



ANNUAL
REPORT
2018

LAVAZZA
TORINO, ITALIA, 1895



Contents

Company Officers

Group Structure

Directors' Single Report on Operations

LAVAZZA GROUP — CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2018

Accounting Statements

- Consolidated Statement of Financial Position
- Consolidated Statement of Profit or Loss
- Consolidated Statement of Comprehensive Income
- Consolidated Statement of Cash Flows
- Consolidated Statement of Changes in Equity

Notes to the Consolidated Financial Statements

Independent Auditors' Report

LUIGI LAVAZZA S.P.A. — FINANCIAL STATEMENTS AT 31 DECEMBER 2018

Accounting Statements

- Balance Sheet
- Statement of Profit or Loss
- Statement of Cash Flows

Notes to the Financial Statements

Statutory Auditors' Report

Independent Auditors' Report

ABSTRACT 2018

Company Officers

Board of Directors

Chairman

Alberto Lavazza

Vice Chairmen

Giuseppe Lavazza
Marco Lavazza

Chief Executive Officer

Antonio Baravalle

Directors

Antonella Lavazza
Francesca Lavazza
Manuela Lavazza
Pietro Boroli
Gabriele Galateri di Genola
Robert Kunze-Concewitz
Antonio Marcegaglia

Board of Statutory Auditors

Chairman

Gianluca Ferrero

Statutory Auditors

Angelo Gilardi
Lucio Pasquini

Independent Auditors

EY S.p.A.

Group Structure

LUIGI LAVAZZA S.p.A.



Contents

Company Officers and Group Structure

Directors' Single Report on Operations

LAVAZZA GROUP — CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Consolidated Statement of Financial Position
 - Consolidated Statement of Profit or Loss
 - Consolidated Statement of Comprehensive Income
 - Consolidated Statement of Cash Flows
 - Consolidated Statement of Changes in Equity

Notes to the Consolidated Financial Statements

Independent Auditors' Report

LUIGI LAVAZZA S.P.A. — FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Balance Sheet
 - Statement of Profit or Loss
 - Statement of Cash Flows

Notes to the Financial Statements

Statutory Auditors' Report

Independent Auditors' Report

ABSTRACT 2018

Directors’ Single Report on Operations

Contents

Company Officers and Group Structure

Directors’ Single Report on Operations

LAVAZZA GROUP — CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Consolidated Statement of Financial Position
 - Consolidated Statement of Profit or Loss
 - Consolidated Statement of Comprehensive Income
 - Consolidated Statement of Cash Flows
 - Consolidated Statement of Changes in Equity

Notes to the Consolidated Financial Statements

Independent Auditors’ Report

LUIGI LAVAZZA S.P.A. — FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Balance Sheet
 - Statement of Profit or Loss
 - Statement of Cash Flows

Notes to the Financial Statements

Statutory Auditors’ Report

Independent Auditors’ Report

ABSTRACT 2018



Contents

Company Officers and Group Structure

Directors' Single Report on Operations

LAVAZZA GROUP — CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Consolidated Statement of Financial Position
 - Consolidated Statement of Profit or Loss
 - Consolidated Statement of Comprehensive Income
 - Consolidated Statement of Cash Flows
 - Consolidated Statement of Changes in Equity

Notes to the Consolidated Financial Statements

Independent Auditors' Report

LUIGI LAVAZZA S.P.A. — FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Balance Sheet
 - Statement of Profit or Loss
 - Statement of Cash Flows

Notes to the Financial Statements

Statutory Auditors' Report

Independent Auditors' Report

ABSTRACT 2018



Dear Shareholders,

The financial year ended 31 December 2018 closed with a Group's consolidated profit of €87,932,159 based on the IFRS and Luigi Lavazza's profit of €57,786,500 based on Italian GAAP (OIC).

With reference to Article 2428 of the Italian Civil Code and Article 40 of Legislative Decree No. 127(2-bis) of 9 April 1991, this Report on Operations includes both information on the financial statements of the Parent Company Luigi Lavazza S.p.A., and the Report on Operations of the Lavazza Group.

A history made of innovation

Over 120 years ago, in his grocery shop in Turin Luigi Lavazza invented the concept of blending: the art of combining different coffee varieties and origins, which even today distinguishes all of Lavazza products.

In the early decades of the 20th century, Lavazza was the first company to locally distribute coffee in bags bearing its logo.

In 1950, the company used for the first time vacuum tins in Italy to preserve coffee and in 1971 its first flexible vacuum brick pack. The first Lavazza-branded multiple coffee packs were introduced in 1989.

In the same year, Lavazza entered the portioned coffee market, thus becoming the first Italian company to produce and market capsule-based espresso systems. Thanks to ongoing collaborations with an international network of universities and scientific institutes, Lavazza now has different platforms in the portioned coffee segment.

Innovation has always been closely intertwined with research, so that the company is known as an organisation with a “continuous innovation cycle”, ranging from the art of blending to vacuum-packed coffee, from portioned to instant coffee, from decaffeinated coffee to the ISSpresso machine — developed alongside the Italian aerospace engineering firm Argotec (in a public-private partnership with the Italian Space Agency) — capable of functioning in the extreme conditions of space.

It was this constant passion for quality that led the company in 1979 to set up the Luigi Lavazza Centre for Coffee Studies and Research, dedicated to analysis and in-depth study of espresso and the spread of espresso culture. This then evolved into the Lavazza Training Center, an international network of over 50 coffee schools throughout the world, where 30,000 people are trained each year.

Constant innovation is also essential when it comes to the significant industrial investments in recent years that have made the Group more efficient, flexible and nimble in responding to a constantly evolving market.

A multibrand Group

In recent years, the Lavazza Group has embarked on an international development process aimed at consolidating its independence and competitiveness at the global level, with the mission of being a premium pure coffee company: concentrating solely on high-quality coffee by leveraging the value of its brand.

Specifically, the company has completed some important transactions. Merrild, a leading retail coffee brand in Denmark and the Baltic countries, joined the Lavazza Group in 2015. In the same year, the Group also took over the distribution business for Lavazza products from its local partner in Australia, thereby establishing a new subsidiary in Melbourne.

