

Sustainability Report



2014



We wish to acknowledge the collective and individual efforts of all Lavazza employees, who relentlessly worked to achieve the results which are reported in this important document.

Everyone, in all areas of the Lavazza business, everywhere in the world, significantly contributed to the achievement of ambitious and visionary goals with professionalism, competency and responsibility.

This document is a further concrete and pragmatic step in reaffirming the values which are at the basis of our work: ethical and economic sustainability, sensibility, commitment, integrity and responsibility.

Since the company's foundation by Luigi Lavazza, our entrepreneurial vision has been guided by these values which continue to be a guiding light thanks to unique and unforgettable people like Emilio Lavazza, who would have strongly believed and shared the concrete and determined efforts of Lavazza in every one of these areas, with the enthusiasm and the immense humanity that characterized him.

Sustainability Report

Luigi Lavazza S.p.A.



2014

LAVAZZA



Sustainability Report 2014 Luigi Lavazza S.p.A.



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Our story is the story of a family and of a business. It is a typically Italian story and yet a unique one, because it stems from the vision of Luigi Lavazza: a pioneer who already thought in terms of constant improvement and innovation, 120 years ago.

There are some rules that we have to follow, because they are established by laws and regulations; rules that are mandatory for all citizens and businesses. But there are also unwritten rules, dictated by our ethics, our education, our moral sensibility and humanity; rules that we apply and respect out of choice, not obligation.

This is a vision that has been handed down through four generations of the Lavazza family, whilst keeping pace with the major historical and economic changes of each era. It is a vision that has enabled us to transform ethical awareness into a business strategy for economic, environmental and social sustainability.

Italian creativity has always inspired us to invent and innovate, but now our eyes are set on a new horizon: the world.

Internationalisation is the challenge we are facing now. And it is one that will require our increasing engagement, to secure the financial strength and forward-looking approach that now, more than ever, are a pre-requisite for any company.

2015 is a special year for our company, full of important events: as we celebrate our first 120 years in business, we are also involved in Expo 2015 as the Official Coffee of the Italian Pavilion.

These occasions will testify how our family and business values are still very much alive and heartfelt and how they translate into goals and results that, through this Sustainability Report, we want to share with everyone who is part of the Lavazza world or wants to get to know us better.

Perhaps just because they enjoyed one of the 17 billion cups of Italian Lavazza espresso served around the world each year.

Alberto Lavazza
Chairman, Luigi Lavazza S.p.A.

Our sustainability pathway is based on a strategic approach designed to create value and increase our competitive advantage. It is a vision that the family has always believed in, because it reflects the basic principles behind our entrepreneurial approach.

At Lavazza, commitment to sustainability is an intrinsic value, which is not simply dictated by the market, but responds to a need to create shared value throughout the supply chain: it is an essential driving force for continuous improvement.

This Sustainability Report is a crucial instrument to provide all stakeholders with a transparent picture of our social, environmental and economic performances.

Internally, all business units have promoted the company's values by spreading our vision among staff. Today, the importance of sustainability is recognised across all business areas. This is an essential outcome, because it is precisely by building a bridge between shareholders, management and employees, that a truly sustainable company is created.

Externally, we share our ethical principles with our stakeholders in a virtuous cycle that generates more value for everyone. Indeed, our brand value is also founded on Lavazza's fair and responsible way of operating.

The challenge for 2015 is to further intensify our engagement in sustainability as a driver for innovation. The next decade will be absolutely crucial, because there can be no real growth if it is not responsible and sustainable – not only for companies, but for all of us.

Antonio Baravalle
Chief Executive Officer, Luigi Lavazza S.p.A.



METHODOLOGICAL NOTE

Document Objectives

This is the first edition¹ of our Sustainability Report, which will from now on be an annual exercise.

The objective of this document is to provide a systematic framework for the company's accountability and reporting initiatives. Specifically, the Report is the primary instrument for managing and reporting on economic, environmental and social sustainability initiatives. It is also a transparent way to interact with and disclose information to stakeholders. Lavazza adopts a strategic approach to corporate social responsibility (CSR), which involves the comprehensive integration of CSR themes throughout the value chain. Sustainability, for Lavazza, is therefore an integral part of its core business.

This vision requires the adoption of precise, measurable and repeatable key performance indicators (KPIs), whose achievement is dependent on the involvement of all company functions and on the definition of guidelines in order to create a systemic process.

To this end, in 2011 Lavazza added impetus to this approach – already adopted by the company in terms of developing a company culture – by creating a dedicated position whose task is to define, implement and coordinate company-wide CSR activities focusing on four main areas: the sustainability of the product and of production processes, and the sustainability of relations with internal and external stakeholders.

Drafting process and references used

Lavazza's CSR Manager coordinated the preparation of the Report, which has been drafted with inputs from the company's entire organisational structure, in accordance with the Sustainability Reporting guidelines, drawn up in the form of an internal procedure in September 2014.

The contents of the Sustainability Report have been prepared according to the latest version (GRI-G4) of the Guidelines (<https://www.globalreporting.org/reporting/g4/Pages/default.aspx>) drawn up by the "Global Reporting Initiative"² and the related Food Processing Sector Supplement (<https://www.globalreporting.org/reporting/sector-guidance/sectorguidanceG4/Pages/default.aspx>). The level of compliance with the GRI-G4 Standard selected by the Lavazza Group is "in accordance – Core."

Scope of the report

Lavazza's manufacturing system is split across six production plants: four in Italy (Torino, Gattinara, Pozzilli, Verrès), one in Brazil and one in India. Lavazza has 3,100³ employees, operates in more than 90 countries around the world, covering every continent, both through direct subsidiaries and a large network of distributors.

Domestically, Lavazza reaches its consumers directly through operators such as large-scale retailers and public establishments. Internationally, it is present in various markets through a network of distributors specialised in the 'at home' and 'away from home' channels. Lavazza offers end consumers a vast range of products designed to meet every need both at home and away from home.

To ensure that figures and information are comparable over time, this Report refers to the years 2012, 2013 and 2014⁴. **[G4-17]** Quantitative data provided in the document refer to Luigi Lavazza S.p.A., the parent company based in Torino, Italy, unless otherwise stated. Luigi Lavazza S.p.A. includes:
- Headquarters and the Innovation Center;
- Production plants in Torino, Gattinara, Verrès and Pozzilli.

Stakeholder Engagement and materiality analysis

[G4-18] In accordance with the GRI-G4 guidelines, Lavazza has identified the contents of its Sustainability Report according to the following principles:
- stakeholder inclusiveness;
- sustainability context;
- materiality;
- completeness.

In identifying the structure and content of the Report, Lavazza has therefore taken into account its business activities (analysis of Lavazza's sustainability context), the interests of stakeholders and their expectations.

To identify the most relevant aspects to include and discuss in the Report, Lavazza has:
- identified its stakeholders **[G4-25]**;
- examined their expectations and main areas of interest using dedicated channels;
- analysed its sustainability context and that of the reference sector, through benchmarking with its main competitors and analysing subject areas considered relevant to the company's core business;
- performed a materiality analysis on the most relevant sustainability issues for the company, by assigning a priority to each issue and building a 'materiality matrix'.

¹In 2014, Lavazza published the Sustainability Report 2012.

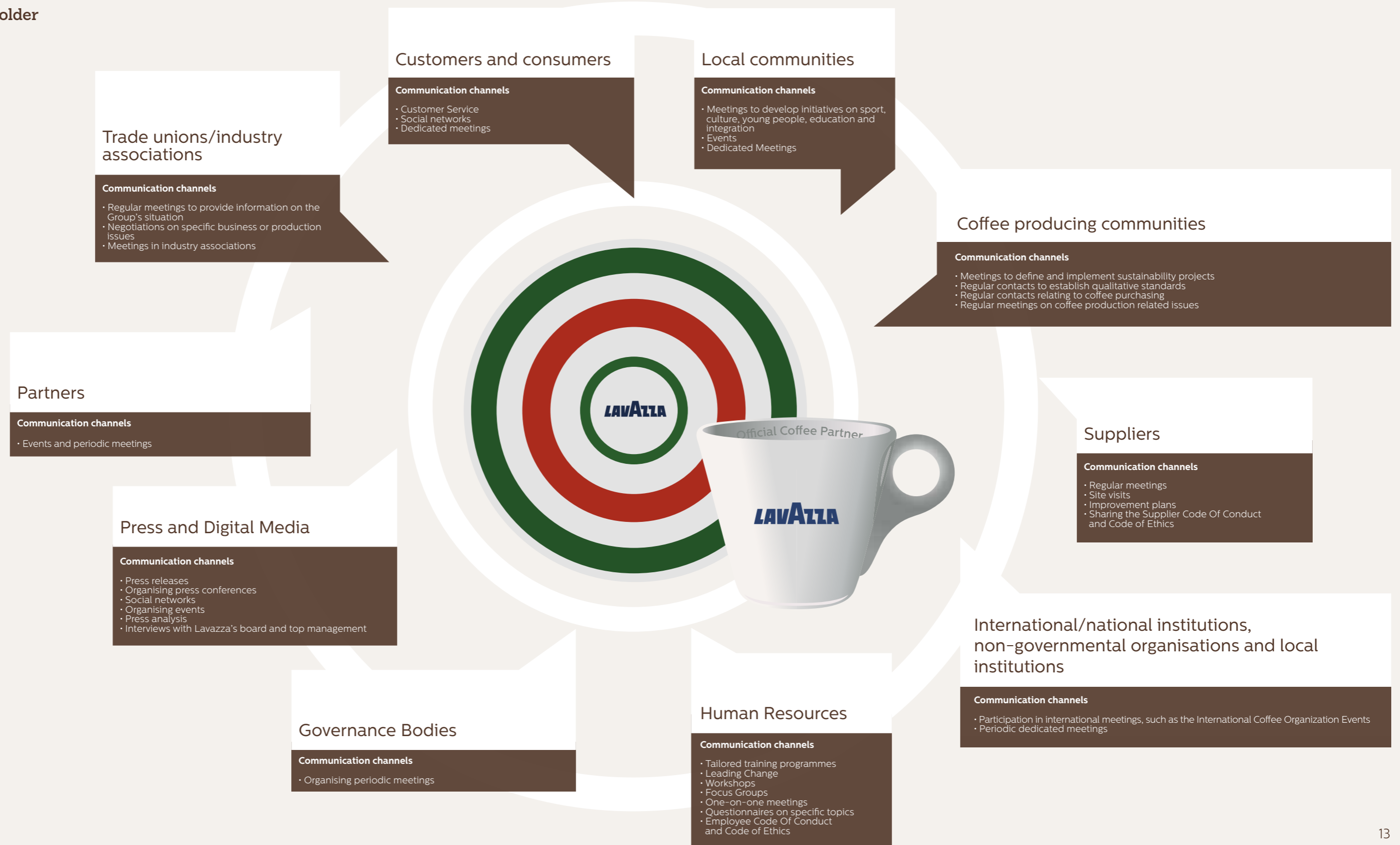
²The figures reported in the Lavazza Sustainability Report 2012 refer to 2011 and 2012. The reporting period has been extended from two to three years in the Sustainability Report 2014 (2012-2013-2014).

³Employee numbers refer to the Lavazza Group.

⁴The figures reported in the Lavazza Sustainability Report 2012 refer to 2011 and 2012. The reporting period has been extended from two to three years in the Sustainability Report 2014 (2012-2013-2014) **[G4-22; G4-23]**.

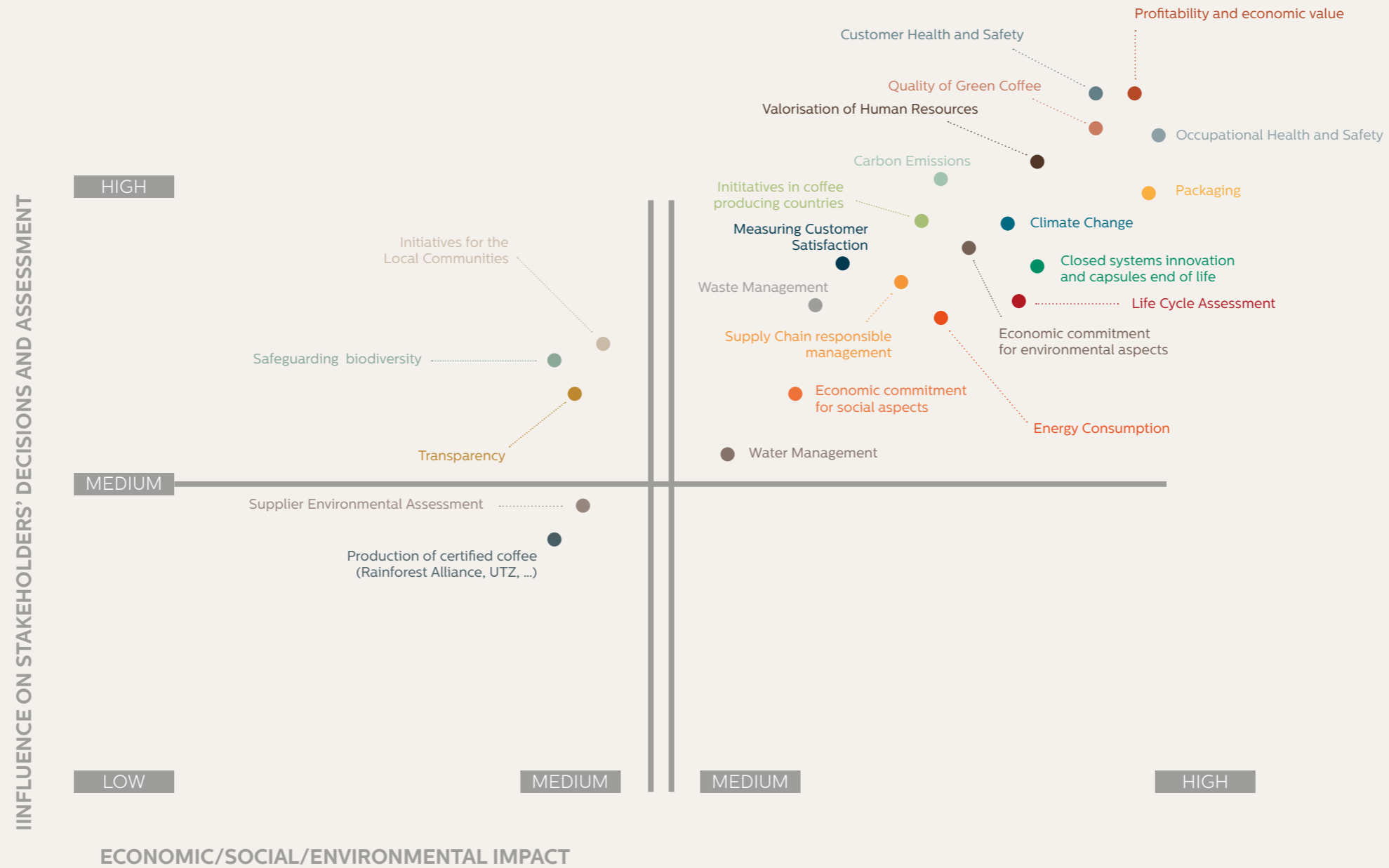


Lavazza stakeholder engagement
[G4-24; G4-26; G4-27]





Materiality Matrix [G4-19; G4-20; G4-21; G4-27]



This matrix represents the sustainability aspects considered to be most important for the company. These aspects have been analysed by assigning them a priority in terms of their economic, environmental and social impact for Lavazza and their direct influence on the views and decisions of stakeholders.

Assurance process

The Lavazza Group Sustainability Report has been subject to a limited-scope audit performed by the company PricewaterhouseCoopers Advisory S.p.A*.

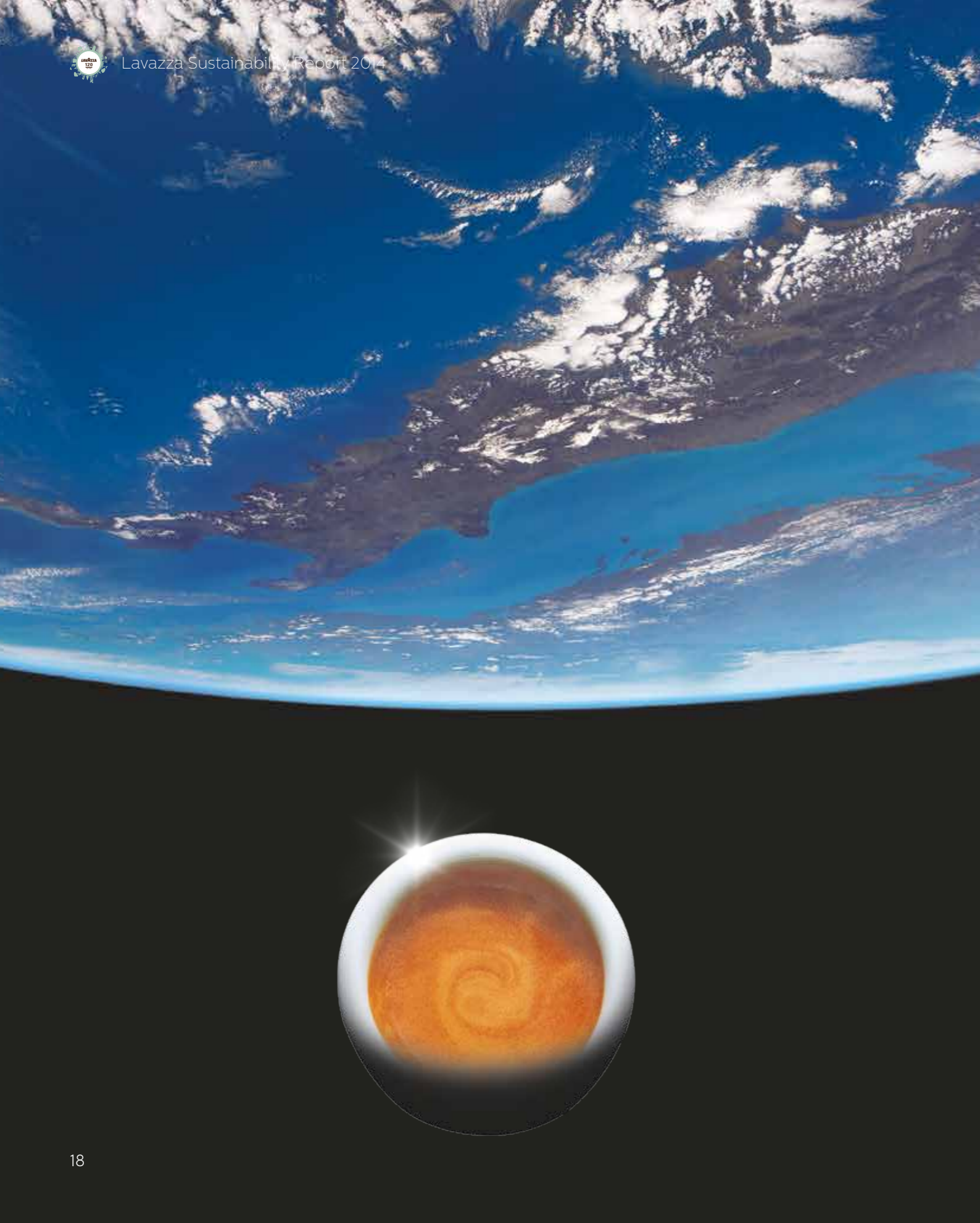
The results of the audit performed can be found in the report at the end of this document.

*Following a competitive procurement procedure, Luigi Lavazza S.p.A. selected PricewaterhouseCoopers Advisory S.p.A. (PwC) to perform assurance activities for the Sustainability Report. Lavazza top management participated in the report assurance process through personal interviews.



Luigi Lavazza S.p.A.

Tradition, evolution and revolution



1.1 From Torino to outer space: 120 years of excellence

The year is 1894. A distinguished gentleman walks into a grocer's in central Torino. He has just bought it for 10,000 lira. He does not know yet that 120 years later, that small grocer's would become one of the largest coffee producing

companies in the world, with a leading role at the Milan Universal Exhibition 2015 and would have served an espresso to the first female Italian astronaut more than 400 km away from Earth. The man is called Luigi Lavazza

and he became the master of Italian coffee. Just a year after taking over the grocer's, Luigi Lavazza was officially created.



A Family, a business

Thanks to the **passion**, curiosity, courage and imagination which the founder transferred to his family and staff, Luigi Lavazza's grocer would become the seventh largest coffee producer in the world.

In the period after World War II, Lavazza "invented" **quality coffee for mass consumption**, thanks to a series of innovations that changed the rules of the game each time: from the first vacuum-packed coffee and the first decaffeinated coffee made

without chemical solvents, to espresso systems designed specifically for the home and high-quality coffee made using increasingly sustainable processes.

Meanwhile, Lavazza became an icon of the Italian way of life, often leading the way in fashion, trends and cultural changes. Indeed, it was one of the first companies in Italy to understand that product communication should go hand-in-hand with a brand strategy,

thanks to the creativity of geniuses like Armando Testa and making full use of a revolutionary device known as the television. Currently, the fourth generation of Lavazza family is engaged in the company, with Manuela, the daughter of current chairman Alberto, joining the board of directors in 2014.

In Torino, the city where the company was founded and developed, Lavazza has engaged in a shared and participatory

real estate development project – one of Europe's most important – to house Lavazza's new headquarters, which will occupy **30,000 square metres**. The location has been identified according to the best available environmental policies and the building is a candidate for LEED® Gold certification. Beautifully designed by Cino Zucchi and

open to the city, the site forms part of a complex urban fabric and has a social function that aims to involve local inhabitants right from the very beginning of the project.







Evolutions and revolutions

120 years of first times

Luigi Lavazza creates the first coffee blends



Lavazza introduces innovative 'vertical' processing

Lavazza decaffeinated coffee (initially called Dec then Dek in 1961) is launched



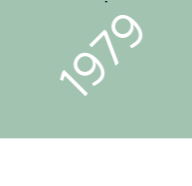
Paulista – the first coffee to be packaged in a vacuum-packed tin – is launched



The Torino production site is opened, at the time the largest single-product facility in Europe



The Luigi Lavazza Coffee Research and Study Centre is founded



Internationalisation begins with the opening of the French subsidiary



The Automatic Distribution segment is launched, with the single-serving Espresso Point capsule system



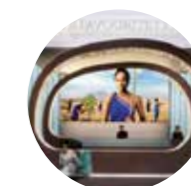
iTierra! makes its debut: a high-quality coffee resulting from the company's first independent CSR project



In partnership with Argotec, Lavazza develops ISSpresso, the first espresso system capable of functioning at zero gravity, which will be launched in the International Space Station in 2015 to perform research into fluid dynamics



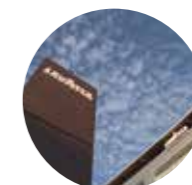
Lavazza BLUE marks a watershed moment in automatic distribution with an innovative extraction system



Lavazza wins the tender to be the official coffee of the Italian Pavilion at the Universal Exhibition in Milan.



