

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

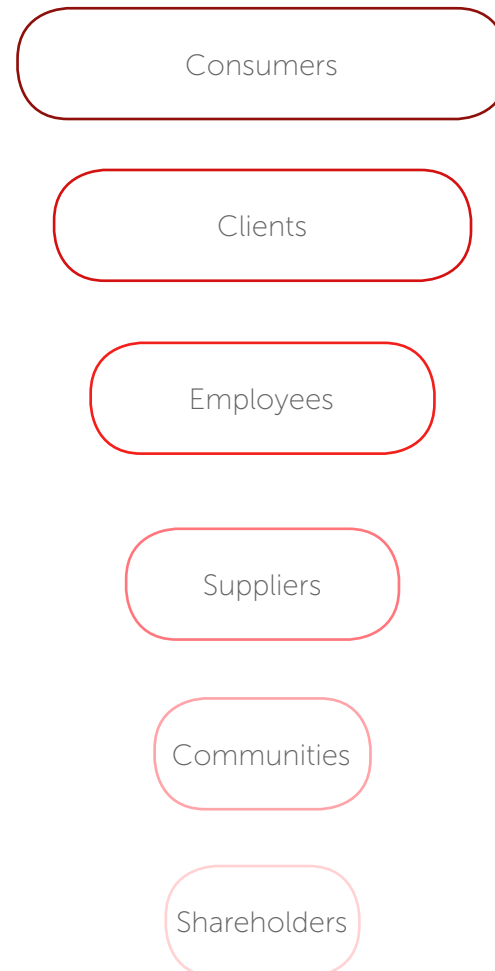
861,303 Euros
 of membership fees and donations made to charitable organizations in 2016



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)

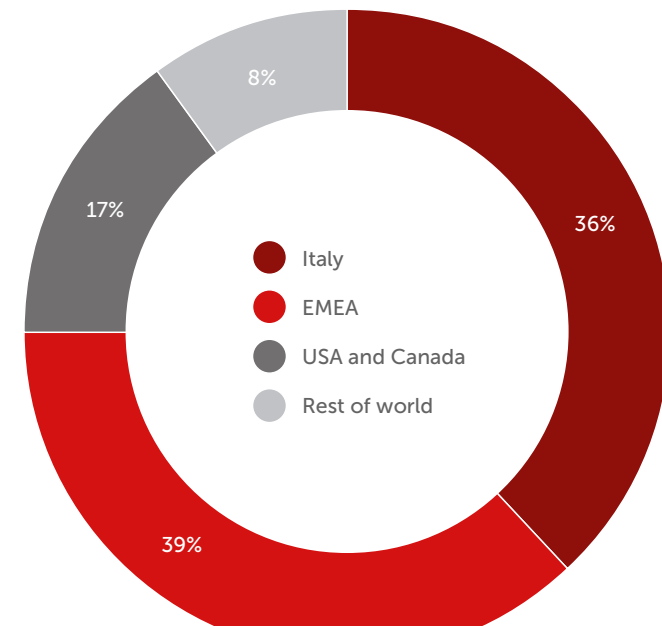
■ 2.3.1 Clients and served markets

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 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).