Since 2016, Carte Noire has been part of the Lavazza Group, which has included in its industrial system also the production site in Lavérune, located in the Occitanie region. This important transaction allowed Lavazza to take a position on the strategic French market, which is one of the top five coffee markets in the world and now the company's number-two market for the Group.

In addition, as part of its globalisation and premium positioning strategy, in 2017 the Group completed the acquisition of the Canadian brand Kicking Horse Coffee Co. Ltd — a leader in the organic, fair-trade coffee segment in North America — acquiring an 80% stake in the company.

In 2017, to strengthen its distribution strategy, Lavazza also acquired the shares in Espresso Service Proximité S.A., a company specialising in the OCS segment, and an 80% stake in Nims S.p.A., an Italian firm specialising in distribution and direct door-to-door sale of coffee capsules and coffee machines throughout Italy.

At year-end 2018, following the acquisition of Mars Drinks, the company set up the Lavazza Professional Business, which includes the Flavia and Klix OCS and Vending systems.

PREMIUM PURE

COFFEE COMPANY

Contents

Company Officers and Group Structure

Directors' Single Report on Operations

LAVAZZA GROUP — CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Consolidated Statement of Financial Position
 - Consolidated Statement of Profit or Loss
 - Consolidated Statement of Comprehensive Income
 - Consolidated Statement of Cash Flows
 - Consolidated Statement of Changes in Equity

Notes to the Consolidated Financial Statements

Independent Auditors' Report

LUIGI LAVAZZA S.P.A. — FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Balance Sheet
 - Statement of Profit or Loss
 - Statement of Cash Flows

Notes to the Financial Statements

Statutory Auditors' Report

Independent Auditors' Report

ABSTRACT 2018

Operating Performance of the Lavazza Group

The following table shows the Group's operating and financial highlights at 31 December 2018 compared with the previous year:

<i>(€ million)</i>	2018	Ratio %	2017	Ratio %
NET REVENUES	1,870.0	100.0%	1,710.3	100.0%
EBIT	110.7	5.9%	108.5	6.3%
EBITDA	197.3	10.6%	185.8	10.9%
ADJUSTED EBITDA	206.5	11.0%	189.5	11.1%
PROFIT FOR THE YEAR	87.9	4.7%	77.9	4.6%
CAPEX	100.7		99.2	
NET FINANCIAL POSITION	(15.0)		(503.0)	
EQUITY ATTRIBUTABLE TO THE GROUP	2,264.5		2,269.7	
HEADCOUNT	3,836		3,085	

General performance and market scenario

The global economy continued to grow in recent months, although signs of deterioration of the cycle have been seen in many advanced and emerging economies, despite the modest level of inflation in most countries. The global trade outlook continues to worsen, following the slowdown seen early in the previous year. The macroeconomic uncertainties have led to repercussions on international financial markets, with a decline in long-term yields and a decrease in share prices. The main cause of concern is the growing protectionism at the global level, and in particular the gradual deterioration of trade relations between the USA and China, together with the uncertainties in Europe surrounding Brexit. In the United States, the economy benefited from robust domestic demand, driven in turn by constant gains on the job market and the confidence in the local economy shown by businesses and consumers. Although these elements are likely to persist in the current year, some risk factors relating to the modest level of surplus production capacity and the uncertainty surrounding the Federal Reserve's future decisions could condition the economic scenario. Growth weakened in the Euro Area; in November, industrial production declined significantly in Germany, France and Italy. While remaining well in positive territory, inflation fell as a result of the slowdown in the prices of energy goods. The ECB's Governing Council reiterated its intention of maintaining a significant monetary stimulus for an extended period. The outlook for Europe is weighed down by the risks surrounding the circumstances in which Brexit is to unfold and the uncertainty inherent in Italy's political and tax situation. In the case of Italy in particular, on the basis of the monthly Confindustria analysis (Congiuntura flash – February 2019), the negative data for the second half of 2018 will also have a significant impact on GDP growth in 2019 — a year in which growth is estimated to be just above zero. Business confidence continued to fall in January, the production of capital goods declined and companies' investment outlook worsened. The outlook for consumption is relatively bleak: in January household confidence regained some of the ground lost in late 2018, the production of consumer goods rose (+1.4% on the fourth quarter of 2018) and retail sales climbed slightly (+0.7% in November). The automotive sector and consumer goods orders remained negative. Industrial and service companies' investment plans could be more restrained in 2019 due to both political and economic uncertainty and trade tensions.

Industry overview

At home business

In the At Home business, with reference to the Italian context and more specifically the Food&Drug sector, sales rose by value (+1.7%), split in +0.8% volume increase and +0.9% price increase. In terms of product type, there was growth above all in Fresh Products (+4.7% in value) and Frozen Products (+1.8%). The packaged foods segment remained stable. From a competitive standpoint, in the Grocery sector private labels and low-price products continued to gain ground. Coffee consumption remained essentially stable by volume, ending the downturn witnessed in recent years. By value, sales reported a slight increase (+0.6%), corresponding to an equal increase in average price. The percentage of promotional sales on the coffee market remained consistently high (50%) within a stable market scenario. The stability of coffee sales is the result of the decline in traditional ground coffee — both caffeinated and decaffeinated — and espresso, on the one hand, offset by the significant growth of capsules, which continue to show double-digit growth rates (+20%), on the other. In particular, the espresso segment and, in part, decaffeinated coffee continued to be penalised by consumers' choices, as a result of the ensuing shift towards the capsule segment. This segment was also strengthened as a result of the increasingly widespread availability of products compatible with the main espresso machine systems and stores specialising in selling capsules and machines. Within this scenario, Lavazza's performance was especially positive, above all in the more traditional mocha coffee pot segment, but also in espresso and whole bean products, due to stronger promotional support, which penalised all major competitors and their annual performances. Private labels represented an exception, gaining further ground in the coffee market as well.

Food Service

In the Food Service channel, Lavazza grew both in terms of net revenues and volumes in 2018, consolidating its market share in a context marked by a slight recovery. Growth was driven by an expansion of the customer base and a focus on the premium segment of the market, accompanied by a series of acquisitions of very important clients in the away-from-home market. The Eraclea brand also reported an excellent result in 2018, up compared to 2017.