Lavazza launches A Modo Mio, a new automatic espresso system designed for home use



The futuristic Lavazza Innovation Center is established at the Torino factory

1910

1923

1947



Lavazza is the first coffee company to draw up a real brand strategy in Italy



Lavazza launches pre-packaged coffee using "Pergamin", a package composed of two layers of paper, to keep the original flavour of the coffee untouched

1957

1959

1960

1965

1971

1979

1982

1989

1993

2002

2003

2007

2010

2010

Lavazza starts research to design a compostable capsule



The first Lavazza Calendar is published

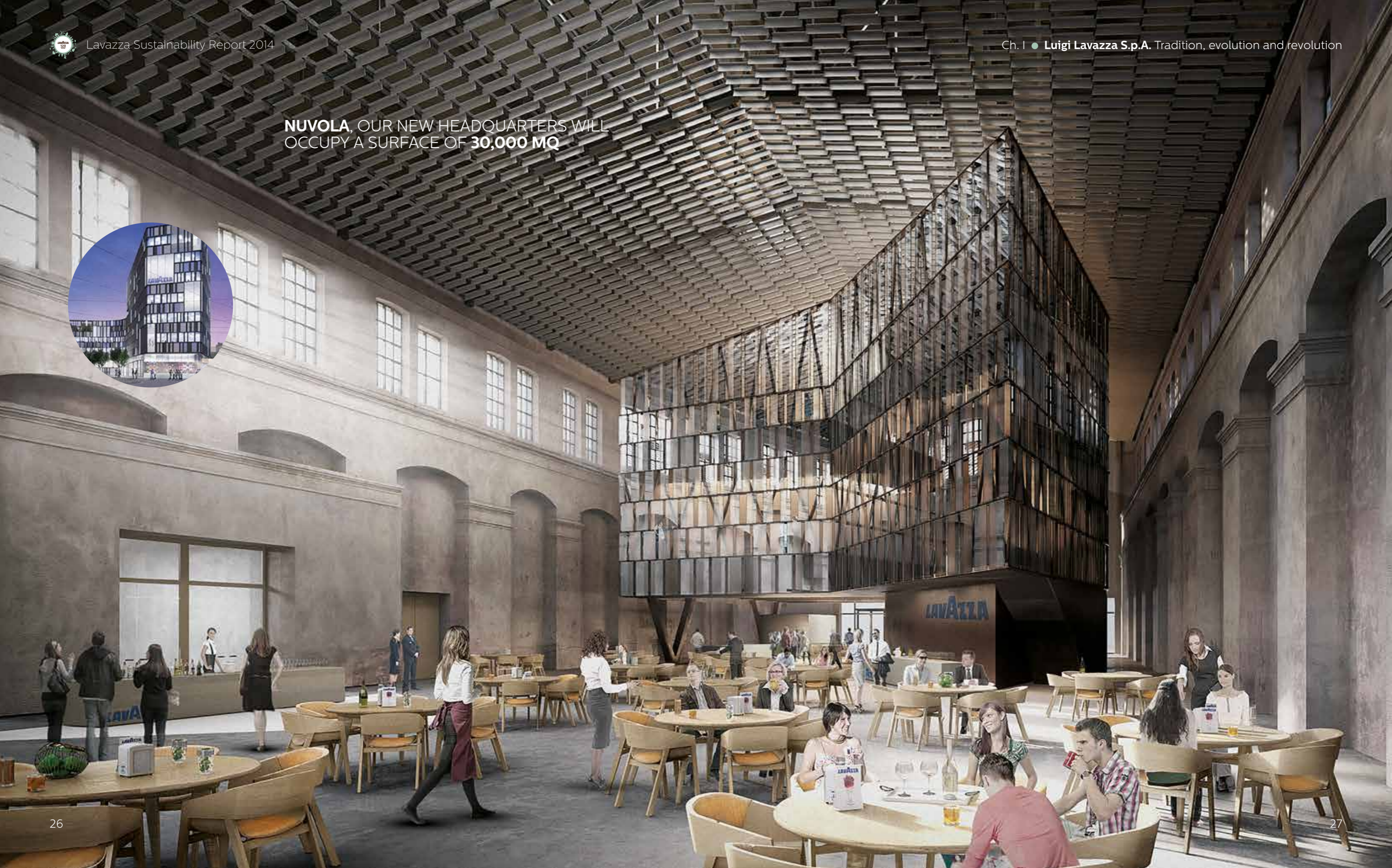


2014

2014



NUVOLA, OUR NEW HEADQUARTERS WILL OCCUPY A SURFACE OF **30,000 MQ**





1.2 Sustainability, the Lavazza way

In **1935**, Luigi Lavazza embarked on a journey around **South America**. He wanted to see for himself where green coffee came from, the people who grew it and the way they lived. During the trip, he saw entire unsold coffee harvests destroyed before his eyes.

This experience significantly impacted on his entrepreneurial **vision**, which he transferred to his family and staff. Since then, Lavazza has always paid close attention to the economic,

human, environmental and cultural assets of the countries where it operates.

Lavazza promotes the concept of **integrated sustainability**, implemented through a life-cycle thinking approach which enables the creation of shared value throughout the industry, as part of a process of continuous improvement.

For Lavazza, sustainability and innovation are interdependent. The environmental performance

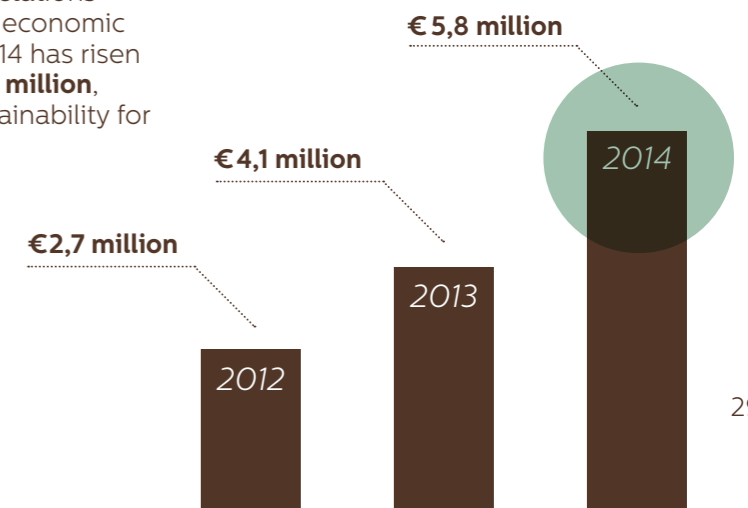
of our products is assessed using a **'cradle to grave'** approach: from green coffee, to processing in the countries of origin and at production plants in Italy, to packaging, coffee machines, transportation of green coffee and finished products, through to the disposal of the product.



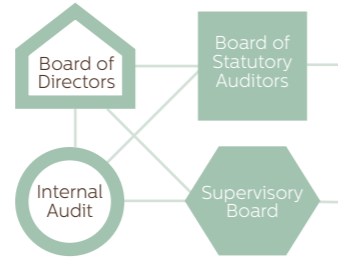
Increased economic commitment for sustainability

In order to respond effectively to growing expectations in Lavazza's current and potential markets, our economic commitment in the three years from 2012 to 2014 has risen from €2.7 million, to €4.1 million and then **€5.8 million**, demonstrating the strategic importance of sustainability for the Group⁶.

⁶ Lavazza's funding commitment on sustainability refers to spending in the following areas: CSR, membership of the Institute for Scientific Information on Coffee (ISIC), consumer health and safety, supplier certification and monitoring, occupational health and safety, the Lavazza Foundation, donations, the environment, sustainable capsule redesign, packaging and life cycle analysis (LCA).



Lavazza governance system



Lavazza family leadership provides a strong foundation for an entrepreneurial approach that is oriented towards creating value both in the short term and long term. This allows planning of medium and long term initiatives in order to ensure continuous growth for the company as a global player in the coffee industry.

Luigi Lavazza S.p.A. adopts a traditional corporate governance model with a Board of Directors chaired by Alberto Lavazza and a Board of Statutory Auditors chaired by Gianluca Ferrero.

The central body in the governance system is the Board of Directors, which has the broadest powers of strategic policy-making to ensure correct and efficient Group management. Aside from the chairman, it includes the Vice-Chairmen Giuseppe and Marco Lavazza, the CEO Antonio Baravalle and the directors Antonella Lavazza, Francesca Lavazza, Manuela Lavazza, Pietro Boroli, Gabriele Galateri di Genola, Robert Kunze-Concewitz and Antonio Marcegaglia.

The Board of Statutory Auditors is responsible for overseeing compliance with the law and the Articles of Association, adherence to the principles

of correct management and, in particular, the adequacy of the internal control system.

The Supervisory Board is an independent oversight body responsible for monitoring the functioning and observance of Lavazza's organisational, management and control model (as per Italian Legislative Decree 231/2001) and ensuring that it is kept up to date*. It plays a central role in corporate governance processes, together with Internal Audit, which reports directly to the Board of Directors and is responsible for implementing an efficient Internal Control System.

Internal Audit analyses and monitors the adequacy, regularity, reliability and functionality of internal administrative procedures (in terms of the simplification, optimisation and correctness of the processes), with a view to efficient business management.

* The most recent version of Lavazza's organisation, management and control model, which also covers private-to-private corruption, is published on the company intranet system.

Passion for excellence

Farsightedness

1.3 Business values, value of the business

The synergy between economic solidity that has been a feature of Lavazza for 120 years and its value system – **passion for excellence, team spirit,**

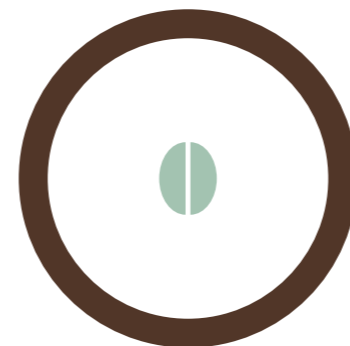
recognition, integrity and farsightedness – allows for a comprehensive approach to sustainability.

Integrity

Transparency

Gratefulness

Passion for excellence



Passion for excellence

Integrity

Gratefulness

Farsightedness

Transparency

Transparency

Integrity

Gratefulness

Team Spirit

Team Spirit

Gratefulness

Farsightedness



The Lavazza Code of Ethics

In 2012, we formally set out our values in a Code of Ethics (<http://www.lavazza.us/us/about-lavazza/ethics.html>), passing them on to our internal and external stakeholders through training courses and multimedia tools. The Code of Ethics is also an integral part of all supplier contracts and of our Employee Code Of Conduct.

The values that shape how we do business are:

Passion for excellence

We strive to be considered as people who, thanks to the passion for their job, reach excellent quality in everything they do. Our intention is to provide, at all times, products, answers and solutions which satisfy the expectations of our stakeholders and which can be tailored in order to guarantee satisfaction of single legitimate needs.

Team Spirit

Although individual expertise is essential, the best results are achieved through team work. We will therefore, both individually and as a Group, strive to merge our competencies with those of others. Asking for support will be considered as a growth opportunity rather than a sign of weakness.

Gratefulness

It is our intention to express gratitude to all those who contribute to achieving our goals and we will recognise their contribution by ensuring relationships based on mutual growth.

Transparency

The best solutions are found through open dialogue and exchange. We therefore believe straightforward communication is crucial. We commit to being honest, open and available interlocutors in order to foster and maintain a working environment based on mutual trust.

Integrity

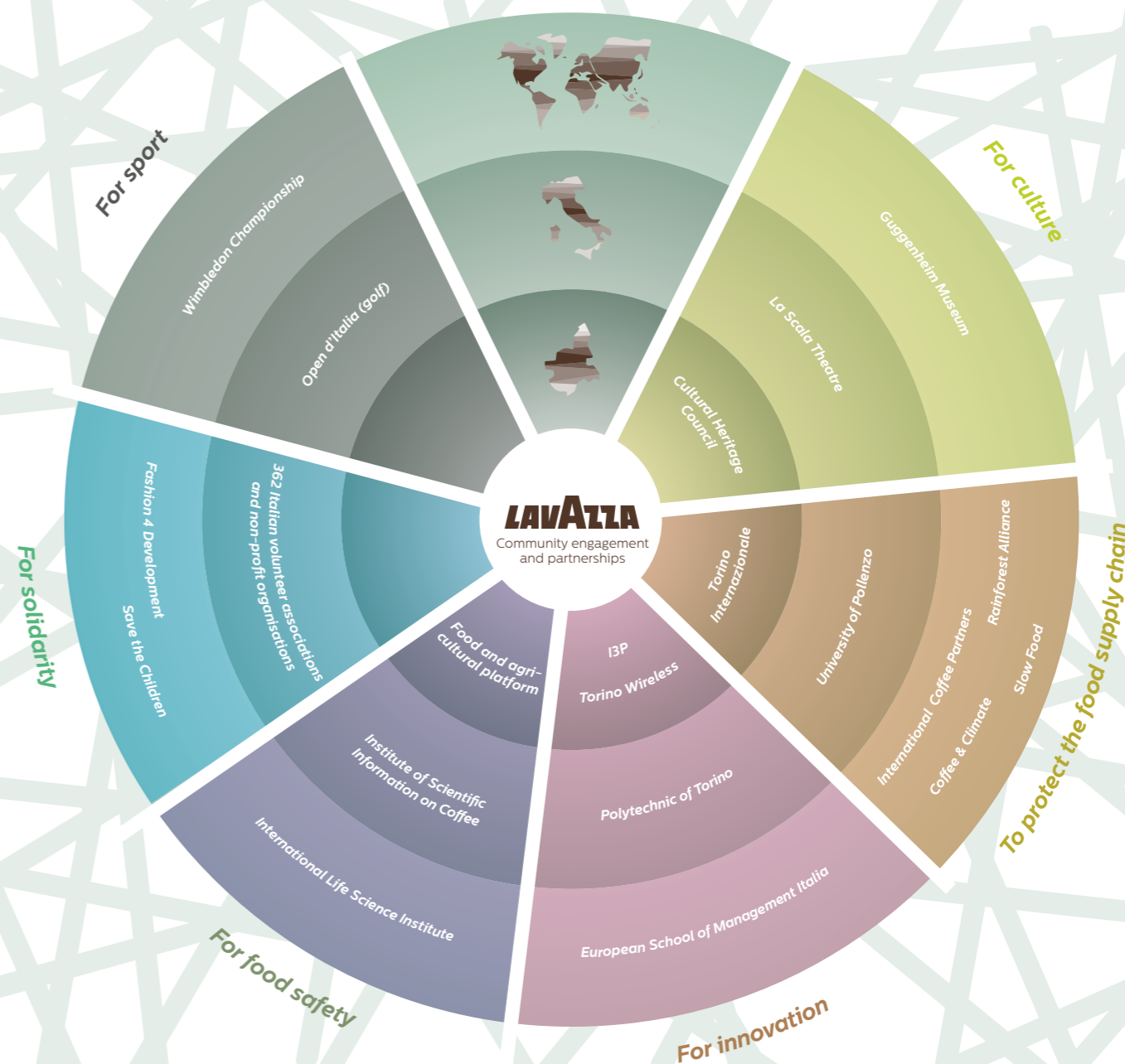
We will pursue our goals with rectitude and responsibility. In no circumstance will the excuse of acting in the interest of the Group be a justification for behaviours in breach of laws, regulations, or in general for behaviours in contrast with an honest and serious conduct. We believe the way in which business is conducted is just as important as the results achieved⁸.

Farsightedness

We are aware that the choices we make today will impact on our future and on that of the generations to come. We thus know that we will have to strike the right balance between the requirement to satisfy short and long term needs. We will therefore always employ our best endeavours to look at the future and develop our business in a general framework of environmental and social responsibility in order to ensure a durable heritage.

⁸ In the reporting period Lavazza's only sanctions were related to taxes for total of 172,000 euro

Lavazza Partnership Networks





Sustainability value relevance: creating shared value

“Sustainability must be shared along the entire supply chain, from green coffee to the end product. Lavazza has operated according to these principles since its origins. It is a cultural shift, a leap into the future.”

Sustainability also means making an economic benefit repeatable in the long term, and the drivers that make this benefit repeatable in the long term must in turn be sustainable. Investments – in particular in industrial assets, brand equity, human capital, innovation – need to generate resources that can finance those investments. In the long term this generates a sustainable framework in which enterprise and stakeholders benefit from the results achieved, and allows additional investments to be planned with greater confidence.

If we look at sustainability as an opportunity to create value, adopting it as a management model requires a cultural shift. However identifying the link between sustainability and value is complex. The relationship between the costs and benefits of an investment in sustainability can, in fact, appear not

to be beneficial in the short term, but actually turn out to be so if we adopt a long-term view.

The entire supply chain, from the processing of green coffee to the end product, must make this paradigm shift: investing in sustainability depends on the margins it generates. For example, Lavazza invested significantly between 2013 and 2014 to make its production processes more efficient. This resulted in reduced energy consumption, reduced use of packaging materials and reduced production of waste, equivalent to a saving of 3.9% in 2014 on the total industrial production costs compared to 2013. This saving will be reinvested in the continuous improvement of production process, resulting in a progressive minimisation of the environmental impact.

3,9%

Energy, packaging and waste reduction in 2014 compared to the total industrial production costs of 2013

Economic and financial performance of the Lavazza Group

In 2014 the Group continued to implement its strategic plan, focusing on specific markets and geographical areas to obtain positive results both in terms of competitiveness and income⁹.

Revenues grew 0.3% compared to 2013, mainly as a result of increased net sales. The proportion of revenues generated in foreign markets increased from 46.2% in 2013 to 49.6% in 2014, confirming the Group's increasing internationalisation. Operating profit (EBIT) was up €33.2 million compared to 2013, with a 2.4% increase in the sales margin deriving mainly from favourable changes in the cost of sales.

Net profit was €126.6 million, up €17.3 million compared to €109.3 million recorded in the prior year.

During 2014, we invested heavily in industrial plants in Italy, renovating them for greater efficiency and

safety, thereby reaffirming our presence in Italy, which not only benefits the country, but also local communities.

The Group remains financially solid with a net financial position at the end of 2014 of €340.5 million and cash flow from operations of €93.5 million.

1.344,1
Sales revenues in 2014 (M€)

M€	2014	Margins %	2013 ¹⁰	Margins %
Sales revenues	1,344.1	100.0%	1,340.1	100.0%
EBITDA	225,8	16,8%	223,5	16,7%
EBIT	156,4	11,6%	123,2	9,2%
Net profit	126,7	9,4%	109,3	8,2%
Net financial position	(340,5)		(387,2)	
Investments	80,2		44,9	
Operating cash flow	93,5		155,3	
ROS	11,8%		9,3%	
ROI	26,8%		20,8%	
ROE	9,6%		8,6%	

⁹ Barista, the Coffee Shop chain was sold in 2014. The 198 coffee shops, now owned by a company belonging to Amtek Group, continue to offer Lavazza coffee thanks to a long-term supply contract between Fresh & Honest Café Ltd. (FHCL) and Barista.

¹⁰ To enable comparison, the figures for 2013 and 2012 have been adjusted to take into account the effects of the change in 2014 in the method used to measure inventories from LIFO ('last in, first out') to average weighted cost.

k€	2014	2013 ¹⁰	2012 ¹⁰
Direct economic value generated	1.405.637	1.417.083	1.456.281
a) Revenues	1.405.637	1.417.083	1.456.281
Economic value distributed	1.229.406	1.277.661	1.297.043
b) Operating costs	980.152	980.380	1.024.025
c) Wages and benefits	153.826	145.763	147.457
d) Payments to capital providers	14.245	66.106	48.918
e) Payments to government	70.124	77.117	66.214
f) Community investments	2.566	1.621	1.185
g) other			
Retained economic value	176.231	139.422	159.238

The table below shows the economic value generated by the business and distributed to the main stakeholders, and the amount retained within the business.

The Lavazza Group generated rising economic value over the period 2012-2013-2014. This was made possible by increasing internationalisation and the Group's capacity to innovate, in response to a stagnant domestic market.

The Direct Economic value generated differs from sales revenues because it includes the received dividends and the extraordinary income, which relates to the change in the method used to measure inventories, from LIFO to average weighted cost.

The Economic value distributed to stakeholders decreased slightly over the three years. In particular, operating costs include the cost of green coffee, which is subject to significant price fluctuations. In

order to mitigate the effects of these fluctuations, and to the benefit of all stakeholders, the Lavazza Group uses hedging instruments to stabilise financial performance.

The Value distributed refers to dividends paid to shareholders, as the Group is largely self-funded. Value distributed to government mainly refers to the payment of income taxes.

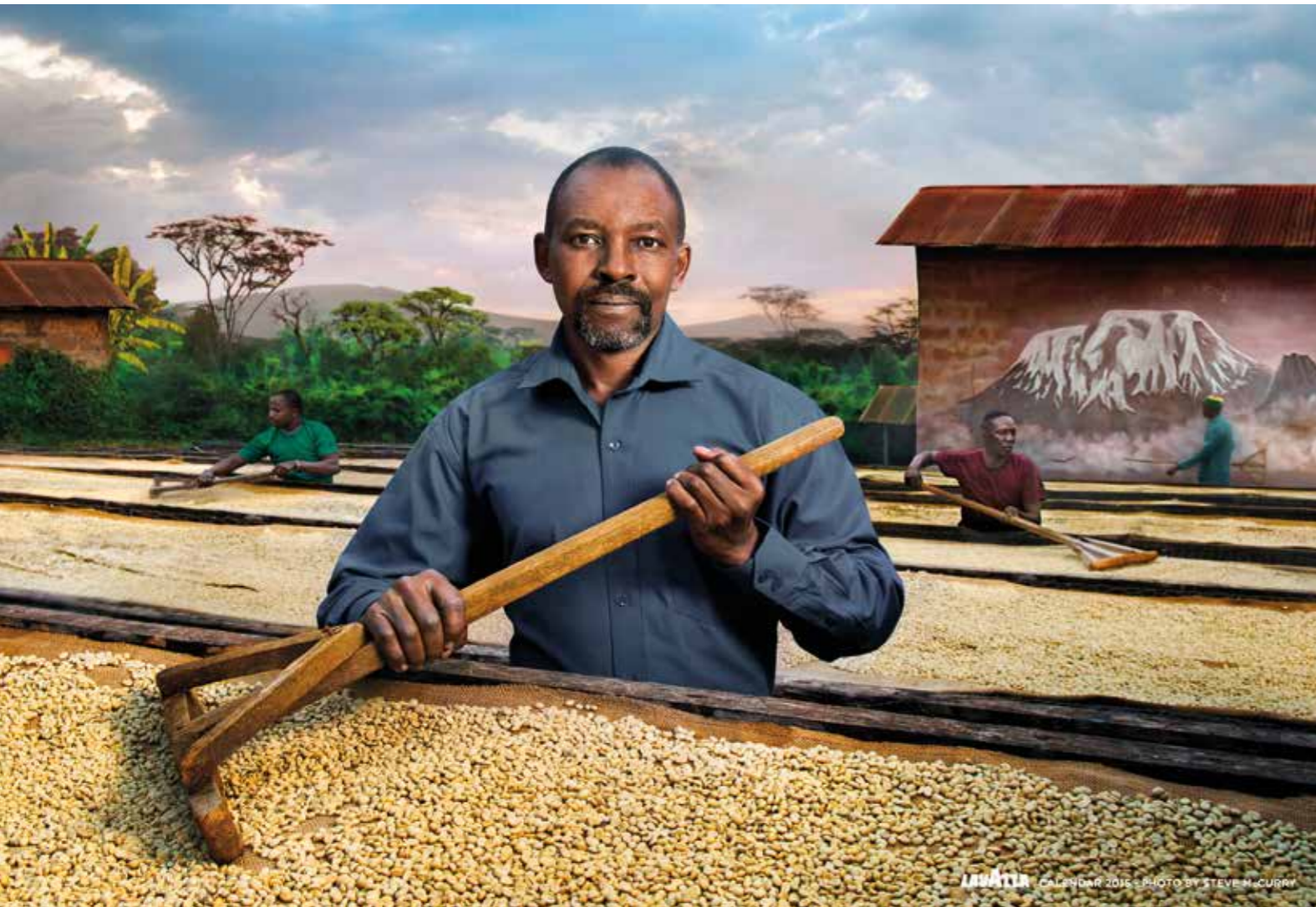
Retained economic value (calculated as generated economic value minus distributed economic value) increased over the period.