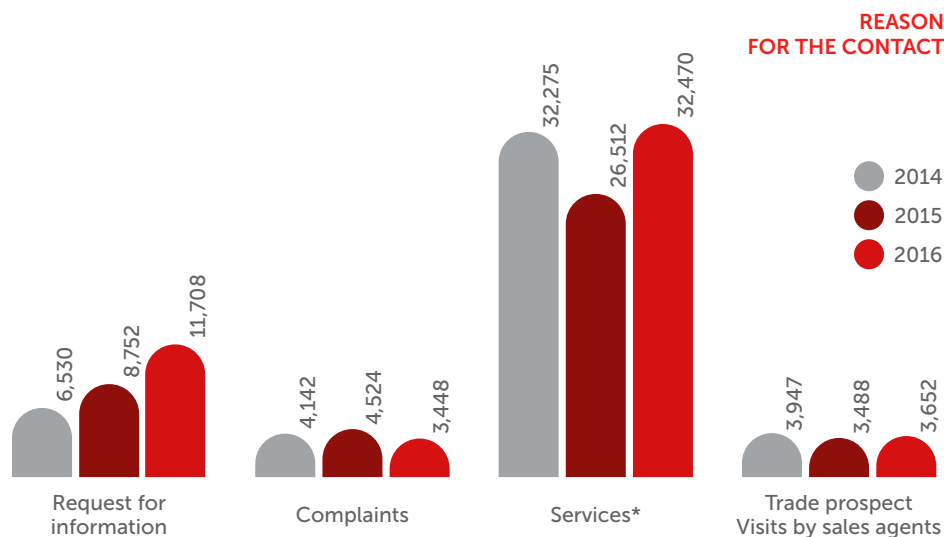
Products and systems

- 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

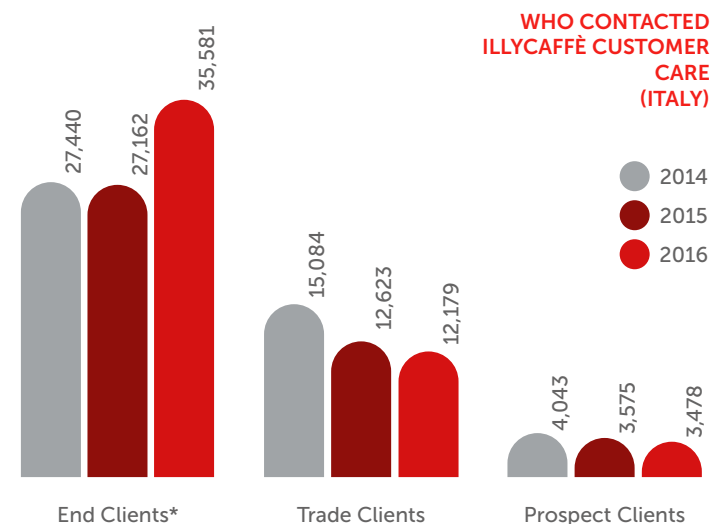
BIO, the conversion of the E.S.E product (single-portion espresso pods in individual sealed packs) to a totally eco-sustainable solution, in order to reflect the new anti-capsule trends with a single serving solution for making espresso at home. It is a totally compostable solution thanks to:

- 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



* The end clients category includes Consumers and Eshop customers

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

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.

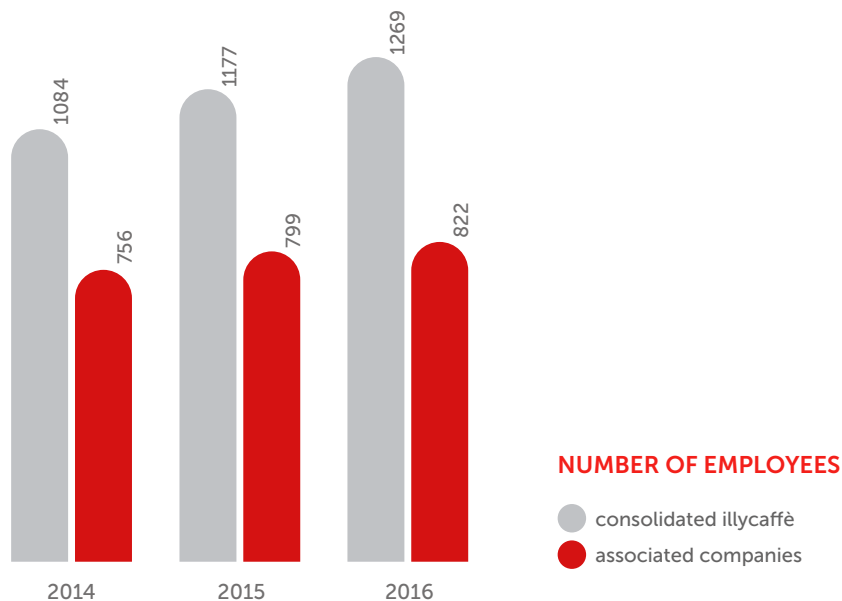
■ 2.4.2 Employees

■ 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.

