Quality and Safety of illy products

illarycaffè intends to offer the world the best coffee, thanks to a roasting process capable of combining leading-edge technologies with eighty years of experience in the industry, family and entrepreneurial passion. To achieve this objective, it is paramount to be able to provide, in addition to a very-high-quality product, all that contributes to the preparation, service and drinking experience. That is the reason why the company operates to improve constantly the quality of production, processes and customer services. This means also that the company is committed to making safe products, in accordance with rules and standards governing the industry, and to developing sophisticated monitoring systems. All of the company’s production takes place in plants certified in accordance with internationally recognized quality standards for food safety management systems.

Highlights

<table>
<thead>
<tr>
<th>Highlights</th>
<th>4,566</th>
<th>54,240</th>
<th>554</th>
</tr>
</thead>
<tbody>
<tr>
<td>green coffee samples analyzed in illycaffè’s laboratories in 2017</td>
<td>roasted coffee samples analyzed in illycaffè’s laboratories in 2017</td>
<td>average daily tastings to ensure the product’s quality</td>
<td></td>
</tr>
</tbody>
</table>

GREEN COFFEE PROCUREMENT:
The company develops direct and, possibly, long-term ties with its producers, to ensure the quality of the final product. Before buying, illycaffè’s analysis and quality laboratories analyze coffee samples, to issue phytosanitary certificates and to attest to the lack of heavy metals, phytomedicines, herbicides and insecticides.

STORAGE AND BLENDING:
The green coffee is stored in insulated warehouses and then processed to obtain a 100%-Arabica blend for the unmistakable illy taste, balanced and consistent.

PACKAGING AND PRESSURIZATION:
Espresso is a complex beverage, which requires 1,500 substances (of which 800 volatile ones) and 13 physical and chemical variables that affect its proper preparation. illycaffè patented pressurization, a process that involves the replacement in packages of air with pressurized inert gases which capture the aroma of freshly roasted coffee. In this way, the aromas concentrate into the coffee oils, giving roundness, sweetness and intensity to the taste, preserving and even enhancing its fragrance over time.
Quality, Certifications, Food Safety
To guarantee the quality and safety of the product, from the time coffee enters the company until it is shipped out, **370 checks** are performed. In 2017 the company updated and maintained all its certifications. Internal and external audits performed according to the different monitoring plans included:

- **29** internal audits, including the accreditation (of which: 5 accreditation, 13 SGQA, 8 SGA, 3 food safety and hygiene).
- **13** third-party audits (of which: 2 QF, 2 accredia, 1 RSCP, 1 BRC, 1 IFS, 1 ISO 9001, 1 ISO 14001, 1 ISO 50001, 3 Kosher)
- **308** audits of suppliers (of which 304 green coffee suppliers).

The British Retail Consortium (BRC), International Food Standard (IFC), Hazard Analysis and Critical Control Points (HACCP) certifications reflect the guidelines for all of illycaffè activities to guarantee customers’ health and safety and are applied to all illycaffè products.

In 2017, **new roasting equipment was installed in Mitaca S.r.l.**, a plant that produces espresso coffee capsule systems, to produce roasted coffee necessary to meet the company’s as well as other companies’ demand of IES, MPS and UNO capsules. In this case, depending on the destination, the roasted coffee is aged in pressurized silos or in ad hoc big bags, where it is nitrogen-flushed. Mitaca and all the other plants where functional activities (assembly, packaging, labelling etc.) are performed are monitored directly by illycaffè expert auditors.

In 2017, the company did not receive any fine for breaking laws or regulations on quality, food safety, traceability and the like.

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### SPECIFIC 2017 ACTIVITIES TO INCREASE MONITORING OVER FOOD SAFETY

- **HACCP manual self-control program** for illy Shop, Trieste, Università del Caffè, Trieste, support to illy Caffè in Rome.
- **Specific monitoring for directly-operated retail stores**: illy Store, Milan, bar illy Caffè, Milan, and bar illy Caffè, Porta di Roma.
- Maintaining in quality laboratories the **Protocol of acceptance of the green coffee coming from Brazil**: accurate acceptance at origin of 100% of coffee samples.
- **Increase of control over roasting consistency in production phase** to optimize the quality outcome in the cup.
- Implementation of an internal database to harmonize the wordings of product labels and IT solutions for a better dissemination of mandatory information at the European level (Reg. 1169/2011/EC).
- Continuation of the activities related to the **compliance of food contact materials** both for current products (monitoring) and for new products (scouting for improvement or validation).
- Completion of monitoring of furan and acrylamide for the definition of the activities necessary for compliance with **regulation 2158/2017**.
illy Customers

Highlights

- 29 “illy Caffè” retail stores
- 4,570,851 visits to the web site and 233,838 online orders
- 9 baristas out of 10 recommend illy to their colleagues
- 59,576 contacts with the customer care service

illy customers and consumers are offered a unique 100%-Arabica coffee blend, the result of a series of selection and processing steps that protect and enhance quality. Our coffee comes in three different degrees of roast, each of which with its own color and organoleptic characteristics: Medium roast with a mellower and more aromatic flavor; dark with a more intense flavor; extra-dark with a flavor as rich as that of dark chocolate and toasted bread.

To enhance the single components of its blend, the company introduced the MonoArabica line, offering connoisseurs the possibility to enjoy the purity of the 9 varieties of Arabica that make up its signature blend: Brazil, Ethiopia, Guatemala, Colombia, Costa Rica, India, El Salvador, Nicaragua and Tanzania.

