our identity

THE TASTE
OF RECOGNISING
OURSELVES
IN THE MIRROR.
Mission, vision and values: illycaffè as a Società Benefit

MISSION
To delight all those who appreciate beauty and flavor worldwide with the best coffee nature can offer, enhanced by the best of technology and art.

VISION
illy aims to be the reference standard for coffee excellence and culture worldwide, an innovative company that offers the best products and places to enjoy them, and thanks to this grows and becomes a leader in high-end coffee.

VALUES
Ethics as the creation of long-term value through transparency, sustainability, and personal growth.
Excellence as love for beauty and well-done.

In 2019, illycaffè adopted Società Benefit legal status. This means formally affirming that another better and more advanced way of doing business is possible.

By becoming a Società Benefit, illycaffè has crystallised – and explicitly stated in the company purpose of its articles of association – its desire to operate as a stakeholder company: to create shared value for all those who participate in the company's success and to respect and protect the environment and the ecosystems on which we all depend.
illycaffè is based in Trieste and is headed by the third and fourth generation of the Illy family. It produces and sells, on a global scale, a unique blend of high-quality coffee, consisting of 100% Arabica from 9 different places of origin, selected from season to season in over 20 production areas. The balance of these components – from South America, Central America, Asia and Africa – produces the unmistakable illy taste and aroma, which is always the same in every cup. It is estimated that around 8 million cups of illy coffee are consumed every day worldwide.

illycaffè is strongly committed to spreading high-quality coffee culture in Italy and around the world. To this end, in 1999 it founded the Università del Caffè, which has 28 locations worldwide and offers courses on the nature and cultivation of raw materials to producers, hospitality workers, consumers and coffee lovers.

illycaffè is part of the Illy S.p.A. Group, the Illy family’s holding company, created with the mission of developing companies in which an entrepreneur’s vision has translated a passion for quality into a growth philosophy.
01.2.1 The history of illycaffè

1932
LAUNCH OF ILLYCAFFÈ
Francesco Illy founds illycaffè.

1933
THE FIRST PATENT
Application for a patent for pressurisation in Italy (issued in 1934). In 1933 the patent is issued in Germany.

1934
LAUNCH OF ILLETTA
The Illetta coffee machine is launched.

1935
DEVELOPMENT OF PRESSURISATION
Francesco Illy invents pressurisation.

1965
THE TRIESTE HEADQUARTERS
The current headquarters in Trieste, illycaffè’s production plant, is opened.

1974
DIRECT CONTACT WITH PRODUCERS
illycaffè buys coffee directly from producers, incentivising quality through an economic surplus.

1988
AWARD FOR COFFEE QUALITY
First edition of the Premio Ernesto Illy por la Qualidade do Café Sustentável para Espresso in Brazil, which has always been coordinated by Anna Illy.

1991
QUALITÉ FRANCE CERTIFICATION
illycaffè obtains the product conformity certification issued by Qualité France SAS.

1992
LAUNCH OF ILLY ART COLLECTIONS
The illy Art Collections are launched based on an artistic reinterpretation of the white espresso cup designed by Matteo Thun.

1996
LAUNCH OF THE CURRENT LOGO
Artist James Rosenquist creates the new illy logo.

Social Environmental Economic Development Sustainability

2019 Sustainable Value Report
our identity 12
EMAS ENVIRONMENTAL CERTIFICATION
illycaffé improves its environmental commitment with EMAS to promote constant improvements in the environmental efficiency of its industrial activities.

LAUNCH OF THE ERNESTO ILLY SCIENCE PRIZE
illycaffé, as part of Trieste’s candidacy for Expo 2008, began a collaboration with TWAS - The Academy of Sciences for the Developing World and launched an award dedicated to researchers from emerging and developing countries.

IPERESPRESSO
The Iperespresso capsule system arrives on the market.

IFS CERTIFICATION
With the International Food Standard certification, illycaffé continues its commitment to quality and food safety.

EMAS AWARD
illycaffé’s commitment to improving the environmental aspects of production is recognised at an international level.

PROGRAMMES IN ETHIOPIA
With the support of the International Coffee Organisation, illycaffé launches a project to demonstrate that the quality of Ethiopian coffee, correctly processed after the harvest, can compete with the world’s best varieties.

BRC - BRITISH RETAIL CONSORTIUM CERTIFICATION
illycaffé increases its commitment to certifications for safe food and products.

ESTABLISHMENT OF FOOD SCIENCE LAB
The laboratory dedicated to food and “consumable” coffee-based products.

WATER, A PRECIOUS COMMODITY
illycaffé improves producers’ coffee growing and processing techniques by reducing water consumption.

FOUNDATION OF THE UNIVERSITÀ DEL CAFFE
The centre of excellence to promote and spread high-quality coffee culture around the world, from bean to cup.

LAUNCH OF THE RETAIL BUSINESS
Espressamente illy is established, a chain of franchised bars that offer the authentic experience of Italian coffee all over the world.

ISO22001 ENVIRONMENTAL CERTIFICATION
illycaffé certifies that its management system is capable of keeping the environmental impacts of its activities under control.

ROASTING WITH A LOW ENVIRONMENTAL IMPACT
The new roasting plant in Trieste, featuring a coffee roasting process with low fume emissions, becomes operational.

ESTABLISHMENT OF AROMALAB
illycaffé’s laboratory where the chemistry and aromatic profile of coffee are studied and the quality of green and roasted coffee is evaluated.

_creation of SensoryLab, TechLab and BioLab
illycaffé creates another 3 laboratories in which it carries out continuous research on all aspects of coffee.

PROGRAMMES IN GUATEMALA
illycaffé develops a micro-entrepreneurship and training programme for coffee farmers in Guatemala.

CREATION OF SENSORYLAB, TECHLAB AND BIOLAB
illycaffé creates another 3 laboratories in which it carries out continuous research on all aspects of coffee.