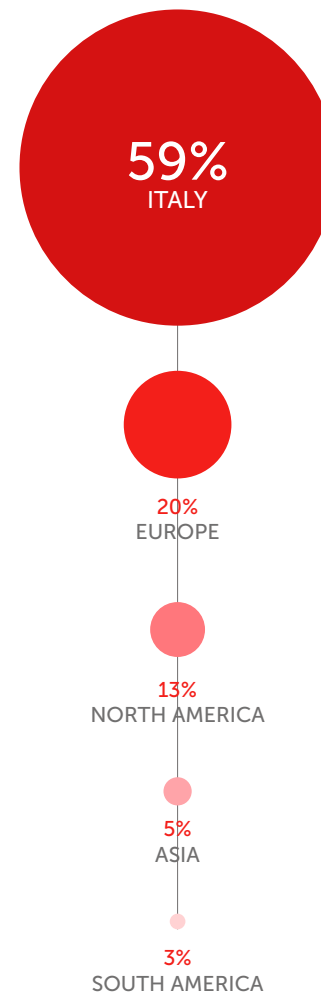
For 2016, the growth trends of previous years were confirmed, with variations in keeping with the business's growth, and it is noted that internal relations have a positive base, with a low turnover rate, confirming a personnel management policy that is much appreciated.

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).

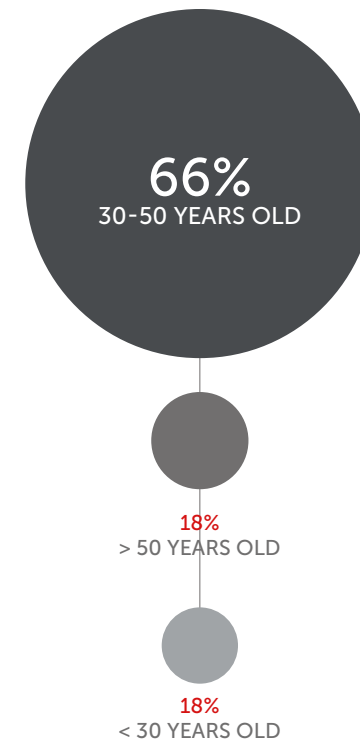


As of December 31, 2016, illycaffè, in Italy, had 30 people with supply work contracts (10% of whom are women) and 2 with project contracts, all of whom are men. Moreover, there were 9 active internships involving students from educational institutes and the local university.

FULL TIME EMPLOYEES PER GEOGRAPHICAL AREA ON DECEMBER 31, 2016

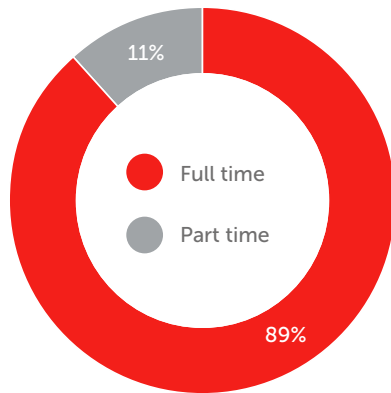


EMPLOYEES PER AGE GROUP - 2016

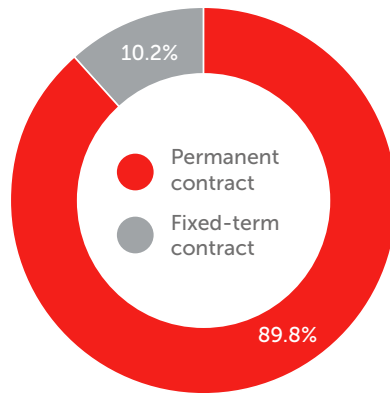


Geographical distribution of the personnel in 2016 presents a picture very close to the one of 2015, recording a slight increase in North American employees. 59.3% of the personnel is employed in the Italian companies of illycaffè (60.5% in 2015), while 19.6% of the personnel is employed in other companies 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)