1.405.637

Direct economic value generated in 2014 (k€)



The commitment of the Lavazza Foundation



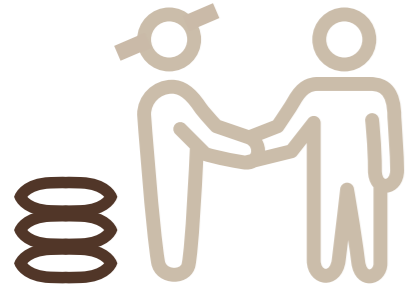
2.1 The Giuseppe and Pericle Lavazza Foundation

The **Giuseppe and Pericle Lavazza Foundation**, (the “Foundation”) is a non-profit organisation, established in 2004. The exclusive purpose of the Foundation is to support charitable initiatives in the fields of health and social care and protection of the environment, both in Italy and abroad. To achieve its goals, the Foundation aims to: promote, develop and coordinate initiatives, also through partnerships with public and/or private bodies, designed to **improve living and working conditions** for communities and individuals in distress, particularly for populations

living in coffee-producing countries; promote, develop and coordinate studies, research and other activities aimed at **the protection of the environment**, with a particular focus on the promotion, dissemination and implementation of **new methodologies** to introduce the **concept of environmental, economic and social sustainability** in the coffee growing and processing industry, to increase productivity and economic income; promote **surveys, research and studies** aimed at understanding the socio-economic conditions of the populations living in coffee-producing countries, identifying

current and future demographic trends and helping **select policies that satisfy their needs**; finance and deliver annual **scholarships and awards to students/young people** of all nationalities for excellence in study and research, and for those who have shown particular commitment in these sectors; and deliver **social assistance and medical care** to communities and/or individuals in special cases of exceptional severity and emergency.





2.2 Precompetitive approach to project management

The Lavazza Foundation ensures local ownership of projects in order to implement and promote projects which are sustainable over time also thanks to **strategic public-private partnerships**. Under this approach, the Foundation identifies the most suitable partners – both in terms of **skills and resources** – in order to achieve effective and lasting results.

The Foundation adopts a **pre-competitive approach** which results in the engagement of different partners for the realisation of the different elements of the projects: design and development, a shared long-term commitment, project governance or more technical and agricultural aspects.

Projects have a twofold objective: develop **productivity** through the dissemination of good agricultural practices, and promote **entrepreneurship**, irrespective of whether or not the producers are part of the Lavazza supply chain. Some projects have additional components such as:

- gender equality: equality for both genders in family relations;
- food security: the commitment to ensuring everyone has access to adequate nutrition;
- reforestation;
- minimisation of the environmental impact of coffee production.

In 2014 the Lavazza Foundation partnered with the **United Nations Conference on Trade and Development (UNCTAD)** to

support the development of **entrepreneurial skills** of small producers, who account for **75%** of coffee production worldwide. <http://unctad.org/en/Pages/Home.aspx>



75%

of the world coffee production is handled by small producers



Sustainability at the source, sustainability along the entire value chain

Coffee & Climate

These projects are aimed at providing producers with skills to manage and mitigate climate change

ICP International Coffee Partnership

These projects are aimed at improving coffee producing techniques, sharing good agricultural practice and developing entrepreneurial skills

¡Tierra!

These projects are directly developed and managed by the Foundation

The activities of the Foundation vary according to the needs of the different operators in the sector, and are tailored to respond to those needs as effectively as possible, across a range of complex scenarios. The common factor is collaboration.

Among the projects designed to minimise the effects of climate change are the projects from the **Coffee & Climate** initiative, which focus on providing coffee producers with the tools to manage these effects (see box). These projects seek to improve

production techniques, as well as encourage sharing of good agricultural practices and foster entrepreneurship. These goals are generally achieved in partnership with the **International Coffee Partners** (ICP).

<http://www.coffeeandclimate.org/>
<http://www.coffee-partners.org/>



2.3 Project Sustainability

All projects are assessed according to a series of **Key Performance Indicators** (KPIs). Once these have been identified, project activities are then monitored over time to ensure their effectiveness. With a collaborative and pre-competitive approach, the Foundation shares KPIs with the other parties involved in the projects. The Foundation also works with other partners, including the **ICP, Instituto Centroamericano de Administración de Empresa** (INCAE, Costa Rica), a leading business school, to research and formulate KPIs, identifying common metrics for analysis.



Key Performance Indicator

All projects are assessed according to a series of Key Performance Indicators (KPIs). The Lavazza Foundation does not unilaterally identify KPIs.



2.4 Working towards a social business model

Many of the activities within the Foundation's projects are developed from a **social business** perspective. These are projects focused on a product/service with a **social value**, where profit is **reinvested to the benefit of the local community**.

Examples of the application of this model include the creation, as part of the project launched in **India** in 2013, of an organisation for small producers called **MAS**, aimed at providing services for members and for third parties, including soil analysis, fertiliser purchasing, coffee grading

(assessing the quality of green coffee) and marketing of the end product.

Like soil analysis, coffee grading is an activity with a **social value**, in that it helps producers to develop a sense of the **intrinsic value** of their product. Buying fertiliser also has a social value. As the Group purchases together, bargaining power is increased. In addition it provides an opportunity to develop more effective fertilisation techniques. A further example of the social business criteria in action is the project launched in 2013 in

Vietnam, with the goal of creating a **nursery** for the production of Robusta coffee plants in partnership with the **local community** (cooperatives and the Vietnamese government, who provided the land for cultivating these coffee seedlings). Net revenue associated with the sale of these plants is reinvested in **training activities** for producers from the cooperatives, focused on minimising the impacts of climate change.



Vietnam

Creation of a nursery for the production of Robusta coffee plants in partnership with the local community. Net revenue associated with the sale of these plants is reinvested in training activities for producers from the cooperatives, focused on minimising the impacts of climate change.



India

Creation of MAS, a small producers organization aimed at providing services for members and for third parties, including soil analysis, fertiliser purchasing, coffee grading (assessing the quality of green coffee) and marketing of the end product.

2.5 Specific projects

Dominican Republic

1.230
Total coffee
producers

406
Women

824
Men



Haiti

2.208
Total coffee
producers

773
Women

1.435
Men



Oxfam Italy and the Lavazza Foundation have launched a binational project supporting small coffee producers in **the Dominican Republic and Haiti** which, through several cooperatives, involves **2,200 families** and small producers in Haiti and **1,230** in the Dominican Republic. The project adopts a particularly innovative approach: it foresees for the replanting of a **million coffee plants a year in each country**, for a total of **6 million plants** over a three year period. Another highly innovative aspect is the integration of the

activities of the two countries as far as possible, to create a **south-south relationship**.

Particular attention is paid to **gender dynamics**, to empower women by involving them in key decision processes, both within households and within the community of coffee producers.

In the Dominican Republic, the Oxfam project aims to engage around **1,230** coffee producers: **406** women (33%) and **824** men (67%), all of whom are members of Cooprocasin (Cooperativa

de Productores y Productoras de Café de la Sierra de Neyba). In Haiti, the project involves **2,208** producers: **773** women (35%) and **1,435** men (65%), who are members of the Réseau des Coopératives Agricoles et Caféières (RECOCAS).

Coffee & Climate: Sharing Best Practices

Climate change is a fundamental issue for coffee growers. In order to identify new strategies to minimise the impact of climate change, the Foundation participates in **international precompetitive round-table discussions** along with other key players in the coffee industry.

Specifically, in collaboration with several members of the **International Coffee Partners** association and other institutional partners, such as the **Commonwealth Agricultural Bureaux International** (CABI) and the public-private initiative for financing sustainability projects, **Initiatief Duurzame Handel** (IDH), which is supported by the Dutch and Swiss governments, and is responsible for the **Sustainable Coffee Program** (SCP), the Foundation has supported the launch of the **Coffee & Climate** project, which sees the direct involvement of **Giuseppe Lavazza** as Chairman and Mario Cerutti (Green Coffee & Corporate Relations Partner, Lavazza), as a member of the Steering Committee.

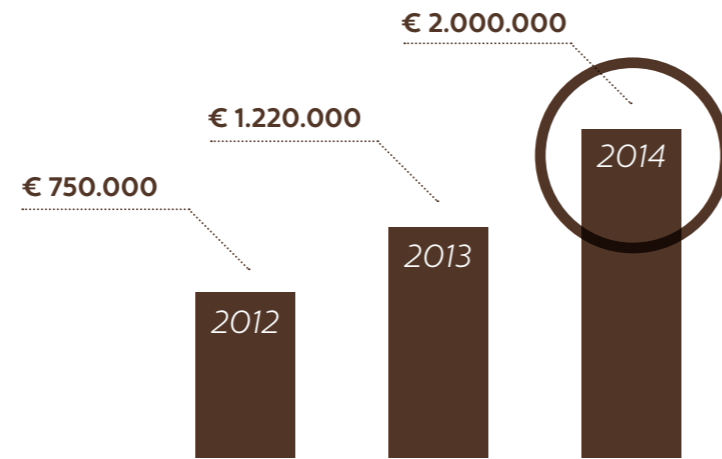
The Coffee & Climate projects seek to identify and develop strategies to help the coffee industry adapt to climate change.

Launched in **Brazil, Tanzania, Guatemala, Honduras, El Salvador and Vietnam**, Coffee & Climate aims to study the influence of climate change on coffee production, to transfer key knowledge and technologies to growers that respond effectively to constantly changing conditions. During 2014, **Coffee & Climate** carried out a series of technical and scientific activities that, in 2015, will lead to the introduction of an online toolbox for producers. In 2015, the Milan Universal Exhibition will provide a new context for the **Coffee & Climate** initiative, giving it special importance with regard to the development of these important themes.

coffee & climate

2.6 Quantitative data

In the three year period from 2012-2014, the Foundation intensified its efforts. Donations to the Foundation increased significantly **(+166.67%)**, from €750,000 in 2012 to €2,000,000 in 2014. In the three year period from 2012-2014, the Foundation carried out 34 projects in **11 countries, across 3 continents**, involving more than 65 thousand **coffee producers**. A growth of 125,52% has been recorded since 2012.



3 continents

11 countries

More than
65.000
coffee producers





¡Tierra! and International Coffee Partners projects
2012-2014

Trifinio
Guatemala
Honduras
El Salvador

Guatemala

Perù

Brazil - Lambarì

Brazil - Minas

Tanzania - Mbeya

Tanzania - Kirusa

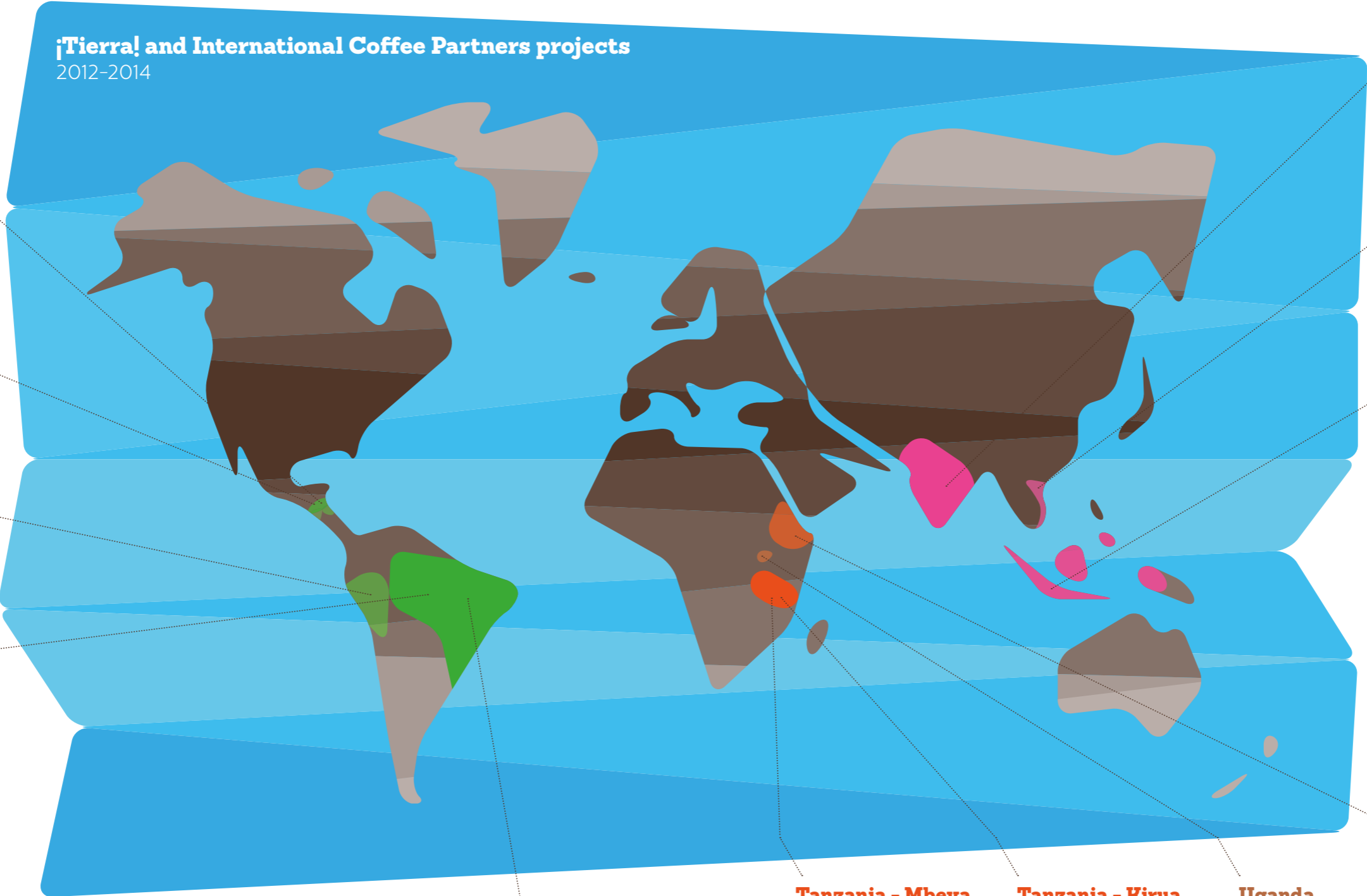
Uganda

Ethiopia - Amaro

India - Sakleshpur and Mudigere

Vietnam - Dak Lak

Indonesia - Sumatra



Kilimanjaro Tanzania



The objective

To improve production systems for **5,000 farming** families over a 3 year period. To maximise revenues, cash flows, capital growth, food and nutrition security in a sustainable manner.

The project was activated in partnership with: HRNS (Hanns R. Neumann Stiftung) , TCFA (Tanzania Coffee Farmers Alliance), Kirua Children

The main results for 2014

- Two classes were set up in the MaseRing Nursery School, which was constructed in 2012 and is directed by father Peter Kylasara, thanks to the Foundation's partnership with the Kirua Children association, in the Kirua area (Maande village);
- 14 Rural Primary Cooperative Societies (RPCS) have been engaged;
- **1,971 families of coffee producers** have become involved in our projects (+774 compared to 2013), and have been organised into 75 Producer Organisations (POs);
- access to suppliers, including banks, has been made easier;
- 28 producers have adopted diversification techniques over 180.5 hectares of farmed land, to ensure new sources of income.

Karnataka India



The objective

To increase the competitiveness of smallholders using sustainable practices, through direct support to 400 coffee farmers and smallholders and their families.

The main results for 2014

- Composting activities have been launched (a combination of practices for nutrient management and support for the construction of around 75 worm composting bins and composting units);
- Links have been strengthened with the Indian Institute of Horticultural Research (IIHR) and Central Coffee Research Institute stations;
- A training manual has been designed on Good Agricultural Practice (GAP);
- A new treatment against the white stem borer (a coffee plant parasite) has been developed and tested in Arabica coffee plantations;
- The MAS farmer's company was established in 2013, in order to channel the flow of services required by the around **400 producers** participating in the programme, grouped into local organisations at village level, each numbering around 20. The shareholders are the producers themselves who have subscribed the company capital, via a range of local organisations.

The goal of **MAS** is to offer a range of services to both shareholders and non-shareholders, with a view to gradually expanding their capacity to provide efficient and useful services to coffee producers; for example:

- central purchasing of fertilisers and other inputs;
- quality control and product analysis;
 - humidity control;
 - classification;
 - green coffee sifting;
- coffee marketing and information on the market information and the value of the producer's coffee;
- soil analysis;
- development of activities designed to promote diversification and increase added value.

Minas Gerais Brazil



The objective

In general terms, to contribute to increase the income of small growers in the state of Minas Gerais. The specific objective of the project is to improve access to the market and provide support in dealing with climate change for a small group of growers in the Lambari region, in the south of Minas Gerais.

The main results for 2014

- **820 farmers** have been engaged in training sessions centred on organisational strengthening, good agricultural practices, marketing skills and adapting to climate change;
- the first Coffee Quality competition was conducted (see box);
- € 220,227 of added value was generated through the collective selling of coffee (directly to exporters) and € 52,933 from the collective purchase of inputs;
- the Coffee & Climate approach was introduced in 6 Farmer Field Schools (FFS), promoting practices focused on implementation and adaptation. 150 farmers are now using at least 2 adaptation practices.

The Coffee Quality competition

In 2014, as part of the Minas Gerais project, in which Lavazza is engaged via the Foundation, a competition was organised to reward the best quality coffee, with a view to incentivising excellence in coffee preparation and promoting quality products from small producers on the international market. 394 micro-lots of coffee were entered into the competition. 16 of the 35 finalists were from the Minas Gerais project, and some of the most successful lots were bought by Lavazza at auction.

Vietnam



The objective

The project aims to provide the tools necessary to better manage climate change. The Lavazza Foundation is involved in the programme via a project which finances the creation of a plant nursery, the profits of which are channelled into training on specific themes, such as efficient management of water, fertilisers and composting.

The project was launched in October 2014, results will therefore be available in the next reporting period.

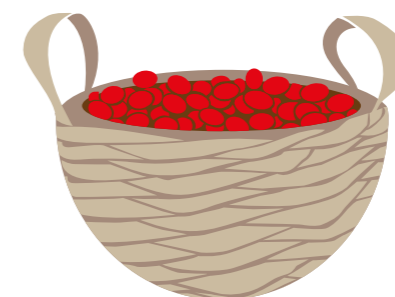


A passion for excellence

Day after day, we pursue excellence with passion, commitment, determination and dedication, also thanks to the contribution of our stakeholders, with whom we build relationships based on trust, and with whom we share our values.

Thanks to the attention to their needs, Lavazza has consolidated its leadership in Italy and on international markets. This effort is appreciated by

customers and consumers, who are increasingly recognising the value of the brand, synonymous with leading-edge coffee technology and consistently high quality and food safety standards.



3.1 Lavazza's approach to quality management

At Lavazza, we are well aware that the quality of our organisational and production processes is fundamental to ensure excellence in coffee production on a day-to-day basis.

In 2012, to enhance the impact of our activities aimed at spreading culture of quality and continuous improvement of products and processes to guarantee the safety of consumers, we initiated a process of organisational review. The first step in this process was the establishment of the **Group Quality Management Department** in 2013, whose task is to ensure that all products on the market meet the **high food and safety quality standards** that characterise Lavazza¹¹.

Once the organisational structure established, in 2014 we revised the strategic and operational aspects, which are based on three pillars. **The Food Quality and Safety Policy** was the first of these to be revised. The senior management team redefined the guiding principles driving the company and, in particular, those working in the technical and production areas. The publication of the new edition of the **Good Manufacturing Practices**, the second pillar, was the next step. In the manual, **mandatory regulatory requirements** regarding food safety were updated, along with **good practice** procedures to be followed during the implementation of new initiatives or for the improvement of current activities.

Guidelines on key aspects of the production chain, such as structural standards, plant and equipment, maintenance, transport and storage, and process and training utilities were also updated. The **establishment of a centralized customer claim system** is the third pillar. The project, which was launched in 2014, has been implemented across all Italian market channels, and will now be extended to subsidiaries and foreign distributors. The project will enable the monitoring of customer and consumer satisfaction and will form the basis for all improvement plans for products and processes.

¹¹ In the three year period from 2012-2014, there were no cases of non-compliance with laws/regulations or voluntary codes with regard to health and safety issues.



3.1.1 Green coffee quality

The excellence of Lavazza coffee is the result of a highly complex and specialised quality control system, which ranges from the careful selection of green coffee through to the tasting by our experts.

Buying coffee – the Lavazza system

The establishment of a structured, organised system for coffee purchasing¹² has allowed us to guarantee higher and more

stable quality of our coffee, and, consequently, to create “excellence”. Lavazza’s approach to buying coffee goes beyond the requirements of the applicable regulations. The key elements are **testing the product in the field** and **additional testing and validation procedures, carried out on 100% of the batches of coffee we buy**.

When purchasing coffee, we use exporters with whom we have worked previously, selecting those most able to guarantee

reliability both in terms of product quality and country risk.

Alongside the purchasing process, Lavazza also conducts research, tests and trials with potential new suppliers, in order to ensure the stability of the cup profile.

Coffee quality control

We carry out quality controls which encompass all key parameters on 100% of the batches processed using standardised procedures, which respond to precise assessment and verification criteria, setting the frequency, control procedures and analytical parameters to be applied to the

green coffee samples. We collect the beans from the customs warehouses and examine their shape, size and colour, the presence of foreign bodies, the chemical and physical characteristics and presence of chemical and biological contaminants, and the cup profile. In 2014, all our raw materials were purchased from suppliers who

meet the requirements of the Lavazza procurement policy as set out in the Code of Ethics.

In 2014, **6,489** analyses were performed on green coffee.

6,489

Analyses were performed on green coffee in 2014



¹² Green coffee is transported by ship from the countries where it is produced. The product is then stored in various Italian warehouses and transported to the production plants. The other raw materials come from various different suppliers, most of whom are Italian. The three plants that produce the finished product are in Torino, Gattinara and Verrès. The other products sold by Lavazza have various origins, with a significant proportion of our coffee machines manufactured in China. Distribution is organised into three main logistics hubs in Italy and a central warehouse for each subsidiary. All movements of goods between central warehouses are made using fully-loaded vehicles, using inter-modal transport where possible. Secondary distribution is entrusted to specialised logistics operators.

3.1.2 The quality of the production process

Quality is one of the guiding principles, and this is expressed at the highest level in our production processes. One of our key production processes is roasting, for which we have adopted all the best technologies known and available on the market that combine both convection and conduction heating.

These different stages of processing allow us to develop organoleptic and aromatic profiles that are unique to each product type and meet the specific needs of our target markets.

Over the years, Lavazza has acquired unrivalled expertise in managing these types of roasting machines, using specific roasting cycles to bring out the characteristic notes of each blend.

At every stage of the production process, our experts check a wide range of product and process parameters, including two of the most significant: the **colour of the blend** and the particle size of the coffee powder.

We also submit packaging materials to rigorous tests, dedicating special attention to

those which come into direct contact with coffee, thereby ensuring 360 degree food safety for all our consumers.

Finally, coffee is vacuum-packed or packaged in modified atmosphere, thus ensuring that the valuable organoleptic characteristics of the blend are maintained until consumption.


