste coffee and to be used for the educational purposes of the Università del Caffè in Trieste and in branches around the world on courses for clients and consumers. The box set contains a kit of 17 aromas made by the perfumer

Lorenzo Dante Iron, 17 jars with blotters to inhale the aromas, and an informative science book written with the aim of explaining everything to do with the aromas of coffee.

HIGH LEVEL EDUCATION

In 2016: 1,134 coffee producers were trained

A pathway of excellence in coffee production, from responsible farming methods to economic administrative processes, dedicated to farmers, partners in the production chain and graduates interested in the world of coffee.

Since 2010, over 6,250 producers have participated in the training programs, both in the classroom and online.

Supporting activities for producers originated from a collaboration between illycaffè and PENSA (the Agribusiness Intelligence Center of the University of São Paulo) which began in 2000. To date, the University of coffee in Brazil is a reference point for the training of local farmers. Attention to the communities in coffee growing countries is translated into the creation of focused and specialized training programs to be held on site and through the establishment of partnerships with local institutions to create projects with important social impact, such as the online course in Agribusiness Management in Brazil and the development of educational material to be distributed online in Central America.

The University of coffee teaches the **Master's degree, first and second level, in Coffee Economics and Science**, offered to graduates worldwide, with the objective of providing an academic and interdisciplinary background to create careers in the world of coffee—and more in general for the agribusiness

sector and the overall supply chain: from cultivation to food service sector and retail, also encompassing aspects related to logistics, trade, management and industrial processes. Over the years, the Higher Education Program of the University of coffee has established several important collaboration initiatives with prestigious national and international partners, such as the University of Gastronomic Sciences of Pollenzo (Cuneo, Italy), the Master's degree in International Business Administration - MIB Trieste, the Master's degree in Food Management at Liuc – Libero Istituto Universitario Carlo Cattaneo, and the Master's degree in Food & Bioresource Technologies with the MCI Management Center Innsbruck (Innsbruck University, Austria).

DISSEMINATION COURSES

In 2016: 4,556 consumers were trained.

The University of coffee organizes various courses for the general public on different subjects, including **courses on coffee culture and tastings**, combined with a tour of the company for illycaffè guests. The tour consists of a course accompanied by an hour-long tasting led by an University of coffee professor, followed by a tour of the plant with qualified guides. Different types of training is provided that focuses on various macro topics: coffee culture, economy, sustainability, health, usages and customs.

TRAINING COURSES

In 2016: 16,178 professionals trained.

To professionals who work in bars, restaurants and hospitality, the University of coffee offers educational opportunities and updating on coffee and the management and promotion of commercial activities. The courses offer participants know-how that can be immediately put to use—from how to prepare beverages to managerial competences and instruments to make the most of market opportunities. Training is also conducted in ad hoc classrooms for specific clients, for whom programs were created which reflect the on-the-job situations they encounter. The University of coffee also deals with the validation of coffee machines and grinders, and the creation of new, coffee-based recipes and products.

The **Maestri dell'Espresso Junior** prize competition has been updated

to make it better meet the needs of the users it is intended for (teachers and students of hotel schools in Italy), thus further developing the aim of hunting and training tomorrow's professionals. 70 schools took part in the competition, 30% of schools in Italy and an increase of 47% compared to the previous editions. The E-Learning platform continues to grow, with the addition of further topics and the design of new online courses to provide content continuity to users who are already familiar with the University of coffee, international clients, and franchisees in the group.

COLLABORATIONS WITH UNIVERSITIES, BODIES AND ASSOCIATIONS IN ITALY AND ABROAD

The leadership and excellence of the University of coffee are recognized and appreciated more and more in recent years by universities, bodies and associations both in Italy and abroad. The lessons and testimonies of the University of coffee are a part of the Master's Degree and university lessons that are followed by exam sessions and training credits.

Here are some examples of current collaborations:

- CUOA Vicenza - International MBA focussing on Innovation & Creativity
- University of Pisa – Masterfood, 1st level University Master's in food quality management and communication
- MCI Management Center Innsbruck University
- IUSVE - Istituto Universitario Salesiano di Venezia - Master's in Food & Wine 3.0
- LIUC Università Carlo Cattaneo – Mafood, Master's in Food Management
- Master's Ernesto Illy – Coffee Economics and Science
- MIB Trieste School of Management
- IAL Friuli Venezia Giulia - Master's in design and creation techniques of artisan processes in agri-food processing focussing on coffee
- Università Cattolica del Sacro Cuore - Master's Degree in Communication
- Scuola Politecnica di Design di Milano - Master's in Food & Design.

To find out more about the work of the University of coffee, you can visit the website [here](#).

■ 1.8

illycaffè

Stakeholders



■ 1.8.1 Mapping of the stakeholders and communications tools

For several years now, illycaffè has been orienting its strategies towards a new sustainable business model that can create competitive advantages for the company by integrating economic-profit goals with a social and environmental aspects. To achieve this, a new model of its relationships with all its stakeholders had to be configured, centering the global vision on the **creation of shared added value** through economic, social and environmental sustainability.

A careful mapping of stakeholders and the activation of a new model of interactive dialogue allowed illycaffè to identify and analyse their indications and expectations and to incorporate them within the set of objectives and activities of the company: in this framework, the Sustainable Value Report is intended to be a reference document addressing all the major issues

raised by stakeholders and to be a guideline to better depict the social, environmental and economic impact of the enterprise (the more material issues). The primary channels and instruments of communication with its stakeholders which, again in 2016, illycaffè has used are:

| STAKEHOLDERS | MAIN COMMUNICATION CHANNELS AND TOOLS |
|---------------------------|---|
| CLIENTS AND CONSUMERS | <ul style="list-style-type: none"> • Customer care • Pre-sales and after-sales assistance • Ad hoc visits to the company • Social network • Customer satisfaction analysis or market survey • Training by Università del Caffè • Replies to queries from consumer associations • The Quality Promoter team and the Technical Consultants actively interact with information initiatives and/or activities directly at the client's premises |
| SUPPLIERS OF GREEN COFFEE | <ul style="list-style-type: none"> • Verification activities prescribed by Responsible Supply Chain Process • Clube Site in Brazil, with focus group and forum on topics of interest • On site training with agronomists and/or Università del Caffè • Periodic technical visits, meetings with coffee growers • Prêmio Ernesto Illy de Qualidade do Café para Espresso • Ernesto Illy International Coffee Award • Periodical feedback on quality of coffee after tests in at the headquarters site or test in illycaffè laboratories, in order to improve coffee quality (also in case of non-purchase) • Relations and collaborations with category associations, government bodies and other representatives of coffee growers at local level |
| OTHER SUPPLIERS | <ul style="list-style-type: none"> • Vendor evaluation • Certification of suppliers according to prescriptions indicated by the quality system |

EMPLOYEES

- Team building activities
- illy citizens projects
- Internal committee for the organization of recreational and social activities
- Work groups to improve the safety and welfare in production
- Formulation of the inhouse Exchange magazine report with illycaffè employee "journalists"
- Mechanisms for collecting reported events on code of ethics
- Global PR meetings and international commercial meetings
- Meetings to present projects to the individual co-associated companies and branches
- Participation in the Board of Directors of other companies in the Group
- Co-organization of events

COMMUNITY

- Projects and collaborations with Schools and Universities in Italy and abroad
- University Master's in Economics and Science of Coffee
- Competitions and grants for young national and international artists
- Media tours for journalists in coffee-growing countries and at the headquarters
- Joint projects with the major cultural international institutions
- Other cultural initiatives
- Dialogue and collaboration with the main international schools of art and design
- Dialogue and collaboration with the main institutions in the food and wine sector

COMMUNITY

- Direct contacts at industry events and fairs
- Active participation in pre-competitive working table discussions with competitors and academic institutions (ISIC; ASIC, Coffee Industrial District)
- Active participation in events organized by main category associations (Industrial Federation, Industrial Association of Trieste, Coffee Industrial District, SCAE Italia, Centromarca, Altagamma, ASIC, ISC, FERPI)
- Participation in conferences
- Dialogue and interaction with institutions for authorizations
- Study groups with institutions and authorities on environmental issues
- Participation in working table events of categories or pre-competitive associations (ESE Consortium, AllPA, Comitato Italiano Caffè, ISIC, ASIC, etc.)
- Support for client activities supporting the environment
- Support for the environmental management of coffee farming
- Collaboration on projects (United Nations or governments in developing countries)
- International Coffee Organization
- Periodical invitations to main authorities and institutional officers to visit the company
- Institutional awards and recognitions for best practices of illycaffè worldwide
- Participation at themed round table discussions

SHAREHOLDERS

- General Assembly and Participation in the Board of Directors
- Participation in internal events
- Involvement for the formulation and revision of the code of ethics

■ 1.8.2 Engagement process and materiality

In 2016, illycaffè updated its materiality analysis of the more relevant thematic areas, involving an internal work group composed of company managers and supervisors. The analysis followed the principles of materiality in compliance with the GRI-G4 standard and included:

- Identification of the potentially relevant topics through documentation analysis. The sources on which the analysis was conducted were both internal and external;
- Evaluation of the relevance of each thematic area for the stakeholders or for illycaffè, on the basis of documentation analysis and interviews conducted with the internal stakeholders responsible for the topics on which the accounting focused. On the basis of this analysis, a score was given to each thematic area on the questionnaire. During this phase, the perimeter of each material aspect was identified, or rather, the area (both within and outside the Group) was delineated, within which the impacts correlated to the material topics are manifested;
- Validation of the materiality matrix by the Management and the definition of the threshold of materiality above which an accounting of the material aspects should be conducted.

The following chart shows the mapping of the thematic areas deemed potentially relevant for illycaffè and for the stakeholders. After defining the threshold of materiality, it was decided to include in the Sustainable Value Report, primarily the thematic areas that are most material for the external stakeholders and for society as a whole, in other words those which received a high score.



MATRIX OF MATERIALITY



By means of the Correlation table with the Global Reporting Initiative standard, it was possible to verify where the material aspects were reported.

The following chart analyzes the perimeter within which impacts manifest themselves which are relative to the material aspects which emerged:

- **illycaffè:** impacts were recorded above all within the parent company and the companies within the perimeter of the Value Report, as described in the Methodological Note (direct POS are excluded, for example).
- **Coffee producers:** aspects which were primarily relevant for the green coffee production chain.
- **Suppliers:** aspects relevant to the relationship with other suppliers.
- **Customers/consumers:** topics relevant to processes of sales, distribution, consumption of the products/services.
- **Community/environment:** aspects with relevant impact on the community, the institutions, the environment.



| MATERIALITY TOPICS | GRI ASPECT (SPECIFIC STANDARD DISCLOSURE) | ILLYCAFFÈ* | COFFEE PRODUCERS | SUPPLIERS | CUSTOMERS CONSUMERS | COMMUNITY ENVIRONMENT |
|---|--|------------|------------------|-----------|---------------------|-----------------------|
| Listening to clients and customer satisfaction | Customer Health and Safety Product and service labeling | | | | • | |
| Commercial and negotiation correctness | Marketing communication | • | • | • | • | |
| Creation of value and wealth | Economic performance | • | • | • | | |
| Human rights in the coffee supply chain and of critical suppliers | Investment + Non Discrimination + Freedom of Association and Collective Bargaining+Child Labor + Forced of Compulsory Labor + Security Practices + Indigenous Rights | • | • | • | | |
| Energy Efficiency | Energy | • | • | • | • | • |
| Atmospheric emissions | Emissions | • | • | • | | • |
| Responsible management along the whole supply chain | Procurement Practices + Supplier Environmental Assessment + Supplier Assessment for Labor Practices + Supplier Human Rights Assessment | | • | • | | |
| Waste management | Effluents and Waste | • | | | | • |
| Water resources management | Water | • | • | | | |
| Social investments and in the community | Coffee producers, Local communities | | | | | • |
| Packaging and recycling | Products and Services | • | | | • | • |
| Quality of raw materials | | • | • | | • | |
| Ethical responsibility | Ethics and integrity | • | • | • | • | |
| Research and innovation | Research and innovation | • | | | • | |
| Health and safety at work | Occupational Health and Safety | • | • | • | | |
| Protection of the intellectual capital value | Employment | • | | | | |
| Protection of consumers' health | Customer Health and Safety | | | | • | |
| Protection of environmental assets and biodiversity | Biodiversity | | • | | | • |
| Valorization of human resources | Training and Education + Diversity and Equal Opportunities + Equal Remuneration for Women and Men | • | | | | |

*Relating to companies included within the perimeter (see Methodological Note)

SEED:S

Social
Environmental
Economic
Development
Sustainability



social value

2.1

The real added value in life lies in human relations

Highlights

550

tastings every
day to guarantee
product quality

1,269

employees as of
December 31, 2016
at the consolidated level

140

the illy blend is marketed in 140
countries on all 5 continents, and
served in over 100,000 establishments

51,238

contacts with its
customers through
illycaffè customer care

861,303

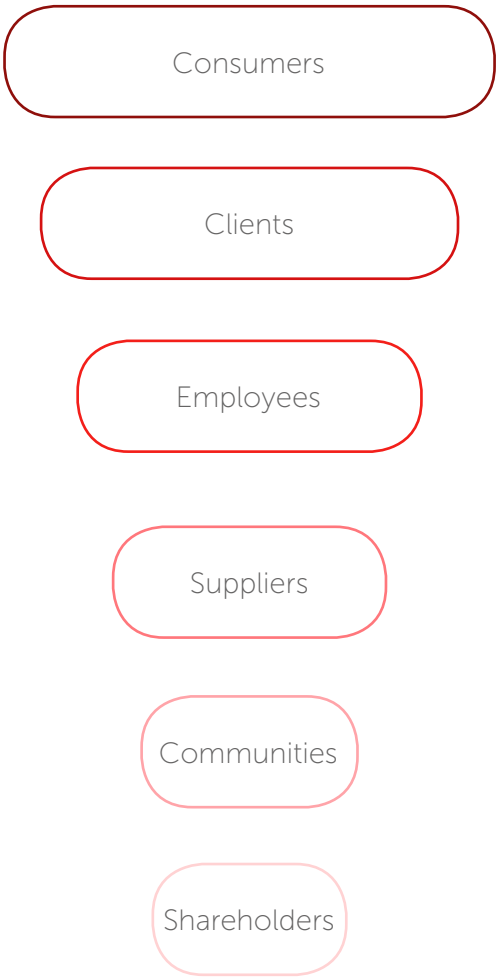
Euros
of membership fees and
donations made to charitable
organizations in 2016



THE CREATION OF SOCIAL VALUE

illycaffè, as the stakeholder company, develops its business model with the aim of creating social value for all stakeholders, leveraging the concept of shared and sustainable growth. It promotes continuous dialogue to

create value, respecting people and their rights and always guaranteeing the brand's excellence. Below are the players in illycaffè's sustainable and shared growth strategy:



By choosing illy products, consumers have the chance to live an enriching experience, combining the quality of the product with the opportunity to learn more about coffee and coffee culture, while identifying with the corporate values.

Clients who decide to serve illy in their businesses have the opportunity, through the Università del Caffè and the services offered by illycaffè, to increase their own knowledge and professionalism.

Employees are given opportunities for self-realization, developing competences and growing professionally. illycaffè fosters a philosophy of "lean" work, centered on improving teamwork which valorizes abilities, entrepreneurialism and individual creativity.

Suppliers who work with illycaffè benefit from advantages to their reputation and the acquisition of know-how. In the specific case of green coffee producers, illycaffè helps improve their living conditions by promoting projects in the coffee- growing areas.

The visibility of communities where the company works is enhanced, and they benefit from direct contributions to initiatives fostering culture and solidarity.

Shareholders reap the fruits of the reputation and legitimization deriving from the value created along

■ 2.2

Quality and safety of illy products

Highlights

4,500

The illycaffè laboratories carry out approximately 4,500 analyses of green coffee samples

54,240

samples of roasted coffee analyzed in the illycaffè laboratories

550

Every day, illycaffè performs an average of 550 tastings to guarantee product quality

illycaffè offers consumers and fans around the world wherever they are consuming it the best coffee that nature can offer, enhanced by impeccable processing that incorporates the best technology and the experience of nearly eighty years of family and business passion. In order to achieve this objective, it is also necessary to serve – together with an excellent product – all the elements which contribute to preparation, service and consumption experience. For this reason, the company is committed to the continuous improvement of every aspect of quality standards: production, processes, service to clients. This attitude is also reflected in the efforts of the company to make safe products that respect the rules and specifications which regulate the agri-food sector. It has therefore developed sophisticated systems to monitor its products:



RAW MATERIAL SUPPLY

With the best coffee farmers worldwide the company develops a relationship of long-term cooperation to ensure the quality of coffee. Before purchases are made, illycaffè's quality and testing labs analyze the samples, both to issue plant health certificates and to confirm that the coffee is free from heavy metals, pesticides, herbicides and insecticides.



STORAGE AND MIXING:

The green coffee is stored in insulated warehouses and it is mixed according to the 100% Arabica illy blend recipe to create a homogeneous and balanced taste.



PACKAGING AND PRESSURE

Espresso coffee is a complex beverage composed of 1,500 substances (of which 800 are volatile) and 13 chemical-physical variables that affect the correct preparation. illycaffè has created the pressurization process that involves the replacement of the air inside the packages with inert gas, capturing the aroma of freshly roasted coffee. In this way, the aromas are concentrated in the oils of coffee, giving it a rounded, sweet, intense flavor and preserving and enhancing the aroma over time.

100% of production is carried out in plants certified by an independent outside body according to standards of food safety management systems recognized on an international level.

From the moment the coffee enters the processing plant until the moment it leaves, it undergoes 125 tests. The coffee is blended and roasted at the plant in Trieste, while the IES, MPS and UNO capsule products are packaged at the Mitaca srl plant, located in the province of Milan, which is regularly supplied with roasted coffee beans in pressurized silos. Mitaca and all the other plants which carry out service activities (assembly, packaging, labeling, etc.) are directly monitored by expert illycaffè auditors.

Quality, certification and food safety

In order to guarantee the quality of products and their safety illycaffè has developed management systems which enable the company to obtain the most important international certifications of quality and sustainability for its industrial sector of reference. For more information, see paragraph 1.6 (Management and certification systems)

In 2016, the company updated and retained every certification; the following internal and external audits were conducted according to the various monitoring plans:

- 25 internal audits including accreditation
- 136 audits c/o suppliers,
- 7 third party audits.

The British Retail Consortium, International Food Standard, and HACCP certifications are the guidelines for all of illycaffè's activities to guarantee the health and safety of consumers, and involve **all the illycaffè brand products**.

In 2016 the Company did not receive any sanctions for non-conformity to laws or regulations in matters of quality, food safety, traceability and the like.

■ SPECIFIC ACTIVITIES IN 2016 TO BETTER SAFEGUARD FOOD SAFETY

- Self-assessment Manual Plan HACCP for the ILLYSHOP in Trieste, Università del Caffè in Trieste, and support for illy bar Caffè in Rome.
- Specific presidia at retail sales points: illy store in Milan, illy bar Caffè in Milan, and Porta di Roma illy bar.
- In quality control laboratories, the acceptance protocol for raw materials from Brazil: acceptance control at the origin of 100% of the product samples.
- Increased control of the uniformity of the roasting in production to optimize the qualitative yield in the cup.
- Implementation of an internal database to harmonize product labels and IT solutions for better disseminating required information at the European level (Reg. 1169/2011/CE).
- Continuation of the activities related to the conformity of materials in contact with food, both for current products (monitoring) and for new ones (ameliorative scouting or validation).

■ 2.3

illy clients

Highlights

illy Box

the new system that connects professional machines to the internet to optimize the service and increase business quality

E.S.E Bio

eco-friendly product that is 100% compostable

4,500,984

visits to illycaffè's e-shop and

102,589

orders placed

8.8

the degree of satisfaction of illy baristas towards illycaffè (on a scale of 1-10)

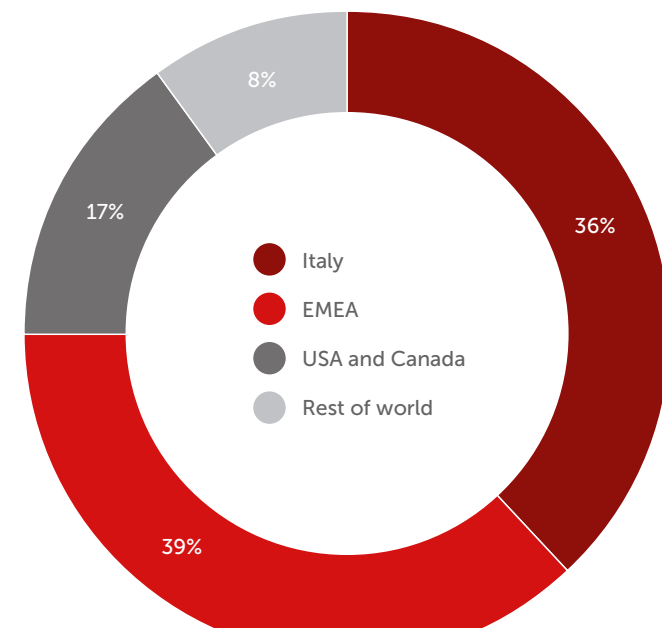
■ 2.3.1 Clients and served markets

illycaffè clients and consumers are offered a unique blend composed of 100% Arabica coffee, the outcome of a process to select and process the coffee that safeguards and exalts its quality.

Today, illycaffè is served in over **100,000** of the best bars, hotels, restaurants and stores in over **140** countries throughout the world, on all 5 continents, with over 7 million cups of coffee consumed every day, at home, away from home, on the job and on the go (internal estimates based on sales and number of clients).

In 2016, illycaffè sales marked an increase compared to the preceding year in terms of volume and turnover, with growth distributed among the countries where the company works with direct distribution and the countries which are served through independent distributors. The growth trend of international markets continued in 2016, led by the performance of **EMEA and Italy** which together represent approximately **74% of overall turnover**.

REVENUE PER GEOGRAPHIC AREA - 2016



■ THE ILLY OFFER

The coffee products

Capsules - Packs
 Capsules - Cans
 Capsules Monoarabica
 Pods E.S.E.
 Ground Coffee for Espresso Machines
 Ground coffee for Moka
 Coffee beans
 American Filter Coffee
 Cold coffee and illyquore

Clients are at the heart of the strategies of the company, which builds lasting relationships based on satisfying their requirements by offering excellent products and services.

Distribution strategies focus on building value over the long term. The client's professional growth is fostered by applying a strategic model which shifts the commercial aspect to the concept of sustainability.

In this way, the social value generated by illycaffè is transformed into economically positive results for the client, too, in terms of sales volume and therefore revenue. An internal analysis has shown that by participating in more evolved and complete forms of the illycaffè offering, clients can obtain better results.

The company's growth plan focuses on three key areas:

- consolidating and increasing market share in the global **premium-hospitality** segment by developing our product/service mix
- branching out into **other opportunities for consumption** – especially in the home – through single-serve preparation systems
- focusing on a **high-quality offering and experience for consumers** via single-brand sales points and the e-shop

The distribution of illycaffè products occurs primarily through the following Business Units:

Business to Business

- Ho.Re.Ca: Hotels, Restaurants, Cafés
- Traditional retail
- Large-scale retail trade
- Eldom (consumer electronics market)
- Vending (offices and workplaces)

Business to Consumer

- illy Shops
- illy stores (espressamente illy and illy Caffè)
- e-commerce

■ 2.3.2 Creating value and sustainability for clients

The goal of illycaffè to maximize creation of sustainable value for its clients and consumers includes initiatives designed to reduce the environmental impact of products and packaging (see chapter 3.8) as well as the development of innovative and highly technological solutions aimed at improving the end experience of professional clients and, consequently, consumers.

In particular, with the launch of illy box in 2016, the company is increasing the efficiency and quality of its service to clients in the ho.re.ca. channel via an innovative telemetry system integrated with professional coffee machines.

Initiatives in 2016 to create value in the Business to Consumer channel

illycaffè continues its B2C development program through single-brand sales outlets 'illy Caffè' and 'illy Shop', both in franchises and in directly managed ones, with the dual aim of exporting the real Italian bar concept abroad and to increase direct contact with consumers.

The evolution of the format, created in 2015 (from *Espressamente illy* to *illy Caffè*), is positioned on the market as a symbol of the **Italian lifestyle**, with places that emphasize the values and philosophy of illycaffè: socializing, creativity and enogastronomic culture.

In 2016 **24 new POS** (22 franchises and 2 managed directly) were opened against 29 closures (all in franchises/licenses) following the natural expiry of the corresponding rental contracts or the application of the network renewal plan, which aims to increase profitability and quality in the management of POS.

As far as the **illy Shop** format is concerned, **15 POS were opened** (14 licensed and 1 managed directly) against 4 closures (2 licensed and 2 managed directly).

Consumer interest in buying online products through **e-commerce** continues to grow: in 2016, worldwide, there were **4,500,984 site visits and 102,589 orders**.

To improve online sales performance and satisfy the end consumer by offering an omnichannel experience, illycaffè has invested in **e-commerce technology** to expand its online and offline business. With the same aim of continuous improvement, a new consumer and customer care communication channel is about to be opened: an **integrated e-commerce**

web chat service that makes it easier for consumers and customer care to interact in order to improve customer service and help them make informed product purchases. This innovative new service will gradually come into effect over the coming year.

Among the loyalty programs launched, **illy lovers** continues to be a huge success: a subscription that gives consumers the "UNA" coffee machine free of charge and under warranty (machines always in working order and substituted should they break); participants commit to purchasing capsules for 12-18 months on a bimonthly basis.

Initiatives in 2016 to create value in the Business to Business channel

In 2016 illy was the **most popular brand of coffee** in bars in Italy: 45% of the people who choose a bar with the brand of coffee served in mind chooses to enjoy the excellence of illycaffè (Source: Sinottica TSSP 2016C - September 2015 - July 2016, 12,000 cases representing 51,301,000 Italians over 14).

This confirms the ability of illycaffè to convey across the whole chain the guarantee of an excellent product and service, the satisfaction of finding the taste that customers know and love.

Baristas also show a **high level of satisfaction** with illy (Source: Customer Satisfaction – score 8.8 on a scale of 1-10): offering a full range of services and products allows it to respond to all business needs on the one hand, and on the other, to differentiate itself from the competition.

Training activities, with courses held at the Università del Caffè, and personalized consultancy continue to be enriched and innovated. The development of the new type of **Extra Scura roasting** has also allowed the individual local needs in terms of perception of coffee quality and consumption habits to be met.

Individual bars also offer orzo coffee, orzo ginseg and hot chocolate (with the successful launch of the new single-dose flavored range), as well as other products that help to improve the retail offer for the end customer and increase the establishment's margins.

This is why there is a high propensity to stay as clients and to recommend illycaffè as a partner to other sector operators.

The professional page of the illycaffè website, full of consultancy information for clients and prospects, continues to be high-performing and interesting for the target audience: in Italy alone there are more than 20,000 annual visits with users staying an average of about 2.10 minutes (+ 50%).