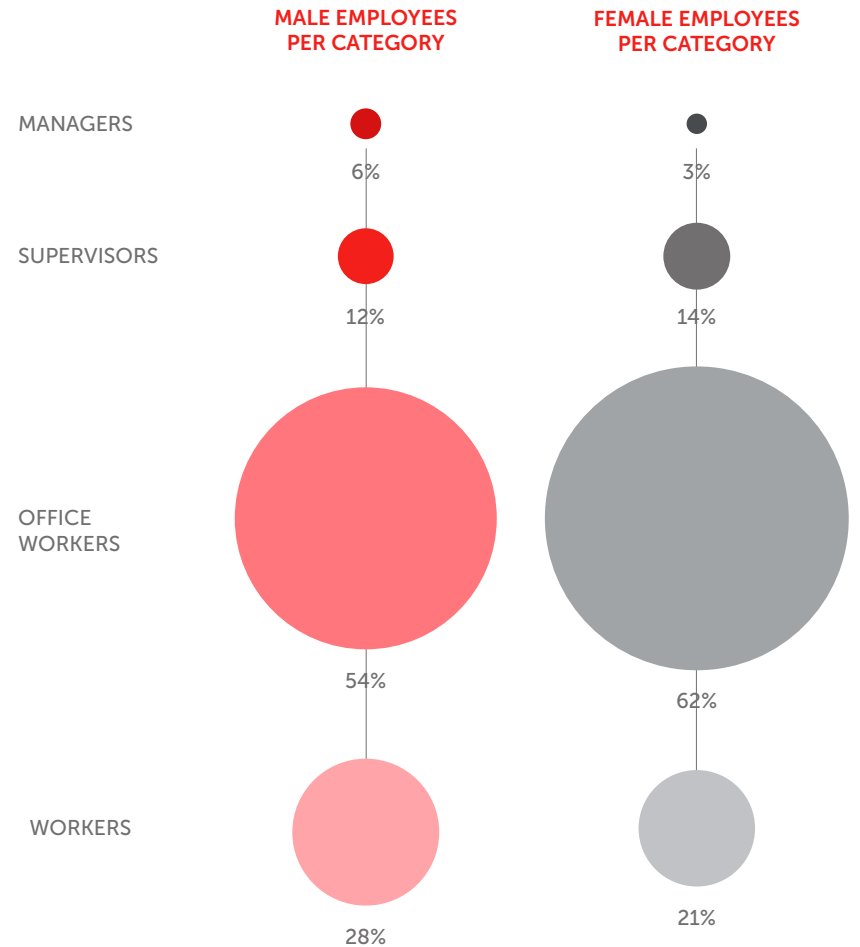


PERMANENT EMPLOYEES (2016)



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:

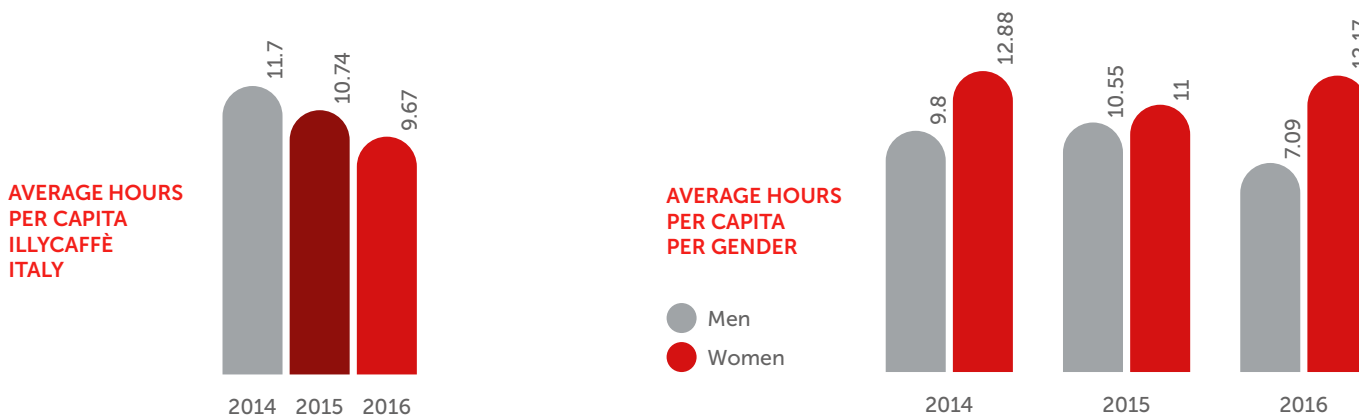
- business partners who support the company in its corporate project initiatives, in achieving objectives, in developing competences.
- people partners who assist the management in the development of internal staff.
- company partners who support the company in the development of an identity and a culture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

