Sustainable value report

2014
The function of industrial firms is fundamental and undeniable, but business alone cannot legitimise its conduct, which must encompass respect for human beings, the community, and the environment.

Ernesto Illy – 1976
President of the European Association of Brand-name Industries - 1976
Some promises last a lifetime... some ideas change the world

Francesco Illy founded illycaffè based on a simple idea: to create the best coffee in the world and to make it available to everyone. Our work is still in progress. Presently, we are witnessing a global condition in which the lack of sustainability is evident at all levels: economic, social and environmental. The degree of social gaps, economic differences, social imbalance, environmental degradation and diffused intolerance are obvious symptoms of such sustainability loss.

Ethics and quality have been founding concepts of illycaffè since its creation. The Company pursues the principle of Sustainability as defined in the Brundtland report, sharing the concepts and translating them into its products and vision.
illy is a company born from a dream: the dream of the Founder to deliver the best coffee in the world. This idea originated the mission of illy, which is strongly based on the concept to delight lovers of good and beauty all over the world, offering them the best coffee available in nature, enhanced by the most advanced available breeding technology and inspired by the sense of beauty. The emotional health redeemed to consumers creates opportunities of development both for coffee producers, which are small rural communities in more than 70 countries in the South of the world, involving more than 25 million of families still suffering for poverty, or in developing countries, for which coffee represents the first source of sustenance. By virtue of this shared responsibility between consumers and producers, illy decided first to act as a stakeholder company. In Italy, stakeholders are represented by bearers of interest among which a defined and clear hierarchy is well established: consumers are the real owners of the company, paying directly the costs of the coffee; customers are partners of the enterprise in providing delight in consumers; talents of illycaffé, which play a crucial role in the satisfaction of consumers in the formulation of an excellency product, suppliers which are in charge of the actual deliver of product; communities: all the communities sharing interactions with the company; the shareholder, which supports the enterprise as a whole.

The first objective of the company is not represented by mere profit, but to play the role of a social institution acting as a hinge between society and stakeholders. The main responsibility pursued by illycaffé lies in the sustainability declined through each of its three fundamental pillars: economic sustainability, social sustainability and environmental sustainability. Sustainability has to be incorporated also into the two fundamental core values of the illy approach: the passion for excellency, a driving force to reach the best results at all levels, the best available coffee in the world, and a massive passion for beauty coupled to the passion for a well-performed work. The second core value of the company is Ethics, which is intended as a creation of value in the long term through transparency, sustainability and valorization of individuals. Economic sustainability turns out to be of great importance for consumers, being aware to enjoy the best quality with the right cost. For customers, economic sustainability represents the opportunity to achieve higher incomes dealing the illy brand, compared to the overall return obtained with other brands. Employees benefit from economic sustainability by experiencing a positive sense of security in their job, thanks to the lifetime employment opportunity, with a remuneration higher than the market average. Suppliers take advantage from economic sustainability by having a substantial return, provided not only by an higher financial income, but also by a more reliable and strong relationship with the company, lasting in time. For the communities, economic sustainability is represented by the significant return generated by the company either for the city of Trieste and also in all related communities, such as communities of coffee growers, coffee dealers, community of artists and all the other players involved. Finally, Shareholders seize in the economic sustainability the key driver in the growth of the enterprise value. Social sustainability, as already mentioned, is continuously pursued through an intense activity of knowledge dissemination: not only if the sense of knowledge – the coffee culture is based more on a social perspective, but actually in the transfer of all the detailed competencies encompassed by the Science of Coffee. This is the reason why illycaffé founded the University of Coffee, which nowadays accounts for more than 30,000 participants every year: in particular, we are going to expect an higher number of people for the current year as also the EXPO is taking place in Italy. The University of Coffee is divided into three different Departments: one department is completely dedicated to coffee growers, and more in general to farmers, one department is dedicated to coffee operators, or more in general individuals involved in the hospitality sector, and one department is dedicated to experts, or consumers demonstrating the ambition to become coffee connoisseurs. Last but not least: environmental sustainability. In this regard, the company obeyes to the principle of “respect”, declined according to all the levels of coffee utilization. When referred to consumers, the concept of respect is focused on the packaging: packaging has to be recyclable and reusable. For clients, the concept of respect is transferred in the possibility to use dedicated tools and devices such as coffee machines or procedures which are completely environmentally friendly. Coffee growers are respectful of agricultural practices which are subject of intensive training within the University of Coffee; through special agronomic practices, growers can improve not only the quality of products in order to obtain the highest economic value but also the approaches to produce coffee minimizing the environmental impact. All the above mentioned considerations can be seen as the milestones of a road map continuously updated every year, according to the results obtained, key urgent issues and new emerging requirements. We are concerned about the global warming urgency, which also has reflections on coffee production: a constrain which urges our company to search new strategies of adaptation for the coffee sector. This concern has to be shared with all the key players participating in the international community of coffee and hence we are keenly active in carry out scientific research activities focused on a wide range of sectors: genomic mapping of Arabica coffee types (the only type of coffee used by illy) with the aim to study and develop new varieties of coffee with a new resistance to climatic effects. We initiated a cooperation with the Earth Institute of Columbia University, which is the most outstanding institution worldwide in the field of climate change. Within this framework of initiatives, activities and committments, the intent is to bring benefits and advantages not only for the interest of the company itself but, mostly, for the overall community on which the economy of coffee poses its basis. Thanks to this strong engagement, illycaffé has been able to attain a recognized reputation for being a sustainable company, a reputation endorsed by the most eminent bodies of consumers and by leading institutions specialized in Entreprises Ethics, such as Ethisphere, which awarded illycaffé as one of the most Ethical companies in the latest three years. 2015 is an unique year for our company: the year of the EXPO. EXPO MILAN 2015 is the universal exhibition: for the first time in history, the theme of the exhibition is centered on food: Feeding the planet, energy for life. Italy has been selected for being the world leading country in the trinomial production of food, wine and coffee. The event represents an extraordinary opportunity to celebrate our primacy: the primacy of Italy and of coffee which will culminate at the end of September, more precisely from 30 September to 1 October, with the organization of the internatio-nal conference “Global Coffee Forum”, the first conference of this type, never held before. During the event, special emphasis will be given to the three peculiar virtues of coffee: pleasure, health and sustainability, which combined together turns coffee to be a special blend, fostering therefore its consumption. The first edition of the National Coffee Day will take place on 1 October: a day to tribute coffee worldwide and to promote the use of such special beverage, sensitizing consumers about the existence of the virtuous cycle between the wealth of coffee estimators and the development of coffee producers. The International Coffee Organization is the official institution which organizes and hosts the event: in this occasion, Oxfam has been appointed as global fund raiser. A special campaign has been prepared to collect money through the promotion of the Italian tradition adopted in Naples, where a cup of coffee is donated to clients of cafés to reward the Italian historical coffee culture and local traditions. In that special occasion, coffee consumers in all cafeterias of the world will be encouraged to donate one coffee cup for each coffee cup enjoyed in order to alleviate poverty in coffee producers countries and in the communities of coffee growers. All these activities are continuously carried out by illycaffé in tight cooperation with institutions at global level, from the public and private sector, including industrial partners willing to cooperate with us.

ANDREA ILLY
CEO and President
Key numbers of illycaffé

140
Countries in which illycaffé operates

100,000
Public retails serving illy coffee

200 and over
Espressamente illy retail points worldwide

1,400
Artisti del Gusto worldwide

1,084
Employees as of 31 December 2014, at consolidated level, +2.7% compared to 2013

390,8
Million of Euro of overall turnover (+4.5% compared to 2013)

5
4 quality certifications and 1 sustainability certification

5
Specialized laboratories

4
Cutting-edge innovations from research activities carried out by illy

23
Premises of the Università del Caffè
Founded in 1933 by Francesco Illy, illycaffè produces and sells worldwide a unique blend of premium quality coffee, formed by nine varieties of pure Arabica beans. The perfect balance obtained in combining ingredients from South America, Central America, India, Africa and China produces the distinctive Illy flavour and aroma in every single cup of coffee all over the world.

illy products are available in selected hotels, restaurants, cafés, houses, offices and in form of take-away products. Illy blend is prepared and produced different sizes: 3kg cans of beans for large scale end users, as Hotels, Restaurants and Cafeterias, the so called HoReCa sector, small cans with 250 grams for domestic use, capsules, pods and small cans (illy issimo, the ready to drink coffee beverage): illy products are on the market in more than 140 countries over the world, on all the five continents and served in about 100,000 selling points.

With the objective to offer the most complete and enjoyable experience in each cup of coffee, Illy created at the same time elements and tools which add a further value to achieve the perfect experience of taste: from locations, creating the coffee boutique chain ‘espressamente Illy’, to the International network of Artisti del Gusto, a coffee appreciation society created to valorize and foster the professional profiles in the market sector and in the selling places, to the illyshop boutiques: shops in which exclusive Illy brand products are available, including coffee machines, ingredients and preparation toolkits.

Great attention is paid to the culture of coffee: within this idea, the company founded the University of Coffee (Università del Caffè): study programmes and courses have been formulated to address different levels of specialized profiles and are dedicated to training of selected coffee growers, distributors, retailers and staff for the HoReCa sector, consumers and experts.

illycaffè is based in Trieste, where its premises are located, and is guided by the third generation of the Illy family: illycaffè is completely owned (100%) by the Illy family’s holding company – Gruppo illy S.p.A.

Data of 12 December 2013 evidence that illycaffè SpA Group is formed by the Parent Company, including the six permanent establishments (in Spain, Germany, the Netherlands, Austria, Hong Kong and Dubai, the latest branch created in 2014), 15 controlled companies and 11 Associated Companies (being either directly or indirectly controlled); the Company operates at international level and is present in reference markets of Europe, Asia and the Americas. The overall manpower involves more than 1050 employees, with an overall turnover of 390 Millions of euros and with a total of 62% sales revenue from exports.

illy group

Gruppo illy S.p.A. represents the holding company of Illy family. The Groups has the control of illycaffè, Domori (manufacturers of high quality chocolate products), Dammann Frères (a French company of tea dealers) and Mastroianni (a winery located in Montalcino, Tuscany region of Italy). The Groups is also shareholder of other companies, such as Agrimontana (leading enterprises in the production of excellency pastries products, including marrons glacés and fruit preserves) and Grom, (specialty ice cream producers).

Gruppo illy S.p.A has been created following the vision on a long term intuition aiming to create and implement a key pole for the ‘Sense of Taste’ in which each of the enterprises involved, having themselves a strong competency in the respective field of excellency, could act as representative of core values with top quality standards. Each company is leaded by the respective founder or by relevant successors, in order to guarantee an high level of independence in the managerial leadership as well as maintain intact the spirit of research and innovation of the individual brands. Riccardo Illy is the President of the Group.

Each of the enterprises mentioned above, possesses its own individual history and traditional know-how: in this regard, the Goup intends to pay due attention and respect to their managerial autonomy and historical background, bearing in mind that the whole Group is highly committed to constantly seek for the best available strategies to create better synergies, looking at the concept of Sustainability as a guide.
Main companies of the Group illycaffè on 12/31/2014

ILLYCAFFÈ SPA
Parent Company (Trieste)
no. of employees 12.31.14: 756

ILLYCAFFÈ S.P.A. NIEDERLASSUNG ÖSTERREICH
Distribution branch, Wien (Österreich)
no. of employees 12.31.14: 13

ILLYCAFFÈ S.P.A. - NIEDERLASSUNG DEUTSCHLAND
Distribution branch, Monaco (Deutschland)
no. of employees 12.31.14: 44

ILLYCAFFÈ S.P.A. VESTIGING NEDERLAND
Distribution branch, Rotterdam (Nederland)
no. of employees 12.31.14: 39

ILLYCAFFE’ SPA ASIA PACIFIC BRANCH
Marketing and retail, Honk Kong (China)
no. of employees 12.31.14: 8

MAGIC L’ESPRESSO SL
Espresso coffee machine manufacturing (Spain)
no. of employees 12.31.14: 18

ILLYCAFFÈ NORTH AMERICA INC.
Distribution in USA, New York
no. of employees 12.31.14: 91

ESPRESSAMENTE ILLY AMERICA INC.
Franchising development in USA
no. of employees 12.31.14: 1

ILLY ESPRESSO CANADA INC.
(subsidiary of illycaffè North America Inc) Distribution in Canada
no. of employees 12.31.14: 3

ILLYCAFFÈ SHANGHAI CO. LTD
Distribution in China
no. of employees 12.31.14: 55

ILLYCAFFÈ SUD AMERICA L.T.D.A.
Distribution in Brasil
no. of employees 12.31.14: 21

EXPERIMENTAL AGRICOLA DO BRASIL L.T.A.
Intermediation and research on green coffee
no. of employees 12.31.14: 13

BAR FINANCE INTERNATIONAL SPA
Finance company, Trieste (Italia)
no. of employees 12.31.14: 0

ENTERPRISE Srl
Real estate company, Trieste
no. of employees 12.31.14: 0

ILLY REAL ESTATE Srl
Real estate company, Trieste
no. of employees 12.31.14: 0

ELTRADE Srl
Real estate company, Trieste
no. of employees 12.31.14: 0

ESPRESSAMENTE RETAIL LONDON LTD
Franchising development in UK
no. of employees 12.31.14: 25

ESPRESSAMENTE LONDON LTD
Real estate company, London
no. of employees 12.31.14: 0

SUBSIDIARIES

MITACA SRL
Production of espresso capsule systems, Milan
Subsidiary (50%); no. of employees 12.31.14: 41

ILKO COFFEE INT. S.R.L.
Joint Ventures with The Coca Cola Company for production and merchandizing of coffee ready to drink, Italy
Subsidiary (50%); no. of employees 12.31.14: 4

MAIN COMPANIES

ILLYCAFFÈ FRANCE SAS
Distribution in France
no. of employees 12.31.14: 43

ESPRESSAMENTE FRANCE S.A.S.
Management exercise administration in France
no. of employees 12.31.14: 43

ILLYNL BV
Set in 2012 for fund raising on foreign markets, Nederland
no. of employees 12.31.14: 4
Mission, vision and values

Mission

Thanks to our enthusiasm, our teamwork and our core values, we feel motivated to delight all the people who share our passion for the quality of life, offering them the best coffee that nature could offer, enhanced by the best available processing technologies and also by the emotional and intellectual involvement we put in our work, originated from a continual search of beauty in all the activities we carry out.

Vision

Our objective is to become a reference point at worldwide level in the culture and excellency of coffee: an innovative enterprise offering the best products together with the best location for their taste, achieving always higher level of standards, aiming to be leader in the highest level of quality in the sector.

Values

Ethics: we create and share with stakeholders a long term vision with high added value, through our commitment to excellence, to transparency, to sustainability and to personal growth and improvement.

We want to create enthusiasm in our clients, creating extraordinary experiences and products which are distinguished for their beauty and for being beautifully manufactured, working fast, effectively and always targeting the satisfaction of our clients’ needs and anticipating their desires.
The first patent
Submission of the application to patent in Italy the process of pressurization (released in 1934). The patent has been released in Germany, in 1933.

**Nasce illycaffè**
Francesco Illy founds illycaffè.

**illetta**

**Ernesto Illy**
Ernesto Illy, son of Ernesto Illy, joins the company: he brings a strong empowerment in the scientific and technological research and creates alliances with other companies, leading research institutions and universities.

**The headquarters in Trieste and the first laboratory**
illycaffè inaugurates the premises in Trieste and the first laboratory site. The Headquarters in Trieste are presently still the only production plant of Illy worldwide.

**Coffee pod**
First company in the world to launch in the market coffee pods for the preparation of café-like high quality coffee, also for domestic use.

**Riccardo Illy**
Riccardo Illy, one of the sons of Ernesto Illy, enters the company bringing new insights and an innovative approach to marketing activities and to distribution models, opening also new market opportunities.

**Direct trade model**
illycaffè starts a direct contact with its growers to purchase coffee, stimulating quality improvement through economic surplus.

**SensoryLab, TechLab and BioLab**
illycaffè creates three new laboratories to carry out research on all the possible issue related to coffee.

**Projects in Guatemala**
illycaffè launches a new programme in Guatemala to foster Micro-Entrepreneurship and training of coffee growers.

**Water as primary good**
illycaffè improves the techniques of cultivation and coffee process obtaining as result the reduction of water consumption up to 90% per kg of green coffee.

**Università del Caffè**
illycaffè creates the University of coffee, a center of excellence, to foster the promotion and dissemination of knowledge on the culture of quality coffee, from the bean to the cup.
Environmental impact of the industrial process.

Low emission roasting facility
Illycaffè introduces a new roasting facility in Trieste, based on a novel system with ultra-low emission of fumes during the coffee roast process.

ISO 14001 environmental certification
Illycaffè obtains the release of a new certification for high efficiency of environmental management system and for the control of the environmental impact of the industrial process.

Ernesto Illy Science Prize
In occasion of the candidacy of Trieste for the Expo 2008, Illy started a cooperation with TWAS - The Academy of Sciences for the Developing World, launching a Science Prize dedicated to researchers from developing countries.

EMAS Environmental Certification
Illycaffè continues the efforts to improve environmental impact in cooperation with EMAS in order to foster increases of environmental efficiency of industrial activities.

Initiatives in Ethiopia
Through the support and endorsement of the International Coffee Organization, Illycaffè launches a project in Ethiopia in cooperation with the United Nations aiming to demonstrate that, upon treatment after harvesting, the quality of Ethiopian Coffee can be comparable and competitive with the best coffee brands in the world.

EMAS Award
Illycaffè receives the EMAS Award for its commitment to the improvement of environmental impact of industrial processes recognized at international level: the Company is awarded by EMAS for continually improving environmental standards.

Food Science Lab
Illycaffè founds the Food Science Lab, a laboratory dedicated to the study of food and of consumable products based on coffee.

BRC - British Retail Consortium
Illycaffè obtains the BRC (British Retail Consortium) certification, confirming the commitment of the company to ensure high quality of standards for food safety.

BRC-Italian Accreditation System
AromaLab and SensoryLab of Illycaffè are recognized and accredited by Accredia – Italian Accreditation System.

RESIDENT SUPPLY CHAIN PROCESS
Illycaffè receives the recognition as World’s Most Ethical Company for the second consecutive year.

EXPO 2015 Official Coffee Partner
Illy has been selected by the Steering Committee Expo as Official Coffee Partner: Illy is the exclusively responsible in charge for the Coffee Cluster of the Exhibition, with the responsibility to formulate and manage the content and event of the cluster, heading and valorizing the participation of the ten countries representing the coffee producers in the world. The selection of Illy to cover this prestigious role is a recognition for the company to be driven by excellence, passion, innovation and commitment to sustainable development.

ILLYSHOP and ILLYTECA
Creation of Illyshop and Illyteca: they are single-brand boutique shops offering the entire catalogue of Illy products commercially available. Moreover, ILLYSHOP and ILLYTECA are a retail point, in which are available all the products, technologies and accessories with the brands of the five shareholders of Illy Group.

ISO 17025
AromaLab and SensoryLab of Illycaffè are recognized and accredited by Accredia – Italian Accreditation System.

Illy issimo
Illy issimo is launched on the market: it is a new ready-to-drink line of espresso-style coffee beverage and it is the result of a joint venture with The Coca Cola Company.

Fondazioni Ernesto Illy
The Foundation is created in honor of Ernesto Illy in order to give continuity to the teachings and knowledge of Ernesto Illy, to whom the Foundation is dedicated.

Award in Brazil
Illycaffè launches in Brazil the “Sustainable Conduct Award” initiative, a prize dedicated to coffee growers reaching high sustainability standards.

Oxford University
In cooperation with the Environmental Change Institute of the Oxford University, Illycaffè supports a research project on the sustainability of coffee cultivation and production.

Atlantic rainforest in Brazil
Illycaffè starts a partnership with Istituto Terra (Earth Institute) for a reforestation intervention in a large area of the Atlantic forest region of Brazil.

IFS
Illycaffè obtains the IFS (International Food Standard) certification, confirming the commitment of the company to ensure high quality of standards for food safety.

Iperespresso
Illycaffè launches in market the new system of coffee capsules, called “Iperespresso”.

Illycafè launches a new roasting facility in Trieste, based on a novel system with ultra-low emission of fumes during the coffee roast process.

Illycaffè obtains a new certification for high efficiency of environmental management system and for the control of the environmental impact of the industrial process.

Illycaffè continues the efforts to improve environmental impact in cooperation with EMAS in order to foster increases of environmental efficiency of industrial activities.

Illycaffe launches a project to estimate its carbon footprint over the entire lifecycle of its industrial process.

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Sustainability strategy
The inspiring principle of illicaffè is the continuous striving of perfection. This driving force is expressed through two different founding values: the passion for excellency, intended as love for beauty and for esthetics of products, and the creation of value within a long term vision through sustainability, transparency, improvement of social inclusion and growth, respect of the environment.

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

In order to ensure a better share of its business strategy with all the stakeholders, the company formulated in 2010 the "Sustainability Manifesto" which, together with the Ethical Code of Conduit forms the core commitment of illycaffè in the framework of a responsible business management in the three main areas of sustainability.

In 2013, the Group confirmed his support to specific programmes and initiatives created for the implementation of the sustainability strategies and also to enhance its impact at international level: among these initiatives, the subscription to the Global Compact, and the voluntary agreement signed with the Ministry of Environment and Protection of Land and Sea with the objective to analyze, reduce and neutralize the impact of industrial activities related to coffee production on the climate change. Moreover, the Company participated in the most important International Round Table Discussions and Working Groups dialoguing on sustainable development for Coffee Growers Countries.
Being sustainability a core concept of the company vision and relevant business strategy, illycaffè reinforced the mechanisms for the corporate control and governance through the establishment of a Sustainability Committee, chaired by a Chief Sustainability officer.

During 2014, the Sustainability Committee dedicated its efforts to a priority list of action, such as:

- Design of a sustainability road map;
- Creation of an internal and external protocol for engagement of stakeholders in sustainability initiatives;
- Integration of sustainability programmes in the strategic plan of the company;
- Implementation of the relationships with institutions and communities in countries of coffee growers with focus on sustainable agriculture and investment plans for local growers communities;
- Adoption of an accountability process associated to the Sustainability Value Report;
- Creation of a “Responsible Supply Chain Process” certification;
- Definition of criteria for the calculation of the carbon footprint in the coffee industrial production;
- Evaluation of the environmental impact for disposal of used coffee capsules;
- Preparation of feasibility study to reduce the environmental impact and improve energy efficiency in coffee production.

Sustainability Officer of illycaffè is in charge of the supervision of all the issues relevant to sustainability, coordinating and facilitating the relationships with industrial stakeholders. The Officer is member of the Strategic Committee of the company (which at the end of 2014 changed his name into ‘Front Line Assembly’), reporting periodically on the initiative, tools and control systems implemented within the framework of responsible and sustainable management. The Strategic Plan of illycaffè includes also sections dedicated to sustainability project initiatives, under the overall supervision of Strategic Committee, which periodically analyze and update the plan, also in light of the continues updates on sustainability issues to adjust objectives and targets. The strategy of illycaffè operates looking at sustainability as strategical paradigmatic reference path: the next action will be mainly focused on the EXPO 2015, held in Milan (Italy) (link), in which illycaffè has been selected as official partner. As such, the company will be a leading active subject, contributing with concrete reflections and witnesses within the Cluster Coffee Pavilion, designed for the occasion, sezioni apposite dedicate a progetti di sostenibilità e il Comitato Strategico provvede ad analizzarlo ed aggiornarlo periodicamente anche alla luce delle sustainability issues.

La strategia di illycaffè è coerente con la sostenibilità come orientamento strategico di fondo e il prossimo esercizio sarà particolarmente concentrato su EXPO Milano 2015 (link) in cui illycaffè, in qualità di partner ufficiale, porta concrete riflessioni e testimonianze all’interno del grande Padiglione del Caffè.
Global Compact and World’s most ethical ranking

On 5 July 2012 illycaffè joined the Global Compact, an initiative launched by United Nations in 2000 aiming to promote the involvement of the industrial private sector, in particular private enterprises, in the subscription of ten global ethical principles relevant to important themes such as human rights, environment protection, labours rights and fight to corruption, which are shared and subscribed at global level as based on the several international protocols, i.e. the Universal Declaration of Human Right, the Declaration of ILO, the RIO Declaration and the Declaration of United Nations Convention Against Corruption.

More of 12.000 organizations in more than 145 countries worldwide subscribed to date the voluntary ethical code expressed by Global Compact.

The Communication on Progress includes the actions carried out by illycaffè for each of the 10 principles declared in the initiative and a link in the section of the Value Report in which more detailed information are available.

