



# SEED:S

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# Letter to our stakeholders

In these extraordinary times, all companies should make a substantial contribution to people's well-being and happiness, to the resilience and prosperity of the community and to the regeneration of natural systems. The full magnitude of this responsibility – understood as the obligation to care for society with the passion and competence that are essential for business – has emerged with the COVID-19 crisis.

This is the philosophy that has always driven us and is the reason why, in 2019, we adopted *Società Benefit* (benefit corporation) legal status. This choice is more than just a formality: it means believing and demonstrating that a different and more advanced way of doing business is possible. As a *Società Benefit*, illycaffè has formalised – and explicitly stated in the company purpose of its articles of association – its commitment to operate as a stakeholder company: we exist to create shared value for all the actors involved in our work.

In their pursuit of revenue, companies must correctly assess and measure their impact on people and the planet. Sustainable economic, social and environmental growth has always been a clear priority for us.

This understanding of a company's role in society is consistent with our values of quality and excellence. These values do not only refer to the specifications of a single product or service, or to the satisfaction of the end user; they are linked to the ethical context in which goods are produced, respecting all the people involved along the work chain and the environment in which they operate.



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The people and communities with which we engage are our top priority at every stage of work planning: we want to foster the healthy and sustainable development of the rural societies that are strongly connected to the coffee world. We care about the people at illycaffè who, every day, through their enthusiasm and dedication, enable a virtuous path of growth. We know that a healthy and forward-looking society cannot exist without people's happiness and well-being.

We view sustainability not only as a commitment, but as the key to the only truly possible and enduring development. We are constantly working to perfect practices and technologies that improve our impact on the environment and we are investing in collaborations with laboratories and research centres.

The 2019 Value Report outlines the social, environmental and economic results that we achieved last year, as well as the difficulties that we continue to face. We want to tell you about the commitments that we have made and the strategies deployed to put them into practice, describing our work through the six forms of capital: financial, productive, intellectual, human, relational and natural.

We want to share with you the commitment that makes us proud and happier.

**Andrea Illy**  
Chairman

**Massimiliano Pogliani**  
CEO





# Executive Summary

illycaffè works along the entire supply chain to ensure an experience characterised by quality, excellence and beauty and to help **create a virtuous system in which coffee contributes to improving people's lives and ecosystems. Illycaffè has always thought and acted as a stakeholder company** and in 2019 this vocation was enshrined in the company's articles of association through **the adoption of *Società Benefit* status.**

illycaffè's goal is to improve the quality of life of its stakeholders: consumers and customers, the company's partners in serving consumers; the talents who work with the company with passion and professionalism, the suppliers who guarantee an excellent product, the communities with which illycaffè interacts and, finally, the shareholders, who support the company.

illy invests in promoting the concepts of **sustainable quality**, forming an entrepreneurial culture that focuses on raw material procurement practices that are responsible and respectful towards people, communities and the environment; efficient customer service in the HoReCa channel; personalised assistance and consultancy services for managers of premises, and exclusive advantages for coffee lovers.



illycaffè is based in Trieste and is headed by the third and fourth generation of the Illy family.

It produces and sells, on a global scale, a unique blend of high-quality coffee, consisting 100% of 9 different types of Arabica, selected in over 20 production areas. The balance of these components produces the unmistakable illy taste and aroma, which is always the same in every cup. The illy blend is marketed in 144 countries on 5 continents and served in over 100,000 public establishments. The company also operates on the market through single-brand shops and 192 illy Caffès in the most important cities in 34 countries.

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The company focuses its strategies on a **sustainable business model** that can offer competitive advantages, integrating economic and income targets with social and environmental aspects.

illycaffè pursues sustainability by sharing the value generated (economic sustainability), personal growth (social sustainability) and respect for the ecosystem (environmental sustainability) in order to improve the quality of life of all its stakeholders and of all the actors involved in its supply chain, contributing to the Sustainable Development Goals (SDG).

In 2019, illycaffè adopted **Società Benefit (benefit corporation)** legal status, formally affirming that another better and more advanced way of doing business is possible when business targets are aligned with positive impact goals. The articles of association explicitly refer to three particular areas on which the company intends to focus:

- **The responsible value and sustainable agriculture chain.**
- **The aspiration for happiness and quality of life.**
- **The circular economy and innovation to benefit the planet.**

The company's economic sustainability has been confirmed by both its income and financial results, which have improved compared to the previous year, with a **turnover of €520 million** and a **distributed economic value of €491 million** (+11.9% compared to 2018)<sup>1</sup>.

illy's virtuous circle of sustainability starts with a cup of coffee and arrives in the countries of origin of the raw material, with a strategy based on four cornerstones: working directly with producers, sharing knowledge with them, remunerating them in a way that makes production sustainable, and creating a circle of illy producers.

In 2019, a significant change was made to the certification protocol for the coffee procurement process: a new sustainability standard, the "Sustainable Procurement Process" (SPP), developed by the DNV GL certification body as a more evolved version of the Responsible Supply Chain Process (RSCP) certification, was adopted. The new standard requires thorough monitoring of raw material suppliers to ensure product quality, environmental protection and respect for workers' rights. The direct involvement of producers in the assessment processes and sharing of knowledge and training to address specific problems identified in the field and to raise workers' awareness of relevant issues are some of the most salient features of this process.

Sustainability becomes a fundamental part of the purchasing strategy, characterised by a wide-ranging dialogue with supply chain stakeholders with a view to proactively pursuing improvement programmes and goals.

Together with local institutions and the Ernesto Illy Foundation, the company has launched numerous projects to support the coffee communities in which it operates. In 2019, education projects on good environmental practices, integrated agriculture, reforestation, planting and wastewater treatment were developed in Nicaragua, Honduras, Colombia and Brazil. The Casas de la Alegria project, supported by the Ernesto Illy Foundation in Costa Rica, is particularly noteworthy. The project involves the construction of care centres for the children of coffee pickers who work far from their home and bring their children with them. In these homes the children are cared for and looked after by qualified staff, while their parents work.



Sustainable quality also means making products with the lowest possible impact on the environment, including during use and disposal. This process is supported by the continuous research and technological innovation that illycaffè has fostered since its foundation. The company's main research areas focus on the circular economy, optimal use of materials and maximum waste and scrap recovery, and actions to combat climate change.

Attention to quality is combined with the essential aspect of safety. All products comply with the regulations governing the agri-food sector and are controlled by sophisticated inspection systems and protocols.

The company constantly monitors its environmental impact, which it manages by applying the principle of continuous improvement, designing solutions and adopting long-term approaches. In addition to its commitment throughout the supply chain, the company focuses on energy efficiency, waste management, reducing atmospheric emissions and developing low-impact packaging.

All these activities are supported and monitored through a certified environmental management system.

In 2019, electricity consumption at the Trieste production site, which is entirely supplied by energy from renewable sources, fell by 2.8%. Although production increased, methane consumption fell by 0.96% due to the replacement of certain machinery. The amount of water used (both in processes and for sanitary use) decreased by 25.5% compared to 2018.

In 2019, the first stage of carbon footprint mapping was completed, a fundamental step towards achieving decarbonisation by 2033. This process made it possible to identify that 66% of the company's total emissions<sup>2</sup> along the coffee chain derive from green coffee cultivation.

<sup>2</sup> Result of an internal study

## PROMOTING A CULTURE OF EXCELLENCE

- **The Università del Caffè (Coffee University)** is a centre of excellence that spreads high-quality coffee culture all over the world through training, research and innovation. In 2019, it turned 20, passed the milestone of 300,000 students in 20 years and trained 30,000 people in 2019. Over 100 professors and 28 locations make up the Università del Caffè network, which currently offers high-level training to producers, training courses to industry professionals and informative courses to consumers.
- **illycaffè has been supporting the contemporary art world for over twenty years** by promoting the work of established artists and emerging young artists through partnerships with institutions, international fairs and various kinds of award.

In 2019, illycaffè was the main sponsor of the Venice Biennale: "May You Live In Interesting Times", 58. International Art Exhibition.

## THE CHALLENGES FACING ILLYCAFFÈ

The company considers highlighting the real challenges faced on the innovative path towards sustainability to be an act of complete and transparent sharing that creates the framework for collective collaboration in order to overcome them.

- **A changing context, responding as a *Società Benefit*.** It is necessary to respond to the changes occurring in today's context in a manner consistent with this model, while at the same time promoting its values.
- **Communicating and creating a culture of sustainability to deliver value and make a positive impact.** Fostering and creating a solid culture of environmental and social sustainability, both within the company and in society.
- **Carbon neutrality by 2033.** Carbon neutrality is the great challenge of the next decade not only for illy, but for every company. To this end, illycaffè is researching and testing radically innovative agriculture models that could be applied in the coffee sector and potentially extended to a large part of the farming world.
- **Multiplying the positive impact through partnerships and collaborations (SDG 17 - Partnership for the Goals).** Encouraging all actors to understand the urgent need to unite in order to work towards a shared and higher goal, overcoming all cultural barriers and competitive pressures.

Everything reported so far is made possible by the 1405 people who work at illycaffè.

illycaffè is committed to guaranteeing uniform development between business growth and human growth, in which neither is possible without the other. The company's approach rewards merit, offers opportunities for growth and training, protects employees' work-life balance and makes diversity an asset.

In 2019, the company developed a new model of leadership and corporate culture, two cornerstones that characterise its identity. Group analysis, discussions and co-creation at plenary sessions involved all workers at different times of year.

#### ILLY EMPLOYEE PROFILE

Professionalism, passion and pride to provide added value capable of facing and overcoming the challenges posed by the market.

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THE TASTE  
OF RECOGNISING  
OURSELVES  
IN THE MIRROR.

# 01 our identity

HIGHLIGHTS

**144**

countries in which  
it operates

**1,405**

employees worldwide

**520**

millions of €:  
2019 turnover

**269**

points of sale: 192  
illy Caffès and 77 illy Shops

**100,000**

approximately:  
the points of sale at which  
illy coffee is served

# Mission, vision and values: illycaffè as a *Società Benefit*

## MISSION

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

## VISION

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

## VALUES

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

**Excellence** as love for beauty and well-done.

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

By becoming a *Società Benefit*, illycaffè has crystallised – and explicitly stated in the company purpose of its articles of association – its desire to operate as a stakeholder company: to create shared value for all those who participate in the company's success and to respect and protect the environment and the ecosystems on which we all depend.

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# illycaffè in a nutshell

illycaffè is based in Trieste and is headed by the third and fourth generation of the Illy family. It produces and sells, on a global scale, a unique blend of high-quality coffee, consisting of 100% Arabica from 9 different places of origin, selected from season to season in over 20 production areas. The balance of these components – from South America, Central America, Asia and Africa – produces the unmistakable illy taste and aroma, which is always the same in every cup. It is estimated that around 8 million cups of illy coffee are consumed every day worldwide.

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

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

## SEED:S

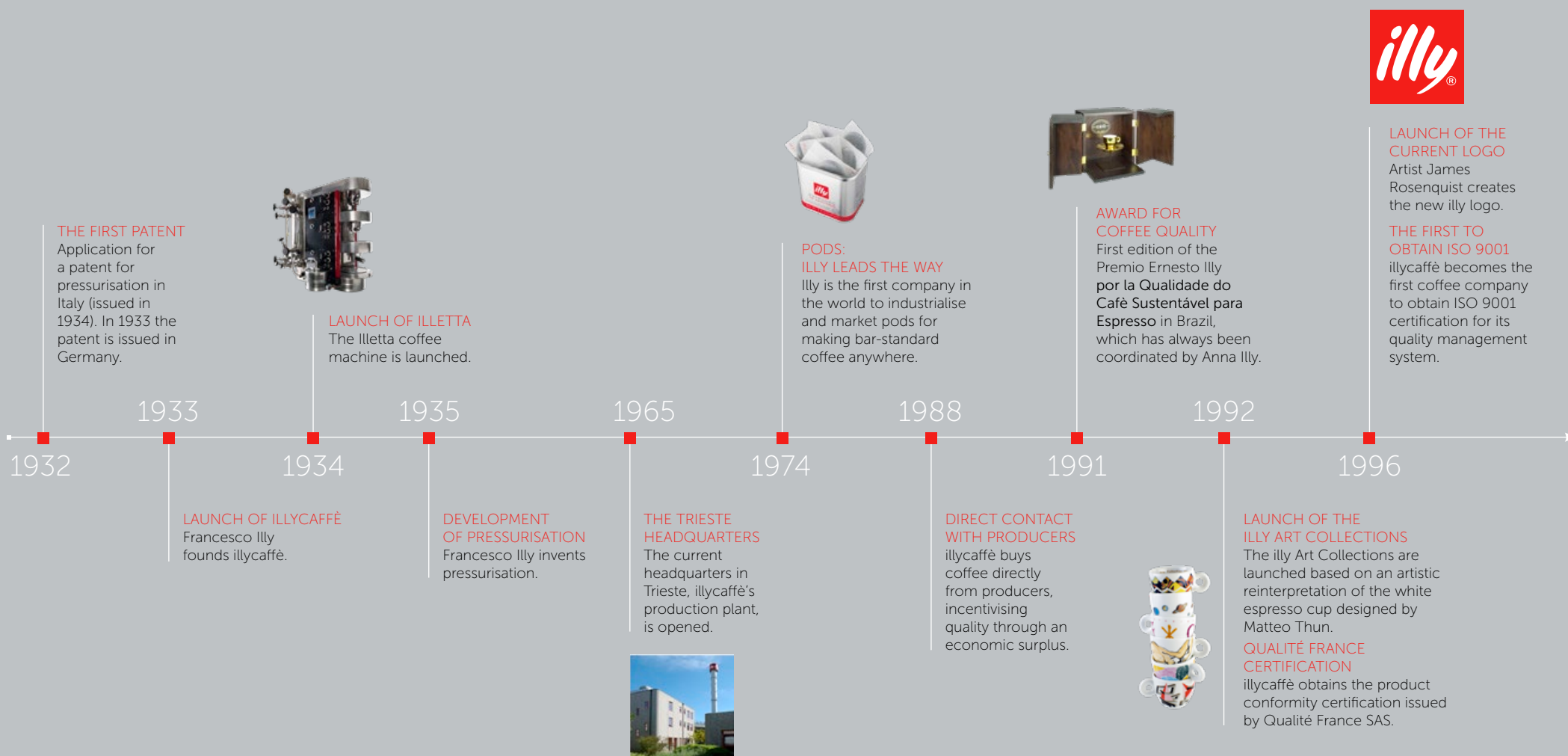
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### 01.2.1 The history of illycaffè



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### EMAS ENVIRONMENTAL CERTIFICATION

illycaffè improves its environmental commitment with EMAS to promote constant improvements in the environmental efficiency of its industrial activities.

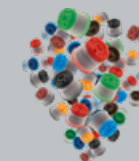
### LAUNCH OF THE ERNESTO ILLY SCIENCE PRIZE

illycaffè, as part of Trieste's candidacy for Expo 2008, began a collaboration with TWAS - The Academy of Sciences for the Developing World and launched an award dedicated to researchers from emerging and developing countries.



### IPERESPRESSO

The Iperespresso capsule system arrives on the market.



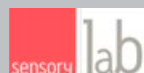
### IFS CERTIFICATION

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



### ESTABLISHMENT OF AROMALAB

illycaffè's laboratory where the chemistry and aromatic profile of coffee are studied and the quality of green and roasted coffee is evaluated.



### PROGRAMMES IN GUATEMALA

illycaffè develops a micro-entrepreneurship and training programme for coffee farmers in Guatemala.

### CREATION OF SENSORYLAB, TECHLAB AND BIOLAB

illycaffè creates another 3 laboratories in which it carries out continuous research on all aspects of coffee.

1999

2002

2003

2004

2005

2006

2007

### WATER, A PRECIOUS COMMODITY

illycaffè improves producers' coffee growing and processing techniques by reducing water consumption.

### FOUNDATION OF THE UNIVERSITÀ DEL CAFFÈ

The centre of excellence to promote and spread high-quality coffee culture around the world, from bean to cup.



### LAUNCH OF THE RETAIL BUSINESS

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

### ISO14001 ENVIRONMENTAL CERTIFICATION

illycaffè certifies that its management system is capable of keeping the environmental impacts of its activities under control.

### ROASTING WITH A LOW ENVIRONMENTAL IMPACT

The new roasting plant in Trieste, featuring a coffee roasting process with low fume emissions, becomes operational.

### EMAS AWARD

illycaffè's commitment to improving the environmental aspects of production is recognised at an international level.

### PROGRAMMES IN ETHIOPIA

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

### BRC - BRITISH RETAIL CONSORTIUM CERTIFICATION

illycaffè increases its commitment to certifications for safe food and products.

### ESTABLISHMENT OF FOOD SCIENCE LAB

The laboratory dedicated to food and "consumable" coffee-based products.







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**ISO 17025  
ACCREDITATION**  
illycaffè's AromaLab  
and SensoryLab  
laboratories are  
accredited by  
Accredia.

### FIRST SUSTAINABLE VALUE REPORT

illycaffè starts a process of stakeholder communication and involvement, managing and communicating its commitment to sustainability.

### GLOBAL COMPACT

illycaffè joins the United Nations Global Compact.

### CARBON FOOTPRINT

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

### ICRT - INTERNATIONAL CONSUMER RESEARCH & TASTING

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

2008

2010

2011

2012

2013

2014

2014-2015

### LAUNCH OF ILLY ISSIMO

illy issimo is the new "ready-to-drink" coffee, the result of a joint venture with The Coca-Cola Company.

### ESTABLISHMENT OF THE ERNESTO ILLY FOUNDATION

A foundation is dedicated to Ernesto Illy to further develop his teachings and ideas.

### OXFORD UNIVERSITY

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

### ATLANTIC FOREST IN BRAZIL

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

### AWARDS FOR SUSTAINABILITY IN BRAZIL

illycaffè launches the Award for Sustainable Conduct in Brazil, which rewards producers who achieve sustainability targets.



### "RESPONSIBLE SUPPLY CHAIN PROCESS" CERTIFICATION

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

### ESTABLISHMENT OF ILLYSHOP AND ILLYTECA

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



### WORLD'S MOST ETHICAL COMPANY

illycaffè is the only Italian company to be included in the 2013 list of the most ethical companies in the world compiled by the Ethisphere Institute.

**WORLD'S MOST  
ETHICAL  
COMPANIES**

### WORLD'S MOST ETHICAL COMPANY

illycaffè receives the World's Most Ethical Company award.

**WORLD'S MOST  
ETHICAL  
COMPANIES**

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### EXPO 2015

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

### PUBLIC-PRIVATE PARTNERSHIP WITH UNIDO

In collaboration with UNIDO, illycaffè works on the "Improving the Sustainability and Inclusiveness of the Ethiopian Coffee Value Chain through Private and Public Partnership" project to develop the entire Ethiopian coffee sector.

### PARTNERSHIP WITH SENA IN COLOMBIA

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

### SIGNING OF THE AGREEMENT TO SUPPORT THE REINTEGRATION OF EX-FARC FIGHTERS IN COLOMBIA

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

### SOCIETÀ BENEFIT

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

2015

2016

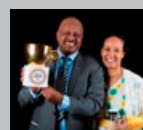
2017

2016-2018

2019

### ERNESTO ILLY INTERNATIONAL COFFEE AWARD

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



### WORLD'S MOST ETHICAL COMPANY

illycaffè receives the World's Most Ethical Company award.

### NEW GOVERNANCE AND SUSTAINABILITY POLICY

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



### ■ 1.2.2 Corporate governance and organisational structure

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

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

The Board of Directors is comprised of:

- the Chairman: has the powers provided for by law and the articles of association with regard to the operation of corporate bodies and the company's legal representation. The Chairman monitors the company's overall performance and approves the CEO's proposals for the company's strategic and organisational development.
- the CEO: legally represents the company within the limits of the powers granted to this position, ensuring smooth management, overseeing the company's organisation and ensuring regulatory compliance, internal control and risk management. The CEO implements the resolutions of the Board of Directors and the Chairman, directly proposing the company's strategic and development plan.
- the Internal Control and Risk Committee: assesses the adequacy and monitors the functionality and effectiveness of the internal control and risk management system and the risk profile assumed by the company. It is made up of three independent members.

- the Appointments and Remuneration Committee: makes proposals to the Board of Directors on the remuneration of the CEO and Directors and on the criteria for determining the remuneration of the company's top management. It is made up of three independent members. In the process of determining top management remuneration, illycaffè also relies on support from external consultants, who are also independent.
- the Sustainability Committee: supervises sustainability issues and assists the Board of Directors with preliminary assessments and decisions relating to sustainability. It is made up of three independent members.
- the Lead Independent Director: represents the point of reference and coordination for the requests and contributions of the Independent Directors.
- the Chief Ethics Officer: ensures that ethical procedures are in place and constantly respected and represents the company to private and institutional bodies with regard to both corporate reputation and strategic purchases in the coffee sector.

### ■ 1.2.3 A transparent approach to business

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

illycaffè therefore developed and adopted a **Code of Ethics** that sets out the company's principles and values as regulations and requires them to be observed by corporate bodies, employees and third parties. To date, it has been translated into seven languages in addition to Italian, and distributed to all subsidiaries and branches with the aim of creating an even more shared and robust value culture. It was updated in 2020.



## **DOWNLOAD**

Material available for download

- [Code of Ethics and organisational model 231](#)
- [Sustainability policy](#)

The Code of Ethics also aims to combat all types of corruption, both active and passive. There were no cases of corruption in 2019.

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

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

## **CODE OF ETHICS**

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

## **WORLD'S MOST ETHICAL COMPANIES**

Since 2013, illycaffè has been included in the list of the World's Most Ethical Companies, testifying its constant commitment to pursuing ethical standards and practices. The list is annually drawn up by Ethisphere Institute, a company that defines and measures corporate ethical standards, recognising companies that drive positive change by investing in local communities and making sustainability a business objective. To find out more about the methodology and how the score is awarded, see <https://www.worldsmostethicalcompanies.com/>



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# A changing context

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The macroeconomic scenario in 2019 involved a widespread decrease in global demand, showing all the contradictions and weaknesses of the world economy.

A major cultural and historical change is underway, in which the models adopted so far – including business models – must change.

In 2019, the global economy grew by 2.9%, the lowest growth since the global financial crisis of 2008-2009. This slowdown coincided with an increase in social and environmental discontent and the worsening of the

climate crisis, drawing attention to the need to develop new practices, solutions and ways of thinking. More intelligent and more human.

The business world, which, like politics, has enormous power to influence behaviour, money flows and decisions, must take an active role in the most important challenge, namely our survival.

Sustainable quality is the answer that contributes to addressing the great challenges of our time.



### ■ 1.3.1 Risks and opportunities

Understanding risks allows any company to structure a robust and effective management model.

In 2019, the process of strengthening the Enterprise Risk Management business model continued, making it possible to map and periodically monitor risks that may have a significant impact on the company's goals and value creation process.

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

- Strategic Risks
- Operational Risks
- Financial Risks
- Compliance Risks

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

Operational Risks are connected to the relevant sector, the company operations, the organisational structure and the Group's monitoring and reporting processes.

This category includes risks related to the procurement of raw materials

(price variations, difficulties in sourcing them), as well as risks related to human resources management.

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

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

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

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



### ■ 1.3.2 The challenges facing illycaffè

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

**A changing context:** responding as a *Società Benefit*

Today, prioritisation of shareholders is the dominant paradigm that guides many companies' behaviour. From a legal standpoint, the only purpose traditionally envisaged for a joint-stock company is the creation of value for shareholders. The consequence is that people and the environment do not necessarily rank among companies' priorities.

However, an increasing number of companies are embracing a new paradigm: the *Società Benefit* model. According to this approach, an individual company's pursuit of profit cannot disregard shared welfare for the community and the environment. Shareholders grant a new and more advanced mandate to the management, while at the same time protecting the company's mission by ensuring the necessary conditions for sustainable growth.

illycaffè believes in this model and has adopted it, recognising that it is not profit that creates value but the creation of value that generates profit.

The challenge for the company is being able to effectively respond to the changes posed by today's context, in line with this model, while at the same time promoting its values.

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

The magnitude of the sustainability challenge has not yet been fully understood: people generally realise its importance and complexity when unsustainability crises become so serious that remedial actions are required, which are often costly and difficult to implement.

This is why illycaffè has always been committed to creating a solid culture of environmental and social sustainability, both within the company and in society.

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

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

Humanity's current polluting impact is 55 gigatons of CO<sub>2</sub> equivalent emitted into the atmosphere<sup>1</sup>. The global goal is to reduce this impact to zero.