In 2019, Food Service Italy continues to set ambitious growth goals for itself, supported by a steadfast focus on winning new clients and important contracts, continuously improving its product mix and persistently optimising its internal processes. The product portfolio continues to be innovated, with a restyling of the Classic and Special range and the launch of Tierra Extra Intenso in the Premium range.



Significant events in the year

In 2018, the Lavazza Group finalised the acquisition of the Blue Pod and Mars Drinks businesses, and acquired the remaining stake of about 20% in Nims S.p.A. held by the previous majority shareholder.

Blue Pod Coffee Business

In June 2018, the Group acquired — through the newly established company Lavazza Australia OCS Pty Ltd — for a consideration of €8.5 million, 100% of the business of The Blue Pod Coffee Co Pty Ltd, an Australian company (Mulgrave, Victoria) specialising for over 10 years in the distribution of Lavazza OCS espresso systems (capsules and machines), with an yearly average turnover of about €8 million.

The transaction was part of the Group's internationalisation strategy and confirms Australia's importance as a key market, where Lavazza will directly serve all segments of the coffee market — both Home and Away-From-Home.

Mars Drinks Business

December 2018 saw the finalisation of the acquisition of the Mars coffee business (now Lavazza Professional) in North America, Germany, the UK, France, Canada and Japan, as well as its systems and manufacturing plants in the UK and USA, for a total consideration of about €580 million.

The price adjustment and the purchase price allocation are currently being defined.

Lavazza Professional includes the Flavia tabletop machines business and the KLIX vending machines, which offer broad coverage of their markets of reference and a wide array of coffees and other beverages marketed under both proprietary brands (e.g., Alterra) and licensed brands.

The businesses involved in the acquisition generated a turnover of about US\$350 million in 2017 and employed a staff of approximately 900, with 2 manufacturing plants in the USA and UK.

The acquisition will allow Lavazza to further strengthen its direct coverage of all segments of the coffee market, with a particular focus on Away-From-Home, according to an approach based on increasingly direct interaction with consumers.

Nims S.p.A.

In October 2018, the Lavazza Group, which already held 80% of Nims S.p.A.' capital, acquired a further 17.8%, as agreed upon the purchase agreement signed in June 2017. Lavazza currently holds 97.8% of Nims S.p.A.' capital.



- 10 PRODUCTION PLANTS
- 3 LAVAZZA PLANTS IN ITALY
 - 1 CARTE NOIRE PLANT IN FRANCE
 - 1 KICKING HORSE COFFEE CO. IN CANADA

- LAVAZZA PROFESSIONAL PLANTS
- 2 IN THE UK
 - 1 IN THE USA

- TWO LAVAZZA PRODUCTION HUBS
- 1 IN BRAZIL
 - 1 IN INDIA



Contents

Company Officers and Group Structure

Directors' Single Report on Operations

LAVAZZA GROUP — CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Consolidated Statement of Financial Position
 - Consolidated Statement of Profit or Loss
 - Consolidated Statement of Comprehensive Income
 - Consolidated Statement of Cash Flows
 - Consolidated Statement of Changes in Equity

Notes to the Consolidated Financial Statements

Independent Auditors' Report

LUIGI LAVAZZA S.P.A. — FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Balance Sheet
 - Statement of Profit or Loss
 - Statement of Cash Flows

Notes to the Financial Statements

Statutory Auditors' Report

Independent Auditors' Report

ABSTRACT 2018

Contents

Company Officers and Group Structure

Directors' Single Report on Operations

LAVAZZA GROUP — CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Consolidated Statement of Financial Position
 - Consolidated Statement of Profit or Loss
 - Consolidated Statement of Comprehensive Income
 - Consolidated Statement of Cash Flows
 - Consolidated Statement of Changes in Equity

Notes to the Consolidated Financial Statements

Independent Auditors' Report

LUIGI LAVAZZA S.P.A. — FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Balance Sheet
 - Statement of Profit or Loss
 - Statement of Cash Flows

Notes to the Financial Statements

Statutory Auditors' Report

Independent Auditors' Report

ABSTRACT 2018

Nuvola Lavazza –
the new headquarters

In spring 2018 Lavazza inaugurated its new Turin headquarters, thus also demonstrating its commitment to its home city and contributing to revitalising the entire neighbourhood. The offices have been designed and built according to the LEED — Leadership in Energy and Environmental Design — protocol, the world's most widespread recognition of the energy-environmental performance of buildings. Upon its public opening, the building was also granted the LEED PLATINUM certification.

The Lavazza Nuvola headquarters — an over €120 million facility designed by architect Cino Zucchi — gives a fresh new look to the Aurora neighbourhood and has been conceived above all as a contemporary workplace that reflects the group's global scope, but also to encourage the circulation of energy and exchange of dialogue, thereby enabling the sharing of cultural, social and business experiences.

In greater detail, the area includes:

- The Corporate Management Centre, home to over 700 employees, designed to facilitate teamwork, integration and connection to all the company's places of business.
- The Lavazza Museum, designed by U.S. firm Ralph Appelbaum Associates, specialised in the creation of company museums. Divided into five galleries — Home, Factory, Atelier, Piazza and Universe — it tells the story of over 120 years of Lavazza history according to an innovative, experiential approach. The Lavazza Historical Archive is located next to the Museum.

Investment for the new HQ

€120
million



- La Centrale — the former Enel power plant built in 1897 by Turin-born engineer Ermenegildo Perini for Società Anonima Elettrica Alta Italia — is now an over 4,500-square-metre venue featuring a world-class convention centre, the gourmet restaurant Condividere and the self-service restaurant Bistrot.
- The IAAD (Institute of Applied Art and Design) offers undergraduate programmes of study to over 500 creative young students.
- The Basilica, where excavations have unearthed the remains of an early Christian basilica dating back to the fourth or fifth century AD: an archaeological area of approximately 1,600 square metres visible to the citizens through a "window".

Industrial
investments

Industrial investments in the Italian plants declined slightly on the previous year, and related in particular to the expansion of the portioned product range at the Gattinara facility.

In 2018, work continued at the Settimo plant to increase production capacity and diversify the Roast & Ground formats to include soft packs, together with investments devoted to rationalising and increasing the efficiency of production facilities.

At all the Italian plants, work also continued on ensuring respect for the environment, increasing workplace safety and enhancing product conformity checks on products during the packaging phase.