In 2017 exports accounted for 65% of revenues.

\(^1\) Source: Internal Customer Satisfaction, 2017 data
illycaffè bases its customer relations on satisfaction, to create long-term ties through the provision of quality products and services.

The company’s growth plan is based on the pursuit of three strategic lines:
• Firming up and increase of market share in the premium hospitality segment worldwide, through the development of the product/service mix;
• Extension of consumption occasions, especially at home, through portioned preparation systems;
• Focus on a high-quality offering and experience for the consumer, through single-brand retail outlets and through e-commerce.

illycaffè’s products are distributed mainly through the following business units:

**Business to Business (B2B)**
- Ho.Re.Ca: Hotels, Restaurants, Cafès
- Traditional retail outlets
- Supermarkets
- Consumer electronics
- Vending (offices and workplaces)

**Business to Consumer (B2C)**
- illy Shops
- illy Caffè and espressamente illy
- e-commerce
2.2.1 Value Creation and Sustainability for Customers

illycaffè’s objective to maximize the creation of sustainable value for its customers is achieved through the initiatives to lower the environmental impact of its products and packaging thanks to the development of innovative and highly technological solutions.

In particular, with the launch of illy box in 2016, the company aims to improve efficiency and the quality of customer service in the Ho-Re.Ca. channel, through an innovative telemetry system incorporated in the professional coffee machine.

2017 Initiatives for the Creation of Value in the B2C Channel
illycaffè continues to pursue the development of its B2C offering through franchised or directly-operated single-brand retail outlets under the “illy Caffè” and “illy Shop” brands, with the twofold objective of exporting the concept of real Italian coffee bar abroad and establishing a direct relationship with consumers. The new format introduced recently is positioned in the market as a symbol of the Italian lifestyle, showing places that embody illycaffè’s founding values: beauty, socialization, creativity and enogastronomic culture.

In 2017, 29 retail outlets were opened under the “illy Caffè” brand (26 franchised stores and 3 directly operated stores) while 22 were closed (21 franchised/licensed stores and 1 directly operated store), following expiration of the relevant rental agreements or implementation of the plan to revamp the network, which intends to improve the profitability and management quality of the stores.

Regarding the illy Shop format, in 2017 10 retail outlets were opened and 5 were closed.

At the end of 2017, the single-brand retail network consisted of 247 stores (170 illy Caffè and 77 illy Shop), of which 222 operated by franchisees and 25 operated directly.

There is also a growing consumer interest in online purchases of illy products. In 2017, the web site had 4,570,851 visitors from all over the world and 233,838 orders were placed online. Still in 2017, illycaffè started a long-term Digital Transformation project, to combine online and offline sales in such a way as to provide consumers an omni-channel experience. In its pursuit of constant improvement, illy is investing to strengthen and digitalize customer care.

2017 Initiatives for the Creation of Value in the B2B Channel
In 2017 illy was once again the coffee brand with the highest demand in coffee bars in Italy, with 59% of people in Italy who pick a coffee bar where they can enjoy illycaffè. Coffee bar owners also show a high satisfaction level with illy.

The year under review saw also the introduction of the new professional 3-kg. can, which uses an innovative technology (seaming) with benefits in terms of production and shipping, improved taste in the cup and new design, all aspects that are strongly appreciated by customers and consumers. The new production line for the 3-kg. product paved the way for the launch of the 1.5-kg. can, which is intended to ensure high-quality standards in the cup also for low-volume coffee bars.

The provision of a full range of services and products allows the company to meet any business requirement, on one side, and to stand out from the competition, on the other. The training activity, based on courses held at the University of Coffee, and tailor-made consulting continue to be expanded and improved. The development of the new Extra Dark roast made it possible to meet certain local requirements in terms of perceived coffee quality and drinking habits.

The “Professional” page of illycaffè’s web site, for customers and prospects, was renewed in 2017, to extend its contents in a segmented manner to the entire Ho.Re.Ca. world. The page was designed with a consulting and problem-solving approach in mind, with advice dispensed in the form of suggestions developed with support from the University of Coffee. In 2017 the total number of visits rose, as did the number of requests for information of a business nature.

* Source: GFK Sinottica, 2017B, on a sample of 12,000 users
* Source: Internal Customer Satisfaction data, 2017
illy box
illy box is a solution devised for the Ho.Re.Ca. channel. It is a system which connects professional coffee machines to the internet, to ensure a sustainable, high-quality service, capable of monitoring the process and, if needed, take immediate and pointed improvement actions. The information gathered on the use of the machines are viewed in real time through a smartphone, a tablet or a pc and is personalized. The medium-term objective is to concentrate into a single digital space all the information pertaining to every user. Trade customers will be able to view in their own password-protected area both the illy box data and information that can be used to manage their business more effectively.

Expected benefits for Ho.Re.Ca. customers include:
• The guarantee of consistent high quality in the cup served to consumers in all illy coffee bars;
• The reduction of the customer churn rate, with the resulting increase in revenues, achieved through the high level of service provided through illycaffè’s quality promoters and salesforce;
• The possibility to obtain guidance on how to support the professional capsule business model.

2.2.2 Listening to Customers and Customer Satisfaction
The company bases its customer relation strategies on the main factors that determine the quality of the service, such as accessibility, process transparency, communication management (especially reduction of response time), consistency of treatment in the various channels and provision of high value-added services.