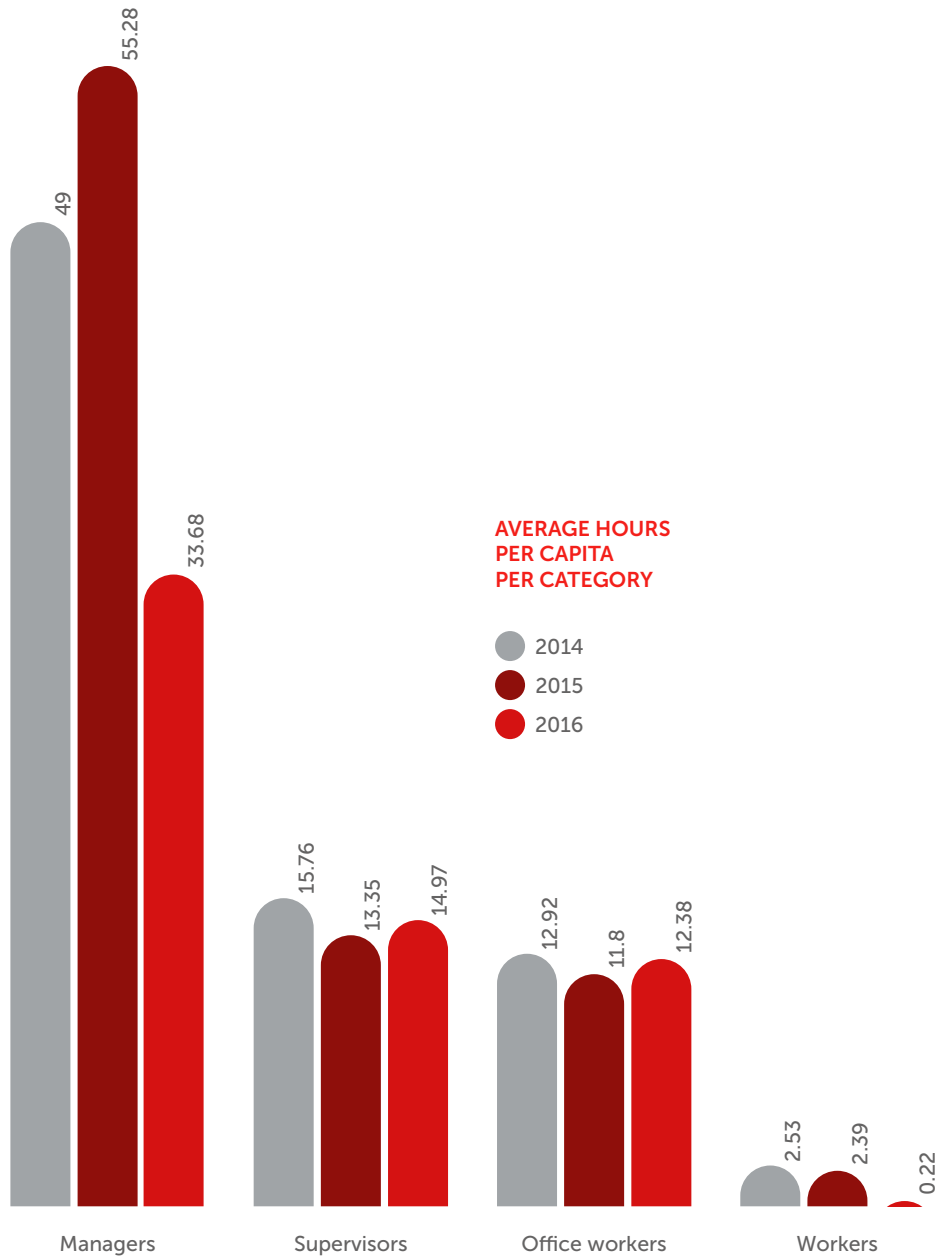
The training plan’s cyclical nature affects the various professional roles in different ways. They are involved to a greater or lesser extent from year to year according to their training objectives and the work done in previous periods.