World’s most ethical companies

In 2015, for the third consecutive year, Illycaffè is included in the list of the “World’s Most Ethical Companies”, an initiative promoted by the Istituto Ethisphere. The list comprises the enterprises which gained the highest level of standards in terms of corporate governance, social corporate responsibility and sustainability. This important recognition positions Illycaffè among the excellence enterprises leader in the sector, and awards the company for its commitment to adopt ethical practices and standards able to create a long term added value for all the parties involved: customers, employees, suppliers, communities and investors.

illycaffè is the only Italian company awarded with this outstanding recognition.

ICRT

An independent survey carried out by the International Consumer Research and Testing (ICRT), which clusters several consumers associations, ranks illycaffè with the highest score among the major coffee brands worldwide, in recognition of the ethical commitment of the company to communities of coffee growers in Latin America, Africa and Asia and for the overall efforts in fostering environmental and social responsibility. The rank obtained by illycaffè is the result of the analysis carried out by Icrt to investigate the social, economic and environmental approaches adopted by the most important players in the coffee sector in their relationship with coffee growers in coffee producing countries: for each producer and for each associated brand, analysts of the association evaluated internal documentation, reports, internet websites, etc. The survey included also inspections in coffee plantations in Brazil and Ethiopia, two of the major coffee producers countries in the world.

The result achieved by illycaffè in reaching the highest absolute score among all the brands under evaluation recognizes the merit of the company for its ability in establishing direct relationship even with small coffee producers, assisting them with training programmes created with the purpose to help them to improve the quality of their own coffee and to award them with a more profitable quotation. The company received a positive score (corresponding to a + mark) in all the sectors analyzed (social sustainability, environmental sustainability, transparency, direct involvement of all subjects), with a final score of 73 which is the highest score obtained among all the coffee roaster examined.
Corporate governance

illycaffé built up its own specific model of strategy and management of sustainability, developing a system of governance and control aiming to ensure a sustainable development of the business paying due respect to laws, to economic viability and in harmony with social and environmental contexts. This implies an always controlled and transparent approach, an accurate management, a careful respect of the regulatory framework, protection of the rights and interests of shareholders and of all stakeholders and a profound sense of responsibility.

Board of Directors - B.o.D.

The Board of Directors represents directly the stakeholders. Counsellors are elected also due to their specific competencies and qualifications in line with the sustainability-oriented vision of illycaffé S.p.A. They are in charge of special duties and bear the full responsibility for the results in all their aspects: economic, social and environmental, which are subject to the approval of the General Assembly of Shareholders on a yearly basis. The Chairman of the Board of Directors covers also the role of Chief Executive Officer. The Board of Directors includes five independent directors and a total of non-executive directors. Among them, three members are women.
The members of the Board of Directors are:

- Andrea Illy (Chairman)
- Riccardo Illy (Vice President)
- Anna Rossi Illy (Honorary President)
- Anna Illy
- Pierluigi Celli
- Maurizio Dallocchio
- Giancarlo Michellone
- Mario Cannata
- Marina Salamon

The CEO informs the Board of Directors on decision having a substantial impact for the business sustainability; the Sustainable Value Report is approved on voluntary basis on behalf of the CEO, as of today there is not mandatory regulation or a law prescription. The Board of Directors evaluates and approves yearly all the reports and documents produced by the Surveillance Body and by the other internal controlling functions on issues relevant to risks and opportunities, encompassing all the main concerns involved: strategic, operational, environmental, social and related to governance. Projects showing interesting impact in terms of sustainability are coherent with the objectives of the corporate strategic plan.

**Executive Committee**

The Executive Committee is formed by Independent Director (1) and Dependent Directors (2) and possesses executive power in the ordinary and extraordinary management of the company. The Committee has the authority to take decisions for the implementation and development of corporate objectives, excluding the actions not allowed by boundaries imposed by laws, by corporate statute and which are exclusively demanded to the governance of the General Assembly of Shareholders, to the Board of Directors and to the CEO.

**Surveillance and Monitoring Committee**

This Committee is composed by Independent Director (2) and Dependent Directors (1). Its main function is to survey and monitor the operations, the efficacy and the compliance of the Organizational Model in order to prevent corporate offences for which illycaffè may result to be administratively responsible, in observance with the Decree Law 231/2001 (related to corruption, fraud in corporate communication, mistreatment of manpower, etc.). In order to completely define the Model, illycaffè formulated an Ethical Code of conduct, containing all the ethical duties and responsibilities of administrators, employers and collaborators in the ordinary activities carried out within the company and a specific reserved channel of communication to prevent or notify misconduct contrary to the principles of this Ethical Code. During 2014 no claims or disputes have been filed following reports of violations of the Ethical Code or of the 231 Law.

**Nominating and Compensation Committee**

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

**Chief Risk Manager**

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

**Internal Audit**

Implements internal audit activities aiming to analyze and verify the compliance to standards, the regular operations, the reliability and functioning of all processes as well as of the control systems.
Macroeconomic scenario, competitive analysis and raw materials

illycaffè operates in about 140 countries worldwide: during the year the economic trends of countries evidenced contrasting signals, in connection of the macroeconomic scenario. The expectations on a return to a positive trend of economic growth for 2014 have been disregarded, with special emphasis on the Euro Area (with a GDP of +0.8% y/y in the third semester), where major difficulties have been encountered by the three main representative countries: Germany, France and Italy. According to data provided by IRI, the institute which detects market data in the Italian Modern Trade, illycaffè has a quote equal to 4.2% in the total amount of turnover accounting for the coffee sector (stable, compared to the percentage of 2013) and of 12.6% in the sector of ground espresso beans, in which illycaffè confirms the positive trend, as the second player.

In the beginning of 2015, the estimates of the International Coffee Organization (ICO) regarding the worldwide production of green coffee for the campaign of 2014/2015 quoted the amount of 141 million of coffee sacks, about 5 million less than the previous campaign (with a decrease of production in Brazil due to the new possible heat waves and droughts, a good production in Central American Countries as well as in Asia and Colombia). The year 2014 ended with the historical record of exports, with volumes of 111.7 million of sacks, mostly in the major world coffee producers: Brazil (36.6 million) and Vietnam (25 million). The trend still shows a light decrease of exports (4.1%), which results from average lower prize in the latest two years, which interested in particular the export of Robusta type. The uncertainty of the recent situation is at the basis of the variability of prices. The revaluation of currencies like US Dollar created negative consequences in growers countries, stimulating the export and therefore leading to the record of overall exports in the second semester of 2014.

The global crisis of prices of coffee originally envisaged for the end of 2013 did not take place; the droughts in Brazil at the beginning of 2014 created a speculation in the market allowing thus producers to deal prizes well above the average expected. The amount of feed-stocks in consumer countries increased, creating the record of exportations leaded by the countries which are key players in the market.
Management and certification systems

The quality chain of illycaffè is guaranteed by the adoption of several important certifications and standard awards, at national and international level and also on voluntary basis.

Quality Management System
Illycaffè was the first company in the coffee sector in Europe to receive the certification for its quality management system.

Certification Body: Det Norske Veritas Italia s.r.l.
Field of application:
- Experimental: providers of services for physical, chemical and sensorial analysis on coffee

Certification for Compliance Of Products
Certificates the conformity of a product to a mutually agreed standard, able to ensure the best satisfaction of clients.

Ente di Certificazione: Bureau Veritas Certification France SaS
Field of application:
products for human consumption
Non decaffeinated coffee and decaffeinated coffee
Individual selection of lots of green coffee made of 100% Arabica, concentration and preservation of aroma through a pressurization process, content of caffeine lower than 0,05% (for decaffeinated coffee)

HACCP

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

Standard: HACCP, Codex Alimentarius Principles, Uni 10854:1999
Certification Body: Det Norske Veritas Italia s.r.l.
Field of application:
Selection, toasting and packaging of coffee. Toasting and packaging of decaffeinated coffee.
IFS Food Certificate
Guarantees the quality and food safety of branded food products, for retail and wholesale sectors

**Standard:** IFS - international Food Standard, Versione 6 del 2012
**Certification Body:** Det Norske Veritas Italia s.r.l.
**Field of application:** Selection, toasting and packaging of coffee under modified atmosphere.

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

**Standard:** Global Standard for food safety Issue. Versione 6 del 2011
**Certification Body:** Det Norske Veritas Italia s.r.l.
**Field of application:** Selection, toasting and packaging of coffee under protected atmosphere, using containers such as cans, capsules, pods, foil-lined bags and sealed composite containers.

Accredited laboratories
I laboratori Aromalab e Sensorylab illycaffè sono riconosciuti e accreditati da Accredia.

**Standard:** ISO 17025.2005
**Certification Body:** ACCREDIA – Italian Institute for Accreditation
**Field of application:** AromaLab e Sensorylab. Laboratories for chemical testing and sensorial testing.

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

**Standard:** UNI EN ISO 14001:2004
**Certification Body:** Det Norske Veritas Italia s.r.l.
**Field of application:** Selection and blending of raw coffee, roasting, packaging and sale of coffee blends. In-house manufacture of tin plated cans through pressing, forming and welding. Design and development of new products.

Certification EMAS
Certification to promote the continuous improvement of environmental efficiency of industrial activities and to enable the publishing of the environmental declaration.

**Standard:** EMAS (Eco-Management and Audit Schem) Regulation
**Certification Body:** APAT (Italian Agency for Environmental Protection and Technical Services) Ecolabel - Ecoaudit Committee
**Field of application:** Selection and blending of raw coffee, roasting, packaging and sale of coffee blends. In-house manufacture of tin plated cans through pressing, forming and welding. Design and development of new products.

Responsible Supply Chain Process
illycaffè is the first company in the world to be certified for the sustainability of its entire supply chain.

**Standard:** Responsible Supply Chain Process
**Certification Body:** Det Norske Veritas – DNV Business Assurance
**Field of application:**
• For the supply chain in: Brazil, India, Colombia, El Salvador, Honduras, Guatemala, Nicaragua, Mexico, Costa Rica and Panama
2014 Highlights

23 operating sites worldwide

2 new premises launched in 2014 (Hungary and Estonia)

159,080 people trained since 2000

24,481 rainees in 2014 (of which 655 producers, 18,583 professionals and 5,243 consumers)
The Università del Caffè was founded in Naples in 1999. In 2002 the premises were moved to Trieste, where the illycaffè premises are located. The University represents a Center of Excellence created to promote, foster and disseminate the culture on high-quality coffee worldwide, by means of training and education.

The educational programmes delivered by the Università del Caffè is formulated with the aim to offer to all the professionals involved in the coffee production supply chain the opportunity to improve and enhance the level of quality of every single sector of competence associated to coffee production: it is accessible to people without distinctions between clients of illycaffè or independent individuals.

The final intent is to create a virtuous cycle of knowledge, with a market-oriented attitude focused on the long time creation of value through growth, sustainability and transparency, widening the areas of intervention: from the relationship with professionals to the direct involvement of end users.

The prestige of the Università del Caffè is based on the strong commitment of the company in research activities and innovation of processes and products, since 1933.

The asset of knowledge and skills is combined with the opportunity to interact with outstanding profiles in the areas of science, economy and culture, creating a challenging environment based on a cross-pollination process, in which information is disseminated among professionals encompassing all the relevant working background and contexts.

Due attention is given to the real needs and requirements of coffee producers, professionals in the distribution sector, like cafés, restaurants and hospitality: in this framework, the training offer has been diversified and tailored to the different levels of complexity and learning. The presence of the Università del Caffè with branches in almost all the continents, allows the company to be active on the field either through the competence of lecturers specialized in technical and didactical thematic areas and also gives the opportunity to be in direct contact with local specific needs.

The Università del Caffè awards with a certificate all the trainers operating in the 23 branches (to date 110 lecturers), which during their career demonstrated proven suitable knowledge to address all the needs required in specific areas and sectors pertaining to coffee transformation processes.

Training programme offered by the Università del Caffè are formulated according to three different level of Education, and are designed according to the level of complexity of contents and competencies delivered.

The pool of personnel dedicated to training activities of the centre is presently composed by: instructors (27), Associated Professors (39), Chair Professors (44).

**High Level Education**

In 2014: 655 coffee producers and 16 professionals trained.

The main objective of the training activities offered by the Università del Caffè is to create and strengthen a pathway of excellency and building awareness in the sector of coffee production: starting from advanced responsible cultivation technologies to the exchange of experiences on the most suitable harvest procedures and processes up to more focused thematic areas encompassing economic and administrative issues.

Recipients of training are all players involved in coffee supply chain and junior graduated interested in careers in the world of coffee.

The Università del Caffè assists growers, producers and professionals of coffee through Supporting Activities, mainly focused on technical and theoretical aspects of their work, through the competence of internationally recognized teacher and experts.

Since 2010, more than 1000 coffee producers participated in training activities. Supporting actions to producers originated from a collaboration started between illycaffè and PENSA (the Agribusiness Intelligence Centre of the University of São Paulo) in 2000. To date, the University of Coffee in Brazil is a reference point for the training of local growers and entrepreneurs.

Attention to the communities in coffee growing countries is translated into the creation of focused and specialized training programmes to be held on site and through the establishment of partnership with local institutions to realize projects characterized by their important social impact. Among the programmes implemented, it is important to mention:

- Brazil: on-line training course on Agribusiness Management, with the objective to provide trainees with a scenario of the agribusiness system of the country, including its origins and its evolution trends;
- Central American Countries: creation of training material to be distributed during online e-learning courses in order to reach the highest possible number of beneficiaries.

The Università del Caffè promotes the University Master of first and secondary level in “Coffee Economics and Science - Ernesto illy”, offered to graduates worldwide, with the objective to provide an academic and interdisciplinary background to create careers for the world of coffee – and more in general for the agribusiness sector and the overall supply chain: from cultivation to food service sector, to retail also encompassing aspects related to logistics, trade, management and industrial processes.

The Higher Education Programme of the Università del Caffè established during years several important collaboration initiatives with prestigious national and international partners, such as the University of Gastronomic Sciences of Pollenzo (Cuneo, Italy), the Master in International Business Administration - MIB Trieste, Master in Food Management at Liuc – Libero Istituto Universitario Carlo Cattaneo and the Master in Food & Bioresource Technologies with the MCI Management Center Innsbruck (Innsbruck University, Austria).
DISSEMINATION COURSES
In 2014: 5,243 consumers trained.

For coffee lovers and curious, in occasion of special events or cultural exhibitions, the University organizes sessions dedicated to the taste of coffee and information activities aiming to learn, to better appreciate and to recognize the flavor and aroma not only of coffee but also of other colonial goods. Activities are held either in the premises of the University or in the various stores of the illycaffè brand.

TRAINING COURSES
In 2014: 18,567 professionals trained.

Training Courses are dedicated to professional working in the HoReCa Sector (Hotels, Restaurants and Cafès), offering the opportunity to join training and updating activities on topics relevant to the management and promotion of commercial activities. Courses are organized either in the premises of the University or through specific supporting activities on-site (cafés, restaurants, etc.).

These training activities have been formulated for entrepreneurs interested in initiating business activities in the world of coffee, or also for owners of cafés and professionals in the sectors, willing update their knowledge and background on relevant recent updates and developments.

The University continuously supports professionals, providing them with knowledge and know-how and practical skills regarding the preparation of coffee beverages, the best way to serve coffee and also on managerial and marketing competences necessary to promote their activities: essential tools to better understand and seize market opportunities.

Lecturers of the University support participants during classes sessions held in the premises or also directly on the spot, where consultancy activities are tailored on demand to address every individual need. Consultancy activities are carried out by teaching experts selected on the basis of the requirement needed: either technical or managerial. The Università del Caffè is also involved in activities related to the validation of machineries used in coffee processing, in tight cooperation with the internal department of Research and Development of the company, which creates new recipes and products using coffee as starting ingredient. The University coordinates also join activities with other internal functions of the company to support them in the realization of promotion materials and multimedia products for marketing use.
2014
Highlights

370.000 euros
from illycaffè s.p.a. as endowment fund.

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

64
Illycaffè created the Foundation, administered by the Illy family, with the aim to provide continuation to the moral and cultural heritage received from Ernesto Illy. The Foundation is a nonprofit organization having a concrete objective: to develop and implement the ethic and sustainability through the promotion of research and through the organization and dissemination of activities open to all possible stakeholders, in order to generate wealth and added value either at local level and in all coffee-producing countries.

The Foundation work is mostly focused on scientific and cultural projects, managed directly and/or in cooperation with other institutions and organizes events, conference, seminars, publishing and multimedia activities and is involved in several cooperation at global level with Universities, Institutions and Centers of Excellence.

Some of the activities and initiatives carried out and supported by the Foundation in 2014 are listed herewith:

“Master’s Degree in “Coffee Economics and Science - Ernesto Illy”.
The Master Degree is an inter-university course of first and second level which is based on 400 hours of classroom session and 12 didactic modules. The Master (which involved 15 junior trainees in 2011, 17 in 2012, 16 in 2013 and 16 in 2014) is promoted and organized by a group of excellency partners in the field of higher education and training: the University of Trieste, the University of Udine, the Ernesto Illy Foundation, the Università del Caffè of illycaffè, the SISSA - International School of Advanced Studies of Trieste, the Consorzium for Biomolecular Medicine (of the Area Science Park of Trieste) and the industrial coffee district of the province of Trieste (Trieste Coffee Cluster).

Reforestation of water source areas.
The project addressed the problem of reforestation of the Tamara region in Colombia, having native trees in proximity of water sources. The area showed the ideal characteristics to be used as land suitable for coffee cultivation, but at the same time was affected by severe environmental problems. Nevertheless, the projects achieved important results: 69,2 hectares preserved, reforested, isolated using 15 different species of plants and trees for a total amount of 12.290 native plants/trees planted. 80 local families of coffee growers and 320 people forming the Tamara community were assisted during the project. The project will have a follow up also in 2015, with the development and implementation of a training programme for the management of waste waters and a plan of technical intervention and assistance to ensure the proper maintenance of trees planted in the area. The first phase of the project has been carried out in cooperation with Cenicafé.

Project Jülich/Aachen - Science of Coffee
On July 2003 the Ernesto Illy Foundation signed an agreement with the and Forschungszentrum Jülich, a Research Institute based in Düsseldorf. The agreement, with a duration of five years, support the funding of the project “Science of Coffee” for the creation of a position for an Assistant Professor in “Modelling and Simulation” within the Helmholtz-Gemeinschaft Institute, who will be in charge of the courses on “Chemical Senses for Coffee Science” and “Computational Toxicology”. The project involves also the University Hospital Düsseldorf and the Cécile and Oskar Vogt Institute of Brain Research, for their commitment in neurology research.

Jacques Attali – the Club for Positive Energy
Following the successful results of the Forum on Positive Economy, held in San Patrignano, Italy, the Planet Finance Group, founded by Jacques Attali, proposed the creation of a ‘Club for Positive Energy’, with the main objective to cluster a virtuous group of representatives from prestigious enterprises, economists and entrepreneurs to become Ambassadors of Positive Economy in Italy. The Ernesto Illy Foundation participated in the translation and publication of the report on the Positive Economy in Italy. The Planet Finance Group invited the Ernesto Illy Foundation to be join of the Club of Positive Energy as a co-founder member.

Beekeeping and production of honey in coffee plantations
Forty coffee growers in the plantations of Calarama of Chaparral, in the region of the Tolima (Colombia), have been trained in order to become beekeepers. The training programme involved about 400 hours of training to realize 120 hives and obtain 60 kg of honey. Illycaffè contributed in the project analyzing the honey produced; results of the analysis was also the characterization of content of caffeine and theobromine in the honey obtained from coffee-flowers. The project will have a follow-up phase, which envisages the involvement of beekeepers of the Friuli Venezia Giulia region to identify which of the practices adopted in the advanced apiculture sector of Italy can be transferred into protocols to be then used to disseminate the practice of beekeeping in the coffee-producing countries. The partner institution of the project was Proapis, a training center based in Bogotá (Colombia): the approach based on “mutual cooperation” adopted in the project lead to a successful and effective result and thanks to the positive feedback obtained in the project, the Calarama district decided to initiate an independent local organization to manage the beekeeping activities and production within coffee plantations, being even able to attract the interest and financial support of the municipality of Chaparral. To date, Calarama capitalized the efforts carried out so far: an enterprise for the production of honey and pollen for the local market has been created, with the future intent to enlarge its size and find new opportunities in the international market.

Germoplasm project
Research, preservation and development of germplasm of Ethiopian Coffee The Ernesto Illy Foundation signed a cooperation with the University of Addis Ababa. The activity focused on the comparative analysis of different types of coffee through the recognition carried out in different forest areas of Ethiopia, showing spontaneous growth of coffee plants. The presence of such spontaneous plants was found even in areas with an height of 2200 m in the region of Illubabor. The project initiative allowed the recovery and remediation of the degraded forest areas in the region of interest, and to restore the native model of coffee plants through the genomic bank. More than 30.000 small plants of coffee have been planted, together with 5.000 field fruit trees. The project terminated on January 2014.
illycaffè

stakeholders
Mappa degli stakeholder e canali di dialogo

From several years to date, illycaffè decided to orient its strategies toward a new sustainable business model, able to create competitive advantages integrating economic-profit objectives with a social and environmental perspective. In order to translate this new approach into reality, a new model of relationship with all stakeholders had to be re-configured, centering the global vision on the creation of a shared added value enhancing, at the same time, the economic and social conditions of the community in which the company operates, together with the communities of stakeholders.

A careful mapping of stakeholders and the activation of a new model of interactive dialogue, allowed illycaffè to identify and analyze their indications and expectations and to incorporate them within the set of objectives and activities of the company: in this framework the Sustainable Value Report is intended to be a reference document addressing all the major issues raised up by stakeholders and to be a guideline to better depict the social, environmental and economic impact of the enterprise (the more material issues).
The main channels and tools of communication with stakeholders that even in 2014 illycaffè has used are:

<table>
<thead>
<tr>
<th>Stakeholder</th>
<th>Main communication tools and channels</th>
</tr>
</thead>
<tbody>
<tr>
<td>CUSTOMERS AND CONSUMERS</td>
<td>• Customer care:</td>
</tr>
<tr>
<td>SUPPLIERS OF GREEN COFFEE</td>
<td>• Verification activities prescribed by Responsible Supply Chain Process</td>
</tr>
<tr>
<td>OTHER SUPPLIERS</td>
<td>• Vendor evaluation activity (started in 2014)</td>
</tr>
<tr>
<td>HUMAN RESOURCES</td>
<td>• Team building activities</td>
</tr>
<tr>
<td>SHAREHOLDERS</td>
<td>• General Assembly and Participation in the BoD</td>
</tr>
<tr>
<td>ENVIRONMENT</td>
<td>• Dialogue and interaction with institutions for authorizations</td>
</tr>
<tr>
<td>PARTNERS</td>
<td>• Global PR meeting and international commercial meeting</td>
</tr>
<tr>
<td>Stakeholder</td>
<td>Main communication tools and channels</td>
</tr>
<tr>
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<td>-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
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</tbody>
</table>
| COMMUNITY            | • Projects and collaborations with Schools and Universities in Italy and abroad  
|                      | • University Master in Economics and Science of Coffee  
|                      | • Periodical invitation of local institutions in the headquarters  
|                      | • Competitions and fellowship for young national and international artists  
|                      | • Media tour for journalists in coffee-growing countries and at the headquarters  
|                      | • Join project with the major cultural international institutions  
|                      | • illy Gallery and other cultural initiatives  
|                      | • Dialogue and collaboration with main international schools of art and design  
|                      | • Project ‘illy sustains art’ to provide support and visibility to young artists from the South of the world  
|                      | • Dialogue and collaboration with the main institutions in the wine-gastronomy sector  
|                      | • Expo 2015  
|                      |                                                                                                                                                                                                                                   |
| PUBLIC INSTITUTIONS  | • Periodical invitation to main authorities and institutional officers to visit the plant and the headquarters  
|                      | • Institutional awards and recognitions for best practices of illycaffè worldwide  
|                      | • Participation to thematic round table discussions  
|                      |                                                                                                                                                                                                                                   |
| MARKET               | • Direct contacts in occasion of industry events and fairs  
|                      | • Active participation in pre-competitive working table discussions with competitors and academic institutions (ISIC, ASIC, Coffee Industrial District)  
|                      | • Active participation in events organized by main category associations (Industrial Federation, Industrial Association of Trieste, Coffee Industrial District, SCAE Italia, Centromarca, Altagamma, ASIC, ISC, FERPI)  
|                      |                                                                                                                                                                                                                                   |
The processes developed by illy for the engagement and involvement of stakeholders are now implemented through a more systemic approach which follows the indications given by the international standards included in the “Accountability 1000 Stakeholder Engagement Series”, which represents the international reference guideline relevant to the engagement of stakeholders. Moreover, for the identification of the most relevant sustainability thematic areas (materiality) illycaffè makes reference to the national and international sustainability standards (ISO 26000, GLOBAL COMPACT, Global Reporting Initiative, Gruppo Bilancio Sociale), to the certification delivered by the Responsible Supply Chain Process, to the practices adopted in the relevant industrial sector and to its own Strategic Plan.