1999
1997
2002
2003
2004
2005
2006
2007

2019 Sustainable Value Report
our identity
13
2014-2015
ICRT - INTERNATIONAL CONSUMER RESEARCH & TASTING
illycaffe obtains the highest score among all the roasters analysed in the independent survey conducted by the international ICRT consortium for its commitment to social and environmental responsibility towards coffee growers.

2013
WORLD’S MOST ETHICAL COMPANY
illycaffè is the only Italian company to be included in the 2013 list of the most ethical companies in the world compiled by the Etisphere Institute.

2012
FIRST SUSTAINABLE VALUE REPORT
illycaffè starts a process of stakeholder communication and involvement, managing and communicating its commitment to sustainability.

GLOBAL COMPACT
illycaffè joins the United Nations Global Compact.

CARBON FOOTPRINT
In collaboration with the Ministry of the Environment, illycaffè launches a project to calculate the carbon footprint of the entire product life cycle.

2010
ISO 17025 ACCREDITATION
illycaffe’s AromaLab and SensoryLab laboratories are accredited by Accredia.

2008
LAUNCH OF ILLY ISSIMO
illy issimo is the new “ready-to-drink” coffee, the result of a joint venture with The Coca-Cola Company.

ESTABLISHMENT OF THE ERNESTO ILLY FOUNDATION
A foundation is dedicated to Ernesto Illy to further develop his teachings and ideas.

OXFORD UNIVERSITY
In collaboration with the University of Oxford’s Environmental Change Institute, illycaffè supports a research project on coffee growing sustainability.

ATLANTIC FOREST IN BRAZIL
illycaffè starts a collaboration with Istituto Terra for a reforestation project in a vast area of the Atlantic Forest in Brazil.

AWARDS FOR SUSTAINABILITY IN BRAZIL
illycaffe launches the Award for Sustainable Conduct in Brazil, which rewards producers who achieve sustainability targets.

2011
‘RESPONSIBLE SUPPLY CHAIN PROCESS’ CERTIFICATION
illycaffè is the first company in the world to obtain this certification from DNV GL, which places quality and value creation for all stakeholders at the heart of the concept of sustainability, with a particular focus on the cultivation and selection of green coffee beans.

ESTABLISHMENT OF ILLYSHOP AND ILLYTECA
illyshop: single-brand boutique with a complete range of illy products.  illyteca is a shop that offers products, technologies and accessories for all the Group’s proprietary brands.

2014
WORLD’S MOST ETHICAL COMpanIES
illycaffe receives the World’s Most Ethical Company award.

2013
WORLD’S MOST ETHICAL COMPANY
illycaffè obtains the highest score among all the roasters analysed in the independent survey conducted by the international ICRT consortium for its commitment to social and environmental responsibility towards coffee growers.

2012
FIRST SUSTAINABLE VALUE REPORT
illycaffè starts a process of stakeholder communication and involvement, managing and communicating its commitment to sustainability.

GLOBAL COMPACT
illycaffè joins the United Nations Global Compact.

CARBON FOOTPRINT
In collaboration with the Ministry of the Environment, illycaffè launches a project to calculate the carbon footprint of the entire product life cycle.

2010
ISO 17025 ACCREDITATION
illycaffe’s AromaLab and SensoryLab laboratories are accredited by Accredia.

2008
LAUNCH OF ILLY ISSIMO
illy issimo is the new “ready-to-drink” coffee, the result of a joint venture with The Coca-Cola Company.

ESTABLISHMENT OF THE ERNESTO ILLY FOUNDATION
A foundation is dedicated to Ernesto Illy to further develop his teachings and ideas.

OXFORD UNIVERSITY
In collaboration with the University of Oxford’s Environmental Change Institute, illycaffè supports a research project on coffee growing sustainability.

ATLANTIC FOREST IN BRAZIL
illycaffè starts a collaboration with Istituto Terra for a reforestation project in a vast area of the Atlantic Forest in Brazil.

AWARDS FOR SUSTAINABILITY IN BRAZIL
illycaffe launches the Award for Sustainable Conduct in Brazil, which rewards producers who achieve sustainability targets.
2016

WORLD’S MOST ETHICAL COMPANY
illycaffè receives the World’s Most Ethical Company award.

NEW GOVERNANCE AND SUSTAINABILITY POLICY
illycaffè confirms its commitment to sustainability with a new Governance and Sustainability Policy, in line with the objectives of the SDGs set out by the United Nations.

2017

2016-2018

SIGNING OF THE AGREEMENT TO SUPPORT THE REINTEGRATION OF EX-FARC FIGHTERS IN COLOMBIA
An agreement with ETCR (Territorial Spaces for Training and Reincorporation) and Ascafé (Association of small coffee growers) is signed to increase the quality and production capacity of coffee in the Cauca Department where former FARC fighters and small producers live, encouraging local economic development. illycaffè carries out training sessions in areas that were previously affected by civil war, aimed at victims of the conflict, former fighters who are reintegrating into civilian life, associations of women coffee producers and rural school teachers, whose training programme includes a module entirely dedicated to high-quality coffee production.

2019

SOCIETÀ BENEFIT
illycaffè further strengthens its commitment to pursuing a sustainable business model that integrates social and environmental goals by adopting Società Benefit status and including this commitment in its articles of association.

EXPO 2015
illycaffè, Official Coffee Partner, also devoted to sustainability. illy, the Official Coffee Partner of Expo Milano 2015, is chosen by Expo as exclusive curator of the Coffee Cluster, dealing with the design and management of contents and events, while hosting and promoting the participation of the ten producer countries within the Cluster.

PUBLIC-PRIVATE PARTNERSHIP WITH UNIDO
In collaboration with UNIDO, illycaffè works on the “Improving the Sustainability and Inclusiveness of the Ethiopian Coffee Value Chain through Private and Public Partnership” project to develop the entire Ethiopian coffee sector.

PARTNERSHIP WITH SENA IN COLOMBIA
illycaffè signs a declaration of intent with SENA – Servicio Nacional de Aprendizaje, the Colombian national public institution – for the launch of an international collaboration to share knowledge and good practices in coffee production and preparation in order to benefit both producers and consumers.