In 2017 there were 59,576 contacts with customer care:
• Requests for assistance/service rose, mainly in connection with the increase in final customers’ demand for illylovers contracts and in commercial requests from potential customers;
• Requests for information from consumers increased;
• Complaints on the quality of the product decreased to 2867.

In addition to customer care, several different channels were used to listen to customers and for customer contacts, including:
• Social networks;
• Customer satisfaction surveys designed for Artisti del Gusto (Artists of Taste), illy bars, online customers;
• Telephone surveys for Artisti del Gusto, former Ho.Re.Ca. customers, Ho.Re.Ca iPerespresso;
• Interaction of Quality Promoters and technical consultants through information actions and/or activities directly in customers’ establishments.
• Ad hoc company visits.

illycaffè and large domestic and international hospitality and transportation operators
The company has had for years partnerships in place with important domestic and international hospitality, transportation, restaurant, retail and fashion companies. In the hospitality sector, these partners include the Marriott group, the Accor group, Kempinski Hotels and One & Only Kerzner Group, all serving illy products at their venues.
In the transportation sector, partners include United Airlines, where illy is the official coffee on board airplanes and in lounges, and Singapore Airlines, Cathay Pacific, Air France and Emirates, which chose illy for their business and first classes, while cruise lines Silverseas cruises and Cunard Cruises offer illy on board their ships. In Italy there is a collaboration in place with Trenitalia and Costa Crociere.
Quality in the Cup

To provide additional support to the Ho.Re.Ca. customers, the “Quality in the Cup” project was launched. A team of qualified technicians provides tailormade assistance and consulting services to retail establishment managers. In particular, this initiative calls for:

- Monitoring the quality of illycaffè coffee served by Ho.Re.Ca. and Vending customers (upon request) throughout Italy;
- Managing and monitoring the image of the retail establishment;
- Training and managing the know-how on illycaffè’s quality standards and on the equipment;
- Managing new product tests;
- Involving managers and operators through the opportunities provided by the University of Coffee.

Moreover, in September 2012 an agreement was entered into with the Ministry of Agriculture, Food and Forestry Policies (Central inspectorate of quality and repression of food product frauds) to preserve the superior quality of the 100%-Arabica illy blend and to protect those virtuous retail establishments that bring everyday the illy flavor and excellence to the Italians. The agreement provides for the analysis of coffee samples and tests of a new analysis method to allow for the rapid identification of a blend created with the addition of roasted beans other than illy’s. These and other checks already activated by the company along the entire coffee supply chain are further guarantee and protection of the competition among retail establishments and ensure that customers will be able to enjoy an excellent and authentic illycaffè espresso in those places that display the company’s name and logo.

Complaint management and improvement actions

Complaints and tips coming from customers and consumers through customer care analyzed and managed by Quality Assurance, in cooperation with the various company functions concerned.

1. Complaint management activities have been reviewed to improve efficiency and effectiveness by assessing, through internal processes, the quality of the complaints on the basis of the type of product involved, with assignment of the relevant operational responsibilities;
2. Update of the scripts used by customer care and machine service to identify the problem;
3. Clustering of complaint families;
4. Set-up of the system to calculate complaint costs.

SURVEY ON THE LEVEL OF SATISFACTION OF THE CLIENTS IN ITALY

In the last four months of 2017, telephone interviews were conducted through Customer Care, with almost 1200 baristas throughout Italy. It is a representative sample as it accounts for approximately 15% of all customers, managed through the direct network.

The interview was designed to determine the level of satisfaction of B2B customers in Italy, by monitoring certain key factors in the relationship, such as quality, technical assistance, communication and attention to sustainability.

The findings show a very high satisfaction with illycaffè (>8.5 on a scale from 1 to 10), which is confirmed by the high propensity to remain illy customers and to recommend the brand to other professionals. Customer satisfaction was very high (>8) also with illycaffè’s ethics and attention to sustainability, which customers regard as very important factors. Other reasons why customers are satisfied include the quality of coffee (77% of customers), salesforce relationship and competence (for 67% of customers) and the benefits for the coffee bar derived from the brand’s image (65% of customers).
2.2.3 Communication and Responsible Information

To get consumers involved emotionally and intellectually, by offering them a multi-sensory experience, the company chose to transfer excellence also to the cup, the vessel through which the product is enjoyed. Thus were born the illy Art Collections. Living the espresso experience means sharing an appreciation of beauty and goodness, qualities that combined together attain the ideal referred to by the ancient Greeks as Kalokagathia. That is the reason why art and creativity are the language chosen to express the company’s values and philosophy, with the development of single-brand stores and international cultural events. illycaffè’s communication with its customers and stakeholders is based on the respect of the right to information. In fact, every communication activity is fully compliant with the laws, rules, professional practices and is carried out in a clear, transparent and timely manner.
• illycaffè abides by the code of marketing communication self-regulation;
• To strengthen its review for consistency and compliance with all the laws of the countries of reference, illycaffè obtains a professional opinion on its labels from a company specializing in the promotion and development of agri-food quality.
2.3 illycaffè’s people

Highlights

1,290
1,290 group employees at December 31, 2017

15.2
15.2 training hours per employee

2.3.1 Human Resource Policies

People are the heart of a sound and viable company. That’s why illycaffè thinks that it is paramount to have qualified talents and, to that end, it has a human resource management and development policy in place that is based on the respect for workers’ rights and on the full attainment of their potential, encouraging their personal and professional growth as well as their career development. illycaffè acknowledges the central role of human resources and the importance of cooperation based on transparency, loyalty and trust, by applying the behaviors dictated by its own Code of Ethics and the co-responsibility pact promoted through the illycitizen project.