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.



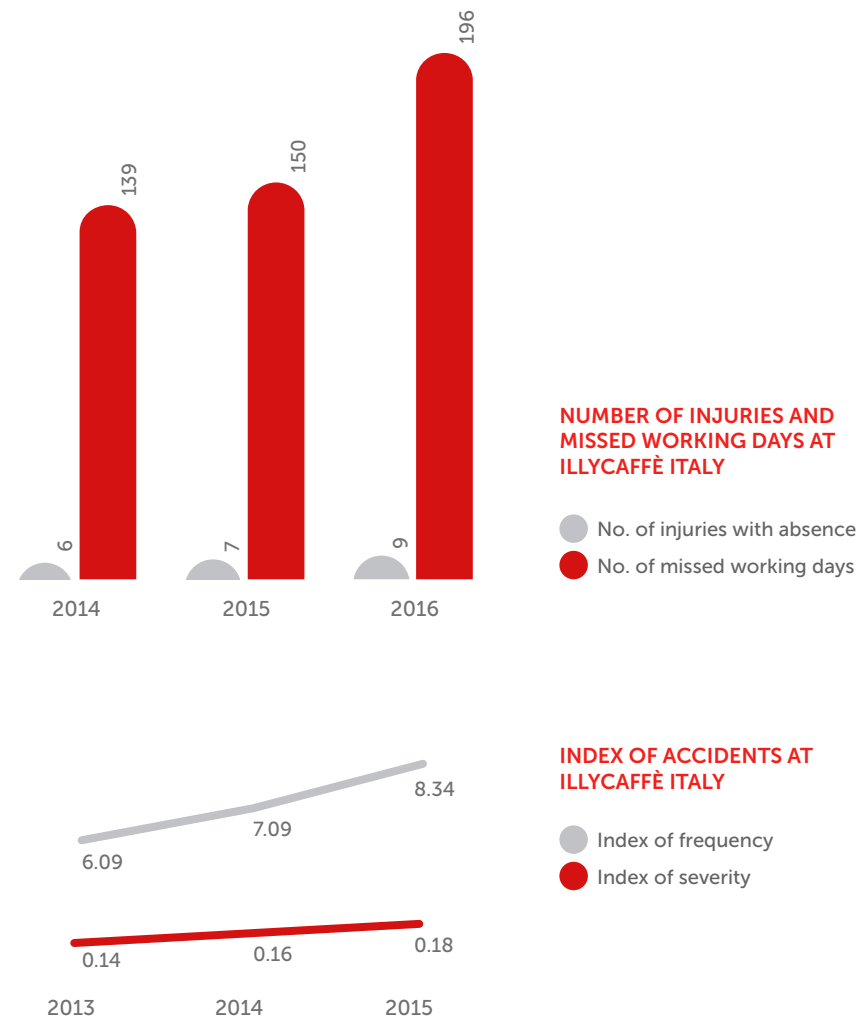
■ **ILLYCAFFÈ ABROAD: VALUE AND COMMITMENT**

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 woman), 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.