Overall, the consulting approach and problem solving provided through the brief summaries developed with the support of the Università del Caffè are one of the company's main strengths and add value for professional clients.

illy box

A solution designed for Ho.Re.CA channel clients, it is a system that connects professional machines to the internet to provide the customer with a sustainable, excellent service that can monitor business and act to make immediate targeted improvements.

The information gathered about the use of machines is displayed in real time via smartphones, tablets or PCs and is customized depending on the stakeholder using it.

The medium-term objective is to incorporate all information useful to each stakeholder in a single digital area. The trade client can view both illy Box data and a range of useful information for managing their business in their private area.

Benefits for professional clients:

- the guarantee of a constantly high quality cup for the end consumer at all illy bars;
- reducing the churn rate (consumer abandonment rate) by generating more business and increasing the level of service provided by illycaffè Quality

Promoters and the sales force:

- understanding on how to support the business model in the world of professional capsules.

■ ILLYCAFFÈ AND THE LARGE INTERNATIONAL AND NATIONAL OPERATORS IN THE HOSPITALITY AND TRANSPORT SECTOR

illycaffè provides confirmation of its excellence also through collaborations with the largest exponents in hospitality, transportation, catering, retail and fashion, both in Italy and abroad. illycaffè quality is recognized by consumers and the major operators, who choose illy for the value that this company is able to generate.

Hospitality sector

- **Marriot Group:** illycaffè is the preferred supplier of the hotel colossus which, after the merger with Starwood Hotels & Resorts, now has over 6,000 hotels around the world.
- **Accor Group:** present in 95 countries, it consolidates its collaboration with illycaffè and its preferential supply.
- **Kempinski Hotels Chain and One & Only Group Kerzner Chain:** illycaffè offers its excellent product in all hotels.
- The quality of illycaffè can be found in the Armani Restaurant And Café, a celebration of Italy excellence and the quality of the product.

Transport sector

- Among the strategic partnerships abroad, the collaboration with **United Airlines** has been consolidated: it is the official coffee on board and in the lounges.
- **Singapore Airlines, Cathay Pacific and Emirates** have chosen the brand for their business class and first class, confirming the excellence of illy products.
- illycaffè is also on board **Silversea Cruises and Cunard Cruises**.
- In Italy it continues to work with **Trenitalia and Costa Cruises**, which consolidate their partnership via exclusive events and special guests, to always accompany consumers and clients with high quality products.

Innovative and sustainable solutions for clients and consumers

Market growth is based on the **inseparable combination of quality and sustainability**: to be an excellent product it has to be sustainable. With this philosophy, in 2016 illycaffè continued developing innovative and sustainable solutions for its clients and stakeholders.

Packaging

- The Soft-can, the soft coffee pack that unlike traditional soft packs, is subjected to a pressurization process that guarantees that the coffee's aromas are maintained, refining and enhancing them over time. The pack is practical, functional, accessible and easy to use as a refill, because it fits perfectly into the 250 gram illy can.
- Support for recognition of the empty capsule as packaging by CONAI (the Italian national packaging consortium), thereby encouraging the recyclability of the empty capsules.
- Manufacture of the ECO (Easy Capsules Opener) – manual capsule openers for the home, which let consumers separate the plastic from the coffee at home and properly sort trash for recycling;
- Development of solutions to salvage and recycle the plastic from the capsules, also in bars and single-brand POS, in order to create a virtuous cycle involving the company and consumers;
- Investments in research and technology to reduce the weight of the capsules and overpackaging, through Life Cycle Assessment methodology.
- Adoption of new technology to weld the cans, which result in an improved final product and an advantage in terms of LCA (lower carbon footprint).

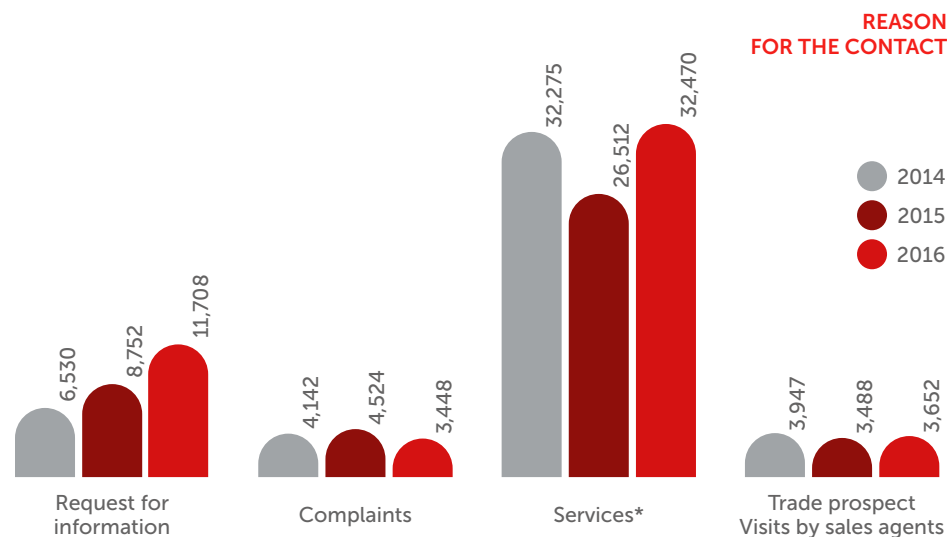
Products and systems

- Launch of new products on the market in response to consumer needs, such as:
 - capsules to prepare caffè lungo, (caffè americano);
 - Pulcina, the new coffee maker that combines illycaffè's thermodynamic technology with the design experience of Alessi to boost the performance of the classic moka coffee pot and bring out the coffee's flavor and aroma to the full;
 - coffee with Extra Scuro roasting, for those who prefer an even more intense aroma;
 - water-decaffeinated coffee, made using a natural extraction process that ensures an impeccable cup of coffee.
- Since 2016 illycaffè has been carrying out research to develop E.S.E

BIO, the conversion of the E.S.E product (single-portion espresso pods in individual sealed packs) to a totally eco-sustainable solution, in order to reflect the new anti-capsule trends with a single serving solution for making espresso at home. It is a totally compostable solution thanks to:

- Eco-friendly casing, with 15% silverskin paper (reuse of production waste), and without using aluminum, plastic or UV coating (as on the current casing)
- Poly-coupled for single-dose sachets in compostable material
- Compostable paper (primary packaging).
- illy box, a system that connects professional machines to the internet to provide the customer with a sustainable, excellent service that can monitor business and act to make immediate targeted improvements.
- illycaffè has also signed partnerships with important players in the sector, like Keurig Green Mountain, an important American company in specialty coffees, coffee machines, teas and other beverages: the partnership involves a multiyear agreement to manufacture K-Cup capsules for the Keurig coffee system using the illy trademark and blend, in the United States and Canada.

2.3.3 Listening to clients and customer satisfaction



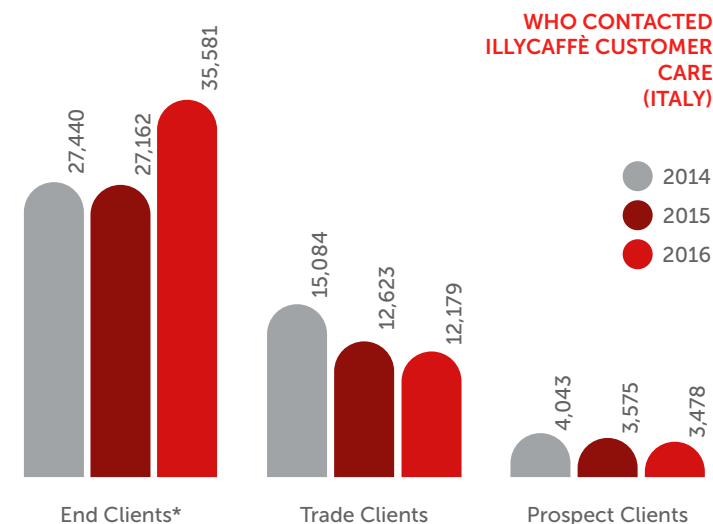
* Services include technical assistance for coffee machines and other administrative services

During 2016 illycaffè invested heavily in strengthening its **customer care** service, as a mark of the strategic value of listening to customers and ensuring that they are completely satisfied.

Compared to 2015, trade contacts (Ho.Re.Ca. channel) fell by 3.5%. This drop is positive sign as it corresponds with more support and monitoring provided to customers by the company's sales force.

The constant attention in cultivating a continuous relationship with customers allows illycaffè to improve its capacity to orient their needs and give them greater satisfaction. In order to achieve this goal, illycaffè centers its strategies on factors having a positive impact on the quality of services, such as: accessibility, transparency of processes, times of feedback, homogeneity of work among all the selling channels, delivery of services with high added value.

The main tool adopted by illycaffè in the management of customer relations is its sales representatives. Websites, the customer care service, and training



* The end clients category includes Consumers and Eshop customers

courses held by the Università del Caffè play a crucial role as well.

In 2016, there were **51,238 customer care contacts**:

- requests for assistance/services have increased due to the increase in requests from end customers for help managing illylovers subscription contracts and business requests from potential clients;
- more requests for information by consumers;
- fewer complaints about the quality of the coffee product.

In the final four-month period, compared to the same period in the previous year, requests for information about the e-commerce platform increased by 149%, in particular regarding the illylovers loyalty program; requests for information regarding technical assistance of the Francis Francis coffee machines increased by 129%.

■ ILLYCAFFÈ ABROAD: VALUE AND COMMITMENT

The company closely monitors the experience of its clients, providing an excellent service in all its branches. The customer care team in **Spain** consists of six people who handle every aspect of customer's queries, monitoring IT systems and the website.

In 2016, **illycaffè North America** registered over 1158,000 contacts through its call center, revealing a very high level of customer satisfaction: 93% said the customer service was professional and courteous, 88% were very satisfied and 88% would recommend products to family and friends. In **Austria**, customer care receives around 15-20 calls per month, and a customer satisfaction survey is underway that will end in 2017.

In **China**, the customer care department consists of two people who supervise comments made on the e-commerce website weekly. The company periodically updates a list of FAQs to answer all clients' questions effectively and efficiently.

In the **Netherlands**, the customer care department is committed to reducing client response times, and with the help of an innovative automatic call management system, 85 notifications were dealt with successfully.

Thanks to its efficient management system and the constant attention it pays to improving, illycaffè comes into play with specific problem-solving actions and continues to keep the level of satisfaction high in its customers and consumers. Besides the activities of the Customer Care services, other types of channels are used to stay in contact with clients and listen to their requests and needs. These services include:

- presence on social networks;
- research analysis of customer satisfaction regarding "Artisti del Gusto"; illy bars, online clients;
- telephone surveys for: Artisti del Gusto, former Ho.Re.Ca and Ho.Re.Ca iperespresso clients;
- interaction of the Quality Promoter team and the Technical Consultants

through information initiatives and/or activities directly in the client's premises;

- ad hoc visits to the company.

Quality in the cup

In order to better support customers of the Ho.Re.Ca channel, the company developed and launched the project "Quality in the cup." A team of qualified technicians provides assistance services and personalized consultancy to owners of bars and cafés. The initiative is based on the following actions:

- monitoring the quality of the illycaffè served in the cup by Ho.Re.Ca and Vending clients (on demand) throughout Italy;
- management and monitoring of the visibility of the sales points;
- training and management of know-how regarding the qualitative standards of illycaffè and relevant equipment;
- management of tests and trials of new products;
- involvement of retail managers and operators in the activities offered by the Università del Caffè.

Furthermore, in September 2012, illycaffè launched a cooperation agreement with the Ministry of Agricultural, Food, and Forestry Policies (department of the central inspectorate for quality and fraud prevention in food and agricultural products). The main objectives of the cooperation agreement are to preserve the superior quality of the 100% Arabica illy blend and to safeguard the expert businesses which, every day, deliver the illy taste and excellence to Italians. The agreement includes analyses of coffee samples, a test trial for a new methodology of analysis, in order to allow a more rapid and effective detection of coffee blends using products other than the ingredients used by illycaffè in its illy blend. These instruments, in addition to the numerous controls performed by the company along the entire supply chain, represent a further guarantee to protect the brand in a context of fair competition between commercial competitors and to allow customers to taste a cup of illy espresso coffee wherever the brand is displayed.

Management of reports and actions for improvement

Reports and complaints received by the illycaffè Customer Care service are received by the Quality Assurance division of the company, which analyzes and manages them in cooperation with other different company functions, in order to identify the main causes of dissatisfaction and specific critical issues.



AMBASSADORS
OF VALUE,
STAKEHOLDERS

■ 2.3.4 Communications and responsible information

The ambition of illycaffè is to create emotional and intellectual involvement in its customers, offering a multi-sensory experience. The company has transferred this same excellence to the coffee cup, the most important tool for using the product. In 1992, the **illy Art Collection** of coffee cups was created. Making the coffee experience come alive also means sharing the pursuit of beauty, which is bound inextricably with goodness – as in the Kalokagathia of the Greeks. For this reason art and creativity are the chosen language for expressing their values and philosophy. The same holds true for the single-brand stores, experiments in contemporary communications, and the promotion and development of cultural events of international importance.

To illycaffè, respecting consumers' right to information is at the heart of all its communications to its clients and stakeholders. Each communications activity is in full compliance with the laws, rules, and practices of professional conduct, and is carried out clearly, transparently and rapidly.

- illycaffè is in full compliance with the self-disciplinary code for advertising initiatives;
- to reinforce its compliance with all the norms and regulations in the reference countries, illycaffè subjects its labels to the professional advice and services of a company specialized in the promotion and development of agri-food quality.



■ 2.4

illycaffè people

■ 2.4.1 Human resources policies

People are the heart and soul of a sound and healthy company, which is why the company believes it is essential to have qualified personnel who are professional and add value in order to tackle and overcome the challenges posed by the market. illycaffè recognizes the centrality of human resources and the importance of basing collaboration on the principles of transparency, loyalty and trust, applying the practices dictated by its Code of Ethics and by the co-responsibility agreement through the illycitizen project that the people employed by the company have joined.

The company implements a human resource management and development policy based on respect for workers' rights and realizing their full potential, encouraging professional growth and career development. This approach requires that corporate results are strictly related to the ability of people to devote energy and passion to their work. illycaffè is therefore dedicated to fulfilling the professional satisfaction of individuals through an integrated personnel management system embracing the processes set out in the company's strategic plan.

In addition, **performance-evaluation systems** are used that periodically involve employees by clearly defining individual and shared objectives that are measurable in numeric, economic and financial terms. Those who achieve their objectives earn a variable economic reward: managers and supervisors receive an annual performance review, while a more streamlined, efficient system applies for office workers and other employees.

The company protects and fosters the improvement of the quality of life of its employees and their families, offering a safe and comfortable working

environment, stimulating the capacities, potentialities and personal interests of its employees; it monitors and develops a network of benefits and conventions which can facilitate their lives.

In order to bolster the sense of belonging and the motivation of all company employees, the illycitizen active citizenship program continued in 2016, while to ensure continuous growth, the Headquarters' first and second level managers, European and American branch managers and an initial group of 20 corporate managers have been involved in the **Management Assessment & Development** project with the aim of focusing and raising awareness of the areas of strength and areas for improvement using methodologies that guarantee **objectivity** and **transparency** in judgments.

As part of an independent survey conducted by one of the largest international labor agencies working in the field of supply work, **illycaffè was the second most attractive company in the North East** of Italy for training opportunities and its overall professional offer.

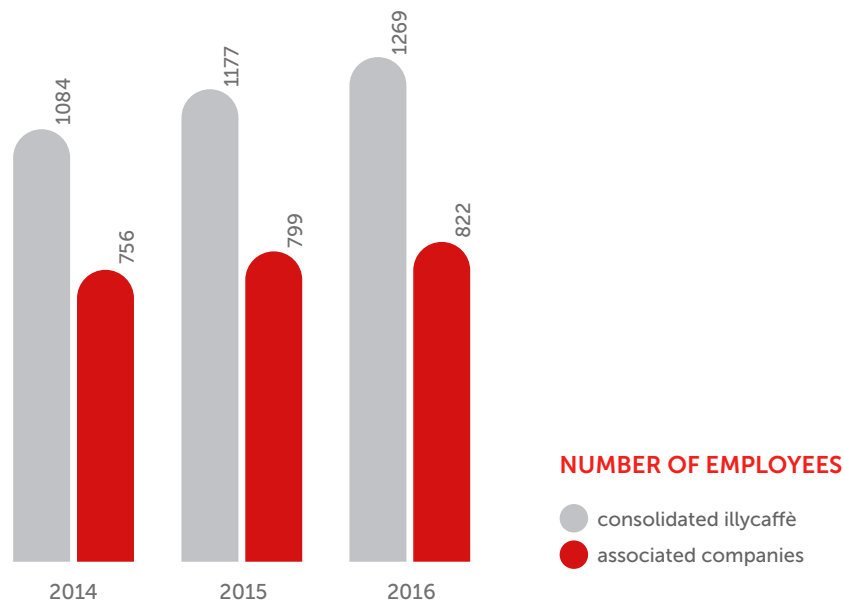
■ 2.4.2 Employees

■ FRAMEWORK OF REFERENCE REGARDING EMPLOYMENT DATA

The following data refers to the personnel of the companies of the illycaffè group, within the framework of accountability as described in the Methodological Note, unless otherwise specified: some of the data is presented with reference to the parent company illycaffè (Italy) because the normative differences and the labor laws of the various countries in which the company is present render it difficult to compare and unify the reported performances. The company has prepared a monitoring and reporting process which, starting from 2017, will gradually permit the organic and integrated management of personnel information on a global level.

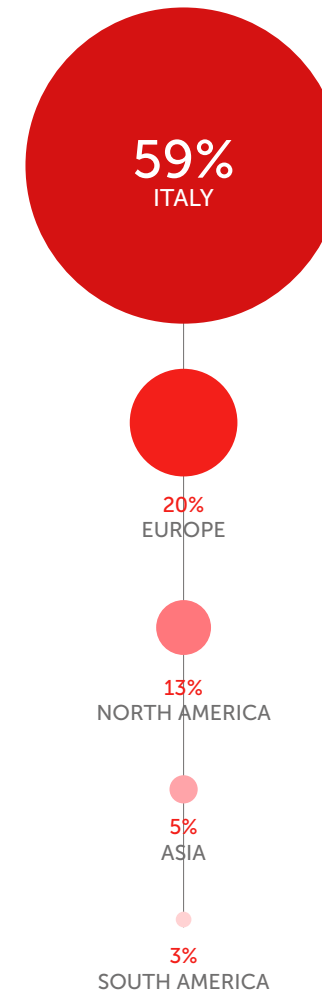
For 2016, the growth trends of previous years were confirmed, with variations in keeping with the business's growth, and it is noted that internal relations have a positive base, with a low turnover rate, confirming a personnel management policy that is much appreciated.

As of December 31, 2016, on a consolidated level of the entire illycaffè workforce, there were 1,269 employees (+8% compared to 2015). 65% of the personnel was employed by the parent company, 83% of which in Italy. With reference to the companies within the framework of accountability (which represents approximately 92% of the total workforce), women total 40% and, on the basis of the subdivision per age group, employees between 30 and 50 years of age represent the majority of personnel (66% of the total). Compared to 2015, there has been an increase in the number of workers under 30 years of age (from 14.6% in 2015 to 15.7% in 2016) and a leveling out of employees over 50 years of age (18.3% compared to 18.6% in 2015).

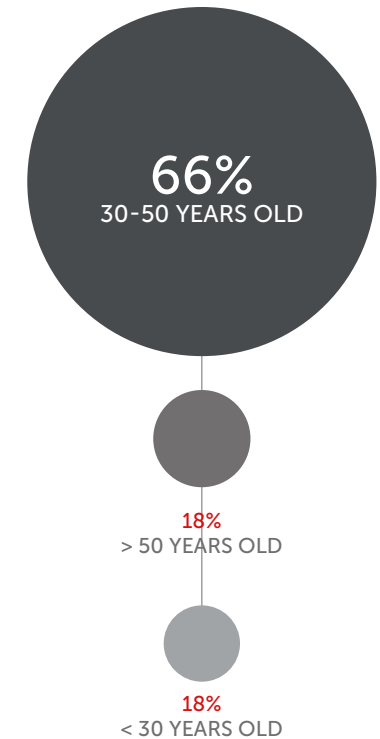


As of December 31, 2016, illycaffè, in Italy, had 30 people with supply work contracts (10% of whom are women) and 2 with project contracts, all of whom are men. Moreover, there were 9 active internships involving students from educational institutes and the local university.

**FULL TIME EMPLOYEES
PER GEOGRAPHICAL AREA
ON DECEMBER 31, 2016**

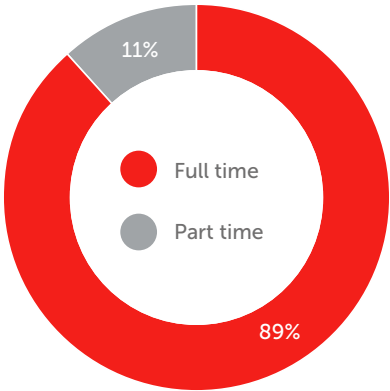


**EMPLOYEES
PER AGE GROUP - 2016**

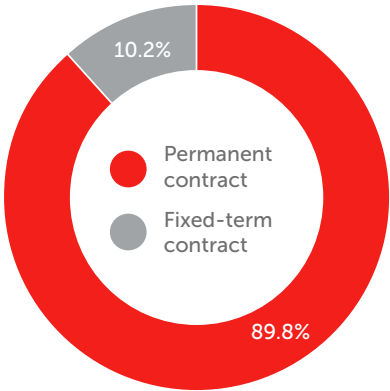


Geographical distribution of the personnel in 2016 presents a picture very close to the one of 2015, recording a slight increase in North American employees. 59.3% of the personnel is employed in the Italian companies of illycaffè (60.5% in 2015), while 19.6% of the personnel is employed in other companies with headquarters in Europe. As anticipated, human resources in North America make up 12.9% compared to 10.5% in 2015. The rest of the personnel is distributed between Asia (5.4%) and South America (2.8%). As of December 31, 2016, illycaffè personnel with permanent contracts (or similar, in keeping with the contract models used in the various countries in which the company is present) represents 89.8% of the total. Part-time contracts were given only in 10.2% of the cases (compared to 6.9% in 2015) and was most frequently requested by women (71.6% of the cases).

FULL TIME EMPLOYEES (2016)

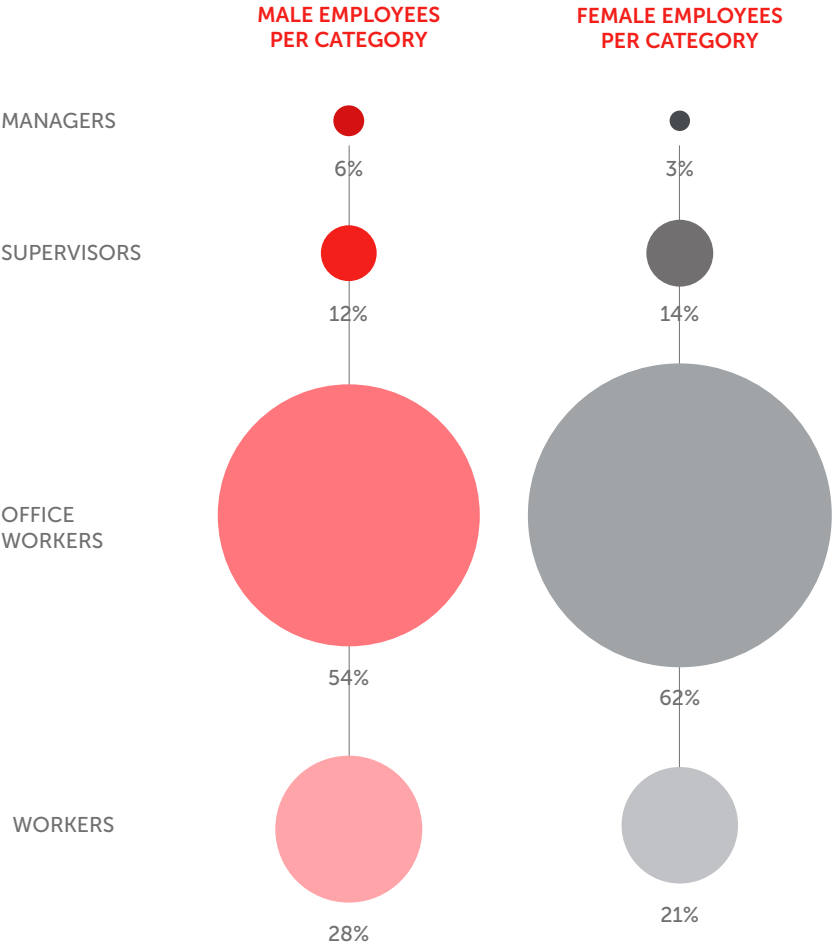


PERMANENT EMPLOYEES (2016)



illycaffè recognizes the merit of its employees, as envisaged by the Code of Ethics, and offers its employees work opportunities based on their professional skills and productivity. In terms of remuneration, the regulations applied are the same as those of the national contracting framework and laws in force in the different countries in which the company operates. The ratio between the average annual gross remuneration (base salary as defined by CCNL, increased by the steps of seniority, contingency, bonus and/or benefits, compensation for overtime, payment in lieu of leave not taken, etc.) received from women employees in Italy and the RAL average

received by men is **0.74** for managers, **0.85** for office employees, **0.92** for supervisors and **0.90** for workers. This ratio was calculated by dividing the total sum of received RAL received by women by the total RAL received by men, for each category of employees. **18%** of total employees with manager or supervisor contracts in positions of responsibility (managers and supervisors) are women on a global level.



The turnover rate in **2016**, calculated as the ratio between people leaving the company during the year and the total workforce staff at the end of the period is equal to **2.63%**. The rate of personnel hired is **5.98%**, equal to the ratio between people hired during the year and the total workforce staff at the end of the period. Hirings and termination of contracts did not vary in the

case of male and female employees.