The company protects and promotes the improvement of the quality of life for its employees and their families. In fact, it provides a comfortable and safe workplace and stimulates their abilities, potential and personal interests, by monitoring and developing arrangements and discounts with commercial establishments. To enhance motivation and sense of belonging, illycitizen, the active citizenship program, continued also in 2017, with the objective of transferring all the knowledge and information that make each and every employee a brand ambassador.

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* For more information on the scope of employee data, reference is made to section 5.1.

### 2.3.2 Employment

In line with the growth trend of the preceding years, at December 31, 2017, illycaffè had 1,290 employees, of whom 711 in Italy, with an increase 1.7% on the previous year.

With reference to the companies included in the scope of consolidation (which account for approximately 98.8% of total employees), women represent 43.0%. Based on the breakdown by age, employees between 30 and 50 years of age account for 63.0% of total employees.

Given a changing market demand, at December 31, 2017, illycaffè had 654 permanent employees, representing 91.9% of the total. Of these, most work full time. On the same date, the company had 50 part-time employees, mostly women (94.0% of the total). In addition, during the year under review, the company activated two full-time apprenticeship contracts, 40 full-time temporary contracts and 3 full-time internship contracts, to employ students coming from local schools and universities.

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*The information shown refers to illycaffè S.p.A., due to the contract differences in other countries*
illycaffè rewards merit and respects its employees avoiding any form of discrimination, providing equal opportunity, ensuring suitable work to vulnerable employees. To date, approximately 2.8% of the workforce in Italy belongs to protected classes.

In addition, in keeping with the Code of Ethics, it makes available to employees work opportunities closely related to their performance and capabilities. Salaries, for their part, are governed by the national agreements and the rules applicable in the countries where the company operates. Moreover, performance evaluation systems are applied, periodically, to employees through a clear definition of agreed-upon, measurable (in numerical terms) and individual objectives, whose achievement is rewarded with a bonus. Executives and middle managers undergo a performance review every year while clerks and blue-collar workers are subject to a more streamlined and flexible system.

The ratio of gross annual pay (base salary provided for by the National Labor Agreement plus seniority raises, occupational allowance, cost-of-living adjustments, extra allowance, job-specific pay) received on average by female workers in Italy to the gross annual pay of men is equal to 0.83 in the case of executives, 0.93 for clerks, 0.87 for middle managers and 0.92 for blue-collar workers. This ratio was calculated by dividing women’s total gross annual pay by men’s total gross annual pay, for every category.

In 2017, the turnover rate, calculated as the ratio of terminated employees for the period and total employees at the end of the period was 5.7%. On the other hand, the rate of new hires to total employees at period-end was 9.4%.
### Social value

#### Sustainable value report 2017

The calculation is made by dividing the N. recruitment or N. terminations by the total number of employees at the end of 2017.

<table>
<thead>
<tr>
<th>NO. OF NEW HIRES</th>
<th>NO. OF TERMINATIONS</th>
<th>Hiring Rate*</th>
<th>Termination Rate*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Men</td>
<td>46</td>
<td>20</td>
<td>42</td>
</tr>
<tr>
<td>&lt;30 years</td>
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<tr>
<td>30-50</td>
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<td>&gt;50 years</td>
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<tr>
<td>Women</td>
<td>32</td>
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</tr>
<tr>
<td>&lt;30 years</td>
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</tr>
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<td>30-50</td>
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<td>9</td>
</tr>
<tr>
<td>&gt;50 years</td>
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<td>1</td>
<td>0</td>
</tr>
<tr>
<td>Total</td>
<td>78</td>
<td>41</td>
<td>67</td>
</tr>
</tbody>
</table>
2.3.3 Employee Training and Development

People are the focus of the company’s interests and a key component of its development and growth. The hiring system emphasizes the internal growth of employees for new openings within the company. Employee training is paramount for professional learning and growth and a significant tool in supporting the growth process contemplated by the company’s strategic plan. Through specific training programs, illycaffè wishes to turn its employees into:

- Business partners that support the company in pursuing its plans and objectives and in the development of skills;
- People partners who help management in developing its staff;
- Company partners who support the development of an identity and a culture for the construction of a widespread leadership.

The cyclicity of the training plan involves in different manners the various professional figures who, year after year, are involved in varying degrees, depending on the training objectives and the activities carried out in previous periods. Training paths are built and broken down by technical skills and behavioral skills while teaching methods vary on the basis of the type of course. illycaffè has been cooperating for years with the best business schools, such as SDA Bocconi, Milan, MIB, Trieste, London School of Economics, Il Sole 24 Ore Formazione.

EXPERIENCE MAKERS

An important one-year training program (2017-2018) was devoted to the Ho.Re.Ca. Italia sales staff, with the following objectives:

- To have the sales process evolve into consultative selling;
- To ensure that the community develops an excellent level of knowledge and competencies in relation to the Ho.Re.Ca. world and coffee in general;
- To revamp the internalization and knowledge of illycaffè’s value, offering and style;
- To support a personal development process in terms of selling, negotiation, communication and planning skills.