In 2014, illycaffè, with the objective to update the materiality analysis for the most relevant thematic areas, realized in Italy two specific initiatives for the engagement: the first initiative was internal to the company and the second initiatives open to specific initiatives for the engagement: the first initiative was implemented through a multi-stakeholders workshop, with the aim to collect comments, ideas and suggestions from the main representatives of partners and from expert with wide and recognized credentials in the field of sustainability, such as: the Ministry of Environment, the Global Compact Network, Foundation for the Active Citizenship, Industrial Association of the Province of Trieste, University of Trieste, suppliers and sales representatives. In this occasion, illycaffè presented to partners the materiality analysis published on the previous editions of the Value Report and hence collected their relevant opinion: the event represented also an opportunity to receive useful indications on how to improve its own Sustainability Report.

Effects of this type of approach in the engagement strategy had an immediate result on the materiality matrix, already implemented in the past by illycaffè for the finalization of the previous editions of the Sustainability Report. The materiality matrix presents the most relevant themes addressed by social responsibility and depends on different variables: economic, environmental and social impacts specific for the enterprise and their influence on the decisions taken by stakeholders.

In particular, it has been pointed out that illycaffè has been called to pursue with even more commitment the themes which forms the core of the company development: research, innovation, respect of human rights, responsible management of the entire supply chain, the control of emissions in the atmosphere, the mutual interaction and dialogue with its stakeholders. Moreover, stakeholders evidenced some crucial aspects on which attention must be driven: management of water resources, local supply, economic and employment turnover in the territory. Lastly,
stakeholders evaluated the aspects connected to normative compliance and fraud prevention less relevant than expected, as the well-established practices adopted and strengthened during time and the level of compliance of the company are already high and recognized.

Nella tabella seguente viene analizzato il perimetro entro il quali si manifestano gli impatti relativi agli aspetti materiali emersi:

- **illycaffè**: gli impatti si verificano soprattutto all’interno della capogruppo e alle società ricomprese nel perimetro del Value Report, così come descritto in Nota Metodologica
- **Coffee producers**: aspetti che sono maggiormente rilevanti per la filiera del caffè verde
- **Suppliers**: aspetti rilevanti nel rapporto con gli altri fornitori
- **Customers/consumers**: tematiche rilevanti nei processi di vendita, distribuzione, consumo dei prodotti/servizi
- **Community/environment**: aspetti con rilevanti ricadute sulla collettività, le istituzioni, l’ambiente

<table>
<thead>
<tr>
<th>Materiality topics</th>
<th>GRI aspect (specific standard disclosure)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Local supplies</td>
<td>Procurement Practices</td>
</tr>
<tr>
<td>Communication and Marketing Officers</td>
<td>Product and Service Labeling</td>
</tr>
<tr>
<td>Compliance with normative framework and fraud prevention</td>
<td>Compliance (ISO)</td>
</tr>
<tr>
<td>Commercial and negotiation correctness</td>
<td>Marketing communication</td>
</tr>
<tr>
<td>Creation of value and wealth</td>
<td>Economic performance</td>
</tr>
<tr>
<td>Energy Efficiency</td>
<td>Energy</td>
</tr>
<tr>
<td>Emissions in the atmosphere</td>
<td>Emissions</td>
</tr>
<tr>
<td>Management of water resources in plantations</td>
<td>Water</td>
</tr>
<tr>
<td>Waste management</td>
<td>Effluents and Waste</td>
</tr>
<tr>
<td>Responsible management in over the whole supply chain</td>
<td>Procurement Practices + Supplier Environmental Assessment + Supplier Assessment for Labor Practices + Supplier Human Rights Assessment</td>
</tr>
<tr>
<td>Research and Innovation</td>
<td></td>
</tr>
<tr>
<td>Social investments in the community</td>
<td>Local Communities</td>
</tr>
<tr>
<td>Know-how and incentives for producers</td>
<td>Indirect Economic Impacts</td>
</tr>
<tr>
<td>Lobby and protection of interests of the sector</td>
<td>Public Policy</td>
</tr>
<tr>
<td>Packaging e recycling</td>
<td>Products and Services</td>
</tr>
<tr>
<td>Pricing and service to clients</td>
<td>Product and Service Labeling</td>
</tr>
<tr>
<td>Promotion of art, aesthetics and culture</td>
<td>Local Communities</td>
</tr>
<tr>
<td>Quality of raw materials</td>
<td>Economic performance</td>
</tr>
<tr>
<td>Profitability and company value</td>
<td></td>
</tr>
<tr>
<td>Reputation and value of the brand</td>
<td></td>
</tr>
<tr>
<td>Health and safety in the working place</td>
<td>Occupational Health and Safety</td>
</tr>
<tr>
<td>Protection of the intellectual capital value</td>
<td>Employment</td>
</tr>
<tr>
<td>Protection of consumer health</td>
<td>Customer Health and Safety</td>
</tr>
<tr>
<td>Protection of environmental asset and biodiversity</td>
<td>Biodiversity</td>
</tr>
<tr>
<td>Valorization of human resources</td>
<td>Training and Education + Diversity and Equal Opportunity + Equal Remuneration for Women and Men</td>
</tr>
</tbody>
</table>

30
The real added value in life lies in human relations.

Together, through shared purpose and motivation, we can forge the pathway to success. Only through this combined effort will we be both coffee producers and creators of value, just as we want it to be.
2014 Highlights

450 Daily tastings to guarantee the quality of products

1,084 Employees as of 31/12/2014 at a consolidated level

140 Illy blend is commercialized in 140 countries and in all 5 continents and served in more than 100,000 public selling points (internal estimate)

46,500 Contacts with clients through the customer care service

742,000 euros Contributions from associated members or donation distributed to institution of social utility in 2014
The creation of social value

The business model developed by illycaffè is finalized to the creation of social value exploiting the concept of growth.

Consumers of illy, choosing illy products seize the opportunity to enjoy an enriching experience in which quality of products is coupled to the possibility to open a door to a new world of knowledge: the history and culture of coffee, becoming therefore connoisseurs.

Clients of illy which decide to serve illy products in their places, have the chance to improve their knowledge and professional backgrounds through training activities offered by the Università del Caffè and the services made available by the company.

Suppliers collaborating with illy can benefit of the advantages relevant to the reputation of the company and have access to the acquisition of new skills and know-how. In the specific case of producers of green coffee, illycaffè contributes to the improvement of their living conditions, through the intervention projects promoted in the areas of production in which the company is operating.

Collaborators can access opportunities of personal growth and realization, through the development of new competences and professional skills. Illycaffè is a symbol of “lean” philosophy, focused on the enhancement of teamwork, with the valorization of capacities, entrepreneurial attitude and individual creativity.

Communities involved by the company benefit either from a return on their visibility and also for direct contribution from the company to support cultural initiatives and solidarity activities.

Shareholders collect fruits of the reputation and of the responsibility in their mandate to operate, which are produced by the share of the value created all along the sustainability chain.
Quality and safety of illy products

2014 Highlights

4.000
Laboratories of illycaffè carry out about 4,000 test and analysis on samples of green coffee.

40.000
Laboratories of illycaffè carry out about 40,000 test and analysis on samples of roasted coffee.

450
Illycaffè performs an average number of 450 tastings on daily basis to guarantee the quality of products.
The strategy of illycaffè is based on the principle to offer to consumers a perfect cup of coffee in every place the world and to propose them a unique sensorial and memorable tasting experience, lasting in time.

In order to achieve this objective, it is also necessary to serve – together with an excellency product – all the elements which contribute to its preparation, its service and its environment. For this reason the company is continuously committed to the improvement of quality standards in all their possible aspects: production, processes, service to clients. This attitude is also reflected in the efforts of the company in the realization of safe products, in the absolute respect of rules and specifications which regulate the agro-food sector.

illycaffè developed and implemented sophisticated systems to monitor and control all the production process phases (selection, toasting, packaging, etc.), which are based on a sound and wide system of norms, protocols and certifications.

PRESSURIZATION
Espresso coffee is a complex beverage, in which 1,500 substances (of which, 800 are volatile) and more than 13 chemical-physical parameters are combined during its preparation. Illycaffè invented the pressurization technology, the system which allows preservation of food, replacing the air present in packages with inert gas under pressure. Through pressurization, aromas of freshly roasted coffee are trapped inside the package and prevented from naturally leaving the beans. In this way, aromas are mixed with the oils of coffee creating therefore the typical, unique harmonic, intense, well-rounded sweetness of taste preserving in time its peculiar fragrance.

RAW MATERIAL AND PROCESSING
The quality of coffees produced by illy has an history that begins with raw material. In order to constantly maintain the excellence quality, the company purchases directly green coffee directly from producers (with the exception of Ethiopia, where local legislation does allow direct commercialization of green coffee). Working with the best producers of coffee worldwide since decades, the company had the opportunity to develop with them a long term cooperation relationship, believing that only through relationships based on mutual exchange and reciprocal growth could be guaranteed quality and, together with quality, the enhancement of the value of products. Before purchasing coffees, Analysis and Quality laboratories of illycaffè examine and analyze the samples of green coffee: each batch of coffee that is selected for importation to Italy must be mandatorily accompanied by phyto-sanitary certificates. Analysis to verify the absence of heavy metals, phyto-pharmaceutical substances, herbicides, and pesticides must be also carried out.

Once the green coffee reach the plant in Trieste, it is placed in a warehouse large 9,000 square-meters, covered, insulated and protected by the sun radiation. Before the roasting process, the nine ingredients of Arabica forming the blend are mixed together in order to obtain the final, homogene-ous and equilibrated taste of the coffee as found in the coffee cup. The last passage is represented by packaging. The process is realized with the most advanced industrial automated and computerized technologies: each type of product (capsules, cans, pods) undergoes pressurization process and is then carefully sample-checked during all the different production phases by laboratory technicians: since the moment the coffee enters the plant to the moment the coffee leaves it, 125 checking controls have been executed. All the processes (from mixing to toasting) are carried out in the plant of Trieste, which is controlled and certified in accordance with the management systems described and certified by an independent third party, according to the internationally recognized food health and safety standards.

The only exception is represented by IES capsules, MPS and UNO, for which the packaging process is carried out in the Mitaca srl plant, located in the province of Milan. The plant is regularly supplied with toasted coffee beans pressurized in silos. Mitaca srl company and all the other plants in which are carried out service operation (assembly, packaging, labelling, etc.) are monitored in compliance to the audit plans envisaged by the certification procedures of the company and carried out by expert auditors of illycaffè.

QUALITY, CERTIFICATION AND FOOD SAFETY
In order to guarantee the quality of products and their safety illycaffè developed management systems which enabled the company to obtain the most important international certification for its own reference industrial sector:

- Certification of Quality System according to the UNI EN ISO 9001:2008 in 1994 (illycaffè was the first company worldwide to obtain this certification).
- Certification BRC according to the BRC GLOBAL STANDARD-FOOD (for the first time in 2005, then in 2008 with the release of the version-5, then in 2012 with version-6) and IFS according to the IFS-INTERNATIONAL FOOD STANDARD Scheme (in 2007 with the version-4, in 2008 with the version-5 and in 2013 with the version-6).
- Certification for Environmental Management System according to the UNI EN ISO 14001:1996 and ISO 14001:2004. The company obtained also the registration certificate to EMAS (Eco-Management Audit Scheme)

During 2014, the company updated and retained all the certification obtained during decades; a total number of 35 internal and external audits have been carried out according to the different monitoring plans (28 audits in 2013).

During 2014, the company initiated specific activities relevant to food safety of products and processes related to the opening of new stores in occasion of the Expo 2015 Exhibition and to the control of coffee supplies purchased in Brazil, with the following resulting monitoring activities:

- Control of protocols for Food safety Hygiene illycaffè / illyshop in Milan and café illy in Milan
- Starting phase and first appraisal of the new protocol for the acceptance of raw materials from Brazil, relevant to the presence of Pesticides.
- Preparation of the scientific protocol to be applied in the characteriza-tion of the toasting process, aiming to bear a more strict control of constant conditions of the process and seek for novel toasting procedures with optimization of quality standards in the final coffee taste in the coffee cup in terms of sensorial properties such as: balance, intensity and complexity of aromas, enhancement of full-bodied impact and sweetness.
- Revision of labels for all the illy branded products, in order to guaran-tee an always better conformity to the labelling regulations (Reg. 1169/2011/CE): in this regard, the company created a database containing the mandatory information to be published on European websites and e-commerce web points as well as for the products of the Associated Companies.

In 2014 the Company did not receive any sanction for non-conformity to laws or regulations in matter of quality, food safety, traceability or similar.
illy clients
Customers and served markets

2014 Highlights

390,8 millions
millions of euro of overall turnover at a consolidated level (+4.5% compared to 2013)

40%
net incomes in EMEA countries; 38% in Italy

200
espressamente illy cafés selling points in 34 countries worldwide, 36 millions consumers served per year

46,500
contacts with the Customer Care service
Clients and consumers of illycaffè are offered an unique blend, composed by 100% Arabica coffee, result of a selection and processing approach which preserves and enhances quality.

illycaffè today is served in more than 100,000 selling points of the Ho.Re.Ca sector (Cafés, Hotels, Shops and Restaurants) in more than 140 countries in the world, accounting for more than 6 million of coffee cups consumed every day at home, outside, on the working places and to-go (internal estimate calculated on the basis of total sells over the number of total clients). The strategy of the company poses clients in the center of their activities in a customer-centric vision: the result is the establishment of a long term relationship with clients and a continuous attention to clients satisfaction, offering them excellence quality in products and services, with high level of innovation and know-how.

The strategy elaborated for the distribution of illy products endorses the creation of long term added value.

Growth of clients is fostered applying the strategic approach of the “4Cs” (invented by illy: Cuore, Cliente, Cassa, Crescita): a paradigm where commercial aspects are coupled with the concept of sustainability, always bearing in mind the final goal to create value for the entire community. This strategy allowed the company to maintain a constant increase even during the most recent years, in spite of the economic crisis threatens.

Social value generated by illycaffè is translated into favorable economic results also for clients in terms of overall turnover of selling volumes. According to analysis carried out internally in the company, it has been evidenced that clients purchasing more complete and advanced types of products (Artists of Taste or ‘Espressamente illy’ lines of products), achieve better results in their business.

The distribution of illycaffè products is carried out mainly through the following channels:

- **Ho.Re.Ca channel (Hotels, Restaurants, Cafés) and shops:**
  - Espressamente illy retail points: more than 200 in the most important cities in 34 countries of the world. In 2014 illy launched also new selling points in Istanbul (Turkey), Abu Dhabi (United Arab Emirates), Dalian (China), Busan (South Korea)
  - Artisti del Gusto (Artists of Taste): project created in favor of loyal cafés retailers, with the aim to create an international network to valorize and increase their professionalism. For all the clients participating in the project, illycaffè offers personalized consultancy services and a programme of activities updated and renewed year after year, which includes advanced and dedicated training provided by the Università del Caffè, specialized tools, coffee machineries.
  - illy Cafè: more than 50,000 cafeterias worldwide, offering illy coffee to their customers
  - illyshop > illyteca: 5 illyshops and 2 illyteca in Italy. In 2014 a boutique of the chain illy Cafè has been opened within the Fidenza Village, one of the Chic Outlet Village Shopping of Value Retail®.
  - Restaurants and other special selling places: in 2014, a collaboration with Costa Crociere has been initiated (Costa Crociere is the most important Cruising company in Europe) to serve the espresso coffee illy in all the fleet of the cruise line.
  - Home: for the daily consumption (Retail channel)
  - Offices and work places: channel which includes all the sales oriented to working environments or communities not open to the public.

Further to the above mentioned channels, customers showed an always increasing interest in purchasing products online through the illy e-shop.
Listening of customers and customer satisfaction

The constant attention in cultivating a continuous relationship with customers allows illycaffè to improve its capacity to drive their needs and achieve higher results in their satisfaction. In order to be able to reach this goal, illy centers its strategies on factors having a positive impact in the quality of services, such as: accessibility, transparency of processes, times of feedback, homogeneity of work among all the selling channels, delivering of services with high added value. The main tool adopted by illy in the management of relationship with customers is represented by sales representatives (160 people having continuous contacts and dialogue with the territory assigned). Website, social networks, customer care service, training courses held by the Università del Caffè, relations with media, play also a crucial role. Data of 2014 report a total number of 46.567 contacts, with a percentage increase of 16% compared to data of 2013.

The analysis of data can be summarized as follows:
• Decrease of request of assistance/services and commercial requests on behalf of potential customers;
• Decrease in request of information;
• Decrease of complaints on the quality of coffee and coffee products

Customer care services abroad

In addition to the Customer Care service provided by headquarters, the company created dedicated teams to manage the relations with clients in all the associated companies of the Group abroad: the Customer Care team for North America is composed by12 people, in France by 5 and in Brazil by 4. Also in Germany a team is operating, managing about 70 contacts per day, while in Spain the Customer Care service manages a portfolio of 100 customers and a potential target of 3.000 contacts. In the Netherlands, the Customer Care service handled about 500 requests of contact. Activities include contacts with customers already having established relationships with the company and potential clients. Reasons for contacts are diversified and cover issues as: news on products, services, use of the website.

In France, the company carried out several initiatives to collect and analyze information on contacts, for the improvement of the customer satisfaction service, among these: survey on brand awareness, market analysis on customers and their opinion on coffee capsules, survey on the initiative “Artisti del Gusto”. In the United States, other type of surveys have been also performed, aiming to improve the fidelity of customers, to evaluate their level of satisfaction, to evaluate the effectiveness of the Customer Care service (post contact), to address benchmark needs of the sector, to evaluate the level of satisfaction of sales representatives.

The company founded the illy Observatory, with the objective to analyze the trends of evolution in the world of coffee. The first
research activity carried out by the Observatory was a report on Young Coffee Culture, and has been realized in cooperation with Future Concept Lab. The researched wanted to investigate the modality of perception of coffee among young people. The reference sample group for the study was formed by young Italians (in the range of 18-39 years) and demonstrated that young people in Italy show an extraordinary awareness on coffee consume: 96% of total interviewed people normally enjoy cafés, with a preference on traditional cafeterias (48%). 54,2% of the reference group normally consumes coffee during breakfast, 92% of coffee consumption in cafés, 66% of preference for classic espresso coffee and a spontaneous appreciation of creaminess/light foam (48%).

Data confirmed the well-established attitude for the ritual of coffee (intended both as a place to consume coffee as well as the tasting experience) in all always changing world: it is possible to draft a sort of Decalogue, which defines the context of the experiences of young people in their approach to the bars/cafés: for instance, the attitude to enjoy the happy hour can be considered marginal (only 10% of young Italians), while it is well define the awareness on the attention to raw materials (60% of young people interviewed considers this aspect as essential). On the other hand, it is clearly defined a virtuous combination of three elements for the bars/cafés of the future: a triangle formed by music, personnel available and effective and a quality coffee.

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 fair competition between commercial competitors and to allow customers to taste cup of illy espresso coffee in every single place in which the brand is visible.

Management of reports and actions for improvement

Reports and claims received by the Customer Care service of illycaffé are received by the Total Quality Insurance division of the company, which analyzes and manages them in cooperation with other different company functions, in order to identify main causes of dissatisfaction and specific critical issues. Following the reports relevant to quality claims, environmental aspects and HACCP related problems, during 2014 22 files have been opened to implement an improvement action: among them, 15 have been terminated in the same year. The Total Quality Management supervision of illycaffè allowed the improve the level of non-conformity degree detected on products. In particular, significant results have been reported on commercial items in packages with 125/250 grams.

Quality in the cup

In order to better support customers of the Ho.Re.Ca. channel, the company developed and implemented 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 of the quality of coffee served in the cup, within the Ho.Re.Ca. channel and Vending channel (on demand). The services is provided over the entire national network;
- Management and monitoring of the visibility of the sales point;
- Training and management of know-how on the qualitative standards of illycaffé and relevant tools;
- Management of test and trials of new products;
- Involvement of retail managers and operators in the activities offered by the Università del Caffè.

Furthermore, since September 2012 illycaffé 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 cooperation agreement has the main objectives to preserve the superior quality of the illy blend 100% Arabica and to protect the local coffee growers which contribute on a daily basis to deliver the taste and the illy excellency in the cup of coffee of Italians. The agreement includes also the performance of analysis on coffee samples, a test trial for a new methodology of analysis, in order to allow a more rapid and effective detection of blends of coffee using different products than ingredients used by illy in the illy blend.
Communication and responsible information

The ambition of illycaffè is to create an emotional and intellectual involvement of customers, offering a true multi-sensory experience. Starting from this idea, in addition to the quality of products, where requirements of aroma, taste and body are essential to vehicle the an unique and extraordinary experience, the company transferred the same concept on coffee cup: the most important tool in the utilization of the product: in 1992, the illy Art Collection of coffee cups has been created. The intention to allow customers to experience the taste of coffee means sharing with them the passion for aesthetics and culture: arts and creativity identify are two main pillars in the philosophy of illy company and by means of arts and creativity illy communicates its values and ideas to people.

Espressamente illy, together with other experimental projects of contemporary communication, is part of a series of cultural event organized at international level. The basis of communications activities addressed to clients and stakeholders, illycaffè position the respect of the right to access information: each communication event formulated by the company is carried out in full compliance with laws, rules, practices of professional conduct and is realized clearly, transparently and rapidly.

illycaffè shows a full compliance to the self-disciplinary code for advertising initiatives illycaffè ensures that all the labels of the company are in compliance with all the norms and regulations in reference countries, through the professional advice and services of Total Quality Food Consultants, a company specialized in the promotion and development of agro-food quality. In 2014, the company participated in the ECHO AWARDS ITALIA 2014 (the Italian edition of the prestigiood DMA INTERNATIONAL ECHO AWARD), a recognition which endorses quality communication corporate activities. illycaffè qualified for the Silver Award within the category of Consumer Products e Special Prize, for email marketing campaigns.
illycaffe people
Occupation

Illycaffè recognizes the central role of people, considered as strategic stakeholders, and the importance to establish transparent relationships based on mutual loyalty, trust and on the application of the principles of Ethical Code adopted by the company.

The management of collaborations in working relationships is inspired to respect of worker rights and to the full valorization of their human capital in order to foster their development and growth.

The company promotes the value of human resources and in this regard, improves and enhances the asset of competence of each employee. The company is also committed to stimulate capacities, to empower potentialities and interest of people, either inside and outside the working environment.

Illycaffè bears the responsibility to realize the professional satisfaction of individuals, making reference to an integrated and coherent personnel management system: the corporate strategic plan includes also processes relevant to personnel satisfaction by mean of asignation of objectives, training programmes, education and role development. Performance evaluation analysis is also carried out: the process is based on a clear definition of mutually shared objectives, which are quantifiable in terms of numbers, economic, financial and also personal criteria and are recognized and awarded upon satisfaction of goals.

The company protects and fosters the improvement of quality of life of employees and of their families, offering a safe and comfortable working environment, stimulating capacities, potentialities and personal interest of human resources, also by means of initiatives - like a network of benefits and conventions - aiming to facilitate their life.

Organizational development in 2014

In 2014, the company initiated several projects dedicated to human resources and their organization, with the aim to reinforce idea of the central importance of clients, in a context coherent with the strategic corporate vision.

The enlargement of the two operational commercial business unit has been implemented, organized according to the type of corresponding customers:

- Business to Consumer unit: oriented to final client consumers targeted through e-commerce activities and traditional retail activities
- Business to Business unit: oriented to economic operation customers, like cafés and structured distribution.
- The central position of clients has been also the basis for the revision of other unit: Global Brand Business Development Unit, Marketing Unit, Research and Innovation Unit. For each branch, specific road maps have been defined, for the development of products, services, and business models, coordinated and oriented to achieve best results in the satisfaction of the requirements of all the stakeholders.

The necessity to support such substantial change, also from the point of view of the organizational culture, involved the realization of ad hoc training events:

- The initiative on active citizenship illycitizen, had the objective to sensitive all the employees on the elements having an impact on the satisfaction of customers, leading to the definition of new concrete improvement actions;
- The project focused on the main fundamentals of business retail, which for illycaffè represents the most advanced frontier to serve final end users and to allow them to live the real experience of the brand;
- A training programme specific created for the management sector, and developed in strict cooperation of a renewed Italian business school, with the objectives to reinforce importance of the above-mentioned themes noth from an internal and external perspective.