For illycaffè, the challenge is to reach the Carbon Neutrality target by 2033. This goal is enormously complex because energy and agricultural models directly impact all the company's work and therefore considerable redesign and innovation is required to eliminate its impact on the climate. 66% of the company's total emissions<sup>2</sup> along the coffee chain derive from coffee cultivation. To this end, illycaffè is researching and testing radically innovative agriculture models that could be applied in the coffee sector and potentially extended to a large part of the farming world.

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

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



## SEED:S

Social  
Environmental  
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**Partnership for goals:** opportunities to multiply the positive impact created

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

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

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

### VIRTUOUS AGRICULTURE

Agriculture is responsible for a third of climate change.

In March 2019, at the University of São Paulo, Andrea Illy presented, for the first time, the Virtuous Agriculture project, which, together with the Ernesto Illy Foundation, he is pursuing with the primary objective of limiting polluting emissions in coffee production, creating products that are good for the environment and for the consumers who use them. A new type of agriculture can completely reverse the “traditional” cycle, making a vicious, extractive circle virtuous and regenerative.

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

<sup>1</sup> Sources: <https://countdown.ted.com/>; <https://apnews.com/940cbc72674bd10eb0ce9410106c17e2>

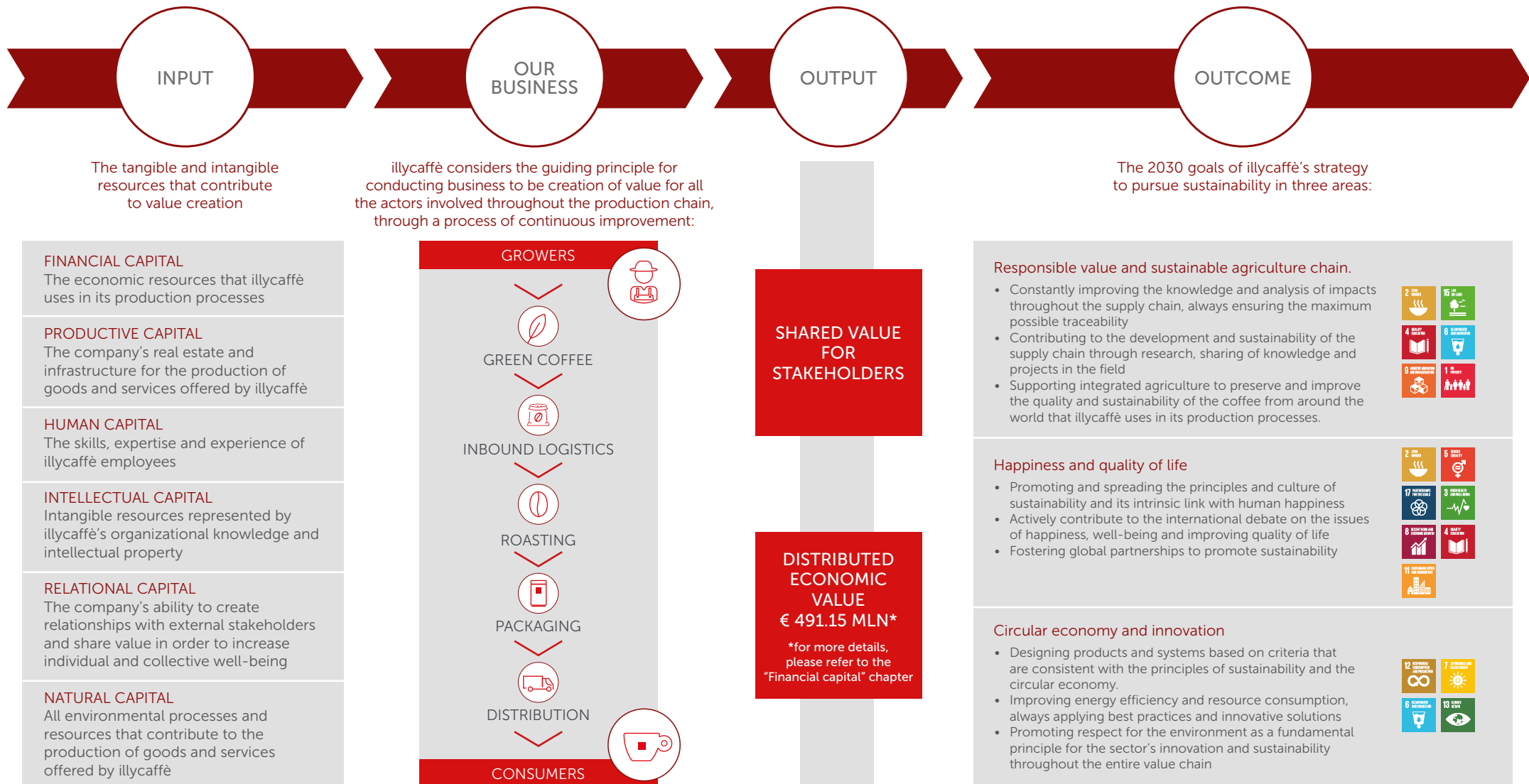
<sup>2</sup> Result of an internal study

# The illycaffè model

illycaffè considers the guiding principle for conducting business to be creation of value for all the actors involved throughout the production chain. The company's business model takes into account all the tangible and intangible resources that contribute to creating and distributing its value in the short, medium and long term. It starts with the resources, referred to as "capital", with which it applies its business vision throughout the supply chain, implementing concrete actions (output) that are then translated into final results (outcome).

## SEED:S

Social  
Environmental  
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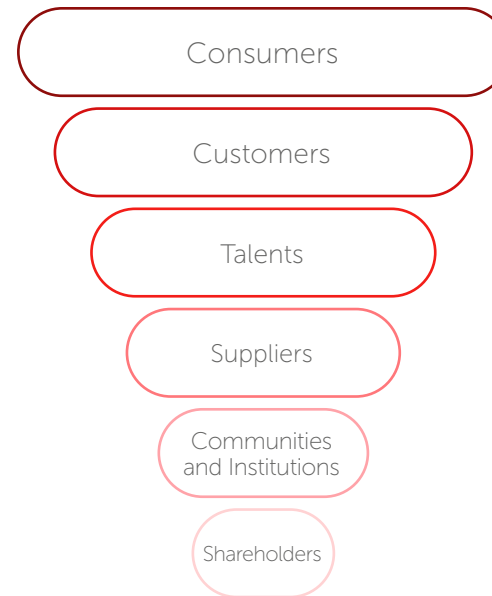
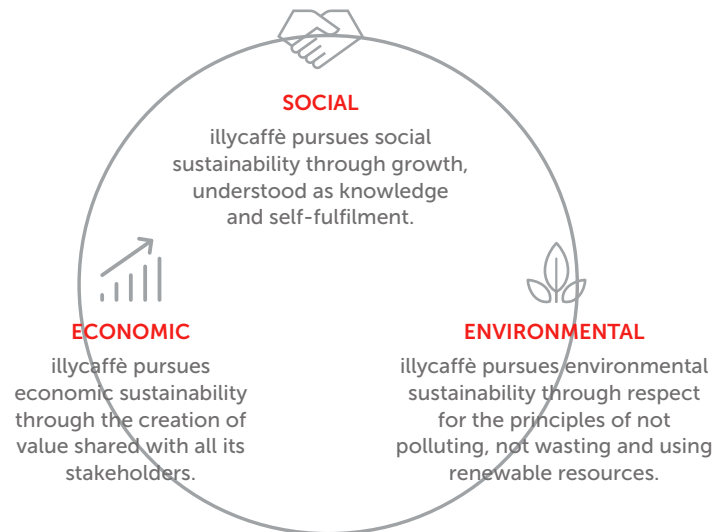
# Sustainability strategy and governance

## SEED:S

Social  
Environmental  
Economic  
Development  
Sustainability

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

As a stakeholder company and *Società Benefit*, illy aims to improve the quality of life of all its stakeholders. The hierarchy of its stakeholders is structured like an inverted pyramid: consumers come first, without which the company could not exist, followed by customers, who are the company's key partners in serving consumers; next are the talents, who collaborate with passion and professionalism; the suppliers, which guarantee the creation of an excellent product; the communities with which illycaffè interacts; finally, the shareholders, who serve the company.



### ■ 01.5.1 2030 Sustainability Policy

In its sustainability policy, illycaffè confirms its decision to grow by operating in a responsible, transparent and sustainable manner, creating prosperity for all.

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

- **The responsible value and sustainable agriculture chain.** This is achieved through analysis and improvement of impacts throughout the coffee supply chain, through field research and knowledge transfer, as well as through support to integrated agriculture to preserve and improve sustainable coffee quality.
- **The aspiration for happiness and quality of life.** This is pursued through the principles of economic, social and environmental sustainability, as well as by promoting global partnerships suitable to this goal.
- **The circular economy and innovation to benefit the planet.** This envisages the improvement of energy efficiency and resource consumption to progressively reduce emissions throughout the supply chain.

These three areas are integrated with the 2030 goals of illycaffè's Strategic Plan and will be annually reported in an Impact Report<sup>3</sup>, as required by law.



<sup>3</sup> For further details on the company's goals, please refer to the "Impact Report" section.

# Stakeholder dialogue and materiality assessment

## SEED:S

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Economic  
Development  
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The need to reconcile interests within the company and those of its stakeholders is a fundamental consideration for any stakeholder company and, even more so, for any company that chooses to adopt *Società Benefit* status. illycaffè has always been committed to this process through the creation of listening and dialogue tools – most notably the materiality matrix – that strengthen the relationship with stakeholders and multiply the created shared value.

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



In the process of updating the materiality matrix, the following steps were taken:

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

The identified themes were prioritised by asking the figures involved to express a judgement of “relevance”, as is traditionally done in materiality matrices, and “urgency”. The first variable is intended to gauge the importance of an issue for the company. The second aims to provide a temporal contextualization of the importance associated with an issue. This twofold representation makes it possible to infer a complete sense of priority, thereby avoiding the risk of a representation in which all issues are equally relevant and in which the tool’s intrinsically strategic aspect appears to be less effective.

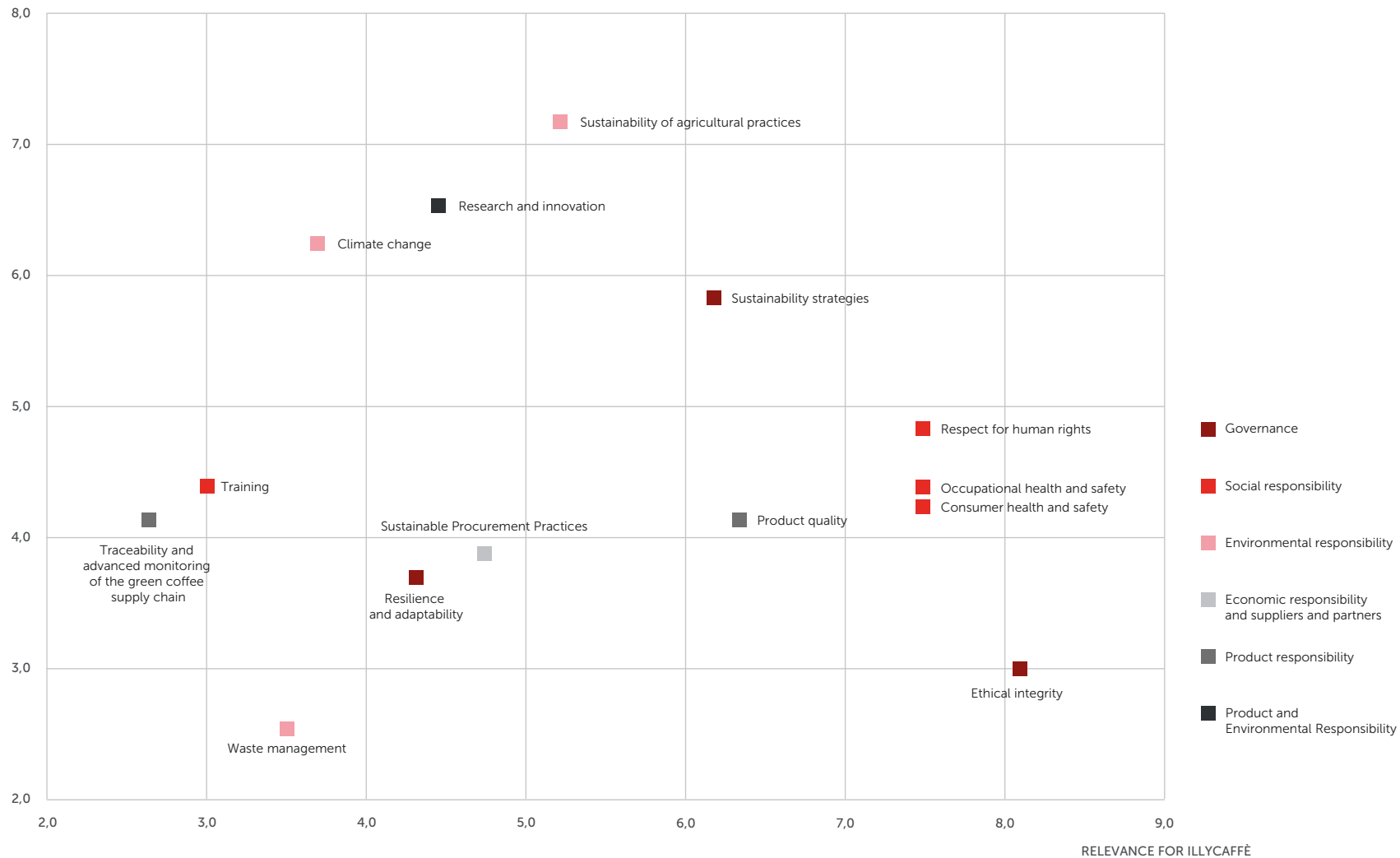
## SEED:S

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RELEVANCE FOR STAKEHOLDERS



The results of the analysis carried out are highlighted in the graph. The two axes correspond to the degree of relevance attributed to each theme from the standpoint of illycaffè (horizontal axis) and from the standpoint of its stakeholders (vertical axis). The analysis investigated more than 30. The matrix here represented shows the 14 most relevant themes positioned in the upper right quadrant of the complete matrix.

### ■ 01.6.1 Scope of impacts

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

MATERIAL TOPICS IDENTIFIED BY ILLYCAFFÈ	RELEVANT TOPIC-SPECIFIC GRI STANDARDS	IMPACT WITHIN THE COMPANY	IMPACT OUTSIDE THE COMPANY	FIELD
Sustainability strategies		Whole company	Suppliers, Partners, Distributors	Sustainability strategy and governance
Respect for human rights	Human rights assessment (GRI 412)	Whole company	Employees, Suppliers, Customers	Human Capital
Sustainability of agricultural practices		Whole company	Suppliers	Natural Capital
Occupational health and safety	Occupational Health&Safety (GRI 403)	Whole company		Human Capital
Consumer health and safety	Customer health and safety (GRI 416)	Whole company	Suppliers, Customers	Product responsibility
Integrity and Ethics	General disclosure (GRI 102)	Whole company	Suppliers, Customers, Contractors, Partners, Consultants	Identity
Product quality		Production companies	Suppliers, Customers	Productive Capital

MATERIAL TOPICS IDENTIFIED BY ILLYCAFFÈ	RELEVANT TOPIC-SPECIFIC GRI STANDARDS	IMPACT WITHIN THE COMPANY	IMPACT OUTSIDE THE COMPANY	FIELD
Research and innovation		Whole company	Suppliers, Customers, Contractors, Partners	Intellectual Capital
Climate Change	Materials (GRI 301) Energy (GRI 302) Emissions (GRI 305)	Production companies	Suppliers	Natural Capital
Sustainable Procurement Practices	Procurement practices (GRI 204)	Parent company	Suppliers	Suppliers of goods and services
Resilience and adaptability		Whole company	Suppliers, Customers, Contractors, Partners	Identity
Training	Training and education (GRI 404)	Whole company	Suppliers	Human Capital
Traceability and advanced monitoring of the green coffee supply chain	Environmental Compliance; Supplier environmental assessment; supplier social assessment (GRI 307 – 308 – 414)	Whole company	Suppliers	Key approaches to sustainable agriculture
Waste management	Effluents and waste (GRI 306)	Whole company	Suppliers	Natural Capital



# Key approaches to the value chain

## SEED:S

Social  
Environmental  
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**Developing a fully sustainable value chain requires commitment throughout the supply chain.** To obtain the best sustainable quality, the company works closely with all key players in the supply chain in the countries where the finest Arabica grows.

illy's virtuous circle of sustainability begins in the raw material's place of origin and continues along the entire supply chain to include suppliers of other services and logistics.

### ■ 01.7.1 The illycaffè model for a sustainable supply chain

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

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

and involves all the figures in the supply chain:

- **farmers**, who cultivate small plots of land;
- **producers**, i.e. the companies (consortia, cooperatives and medium/large-scale farmers) that carry out operations to process the harvested coffee, such as separation, washing and drying;

- **exporters**, who buy green coffee from cooperatives or directly select it from producers, and create commercial batches based on their customers, retailers or roasters. The exporters know the production areas and local producers, guaranteeing the raw material's traceability and quality. They are also involved in supply chain audits and measures in accordance with the standard integrated supply chain approach.

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

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

- I. Selecting and working with the best producers**, namely those involved in the production of sustainable high-quality coffee;
- II. Sharing knowledge** with them via the activities of the Università del Caffè and constant visits to the plantations by illy technicians and agronomists, motivating them to produce sustainable quality;
- III. Recognising, including financially**, quality achieved and encouraging continuous improvement;
- IV. Building an illy community to create a culture of excellence**, establishing human and direct relationships based on knowledge, exchange and growth.



These principles are reflected in the Sustainable Procurement Process (SPP), the new supply chain sustainability standard used by illycaffè for the procurement of sustainable high-quality green coffee.

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

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

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

ENVIRONMENT	<ul style="list-style-type: none"> <li>• Water management and quality</li> <li>• Biodiversity</li> <li>• Recycling and/or proper disposal of liquid and solid waste</li> </ul>
EMPLOYMENT	<ul style="list-style-type: none"> <li>• Working conditions</li> <li>• Health and safety</li> <li>• Abilities and skills</li> <li>• Production Cost</li> <li>• Agronomic practices used</li> </ul>
PRODUCT	<ul style="list-style-type: none"> <li>• Traceability</li> <li>• Use of active ingredients</li> <li>• Agronomic practices used</li> <li>• Equipment used for production</li> <li>• Hygiene</li> </ul>

## ILLYCAFFÈ AND THE RESPECT AND PROTECTION OF HUMAN RIGHTS

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

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

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

In 2019, no malpractices or human rights violations (e.g. discriminatory actions against staff) were detected.

## ■ 01.7.2 Supply chain control and knowledge transfer

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

### Supply chain control

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

- **Minimum action requirements:** minimum requirements that suppliers must comply with, or else the supply relationship will be terminated.
- **Key performance indicators (KPI):** indicators that describe the company's supply chain and are divided into:
  - **Core KPIs:** requirements that go beyond the legal minimum and that the company deems essential in the relationship with the supplier.
  - **Recommended KPIs:** requirements that are not mandatory, but are very advantageous in the relationship with the supplier.

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

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

	2017	2018	2019
FIELD VISITS	304	337	334

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

In particular, the following potential critical areas emerged from the Risk Assessment and are the focus of the company's actions:

- Raising awareness about payment of minimum wages.
- Prevention of the use of highly toxic agrochemicals.
- Support for the implementation of efficient wastewater treatment systems.
- Mitigation and prevention of child labour.

### Knowledge transfer

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

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

## SEED:S

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### STORIES FROM THE FIELD

#### COLOMBIA

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

#### COSTA RICA

*In collaboration with the Ernesto Illy Foundation*

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

#### HONDURAS

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

#### NICARAGUA

*In collaboration with the Ernesto Illy Foundation*

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

#### RWANDA

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



### ■ 01.7.3 Suppliers of goods and services

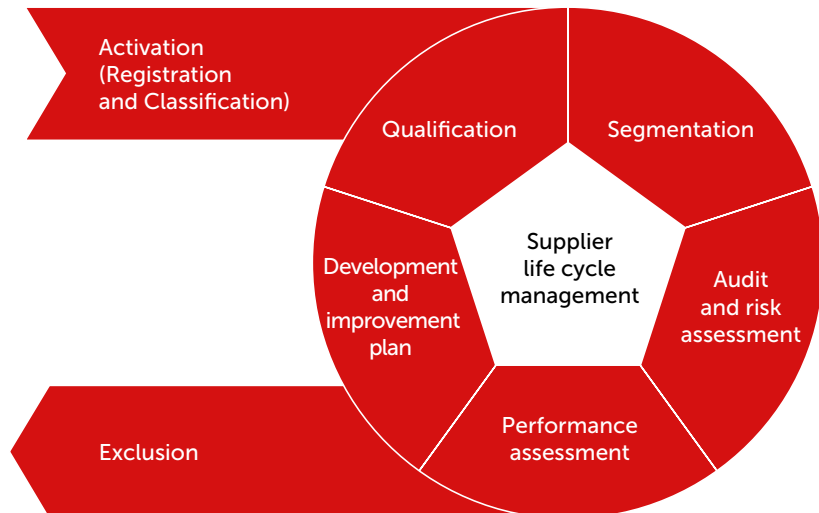
In compliance with the principles of sustainability and business ethics, the company maintains mutually beneficial relationships with its suppliers of goods and services, selecting them based on their values.

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

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

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

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



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

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

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

**It is a cyclical process that follows the continuous improvement approach.**

At the end of the year, the activities carried out, risks identified, corrective actions implemented, results obtained and programme for the following year are examined.



This method creates a solid relationship between the supplier and illycaffè, which in turn fosters a **virtuous network** in which good practices are shared and mutually improved.

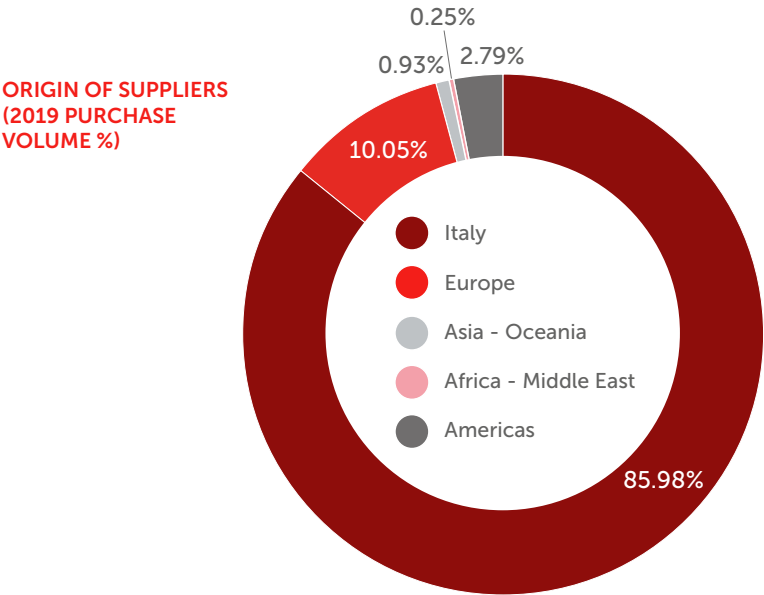
Strategic suppliers are asked to provide information on environmental and social aspects, with an even more specific level of detail:

- Sustainability Report, Integrated Report or tools for measuring social and environmental impact.

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

**SEED:S**

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ORIGINS OF SUPPLIERS 2019	NUMBER OF SUPPLIERS	% OF TOTAL	PVO* IN 000/€	% OF EXPENDITURE
Italy	1018	85.98%	126,894	80.73%
Europe	119	10.05%	16,070	10.22%
Asia - Oceania	11	0.93%	12,287	7.82%
Africa - Middle East	3	0.25%	17	0.01%
Americas	33	2.79%	1,912	1.22%
Total	1184	100.0%	157,180	100.0%

\*Purchase volume

#### ■ 01.7.4 Logistics and sales

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

### INBOUND LOGISTICS

#### Origin: Italy

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

#### Origin: Abroad

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

### OUTBOUND LOGISTICS

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

#### Destination: Italy

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

#### Destination: Abroad (Europe and Extra-EU)

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

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





**SEED:S**

Social  
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## 02 capitals

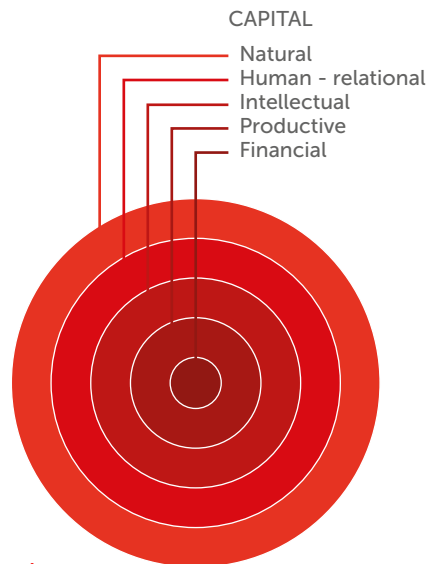


## The model for capital and the corporate body

In everyday language, capital refers to financial capital. illycaffè, inspired by the Integrated Reporting Framework (IIRC), agrees on the importance of multiple capitals, since a company is more like a living organism, part of an ecosystem made up of different elements, than an isolated entity.