The year under review saw the involvement of 18 area managers with 88 training hours each, 11 Quality Promoters and 157 agents with 52 hours each, with activities involving also e-learning sessions.
ILLYCITIZEN

A training and engagement program for illy’s employees, involving progressively both headquarters and the branches. The program went through different phases, starting from the knowledge about the company (strategy, organization etc.) and, eventually, activities to clarify and define the behaviors that characterize illy citizens (respect, collaboration and consistency). It then focused on the involvement of, and listening to, customers to identify the areas of improvement in relationships and the provision of company services. Starting in 2017, the program emphasized the role of company Ambassador, mainly to make employee increasingly aware and contribute to the success of the brand. Training took place through live sessions, e-learning and gamification.
2.3.4 Health and Safety

illycaffè regards the dissemination of a safety culture among its employees as a key strategic component, for the development of greater awareness of occupational risks and the encouragement of responsible behaviors. The protection of workers’ health and safety takes place through preventive actions (through laws) and training activities. The company organizes training activities for the production areas, to instill in workers a stronger awareness of their own safety and to share the risk analysis and assessment process. On the company’s premises a rapid response team is constantly at the ready, to handle first aid and firefighting emergencies. At year-end 2017 the firefighting team had 33 members while the first aid team had 33. In 2014 the company purchased four semi-automatic defibrillators (AED) and the members of the first aid team obtained certification in AED use, with practice drills every two years.

In 2017, in Italy, there were 9 workplace injuries, involving 7 men and 2 women, for a total of 126 days of absence and there were no cases of occupational illness. The 2017 absenteeism rate was 4.4%.

In addition, attention is called to the 6 injuries occurred to employees of companies operating within illycaffè’s plants, for a total of 268 days of absence.

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<table>
<thead>
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<th>Year</th>
<th>No. of accidents with absence</th>
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<td>2015</td>
<td>7</td>
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<td>2016</td>
<td>9</td>
<td>196</td>
</tr>
<tr>
<td>2017</td>
<td>9</td>
<td>126</td>
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<table>
<thead>
<tr>
<th>Plant</th>
<th>Frequency Index</th>
<th>Severity Index</th>
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</thead>
<tbody>
<tr>
<td>Trieste plant</td>
<td>4.61</td>
<td>0.08</td>
</tr>
<tr>
<td>Retail locations (Rome, Milan and Trieste)</td>
<td>51.47</td>
<td>0.58</td>
</tr>
</tbody>
</table>

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*a Data related to illycaffè SpA in Italy. The frequency index is the ratio of the number of injuries occurred in a year to the number of hours worked, X 1,000,000. The severity index reflects the ratio of days of absence to the number of hours worked X 1,000.*

**This rate reflects the number of effective days of absence as a percentage of total business days for the workforce in the same period. Absenteeism means the absence from work of a worker for any type of inability, not only related to injury or illness. Not included in the calculation are authorized leaves of absence such as vacations, study, maternity/paternity and time off for family reasons."
Risk Management and Assessment System
illycaffè has a safety management system with all the necessary professional and managerial figures in the area of safety in place, i.e. the head of the prevention and protection department, the workers’ safety representatives, the occupational physician, the safety delegates, the employer. The company has three workers’ safety representatives for all the workers’ categories. Since noise is the main source of risk for workers, certain plant workers are required to wear soundproof earmuffs.
In 2013 a procedure was activated to report any significant safety-related event. In fact, every month a report is prepared on the status of the cases – closed, open and in progress. The report is shared with all the function heads, the CEO, the 231 Supervisory Board, Board of Statutory Auditors and union representatives.

Training and Prevention
To prevent health and safety risks, illycaffè invests heavily in workers’ training and information. In fact, in 2017 2,135 training hours were devoted to health and safety, involving 438 employees, with a yearly average of 5.3 hours for men and 4.4 hours for women.

Safety for the employees of external firms
Monitoring of workplace safety extends also to workers of external firms, as contractors that operate inside company plants are required to comply with the law and their employees are involved in all information and supervisory activities and the application of the DUVRI (single document on the assessment of interference risks). illycaffè requires that any injuries be reported at once, to determine any responsibility on its part and act accordingly.
2.3.5 Internal Communication and Employee Benefits

To encourage interdepartmental collaboration and sense of belonging and to increase the dissemination of the company’s values and culture, illycaffè pays special attention to internal communication. During the entire year “Momenti Exchange” meetings were held for preview presentations of projects and products or to give news involving the company.

The co-responsibility pact among all of illy citizens, which has been in place since 2013, is designed to define the mutual obligations of employees, management and the shareholders to protect illy’s uniqueness. The pact stipulates that it is important to work with passion, humbleness and a spirit of self-criticism, without losing sight of the company as a whole and expressing one’s point of view with candor.

The “Made in illy” project continues, with the company’s employees who make available their skills and give their time freely to cooperate in the organization of company events.

Internal communication and internal relation activities go hand in hand with the training plan and labor relations.

BENEFIT

illycaffè provides all employees – including part-timers and those with fixed-term contracts – certain financial and social benefits. These are initiatives intended in some cases to improve the employees’ personal and family welfare while in other cases they try to meet certain non-work-related needs.

Kindergartens and Textbooks

Since 2007 the company has been supporting parents by paying 30% of the tuition for certain private kindergartens with which it entered into special arrangements. In 2017 there were 3 kindergartens covered by such arrangements, for the benefit of 30 children of employees.

Medical insurance and supplementary pension plans

The company has been paying since 2003 the full amount of the premium necessary to obtain medical insurance for employees and their families. In 2017 refund requests totaled 1,767 (1,621 in 2016). In the same year the company contributed €147,000 into supplementary pension plans, a sum in excess of that required by the labor agreement and in line with 2016. At December 31, 2017 employees with an open individual pension plan totaled 336, down from 344 in 2016 due to terminations.