In 2014, illycaffè in Italy adopted flexible forms of employment (4,8% of occupied human resources in Italy) as of 31 December 2014, the company employed 20 people with a flexible form of cooperation under the scheme of the work supply agreement and 10 people with contracts under project, of which 30% of them, women. Moreover, during the same year, the company activated stages contract to accommodate students from school institutes and Universities of the region.

Geographical distribution of personnel in 2014 presents a picture very close to the one of 2013. About 63% of personnel is employed in the Italian companies of Illy (61% in 2013), while 20% of personnel is employed in other companies with premises in Europe. The rest of personnel is distributed in companies having sites in North America (9%), Asia (6%) and South America (3%).

Employees from geographic areas (%)

<table>
<thead>
<tr>
<th>Geographic Area</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>Italy</td>
<td>63%</td>
</tr>
<tr>
<td>Europe</td>
<td>20%</td>
</tr>
<tr>
<td>South America</td>
<td>9%</td>
</tr>
<tr>
<td>North America</td>
<td>1%</td>
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<tr>
<td>Asia</td>
<td>6%</td>
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Age group of employees

<table>
<thead>
<tr>
<th>Age Group</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>&lt;30</td>
<td>13.3%</td>
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<tr>
<td>30-50</td>
<td>69.7%</td>
</tr>
<tr>
<td>&gt;50</td>
<td>17.0%</td>
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As of December 2013, personnel with permanent contract (or similar, in coherency with the contracts models applied in various countries in which illycaffè operates) represents the 95% of total. This number is higher than the rate of the previous year (85% at global level), thanks to a more detailed and careful analysis of the different types of model contracts adopted abroad and which can be recognized under the specification of “permanent contract”.

Part time contracts have been given only in 5.5% of cases (compared to the 4.5% of 2013) and it is most frequently requested by women (87% of cases).

illycaffè recognizes the merit of employees, as envisaged by the Ethical Code, and offers to its ow collaborators work opportunities based on their professional competencies and productivity. In terms of remuneration, regulations applied are the same of 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 man, for each category of worker is of 0.8% in case of Executives and Employees and of 0.9 for Managers and Workers. This ratio has been calculated dividing the total sum of received RAL received by women by the total RAL received by men, for each category of dependent.

The percentage of women covering responsibility roles (Executives and Managers) is equal to 36% of the total amount of employees under the contract signed by Executive and Managers at global level (in line with the trends of 2013).

The turnover rate in 2014, calculated as ratio between people leaving the company in the year and the total workforce staff at the end of the period is of 5.2%. The rate of personnel hired in the period is of 11.4%, equal to the ratio between people hired during the year and the total workforce staff at the end of the period: the information given by the number is coherent with the increase in number of occupied personnel compared to the previous year. Initiation and termination of contracts did not vary in case of male and female employees.

Employees belonging to protected categories are:
For the Parent company in Italy 22, of which 10 women and 12 men: they represent 3.5% of total workforce in Italy (+9.7% compared to 2013, with one new entry).
Training and development of personnel

People form the core of interest of the company and the fundamental component at the basis of the strategy of evolution and growth. The company hires professional profiles able to bring experiences and competencies complementary to the existing asset and fosters the internal development of employees for the positions that may be opened during time. Training of personnel is of vital importance for professional improvement and development of individuals.

Training represents also an important incentive to support the development process adopted in the strategic plan of the company, as individuals the main protagonists in the success story of illycaffè.

Training has the power to involve collaborators and enables them to become actual business partner (to support the company in the main corporate project initiatives and in the achievement of objectives assigned); to become people partner (assisting the management in the development of internal staff); to become company partners (to complement the company in the development of an identity and culture to create ‘shared leadership’).

The training plan (based on a three years programme) is formulated taking into account the strategic objectives, the organizational evolution and the individual training needs. The analysis of individual requirements is carried out through the direct involvement to the Heads of Functions and Services, through the screening of the development sheet of employees and their relevant considerations, considering also the evolution the company will undergo in the next future.

The training plans are carefully created and are divided into two categories: courses oriented to technical training and courses oriented to behavioral training. Didactic methodologies can vary according to the type of training (in classroom or on the field).

illycaffè cooperates from decades with the best schools of corporate training, as SDA Bocconi of Milan, MIB of Trieste, London School of Economics, il Sole 24 ore training programme, Infinity and others.

Compared to the year 2013, 2014 witnessed a decrease of average number of training hours, as 2014 has been the year for the completion of the training phase dedicated to the tools of office automation. In terms of qualitative analysis, the initiatives started in 2014 have been distinctive for their higher quality level, i.e.:

- Illy Executive Management Program in cooperation with MIB, started a training programme of the duration of two years, dedicated to managers;
- Enterprise lab on Retail: in cooperation with CUOA Foundation, for all employees working in the division Business to Consumer;
- Training Courses organized by the Università del Caffè: for the inclusion and integration of new resources in the sales representatives workforce;
- Training course on Procurement: for all employees working in the Purchase Division which are subject to integration of new resources on two-years basis, and focused on all the thematic areas of interest for the profile of coffee buyers
- Illycitizen: a multi-year programme which involves the whole company and associated companies and based on the creation of identity values, sense of belonging, active citizenship. The group of trainers of the programme was formed by representatives working in the different units of the company, representatives of generations of people within the company, office clerks, technicians, people having different gender and ages which had the opportunity to dialogue with internal and external subject, having therefore the opportunity to become facilitators during workshops organized internally and externally to the company. During workshops, customers (cafés tenders and coffee consumers), groups of customers of competitors brands, together with groups formed by sales representatives participated in the drafting of guidelines for the company with the aim to obtain a more client oriented inclination. Internal trainers shared the results of the workshops (either in form of storytelling and using multimedia support, with the creation of short movies) creating a think-tank at disposal of management, which could benefit from this results in finding the inspiration for the formulation of intervention plans. Results of the overall work carried out will be reported to citizens of illy in 2015.

illycaffè abroad: selected examples and best practices

At global level, in countries abroad than Italy, associated companies realize several training activities mainly focused on technical and commercial thematic areas (to develop selling capacities, client management capabilities and customer care service assistance), on organizational topics and on information technologies issues. Several interesting initiatives have to be underlined, carried out in the United States and relevant to the prevention from harassment on working places, team building, change and time management, project management and Italian language and culture.
Health and safety

The culture of health is vital to the company and illycaffè choose to build up a shared concept on culture of health together with its collaborators, developing an awareness of risks related to working activities and promoting responsible practices. The company has a strong commitment in protecting the health and safety of workers, firstly through the implementation of preventing actions, observing the requirements indicated in the policies for risk preventions and protocols to ensure hygiene and health in the working places, and also by means of training and information activities. New employees, before starting to work, are required to attend a specific course, designed by the Unit for Risk Prevention and Protection. The company implements also training programmes held directly within the operational units of the production plant, with the aim to widely disseminate among workers the culture of individual safety and to share the process of risks analysis and evaluation.

Number of injuries and missed working days at illycaffè Italy

Index of frequency and severity of injuries at illycaffè Italy

The plant is permanently equipped by a first aid emergency team, which includes about 40 people and able to deliver first-aid and fire-prevention. In 2014, 6 cases of accident in the working place, for a total amount of 139 days of absence and two cases of accidents in the itinerary to the working place, for a total amount of 55 days of absence. As a whole, accidents
involved 8 employees (6 men and 2 women). In addition to data relevant to absences for accidents, also sick leaves accounts for a statistical analysis: in 2014 absences for sick leaves (maternity leaves, medical controls, request of sick leave, etc.) accounts for a percentage of 7.8% of absenteeism rate (calculated on the basis of hours of absence – minus annual leaves and allowances for reduction of working shifts – over the total number of working hours).

Evaluation of risk and risk management

In order to guarantee a continuous improvement of working conditions, illycaffè constantly monitors the situation and changes within the plant and premises in the framework of evolution of norms and regulations on safety issues. In particular, a new risk assessment evaluation has been recently carried out according to the new risks introduced in the Decree Law No.81/2008 (Consolidated Act on Occupational Health and Safety), with focus on the risk from related working stress conditions. The company complied with its obligation even before the rules in that directive became applicable. The company implemented the internal management system with the creation of an ad hoc Committee which includes all the subject in the company responsible for safety and security issues. The Committee is formed by: a Responsible for the Prevention and Protection Services, Representatives of Employees for Safety, the competent Medical Doctor, Delegates for Safety and the representative of Human Resources (in charge of the company in lieu of the Employer).

Three Representatives of Employees for Safety issues are nominated in the company for all the category of workers. Since 2013, a procedure for the improvement signals and detection of any event relevant to safety has been implemented: data sheet have been prepared to report main information and corrective measures suggested. Moreover, a report is prepared on a monthly basis on the state of warnings (closed, open or in progress). The report is forwarded to all Responsible of Units, to the Chief Executive Officer, the Board of Vigilance 231, the Board of Statutory Auditors and Employee’s Safety Representative (RLS). In 2014 were reported: 2 episodes near to accidents, 3 avoided accidents, 21 potentially dangerous situations and 7 reports for non-conformity conditions.

Safety monitoring and control activities in working places are also extended to employers of contracting companies: contracting companies working within the plant of illycaffè must follow all the regulations and norms concerning injury prevention and hygiene in the working place. The company shares all the information and surveillance activities with all the personnel operating in its premises: in addition to the DUVRI (the Single Interference Risk Assessment Document), the company requires an immediate communication on any potential injury which may occur, in order to verify the direct responsibility of illycaffè in accidents and prepare subsequently an intervention plan. In 2014, in the premises of Trieste, only one injury involving an operator of contracting companies has been reported.

Training and prevention

In illycaffè, training covers a primary role also in the promotion of safety issues: each employees received an average number of 2,6 hours of training in topics relevant to safety and risk prevention (1,9 hours men and 1,0 hours women). The average number of hours increased in 2014 (1,608 hours compared to 834 hours, for a total number of 352 employees involved), due to the training of new personnel entered in the company and the training activities of update for Executives and Managers. The initiative “Zero Industrial Incident Project” has been included among the activities carried out by illycaffè to create awareness about prevention and the promotion of a cultural attitude that enhance the responsibility on safety issues on the working place. The project has been formulated with the direct involvement and participation of collaborators, sharing with them all the aspects of the initiative, including the project mascot, Chicco. Awareness-building activities promoting a culture and attitude to prevention reached all the employees of the company in a capillary approach: ten training session, several awareness building campaigns and special meetings created to address each group of people according to their specific responsibilities have been organized. The result was the creation of a new model of correct and safe behavior to be adopted during daily operations in the working place.
illycaffè pays a special attention to internal relationships, in order to facilitate the cooperation among people, to enhance their sense of belonging, to improve the dissemination of the values and of the culture of the company. At the same time, the company implements internal communication activities through the development of knowledge, cohesion, sense of belief, value sharing and fostering the interaction between the various internal units. During the year, several occasion of interchange activities have been organized, called “Exchange Moments”, to present a preview of project and products or simply to communicate news and information relevant to the activities carried out by the company. Internal newsletter “Exchange”, in Italian and English, is distributed every two months to all employees working in the premises of Trieste and shared with the other offices of Italian branches and of branches abroad. The publication presents the facts and figures of the company and is prepared by the unit of in-house editors.

Since 2013 the company launched an agreement of co-shared responsibility to be signed by all illy citizens, with the objectives to define the mutual commitments of employees, managers, executives and owners, to protect the unicity of the brand. The agreement states the importance of involvement of individuals, the importance to infuse passion in the work, the importance of working with humility, sense of self-criticism, maintaining a vision of togetherness even sharing personal individual opinions with honesty and open mind. The project “Made in illy” is presently ongoing: through the initiative, people working for the company share their competences and their availability to cooperate, on voluntary basis, in the organization of celebrative events. Internal communication activities and internal relationships are integrated with the overall training programme and with the plan of industrial relations.

Thanks to the attention paid to human resources and thanks to the careful policies implemented through the Corporate Social Responsibility, a small percentage of employees joins trade unions associations. Internal relationships illycaffè improved over time are oriented to foster a polite and transparent collaboration with employees, in full respect of the national framework of the National Collective Agreements on labor and also in respect of national and international laws regulating job contracting issues. A plan of benefits has been defined for all categories of employees (also in case of part-time and fixed-term contracts), which involves financial and social compensations: such initiatives are dedicated both to the improvement of welfare of individuals and collaborators as well as their families, and to foster extra-work activities and interests.
Nursery and school books

Since 2007 the company supports families providing them with a financial support to cover up to 33% of monthly expenses of selected private nurseries: in 2014 5 nurseries have been selected and appointed to host 22 children from families advantaging the benefit.

Health assistance and supplementary health policies

Since 2003, the company awards families of dependents with an integrative health plan (at its sole expense). During 2014, requests of reimbursements for health care were 830 (540 in 2013) on behalf of 360 families.

Regarding integrative welfare plan, the company provides a contribution which is higher than the contribution envisaged by the contractual framework, for a total amount of 143,000 euro (135,000 in 2013). The overall number of employees which subscribed to the pension fund scheme offered by the company were 351, as of 31 December 2014 (equal to the number of 2013).

Canteen, convention agreements and other benefit services

Within the premises in Trieste, employees can use the canteen of the company (with services contracted to an external specialized company) which, in 2014 distributed to employees 85,106 meals, accounting for an increment of 8% compared to 2013 and without any increment of price: the company, in fact, covers a percentage of 67% of a complete meal. Moreover, the site in Trieste offers additional services such as an internal ATM and laundry services, contracted to a specialized external company which retires and delivers on regular basis, clothing of employees and workers. Several initiatives in agreement with other type public services are also offered: access to sports facilities, theatres, shops, medical private practices, professional offices, territorial agencies. All these initiatives are carried out with the aim to contribute to the quality of life and welfare of employees, also in their lives outside from the working place, supporting them in the protection of their health and the health of their families, offering benefits in their purchases, contributing in the overall satisfaction of their cultural interests, and more in general of leisure activities.
Suppliers of goods and services
Taking into account only economic parameters, suppliers of illycaffè having turnovers higher than 500,00 euros have been a total of 27 in 2014.

In 2014 the company implemented the plan aimed to structure a more defined supplier management system, with particular attention to non-green coffee suppliers, originally not included among strategic suppliers list. This implementation phase has been necessary to re-design and update the general framework of the supply chain management, to guarantee a more efficient and safe control on strategic suppliers, especially during the different phases of selection, evaluation, classification, development and outsourcing.

A revision of the procurement plan has been also carried out: new standardized methodologies have been introduced by the company in call for tenders for the selection and evaluation of indirect materials, services, investment, raw materials and finished products: the result of the revision is a new decision-making model (decision matrix) which is based on 60% on technical information and on 40% on economic information.

In 2014 also started a new process 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 bring improvement in the Procurement Division of the company, to obtain a more centralized and organic system of work; moreover, a new gradual evaluation process for the revision of suppliers has been also initiated, based on a vendor evaluation strategy: strategic and/or critical suppliers will be classified through a structured methodology with a score attribution (vendor rating), allowing therefore the measurement of performance in purchases. On the basis of the results of this rating, suppliers will be evaluated by the Procurement Division in cooperation with the Quality Assurance Division, to identify areas of improvement and design a more detailed intervention plan.

The analysis of mapping of geographical distribution of main suppliers for non-coffee procurement, it is clear that the main percentage of sales turnover profit from illy is produced in Italy: the information confirms the trend of the company, oriented to national providers; 8% of total turnover is in other European countries, while 5,6% goes in Asia-Oceania countries. Less than 1% of purchases is in other countries.

<table>
<thead>
<tr>
<th>Provenienza</th>
<th>%</th>
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<tbody>
<tr>
<td>Italy</td>
<td>85,33%</td>
</tr>
<tr>
<td>Europe</td>
<td>8,37%</td>
</tr>
<tr>
<td>Americas</td>
<td>0,71%</td>
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<tr>
<td>Asia - Oceania</td>
<td>5,57%</td>
</tr>
<tr>
<td>Africa - Middle East</td>
<td>0,02%</td>
</tr>
</tbody>
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illicaffé
and the community
Company citizenship

2014 Highlights

Several projects launched for the promotion and development of initiatives with high social impact in coffee producers Countries

illycaffè operates in full respect of human rights of the community of producers through a commitment presently incorporated and certified by the Responsible Supply Chain Process

Parent company donated 390,000 euro to contribute to activities of social utility in 2014, associated companies contributed with 352,000 euro and 285,000 euro have been donated by foreign companies.

illycaffè support the community of artists through the participation in national and international events and through the direct sponsorship and promotion of art and culture projects.
Illycaffè holds direct responsible relationships with communities involved along the value chain of its products, developing a special attention to benefits generated by this mutual interaction.

Environmental protection represents an fundamental value in all corporates activities. The production plant of the Parent company has been built and is constantly subject to renewal in full respect of local territory and relevant community. During years, with the assistance of local authorities, illycaffè promoted the creation of the Coffee district in the province of Trieste, allowing therefore the creation of opportunities of growth for the whole industrial sector both at national and international level. In the recruitment of competences and skills, the company makes reference to local and regional resources. The attention paid to communities of coffee producers Countries, is translated into training activities carried out directly at local level, and into partnerships established with local institutions aiming to create projects having an important social impact. Activities on knowledge sharing are carried out by the Università del Caffè, where specialized agronomists and technicians working in the company, deliver expertise and competences to enables producers to grow coffee with higher levels of quality and hence to receive quotations higher than the market standards, once objectives of excellency quality are achieved. Examples of projects initiatives in favor of communities of coffee growers carried out by illycaffè are: creation of infrastructures within the areas of coffee cultivation – such as roads to connect villages to places in which raw materials is processed – creation of facilities which can improve the quality of life in communities of growers – such as schools or other training infrastructures.

illycaffè communication channels are also activated through unconventional means, such as contemporary Arts. During years, the company started a dialogue focused on the dissemination of arts, aesthetics and culture with communities of artists and creative designers also through the support of national and international institutions active in the sector and inaugurated a series of events and initiatives with the intent to offer opportunity of expression to several young artists and talents.

Lastly, the strong connection of illycaffè with communities is demonstrated by the high number of initiatives and projects carried out to support the organization of events at all levels and, most of all, in the strong exploitation of its commitment to Human Rights, which is reflected in the respect of individuals at all levels and in all possible environments.
Support to local communities and relationship with institutions

illycaffè in Italy
The company works constantly to create value and benefits for the communities in which it operates, through several types of “social investments” and further to the strategic collaborations with communities of coffee producers Countries. A long-term vision of the company envisages investments in welfare and solidarity, education, scientific research. In 2014, taking into account only data collected for the Parent company (illycaffè SpA), a total amount of 388,000 euro of investments in the above mentioned sector has been donated. Funding from other companies abroad amounted in the same year to 288,000 euro.

illycaffè donations in Italy

![Graph showing donations to education, research and innovation, and education-cultural activities in Italy]

Research and innovation activities supported by illycaffè in Italy are mainly funded through the contributions allocated for the activities carried out by the Ernesto Illy Foundation. Education and culture activities are supported through funds for Institutions and Training centres or other associations, social and solidarity initiatives are financed through donations to NGOs or non-profit associations.

In many cases illycaffè sustains solidarity activities through direct donations in kinds of illy products: during the flood of 2011 in north east region of Italy or in occasion of the earthquake in the Emilia-Romagna region in 2012. illycaffè fosters also voluntary activities on behalf of employees, which launch charitable actions aiming to collect funds to contribute to social initiatives.

On a continuous basis and in proximity of annual festivities, illycaffè contributes with donations in kinds to the collection of products for several charity institutions operating in the territory, which work in support of canteens for indigent people and charitable contribution of food.

illycaffè abroad: some examples of good practices.

Also in companies of the group abroad several initiative have been carried out to support local communities and their cultural and social growth.

In Spain: illycaffè supports institutions like: Banco Alimenti, Circulo de Bellas Artes, Guggenheim Museum, Palau de la Musica, Gran Teatre del Liceu, Museo Nacional Centro de Arte Reina Sofia, Macba (Museu d’Art Contemporani de Barcelona).

In France, illycaffè contributes in the financial sponsoring of a business school specialized for training of students in Economics.

In the Netherlands, every year illycaffè donates in kind food products to local charity organization to support solidarity activities and, also through volunteering initiatives of dependents, sustains the National Institute on Cancer Research.

In North-America: in 2014 the branch company supported projects on arts and visual sciences or project aiming to promote the culture of welfare of healthy lifestyle. Moreover, through company partners of the Ho.Re.Ca. sales channel, a campaign for the collection of funding has been promoted through direct sponsorships (with a total amount of about 50,000 US Dollars per year) to be donated to schools, health institutions, social-solidarity initiatives of communities of the region.

In Germany, direct donation in kinds are finalized every year for schools or charity initiatives.

In Brazil, the company participates in the project “Oficina de Latas”, donating cans for cultural events.

Institutional relationships

Relationships of illycaffè with national and supranational institutions are based on an absolute transparency and clarity and governed by precise norms of behavior, ad determined by the Corporate Ethical Code.

Relationships of illycaffè with Public Administration “have to be inspired by the most strict observance of law regulations and normatives applicable and cannot in no way compromise the integrity or reputation of the company” (point 3.8 of the Corporate Ethical Code).

In this framework and coherently with this approach, illycaffè collaborates with all types of institutions to develop and implement norms and agreements relevant to the coffee sectors. In order to guarantee an adequate comprehension of the activities carried out and of the interests represented by parties, institutional subjects are involved through the dissemination of information concerning the activities organized by illycaffè, the projects with impact on the territory, the most important research and innovation initiatives, the economic, environmental and social sustainability key factors.

The ultimate objective for the company is to activate the interest even of just one of reference stakeholders: for this reason, the institutional dialogue is always enriched by project and initiative realized through collaborations with institutions to promote and foster thematic areas of common interest (reference is also made to the section: Ernesto Illy Foundation: initiatives carried out in the coffee supply chain).

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

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

The province of Trieste represents a very important and distinctive industrial district for the excellences expressed by the territory in coffee manufacturing. Ilycaffè plays a crucial role in the district as it is recognized by the Autonomous Region of Friuli Venezia Giulia for being an extremely important economic resource not only for economic growth of the province of Trieste, but also for the region as a whole.

Trieste Coffee Cluster S.r.l. (TCC) is the company acting as umbrella for all the players in the coffee sector, created to valorize the excellence of products and services and to promote joint initiatives and projects to stimulate innovation and dimensional 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 strengthen its corporate structure with the addition of new public and private partners, obtaining therefore the recognition as “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 company pays constant attention to local communities in which operates, establishing long term and durable relations, based on a careful survey of actual need, on dialogue and on active involvement in a framework of a continuous improvement. The strong link developed with the growth of communities is indissoluble: during the latest twenty years, the company adopted a selection and training system of the best coffee growers, as a result to the expertise acquired during the eighty years of activity in the world of coffee. The main goal is to obtain the best possible product, directly from the source. In order to be able to always better address the needs of coffee communities, illycaffè creates partnerships and maintains relations with important institutions at worldwide level and supports communities in which coffee is cultivated. During years, the company built up infrastructures, donated resources and transferred the basic facilities to help coffee plantations. An example of this approach is represented by relationship with communities of ETHIOPIA. In the country, illycaffè built a road to connect production areas to washing stations to facilitate the work of small producers. Moreover, supported the realization of rural checkpoints for the distributions of medicines, the installation of radio and TV stations and telephone network of connections. In 1998 started the cooperation with Share Our Strength (SOS), a non-profit organization active in the fight against hunger in the world. The company donated over ten years more than 2 million US Dollars to the charity initiative. On the basis of the cooperation with the organization, illycaffè created in 2004 the project initiative “Cup of Kindness”: during the last year, the initiative has been able to secure fundings to create and implement during time a School in Moyale Woreda, a region of Ethiopia affected by a severe drought. Ilycaffè contributed also to the creation of a primary school and of a secondary school in Sisita (in the region of Sidamo), the area in proximity to one of the main washing station of coffee in the country. The initiative contributed to the substantial improvement of the educational system of the region and guaranteed the continuation of the education for young students with an age lower than 14.

During years, the company was able to maintain 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 national and international level.