2015

ERNESTO ILLY INTERNATIONAL COFFEE AWARD
Launch of the award for the best coffee chosen from among those grown in the regions that make up illy’s unique blend, involving all the growers with which the company works. It is also a tribute to Ernesto illy, a visionary leader who was always committed to scientific research.

2019 Sustainable Value Report
1.2.2 Corporate governance and organisational structure

illycaffè’s governance has been designed to respond to the effectiveness and efficiency needs of a good company and to optimally integrate a shared value creation model. The Shareholders’ Meeting, the Board of Directors and the Board of Statutory Auditors strive to ensure what has always been the company’s most important goal: sustainable business development, now enshrined in the revised Società Benefit statute. This aspiration is founded on the identity of an independent company and on family-run management. An identity that is communicated and strengthened by the bodies responsible for management and control, through which the company’s values and principles are expressed in its everyday activities.

The Board of Directors, which is responsible for the company’s most important economic and strategic decisions, was renewed in 2019, guaranteeing 60% independent members.

The Board of Directors is comprised of:

- the Chairman: has the powers provided for by law and the articles of association with regard to the operation of corporate bodies and the company’s legal representation. The Chairman monitors the company’s overall performance and approves the CEO’s proposals for the company’s strategic and organisational development.

- the CEO: legally represents the company within the limits of the powers granted to this position, ensuring smooth management, overseeing the company’s organisation and ensuring regulatory compliance, internal control and risk management. The CEO implements the resolutions of the Board of Directors and the Chairman, directly proposing the company’s strategic and development plan.

- the Internal Control and Risk Committee: assesses the adequacy and monitors the functionality and effectiveness of the internal control and risk management system and the risk profile assumed by the company. It is made up of three independent members.

- the Appointments and Remuneration Committee: makes proposals to the Board of Directors on the remuneration of the CEO and Directors and on the criteria for determining the remuneration of the company’s top management. It is made up of three independent members. In the process of determining top management remuneration, illycaffè also relies on support from external consultants, who are also independent.

- the Sustainability Committee: supervises sustainability issues and assists the Board of Directors with preliminary assessments and decisions relating to sustainability. It is made up of three independent members.

- the Lead Independent Director: represents the point of reference and coordination for the requests and contributions of the Independent Directors.

- the Chief Ethics Officer: ensures that ethical procedures are in place and constantly respected and represents the company to private and institutional bodies with regard to both corporate reputation and strategic purchases in the coffee sector.

1.2.3 A transparent approach to business

The company decided to enshrine its commitment to implementing sustainable principles and practices for the community and the environment into a document that serves as an operating manual for all company levels.

illycaffè therefore developed and adopted a Code of Ethics that sets out the company’s principles and values as regulations and requires them to be observed by corporate bodies, employees and third parties. To date, it has been translated into seven languages in addition to Italian, and distributed to all subsidiaries and branches with the aim of creating an even more shared and robust value culture. It was updated in 2020.
The Code of Ethics also aims to combat all types of corruption, both active and passive. There were no cases of corruption in 2019.

In order to work in a fully transparent manner, the company, in addition to adopting an organisational model, regularly plans training activities on the Code of Ethics for all employees, transforming them into ambassadors of the company’s guiding principles.

The Internal Audit department also carries out inspections and checks on the validity, reliability and effectiveness of control processes and systems. Going far beyond policy compliance, this department supports the definition of strategies to include ethical issues from the organizational stages and therefore from the foundations.

**CODE OF ETHICS**

442 employees took part in the online course devoted to the Code of Ethics. 216 workers in the production plant followed live awareness sessions on the issues described in the Code of Ethics.

**WORLD’S MOST ETHICAL COMPANIES**

Since 2013, illycaffè has been included in the list of the World’s Most Ethical Companies, testifying its constant commitment to pursuing ethical standards and practices. The list is annually drawn up by Ethisphere Institute, a company that defines and measures corporate ethical standards, recognising companies that drive positive change by investing in local communities and making sustainability a business objective. To find out more about the methodology and how the score is awarded, see https://www.worldsmostethicalcompanies.com/
The macroeconomic scenario in 2019 involved a widespread decrease in global demand, showing all the contradictions and weaknesses of the world economy. A major cultural and historical change is underway, in which the models adopted so far — including business models — must change.

In 2019, the global economy grew by 2.9%, the lowest growth since the global financial crisis of 2008-2009. This slowdown coincided with an increase in social and environmental discontent and the worsening of the climate crisis, drawing attention to the need to develop new practices, solutions and ways of thinking. More intelligent and more human.

The business world, which, like politics, has enormous power to influence behaviour, money flows and decisions, must take an active role in the most important challenge, namely our survival. Sustainable quality is the answer that contributes to addressing the great challenges of our time.
Risks and opportunities

Understanding risks allows any company to structure a robust and effective management model. In 2019, the process of strengthening the Enterprise Risk Management business model continued, making it possible to map and periodically monitor risks that may have a significant impact on the company’s goals and value creation process.

The model used divides the risks into four categories, which can be both internal and external:

• Strategic Risks
• Operational Risks
• Financial Risks
• Compliance Risks

Strategic Risks may refer to business changes or changes in the competitive context that impact business development activities. This area also includes risks related to sustainability. Identification and analysis of risks related to environmental and social impacts are playing an increasing role within the company, which established a Sustainability Committee in 2017. Among the issues that have emerged is the increasing attention paid by consumers and institutions to the issue of plastic, which if not properly handled by the company could lead to negative effects on the plastic capsule area of the business.

Operational Risks are connected to the relevant sector, the company operations, the organisational structure and the Group’s monitoring and reporting processes. This category includes risks related to the procurement of raw materials (price variations, difficulties in sourcing them), as well as risks related to human resources management.

Financial Risks are linked to financial management and specifically connected to risk concerning liquidity, currency, interest rate and financial counterparties for any financial transactions. They are monitored with the aim of stabilising cash flows and ensuring that financial results are in line with those established in the budget.

Compliance Risks are generally related to non-compliance, in business conduct, with national and international laws and regulations, as well as with the Code of Ethics and internal procedures.