Contents

Company Officers and Group Structure

Directors' Single Report on Operations

LAVAZZA GROUP — CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Consolidated Statement of Financial Position
 - Consolidated Statement of Profit or Loss
 - Consolidated Statement of Comprehensive Income
 - Consolidated Statement of Cash Flows
 - Consolidated Statement of Changes in Equity

Notes to the Consolidated Financial Statements

Independent Auditors' Report

LUIGI LAVAZZA S.P.A. — FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Balance Sheet
 - Statement of Profit or Loss
 - Statement of Cash Flows

Notes to the Financial Statements

Statutory Auditors' Report

Independent Auditors' Report

ABSTRACT 2018

Consolidated operating, capital and financial situation
of the Lavazza Group

Reclassified statement of profit and loss

(€ million)	Dec. 2018	Ratio %	Dec. 2017	Ratio %	Changes	Changes %
Net revenues	1,870.0	100.0%	1,710.3	100.0%	159.7	9.3%
Cost of sales	(1,080.4)	-57.8%	(1,005.3)	-58.8%	(75.1)	7.5%
GROSS PROFIT	789.6	42.2%	705.0	41.2%	84.6	12.0%
Promotional and advertising expenses	(197.2)	-10.5%	(191.8)	-11.2%	(5.4)	2.8%
Selling expenses	(176.6)	-9.4%	(134.4)	-7.9%	(42.2)	31.4%
General and administrative expenses	(185.2)	-9.9%	(180.8)	-10.6%	(4.4)	2.4%
Research and development costs	(7.0)	-0.4%	(4.1)	-0.2%	(2.9)	70.7%
Other operating income (expense)	(17.1)	-0.9%	(4.4)	-0.3%	(12.7)	288.6%
ADJUSTED EBITDA	206.5	11.0%	189.5	11.1%	17.0	9.0%
Unusual items	(9.2)	-0.5%	(3.7)	-0.2%	(5.5)	148.6%
EBITDA	197.3	10.6%	185.8	10.9%	11.5	6.2%
Amortisation and depreciation	(86.6)	-4.6%	(77.3)	-4.5%	(9.3)	12.0%
EBIT	110.7	5.9%	108.5	6.3%	2.2	2.0%
Financial income (expense)	5.6	0.3%	(3.2)	-0.2%	8.8	-275.0%
Dividends	0.2	0.0%	0.1	0.0%	0.1	100.0%
PROFIT BEFORE TAXES	116.5	6.2%	105.4	6.2%	11.1	10.5%
Income taxes for the year	(28.6)	-1.5%	(27.5)	-1.6%	(1.1)	4.0%
PROFIT FROM CONTINUING OPERATIONS	87.9	4.7%	77.9	4.6%	10.0	12.9%
Profit/(loss) from discontinued operations	0.0	0.0%	0.0	0.0%	0.0	0.0%
PROFIT/(LOSS) FOR THE YEAR	87.9	4.7%	77.9	4.6%	10.0	12.9%
PROFIT/(LOSS) ATTRIBUTABLE TO NON-CONTROLLING INTERESTS	0.3	0.0%	0.3	0.0%	0.0	0.0%
PROFIT/(LOSS) ATTRIBUTABLE TO THE GROUP	87.6	4.7%	77.6	4.5%	10.0	12.9%

Reclassified statement of financial position

(€ million)	Dec. 2018	Dec. 2017	Changes %
Inventories	361.6	360.2	1.4
Trade receivables	308.8	329.2	(20.4)
Trade payables	(365.6)	(320.0)	(45.6)
Other assets (liabilities)	(22.0)	20.4	(42.4)
Total net working capital	282.8	389.8	(107.0)
Property, plant and equipment	674.0	556.7	117.3
Intangible assets	1,432.9	897.2	535.7
Financial assets	28.0	28.6	(0.6)
Deferred tax assets and liabilities	(3.7)	(28.8)	25.1
Provisions	(82.0)	(44.4)	(37.6)
Provision for employee severance indemnities	(79.4)	(29.6)	(49.8)
Total net fixed assets	1,969.8	1,379.7	590.1
TOTAL INVESTED CAPITAL	2,252.6	1,769.5	483.1
Equity	2,267.6	2,272.5	(4.9)
Financial receivables and other non-current assets	(49.5)	(37.7)	(11.8)
Current financial assets	(225.1)	(373.4)	148.3
Cash and cash equivalents	(595.3)	(593.6)	(1.7)
Payables to banks and other non-current liabilities	710.7	393.6	317.1
Payables to banks and other current liabilities	144.2	108.1	36.1
Total net financial position	(15.0)	(503.0)	488.0
TOTAL FINANCING SOURCES	2,252.6	1,769.5	483.1

Contents

Company Officers and Group Structure

Directors' Single Report on Operations

LAVAZZA GROUP — CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Consolidated Statement of Financial Position
 - Consolidated Statement of Profit or Loss
 - Consolidated Statement of Comprehensive Income
 - Consolidated Statement of Cash Flows
 - Consolidated Statement of Changes in Equity

Notes to the Consolidated Financial Statements

Independent Auditors' Report

LUIGI LAVAZZA S.P.A. — FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Balance Sheet
 - Statement of Profit or Loss
 - Statement of Cash Flows