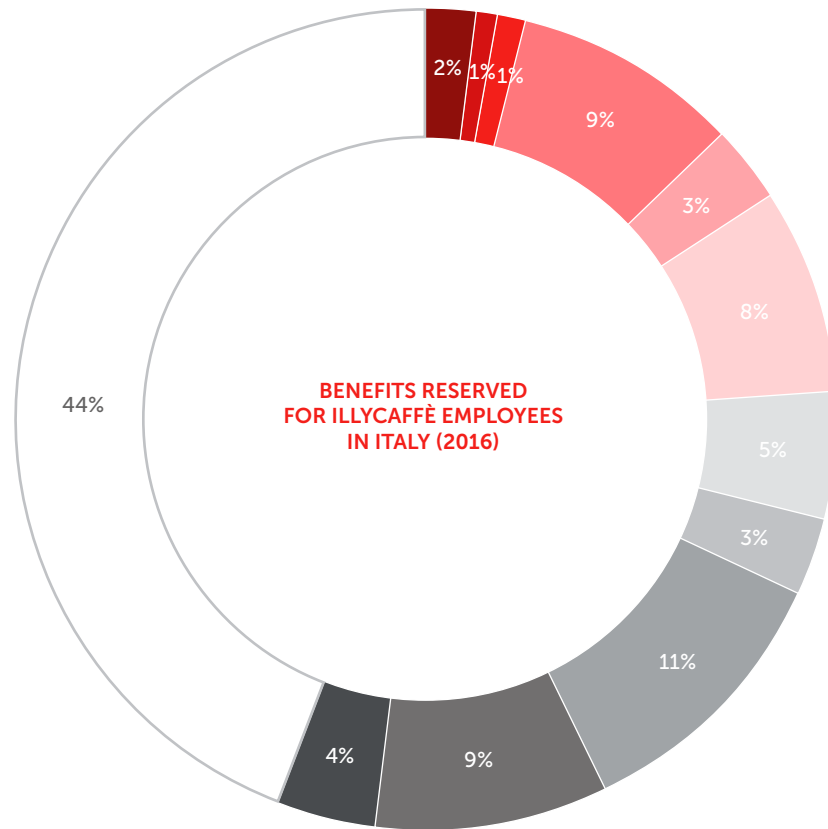
Health assistance and supplementary health policies

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.



- Optical sector
- Computer science, audio-video
- Publishing
- Construction
- Footwear
- Automotive and motorcycles
- Foodstuffs
- Kindergarten
- Clothing, tailoring, laundering
- Travel and leisure
- Various
- Health and leisure

■ **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 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.

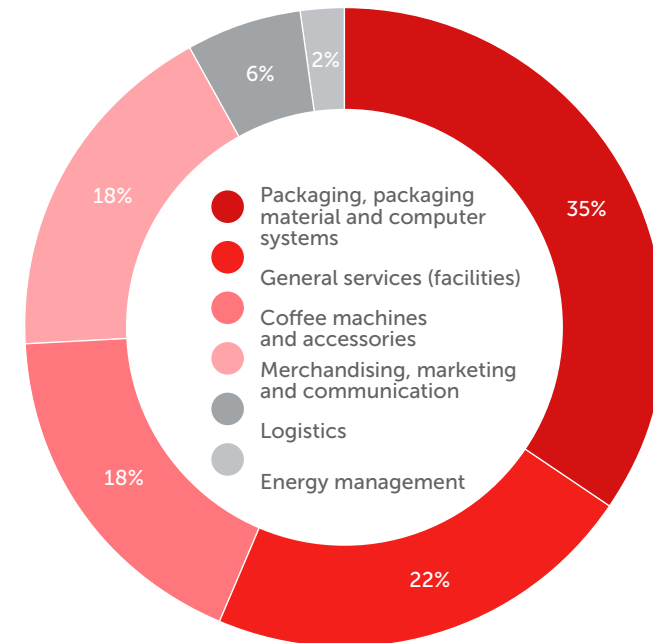
As quoted in the company's Code of Ethics (art. 305), "relationships with suppliers are constantly subject to monitoring control. Among relationships are included business financial contracts and consultancy activities. The subscription and signature of contracts with suppliers has to be always based 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.