3.1.3 Certifications

The Lavazza quality management system is assured by the adoption of national and international voluntary certifications and standards, which are applied both to the company's management systems and to the product itself.

UTZ Good Inside
UTZ certification (UTZ means "good" in Quiché, a Mayan language) ensures social and environmental quality standards in coffee production are met. The chain of custody requirements identifies criteria and checks for the traceability of UTZ-certified products.


 CERTIFIED PLANTS:
Torino

Rainforest Alliance
This certification confirms that the production processes used with certified green coffee comply with sustainability standards, and that all reasonable measures have been taken to avoid contamination with non-certified green coffee.


 CERTIFIED PLANTS:
Torino and Gattinara

Quality management system ISO 9001:2008
Ensures that products and processes meet verifiable requirements. Stipulates that the checks conducted must be documented and that

procedures must be carried out with clear roles and responsibilities. Ensures that any non-compliance is identified and resolved, as well as checking that staff receive adequate training and refreshers.

 CERTIFIED PLANTS:
Torino, Verrès and Pozzilli

Kosher - Orthodox Union
Guarantees that ingredients and food products comply with to the teachings of the Torah, and have been approved by Eurokosher.

 CERTIFIED PLANTS:
Torino, Gattinara, Verrès and Pozzilli



Halal
Guarantees that ingredients and food products have been processed and handled according to Islamic law. This applies both to the products themselves and to quality control procedures.

 CERTIFIED PLANTS:
Torino, Gattinara, Verrès and Pozzilli

CONFIDA procedural guidelines
This document identifies high-level quality parameters in addition to those already established by law, relating to the functional quality of roasted coffee used in vending machines.

 CERTIFIED PLANTS:
Torino



HACCP system certification in accordance with CODEX ALIMENTARIUS
This certification ensures the reliability of the Hazard Analysis and Critical Control Points (HACCP) system with regard to the end customer/consumer.

 CERTIFIED PLANTS:
Torino



BIO and National Organic Program (NOP)
These programmes ensure that production processes comply with specific requirements for to the processing of raw materials of organic origin, with a view to preventing the risk of contamination by other non-certified raw materials.

 CERTIFIED PLANTS:
Pozzilli





Focusing on customer and consumer requirements

Lavazza has always focused its attention on the expectations and needs of our customers and consumers. The “Customer Service” department is dedicated to listening to feedback from customers and consumers, as well as measuring satisfaction levels. In 2014 alone, more than **270,000 contacts** were registered.

In the 2012-2014 period:

- Lavazza conducted research focused, for example, on buyers of the A Modo Mio coffee machine, as well as on the Bar channel of the business;
- In order to ensure that the privacy of its consumers is respected, Lavazza accepted requests received from customers to withdraw consent for the processing of their personal data (2012: 339; 2013: 770; 2014: 383).

A Modo Mio

This project was implemented to perform regular checks on certain key aspects of the relationship between consumers and the A Modo Mio system. The research is crucial in allowing the company to track the development of the system on the market (coffee machines and capsules), and to put corrective actions in place where critical issues are encountered.

Research was conducted through **1,360 telephone and face to face interviews** with representative buyers in terms of geographical area and length of ownership, and participants were given a questionnaire drawn up in collaboration with Ipsos. This monitoring activity has provided timely

information which can be compared over time, regarding:

- overall satisfaction and satisfaction per machine in terms of machine and capsule cost, machine reliability and technical assistance provided, as well as machine operation, aesthetics and coffee quality;
- the use of the A Modo Mio system: the consumption of capsules generated;
- trends and reasons for abandoning the system.

The total level of satisfaction was measured using the average score (1-10) provided by respondents and the cumulative percentage of respondents who gave a score of between 8 and 10. The results obtained from the research showed a high level of customer satisfaction with the A Modo Mio machines, amounting to 82.6% (Ipsos Customer Service benchmarks: “Result classed as excellent if above 76%”).

The Bar channel

In order to strengthen the company’s relationship with baristas, and to foster loyalty among this customer sector, Lavazza has used this research to:

- measure the level of satisfaction among its customers regarding the service provided;
- identify the strengths and weaknesses in the relationship and pinpoint areas on which to focus in order to improve service quality.

As part of this research, conducted by TNS for Lavazza:

- 621 telephone interviews** were carried out to measure the level of satisfaction of baristas, comparing Lavazza with other competitors;
- 14 specific interviews** were conducted in order to gain an understanding of the key aspects of the relationship with the coffee supplier and to identify expectations with regard to optimal levels of service.

The results of the research revealed that Lavazza was in line with the leading competitor.

3.2 Lavazza's approach to supplier management

Being able to depend on a reliable supply chain is key to the quality of our products and the reputation of the company. This is why we favour the creation of **long-term relationships** with our suppliers.

Over the years, Lavazza has benefited from a number of stable and mutually-beneficial partnerships, most of which with local companies, which we aim to maintain in a changing environment of growth and internationalisation.

This approach is demonstrated through the goods and services (green coffee excluded) purchased by the company over the past three years, which, although it has risen to support the growth of the business across foreign markets, is still focused on Italian suppliers, consultants and partners.

Our appreciation of the expertise of Italian companies, and the relationships we have developed with them, is also confirmed by

the investment of approximately €60 million into the production plant at Gattinara, to which 70% of the total value was entrusted to Italian companies.

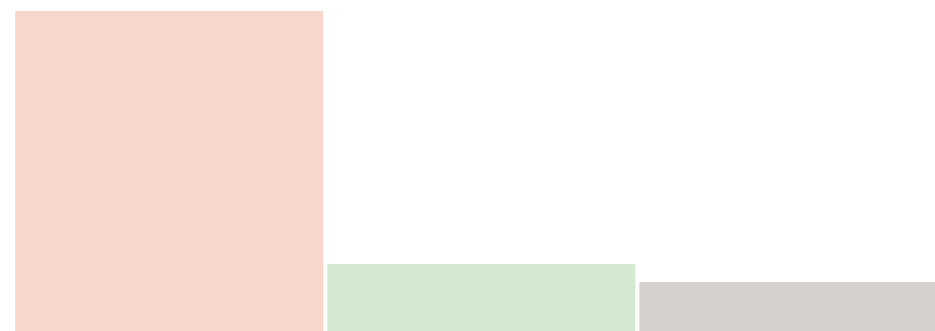
Purchasing expenses for goods and services 2012-2014

(green coffee excluded)

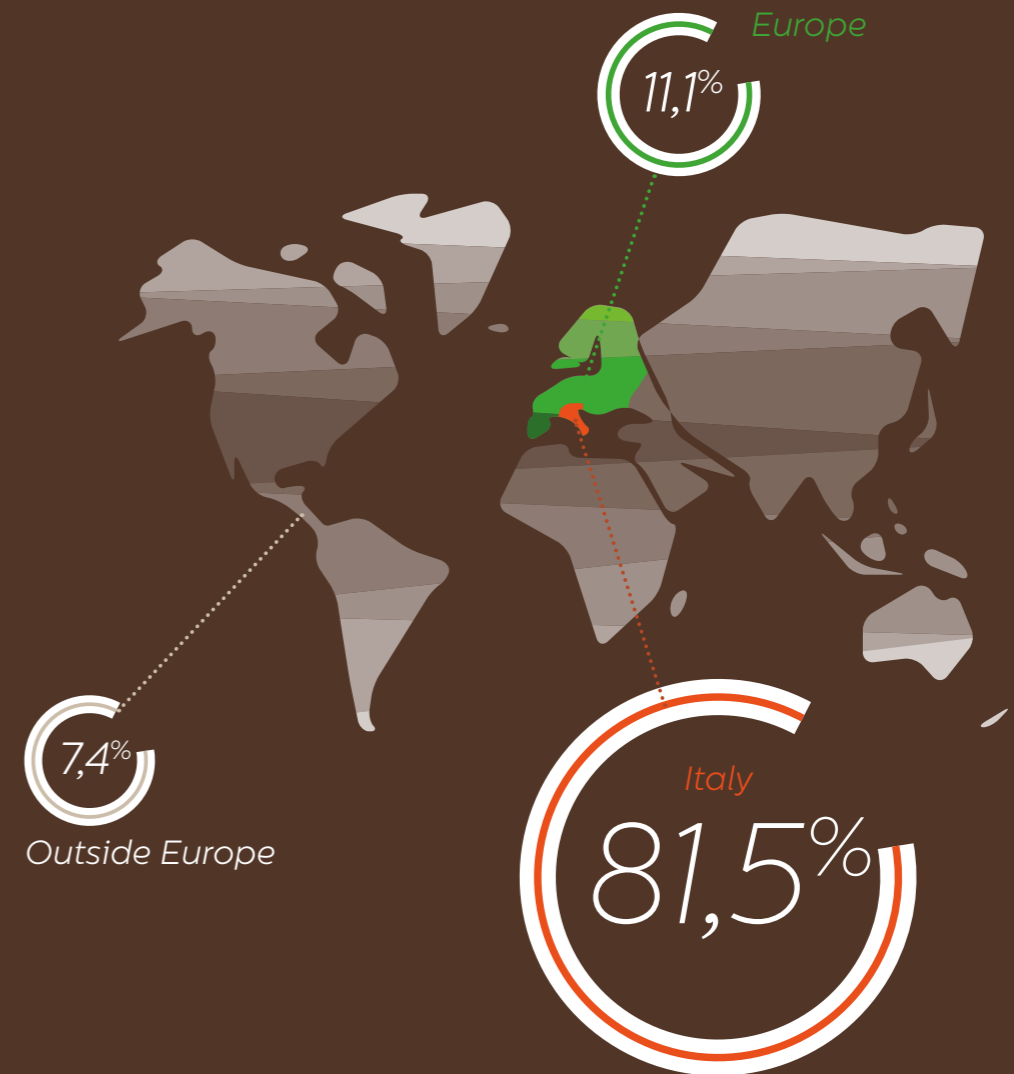


Year	TOT € Million	€ Million	%	€ Million	%	€ Million	%
2012	332,3	281,8	84,8%	43,7	13,2%	6,8	2,0%
2013	346,0	286,1	82,7%	44,1	12,8%	15,8	4,5%
2014	426,0	347,1	81,5%	47,5	11,1%	31,4	7,4%

Italy Europe Outside Europe



Total purchasing expenses by geographic area (%) 2014



3.2.1 Supplier qualification process

In 2012, Lavazza redefined the purchasing and supplier evaluation processes to ensure consistency, transparency, clarity of requirements and selection criteria. As part of this, procedures and contracts were also

optimised, purchasing processes were centralised and the supplier base and relative qualification and monitoring criteria were streamlined.

Optimising purchasing processes and evaluation of suppliers



New purchasing procedure

based on the principle of separation of roles has been introduced, which enhance the skills of the various business functions with regard to technical, economic and qualitative evaluation of offers, reducing the risk of potential conflicts of interest;

Improved qualification criteria

based on a predefined set of requirements which are indicative of industrial and financial capacity;

Centralised purchasing procedure

that involve foreign subsidiaries in strategic decisions made at HQ, raising awareness of issues relating to quality and sustainability;

Implementation of a performance monitoring system

(Vendor Rating), which ensures that verifies continued implementation of selection requirements, rewards deserving suppliers, and provides support in areas for improvement;

Supplier management

in the most fragmented categories, improving cost efficiency, quality and opportunities for innovation;

Contracts

that reiterate, along with the terms and conditions, the importance of Lavazza's principles and values in relationships with the supply chain.



3.2.2 Creating shared value

A relationship of **mutual trust** is built by sharing values and by committing to respect both people and the environment. This is why we incorporate Corporate Social Responsibility principles in our relationships with suppliers. Lavazza shares its values with the entire supply chain, via the **Code of Ethics** and the **Supplier**

Code of Conduct¹³. In concrete terms, this is also translated in the inclusion of Corporate Social Responsibility aspects in the supplier qualification process.

¹³ The Lavazza Code of Ethics and Supplier Code of Conduct have been prepared in reference to:
- the International Labour Standards (ILO) <http://www.ilo.org/global/topics/lang--en/index.htm>
- UDHR, Universal Declaration of Human Rights <http://www.un.org/en/documents/udhr/index.shtml>

The Supplier Code of Conduct

As part of any contractual relationship¹⁴, Lavazza requires that suppliers accept the Code of Ethics, pledging to abide by these rules to avoid the termination of the contract. In addition, Lavazza also focuses particular attention to the supply chain, communicating expectations concerning the behaviour of its business partners through the Supplier Code of Conduct.

The Supplier Code of Conduct, which was published on the company website, clearly defines the values that guide the relationship between Lavazza and its suppliers: passion for excellence, ethical behaviour, sense of gratitude, respect for human and labour rights, farsightedness and transparency.

¹⁴ The principles of environmental and social sustainability are set out in the Lavazza Code of Ethics and as such, must be respected by all stakeholders including suppliers. In the 2012-2014 period, all Lavazza suppliers accepted the Code of Ethics.

The integration of Corporate Social Responsibility in the supplier qualification process

Even during the **qualification stage** we take CSR principles into consideration, including the adoption of a Code of Ethics, the preparation of a Sustainability Report and the possession of relevant environmental and social certifications. These elements, along with the principles established in the Supplier Code of Conduct, are formally checked in the audit phase, with a view to:

- supporting the company in choosing suppliers who demonstrate a commitment to developing their business in a responsible way, with the same technical-economic-qualitative conditions;
- enabling the development of joint improvement plans, containing precise commitments and objectives, to be monitored over time.

Where critical strategic analysis requires an in-depth check to be carried out, Lavazza performs supplier audits on site at its suppliers, through a cross-functional team. This enables a 360 degree assessment of the supplier to be completed, followed by plans for improvement, to be developed in partnership, where necessary.

The introduction of CSR as an audit topic is being extended to all **suppliers of direct materials** (packaging materials, food products not including coffee, products made by contracted third parties, company promotional and advertising materials) and of **machinery and parts**, regardless of their location.





3.3 The “InnovAtion” programme

Corporate business objectives demand a high level of flexibility and production capacity, as well as willingness to change and innovate, even in the context of long-term relationships with partners: in light of this, in 2014 we created a **Programme of Proposals for Improvement and Innovation**, which sees suppliers as an active part of a system designed to foster and promote sharing of results.

To emphasise this, we chose to call it “**innovAtion**”: with roll-out planned for 2015, the

programme aims to generate and implement technical proposals to reduce costs and/or improve the products and services purchased in terms of performance, quality and sustainability.

Suppliers involved will be able to share their expertise, presenting product re-engineering solutions, using alternative materials and technologies, and optimising production/logistic processes and delivery of services.

Selected on the basis of their technical and financial feasibility,

the proposals will allow suppliers to receive a positive evaluation as part of the **Vendor Rating** system, based on proactive behaviour, providing access to financial rewards or media visibility where appropriate.





3.4 Special projects: Lavazza for a sustainable EXPO



Coffee is one of the icons of the Italian lifestyle worldwide. In 2014, Lavazza was chosen as the official partner of **EXPO 2015 Italian Pavilion**.

This gave us the opportunity to explore themes of green

procurement with regard to organisation, staging of the event and the purchase of goods and services required, capitalising the knowledge gained in these areas in recent years.

Sustainable EXPO - our commitment

- Suppliers were selected on the basis of the guarantees they provided in terms of corporate social responsibility;
- partners for the catering service were selected for their ability to provide environmental friendly services, by appropriately managing staff, waste, cleaning products (ecological), supply logistics, and safety aspects;
- the structure of the Lavazza area was conceived to combine creative design and respect for the environment, it will be reusable for subsequent events, and has been constructed with materials having reduced emissions and coming from certified and renewable sources;
- merchandising products are either reusable or

compostable or biodegradable;
• the espresso machines and electrical appliances chosen are the most innovative on the market, with low energy consumption and minimal environmental impact.



OFFICIAL COFFEE PARTNER
PADIGLIONE ITALIA



120 years of innovation

We believe innovation is a crucial asset to ensure growth and provide adequate support to our internationalisation objectives.

Our strategic business plan aims to bring highly innovative products to the market, capable of responding, not only to market requirements in terms of technology, production diversification and quality, but also to the increasing customer awareness of environmental matters.

The three-year period 2012-2014 was marked by a significant process of change, which initially involved the integration of corporate functions and later the switch from an integration concept to a system-based concept. Environmental sustainability plays a vital role in this approach, because it integrates the company's ethical values with its strategic business objectives¹⁵.

¹⁵ Lavazza incurred in the following environmental-related expenses in the three-year period 2012-2014: €1.4 million in 2012, €2.1 million in 2013, €2.7 million in 2014.



Patent portfolio



We commit to continuous product innovation to respond promptly and with ever increasing efficiency to consumer expectations. In recent years coffee consumption has grown considerably, in an ever changing and increasingly multicultural scenario; it has therefore become more and more important to offer a wide and diversified range of products on all markets.

The capacity to create value for the local communities and areas where we operate and for our stakeholders through a strong focus on innovation has also been demonstrated by serious

attention to the disclosure and protection of generated intellectual property.

Our “patent portfolio” is composed of **332** intellectual property rights (**261** patents for inventions, **68** drawings and models, **3** utility models) granted nationally and internationally and **295** under examination, of which **15** are new applications filed in **2014**.

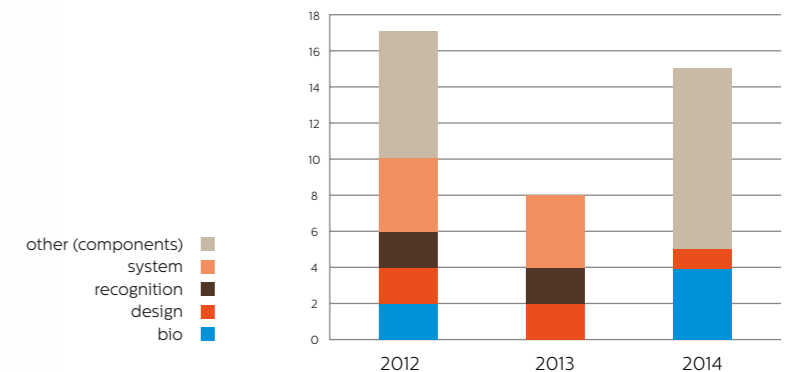
332

intellectual property rights

295

under examination

Patents field over the last three years by category





4.1 Care for the environment

Lavazza is working to enable the implementation of environmental sustainability goals in line with national and international policies. We are convinced that the adoption of benchmark standards is of vital importance for developing and offering environmental-friendly products that are internationally recognised and guaranteed.

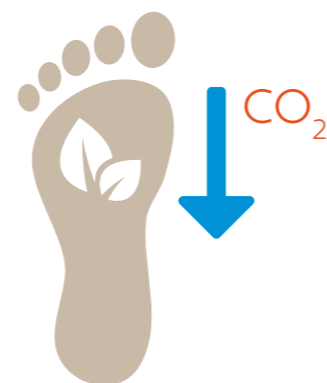
We also believe that the quantification and communication of the environmental footprint of our products can increase transparency towards consumers.

In this perspective, information on the environmental performance of products allows us to increase the awareness and sensitivity of consumers, sharing virtuous behaviours and consumption styles that are in line with

sustainability objectives.

Lavazza is working with the **European Commission** and the **Italian Ministry of the Environment and Protection of Land and Sea**, to define standards aimed at quantifying environmental impact of coffee using shared methodologies and processes. In this context, Lavazza participates to national working groups for the **Product Carbon Footprint/Products Category Rules (CFP/PCR)**, and is collaborating at European level in the **Products Environmental Footprint (PEF)** programme. In addition, also in partnership with the Italian Ministry of the Environment and Protection of Land and Sea, Lavazza is mapping and certifying the environmental impact of its major products.

Finally, Lavazza is also taking part in national and international round tables within the scope of the activities of trade associations in the coffee industry. The purpose is to identify and develop suitable preventive measures to ensure an adequate level of environmental protection and to promote the selection and implementation of the best available techniques.



4.1.1 Minimising environmental impact

Lavazza constantly strives to mitigate the environmental impact of production processes, activities, services and products in a life cycle perspective.

Lavazza adopts a precautionary approach for the purpose of environmental protection based on its capabilities. This approach is set out in the Corporate Policy for Occupational Health and Safety, Energy and Environment whose implementation involves the definition and implementation of a Management

System for Occupational Health and Safety, Energy and Environment, structured according to internationally recognised standards, based on the principles of prevention and preventive action against potential damage caused to the environment.

Environmental matters are overseen at corporate level by specific functions that work to ensure a standardised approach and comparability of data, also through the development and

dissemination of guidelines that can be applied in all operations. The principles that guide the company in managing environmental matters are in line with the Corporate Policy for Occupational Health and Safety, Energy and the Environment.



Corporate Policy for Occupational Health and Safety, Energy and Environment

- **Communication and dissemination of the culture of occupational health and safety,** energy saving and care for the environment to internal and external stakeholders, working actively on projects with academic bodies, industry organisations and public authorities;
- **Identification and assessment of the environmental impacts,** including the consumption of natural and energy resources, activities, products and services, in order to eliminate or minimise them, in compliance with

the regulations of the various countries in which we operate;

- **Promotion and utilisation of the best available techniques** in order to achieve continuous improvement in performance with regard to occupational health and safety, protection of the environment, energy saving and the balanced use of natural resources.



4.1.2 Continuous improvement

As part of the activities aimed at the continuous improvement of environmental performance of production processes, in the three-year period 2012-2014 Lavazza undertook specific actions, including:

- **efficiency improvement/upgrade** of the thermal power stations and compressor rooms at the Torino and Gattinara plants;
- **enhancement** of the energy consumption monitoring systems,

with a focus on electricity consumption, at the Torino, Gattinara and Verrès plants;

- **adoption of Best Available Techniques (BAT)** in all Italian Lavazza plants, aimed at minimising environmental impact related, in particular, to atmospheric emissions.

Improvement activities, together with all the corporate processes pertaining to Lavazza's Management System for

Occupational Health and Safety, Energy and the Environment, are monitored by multifunctional team of internal auditors.

Lavazza has also implemented innovative solutions within the closed systems designed to minimise energy consumption and component use, as well as optimising delivery.

Eco-design packaging



Lavazza promotes and supports packaging eco-design in order to integrate its primary function of protecting and safeguarding the product, whilst, at the same time, minimising its environmental impacts. Packaging eco-design operates along 5 fundamental lines, with regard to product quality, technical and technological requirements and marketing:

- reducing packaging and removing non-essential components;
- reducing the weight or volume of materials used while maintaining the same product shelf life;
- simplifying structures to increase the use of recycled materials thereby reducing the use of virgin material;
- increasing the amount of recycled materials in packaging which is not in direct contact with food products;
- experimenting and implementing new materials to valorise the end of life of the packaging and introduce packaging designed to facilitate separate waste collection.

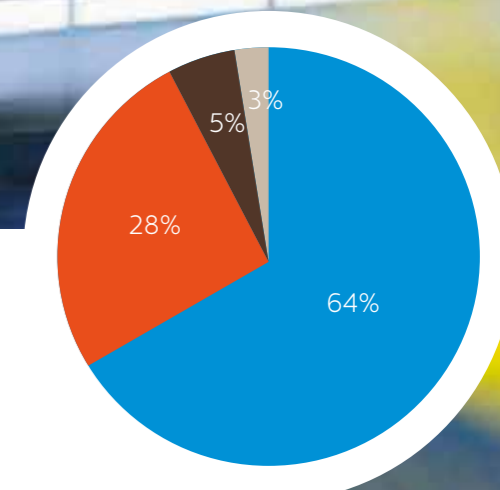
The most significant actions, in terms of packaging eco-design, have been aimed at reducing plastics, cardboard and layers of aluminium in non-primary poly laminates. Examples include:

- **saving** of approximately 11% in the material used for the production of capsules as a result of optimising the thermoformage process;
- **reducing** paper and wooden pallets for a total of 41 tonnes of paper and 467 platforms, thanks to the elimination of non-essential packaging components for Roast&Ground;
- achieving **90%** of recycled materials in cartons.