The capitals are cornerstones in which the company invests and the elements that it wants to develop over time to create shared value. Taking an Integrated Reporting approach, illycaffè has identified six interconnected and interdependent capitals that characterise the relationships between the operating units, the entire organisation's departments and the context in which it operates. There is a clear hierarchy among the capitals: Natural - Human - Relational - Intellectual - Productive - Financial.

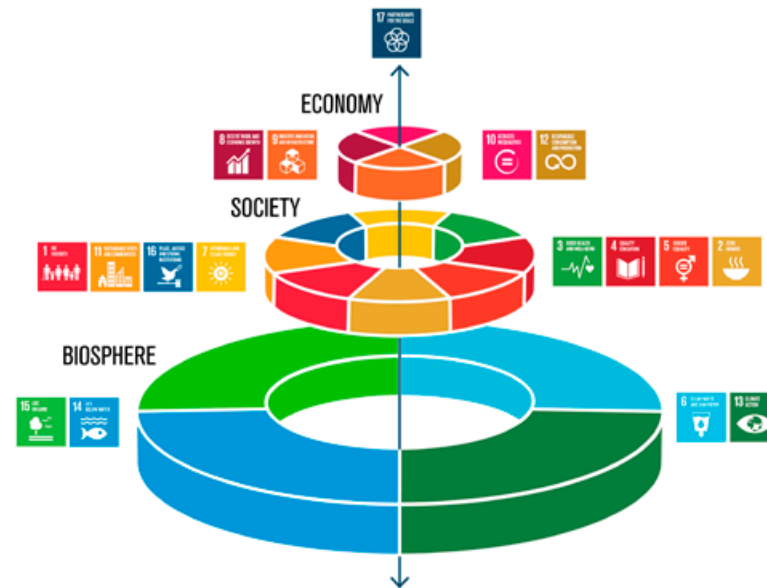
They are organized according to a nested hierarchy: the most external capitals include the most internal, since their quality and robustness are essential for enabling the 'company system' to prosper in society. Financial and productive capital without intellectual, human/relational and natural capital would have no value and they must therefore serve the capitals that are represented more externally and are thus superior in the hierarchy.



Natural capital is the ecosystem within which all human activities take place. Nature can work perfectly and is indispensable for humans, while humans are by no means indispensable for nature. Human and relational capital are a subset of natural capital. With imagination, combined with an ability to create and implement, people can change reality, develop ideas, and organize the resources needed to turn those ideas into results.

The six capitals therefore represent the fundamental components that make illycaffè's operation and prosperity possible today, on the basis of which the company has structured its future impact model: each component is essential for the creation of shared value, which is the goal of a stakeholder company and *Società Benefit*.

Actions relating to the six capitals also define the company's impact on the Sustainable Development Goals (SDGs) that illycaffè pursues through its sustainability policy based on the creation of economic, social and environmental value.





## SEED:S

Social  
Environmental  
Economic  
Development  
Sustainability



A SUSTAINABLE  
RESULT  
IS POSSIBLE.

### 02.1 financial capital

# 02.1

## HIGHLIGHTS

**+8.8%**  
production value  
in 2019

**491**  
millions of €:  
distributed  
economic value  
as at 31 December  
at a consolidated  
level

**+7.6%**  
sales volume  
compared to 2018

## financial capital

Financial capital includes the main economic results achieved by the company in 2019, with a particular focus on the economic value that the company's activities created and distributed to its stakeholders.

### SDGs



### SPECIFIC COMMON BENEFIT GOALS

- This capital is linked to the business' economic goals. Accordingly, it is not directly connected to the specific common benefit goals that define the social and environmental impacts that the company pursues in addition to profit.

### OUTCOMES

- Business growth and prosperity.

### CHALLENGES

- Ensuring sustainable growth, taking into account the challenges and context.

## SEED:S

Social  
Environmental  
Economic  
Development  
Sustainability

The **specific common benefit goals** are the impact targets set out by illycaffè in its articles of association. They are the company's DNA, the identity that drives its business growth, deeply ingrained in all its business operations.

The **outcomes** are the true positive value created by illycaffè through its practices, policies and actions expressed by the capital.

The **challenges** are the obstacles that the context and the sector place before a company in the process of impact creation. Indeed, the latter is an activity that cannot disregard these elements and must describe it transparently.

The **Sustainable Development Goals** are the 17 United Nations' objectives to which illycaffè contributes in various ways with its activities.



# Financial capital

Financial results are the data typically used to measure a company's value creation. While financial considerations are central to a business, it is equally clear that today (and in the future) business can no longer be done without striving to positively impact people and the environment.

## ■ 02.1.1 Financial results

In 2019, illycaffè improved its income and financial results thanks to an increase in sales volumes and a reduction in net costs. Production Value grew by 8.8% compared to 2018. The economic/financial data show an increase in EBITDA compared to the previous year and a net profit of 19 million, also up from 2018. The company benefited from a reduction in costs connected to financial management, which partially offset the normal increase in taxes linked to the benefit of the "Patent Box" in 2018, relating to the 2015-2017 financial years.

### The Group's main summary indicators

	2018	2019
ROI	10.7%	13.3%
ROE	13.2%	12.6%
ROS	5.7%	6.9%
NFP/Adjusted EBITDA	1.56	1.47
NFP/EBITDA	1.65	1.55
NFP/Equity	0.85	0.75
Number of employees	1,294	1,405

<sup>1</sup> Introduced by the Italian Government with the 2015 Stability Law, the Patent Box is a tax relief system that permits the exclusion from taxation of a share of income from the use of intellectual property, patents, trademarks, designs, models and other intangible assets.

## SEED:S

Social  
Environmental  
Economic  
Development  
Sustainability





## SEED:S

Social  
Environmental  
Economic  
Development  
Sustainability

With the aim of highlighting the economic value that its business operations have generated and distributed to stakeholders, illycaffè uses the Distributed Economic Value parameter which, as at 31 December 2019 at a consolidated level, amounted to €491.15 million, an increase of 11.9% compared to 2018.

### Financial statement items

ITEMS (figures in €)	2018	2019	VAR 2018-2019
<b>GENERATED ECONOMIC VALUE</b>			
a) Revenues	490,510,114	533,646,988	8.8%
b) Financial income	1,006,441	1,366,161	35.7%
<b>(A) Total generated economic value</b>	<b>491,516,555</b>	<b>535,013,149</b>	<b>8.8%</b>
<b>DISTRIBUTED ECONOMIC VALUE</b>			
a) Operating costs	310,760,509	344,274,348	10.8%
b) Staff remuneration	103,973,057	109,822,516	5.6%
C) Credit and risk capital	16,268,438	19,012,774	16.9%
d) Taxes and duties	7,014,988	16,786,718	139.3%
e) Donations and membership fees	1,057,833	1,257,805	18.9%
<b>(B) Total distributed economic value</b>	<b>439,074,825</b>	<b>491,154,162</b>	<b>11.9%</b>
<b>(A-B) ECONOMIC VALUE RETAINED BY THE GROUP</b>	<b>52,441,729</b>	<b>43,858,987</b>	<b>-16.4%</b>

These data represent the relationship between the company and the socio-economic system with which it interacts, an essential aspect for a stakeholder company and *Società Benefit* in particular, in relation to these stakeholders:

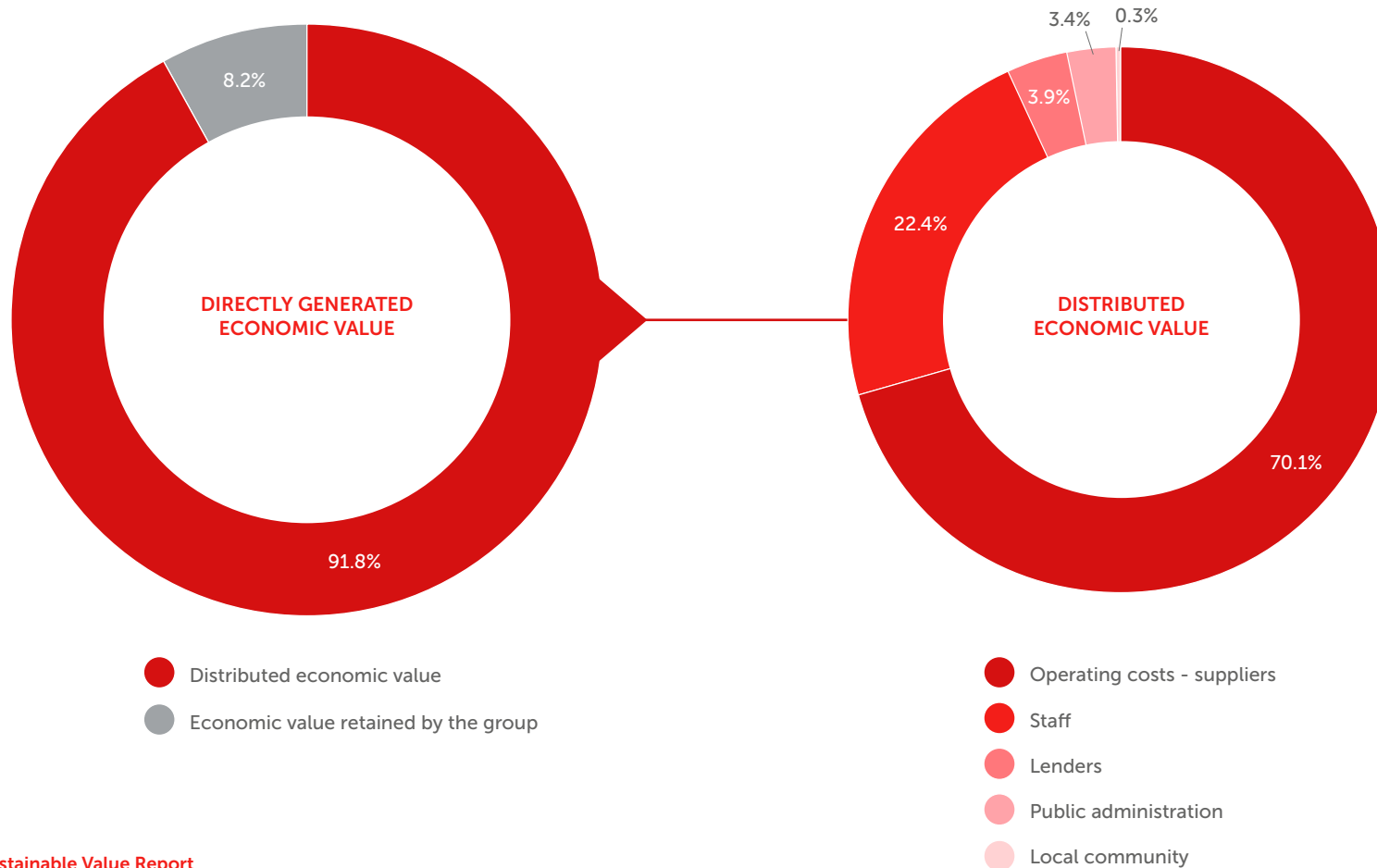
- **Suppliers:** remuneration due to the purchase of raw materials and other management services.
- **Human Resources:** direct and indirect remuneration of workers (employees and non-employees).
- **Public Administration:** payment of taxes and duties.
- **Lenders:** remuneration of credit and risk capital.
- **Community:** membership fees and donations.



An analysis of the Economic Value produced and distributed in 2019 (€491.15 million) at a consolidated level shows that:

- The most significant share, 70.1%, was allocated to remuneration of suppliers, in particular to operating and management services and the purchase of raw materials.
- 22.4% was allocated to Human Resources remuneration. This item includes both the provisions of the contractual relationship and a series of costs incurred by the company, such as those for training and the management of the on-site canteen.

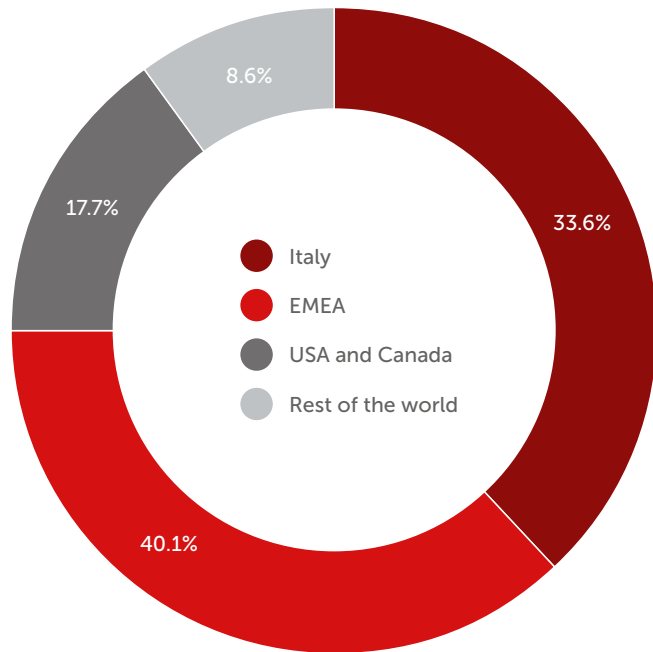
- 3.9% of economic value was distributed to lenders, consisting of dividends to shareholders, minority interests and financial expenses.
- 3.4% was allocated to the Public Administration (State and Local Authorities) in the form of taxes and duties.
- 0.3%, was distributed to the community in the form of social benefit costs (the figure is largely linked to contributions that illycaffè S.p.A. has paid to the Ernesto Illy Foundation) and membership fees.



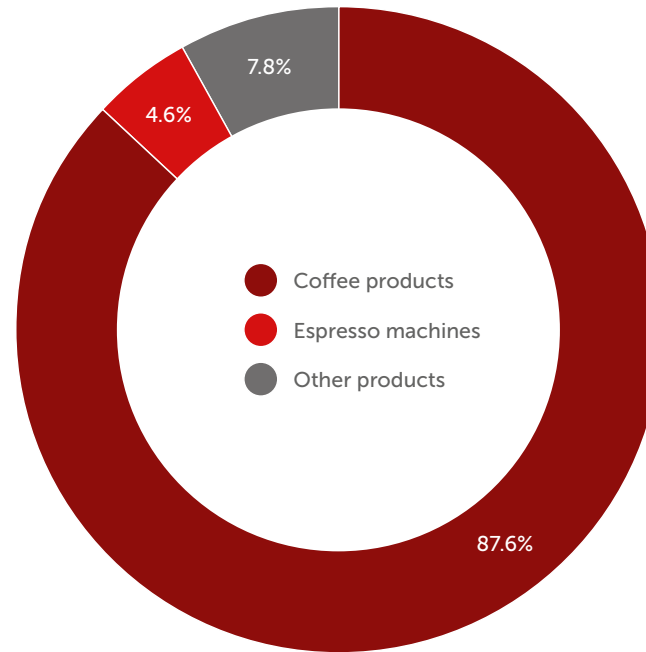
In 2019, sales performance increased compared to the previous year in terms of coffee volume and turnover. Sales of coffee machines also rose, driven by the acceleration campaign for the lperespresso system and pricing policies aimed at maximising the installed base<sup>2</sup>.

Growth data includes both the performance of the countries in which the company operates with direct distribution and that of the countries served via independent distributors. In 2019, Italy generated 33.6% of turnover, while exports accounted for 66.4%.

**REVENUES BY GEOGRAPHICAL AREA - 2019**



**REVENUES BY PRODUCTS - 2019**



<sup>2</sup> number of machines sold

## SEED:S

Social  
Environmental  
Economic  
Development  
Sustainability



WE WORK  
TO PRODUCE  
QUALITY AND SAFETY.

**02.2**  
**productive  
capital**



## 02.2

### HIGHLIGHTS

**269**

points of sale (192 illy Caffès and 77 illy Shops), split into 245 under franchising and 24 under direct management.

**39**

new single-brand stores opened in 2019 (37 illy Caffès and 2 illy Shops)

## productive capital

Productive capital includes the physical infrastructure and technologies used for the production and provision of services, as well as product quality and safety guarantees. It describes the main activities and management systems adopted over the years to promote sustainable development in these areas.

### SDGs



## SPECIFIC COMMON BENEFIT GOALS

- Promoting respect for the environment throughout the value chain. Also considering products and systems based on criteria that are consistent with the principles of sustainability and the circular economy, for the benefit of the planet.

## OUTCOMES

- Bringing to the market a product that can express the values and quality behind its creation.

## CHALLENGES

- Continuing to draw attention to the hidden value in each cup of coffee.

## SEED:S

Social  
Environmental  
Economic  
Development  
Sustainability

The **specific common benefit goals** are the impact targets set out by illycaffè in its articles of association. They are the company's DNA, the identity that drives its business growth, deeply ingrained in all its business operations.

The **outcomes** are the true positive value created by illycaffè through its practices, policies and actions expressed by the capital.

The **challenges** are the obstacles that the context and the sector place before a company in the process of impact creation. Indeed, the latter is an activity that cannot disregard these elements and must describe it transparently.

The **Sustainable Development Goals** are the 17 United Nations' objectives to which illycaffè contributes in various ways with its activities.



## ■ 02.2.1 Quality and safety of illy products

illy coffee's sustainable quality is the result of over eighty years of experience combined with family and entrepreneurial passion capable of integrating cutting-edge technology and sustainable processes. To achieve this goal it is essential to offer, together with a high-quality product, excellent preparation, service and consumption experience.

The company strives to achieve continuous quality improvement in production. This approach is reflected in its commitment to produce safe products, in compliance with the rules and regulations governing the agri-food sector, and to develop sophisticated monitoring systems: 100% of production is carried out in plants that are certified according to internationally recognised food safety management and quality standards<sup>2</sup>.

The British Retail Consortium (BRC), International Food Standard (IFS) and Hazard Analysis and Critical Control Points (HACCP) certifications constitute the guidelines for all the activities that are carried out by the company to guarantee consumer health and safety and are applied to all illycaffè products.

The company checks label compliance and observance of compliance regulations for machines, packaging and material that comes into contact with food, as well as of safety data sheets (SDS) on chemicals, according to REACH (Registration, Evaluation, Authorisation and Restriction of Chemicals) and RoHS (Restriction of Hazardous Substances Directive).

illycaffè's Research and Innovation Department – internationally recognised as a centre of excellence – consists of three research laboratories for quality control (one in Trieste, one in São Paulo and one in Miami) and five integrated laboratories for the horizontal transfer of knowledge, in contact with university centres: AromaLab and SensoryLab, BioLab, TechLab and FoodScienceLab.



## SEED:S

Social  
Environmental  
Economic  
Development  
Sustainability

### PARTICIPATION IN WORK GROUPS




- The European Coffee Federation's (ECF) CONTAM panel to follow the subject of changes to the limit for glyphosate use.
- Single Serve Unit Working Group (SSU WG) within the European Coffee Federation (ECF) for the subject of coffee capsule recycling in Europe.
- The Union Italian Food (formerly AIIPA) on the subject of coffee capsule recycling in Italy.

## ■ 02.2.2 Procurement and processing of raw material

Illycaffè looks for the best beans for its 100% Arabica blend: a scrupulous pre-purchase analysis makes it possible to test the taste and aromas of the sample, discovering any visual and olfactory defects.

From the distant countries where it is cultivated to the factory in Trieste, where it undergoes its most important transformations, illy coffee travels a long way to reach consumers' cups. Every stage has a decisive impact on the quality of the final product. Before purchase, illycaffè's analysis and quality laboratories examine coffee samples: analyses are carried out to rule out the presence of heavy metals, pesticides, herbicides and insecticides. From the moment the coffee enters the company to the moment it leaves, 135 sample inspections are carried out.

After reaching the production plant in Trieste, using the most advanced technologies and thanks to the most extensive expertise, the coffee is selected, blended, roasted, ground and pressurised via the factory's production lines. The production lines at the Robecchetto con Induno plant transform the coffee into capsules.

	<p><b>RAW MATERIAL PROCUREMENT:</b> the company develops a direct and preferably long-term collaborative relationship with its producers to guarantee product quality. Before purchase, illycaffè's analysis and quality laboratories analyse coffee samples, both to issue phytosanitary certificates and to certify the absence of heavy metals, pesticides, herbicides and insecticides.</p>
	<p><b>ROASTING, STORAGE AND BLENDING:</b> the coffee is roasted in the company plants, stored in insulated warehouses and blended according to the 100% Arabica blend recipe in order to obtain a consistent, balanced illy taste.</p>
	<p><b>PACKAGING AND PRESSURISATION:</b> espresso is a complex drink that includes 1,500 substances (800 of which are volatile) and 13 chemical and physical variables that affect its correct preparation. illycaffè has patented pressurisation, a process that involves replacing the air inside the packages with pressurised inert gas, trapping the aroma of freshly roasted coffee. This way the aromas are concentrated in the coffee oils, producing a rich, sweet and intense taste, while preserving and even enhancing the fragrance over time.</p>

<sup>2</sup> In 2019, the company did not receive any penalties for non-compliance with laws or regulations concerning quality, food safety, traceability and similar issues.

<sup>3</sup> The most widely used herbicide in the world, which is the subject of international debate and discussion about its potentially damaging effects on health. On 1 October 2019, the European Court of Justice ruled that "There are no grounds for invalidating the legitimacy of the use of glyphosate", however the debate remains open.

## ■ 02.2.3 Management and certification systems

To guarantee the quality of the supply chain, a series of national and international voluntary standards have been adopted for which, during 2019, maintenance and recertification activities were carried out:

### MANAGEMENT SYSTEM

#### FOR ISO 9001 QUALITY



Defines how an effective quality management system should be developed, assuring end customers that services and products placed on the market correspond to specifications stated by the company. illycaffè was the first company in the European coffee sector to receive this certification for its quality management system.

The system is applied by illycaffè S.p.A. and Experimental Agricola do Brasil Ltda.

#### ENERGY ISO 50001



Defines how an effective energy management system should be developed. The system is implemented with a view to continuous improvement through systematic energy management and reduction of energy costs.

Standard applied by illycaffè S.p.A.

#### ENVIRONMENTAL ISO 14001



Defines how an effective environmental management system should be developed to implement a dynamic and cyclical process which, through the pursuit of continuous improvement, allows the company to manage its environmental risk.

Standard applied by illycaffè S.p.A.

#### HEALTH AND SAFETY ISO 45001



Defines how an effective worker health and safety management system should be developed, which, compared to current standards, can provide unambiguous guidelines in the context of the international market.

### EMAS REGISTRATION



EMAS (Eco-Management and Audit Scheme) registration indicates illycaffè S.p.A.'s compliance with the provisions of EU Regulation 2018/2066 of 19 December 2018, which amends Annex IV of EC Regulation no. 1221/2009 aimed at promoting rational management of environmental aspects based not only on compliance with the limits of the law, but also on continuous improvement of its environmental performance, active participation of employees and transparency with the institutions and the public.

Registration of illycaffè S.p.A.

### SUSTAINABILITY

#### SUSTAINABLE PROCUREMENT PROCESS

illycaffè is the first company in the world to adopt the DNV-GL SPP standard, which attests to the integration of responsibility and sustainable development principles in the procurement and supply chain management processes and the creation of value for all stakeholders.

Scheme applied by illycaffè S.p.A.

### AEO (Authorised Economic Operator) status



Certificate issued by the Customs Agency. Certifies illycaffè's reliability in relation to customs authorities, guaranteeing strict compliance with regulations and product safety.

## FOOD SAFETY AND HYGIENE

REG. (CE)  
852/2004  
-TEMA  
HACCP-



Application of the EU regulation for the prevention or mitigation of food safety risks in food and drink preparation processes (mandatory in many countries, including the EU).

Regulation applied by illycaffè S.p.A.

FSMA (FOOD  
SAFETY  
MODERNIZATION  
ACT)

Application of the FDA (Food and Drug Administration) regulation for all food business operators that export and market food products in the US market. Adoption of an FSP (Food Safety Plan) based on a specific HARPC (Hazard Analysis and Risk-Based Preventive Controls) protocol for the food safety management system.

Regulation applied by illycaffè S.p.A.