Notes to the Financial Statements

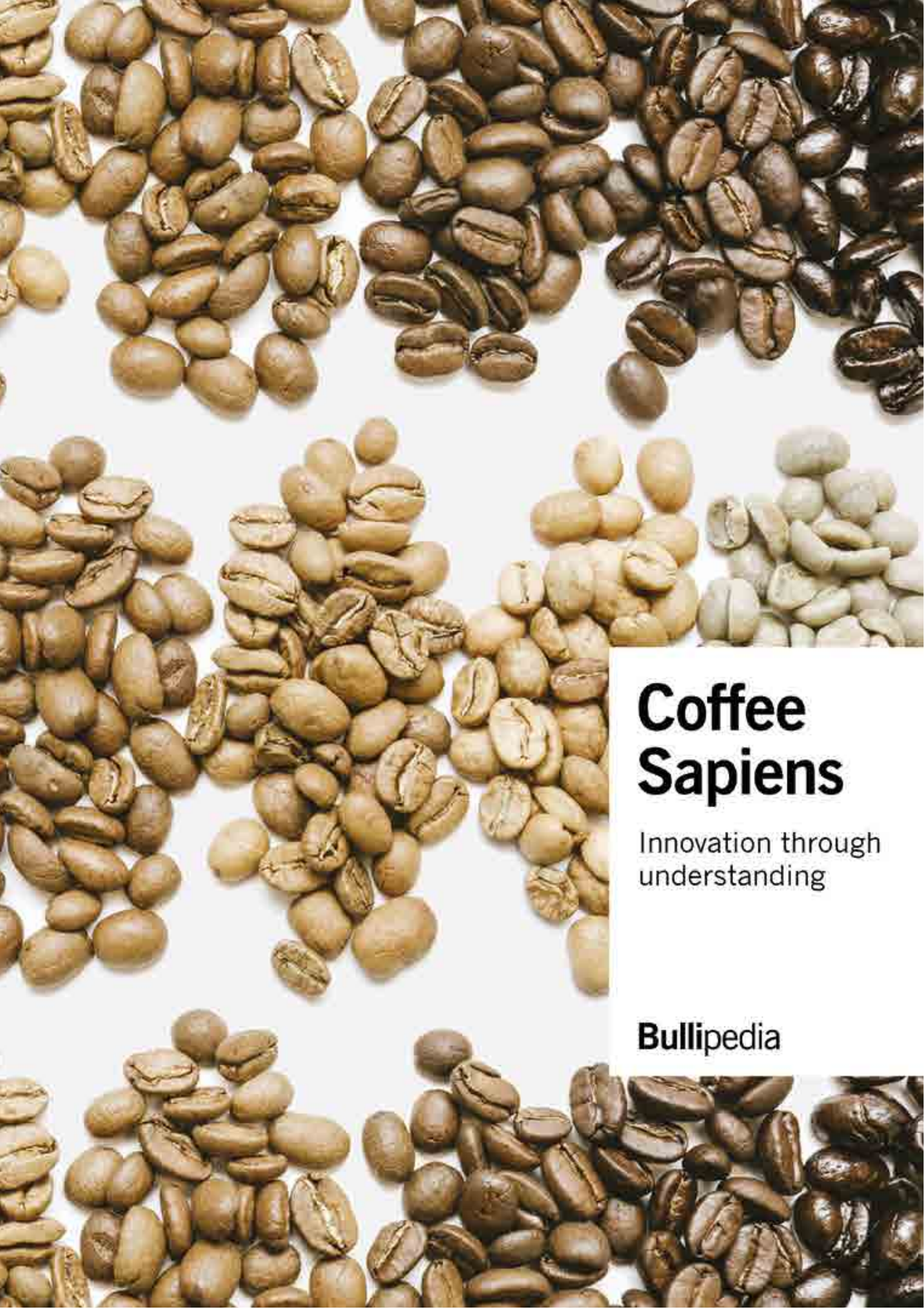
Statutory Auditors' Report

Independent Auditors' Report

ABSTRACT 2018

Reclassified statement of cash flows

<i>(€ million)</i>	Year 2018	Year 2017
PROFIT FOR THE YEAR	87.9	77.9
Income taxes	28.5	27.5
Financial expense / (income)	(2.5)	(2.6)
Value adjustments to financial assets and liabilities	(8.5)	(4.5)
(Gains) losses from disposal of assets	0.7	0.7
Additions to provisions, employee benefits and other non-monetary components	50.2	41.1
Amortisation, depreciation and write-downs	87.2	82.2
RESULT ADJUSTED FOR NON-MONETARY COMPONENTS	243.5	222.3
Change in trade receivables	35.0	(8.1)
Change in inventories	22.7	(25.3)
Change in trade payables	(0.5)	(17.2)
Change in other receivables/payables	(3.7)	(13.5)
CASH FLOW AFTER CHANGES IN NET WORKING CAPITAL	297.0	158.2
Taxes paid	(10.2)	(15.6)
Use of provisions and indemnities paid	(19.8)	(45.5)
Interest and dividends collected, interest (paid)	2.5	6.2
CASH FLOWS FROM OPERATING ACTIVITIES	269.5	103.3
Purchase of property, plant and equipment	(85.8)	(84.8)
Purchase of intangible assets	(14.8)	(14.3)
Other minor items	0.2	0.0
Acquisitions	(533.4)	(171.5)
CASH FLOWS FROM INVESTING ACTIVITIES	(633.8)	(270.6)
Dividends paid	(77.2)	(27.0)
CASH FLOWS FROM FINANCING ACTIVITIES	(77.2)	(27.0)
Other scope and non-monetary changes	(45.2)	(45.0)
Exchange rate effect	(1.3)	2.1
CASH FLOWS GENERATED (USED)	(488.0)	(237.2)
Net financial position at year-start	503.0	740.2
Net financial position at year-end	15.0	503.0



Coffee
Sapiens

Innovation through
understanding

Bullipedia

Contents

Company Officers and Group Structure

Directors' Single Report on Operations

LAVAZZA GROUP — CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2018

Accounting Statements

- Consolidated Statement of Financial Position
- Consolidated Statement of Profit or Loss
- Consolidated Statement of Comprehensive Income
- Consolidated Statement of Cash Flows
- Consolidated Statement of Changes in Equity

Notes to the Consolidated Financial Statements

Independent Auditors' Report

LUIGI LAVAZZA S.P.A. — FINANCIAL STATEMENTS AT 31 DECEMBER 2018

Accounting Statements

- Balance Sheet
- Statement of Profit or Loss
- Statement of Cash Flows

Notes to the Financial Statements

Statutory Auditors' Report

Independent Auditors' Report

ABSTRACT 2018

Financial performance of the Lavazza Group

2018 was a year of solid growth characterised by increased operating profitability, ongoing strengthening of the Group's brands and wide expansion both in Italy and in foreign markets, particularly in France, North America, Eastern Europe and the United Kingdom. The Group continued to invest in product innovation and direct operations in all coffee segments were further strengthened through **acquisitions**, in the vending sector, of the **Australian company Blue Pod and the drinks business of Mars Inc.**

In 2018, the Lavazza Group continued with its international development process aimed at consolidating its independence and competitiveness at the global level, with the mission of being a premium pure coffee company: concentrating solely on high-quality coffee, in all its forms, through a multibrand strategy.