Percentage of types of packaging materials used by Lavazza in 2014

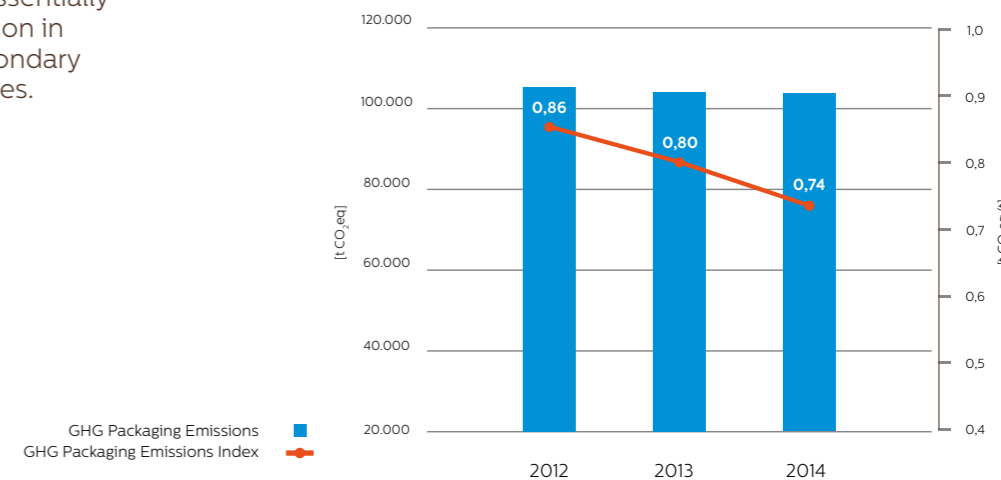
- Plastic
- Paper and Cardboard
- Steel
- Aluminium

Out of the approximately 20,200 tonnes of material used in total for the production of packaging, the main contribution comes from plastic with around 13,000 tonnes, followed by paper and cardboard with approximately 5,700 tonnes.



In terms of environmental impact, the trend is improving essentially as a result of the reduction in the use of plastic in secondary packaging and in capsules.

Greenhouse Gas Emissions [GHG] - Packaging



The indicators were calculated on the basis of packaged kilos of coffee, taking into consideration the most represented formats within product families for both capsules and Roast & Ground.



4.2 Focus on special projects



4.2.1 ISSpresso, coffee in outer space

ISSpresso takes its name from the International Space Station (ISS), on which the first single serve espresso machine capable of working in the extreme conditions of space was installed. ISSpresso is the result of the partnership between **Lavazza and Argotec**, the Italian engineering company specialised in the design of aerospace systems

and a European leader in the preparation of healthy food to be consumed in outer space. It is a masterpiece of technology and engineering, capable of producing a perfect espresso in the absence of gravity. This is why it was chosen by the Italian Space Agency to be used on board the ISS, as part of the Agency's ongoing expression of

interest with regard to projects and activities to be conducted on the International Space Station through public-private partnerships.





the DNA

4.2.2 The coffee genome

In recent years the coffee industry has faced **new challenges**.

Climate change is affecting cultivation in different areas of the world, just when **demand is increasing** in many markets. Getting to know more about the coffee plant is therefore becoming a **key factor** to ensure sufficient quantity and high quality also in the future through **sustainable methods**.

In this scenario, **Lavazza** and **Illy** have worked together to support a project to sequence the *Coffea arabica* genome. The research was conducted by the **Universities of Padua and Trieste** and by the **Istituto di Genomica Applicata of Udine**, coordinated by **Professor Giorgio Graziosi of DNA Analytica Srl**, a spin-off of the University of Trieste.

A 100% Italian project, this complex study looks at genome sequencing of a vegetable organism produced by crossing **two different species**, which made the reconstruction for pairs of similar, but non-identical genes even more difficult. This was made possible using **an innovative hybrid strategy** combining traditional **direct sequencing** with clone-based

sequencing, each containing separate genome segments, obtained through the Bacterial Artificial Chromosome (BAC) technique.

The research was conducted in **five phases**. In the first phase, a **BAC library** was created, a genomic library of **over 175,000 clones**. In the second phase, the physical sequencing of the DNA of the BACs was carried out, while in the third phase the **physical sequencing** of the **entire genomic DNA**. The fourth phase included the **computerised reconstruction** of the sequences and the final, fifth phase involved the **annotation and identification** of codified genes.

In this way, it was possible to decode the genetic base of this species of coffee, which accounts for **70% of global production**. The results obtained, organised systematically, were made available for possible **agricultural and industrial applications** responding to the need to increase production, continuously improve quality, and **increase biodiversity to mitigate the adverse effects of global warming**.

The study made it possible to identify the origins of the plant and pinpoint the genes that confer a particular resistance to disease or infection, as well as the ripening times for the fruits, size of the plant and adaptation to difficult conditions. The caffeine content, thickness and solubility of cell walls, which, in turn, affect the extraction of the beverage from the ground coffee, are all aspects directly or indirectly under the control of the genes. Having a good knowledge of the plants' genetics is therefore a vital requirement for obtaining a high-quality product.

In September 2014, in Colombia, a paper was presented at the 25th international conference on the science of coffee organised by Association for the Science and Information on Coffee (ASIC)¹⁶.
<http://www.asic2014colombia.org/en/index.html>

¹⁶ ASIC is an independent, non-governmental association established in Paris in 1996 with the aim of mapping scientific studies and applied knowledge regarding coffee. ASIC currently defines itself as the only totally independent organisation in the world with a scientific vocation specifically aimed at the entire coffee chain, from the plant to the beverage.

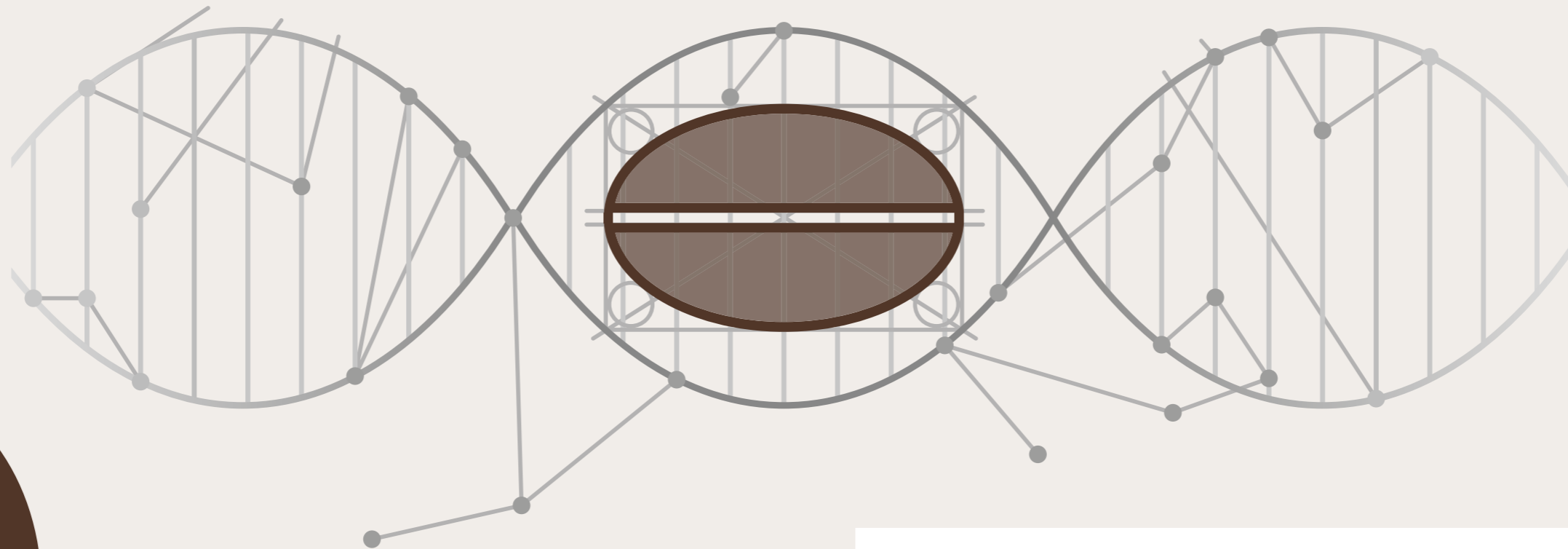
“Sequencing will allow to increase the resistance of the plants to disease and infection, making sure they can adapt in the best possible way to climate conditions. The quality in the cup, controls of caffeine levels and increase of specific aromas will also improve.”

Solving the Coffea Arabica puzzle

What does sequencing a genome mean? And what's the use of doing it?

All living beings on our planet share the same way of coding genetic information, i.e. all the information which is transmitted from one generation to another to determine the “construction” and functioning of organisms. The messages are translated into various

combinations of four molecules, called bases. These “building blocks” are the same for all: it is the enormous number of possible combinations that produces the incredible biodiversity that we see every day on Earth.



The genome is the collection of all of an organism's genetic material. Sequencing it means calculating the exact order in which all its “building blocks” are arranged: this offers scientists precious clues to its characteristics and biological behaviour. An obvious advantage for mankind, in the case of cultivated plants.

Coffea arabica was posing a particularly difficult challenge. Its genome actually includes 2.6 billion bases: placed alongside one another, they span

140 centimetres, more or less the height of a ten-year old child. To give a frame of reference, human beings, which at first sight appear to a much more complex organism, do not have much more than 3.2 billion bases. And that's not all. The arabica variety comes from the crossing of two different species (believed to be Coffea canephora and Coffea eugenioides) and as a result its genome, as it has been described by the scientists involved in the research, is “like a puzzle”.

“Coffea Arabica is a world of plants, fruits and coffee. A complexity that needs protecting, because doing so also means safeguarding the future of our companies and the people working for them.”



Benefits

- Incentive to home sorting of waste
- Reducing quantity of mixed waste to be sent to incinerator or landfill
- Production of compost to be reused for agricultural purposes

The compostable capsule for Italian espresso, designed by Lavazza and developed in a partnership with Novamont, ensures a unique and sustainable coffee experience.



4.2.3 Compostable capsules

A new development paradigm based on coffee and a 100% Italian compostable espresso capsule: this is the result of the project in which two examples of Italian excellence, **Lavazza** and **Novamont**, were involved for the past 5 years.

The capsule will be made of Mater-Bi®, compatible with the entire range of “A Modo Mio” systems, and available in two selected 100% Arabica blends, certified by the **Rainforest Alliance** NGO¹⁷.

With this innovation, Lavazza focused on a precise stage of

the life cycle of the product: the end of life. To date, in the “production-consumption-disposal” linear model, waste is sent to landfills or for incineration. Applying the circular economy principle of zero waste, Lavazza and Novamont created a capsule which can be collected with the organic waste and sent for industrial composting, where the capsule and used coffee are recycled together as compost, a natural fertilizer for soil.

Lavazza’s compostable capsules comply with compostability certification in accordance with standard UNI EN 13432 – the

capsule bears the Ok Compost Vinçotte logo – and marks a vital step in the evolution of systems towards making consumers more aware of the environment.

These capsules will contribute significantly to reducing greenhouse gas emissions thanks to the environmental performance of the material.

¹⁷ Rainforest Alliance is an international non-governmental organization (NGO) which certifies the origin of the coffee from plantations which rigorously comply with environmental and social sustainability standards, integrating ecosystem conservation, productivity improvement and living conditions of growers.

4.3 Lavazza's environmental footprint

Lavazza has, for several years, been evaluating the environmental performance of its major products, with a “cradle to grave” Life Cycle Assessment approach, in accordance with reference standards ISO 14040 / 14044 / 14064 / 14067. This will help quantify the impacts along the value chain and develop new solutions, which combine quality and product guarantee, innovation and eco-compatibility, increasing the awareness and commitment of all players involved in the supply chain.

In order to assess environmental impact throughout the life cycle, Lavazza has identified 3 important methodologies in the most sensitive areas:

- Global Warming Potential (GWP) - IPCC 2007 100-year method, calculated as Kg CO₂ equivalent) - **impact on global warming** of the Planet through the direct and indirect emission of greenhouse gases;

- Gross Energy Requirement (GER) - **total energy used;**

- ILCD - International Life Cycle Data System, standardised method for quantifying the overall impact according to 16 impact indicators.

With this in mind, Lavazza is promoting an integrated approach which includes Corporate Social Responsibility (CSR), Environmental Management System (EMS) and

Life Cycle Assessment (LCA) with the aim of addressing matters related to environmental sustainability from a holistic perspective.

Lavazza is therefore working towards systematically collecting data as a vital step in the proper assessment and analysis of impacts related to its activity, products and services, in the belief that this approach is crucial to setting challenging goals in terms of environmental sustainability.

100%

electric energy for the operations of the Italian production plants comes from renewable sources



4.3.1 Environmental impact indicators

Scope	Greenhouse gas emissions considered (GHG - Green House Gases)
Scope 1 Direct Emissions	Direct emissions from the combustion of natural gas for the generation of thermal energy, for heating and processes Direct emissions from the combustion of diesel fuel for proprietary vehicles used for moving goods within plants and the fleet of company vehicles Emissions resulting from the production of electricity from renewable sources
Scope 2 Indirect Emissions	Emissions resulting from the consumption of electricity from the national electricity grid
Scope 3 Other Indirect Emissions	Emissions resulting from the production of green coffee Emissions resulting from the production of plastic raw materials and packaging Emissions resulting from the consumption of water in production plants and at administrative headquarters Emissions resulting from waste management and disposal Emissions resulting from the disposal of used coffee Emissions resulting from the distribution of the finished product

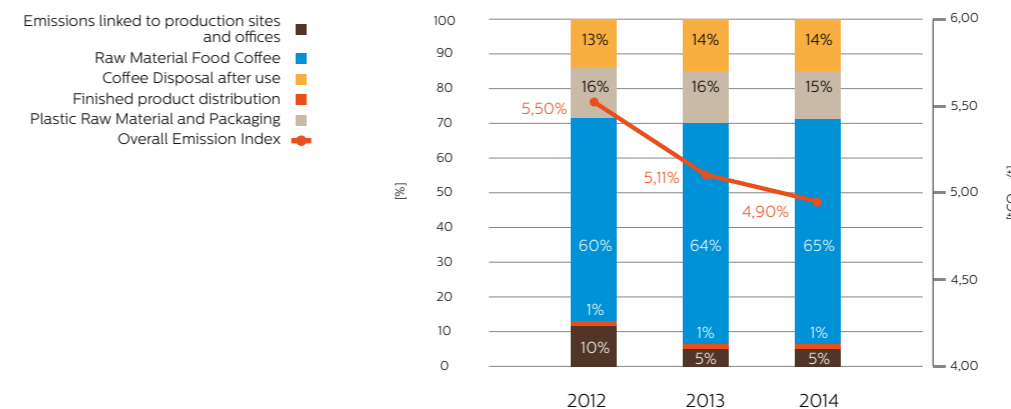
Distribution in percentage of Lavazza's greenhouse gas emissions

The graph on the next page shows the trend, in the three-year reporting period, of CO₂ equivalent emissions according to the GWP indicator (Global Warming Potential – IPCC 2013). Environmental impact is represented as a percentage of the entire value chain.

The system boundary include the administrative headquarters, the sales premises and the Italian production plants of Torino, Gattinara, Verrès, and Pozzilli, including the flows of coffee raw materials, plastic raw materials, packaging and the distribution of the finished product. The

boundary does not include the consumption stage, i.e. both the process of manufacturing coffee machines and their use.

Lavazza greenhouse gas emissions



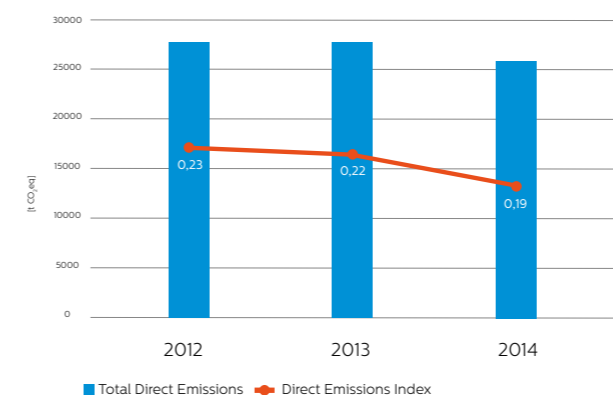
As highlighted by the indicators, the most significant impacts are generated in the cultivation stage and in the production of packaging. The emission indexes have dropped in the three-year reporting period.

The graphs below show the CO₂ equivalent tonnes related to both direct and indirect emissions, in absolute terms and in relation to the amount of coffee processed in tonnes. Direct emissions are represented by the thermal energy consumption of production plants,

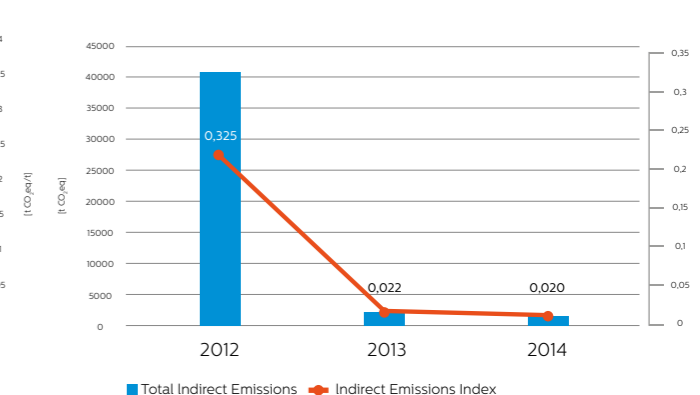
the administrative headquarters and the sales premises located in Italy, and by the company vehicle fleet. With regard to direct emissions, the emission indicator for tonnes of coffee processed in 2014 dropped by 17% compared to 2012. The reduction in CO₂

emissions, expressed in absolute terms, is even more significant if you consider the growing annual production volumes.

Direct Emissions - Scope 1



Indirect Emissions - Scope 2

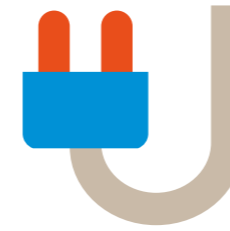


As far as indirect emissions are concerned, there was a sharp reduction in greenhouse gas emissions between 2012 and 2014. Mainly due to the purchase, from 2013, of "green energy", particularly from hydroelectric sources.

4.3.2 Environmental performance indicators

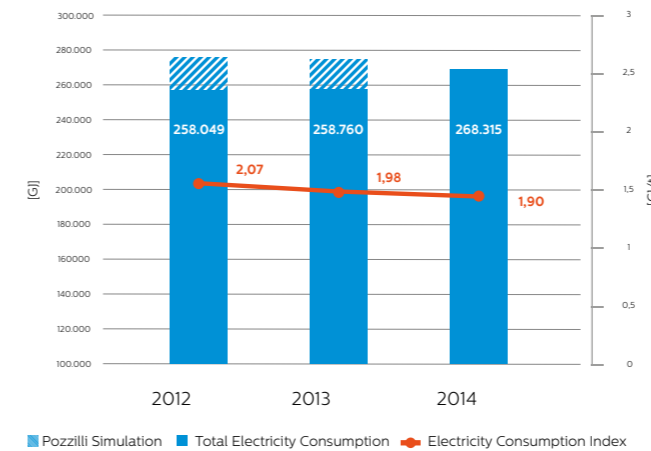
The data relating to energy consumption refers to the administrative headquarters, the Italian production plants of Torino, Gattinara, Verrès, Pozzilli, and to the sales premises located in Italy and include: electricity consumption, thermal energy consumption and fuel consumption for the fleet of company vehicles.

The conversion factors used in calculating the energy indicators refer to the “Indicator Protocols Set Environment (EN) Food Processing Sector Supplement Version 3.0 FPSS Final Version”.

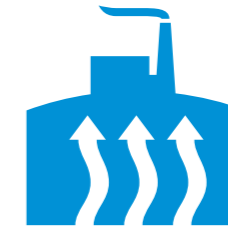


Electricity consumption

Electricity consumption within the production plants depends on the operation of the plant and equipment, production lines and ancillary services such as, for example, the generation of compressed air.

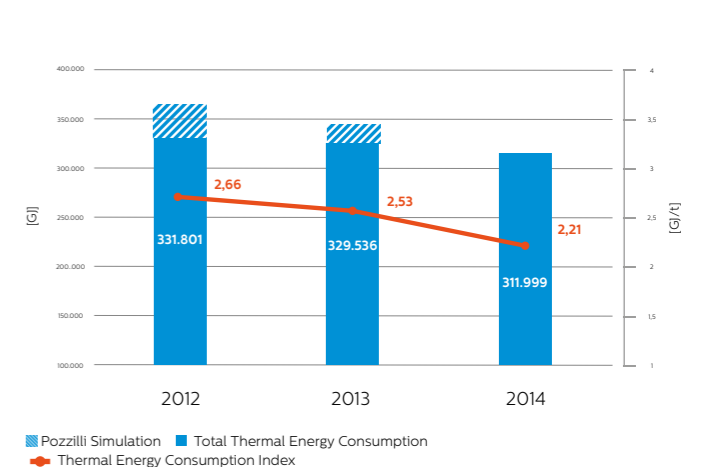


In the three-year reporting period specific electricity consumption dropped by 8% as a result of energy efficiency measures, improvements in the management and monitoring of consumption and efficiency at the production plants. On the other hand, absolute electricity consumption increased by around 4% due to a gradual increase in production and consumption at the Pozzilli production facility, which was only partly operational in the two-year period 2012-2013. The graph shows the normalised consumption difference assuming the Pozzilli facility at full operation.



Thermal energy consumption

Thermal energy consumption for the production plants depends on the operation of the plant and equipment, specifically the coffee roasting and decaffeination lines, and the generation of heat for heating the buildings.

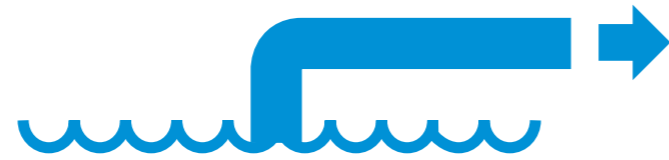
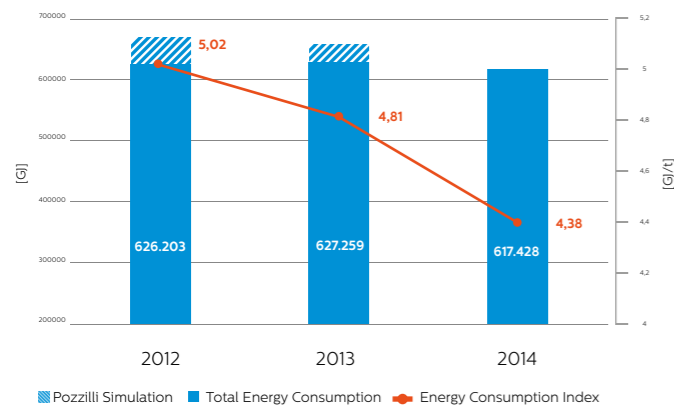


In the three-year reporting period thermal energy consumption in absolute terms dropped by approximately 6% and in specific terms over 17%. The main contribution to the improvement in energy performance came from the structural revamping of the thermal power stations at the Torino and Gattinara production plants.