Employees belonging to protected categories are: **23** for the parent company in Italy, **12** of whom are women and **11** of whom are men: they represent **3.36%** of the total illycaffè workforce in Italy (stable compared to 2015).

| | NO. HIRINGS | | | NO. TERMINATIONS | | | HIRINGS* RATE | | | TERMINATIONS* RATE | | |
|----------------|-------------|------|------|------------------|------|------|---------------|--------|-------|--------------------|------|-------|
| | 2014 | 2015 | 2016 | 2014 | 2015 | 2016 | 2014 | 2015 | 2016 | 2014 | 2015 | 2016 |
| Men | 60 | 46 | 20 | 30 | 24 | 13 | 10.45% | 12.07% | 5.18% | 5.23% | 46 | 3.37% |
| < 30 years old | 20 | 17 | 5 | 6 | 1 | 4 | | | | | 17 | |
| 30-50 | 39 | 27 | 15 | 20 | 16 | 6 | | | | | 27 | |
| > 50 years old | 1 | 2 | 0 | 4 | 7 | 3 | | | | | 2 | |
| Women | 45 | 32 | 21 | 25 | 14 | 5 | 10.27% | 11.30% | 7.02% | 5.71% | 32 | 1.67% |
| < 30 years old | 28 | 15 | 5 | 10 | 1 | 2 | | | | | 15 | |
| 30-50 | 17 | 17 | 15 | 14 | 7 | 3 | | | | | 17 | |
| > 50 years old | 0 | 0 | 1 | 1 | 6 | | | | | | 0 | |
| Total | 105 | 78 | 41 | 55 | 38 | 18 | 10.38% | 11.75% | 5.98% | 5.43% | 78 | 2.63% |

* Calculated by dividing the number of hirings and terminations by the total number of employees at the end of 2016



■ 2.4.3 Training and development of personnel

People are the company’s core of interest and the fundamental component at the basis of its development and growth strategy: the hiring system fosters the personal development of employees for the positions that may become available. Training collaborators is of vital importance for professional improvement; it is an important lever supporting the development process adopted in the company’s strategic plan and the development of individuals, because people are the protagonists in the success story of illycaffè. Through specific educational programs, illycaffè aims to make its collaborators:

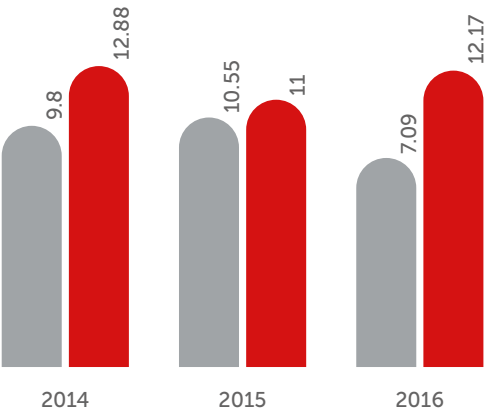
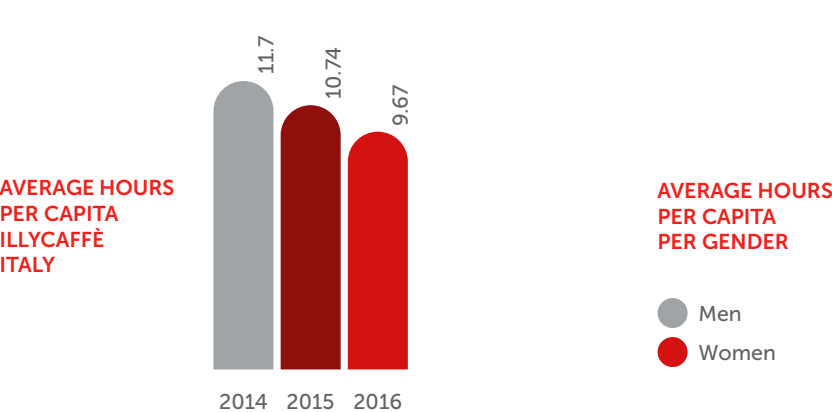
- business partners who support the company in its corporate project initiatives, in achieving objectives, in developing competences.
- people partners who assist the management in the development of internal staff.
- company partners who support the company in the development of an identity and a culture to create widespread leadership.

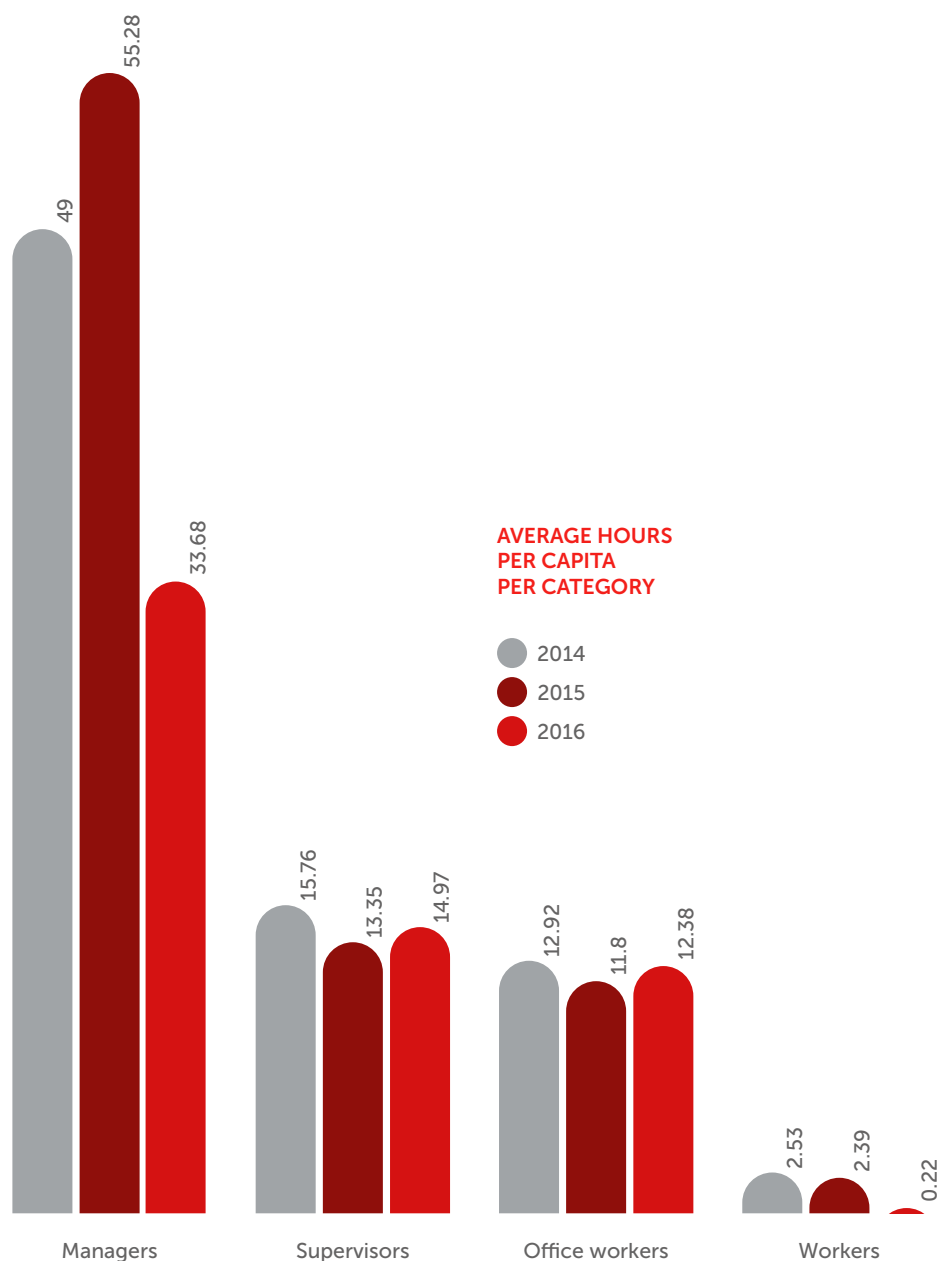
The training plan’s cyclical nature affects the various professional roles in different ways. They are involved to a greater or lesser extent from year to year according to their training objectives and the work done in previous periods.

The training programs are carefully created and are divided according to technical competences and behavioral competences: didactic methodologies vary according to the type of course. For years now, illycaffè has cooperated with the best schools of corporate training, such as SDA Bocconi in Milan, MIB in Trieste, the London School of Economics, and the il Sole 24 Ore training program.

In 2016, in partnership with SDA Bocconi, an Advanced Marketing Management Program was organized: a training program to develop product and marketing knowledge and skills, for more than 60 people in the Marketing department. The program was created with the aim of raising the level of marketing knowledge, updating it with the potential provided by digital marketing tools and with the desire to promote and stimulate an attitude encouraging exploration of innovation experiences, and continuous analysis of competitors’ growth and the development of market dynamics and trends.

At the same time, a special release of the Master’s in Coffee Science and Economics (7 modules) was organized for the same corporate community, tailored to the training and organizational needs of the marketing group.





In addition to the abovementioned projects, a new phase of the project has been launched to develop a sense among employees of actively belonging, illycitizen, a training and engagement program for illy employees that which has gradually involved both headquarters and branches.

The program has involved various phases, firstly training on corporate knowledge (strategy, organization, etc.), then clarifying and defining the practices that characterize illy citizens (respect, collaboration and consistency); then working on engaging and listening to clients to identify areas for improvement in the relationship and delivery of corporate services. Since 2016, the program has been focusing on developing the role of corporate ambassador, a process that will be implemented in 2017.

In 2016, the average number of training hours per capita totaled 9.67, with similar levels also on the basis of gender (7.09 for men and 12.17 for women).

The reduction in training for the production department compared to the previous year is explained by the greater attention the company has placed on the organizational front, with a review of the technical and maintenance structure, which will be fully implemented in 2017. In 2016, therefore, the foundations for better structuring the training initiatives that will take place in 2017 were laid. These will be aimed at filling gaps at the technical and professional level in view of the new technologies that have been introduced (in the portions department and in the traditional products department), both in attitudinal and managerial terms. In particular, a new project will be launched to strengthen lean manufacturing culture and, more generally, a culture that is continuously improving. Finally, illycitizen, the company's active citizenship program already mentioned above will resume placing more functional emphasis on the opportunities for production workers to participate.

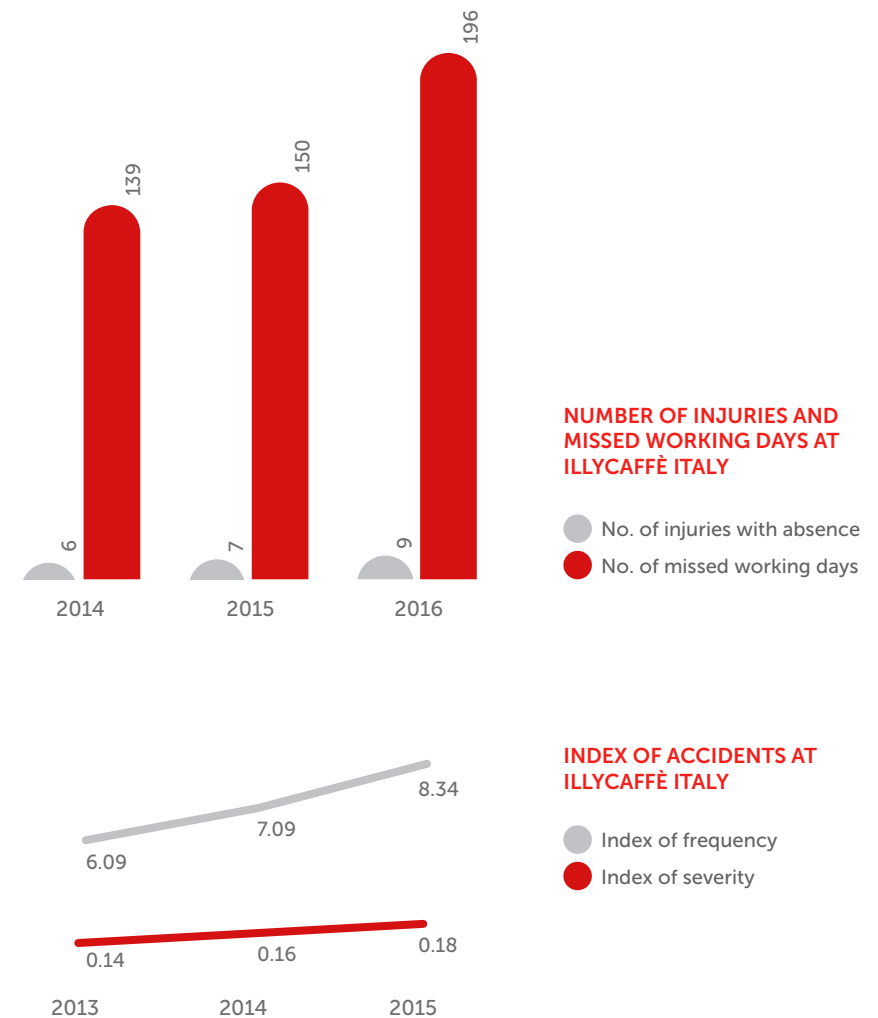
■ ILLYCAFFÈ ABROAD: VALUE AND COMMITMENT

At the global level, illycaffè companies have a structured training plan and conduct various training activities, mainly focused on technical and commercial themes (to develop selling capacities, client management capabilities and customer care service), and organizational and IT topics.

In the **United States**, specific initiatives were conducted regarding communications, services improvement, developing coaching abilities for managers, and awareness of harassment in the workplace. In **Spain**, through the Università del Caffè, theoretical and practical training courses knowledge of coffee, to offer an increasingly better service. In the **Netherlands**, the company launched a training course aimed at work and stress management. Austria launched training on social media, also holding courses that focused more on knowledge of coffee for baristas, with the support of the Università del Caffè.

In 2016, the **French branch** organized a visit to the parent company in Trieste, where a session of the illycitizen program was organized, during which all the French employees developed improvement plans based on the feedback from French clients.

■ 2.4.4 Health and safety



Framework of reference: data refers to illycaffè S.p.A. in Italy. The index of frequency is 1,000,000 X the ratio of the number of accidents in a year to the hours worked. The index of severity is 1,000 X the ratio of the number of days' absence because of accidents to the hours worked.

The **culture of safety** is vital to the company and illycaffè has chosen to build a shared concept with its collaborators, developing greater awareness together of risks related to work activities and promoting responsible practices. The health and safety of workers is safeguarded through preventive actions, in compliance with the law, and training activities. The company develops **training programs** dedicated to the operational units of the production plant, with the aim to widely disseminate the culture of individual safety among workers and to share the process of risk analysis and evaluation.

A **first aid emergency** team is always on duty at the company, able to carry out first aid and fire-prevention activities: at the end of 2016, this team numbered 32 members for the fire brigade and 36 members dedicated to the administration of first aid.

Since 2014, four semiautomatic defibrillators (DAE) have been installed on company premises; the members of the first aid team are qualified to use them and conduct drills twice a year.

In 2015, there were 9 on-the-job injuries (8 men and 1 women), for a total of 196 days of absence. There were two more accidents compared to 2015, creating a slight increase in the index of frequency and the index of severity. The rate of absenteeism due to on-the-job injuries equals 0.11%.

The rate of absenteeism for workers' illnesses in Italy equals 2.92% (calculated as hours of illness-related absence to the total of workable hours).

No accidents involving personnel of outside companies working at the illycaffè plants were registered.

Risk management and risk assessment system

In order to guarantee continuous improvement in working conditions, illycaffè constantly monitors the changes in norms and regulations on safety issues. In particular, a new risk assessment regarding work-related stress, recently introduced as part of the Decree Law No.81/2008 (Consolidated Act on Occupational Health and Safety). The company complied with this obligation even before the rules in that directive became applicable.

The company also implemented an internal management system which includes all those responsible for safety and security issues: a supervisor for the prevention and protection services, representatives of workers for safety, the medical doctor in charge, operational delegates for safety, and the employer. The company has three representatives of workers for safety for each category of worker.

Since 2013, the procedure has been improved for reporting and detecting events related to safety: dedicated forms have been prepared for listing the main information and the corrective measures suggested. Moreover, a report is prepared on a monthly basis on the state of these reports (concluded, open or in progress). The report is forwarded to all unit managers, to the Chief Executive Officer, the Board of Vigilance 231, the Board of Statutory Auditors and representatives of Lavoratori per la Sicurezza. In 2016, there were:

- 10 professional accidents (accidents with more than 3 days' absence from work)
- 1 close call (slight injury to worker with no absence from work or less than 3 days' absence),
- 1 accident (events that do not harm people),
- 9 dangerous situations (situations that did not cause accident or injury but that are monitored and kept under control),
- 2 non-conformities (situations that do not correspond with the safety system in place).

Training and prevention

Training and information for workers are a fundamental tool to prevent risks to health and safety. This is why the company makes large investments in this field and during 2016 it provided 2,146 hours of training in health and safety, involving 384 employees. In particular, men received 6.5 hours of training on the subject and women 4.2 hours over the course of the year.

illycaffè's commitment led to an increase in the number of training hours, equal to 21% compared to 2015.

Safety for employees of outside companies

Monitoring the safety of the workplace is also extended to the employees of outside companies: contracting companies which operate inside the illycaffè plants must follow all the norms. The company extends to all those working within its plants activities of information and awareness. The application of the Interference Risk Assessment Document (D.U.V.R.I.) calls for the rapid communication of accidents which might occur, in order to verify if the causes of the accident can be traced back to illycaffè and take appropriate action.

■ 2.4.5 Internal communications and company welfare policy

The company pays special attention to internal relations, in order to facilitate the **cooperation among people**, to enhance their sense of belonging, to improve the dissemination of the company's values and culture.

At the same time, the company implements internal communication activities through the development of knowledge, cohesion, sense of belonging and value sharing, and by fostering interaction between the various internal units. Throughout the year, the encounters known as **"Exchange Moments"** took place to present previews of projects and products or simply to communicate news and information relevant to the company. The internal newsletter Exchange, in Italian and English, is distributed every two months to every employee working in Trieste, in Italy and at the branches abroad. The bimonthly publication, which presents company matters, is prepared by a unit of in-house editors

Since 2013, the company has had **an agreement of co-shared responsibility** to be signed by all illy citizens, with the objective of defining the mutual commitments of employees, managers, executives and owners, to protect the uniqueness of the brand. The agreement states the importance of working with passion, humility and a spirit of self-criticism, with an eye on the company as a whole and sharing personal opinions with honesty.

The project **"Made in illy"** continues: through this initiative, people working for the company share their competences and their availability to cooperate, on a voluntary basis, in the organization of corporate events. Internal communications activities and internal relations are integrated with the overall training program and with the industrial relations plan. Trade union membership at the company is low. The internal relations illycaffè has created over time are oriented toward maintaining correct and transparent relations with its employees, in full respect of the national collective agreements and in respect of national and international laws regulating work-related issues.

BENEFITS

A benefits plan has been defined for all categories of employees (also in the case of part-time and fixed-term contracts), which involves financial and social compensations. These initiatives are dedicated both to improving the welfare of individuals and collaborators, as well as their families, and to fostering after-work activities and interests.

Nurseries and school books

Since 2007, the company supports employees with children, financing 30% of the monthly tuition at selected private nurseries: in 2016, 3 nurseries were selected and a total of 22 children of employees benefitted from the company contribution.

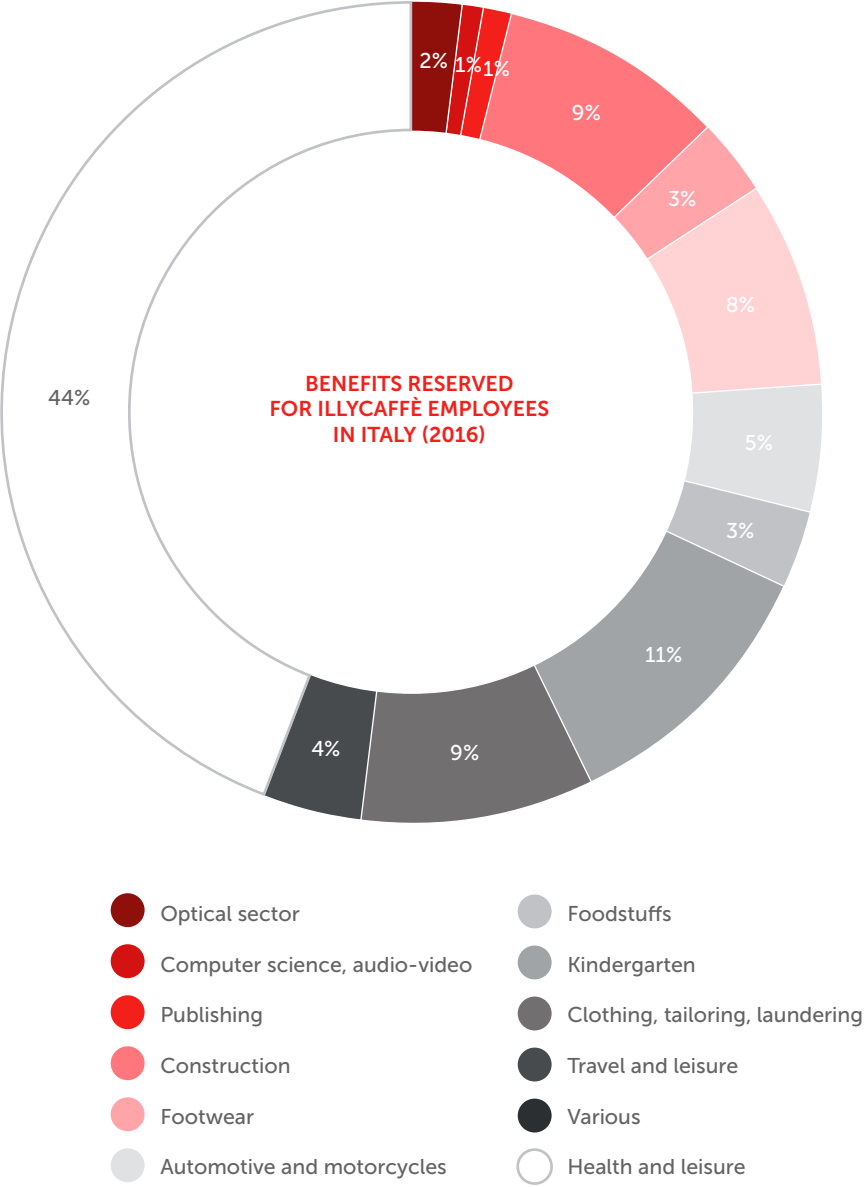
Health assistance and supplementary health policies

Since 2003, the company awards families of employees with an integrative health plan (at its sole expense). During 2016, there were 1,508 requests for health care reimbursements (1,150 in 2015). Regarding integrative welfare plans, the company provides a contribution which is higher than contract provisions, for a total amount of 147,000 Euros, in line with 2015. As of December 31, 2016, a total of 344 employees subscribed to the pension fund plan offered by the company (345 in 2015).

Cafeteria, agreements and other "time saving" services

At the Trieste headquarters, employees can use the company cafeteria (with services contracted to an external specialized company) which, in 2016 distributed **89,806 meals** to employees, without any increase in price to employees: the company, in fact, pays for 67% of each complete meal.

At the Trieste headquarters, illycaffè offers additional services such as an **internal ATM**. Many initiatives in **collaboration** with other types of public services are also offered: access to sports facilities, theatres, shops, private medical practices, professional offices, territorial agencies. All these initiatives are carried out with the aim to contribute to the quality of life and welfare of its employees, also outside the workplace.



■ **ILLYCAFFÈ ABROAD: VALUE AND COMMITMENT**

Foreign companies in the group also receive employee benefits such as health insurance, company cars, special rates, free gifts, and timesaving services. For example, in **Spain**, since 2015, employees receive 500 Euros per child, earmarked for purchasing books or nursery costs. In **Austria**, employees are given yearly passes on the public transport system, while in the **Netherlands** a counsellor is available to all employees to help them manage their work and stress.

A young man stands in a dense coffee plantation, holding a large, light blue plastic basket filled with coffee cherries. He is wearing a blue short-sleeved button-down shirt and an orange headscarf. The background is a lush green field of coffee trees with many red cherries visible. The text "A COFFEE THAT CREATES INDEPENDENCE" is overlaid on the right side of the image.

A COFFEE
THAT CREATES
INDEPENDENCE

■ 2.5

Suppliers of goods and services

In respect of the value of sustainability and business ethics, illy maintains relationships of mutual benefit with its suppliers, which are also selected and oriented on the basis of their compliance with the company' ethical values.

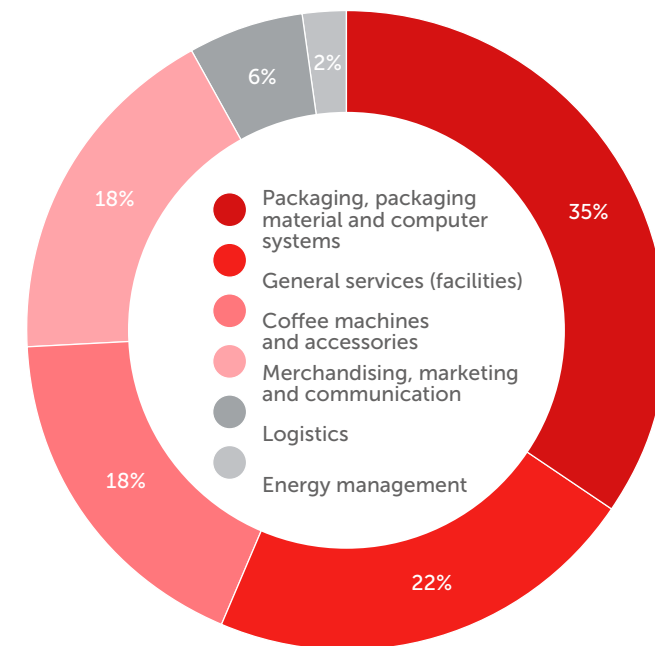
As quoted in the company's Code of Ethics (art. 305), "relationships with suppliers are constantly subject to monitoring control. Among relationships are included business financial contracts and consultancy activities. The subscription and signature of contracts with suppliers has to be always based on transparency and clarity". In support of this commitment, the General Purchasing Terms and Conditions attached to Purchase Orders contain a link to the illycaffè code of ethics.

- **Safety of products – services – processes.** The first commitment of the company to stakeholders is to guarantee the long term creation of responsibility and added value, together with the achievement of qualitative excellence of products, processes and services, which have to be safe and in full respect of the most severe regulations in force. For this reason, selection and management of suppliers form the basis for global safety.
- **Excellence of quality and wellbeing.** Sustainability of business and the added value that illycaffè creates, depend indissolubly on the excellence of quality and wellbeing that the company can deliver to stakeholders.
- **Integrity, value sharing and commercial benefit.** Every single contracting supplier is mandatory requested to adopt and respect requirements included in the illycaffè code of ethics.

illycaffè continues to improve its evaluation of suppliers, pinpointing new categories or product classes, in order to obtain more precise analyses.

With the aim of continuously innovating and evolving, a Supplier Accreditation Portal is being implemented which, according to defined criteria, will qualify suppliers before initiating any business with them.

**TYPES OF SUPPLIERS
(% OF PURCHASE
VOLUME)**



illycaffè considers suppliers of goods and/or services as strategic and/ or critical when they show a particularly significant economic impact (i.e., with a sales turnover profit for illycaffè above 500,000 Euros), when they share production/distribution processes, or when they provide raw materials or services relevant to the overall business of the company. Considering only the economic parameter, there were 46 illycaffè suppliers with sales volumes above 500,000 Euros, compared to 48 in 2015.

On the basis of its Strategic Purchasing Plan, in 2016 the company continued its project involving the supply chain of non-green coffee, through which the company has adopted a Supplier Management System with strategic suppliers to define and manage its own supply chain during the various phases of selection, evaluation, classification, development and risk management sourcing.