Cafeteria, Arrangements and Other Time-Saving services

In Trieste’s headquarters employees have a cafeteria (operated by an external firm) where the company covers 67% of the cost of a meal. In Trieste, illycaffè provides also additional services, including an ATM. A large number of arrangements are in place with retail establishments, gyms, theaters, stores, medical clinics, territorial agencies, with the objective of making a positive impact on the employees’ quality of life and welfare also outside the company.

ILLYCAFFÈ ABROAD: EXAMPLES AND GOOD PRACTICES

Foreign affiliates too provide benefits to their employees, including medical insurance, company cars, special arrangements with stores, gifts, time-saving services as well as legal advice and psychological support. In Spain, for every newborn €500 are allocated to the purchase of books or to pay kindergarten tuition and a passbook is opened with an initial €250 deposit.
A COFFEE THAT CREATE INDEPENDENCE.
Suppliers of Goods and Services

illy has mutually beneficial relationships with its suppliers, selecting them and guiding them also in view of their alignment with its values. As indicated in its Code of Ethics (article 3.5) "supplier relations are constantly monitored by illycaffè. These relations include also financial and consulting contracts. A contract entered into with a supplier must be based on extremely clear relations".\(^{11}\)

Specifically, this approach translates into:

- **Safety of products – services – processes.** The value created by the company in the long run for its stakeholders involves first of all, even before qualitative excellence, the assurance that products, services and processes are safe and compliant with the applicable rules and regulations;

- **Qualitative excellence and welfare.** illycaffè’s business sustainability and the value that the company creates are inextricably connected to the qualitative excellence and welfare that it can offer to its stakeholders;

- **Integrity, value and commercial benefit sharing.** Every supply contract contains the clause laying down the supplier’s obligation to review and comply with illycaffè’s code of ethics.

Also in 2017, thanks to the Sourcing Risk Management project, the company was able to map, on the basis of specified criteria, actual and potential risks along its supply chain (including those related to environment, health and safety, social & ethics, compliance, innovation, etc.) and risks related to external factors (country and market). The year under review saw also the continuing optimization and standardization of procurement (except for green coffee, which is managed separately), which made the management activities of the Procurement Department more coherent and centralized. Lastly, the Vendor Evaluation process became fully operational. Strategic and/or critical suppliers have been evaluated through a structured methodology based on the attribution of vendor ratings that make it possible to measure performance in purchasing. In particular, the vendor evaluation process was revised and improved in view of an approach designed increasingly to establish partnerships with suppliers and to improve constantly their overall performance. The new approach makes it possible to monitor and measure systematically suppliers’ performance during the collaboration period, on the basis of objective and subjective parameters. Such parameters refer to different aspects related to procurement, such as technological know-how, quality and logistics.

\(^{11}\) To obtain further details on the support underlying this commitment, included in the General Purchase Terms and Conditions attached to Purchase Orders, reference is made to illycaffè’s code of ethics.
Through a new procurement procedure, the companies introduced standard methodologies to select suppliers and to evaluate the bids for indirect materials, services, investments, raw materials and finished products. Also in 2017 extensive use was made of the Decision Matrix as a tool to select and evaluate suppliers. The selection mechanism involves technical and pricing requirements, which account for 60% and 40%, respectively. Three difference decision matrix models were introduced (advanced, medium and standard) which differ in terms of KPIs and their related weights.

Furthermore, the use of the benefit matrix is benefiting from the introduction of the Procurement Portal, which makes it possible to gather, summarize and compare a substantial amount of data in few steps.

The portal will include a detailed pre-qualification questionnaire with specific questions on corporate organization, geographical operational reach, financial and operational questions, references, certifications, innovation, ethical and sustainability aspects.

The implementation phase of the Procurement portal saw the gradual activation of different modules covering a number of primary and support-related aspects of the procurement process. Specifically a “Supplier List” module has been activated, which made it possible in the first place to populate the platform with 600 current suppliers (representing over 80% of PVO for 2017) and, in the second place, to provide suppliers in general with a structured access platform to send their credentials.

To date, over half the suppliers included in the Procurement portal completed the pre-qualification process. Moreover, such suppliers will be able to participate to negotiation events (requests for bids and auctions) or to access to generic information requests via the activation of the Sourcing module.

The Procurement Department has recently published on the Procurement portal illycaffè’s Code of Conduct for its suppliers. This document lists and describes the principles that illycaffè asks its suppliers to comply with in their business dealings.

The principles refer to illycaffè’s Code of Ethics and reiterate the intention to operate in a transparent manner, paying utmost attention to economic, social and environmental sustainability. The most significant aspects concern:

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

Starting from November 2017, in view of constant innovation and change, both current and potential suppliers have been undergoing a close preliminary evaluation through the procurement portal.