Total energy consumption

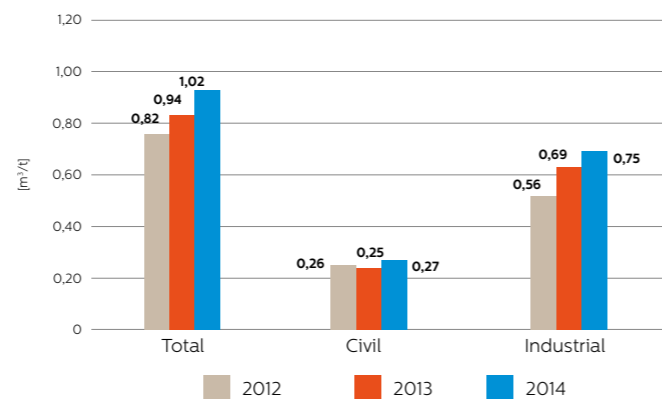
Overall, taking into consideration electricity consumption, thermal energy consumption and the fuel consumption of company vehicles, in the three-year reporting period a fall in consumption was recorded in absolute terms (approximately 1%) and in relative terms (over 12%).



Water collection

Most of the water consumption of Luigi Lavazza S.p.A. is related to the production plants, specifically the coffee roasting process, the cooling of the machinery used for the production of compressed air and sanitation and hygiene facilities. Water consumption relating to the coffee decaffeination process at the Pozzilli plant is particularly significant. This detail clearly emerges from the analysis of the respective environmental indicators which show a significant increase corresponding to the gradual return to full operation of the Pozzilli plant following the production halt which took place between 2012 and 2013. The reporting scope of the environmental indicators relating to water collection and discharge also includes the Italian production plants of Torino, Gattinara, Verrès and Pozzilli, plus the head office in Torino.

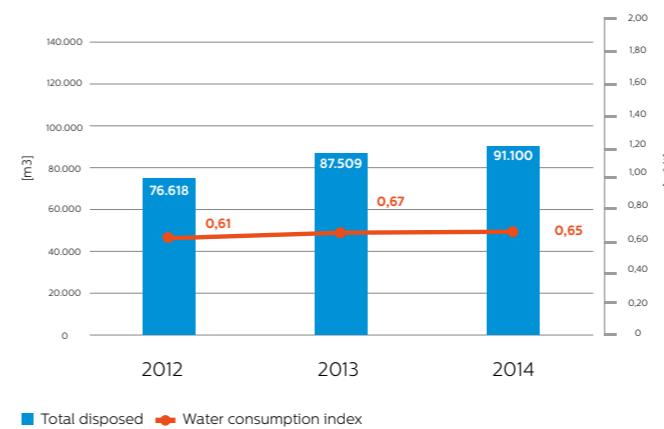
Water consumption indexes (m³/t) divided between civil use and industrial use



Water discharge

The total volume of waste water discharged at the Italian production plants and at head office flows into the drainage system.

Total (m³) and partial (m³/t) volumes of discharged waste water



Water reuse and recycling

Water for industrial use is used for the humidification of coffee to be decaffeinated, the cooling of coffee during the roasting stage and the cooling of ancillary machinery (e.g. compressors). In the first two cases, the water cannot be recycled or reused because it comes into direct contact with the coffee and evaporates. The water used in cooling the systems is recirculated in closed circuits to ensure the minimum consumption of resources. The water is therefore not recycled or reused, but, where technically possible, recirculated.



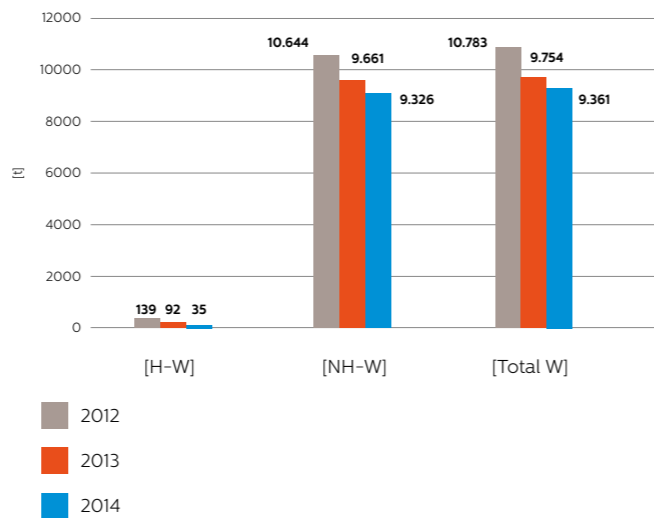
Waste

The figures on waste refer to the Headquarters and to the Innovation Center, the 4 Italian production plants of Torino, Gattinara, Verrès, Pozzilli and include production waste, waste generated by administrative and promotional activities with the exception of urban solid waste.

Lavazza is continuously striving to reduce the amount of waste it generates both in the production plants and in the headquarters by optimising processes, progressively adopting more effective management methods aimed at rationalising the temporary storage areas, and raising awareness of staff.

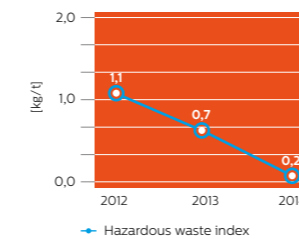
In the three-year reporting period there was an overall reduction in the amount of waste produced of more than 13% with almost all of it (more than 99% of total waste products) classified as “non-hazardous”.

The tonnes of Hazardous Waste (H-W), Non-Hazardous Waste (NH-W) generated per tonne of processed coffee



The graphs below show the indicators relating to the kg of waste generated per tonne of coffee processed. In 2014, for every tonne of coffee processed 66.4 kg of waste was produced, of which 66.2 kg is non-hazardous and 0.2 kg is hazardous.

Hazardous waste index

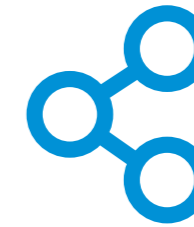
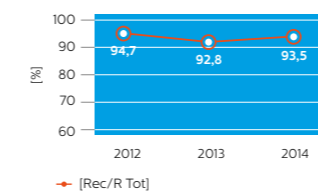


Non-hazardous waste index



The indicator related to waste management in the past-production phase, demonstrates that 90% of waste is sent for recycling.

Waste recovered



Substances that are harmful to the ozone layer

Some equipment (heat pumps, refrigeration and conditioning systems) requires the use of refrigerant gases containing substances, which are potentially harmful to the ozone layer (HCFCs).

These systems are regularly maintained by specialized third parties, who record activities and materials used on special forms. In the three-year reporting period, the maintenance activities required a moderate use of refrigerant gas equivalent to 47 kg.

Significant spills of potentially pollutant liquids

In the three-year reporting period there were no significant spills of potentially pollutant liquids either in the soil or in water; no fines were imposed and no formal warnings were received related to environmental impact issues.



Human resources development



5.1 The Lavazza approach to people

The development of human resources is a strategic aspect for the pursuit of excellence.

We grow as a company if people and their skills grow. Our tradition of transferring **professional skills** from experts to new employees has become systemic with the establishment of structured courses and tools for professional training and development. We design these courses beginning from a detailed analysis of training needs, involving staff from the initial analysis. Training is a key point to support the processes of change which are under way.

In 2014 the company adopted a model of leadership change and a professional system to

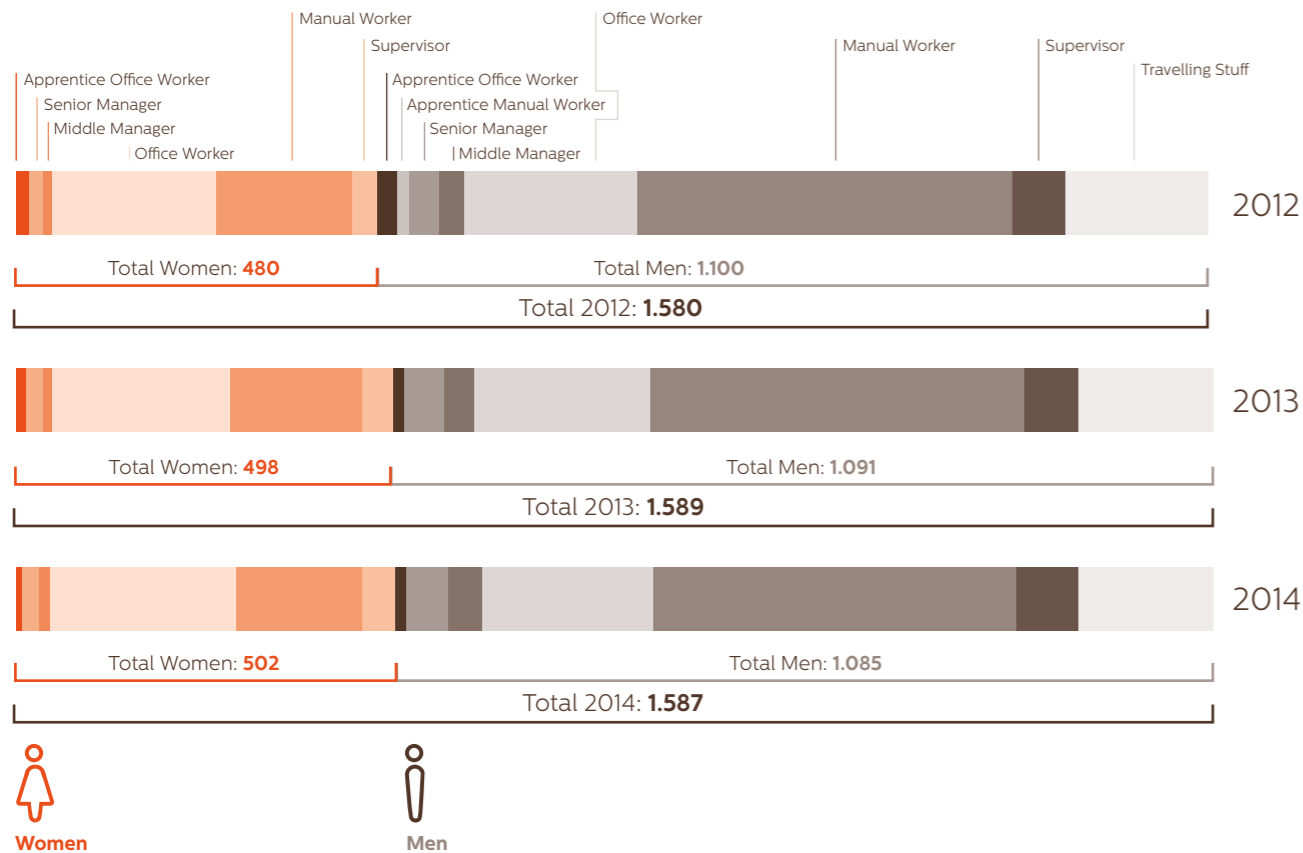
map all the competencies and professional skills within the company.

This model, designed with the contribution of over 60 colleagues acting as SMEs (subject matter experts), was accompanied by the implementation of evaluation mechanisms that will allow us to create effective development structures and career programmes for talents.

Finally, our staff can also grow by pursuing skill development programmes related to green coffee and product tasting. Years of experience go into the development of these skills and it is a unique opportunity for the

people who participate. In 2014, the company selected a panel of students from the University of Gastronomic Sciences in Pollenzo along with people from the production plants and enrolled them on a “coffee taster” training course.

Workforce by category and gender



5.1.1 Training and development: a systemic and shared process

The catalogue of professional skills and model of change leadership is the reference Lavazza uses to identify areas for improvement and offer targeted training and development initiatives in order to develop peoples' **abilities and skills**.

Moreover, during the reporting period, Lavazza underwent

significant organisational changes in response to the business objectives of internationalisation and interoperability.

Aware of the need to face these challenges, the company has boosted its investments in training activities. 2014 saw an increase in skills development training programmes and new

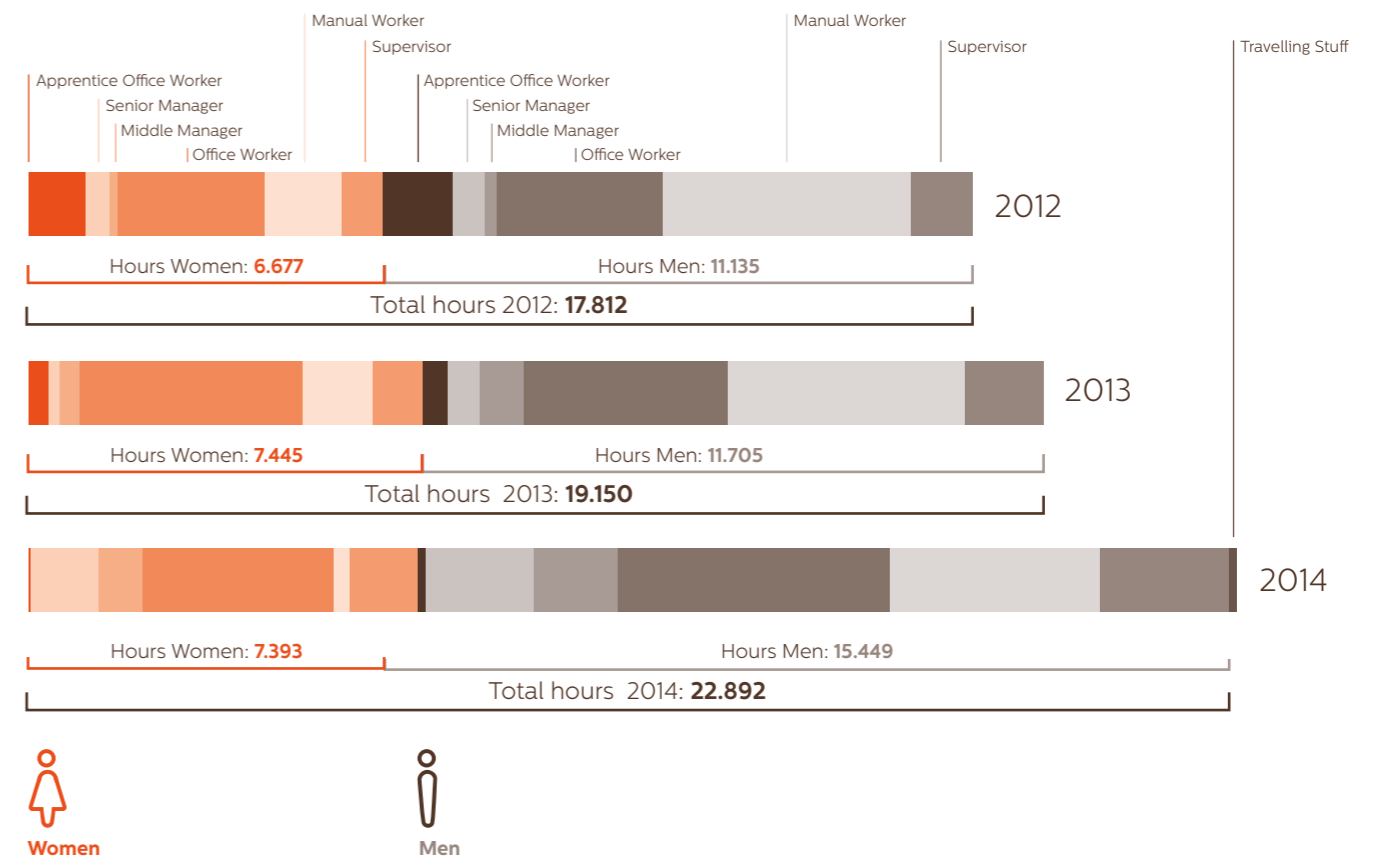
initiatives in support of innovation and platforms (inter-functional groups that work together to define/develop the product plan), creating a culture of project management. In particular, in 2014, training programmes were provided for the development of 29% of the capabilities and 41% of the skills contained in the company skills catalogue.

In parallel, the company's partnership with the management school ESCP Europe, which in 2004 included a contribution to the creation of its fifth campus in Torino, continues to enable Lavazza to offer "prestige" management training programmes, giving five managers a year the opportunity to pursue the General Management Programme (which corresponds to 40% of an MBA with one of

the highest world rankings for internationalism and excellence).

22.892
hours of training in 2014

Hours of training by category and gender





Lavazza Training Centers

Lavazza is aware that training is a key asset to support the excellence of its product.

Lavazza has been spreading coffee culture and the art of its preparation since 1979 through the activities of the Centre for Studies and Research into Coffee, now called the Training Center.

With **48** branches around the world, the Lavazza Training Center is the largest Italian and international coffee study centre. It trained **30,000** people in 2014 alone.

The Training Centers' activities are aimed at baristas, catering staff, sales force, distributors, Lavazza employees, consumers, journalists and opinion leaders.

Lavazza also organises induction days for new staff. This learning experience seeks to convey the company's philosophy, telling the story of coffee from the plantation to the product in the cup and sharing all the principles that guide our entrepreneurial approach.

48

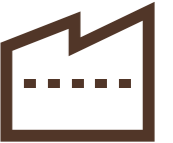
Lavazza Training Centers in the world



30.000

is the total number of persons trained in 2014 in Lavazza Training Centers

Organisational change: towards Lean Manufacturing



Since 2012, Lavazza has undergone a period of profound organisational change. To ensure more flexibility and efficiency, we initiated a project to develop **staff multifunctionality**, to switch from specialised production for each plant (**traditional coffee** at **Torino** and **Verrès** and **coffee capsules** at **Gattinara**) to **multiproduct** and **multifunctional** production following the principles of **Lean Manufacturing**. To help integrate the principles of Lean Manufacturing, we have implemented a plan to develop the know-how of all operational staff using leading experts to run specific **training sessions**.

The implementation of Lean Manufacturing included targeted actions to simplify processes, as well as:

- Training middle managers for their role as links between senior management and manual workers;
- Improving packaging processes;
- Training on production line quality

The organisational change at the **Verrès**, **Gattinara** and **Torino** centres included the **introduction of contracts** with specific remuneration clauses, to reward employees for the added value deriving from their work.



5.1.2 Leading Change

In the more general context of the change in progress, we implemented the **Leading Change** project in 2013 in order to structure **talent management** processes and to launch a number of engagement and communication initiatives in support of the change.

Leading Change was developed along three main axes: **leadership of change, skills and performance.**

Leadership of change: this values and promotes development actions to strengthen accountability, integration, leading people and innovation. These elements should be characteristic of all managers. In 2014, all managers were evaluated not only by their own managers, but also by colleagues and employees using an objective and transparent

process enabling them to identify strengths and weaknesses.

Skills: the catalogue defined in 2014 includes over **180 skills** and **21 capabilities** that cover all company skills. For the first time, **over 1,200 employees** completed a skills assessment process. The process has been extended with a training initiative for all managers (including of subsidiaries) to develop a culture of feedback and the “boss” as a coach.

Performance of Management: recently modified, our performance management system involves the managers’ population and includes the Group objectives and individual objectives in relation to specific indicators. The Management by Objectives (MBO) programme is, therefore, a **system** in which both types of objectives are inversely proportional to the company’s

organigramme. To support continuous development over the next three years, we intend to complement the current MBO system with a performance management system that also includes qualitative objectives and the valorisation of professional skills. The new system will affect office workers as well as managerial staff (senior managers, junior managers and middle managers).



The MBO programme

In 2014, 204 people, or 12.85% of the total workforce, were involved in the MBO programme.



204

employees involved in 2014
in the MBO Programme



People involved in the MBO Programme

2012-2014

Gender	Category	2012	2013	2014
Women 	Senior Managers	17	20	18
	Middle Managers	11	12	15
	Junior Managers	29	33	32
Total Women		57	65	65
Men 	Senior Managers	40	52	52
	Middle Managers	23	32	37
	Junior Managers	52	51	50
Total Men		115	135	139
Total		172	200	204

Thanks to **Leading Change**, Human Resources is consolidating its role as business partner and “agent of change”.

Lavazza corporate policy is guided by the principle of **transparency**. Leading Change is establishing this value within

the Lavazza system so that it can grow over time. In this context, it is essential to strengthen middle management by providing tools and clear processes under the governance of Human Resources and Property & Facility.



5.1.3 Teamwork

Involving people is one of the basic keys to success. We thus seek the most effective ways to promote inter-functional processes through the integration of different skills and professional expertise.

The clearest example of this are the **platforms** – interfunctional teams working on different projects.

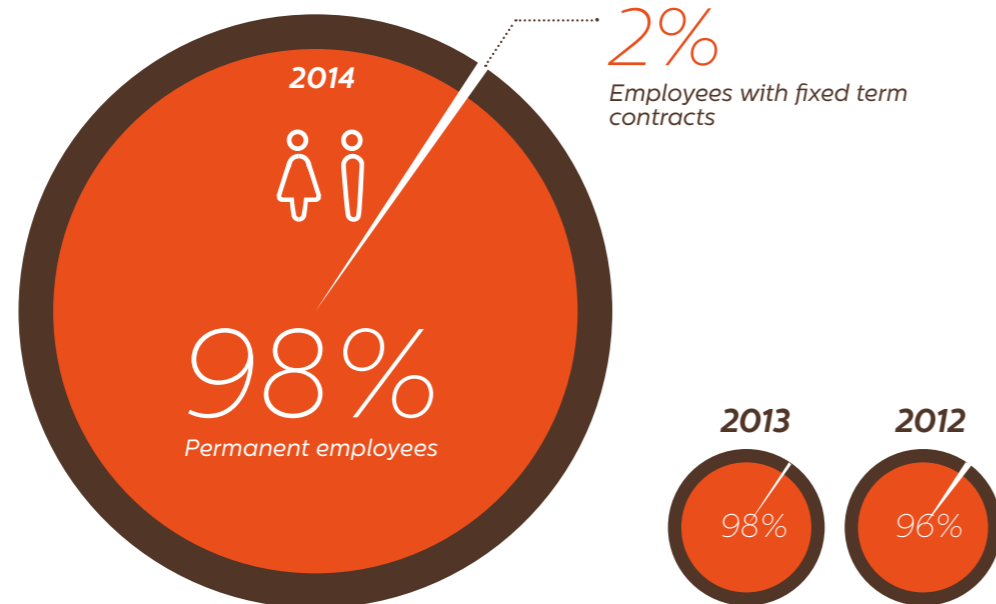
This does not mean scattering responsibility but rather ensuring a coordinated progress that generates **higher added value**.

The industrial system follows similar guidelines. Today, in all plants in Italy and abroad, processes are managed by a **departmental operating team**. A highly integrated group of people follows the entire manufacturing

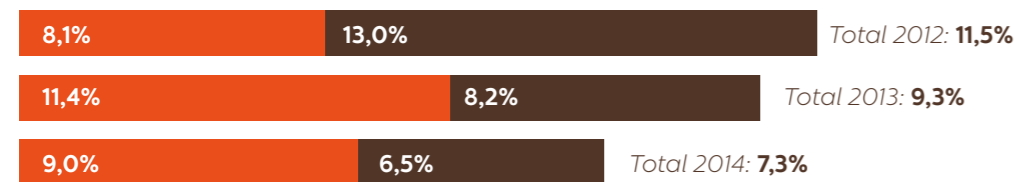
process and ensures that the product respects deadlines and quality standards. Teamwork benefits production staff and involves everyone in identifying problems and improvement actions.