The rules and principles behind this system are shared within the company through the work of the **Procurement Academy**, with dedicated training courses that study the procurement activity work flow in more depth.

Thanks to a new purchasing procedure, the company has introduced standardized methodologies for the selection of suppliers and the evaluation of calls for tenders for indirect materials, services, investments, raw materials and finished products. The "Decision Matrix" decisional model was widely used in 2016, as a tool to select and evaluate suppliers: 60% of the selection is based on technical information and 40% on economic information. This allotment may, in certain cases, be honed by introducing other decisional support variables such as risk management.

The selection process for suppliers was monitored according to risk in terms of the environment, turnover and uniqueness. The issues of sustainability and energy have gradually become part of the selection criteria, especially in projects that concern energy efficiency and recovering of thermal waste. In 2016, thanks to the Sourcing Risk Management project, illycaffè was able to map, on the basis of precise criteria, the supply/supplier risks (including those relating to the environment, health and safety, society & ethics, compliance, innovation, etc.) and to look more closely at the risks that depend on external factors (country and market) and those relating to the environment, health and safety, society & ethics, compliance and innovation.

In 2016, the process continued to optimize and standardize the general supply system (with the exclusion of green coffee providers, which still

are under a separate management). The new process aims to introduce improvements in the company's Procurement Division, to obtain a more centralized and organic work system. Moreover, a new and gradual evaluation process for the revision of suppliers has been also initiated, based on a vendor evaluation strategy. Strategic and/or critical suppliers were classified through a structured, scoring methodology (vendor rating), permitting the measurement of performance in purchases.

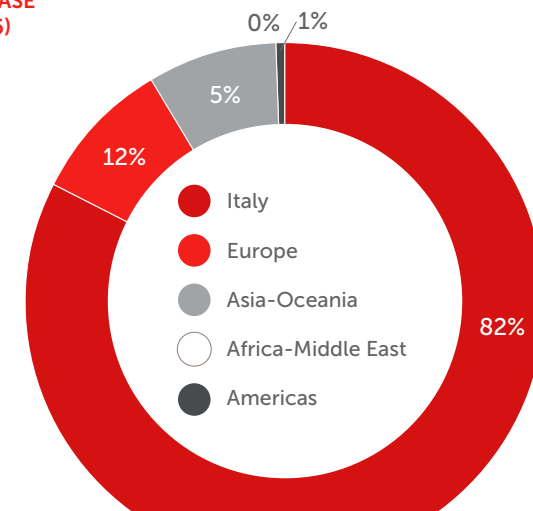
On the basis of the results of this rating, suppliers are evaluated by the Procurement Division in conjunction with the Quality Assurance Division, to identify areas of improvement and initiatives: during 2016 43 suppliers were certified, against 23 in 2015

The next significant step will be the deployment of the suppliers portal, currently being prepared, that will go online in 2017.

No new major suppliers were acquired in 2016 and thus, no new suppliers were evaluated according to criteria regarding the environment, work practices, human rights, and impact on society.

The analysis of the mapping per geographical distribution of the main suppliers for non-coffee procurement, reveals that 81.7% of sales turnover is produced in Italy. This information confirms the trend of the company, oriented to national providers; 11.7% of total turnover is generated by suppliers headquartered in other European countries, while 5.7% in Asia-Oceania. Roughly 0.9% of purchases come from the Americas.

**PROVENANCE OF SUPPLIERS
(% OF PURCHASE
VOLUME 2016)**



■ 2.6

illycaffè and communities

Highlights

There are various projects to promote and develop initiatives that have a powerful social impact in coffee producing countries.

illycaffè ensures that the human rights of communities in coffee producing countries are respected through a commitment certified by the Responsible Supply Chain Process.

450,000 Euros donated by the parent company in Italy to contribute to socially beneficial activities in 2016 and 520,000 Euros donated by foreign companies in donations, sponsorships, in-kind and other activities for the community.

illycaffè supports the community of artists through its participation in national and international events and by directly promoting cultural and artistic projects.

■ 2.6.1 Company citizenship

The company has direct responsible relationships with communities involved along the value chain of its products, and pays special attention to the benefits generated by this mutual interaction. Environmental protection represents a fundamental value in all illy's activities. The production plant was constructed, and is constantly updated, in full respect of the local territory and the surrounding community. With the local authorities, illycaffè promoted the creation of the Coffee District in the province of Trieste, allowing the creation of opportunities of growth for the whole industrial sector, both at the national and the international level. In the recruitment of competences and skills, the company refers to local and regional resources whenever possible.

The attention for rural communities can be seen especially in the training provided locally and in the partnerships with local institutions to create projects offering significant social benefits. Activities of knowledge sharing are carried out by the Università del Caffè, or by specialized agronomists and technicians working in the company, to enable producers to grow coffee with higher levels of quality and hence to receive prices higher than the market standards, once the objectives of quality excellence have been achieved.

illycaffè communication channels are also activated through contemporary art. It works with the grand masters of contemporary art, it helps talented young people grow professionally, it supports national and international institutions, and it personally creates events and initiatives relating to creativity.



IT'S ALWAYS
THE RIGHT TIME
FOR TAKING CARE
OF PEOPLE.

■ 2.6.2 Support to local communities and institutional relationships

illycaffè in Italy

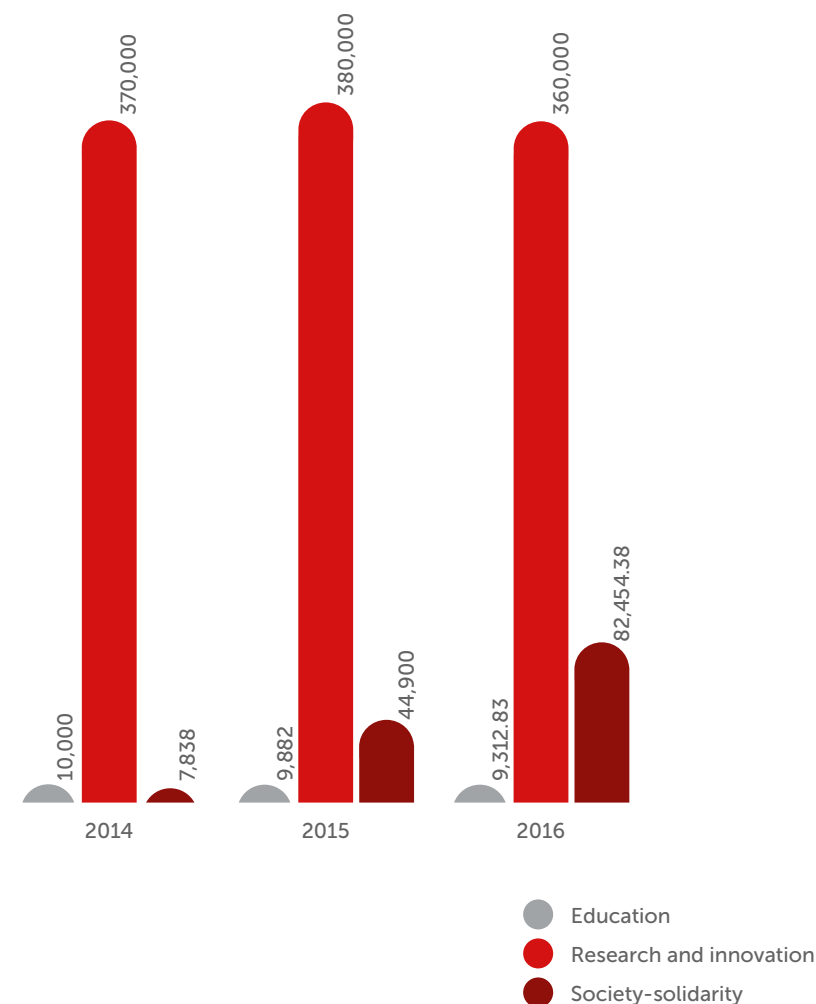
Concerning "social investments," besides strategic collaborations with the communities of the coffee producing countries, the various companies of the Group strive to create value and benefits for the communities in which they operate. A long-term vision of the company envisages investments in welfare and solidarity, education and scientific research. In 2016, taking into account only data collected for the parent company (illycaffè S.p.A.), a total amount of 450,000 Euros of investments in these sectors was donated. Funding from other companies abroad amounted in the same year to 520,000 Euros and include donations, sponsorships and the value of services rendered in-kind, as well as other types of activities.

Research and innovation initiatives supported by illycaffè in Italy are also funded by the activities of the Ernesto Illy Foundation. Contributions are also made to bodies, institutes and associations related to training and culture and non-profit associations are supported particularly in the social and charitable field.

illy is involved in several initiatives aimed at serving the community: for example, it supports a rebuilding project following the earthquake that struck Central Italy in August 2015. In collaboration with the Protezione Civile of Friuli Venezia Giulia and through a donation made by its employees and the company, it is contributing to the rebuilding of a school in one of the areas most affected by the earthquake.

It also supports voluntary work by employees who hold charity auctions with the aim of raising funds for charitable purposes. With particular emphasis on the holiday periods, illy gives donations to numerous institutions in the local area and elsewhere who provide aid to the most needy or who promote various socially beneficial activities.

ILLYCAFFÈ' DONATIONS IN ITALY



■ ILLYCAFFÈ ABROAD: VALUE AND COMMITMENT

The Group's foreign companies have also conducted various initiatives:

In **Spain**, the company supports the Food Bank, Circulo Bellas Artes, Guggenheim Museum, Palau de la Musica, Teatro Liceu, Reina Sofia, MACBA and donated 165,000 Euros in 2015 to support culture.

In **France**, it contributes to a business school that teaches specialist economics in the Ho.Re.Ca sector and in the **Netherlands** every year it supports the Roparun and Kika foundations, that support cancer research.

In **North America**, many community projects were conducted in 2016 revolving around healthy lifestyles, cinema and art, fund-raising campaigns, and seminars, and the American branch supported the NOLA tree project to plant trees and bushes in the areas affected by Hurricane Katrina. Overall, in 2016 illycaffè North America offered over 315 thousand Euros in donations, in-kind initiatives and funding for numerous activities. It took active part in conferences and events at which issues were discussed such as food shortages, nutrition and the future of the food sector. Among the many public initiatives and activities, as member of the National Coffee Organization, illycaffè took part in seminars and work groups devoted to the future of the coffee industry and to looking in more depth at the fundamental issues for its development.

Institutional relationships

illycaffè's relationships with national and supranational institutions are based on an absolute transparency and clarity and governed by precise norms of behavior, as determined by the Corporate Code of Ethics.

Its relationships with the Public Administration "must be inspired by strict observance of the applicable laws, regulations and norms and cannot in any way compromise the integrity or the reputation of the company." (point 3.8 of the Corporate Code of Ethics).

In this framework and in keeping with this approach, the company collaborates with all types of institutions to develop and implement norms and agreements relevant to the coffee sector. In order to guarantee an adequate comprehension of the activities carried out and of the interests represented by the parties, institutional subjects are informed about the activities organized by illycaffè; the projects which impact the territory; the most important research and innovation initiatives; and economic, environmental and social sustainability key factors.



illycaffè is a member of several associations and institutions at the national and international level, with the aim to contribute to the dissemination of quality, innovation, coffee culture and, more in general, sustainability:

- ASIC - International Coffee Science Association
- ISIC - Institute for Scientific Information on Coffee
- Comitato Italiano Caffè
- Associazione Caffè Trieste
- FOUNDATION FOR THE GLOBAL COMPACT
- 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

Foreign companies of the group are also members of representative associations, both regional and national, chambers of commerce, federations of the sector and of the district.

Trieste coffee cluster

illycaffè is actively involved in the coffee industry in Trieste province, which is officially recognized by the Friuli Venezia Giulia region as an economic player and a force for growth in the province and its region as a whole.

Trieste Coffee Cluster S.r.l. Trieste Coffee Cluster S.r.l. (TCC) is the company which gathers together all the players in the coffee sector; it was created to valorize the excellence of the products and services and to promote joint

initiatives and projects to stimulate innovation and growth.

Founded in 1994 from an idea of the Industrial Association and from the contribution of other enterprises working in the sector, the original name of the company was Qualicaf Trieste S.r.l. In 2008, the TCC strengthened its corporate structure with the addition of new public and private partners, obtaining the recognition "Agency for the Development of the Coffee Industrial District (Agenzia per lo Sviluppo del Distretto Industriale del caffè - ASDI) on behalf of the Friuli Venezia Giulia Region.

International community

The quality of illy coffee is a direct result of the collaboration between the company and the world's best coffee producers. illycaffè's sustainable supply chain is based on a system of direct relationships with its farmers that is based on three fundamental cornerstones: selecting and working directly with the best producers of Arabica; transferring knowledge to them by training them in high quality production that respects the environment through the Università del Caffè and by working in the field every day with specialized agronomists; and rewarding them for the quality produced by paying them prices that are higher than market prices, stimulating continuous improvement and making production sustainable.

Only a supply chain based on transparency and respect can give long-term results and consistency in terms of quality. This is why illycaffè is committed to understanding the needs of communities, with the fundamental support of the institutions operating globally and locally.

Examples are the long-term reforestation project with the Tamara community, which is now its fourth year, that focuses on the treatment of water used to wash coffee, and the continuation of the multi-year UNIDO project involving the entire Ethiopian coffee sector.

In Ethiopia, the company helped build a primary and secondary school, enabling children under the age of 14 to stay at school, and it is in the process of implementing a project in partnership with UNIDO "Improving the Sustainability and Inclusiveness of the Ethiopian Coffee Value Chain through Private and Public Partnership". This project was developed in 2015 via an agreement signed by illycaffè, the Ernesto Illy Foundation and the

United Nations Industrial Development Organization (Unido), sponsored by the Ethiopian Ministry of Industry, with the aim of increasing Ethiopia's coffee quality and production capability, and to permit small farmers to boost their earnings, fostering local economic growth and obtaining international recognition.

In the project received support from COOPI for technical assistance in coffee production for 12 small cooperative producers in Delo Mena Woreda in Bale Zone - a region of Oromia - and from Technoserve to modernize the coffee processing stations of Gerbicho Lela, Homecho Waeno and Titira - Belesto. This new partnership is integrated with the Programme for Country Partnership for Ethiopia, a UNIDO program to foster progress in Ethiopia, in order to make it a country with a sustainable income by 2025.

Another wide-ranging project was established in 2015; a declaration of intent was signed between illycaffè and SENA (Servicio Nacional de Aprendizaje), the Colombian public institution, to create international cooperation in order to transfer knowledge and good practices in the production and preparation of coffee, creating benefits both for producers and for consumers.

Officializing the accord in Bogotá were Matteo Renzi, Italy's Prime Minister; the Vice President of the Republic of Colombia, German Vargas Lleras; the President and CEO of illycaffè, Andrea Illy; and the General Manager of SENA, Alfonso Prada Gil. This collaboration has been further developed as part of the peace agreement between Farc and the Republic of Colombia, which will support training for aspiring new coffee farmers from 2017. This demonstrates how much illycaffè is motivated to choose solid and strategic partnerships with genuine changemakers, believing in the future of these communities to create virtuous coffee supply chains. In this way, sustainability becomes a basic principle of the supply chain, certified thanks to the Responsible Supply Chain Process.

Over time, the company has maintained a stable and durable dialogue with different government organizations, institutions, category associations, research institutions and universities related to the coffee supply chain and operating in the various producers countries at the national and international level.

| COUNTRY | INSTITUTION |
|---------------|---|
| Brazil | CECAFÊ - Conselho dos Exportadores de Café do Brasil Embrapa - Empresa Brasileira de Pesquisa Agropecuária Universidade São Paulo Universidade Federal de Viçosa Instituto Terra Funarbe - Fundação Arthur Bernardes |
| Colombia | Federación Nacional de Cafeteros de Colombia Fundación Natura |
| Guatemala | Anacafé Gobierno del Guatemala |
| El Salvador | Consejo Salvadoreño del Café |
| Ethiopia | Ethiopian Coffee Exporters Association |
| India | Coffee Board of India |
| Tanzania | Coffee Board of Tanzania |
| China | Institute of Tropical and Subtropical Cash Crops (ITSCC) |
| International | ICO - International Coffee Organization From 2012 to March 2016 Andrea Illy was Chairman of the Promotion and Market Development Committee UNIDO - Organizzazione delle Nazioni Unite per lo Sviluppo Industriale 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 |

■ 2.6.3 Art and culture

Today, after more than twenty years of activities in and support of the contemporary arts, illycaffè can be defined a competent and active player in the field, having supported dozens of well-known and emerging artists and giving them with visibility and promoting their work.

The objective is to disseminate and substantiate a culture in pursuit of beautiful things done well, in partnerships with institutions such as the Visual Arts section of the Biennale di Venezia (of which illycaffè has been a partner since 2003), the Triennale of Milan.

illy Art Collection

A tangible example of the company's commitment to contemporary art is the illy Art Collection, initiated in 1992, the series of coffee cups crafted by established designers and emerging talents. Proceeds from the sale of the collections is reinvested in the art world to support projects and institutions that give visibility to young artists.

2016 saw the very first collaboration between **Emilio Pucci and illycaffè**, two leading Italian lights. The fashion brand from Florence and the coffee company from Trieste joined forces to create a new collection of decorated coffee cups. The cups feature six exclusive Pucci prints - Cities of the World - drawn by hand and depicting characteristic scenes of the places they are dedicated to.

illyartlab @ La Triennale di Milano

illy coffee room. A multisensory journey discovering coffee

illycaffè, in collaboration with Studio Azzurro, created the illy coffee room. A multisensory journey discovering coffee, an art installation at illyartlab at the Milan Triennale, opened for Milan's Design Week.

A film guides the visitor in the long process from the production countries to the cup of coffee drunk in the café, through the stages of coffee that tell the stories of men who are passionate about their work, in far-off places with colors, sounds and beautiful sights, on a path of that few have trod.

X1: the story of a family passion @ Università degli Studi di Milano

The installation "X1: the story of a family passion", exhibited in the historic

courtyard of the University of Milan at the Open Borders event organized by the magazine Interni during the 2016 Design Exhibition, looked back over the history of illy espresso coffee machines, from Illetta to the X1 Anniversary Edition, designed to celebrate the 20th anniversary of the first X1. An area dedicated to illycaffè and a celebration of its history and coffee culture.

illycaffè and editorial projects

In 2016 the illywords project is joined by "stories of illywords", little books with artist's drawings accompanied by short stories to be read as you drink your coffee. This publishing project is a celebration of the sociality and creativity that are part of the coffee ritual, when people meet, take some time out to reflect, and stimulate their senses and intellect. Six stories have been published:

- *Un caffè lungo un secolo* – stories of illywords #1, by Gillo Dorfles.
- *Camera Numero Infinito* – stories of illywords #2, by Valerio Millefogle, illustrations by Giacomo Bagnara.
- *EX-DESIGNER Project BAR* – stories of illywords #3 by Martí Guixé.
- *Caffè Gastronomico* – stories of illywords #4 by Niko Romito, illustrations by Chiara Rovescala.
- *Viaggiando in altro senso* – stories of illywords #5 by Chicca Gagliardo, illustrations by Viola Niccolai
- *Quest'interrogativo che chiamiamo libreria* – stories of illywords #6 by Jorge Carrión, illustrations by Noemi Vola.

"PROFUMO DI SOGNO. Viaggio nel mondo del caffè" by Sebastião Salgado @ Instituto Tomie Ohtake of São Paulo (Brazil)

For the 25th anniversary of the Illy Prize for Quality Coffee in Brazil, the exhibition "PROFUMO DI SOGNO. Viaggio nel mondo del caffè", by Sebastião Salgado curated by Lélia Wanick Salgado, was held in São Paulo, at the Tomie Ohtake Institute.

The exhibition consisted of a selection of the 80 most representative photos of the photographic journey that the great master undertook, in collaboration with illy, to pay tribute to the men and women of the coffee plantations: a journey involving people, landscapes and a harmonious relationship with the land, depicted through black and white photos that are highly expressive, beautiful and stirring. The company's collaboration with Salgado, which dates back to 2002 in Brazil, is a sign of the attention that illy has always devoted to

sustainable development, to respect for local cultures, and to a love for the land. This exhibition aims to become the largest photo-reportage ever produced about the world of coffee. It involves ten of the countries where illy buys coffee: Brazil, India, Indonesia, Ethiopia, Guatemala, Colombia, China, Costa Rica, El Salvador and Tanzania.

Festivaletteratura 2016 - Mantua

illycaffè once again supports Festivaletteratura, as partner at the 20th edition. It has always been involved in the world of art and culture, at the eighteenth edition of the festival, illy presented the stories of illywords project, with a reading by the travel writer Valerio Millefoglio, introduced by graphic designer Pietro Corraini.

16° Quadriennale d'Arte - Rome

In 2016 illy was a partner in the sixteenth Rome Quadriennial, at Palazzo delle Esposizioni, choosing to make an important contribution to supporting up and coming artists with the illy Under 35 Prize awarded to the artist at the event who best managed to express through their work a particular kind of expressive freshness in the field of contemporary Italian art trends. The winner of the illy Under 35 Prize was Adelita Husny-Bey (Milan, 1985) with the work "AGENCY-Giochi di potere" from 2014, a video that proposes alternative ways of depicting political life and emphasizes the fundamental role of education as the basis for fraternity. The Illy Under 35 Prize was awarded by a qualified International Jury, organized by La Quadriennale, in which Carlo Bach, the artistic director of illycaffè, also participated.

Artissima 2016 - Turin

In 2016, for the sixth consecutive year, illy supported Artissima, the leading contemporary art fair in Italy, held at Lingotto in Turin, with the illy Present Future Prize. Supported by illycaffè since 2001 and awarded to the artist considered to be the most interesting in the Present Future section dedicated to up and coming talents, the illy Present Future Prize makes an important contribution to promoting emerging artists and once again demonstrates its innovative role as an artistic institution of international repute. The works of the artists invited include brand new proposals specially created for the Fair and projects being exhibited for the first time in Europe and Italy. Since 2012, the illy Present Future Prize has offered winners an exceptional opportunity to exhibit in one of the museums in Turin, at the same time as the subsequent edition of Artissima.

The international jury awarded the 2016 illy Present Future Prize to artist Cécile B. Evans (Cleveland, USA, 1983). At the same time Alina Chaiderov, winner of the 2015 edition of the illy Present Future Prize, inaugurated her first solo exhibition at the Castello di Rivoli Museo d'Arte Contemporanea.

Gillo Dorfles's exhibition "Essere nel Tempo" at MACRO in Rome

illycaffè co-produced the exhibition "Gillo Dorfles. Essere nel Tempo", the first great anthology that celebrates the art and thought of the contemporary artist. For the occasion, Gillo Dorfles, the artist and art critic, intellectual, sociologist of the arts and professor of aesthetics, designed the new illy Art Collection.

■ 2.7

Human rights

Ethics and sustainability are the founding values of the company and its relationships with stakeholders.

illycaffè has received Responsible Supply Chain Process certification for its ability to monitor and generate value in the green coffee supply chain. This certification, in protocol A, prescribes the active control and management of human rights, in particular child labor and forced labor, trade union rights, overtime rates, health and safety, equal opportunities and gender diversity management, and equal remuneration for men and women.

Suppliers not in line with this requirement and which do not comply with the national regulations are reported on a "black list" and must adapt their requirements in order to re-enter the supply chain of the company. A periodical plan of audits (set up by illycaffè) is also carried out on other suppliers of the company supply chain (especially for non-EU countries): the plan includes the verification of supply conditions and the monitoring and evaluation of social issues.



Furthermore, the concrete engagement of illycaffè in respect of human rights has led to several initiatives over the years, such as:

- **Endorsement of the principles stated by the ILO** – International Labour Organization: illycaffè purchases goods and services only in countries subscribing ILO standards regarding the minimum age prescribed for minors, 14 or older.
- Application and explicit reference to respect of the **Code of Ethics**, which includes strict clauses on upholding Human Rights in the procurement processes and contracts. Several sections and rules included in the Code and relevant to the respect of Human Rights are also applied along the whole supply chain. A dedicated Supervisory Body has been created to control and monitor potential violations of the correct application of the Code of Ethics.
- The formulation of the **Sustainability Manifesto**.
- Participation in the **Global Compact initiative**, since 2012.

The Ethisphere Institute included illycaffè in its list of the World's Most Ethical Companies for 2016. This is the fourth year running illycaffè has appeared on the list, a sign of the company's commitment to promoting and implementing ethical standards and practices.

Through these measures, the company promotes a responsible code of behavior, in full respect of Human Rights with all stakeholders. Moreover, it confirms its strong commitment to the monitoring of any discriminatory actions against employees and suppliers through the dedicated Supervisory Body.

Thanks in part to the correct application of these measures, no violations of Human Rights in company procedures and behaviors were reported.

■ ILLYCAFFÈ ABROAD: VALUE AND COMMITMENT

Foreign companies apply national laws, international human rights conventions, and illycaffè business policy by promoting in house the code of ethics, manuals and regulations, and providing specific training.



SEED:S

Social
Environmental
Economic
Development
Sustainability



environmental value

■ 3.1

Recommencing with the future, starting from the present

Highlights

+6.7%

expenditure on environmental protection compared to 2015

100%

of electricity from renewable sources

12,290

native plants and trees planted with the help of the Támara reforestation project in Colombia

The environment is an important heritage to be safeguarded in the interest of all communities; this is why illy takes its inspiration from the principles of eco-sustainability, with a commitment to minimizing the impact of its activities by adopting the best technologies available.

The company operates in compliance with the national and regional norms of the countries in which it operates, in order to preserve the natural environment for the benefit of future generations.

The environmental protection policies have been formulated to embrace the whole coffee production process: from the heart of plantations, through the endorsement and promotion of responsible behavior contributing to preserve the ecosystem, up to the creation of sustainable products, addressing issues of quality and with the lowest possible environmental impact.





■ BENEFITS AND SUSTAINABLE VALUE PRODUCED BY ILLYCAFFÈ FOR STAKEHOLDERS:

- **Customers and consumers:** enjoy products that are natural, traceable (-> link to Sustainable Supply Chain) and respect the environment.
- **Employees:** enjoy a safe and pleasant working environment, and are involved in training activities regarding environmental topics to develop virtuous behavior (see § 2.4).
- **Coffee producers:** illycaffè shares and promotes farming practices which respect the ecosystem, and teaches sustainable farming methods and responsible behavior. It fosters the dissemination of environmental respect and biodiversity (see §. 4.3).
- **Nature:** coffee is the fruit of an environment which is healthy, respected and protected, sustainable right from the start thanks to the care and aware use of resources (see § 4.3.3)
- **Communities:** productive sites are ecologically advanced plants managed within a framework of continuous improvement and causing no risk to the nearby communities (see § 3.2).

illycaffè governs its direct impact on the ecosystem and adopts processes that promote and disseminate proper values and actions, from farm to cup. Thanks to this awareness, the company implemented an environmental management system aiming to foster the maintenance of sites which respect the environment and are certified. illycaffè has invested huge sums in order to minimize the direct impact of its production processes, in terms of energy efficiency and the sustainable management of waste. To comply with the objectives defined in the European Protocol 20-20-20 (commitment to reduce CO2 emissions) it has designed and developed new packaging with a lower environmental impact and has introduced eco-efficient innovations in the production process. The company promotes sustainable agronomic methods with green-coffee producers while not losing sight of the economic dimension to production, the quality of the product and farming techniques which are compatible with environmental conservation and food safety, in part by minimizing the use of synthetic compounds. The responsibility the company feels toward the environment and future generations has been translated into the objectives for improvement it has set itself and which it has committed itself to maintaining and communicating in the future.