The risk assessment process involved all organisational units and resulted in a Risk Register. This tool makes it possible to identify the most significant residual risk categories and then define priorities and mitigation plans. With the same goal, company processes and risks connected to all departments are thoroughly examined to ensure a consistent risk culture spread throughout the company at different levels of responsibility.

A key role in risk management is played by the Risk Manager, who assesses the risks related to all company operations: from the supply chain to the product, health & safety, the environment, and intellectual, commercial, IT, legal, financial and reputational property. This figure prepares a risk assessment programme with regular reports to the CEO, the Internal Control and Risk Committee, the Board of Directors, the Board of Statutory Auditors and the Supervisory and Control Body.
1.3.2 The challenges facing illycaffè

The company wishes to highlight the concrete challenges that it faces on its innovative journey towards sustainability. Only by completely and transparently sharing the scale and complexity of these challenges can it create the fundamental conditions for collective collaboration in order to overcome them.

A changing context: responding as a Società Benefit

Today, prioritisation of shareholders is the dominant paradigm that guides many companies’ behaviour. From a legal standpoint, the only purpose traditionally envisaged for a joint-stock company is the creation of value for shareholders. The consequence is that people and the environment do not necessarily rank among companies’ priorities. However, an increasing number of companies are embracing a new paradigm: the Società Benefit model. According to this approach, an individual company’s pursuit of profit cannot disregard shared welfare for the community and the environment. Shareholders grant a new and more advanced mandate to the management, while at the same time protecting the company’s mission by ensuring the necessary conditions for sustainable growth.

illycaffè believes in this model and has adopted it, recognising that it is not profit that creates value but the creation of value that generates profit. The challenge for the company is being able to effectively respond to the changes posed by today’s context, in line with this model, while at the same time promoting its values.

Communicating and creating a culture of sustainability: to deliver value and make a positive impact

The magnitude of the sustainability challenge has not yet been fully understood: people generally realise its importance and complexity when unsustainability crises become so serious that remedial actions are required, which are often costly and difficult to implement. This is why illycaffè has always been committed to creating a solid culture of environmental and social sustainability, both within the company and in society.

Carbon Neutrality by 2033: Carbon Neutrality is the great challenge for the next decade

The economic paradigm of production and consumption in modern society is based on fossil fuels and agriculture and land use models that are resulting in the rapid alteration of the planet’s climate, which is becoming ever less conducive to human prosperity. The creation of a net-zero society is recognised by scientists and stakeholders as the greatest challenge in the history of mankind.

Humanity’s current polluting impact is 55 gigatons of CO₂ equivalent emitted into the atmosphere¹. The global goal is to reduce this impact to zero. For illycaffè, the challenge is to reach the Carbon Neutrality target by 2033. This goal is enormously complex because energy and agricultural models directly impact all the company’s work and therefore considerable redesign and innovation is required to eliminate its impact on the climate. 66% of the company’s total emissions² along the coffee chain derive from coffee cultivation. To this end, illycaffè is researching and testing radically innovative agriculture models that could be applied in the coffee sector and potentially extended to a large part of the farming world.

Promoting new models: advocating new sustainable agriculture solutions as a means of reducing the impact of production, together with circular economy models.

Conventional solutions cannot possibly work in the face of problems that have never been encountered before in human history. This is why the company is working on innovative agriculture and circular economy models. The challenge is that these potential “new solutions” require significant investments in research and testing, involving large and complex groups of actors. Moreover, once their effectiveness has been validated, it takes a long time to see replicable results on different scales.
Partnership for goals: opportunities to multiply the positive impact created

In a limited and densely populated world “you can’t save yourself alone”. In order to overcome critical environmental issues, it is essential to collaborate on a scale and with an intensity never witnessed before in history, fully applying the principle of interdependence that binds and connects all the entities that cooperate on this planet.

The challenge is to encourage all actors to understand the urgent need to unite in order to work towards a shared and higher goal, overcoming all cultural barriers and competitive pressures.

Perhaps an even greater challenge is being the one who takes the first step.

VIRTUOUS AGRICULTURE

Agriculture is responsible for a third of climate change.

In March 2019, at the University of São Paolo, Andrea Illy presented, for the first time, the Virtuous Agriculture project, which, together with the Ernesto Illy Foundation, he is pursuing with the primary objective of limiting polluting emissions in coffee production, creating products that are good for the environment and for the consumers who use them.

A new type of agriculture can completely reverse the “traditional” cycle, making a vicious, extractive circle virtuous and regenerative.

This approach is based on the concept that soil health leads to plant health and consequently food with nutritional benefits. Soil enrichment with organic matter can greatly improve levels of generated carbon emissions, water conservation, increased biodiversity and natural defences against pathogens, thereby reducing dependence on pesticides, fertilizers and other chemicals.

Sources: https://countdown.ted.com/; https://apnews.com/940cbe72674bd10eb0ce9410106c17e2

Result of an internal study
illycaffè considers the guiding principle for conducting business to be creation of value for all the actors involved throughout the production chain. The company’s business model takes into account all the tangible and intangible resources that contribute to creating and distributing its value in the short, medium and long term.

It starts with the resources, referred to as "capital", with which it applies its business vision throughout the supply chain, implementing concrete actions (output) that are then translated into final results (outcome).

The 2030 goals of illycaffè’s strategy to pursue sustainability in three areas:

**Responsible value and sustainable agriculture chain.**
- Constantly improving the knowledge and analysis of impacts throughout the supply chain, always ensuring the maximum possible traceability
- Contributing to the development and sustainability of the supply chain through research, sharing of knowledge and projects in the field
- Supporting integrated agriculture to preserve and improve the quality and sustainability of the coffee from around the world that illycaffè uses in its production processes.