Percentage of fixed and permanent contracts



Total Turnover



The 11.5% figure for 2012 differs from the 16% shown in the 2012 Sustainability Report because it is calculated on different source data in terms of staff and number of hires and exits.

5.1.4 Loyalty and transparency

The percentage of employees with **permanent contracts** – which **grew** from 96% to **98%** in the period 2012 to 2014 – is consistent with the importance that Lavazza gives to establishing lasting relationships. This

importance is also reflected in reduced staff **turnover** figures, which dropped from 11.5% in 2012 to **7.3%** in 2014. Average annual remuneration in Lavazza is about 30% higher than the minimum wage as set by the

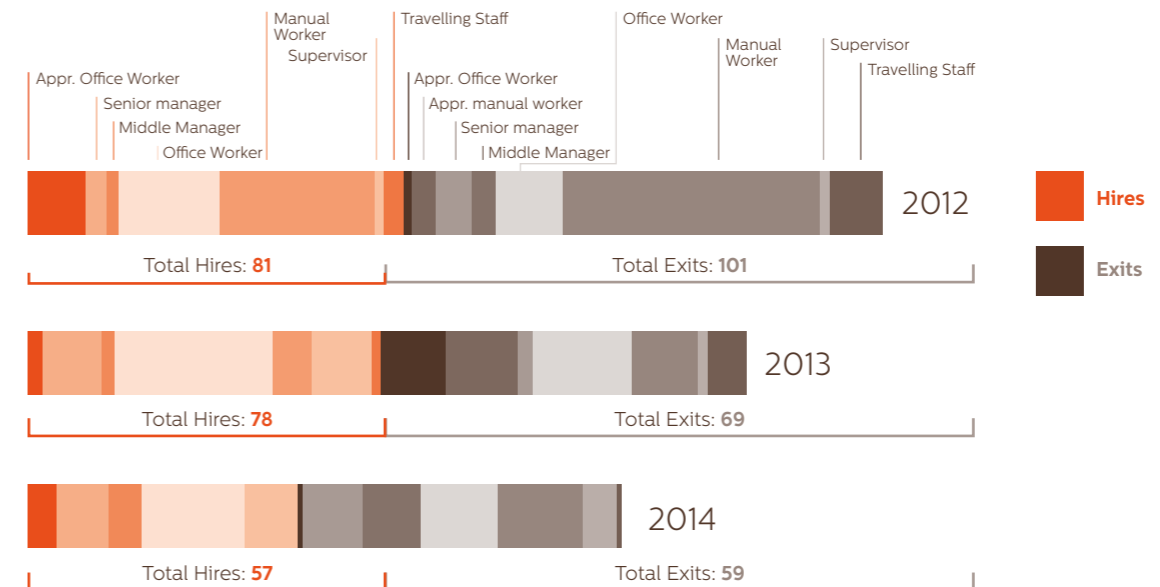
national labour contract. The ratio between company average annual remuneration for women and the minimum wage is 25% higher than the national labour contract. The corresponding figure for men is 32%.

The ratio between the average annual gross remuneration received by female employees and the average for men is around 92% for middle managers, 98% for junior managers and 94% for office workers. The remuneration for female manual workers exceeds that of men by more than 2.5%. This ratio is obtained by dividing

the sum total of annual gross remuneration received by women by the annual gross remuneration of men, for each category. In the three years covered by the report 2012-2014, 93 employees took parental leave (78 women and 15 men). The rate of return to work and reinstatement in their jobs was 100%.

The figures confirm a stable employment situation in the Group with a growth of office worker and junior manager categories in line with Lavazza's processes of professional development. Moreover, all employees of Luigi Lavazza S.p.A. are covered by national collective agreements¹⁸.

Hires and exits by position



In the period 2012-2014, Luigi Lavazza S.p.A. received no complaints relating to the infringement of workers' rights, the proper regulation of working

hours, trade union rights or its management of labour relations with the exception of a case in 2013 that led to a legal dispute that the company won.

¹⁸ Lavazza does not resort to forms of collective bargaining for the definition of the notice periods except for changes of shifts within the production sites. In these cases, the notice period established by contract (CCNL- national labour contract) is two weeks.



5.1.5 Internal communication

Lavazza believes that internal communication is as important as external communication because it allows to communicate company strategy involving, motivating and listening to staff.

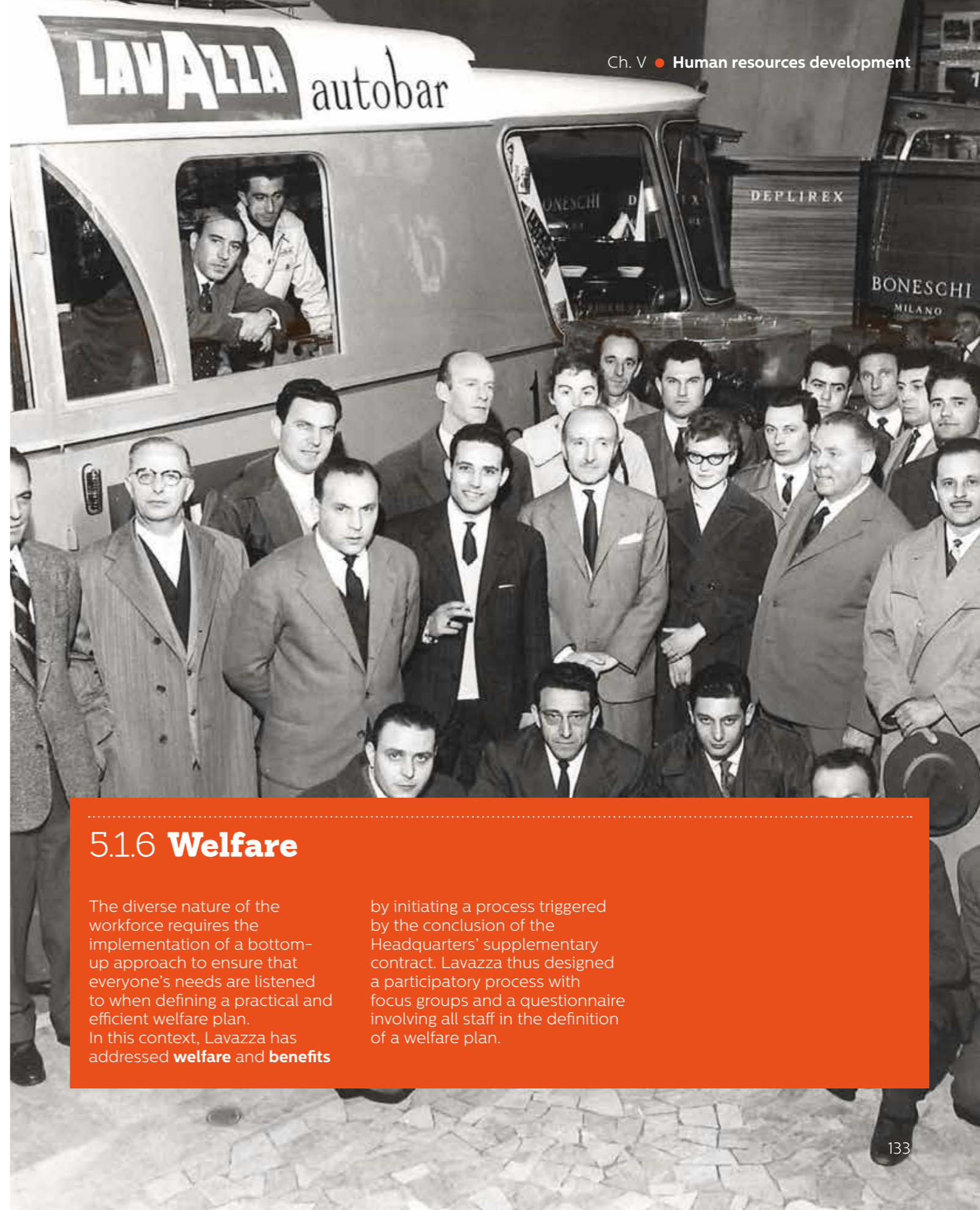
The process of organisational change has made it necessary to strengthen the activities and methods of internal communication. In 2014, the company created a dedicated function within Human Resources

and Property & Facility. Over the course of the year, communication activities particularly focused on strategy sharing and support for the organisational changes in progress, for the first time systematically involving a significant number of managers and employees in meetings with top management.

In parallel, we began to design communication programmes that

use a bottom up logic to activate the mechanisms of listening and involvement of employees on important issues such as welfare, the new headquarters, and the definition of Leadership behaviour through corporate storytelling.

These programmes will be active and further increased in 2015 .



5.1.6 Welfare

The diverse nature of the workforce requires the implementation of a bottom-up approach to ensure that everyone's needs are listened to when defining a practical and efficient welfare plan. In this context, Lavazza has addressed **welfare** and **benefits**

by initiating a process triggered by the conclusion of the Headquarters' supplementary contract. Lavazza thus designed a participatory process with focus groups and a questionnaire involving all staff in the definition of a welfare plan.



5.1.7 Nuvola: a sustainable project

Nuvola, the new Lavazza headquarters will be inaugurated in 2016. Designed by **Architect Cino Zucchi**, the new premises respect the highest sustainability and innovation criteria and are candidate for the **LEED® Gold certification**.

The chosen location is also in line with sustainable principles. The new headquarters will in fact be opened in an old industrial area, bringing new life to the district by preserving historically and architecturally **valuable existing buildings**.

The design also includes a garden, a public underground car park as well as the Lavazza Museum and the corporate historical archive. By investing € **100 million¹⁹** in

this project, Lavazza aims to make a strong urban statement and, at the same time, to create a functional and innovative workplace for **more than 500 employees**. The new Lavazza office spaces were designed to promote new ways of working that stimulate **teamwork, encourage the exchange of information, and strengthen multifunctionality** with a view to fostering innovation and continuous improvement.

All stakeholders from local Institutions to private citizens were involved in every step of the project, thus ensuring highly participatory approach.

The district that will house the new Lavazza headquarters is also home to the **IAAD** (Institute of

Applied Arts and Design), where over **400** young creative talents are enrolled in a university-level course. When the project is completed, **more than 1,000 people** every day will breathe life into this new area reclaimed for the city. The project also includes one of Torino's first smart streets with low energy LED lighting and free wifi, as well as greenery, benches and cycle racks, creating a meeting space at the service of the university and the district.

The work has also brought to light the remains of an **early Christian basilica of the fourth and fifth centuries AD**, which, after the project is completed, will also be valorised.



¹⁹ The total invested in the new headquarters in 2014 will be over €33 million.



2016

The new Lavazza Headquarters will be inaugurated

100 million euro invested

LEED®

LEED® (Leadership in Energy and Environmental Design) certification Gold level



Sustainable from the outset

The Nuvola project has been designed to be sustainable right from its earliest stages. For the entire duration of the work Lavazza will take every necessary and appropriate action to protect the environment and reduce any inconvenience for people living and working nearby.



To make this commitment even more transparent, we have codified it in a **“Handbook of Sustainable Construction”** that includes:

- Limiting the emission of dust as much as possible;
- Preventing any form of soil and water pollution;
- Recovering the greatest possible quantity of waste;
- Avoiding the soiling of public roads;
- Maintaining the state of the perimeter of the construction site;
- Making sure vehicles enter and exit at walking pace;
- Ensuring that all workers behave responsibly while on the building site;

- Telling people in advance about any inconvenience or changes to the road system;
- Responding promptly to reports sent to the email address info.nuvola@lavazza.it;
- Giving periodic progress updates through www.nuvola.lavazza.it and the free electronic newsletter.



5.1.8 Health and safety at work

In accordance with legal requirements, Luigi Lavazza S.p.A. has a health and safety at work Prevention and Protection Service.

The duties and responsibilities for health and safety at work are clearly defined in all organisational business units through a system of delegation of functions from top management to the Plant/Function management teams. The company makes sure that every worker is informed about company health and safety policies, and is properly taught

and trained to operate and perform their respective activities in complete safety. Over this three-year period each worker was given the statutory training and specific training courses were identified for the following roles:

- Safety managers (pursuant to Article 2 of Italian Legislative Decree 81/2008),
- Safety officers (pursuant to Article 2 of Italian Legislative Decree 81/2008),
- Fire emergency and first aid team members,

- Workers' safety representatives,
- Managers and staff assigned to prevention and protection,
- Tasks that may expose workers to specific risks that require recognised professional skills, specific experience, adequate education and training.

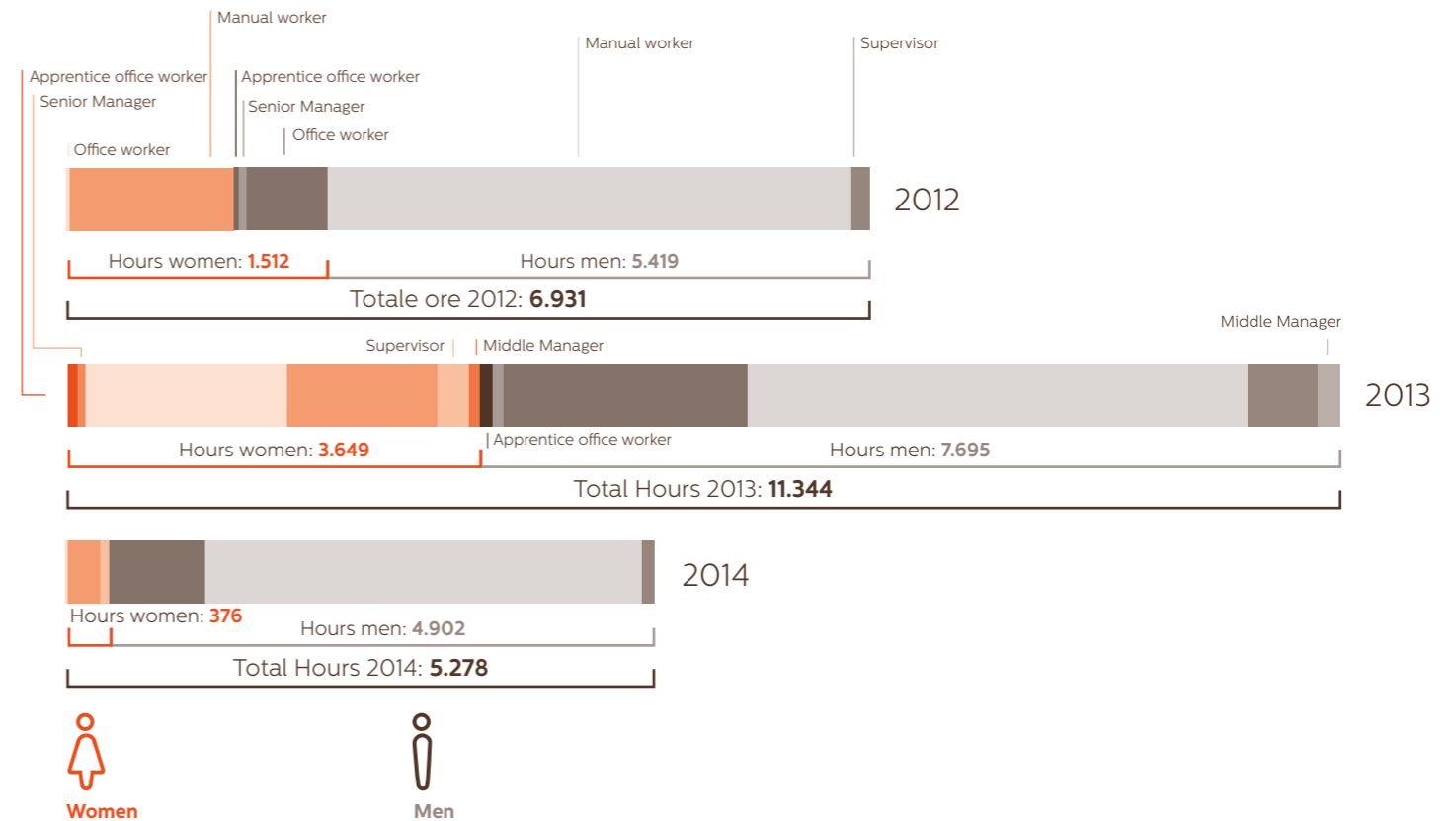
In the 2012-2014 period,

23.553

training hours on Occupational Health and Safety (OHS) were delivered involving **2.006** people.



Training hours OHS by job title and gender



Lavazza employees have a wide range of personal protective equipment (PPE) available for the specific risks identified. These enable the minimisation of risk where technical and organisational measures cannot ensure an acceptable level, considering the regulatory provisions as minimum requirements.

The company pays particular attention to ensuring that

work equipment always meets regulatory requirements and that the best available techniques are adopted, providing appropriate training campaigns to respond to changes in technology.

A standardised Operations level procedure was implemented from 2014 for the analysis of incidents (accidents and near accidents) in order to identify their root causes. The results of this analysis have been distributed throughout

the organisation via an internal communication system that enables each plant to ascertain the possible presence of similar conditions or criticalities and thus to avoid or at least reduce the possibility of recurrence of an incident that has already occurred somewhere else. The results of analyses and trends of accidents at work, monitored by means of injury rates recording the frequency of occurrence and severity of



the injury, are the subject of regular meetings with company management and staff. At these meetings, the results of the analyses are presented along with the state of implementation of the corrective actions taken and the level of implementation of the projects and of the improvement activities.

The trend for accidents at work, monitored through injury frequency and severity rates, helps to define the set of objectives for management, its

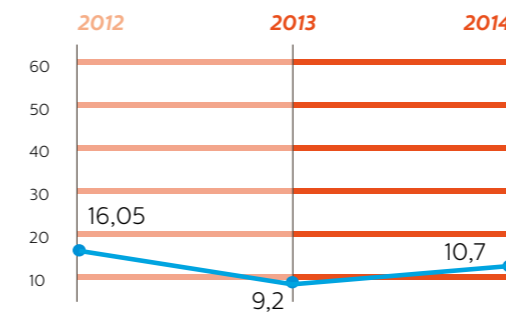
staff and throughout the whole organisation. The injury frequency rate represents the number of accidents per 1,000,000 hours worked.

The injury severity rate represents the number of days lost due to accidents per 1,000 hours worked.

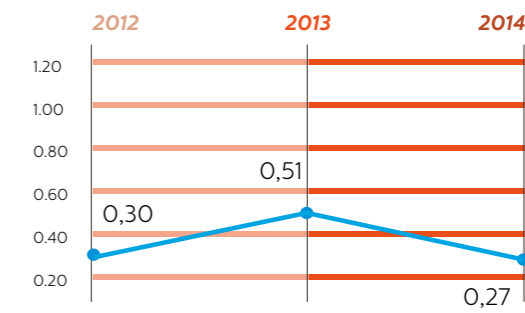
The calculation of the injury rates considers events that happened to staff resulting in an absence from work of more than one day, net of "in itinere" injuries

(comparable to road accidents). The working hours used for the calculation of the injury rates include the regular and overtime hours of workers at Luigi Lavazza S.p.A.'s Italian plants and sales premises, Innovation Centre and Headquarters.

Injury frequency rate 2012-2014



Injury severity rate 2012-2014



The data is referred to employees working in the four Italian production plants, in the commercial branches and in the Torino headquarters.



Continuous improvement

Lavazza sustainability objectives

Lavazza objectives 2015-2018



Compensation & Benefit

■ A performance management system linked to evaluation mechanisms based on performance, skills and qualifying aspects, will run alongside the current MBO (management by objectives) system over the next three years. The new system will affect office workers as well as managerial staff (senior managers, junior managers and middle managers).

Quality

The activities aimed at continuous improvement of products and processes include, for the period 2015-2019, the implementation of additional "pillars" to ensure product quality and safety:

- **Centralisation of the receipt and handling of complaints from all over the world**, completing the work already started in Italy. This will ensure greater proximity to all our consumers and a better understanding of their needs and how they perceive the quality offered by Lavazza;
- **The start of a process of systematic and codified assessment** of the activities and processes of all

Monitoring of suppliers

■ In 2014, as part of a joint programme of the Purchasing and Quality Departments for the monitoring of suppliers, the 2015 system audit plan was drafted up according to a new methodology. In addition to the verification of the reliability of processes, quality and safety systems, this methodology also includes the preliminary verification of CSR aspects. The objective is to review at least:

- 25% of direct material suppliers (representing at least 60% of the annual purchase turnover of this category);
- 50% of machinery suppliers (representing at least 75% of the annual purchase turnover of this category);

Health, Safety, Environment and Energy

■ Definition and implementation of the Health, Safety, Energy and Environmental Management System in compliance with ISO 14001, ISO 50001 and OHSAS 18001.

- Definition of a welfare plan, based on a segmented offer, adapted to the varied nature of the workforce;
- Implementation of a platform for the management of conventions and "flexible benefits".

- Implementation in 2015 of a Lavazza training portal to ensure better management reporting and a direct link between the business areas and subsidiaries.
- Creation of the Lavazza training portal for all the employees;
- Creation of the new Lavazza intranet as a means of communication with employees, subsidiaries, and business areas.

suppliers of raw materials, semi-finished products, finished products and packaging, thus providing operational units with extremely reliable and effective partners;

- The upgrade of certification standards to the new market demands, in particular with the **ISO 22000 certification for all production plants**, which represents a natural evolution towards higher standards than the current HACCP system, required by law, and already certified or undergoing certification at the Group's main plants.

Welfare



GRI Content Index

In Accordance - Core Option



The following table shows the list of indicators set out by the GRI-G4 standard, reported by Lavazza to ensure a level of compliance "in accordance-Core". There is a page reference number in this document for each GRI indicator.

The table also shows a number of additional GRI indicators for food production ("Food Processing Sector Supplement").