■ 3.2

Management of environmental sustainability

illycaffè considers the environmental value and the protection of resources a key factor to be promoted in the general approach to corporate activities and believes the safeguarding and sustainable development of the local area in which it operates to be of the utmost importance, taking into account the rights of the community and future generations.

To this end, illycaffè, in the area of operational management and its activities, is committed to minimizing the negative impact that its business may have on the environment and to meet all the legislative and regulatory requirements in this matter.

Thanks to implementation of the Environmental Management System (EMS), certified in compliance with ISO14001, it constantly manages and monitors its environmental impact through the **Initial Environmental Analysis**. In particular, it looks in depth at all the relationships between the site's production activity and the environment and territory around it, according to the more general constraints the company is subject to.

To confirm its environmental commitment, it has defined and implemented a method of assessing the significance of its impact, which has allowed it to establish the environmental criticalities relating to illycaffè's activity at the Trieste production site.

■ INSTRUMENTS AND CERTIFICATIONS FOR ENVIRONMENTAL MANAGEMENT

- **Environmental Policy and Environmental Declaration:** brings together the strategy and detailed activities undertaken by the company, including the provision of training programs explaining and implementing environmental policies and objectives, at every level of the organization.
- **Environmental management system:** continuously monitors and archives the data of all three sites with regard to consumption and waste management.
- **Life Cycle Assessment:** illycaffè uses the latest version of the software SIMAPRO 8.3 to calculate and reduce the environmental impact of its production processes. LCA is a support tool for decision-making right from the planning stage, and whose goal is to create new products and packaging.
- **Single Environmental Authorization (in Italian, AUA):** in 2015, illycaffè obtained a single environmental authorization instituted by presidential decree 13/039/2013 no. 59, which substitutes the various environmental qualifications (atmospheric emissions, waste water discharges, acoustic impact, etc.) which previously had been individually requested and obtained. This instrument simplifies administrative bureaucracy and responds to the dual need to guarantee environmental safeguarding and reduce bureaucratic obligations on the part of the operators.
- **ISO 50001 certification "Energy management systems":** in December 2015, the company received the certification by following a systemic approach to energy efficiency, with coherent policies in keeping with continuous improvement of its energy performance.

Plants and production processes

The company guarantees environmentally friendly and certified industrial plants for the territory and the relevant community. There are two production plants at Trieste:

VIA FLAVIA: the site where coffee is processed and that has the most direct impact on the environment

VIA MALASPINA: Distripark used for storage and as a logistics warehouse.

Both sites have environmental certification and neither site is located in protected areas or in areas with high biodiversity. There is also a third site at Via Caboto 19, where a few marginal production activities are conducted (design and quality control of the coffee machines).

The energy sources used in the production process are almost exclusively methane and electricity. The company has adopted specific solutions to reduce energy consumption and it also makes waste management more efficient.

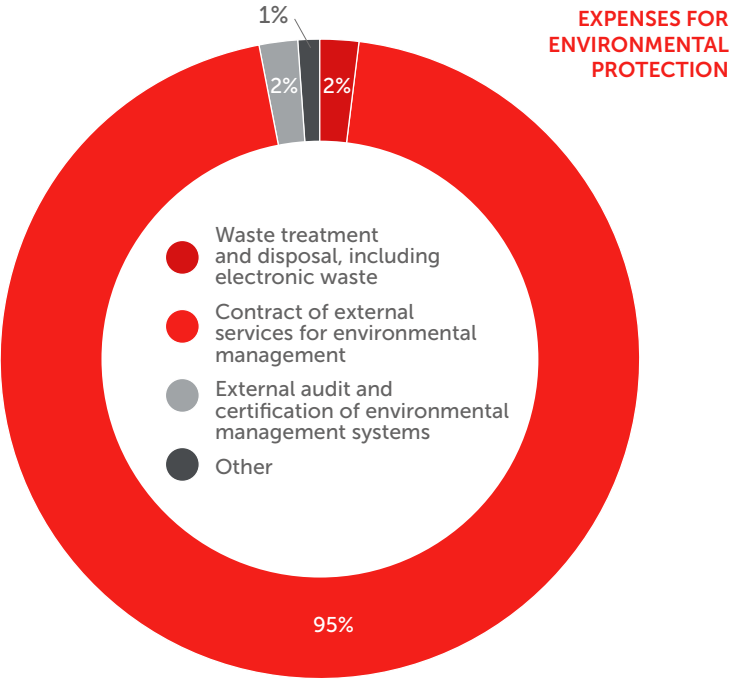
Through the **Monitoring and Measurement Plan**, backed up by the environmental compliance calendar, the company monitors timings and process regarding production and potential impact on the environment in the production site or on adjacent residential communities.

Any deviations from plans are monitored and managed promptly through the drafting of non-compliance reports and, where appropriate, through corrective action aimed at the causes of the problems to prevent them from happening again. illycaffè's philosophy is to prevent any risks, including environmental ones, which is why it works with preventive control and monitoring plans to periodically check the correct functioning of the system in its individual parts and as a whole.

Thanks to continuous control, in 2016 the company received no fines or penalties for infringement of environmental protection regulations and laws. Moreover, no warnings were received regarding environmental impact.



The overall expenses incurred by the parent company in 2015 to sustain activities for environmental protection totaled 565.2 thousand Euros (+6.7% on 2015).



Foreign companies in the group are in charge of marketing products: their activity is mainly based on administrative duties, and therefore with a low environmental impact. Nevertheless, illycaffè also conducts other activities with associated foreign companies in order to obtain benefits from the careful management of energy resources, and of responsible waste management and use of materials. Each country manages the design and implementation activities of these initiatives independently in order to find the best solutions for the local context, in terms of regulations, community and market.

■ **ILLYCAFFÈ ABROAD: VALUE AND COMMITMENT**

In the **Netherlands**, numerous initiatives were launched to foster sustainable practices among employees, for example, digitalized contracts and electronic invoices, recycling and the direct involvement of employees to find increasingly sustainable solutions. In **France**, too, sustainable practices are encouraged by the company: using public transport; use of videoconference facilities whenever possible to avoid travel; proper use of electric devices and the automatic shut-off function when not in use (computers, printers, coffee machines, lights, etc.) Furthermore, in 2014, illycaffè FraBeLux premises are in a low environmental impact building thus reduces energy consumption and increases environmental efficiency. In **Spain**, a recycling system has been implemented.

■ **METHODOLOGICAL NOTE:
ENVIRONMENTAL CONSUMPTION PERIMETER**

The quantitative environmental data presented in this section refers to illycaffè S.p.A. since the impact of the other companies in the group can be considered less significant. In fact, besides the nature of the activities conducted by the other companies (administrative duties):

- most of the environmental impact is tied to production activities, all located in Trieste, in the parent company's plants;
- 65% of the company employees worldwide are employed by the parent company.

The company provides examples of good environmental practices adopted by the other companies in order to best report projects and solutions of environmental importance.

■ 3.3

Atmospheric emissions

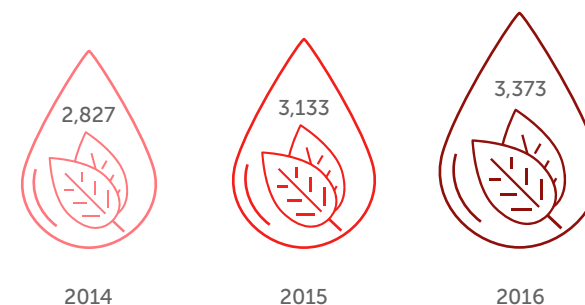
The company is committed to protecting the environment and limiting the use of natural resources with the help of a policy of environmental responsibility, aimed at promoting rational use of energy and the use of renewable sources.

Emissions generated by production activity regard the raw coffee and roasting plant, namely dust and emissions of NO_x (nitrogen oxides) and TOC (Total Organic Carbon) produced by coffee roasting and volatile organic substances.

The 2010/75/UE Directive on integrated pollution prevention and reduction has introduced new NO_x and COT pollutant control parameters for roasting chimneys. illycaffè guarantees constant, at least annual, control of the emissions from the plants themselves and sends the results to the Province of Trieste, ARPA FVG, ASS n1 Triestina and the Comune di Trieste. The emission limit values are 350 mg/Nmc per NO_x and 50 mg/Nmc per TOC, limits authorized by the Friuli-Venezia-Giulia Region. illycaffè's 2016 values were way below these limits (as certified by Ente Terzo).

For sustainable management of the process, a system that recovers heat from the roaster has been in place since 2012, reusing it for heating in winter and cooling the entire production area and offices in summer (cooling is achieved with the help of "absorption" machines that can generate a cooling cycle using the hygroscopic properties of certain salts). Furthermore, thanks to a catalyzer, pollutants are eliminated due to high temperature and oxidative action, minimizing the emissions of coffee powders into the atmosphere. Any dust produced by transporting coffee is handled efficiently thanks to the machines the coffee passes through, which are all equipped with suction and filters for dust sedimentation, as well as warehouse and loading silos.

EMISSIONS AT THE PRODUCTION SITES IN ITALY: PLANTS AT VIA FLAVIA – CABOTO, TRIESTE (TON CO₂eq)*

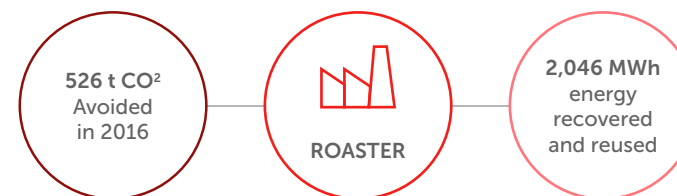


Natural gas (Scope 1): direct emissions (from combustion in plants and fixed machinery) of significant greenhouse gasses (ton)*

**Coefficient from the inventory of CO₂ emissions. National Inventory UNFCCC (valid until December 2016) tCO₂ /Un = 1.955 – oxidation coefficient = 1.*

Thanks to electrical energy supplies entirely from renewable sources, illycaffè has eliminated CO₂ emissions linked to this energy source.

Furthermore, energy efficiency and energy production projects from renewable sources allow illycaffè to avoid releasing pollutants into the atmosphere (about 936 tons of CO₂) each year and to achieve significant energy savings.



In addition, there was a reduction of 412 tons of CO₂ thanks to the photovoltaic systems owned by third parties and installed on the rooftop of illycaffè plants (leased) that generated 815,625 kWh

CAFÉ DE COSTA RICA
OUR LOT 210042
OUR LOT 1-047
TRIESTE
5-145 0133

OUR LOT
TRIESTE
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AGROMERCADEO
EL DIAMANTE

AGROMERCADEO
EL DIAMANTE

WE ARE AS GREEN
AS THE ENVIRONMENT

■ 3.4

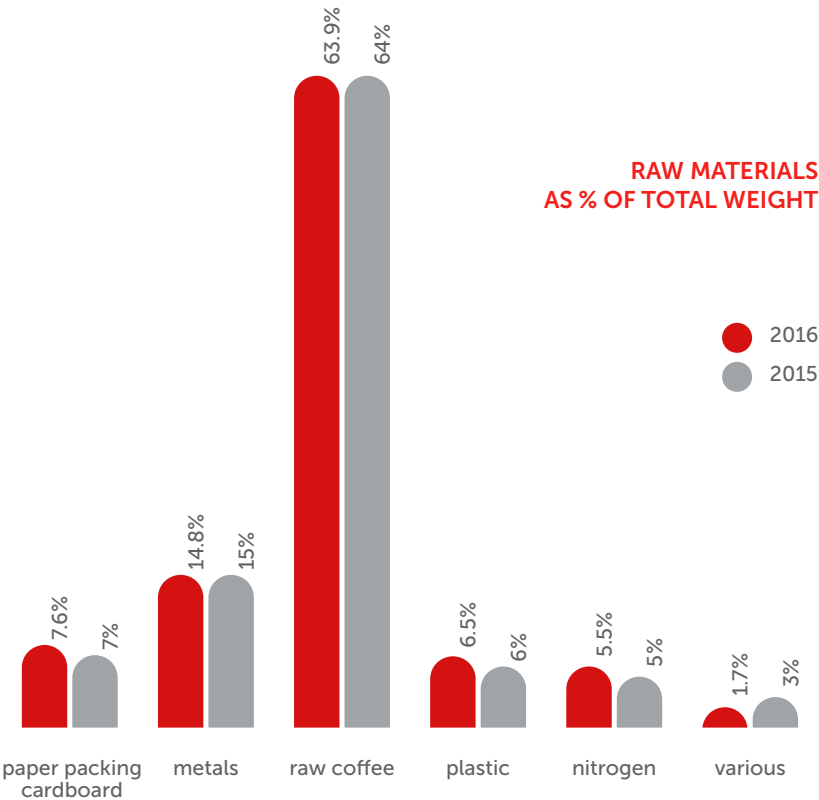
Raw materials

illycaffè's main raw material is **raw green coffee**. Every year, illycaffè buys hundreds of thousands of Arabica coffee sacks from producers in Latin America, Africa and Southeast Asia. The company is aware that the production of the raw material plays an important role in the indirect environmental impact of its activities and monitors the phases of the raw materials, from the plantations to the transport.

■ **ILLYCAFFÈ ABROAD: VALUE AND COMMITMENT**

Here are some of the initiatives to reduce raw materials and to increase the use of eco-friendly materials at the premises of the group's foreign companies. For example, **Brazil** encourages its employees to constantly reduce the raw materials used and to dispose of waste correctly. In **France**, besides a specific campaign to reduce printed paper, a recyclable plastic bottle of water was distributed to all employees to avoid the use of disposable glasses. The **Netherlands** continues to reduce its use of paper: all contracts are digitalized and all invoices sent by computer.

Besides the green coffee, the company considers of relevant importance the use of materials for product packaging (plastic and metal) and the use of nitrogen. Less conspicuous, from the point of view of its effect on the overall estimate, is the use of other materials, such as: oils, solvents, ink, chemical products, wood, jute sacks, carbon dioxide, paper and paper board (different from packaging). Paper and cardboard, jute sacks and wood for packaging primarily come from recycled material. Compared to 2015, the percentage drop in the "various" entry is due to fewer purchases of certain consumables such as solvents and chemicals. The use of other raw materials is in line with last year.



■ 3.5

Energy management

illycaffè guarantees responsible management of energy resources, with a view to constantly making improvements. The company has voluntarily introduced an **Energy Manager** in Italy, a professional figure who coordinates and monitors the energy system and manages available energy in the best way, verifying consumption and promoting actions that lead to more efficient energy performance.

The energy required in the various production phases is obtained through the use of sources such as electricity and methane, while the fleet of company cars depends on gasoline and diesel fuel.

As far as **electricity** is concerned, the increase in consumption is 3.6%, which is due to an increase in the production of roasted coffee of 3.1%.

In 2016, at the three sites in Trieste, total consumption of electrical energy equaled 43.628.760 MJ, entirely from a renewable source (hydroelectric), attested by suitable guarantees of origin for all the collecting points located in Trieste.

The company does not deliver internally produced electricity externally.

Methane gas is involved in the roasting phase of coffee beans and the increase beyond the proportional quota to roasted coffee is due to the company's decision to favor the quality of the finished product. The introduction of the product "Caffè Extra Scuro" on the market, which requires more time and energy to roast, has resulted in higher consumption, leading to an increase in methane gas of 6.5% as a result of an overall increase in roasted coffee.

The aim of reducing its consumption by 20% remains a priority, but for the abovementioned reasons, the company has revised the initial deadlines (2020) to achieve this.

89% of the methane is used in the roasting phase, 10% for heating and the production of hot water, while the remaining 1% is used to prepare meals in the company canteen. In 2016, consumption totaled MJ 66,549,031 at the plants on Via Flavia and Via Caboto, whereas the logistics hub on Via Malaspina does not use methane.

The reduced consumption of methane gas for heating and the production of domestic hot water are residual with reference to days when the roasting plant is not in use on weekends and holidays, since the heat recovery system of the roasting chimneys satisfies the sites' needs.

With reference to the **fleet of company** cars, in 2016, 267,900 liters of **fuel** (gasoline and diesel fuel) were consumed, for a total of 3,485,263 kilometers driven (with an average consumption per diesel vehicle of 8 liters/100km). It is estimated that the emissions in terms of CO2 equivalent equaled 522 tons. (Conversion factor: 0.156 KgCO2/km. GHG Source)

In 2016 initiatives to improve efficiency and better use of available energy continued (building automation, optimization of existing heat recovery systems, heat recovery absorption cooling group, building casings, etc.)

| ENERGY CONSUMPTION WITHIN THE COMPANY – PRIMARY ENERGY FACTORS | 2014 | 2015 | 2016 |
|---|------------|-------------|-------------|
| Consumption of methane (non-renewable) | 56,377,681 | 62,477,090 | 66,549,031 |
| Electricity consumption MJ (100% declared from renewable sources) | 40,518,000 | 42,112,800 | 43,628,760 |
| Total energy consumption (MJ) | 96,895,681 | 104,589,890 | 110,177,791 |
| Indicator of energy consumption per ton of roasted coffee | 5.63 | 5.69 | 5.82 |

Conversion factor 1Kwh=0.0036GJ; 1000 mc Methane = 39.01 GJ – Source Global Reporting Initiative, 3.1, indicator EN3



Initiatives regarding energy efficiency and renewable energy

The commitment to researching and implementing efficient energy solutions continues: in light of the new regulations issued by the Electricity and Gas Authority, in the fall of 2016 LED lighting began to be installed: as of December 31, 2016, the installation in the company's M building, which is used as offices, has been completed.

Moreover, further energy consumption savings for cooling and conditioning were achieved thanks to the project involving the efficiency of the casings, both for production/manufacturing and for services.

Regarding the production of renewable energy, the level of efficiency of the 1 MW photovoltaic plant, with an extension of 11,000 square meters on the rooftop of the Distripark logistics hub on Via Malaspina in Trieste, remains constant. illycaffè does not own the plant, but has rented a portion of the surface of the plant to a third party, with the aim of contributing to the development of renewable energy. The plant has been connected to the distribution power grid since July 1, 2011 and as of December 31, 2016 it has produced a total of 5,000,551 kWh (data transmitted to the local Electrical Service Provider - ESP).

In 2016, the photovoltaic systems reduced atmospheric emissions by 412 tons (conversion factor: 505,36 gCO₂/kWh. Source: Ispra)

■ ILLYCAFFÈ ABROAD: VALUE AND COMMITMENT

Foreign companies also help achieve the company's energy reduction goals. For example, in France, illycaffè is located inside a building with high energy efficiency and a lower environmental impact. The Netherlands, on the other hand, has made its B2B and B2C clients aware of the more efficient use of machines and how to recycle coffee containers.

3.6

Water management

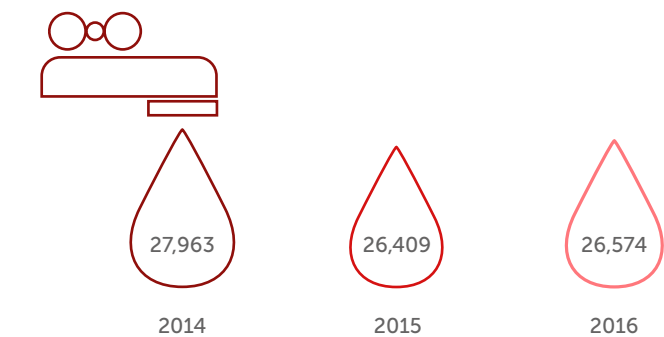
As of 2013, illycaffè has improved the management of water consumption for each process group, using single-user meters to directly manage usage for all corporate needs.

At the Via Flavia production site, the water drawn is measured by a dedicated meter inside the plant. The total amount of water drawn from the mains is 26,409m³ (+0.6% on 2015). The amount of water disposed of to sewerage is estimated based on the consumption figures for 2016 as 22,588 m³.

The water used in the production site is entirely taken from the aqueduct of the municipality of Trieste and is used partly for organoleptic coffee tests, for 3kg, 250g and serving tins. The rest is used for irrigation, fire-fighting, drinking and sanitation.

It should be noted that in 2016 there were no water discharges and/or leaks that could compromise or adversely affect the local water habitat. All water was discharged into public sewers in accordance with the law.

WATER DRAWN - PRODUCTION FACILITIES ON VIA FLAVIA



Volume of water drawn from the network (m³)
Data source: water consumption meter reading.



3.7

Waste management

The company is committed to developing responsible and sustainable waste management throughout its life cycle in order to minimize the impact on health and the environment, thereby developing a circular economy that benefits the whole of society.

To achieve this, at the production facility and the logistics hub in Trieste, waste management is controlled at every phase: administrative, production and post-production, including transportation and disposal of waste. All these activities comply with current legislation and the Environmental Management System.

illy has implemented various initiatives to optimize waste management, such as: the sorting of different types of waste, the deployment of dedicated recycling bins at the plants and offices, and dedicated training courses for the personnel.

In 2016 99.5% of waste produced was recycled. This waste equaled 2,207,477.5 kilos, more than in 2015 as roasted coffee production increased. 91.1% of this amount is considered special waste, or rather, waste obtained from production activities and production yields. 0.02% of the total amount of waste is considered hazardous waste and is disposed of according to law, in Italy.

| WASTE DISPOSED OF AT THE FACILITIES IN TRIESTE – IT (KG) 2016 | HAZARDOUS | NON- HAZARDOUS |
|---|--------------|--------------------|
| Sent to disposal | 0 | 11,510 |
| Sent to be recovered (recycled, composted, energy recovery, etc.) | 3,534 | 2,192,433.5 |
| TOTAL | 3,534 | 2,203,943.5 |

Based on the information provided by the waste disposal service provider;

The amount of municipal solid waste produced in 2016 is equal to 8.9% of the total amount of waste produced, and represents the 9.8% of the special waste. The company was able to obtain an advantage by adopting

an efficient differentiated collection system: through the sale of some types of recyclable waste such as ferrous metals, copper scraps and tin-plate, 118,904.00 Euros were earned.

Moreover, the company neither imports nor exports dangerous waste materials and no significant spills occurred during 2016.

Production byproducts

The prototype department has designed a process to separate the capsules, which are part of the byproducts in coffee production, and to recover them after the percolation phase. This activity not only reduces the amount of capsules destined for disposal but also separates the various components to be then directed toward their relevant sector of disposal. The plastic is sent to manufacture polypropylene sheets for cellular plastics, filling material and other industrial packaging; the coffee is sent to be composted.

illycaffè has reduced waste from production departments thanks to the improvements made in the last two years to systems and the production process, and it has reduced paper consumption in offices by increasing computerization in the company's processes. In 2016 office paper consumption was reduced by 28% compared to 2015 (3,278 kg in 2016 compared to 4,556 kg in the previous year). It should be noted that the data for 2016 only includes paper from the normal processes that generate this kind of waste, therefore net of a substantial disposal of documents in the central archives (21,280 Kg).

ILLYCAFFÈ ABROAD: VALUE AND COMMITMENT

All companies abroad are actively committed to recycling waste: in **Spain** a recycling system has been set up; and in **France**, for example, battery collection points have been installed. Waste is also recycled in **Brazil**, the **Netherlands** and **North America**, and paper is recycled or its use reduced in meetings and communications.

■ 3.8

Product disposal and recyclable packaging

illycaffè designs and implements innovative solutions to dispose of products in the most environmentally and socially efficient manner possible, using an approach based on the principles of circular economy:

- **REDUCE:** the design phase takes into consideration primary and secondary packaging which weighs as little as possible, has low consumption and, wherever possible, is made from recycled or recyclable and ecological materials for its entire life cycle.
- **REUSE:** For secondary packaging, the company favors purchasing recycled material which on average represents 80% of paper and cardboard and 100% of the pallets used.
- **RECYCLE:** Recyclable packaging made with non-composite (metal or plastic) materials is preferred.

This approach creates a circular economy that can regenerate itself independently and in a totally sustainable way.

In particular, illycaffè uses eco-compatible solutions for the packaging of its own products: it uses tinplate to package its cans (3 kilos, 250 grams) and polypropylene for the Ipso capsules, all of which are recyclable.

In 2016, illycaffè launched marketing tests for a new 3 kilo tin, which involves new sealing technology with an important reduction in materials, that weighs about 10% less. This new technology will also be used on the 1.5 kilo tin.

Innovations in packaging include:

- **Soft-can.** Distributed since 2014, Refilly is the new refill system for cans of illy's ground coffee blend for the home, studied to reduce its environmental impact. It is a soft pack that fits inside the 250-gram can, which can then be closed with its original lid, preserving the quality and freshness of the coffee intact. Soft-can has two patents and represents an important innovation, since it is the only 5-layer poly laminate-aluminum packaging able to maintain pressurization, which conserves the product and its aromas. Once the inner can is empty, it can be recycled with plastic, thus reducing its environmental impact.
- **Iperespresso Cube.** The packaging was created to replace the tin-plate can, to reduce the packaging's environmental impact.
- **Single-serve ESE pod.** The pack was created to reduce the primary, secondary and tertiary packaging. Tests are also underway on new types of industrially compostable and heat-weldable paper.

Since 2011, the company has been part of the AIIPA work group in the coffee sector, which includes various companies that produce plastic capsules.

The same work group commissioned an LCA and LCA study from the Federico II University of Naples in order to outline an operative disposal model to test on a sample of three cities in Italy. In 2016 too work group meetings continued in order to develop the best procedures for collecting and treating used capsules.

In Trieste, the company has continued an experimental project to collect used capsules. "Reverse vending machines" have been installed in these locations where clients can dispose of used capsules and cans, which are then disposed of. illycaffè is also experimenting with models of machines to crush the capsules and separate the plastic from the coffee. The collaboration with the Centro Ricerca Rifiuti Zero (Zero Trash Research Center) of the Municipality of Capannori continues, regarding coffee capsule innovations, recycling, recovery and reuse, and with universities, research centers, trade associations and precompetitive round tables to find valid alternatives, such as the use of biodegradable or eco-compatible materials.

Since January 2015, in Italy, the capsules can be recycled after the plastic packaging has been separated from the coffee. To help the environment, illycaffè has fine-tuned the **ECO easy capsule opener**, which lets consumers separate the plastic of the Iperespresso capsules from the coffee at home.

During 2016 illycaffè concluded its research into assessing the life cycle of its whole product portfolio, from the production of raw materials, through the production process, to the usage phase, and finally the disposal of all product components.