### Table: Paese e Istituzione

<table>
<thead>
<tr>
<th>Paese</th>
<th>Istituzione</th>
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<tbody>
<tr>
<td>Brasile</td>
<td>CECafé - Conselho dos Exportadores de Café do Brasil Embrapa - Empresa Brasileira de Pesquisa Agropecuária Universidade São Paulo Universidade Federal de Viçosa Instituto Terra Funarbe - Fundação Arthur Bernardes</td>
</tr>
<tr>
<td>Colombia</td>
<td>Fedearacion Nacional de Cafeteros de Colombia Fundacion Natura</td>
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<tr>
<td>Guatemala</td>
<td>Anacafé Gobierno del Guatemala</td>
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<tr>
<td>El Salvador</td>
<td>Consejo Salvadoreño del Café</td>
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<tr>
<td>Ethiopia</td>
<td>Ethiopian Coffee Exporters Association</td>
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<tr>
<td>India</td>
<td>Coffee Board of India</td>
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<tr>
<td>Tanzania</td>
<td>Coffee Board of Tanzania</td>
</tr>
<tr>
<td>Cina</td>
<td>Institute of Tropical and Subtropical Cash Crops (TSCC)</td>
</tr>
<tr>
<td>Internazionale</td>
<td>ICO - International Coffee Organization Del 2012 Andrea Illy è Chairman del Promotion and Market Development Committee UNIDO - Organizzazione delle Nazioni Unite per lo Sviluppo Industriale</td>
</tr>
<tr>
<td></td>
<td>WB – World Bank (Banca Mondiale) ASIC - Association for Science and Information on Coffee ICTP - International Centre for Theoretical Physics SAI - sustainable agriculture iniziative platform SCAA - Specialty Coffee Association of America ISTIC – Institute for Scientific Information on Coffee</td>
</tr>
</tbody>
</table>
Arts, aesthetics and culture

Today, after more than twenty years of activities devoted to contemporary arts, illycaffé can be defined a competent and active player in the field, having supported a wide number of well-known artists and having promoted emerging talented artists providing them with visibility in the most important international arts fairs.

The approach of the company in the promotion of art during time changed and involved different types of initiative: the inspiring principle remained unchanged and it is still focused on the commitment to disseminate and to substantiate a culture of research and pursuing of the beauty coupled to beautiful and well-made products.

Symbols of such philosophy and inspirational driving force are the projects and ideas developed and implemented within partnerships created with outstanding arts institutions, as for instance the Venice Biennale of visual arts (of which illycaffé is partner since 2003), a long-distance exhibition where visitors are invited to enhance their experience through the combination of various interventions to emphasize objects and effects, or the Triennale of Milan.

Through the initiatives dedicated to support Art, the company engages the public in contemporary art, using a democratic approach in which are involved not only experts from the sector but also the world of consumers. The creation of illy Art Collection allowed the company to make arts a part of everyday life, and introduced in an original way to the public the most outstanding interpreters of contemporary art.

The selection of the cultural perimeter of expression has been maintained over time: 20 years of work on the illy Art Collections and 12 years of experience with the illywords, the magazine dedicated to the communication of the corporate vision and corporate philosophy on contemporary arts and, since 2014, converted into bookzine (a mixture between books and magazine edited by Corradini Editions, published also in form of e-book and available in international bookstores and e-bookshops).

Guided by the desire to offer an authentic and culturally intense experience, illy decided to self-produce the event Galleria illy: an event in which visitors can completely live a fully cultural immersion in the spirit of the brand, and to participate in exhibitions like the Literature Festival in Mantova (in this regard, during the 18th edition more than 66.000 tickets have been issued, 14.000 coffee have been served in different ways), or to participate in the Arco Festival of Contemporary art in Madrid, or Artissima in Torino.

Another initiative based on the concept of cultural pollination has been represented by the creation of communities through the web. Examples are: the blog of illywords (for which in 2014 5 bloggers have been involved with the publication of 3 posts per week, accounting for more than 2.000 visits per month) and the website illysustainart.org. The websites are today a meeting point for intellectuals, artists and passionate of the brand.
illy Art Collection

A concrete example of the commitment of the company in the promotion of contemporary art is represented by the series of coffee cups designed by designers, the illy Art Collection, initiated in 1992. The collection is one of the most significant demonstrations of the engagement of the company in contemporary art. The most eminent names of the international arts scene and many emerging talented artists have been able to convert an ordinary everyday object, such as a coffee cup, into a cult object. The initiative started with the first example of a re-conceived coffee cup, designed by the architect and designer Matteo Thun. The profit obtained by the sales of these collections, is completely reinvested in initiatives devoted to the world of art, to support projects and institutions. Through the production and sales of coffee cups of the illy Art Collection, the company will give continuity to its commitment to the promotion of the visibility of young artists participating in artistic fairs and competitions, also through the institutions of awards and the creation of dedicated project initiatives.

In 2014 the new collection of coffee cups especially designed for the Expo exhibition has been presented: the collections have been designed by 4 artists selected within the illysustainart initiative and are: Adan Vallecillo, Esteban Piedra Leon, Elias Sime and Naufus Ramirez-Figueroa. The new collection tool inspiration from the Watermill Center, an interdisciplinary laboratory created by Robert Wilson to meet young and emerging artists to work, learn, create, and grow. The Watermill Center illy Art Collection has been created as outcome from a workshop held in 2014, organized within the International Summer Programme of the Center, in which more than 100 artists from 30 different countries participated.

illy SustainArt

The initiative illy SustainArt started in 2007, with the aim to offer to the international community of artists an opportunity to attract visibility and communication, with a special attention to artists from developing countries. In 2011 the company created the digital platform illysustainart.org, an observatory to review and valorize individual works and collective exhibitions, with the aim to foster and stimulate a cultural exchange in a shared meeting place.

The initiative included the award of a prize to endorse the talent of the winning artist, following the evaluation and selection from a jury chaired by Michelangelo Pistoletto and other eminent names of the international arts panorama, and curated by Angela Vettese and Carlos Basualdo. The project had a further evolution in 2012: in addition to the award, winners received also a reward in form of training support, through the evaluation of the same evaluation board of the former edition: winners have been offered the possibility to attend a study programme of three months within the Foundation Bevilacqua La Masa, Venice, in the same period in which the Biennale is held. The artist, in this way, has the opportunity to attend courses of the School, to participate in study programmes and conferences organized and held by the Foundation. Moreover, at the end of the residency period in the Foundation, the artist is offered the possibility to present the works created during the three months spent in the Foundation in a dedicated exhibition. At the end of 2014, a total number of 383 artists from 32 countries, of which 352 artists and 31 curators have been screened and evaluated in the initiative. About half of them participated in the open calls of illycaffè initiative, to be able to enjoy the cultural activities launched by the company.
The concrete engagement of illycaffè in respect of human rights has been translated during years in several initiatives, such as:

- Endorsement of principles stated by ILO – International Labor Organization: illycaffè purchases goods and services only in countries subscribing ILO standards relevant the minimum age prescribed for minors, from 14 or major. See the list of producing countries;
- Application and explicit reference to the respect of Ethical Code, 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 violation on the correct application of the Ethical Code
- A constant monitoring of coffee suppliers is carried out in order to ensure the full respect of the relevant national labor laws, through the certification issued in the Responsible Supply Chain Process. The RSCP prescribes the active control and management of all the potential violations on norms relevant to child labor and forced labor, trade union rights, overtime rates, health and safety, equal opportunities and gender diversity management, equal remuneration for men and women. The certification envisages that, during audit verifications, auditors can access to the registries of agro-food companies and can carry out direct inspections to facilities allocated to workers and evaluation of their equipment, in order to verify the respect of the national regular framework in matter of labor. This point represents the minimum requirement to be adopted by a company to be included among illy suppliers. Suppliers not in line with this requirement and not obeying to the national regulations are therefore reported within a 'black list' and have to adequate their requirements in order to re-enter the supply chain of the company. A periodical plan of audits (set up by illycaffè) is carried out also on other suppliers of the company supply chain (especially for non-EU countries): the plan includes the verification of supply conditions and monitoring and evaluation of social issues.
- The formulation of the Sustainability Manifesto
- Participation in the Global Compact initiative, since 2012.

Thanks to the above mentioned measures, the company promotes a responsible code of behavior, in full respect of Human Rights with all stakeholders. Moreover, confirms a strong commitment in the control of all the potential discriminatory actions against employees and suppliers through the dedicated Supervisory Body. The correct application of the above mentioned measures allowed the company to report no violations of Human Rights in all procedures and behaviors.

Foreign companies of the group apply the relevant national regulations, the international conventions on Human Rights and adopt the corporate policy of illycaffè, with the internal dissemination of the Corporate Code of Ethics, the periodical distribution of manuals and regulatory frameworks and also through the realization of dedicated training activities. For instance, in the United States all managers are required to follow and complete the training programme specifically created to protect working environment from sexual harassments every 2 years.
Beginning with the future, starting from the present

Less light does not mean seeing less, less water does not mean being thirstier, less energy does not mean stopping the world. At illy we understand that with conscious use of energy today, we can add to tomorrow’s future.
2014
Highlights

1
Voluntary agreement signed with the Ministry of the Environment on the analysis and evaluation of the climate impact of coffee sector

1/2 l/kg
Machineries for coffee processing used by illycaffè are able to reduce water consumption with the ratio of half liter of water for kg of parchment coffee produced

438 tons
In 2014 the photovoltaic plant installed on the rooftop of illycaffè plants and in plants of contracting companies generated a power of 824,034 kWh, with the reduction of an equivalent to 438 ton of CO2 emissions

736 tons
In 2014, heat recovery equipment in roasting plant allowed the recovery of 2,867 MWh equivalent to 736 ton CO2 emissions

80/90%
Recyclable materials for packaging: 80% of paper and cardboard and 90% of pallets recycled

99.6%
Waste recovery in sites of Italian companies
La creazione
di valore ambientale

The policies adopted by the company for environmental protection have been formulated to embrace the whole coffee production process: from the heart of plantations, through the endorsement and promotion of responsible behaviors contributing to preserve the eco-system, up to the creation of sustainable products, addressing issues of quality and having the minimum possible impact on the environment.

This approach makes illycaffè innovative, capable to be more competitive at global level and funding the relevant operate on sustainability: a strategy focused on the future and adopted in the present.

The company creates benefits and sustainable value for all stakeholders both in a short term and long term vision:

CUSTOMERS AND CONSUMERS

EMPLOYEES

COFFEE PRODUCERS

NATURE

COMMUNITIES

SHAREHOLDERS

The company offers natural products, with a complete and transparent traceability, and in full respect of environment protection.

Enjoy a safe and healthy working environment, are involved in training activities relevant to environmental thematic areas and behave according to a virtuous attitude inside and outside the company.

illycaffè shares and promotes agronomic practices compatible with the protection of the environment. Through training activities and through the creation of awareness on sustainable cultivation methodologies and responsible attitudes, the company promotes a diffused respect for the environment and biodiversity.

The first partner of the company. Only securing a careful and aware use of environmental resources it is possible to grow quality coffee. Since the very beginning of the production process, illycaffè follows a sustainable path, founding the overall business on a natural products, which is the result of a healthy, respected and protected environment.

Coffee growers living closely to productive sites are supported through the delivering of proper working conditions, with an environmentally advanced plant and within a framework involving a continuous improvement.

Are exposed to a reduced risk, from the point of view of environmental protection, with an overall benefit and continuity in their entrepreneurial activities.
Commitment to sustainability and environmental awareness covers a crucial importance for illycaffè: the company, on one hand, directly manages the impact of the production activities on the ecosystem and, at the same time, contributes indirectly to sustainable development through the promotion and dissemination of best practices and values among stakeholders, from the bean to the cup.

Thanks to the environmental concern, the company implemented an environmental management system aiming to foster the maintenance of sites respectful of the environment and provided with the relevant certification. In this direction, a huge effort has been invested in order to minimize the direct impact originated by production processes and to optimize energy efficiency and a sustainable management of waste.

illycaffè, on a voluntary basis, took a strong commitment in the reduction of the overall emissions of CO2 in its processes in order to comply with the objectives defined within the European protocol 2020: in particular, new products launched in the market (such as refill and cube), thanks to modifications in packaging and assembly, have a significantly reduced environmental impact.

The company promotes the adoption of agricultural practices with a reduced environmental impact in communities of green coffee growers, taking into account also the economic size of production processes, the investments to be committed for a sustainable production, the quality of products, the adoption of agricultural methodologies compatible with environmental protection and food safety, also through the minimization of the use of chemicals or other synthetic compound.

The sense of responsibility committed by the company to the environment and to future generation is translated into the improvement objectives to be addressed and to be reached and properly communicated in the next period.
Environmental commitment

Since 10 years, illycaffè is certified through the Eco-Management Audit Scheme (E.M.A.S.) (the first certification process for the compliance to the ISO 14001 was obtained in 2003): the necessity to adopt a certification system is a direct expression of the commitment of the company to improve production efficiency through a sustainable process. In order to develop and implement an effective system to address this objective, the company carried out an internal analysis which evidenced the most significant impact and the most critical aspects of the whole productive site. On the basis of the results of this evaluation, the Management System has been implemented through the integration of elements for an overall improvement of decisional, control and prevention procedures.

The most important documents summarizing the strategies and detailed actions initiated by the company for the environment protection are: the Environmental Policy and the Environmental Declaration.

The culture of compliance with the ecosystem is disseminated also through training programmes aiming to create and ensure the comprehension and adoption of policies and objectives dedicated to the environment at all levels within the company.

In addition to the certification ISO 14001, the commitment of the company to the environmental protection is witnessed by the obtainment of EMAS registration.

Since 2013, illycaffè implemented the LCA strategies and methodologies (based on the Life Cycle Assessment approach), using the latest version of the dedicated software SIMAPRO 8.3, used to calculate and reduce the environmental impact of the production processes: LCA assessment represents currently a decision support tool widely used inside the company, since the design phases to the realization of new products or assembling systems. Presently, the company integrated the internal S.G.A. with quality and safety systems, in order to guarantee to the territory and relevant community environmentally friendly and certified industrial plants. In Trieste are based two production sites: the site located in via Flavia and the warehouse facilities of Distripark in via Malaspina, where every year are stored thousands of coffee sacks and other packaging and assembly materials. Coffee processing takes place only in the industrial site located in via Flavia, where the majority of direct impacts are produced while in the storage facilities of Distripark impacts are related more to lighting and heating of the building. Both sites are not included in protected areas or in areas with high biodiversity.

Foreign companies of the group are in charge of the commercialization of products: their activity is mainly based on administrative duties. Nevertheless, also foreign associated companies realize specific initiatives to reduce environmental impact and to obtain benefits from a careful management of energy resources, of responsible waste management and use of materials. Such

initiatives are organized directly by the company in the relevant individual country, with the aim to identify the best solutions for the local context of reference (environmental regulations, best practices in the sector and market sensitivities).

The overall expenses incurred by the company in 2014 to sustain activities for environmental protection have been of 471,4 thousands of euro, divided into the following items:

- Waste treatment and disposal, including electronic waste: 381,7 thousands euro;
- Contract of external services for environmental management: 28 thousands euro;
- External audit and certification of the environmental management system: 10,7 thousands euro;
- Research and development: 15,5 thousands euro;
- Miscellaneous: 25.4 thousands euro;

Also in 2014 the company did not receive any non-monetary fines or penalties for infringements of regulations or law for the environmental protection. At the same time, no warning has been received for issues relevant to environmental impact.
Methodological Note: environmental consumption perimeter

Illycaffè SpA*, as data relevant to other society of the group can be considered less significant. In fact, most of the activities related to foreign companies are of administrative type. Main substantial environmental impact is produced by the Parent company and related to production activities, for the following reasons:

- Industrial productive activities are carried out in the industrial site of the Parent company, located in Trieste;
- 70% of the overall number of employees of the company is dependent of the Parent company.

The company, where specified in the text, is however reporting examples and good environmental practices adopted by foreign branches, in order to deliver a more detailed picture of projects and solutions carried out globally, to promote environmental protection.

Illycaffè abroad: examples of best practices

In The Netherlands, the declared objective is to introduce sustainability among standard parameter in all feasibility studies (market research, launch of products in the market, commercial practices etc.): in this regard, a dedicated programme has been launched to facilitate the dissemination of sustainable practices among employees. An example is represented by the reduction of fuel consumption. Interventions to improve the energy efficiency of the local premises have been also carried out. Also in France, the encouragement of sustainable practices is promoted by the company. Sensitization activities in this direction have been also initiated, for instance for the promotion of the use of public transportation, use of videoconference facilities instead of travel or transportation, correct use of electric devices and automatic power shut-off function in case of non-operation (computers, printers, coffee machines, lights, etc.).

Moreover, in 214, the illycaffè FraBeLux moved its premises to a new site identified as BBC: Batiment Basse Consommation: a building having a low environmental impact and hence, a reduced energy consumption.

In North-America organizational arrangements have been carried out to improve on one hand quality of life of employees, and on the other the overall consumption of energy (for example, promotion of home working).

In general in North-America Illycaffè operated to reduce energy consumption and water consumption and to optimize the reuse of stock, through selling, recycling, donating materials or obsolete products left in offices of warehouses and donating products to non-governmental institutions.

Specialty Coffee Association of America (SCAA) developed a tool for the analysis of environmental data to calculate all the effects of environmental impact and, hence, able to determine specific performance improvement targets: the company envisages the adoption of the system.

In Brazil, a programme for the optimization of use of water, energy and paper has been designed and adopted.
Energy management

The energy requested in the various production phases is obtained through the use of sources like electricity and methane, while the fleet of company cars depends on gasoline and diesel. The company implemented several solutions to reduce energy consumption and to adopt a more effective waste management system. Moreover, the constant monitoring activities of direct and indirect impacts generated from its industrial activities allow the calculation and determination of indexes and parameters to be compared with future environmental performance information.

Illycaffè (which operates under the legal requirements deriving from existing legislation) introduced in Italy, on spontaneous and voluntary basis, the professional profile of Energy Manager, which is the responsible in charge of the coordination and monitoring activities of the energy system in the relevant contexts.

In 2014, the prosecution of work for the equipment of new production lines has been carried out, with the introduction of new products. Initiatives aiming to improve energy efficiency together with a better exploitation of the available resources have been implemented (building automation, heat recovery systems, refrigeration unit based on absorption from heat recovery).

The results of the measures adopted, lead to an improvement of the value of the total efficiency indicator, calculated on the basis of the ratio between the amount of energy consumed (MJ) versus the number of finished products, despite an increase of total number of finished products.

Electric energy: in 2014, in the sites of Via Flavia, via Malaspinina and via Caboto, a total amount of 40,518,000 MJ (+4.3% compared to 2013) have been used. The company decided to utilize only electricity obtained through renewable resources: also in 2014, the overall entire electricity need to be used in Italy comes from renewable sources, attested by suitable guarantee of origin, as prescribed by resolution of the Authority for Electric Energy and Gas No. ARG/elt104/11, for all the collecting points located in Trieste. The company does not deliver externally the electricity produced in-house.

Methane: 90% of its use is involved in the toasting phase of coffee beans, while the remaining amount is used for heating and for the production of hot water. In 2014 methane consumption has been of 56,377,681 MJ (+1.9% compared to 2013) in the sites of via Flavia and via Caboto (within the site of via Malaspinina, Methane is not used). Methane is used as source of thermic energy only in case of days of plant breakdown in the toasting site, during week-ends and bank holidays.

Since summer 2013, the company installed also an absorption refrigeration system, which converts thermic energy recovered from chimneys of roasting plants in cold water for the refrigeration of the system (otherwise less utilized in the other seasons of the year). The refrigeration plant does not use fossil sources. In 2014 two additional initiatives to increase the total energy efficiency of the plant have been installed and will be working flat out during 2015.

Waste-to-energy of heat produced by air compressors of the industrial sites: heat produced by air compressors, is recovered and reused to heat packaging areas in the central body of the industrial site.

Recovering from refrigeration systems: cooling energy (currently released in the atmosphere) is recovered through the exploitation of the transition phase of liquid Nitrogen, which is taken to its aeriform state during the packaging stage of products. Normally the system is operating during the summer season for air conditioning/refrigeration, while during the winter season is employed for the drying process of compressed air, for the cooling of sealing devices, etc.

Fleet of company cars: in 2014, a total number of 254,038 liters of di fuel (gasoline/diesel) for an overall amount of 3,175,475 km of services (average consumption of diesel vehicles of 8 liters/100 km). The estimate of C02 emission accounts for 495 ton.

Renewable energies: the level of efficiency of the photovoltaic plant of 1 MW of power, with an extension of 11,000 square meters on the top roof of the logistic pole of Distripark of via Malaspinina in Trieste, has been maintained constant. Illycaffè does not own the plant, but has rented a portion of the surface of the plan to a third party, with the objective to contribute to the development of renewable energy. The plant is connected to the power grid for the electricity distribution network since 1 July 2011 and as of 31 December 2014 produced 3,291,218 kWh (data transmitted to the local Electrical Service Provider -ESP).

Illycaffè abroad: examples and best practices

In Francia, the premises of illycaffè have been moved to another site, a building with improved energy efficiency capacity and low energy consumptions. In Spain, special attention is dedicated to energy consumption from the utilization of electric devices for lighting systems, which as of October 2014 have been completely converted to LED lamps.

<table>
<thead>
<tr>
<th>ENERGY CONSUMPTION WITHIN THE COMPANY (SCOPE 1 + 2)</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Methane (non-renewable source of energy) (MJ)</td>
<td>55,344,423</td>
<td>56,377,681</td>
</tr>
<tr>
<td>Electricity consumption MJ (100% declared from renewable sources)</td>
<td>38,854,800</td>
<td>40,518,000</td>
</tr>
<tr>
<td>Total energy consumption(MJ)</td>
<td>94,199,223</td>
<td>96,895,681</td>
</tr>
</tbody>
</table>

Conversion factor 1Kwh=0,0036GJ; 1000 mc Methane= 39,01 GJ
Source: Global Reporting Initiative, 3.1, Indicator EN3
Atmospheric emissions

In 2012, the company subscribed an agreement on voluntary basis, with the Ministry of the Environment and for Protection of the Land and Sea, with the aim to analyze, minimize and neutralize the impact of coffee sector on climate changes. The overall objective of the programme is the definition of a management system to monitor the Carbon emissions and which could be used as reference model for all the industries operating in the sector of coffee.

The calculation of the Carbon Footprint is carried out over the whole life cycle of coffee for the consumption, distributed through the large retail sector and cafes.

A collaboration with the Ministry of the Environment and with Lavazza Company, has been launched in 2014, through a project implemented by the Polytechnic of Milan, within the framework of the calculation and evaluation of the Carbon Footprint. The projects is based on the application of the Life Cycle Assessment approach (according to the norm of the certification system ISO 14040).

The analysis of dust concentrations relevant to the eight chimneys of the roasting plants (for roasting equipment and cooling chimneys) reported results widely below the authorized limits, and equal to 10 mg/Nmc of total dusts, in accordance with the regulations of the national competent authority (Friuli Venezia Giulia Region).

### Emissioni legate ai siti produttivi in Italia - Stabilimenti Via Flavia-Malasipina-Caboto, Trieste

<table>
<thead>
<tr>
<th>TONS CO2eq*</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Natural gas: direct emissions (from combustion in plants and fixed machineries) of significant Greenhouse gases (ton)*</td>
<td>2.740</td>
<td>2.782</td>
<td>2.827</td>
</tr>
<tr>
<td>Index of intensity of CO2 emissions (TONS CO2eq/ton roasted coffee in the year)</td>
<td>0,52</td>
<td>0,18</td>
<td>0,18</td>
</tr>
</tbody>
</table>

*Coefficient from the inventory of emissions of CO2. National Inventory UNFCC (valid until December 2014) tCO2 /Un = 1,956 – oxidation coefficient = 1
Raw materials

The main raw material used in the production chain is green coffee.

Every year, illycaffè purchases thousands of coffee sacks of Arabica type from producers of Latin America (Brazil, Colombia, Costa Rica, El Salvador, Guatemala, Nicaragua, etc.), from producers of Africa (mostly Ethiopia and Tanzania) and from producers of South East Asian Countries (India and China).

The company is aware that the production of green coffee to be used as raw material, plays an important role in the indirect environmental impact of its activities and constantly monitors the phases of treatment of raw materials from the heart of plantations to their transport in order to positively contribute to minimize the impact and improve the performances.

In the overall balance of the contribution to the environmental impact, the company considers of relevant importance also materials used for packaging and assembly of products, in addition to raw materials (mainly plastics and metals) and Nitrogen.

Of minor importance, but however accountable on the overall estimation of relative weights of contribution, materials and consumables, like: oils, solvents, inks, chemical products, wood, jute sacks, carbon dioxide, paper and paper board (different from packaging carton).

![Raw and auxiliary materials as % over the total weight](image)

Materials used for packaging, like paper, paper board, plastics, jute bags and wood are obtained from recycled materials.

illycaffè abroad: examples and best practices

illy companies abroad launched some initiatives to promote the reduction of raw materials and the use of eco-compatible materials in their premises. For instance, illy North-America uses exclusively paper cups realized with Certified FSC paper (certification from the Forest Stewardship Council), which certifies materials from sustainably and responsibly managed forests. In addition, the branch company uses only soy-based inks.

Also in Brazil, initiatives have been carried out for the reduction of paper in the offices, promoting its reuse as internal printing paper.