**Happiness and quality of life**
- Promoting and spreading the principles and culture of sustainability and its intrinsic link with human happiness
- Actively contribute to the international debate on the issues of happiness, well-being and improving quality of life
- Fostering global partnerships to promote sustainability

**Circular economy and innovation**
- Designing products and systems based on criteria that are consistent with the principles of sustainability and the circular economy.
- Improving energy efficiency and resource consumption, always applying best practices and innovative solutions
- Promoting respect for the environment as a fundamental principle for the sector’s innovation and sustainability throughout the entire value chain.

---

**The illycaffè model**

illycaffè considers the guiding principle for conducting business to be creation of value for all the actors involved throughout the production chain.

The company’s business model takes into account all the tangible and intangible resources that contribute to creating and distributing its value in the short, medium and long term.

It starts with the resources, referred to as "capital", with which it applies its business vision throughout the supply chain, implementing concrete actions (output) that are then translated into final results (outcome).

**INPUT**

The tangible and intangible resources that contribute to value creation

**OUR BUSINESS**

illycaffè considers the guiding principle for conducting business to be creation of value for all the actors involved throughout the production chain, through a process of continuous improvement:

**OUTPUT**

**OUTCOME**

The 2030 goals of illycaffè’s strategy to pursue sustainability in three areas:

**GROWERS**

- GREEN COFFEE

**INBOUND LOGISTICS**

**ROASTING**

**PACKAGING**

**DISTRIBUTION**

**CONSUMERS**

**SHARED VALUE FOR STAKEHOLDERS**

**DISTRIBUTED ECONOMIC VALUE**

€ 491.15 MLN*

*for more details, please refer to the “Financial capital” chapter

---

**FINANCIAL CAPITAL**

The economic resources that illycaffè uses in its production processes

**PRODUCTIVE CAPITAL**

The company’s real estate and infrastructure for the production of goods and services offered by illycaffè

**HUMAN CAPITAL**

The skills, expertise and experience of illycaffè employees

**INTELLECTUAL CAPITAL**

Intangible resources represented by illycaffè’s organizational knowledge and intellectual property

**RELATIONAL CAPITAL**

The company’s ability to create relationships with external stakeholders and share value in order to increase individual and collective well-being

**NATURAL CAPITAL**

All environmental processes and resources that contribute to the production of goods and services offered by illycaffè
Since its foundation, illycaffè has focused its strategies on a sustainable business model that can offer competitive advantages, integrating economic and income targets with social and environmental aspects that it pursues by sharing the value generated (economic sustainability), personal growth (social sustainability) and respect for the ecosystem (environmental sustainability).

As a stakeholder company and Società Benefit, illy aims to improve the quality of life of all its stakeholders. The hierarchy of its stakeholders is structured like an inverted pyramid: consumers come first, without which the company could not exist, followed by customers, who are the company’s key partners in serving consumers; next are the talents, who collaborate with passion and professionalism; the suppliers, which guarantee the creation of an excellent product; the communities with which illycaffè interacts; finally, the shareholders, who serve the company.
In its sustainability policy, illycaffè confirms its decision to grow by operating in a responsible, transparent and sustainable manner, creating prosperity for all.

The company intends to work on three areas in particular, which are also included in the new articles of association:

- **The responsible value and sustainable agriculture chain.** This is achieved through analysis and improvement of impacts throughout the coffee supply chain, through field research and knowledge transfer, as well as through support to integrated agriculture to preserve and improve sustainable coffee quality.

- **The aspiration for happiness and quality of life.** This is pursued through the principles of economic, social and environmental sustainability, as well as by promoting global partnerships suitable to this goal.

- **The circular economy and innovation to benefit the planet.** This envisages the improvement of energy efficiency and resource consumption to progressively reduce emissions throughout the supply chain.

These three areas are integrated with the 2030 goals of illycaffè’s Strategic Plan and will be annually reported in an Impact Report, as required by law.

---

For further details on the company’s goals, please refer to the “Impact Report” section.
The need to reconcile interests within the company and those of its stakeholders is a fundamental consideration for any stakeholder company and, even more so, for any company that chooses to adopt Società Benefit status. illycaffè has always been committed to this process through the creation of listening and dialogue tools – most notably the materiality matrix – that strengthen the relationship with stakeholders and multiply the created shared value.

The 2019 Sustainable Value Report presents the issues that are considered most relevant by stakeholders, describing, as clearly as possible, the social, economic and environmental impacts of the company – the so-called material issues – and outlining their management and the value generated by its operations.
In the process of updating the materiality matrix, the following steps were taken:

- Internal and sector analysis to identify and define issues relevant to the company.
- Questionnaires and interviews with directors to deduce the internal vision.
- Sharing of a questionnaire with external stakeholders to identify expectations “outside” the company.

The identified themes were prioritised by asking the figures involved to express a judgement of “relevance”, as is traditionally done in materiality matrices, and “urgency”. The first variable is intended to gauge the importance of an issue for the company. The second aims to provide a temporal contextualization of the importance associated with an issue. This twofold representation makes it possible to infer a complete sense of priority, thereby avoiding the risk of a representation in which all issues are equally relevant and in which the tool’s intrinsically strategic aspect appears to be less effective.
The results of the analysis carried out are highlighted in the graph. The two axes correspond to the degree of relevance attributed to each theme from the standpoint of illycaffé (horizontal axis) and from the standpoint of its stakeholders (vertical axis). The analysis investigated more than 30. The matrix here represented shows the 14 most relevant themes positioned in the upper right quadrant of the complete matrix.
### 01.1.1 Scope of impacts

The table below shows the correlation between material topics and GRI Standards and their impact (internal and/or external). For the sake of completeness, the section of the Sustainable Value Report in which their management is described is indicated.