A more in-depth evaluation of the environmental and/or social aspects is carried out instead in the qualification process, where themes addressed include, among others:

- Social impact report, Sustainability report, Combined report or instruments to measure the social and environmental impact
- Sustainability of the Supply Chain
- Written anti-corruption policies, anti-competitive practices, respect of intellectual rights and/or responsible marketing practices
- Written policies or other objective evidence regarding respect for diversity, racial or gender discriminations and exploitation of child labor
- Training of employees exceeding legal requirements
- UN Global Compact or other international initiatives on sustainability
- Employee benefits
- Monitoring and reduction of water an energy consumption
- Waste reduction and/or recovery
- Renewable energies
- Activities designed to reduce environmental impacts

Starting from the date of activation of this module 15 negotiations have been conducted on the platform, comparing existing suppliers with potential new suppliers. In all these negotiations, the existing suppliers have been considered the best, from a technical and pricing point of view. Modules relating to the qualification process and contract lifecycle management activities are expected to go live in 2018, along with the modules related to the vendor evaluation and sourcing risk management.
In addition to qualifying the supplier, the procurement portal aims to achieve broader objectives, such as:

**GOVERNANCE and COMPLIANCE**
- Traceability of processes to limit risks
- Complete supplier management
- Performance monitoring and improvement
- Compliance with rules

**METHOD**
- Implementation of a shared method culture
- Standardization of procedures
- Timeliness of response to internal and external stakeholders
- Constant improvement including by sharing best practices

**TRANSPARENCY**
- Guarantee of process ethics
- Accessibility and usability of information

**ECONOMIC GAINS**
- Economic benefits (thanks to the digitalization of the workflow)
- Reduction of the Total Cost of Ownership in the different procurement categories

The current organizational model follows a **vertical specialization rationale**, which allows the provisions of specialists in the following product categories to the requesting functions:
- General Services
- Food
- Marketing & Communication
- Mobility Management
- Packaging
- Co-Packing
- IT
- Coffee Machines & Accessories
- Utilities

The strategies and operations related to these categories are managed within a cluster of five departments. The Procurement department monitors constantly the **PURCHASING CYCLE END 2 END**, focusing on both primary and support activities.
A recently developed Supplier Risk Management process will be implemented on the Procurement portal by 2018 to manage supplier risk and risks related to the supply of the main materials and products.

More specifically, virtuous and structured process has been implemented that, starting from the identification of the main risk areas, will map the main suppliers on the basis of a Risk Matrix.

The process along which risk management will unfold is as follows:

- **Identification, mapping and evaluation of risks:**
  - Risks that depend on macro-economic factors (geopolitical, social and economic context)
  - Technical/qualitative risk
  - Logistic risk
  - Risko logistico
  - Financial risk
  - Environmental/ethical-social risk
  - Legal risk
  - Supply risk

- Preparation of the **risk management plan** and the strategic choices aimed at lowering the level of risk

- **Implementation of risk management strategies**

- **Monitoring and review, where necessary,** of the supplier risk management plan

The company did not initiate business dealings with any significant suppliers in 2017 and, as such, no new supplier has been evaluated on the basis of environmental criteria, work practices, human rights and impact on society.

Audits/quality checks were performed mostly on products and services (without relevance in terms of ethics and sustainability). The main audits were performed mainly for Chinese suppliers (3 audits) and Italian suppliers (2 audits).
Of these, the company regards as strategic and/or critical those suppliers of goods or services with a particularly large business impact (typically with sales to illycaffè in excess of €500,000), those that operate as partners in a production/distribution process and those who provide illycaffè with raw materials and services considered key for the company business. Considering solely the monetary parameter, suppliers with sales to illycaffè in excess of €500,000 are 53, as against 46 in 2016.

The map by geographical area of the main non-coffee suppliers reveals that **85.09% of purchases is produced in Italy**, attesting to the company’s tendency to buy mainly from national operators. Suppliers located in the rest of Europe account for 10.2% of the total while 3.89% of them is located in Asia and Oceania. Lastly, 0.95% of purchases comes from the Americas.

- Italy: 1070 suppliers, 88.65% of purchases, €130,111, 85.09% of expenses
- Europe: 95 suppliers, 7.87% of purchases, €15,314, 10.02% of expenses
- Asia - Oceania: 7 suppliers, 0.58% of purchases, €5,943, 3.89% of expenses
- Africa - Middle East: 5 suppliers, 0.41% of purchases, €96, 0.06% of expenses
- Americas: 30 suppliers, 2.49% of purchases, €1,447, 0.95% of expenses
- Total: 1,207 suppliers, 100.00% of purchases, €152,910, 100.00% of expenses
2.5

illycaffè and the Community

Highlights

Several projects for the promotion and development of initiatives with a strong social impact in the producing countries in which illy operates, consolidating a stable dialogue with government, organizations, institutions and trade associations, research institutions and universities linked to the coffee supply chain.

In 2017 was celebrated the twenty-fifth anniversary of illy Art Collection, on the occasion of the 57th International Art Exhibition of the Venice Biennale.
International Community

The quality of illy's coffee begins with the direct cooperation with coffee producers and stands on four pillars:

- Selecting and working with the best producers
- Transferring knowledge and encouraging them to produce high-quality coffee
- Rewarding them financially for the quality obtained and prompting them to improve constantly
- Building an “illy community” based on a culture of excellence

In this context, a key factor for the company is understanding the needs of the community, with the help of local and global institutions.

Mindful of this responsibility, illycaffè has developed different projects to support the local communities in which it operates, establishing firmly over time a constant dialogue with different government organizations, institutions and trade associations, research entities and universities linked to the coffee supply chain at the international level or in producing countries.
In particular, the reforestation project in the Támara community, in Colombia, gained further ground, with its focus on the treatment of coffee wastewater. In addition, the company continued with the project undertaken with UNIDO – Improving the Sustainability and Inclusiveness of the Ethiopian Coffee Value Chain through Private and Public Partnership – involving the entire Ethiopian coffee sector.