In France, in addition to a special campaign launched for the abatement of printed paper, a bottle made with recycled plastic has been distributed among employees to avoid the use of disposable cups. Moreover, a special collector of paper waste has been realized: for each load of recycling paper, employees had the opportunity to learn the number of trees saved. A correct recycling scheme for the materials used in the office is also promoted and implemented of company branches in Spain, Brazil, Hong Kong, Australia.

Water management

In a productive site, water is mainly used for the irrigation of green area, for sanitation purposes, for drinking water consumption, for fire-fighting purposes, to carry out organoleptic tests. Only a minor part of the overall water consumption is employed within the production cycle in the industrial plants (for cans testing). All the water used in the industrial premises of Trieste is delivered from the municipal waterworks, with no use of recycled and/or reused water: all the used water is disposed in the public drains, in compliance with the laws prescriptions.

The total amount of water used in 2014 in the premises of via Flavia, via Malaspina and via Caboto has been of 33,164 cubic meters, 4,6% less than the previous year (Source: Water Meter Reading).

<table>
<thead>
<tr>
<th>WATER DISCHARGE</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Volume of water delivered from the waterworks (mc)</td>
<td>37,397</td>
<td>29,219</td>
<td>27,963</td>
</tr>
<tr>
<td>Volume of water discharged (mc)</td>
<td>31,787</td>
<td>24,836</td>
<td>23,769</td>
</tr>
</tbody>
</table>

On annual basis, water drains are subject to analysis, carried out by an external laboratory, and screened for parameters which have been identified as relevant for each stage of the process and for each type of discharged effluent, and are: pH, chlorides, BOD, COD, ammonia, hydrocarbons, suspended solids, vegetal oils and fats. The values of such pollutants have been always detected at a lower level than the ones allowed by the limits imposed by competent authorities.

In addition to these results, also direct interventions in local communities of coffee growers have been carried out, aiming to the transfer of knowledge and competences which could enable local farmers to reduce the use of water in the washing treatment of harvested coffee.

Waste management

Waste management activities in the productive site and in the logistic site located in Trieste, Italy, is related to the following stages: production phase and production yields, operations
The main raw material used in the production chain is green coffee. Every year, illycaffè purchases thousands of coffee sacks of Arabica type from producers of Latin America (Brazil, Colombia, Costa Rica, El Salvador, Guatemala, Nicaragua, etc.), from producer of Africa (mostly Ethiopia and Tanzania) and from producers of South East Asian Countries (India and China). The company is aware that the production of green coffee to be used as raw material, plays an important role in the indirect environmental impact of its activities and constantly monitors the phases of treatment of raw materials from the heart of plantations to their transport in order to positively contribute to minimize the impact and improve the performances.

In the overall balance of the contribution to the environmental impact, the company considers of relevant importance also materials used for packaging and assembly of products, in addition to raw materials (mainly plastics and metals) and Nitrogen. Of minor importance, but however accountable on the overall estimation of relative weights of contribution, materials and consumables, like: oils, solvents, inks, chemical products, wood, jute sacks, carbon dioxide, paper and paper board (different from packaging carton).

Carried out within offices of the premises and during the post-production phases, including transportation and disposal of waste. All these activities comply with the Environmental Management System.

The company promoted and implemented several initiatives to optimize the management of waste, such for instance the identification of different types of waste to improve differentiate collection, the deployment of collectors for differentiate collection within the plant and offices and the training of personnel on the relevant thematic area.

In 2014 illycaffè was able to recover 99,6% of the produced waste, with an increase equal to 2,055,320 kg, compared to 2013, due to the increased production of roasted coffee. 91,7% of this amount is considered as special waste, or rather waste obtained from production activities and production yields. 0,04% of total amount of waste is considered hazardous waste and disposed according to laws requirements, within the national territory (and are not transported or disposed abroad).

The amount of municipal solid waste produced in 2014 is equal to 8,3% of the total amount of waste produced, and represents the 9,1% of special waste. The company was able to obtain a competitive advantage from the adoption of an efficient differentiate collection system: through the sale of some types of recyclable waste such as metals, copper scraps and tin-plates, an amount of 152,289 euro has been earned.

illycaffè designed a process to separate the capsules forming part of the byproducts in the coffee production and to recover exhausted capsules after the post percolation system. To complete the process of capsule recovery, the mechanical laboratory specialized in prototypes production, formulated a device able to cut exhausted capsules and to separate plastic from coffee. Using this device, it is possible not only to reduce capsules otherwise disposed, but also to separate the different types of waste and to direct them into their own relevant sector of disposal.

The last stage or the recovery and/or recycle of capsules is represented by a small plant which is able to reuse plastics of disposed capsuled, interlayers material and other packaging waste, to manufacture polypropylene sheets for cellular plastics. Coffee, being organic waste, has to be disposed through composting.

Thanks to the improvements and restyling works carried out in the latest two years, illycaffè was able to overall decrease the waste of the production plants and the paper consumption, also through the upgrade of information technology systems.

illycaffè abroad: examples and best practicese

All foreign branches of the company are actively committed in differentiated waste collection: in Spain, for example, ink toners are recycled by a local specialized company; in The Netherlands, in addition to the separation of waste (paper, plastic and organic waste), eco-compatible solutions have been adopted (air-cushion) to fill and pad packages of products. Also in Brazil, Austria, France, Hong Kong and North-America, differential collection is carried out within the premises of the companies. Complete recycling of paper is carried out for internal use (meetings and communications).
Products disposal and recyclable packaging

illycaffè designs and implements solutions to maximize the efficiency of waste disposal from an environmental point of view through an approach based on the following points:

- **Prevention and minimization**: during the project phase, preference is given to the lightest primary and secondary packaging materials, with low consumption of energy and, where possible, obtained by recycled materials and reusable and eco-compatible for the entire life cycle of the product designed.

- **Rieuse**: working life and functions of espresso coffee machines can be improved and extended through specific renovation programmes. On the other hand, component still working and reusable of non-reusable machines, are collected reused in other machines.

- **Recycle**: initiatives for the collection of materials employed in primary and secondary packaging of components for espresso coffee machines, are continuously promoted in order to recycle them. The company carefully screened partners and collaborators which adopted and endorsed policies for “zero waste” production.

With reference to the packaging of products, illycaffè adopts eco-compatible solutions, such as: use of tin-plate for packaging cans (either in the packages of 3 kg, 250 gr and serving packs) and polypropylene for ipso capsules, which are 100% recycling materials. In 2014 in order to reduce costs and environmental impact of packaging materials used in confections for 3 kg packs of coffee have been converted: crimping method and unique confection made in composite packaging material of Polypropylene-Aluminum in 5 layers, able to keep constant the pressurization, the preservation system and the aroma of the blend of coffee. The packet, after consumption, can be collected within the differential disposal of plastics, producing therefore a further reduction in the environmental impact.

- **CUBO IPERESPRESSO** contains 18 capsules per package (a package of 6 confections containing 18 capsules for each confection).

- **SINGLE SERVING ESE PODS**: Confection of 18 single-serving paper coffee pods (overall secondary and tertiary packaging materials reduction, improved efficiency in packaging and assembly systems)

Also Iperespresso capsules comply with sustainability models adopted by illycaffè: since 2011 the company is member of the working group of Allipa (Italian Association of Food-Producing Companies, for the coffee sector), which includes the various Italian companies producing plastic capsules, in order to define a common procedure for the collection and disposal of exhausted capsules. The same working group commissioned a research study on LCA and LCE to the University of Naples, Federico II. The study aims to outline an operative model for the disposal approach to be tested on a sample represented by three Italian cities.

The production of the new capsule ipso drip has been started on a pilot plant. The new capsule 2.3 is based on the use of lighter plastics and without the support of elastomeric tape. An industrial scale test has been carried out on a selected panel of “internal” clients. The launch on the public market is envisaged for 2015. On the same platform 2.3 a project for the conversion of capsules in bio-based material has been also initiated.

In Trieste, the company continued the experiment and testing phases of the project based on the collection of exhausted capsules in the illyteca boutique store and in other selected sales points.

Within the stores, some “reverse vending machines” have been positioned, in which clients cans insert both exhausted capsules and cans, which are then collected and disposed. Illycaffè is also testing several models of machines capable to grind capsule and to separate capsules from coffee. The company is also continuing the fruitful cooperation with the Research Center for Zero Waste, in the municipality of Capannori (Lucca, Italy), within the project focused on innovative coffee capsules, for their sustainable use, recycle, recover and reuse. Other cooperation with Universities, research centres, category associations and pre-competitive working tables are ongoing, aiming to the identification of viable alternatives in the formulation of new materials for capsule production, using biodegradable or eco-compatible sources.

Since 1 January 2015 in Italy capsules can be disposed in the differentiated waste disposal, after separation of the container (plastic) from coffee. Illycaffè is currently developing a system for the separation of capsules from coffee and direct disposal of plastic in the organic waste (where at the moment only coffee is disposable)

illycaffè abroad: examples and best practices

illy North-America, started the programme “iperEspresso Capsule Recycle Program” (only for the internal market of the United States), for the collection and recycling of capsules through an initiative which directly involves consumers. Officially launched in April 2013, the programme allowed the collection of 602.000 capsules as of the end of 2014, accounting for 5.453 kg of coffee.
Green transportation and logistics

Transportation and logistics both for the entrance of raw materials in the production cycle and the distribution logistics of finished products to clients are two processes carefully monitored by illycaffè, in order to keep under control the potential impact of relevant emissions: the company is working on different fronts to evaluate the impact and subsequent implementation of improvement actions also through the exploitation of the methodology based on Life Cycle Assessment.

Transportations for the distribution of products represent an activity still linked to the consumption of fossil fuels. In this regard, the company is strongly engaged in monitoring of the fluxes of consumption and hence is always addressing the evaluation and identification of alternative and innovative solutions. Regarding distribution of products, illycaffè closely controls its qualified suppliers (suppliers providing non-industrial purchases not related to coffee) also through the distribution of surveys relevant to specific environmental themes, such as water and energy use and consumption, emissions in the atmosphere, production of waste, liquid effluents, contamination of soils and noise pollution.

In 2011, the evaluation of environmental performances of a leading company operating in the distribution logistics and cooperating with illycaffè in the delivery of illy products over the national Italian territory, has been carried out: the analysis reported an extremely limited content of emissions, in form of grams of CO2/Km and evidenced that, besides the high number of deliveries at national level and the high capillarity of distribution, the levels of emissions have been controlled and minimized.

Outbound logistic

Destination: Italy
illycaffè bears the responsibility to deliver products to customers in Italy. The total delivery service is carried out through road transport, as rail transport is disadvantageous both for qualitative and economic reasons. 60% of total shipment is handled by an important leading company in the sector, which adopted an Integrated Policy for Quality, Environment and Safety and a Policy for Corporate Social and Ethical Responsibility. In Italy are located several intermediate warehouses stations, which allow the optimization of shipment to retailers.

Destination: Abroad
All shipment to EMEA countries is carried out through road transport, which few exceptions (see below), while all shipments to the rest of the world is carried out through three main international vectors. Among them, two vectors deploy 90% of dispatches and the relevant companies endorse clear and detailed policies of sustainability.
illycaffè adopted various solutions based on intermodal transportation road/rails/road to Norway and Greece (being intermodal transportation carried out by the use of different modes in combination): in the two mentioned cases, intermodal transportation allows the abatement of CO2 emissions equal to an amount of 0.1 kg CO2/ton-Km (WEF, 2009).

Following the positive results obtained in these two cases, the company evaluated the possibility to extend the use of rail transportation also in other European countries. On the other end, however, the analysis also evidenced the non-feasibility of the approach: times for transits are long and do not ensure the quality of service and products. Moreover, the cost of the combined service is significantly higher and the project, therefore does not assess two of the three pillars of sustainability: Social, as there is no creation of quality added value to the supply chain. Economic, as there is a subtraction of economic value from the chain.

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

Inbound logistics

Origin: Italy
In Italy, transportation is carried out mainly on the road, due to the inadequate level of development of the rail transport network. This involves the bearing of higher costs by companies and lower levels of service. The incoming goods are purchased under the DAP disclosure agreement (Delivery at Place), for which illycaffè cannot have the control over the used couriers. One exception is represented by components of capsules, purchased directly with the payment of transport included. An innovative project launched by illycaffè is represented by the Milk Run initiative: in order to optimize fluxes of work and storage of products in warehouses, illycaffè coordinates the transport of components for coffee capsules from all suppliers, in ordo maximize fluxes and gain industrial volumes of storage. To date, 250 cube meters of volume area in the industrial premises have been saved.

Incoming green coffee for geographical area of origin

![Incoming green coffee for geographical area of origin](image)

Origin: Abroad
The most significant volumes of weight in the overall incoming transportation is represented by green coffee. All incoming material is transported by sea, which is the way with minor environmental impact. The selection of shipping companies on qualitative basis allowed the identification of important suppliers of services and the involvement of outstanding players in the field of cargo shipping, having clear policies of sustainability and oriented to the abatement of environmental impact.
Sustainable agriculture and biodiversity
The attention of illycaffè on environment does not terminate with the control of the activities directly managed by the company but goes fairly beyond, up to the monitoring and improvement of performances related to the production of the most important raw material: the green coffee. Thanks to the international projects for development launched in cooperation with the coffee producing countries, the commitment of the company has been officially endorsed and recognized in 2006 with the award of the prize “Premio Impresa Ambiente”, created by the Ministry of the Environment and of Production Activities, Union Camere, Chamber of Commerce of Rome. The prize represents the highest national recognition to award enterprises able to innovatively contribute, with their production activities, to promote overall environmental sustainability and social responsibility. In areas where coffee is produced, illy promotes the dissemination of agricultural methodologies with low environmental impact, with a direct intervention on the most impacting processes carried out during cultivation. Moreover, the company developed dedicated programmes of incentive and recognition for the growers capable to promote quality and environmental sustainability, such as: the Prize Ernesto Illy de Qualidade do café para Espresso, the Clube illy do Café and the Sustainability Diploma.

Water in coffee plants

The company provides growers with specific and useful indications on the efficient use of water, in order to avoid wastes (for instance through the realization and distribution of devoted handbooks and manuals on “water and coffee” themes), on the correct use of machineries to optimize water use and aiming to the consumption of less than half liter of water for each kilogram of green coffee obtained (generally the amount of water involved in the process ranges from 5 to 10 liters). Also residual waters are subject to particular attention and control: water disposed from washing station of coffee display high charges of organic matter and need to be treated prior to their emission in natural systems. In 2014, illycaffe started various online training initiatives with the aim to make training and education programmes more accessible to an audience composed by coffee growers, plantation handlers, agronomic engineers, field technicians. Training initiatives included also the training course on “Waste water treatment related technologies to reduce water consumption”, in which 11 groups of trainees participated. Specific mathematical models have been formulated to estimate the time necessary to re-deploy water in the environment after treatment and for the evaluation of water reutilization for the production of composting and biogas. Divulgation activities are carried out on regular basis by the Universidade do Cafè: two training courses have been organized in Brazil and three in India on drip irrigation techniques and on fertirrigation. In Brazil, 115 producers participated in the initiative, coming from different parts of the state of Minas Gerais: during the training course, results of the research on greenhouse gases emissions have been presented. In India, 135 producers participated in the initiative, all coming from the Karnataka region, the most important region of India in which the production of Arabica coffee is carried out.

Integrated agriculture: nitrogen fertilizing and use of chemical products

illycaffè promotes the principles of the integrated agriculture, which implies the minimization of the use of chemical agents and the exploitation of good agricultural practices such as for instance, the use of vegetal covering of soils, the reduction of soil erosion through cultivations along the soil slopes, the reduction of soil processing to preserve soil fertility and the use of macronutrients, also through organic fertilizers. In this regard, in 2014 illycaffè promoted a study on the risk analysis for coffee contamination from agro-toxic agents. The results of the study have been presented in March 2015 within a webinar (openly accessible on the website www.universidade-docafe.com) in which 82 people participated in classroom and 160 people through access to online streaming from worldwide.

Carbon footprint

The company participates in research activities, institutional activities and pre-competitive round tables for the definition of common standards to be adopted for the evaluation of carbon footprint generated by green coffee production. For example, in 2014 illycaffè has been an active player in the pilot project initiative launched by the European Commission for the calculation of footprint of agro-products (Product Environmental Footprint Category Rule on Coffee), taking part to the consultation meeting to act first stakeholder. In 2014 the study and research project focused on the efficiency of energy resources in plantation, have been implemented, in cooperation with the University of São Paulo (with Professor Guido Cerri), the Italian Ministry of Environment and within the platform “Sustainable Agriculture Initiative”. The research study surveyed the equivalent CO2 emissions of 11 companies in 3 states of Brazil and compared the results obtained with the outcomes of a previous study carried out in 2009 from the same authors, evidencing the significant differences in equivalent emissions related to the use of fertilizing agents (nitrogen fertilizers represent the main source of equivalent CO2) and according to productivities of companies.

Biodiversity

Biodiversity is of crucial importance for the company: preservation of biodiversity represents the ultimate goal in the implementation initiatives for the promotion of integrated agricultural technologies, carried out by specialized personnel of illy during visits on-the-field. In addition to such consultancy activities, the company implements actions of broader efforts in order to increase awareness and disseminate information and culture on biodiversity issues and, in general, on the protection of natural ecosystems. In order to encourage biodiversity and nature protection initiatives, illycaffè supported non-profit institutions such as ‘Istituto Terra’ for the protection of the Atlantic Forest, through the dissemination of 500 copies of the handbook on reforestation, formulated and published during the period of collaboration. In 2014, the Ernesto Illy Foundation continued the development of the project aimed to the reforestation of the Támara municipality area, in cooperation with Cenicafé and the ‘Federación Nacional de Cafeteros de Colombia’ (National Federation of Coffee Producers of Colombia). The aim of the project is represented by the increase of the water flow from local water-sources, in order to identify a possible solution for the problem of groundwater depletion which, due to the deforestation for the creation of grazing land for animals, progressively worsened during the latest years. Reforestation activities involved 80 small producers within an area of 40 hectares. Among the training activities organized in 2014 in Brazil, one was particularly focused on biodiversity issues: during the training course, the following important topics have been addressed: changes in the new national Brazilian code to be adopted for the preservation of native forests, and tools for the reception of such changes and concepts in the field of coffee cultivation.
Welfare is a matter of equilibrium. Illy is an universe growing in the name of sustainability and of common welfare, creating value not only through the delight of consumers and through the valorization of people, collaborators and suppliers, but also bringing an overall improvement in quality of life of communities in which operates.
2014 Highlights

+11.4%  
Added value generated and delivered at global level, consolidated compared to 2013

1,500  
Coffee producers subject to specific audit controls, according to the Responsible Supply Chain Process (2010-2014)

5,500  
More than 5,500 coffee growers involved in training activities, conference and technical assistance (2010-2014)

4.3  
 Millions of euro of investments realized in the period 2011-2014, to monitor and support green coffee supply chain
Research and innovation
The approach of illycaffè to research and innovation

2014 Highlights

538 registered patents, of which 416 granted, as of 12.31.2014

3,5 million euro in research and development activities in 2014 (3,6 in 2013)

9 papers published on international scientific papers, 12 poster communications, 9 lectures in important national and international scientific conferences
The approach to innovation of illycaffè is oriented to the creation of sustainable value for clients, consumers and, in general for stakeholders, offering products, solutions and services in line with relevant expectations and always aiming to the best levels of excellence and quality. The commitment in this regard is engaged through continuous investments in Research and Technology Development, through relationships with strategic partners and, mostly through professionalism and competence of personnel working for the company. Technology and innovation initiatives and the priority given to science and technology as essential sources of inspiration to innovate, form the guiding thread of the whole history of the company, contributing to its growth and success.

This entails:

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

During the last century, eight radical innovative discoveries had a revolutionary impact in the world of coffee. Three of them have been invented by illycaffè:

- **1933 pressurization**: preservation system based on the replacement of air in containers with an inert gas under pressure, having the ability to enhance and preserve during time the quality of coffee, allowing its exportation in all countries worldwide;
- **nel 1935 illetta**, the coffee making machine, ancestor of the current professional coffee machines, which re-invented the espresso coffee formulation and which allowed the diffusion of espresso making machines in the retail sector (Ho.Re.Ca.)
- **paper coffee pads**: single dose coffee small packs, prepared in proportionated amounts and industrialized with the objective to export coffee in countries lacking of traditional cafés and of specific competences for the preparation of espresso coffee.

Main innovations and innovative inventions introduced by illycaffè in its products and coffee machines are presented in the following section.

Research and development activities in the field of innovative technologies are carried out even within the very heart of plantations, through the implementation of sustainable projects, carried out with the partnership of coffee producers together with scientific institutions.
Research and technological development

Research and Development Unit of illycaffè – recognized at international level as an excellency centre – is formed by two departments of research on quality control (one in Trieste and one in São Paulo in Brazil) and by five integrated laboratories for the horizontal transfer of knowledge and in tight cooperation with university centers: AromaLab and SensoryLab (certified according to the ISO 17025.2005 standards by ACCREDIA, the Italian National Accreditation Body), BioLab, TechLab and FoodScienceLab.

In the laboratories are employed highly specialized and qualified researchers and technicians, namely:
- 5 chemists,
- 1 molecular biologist,
- 3 engineers,
- 3 food technologists
- 1 neuroscientist.

In 2014 some important multi-year research projects funded by the European Commission have been completed:

- “Nutrigenomics and coffee consumption: physiological effects, taste genomics and plants genetics”: main outcomes of the project have been the relevant patent application and the publication of a series of scientific papers.
- “Cardiovascular diseases: from genetic and environment risk assessment to prevention through innovative nutritional supplements”.

Moreover, the project financed by the Friuli Venezia Giulia Region has been also initiated: “New enzyme system for the reduction of acrylamide.

Cooperation with the following Universities and Researches Centres are still ongoing:
- University of Trieste;
- Edmund Mach Foundation – Agricultural Institute of San Michele all’Adige;
- University of Camerino;
- University of Padova;
- University of Firenze;
- University of Lubiana.

The company owns a patent portfolio which, as of 31 December 2014, included an overall number of 538 deposited titles of which, 416 patents have been granted and 122 filed for final issuance, divided into 45 families of patents. In 2014, 5 new patents have been registered with relevant pending patent issue: three patents have been filed for capsule/machine systems, one patent request has been deposited for a mechanical device for a coffee machines and the last one is related to the content of a scientific research study.

Creation of value for stakeholders and sustainability of development are based on the capacity of the company to continuously create innovation.

The company is highly committed to Research and Development activities for innovation, considering these activities as a fundamental strategic component of its asset. For this reason, during the years, the amount of investments carried out to support research and development activities has been maintained and sustained: in 2014 the overall amount of costs dedicated to the R&D Department of illycaffè has been equal to 3,5 millions of euro, comprehensive of costs for specialized personnel, costs for Intellectual Property activities, services, purchase of materials and equipment, depreciation costs, etc.

In addition to the above mentioned activities, other expenditures have to be considered: innovative projects for the reduction of the environmental impact, packaging, innovative initiatives carried out by the Department of External Relations and by the Department of Marketing, research and investments in the field of arts, implementation of the overall management systems, acquisition of new certificates, development of new products, research projects dedicated to green coffee and coffee producers. Considering this more complex and integrated picture, the overall amount of expenditure in 2014 has been of 11,4 millions of euro.

Laboratories of illycaffè

AromaLab
- Created in 1998 at Area Science Park of Trieste
- Research on the chemistry of coffee to investigate and identify the chemical compounds forming aroma, taste, texture and biological activity
- Ricerca sulla chimica del caffè, per individuare i composti chimici alla base dell’aroma, del gusto, del texture e dell’attività biologica.

SensoryLab
- Scientific study on the relationship between the sensory stimuli (taste and smell) and sensations evolved
- Combination of chemical, physical and psychology approaches
- Use of human and non-human sensors to catalogue the range of smells and tastes perceived
- Validation of products and processes

TechLab
- Development of technologies in the field of packaging and portioned products

BioLab
- Study of the different aspects of coffee biology: from genetics to characterization of varieties within the Unit of Molecular Biology (at Area Science Park) to the investigation of morpho-anatomic and ultrastructural characteristics of coffee in the Unit of Microscopy (within the premises of the company)

FoodScienceLab
- Research on food and on the area of “consumable” products based on coffee
Product innovation

When the company launches an innovation initiative in its products or in systems for the preparation of coffee, the objective is quite clear: to improve the degree of satisfaction of consumers. This is translated into an intervention on functionality, aesthetics, design, materials, comfort, pleasantness and quality of raw materials.

Research applied to products enabled the company to carry out some important innovation activities also directly on products:

The system *Iperespresso* is composed by a coffee machine combined to an innovative capsule: the result is a complete extraction system protected by 5 international patents. Compared to the traditional method of preparation in which expresso coffee is prepared in one single phase, the use of Iperespresso capsule system is based on two separated phases: the hyper-infusion and the emulsion. A double articulation system in the machine ensures an optimal extraction of all the aromas in the coffee and the result is a coffee with the addition of a rich and velvety cream, persisting in time.