<table>
<thead>
<tr>
<th>MATERIAL TOPICS IDENTIFIED BY ILLYCAFFÈ</th>
<th>RELEVANT TOPIC-SPECIFIC GRI STANDARDS</th>
<th>IMPACT WITHIN THE COMPANY</th>
<th>IMPACT OUTSIDE THE COMPANY</th>
<th>FIELD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sustainability strategies</td>
<td></td>
<td>Whole company</td>
<td>Suppliers, Partners, Distributors</td>
<td>Sustainability strategy and governance</td>
</tr>
<tr>
<td>Respect for human rights</td>
<td>Human rights assessment (GRI 412)</td>
<td>Whole company</td>
<td>Employees, Suppliers, Customers</td>
<td>Human Capital</td>
</tr>
<tr>
<td>Sustainability of agricultural practices</td>
<td></td>
<td>Whole company</td>
<td>Suppliers</td>
<td>Natural Capital</td>
</tr>
<tr>
<td>Occupational health and safety</td>
<td>Occupational Health &amp; Safety (GRI 403)</td>
<td>Whole company</td>
<td></td>
<td>Human Capital</td>
</tr>
<tr>
<td>Consumer health and safety</td>
<td>Customer health and safety (GRI 416)</td>
<td>Whole company</td>
<td>Suppliers, Customers</td>
<td>Product responsibility</td>
</tr>
<tr>
<td>Integrity and Ethics</td>
<td>General disclosure (GRI 102)</td>
<td>Whole company</td>
<td>Suppliers, Customers, Contractors, Partners, Consultants</td>
<td>Identity</td>
</tr>
<tr>
<td>Product quality</td>
<td></td>
<td>Production companies</td>
<td>Suppliers, Customers</td>
<td>Productive Capital</td>
</tr>
<tr>
<td>MATERIAL TOPICS IDENTIFIED BY ILLYCAFFÈ</td>
<td>RELEVANT TOPIC-SPECIFIC GRI STANDARDS</td>
<td>IMPACT WITHIN THE COMPANY</td>
<td>IMPACT OUTSIDE THE COMPANY</td>
<td>FIELD</td>
</tr>
<tr>
<td>------------------------------------------</td>
<td>---------------------------------------</td>
<td>---------------------------</td>
<td>----------------------------</td>
<td>-------</td>
</tr>
<tr>
<td>Research and innovation</td>
<td>Whole company</td>
<td>Suppliers, Customers, Contractors, Partners</td>
<td>Intellectual Capital</td>
<td></td>
</tr>
<tr>
<td>Climate Change</td>
<td>Materials (GRI 301) Energy (GRI 302) Emissions (GRI 305)</td>
<td>Production companies</td>
<td>Suppliers</td>
<td>Natural Capital</td>
</tr>
<tr>
<td>Sustainable Procurement Practices</td>
<td>Procurement practices (GRI 204)</td>
<td>Parent company</td>
<td>Suppliers</td>
<td>Suppliers of goods and services</td>
</tr>
<tr>
<td>Resilience and adaptability</td>
<td>Whole company</td>
<td>Suppliers, Customers, Contractors, Partners</td>
<td>Identity</td>
<td></td>
</tr>
<tr>
<td>Training</td>
<td>Training and education (GRI 404)</td>
<td>Whole company</td>
<td>Suppliers</td>
<td>Human Capital</td>
</tr>
<tr>
<td>Traceability and advanced monitoring of the green coffee supply chain</td>
<td>Environmental Compliance; Supplier environmental assessment; supplier social assessment (GRI 307 – 308 – 414)</td>
<td>Whole company</td>
<td>Suppliers</td>
<td>Key approaches to sustainable agriculture</td>
</tr>
<tr>
<td>Waste management</td>
<td>Effluents and waste (GRI 306)</td>
<td>Whole company</td>
<td>Suppliers</td>
<td>Natural Capital</td>
</tr>
</tbody>
</table>
Key approaches to the value chain

Developing a fully sustainable value chain requires commitment throughout the supply chain. To obtain the best sustainable quality, the company works closely with all key players in the supply chain in the countries where the finest Arabica grows. illy’s virtuous circle of sustainability begins in the raw material’s place of origin and continues along the entire supply chain to include suppliers of other services and logistics.

01.7.1 The illycaffè model for a sustainable supply chain

To ensure sustainable coffee quality, the illy supply chain management model is based on three specific principles:

- Traceability of resources and raw materials throughout the entire production process in order to guarantee quality.
- A reciprocal relationship with producers.
- Economic, social and environmental sustainability.

and involves all the figures in the supply chain:

- farmers, who cultivate small plots of land;
- producers, i.e. the companies (consortia, cooperatives and medium/large-scale farmers) that carry out operations to process the harvested coffee, such as separation, washing and drying;
- exporters, who buy green coffee from cooperatives or directly select it from producers, and create commercial batches based on their customers, retailers or roasters. The exporters know the production areas and local producers, guaranteeing the raw material’s traceability and quality. They are also involved in supply chain audits and measures in accordance with the standard integrated supply chain approach.

This approach reflects a holistic model that, on the one hand, reinforces the economic sustainability underlying the green coffee purchasing strategy and, on the other hand, raises awareness and provides training throughout the supply chain every time the illy technicians and agronomists visit a site. Field audits assess product quality compliance and protection of workers’ rights.

To monitor and guarantee the sustainable quality of the raw material, it is crucial to maintain a long-term, direct collaboration with workers in the green coffee supply chain. Over the years, illycaffè has developed a system of direct relations with its producers based on four cornerstones:

I. Selecting and working with the best producers, namely those involved in the production of sustainable high-quality coffee;
II. Sharing knowledge with them via the activities of the Università del Caffè and constant visits to the plantations by illy technicians and agronomists, motivating them to produce sustainable quality;
III. Recognising, including financially, quality achieved and encouraging continuous improvement;
IV. Building an illy community to create a culture of excellence, establishing human and direct relationships based on knowledge, exchange and growth.
These principles are reflected in the Sustainable Procurement Process (SPP), the new supply chain sustainability standard used by illycaffè for the procurement of sustainable high-quality green coffee.

Developed by DNV GL, an international certification body, this protocol is one of the most comprehensive sustainability standards in the coffee procurement process:

- It defines the company's principles of sustainable development and social responsibility in procurement policies and practices.
- It promotes qualification and monitoring of suppliers, not only in financial terms, but also with regard to environmental and social aspects, encouraging improvement goals and programmes throughout the supply chain.