In detail, in 2018 the Group finalised the integration of Nims S.p.A., Kicking Horse Coffee Co. Ltd and ESP. Moreover, in line with its internationalisation strategy, it reached two acquisition agreements in the vending sector. In detail, in July 2018 the Group acquired 100% of the business of The Blue Pod Coffee Co., an Australian company (Mulgrave, Victoria) specialising in the distribution of Lavazza espresso systems (capsules and machines) for the Office Coffee Service (OCS) sector.

The Lavazza Group applied International Financial Reporting Standards (IFRSs) for the first time in its consolidated financial statements at and for the year ended 31 December 2018. The figures for 2017 were restated for comparability purposes.

Consolidated net revenues amounted to €1.87 billion, up 9.3% compared to €1.71 billion for the previous year. Growth is attributable to both the integration of the companies acquired in 2017 (Nims S.p.A., Kicking Horse Coffee Co.Ltd and Espresso Service Proximité S.A.) and the strong performance of the pre-existing business scope, particularly in Italy, France, North America, Eastern Europe and the UK.

In **Italy**, which accounts for approximately 36% of total net revenues, the Lavazza Group maintained its position of leadership across all channels, due to the expansion of its commercial range in single-serve, which remained the most dynamic segment of the retail market, and the increase in its commercial footprint in the away-from-home sector.

The Lavazza Group's **EBITDA** was **€197.3 million**, increasing by 6.2% compared to €185.8 million for the previous year; EBITDA margin was 10.6%.



Adjusted EBITDA was **€206.5 million** (+9% compared to €189.5 million for 2017), before one-off acquisition costs.

EBIT amounted to **€110.7 million**, up by 2.0% compared to €108.5 million for 2017, with EBIT margin of 5.9%.

Net profit amounted to **€87.9 million**, up 12.9% compared to €77.9 million for 2017.

Net working capital amounted to €283 million, down €107 million compared to €390 million at 31 December 2017. This change – net of the effect of the acquisition of the Mars Drinks group, which entailed a decrease in net working capital of €30 million – is attributable to the following pre-existing business components

- a decrease in organic inventories of €22 million;
- a decrease in trade receivables of €35 million due to an improvement in collection times; and
- an increase in operating liabilities of €17 million.

Net fixed assets totalled €1,970 million, up by €590 million compared to €1,380 million at 31 December 2017, mainly due to the acquisition of the company Mars Drinks for the recognition of a provisional goodwill of €527 million. The property investment for the lease of the Nuvola headquarters, entailing an increase of €34 million, was concluded.

Net financial position was **€15.0 million**, compared to €503.0 million in 2017, due to the acquisitions made in 2018 and offset by the significant operating cash generation.

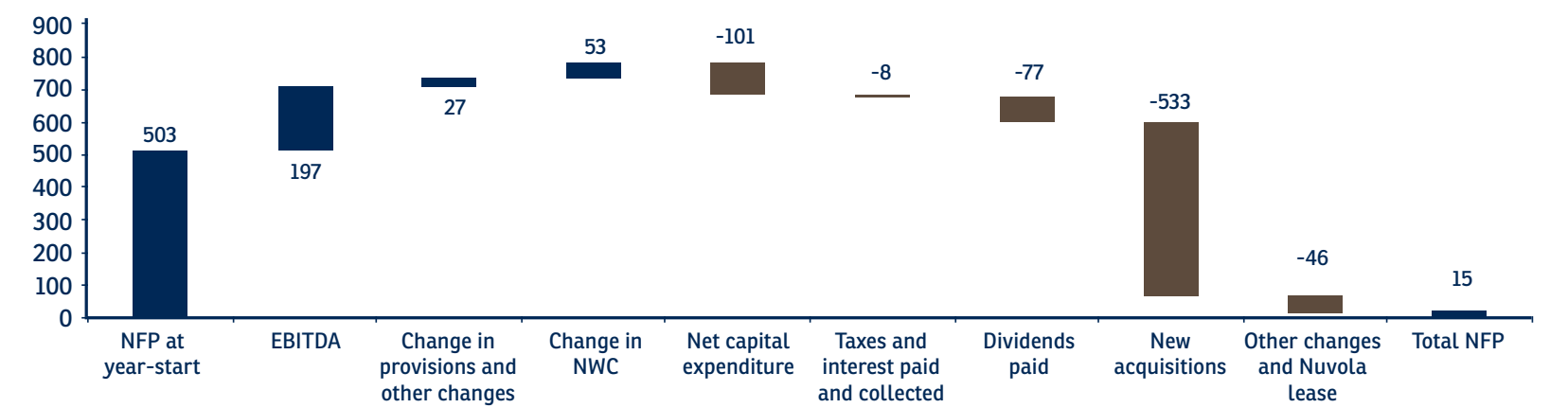
As shown by the following chart, net cash flows generated by operating activities were positive at €270 million, attributable to the earnings component (profit plus non-monetary costs), which was positive for €197 million, and the €73 million increase in net working capital and provisions.

In the reporting year, **additions net of disposals** totalled €101 million and were broken down as follows:

- net additions of property, plant and equipment (€82 million), mainly involving plant, industrial machinery and espresso makers on free loan for use;
- additions of intangible assets (€19 million), mainly due to development costs incurred in order to adapt and upgrade the Group's IT and reporting systems.

Moreover, the change in net financial position was due to the following factors: a net cash outlay for the acquisition of Mars Drinks, Blue Pod and the remaining interest in Nims S.p.A. of €533 million and the recognition of borrowings of €34 million associated with the finance lease of the new headquarters.

The net financial position bridge is as follows:



Lavazza is **among the first 100 brands in the world by reputation according to the Global RepTrak** by the Reputation Institute, the world's leading reputation-based research advisory firm (49th in 2018, 38th in 2019).