BRC (BRITISH  
RETAIL  
CONSORTIUM)  
FOOD  
CERTIFICATE



Both are food quality and safety standards required by different markets and accepted by the majority of food retailers. On the GFSI (Global Food Safety Initiative) shared platform, which is responsible for comparing food safety certification programmes, they are considered equivalent. The standards refer to quality management systems (ISO 9001), HACCP (Hazard Analysis and Critical Control Points) methodology, and a series of GMP (Good Manufacturing Practice), GLP (Good Laboratory Practice) and GHP (Good Hygiene Practice) requirements.

The purpose of the schemes is to ensure compliance with food quality and safety requirements, as well as compliance with the legal regulations governing the sector.

Schemes applied by illycaffè S.p.A.

IFS  
(INTERNATIONAL  
FOOD  
STANDARD)  
FOOD  
CERTIFICATE



## PRODUCT CONFORMITY

BUREAU VERITAS  
CERTIFICATION  
FRANCE  
Qualité France



Certifies the product's compliance with a standard that ensures the best consumer satisfaction. Issued by Qualité France (since 2012, Bureau Veritas Certification France), it relates to product quality excellence and consistency parameters and a whole series of health and hygiene parameters in compliance with the current legislation on coffee, as well as voluntary parameters that are more restrictive than regulations or not covered by current regulations.

Certification adopted by illycaffè S.p.A.

HALAL



Certifies compliance with the ethical and health/hygiene standards of the law and doctrine of Islam.

Certification adopted by illycaffè S.p.A.

KOSHER



Certifies compliance with Jewish dietary rules.

Certification adopted by illycaffè S.p.A.



## SEED:S

Social  
Environmental  
Economic  
Development  
Sustainability



### ■ 02.2.3 illycaffè network

The illy blend is marketed in 144 countries on 5 continents and served in over 100,000 public establishments. The company also operates through single-brand shops: 192 illy Caffès in the most important cities in 34 countries. They are located in airports, the busiest streets, high-end shopping centres, museums and cultural locations in order to bring illy's taste and quality to as many people as possible.

	2018	2019
ILLY CAFFÈS Direct management and franchising	179	192
ILLY SHOPS Direct management and franchising	80	77

In 2019, 39 points of sale were opened:

- 37 illy Caffès.
- 2 illy Shops, including 1 in Shanghai.

The new openings were particularly focused on:

- The EMEA area (Europe, Middle East and Africa), where 14 illy Caffès were opened.
- Asia, where 13 new illy Caffès and 2 illy Shops were opened (in China and South Korea).
- North America, where 10 illy Caffès were opened.

2019 saw the continuation of the process to upgrade the network – inspections based on the principles of quality, identity and profitability –, which led to 29 points of sale leaving the network, of which 24 illy Caffès and 5 illy Shops<sup>1</sup>.

<sup>1</sup> For further details, please refer to the "Value creation in the B2C channel" paragraph in the Relational Capital section.



## SEED:S

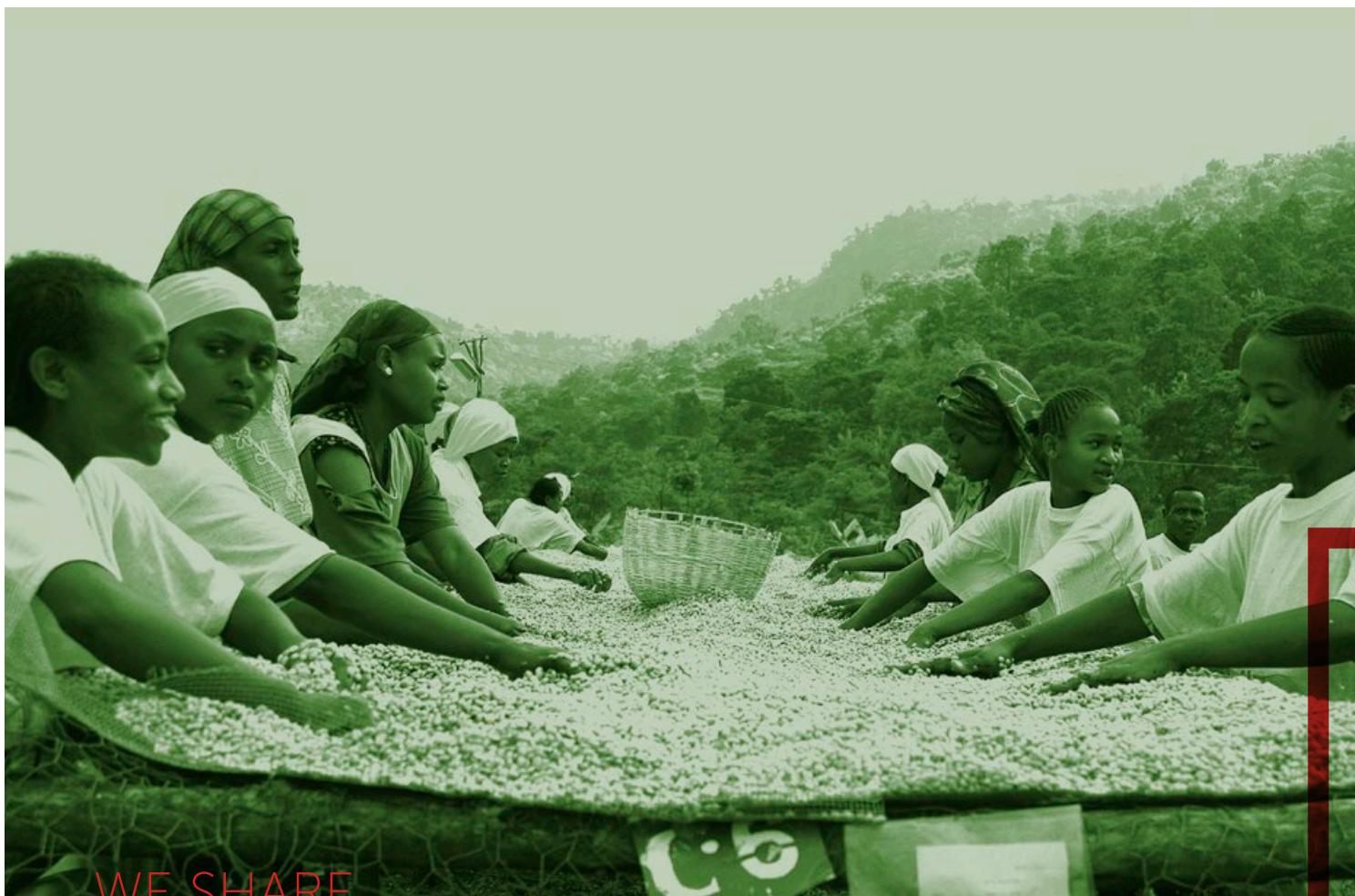
Social  
Environmental  
Economic  
Development  
Sustainability



● illicaffè's headquarters and branches worldwide

## SEED:S

Social  
Environmental  
Economic  
Development  
Sustainability



WE SHARE  
KNOWLEDGE  
WITHOUT  
BARRIERS.

### 02.3 intellectual capital



# 02.3

## HIGHLIGHTS

### 28

Università del Caffè  
sites worldwide

### 290

patents,  
of which 246 granted  
and 44 pending

### 5

millions of €  
invested in Research  
& Development

### 300,364

people trained  
since the start of the  
university's activities

## intellectual capital

Intellectual capital constitutes the company's material assets and the value of its knowledge. It promotes the research and innovation activities carried out with regard to processes and products, as well as the commitment to training and dissemination of coffee culture through the Università del Caffè.

## SDGs



## SPECIFIC COMMON BENEFIT GOALS

- "Also considering products and systems based on criteria that are consistent with the principles of sustainability and the circular economy, for the benefit of the planet"  
"Improve energy efficiency and resource consumption, taking into account best practices and innovative solutions with a view to progressive emission reduction"
- "Participate in the international debate on the subjects of the aspiration to happiness, well-being and improved quality of life, mainly, but not exclusively, in the world's coffee-growing areas."  
"Foster global partnerships to promote sustainability and international awareness of this issue".

## OUTCOMES

- Improvement of the experiential impact of coffee consumption.  
Reduction of environmental impact through research and innovation in technologies and materials.  
Processing and enhancement of the raw material to obtain the highest quality.
- Worldwide promotion of Coffee Culture.

## CHALLENGES

- Finding the right balance between cost and sustainability. In the context of capsule disposal, promoting equally effective recovery and recycling models in countries with different regulations.
- Strengthening women's leadership and entrepreneurship in coffee growing.

## SEED:S

Social  
Environmental  
Economic  
Development  
Sustainability

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The **Sustainable Development Goals** are the 17 United Nations' objectives to which illycaffè contributes in various ways with its activities.



## ■ 02.3.1 Innovation & research

**Flavour is the result of a method.** illy's approach to achieving the best quality coffee combines passion, science and innovation. This method has become a fundamental value that spans the company's entire history and has contributed to its success over the years. Of the eight radical innovations that revolutionised the coffee industry in the last century, three were developed at illycaffè:

- **1933, pressurisation:** the preservation system that replaces the air inside the packages with highly pressurised inert gas, thereby preserving the coffee's freshness and aroma over time;
- **1935, the Illetta model:** the predecessor of today's professional coffee machines with a high-pressure espresso formula;
- **1974, the paper pod:** the industrialisation of the first single-portion pod, which made it possible to export espresso to countries without professional baristas.

Moreover, in 1988, the company patented a system for the digital colorimetric selection of beans, making it possible to only choose perfect specimens. In fact, just one defective bean among the fifty that comprise a cup of espresso is enough to compromise its quality.

The most recent innovation is the **Iperespresso** system, which features a capsule that extracts coffee in two stages, hyper-infusion and emulsion, producing a uniquely high-quality result in terms of body and aftertaste.

In general, innovation drives research towards increasingly sustainable products and services, starting with improvements to production processes that can reduce the environmental impact of both the company and consumers, while always enhancing the raw material.



## illycaffè's laboratories

The Research and Development Department are responsible for the company's innovative creativity. Recognised as an international centre of excellence, it develops innovative technological solutions through the experimental activities of 5 specialised laboratories:

**AROMALAB** - Specialised in research into the characterisation of volatile and non-volatile chemical compounds, the detection of aroma precursors and the identification of substances that determine taste and body. The laboratory also studies methods and processes to ensure that the product is traceable, genuine and safe, as well as researching the potential reuse of processing waste.

**SENSORYLAB** - Integrating chemistry, physics and psychology, this laboratory deals with the scientific study of the relationship between sensory stimuli – taste and smell – and evoked sensations.

**BIOLAB** - Divided into two operating units dedicated to microscopy and molecular genetics/biology, this laboratory is tasked with studying the genetic information of the substances present in coffee, understood both as a seed and as an espresso drink.

**TECHLAB** - Deals with technological development in the packaging and portioned products sector, partly with the aim of reducing the impact of packaging on the environment while maintaining its performance level.

**FOODLAB** - Dedicated to research on coffee-based food and products. The five laboratories are flanked by two engineering units that have the purpose of product development. The former has the task to design and start production of durable products, the company's coffee machines. The latter designs and manages orders related to industrial plants for the production of consumable products.

In illy's laboratories, great importance is attached to studies related to environmental sustainability, with particular attention to the circular economy, optimal use of materials, maximum waste and scrap recovery, and plans to combat climate change.



### CLIMATE CHANGE AND THE COFFEE INDUSTRY

Global warming is putting coffee plantations and varieties at risk, severely damaging plants due to high temperatures and excessive rainfall. According to experts, by 2050 the land devoted to growing high-quality Arabica coffee, which accounts for 70% of coffee produced worldwide, will be halved.

In terms of the circular economy, the goal of the laboratories' studies is to work on coffee machines' functionality, aesthetics and design, without compromising the appeal and quality of the products. Materials play a fundamental role in this process. The research increasingly focuses on the use of **compostable, recyclable, eco-friendly** and non-polluting materials, in full compliance with disposal regulations and the EU RoHS (Restriction of Hazardous Substances Directive) regulations.

Thanks to the Life Cycle Assessment, the company has implemented improvement plans focused on product durability to help recover food waste. In 2018, illy took part in the Prolific project, which plans to create new prototypes of products from coffee, legume and mushroom waste.

## SEED:S

Social  
Environmental  
Economic  
Development  
Sustainability

illy finances and collaborates in research activities focused on climate change in partnership with several universities and research centres. An important study on the raw data from the reconstruction of the *Coffea arabica* genome has been made available to the scientific community through the website of the World Coffee Research, a non-profit organisation dedicated to international research and development in the coffee sector. This is a unique study in the field of genetic research, which accelerates science's commitment to the future of coffee cultivation.

### Coffee machines

- To meet the need to reduce energy consumption – going even lower than the mandatory European and international standards – advanced-stage testing is being carried out on high-efficiency heaters which, by using increasingly efficient heat exchange systems, will make it possible to reduce consumption linked to water heating (*fast heating*).
- In line with the principles of the circular economy, the “*Design for disassembling*” criterion is applied, which involves the design of coffee machines with a focus on disassembly so that most of their components can be reused or recycled.
- Coffee machines are designed to be increasingly long-lasting. The company offers a maintenance service to help prevent their premature disposal.

In 2019, a framework agreement was signed with the Polytechnic University of Milan for the joint development of research projects to study the future of preparation systems.

### THE DE'LONGHI AUTOMATIC MACHINE

A De'Longhi for illy automatic espresso machine has been introduced to the Italian market, optimised to perfectly extract the unique 100% Arabica illy blend. The integrated coffee grinder technology allows you to adjust the grinding level to your preference.

### THE HITECH MACHINE

In 2019, a feasibility study for a high-tech machine that will offer an innovative system for managing consumables and their end-of-life was completed.



## Coffee and processes

- Research continues into compostable materials for capsules in order to minimise environmental impact without compromising coffee quality and price competitiveness.
- Since 2016, 3 kg coffee containers have been seamed, rather than welded. This is a less energy-intensive process that has reduced material use by around 10% in weight.
- The procedures for collecting and treating used capsules are under review, in compliance with the various local regulations.

To formalise these processes, in 2019, illy formulated a **three-year road map** that organises activities to reduce the impact of products on the environment, including initiatives to raise consumer awareness.

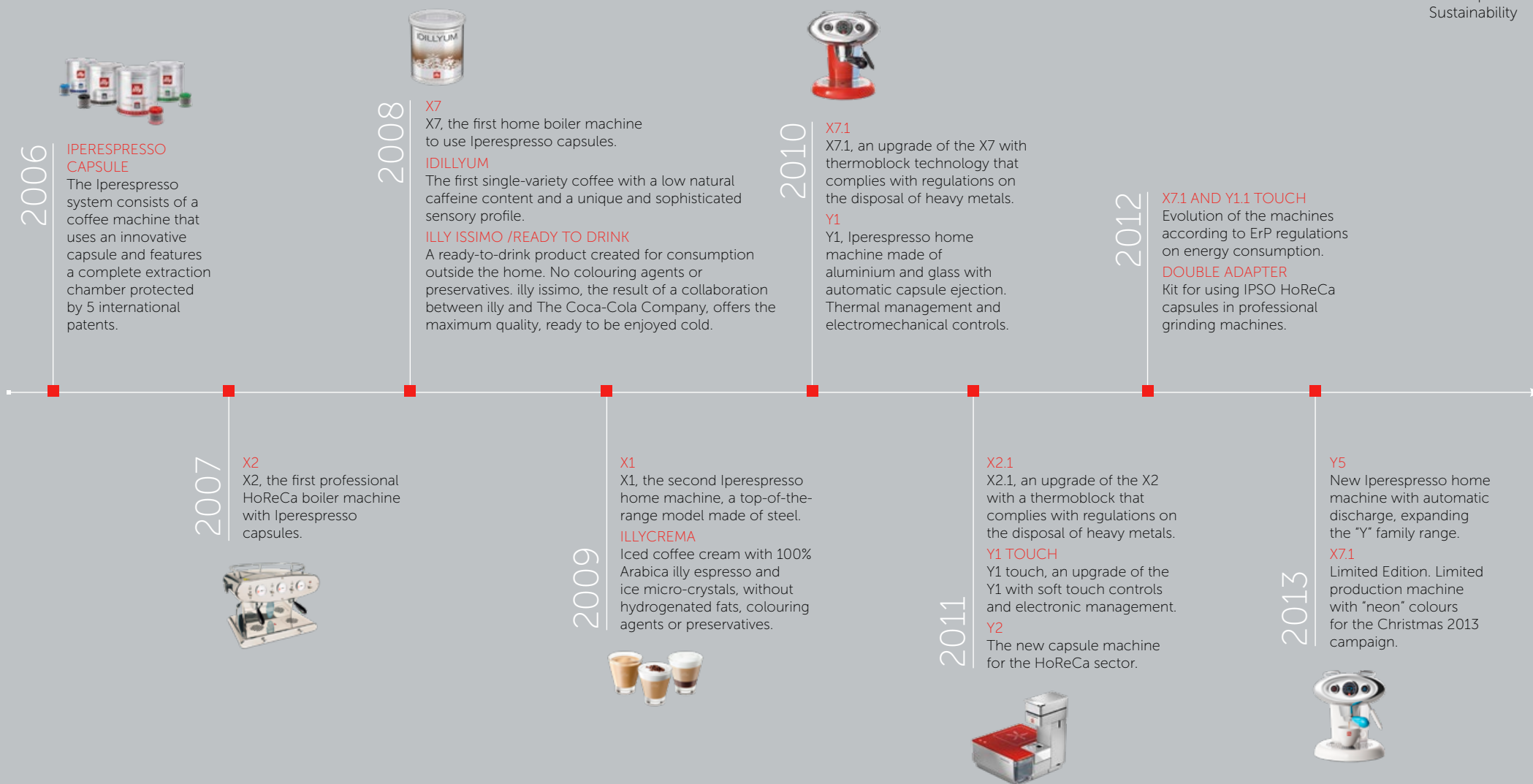


## NEW PRODUCTS IN 2019

- ECO (Easy Capsule Opener), a more effective device than the previous model, which allows you to open used Iperespresso capsules, separating them from the remaining coffee and permitting their correct disposal.
- Compatible capsules in various flavours – classic espresso, long, intense espresso, strong ristretto and decaf classic espresso – thanks to the licensing agreement between illycaffè and JDE.
- “India” origin in the Arabica Selection range.
- Soluble Iperespresso Barley and Soluble Barley&Ginseng capsules for the Home sector.
- ESE pod with compostable paper packaging.
- illy Cold Brew (Bag in Box) format that is ready to use, even without using equipment.
- Ready-to-Drink Cold Brew 250 ml can.



## INNOVATIONS INTRODUCED IN RECENT YEARS: PRODUCTS



## SEED:S

Social  
Environmental  
Economic  
Development  
Sustainability



2014

**Y5 MILK, X9 AND KISS**  
New Francis Francis for illy espresso machine models.

**REFILLY / SOFT CAN**  
Refill designed to reduce environmental impact.

**ESE SINGLE-SERVE POD**  
Offers reduced primary, secondary and tertiary packaging.

**IPERESPRESSO CUBE**  
Created to replace the tin and reduce the environmental impact of the packaging.

2016

**COLD BREW SYSTEM**  
Coffee ground for infusion in water.

**PILLOW PACK**  
Filter paper pods for making drip coffee.

2018

**COLD BREW AIR/FLAT SYSTEM**  
Thanks to the patented illy tapping system, Cold Brew can be enjoyed both in the smooth version with ice and in the illy Cold Brew Aria version, with a soft, lingering foam obtained completely naturally without added ingredients.

**ARABICA SELECTION**  
Presentation of the range of the most distinctive origins of Arabica coffees that make up the illy blend, from Ethiopia, Colombia, Brazil and Guatemala. Available as single varieties and on an intensity scale ranging from the most delicate to the boldest, each origin is produced with a specific roasting curve to enhance the distinctive aromatic notes and taste of the lands of coffee.

2017

**Y5 DRS ESPRESSO & COFFEE SYSTEM**  
The coffee machine that you can control with your smartphone via Bluetooth and that allows automatic reordering of capsules using Amazon Dash technology.

2019

**ALUMINIUM CAPSULES**  
The new line of compatible aluminium capsules\* was presented, the result of a licensing agreement signed with JAB.

\* Compatible with many Nespresso® coffee machines.

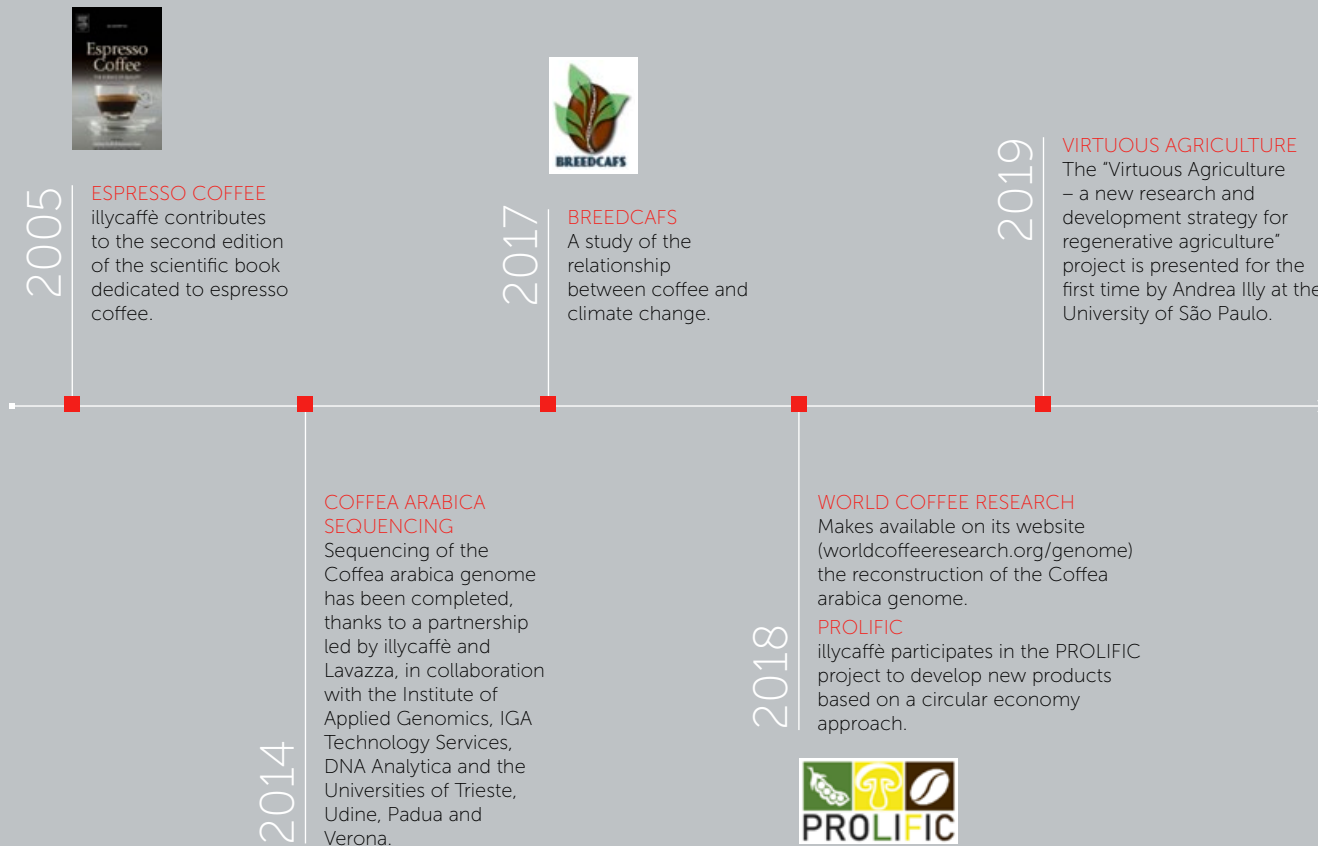
2015

**PULCINA MOKA**  
Thanks to the internal shape of its special boiler, Pulcina automatically interrupts coffee brewing at the right time, eliminating the eruption stage – the final extraction stage that produces a burnt and bitter aftertaste – and makes it possible to obtain only the best of the coffee, enhancing its full-bodied, rich aroma.

**YP1**  
The new professional YP1 machine developed by illy and Cimbali allows perfect grinding, espresso after espresso, thanks to Bluetooth technology: it monitors the coffee dispensing time and, if necessary, communicates an appropriate correction to the Conik grinder/dispenser. This technology permits an average energy saving of 25% compared to the previous model.

**PERSONAL BLENDER**  
The prototype was presented in the Coffee Cluster at Expo Milano 2015 and is now used to create Michelin-starred chefs' personal blends. The machine allows you to create a custom blend, starting with the 9 origins of the unique illy blend.