This study helped make the company more aware of the main impact of its activities. In this way, the stages of the entire life cycle of the highest-impact product from the environmental point of view emerged, which the company can focus on to implement improvements.

■ ILLYCAFFÈ ABROAD: VALUE AND COMMITMENT

illy North America, only for the United States market, the “**IperEspresso Capsule Recycle Program**” continues, collecting and recycling capsules by getting consumers involved. In 2015, it also tested out the involvement of the Ho.Re.Ca. sector in the program. The program has grown, leading to 11.5% more capsules being collected in 2015, for a total of 695,928 capsules, equal to 6,304 kilos of plastic and 4,662 kilos of coffee.

Finally, a specific environmental assessment of home coffee machines was conducted. In this analysis, both the impact of the materials that make up the machine and energy consumption were assessed in order to fully verify the contribution of the usage phase in the life cycle of coffee products.





MARK
THE WAY WITHOUT
SCRATCHING
THE GROUND.

■ 3.9

Transportation and logistics

The management of logistics and transport reflects corporate commitment and the desire to implement innovative solutions to reduce emissions and make distribution efficient.

Transportation and logistics, both for inbound raw materials and other materials, and the distribution logistics of the finished products to clients are processes that are carefully monitored, also using LCA methodology, in order to guarantee impact assessment and research into improvement strategies.

Transportation for the distribution of products is still strongly linked to combustible fossil fuels and the company is committed to researching innovative and sustainable processes and solutions.

Regarding product distribution, illycaffè regularly controls its qualified suppliers through surveys regarding specific environmental topics, such as the consumption of resources, emissions into the atmosphere, production of waste, liquid effluents, soil contamination and noise pollution.

The carrier illycaffè uses for most of its deliveries in Italy has obtained the Certification of compliance with the ISO 14001 environmental standard for the commitment to monitoring and reducing environmental impacts.

INBOUND LOGISTICS

Origin: Italy

In Italy, transportation is carried out mainly **on the road**. The incoming goods are purchased under the **DAP disclosure agreement** (Delivery at Place), for which illycaffè does not have control over the couriers used. One exception

is represented by the components of the capsules, which are purchased with the payment of transport included. In order to optimize the flow and the storage of products in warehouses, the company has launched the **Milk Run Project**, which coordinates the transport of components for coffee capsules from all its suppliers, in order to gain industrial storage volume. To date, 250 cubic meters of volume area on the industrial premises have been obtained.

Origin: Abroad

The most significant volumes of weight in overall incoming transportation is represented by **green coffee**.

All incoming material is transported **by sea**, which has the lowest environmental impact. The selection of shipping companies on a qualitative basis allows for the identification of important suppliers of services and the involvement of outstanding players in the field of cargo shipping, which have clear policies of sustainability and are oriented to the slashing of their impact. illycaffè is assessing the potential of the **Big-bag** packaging system in order to increase the efficiency in subsequent handling.

OUTBOUND LOGISTICS

Destination: Italy

illycaffè bears the responsibility of delivering products to customers in Italy. The total delivery service is carried out through **road transport**, since it is more economic and better quality than rail transport. **60%** of total shipment is handled by an important logistics company, which has adopted an Integrated Policy for Quality, Environment and Safety and a Policy for Corporate Social and Ethical Responsibility. In Italy, intermediate warehouse stations optimize distribution to retailers.

Destination: Abroad

All shipments **to European countries** are made **by road**, which few exceptions (see below), while the **shipments to the rest of the world** are carried out through three major international vectors. Of these, the two which represent almost 90% of deliveries endorse clear and detailed policies of sustainability. illycaffè has adopted some **intermodal transport solutions** to Norway and Greece, using different means of transport: road/train/road, with the potential to reduce environmental impact.

In order to promote shipment through the use of full containers, the company exports products with a CIF (Cost, Insurance and Freight) revenue only when the customer purchases a full container, or with FCA revenue (Free Carrier at destination, with no charge) if the customer purchases the complete vector. This option is valid in illycaffè foreign branches (France, Germany, Netherlands, Spain, Austria, the United States and Canada, Pacific Asian countries and Brazil) and for distributors in Sweden, the United Kingdom, Switzerland, Slovenia, Norway, Romania, Czech Republic and Denmark.



■ 3.10

Sustainable agriculture and biodiversity

illycaffè incorporates the principles of environmental responsibility in its operation and management of raw materials, in particular green coffee.

The company invests in the local area and its communities: in the production areas it promotes low environmental impact agronomic practices, aiming at reducing the most significant impacts of farming and fully respecting biodiversity and ecosystems. Moreover, the company has developed dedicated programs of incentives and recognitions for the growers who promote quality and environmental sustainability, such as the new Ernesto Illy International Coffee Award, the Ernesto Illy de Qualidade do café para Espresso Prize, the Clube illy do Café and the Sustainability Diploma.

Water in coffee plantations

The company provides growers with indications on the use of water, in order to avoid waste (for instance through the realization and distribution of handbooks and manuals on “water and coffee” themes), on the correct use of machineries to optimize water use, and on the goal to consume less than half a liter of water for each liter of processed fruit (generally, the amount of water involved in the process ranges from 5 to 10 liters).

Also, residual water is subject to particular attention and control: water disposed from coffee washing stations needs to be treated before being released into natural systems. With the aim of increasing awareness in the communities concerned, illycaffè continues to offer an online course dedicated to the treatment of process wastewater.

Integrated agriculture: nitrogen fertilizing and the use of chemical products

illycaffè promotes the principles of integrated agriculture, by limiting the use of active ingredients and fostering good agronomic practices, such as the use of ground cover of terrain, the reduction of soil erosion through cultivation along slopes, the reduction of soil processing to preserve soil fertility and the use of nutrients, also through organic mineral fertilizers also used in organic farming. In Brazil, as part of the Università del Caffè, various training and awareness activities have been implemented, including:

- Webinar “The agribusiness and global challenges of coffee”
- Specific online course “Rischio di contaminazione del caffè da residui di presidi fitosanitari. How to manage them”.

Carbon footprint

The company participates in research activities, institutional activities and precompetitive round tables for the definition of common standards to be adopted for the evaluation of carbon footprints generated by green coffee production.

In 2016 research with the title “Stima di carbonio immagazzinato nella biomassa e quantificazione dei livelli di macronutrienti (N, P, K, Ca e Mg) nel tessuto vegetale e immerso nel Mineiro Cerrado” was carried out. With this illycaffè completed its first round of studies into greenhouse gas emissions from green coffee production, into the soil level incidence in terms of fixed carbon, and into the amount of carbon stored at plant level. This work continues on from what has been achieved since 2013 when illycaffè took part in the Coffee Working Group of the Sustainable Agriculture Initiative (SAI) Platform, which identified greenhouse gas emissions linked to the production of green coffee. Thanks to collaboration with the Dutch Sustainable Trade Initiative (IDH), the first Product Category Rules (PCR) for green coffee were published worldwide. This instrument aims to correctly communicate the results of a life cycle analysis in environmental declarations.

Subsequently illycaffè was an active player in the pilot project initiative launched by the European Commission for calculating the footprint of agro-products (Product Environmental Footprint Category Rule on Coffee) and participated at the first stakeholder consultation meeting.

Biodiversity

Biodiversity is of crucial importance for the company: the preservation of biodiversity represents the ultimate goal in the implementation initiatives for the promotion of integrated agricultural technologies, carried out by specialized illycaffè personnel during field visits. In addition to these consultancy activities, the company implements more wide-ranging actions in order to increase awareness and disseminate information and culture on biodiversity issues and improve natural ecosystems.

The Ernesto Illy Foundation continues to **develop its reforestation in Támara**, Colombia, with native trees planted near sources of water. The aim of the

project is to increase the water flow from local water sources, in order to identify a possible solution for the problem of groundwater depletion which, due to deforestation to create grazing land for animals, has progressively worsened during recent years. The reforestation involved 80 small farmers over 69.2 hectares, with 15 different species for a total of 12,290 plants/native trees planted.

Finally, one of the online **training courses** organized in Brazil focused on biodiversity issues, analyzing the changes brought about by the new Brazilian code for the preservation of native forests, techniques to recover the local fauna, and explained how to adapt these concepts to coffee cultivation.





SEED:S

Social
Environmental
Economic
Development
Sustainability



Economic value

■ 4.1

Balancing on a coffee bean

Highlights

+9%
illycaffè's Added Economic
Value at the consolidated level

more than **7,000** farmers
involved between 2010 and 2016 with
courses, conferences, technical visits

5.02 million euros
investments made in the 2011-2016
period to monitor and support the
green coffee supply chain



■ 4.2

Innovation and research

Highlights

397

patents, including 283 granted and 114 pending divided into 54 families, as at December 31, 2016.

4.8

million Euros in research and development in 2016

9

papers published in international scientific journals 8 poster communications presented and 7 lectures at important national and international scientific conferences

■ 4.2.1 illycaffè's approach to research and innovation

illycaffè's strategy for innovation is geared to creating sustainable value for stakeholders, by offering them high-quality products, solutions and services. This commitment was made possible through continuous investments in Research, Development and Technology, through relationships with strategic partners and, above all, through the professionalism, competence and passion of the people working for the company. For illycaffè, innovation comprises the following aspects:

- **continuous experimentation** in molecular biology to study the genetics of raw materials, in order to identify the coffee varieties and create coffee "gene libraries" in the ambit of product traceability;
- **interdisciplinary** approach: combining multiple disciplines: agronomy, physics, chemistry, biology, physiology, genetics and engineering, to achieve continuous improvement and innovation with a multidisciplinary and interdisciplinary approach.

This scientific and technological approach, and the use of science and technology, have marked the company throughout its history, contributing to its growth and success. Of the eight radical innovative discoveries which revolutionized the world of coffee in the last century, **three were invented by illycaffè**:

- in 1933, pressurisation (the preservation system that involves replacing the air inside the packs with high-pressure inert gas) was introduced, to enhance and maintain coffee quality over time
- in 1935, **illetta**, the forerunner of today's professional coffee machines, reinvented the high-pressure espresso formula and made espresso machines a familiar presence in bars
- in 1974, the **paper pod**, the first single-serve system, went into production, allowing espresso to be exported to countries with no professional baristas.

In 1988 illycaffè also patented a system for digitally selecting beans, the bichromatic selector, which allows you to choose only the perfect ones, one at a time: all it takes is one defective bean out of the fifty that make up a cup of coffee to ruin it.

illycaffè's most recent innovation is lperespresso: a system with a capsule that extracts the coffee in two phases, hyperinfusion and emulsion, with a high quality end result and a unique cream in terms of body and persistence.

The company's patent portfolio, as of December 31, 2016, included 397 registered patents, 283 of which have been granted and 114 are pending, subdivided into 54 families of patents.

■ REVOLUTIONS IN THE WORLD OF COFFEE

The 8 innovations that have revolutionized the world of coffee:

1. Pressurization (illy)
2. Espresso (illy)
3. Instant coffee
4. Decaffeinated coffee
5. Poly-paired flexible packing
6. Single-portion pods (illy)
7. Single-portion capsules
8. Ready to drink

■ 4.2.2 Research and technological development

The company leads the way in the research and development of innovative technology solutions thanks to its Research and Development Department, recognized as a center of excellence around the world.

Research activities are managed at two quality control centers, one in Trieste and one in São Paulo (Brazil), a research center at the headquarters and one

in the Science Park Area in Trieste, for a total of five integrated laboratories for the horizontal transfer of knowledge that are in contact with university centers. The department also comprises two product engineering units, the first focusing on durable goods, and the second on consumables.

The research center laboratories employ highly specialized researchers and technicians, namely, 5 chemists, 1 biologist, 1 molecular biologist, 3 engineers and 4 food technologists.

illycaffè research hubs:

AromaLab

- Founded in 1998 at the Science Park AREA in Trieste
- It carries out studies and research to distinguish volatile and non-volatile chemical compounds, to pinpoint the precursors of the aroma, to identify the elements that determine taste and body and the biologically active compounds and to evaluate the effects of the processes from the bean to the cup, including the potential use of byproducts.
- It identifies new methodologies for chemical and chemical-physical characterization
- It performs studies and research into methods and processes for product traceability, authenticity and safety
- ISO 17025.2005 certificate

SensoryLab

- Scientific study of the relationship between sensory stimuli (taste and smell) and the sensations they evoke
- Union of chemistry, physics and psychology
- Uses human and non-human sensors to catalogue the range of perceived odors and flavors
- Validation of products and processes
- ISO 17025.2005 certificate

illycaffè launched a major research project with the help of other partners to sequence the *Coffea Arabica* genome. This wholly unique project has opened the way to future scientific and agribusiness developments, involving all coffee producing and consuming countries and with economic ramifications for the whole supply chain.

The all-Italian research was carried out in collaboration with Lavazza by the Universities of Padua, Verona and Trieste and the Istituto di Genomica Applicata in Udine, and was coordinated by Professor Giorgio Graziosi of DNA Analytica Srl, a "spin-off" of the University of Trieste. The Arabica genome sequencing project meant that for the first time for this species, the genetic structure could be decoded, allowing the results to be organized systematically and therefore making them available for potential agronomic and industrial applications.

The sequencing of the Arabica genome will mean that agronomic practices can be improved and that the productivity can be increased. For example, it will be possible to ensure that the fruits all ripen at the same time, to identify the genes that make the plants more resistant to disease and infection, and to adapt cultivations to unfavorable environments.

BioLab

- The laboratory is divided into two Operational Units, dedicated respectively to microscopy and to genetics - molecular biology, this laboratory studies the substances present in coffee, as the seed and as the espresso drink, in terms of its genetic information.

TechLab

- Deals with technological development in the sector of packaging and pre-measured products, also with the aim of reducing the impact of packaging on the environment while maintaining its performance level.

FoodScienceLab

- It is dedicated to research into coffee-based foodstuffs and consumable products.

■ 4.2.3 Product innovation

The aim of illycaffè's continuous research and development is to improve consumer satisfaction by offering a unique sensory experience. This is translated into interventions on functionality, aesthetics, design, materials, comfort, pleasantness and the quality of the raw materials.

The main innovations in 2016



Soft-can

Innovation in illycaffè also means listening to consumers' needs: it was consumers, in fact, who inspired the creation of Soft-can, an important innovation in packaging and in the production process of ground coffee. Soft-can is the innovative system to refill the classic 250-gram tin can, pressurized to conserve the product's fragrance over time. In 2016 the innovation became fully operative: the production machinery is highly compact and verticalized, producing benefits in terms of production efficiency, as well as better control over the degasification process, which is more stabilized.

In 2016, two LCA studies were carried out on this product:

- the first regarding the **environmental impact of packaging**, excluding the usage phase (study carried out as part of the work commissioned to the Politecnico di Milano on the Carbon FootPrint (ISO 14067:2013) of illy products);
- the second, on the **environmental impact of the product** (through internal analysis)



Drip capsules

In 2016, production began on capsules that are compatible with the lperespresso system, for making caffè americano. The benefits of this innovation, in terms of sustainability, are:

- reduction of the plastic needed for the capsules;
- passage from the single-beverage system (espresso) to the multi-beverage system (espresso+drip);
- reduction in electricity consumption.



Cold Brew System

Cold Brew coffee is prepared by leaving the ground coffee to infuse in water at room temperature or cold for a prolonged period of time (10-14 hours).

illycaffè introduced this new system in 2016:

- It is a ground coffee pod, pre-dosed and packaged in filter paper contained in a poly-coupled casing to **make preparing it easier**, thereby obtaining the best flavor-aroma characteristics for the drink
- it is necessary to use a **dispenser** in all stages of the process: infusion, refrigerated storage, dispensing and pouring the Cold Brew Coffee drink
- A second type of dispenser can be used, which offers the possibility of making an **"air"** drink, by mixing in compressed air when dispensing to achieve a foam effect without the use of gas cylinders.

Capsule separator machine

Prototypes of a capsule separator machine have been developed and created that can separate a used Illy espresso capsule into dry and organic waste. The system, designed to be installed in POS, allows the consumer to dispose of the used capsules correctly. 20 capsules can be loaded at a time making it easy to dispose of the separate waste collected into larger containers. Currently, the machines are used in some POS for functional and market tests.

Pillow Pack

In 2016, illycaffè developed, produced and marketed the pillow pack, a product consisting of two pods in filter paper with ground coffee, for drip-coffee preparation, packaged in vacuum-packed poly-coupled peel-open sachets. The target market is airlines, for coffees both in flight and in the lounges. The distinguishing feature of the product is its extreme ease of use in flight, as well as the excellent quality of the coffee.

Regarding coffee machines, over time illycaffè has introduced a series of models to respond to the needs of its clients and consumers and it has developed various preparation systems that combine the unique illy blend with the technology of machines which have been developed ad hoc. When the company introduces a new model, it also pays attention to innovation which can safeguard the environment and which is produced using non-polluting materials, maximizing the recyclability of the components, reducing consumption and paying attention to waste.

In 2016 the X1 anniversary machine was put into production. The machine has undergone important technological restyling, replacing the entire heating part, changing it from a brass boiler, to a steel thermoblock. This modification has the dual purpose of using a sustainable primary material inside the hydraulic circuit and generating greater energy efficiency due to the type of exchange, without accumulation, and the new control electronics.

■ SUSTAINABILITY IN MACHINES

When designing coffee machines, careful attention is always paid to reducing energy consumption:

- Full compliance with European regulations (illycaffè's are even stricter)
- Improvement in energy performance.
- Full compliance with disposal regulations (WEEE) as all materials are recyclable.



THE INNOVATIONS INTRODUCED IN RECENT YEARS

2004



IPERESPRESSO CAPSULES

The Iperespresso system combines a coffee machine with innovative capsules. The extraction system is based on a special extraction chamber protected by 5 international patents.

2007



X2

The first professional Ho.Re.Ca. machine with boiler, using Iperespresso capsules.

2008



X7

The first home machine with boiler, using Iperespresso capsules.

IDILLYUM

The first type of mono-variety coffee with a low level of natural caffeine, possessing a unique and refined scent.

ILLY ISSIMO /READY TO DRINK

A ready-to drink product for consumption away from home. Without additives, colorants and preservatives, illy Issimo is the result of the cooperation between illy and The Coca Cola Company and allows you to enjoy the best quality coffee in the form of a chilled ready to drink beverage.

2009



X1

X1 second model of home machine coffee maker, made of top level performance steel.

ILLYCREMA

Frozen soft coffee ice-cream made with 100% Arabica illy espresso coffee and ice micro-crystals, without hydrogenated fats, colorants or preservatives.

2011



X2.1

X2.1 evolution of the X2 model, equipped with thermo-block technology and in compliance with the norms relevant to the emission of heavy metals.

Y1 TOUCH

Y1 touch, an evolution of the Y1 with soft-touch control panel and electronic management.

Y2

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

2013



Y5

New Iperespresso home coffee machine with automatic drain, an extension of the "Y" series.

X7.1

Limited Edition. Limited edition in fluorescent colors, designed for the Christmas seasonal campaign of 2013

2012

X7.1 E Y1.1 TOUCH

Evolution of the machines according to the ErP regulations on energy consumption.

DOUBLE ADAPTER

kit for Ho.Re.Ca IPSO capsules for professional ground coffee machines

2014



IPERESPRESSO CUBE

Created to replace the can and reduce the packaging's environmental impact

Y5 MILK, X9 AND KISS

new models of the Francis for illy coffee machines

REFILLY / SOFT CAN

a refill designed to reduce environmental impact

SINGLE-SERVE ESE POD

for reduced primary, secondary and tertiary packaging.

IPERESPRESSO CUBE

Created to replace the can and reduce the packaging's environmental impact

2015

MOKA PULCINA

Thanks to the internal shape of its special boiler, Pulcina automatically stops dispensing the coffee with precision timing, thus avoiding the minor eruptions in that final stage of extraction that can leave a burnt, bitter aftertaste, and ensuring that the coffee emerges at its best, with the full rounded aroma intact.

YP1

The new professional YP1 machine developed by illy and Cimbali grinds perfectly, espresso after espresso, thanks to Bluetooth technology: it checks the time it takes to dispense the coffee, and if necessary, sends a reminder to the Conik grinder to correct it. The technology uses 25% less electricity than the previous model.

2016

COLD BREW SYSTEM

ground coffee to be infused in water

PILLOW PACK

Pods in filter paper for drip-coffee preparation

■ 4.3

The supply chain

The sustainability of the green coffee chain creates an element of competitiveness and value for society and future generations. This is why illycaffè protects the raw material of its business, green coffee, and **safeguards every phase of the production chain with a view to sustainability.**

To obtain top-quality coffee, illycaffè works closely with farmers in the countries where the prized Arabica is grown. In fact, the quality doesn't only derive from a final selection, but from knowing every participant in the supply chain.

Over the past 25 years, illycaffè has implemented a system of direct relations with its suppliers, based on three pillars:

- selecting and working with the best producers, in other words those who are willing to constantly improve;
- transferring their knowledge and motivating them to create quality;
- economically rewarding the quality they achieve and encouraging their constant improvement.

The investment for monitoring activities and support to the green coffee supply chain amounted to 266,700 Euros in 2016, for a total of 5.02 million Euros since 2011.

This sustainable approach is audited by DNV GL, an independent, third party body, through the Responsible Supply Process certification, which certifies that illycaffè:

- adopts a direct approach for its purchases and traceability all the way to the producer, unless institutional barriers exist, as in the ECX market in Ethiopia;
- transfers knowledge to the green coffee supply chain in order to constantly improve the quality of the product;

- guarantees a price higher than the average market price to reward producers for the superior quality produced.

illycaffè is the first company in the world to have received, in March 2011, the "Responsible Supply Chain Process" certification, which designates a crucial role to the quality achieved and the ability to create value for all stakeholders along the entire green coffee supply chain.

The company decided to undertake this commitment to introduce the most suitable management solutions and evaluation systems able to detect and properly communicate the creation of responsible value along the entire supply chain.

The strategic orientation at the basis of this certification is based on principles of traceability, cooperation and quality.

The "Responsible Supply Chain Process" certification does not involve any direct costs for coffee producers: illycaffè bears the overall expenses for certification activities and inspections, including those carried out at the producers' farms.

■ 4.3.1 The illycaffè model for a Sustainable Supply Chain for coffee

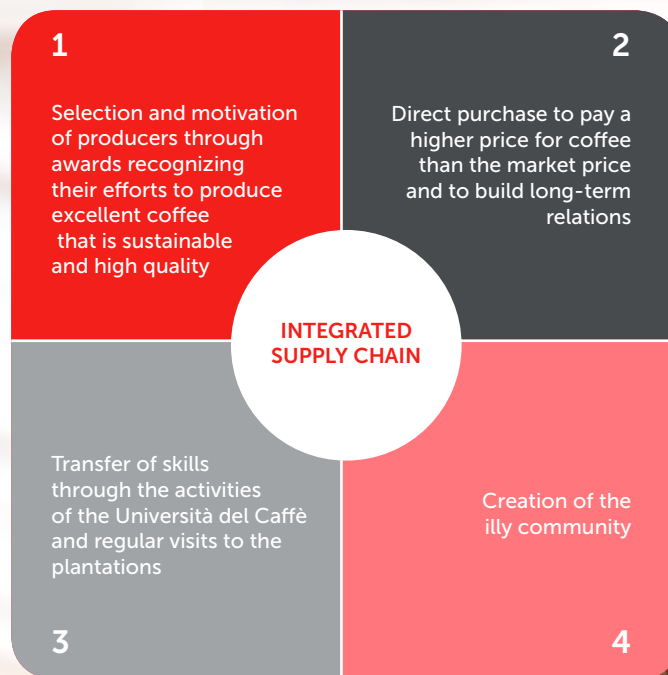
The green coffee supply chain is marked by various processing phases, from the separation of the seeds from the fruit, to the export of the products. The aim of illycaffè is to ensure traceability and quality of raw materials throughout the chain and to manage the relationship between producers and the environment on the basis of the principle of territoriality. This means establishing long-lasting and direct partnerships with the communities and parties in the green coffee supply chain, through increased involvement of producers and investment in education and awareness-raising based on local needs and demands.

The people involved in the supply chain are:

- **growers:** who work on small plots of land (1-2 hectares) and can conduct some preliminary processing of the harvest;
- **producers:** companies (medium and large-sized groups, cooperatives and growers) process the harvested coffee, such as sorting, washing, drying.

- **exporters:** they purchase green coffee from the cooperatives, sort the coffee directly at the producers' farms and create commercial lots on the basis of their clients, dealers or roasters. They know the areas of production and the local producers and this is a guarantee of traceability and quality of the raw materials. They are involved in checks and supply chain activities, in keeping with an integrated supply chain approach.

illycaffè also works in collaboration with local institutions, including Government Agencies (e.g. Coffee Boards in African Countries and India), Institutions (e.g.: ICO), research organizations (e.g.: which permit monitoring of operational activities and help promote the principles of sustainability within communities.



TRACEABLE AND GUARANTEED SUPPLY CHAIN

illycaffè tracks the coffee it buys

1

illycaffè only buys from producers who can guarantee high quality and sustainability, paying them a premium price

2

Through Università del Caffè courses and visits in the field of its agronomists and technicians, illycaffè passes on our know-how and the best farming practices.

3

illycaffè carries out auditing activities to ensure the requisite quality and sustainability standards are respected

4

illycaffè creates loyalty programs for producers with which it builds long-term relations. One example is Clube illy

5

■ 4.3.2 Responsible supply chain process

Since 2011, illycaffè has certified the supply chain management system adopted by the company for the supply of green coffee, with the adoption of the standard requirements defined by the "Responsible Supply Chain Process" (RSCP) developed by DNV GL, an independent certification agency. DNV GL started from the supply chain model developed by illy and integrated this model with the current and emerging guidelines relevant to sustainability and entrepreneurial responsibility, within the framework of reference standards applied in certification and accreditation procedures.

In recent years, the company has worked to safeguard systems - both natural and social - in which people are treated with equity, dignity and respect, the environment is preserved and restored, and suppliers are compliant with rules and awarded for the quality and sustainability of their business. The strategy chosen to achieve the objectives is diversified according to the supply chain. The RSCP is applicable to every actor in the illycaffè supply chain, not only on the level of farms.

illycaffè's certification system is in line with the main international standards governing child labor, forced labor, fair wages, trade unions, multinational companies, and pollutants.