The SPP standard applies to every actor in the supply chain and requires the company to monitor its suppliers by ensuring that they comply with legal requirements, which is a mandatory condition for maintaining a relationship with illycaffè, and other elements relating to the following areas:

**ENVIRONMENT**
- Water management and quality
- Biodiversity
- Recycling and/or proper disposal of liquid and solid waste

**EMPLOYMENT**
- Working conditions
- Health and safety
- Abilities and skills
- Production Cost
- Agronomic practices used

**PRODUCT**
- Traceability
- Use of active ingredients
- Agronomic practices used
- Equipment used for production
- Hygiene

---

**ILLYCAFFÉ AND THE RESPECT AND PROTECTION OF HUMAN RIGHTS**

illy has always been committed to promoting respect for human rights and combating child labour.

Over the years, this commitment has been translated into concrete actions:

- Adherence to the principles of the United Nations' International Labour Organization (ILO). The company only purchases from countries that have ratified the ILO standard and have established a minimum labour age of 14 years or older in their legislation.
- Application and reference to the Code of Ethics in all contracts with suppliers, which includes clauses on respect for human rights in procurement and along the supply chain. Application of the Code of Ethics and monitoring of any violations are also ensured by the Supervisory Body, which monitors crime risks.
- Control of its coffee suppliers, which includes regular monitoring and active management of issues such as child labour, forced and compulsory labour, and access to the farm’s records or personal visits to the company premises. This is a prerequisite for supplying coffee: if a supplier fails to respect it, they are blacklisted and must comply before becoming a supplier again.
- Drafting of the Sustainability Policy to illustrate illycaffè's values, goals, commitments and governance regarding the issue of sustainability.
- Membership, since 2012, of the United Nations Global Compact, the initiative to encourage companies around the world to adopt sustainable and socially responsible policies, and to publish the results of the actions taken.

In 2019, no malpractices or human rights violations (e.g. discriminatory actions against staff) were detected.
Supply chain control and knowledge transfer

The sustainability standard is maintained and the quality of the raw material is respected thanks to two fundamental cornerstones: progressive control of the supply chain and knowledge transfer.

Supply chain control

Audits and inspections are a key part of the monitoring process, as well as the performance parameters required by the supply chain:

- **Minimum action requirements**: minimum requirements that suppliers must comply with, or else the supply relationship will be terminated.

- **Key performance indicators (KPI)**: indicators that describe the company’s supply chain and are divided into:
  
  o **Core KPIs**: requirements that go beyond the legal minimum and that the company deems essential in the relationship with the supplier.
  
  o **Recommended KPIs**: requirements that are not mandatory, but are very advantageous in the relationship with the supplier.

In 2019, field audits were carried out on the requirements of the Sustainable Procurement Process in the following countries: Brazil, Colombia, Costa Rica, Guatemala, Honduras, India, Nicaragua and Rwanda. In total, 334 audits were carried out and 61 nonconformities were found for which a corrective action programme was implemented.

Over 2,900 producers have been visited in the field since the start of the programme.

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>FIELD VISITS</td>
<td>304</td>
<td>337</td>
<td>334</td>
</tr>
</tbody>
</table>

Since 2013, illy has also produced and updated an annual Risk Assessment document that analyses environmental, employment, business ethics and product risks, assessing them at a country, organisation and supply chain level. This tool enables continuous monitoring and planning of corrective actions, while also suggesting the origins on which checks should be conducted and focused.

In particular, the following potential critical areas emerged from the Risk Assessment and are the focus of the company’s actions:
- Raising awareness about payment of minimum wages.
- Prevention of the use of highly toxic agrochemicals.
- Support for the implementation of efficient wastewater treatment systems.
- Mitigation and prevention of child labour.

Knowledge transfer

Often training is structured around the critical issues identified during field visits, with the goal of solving and preventing them. Knowledge acquired in the field and passed on by experts to the growers becomes a beneficial asset that allows all actors in the supply chain to act with awareness and respect for nature.

In this context, the Università del Caffè and the Ernesto Illy Foundation play a fundamental role, sharing, through their projects, knowledge and good practices related to coffee cultivation and creating better working conditions (visit the Intellectual Capital and Relational Capital sections to find out more).
STORIES FROM THE FIELD

COLOMBIA

Since 2016, the company has gradually increased its purchases of coffee from the Escuela y Café project, promoted by the Colombian supplier Ascafé in 64 rural schools in the Cauca region. The programme, which involves over 2000 students, provides training on coffee and practical experience in the plantation owned by each school. Every student annually receives a number of certified coffee beans, from 500 to 1500, so that when they finish school they will have their own production business. The project is reducing child labour and school drop-out rates. It also aims to mitigate the risk of interruptions to coffee cultivation due to producers ageing out of the workforce. Last but not least, Escuela y Café is a tool to prevent young people’s involvement in the illegal production of coca, which is a very profitable and widespread crop in the country.

COSTA RICA

In collaboration with the Ernesto Illy Foundation

Since 2019, the Ernesto Illy Foundation has funded the Casas de la Alegría project in the Coto Brus region on the border with Panama, where almost 15,000 families cross the border every year during the harvest to work as pickers on the coffee plantations. In these circumstances, there is a high risk of child labour. With the authorisation of the Ministry of Health and Education and with the sponsorship of UNICEF, the main cooperative in the area, CoopeSabalito, has founded Casas de la Alegría, a childcare programme that offers a legal and practical solution to the problem. The 15 facilities in the area provide a health, educational, economic and food service (4 meals a day) to Panamanian families, while also offering a respectable, safe place where children are looked after while their parents are at work.

HONDURAS

In 2019, the Cohondu Foundation opened a school in Belén, in the Lempira region. illycaffè contributed to the reconstruction of the roof, a classroom and toilets, helping a total of 72 children.

NICARAGUA

In collaboration with the Ernesto Illy Foundation

The Ernesto Illy Foundation is continuing to fund the Mercon Group’s Seeds for Progress Foundation, which has built 22 schools in Nicaragua and Guatemala since its establishment, benefiting almost 5,000 students and training 277 teachers. In 2019, a classroom was built for the nursery school and two classrooms, as well as the school’s sanitary facilities, were reconstructed. This investment, which includes teaching initiatives to introduce technology as a school tool, has impacted 238 students.