LAVAZZA RANKS

38th

IN THE **TOP 100 BRAND RANKING**
OF THE GLOBAL REPTRAK® 2019 OF THE REPUTATION INSTITUTE

Contents

Company Officers and Group Structure

Directors' Single Report on Operations

LAVAZZA GROUP — CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Consolidated Statement of Financial Position
 - Consolidated Statement of Profit or Loss
 - Consolidated Statement of Comprehensive Income
 - Consolidated Statement of Cash Flows
 - Consolidated Statement of Changes in Equity

Notes to the Consolidated Financial Statements

Independent Auditors' Report

LUIGI LAVAZZA S.P.A. — FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Balance Sheet
 - Statement of Profit or Loss
 - Statement of Cash Flows

Notes to the Financial Statements

Statutory Auditors' Report

Independent Auditors' Report

ABSTRACT 2018

Financial performance of the Parent Company Luigi Lavazza S.p.A.

The following table shows the Luigi Lavazza S.p.A.'s operating and financial highlights at 31 December 2018 compared with the previous year:

<i>(€ million)</i>	Year 2018	Ratio %	Year 2017	Ratio %
Net revenues	1,526.4	100.0%	1,446.4	100.0%
EBITDA	157.0	10.3%	137.4	9.5%
EBIT	55.3	3.6%	39.6	2.7%
Profit before taxes	74.3	4.9%	47.2	3.3%
Profit for the year	57.8	3.8%	44.2	3.1%
Net working capital	431.4		448.9	
Net fixed assets	2,245.7		1,841.0	
Total uses	2,677.1		2,289.9	
Net financial position	582.0		162.7	
Equity	2,095.1		2,127.2	
Total sources	2,677.1		2,289.9	
Capex	74.7		74.6	
Headcount	1,671		1,613	
ROS	3.6%		2.7%	
ROI	4.6%		3.2%	
ROE	2.7%		2.1%	

Net revenues amounted to €1,526.4 million, up 5.5% compared to €1,446.4 million for 2017.

EBIT amounted to €55.3 million, up €15.7 million compared to €39.6 million for 2017. EBIT margin went from 2.7% to 3.6%.

Profit before taxes amounted to €74.3 million, up by €27.1 million compared to €47.2 million for the previous year.

Reclassified statement of profit or loss of Luigi Lavazza S.p.A.

<i>(€ million)</i>	Dec. 2018	Ratio %	Dec. 2017	Ratio %	Changes	Changes %
Net revenues	1,526.4	100.0%	1,446.4	100.0%	80.0	5.5%
Other income and revenues	89.5	5.9%	73.2	5.1%	16.3	22.3%
Total income and revenues	1,615.9	105.9%	1,519.6	105.1%	96.3	6.3%
Cost of sales	768.8	50.3%	748.3	51.7%	20.5	2.7%
Costs of services	513.6	33.6%	473.3	32.7%	40.3	8.5%
Other costs	38.9	2.5%	31.8	2.2%	7.1	22.3%
Total external costs	1,321.3	86.5%	1,253.4	86.7%	67.9	5.4%
Value added	294.6	19.3%	266.2	18.4%	28.4	10.7%
Personnel costs	137.6	9.0%	128.8	8.9%	8.8	6.8%
EBITDA	157.0	10.3%	137.4	9.5%	19.6	14.3%
Amortisation, depreciation and write-downs	74.0	4.8%	94.0	6.5%	(20.0)	(21.3%)
Provisions	27.7	1.8%	3.8	0.3%	23.9	628.9%
EBIT	55.3	3.6%	39.6	2.7%	15.7	39.6%
Income (expense) from investments	13.6	0.9%	17.7	1.2%	(4.1)	(23.2%)
Financial income (expense)	5.4	0.4%	(10.1)	(0.7%)	15.5	(153.5%)
Profit before taxes	74.3	4.9%	47.2	3.3%	27.1	57.4%
Income taxes	(16.5)	(1.1%)	(3.0)	(0.2%)	(13.5)	450.0%
Profit (loss) for the year	57.8	3.8%	44.2	3.1%	13.6	30.8%

Contents

Company Officers and Group Structure

Directors' Single Report on Operations

LAVAZZA GROUP — CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Consolidated Statement of Financial Position
 - Consolidated Statement of Profit or Loss
 - Consolidated Statement of Comprehensive Income
 - Consolidated Statement of Cash Flows
 - Consolidated Statement of Changes in Equity

Notes to the Consolidated Financial Statements

Independent Auditors' Report

LUIGI LAVAZZA S.P.A. — FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Balance Sheet
 - Statement of Profit or Loss
 - Statement of Cash Flows

Notes to the Financial Statements

Statutory Auditors' Report

Independent Auditors' Report

ABSTRACT 2018

Reclassified balance sheet of Luigi Lavazza S.p.A.

(€ million)	Dec. 2018	Dec. 2017	Changes
Inventories	256.2	274.1	(17.9)
Trade receivables	138.7	144.8	(6.1)
Receivables from subsidiaries, associates and Parent	251.5	241.2	10.3
Deferred tax assets and liabilities	55.9	41.7	14.2
Other receivables and prepayments	55.7	53.9	1.8
A. Total operating assets	758.0	755.7	2.3
Trade payables	236.9	225.7	11.2
Payables to subsidiaries, associates and Parent	8.6	13.4	(4.8)
Tax payables and payables to social security institutions	30.8	19.2	11.6
Other liabilities and deferred income	50.3	48.5	1.8
B. Total operating liabilities	326.6	306.8	19.8
C. Net working capital	431.4	448.9	(17.5)
Intangible assets	592.2	616.9	(24.7)
Property, plant and equipment	286.3	259.2	27.1
Financial assets	1,453.0	1,009.3	443.7
D. Total fixed assets	2,331.5	1,885.4	446.1
Provisions	71.1	29.2	41.9
Employee termination indemnities	14.7	15.2	(0.5)
E. Total fixed liabilities	85.8	44.4	41.4
F. Total net fixed assets	2,245.7	1,841.0	404.7
G. Total invested capital, net - Uses (C+F)	2,677.1	2,289.9	387.2
Cash and cash equivalents	(92.5)	(189.4)	96.9
Current financial assets	(14.1)	(11.9)	(2.2)
Financial liabilities	688.6	364.0	324.6
H. Net financial position	582.0	162.7	419.3
Capital	25.0	25.0	0.0
Reserves	595.9	608.6	(12.7)
Retained earnings	1,416.4	1,449.4	(33.0)
Profit (loss) for the year	57.8	44.2	13.6
I. Equity	2,095.1	2,127.2	(32.1)
L. Total sources (I+H)	2,677.1	2,289.9	387.2

Profit for the year amounted to €57.8 million, up €13.6 million compared to 2017.