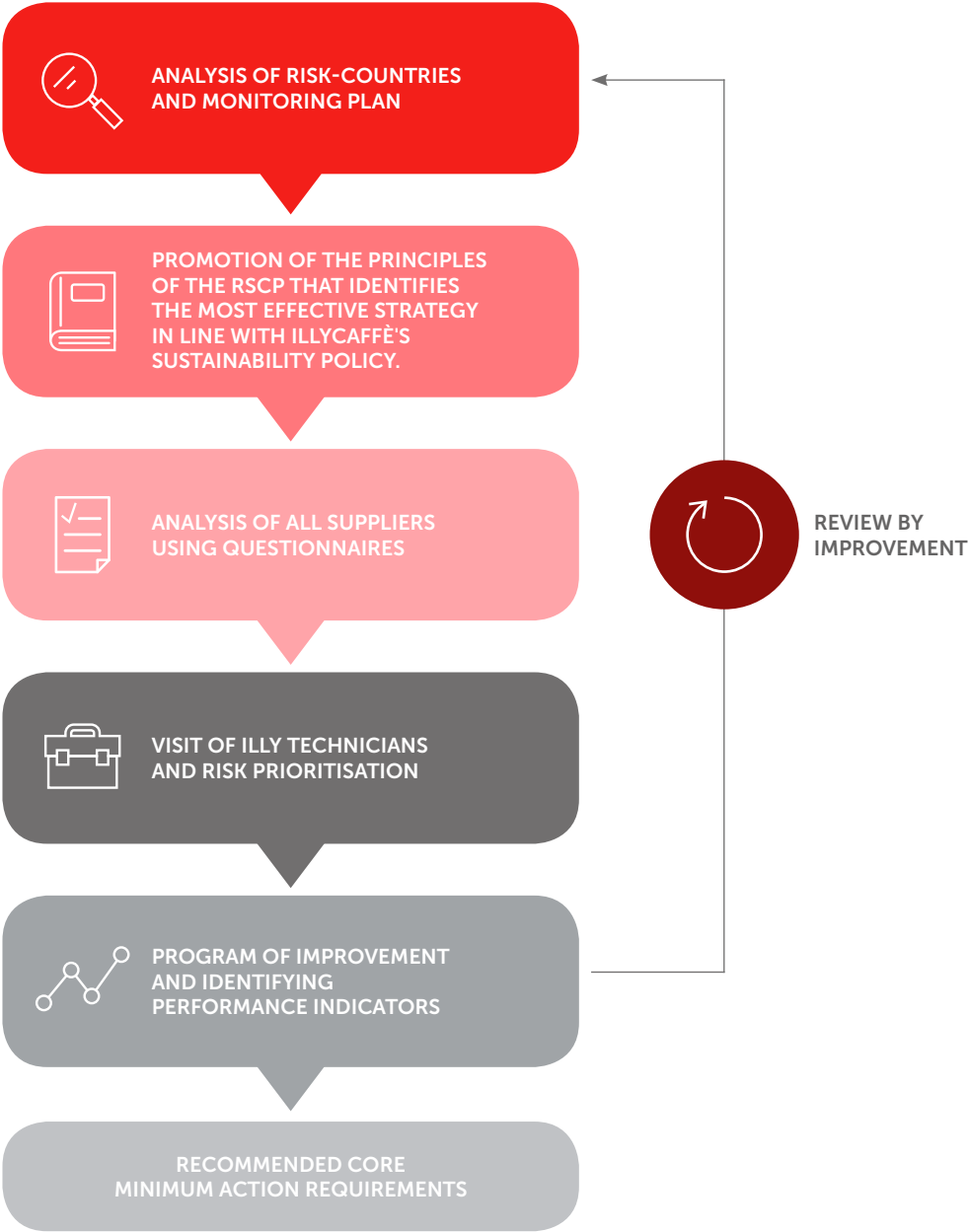
The standard applied to the supply chain of green coffee implies a strict monitoring of all suppliers on behalf of the company, in addition to a continuous control of compliance with the minimum requirements of working conditions (fundamental requirements in order to maintain relations with the company). Standard requirements are based on the monitoring of the following areas:

| AREA | REQUIREMENTS |
|-------------|--|
| ENVIRONMENT | <ul style="list-style-type: none"> • Use of soil • Water management • Water quality • Impact on local community • Biodiversity |
| CONDITIONS | <ul style="list-style-type: none"> • Agronomic practices used • Equipment used in the production phase • Working conditions • Risk of accident or injuries • Capacities and competencies of workers |
| PRODUCTS | <ul style="list-style-type: none"> • Use of active ingredients • Agronomic practices used • Equipment used in the production phase and working conditions • Hygiene |



IT'S ALWAYS A
SUPPLY CHAIN
MATTER.

The procedure followed by illycaffè to monitor the supply chain and identify improvement actions to share with producers is summarized in the following table:



Since the end of 2013, illycaffè formulates and updates a document dedicated to risk assessment through the analysis of the following risks: environmental risks, business ethics risks, employment risks and product risks, with an evaluation of risks carried out in each country and within the company supply chain. This analysis allows it to improve the monitoring process, in particular regarding the points on which it must focus its future actions. Control activities and periodical inspections are part of the process, with the aim of improving the performance parameters of the company's supply chain. These parameters can be summarized as follows:

- **Minimum action requirements:** the minimum number of requirements providers must respect, non-compliance results in the temporary exclusion of the supplier
- **Key Performance Indicators:** describe the supply chain of the company and are divided into:
 - Core KPI: requirements which go beyond existing minimum legal requirements, but are of crucial importance to the company;
 - Recommended KPI: requirements which are not mandatory by law but highly enabling.

KPIs are important for illycaffè for the evaluation of its performance in relation to the supply chains. On the basis of the findings, the company creates more specific objectives and identifies the most appropriate actions according to the targets identified. illycaffè is committed to periodically reviewing and reformulating these requirements, so that they are consistent with local changes, which are generally gradual and observable only in the medium to long term.

Monitoring the supply chain

The monitoring and evaluation of suppliers are crucial activities for illycaffè: on the basis of the requirements included in the Responsible Supply Chain Process, which include among others, environmental issues, and aspects relevant to human, social and labor rights, the company identifies new programs and initiatives to broaden the culture of sustainability and the quality of the supply chains involved.

Special attention is paid to monitoring the first phase of sourcing the raw material: the farmers. In 2016, 298 field visits to producers and 8 to beneficiarios secos were conducted. That equates to over 40,585 hectares covered.

The sources monitored were, in decreasing order of number of visits: Brazil, India, Colombia, Nicaragua, Honduras and Guatemala. The farmers are sampled based on illycaffè's risk assessments (at country, supply-chain and organization level), on the volumes purchased, and on the outcomes of previous monitoring cycles. Since the beginning of the program, more than 1,900 producers have been directly visited and controlled. After years of controls, the realities of certain countries like Brazil are well-known and thus, the KPI isn't the number of producers controlled, but studying how to add value to a supply chain which is already mature.

From 2010 to 2016, through direct actions (training courses) and indirect actions (organization of or participation in conferences) over 7,000 participants have been reached by illycaffè.

In view of illycaffè's strong commitment to implement a chain of sustainable suppliers, 100% of the purchases made from first and second level suppliers (exporters, cooperatives and associations) is in compliance with the company's procurement policies. Regarding third-level suppliers, the farmers, 90.2% of them respect the Responsible Supply Chain Process requisites. Considering the volume of purchases, following the monitoring of the farmers, illycaffè created specific initiatives to prevent sustainability risks: 0.1% non-compliances were found, concerning violations of environment and labor laws that were tackled with direct action.

Updating the monitoring system

The monitoring system for the evaluation of suppliers is constantly subject to revision and improvement, in order to properly cope with the increase in purchases in Latin America and Africa, where the production supply chain is more fragmented and where small coffee growers contribute with minimum quotas to create shared commercial lots, which cannot be determined beforehand.

In places where the offer of raw materials is highly fragmented, knowledge of the territory comes through controlling 100% of the second-level suppliers (farmers in associations), with an assessment of their work through visits to at least 10% of the individual growers who participated in the creation of an "illy plot of land".

Mapping the territory enables local projects to be researched and implemented that can understand and manage the needs of the farmers' communities. This is possible thanks to the careful and meticulous choice of suppliers that illycaffè adopts in its field, the synergy with their sustainability activities and the relationship with local institutions.

■ 4.3.3 illycaffè's role in developing the supply chain

illycaffè formulates and implements initiatives for the transfer of know-how to the green coffee supply chain and promotes activities of study, research and innovation in order to improve the knowledge of coffee. In addition, the company fosters the improvement of the living and working conditions of the farmers.

Initiatives conducted in 2016 include:

- "The agribusiness and global challenges of coffee": webinar organized in April 2016 through the Università del Caffè – Brazil, dedicated to identifying the challenges which coffee production will have to address in the future. The course had 230 participants and recorded 592 views online in subsequent months.
- "Dia do campo": a day course for Brazilian farmers looking in more depth at the production of quality coffee; 51 producers took part.
- "National and international market for high quality coffee", a presentation organized in May 2016 as part of "Encontro de Inovação e Tecnologia para a Cafeicultura do Cerrado Mineiro". 450 people took part, mostly Brazilian producers.
- Intensified training activities through PENSA online courses (viewable at <http://universidadedocafe.com/>). In 2016 new educational courses were added that looked at the following topics:
 - Integrated management of pathogens and harmful insects in coffee plantations
 - Requirements of Brazilian farms to comply with the new laws concerning agriculture and forestry.
 - Treatment of process waste water
 - How to make a quality coffee
 - How to note production costs
 - Creating and giving added value to green coffee
 - Contamination risk for coffee from phytosanitary products. How to manage them
 - Associations in coffee growing
 - New trends in the world of coffee
 - Climate change risks: what can be done?
 - Basic course on agribusiness

A number of courses were subtitled in Spanish to broaden the user base to technicians in Costa Rica, Colombia, El Salvador and Nicaragua, as well.

Brazil

Still in Brazil, a free course was organized for 36 expert sorters, who will work alongside producers regarding illycaffè quality requirements. The company pays great attention to the theme of the "best coffee nature can provide," to the point that various publications have been dedicated to good practices to reduce the use of phytosanitary products.

The Università del Caffè has published various articles in "Quadernos da Universidade", an important information tool. There are various themes discussed:

- different possibilities in coffee production and consumer behavior;
- description of the drivers in coffee production;
- risk assessment of coffee contamination due to the use of pesticides in farming
- Contract strategies for the supply of high quality coffee.

The company continues to pay attention to the environment, viewed as a complex system which must be considered through a holistic approach. After research conducted with Delta CO2 on quantifying the presence of carbon and nitrogen stored in soil, following changes in soil use in the coffee growing areas in Minas Gerais, in 2016 research estimating the amount of carbon stored in biomass and quantifying the levels of macronutrients (N, P, K, Ca and Mg) in plant tissue in Cerrado was carried out.

With this illycaffè completed its first round of studies into greenhouse gas emissions from green coffee production, into the soil level incidence in terms of fixed carbon, and into the amount of carbon stored at plant level.

India

In the face of a legal deregulation of farms and the presence of unregistered immigrants (Assamese labourers) in previous years, illycaffè has intensified the selection and evaluation activities of suppliers, requiring better protection for workers in the field of labor law and regularity.

Central America

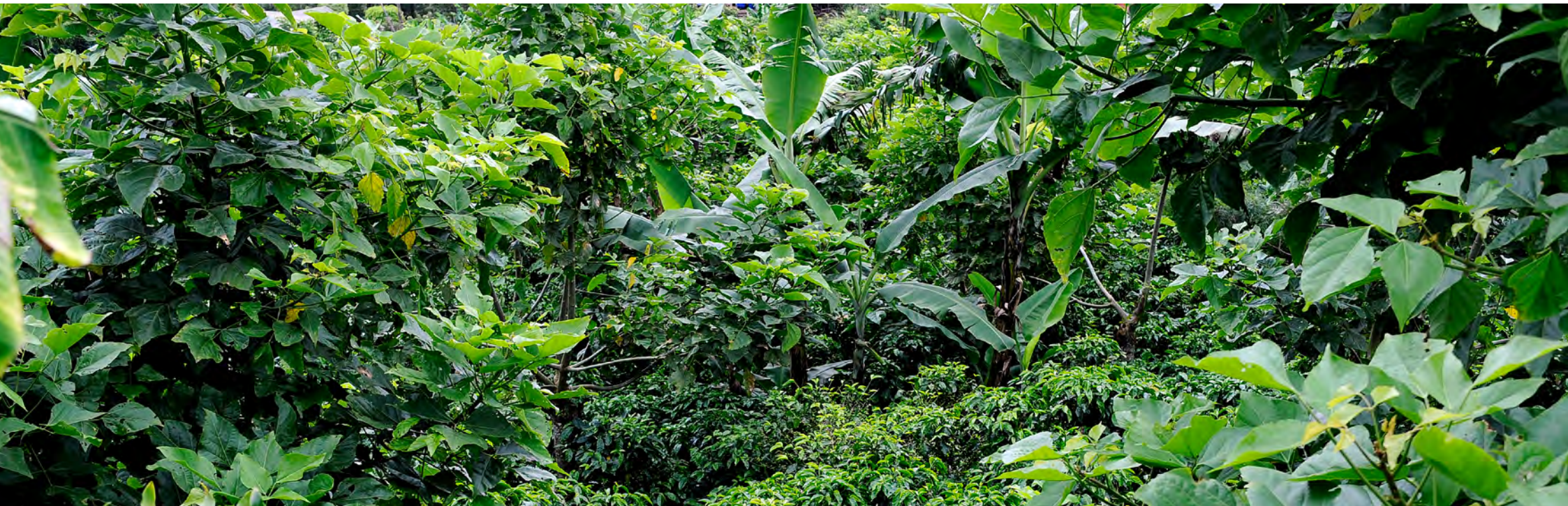
The supply of raw materials from small producers generally involves management complexities due to the recognition of legality and unregulated labor. These situations derive from more sensitive operations in areas that are constantly exposed to economic risks and are more likely to entrust harvest work to the best bidders.

Awareness of this leads illycaffè to look for projects where it can work with the most virtuous suppliers, who are also assessed also on sustainability issues, in whom the company invests, promoting culture and awareness in the coffee communities. There are several initiatives like this:

- Collaboration with Positive Planet to draft a manual on financial management to educate farmers.
- Intervention in Honduras at the conference "Sostenibilidad en la Caficultura Hondureña - April 19-20, 2016 " by talking to the audience of technicians in Honduras about illycaffè's requirements in terms of sustainability.

- Training courses about the sensory, visual and olfactory analysis of green coffee samples in countries such as Honduras, Nicaragua and Colombia, involving 26 laboratory technicians. The activities were divided into three sections: roasting in compliance with the illycaffè profile, tasting and visual analysis/olfactory analysis.
- Thanks to its great success, in Colombia the second three-year leg of the Reforestation at Tamara project was launched. Educational programs relating to the project roused the enthusiasm of producers who have started to recycle waste in the field, understanding the importance of recycling, reusing and cooperating in their daily lives. The second phase is the goal of intelligent water management.

As regards Africa, illycaffè launched the second part of the project with UNIDO, with the aim of educating and raising awareness among farmers.





■ THE SUSTAINABLE SUPPLY CHAIN: THE ACTIVITIES OF THE ERNESTO ILLY FOUNDATION IN SUPPORT OF ILLYCAFFÈ

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

A second level university Master's degree promoted and organized by a group of partners of excellence in education: Cambridge University, the University of Trieste, the University of Udine, the Ernesto Illy Foundation, illycaffè, the Università del Caffè, SISSA - Scuola Internazionale Superiore di Studi Avanzati di Trieste, the Consortium of molecular biomedicine (Area Science Park - Trieste), the coffee industrial district of the Province of Trieste (Trieste Coffee Cluster). In recent years, interest in the Master's degree has grown, particularly on the part of the future generations of producers and people who want to launch a career in the world of coffee.

Collaboration with the El Zamorano University

On May 17, 2016, the convention between the Ernesto Illy Foundation and the El Zamorano University (Honduras) was signed with the aim of introducing the topic of coffee to the Panamerican University study program, which offers university courses mainly dedicated to the agricultural and agri-industrial sectors. The convention lasts 3 years (academic years 2016, 2017 and 2018), during which time students enrolled in the 3rd and 4th year of the ordinary university course offered by El Zamorano will be able to enroll in the optional module on coffee called *Asignatura Adicional de Café* (30 training hours). The module will be offered three times a year, once per term. The Assignature Adicional de Café comprises composed of 5 modules held by teachers who are graduates in Master's in Coffee Economics and Science - Ernesto Illy.

Reforestation in areas with water sources

The reforestation project in the region of Tamara (Colombia), with native trees near water sources has been extended to 2020, given the good results achieved: 69.2 hectares were conserved and reforested with 15 different species for a total of 12,290 plants/native trees planted. Direct beneficiaries were 80 families of coffee farmers and 320 people were indirectly involved. The goal is to increase the area concerned, involving 200 families of farmers, with whom water usage practices during the coffee processing process can also be improved. The project also aims to get two schools in the area involved in terms of environmental and recycling education.

Computational Science on Coffee in collaboration with the Jülich Research Center in Germany

The collaboration between the Jülich Research Center and the Ernesto Illy Foundation involves the creation of a position as assistant professor in computational research in coffee science. It promotes the development and application of computational molecular simulation methods to respond to topical issues in coffee research at the molecular level.

Collaboration with CIRAD

The collaboration with the Cirad international research institute aims to develop a preventive warning system for coffee rust (*Hemileia vastatrix*) in Central America, within the framework of the PROCAGICA project (Programa Centroamericano de Gestión Integral de Roya de Café). The development program is subsidized by the European Union and aims to tackle climate change and its environmental effects by adopting and applying adaptation, mitigation and disaster risk reduction methods.

Positive Economy – "Positive Coffee Observatory"

The aim is to measure the contribution made by the coffee sector to a positive economy and to evaluate the sector's evolution over the next few years in terms of "positivity" by providing a positivity index of the coffee value chain in a transparent, transmissible and operational way, for all coffee production communities and implementing important projects for the development of the coffee value chain. The pilot project (2016) began with the implementation of a positive observatory on coffee in three production countries: Ethiopia, India (Karnataka) and Guatemala.

■ 4.3.4 Awards and incentives for producers

The company recognizes and rewards the quality of coffee through several initiatives and awards. In this way, not only does it create the conditions to obtain excellent raw materials, it also stimulates the entrepreneurial and cultural growth of producers, transferring and adopting the fundamental principles of sustainability.

Some of the most important initiatives that illycaffè has undertaken to reward the quality of producers include:

Prêmio Ernesto Illy de Qualidade do Café para Espresso

This initiative awards sums of money to foster rural and environmental development of large regions of Brazil. Since 1991, the year illycaffè introduced the award, over 10,000 producers have participated in the initiative, with a total of funding of approximately 4.5 million reais distributed. illycaffè also awards the Best Supplier of the Year in Brazil, on the basis of the performances achieved in terms of quality, punctuality of delivery and sustainability. The award includes a journey to Italy for the winners and their families, with a visit to the company headquarters.

Clube Illy do Café

Created in 2000 to strengthen relations with the best coffee producers in Brazil and to promote best practices for coffee cultivation. 432 producers were admitted to the Clube in 2016 and received fidelity cards, which vary according to the length of the supply relationship and the quality of their products.

Producers acquired knowledge and competencies on new sustainable and responsible agricultural practices: the know-how and the capabilities at their disposal, thanks to illycaffè, can thus be valorized on the market, even independently of their supply relationship with illycaffè. Research conducted by the Durham Business School, describes and analyzes the evolution of the **decommoditization of coffee quality** in Brazil: small modifications introduced in the Brazilian coffee market have produced significant long-

term changes in the overall trends of the sector at the global level. The research evidenced how the creation of an Award can lead to a progressive revaluation of green coffee (decommoditization), and to the development of a network of producers of excellence. Furthermore, the research pointed out that companies can contribute to the modification of existing equilibriums in a market and trigger virtuous mechanisms, the so-called "butterfly effect," which produce profit in a long-term strategy, able to bring together quality and sustainability.

Fair profit for farmers

illycaffè calculates the minimum fair price for the coffee it purchases through a complex series of variables. This approach has been developed through years of experience and close collaboration with the farmers. These variables include the country of origin, the type of market, the quality of the product, and the production costs.

illycaffè pays its farmers an average of 30% more than the market price.

This margin repays the producers for the extreme care they dedicate to their cultivations and guarantees them a profit, even when the price of green coffee decreases on the international market.

International Ernesto Illy Coffee Award

With this award, established in 2016, illycaffè recognizes coffee makers' commitment to quality and sustainability, underlining the importance of working with them together, hand in hand, to continue to pursue the company's dream of providing the best coffee in the world. The illy quality laboratory in Trieste has identified the 3 best batches of coffee from the 2015/2016 harvests in the 9 coffee producing countries that are most representative of the unique illy blend. For the first edition, the countries were Brazil, Colombia, Costa Rica, El Salvador, Ethiopia, Guatemala, Honduras, India and Nicaragua. An international jury chooses the coffee that, from the 3 best batches, represents the best of each country, and an external international jury selects the winner.

■ 4.4

Economic added value

During 2016, even though global economics failed to take off, the company was able to increase revenue, in terms of profitability and in financial terms. **Production value rose approximately 3.4%** on 2015, mainly because of higher sales volumes and the exchange rate. In short, the economic-financial data for 2016 shows slight falls in the gross operating margin (EBITDA) and the net operating margin (EBIT) compared to 2015 and a higher overall net income, compared to the previous year.

As illycaffè has applied, when drawing up its financial statements, the new OIC accounting standards (updated following the new items introduced by Legislative Decree 139/2015, which takes into account the Accounting Directive 34/2013/UE), the figures for the previous financial year have been republished.

| | 2015 | 2016 |
|---------------------|-------|-------|
| ROI | 14.7% | 12.4% |
| ROE | 14.4% | 12.9% |
| ROS | 8.2% | 7.1% |
| PFN/Ebitda | 1.75 | 1.9 |
| PFN/Equity | 1.06 | 0.94 |
| Number of employees | 1,177 | 1,269 |

illycaffè, in order to make it the economic value clear that the business activities generated and distributed to some important stakeholder categories, uses the Distributed Economic Value parameter (from this year the Global Reporting Initiative scheme is applied, to keep closer to the international standard).

The assessment of Added Value allows the company to evidence its capacity to generate wealth, in the period of reference, to the advantage of the various stakeholders, in respect of the economic management and expectations of the stakeholders themselves. As of December 31, 2016, the distributed Added Value of illycaffè, at a consolidated level, equaled 432.3 million Euros, a slight increase on 2015.

| ITEMS(data in Euros) | 2015 | 2016 | VAR 2016-2015 |
|--|--------------------|--------------------|------------------|
| ECONOMIC VALUE GENERATED DIRECTLY | | | |
| a) Value of production | 453,261,101 | 468,586,893 | 3.4% |
| b) Financial income | 14,008,055 | 1,980,899 | -85.9% |
| (A) Total economic value generated directly | 467,269,156 | 470,567,792 | +0.7% |
| ECONOMIC VALUE DISTRIBUTED | | | |
| a) Operating costs - Suppliers | 306,705,440 | 305,461,605 | -0.4% |
| b) Personnel costs | 85,042,515 | 93,836,164 | 10.3% |
| c) Credit and risk capital | 17,456,396 | 17,454,360 | 0.0% |
| d) Duties and taxes - Public Administration | 16,313,388 | 13,672,985 | -16.2% |
| e) Donations and membership contributions | 844,770 | 861,304 | 2% |
| (B) Total economic value distributed | 426,362,509 | 431,286,418 | +1.2% |
| (A-B) ECONOMIC VALUE WITHHELD | 40,906,646 | 39,281,374 | -4% |

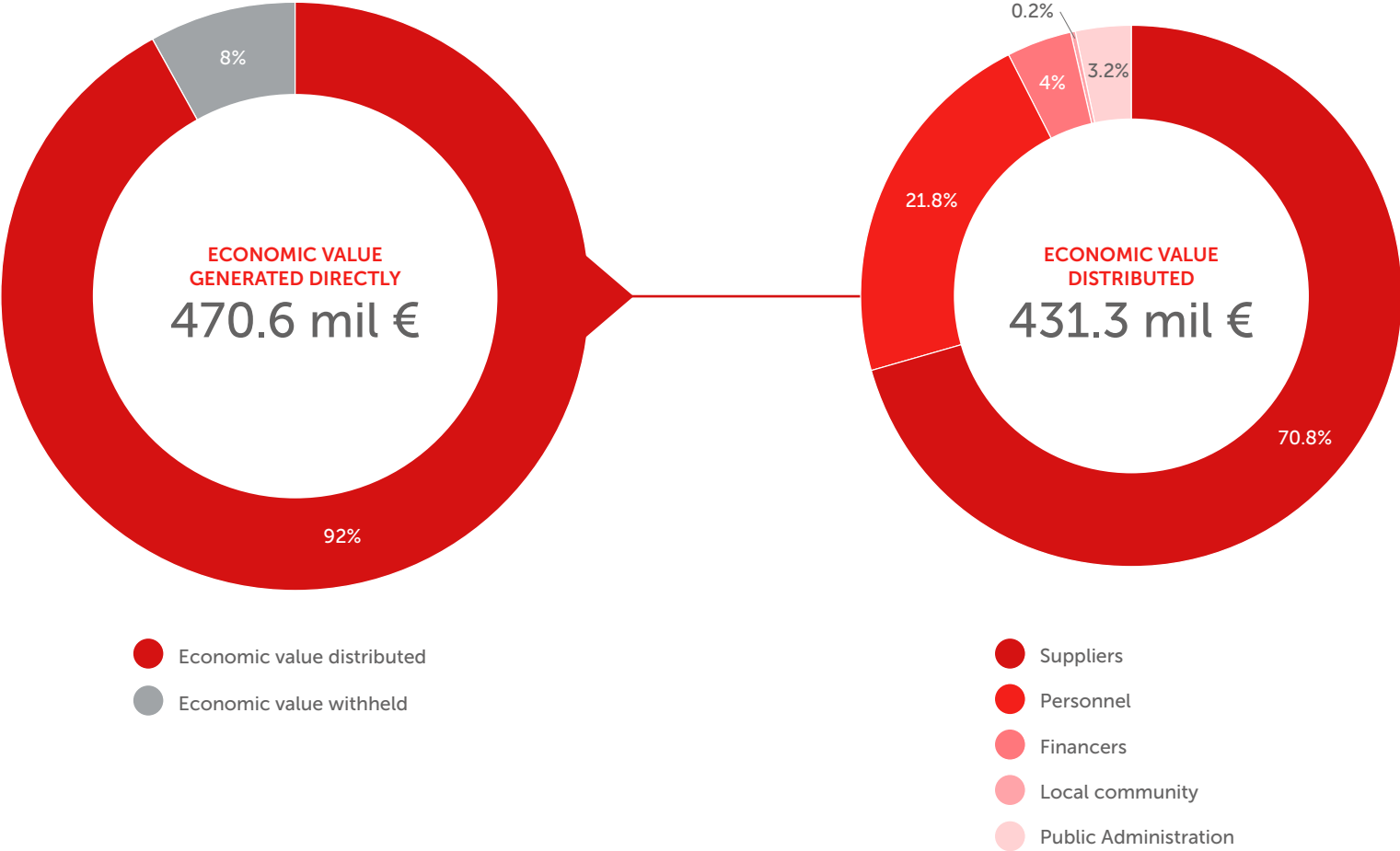
The chart shows the relationships between the company and the related social-economic system with which it interacts, with particular reference to important **selected stakeholders**:

- **Suppliers:** remuneration due to the purchase of raw materials and other management services;
- **Human Resources:** direct and indirect remunerations of collaborators (employees and non-employees);
- **Public administration:** funds disbursed for payment of taxes and duties;
- **Financers:** remuneration of risk and credit capital;
- **Community:** membership fees and donations.