RWANDA

In 2019, the company contributed to the construction of a classroom at the primary school in Gitega, in the Ngororero region, which accommodates 910 students. This contribution provides the school with a classroom dedicated to 70 pre-school children, who previously used the same spaces as the elementary school, making it complicated to carry out normal activities.
Suppliers of goods and services

In compliance with the principles of sustainability and business ethics, the company maintains mutually beneficial relationships with its suppliers of goods and services, selecting them based on their values.

illycaffè uses the Procurement Portal to collect, summarise and compare a significant amount of data and information about its suppliers. Through a pre-qualification questionnaire, suppliers who register on the Portal accept the company’s Organisational Model and Code of Ethics and can access the Code of Conduct that lists and describes the principles that the company requires suppliers to respect.

The most significant aspects of the pre-qualification questionnaire relate to:

- Ethics and commercial integrity
- Human and labour rights
- Environment

In 2019, purchase guidelines and procedures were updated. The Supplier LifeCycle Management concept was also introduced, which identifies and describes support activities related to supplier management.

Supplier LifeCycle Management constitutes a virtuous circle aimed at improving supplier performance with a view to fostering partnerships and mutual support.

Starting from the process of initiating the contract and starting the collaboration, Procurement accompanies suppliers in all their “life stages”, through the qualification, segmentation, audit, performance and risk assessment processes and even in the event of their exclusion or the development of an improvement plan.

The qualification process, like the performance evaluation process, has been active for several years. Questions and related assessment and selection criteria are periodically improved on the basis of internal indications and suggestions from the certification bodies with which the company works. In 2019, the segmentation module was implemented and a project connected to Risk Monitoring and Audit Management was launched. These activities will make it possible, from 2020, to assess and monitor various aspects in greater depth, including protection of working conditions, human rights and impacts on society.

It is a cyclical process that follows the continuous improvement approach. At the end of the year, the activities carried out, risks identified, corrective actions implemented, results obtained and programme for the following year are examined.
This method creates a solid relationship between the supplier and illycaffè, which in turn fosters a virtuous network in which good practices are shared and mutually improved.

Strategic suppliers are asked to provide information on environmental and social aspects, with an even more specific level of detail:

- Sustainability Report, Integrated Report or tools for measuring social and environmental impact.
- Supply chain sustainability.
- Written policies regarding anti-corruption, anti-competitive practices, respect for intellectual rights and/or responsible marketing practices.
- Written policies or objective evidence regarding respect for diversity, racial or gender discrimination and child exploitation.
- Employee training beyond legal obligations.
- Monitoring and reduction of water and energy consumption.
- Waste reduction and/or recycling.
- Activities designed to reduce environmental impacts.

### ORIGIN OF SUPPLIERS (2019 PURCHASE VOLUME %)

<table>
<thead>
<tr>
<th>Origin</th>
<th>Suppliers</th>
<th>% of Total</th>
<th>PVO* in 000/€</th>
<th>% of Expenditure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Italy</td>
<td>1018</td>
<td>85.98%</td>
<td>126,894</td>
<td>80.73%</td>
</tr>
<tr>
<td>Europe</td>
<td>119</td>
<td>10.05%</td>
<td>16,070</td>
<td>10.22%</td>
</tr>
<tr>
<td>Asia - Oceania</td>
<td>11</td>
<td>0.93%</td>
<td>12,287</td>
<td>7.82%</td>
</tr>
<tr>
<td>Africa - Middle East</td>
<td>3</td>
<td>0.25%</td>
<td>17</td>
<td>0.01%</td>
</tr>
<tr>
<td>Americas</td>
<td>33</td>
<td>2.79%</td>
<td>1,912</td>
<td>1.22%</td>
</tr>
<tr>
<td>Total</td>
<td>1184</td>
<td>100.0%</td>
<td>157,180</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

*Purchase volume
01.7.4 Logistics and sales

The company’s logistics and transport management reflects its desire to find innovative solutions to reduce emissions and make distribution more efficient. Inbound transport and logistics of raw materials and other materials, as well as distribution logistics of finished products to customers, are carefully monitored processes, including through the LCA methodology (which includes an impact study in terms of products’ carbon footprint, while also assessing aspects related to distribution), to ensure a complete assessment of impacts and the study of improvement strategies.

INBOUND LOGISTICS

Origin: Italy
In Italy, transport is almost exclusively road-based. illycaffè coordinates transport by directly organising daily loads in order to optimise flows, thereby reducing environmental impact and warehouse stock.

Origin: Abroad
Green coffee arriving by sea accounts for the greatest share of inbound transport. The coffee is loaded on containers in sacks or, where possible, in big bags, one-tonne container sacks that make it possible to optimise loads and reduce costs. Selection of shipping companies is based on an in-depth qualitative analysis of the service, through which suppliers are identified who have defined policies to reduce environmental impacts, adapting to the new legislation on the use of biofuels to reduce sulphur emissions.

OUTBOUND LOGISTICS

The distribution network has been designed with the aim of guaranteeing an adequate level of service based on the specific nature of the markets and sales channels, while limiting logistics costs.

Destination: Italy
The company manages shipping of goods to its customers in Italy, where transport of all shipments is road-based. Around 60% of shipments are handled by a major logistics operator that has adopted an Integrated Quality, Environment and Safety Policy and an Ethical and Social Responsibility Policy. In Italy, intermediate warehouses are also used to optimise distribution to points of sale.

Destination: Abroad (Europe and Extra-EU)
Shipments to European countries are sent in the same manner as shipments within Italy. In certain cases, intermodal transport has been adopted, opting for the truck/ship/truck combination, with the aim of reducing environmental impact. Similarly, full truck shipments, in which illycaffè assumes responsibility for full load delivery, have been incentivised.

Shipments to non-European countries are made by sea, using shipping companies that implement clear and detailed sustainability policies, just as for inbound logistics.