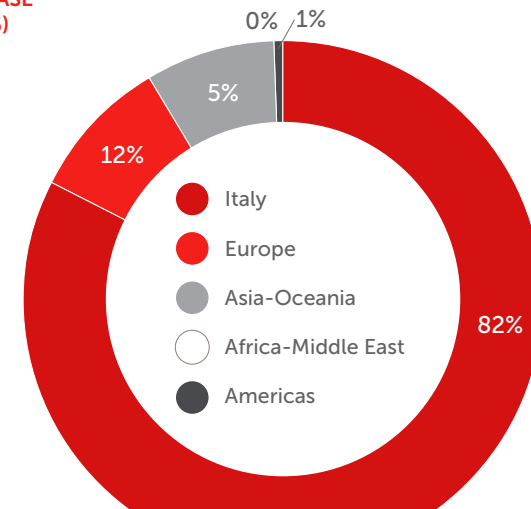
On the basis of the results of this rating, suppliers are evaluated by the Procurement Division in conjunction with the Quality Assurance Division, to identify areas of improvement and initiatives: during 2016 43 suppliers were certified, against 23 in 2015

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

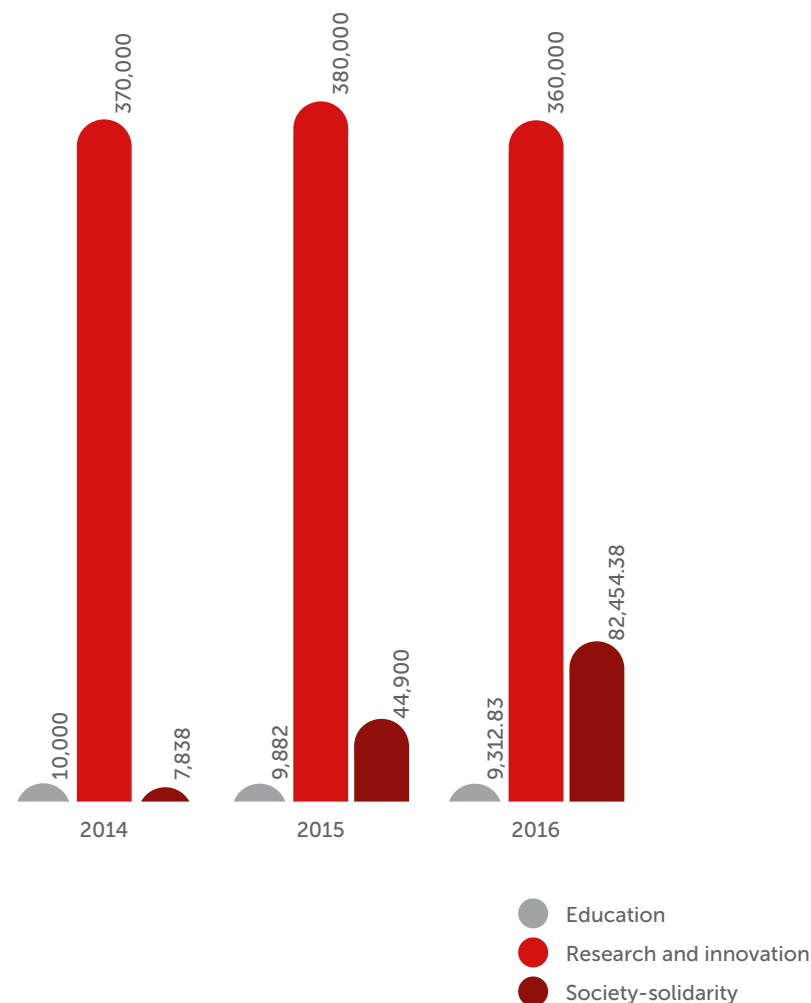
Concerning "social investments," besides strategic collaborations with the communities of the coffee producing countries, the various companies of the Group strive to create value and benefits for the communities in which they operate. A long-term vision of the company envisages investments in welfare 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
- Altgamma
- 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	Federacion 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 Millefoglio, 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.