From the economic value produced and distributed in 2016 (433.3 million Euros) by illycaffè at consolidated level it emerges that:

- The most significant share, **70.8%**, is intended for the remuneration of **suppliers**, in particular the management of the operational and managerial services and the purchase of raw materials.
- **21.8%** is destined for pay for **Human Resources**. This expenditure includes all the items indicated in the specific contractual clauses and a series of expenses incurred by the company, such as the expenditures for training activities and for the management of internal cafeteria facilities.

- **Financers** received 4% of the economic value, consisting of dividends for parent group shareholders for a total of 8.3 million Euros, third party profits and financial charges.
- **3.2%** of total Added Value has been dedicated to the Public Administration (state and local bodies) for duties and taxes.
- **0.2%** was donated to the community in the form of charges for social utility (the information is primarily relevant to contributions from illycaffè S.p.A. (Italy) to the Ernesto Illy Foundation) and in the form of membership fees.



SEED:S

Social
Environmental
Economic
Development
Sustainability

standards



5.1

Methodological note

The Sustainable Value Report of illycaffè was published for the first time in 2012: regularly published on an annual basis, the report is intended to be a tool to account for the responsible management of the company, which aims to increase its ability to generate value within the framework of the respect of all existing equilibriums at the basis of the sustainability concept (economic, social and environmental), giving the proper attention to the expectations of all stakeholders who, either directly or indirectly, are interested in the activities of the company. The Value Report, moreover, responds to the commitment, initiated by the company over the years, to communicate a path toward responsible growth, based on responsible behavior and practices, and sustainable products.

Guidelines and reporting process

The 2016 Sustainable Value Report was created in compliance with the G4 version of the "Sustainability Reporting Guidelines," issued by the Global Reporting Initiative (GRI), and the sector guidelines (G4 Sector Disclosure – Food Processing Sector) at the "In accordance-Core" level.

In order to finalize the Sustainable Value Report, the company actively involves all the different management departments operating at illycaffè headquarters and the reference branches.

The reporting process is based on information systems used by the company (management control, accounting systems, quality, environment, internal audit, safety, human resources management, etc.), which are integrated with specific instruments to gather and analyze data (reporting forms). The ultimate objective of the company is to further strengthen the reporting system, and to extend the approach to all the companies and enhance the accuracy and reliability of the information provided.

The reporting process of these issues is a voluntary activity that illycaffè implements taking as its starting point the huge importance of the areas dealt with and in the interest of its stakeholders. In spite of the fact that it does not fall within the boundaries of the Barnier Directive 2014/95/UE on the disclosure of non-financial information and information on diversity, illycaffè is committed to producing its Sustainability Report annually.

The 2016 illycaffè Sustainable Value Report has been verified by the external control and audit company DNV GL Business Assurance Italy, S.r.l. A copy of the assurance statement is available at the following link:

http://valuereport.illy.com/pdf/ASSURRANCE_2016_ita.pdf

Reporting perimeters

This report has taken into consideration the most relevant industrial and commercial companies included in the Financial Statement of illycaffè S.p.A., through the integrated method in the consolidated balance sheet as of December 31, 2016 (see § 1.2).

- ILLYCAFFÈ SPA (Parent group that comprises the branches in Austria, Germany, Netherlands, Spain, Hong Kong and Dubai)
- ILLYCAFFÈ FRANCE SAS
- ILLYCAFFÈ NORTH AMERICA INC
- ILLYCAFFÈ SUD AMERICA COM. IMP. EXP. LTD.
- ILLYCAFFÈ SHANGHAI CO. LTD
- MITACA SRL

In some cases, information and data relevant to performance refer to certain companies: in this case, the report makes clear reference to the variation of the perimeter of reference. As the GRI standard requires the inclusion of all activities having a substantial impact in terms of sustainability (materiality), wherever possible the report includes a deeper analysis of related sectors of the value supply chain (for instance, the activities carried out in coffee plantations).

Contacts

For comments, requests for information, suggestions and ideas for improvement regarding the sustainability activities of illycaffè and issues related to the content of the present Value Report, please e-mail:

e-mail: valuereport@illy.com

■ 5.2

Gri charts

| GENERAL STANDARD DISCLOSURES | | PARAGRAPH |
|--|---|---|
| STRATEGY AND ANALYSIS | | |
| G4-1 | | Declaration of the President |
| PROFILE OF THE ORGANIZATION | | |
| G4-3 | Name of the organization | 1.2 Profile |
| G4-4 | Trademarks, products and services | 1.2 |
| G4-5 | Main headquarters | 1.2 |
| G4-6 | Number of countries in which the organization operates | 1.2 |
| G4-7 | Ownership and legal form | 1.2 + 1.5 corporate governance |
| G4-8 | Markets served | 1.2 Profile |
| G4-9 | Size of the organization | 1.2 |
| G4-10 | Characteristics of the workforce | 2.4.1 Employees |
| G4-11 | Employees covered by collective labor contracts <i>Note: all employees are covered by the dispositions of the national contracts and regulations in force in the various countries in which the company operates</i> | 2.4.1 |
| G4-12 | Description of the supply chain | 2.5 Suppliers + 4.3 Supply chain |
| G4-13 | Significant changes in the dimensions, structure, ownership or new supply chain during the reporting period <i>Note: There were no significant changes in the period in question</i> | 5.2 Tab GRI |
| G4-14 | Precautionary approach <i>Note: illycaffè adopts the precautionary approach to reduce the environmental impact of its production processes and its products, according to principle no. 15 of the 1992 UN Rio Declaration on Environment and Development</i> | 14.2 + 3.2. Managing environmental sustainability |
| G4-15 | Adoption of external codes and principles in economic, social and environmental matters | 14.1 Sustainability Strategy and Governance |
| G4-16 | Participation with associations or organizations | 2.6.2 |
| MATERIALITY AND PERIMETERS OF THE REPORT | | |
| G4-17 | Bodies included in the balance sheet | 5.1 |
| G4-18 | Principles defining the contents | 5.1 |
| G4-19 | Material aspects identified in the definition of the contents | 1.8.2 |
| G4-20 | Material aspects inside the organization | 1.8.2 |
| G4-21 | Material aspects outside the organization | 1.8.2 |
| G4-22 | Explanation of the effects of any modifications to the information in the preceding report and relative motivations <i>Note: no modifications of this kind were made</i> | 5.3 Tab GRI |
| G4-23 | Significant changes of objectives or perimeters with respect to the previous balance sheet | 5.1 |

| STAKEHOLDER ENGAGEMENT | | |
|------------------------|--|-------|
| G4-24 | Groups of stakeholders involved by the organization | 1.8.1 |
| G4-25 | Identification and selection of the stakeholders to involve | 1.8.1 |
| G4-26 | Approach to the involvement of the stakeholders | 1.8.1 |
| G4-27 | Key aspects which emerged from the involvement of the stakeholders | 1.8.1 |

| PROFILE OF THE REPORT | | |
|-----------------------|--|---------------|
| G4-28 | Period of reporting | 5.1 |
| G4-29 | Date of publication of previous report: 2015. | 5.1 |
| G4-30 | Periodicity of the report: annual | 5.1 |
| G4-31 | Contacts and addresses for information about the balance sheet | 5.1 |
| G4-32 | Index of the GRI contents and indication of the option "In accordance" | 5.2 |
| G4-33 | External attestation | 5.3 Assurance |

| GOVERNANCE | | |
|--------------|---------------------|--------------------------|
| G4-34 | Governing structure | 1.5 Corporate governance |

| ETHICS AND INTEGRITY | | |
|----------------------|---|-------|
| G4-56 | Values, principles, standards and conduct rules of the organization | 1.3.1 |

| MATERIAL ASPECTS | PARAGRAPH |
|------------------|-----------|
|------------------|-----------|

CATEGORY: ECONOMICS

| ECONOMIC PERFORMANCE | | |
|----------------------|---|-----------------|
| DMA | | 4.4 added value |
| EC1 | Economic value directly generated and distributed | 4.4 added value |

| PRESENCE ON THE MARKET | | Non material |
|------------------------|--|--------------|
|------------------------|--|--------------|

| INDIRECT ECONOMIC IMPACTS | | |
|---------------------------|--|---|
| DMA | | 2.6.2 Community support 4.3.3 interventions on supply chain |
| EC7 | Development and impact of investments in infrastructures and services for "public utility" | 2.6.2 Community support 4.3.3 interventions on supply chain |

| SUPPLY PRACTICES | | |
|------------------|--|---------------|
| DMA | | 2.5 suppliers |
| EC9 | Policies, practices and spending percentages concentrated on local suppliers in relation to the most significant operative branches | 2.5 suppliers |
| FP1 | Percentage of the volume of purchases made by suppliers operating in accordance with the company's supply policies | 4.3.2 RSCP |
| FP2 | Percentage of the volume of purchases with verified conformity with production standards of responsibility which are credible and recognized internationally, separated per standard | 4.3.2 RSCP |

CATEGORY: ENVIRONMENT

| MATERIALS | | |
|------------|----------------|-------------------|
| DMA | | 3.4 raw materials |
| EN1 | Materials used | 3.4 raw materials |

| ENERGY | | |
|------------|--|------------|
| DMA | | 3.5 energy |
| EN3 | Energy consumption within the organization | 3.5 energy |

| WATER | | |
|------------|---|-----------|
| DMA | | 3.6 water |
| EN8 | Total volume of water withdrawn per supply source | 3.6 water |

| BIODIVERSITY | | |
|--------------|---|--|
| DMA | | 3.2 Managing environmental sustainability + 3.10 Sustainable Agr. and biodiversity |
| EN12 | Description of major impact of activities, products and services on the biodiversity of protected areas or areas with high biodiversity outside protected areas | 3.10 Sustainable agr. and biodiversity |

| EMISSIONS | | |
|-------------|--|---------------|
| DMA | | 3.3 emissions |
| EN15 | Direct emissions of greenhouse gases (GHG) (Scope 1) | 3.3 emissions |

| DISCHARGES AND WASTE | | |
|----------------------|--|-----------|
| DMA | | |
| EN23 | Total weight of waste per type and disposal method | 3.7 Waste |

| GOODS AND SERVICES | | |
|---|---|---|
| DMA | | 3.8 Product disposal |
| EN27 | Mitigation of the impact of products and services on the environment | 3.5+3.6+3.8 |
| COMPLIANCE | | |
| DMA | | 3.2 Managing environmental sustainability |
| EN29 | Monetary value of the significant fines and total number of non-monetary penalties for not respecting environmental laws and regulations | 3.2 |
| TRANSPORTATION | | |
| DMA | | 3.9 transportation |
| EN30 | Significant environmental impact of the transportation of products and goods/materials and for personnel travel | 3.9 transportation |
| GENERAL | | |
| DMA | | 3.2 Environmental commitment |
| EN31 | Total costs and environmental investments per type of product | 3.2 |
| ENVIRONMENTAL EVALUATION OF SUPPLIERS | | |
| DMA | | 4.3.2 RSCP |
| EN32 | Percentage of new suppliers evaluated according to environmental criteria <i>Note: all new green coffee suppliers are entered into the illycaffè evaluation program and are evaluated according to the criteria and timetables established with protocol B of the RSCP certification</i> | 4.3.2 + 2.5. |
| COMPLAINT MECHANISMS DUE TO ENVIRONMENTAL ASPECTS | | Non material |
| CATEGORY: SOCIAL | | |
| EMPLOYMENT | | |
| DMA | | 2.4.1 Employees |
| LA1 | Number and rate of new hirings and personnel turnover | 2.4.1 Employees |
| INDUSTRIAL RELATIONS | | Non material |
| FP3 | Percentage of work hours lost due to industrial disputes, strikes and lockouts, per country | Non material |

| HEALTH AND SAFETY AT WORK | | |
|--|--|------------------------------------|
| DMA | | 2.4.3. Health and safety |
| LA6 | Rate of on-the-job accidents, illness, workdays lost, absenteeism and total number of deceases | 2.4.3 |
| TRAINING AND EDUCATION | | |
| DMA | | 2.4.2 training and development |
| LA9 | Personnel training | 2.4.2 |
| DIVERSITY AND EQUAL OPPORTUNITIES | | |
| DMA | | Employees |
| LA12 | Composition of the business's governance bodies and division of personnel by diversity indicators | 1.4.1 governance + 2.4.1 employees |
| EQUALITY OF PAY FOR MEN AND WOMEN | | |
| DMA | | Employees |
| LA13 | Ratio between the basic salary of women and that of men | 2.4.1 Employees |
| EVALUATION OF SUPPLIERS ON THE BASIS OF WORK POLICIES AND CONDITIONS | | |
| DMA | | 4.3.2 RSCP |
| LA14 | Evaluation of suppliers on the basis of work policies and conditions <i>Note: all new green coffee suppliers are entered into the illycaffè evaluation program and are evaluated according to the criteria and timetables established with protocol B of the RSCP certification</i> | 4.3.2 |
| COMPLAINT MECHANISMS DUE TO WORK ASPECTS | | - |
| CATEGORY: HUMAN RIGHTS | | |
| INVESTMENTS | | |
| DMA | | 2.7+4.31 |
| HR1 | Percentage and total number of investment agreements and significant contracts which include human rights clauses or which undergo relative screening <i>Note: the company applies the indications contained in its own Ethical Code in all its relationships of collaboration and the requisites of the Responsible Supply Chain Process along the entire production chain</i> | 2.7+4.31 |
| NON DISCRIMINATION | | |
| DMA | | 2.7+4.31 |
| HR3 | Total number of episodes related to discriminatory practices and corrective actions undertaken | <u>No episodes detected</u> |

| FREEDOM OF ASSOCIATION AND COLLECTIVE BARGAINING | | |
|--|--|---|
| DMA | | 2.7+4.32 |
| HR4 | Identification of the activities and main suppliers in which the freedom of association and collective bargaining can be violated or exposed to significant risks and the actions undertaken in defense of these rights. <i>Note: all new green coffee suppliers are entered into the illycaffè evaluation program and are evaluated according to the criteria and timetables established with protocol B of the RSCP certification</i> | 4.3.2 Not significant for other suppliers |
| CHILD LABOR | | |
| DMA | | 2.7+4.32 |
| HR5 | Identification of the operations and main suppliers with a high risk of use of child labor and measures adopted to contribute to its effective abolition <i>Note: all new green coffee suppliers are entered into the illycaffè evaluation program and are evaluated according to the criteria and timetables established with protocol B of the RSCP certification</i> | 4.3.2 Not significant for other suppliers |
| FORCED LABOR | | |
| DMA | | 2.7+4.32 |
| HR6 | Activities and main suppliers with a high risk of use of forced labor and measures undertaken to help abolish every form of it <i>Note: all new green coffee suppliers are entered into the illycaffè evaluation program and are evaluated according to the criteria and timetables established with protocol B of the RSCP certification</i> | 4.3.2 Not significant for other suppliers |
| SAFETY PRACTICES | | |
| | | Non material |
| RIGHTS OF THE LOCAL COMMUNITY | | |
| DMA | | 2.7+4.32 |
| HR8 | Number of violations of the rights of the local community and actions undertaken <i>Note: No episodes detected</i> | 4.3.2 RSCP Not significant for other suppliers |
| EVALUATION | | |
| DMA | | 2.7+4.32 |
| HR9 | Percentage and total number of activities submitted to impact controls and/or evaluations with regard to human rights | |
| EVALUATION OF SUPPLIERS ON THE BASIS OF HUMAN RIGHTS | | |
| DMA | | 4.3.2 |
| HR10 | Percentage of new suppliers submitted to screening regarding human rights | 4.3.2 |

| MECHANISMS FOR COMPLAINTS REGARDING HUMAN RIGHTS | | Non material |
|---|--|--|
| CATEGORY: SOCIETY | | |
| LOCAL COMMUNITIES | | |
| DMA | | 2.6 communities |
| SO1 | Percentage of operations involving the local community, evaluation of the impacts and development programs | 2.6 communities + 4.3.3 illycaffè's role in the supply chain |
| ANTI-CORRUPTION | | |
| DMA | <i>Note: the company has adopted a Model of Organization, management and control (by legislative decree 231/2001) which aims to prevent or contrast the perpetration of crimes including corruption.</i> | 1.5 Corporate governance |
| SO4 | Communication and training on anti-corruption policies and procedures | |
| PUBLIC POLICY | | |
| DMA | | 1.5 Corporate governance |
| SO6 | Total political contributions and relative institutions per country and beneficiary <i>Note: no political contributions have been paid to parties and relative institutions, illycaffè belongs to sector and representative associations and supports the payment of the relative dues.</i> | 2.6.2 + 4.4. |
| UNFAIR COMPETITION | | Non material |
| COMPLIANCE | | |
| DMA | | 1.5 Corporate governance |
| SO8 | Monetary value of the significant fines and total number of non-monetary penalties for non-conformity to laws or regulations | <i>No fines of this nature</i> |
| EVALUATION OF SUPPLIERS ON THE BASIS OF THEIR IMPACT ON SOCIETY | | |
| DMA | | 4.3.2 RSCP |
| SO09 | Percentage of new suppliers evaluated according to criteria of their impact on society <i>Note: all new green coffee suppliers are entered into the illycaffè evaluation program and are evaluated according to the criteria and timetables established with protocol B of the RSCP certification</i> | 4.3.2 |
| COMPLAINT MECHANISMS REGARDING IMPACT ON SOCIETY | | Non material |

| | | |
|-----------------------------------|---|--|
| HEALTHY FOOD AT AFFORDABLE PRICES | | Non material |
| DMA | | Non material |
| WELLBEING OF ANIMALS | | Non applicable |
| CATEGORY: PRODUCT RESPONSIBILITY | | |
| HEALTH AND SAFETY OF CONSUMERS | | |
| DMA | | 2.2 health and safety of consumers |
| PR1 | Categories of products and services submitted to evaluations in order to improve health and safety | 2.2 |
| FP5 | Percentage of the volume of production manufactured in plants certified by an independent outside body according to standards of food safety management systems recognized on an international level | 2.2 |
| FP6 | Percentage of volume of total sales of consumer products, divided by category, that contain less saturated fat, trans fatty acids, sodium and added sugar | 2.2 |
| FP7 | Percentage of volume of total sales of consumer products, divided by category, which contain ingredients enriched with nutritional substances, such as fiber, vitamins, minerals, phytochemicals or functional food additives | 2.2 |
| LABELING OF PRODUCTS AND SERVICES | | |
| DMA | | |
| PR5 | Results of client satisfaction surveys | 2.3.3 listening and satisfaction |
| MARKETING ACTIVITIES | | |
| DMA | | |
| PR6 | Sale of products which are banned or the object of dispute | <u>No products of this type are sold</u> |
| CONSUMER PRIVACY | | |
| DMA | | |
| PR8 | Number of documented complaints regarding violations of privacy and loss of consumer data | <u>No complaints of this nature</u> |
| COMPLIANCE | | |
| DMA | | |
| PR9 | Monetary value of the main fines for non-conformity to laws or regulations regarding the supply and use of products or services | <u>No fines of this nature</u> |

■ 5.3

Assurance

Introduzione

DNV GL Business Assurance Italia S.r.l. ('DNV GL') è stata incaricata dal Management di illycaffè S.p.a. ('illycaffè') di condurre una verifica sul suo Sustainable Value Report 2016 ('il Report') rispetto alle Sustainability Reporting Guidelines, versione 4 ('G4'), della Global Reporting Initiative ('GRI').

La nostra verifica ha riguardato il Report 2016, nella versione resa disponibile da illycaffè agli stakeholder nel proprio sito web.

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

illycaffè è responsabile della raccolta, analisi, aggregazione e presentazione delle informazioni contenute nel Report.

La verifica è fondata sull'assunzione che i dati e le informazioni forniteci in buona fede dall'Organizzazione siano complete, sufficienti e autentiche.

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

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

Scopo dell'Assurance

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

- Analisi, secondo un Moderate level di Assurance, delle attività e dei dati legati alla sostenibilità, riconducibili al periodo compreso tra gennaio e dicembre 2016, così come contenuti nel Report 2016.
- Valutazione dei principi di reporting richiamati dalle linee guida GRI G4, secondo l'opzione 'Core'.

La nostra verifica è stata condotta tra i mesi di giugno e settembre 2017 presso la sede centrale di Trieste.

Le informazioni e i dati economici sono stati acquisiti dal Bilancio d'esercizio

2016 certificato di illycaffè S.p.A. e non sono compresi nello scopo della nostra verifica.

Metodologia di verifica

La nostra verifica è stata pianificata e condotta nel rispetto del protocollo di verifica 'VeriSustain' di DNV GL, basato sulla nostra esperienza professionale e sulle best practice internazionali in materia di assurance (tra le quali l'International Standard on Assurance Engagements - ISAE 3000). Questi documenti prevedono, tra l'altro, che il gruppo di verifica possieda conoscenze, capacità e competenze professionali necessarie per una verifica delle informazioni di sostenibilità e che il team sia conforme ai requisiti etici atti a garantirne l'indipendenza.

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

- aderenza ai principi delle Linee Guida GRI G4;
- GRI G4, rispetto ai requisiti richiesti per l'opzione Core;
- ISAE 3000, per la verifica delle informazioni non finanziarie.

Parte integrante della verifica è stata l'analisi delle dichiarazioni e degli assunti legati alla sostenibilità riportati nel Report e la valutazione della robustezza del sistema di gestione dei dati, dei flussi informativi e dei relativi controlli.

Abbiamo esaminato e sottoposto a review i dati e le altre informazioni resi disponibili da parte di illycaffè.

Abbiamo recepito le informazioni e i dati tecnici dai sistemi di gestione certificati.

Per le informazioni relative alla supply chain del caffè verde, abbiamo recepito le risultanze delle attività di audit condotte nel 2016 in riferimento allo schema "Responsible Supply Chain Process". In particolare abbiamo recepito quanto emerso durante le verifiche effettuate presso la sede centrale di Trieste e presso un campione di produttori in Colombia.

Abbiamo condotto audit a campione su:

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

Abbiamo intervistato 16 referenti aziendali coinvolti nella gestione operativa degli aspetti riportati nel Report 2016.

Conclusioni

Secondo l'opinione di DNV GL, il Sustainable Value Report 2016 di illycaffè è una rappresentazione accurata e imparziale delle strategie di sostenibilità, dei sistemi di gestione e delle performance dell'Organizzazione.

Materialità

Il Report riflette l'impegno di illycaffè nel fornire informazioni e dati che consentono agli stakeholder la valutazione delle performance economiche, sociali e ambientali dell'Organizzazione.

Le attività di engagement condotte dall'organizzazione consentono di identificare le istanze rilevanti per le diverse categorie di stakeholder, al fine di analizzare i feedback ricevuti e definire le linee di strategie di azione da sviluppare e gli aspetti materiali da includere nel documento.

Inclusività

Il documento evidenzia le attività di engagement sviluppate da illycaffè con i propri stakeholder al fine di rilevarne efficacemente necessità e legittime aspettative.

Si valutano positivamente le iniziative di engagement sviluppate nel corso dell'anno nel corso dell'anno dall'Organizzazione nei confronti delle diverse categorie di stakeholder.

Si sottolinea l'importanza, nello sviluppo dei contenuti del Report, di consentire agli stakeholder di comprendere più facilmente in che modo le tematiche e le istanze emerse come rilevanti siano state integrate nelle strategie e nelle azioni attuate da illycaffè.

Completezza

Il Report consente agli stakeholder di valutare le performance di sostenibilità di illycaffè per ciò che attiene gli ambiti economici, sociali ed ambientali nel corso dell'anno di rendiconto, e la comprensione delle sue strategie e obiettivi di sostenibilità a medio-lungo termine.

Il documento è realizzato attraverso il contributo delle diverse strutture organizzative che concorrono a identificare gli aspetti e i dati rilevanti per l'anno di rendiconto. Si sottolinea l'importanza di proseguire nella sistematizzazione dei flussi interni di reporting, in particolare in riferimento alle fasi di validazione del dato.

A garanzia di un rendiconto ancora più completo degli impatti di sostenibilità di illycaffè si ritiene importante proseguire con l'inserimento di nuove informazioni relative alle società identificate come parte del perimetro e non ancora incluse nel documento.

Rispondenza

Il documento esplicita l'impegno di illycaffè nell'integrare le considerazioni provenienti dai propri stakeholder all'interno del proprio processo decisionale e dei propri piani d'azione strategici.

In coerenza con gli obiettivi di miglioramento continuo in tema di sostenibilità e di reporting, risulta importante proseguire nell'attività di strutturazione delle informazioni contenute nel Report, al fine di dare ulteriore evidenza di come le risultanze provenienti dalle attività di coinvolgimento dei propri stakeholder siano integrate all'interno delle proprie scelte strategiche e correlate agli obiettivi che l'Organizzazione si pone in materia di sostenibilità.

Contesto di sostenibilità

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

Principi per la qualità del Report

Neutralità

Il Report è una descrizione completa e imparziale degli impatti e delle performance di sostenibilità di illycaffè. Il documento rispecchia la volontà dell'Organizzazione di rappresentare le proprie attività e i risultati relativi all'anno di rendiconto in modo equilibrato e coerente con le proprie strategie aziendali.

Accuratezza

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

Ulteriori rilievi in relazione alle performance di sostenibilità

Affidabilità

I dati inseriti nel Report oggetto della nostra verifica sono risultati identificabili e rintracciabili; il personale responsabile è stato in grado di dimostrare in modo attendibile l'origine e l'interpretazione dei dati.

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

Secondo la nostra opinione, le informazioni e i dati comunicati nel Report di Sostenibilità sono affidabili.

DNV GL ritiene che il Report sia in linea con i requisiti 'Core' richiamati dalle Linee Guida GRI G4.

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

Opportunità di miglioramento

Di seguito si riporta una sintesi delle osservazioni e opportunità comunicate al management di illycaffè che, ad ogni modo, non influiscono sulle nostre conclusioni sul Report; esse risultano, infatti, coerenti con gli obiettivi organizzativi già in essere.

- Si sottolinea l'importanza di proseguire nell'attività di rendiconto delle performance di sostenibilità dei fornitori che operano per conto di illycaffè, migliorando l'efficacia e l'efficienza dei processi di generazione e consolidamento dei dati riportati nel Report.
- Con riferimento ai dati consolidati riferiti all'andamento degli indici infortunistici, si ritiene importante strutturare maggiormente il flusso informativo che soprassiede alla loro generazione a partire dai dati sorgente.

Competenza e Indipendenza di DNV GL

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

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

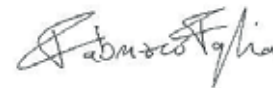
intervistati durante il processo di verifica.

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

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

Fabrizio Foglia

Lead Verifier



Zeno Beltrami

Reviewer



Vimercate (MB), 04-10-2017