## INNOVATIONS INTRODUCED IN RECENT YEARS: PROJECTS



### BREEDCAFS

In 2019, illycaffè continued to contribute to the European Commission's "Breeding Coffee for Agroforestry Systems" project. Agroforestry is a cultivation model that is adapting and preparing coffee production to respond to climate change. However, few varieties are suitable for this system. Thanks to this project, high-quality hybrids that are more adaptable to agroforestry models have been processed from various botanical species and different geographical origins. This variety will benefit small farmers, increasing their income and improving their environmental sustainability, as well as the European industry, which will be able to benefit from other speciality coffees.

### PROLIFIC

The company is participating in PROLIFIC, the project that gives coffee a second life, designing new products based on a circular economy approach. The partners have launched a study of coffee by-products (from selected green coffee waste) for use in various application areas, in particular food, cosmetics, animal feed and packaging. For example, biodegradable capsule prototypes have been produced, which are still being developed.

## ■ 02.3.2 Università del Caffè

**Every coffee bean encompasses a whole world:**  
*this is the philosophy that guides the activities of the Università del Caffè. A virtuous circle of knowledge that nurtures passion, builds skills and creates value over time.*



20th anniversary cup

In 2019, the Università del Caffè turned **20 years old** and passed the milestone of 300,000 students.

To celebrate the anniversary, an Open Doors event was organized at the Università del Caffè and at illy's production plant, attended by more than 300 people.

The Università del Caffè was founded in Naples in 1999 and moved to Trieste in 2002. It was created to give all those who work along the supply chain the opportunity to come into contact with, understand, become passionate about and improve the production of sustainable high-quality coffee.

Today it operates through an international network that spreads high-quality coffee culture all over the world through publications, research and in-depth educational training to meet the needs and expectations of coffee growers, hospitality professionals and passionate consumers.

Alongside in-person teaching for producers and professionals and educational sessions for passionate consumers, in the last five years customisable online courses have been introduced through a digital e-learning platform.

The global team of more than 100 teachers consists of 3 levels of expertise:

- **Instructors**, 13 to date
- **Associate Professors**, 39 to date
- **Full Professors**, 61 to date

TOTAL NUMBER OF PARTICIPANTS	2018	2019
Producers	306	469*
Professionals	18,448	20,154
Consumers	7,202	8,119
Online participants	1,080	1,268
<b>TOTAL</b>	<b>27,036</b>	<b>30,010</b>

\* 306 producers trained at the Università del Caffè in Brazil and 163 by other educational activities carried out in Colombia, Guatemala, Honduras and India.



## ADVANCED TRAINING FOR PRODUCERS

**In 2019, 469 coffee producers were trained.**

Producer support activities began in 2000 with a collaboration initiated with PENSA, the University of São Paulo's Agrobusiness Intelligence Centre. Since 2010, over 9,500 farmers, supply chain partners and professionals working in the coffee sector have participated in training activities on relevant issues such as: responsible farming techniques, economic and administrative aspects for proper management of agrobusiness, resilience and climate change mitigation.

The training activities respond first and foremost to critical issues identified in the field and subsequently raise awareness and develop prevention policies and good practices. In this process, illy and the University involve both its own producers and a wider public in the sector to create a process of collective improvement for the benefit of all actors in the industry.

In Brazil, Colombia, Guatemala, Honduras and India, activities or training sessions have addressed issues related to highly toxic agrochemicals, the production and selection of high-quality coffee, efficient water consumption and appropriate wastewater treatment, minimum wages and good agronomic practices.

## TRAINING COURSES FOR INDUSTRY PROFESSIONALS

**In 2019, 20,154 professionals were trained.**

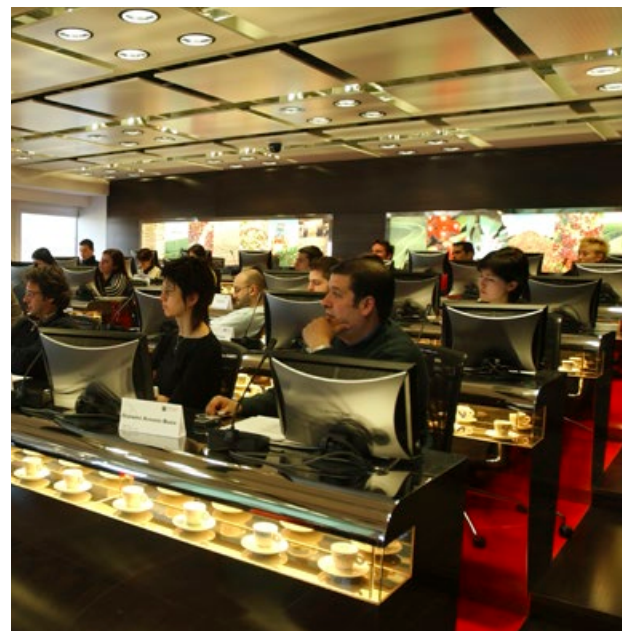
For professionals who work in bars, restaurants and hospitality, the Università del Caffè offers training and refresher sessions focusing on the product and on the management and promotion of the business. The courses provide a range of immediately applicable knowledge, from beverage preparation to purely managerial skills. In Italy, in 2019, average satisfaction with the course was 9.2/10.

The training activities also involve schools. The Maestri dell'Espresso Junior competition, organised in collaboration with the Cimbali company, is dedicated to teachers and students from Italian hospitality institutes and aims to train future professionals. In 2019, for the 28<sup>th</sup> edition, 45 institutes and 422 students took part.

## EDUCATIONAL COURSES FOR CONSUMERS

**In 2019, 8,119 consumers were reached.**

The Università del Caffè organises courses for coffee lovers, focusing on various topics such as coffee culture, economics, sustainability, sensory aspects, health, customs and habits, using various engagement methods.



### PENSA SEMINAR

Every year the Università del Caffè in Brazil, at PENSA (The Agrobusiness Intelligence Centre of the University of São Paulo), organises a seminar aimed at scientific institutes, national institutions in the sector, producers and the media. In 2019, the following topics, the result of research carried out in the previous year, were addressed:

- Disruptive technologies in coffee production
- Vertical integration in coffee growing
- Climate change, agriculture and coffee: Identification of research areas in Brazil
- illycaffè and flexible strategies: the case of a resilient company.

On this occasion Andrea Illy presented the Virtuous Agriculture project for the first time

## SEED:S

Social  
Environmental  
Economic  
Development  
Sustainability



WE ALWAYS TAKE  
A VERY PERSONAL  
APPROACH.

## 02.4 human capital

# 02.4

## HIGHLIGHTS

**1,405**  
employees  
as at 31/12/19 at a  
consolidated level

**92.6%**  
of staff with  
a permanent  
contract

**25.1%**  
recruitment rate

## human capital

Human capital focuses on people's fundamental role in a company's performance and prosperity. Generally, this capital describes staff management practices, expertise and policies. In the case of illycaffè, aspects such as quality of life, personal happiness and much more are also valued.

### SDGs



### SPECIFIC COMMON BENEFIT GOALS

- "Embrace the principles and culture of economic, social and environmental sustainability, as well as their intrinsic link with human well-being and environmental protection"

### OUTCOMES

- People's active participation in the company's growth and the creation of an inclusive environment. Strengthening the company culture through opportunities for communication and sharing, promoting people's central role and value.

### CHALLENGES

- Staying connected and continuing to share the same values even against a background of corporate growth.

## SEED:S

Social  
Environmental  
Economic  
Development  
Sustainability

The **specific common benefit goals** are the impact targets set out by illycaffè in its articles of association. They are the company's DNA, the identity that drives its business growth, deeply ingrained in all its business operations.

The **outcomes** are the true positive value created by illycaffè through its practices, policies and actions expressed by the capital.

The **challenges** are the obstacles that the context and the sector place before a company in the process of impact creation. Indeed, the latter is an activity that cannot disregard these elements and must describe it transparently.

The **Sustainable Development Goals** are the 17 United Nations' objectives to which illycaffè contributes in various ways with its activities.



## ■ 02.4.1 illycaffè people

**A healthy and solid company takes care of its employees: they are its engine, the driving force that carries out its work.**

To this end, illycaffè is committed to guaranteeing uniform development between business growth and human growth, conscious that neither is possible without the other.

Its employee management is based on the principles of transparency, respect for rights, loyalty and trust, and on the application of the conduct set out in the Code of Ethics. The company constantly promotes the improvement of its employees' quality of life, offering a comfortable and safe working environment, encouraging personal skills and interests, and promoting the

right balance between work life and personal life. Only by contributing to people's happiness and well-being is it possible to have qualified staff who are able to express professionalism, passion and pride.

In 2019, the company paid particular attention to **leadership** and **corporate culture**, two of the cornerstones of its unique identity. Focus group analysis, discussions and co-creation at plenary sessions involved all workers at different times of year.

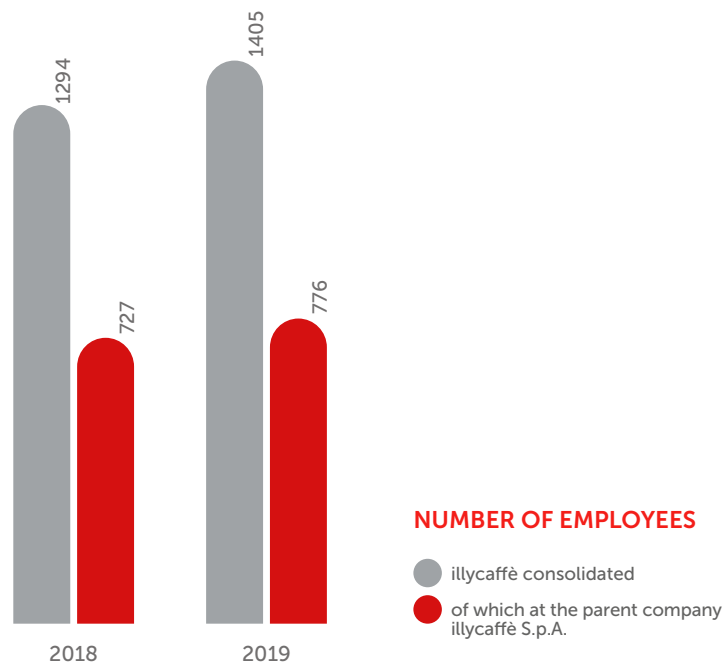
<sup>1</sup> Please refer to the Code of Ethics, which can be downloaded from [www.illy.com](http://www.illy.com)





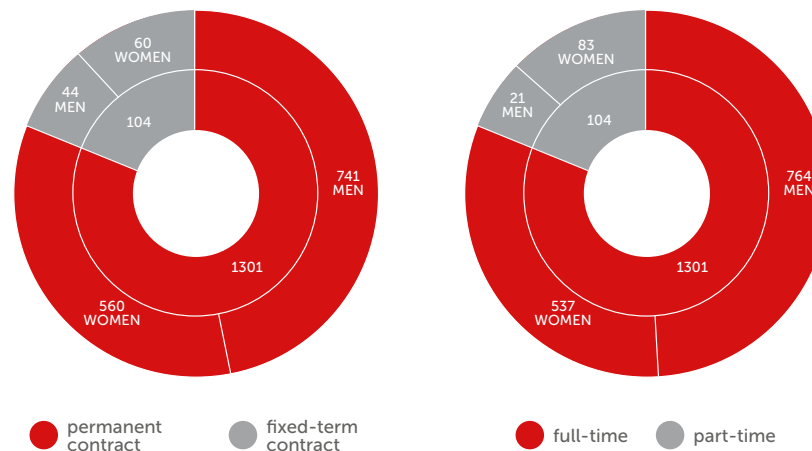
## 02.4.2 Employment<sup>2</sup>

The growth trend recorded in recent years continued in 2019: the number of employees at consolidated level is 1,405, of which 776 in Italy.

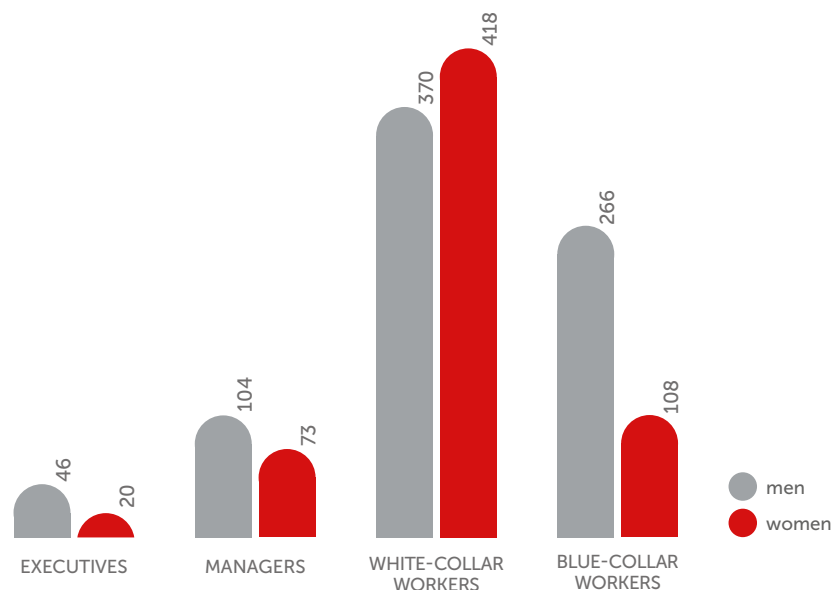


92.6% of employees in Italy and abroad have a permanent contract, in line with the company policy aimed at stabilising precarious workers. Of these, most have full-time contracts. To meet the needs of employees, there has been an increase in the number of part-time contracts, which are essential to ensure a work-family balance and have been adopted by 104 employees in Italy and abroad.

<sup>2</sup> For more information on the scope of data concerning staff, please refer to the methodological note.



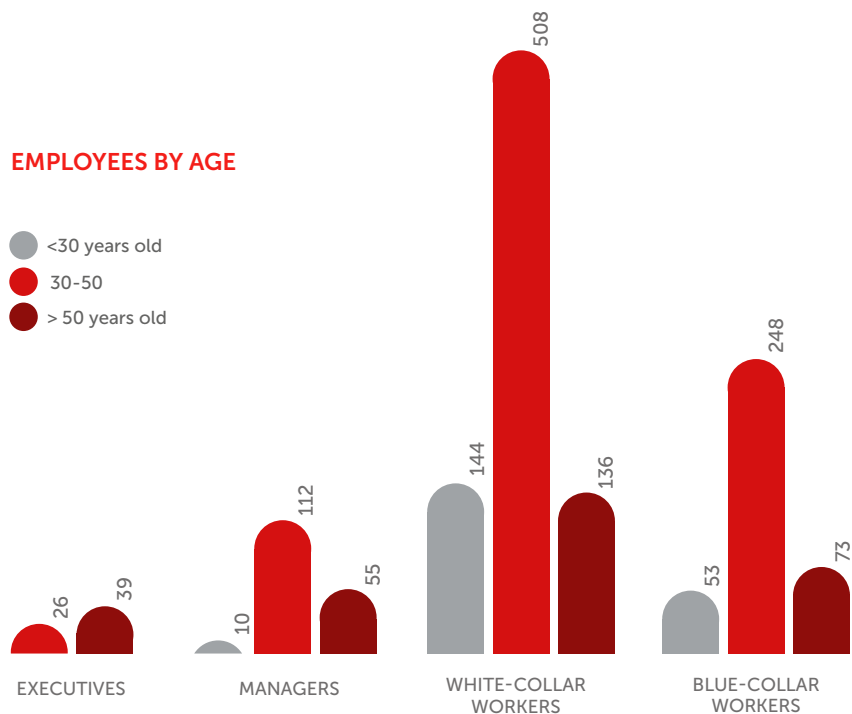
Considering all companies within the reporting scope, women account for 44.1% of the total and, based on the breakdown by age bracket, employees aged between 30 and 50 constitute the majority of the workforce (63.6% of the total).



## SEED:S

Social  
Environmental  
Economic  
Development  
Sustainability

## EMPLOYEES BY AGE



## MEMBERS OF THE GOVERNING AND SUPERVISORY BODY BY GENDER

WOMEN

MEN

Board of Directors

4

6

Board of Statutory Auditors

2

1

## GOVERNING BODIES BY AGE GROUP

<30 YEARS OLD

30-50 YEARS OLD

> 50 YEARS OLD

Board of Directors

0

2

9

Board of Statutory Auditors

0

0

3



## SEED:S

Social  
 Environmental  
 Economic  
 Development  
 Sustainability

## SEED:S

Social  
Environmental  
Economic  
Development  
Sustainability



In 2019, the turnover rate in Italy and abroad – calculated as the ratio of people leaving the company in the period to the total workforce at the end of the period – was 19.1%. The recruitment rate – the ratio between the number of new hires during the year and the total workforce at the end of the period – was 25.1%. These figures include the numbers for bars and shops, which, due to the nature of their business, have a much higher staff turnover. In terms of remuneration, all employees are subject to the provisions of national contracts<sup>3</sup> and current regulations in the various countries in which the company operates.

<sup>3</sup> For Italy, the National Collective Bargaining Agreements of the Food Industry, managers of companies producing goods and services and employees of companies in the sectors, public establishments, collective and commercial catering and tourism are applied.

	NO. NEW HIRES		NO. TERMINATIONS		RECRUITMENT RATE*		TERMINATION RATE*	
	2018	2019	2018	2019	2018	2019	2018	2019
Men	171	196	120	144	23.7%	25.0%	16.6%	18.3%
<30 years old	96	93	69	57				
30-50	69	87	40	73				
> 50 years old	6	16	11	15				
Women	137	157	135	124	24.3%	25.3%	23.9%	20.0%
<30 years old	80	83	74	65				
30-50	48	68	42	57				
> 50 years old	9	7	9	2				
Total	308	353	255	268	24.0%	25.1%	19.8%	19.1%

\* This calculation is made by dividing the no. of new hires or the no. of terminations by the total number of employees at the end of 2019.

## ■ 02.4.3 Equal opportunities, inclusiveness and respect for human right

"Employees are offered equal employment opportunities based on merit, professional skills and performance, without any discrimination, fully respecting personal rights"<sup>4</sup>. The pursuit of the strength inherent in difference reflects the values of illycaffè, which has always wanted to create an inclusive working environment enhanced by the multicultural context of the city of Trieste.

The concept of "inclusion" within the company means enhancing a highly diverse professional community. Human capital is therefore grown and developed around individual performance and abilities, eliminating any potential form of stereotyping and prejudice. This approach does not exclude people in protected categories, who represent around 3% of the workforce in Italy.

In order to promote the role of women, in 2018, on the International Coffee Day established by ICO (International Coffee Organization), "**Half a cup**" was created, an initiative that aimed to explore what the world of coffee would be like without women's work.

illycaffè was a content partner of the national "**Global Inclusion: Generations without Borders**", during which universities, companies and non-profit associations shared practices for the promotion of an inclusive leadership model inspired by Article 3 of the Italian Constitution.

The company has signed the **Non-Hostile Communication Manifesto**: respect for every individual is expressed in everyday behaviour and in the use of language.

<sup>4</sup> Code of Ethics: No candidate or employee shall be treated less favourably on account of their race, sex, religion or belief, disability, marital status, age, sexual orientation, gender identity and expression or family responsibilities, nor shall they be disadvantaged by any condition or requirement that is not justified.

### #THANKS4THECOFFEE 2019

In 2019, International Coffee Day was celebrated with the #THANKS4THECOFFEE project which, for this edition, presented illy Coffee Music, the first illy symphony that narrates the journey of coffee and its sounds in music. It was dedicated to all coffee farmers to thank them for their valuable work.

### AVERAGE GROSS ANNUAL SALARY: MEN-WOMEN RATIO

The ratio between the gross annual salary received on average by women workers in Italy and that received by men is as follows: 0.85 for executives, 0.88 for white-collar workers, 0.92 for managers and 0.92 for blue-collar workers.

The ratio was calculated by dividing the gross annual salary received by women by that received by men, for each category.





#### ■ 02.4.4 Health and safety in the workplace

For illycaffè, safety culture is essential to developing an awareness of the risks associated with work and to promoting responsible behaviour.

Workers' health and safety is protected through preventive actions and training activities.

In particular, illycaffè is constantly committed to:

- Complying with all applicable legal requirements.
- Promoting prevention and risk reduction activities.
- Reducing, as far as possible, injuries and illnesses resulting from work activities.
- Training, updating and preparing all workers to perform their duties safely, with a special focus on production departments.
- Establishing a regular dialogue with employees to gather feedback and share the risk analysis and assessment process.
- Collaborating and cooperating with the community, suppliers, local authorities, regulators and any other stakeholders to provide transparency and share the company's occupational health and safety practices.
- Continuously improving performance to safeguard these aspects.

Moreover, there is always a first aid and fire-fighting team in the company.

In 2019, the company obtained **ISO 45001 Occupational Health and Safety Management System certification**.

In 2019, there were 6 workplace injuries at the headquarters involving 3 men and 3 women, resulting in a total of 96 days of absence. There were no cases of occupational diseases. The absenteeism rate<sup>5</sup> for 2019 was 4.46% (4.91% for women and 4.18% for men).

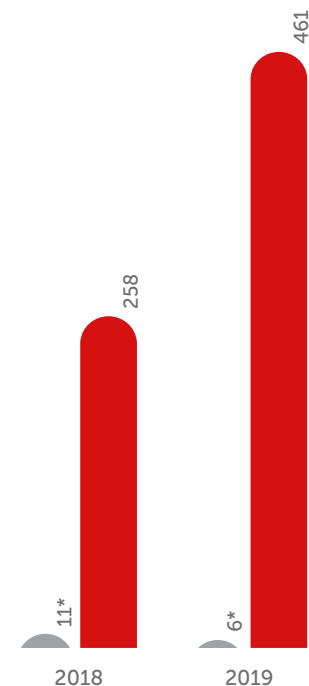
<sup>5</sup> Measurement of the actual days of absence expressed as a percentage of the total working days for the workforce in the same period. Absenteeism refers to the absence from work of a worker due to any type of incapacity, not only those related to illness or injury at work. Authorised leave such as holidays, study, maternity/paternity leave and leave for family reasons are excluded.

For more information on the scope of data concerning staff, please refer to the methodological note.

#### NUMBER OF INJURIES AND LOST DAYS AT ILLYCAFFÈ IN ITALY

- No. injuries with absence
- No. of lost days

\* In 2018, of the 11 calculated injuries 4 were during commuting, while in 2019, of the 6, 3 were during commuting.



#### INJURY RATES ILLYCAFFÈ ITALY

	WOMEN	MEN	TOTAL
Frequency rate	5.65	3.62	4.41
Severity rate	0.02	0.54	0.34
Occupational disease rate (no. occupational diseases/tot. hours worked)*1000000	0	0	0

\* The frequency rate is the ratio between the number of injuries occurring in a year and the hours worked, X 1,000,000. The severity rate is the ratio between days of absence due to injuries and hours worked, X 1,000.

## SEED:S

Social  
Environmental  
Economic  
Development  
Sustainability

## ■ 02.4.5 Internal communication and employee benefits

The company develops internal communication activities to facilitate interdepartmental collaboration, to increase employees' sense of belonging and to promote the spread of the company's values and culture.

In 2019, **illyXpress** was created, a digital internal communication magazine in two languages, Italian and English, which is sent to illycaffè employees in Italy and abroad every month with the aim of forming a large coffee community. The magazine features articles written by an editorial team made up of company employees, as well as a number of external contributions.

Throughout 2019, **"Xchange Moments"** were organised to present a preview of projects and products or to communicate news involving the entire company, promoting engagement and sharing.

The **"Made in illy"** project, launched in 2009, is also continuing, enabling the company's employees to offer their skills and volunteer their time to collaborate in the organisation of internal company events.

For the benefit of all employees (including those with part-time and fixed-term contracts), illycaffè has defined a number of financial and social benefits. The project consists of a network of agreements and initiatives aimed at improving the personal well-being of employees and their families.



The following areas are those most affected by welfare services, which contribute to the quality of life and well-being of workers inside and outside the company:

- **Training, Personal and Cultural Development:** granting of degree bonuses and financial support for the purchase of university texts.
- **Purchasing Power:** purchase of goods and services at reduced prices for employees. For example, affiliated nurseries.
- **Work-Life Balance:** flexible working hours (entry time, lunch break, reduced hours for medical examinations) and smart working.
- **Workplace:** availability of common areas such as a canteen, coffee bar and illy on-site shop.
- **Health and Well-being:** illysportiva association activities and payment of a bonus, fully borne by the company, for supplementary health care for the employee and their family.
- **Community and Environment:** development of agreements with gyms, theatres, shops, medical clinics and local agencies (University, MIB Trieste, Work-Related Learning, Telethon Udine).