*illy issimo* is a ready-to-drink product, create for the use away from home. Through the adoption of a cutting edge technology, it has been possible to obtain a taste and sensory profile very close to the flavor of the coffee freshly prepared, with no use of additional artificial colors or preservatives. The system has been realized by the illko company, a joint venture formed by illycaffè and The Coca Cola Company.

*illycrema* is the coffee soft ice-cream realized using micro-particle of ice. Also in the case of this products, no additional artificial colors, preservative or flavors have been used, but simple ingredients properly dosed and mixed. The coffee ingredient has been obtained starting from the classic illy blend and using appropriate technologies able to protect the identity of the illy taste.

*illy Monoarabica*: collection of individual coffees composing the traditional illy blend. Each individual illy Monoarabica carries an history based on the region of origin, with the specific features of its soil, the altitude, the amount of rain, exposure to the sunlight, cultivation methodologies: all characteristics having a substantial significant influence on the aroma, flavor and full-bodied taste.

*“Cuor di moka”* coffee machine, developed and completed in 2006, in which are transferred the competences acquired in the field of espresso coffee in order to prepare an espresso using a coffee moka machine. Six years of study have been employed to finalize the coffee machine, including a cooperation with the Bialetti company: the machine is produced at industrial level, and includes a device able to remove the final part of the coffee used in the preparation (the “extraction end”, which is the cause of negative aromas of coffee prepared using the moka machine).
Idillyum, coffee single variety that has a low natural content of caffeine. It is grown in El Salvador.

Innovations in **packaging** are continuously implemented in illycaffè: during years the package appearance of products represented a distinctive element and source of substantial added value for consumers, incorporating aesthetic, information and artistic value and also innovative technologies (coffee preserved through pressurization system is able to maintain the level of quality during time).

An important example of innovation is represented by Refilly. It is an innovative method to re-charge the traditional tin cans containing 250 grams of coffee. The novel idea has been inspired by consumers to the company and brings an high level of innovation in the field of ground coffee. Refilly, in fact, is composed by a pressurized charge of coffee in which pressurization allows the maintenance of the fragrancy of the coffee and the enhancement of aromas of the coffee blends. The mechanism of the system is extremely easy: the cartridge can be easily inserted inside the tin can of the size allocating 250 grams of coffee and is then capped with the original cap, maintaining therefore intact the quality and freshness.

Also on the front of coffee machineries, illycaffè during years created a series of models to seize the different needs of clients and customers: different approaches for the preparation of coffee and relevant technologies of dedicated machines are able to couple the unique illy blend. When new models of machines are created, the company is engages the double challenge to develop innovation and protect the environment: the use of non-polluting materials, the reduction of energy consumption, the attention to minimization of waste are all aspects taken in high consideration. New machines have been recently produced: Y5 machine (special version for the US market) for drip coffee, X9 machine for Iperespresso capsules and the Y5 machine Milk with the “one touch” option, to make cappuccino coffee and hot water for tea preparation. Also the series of Cuisinart is in production and is already commercialized in the United States.
Innovations of illycaffé in the latest years

**CUOR DI MOKA**
The coffee maker Cuor di Moka is the result of the six-years collaboration between illy and the Bialetti company: it represents perfection embodied in coffee maker. It has been designed to extract the best portion of an excellency blend product to be prepared at home.

**IPERESPRESSO CAPSULES**
The Iperespresso system combines a coffee machine to innovative capsules. The innovative extraction system is based on a special extraction chamber, for which the relevant invention is protected by 5 international patents.

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**X7**
the first home machine coffee maker with boiler, using Iperespresso capsules.

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

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

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

**X2**
The first professional Ho.Re.Ca. with boiler, using Iperespresso capsules.

**ILLY ISSIMO**
A ready-to drink product for the consume out of home. Without additive colorants and preservatives, illy Issimo is the result of the cooperation between illy and The Coca Cola Company and offers the possibility to enjoy the best quality coffee in the form of a chilled beverage ready to drink.

2004  2006  2007  2008  2009
DOPPIO ADATTATORE
kit for the use of IPSO Ho.Re.Ca. capsules on professional machines using ground coffee.

Y5
New home espresso machine belonging to the Y Series, using Iperespresso capsules with automatic discharge system.

REFILLY
package with 6 confections of 200 grams

SINGLE DOSE COFFEE PODS
package containing 18 coffee pods (with reduced primary, secondary and tertiary packaging materials and major efficiencies in assembly operations).

CUBO IPERESPRESSO
container for 18 capsules/caderno (package da 18 capsule/cad.)

Y5 Milk, X9 e KISS
New models of espresso coffee maker machines: Francis Francis for illy

X7.1
Limited edition in fluorescent colors, designed for the Christmas seasonal campaign of 2013.

Y1 TOUCH
evolution of the Y1 model, equipped with soft-touch control electronic control-pad.

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

X7.1
evolution of the X7 model, with thermo-block technology and in compliance with the norms relevant to the emission of heavy metals.

Y1
home machine coffee maker using Iperespresso capsules, made of aluminum and glass, equipped with an automatic system for the expulsion of capsules. Working upon thermic control and electromechanical commands.

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

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home machine coffee maker using Iperespresso capsules, made of aluminum and glass, equipped with an automatic system for the expulsion of capsules. Working upon thermic control and electromechanical commands.

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

Y1 TOUCH
evolution of the Y1 model, equipped with soft-touch control electronic control-pad.
Sustainable supply chain of coffee
illycaffè manages the entire supply chain within the overall framework of sustainability. The approach is certified by a third party independent evaluator through the Responsible Supply Process, which states as follows:

- illycaffè purchases 100% of green coffee directly from coffee producers (see relevant section on the Ethiopia exception case)

- illycaffè transfer to coffee producers suitable competences to obtain the continuous improvement of quality of products

- illycaffè awards producers for their quality coffee with a price higher than the average market price.

- The investment to monitor and provide the green coffee supply chain with specific support activities: 4.3 million euro in triennium 2011-2014.

In order to reach the quality of illy coffee blends it is necessary to operate in tight contact with producers in relevant regions where the most excellency quality Arabica grows. In the last two decades, illycaffè implemented a system of direct relationships with suppliers, based on three main pillars:

- Select best growers;
- Transfer to best growers all the knowledge acquired during eighty years of entrepreneurial history and all the necessary competencies to obtain levels of excellency required by illy standards: training and knowledge transfer activities are organized and carried out by the Università del Caffè, with the support of specialized agronomist on the field;
- Purchase the best quality production from grower, awarding them with prices higher than the average market price in recognition of the quality obtained and to foster the continuous improvement.

A vision from the past: since late ’80ies in fact, illycaffè has the objective to purchase raw materials directly from the source (with the exception of Ethiopia, where local laws presently do not allow direct purchase of coffee from growers), avoiding intermediate interventions and international market of commodities. Thanks to this commitment, illycaffè has been the first company worldwide to be certified in 2011 for its “Responsible Supply Chain Process”, which designates a crucial role of the company for the quality achieved and for the capacity to create value for all stakeholders along the entire green coffee supply chain.

The company decided to initiate to undertake the commitment to introduce the most suitable management solution and evaluation systems able to detect and properly communicate the creation of responsible value on its supply chain. The certification for the Responsible Supply Chain Process does not involve any direct cost for coffee producers: illycaffè bears the overall expenses for certification activities and to carry out inspections and audits in the premises of producers.
Responsible Supply Chain Process

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

In recent years, the company shared the guidelines and requirements set out in its RSCP model with coffee producers in order to allow them to be always compliant with the internationally required and recognized standards, an therefore also to be able to address the expectations and high quality demands of illycaffè.

In order to achieve this objective, dedicated handbooks and manuals on good practice, training courses, visits on field and periodical audits have been carried out: the overall goal is the creation, during time, of natural and social systems in which individuals are treated with equity, dignity and respect, the environment is reserved and restored and suppliers are compliant with rules and awarded for the quality and sustainability of their business.

The RSCP is applicable to every single section of the supply chain of illycaffè and is completely conforming with the most important international standards, as listed below:

- ILO Convention 182 - Worst forms of child labor.
- ILO Convention 29 and 105 - Bonded and forced labor.
- ILO Conventions 100 and 111 - Equal remuneration for male and female workers of work of equal value.
- ILO Convention 87 and 98 - Prohibiting membership of or representation by a trade union.
- OECD Guidelines for multinational enterprises.
- UN Convention against trans-national organized crime, protocol on trafficking and smuggling.
- Stockholm Convention on Persistent Organic Pollutants; Rotterdam Convention on Prior Informed Consent: aldrin, hexachlorobenzene, chlordane, mirex, DDT, toxaphene, dieldrin, polychlorinated, biphenyls (PCBs), endrin, dioxins, heptachlor, furans

The standard applied to the supply chain of green coffee implies a strict monitoring of all suppliers on behalf of the company, in addition to a continuous control of the compliance with minimum requirement of working condition for employees and environmental impact (which represent fundamental requirement to maintain the relationship with the company).

Standard requirements are based on the monitoring of the following areas:

<table>
<thead>
<tr>
<th>Area</th>
<th>Requirements</th>
</tr>
</thead>
<tbody>
<tr>
<td>Environment</td>
<td>- Use of soil&lt;br&gt;- Water withdrawal&lt;br&gt;- Quality of water&lt;br&gt;- Impacts on local community&lt;br&gt;- Biodiversity</td>
</tr>
<tr>
<td>Conditions</td>
<td>- Agricultural Technologies applied&lt;br&gt;- Equipment used in the production phase&lt;br&gt;- Working conditions&lt;br&gt;- Risk of accident or injuries&lt;br&gt;- Capacities and competencies of workers</td>
</tr>
<tr>
<td>Product</td>
<td>- Use of pesticides and chemical products&lt;br&gt;- Agricultural Technologies applied&lt;br&gt;- Equipment used in the production phase and working conditions&lt;br&gt;- Hygiene</td>
</tr>
</tbody>
</table>

The procedure followed by illycaffè in the supply chain monitoring and in the identification of improvement actions to share with producers is summarized in the following picture.
The company is continuously monitoring the status of legislation and is constantly mapping the regulatory framework applicable in each single country, together with the evaluation of material impacts as requested by the RSCP. In addition to these activities, since the end of 2013, illycaffè formulated a document dedicated to risk assessment through the analysis of the following risks: environmental risks, business ethics risks, employment risks and product risks, with an evaluation of risks carried out either in each country, either within the company supply chain (in particular, with reference to the results obtained through the activities carried out on-the-field in the latest years).

Thanks to this new analytic tool, in 2014 illycaffè experienced a concrete improvement in the efficacy and efficiency of its monitoring activities, especially in the identification of the key points for which a detailed plan of intervention has to be implemented in the forthcoming period: such plans are going to be tailored to the requirement of individual countries.

Control activities and periodical inspections are part of the process, with the aim to improve the level of parameters in the supply chain of the company. These parameters can be summarized as follows:

- minimum actions requirements, are represented by the minimum number of requirements to be accomplished by providers, such as requirements in the field of environment protection and work rights; these requirements are proper of suppliers: in case on non-conformity to requirements, suppliers are subject to a temporary exclusion from the network of selected and certified providers.

- KPI: Key Performance Indicators, are characteristic for the supply chain of the company. They are divided into:
  - Core KPI, requirements which go beyond existing minimum legal requirements, but are crucial importance for the company;
  - Recommended KPI: which are additional requirements, not mandatory by law but highly enabling.

KPI are important for illycaffè for the evaluation of its performance in relation to other supply chains and do not have to be considered as fundamental prerogatives by individual suppliers. They are based on indicators (core and recommended) which are collected by technicians during their visits on-the-field. On the basis of detections carried out by technicians and other experts, the company envisages more specific objectives to enhance the performance of supply chains in relation to specific thematic areas, also through the identification of the most appropriate actions (with focus on training activities and training programmes) according to the KPI/targets identified.

illycaffè periodically reviews and reformulates KPIs, in line with changes of reference territories. The final goal of the company is to reach a spectrum of parameters which are progressively more stringent and close to reality. There are situations, however, for which substantial and progressive changes can be observed only based on long term analysis, like in the case of small producers.

Evaluation of producers

Monitoring and evaluation of suppliers represent crucial activities for illycaffè: on the basis of the requirements included in the Responsible Supply Chain Process, which include among others, environmental issues, aspects relevant to human, social and labor rights, the company identify new programmes and initiatives to carry out to support individual producers either for the formulation of individual improvement plans, either for the dissemination of the sustainability and quality culture in a more effective way.

Regarding monitor activities of the supply chain, in 2014 184 visits on-the fields of producers have been finalized. Since the beginning of the programme, more than 1,500 producers have been directly visited and controlled, for a total amount of more than 1,050 working days of illycaffè technicians: the results clearly states than 100% of producers have been subject to visit at least one time.

From 2010 to 2014, a total number of 5,500 of participants has been involved in direct initiatives (training courses) or indirect initiatives (realization or participation in conferences).

Update of monitoring systems

The monitoring system for the evaluation and test of suppliers is constantly subject to a revision and improvement of action plans, in order to properly cope with the enlargement of the total amount of purchase of lands in countries of Latin America and Africa, where the production supply chain displays higher degree of articulation and where small coffee growers contribute with minimum quotes to the creation of common commercial batches of farmland, not even subject to a clear definition.

Although the procedure adopted so far guaranteed the visit to 100% of suppliers, the company enforced monitoring actions in the new areas acquired, in which small coffee growers work. Of course, the implementation of the plan in this direction will imply additional effort, but at the same time a constant control is ensured: in fact, since 2009 more than 1,500 producers have been carefully examined in the relevant territories, allowing therefore a reduction in the frequency of visit, providing that each provider of raw materials is controlled one time ever a period of three years, adjusting the frequency of controls in case of new unexpected critical situations. In places where the offer of raw materials is highly fragmented, the knowledge of territory is going to be carried out through the control of 100% of growers clustered in associations, with contemporary assessment of their work through visits of at least 10% of single growers which participated in the creation of an “illy plot of land”. Specific studies and more frequent contacts with Institutions will contribute to the overall knowledge of new territories acquired and will also bring advantage in the comprehension of problems and subsequent actions to be carried out.
**Actions implemented in the coffee supply chain**

illycaffè formulates and implement initiatives for the transfer of technologies and know how dedicated to coffee growers and promotes programmes focused on study, research and innovation in order to improve the competencies of growers on coffee. Moreover the company fosters the improvement of living conditions of people working in the supply chain and the overall conditions of production sites in which they live and work. After the three years’ time 2010-2013, during which activities of dissemination have been carried out through the diffusion of handbooks and manuals on good agricultural practices, on the treatment of water consumption, in 2014 new themes of intervention have been identified with focus on: viable economic management of enterprise for producers having low levels of education (the most urgent area of intervention), which will also be the ideal subject for the future creation of handbooks and documents to be shared with different partners, in countries where the company purchases raw materials.

In the context of dissemination of knowledge on integrated agriculture technologies, the company initiated an activity to raise awareness in the use of plant protection products to be employed in plantations. The activity has been implemented through various forms of training. In light of the good results obtained in Brazil through awareness building actions relevant to the treatment of waste waters and of water consumption, the company decided to start in the country also online training courses, focused on agro-business management, on the analysis of production costs, on the prevention of economic loss in coffee production and on biodiversity preservation. In 2014, more than 250 people attended the courses: producers, exporters, representatives from cooperatives of growers, institutions active in the field of coffee-cultivation.

The following table summarizes the main initiatives carried out in recent years by the company, in the green coffee supply chain over the world.

**BRAZIL**

**Study on the de-commoditization of coffee.**
A study carried out by Professor Pierpaolo Andriani of the Durham Business School evidenced the relation between the increment of coffee quality in different areas of Brazil with the entrance of illycaffè in the country.

**Project for the evaluation of greenhouse gas emission related to cultivation of coffee in Brazil.**
Since 2010, in cooperation with the specialized consultancy company DeltaCO2 of Professor Cerri, a study focused on the calculation of greenhouse gas emissions related to the production of coffee in different areas of Brazil has been implemented and is still ongoing.

**Project “Atlantic Forest” in Brazil.**
In cooperation with the Instituto Terra (www.institutoterra.org, created in 1998 by Sebastião Salgado e Lélia Wanick Salgado with the aim to develop and implement a reforestation initiative in a large area of the Atlantic Forest in the region of the Rio Doce Valley), illycaffe funded the creation of experimental lands to study reforestation systems in the region: more than 8.00 trees have been planted in the test area of 9 hectares. The project initiated in 2008 and ended in 2013.

**Manual of environmental management of natural reserves in the Atlantic Forest.**
In 2009 more than 800 theoretical handbooks on the environmental management of the Atlantic Forest have been distributed to producers, research institutions, libraries and universities in Brazil. In 2013, illycaffè distributed also 500 practical handbooks on the environmental management and reforestation of Atlantic Forest in coffee plantations.

**Università del caffè Brazil:**
- 2 seminars in the productive regions on drip irrigation techniques and fertigation systems: 115 participated in the initiative, in which also the results on the greenhouse gases emissions in the coffee plantations have been presented.
- 16 online training courses on themes such as: quality, preservation of water resources, good environmental practices, economic advices on agri-business and analysis of cost/products. 252 participants attended the initiative.
- 1 Fellowship donated by the Ernesto Illy Foundation for the attendance of the Master in Coffee Economics and Science (2014 edition)

**COLOMBIA**

**Three-years projecto on reforestation.**
In cooperation with Cenicafé and the illycaffè is carrying out a project aimed to the reforestation of the Támara municipality, in the Department of Casanare. The main goal to the project is to increment the water capacity of selected water natural sources, in order to create an alternative to the groundwater depletion (due to deforestation for the creation of grazing land for animals) which had a progressive reduction in the latest years: reforestation activities involved 80 small coffee growers and interested an area of 40 hectares. The project will be completed in 2015 and already have been identified elements of interest to initiate a second phase of the project, thanks to the encouraging results obtained, which will also bring a cultural evolution in the field of environmental management. One of the main outcomes of the project has been represented by a more deep understanding on the origins and processes related to the deforestation and also the high educational insight delivered to attendees, which learnt how to transfer the knowledge acquired also in other activities of their work.

**Coffee and Honey Project in Colombia.**
The project has been carried out and implemented by the Ernesto Illy Foundation, in cooperation with a group of coffee growers in the Calarama of Chaparral, in the region of the Tolima (Colombia). The aim of the project was to promote and foster the
production of honey in coffee plants as an alternative source of economic income and also to create a model to be re-created in other coffee production areas. The project has been initiated in 2010 and completed in 2014, when the association of coffee growers was able to develop an independent activity for the production of honey.

1 Fellowship donated by the Ernesto Illy Foundation for the attendance of the Master in Coffee Economics and Science (2014 edition)

Ernesto Illy training and education
2 training initiatives focused on the quality standard required by illycaffè and relevant training of specialized laboratory technicians from two cooperatives of producers.

ETHIOPIA

Germplasm project in Ethiopia.
The Ernesto Illy Foundation carried out a cooperation with the University of Addis Ababa and the Universität Bonn to provide financial support for the project on the study and preservation of germplasm of Arabica coffee in the main primary forests of the country. The project has been initiated in 2010 and has the duration of five years.

2 Fellowships donated by the Ernesto Illy Foundation for the attendance of the Master in Coffee Economics and Science (2014 edition)

BURUNDI

1 Fellowship donated by the Ernesto Illy Foundation for the attendance of the Master in Coffee Economics and Science (2014 edition)

EL SALVADOR

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GUATEMALA

1 Fellowship donated by the Ernesto Illy Foundation for the attendance of the Master in Coffee Economics and Science (2014 edition)

HONDURAS

1 Fellowship donated by the Ernesto Illy Foundation for the attendance of the Master in Coffee Economics and Science (2014 edition)

INDIA

Training and update: 127 coffee producers involved in 3 seminars divided into three main sectors: the importance of punctual irrigation, fertigation systems to reduce waste water coupled to the use of fertilizers, quality issues

CHINA

1 Fellowship donated by the Ernesto Illy Foundation for the attendance of the Master in Coffee Economics and Science (2014 edition)

LONDON

International Coffee Organization (ICO). illycaffè plays an active role in the activities carried out by ICO, the most important Intergovernmental organization founded in cooperation with the United Nations to foster the cooperation between countries which consume, distribute and produce coffee. Ernesto Illy Chaired the Coffee Promotion Committee. Since 2014 Andrea Illy is Chairman of the Committee for the Promotion and Market Development
Awards and incentives for producers

Illycaffè recognizes and awards the quality of coffee through several initiatives and awards to foster the creation of conditions to obtain excellence raw materials and to sustain the entrepreneurial and cultural growth of producers, transferring and adopting the fundamental principles of sustainability. Selection of suppliers is carried out through an accurate approach which takes into account the realities of individual countries.

In Brazil, for instance, in order to start the procedures for the identification of best producers and to properly reward the quality of relevant coffee. In 1991 illycaffè established a system of recognition: the Prêmio Brasil de Qualidade do Café para Espresso (Premium for the quality of expresso Brazilian coffee), which today has been renamed Prêmio Ernesto illy de Qualidade do Café para Espresso. In the early ’90, the production of coffee from Brazil was able to guarantee high volumes of coffee production, however with poor quality. The Prize contributed to the improvement of coffee quality; some areas of the country, wrongly considered poor and not suitable for coffee cultivation, as in the case of the region of Cerrado, have been able to start coffee cultivation and therefore improve and affirm their economy and contribute to the enhancement of quality of coffee produced in the country. The Brazilian coffee bean is nowadays recognized as one of the best in the world. Il chicco brasiliano è oggi riconosciuto dal mercato internazionale come uno dei migliori al mondo.

In Ethiopia, due to the particular situation of local communities of growers formed by thousands of very small farmers, washing stations have been created in cooperation with a local partner in order to obtain a better homogeneity during processing of small quantities of coffee cherries transported to the washing places. Before the publication of the local national law for the regulation of the internal market, also training initiatives have been promoted on regular basis, aiming to enable producers to obtain better qualities in their coffee production. The project contributed to the improvement and increase of awareness in the culture of coffee, including the methodologies to be adopted to achieve better quality and the overall coffee market capability of the country. Moreover, illycaffè participated in a project initiative in collaboration with the Ministry of Agriculture of Ethiopia, with the objective to identify a suitable production process able to obtain a substantial enhancement of quality of coffee crops and, contemporarily, the increment of economic income of individual producers, starting from very modest financial investments.

During 2014, the company implemented the activities to support and award coffee producers in Brazil, which showed interest and participation in the programme to enhance sustainability; the criterion based on sustainability is a fundamental parameter to selects producers and, among them, the best producer of the year.

Among the most important initiatives carried out by illycaffè to reward the quality achieved by coffee producers, the following are of particular importance.
Prêmio Ernesto illy de Qualidade do Café para Espresso

The Prize is awarded in form of a financial fund to foster rural and environmental development of large regions of Brazil, such as areas near Piraju, in the state of São Paulo or the highlands of Cerrado and the Zona da Mata in the State of Minas Gerais. From the very beginning of the initiative, in 1991, more than 10,000 producers took part in the project, with a total of funding equal to two millions of US Dollars distributed during years. Moreover, illycaffè award the Best Producer of the Year in Brazil, on the basis of the performances achieved in terms of quality, times of delivery and sustainability: the award includes a journey to Italy, for winners and their families, including a visit to the premises of the company.

Clube illy Do Café

Started in 1999, following the success of the Prêmio Ernesto Illy de Qualidade do Café para Espresso, the initiative aims to strengthen the relationships with best coffee producers of Brazil and to promote best practices for coffee cultivation. Producers considered eligible for their participation in the CLUVE receive fidelity cards, which depend on the supply relations and on the quality of their products. In 2014, members of Clube illy have been a total number of 474. In addition, the company awards with a prize the Best Sustainable Producer in Brazil, on the basis of the performances achieved in terms of quality, times of delivery and sustainability: the award includes a journey to Italy, for winners and their families, including a visit to the premises of the company.

Since 2011, illycaffè endorses and awards the most virtuous producers of the country through the assignation of special placques, to be placed in the premises of their farms. To date, 20 placques have been awarded. The award system adopted by illycaffè delivered several advantages either to the company, to producers and relevant local communities of growers: the quality of coffee produced had a substantial improvement in the country, even in those regions previously considered not suitable for coffee cultivation. Producers acquired knowledge and competencies on new sustainable and responsible agricultural practices: improved access to know-how and enhanced capacities create a capital value which can be valorized on the market, even regardless of their supply relationship with illycaffè.