GENERAL STANDARD DISCLOSURES		
General standard disclosures	Page Number (or Link)	Limited External Assurance p. 154
Strategy and Analysis		
G4-1	pp. 8-9	Yes
Organizational Profile		
G4-3	p. 11	Yes
G4-4	pp. 32-33	Yes
G4-5	p. 11	Yes
G4-6	p. 11	Yes
G4-7	p. 30	Yes
G4-8	p. 11	Yes
G4-9	p. 11; p. 118	Yes
G4-10	p. 11; p. 118; pp. 130-131	Yes
G4-11	p. 131	Yes
G4-12	p. 64	No
G4-13	p. 38	Yes
G4-14	p. 88	Yes
G4-15	p. 34; pp. 76-77	Yes
G4-16	p. 35	Yes

Identified Material Aspects and Boundaries		
G4-17	p. 11	Yes; pp. 153-155
G4-18	p. 11	Yes; pp. 153-155
G4-19	p. 14	Yes; pp. 153-155
G4-20	p. 14	Yes; pp. 153-155
G4-21	p. 14	Yes; pp. 153-155
G4-22	p. 11	Yes; pp. 153-155
G4-23	p. 11	Yes; pp. 153-155
Stakeholder Engagement		
G4-24	p. 12	Yes; pp. 153-155
G4-25	p. 11	No
G4-26	p. 12	Yes; pp. 153-155
G4-27	p. 12; p. 14	Yes; pp. 153-155
Report Profile		
G4-28	p. 11	Yes
G4-29	p. 10	Yes
G4-30	p. 10	Yes
G4-31	p. 10	Yes
G4-32	p. 10; p. 15; p. 146	Yes
G4-33	p. 15	Yes
Governance		
G4-34	p. 30	Yes
Ethics And Integrity		
G4-56	p. 34	Yes



GRI Content Index

In Accordance - Core Option

SPECIFIC STANDARD DISCLOSURES		
Disclosure on Management Approach (DMA)	Page Number (or Link)	Limited External Assurance p. 154
CATEGORY: ECONOMIC		
DMA	p. 37; p. 72; pp. 134-135	Yes
Material Aspect: Economic Performance		
G4-EC1	p. 39	Yes
Material Aspect: Market Presence		
G4-EC5	p. 130	Yes
Material Aspect: Indirect Economic Impacts		
G4-EC7	pp. 134-135	Yes
Material Aspect: Procurement Practices		
G4-EC9	p. 72	Yes
CATEGORY: ENVIRONMENTAL		
DMA	p. 37; pp. 76-77; p. 88; pp. 91-92	Yes
Material Aspect: Materials		
G4-EN1	p. 93	Yes
Material Aspect: Energy		
G4-EN3	pp. 106-113	Yes
G4-EN4	pp. 106-113	Yes
G4-EN5	pp. 106-113	Yes
G4-EN6	pp. 106-113	No

Material Aspect: Water		
G4-EN8	pp. 106-113	Yes
G4-EN10	pp. 106-113	No
Material Aspect: Emissions		
G4-EN15	pp. 106-113	Yes
G4-EN16	pp. 106-113	Yes
G4-EN17	pp. 106-113	Yes
G4-EN18	pp. 106-113	Yes
G4-EN19	pp. 106-113	Yes
G4-EN20	pp. 106-113	No
Material Aspect: Effluents And Waste		
G4-EN22	pp. 106-113	No
G4-EN23	pp. 106-113	Yes
G4-EN24	p. 113	No
Material Aspect: Products And Services		
G4-EN27	pp. 106-113	Yes
Material Aspect: Compliance		
G4-EN29	p. 113	Yes
Material Aspect: Transport		
G4-EN30	pp. 106-113	Yes
Material Aspect: Overall		
G4-EN31	p. 83	Yes
Material Aspect: Supplier Environmental Assessment		
G4-EN32	pp. 76-77	Yes



GRI Content Index

In Accordance - Core Option

Material Aspect: Environmental Grievance Mechanisms		
G4-EN34	p. 113	No
CATEGORY: ENVIRONMENTAL		
DMA	p. 43; p. 63; p. 70; pp. 76-77; p. 117; pp. 130-131; pp. 138-139	Yes
SUB-CATEGORY: LABOR PRACTICES AND DECENT WORK		
Material Aspect: Employment		
G4-LA1	pp. 130-131	Yes
G4-LA3	p. 131	Yes
Material Aspect: Labor/Management Relations		
G4-LA4	p. 131	No
Material Aspect: Occupational Health And Safety		
G4-LA6	p. 141	Yes
Material Aspect: Training And Education		
G4-LA9	p. 117; p. 139	Yes
G4-LA10	p. 117; p. 125	Yes
G4-LA11	p. 126	Yes
Material Aspect: Equal Remuneration For Women And Men		
G4-LA13	p. 131	Yes
Material Aspect: Supplier Assessment For Labor Practices		
G4-LA14	pp. 76-77	Yes
Material Aspect: Labor Practices Grievance Mechanisms		
G4-LA16	p. 131	Yes
SUB-CATEGORY: HUMAN RIGHTS		
Material Aspect: Investment		

G4-HR1	p. 76	Yes
Material Aspect: Supplier Human Rights Assessment		
G4-HR10	pp. 76-77	Yes
Material Aspect: Human Rights Grievance Mechanisms		
G4-HR12	p. 131	Yes
SUB-CATEGORY: SOCIETY		
Material Aspect: Local Communities		
G4-SO1	p. 54	Yes
Material Aspect: Anti-Corruption		
G4-SO4	p. 30	Yes
Material Aspect: Compliance		
G4-SO8	p. 34	Yes
SUB-CATEGORY: PRODUCT RESPONSIBILITY		
Material Aspect: Customer Health And Safety		
G4-PR2	p. 63	Yes
Material Aspect: Product And Service Labeling		
G4-PR5	p. 70-71	Yes
Material Aspect: Customer Privacy		
G4-PR8	p. 71	Yes
FOOD PROCESSING G4 - SECTOR DISCLOSURE		
CATEGORY: ECONOMIC		
Material Aspect: Procurement/Sourcing Practices		
G4-FP1	pp. 76-77	Yes



INDEPENDENT REPORT ON THE LIMITED ASSURANCE ENGAGEMENT OF THE OF THE SUSTAINABILITY REPORT 2014

To the Board of Directors of
Luigi Lavazza S.p.A.

We have carried out a limited assurance engagement on the Sustainability Report as of 31 December 2014 (hereinafter the “Report”) of Luigi Lavazza S.p.A. (hereafter the “Lavazza” or “Company”).

Responsibility of the Directors for the Report

The Directors are responsible for preparing the Report in compliance with the *G4 Sustainability Reporting Guidelines* defined in 2013 by the *GRI - Global Reporting Initiative* (the “*G4 Sustainability Reporting Guidelines*”), as indicated in the paragraph “Methodological note” of the Report, and for that part of internal control that they consider necessary to prepare a sustainability report that is free from material misstatement, whether due to fraud or unintentional behaviours or events. The Directors are also responsible for defining the sustainability performance targets of Lavazza, for reporting the sustainability results, as well as for identifying the stakeholders and the significant aspects to be reported.

Auditor’s responsibility

We are responsible for the preparation of this report on the basis of the work performed. We conducted our engagement in accordance with “*International Standard on Assurance Engagements 3000 – Assurance Engagements other than Audits or Reviews of Historical Financial Information*” (“*ISAE 3000*”), issued by the International Auditing and Assurance Standards Board for limited assurance engagements. The standard requires that we comply with applicable ethical requirements, including professional independence, and that we plan and perform our work to obtain limited assurance that the Report is free from material misstatement. The procedures consisted in interviews, primarily of Company personnel responsible for the preparation of the information presented in the Report, analysis of documents, recalculations and other verification procedures.

The procedures we performed on the Report consisted in verifying its compliance with the principles for defining the content and the quality of a sustainability report set out in the “*G4 Sustainability Reporting Guidelines*”, and are summarised as follows:

PricewaterhouseCoopers Advisory SpA

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- comparing the economic and financial information and data reported in paragraph “Economic and financial performance of the Lavazza Group” of the Report with those included in the Group’s consolidated financial statements as of 31 December 2014 on which other auditors issued an audit opinion, in accordance with article 14 of legislative decree n° 39 of 27 January 2010, on 10 April 2015;
- analysing, through inquiries, the governance system and the process for managing the sustainability issues relating to the Company strategy and operations;
- analysing the process aimed at defining the significant reporting areas to be disclosed in the Report, with regard to the methods for their identification, in terms of priority for the various stakeholders, as well as the internal validation of the process findings;
- analysing the processes underlying the generation, recording and management of quantitative data included in the Report. In detail, we carried out:
 - meetings and interviews with management of Lavazza to achieve a general understanding of the information, accounting and reporting systems in use to prepare the Report, as well as of the internal control processes and procedures supporting the collection, aggregation, processing and submission of the information to the function responsible for the Report preparation;
 - a sample-based analysis of the documents supporting the preparation of the Report, in order to obtain evidence of the reliability of processes in place and of the internal control system underlying the treatment of the information relating to the objectives disclosed in the Report;
- analysing the internal consistency of the qualitative information described in the Report and its compliance with the guidelines identified in the preceding paragraph “Responsibility of the Directors for the Report”;
- analysing the stakeholders engagement process with regard to the methods used and the analysis of the existing documentation concerning the significant matters arisen during the Company’s dialogue initiatives;
- obtaining a representation letter, signed by the Chief Executive Officer of Luigi Lavazza S.p.A., on the compliance of the Report with the guidelines identified in the paragraph “Responsibility of the Directors for the Report”, as well as the reliability and completeness of the disclosed information.

Data and information subject to our limited assurance procedures are included, as required by the “G4 Sustainability Reporting Guidelines”, in the “GRI Content Index” of the Report.

Our limited assurance work was less in scope than a reasonable assurance engagement performed in accordance with ISAE 3000 and, consequently, it does not provide us with a sufficient level of assurance necessary to become aware of all significant facts and circumstances that might be identified in a reasonable assurance engagement.

Conclusion

Based on the work performed, nothing has come to our attention that causes us to believe that the Sustainability Report of Luigi Lavazza S.p.A. as of 31 December 2014 has not been prepared, in all material respects, in compliance with the “G4 Sustainability Reporting Guidelines” defined in 2013 by the GRI - *Global Reporting Initiative* as disclosed in the paragraph “Methodological note” of the Report.

Other Aspects

We point out the following aspects that we confirm the Company should consider in view of a continuous improvement in the next years: strengthening of the reporting system and use, in the calculation of the total energy consumption, the most suitable conversion factors based on the selected company structure and, consequently, of the Country of reference.

Turin, 26 May 2015

PricewaterhouseCoopers Advisory SpA

Signed by

Paolo Bersani
(Partner)

This report has been translated from the original, which was issued in Italian, solely for the convenience of international readers.

Glossary

Accountability

An organisation is accountable if it is organised in such a way as to provide its stakeholders (see stakeholder) with periodic reports and communications on its approach, objectives and results. The level of accountability of an organisation and the content of its reports have a significant impact on stakeholders' perception of the organisation, which in turn affects its reputation. As such, accountability provides a foundation for building and strengthening trust between a company and its stakeholders.

Audit

An audit is an assessment of the performance of an organisation on the basis of pre-defined criteria, using systems that ensure objective results. Audits generally involve inspections at the premises of the entity whose conduct is being assessed. The areas of assessment and the requirements to be checked are generally defined by commercial agreements between the two organisations (if, for example, the audit is conducted within the scope of a supply contract and it is the customer, directly or through a third-party auditor, that is verifying compliance with requirements), or by standards to which the organisation has chosen to conform (as in the case of certifications).

An audit may reveal aspects of company processes that fall short of requirements, in which case corrective measures are proposed. Failure to resolve

these shortcomings may result in commercial relations being terminated, if this is allowed for under the supplier contracts.

Best Available Technology (BAT)

The most efficient and advanced technology, industrially available and applicable under technically valid conditions, capable of guaranteeing a high level of protection of the environment as a whole.

Biodiversity

The variability between living organisms within a single species (genetic diversity), between different species and between ecosystems. The Convention on biological diversity, approved by the European Community, affirms the need to anticipate, prevent and combat at the source the causes of any significant reduction or loss of biological diversity, in consideration of its intrinsic value as well as its ecological, genetic, social, economic, scientific, educational, cultural, recreational and aesthetic values.

Carbon Footprint

A measure of the impact of human activities (products, services, processes, etc.) on the environment, in terms of the total quantity of carbon dioxide (CO₂) and other greenhouse gas emissions associated with its entire life cycle.

Climate change

Expression used to indicate the increase in the average

temperature of the Earth's atmosphere and oceans due to natural causes. It is also used as a synonym for global warming: the rise in temperatures caused by human activities.

Code of Ethics

<http://www.lavazza.com/en/lavazza-world/ethics.html>

CSR

Corporate Social Responsibility

Set of policies adopted voluntarily by a company to integrate social and ecological issues with its commercial operations and relations with stakeholders. A company is socially responsible if it goes beyond its statutory obligations by investing in human capital, the environment and relations with its stakeholders.

This is mirrored by the definition of CSR in the European Commission Communication of October 2011 "A renewed EU strategy 2011-2014 for Corporate Social Responsibility", according to which CSR is "a process to integrate social, environmental, ethical, human rights and consumer concerns in to their business operations and core strategy in close collaboration with their stakeholders, with the aim of:

- maximising the creation of shared value for partners/ shareholders and for their other stakeholders and society at large, through a long-term strategic approach to CSR and the development of innovative products, services and business models;



- identifying, preventing and mitigating their possible adverse impacts”.

Corporate welfare

System of voluntary services provided by a business to its employees in response to specific needs and economic and social interests. This definition covers a wide range of operations, including benefits to meet social security and healthcare needs (for example, contributions to healthcare plans) and goods or services provided to employees to help them achieve work-life balance.

CO₂ equivalent

Emissions of any greenhouse gas converted – in accordance with the IPCC standard – on the basis of their contribution to the greenhouse effect, using carbon dioxide (CO₂) as the reference gas. For example, the effect of natural gas (CH₄) on global warming is equivalent to 21 times that of carbon dioxide (CO₂).

Diversity Management

A conscious approach to managing diversity within an organisation, in terms of gender, age, cultural background, ethnic origin, sexual orientation, religious belief, etc. The aim of this approach is to reduce conflict and leverage differences as a way to drive innovation and improve company performance.

Eco-design

Product design that has the lowest possible impact on the environment during manufacturing, use and disposal.

Ecological footprint

An index that measures the area of ecologically productive land and sea required by a population or an activity to produce all the resources consumed and to absorb all the waste produced using prevailing technologies and management methods.

EMAS Eco-Management and Audit Scheme

Voluntary scheme developed by the European Community which can be voluntarily adopted by organisations (companies, public administration, etc.) for two purposes: evaluating and improving their environmental performance; providing the public with information about their environmental management system. The “Fifth Programme of action for the environment” is among the existent voluntary tools.

The main objective of EMAS is that of favouring an economic development which is sustainable, focusing on rules and responsibilities of companies.

Environmental Labelling

Environmental labels apply to a product or a service. Their aim is that of supplying information about the environmental performance of the company, or one or more specific environmental aspects. Environmental labels can be identified as follows:
-ISO 14024 (Type I): environmental label based on third-party reviews. The label is released on the basis of pre-

defined criteria, evaluating the entire product life cycle;
- ISO 14021(Type II): self-declaration about specific characteristics of the product (ex. Recyclability, compostability, etc.);
- ISO 14025 (Type III) : environmental product declaration, developed through an LCA methodology and compliant with a series of pre-defined criteria (ex. PCR – Product Category Rules)

Energy saving

A set of actions to programme, plan and adopt energy-reducing mechanisms, technologies and practices, without reducing output or services offered.

Environmental compatibility

Indicates that a project has been carried out or a product has been made without any negative impact on the environment.

Fair Trade

Certification standard for agricultural raw materials, which guarantees that they come from supply chains managed according to fair-trade principles, including paying a guaranteed minimum purchase price to farmers.

Global Compact

Network of national and international companies and organisations from all over the world, based on a proposal by the Secretary-General of the United Nations for the promotion of a sustainable global economy. Participating companies must demonstrate that they operate in

adherence to human and workers’ rights, environmental protection and fighting corruption.

Global Reporting Initiative (GRI)

A non-profit, multi-stakeholder organisation recognised at international level, whose mission is to establish guidelines for preparing sustainability reports and to encourage their use as a way of contributing to sustainable development. Since its foundation in 1997, the GRI has issued a series of editions of its reporting standards, each representing an evolution of the previous one to adapt to changing scenarios and to meet stakeholders’ expectations more effectively in terms of the information provided (see stakeholder). The new edition of the standard, the “G4”, which focuses on the concept of “materiality”, was released in mid 2013 (see materiality).

Greenhouse effect

A natural effect, amplified by the results of human activities, which regulates the ability of the Earth’s atmosphere to withhold energy from the sun through a semi-transparent layer consisting of greenhouse gases that “trap” the sun’s rays.

Greenwashing

The dishonest behaviour of companies or organisations whereby they pretend to have adopted environmental and social policies in order to distract attention away from their responsibility for negative impacts or simply to claim

reductions in impact that have not actually been achieved.

Industrial composting

Controlled biological decomposition using oxygen, of organic waste. This process generates a material similar to humus, named compost. The composting process can be realised at the industrial level through specific plants, and at a limited scale, through house composters.

ISO 9001

An international standard setting out the requirements of an organisation’s quality management system. The standard provides guidelines for improving efficacy and efficiency in making a product and providing services, and for enhancing customer satisfaction and loyalty.

ISO 14001

A voluntary international standard, applicable to all types of companies, which serves to assess and certify the adoption of an environmental management system (EMS), capable of ensuring compliance with all regulatory provisions and the commitment to continuous improvement of environmental performance.

ISO 22000

A voluntary standard certifying safety management systems in the food sector. It is applicable to all companies operating directly or indirectly in the food and agricultural sector, including

packaging manufacturers, and aims to assess and demonstrate product compliance and food safety, while also guaranteeing effective control of risk factors.

ISO 50001

International Standard specifying the criteria necessary to create, maintain and improve an energy management system . This system should enhance an organisation to continuously improve its performance in terms of energy efficiency and energy use and consumption, through a systematic approach.

LEED®

LEED (Leadership in Energy and Environmental Design) is a system for classifying the energy efficiency and ecological footprint of buildings in the United States, developed by the U.S. Green Building Council (USGBC). It provides voluntary certification for buildings that demonstrate their environmental sustainability in terms of energy and the consumption of all resources involved in the production process.

Life Cycle Assessment (LCA)

Methodology defined by the ISO 14040:2006 standard. The LCA is an objective process for assessing the environmental effects of a product, process or activity, carried out by identifying and quantifying energy, materials used and waste released into the environment in order to assess their impact and to identify and grasp opportunities for



environmental improvement. The assessment includes the entire life cycle of the product, process or activity, including the extraction and processing of raw materials, production, transportation, distribution, use and final disposal.

Non-renewable energy sources

Energy sources coming from resources expected to terminate on a human time scale, becoming too costly or too polluting for the environment, unlike renewable sources, which are naturally replenished within a relatively short period of time. Examples of non-renewable energy sources include fossil fuels (coal, oil and natural gas) and the minerals used to produce nuclear energy (uranium and plutonium).

OHSAS 18001 (Occupational Health and Safety Assessment Series)

International Standard identifying the criteria for a “Management System for Occupational Health and Safety”. This system should identify the dangers and risks of activities, products and services of an organisation in order to ensure the continuous improvement of the safety performance as well as the compliance with the above-mentioned criteria. This standard can be used to obtain the certification from a third party, and/or to define a self-declaration, or as a guideline in order to establish, implement and improve a management system for occupational health and safety.

Organic

Organic farming is a method of growing raw materials in compliance with a set of coded principles, like the one forbidding the use of chemicals in all stages of agricultural production. The term “organic” is also used to indicate a certification standard for agricultural raw materials, which guarantees that they come from supply chains that comply with the principles of organic farming.

For companies operating in Europe, the technical rules establishing the characteristics of organic farming are laid down in EU legislation. Moreover, supervisory bodies authorised by the Italian Ministry of Agricultural and Forestry Policy also exist to carry out inspections on the farms and certify organic production processes.

Organisation and Management Model

(in accordance with Italian Legislative Decree 231/2001) An organisational system, established through an official company document, designed to prevent cases of criminal liability established in Italian Legislative Decree 231 of 8 June 2001. Under the decree, organisations are subject to “corporate liability” for specific kinds of offences committed by administrators and employees in the interest or for the benefit of the organisations.

Materiality

Materiality means the relevance that a given topic (economic, management,

social or environmental) has for the company and its stakeholders (see stakeholder). Material issues are those that reflect the organisation’s significant economic, social and environmental impacts or substantially influence stakeholder assessments and decisions.

Rainforest Alliance

Rainforest Alliance is a non-governmental organisation founded in 1986 to preserve biodiversity, improve the living conditions of farmers and promote sustainable farming practices (www.rainforestalliance.org). The certification standard is based on compliance with the following nine principles: protection of local flora and fauna, protection of ecosystems, protection of the soil, protection of water resources, fair treatment of workers and good working conditions, good relations within communities, integrated waste management, integrated pesticide management, monitoring, and the promotion of peace.

Renewable energy sources

Natural sources capable of generating thermic and electric energy. These sources include: solar energy, wind energy, biomass, tides, ocean currents.

SA 8000

An international certification standard (where SA stands for “Social Accountability”) for certifying some aspects of business activity related to

corporate social responsibility. In particular, the management aspects certified by the standard are respect for human rights, respect for workers’ rights, protection against child labour, and occupational health and safety guarantees. The standard is based on the principles established in some fundamental international documents such as the International Labour Organisation (ILO) conventions, the Universal Declaration of Human Rights and the International Convention on the Rights of the Child; the aim is to improve working conditions at a global level.

Scope

With reference to sustainability reporting, “scope” indicates the various entities (e.g. subsidiaries, joint ventures, suppliers) whose performance is included in an organisation’s sustainability report. As reporting is voluntary, the company can define its own reporting scope; the broader the scope and if all or a large proportion of the company’s activities are included in it, the more the company is accountable (see accountability).

Staff turnover

Staff turnover is the ratio between staff joining the organisation and those leaving it.

Stakeholder and multi-stakeholder

Stakeholders are groups or individuals that are expected to be significantly affected by the activities, products and/

or services of the organisation or whose actions can influence the organisation’s ability to successfully implement its strategies and reach its objectives.

In accordance with the AA1000SES standard (developed by the UK-based organisation AccountAbility and recognised as an international benchmark), an organisation may give priority to its stakeholders or groups of stakeholders on the basis of the relevance of each of them. Relevance is an attribute determined by a joint assessment of the degree of dependency, influence, and priority that each stakeholder has with the organisation, or other aspects that characterise the relationship between the stakeholder and the organisation.

Through the multi-stakeholder approach a given topic is addressed with the involvement and collaboration of entities that have different interests in the topic and therefore different requirements. Examples of these stakeholders could be the various entities in a production chain, representatives of institutions, companies and non-profit organisations, etc.

Strategic Sustainability Plan

A document in which the company sets forth its vision, objectives and activities to meet stakeholders’ expectations more effectively within a defined time limit and improve its environmental, social and economic performance, ensuring that sustainability

requirements are integrated into the organisation’s overall strategic objectives.

Sustainability and Sustainable Development

The most common definition of the concept of sustainable development is contained in the “Brundtland Report” of the World Commission on Environment and Development (named after its chairman Gro Harlem Brundtland), produced in 1987. Sustainable development indicates a development model “that meets the needs of the present without compromising the ability of future generations to meet their own needs”. Sustainability is therefore an approach (to society as well as to business) orientated towards guaranteeing a balance between current and future needs, and balancing economic and financial requirements with social and environmental needs.

Sustainability Report

A document drawn up periodically in which an organisation analyses its social, environmental and economic performance, describing its ability to:

- maintain the quality and reproducibility of natural resources;
 - guarantee well-being and opportunities for growth in accordance with human and workers’ rights;
 - generate income, profit, and stable and lasting jobs.
- The Sustainability Report is a voluntary document, so it is not



subject to any legal obligation. There is, however, a standard that sets out its structure and contents, to ensure it provides the information in which stakeholders (see stakeholder) are interested. The GRI standard (see Global Reporting Initiative – GRI) is recognised on an international level and used by leading organisations around the world for sustainability reporting²⁰.

UTZ

UTZ is a non-profit association based in Amsterdam, founded in 2002 to promote sustainable farming. The certification standard is based on principles such as the transparency of commercial practices, the traceability of raw materials and compliance with ILO conventions (www.ilo.org).

The name of the association derives from Utz kapeh, which means “good coffee” in the Mayan language Quiché.

²⁰ The EU Directive published on 6 December 2014 on “disclosure of non-financial and diversity information by certain large companies and groups” calls for listed and unlisted European companies with more than 500 employees to publish a declaration annexed to the management report, no later than 2017, containing “key information relating to at least environmental, social and employee matters, respect for human rights and the fight against corruption”. The directive is currently being transposed into national law by the EU member states.



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