Started in 2015, following an agreement signed by illycaffè, the Ernesto Illy Foundation and the United Nations Industrial Development Organization, under the auspices of the Ethiopian Ministry of Industry, the project is designed to improve coffee quality and production capacity and to allow small producers to increase their income, encouraging local economic development. The partnership is part of the Ethiopia Programme for Country Partnership, which intends to contribute to the progress of Ethiopia and turn it into a country with a sustainable income by 2025.

Another example of wide-ranging program took shape in Colombia in 2015, out of the declaration of intents between illycaffè and SENA - Servicio Nacional de Aprendizaje, a national government institution that oversees labor training – to start a cooperation project with the objective to transfer knowledge and good practices on coffee production and preparation, to the benefit of producers and consumers.

### 2.5.1 Art, Esthetics and Culture

illycaffè has been for over twenty years a competent and active player in the world of contemporary art, as witnessed by the support and promotion of the activity of several successful and emerging artists, with the objective of disseminating the culture of beauty and excellence.

The Venice Biennale and the 25 Years of illy Art Collection

illycaffè created the illy Art Collection artist cups in 1992, in cooperation with great masters and young talents, reinvesting the proceeds from sales in projects and initiatives devoted to young creatives. In 2017 two new illy Art Collections were launched, one created in cooperation with artist, architect and designer Ron Arad and the other featuring the decorations of photographer and instant artist Maurizio Galimberti. The year under review saw also the celebration of the twenty-fifth anniversary...
of the illy Art Collection. The anniversary was celebrated in Venice with the installation “THE DISH RAN AWAY WITH THE SPOON everything you can think of is true”, by artist Robert Wilson, a dreamlike space inspired by the illy Art Collection where everything becomes possible, as shown by the touch of the artists that transformed plain espresso cups into collector items.

illy @ Milano Design Week
illycaffè reaffirmed its passion for art and design by participating in the 2017 edition of Salone del Mobile di Milano and Fuori Salone. The Fuori Salone hosted the preview presentation of the Ron Arad illy Art Collection, which was exhibited in the Open Gallery of the Central Court of Università Statale and “SPYRE”, Ron Arad’s installation shown in the Main Courtyard of Università Statale of Milan, in connection with the exhibition “MATERIAL IMMATÉRIEL” organized by Interni magazine.

“SCENT OF A DREAM. A Journey in the World of Coffee” by Sebastião Salgado @ Paris Photo
The exhibition “SCENT OF A DREAM. A Journey in the World of Coffee” by Sebastião Salgado, curated by Lélia Wanick Salgado, went in Paris in 2017, in connection with the tenth anniversary of the Salon de la Photo. The photo collection included about 80 of the most representative photos of the photographic journey undertaken by Sebastião Salgado, with the objective of capturing on camera and celebrating coffee women and men and the veritable paradises where the precious drupe is produced.

Artissima 2017 – Turin
In 2017 illy confirmed, for the seventeenth consecutive year, its support to Artissima, the main fair of contemporary art in Italy. In the wake of the collaboration started in 2001, the company specifically supports Present Future, the Artissima section devoted to emerging talents, where the illy Present Future Award is presented to the artist pursuing what is considered the most innovative research path.

Since 2012, the award has been giving the winners the opportunity to exhibit their works in the Castello di Rivoli Museum of Contemporary Art and represents the company’s intention to support the artistic community and young talents in their growth.

An international jury gave the illy Present Future 2017 Award to artist Cally Spooner, for her work “Soundtrack for a Troubled time” (2017), exhibited by the galleries GB Agency, in Paris, and Zero... in Milan.

On the other hand, Cécile B. Evans, winner of the 2016 edition of the illy Present Future Award opened her exhibition Amos’ World: Episode One at the Castello di Rivoli Museum of Contemporary Art.
IT'S ALWAYS THE SEASON FOR THE PEOPLE.
Human Rights

illycaffè’s commitment to advance respect for human rights translated into a number of initiatives over the years, including:

- **Adherence to the principles of the ILO - International Labor Organization**: the company purchases only from countries that have ratified the ILO standard and that passed legislation setting at 14 years the minimum age for employment.

- Application and explicit reference to the Code of Ethics in all contracts, though a clause on respect for human rights in procurement and along the supply chain. Application of the Code of Ethics and monitoring of any violations are overseen by the Supervisory Board.

- Check of own coffee suppliers to ensure compliance with local labor laws, thanks to the Responsible Supply Chain Process certification. The RSCP requires **regular monitoring and the active management** of such aspects as child labor, forced and compulsory labor, trade union rights, overtime, health and safety, diversity management and equal opportunity. The certification requires that the auditor conducting field work access the farming company’s books, visit personally the indoor locations for workers, see firsthand the equipment that they use and **evaluate compliance with local labor laws**. This is a minimum requirement for the provision of coffee to the company. Suppliers found to be non-compliant with the applicable national labor laws are included in a black list and must upgrade before they can start supplying coffee to illy again.

- Preparation of the Sustainability Policy to describe illycaffè’s values, objectives, commitments and governance on sustainability.

- Adherence to the **Global Compact** of the United Nations since 2012.

Thanks also to these instruments, the company is committed to promoting a behavior both responsible and respectful of human rights and to monitor any discriminations against employees. No reprehensible practices or violations were reported.

Also in 2017 the **Ethisphere Institute** included illycaffè in the list of the **World’s Most Ethical Companies**. This is the **fifth consecutive year** that the company has received this recognition, which is evidence to its effort in advancing ethical standards and practices.