A research carried out by the Durham Business School, surveys and analyzes the evolution of decommoditization of coffee quality in Brazil: small modifications introduced in the Brazilian market of coffee, produced significant long term changes in the overall trends of the sector at global level. The research evidenced also how the creation of a Prize could lead to a progressive re-evaluation of green coffee (decommoditization), and to the development of an excellency network of producers. Furthermore, the research pointed out that companies could contribute to the modification of trends and equilibria on which a specified market sector is based and to trigger virtuous mechanisms of growth (through the so called “butterfly effect”), which can be translated into the creation of profit in a long term strategy, coupling quality and sustainability.
Economic added value
During 2014, even within an overall context of decreasing consumption, the company was able to increase the level of profits, either in terms of profitability and in financial terms. The turnover showed an increase of 4.5% compared to 2013, mainly thanks to the higher volumes of sales.

The summary of economic-financial data, evidences a gross operating margin (EBITDA) and net operating margin (EBIT) increased compared to 2013 and an overall net income incremented, compared to the previous year.

The financial positioning of the company shows a clear improvement, respect the one of 2013, and amounts of 97.3 millions of euro.

In order to give a proper evidence to the economic value generated by all the business activities of the company, which have been distributed among important categories of stakeholders, illycaffè uses the Added Value criteria.

Added Value is intended as the difference between profit and production costs which does not affect the remuneration of the stakeholders of the company. The concept, within this framework, is completely detached from the mere definition used in usual accounting systems.

The assessment of an Added Value allows the company to evidence its capacity to generate wealth, in the period of reference, with an evident advantage for stakeholders in the overall respect of economic management and expectations of stakeholders themselves. As of 31 December 2014, Added Value of illycaffè, at a consolidated level, has been of 137.4 millions of euro (with an increment equal to +11.4%, compared to 2013).

From the analysis of the Added Value produced and distributed in 2014 from illycaffè at consolidate level, it is possible to evidence the following considerations:

- The most relevant quote in the distribution of Added Value is dedicated to cover Human Resources expenditures (+6.2% compared to 2013), which accounts for the employment of new resources. In this expenditure are included all the items indicated in the specific contractual clauses and a series of expenses incurred by the company, as for instance the expenditures for training activities and for the management of internal canteen facilities.
- 23.1% of added value created in 2014 has been reinvested within the company; this amount (+31% compared to 2013) includes profit which are not distributed to shareholders and depreciation of investments made by other companies of the group.
- 11.5% of total added value has been dedicated to Public Administration (State and Local Bodies) for duties and taxes, with an increase of 30.4% compared to 2013.
- Shareholders received dividend incomes, in line with previous years, for an amount of 4.4% or total Added Value.
- Banks and other financial investors received financial resources due to interests accrued for loans and financial investments (2.2% of total Added Value);
- 0.5 of total Added Value is donated to community in form of charges for social utility (the information is relevant to contributions from illycaffè to the Ernesto Illy Foundation) and in form of membership fees.

The following diagram (distribution of Added Value) shows the relationships and ratio proportions between the company and the related social-economic system, with particular reference to important selected stakeholders:

- **Human Resources**: direct and indirect remunerations of collaborators (employees and non-employees);
- **Public administration**: funds disbursed for payment of taxes and duties;
- **Banks and financial investors**: remuneration of capital credit;
- **Shareholders**: remuneration of risk capital;
- **Corporate system**: remuneration of the company through reserve provisions and provisions allocated for deprecations
- **Community**: membership fees and donations.
Standard
Methodological note

The Sustainable Value Report of illycaffè is presently at its fourth edition: published for the first time in 2012 and regularly issued on an annual basis, the report is intended to be a tool to account for the responsible management of the company, which aims to increase its ability to generate value within the framework of the respect for all existing equilibria at the basis of the sustainability concept: economic, social and environmental, giving the proper attention to the expectation of all stakeholders which, either directly or indirectly, are involved in the activities of the company. The Value Report, moreover, responds to the commitment to communicate a path toward a responsible growth, a responsible behavior founded on attitudes, responsible practices and products, initiated by the company several years ago.

Guidelines adopted and reporting process

The Value Report of illycaffè has been created in compliance with the guidelines of the Global Reporting Initiative (GRI), which includes the indicators envisaged by the sector on supplements “FP - Food Processing Sector”. The former editions of the Value Report scored the maximum rank of the Application Level (A+), in conformity with guidelines “G3.1-2011”: for 2014, the Value Report has been carried out according to the most recent version (G4) of the GRI, with the adoption of the Core protocol. In order to finalize the Sustainable Value Report, the company actively involved all the different management departments operating in the central premises of illycaffè and of the reference key partners of foreign companies of the group. The reporting process has been carried out through information systems used by the company (management control, account systems, quality, environment, internal audit, safety, human resources management, etc.). The ultimate objective of the company is to further strengthen the reporting system, and to extend the approach to all the companies of the group and enhance therefore the accuracy and reliability of the information provided.

In addition, the present report responds to the requirements indicated by the United Nations Global Compact, adopted by illycaffè. The Sustainable Value Report 2014 of illycaffè has been verified by the external control and audit of the company DNV GL Business Assurance Italy, s.r.l. A copy of the assurance declaration is attached to the present report, at the following link: http://goo.gl/Kaix6O.

Reporting perimeters

In the present report are considered the most relevant industrial and commercial companies included in the Financial Statement of the Group, through the integrated method of the consolidated statement which, as of 31 December 2014, employed at least 20 dependents and having an equity participation equal or major than 50%: illycaffè spa located in Trieste (including branch companies of Austria, Germany, The Netherlands, France, Spain, Hong Kong), illycaffè France sas, illycaffè North America inc., illycaffè Shanghai co. ltd., illycaffè Sud America l.t.d.a., Mitaca srl. Company forming the chain of espressamente illy do not have been included in the accounting process of the Report. In some cases, information and data relevant to performance have been related to some companies of the group: in this specific case, the report makes clear reference to the variation of the perimeter of reference. As the GRI standard requires to include all the activities having a substantial impact in terms of sustainability (materiality), whereas this is applicable, the report includes a deep analysis of related sectors of the value supply chain (for instance, the activities carried out in coffee plantations). A clear objective of the company is to progressively enlarge the accounting scope of the report, with the aim to represent in the most effective manner the sustainability impacts, following the evolution of international standards.

Contacts

For comments, requests of information, suggestions and ideas for improvement the sustainability activities of illycaffè and issues related to the content of the present Value Report, please contact via e-mail: valuereport@illy.com
Correlation table with gri standards
<table>
<thead>
<tr>
<th>General standard Disclosures</th>
<th>Page</th>
<th>Omission</th>
<th>External Assurance</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Strategia e Analisi</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>G4-1 Statement of the Chief Executive Officer</td>
<td>3</td>
<td></td>
<td>*</td>
</tr>
<tr>
<td><strong>Profile of the Organization</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>G4-3 Name of the organization</td>
<td>4</td>
<td></td>
<td>*</td>
</tr>
<tr>
<td>G4-4 Brands, products and services</td>
<td>4</td>
<td></td>
<td>*</td>
</tr>
<tr>
<td>G4-5 Head quarters</td>
<td>4</td>
<td></td>
<td>*</td>
</tr>
<tr>
<td>G4-6 Number of countries in which the organization operates</td>
<td>4</td>
<td></td>
<td>*</td>
</tr>
<tr>
<td>G4-7 System of ownership and legal form</td>
<td>13</td>
<td></td>
<td>*</td>
</tr>
<tr>
<td>G4-8 Markets served</td>
<td>4</td>
<td></td>
<td>*</td>
</tr>
<tr>
<td>G4-9 Size of the organization</td>
<td>4</td>
<td></td>
<td>*</td>
</tr>
<tr>
<td>G4-10 Nature of the workforce</td>
<td>46</td>
<td></td>
<td>*</td>
</tr>
<tr>
<td>Employees covered by collective labor contracts</td>
<td>46</td>
<td></td>
<td>*</td>
</tr>
<tr>
<td>Note: all the employees are subject to provisions indicated by national contract framework and to regulations in force in the various countries in which the organization operates</td>
<td>46</td>
<td></td>
<td>*</td>
</tr>
<tr>
<td>G4-12 Description of the supply chain</td>
<td>53, 93</td>
<td></td>
<td>*</td>
</tr>
<tr>
<td>G4-13 Substantial changes in size, structure, ownership structure or supply chain occurred during accounting period</td>
<td>105</td>
<td></td>
<td>*</td>
</tr>
<tr>
<td>Note: No substantial changes occurred in the reference period</td>
<td>105</td>
<td></td>
<td>*</td>
</tr>
<tr>
<td>G4-14 Prudent approach</td>
<td>17, 71</td>
<td></td>
<td>*</td>
</tr>
<tr>
<td>Note: Ilyca adopts the prudent approach in order to reduce the environmental impact of processes and products according to the principle n.15 of the UN declaration of Rio in 1992</td>
<td>17, 71</td>
<td></td>
<td>*</td>
</tr>
<tr>
<td>G4-15 Adoption of external codes and principles applied in economic, social and environmental issues</td>
<td>12</td>
<td></td>
<td>*</td>
</tr>
<tr>
<td>G4-16 Participation in association or organizations</td>
<td>55</td>
<td></td>
<td>*</td>
</tr>
<tr>
<td><strong>Materiality and perimeter of the report</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>G4-17 Entities included in the financial statement</td>
<td>104</td>
<td></td>
<td>*</td>
</tr>
<tr>
<td>G4-18 Principles for the definition of contents</td>
<td>104</td>
<td></td>
<td>*</td>
</tr>
<tr>
<td>G4-19 Material aspects identified in the definition of contents</td>
<td>25</td>
<td></td>
<td>*</td>
</tr>
<tr>
<td>G4-20 Material aspects internal to the organization</td>
<td>25</td>
<td></td>
<td>*</td>
</tr>
<tr>
<td>G4-21 Material aspects external to the organization</td>
<td>25</td>
<td></td>
<td>*</td>
</tr>
<tr>
<td>G4-22 Clarification on the effect of any type of modification of the information included in the former editions of the report and relevant justification</td>
<td>105</td>
<td></td>
<td>*</td>
</tr>
<tr>
<td>Note: no modification of such type have been carried out</td>
<td>105</td>
<td></td>
<td>*</td>
</tr>
<tr>
<td>G4-23 Substantial modification in objectives or perimeters compared to the financial statement presented in the previous report</td>
<td>104</td>
<td></td>
<td>*</td>
</tr>
<tr>
<td><strong>Stakeholder engagement</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>G4-24 Groups of stakeholders involved by the organization</td>
<td>25</td>
<td></td>
<td>*</td>
</tr>
<tr>
<td>G4-25 Identification and selection of stakeholders to be involved</td>
<td>25</td>
<td></td>
<td>*</td>
</tr>
<tr>
<td>G4-26 Approach adopted in the involvement of stakeholders</td>
<td>25</td>
<td></td>
<td>*</td>
</tr>
<tr>
<td>G4-27 Key aspects evidenced by the involvement of stakeholders</td>
<td>25</td>
<td></td>
<td>*</td>
</tr>
<tr>
<td><strong>Profile of the report</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>G4-28 Accounting period</td>
<td>104</td>
<td></td>
<td>*</td>
</tr>
<tr>
<td>G4-29 Date of publication of the previous edition of the report: June 2014</td>
<td>104</td>
<td></td>
<td>*</td>
</tr>
<tr>
<td>G4-30 Reporting cycle annual</td>
<td>104</td>
<td></td>
<td>*</td>
</tr>
<tr>
<td>G4-31 Contacts and addresses for information on financial statement</td>
<td>104</td>
<td></td>
<td>*</td>
</tr>
<tr>
<td>G4-32 Index of GRI contents and indication on the option &quot;In accordance&quot;</td>
<td>104</td>
<td></td>
<td>*</td>
</tr>
<tr>
<td>G4-33 External audit and certification</td>
<td>104</td>
<td></td>
<td>*</td>
</tr>
<tr>
<td><strong>Governance</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>G4-34 Governance structure</td>
<td>13</td>
<td></td>
<td>*</td>
</tr>
<tr>
<td><strong>Ethics and integrity</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>G4-56 Values, principles, standards and rules of conduct of the organization</td>
<td>7, 9</td>
<td></td>
<td>*</td>
</tr>
</tbody>
</table>

* = Additional indicators not required for Core in accordance.
### Specific Standard Disclosures

<table>
<thead>
<tr>
<th>Material Aspects</th>
<th>Page</th>
<th>Omission</th>
<th>External Assurance</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Categoria: Economics</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Economic performance</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>DMA</td>
<td>101</td>
<td></td>
<td>*</td>
</tr>
<tr>
<td>EC1</td>
<td>Economic added value directly generated and distributed</td>
<td>101</td>
<td>*</td>
</tr>
<tr>
<td><strong>Presence in the market</strong></td>
<td></td>
<td>Not material</td>
<td>*</td>
</tr>
<tr>
<td><strong>Indirect economic impact</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>DMA</td>
<td>59, 97</td>
<td></td>
<td>*</td>
</tr>
<tr>
<td>EC7</td>
<td>Development and impact of investments for infrastructures and services of “public utility”</td>
<td>59, 97</td>
<td>*</td>
</tr>
<tr>
<td><strong>Procurement practices</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>DMA</td>
<td>53</td>
<td></td>
<td>*</td>
</tr>
<tr>
<td>EC9</td>
<td>Policies, practices, percentage of disbursement for local suppliers, in relation to the most significant operational sites</td>
<td>53</td>
<td>*</td>
</tr>
<tr>
<td>FP1</td>
<td>Percentage of volume of procurements carried out from suppliers operating in compliance with supply policies of the organization</td>
<td>95</td>
<td>*</td>
</tr>
<tr>
<td>FP2</td>
<td>Percentage of volume of procurements for which has been verified compliance with responsibility standards, reliable and internationally recognized, divided according to standards</td>
<td>95</td>
<td>*</td>
</tr>
<tr>
<td><strong>Category: Environment</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Materials</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>DMA</td>
<td>75</td>
<td></td>
<td>*</td>
</tr>
<tr>
<td>EN1</td>
<td>Materials used</td>
<td>75</td>
<td>*</td>
</tr>
<tr>
<td>EN2*</td>
<td>Materiali utilizzati che derivano da materiale riciclato</td>
<td>75</td>
<td>*</td>
</tr>
<tr>
<td>Energy</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>DMA</td>
<td>73</td>
<td></td>
<td>*</td>
</tr>
<tr>
<td>EN3</td>
<td>Energy consumption within the organization</td>
<td>73</td>
<td>*</td>
</tr>
<tr>
<td>EN7*</td>
<td>Reduction of energy requirements for products and services</td>
<td>73</td>
<td>*</td>
</tr>
<tr>
<td>Water</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>DMA</td>
<td>75</td>
<td></td>
<td>*</td>
</tr>
<tr>
<td>EN8</td>
<td>Total volume of water obtained from source of supply</td>
<td>75</td>
<td>*</td>
</tr>
<tr>
<td>Biodiversity</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>DMA</td>
<td>71, 79</td>
<td></td>
<td>*</td>
</tr>
<tr>
<td>EN11</td>
<td>Localizzazione e dimensione dei terreni posseduti, attivi, oppure gestiti all’interno o nelle vicinanze di aree protette oppure di area ad alto valore per la biodiversità anche se al di fuori di aree protette</td>
<td>71</td>
<td>*</td>
</tr>
<tr>
<td>Emissions</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>DMA</td>
<td>74</td>
<td></td>
<td>*</td>
</tr>
<tr>
<td>EN15</td>
<td>Direct emissions of greenhouse gasses (GHG) (Scope 1)</td>
<td>74</td>
<td>*</td>
</tr>
<tr>
<td>Discharges and waste</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>DMA</td>
<td>76</td>
<td></td>
<td>*</td>
</tr>
<tr>
<td>EN23</td>
<td>Total weight of waste according to type and mode of disposal</td>
<td>76</td>
<td>*</td>
</tr>
<tr>
<td>Products and services</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>DMA</td>
<td>77</td>
<td></td>
<td>*</td>
</tr>
<tr>
<td>EN27</td>
<td>Mitigation of impact of products and services on the environment</td>
<td>77</td>
<td>*</td>
</tr>
<tr>
<td>Conformity</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>DMA</td>
<td>71</td>
<td></td>
<td>*</td>
</tr>
<tr>
<td>EN29</td>
<td>Monetary value of significant fines and total number of non-monetary penalties for non-compliance with laws and environmental regulations</td>
<td>71</td>
<td>*</td>
</tr>
<tr>
<td>Transports</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>DMA</td>
<td>78</td>
<td></td>
<td>*</td>
</tr>
<tr>
<td>EN30</td>
<td>Significant environmental impacts of transportation of products, goods and materials and for personnel operations</td>
<td>78</td>
<td>*</td>
</tr>
<tr>
<td>DMA</td>
<td>71</td>
<td>*</td>
<td></td>
</tr>
<tr>
<td>EN31</td>
<td>Total expenses and investments for the environment, according to the type of intervention</td>
<td>71</td>
<td>*</td>
</tr>
<tr>
<td>Environmental evaluation of suppliers</td>
<td>95</td>
<td>*</td>
<td></td>
</tr>
<tr>
<td>EN32</td>
<td>Percentage of new suppliers evaluated and selected according to environmental criteria</td>
<td>95</td>
<td>*</td>
</tr>
<tr>
<td></td>
<td>Non green coffee suppliers have been subject to evaluation process also on the basis of sustainability requirements. Illycaffè is committed to account the missing information starting from the next accounting period</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Complaints mechanisms for environmental issues</td>
<td>-</td>
<td>Not material</td>
<td></td>
</tr>
<tr>
<td>Category: Social</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Occupation</td>
<td>46</td>
<td>*</td>
<td></td>
</tr>
<tr>
<td>DMA</td>
<td>46</td>
<td>*</td>
<td></td>
</tr>
<tr>
<td>LA1</td>
<td>Number and rate of increase recruitments and personnel turnover</td>
<td>46</td>
<td>*</td>
</tr>
<tr>
<td>Industrial relations</td>
<td>-</td>
<td>Not material</td>
<td>*</td>
</tr>
<tr>
<td>Health and safety at the work place</td>
<td>49</td>
<td>*</td>
<td></td>
</tr>
<tr>
<td>DMA</td>
<td>49</td>
<td>*</td>
<td></td>
</tr>
<tr>
<td>LA6</td>
<td>Percentage of occupational injuries, sick leave, missed working days, absenteeism rate and total number of fatalities</td>
<td>49</td>
<td>*</td>
</tr>
<tr>
<td>Training and development</td>
<td>48</td>
<td>*</td>
<td></td>
</tr>
<tr>
<td>DMA</td>
<td>48</td>
<td>*</td>
<td></td>
</tr>
<tr>
<td>LA9</td>
<td>Training of personnel</td>
<td>48</td>
<td>*</td>
</tr>
<tr>
<td>Gender diversity and equal opportunities</td>
<td>46</td>
<td>*</td>
<td></td>
</tr>
<tr>
<td>DMA</td>
<td>46</td>
<td>*</td>
<td></td>
</tr>
<tr>
<td>LA12</td>
<td>Composition of government bodies of the organization and distribution of personnel according to diversity indicators</td>
<td>13, 46</td>
<td>*</td>
</tr>
<tr>
<td>Equal salary for men and women</td>
<td>46</td>
<td>*</td>
<td></td>
</tr>
<tr>
<td>DMA</td>
<td>46</td>
<td>*</td>
<td></td>
</tr>
<tr>
<td>LA13</td>
<td>Ratio between the basic wage salary for women and men</td>
<td>46</td>
<td>*</td>
</tr>
<tr>
<td>Evaluation of suppliers on the basis of employment policies relevant to employment and working conditions</td>
<td>95</td>
<td>*</td>
<td></td>
</tr>
<tr>
<td>DMA</td>
<td>95</td>
<td>*</td>
<td></td>
</tr>
<tr>
<td>LA14</td>
<td>Evaluation of suppliers on the basis of criteria related to policies and working conditions</td>
<td>95</td>
<td>*</td>
</tr>
<tr>
<td></td>
<td>Non green coffee suppliers have been subject to evaluation process also on the basis of sustainability requirements. Illycaffè is committed to account the missing information starting from the next accounting period.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Complaints procedures for aspects related to work</td>
<td>-</td>
<td>Not material</td>
<td>*</td>
</tr>
<tr>
<td>Category: Human Rights</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investments</td>
<td>64, 95</td>
<td>*</td>
<td></td>
</tr>
<tr>
<td>DMA</td>
<td>64, 95</td>
<td>*</td>
<td></td>
</tr>
<tr>
<td>HR1</td>
<td>Percentage and total number of investment agreements and significant contracts including clauses for human rights or subject to a relevant screening operations Note: the company adopts the indications contained in its relevant Code of Ethics in all the cooperation relationships and the requirements envisaged by the Responsible Supply Chain Process on the whole supply chain</td>
<td>64, 95</td>
<td>*</td>
</tr>
<tr>
<td>Non discrimination</td>
<td>64, 95</td>
<td>*</td>
<td></td>
</tr>
<tr>
<td>DMA</td>
<td>64, 95</td>
<td>*</td>
<td></td>
</tr>
<tr>
<td>HR3</td>
<td>Total number of events regarding the discriminatory practice and relevant corrective actions taken No occurrence detected</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Freedom of association and collective bargaining</td>
<td>64, 95</td>
<td>*</td>
<td></td>
</tr>
<tr>
<td>DMA</td>
<td>64, 95</td>
<td>*</td>
<td></td>
</tr>
<tr>
<td>HR4</td>
<td>Identification of activities and of main suppliers in which the freedom of association and collective bargaining could be violated or exposed to significant risks and actions taken in defense of such rights Non-significant for other suppliers</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Child labour</td>
<td>64, 95</td>
<td>*</td>
<td></td>
</tr>
<tr>
<td>DMA</td>
<td>64, 95</td>
<td>*</td>
<td></td>
</tr>
</tbody>
</table>
### HR5
Identification of operations and main suppliers with high risk of use of child labor and measures taken to contribute to its definitive eradication

| DMA | 64, 95 |

### HR6
Identification of operations and main suppliers with high risk of use of forced labor and measures taken to contribute to its definitive eradication

| DMA | 64, 95 |

### Safety practices

| DMA | Non-significant for other suppliers |

### Rights of local communities

| DMA | Non-significant for other suppliers |

### HR8
Number of violations of rights of local communities and relevant actions taken

| DMA | Non-significant for other suppliers |

### Evaluation

| DMA | 64, 95 |

### HR9
Percentage and total number of activities tested and checked and/or subject to evaluation for their impact on human rights issues

| DMA | 95 |

### HR10
Percentage of new suppliers evaluated and selected according to Human Rights criteria

| DMA | Non-significant for other suppliers |

### Complaints procedures for aspects related to Human Rights

| DMA | Not material |

### Category: Community

### Local communities

| DMA | 55 |

### SO1
Operations related to local communities, evaluation of impacts and development programmes

| DMA | 55, 97 |

### SO2
Number of confirmed crimes of corruption and relevant actions taken

| DMA | 97, Non-significant for the companies of the group. |

### Anti-corruption strategy

| DMA | 13 |

### SO4
Number of confirmed crimes of corruption and relevant actions taken

| DMA | None |

### Public Policy

| DMA | 13 |

### SO6
Total of political contribution and relevant institution in individual countries and relevant beneficiaries

| DMA | 59, 101 |

### Unfair competition

| DMA | Not material |

### Compliance

| DMA | 13 |

### SO8
Monetary value of significant fines and total number of non-monetary fines for non-conformity to laws or regulations

| DMA | Nessuna sanzione di questa natura |

### Evaluation of suppliers on the basis of societal impacts

| DMA | 95 |

### SO09
Percentage of new suppliers evaluated on the basis of societal impacts criteria

| DMA | 95 |

### Complaints procedures for aspects related to societal impacts

| DMA | Not material |

### PRODUCT RESPONSIBILITY

### Health and safety of consumers

| DMA | 35 |

### PR1
Categories of products and services subject to evaluation in order to improve their performance for aspects related to health and safety

| DMA | 35 |

### Labelling of products and services

| DMA | 41 |

### Marketing activities

| DMA | 109 |
| PR6 | Sale of prohibited products or products subject to disputes | No product sold | * |
| PR7 | Recorded cases of non-compliance with regulation relevant to marketing activities<br>Note: No non-conformity case registered | 51 | * |
| DMA | Consumers' privacy | * | |
| PR8 | Number of documented claims relevant to privacy violations or loss of data of consumers | No claim | * |
| DMA | Compliance | * | |
| PR9 | Monetary value of main sanctions for non-conformity to laws or regulations relevant to the supply and use of products or services | No claim | * |
If you have any additional questions or comments related to sustainability, we will be glad to provide you with information on our vision and our specific goals and targets.