## ■ 02.4.6 Training and development of human capital

Employee training is crucial to ensuring professional development and is also a vital driver of the development process envisaged in the company's strategic plan.

Through specific programmes, illycaffè wants to make its employees:

- **business partners** who support the company in projects, in achieving goals and developing skills;
- **people partners** who help the management to develop their staff;
- **company partners** who support the evolution of an identity and culture for creating widespread leadership.

In order to promote continuous mutual improvement, periodic performance evaluation systems are implemented, which grant a variable financial reward, and cyclical training courses are provided. Teaching methods vary according to the type of course, goals and technical skills of the different staff involved. A voluntary feedback system is in place to gauge satisfaction levels and identify areas for improvement.

**illycitizen**, a training and recruitment programme for employees designed to increase motivation and a sense of belonging, has been running since 2011. Managed by a group of trainers, chosen from among employees, in 2019 the programme offered, through focus groups, an in-depth examination of the principles of the Code of Ethics from a personal and individual standpoint. The plan involved 90% of blue-collar workers. A new illycitizen ambassador format, presented in January 2020, has also been designed.

The analysis of **illy's Leadership Model** was an initiative that involved a large part of the company's workforce and provided a theoretical basis for acquiring the main skills of the new leadership.

### ILLYCAFFÈ'S LEADERSHIP MODEL

A new leadership model has been developed, based on an innovative learning process that led to an understanding of the concepts of complexity and meta-skills as key elements for effective management.

A think tank plenary session was held in which the whole group examined several examples of leadership models adopted by large companies and multinationals. It was observed that these models are very uniform and repetitive in terms of structure and often also of content. These models describe customer orientation, collaboration, exemplarity and delegation and are formulated in a descriptive way, identifying what a leader should do and what behaviours they should adopt, assuming that simply following certain guidelines makes effective and successful leadership possible. In these models, however, there is a complete lack of consideration of the business context.

By harnessing the power of collective intelligence, the company has developed a new leadership model that identifies, for every leadership trait, a possible problem or challenge that could jeopardise the effectiveness of managerial action with regard to a thorough understanding and consideration of contexts.

An illy leader focuses their actions on the common good, balancing short and long-term objectives without prioritising area-based results over general results. Furthermore, they work to build cohesive and interdependent communities that share a common purpose and vision of the company and are committed to putting people in the best possible position to express their talents.

The **"Experience Makers"** programme is the format devoted to the entire illy sales force. In November 2019, it was also opened to managers responsible for large-scale retail trade (GDO)<sup>6</sup> customers and the first modules on distribution and the role of commercial sellers were provided. The course will continue in 2020.

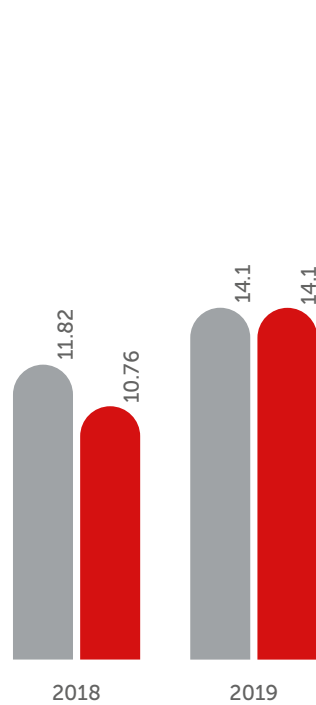
In collaboration with MIB Trieste School of Management, a **Finance Intelligence** course has been provided to all staff who manage projects and do not have a specific background in finance.

The **"Io sono illy"** e-learning course was addressed to staff in the Retail channel (direct shops and franchises), alongside the course dedicated to new hires.

In addition, a series of e-learning courses have been provided for training on Privacy, the Code of Ethics, Risk Management and all Cybersecurity training.

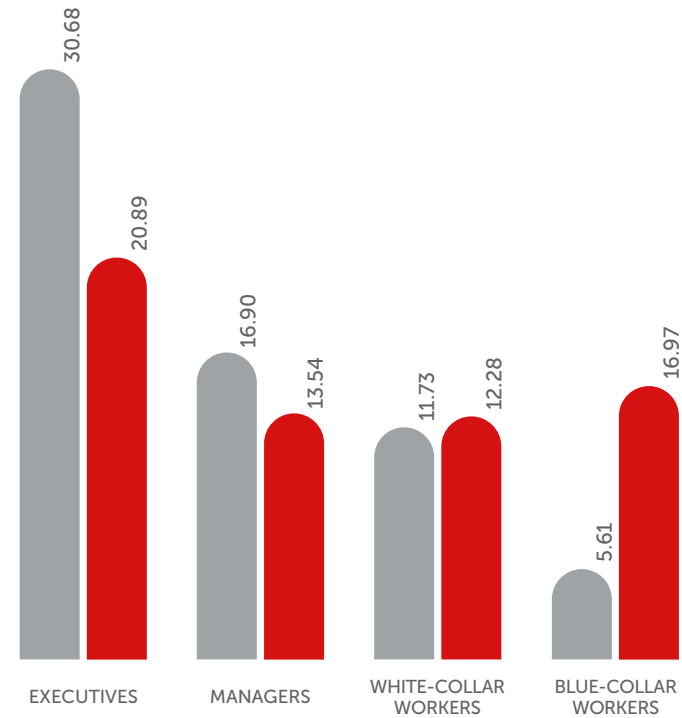
**AVERAGE HOURS OF TRAINING PER PERSON, BY GENDER IN ITALY**

● Men  
● Women



**AVERAGE HOURS OF TRAINING PER PERSON, BY CATEGORY IN 2019 (DATA FOR ITALY AND ABROAD)**

● 2018  
● 2019



<sup>6</sup> Supermarket networks and other sales channels.



## SEED:S

Social  
Environmental  
Economic  
Development  
Sustainability



WE SHARE  
WHAT WE ARE.

**02.5**  
**relational  
capital**



# 02.5

## HIGHLIGHTS

### 29

editions of the  
Brazil Award

### 4

editions  
of the Ernesto Illy  
International  
Coffee Award

### 66.4%

export turnover  
in 2019

### + 14%

online orders compared to  
2018. In 2019, at a global  
level, there were 5,561,683  
visits to the e-commerce  
platform alone

## relational capital

Relational capital describes the relations between illycaffè and its stakeholders, with a particular focus on the collaboration established with grower and producer communities, suppliers, customers, international bodies and cultural institutions.

## SDGs



## SPECIFIC COMMON BENEFIT GOALS

"Contribute to the development and analysis of the sustainability of the supply chain through research, sharing of knowledge and projects in the field"

"Support and publicise the case for integrated agriculture in order to preserve and improve coffee quality and sustainability at a global level"

"Actively contribute to the international debate on the issues of happiness, well-being and improving quality of life"

"Foster global partnerships to promote sustainability and international awareness of this issue"

## OUTCOMES

Promoting the growth of the new generation of farmers, made up of motivated people who are passionate about the world of coffee.

Improving the living conditions of farming communities.

Creating unique, inimitable cultural experiences that represent the essence of illy and its bond with art.

Evolving towards a proactive customer engagement approach.

Bringing a high-quality coffee culture close to customers and consumers.

## CHALLENGES

Combating neglect of the land and ensuring recognition of its potential.

Prepare people for the effects of climate change that are changing the way they cultivate.

## SEED:S

Social  
Environmental  
Economic  
Development  
Sustainability

The **specific common benefit goals** are the impact targets set out by illycaffè in its articles of association. They are the company's DNA, the identity that drives its business growth, deeply ingrained in all its business operations.

The **outcomes** are the true positive value created by illycaffè through its practices, policies and actions expressed by the capital.

The **challenges** are the obstacles that the context and the sector place before a company in the process of impact creation. Indeed, the latter is an activity that cannot disregard these elements and must describe it transparently.

The **Sustainable Development Goals** are the 17 United Nations' objectives to which illycaffè contributes in various ways with its activities.

## 02.5.1 The value of the community and local area

**Coffee quality starts from the first link in its production chain: cultivation.** illy works with and for coffee producers and creates many projects to support local communities, interpreting and responding to their needs.

### Key synergies and partnerships

illycaffè collaborates with local authorities, government agencies (e.g. Coffee Boards in African and Indian countries), international institutions (e.g. the International Coffee Organization) and research bodies (e.g. University of São Paulo, World Coffee Research) in order to consolidate its own operations in the area and to continue to spread sustainability principles within the ecosystem in which it operates.

COUNTRY	INSTITUTION
Brazil	Embrapa – Empresa Brasileira de Pesquisa Agropecuária Universidade de São Paulo Universidade Federal de Viçosa Instituto Terra Funarbe – Fundação Arthur Bernardes
Colombia	Federación Nacional de Cafeteros de Colombia SENA – Servicio Nacional de Aprendizaje
Costa Rica	Icafé – Instituto del Café de Costa Rica
Guatemala	Anacafé – Asociación Nacional del Café
El Salvador	Consejo Salvadoreño del Café
Ethiopia	Ethiopian Coffee and Tea Development and Marketing Authority Ethiopian Coffee Exporters Association
India	Coffee Board of India
Rwanda	National Agricultural Export Development Board
International	ICO – International Coffee Organization UNIDO – United Nations Industrial Development Organisation WB – World Bank WCR – World Coffee Research ASIC – Association for Science and Information on Coffee ICTP – International Centre for Theoretical Physics SAI – Sustainable Agriculture Initiative platform SCA – Specialty Coffee Association ISIC – Institute for Scientific Information on Coffee WCPF – World Coffee Producers Forum





## From the Brazil Award to the Ernesto Illy International Coffee Award

Brazil is the first country in which illycaffè began to work directly with producers. In 1991, the Brazil Award (Prêmio Ernesto Illy de Qualidade Sustentável do Café para Espresso) was established, dedicated to the best coffee producers in the country. This award has become an incentive to improve the quality of production processes. Today Brazilian coffee beans are recognised as among the best in the world. This is a major change given that up to the '90s Brazilian coffee production guaranteed large quantities, but low quality. The Brazil Award has helped to change this situation, allowing certain regions in the country, which have been mistakenly considered unsuitable for coffee growing, to establish themselves. Inspired by this award, the Ernesto Illy International Coffee Award (EIICA) was created, an international recognition that aims to reward the efforts and investments made by producers to create sustainable high-quality coffee.

The 2019 international award, hosted at the United Nations headquarters in New York, was also an opportunity to reaffirm to an audience of 200 people including ambassadors, institutions, exporters, producers, laboratory technicians and journalists, the importance of environmental, social and economic sustainability, sustainable cultivation and the Virtuous Agriculture project that Andrea Illy is studying.

## GOOD PRACTICE STORIES

In **Nicaragua and Honduras**, the company worked on the construction of 5 wastewater treatment systems for a group of producers with whom it has been working for many years, making an immediate positive impact and serving as a long-term example for producers throughout the area.

In **Colombia**, through the Ernesto Illy Foundation and the collaboration of the Federación Nacional de Cafeteros de Colombia, the company has continued to support the reforestation project initiated in Támara in 2013, with the aim of repopulating, with native vegetation, coffee-growing areas with major aquifers and water sources at risk.

In late 2019:

- 70 hectares of land were reforested.
- 76 wastewater treatment systems were installed.
- 23 coffee pulp management facilities were created, training 99 families of producers.
- 60 students from the school in Támara were educated about good environmental practices through practical activities.

In 2018, illycaffè signed a memorandum of understanding with ETCR (Territorial Spaces for Training and Reincorporation) and Ascafé (Association of small coffee growers) to increase the quality and production capacity of coffee in the Cauca Department, where former FARC fighters and small producers reside, encouraging local economic development. Over 600 former FARC fighters continue to enjoy the benefits described in the memorandum.

Vivero de Atitude is the project through which, in **Brazil**, illycaffè is financing the construction of a nursery for the planting of over 100,000 species native to the Cerrado region, which will be distributed to producers in the area and the city of Monte Carmelo to increase their green areas. 100% of proceeds from the sale of the plants will be donated to local authorities working to support children and the elderly in the community.



## ■ 02.5.2 Art, aesthetics and culture

*"Kalòs kài agathòs" or "beautiful and good".*

The beauty to which illycaffè refers is linked to the concept of "kalokagathia", coined by the ancient Greeks from a combination of the words kalòs (beautiful) and agathòs (good). The company views this as a true ideal to pursue: excellence that combines balance and elegance, beauty and goodness, ethics and aesthetics in a single product.

To emotionally and intellectually involve consumers, offering them a multi-sensory experience, the company also focuses its excellence on the cup, the tool for enjoying the product: this is how the illy Art Collection was created in 1992. Bringing the coffee experience to life also means sharing the pursuit of beauty, which is indivisibly tied to goodness. This is why art and creativity are the language chosen to express its values and philosophy. The development of single-brand shops and the organisation of internationally significant cultural events are also a step in this direction.

### THE ILLY ART COLLECTIONS

The illy Art Collections embody the cultural idea of illy's beauty: those who savour an illy espresso in an artist's cup associate this gesture not only with the blend's aroma and taste, but also with a complete aesthetic, visual and tactile experience of contact with contemporary art.

## SEED:S

Social  
Environmental  
Economic  
Development  
Sustainability



## WE ARE DELIGHTED TO TAKE PART

### "May You Live In Interesting Times", 58. Venice Biennale International Art Exhibition

In 2019, illycaffè was the main sponsor of the Venice Biennale, at which, during the opening days, it offered all visitors illy blends in capsule form and as cold brew. All of the Biennale's bars sold illy coffee, while in the city the main client bars premièred cups and sugar sachets with the graphic design of the exhibition's official poster.

To celebrate this tenth edition of the company's participation at the Biennale, a version of the cup with a decorated saucer was produced and dinners were organised featuring artists and Michelin-starred chefs to bring together different worlds united by high quality.

### illy SustainArt Prize

In February 2019, during Arco Madrid and the international art fair, the illy SustainArt Prize, reserved for artists from coffee producing countries born after 1970, was presented for the twelfth year. The award was won by Venezuelan Sheroanawë Hakihiwë, from the Yanomami ethnic group, for his contemporary vision of cosmogony through indigenous imagery. With the money from the award he decided to buy mosquito nets to protect his community from the risks of malaria.

### Presenting the Barcolana – Trieste

For the 51st edition of the historic regatta, an initiative was organised around the values of quality and sharing. illycaffè, which was entrusted with the artistic direction of the Barcolana poster, chose illustrator Olimpia Zagnoli to portray the emotions shared by thousands of sailing enthusiasts. The artist designed a flower to symbolise both the beauty and the fragility of our sea and of an ecosystem that must be protected, one of the key messages of this edition of the regatta.

### "Genius and Enterprise: from Leonardo and Ludovico to the most important stories of innovation in our times", Palazzo della Regione Lombardia (Milan)

To celebrate the fifth centenary of Leonardo da Vinci's death, illycaffè and Assolombarda commemorated the legacy of this genius and of the bond he had with Ludovico Maria Sforza in an exhibition organised at the Palazzo della Regione Lombardia. A painting by pop artist James Rosenquist was displayed here, recalling one of the important milestones in illy's history, 1995, the year in which the logo was modernised thanks to Rosenquist's work.

### Artissima 2019 - Turin

For years, the company has been sponsoring Artissima, the largest international art fair in Italy, and it is organising the illy Present Future Award, now in its nineteenth edition. This award is presented to the artist judged to be the most interesting in the Present Future section and for a number of years it has been a springboard for new talents. The winner of the last edition was Pedro Neves Marques from the Umberto di Marino Gallery in Naples who, thanks to illy, had the opportunity to exhibit his work in Rivoli Castle.

### ITS Fashion@Work by illy Award

illycaffè has reconfirmed its partnership with International Talent Support, a competition for young talents in fashion design, and "ITS Fashion@Work by illy Award", an award in which 10 finalists compete to come up with a creative and fashionable redesign of the baristas's apron. The winner of the 2019 edition was Jiaen Cai, a 26-year-old Chinese student.



## ■ 02.5.3 Ernesto Illy Foundation

In 2008, illycaffè set up a Foundation managed by the Illy family to further develop Ernesto Illy's moral and cultural heritage. A non-profit organisation created with the aim of promoting ethics and sustainability by supporting research and the organisation and spread of initiatives to benefit all stakeholders.

### Mission

To cultivate the values of knowledge, ethics and sustainability, both generally and within business operations, and to promote research as a method to arrive at the truth and development of humanity, as taught by Ernesto Illy. To pursue the values and method for economic, social and cultural growth of communities and as a means of competitive advantage for the company.

### Vision

Values and profits nourish each other. Ethical companies, which will lead the future economy, view profit as the joint creation of lasting, economic, social, and environmental value.

One of the main goals of the work carried out by illycaffè and the Ernesto Illy Foundation is to fund educational programmes and activities with producer groups with the aim of offering school facilities, high-quality education and teacher training in order to extend access to education in rural areas to as many children and young people as possible, giving them a greater chance of liberation and lifting them out of poverty and child labour.



### THE ERNESTO ILLY FOUNDATION LOGO

Designed in the 1960s, it features a pair of cups on two joined saucers, symbolising the precious connection established between two people through dialogue and friendship.

*"These are two coffee cups seen from above. They are the symbol of a message that says that coffee stimulates socialising, friendship and conversation, and you should never consume it alone. It should always be enjoyed in company."* Ernesto Illy.



FONDAZIONE ERNESTO ILLY

## THE WORK OF THE ERNESTO ILLY FOUNDATION

### Ernesto Illy Master's Degree in Coffee Economics and Science, Italy

This second-level university Master's degree is promoted and organised by a group of outstanding educational partners: the University of Trieste, the University of Udine, the Ernesto Illy Foundation, illycaffè, the University of Coffee, SISSA (International School for Advanced Studies in Trieste) and the Consorzio di Biomedicina Molecolare (Area Science Park, Trieste).

The aim of the Master's degree is to offer in-depth and multidisciplinary training for work in the coffee industry, and more generally in the agro-food sector, throughout the entire production chain, from cultivation to catering and retail via logistics and the industrial process. In 2019, 21 students of 15 different nationalities (Brazil, China, Colombia, Costa Rica, Ecuador, El Salvador, Ethiopia, Finland, Guatemala, Honduras, India, Italy, Papua New Guinea, Uganda and Venezuela) undertook and completed their training. The Foundation fully funded 5 members and partially funded 7.

### Costa Rica, Casas de la Alegria

Every year in Costa Rica more than 15,000 Panamanians of the indigenous Ngäbe-Buglé tribes cross the border to work as coffee pickers. For cultural and safety reasons, children accompany their parents during their work on the plantations, which means that they are at a high risk of being made to work, even if they are very young.

The Casas de la Alegria project offers a legal and practical solution to combat this risk thanks to centres where children are cared for, both in terms of their health and education, providing a form of financial support for families and above all a safe place where children can stay while their parents are working. In 2019, 15 facilities were opened, accommodating a total of 774 children.

### Rwanda, Farmer Field School

With a particular focus on gender equity, the Ernesto Illy Foundation has contributed, together with the supplier Sucafina and the Kahawatu Foundation, to the purchase of a plot of land and planting of around 2,500 certified-quality coffee trees. This land will be used as a Farmer Field School for a cooperative of 40 women coffee producers in Hindiro. The project envisages the supply of fertilizer for three years and training services for staff throughout its entire period of operation.

### World Happiness Reports

From 2017 to 2020, the Ernesto Illy Foundation has been a partner and supporter of the World Happiness Report, the report on happiness annually drawn up and published by the United Nations Sustainable Development Solutions Network under the guidance of Jeffrey Sachs.

The 2019 World Happiness Report<sup>1</sup> focused on social happiness, in particular on how people's level of happiness influences their political voting choices.

### Coffee & Happiness

This research further develops the themes of the World Happiness Report. In view of the abundant evidence of coffee's health benefits, a project has been initiated to explore a sample of 237,000 women followed over 41 years (Nurses' Health Studies I and II). A series of genetic data and psychophysical variables have been measured, which will allow an analysis of the hereditary variables in coffee metabolism and an investigation into the role it plays in overall well-being.

### SCA Re Co 2019

Re.Co, the Specialty Coffee Symposium, is an event organised by the Specialty Coffee Association dedicated to the leaders of the "specialty coffee industry" to offer a space for high-level discussion and strategic development.

In 2019, the event was held in Boston and the Foundation funded scholarships for 25 young leaders from producer countries who otherwise would not have been able to participate, covering registration and hospitality costs.

<sup>1</sup> 2019 World Happiness Report <https://worldhappiness.report/ed/2019/>



**Universidad Zamorano Coffee 4.0**

Zamorano is a private university in Honduras that specialises in agronomy and is recognised throughout Latin America. In 2018, the Board of Directors decided to create a course dedicated to the coffee sector and sought illycaffè's expertise to set up an Agronomy 4.0 university model that could train technicians capable of transforming coffee growing methods in Central America from traditional to entrepreneurial.

**Computational research in coffee science – collaboration with the Jülich Research Centre, Germany**

The collaboration with the Jülich Research Centre involves the co-financing of an assistant professor position in the field of computational research in coffee science. This figure promotes the development and application of computational molecular modelling methods to answer technical questions in the field of coffee research.

**CIRAD PhD Scholarship, Coffee Leaf Rust thesis**

The Ernesto Illy Foundation is collaborating with CIRAD, the French research centre working with developing countries to address international agricultural issues, to develop an early warning system to combat coffee leaf rust (*Hemileia vastatrix*) in Central America. The programme is subsidised by the European Union and studies the side effects of climate change, promoting the adoption and application of measures for adaptation, mitigation and risk reduction.

Coffee leaf rust is currently being monitored in three areas of Costa Rica and three different departments of Nicaragua to determine which microclimate variables cause a change in the health and/or disease condition of coffee leaves and how these variables change according to different environmental conditions.



## ■ 02.5.4 illycaffè and its customers

Those who drink illy coffee enjoy a blend composed of 100% Arabica coffee, the result of a selective manufacturing process that preserves and enhances quality and aromatic notes. It is presented to consumers with three different levels of roasting that influence the colour of the coffee and its sensory characteristics: *classic* for a softer and more aromatic taste; *intense* for an assertive profile; *strong* for an aftertaste of dark chocolate and toasted bread.

The company's growth plan is based on consumer satisfaction. Satisfaction that is built over time thanks to a quality offer and service. The plan is structured around three main areas:

- Consolidation and growth in premium hospitality at a global level, with the development of products and services.
- Expansion of consumption opportunities, particularly at home, with portioned preparation systems.
- Attention to offer a high quality offer and experience, both with the single-brand points of sale through the e-commerce channel.

Distribution mainly takes place through:

### Business to Business (B2B)

- HoReCa: Hotels, Restaurants, Cafès
- Traditional retail
- Large-scale retail trade
- Consumer electronics
- Vending (offices and workplaces)

### Business to Consumer (B2C)

- illy Shops
- illy Caffès and espressamente illy
- e-commerce

In every sales channel we want:

- To be a benchmark of excellence based on the concept of quality.
- To offer consumers and customers products and solutions that meet their needs.
- To promote a culture of high-quality coffee and its various brews both in the points of sale and at home.
- To manage relations in a professional, ethical and transparent manner.
- To guarantee consistent profitability to the various segments of our commercial chain.
- To train customers and consumers to jointly build a business model that is sustainable over time and respects shared values.



## ■ 02.5.5 Creating value for customers

Recent research<sup>2</sup> reveals that, in Italy, 59% of consumers who care about the coffee brand when they enter a bar would like to find the illy brand. The same research also shows that 79% of them are more inclined to choose a shop if it serves illy. More and more people are looking for quality and paying increasing attention to the food world in general.

### Value creation in the B2B channel

Value is built on a corporate communication dedicated to trade clients that develops solid and lasting relationships. Communication is managed on various levels:

- Via the sales force, which guarantees contact with customers from all B2B channels (HoReCa, Modern Trade, Eldom, Specialty Retail, Office) and makes it possible to update stakeholders on all company news regarding products, services, promotions, events, fairs and communication activities at both a national and local level.
- Via the reserved area for illy customers, included in the professional section of the illycaffè website since 2018, to find out information on:
  - Purchasing progress.
  - Consultation of invoices, waybills, tracing of orders.
  - Course calendar, communication materials, videos for training, ideas and inspiration, documents or initiatives.

In 2019, this section became an app, in line with illycaffè's process of digital transformation.

- The "Artisti del Gusto" digital newsletter aims to provide the latest information on the main innovations to barista customers who want to excel in their profession and who illy assists in their journey by sharing skills and tools. It is sent every two months and is divided into three sections:
  - Products for dispensing.
  - Products for resale.
  - Università del Caffè courses.

### illy Chef Ambassador

The illy chef ambassador project has been launched to support Michelin-starred chefs and give them the opportunity to customize and model coffee based on the style of their kitchen and restaurant. With the help of the Personal Blender – a machine patented by illy that assists the chef during the creation of a 'custom' coffee blend –, using a complex procedure based on the measurements of a sensory radar, a tailored coffee can be produced, which the illy Chef Ambassador can exclusively present in their restaurant, alongside the classic illy blend.

<sup>2</sup>Source: *Out Of Home Coffee Consumption Investigation, Kantar Italy, July 2019.*  
 Online survey of 1,506 out-of-home consumers.

## SEED:S

Social  
Environmental  
Economic  
Development  
Sustainability

### ILLY BOX

illy Box is a solution designed for the HoReCa channel. A system that involves connecting professional machines (telemetry) to the internet in order to monitor their processes and, if necessary, make improvements, guaranteeing high and constant quality. In their private area, customers can find illy Box data and a series of useful information for optimal machine management.

Long-term benefits include:

- Guarantee of constant high cup quality in all illy bars.
- Increased consumer loyalty.

### Value creation in the B2C channel

The B2C channel consists of the 'illy Caffè' and 'illy Shop' single-brand stores, which are under both franchising and direct management. Through this format, the company aims to communicate its values together with the concept of Italian bars abroad in order to establish a direct relationship with consumers. These places, a symbol of the Italian lifestyle, aim to evoke beauty, socialising, creativity and food and wine culture.

All the points of sale, which currently amount to 269<sup>3</sup>, are supported by coordinated plans that monitor the coffee, food and resale product for the illy experience at home, and include help with communication and digital activities.

### Digital transformation: the development of e-commerce

The digital transformation project began in 2018 and involves all of illycaffè's global companies and various business areas. It was launched with the aim of harmonising the online and offline experiences of consumers and customers in order to offer the best omnichannel shopping experience.

E-commerce figures continued to grow in 2019 with 5,561,683 visits to the platform alone and a 14% increase in online orders compared to 2018.

2019 saw major advances in digital, CRM (Customer Relationship Management), B2B and B2C, through:

- The launch of a new website – illy.com.
- The creation of the illy Lovers loyalty programme, integrating the online (e-shop) and offline (retail) experience through the illy mobile app.
- New optimised marketing and communication campaigns.
- The adoption of useful tools for managing global sales force activities (Sales Force Automation).

<sup>3</sup> 269 points of sale: 192 illy Caffès and 77 illy shops, split into 245 under franchising/licensing and 24 under direct management.



## ■ 02.5.6 Listening to and satisfying customers

illy interacts with its customers by following the principles of accessibility, transparency, reduced response times and consistent customer service on the various channels.

In 2019, there were 53,356 contacts with customer care & service.

There was a positive increase (+20.2%) in requests from potential new customers, confirming recognition of product quality and brand visibility.

At the same time, there was a drop in interactions with consolidated trade customers (-8.9%), who now find information or documents directly online in the professional section, or such information is provided to them by the agents with whom they deal.

Exchanges with consumers remain broadly stable. There was an increase (+13.5%) in reports and complaints due to the new *visual identity* of the coffee range, since its colour codes changed, confusing consumers' perception of taste.

	2018	2019	%
Trade Customers	12107	11024	-8.9%
Trade Prospects	4846	5825	20.2%
End Customers	36553	36507	-0.1%
<b>Total</b>	<b>53506</b>	<b>53356</b>	<b>-0.3%</b>

	2018	2019	%
Information	17629	16737	-5.1%
Complaints/Reports	2146	2435	13.5%
Services	29350	28785	-1.9%
Trade/agent visit prospects	4381	5399	23.2%
<b>Total</b>	<b>53506</b>	<b>53356</b>	<b>-0.3%</b>

During 2019, customer care underwent a major digital evolution.

New real-time interaction channels such as social networks and a live chat system have been added to the telephone and e-mail service, bringing the company closer to consumers, which is now proactive and not just reactive, cutting down on interaction and response times. The new channels guarantee effective and consistent communication tailored to the needs of the individual consumer. There is a comment system in place to assess satisfaction with the service received.

### Management of reports and improvement actions

Considerable attention is paid to complaints from customers and consumers. Reports that cannot be standardised are analysed and shared with the relevant offices to provide quick answers and solutions. For complaints about the coffee product, the procedure has been drawn up and approved by the Quality Assurance office, which receives a monthly report containing all the reports concerning the product.

<sup>4</sup> Contacts that are potentially interested in becoming illy B2B customers

<sup>5</sup> Active customers belonging to one of illy's B2B channels

## ■ 02.5.7 Responsible communication and information

Respect for the right to information underpins all communication with customers and stakeholders. Every communication activity respects the laws, rules and practices of professional conduct and is conducted with clarity, transparency and speed. In order to strengthen communication and information activities for customers, we have implemented the following policies:

- Compliance with the advertising self-discipline code.
- Checking of labels by a company specialised in the promotion and development of agri-food quality, which examines their suitability and compliance with the regulations of the relevant countries.





## SEED:S

Social  
Environmental  
Economic  
Development  
Sustainability



WE TRACE  
OUR PATH WITHOUT  
MARKING THE EARTH.

**02.6**  
**natural  
capital**



# 02.6

## HIGHLIGHTS

**100%**  
renewable  
electricity

**-25.5%**  
quantity of water  
drawn compared  
to 2018

**99.6%**  
produced waste  
recovered in 2019

## natural capital

Natural capital is the ecosystem within which all human activities take place and without which they would not be possible. It describes how the company manages the use of natural resources to provide goods and services, not only today, but also in the future.

### SDGs



## SPECIFIC COMMON BENEFIT GOALS

"Also consider products and systems based on criteria that are consistent with the principles of sustainability and circular economy, for the benefit of the planet"

"Improve energy efficiency and resource consumption, taking into account best practices and innovative solutions with a view to progressive emission reduction"

## OUTCOMES

Reducing environmental impacts starting from improvement of energy efficiency and consumption of natural resources.  
Contributing to a Carbon Neutral Company.

## CHALLENGES

Being sustainable while balancing costs and benefits.  
Increasing illycaffè's sphere of influence in the different contexts in which it operates to effectively promote sustainable practices and facilitate the Carbon Footprint reporting process.  
Scaling the application of virtuous agriculture to the green coffee sector.

## SEED:S

Social  
Environmental  
Economic  
Development  
Sustainability

The **specific common benefit goals** are the impact targets set out by illycaffè in its articles of association. They are the company's DNA, the identity that drives its business growth, deeply ingrained in all its business operations.

The **outcomes** are the true positive value created by illycaffè through its practices, policies and actions expressed by the capital.

The **challenges** are the obstacles that the context and the sector place before a company in the process of impact creation. Indeed, the latter is an activity that cannot disregard these elements and must describe it transparently.

The **Sustainable Development Goals** are the 17 United Nations' objectives to which illycaffè contributes in various ways with its activities.



## ■ 02.6.1 Environmental policy

Environmental sustainability is a value that creates value. It can be addressed by adopting short-term solutions or by planning actions that will have positive effects in years to come and set an example for others, triggering a positive improvement cycle within the industry. To achieve this, it is necessary to work on several fronts: researching quality, acting on processes, creating a shared culture of sustainability and working on regulatory frameworks.

illycaffè's environmental policy starts in the plantations, where any potential damage to ecosystems is limited through the adoption and promotion of sustainable and responsible knowledge, techniques and behaviour;

it continues with the creation of high-quality products with the lowest possible impact on the environment, including during use and disposal.

The company is committed to respecting the principles of eco-sustainability to minimise the negative effects caused by its activities, using the best technologies currently available. Both in the field and at the operational sites. Since 2019, illycaffè has used the Sustainable Procurement Process (SPP)<sup>1</sup> protocol defined by the international certification body DNV GL, which updates the Responsible Supply Chain Process model and promotes qualification and monitoring of suppliers, encouraging improvement goals and programmes.



<sup>1</sup> Return to the "Identity" chapter for more information.

## ■ 02.6.2 Environmental commitment<sup>2</sup>

illycaffè fulfils its commitment to reducing the direct impact on the ecosystem by:

- Promoting sustainable and responsible practices at all levels of the supply chain.
- Using a certified environmental management system.
- Annually improving performance in terms of energy efficiency, waste management and air emissions.
- Introducing eco-efficient innovations into the production process.
- Developing new packaging models with a lower impact.
- Fostering economically and environmentally sustainable agronomic practices with the producers from which we source green coffee.

Through implementation of the Environmental Management System, ISO 14001 certification and EMAS regulation, illy constantly monitors its environmental impact and takes action, applying the principle of continuous improvement. Since 2015, the company has followed ISO 50001 to improve its energy consumption and use. The company is also committed to setting new targets in line with the European 2030 Climate and Energy Framework<sup>3</sup>.

<sup>2</sup> The quantitative environmental data presented in the following paragraphs refer to illycaffè S.p.A., since the impacts of the company's subsidiaries can be considered less relevant. This is due to the nature of the activities carried out in the subsidiaries (administrative work) and because:

- The greatest environmental impacts are connected to production activities, located in Trieste, at the parent company's plants;
- Over 55% of the company's employees worldwide are employees of the parent company. Where data are available, the environmental performance figures for the Mitaca plant have also been reported, which have a lesser impact (further details can be found in the methodological note on page 103).

<sup>3</sup> [https://ec.europa.eu/clima/policies/strategies/2030\\_it](https://ec.europa.eu/clima/policies/strategies/2030_it)

### ILLYCAFFÈ'S ENVIRONMENTAL MANAGEMENT TOOLS

**Environmental Policy:** document that defines the company's environmental protection strategy.

**Environmental Declaration:** annually updated tool with which the organisation communicates to stakeholders its policies, the goals associated with them and the extent to which they have been achieved.

**Environmental Management System:** system for continuous monitoring and archiving of data on consumption and waste management at the three company sites.

**Life Cycle Assessment:** calculation of the environmental impact of the production processes carried out using SIMAPRO 8.3 software. LCAs are used as tools to support all decisions related to product and process innovation.

**ISO 14001 "Environmental Management System" certification (since 2003):** system that monitors the environmental impacts of the company's activities, systematically striving for improvement in a way that is consistent, effective and above all sustainable.

**EMAS III Regulation (since 2004):** tool to promote constant improvements in the environmental efficiency of industrial activities. In 2005, illycaffè won the EMAS Award for its commitment to improving the environmental aspects of production.

**SEA Single Environmental Authorisation (since 2015):** legal requirement that simplifies administrative procedures and meets the twofold need to ensure environmental protection and reduce the bureaucratic burden for operators. It replaces the various environmental certifications (air emissions, water discharges, noise impact, etc.) that were previously requested and obtained separately.

**ISO 50001 "Energy Management Systems" certification (since 2015):** a systemic approach to energy efficiency.

## Factories and production process

**TRIESTE, VIA FLAVIA:** site that manages coffee processing and is responsible for the majority of direct impacts on the environment.

**TRIESTE, VIA MALASPINA:** Distripark logistics hub that combines storage and warehouse activities.

**TRIESTE, VIA CABOTO:** site where marginal production activities are carried out, such as coffee machine design and quality control.

**ROBECCHETTO CON INDUNO (MILAN), VIA VINCENZO MONTI:** headquarters of Mitaca, a company controlled by the parent company since 2017, where single-portion capsule production, coffee processing and machine marketing activities are carried out.

The sites are environmentally certified and do not fall within protected areas or at risk areas with high biodiversity. Preventive measures are carried out everywhere to control and monitor environmental impacts and to minimise potential risks within the production site and in neighbouring communities. Any anomalies are handled promptly and corrected at source. No fines or penalties for non-compliance with environmental regulations and laws were received in 2019.

Then there are the illycaffè branches, which deal with product marketing and mainly carry out administrative and commercial activities with a low environmental impact. Every branch independently manages activities to optimise and reduce energy consumption and management of waste and materials in relation to the Group's goals.

Environmental protection expenditure in 2019 amounted to €670,000 (+1.84% compared to 2018):

illycaffè expenditure	2018	2019
Waste treatment and disposal, including electronic waste	€ 531,800	€ 632,000 *
External services for environmental management	€ 10,000	€ 10,000
External certification of environmental management systems	€ 1,500	€ 15,000
Research and development	€ 92,200	–**
Other	€ 22,400	€ 22,200

\* The high percentage of waste treatment and disposal costs (+17%) is due to a sharp increase in general waste management costs, which has involved the entire disposal market regardless of the nature of the waste.

\*\* Investments managed by other offices: revamping of roasting plants & revamping of compressor room.





### 02.6.3 Raw materials

Every year hundreds of thousands of bags of Arabica coffee are purchased from producers in Latin America, Africa and South East Asia. Production and processing of the raw material accounts for a considerable share of the company's indirect environmental impact. Consequently, we monitor every stage of its supply process, from cultivation at the plantations to transport to the processing plant.

In addition to green coffee, all the packing and wrapping materials used for the various packaging (plastics and metals) and the use of nitrogen in the production process for coffee preservation have an environmental impact. The other materials used by illycaffè are less relevant from an environmental standpoint.

These include oils, solvents, inks, chemicals, wood, jute bags, carbon dioxide, paper and cardboard (other than packaging). Paper and cardboard, jute bags and wood for packaging are mainly sourced from recycled material. Other materials that come into direct contact with coffee, on the other hand, are, as required by law, strictly virgin materials.



Total materials used to produce and package the organisation's main products	As a % of total weight	Var. % 2018-19	Renewable material
Metals	14.4	+2.2	NO
Raw coffee	61.1	-1.64	NO
Plastics	7.9	+10.0	NO
Nitrogen	7.0	-2.91	NO
Various	1.2	-33.3	NO
Paper/cardboard packaging	8.6	+11.8	YES



## ■ 02.6.4 Energy management

illycaffè guarantees responsible management of energy resources. A representative for environmental management and an Energy Manager are responsible for conducting the planned activities. Their main task is the analysis, monitoring and optimisation of energy use.

The environmental management system makes it possible to control the following activities:

- Company staff training.
- Internal and external communication.
- Documentation management.
- Control of production processes and related activities.
- Identification and management of potential emergencies to prevent them or minimise the consequences for people and the environment.

The energy sources used for the production process are methane and electricity, while diesel fuel is used for the company cars. With regard to mobility, two charging points were installed in 2019 for electric cars for employees and guests.

In 2019, for the same amount of activity, electricity consumption decreased by 2.8% and at the three Trieste sites electricity consumption was entirely met by energy from guaranteed renewable sources.

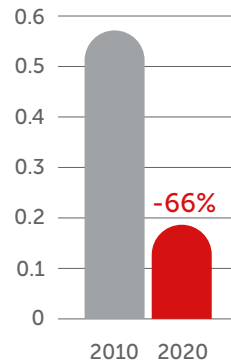
The reduction in electricity consumption is mainly due to the savings achieved by the new compressors: the EnPi KPI for compressors increased from 141 to 121 kWh/t. These machines already have an energy recovery device that will make it possible to use the heat that was previously dispersed into the atmosphere, transforming it into heated or chilled water that can be reused in the air conditioning system and in sanitary facilities.

Natural gas (methane) use is currently distributed as follows: 89% in the roasting stage, 10% in heating and hot water production and the remaining 1% in the company restaurant. In terms of energy, the total requirement in 2019 was 67,868 GJ and is associated with the Via Flavia and Via Caboto sites, while methane was not used at the Via Malaspina logistics centre.

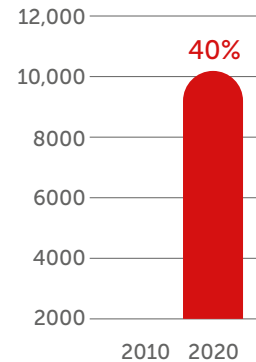
Methane consumption for roasting decreased by 0.96% despite an increase in production. Consequently, the relative KPI improved by more than 4% (in Smc/t roasted coffee) compared to the previous year.

Thanks to recently implemented initiatives, illycaffè has already reached and exceeded the 2020 goal: energy efficiency at the end of 2019 was 4.81GJ/t.

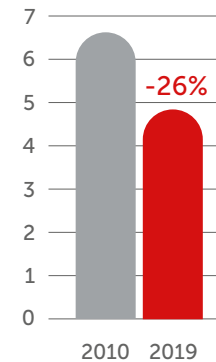
**GREENHOUSE  
GASES tCO<sub>2</sub>eq/t  
ROASTED COFFEE**



**RENEWABLE  
ENERGY  
GWh**



**ENERGY  
EFFICIENCY  
GJ/t ROASTED  
COFFEE**



## SEED:S

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The improvement presented above is due to an overall energy efficiency plan that also involved a number of office renovations. 2019 saw the continuation of initiatives to improve energy use by acting on buildings' thermal insulation, the efficiency of heating and cooling systems, home automation systems and the efficiency of machines within the plants.



Internal energy consumption - main energy factors in GJ	2018 Trieste headquarters and factories	2019 Trieste headquarters and factories	2019 Mitaca factory
Methane consumption	70,345.5	69,672	4,751.4
Electricity (100% renewable)	42,710.4	41,512.5	6,857.4
Total energy consumption (MJ)	113,055.9	109,380.5	11,608.8
<b>Energy consumption indicator per tonne of roasted coffee</b>	<b>5.19</b>	<b>4.81</b>	

Conversion factor 1Kwh=0.0036GJ; 1000 mc Methane = 39.01 GJ - Source: Global Reporting Initiative, 3.1.

### ENERGY EFFICIENCY AND RENEWABLE ENERGY INITIATIVES

In 2011, a photovoltaic system covering 11,000 square metres was installed on the roof of the Distripark logistics centre in Via Malaspina. The company does not own this system, but has leased the roof in order to make a contribution to the development of renewable energy. In 2019 the plant produced 799,937 kWh.

## 02.6.5 Water Management

In 2019, the Via Flavia, Via Malaspina and Via Caboto sites drew a total of 34,289 m<sup>3</sup> of water from the network, 25.5% less than in 2018. This was achieved thanks to continuous monitoring, control and correction of anomalous consumption that occurred during the year due to losses in the system. The Mitaca site drew 5,132 m<sup>3</sup>.

The water used at the production sites is entirely drawn from the aqueducts of the respective municipalities. At the Trieste sites the water used is entirely drawn from the city's aqueduct and is partly used for sensory testing of coffee and partly for testing the 3 kg, 250 g and serving containers. The remaining part is used for cooling chillers, irrigation, fire fighting, drinking and sanitary uses.

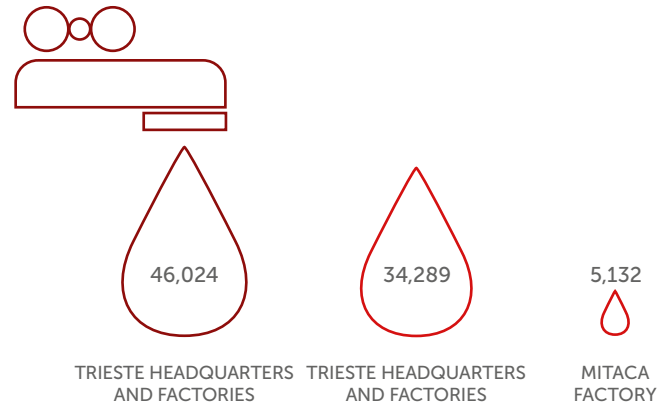
### WATER ON THE PLANTATIONS

To ensure proper management of water resources in coffee growing countries, illy has produced and distributed specific *Water and Coffee* manuals identifying the machines that consume less than a litre of water for every kilogram of processed fruit (usually 5 to 10 litres are consumed) and providing training on how to treat residual water that comes out of washing stations and requires special treatment before it is released into natural systems.

There is also an online course dedicated to process wastewater treatment, which in some countries has resulted in the implementation of very efficient treatment systems.

### WATER DRAWN FOR THE PRODUCTION PROCESS AT VIA FLAVIA, VIA CABOTO AND VIA MALASPINA

● 2018  
● 2019



Volume of water drawn from the mains (m³). Data source: water consumption meters reading.



## SEED:S

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## ■ 02.6.6 Biodiversity

The field visits that illycaffè's technicians regularly carry out in the various countries, together with the training sessions organised by the company, promote biodiversity protection as one of the cornerstones of integrated farming techniques, the agricultural production system with a low environmental impact.

### **Integrated agriculture**

The company promotes the principles of integrated agriculture, which is based on IPM (Integrated Pest Management), to limit the use of pesticides, and on good agronomic practices. These include: the use of plant cover and cultivation along contour lines to reduce soil erosion, the reduction of soil tillage to maintain fertility and the choice of mineral and organic substances among the various fertilisers.



## **SEED:S**

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## ■ 02.6.7 Air emissions

illycaffè aims to achieve **decarbonisation by 2033**. This global challenge is the greatest faced by the company. To achieve this objective, it is necessary to periodically monitor and control the levels of the pollutants emitted into the atmosphere, investigating all the relationships between the site's production activities and the surrounding environment.

The first stage of carbon footprint mapping was completed in 2019. The activity with the highest impact is green coffee cultivation. Packaging, end-of-life, use, distribution and the production process have a lower impact. A plan is being developed to guide the company along the path to achieving this ambitious goal.

Emissions caused by production processes mainly come from the raw coffee plant and coffee roasting stages and consist of the release of NOx (nitrogen oxides) dust, TOC (Total Organic Carbon) and volatile organic substances produced by coffee roasting into the atmosphere.

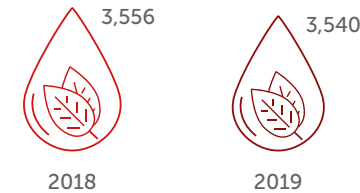
EU Directive 2010/75/EU on integrated pollution prevention and control introduced new parameters for the control of pollutant emissions of NOx and TOC for roasting machine chimneys. These types of emissions are monitored on an annual basis and the results are sent to the Province of Trieste, ARPA FVG, ASS n1 Triestina and the City of Trieste.

The values recorded in 2019 for the illycaffè sites are below the emission limits authorised by the regional authorities (350 mg/Nmc for NOx and 50 mg/Nmc for COT). Following the renovation of the roasting plants last year, even better results are expected next year. In addition, thanks to the catalysers, pollutants resulting from the processes are eliminated as a result of the high temperature and oxidising action, reducing emissions of coffee dust into the atmosphere.

Any dust production deriving from coffee transportation is directly managed on the vehicles in which the coffee is transported, which are all equipped with suction and filter systems for dust sedimentation. The storage and loading silos are also equipped with the same technology.

### EMISSIONS RELATED TO PRODUCTION SITES IN ITALY: VIA FLAVIA - VIA MALASPINA - VIA CABOTO AND TRIESTE PLANTS (t CO<sub>2</sub>eq)

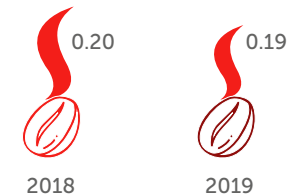
Natural gas (SCOPE 1)\*



Electricity (SCOPE 2)  
(100% declared from renewable sources)



CO<sub>2</sub> emissions intensity index  
(= tCO<sub>2</sub>eq/t roasted coffee in the year)



\*Source: Ispra 2019. Conversion factor 1.975=1 (tCO<sub>2</sub>/quantity)

**NO<sub>x</sub> AND TOC CONCENTRATIONS  
ROASTING CHIMNEYS IN mg/Nmc  
2019**

CHIMNEY		AVERAGE VALUE		LIMIT mg/Nmc
Catalyser N	Roaster E21	NO <sub>x</sub>	223.7	350
Burner N		TOC	5.77	50
Catalyser N	Roaster E22	NO <sub>x</sub>	276	350
Burner V		TOC	20.9	50
Catalyser N	Roaster E23	NO <sub>x</sub>	210.3	350
Burner N		TOC	26.8	50
Catalyser under renovation	Roaster E24	NO <sub>x</sub>	60	350
Burner N		TOC	44.4	50

**TOC CONCENTRATIONS AND TOTAL ALDEHYDES  
MITACA FACTORY ROASTING CHIMNEY IN mg/Nmc  
2019**

CHIMNEY		AVERAGE VALUE		LIMIT mg/Nmc
Catalyser Burner	Roaster	Aldehydes	<0.01	20
		Total dust	4.1	10
		TOC	15.9	50

Of the main energy carriers in TOE (tonne of oil equivalent), 66% is of renewable origin (electricity) and the remaining 34% is fossil fuel-based energy (natural gas).

Energy source	TEP 2019	Origin	%
Electricity	2,883	Renewable source	100%
Methane	1,470	Fossil source	100%
<b>Total</b>	<b>4,353</b>		<b>100%, of which 66% from renewable sources 34% from fossil sources</b>

**COMPANY FLEET EMISSIONS**

271,945 litres of diesel fuel were consumed for a total of 3,399,313 km travelled (based on an average consumption per diesel car of 8 litres/100 km) in 2019. It is estimated that the CO<sub>2</sub> emissions of the company fleet were 530.3tCO<sub>2</sub> equivalent. (Diesel fuel diesel gas conversion - Source: GHG: 0.156 kgCO<sub>2</sub>/Km).

**SEED:S**

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■ 02.6.8 **Waste management**

Waste life cycle management is a primary issue in facing the great challenge of safeguarding planet Earth. We feel this responsibility deeply, so we ensure sustainable management of waste throughout its life cycle.

Disposal of plastic from capsules is a crucial issue for illycaffè, which is considering collaborations with manufacturers of compostable materials.

A study has been initiated for a project to recover and recycle capsules in the main European markets, with the exception of Italy, with a planned launch in 2020. For Italy, where legal constraints on waste management are more stringent and do not permit the launch of this process, a pre-competitive round table has been set up with Union Food (Milan) to develop a dedicated collection system.

With regard to production waste, the prototype workshop has devised a method to separate the coffee and recover the capsules that are part of production waste. This makes it possible to reduce disposal of capsules and to reuse other materials as efficiently as possible: plastic is used in the manufacture of polypropylene sheets, interleaves and other industrial packaging, while coffee is composted.

Waste management at the Trieste production site and logistics centre is controlled at all its administrative, production and post-production stages, including transport and disposal.

In 2019, 99.6% of total waste produced, equal to 1,806,115 kilos, was recovered, broadly in line with 2018. 0.2% of the total is considered dangerous; this part is disposed of within national borders in accordance with the law. The percentage of municipal solid waste in 2019 is 10% of total waste generated.

At the Mitaca site, all waste, amounting to 327,867 kilos, is either recovered (such as paper) or used for energy recovery. 0.06% of waste is considered hazardous.

In order to improve management of “standard” waste, separate waste collection has been improved in both the plants and offices, and training on this subject has been increased for all staff. The company has managed to benefit from this process: from the sale of certain waste, such as paper/ carton, plastic, scrap iron and tinplate, it received €21,547. This figure is significantly down on the previous year due to a general collapse in the value of materials in the recycling market.

WASTE IN KG	WASTE % OF TOTAL	HAZARDOUS WASTE	%	NON- HAZARDOUS WASTE	%
Sent for disposal	0.4	1,020	26.2	33,635	1.9
Sent for recovery (recycling, composting, energy recovery, etc.)	99.6	2,873	73.8	1,775,840	98.1
<b>TOTAL</b>		<b>3,893</b>		<b>1,809,475</b>	

## ■ 02.6.9 Disposal of recyclable products and packaging

The circular economy is a crucial issue for illycaffè as a *Società Benefit*, and lies at the heart of its third common benefit goal<sup>4</sup>. The company therefore designs and applies innovative solutions to make disposal and disassembly of products as efficient as possible through an approach based on:

- **REDUCE**: during the design stage, the lightest, low-consumption and, where possible, recycled or totally eco-friendly primary and secondary packaging is chosen.
- **REUSE**: for secondary packaging the company prefers to purchase recycled materials.
- **RECYCLE**: packaging that is easy to recycle, made of non-composite materials (metals or plastics), is favoured and designed.

In 2016, illy carried out an LCA study on its entire product portfolio, from raw materials to the production process and use and disposal of all the product components. This study raised awareness about the impacts of all its operations and led to the implementation of improvement plans. Attention was drawn to the products' durability and their design in order to allow the parts to be easily recovered at the end of their life and to use the same components in different machines (design for disassembly & modular design).

In Italy, illycaffè has created ECO Easy Capsules Opener, an accessory for domestic use that makes it possible to open capsules to remove the coffee so that these two forms of waste can be disposed of separately. Collaborations are also continuing with universities, research centres, trade associations and precompetitive round tables to find valid alternatives such as the use of biodegradable or eco-friendly materials.

### ILLY IPERESPRESSO RECYCLE PROGRAM

The Iperespresso Recycle Program for the collection of used capsules has been active in the United States for a number of years: in 2019, 1,513,700 capsules were collected – an increase of 25.6% compared to 2018 – corresponding to around 13,700 kg of polypropylene plastic and 10,140 kg of coffee grounds. Once again, after it has been opened and separated from the coffee, the plastic is appropriately recycled and the coffee is composted.

<sup>4</sup>The circular economy and innovation to benefit the planet. This envisages the improvement of energy efficiency and resource consumption to progressively reduce emissions throughout the supply chain.



## SEED:S

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**03**  
**standards**

### ■ 03.1 Methodological note

Since 2012, illycaffè has annually published its Sustainable Value Report, used as a tool to clearly illustrate and communicate the integration of economic, social and environmental sustainability implemented in the company's decision-making processes, strategy, governance and business model, in line with the expectations of all stakeholders who are directly or indirectly affected by illycaffè's activities. The Value Report also addresses the need to communicate the responsible approach – based on sustainable behaviours, practices and products – that the company has taken over the years.

#### Guidelines and reporting process

The 2019 Sustainable Value Report was prepared in accordance with the "Sustainability Reporting Standards" issued in 2016 by the Global Reporting Initiative (GRI), in line with the "In accordance-Core" option.

To produce the Sustainable Value Report, a participatory process was implemented that involved the active contribution of the various organisational departments operating at illycaffè's headquarters, as well as the branch representatives. The reporting process was based on the existing information systems at the company – management control, accounting, quality, environment, internal audit, safety, staff management, etc. – which have been integrated with specific data collection and analysis tools. The company still aims to further strengthen its reporting system, to gradually extend it to all departments and to increase the accuracy and reliability of the data.

#### Reporting period

The information included in the Sustainable Value Report refers to the period 01/01/2019 – 31/12/2019, unless otherwise indicated in the text.

#### Innovation and continuity

Consistent with the structure adopted in the previous year, the 2019 Value Report was organized according to the framework of the six Integrated Reporting Capitals (Financial, Productive, Intellectual, Relational, Human and Natural), with the addition of an introductory section titled "Our Identity", in which information was collected that relates to the governance structure, practices and key policies active throughout the entire illycaffè value chain.

The structure has been enhanced through the "Nested Hierarchies" model, which organizes the six capitals by highlighting the relationships between them. There are also other innovative elements relating to the common benefit goals, outcomes, challenges, and SDGs described in the introduction pages to the capitals.

These elements were identified thanks to interviews conducted with the contacts of the different organisational areas (outcomes and challenges), the reference to key documents (common benefit goals) and the support of internally developed methodologies to measure the impact of the various projects (SDGs). These aspects have been combined in the introductions to the capitals to emphasize the interconnections that exist between illycaffè's activities, strategic guidelines, policies and individual projects and to transparently highlight the integration between business and impact aspects.

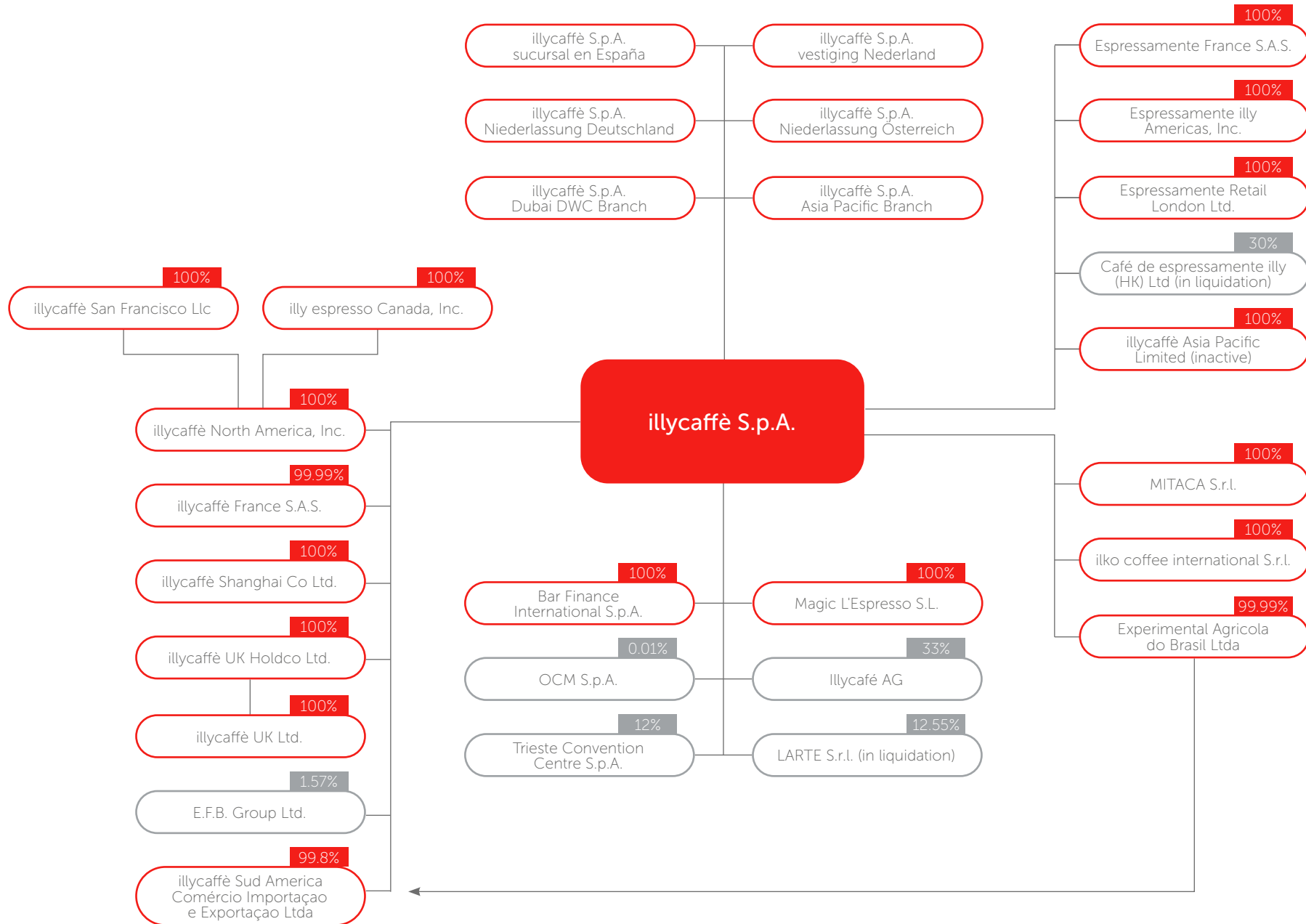
To strengthen the analysis of illycaffè's contribution to the United Nations Sustainable Development Goals, the SDG Action Manager was used for the first time: this tool was developed by the UN Global Compact in collaboration with B Lab and launched in January 2020. The tool is designed as a digital platform that integrates the ten principles of the Global Compact, the SDGs and the rigorous impact measurement approach of the B Impact Assessment. Since the analysis is a self-assessment whose results do not include a score verified by B Lab (or other bodies), which had an internal purpose and took place during 2020, illycaffè will assess whether to publish the results of this analysis in future editions of the Value Report.

#### Reporting scope

This Report does not include data and information relating to companies with less than three employees since these organisations are considered to have little impact (compared to the overall total of illycaffè) in socio-economic and environmental terms, in view of their significance in terms of turnover, employees and, above all, business type: indeed, these are representative branches, within which the activities carried out are of an essentially administrative nature.

As at 31 December 2019, the Group consisted of the companies listed below, with the companies included in the scope of the 2019 Sustainable Value Report 2019 highlighted.

## BRANCHES



## SEED:S

Social  
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Development  
Sustainability

## ITALY

illycaffè S.p.A. Italy  
MITACA S.r.l.

## EUROPE

illycaffè S.p.A. sucursal en España  
Magic L'Espresso S.L.  
illycaffè S.p.A. vestiging Nederland  
illycaffè S.p.A. Niederlassung Österreich  
illycaffè S.p.A. Niederlassung Deutschland  
illycaffè France S.A.S.  
Espressamente France S.A.S.  
Espressamente Retail London Ltd.  
illycaffè UK Holdco Ltd.

## ASIA

illycaffè S.p.A. Asia Pacific Branch  
illycaffè Shanghai Co. Ltd.  
illycaffè S.p.A. Dubai DWC Branch

## AMERICAS

Experimental Agrícola do Brasil Ltda  
illycaffè North America Inc.  
Espressamente illy Americas, Inc.  
illycaffè Sud America Comércio  
Importação e Exportação Ltda

## SEED:S

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### Notes on the reporting scope:

In certain cases, information and performance data refers to specific companies: in these cases, the report includes an explicit reference to the change in scope. Since the GRI standard requires that activities with a significant impact on sustainability are considered (see § materiality), where possible, the report also provides insights along the value chain (e.g., for activities on coffee plantations).

In the chapter "Human Capital", where "Italy" is specified, reference is made to the companies operating within the national scope: illycaffè S.p.A and Mitaca S.r.l. and their respective production plants.

In the "Natural Capital" chapter, the environmental data and information presented mainly refer – where not otherwise specified – exclusively to illycaffè S.p.A. Indeed, the impacts of the company's subsidiaries can be considered less relevant. This is due to the nature of the activities carried out in the subsidiaries (administrative work) and because:

- the greatest environmental impacts are connected to production activities, located in Trieste, at the parent company's plants;
- over 55% of the company's employees worldwide are employees of the parent company.

However, it should be specified that, in the chapter, the data relating to **Mitaca**, the Milan-based company – 100% controlled by the parent company since 2017 – in which single-portion capsule production, coffee processing and machine marketing operations are carried out, have also been reported. Reporting in 2018 did not include the company in environmental data collection since it was only recently acquired. For 2019 – in view of Mitaca's focus on production – all the data consistent with illycaffè S.p.A.'s approach to environmental performance data collection were reported.

To ensure that data from 2018 and 2019 can be compared, in all cases where it has been possible to report data from Mitaca, tables have been created with a special column that highlights the precise result for the latter company broken down in relation to the data for illycaffè S.p.A. For reporting in 2020, a process will continue to fully align the collection of Mitaca's data with the parent company's approach.

#### Contacts:

for comments, requests, opinions and suggestions for improvement relating to illycaffè's sustainability activities and the information contained in this Value Report, please contact us at [valuereport@illy.com](mailto:valuereport@illy.com)



# GRI table

GRI DISCLOSURE NUMBER	GRI DISCLOSURE TITLE	NOTES	PARAGRAPH
102-1	Name of the organisation		Company Overview: illycaffè in a nutshell
102-2	Activities, brands, products, and services		Company Overview: illycaffè in a nutshell
102-3	Location of headquarters		Company Overview: illycaffè in a nutshell
102-4	Location of operations		Company Overview: illycaffè in a nutshell
102-5	Ownership and legal form		Company Overview: illycaffè in a nutshell
102-6	Markets served		Company Overview: illycaffè in a nutshell
102-7	Scale of the organization		Company Overview: illycaffè in a nutshell
102-8	Information on employees and other workers		Human capital
102-9	Supply chain		Value chain
102-10	Significant changes to the organisation and its supply chain		The illycaffè model for a sustainable supply chain
102-11	Precautionary principle or approach	illycaffè adopts a precautionary approach to reducing the environmental impact of production processes and products, through environmental and health and safety management systems, a risk management system and the supervision of the Sustainability Committee	Productive capital – Human capital – Natural capital
102-12	External initiatives		Relational capital
102-13	Membership of associations		The value of the community and local area
102-14	Statement from senior decision-maker		Letter to the stakeholders

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102-16	Values, principles, standards, and norms of behaviour		The purpose Mission, vision and values; illycaffè as a Società Benefit
102-18	Governance structure		Corporate governance and organisational structure
102-40	List of stakeholder groups		Sustainability strategy and governance
102-41	Collective bargaining agreements	100% of employees are subject to the provisions of national contracts and current regulations in the various countries in which the company operates	
102-42	Identifying and selecting stakeholders		Sustainability strategy and governance
102-43	Approach to stakeholder engagement		Sustainability strategy and governance
102-44	Key topics and concerns raised		Sustainability strategy and governance
102-45	Entities included in the consolidated financial statements		Methodological note
102-46	Defining report content and topic boundaries		Methodological note
102-47	List of material topics		Dialogue with stakeholders
102-48	Restatements of information		Methodological note
102-49	Significant changes in reporting		Methodological note
102-50	Reporting period		Methodological note
102-51	Date of most recent report		Methodological note
102-52	Reporting period		Methodological note
102-53	Contact point for questions regarding the report		Methodological note
102-54	Claims of reporting in accordance with the GRI Standards		Methodological note
102-55	GRI content index		GRI identification table
102-56	External assurance		Assurance
103-1	Explanation of the material topic and its boundary		Dialogue with stakeholders
201-1	Direct economic value generated and distributed		Financial results

202-2	Proportion of senior management hired from the local community		Employment
203-1	Infrastructure investments and services supported		Relational capital – intellectual capital – sustainability strategy and governance
204-1	Proportion of spending on local suppliers		Suppliers of goods and services
205-2	Communication and training about anti-corruption policies and procedures	The Company has adopted an Organisation, Management and Control Model (pursuant to Legislative Decree no. 231/2001) that aims to prevent or combat the commission of various offences, including corruption	
301-1	Materials used by weight and volume		Raw materials
302-1	Energy consumption within the organisation		Energy management
303-1	Water withdrawal by source		Water management
304-2	Significant impacts of activities, products, and services on biodiversity		Biodiversity
305-1	Direct GHG emissions (Scope 1)		Air emissions
305-2	GHG emissions for energy production (Scope 2)		Air emissions
305-7	Nitrogen oxides (NOX), sulphur oxides (SOX), and other significant air emissions		Air emissions
307-1	Non-compliance with environmental laws and regulations	There have been no financial penalties or formal complaints relating to environmental issues either in Italy or abroad	
308-1	New suppliers that were screened using environmental criteria	The company has determined, in line with audit criteria for DNV's Sustainable Procurement Process certification, that it will monitor 100% of the supply chains over a three-year period. Therefore not all suppliers (new/ with a long-standing business relationship) are annually audited.	
401-1	New employee hires and employee turnover		Employment

## SEED:S

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Environmental  
Economic  
Development  
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401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees		Internal communication and employee benefits
402-1	Minimum notice periods regarding operational changes	100% of employees are subject to the provisions of national contracts and current regulations in the various countries in which the company operates. The period therefore varies based on the above.	
403-2	Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities		Health and safety in the workplace
403-3	Workers with high incidence or high risk of diseases related to their occupation		Health and safety in the workplace
404-1	Average hours of training per year per employee		Training and development of human capital
405-1	Diversity of governance bodies and employees		Employment
405-2	Ratio of basic salary and remuneration of women to men		Employment
406-1	Incidents of discrimination and corrective actions taken	No incidents recorded	
407-1	Operations and suppliers in which the right to freedom of association and collective bargaining may be at risk	The risk is very low, therefore no action was taken	
408-1	Operations and suppliers at significant risk for incidents of child labour		The illycaffè model for a sustainable supply chain
409-1	Operations and suppliers at significant risk for incidents of forced or compulsory labour	The risk is low, therefore no action was taken	
410-1	Percentage of security personnel trained in human rights policies or procedures		Health and safety in the workplace
411-1	Number of violations involving rights of indigenous people	No incidents recorded	
412-3	Significant investment agreements and contracts that include human rights clauses or that underwent human rights screening		The illycaffè model for a sustainable supply chain
413-1	Operations with local community engagement, impact assessments, and development programs		The value of the community and local area

414-1	New suppliers that were screened using social criteria	The company has determined, in line with audit criteria for DNV's Sustainable Procurement Process certification, that it will monitor 100% of the supply chains over a three-year period. Therefore not all suppliers (new/ with a long-standing business relationship) are annually audited.	
415-1	Total value of political contributions	No political contributions were paid to parties and related institutions. illycaffè is a member of industry and representative associations and supports the payment of the relative membership fees	
416-2	Incidents of non-compliance concerning the health and safety impacts of products and services		
417-3	Incidents of non-compliance concerning marketing communications	No incidents recorded	
418-1	Substantiated complaints concerning breaches of customer privacy and losses of customer data	No incidents recorded	
419-1	Non-compliance with laws and regulations in the social and economic area	No incidents recorded	

■ 03.3

# Assurance

## SEED:S

Social  
Environmental  
Economic  
Development  
Sustainability

illycaffè S.p.A.

Independent auditors' report on the  
Sustainable Value Report 2019







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## Independent auditors' report on the Sustainable Value Report 2019

To the Board of Directors of  
illycaffè S.p.A.

We have been engaged to perform a limited assurance engagement on the Sustainable Value Report of illycaffè S.p.A. (the "Company") for the year ended on December 31<sup>st</sup>, 2019.

### Directors' responsibility on the Sustainable Value Report 2019

The Directors of illycaffè S.p.A. are responsible for the preparation of the Sustainable Value Report in accordance with the "GRI Sustainability Reporting Standards (GRI Standards)" issued in 2016 by the GRI - Global Reporting Initiative, as described in the paragraph "Methodology" of the Sustainable Value Report.

The Directors are responsible for that part of the internal control that they consider necessary in order to enable the preparation of a Sustainable Value Report that is free from material misstatements, whether due to frauds or unintentional behaviors or events.

The Directors are also responsible for the definition of the objectives regarding the sustainability performance and the reporting of the achieved results, as well as for the identification of the stakeholders and the significant matters to report.

### Auditors' independence and quality control

We are independent in accordance with the ethics and independence principles of the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants, based on fundamental principles of integrity, objectivity, professional competence and diligence, confidentiality and professional behavior.

Our audit firm applies the International Standards on Quality Control 1 (ISQC Italia 1) and, consequently, maintains a quality control system that includes documented policies and procedures, regarding compliance with ethical requirements, professional standards and applicable laws and regulations.

### Auditors' responsibility

It is our responsibility to express, on the basis of the procedures performed, a conclusion about the compliance of the Sustainable Value Report with the requirements of the GRI Standards. We conducted our work in accordance with the principles included in the "International Standard on Assurance Engagements 3000 (Revised) - Assurance Engagements other than Audits or Reviews of Historical Financial Information" ("ISAE 3000 Revised"), issued by the International Auditing and Assurance Standards Board (IAASB) for limited assurance engagements. This standard requires the planning and execution of procedures in order to obtain limited assurance that the Sustainable Value Report is free from material misstatement.

Therefore, the extent of work performed in our examination was lower than that required for a full examination in accordance with ISAE 3000 Revised ("reasonable assurance engagement") and, hence, it does not provide assurance that we have become aware of all significant matters and events that would have been identified during a reasonable assurance engagement.

The procedures performed on the Sustainable Value Report were based on our professional judgement and included inquiries, primarily with company's personnel responsible for the preparation of the information included in the Sustainable Value Report, document analysis, recalculations and other procedures in order to obtain evidences considered appropriate.

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In particular, we have performed the following procedures:

1. Analysis of the process relating to the definition of material aspects included in the Sustainable Value Report, with reference to the criteria applied to identify priorities for the different stakeholder categories and to the internal validation of the process results;
2. comparison of economic and financial data included in the paragraph "Economic results" of the Sustainable Value Report with those included in the Financial Statements of the Company;
3. analysis of processes that support the generation, collection and management of data and information to the department responsible for the preparation of the Sustainable Value Report. In particular, we have performed interviews and discussions with the management of illycaffè S.p.A. to gather information about the accounting and reporting systems used in preparing the Sustainable Value Report, as well as on the internal control procedures supporting the gathering, aggregation, processing and transmission of data and information to the department responsible for the preparation of the Sustainable Value Report.

Furthermore, for the most important information, taken into consideration the activities and the characteristics of the Company:

- with reference to the qualitative information contained in the Sustainable Value Report, we carried out interviews and we have acquired supporting documentation to verify their consistency with the available evidence;
- with reference to quantitative information, we carried out both analytical procedures and limited checks to ascertain the correct aggregation of data on a sample basis.

### Conclusion

Based on the work performed, nothing has come to our attention that causes us to believe that the Sustainable Value Report of illycaffè S.p.A. for the period ended on December 31<sup>st</sup>, 2019 is not prepared, in all material respects, in accordance with the "GRI Sustainability Reporting Standards (GRI Standards)" issued in 2016 by the GRI - Global Reporting Initiative, as stated in the paragraph "Methodology" of the Sustainable Value Report.

Padua, October 14, 2020

BDO Italia S.p.A.

Stefano Bianchi  
Socio

Illycaffè S.p.A. | Independent auditors' report on the "Sustainable Value Report 2019"

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