Reclassified statement of cash flows of Luigi Lavazza S.p.A.

(€ million)	Year 2018	Year 2017
Profit for the year	57.8	44.2
Amortisation and depreciation	71.2	90.7
Net change in termination indemnities	(0.5)	(2.1)
Net change in provisions	42.0	(11.9)
Write-downs of investments and securities included in fixed assets	3.3	3.4
Other write-downs of fixed assets	1.2	(0.7)
Changes of items in net working capital		
- Inventories	17.9	(12.5)
- Trade receivables	6.1	20.3
- Other receivables and assets	(26.3)	(29.1)
- Trade payables	11.2	0.2
- Other payables and liabilities	8.5	6.6
Cash flows from (used for) operating activities	192.4	109.1
Net purchases of:		
- Intangible assets	(14.8)	(13.9)
- Property, plant and equipment	(60.1)	(60.8)
- Investments in subsidiaries, associates and other companies	(137.9)	(134.7)
- Other financial assets	(309.0)	0.2
Cash flows from (used for) investing activities	(521.8)	(209.2)
Dividends paid	(77.2)	(27.0)
Change in hedge reserve for expected cash flows	(12.7)	(4.9)
Cash flows from (used for) financing activities	(89.9)	(31.9)
Net cash flow for the year	(419.3)	(132.0)
Net financial assets/liabilities at year-start	(162.7)	(30.7)
Net financial assets/liabilities at year-end	(582.0)	(162.7)

Net financial position was negative at €582.0 million, down by €419.3 million compared to 2017. The decrease was primarily due to the use of cash to acquire the Mars Drinks coffee business by forming the holding companies Lavazza Professional Holding NA and Lavazza Professional Holding Europe, the repayment of a portion of the bank loan and the distribution of dividends approved during the year.

Net cash flow from operating activities was positive at €192.4 million, significantly impacted by the earnings component (profit plus non-monetary costs) of €175.0 million, only partly offset by the absorption of liquidity attributable to the change in net working capital (€17.4 million).

- The cash flows from investing activities has an overall negative net balance of €521.8 million, mainly composed of:
- purchases of intangible assets (€14.8 million), primarily attributable to the capitalisation of software for long-term use, the costs of software licences for the launch of the new Lavazza e-commerce 3.0 site and the maintenance of third-party buildings relating to the renovation of an office property in Torre del Greco;
 - purchases of property, plant and equipment (€60.1 million), chiefly related to plant, machinery and coffee machines for the Food Service sector and OCS vending;
 - purchases of investments (€124.4 million), mainly attributable to the purchase of Investments in Lavazza Professional Holding Europe, Lavazza Professional Holding North America, Lavazza Eventi S.p.A. and the remaining interest in Nims S.p.A., net of the capital repayment of the company Lavazza Capital S.r.l.;
 - Recapitalisations of investments in subsidiaries (€0.7);
 - Reclassification of investments in associates (€12.8 million).

Contents

Company Officers and Group Structure

Directors' Single Report on Operations

LAVAZZA GROUP — CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Consolidated Statement of Financial Position
 - Consolidated Statement of Profit or Loss
 - Consolidated Statement of Comprehensive Income
 - Consolidated Statement of Cash Flows
 - Consolidated Statement of Changes in Equity

Notes to the Consolidated Financial Statements

Independent Auditors' Report

LUIGI LAVAZZA S.P.A. — FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Balance Sheet
 - Statement of Profit or Loss
 - Statement of Cash Flows

Notes to the Financial Statements

Statutory Auditors' Report

Independent Auditors' Report

ABSTRACT 2018

Parent
Company's
sales in Italy

At home business

The Italian coffee market remained in line with 2017 (-0.4%) in volume terms, with the now usual transfer of volumes from Mocha/Espresso (-2%) to Portioned coffee (+16%). In value terms, the dynamics were the same, with the market continuing as in 2017 (+0.1%) with opposing trends between traditional segments (-4%) and Portioned coffee (+12%). In this context, Lavazza reinforced its leading position, increasing its volume share to 39% (+1.5 points compared to 2017) and maintaining value share (36.7%).

The average market price increased by 0.5% compared to 2017, due solely to the change in product mix towards higher-price products such as capsules, whilst there was a fall in average prices both in the traditional and the portioned segments (traditional: -2.5%; portioned: -6%).

Away from home business

2018 saw Italian AFH sales rise by 6%; in particular, the growth trend in volumes of traditional coffee continued (+6% against 2017), reaching an 8% market share by volume; in the OCS /Vending channel Italy recorded rising sales compared to the previous year (+5%), with large growth in the Whole Bean Vending segment (+63% by volume) and the FIRMA system (+63% by value).

Leader in Italy in the retail market
with a share of

ca. **37%**
by value



Net revenues abroad

64%

Parent Company's
international
market sales

The positive growth trend of the Parent Company, Lavazza S.p.A., on the international markets by volumes sold (+17%) continued across all segments, particularly in the traditional coffee segment (+21%) and the OCS segment (+12%). Significant growth was reported mainly in Eastern European countries, especially in Russia and Poland.

Sales figures
of the subsidiaries

AT HOME BUSINESS

Foreign markets showed growth of 9% by volume and 7% by turnover. Good performances were reported by the UK and North American subsidiaries and, in France, by Carte Noire. 2018 was the first full year of the Canadian company Kicking Horse Coffee Co. Ltd, a leading company in the production of Organic & Fair Trade certified coffee, acquired in May 2017 and operating in Canada and North America.

AWAY FROM HOME BUSINESS

The foreign Away From Home business reported 8% overall growth in terms of sales, with good performance above all in North America and the United Kingdom; in addition, the sales growth trend was confirmed in France also due to the contribution of the company Espresso Service Proximité S.A. (ESP) acquired in September 2017.

Contents

Company Officers and Group Structure

Directors' Single Report on Operations

LAVAZZA GROUP — CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Consolidated Statement of Financial Position
 - Consolidated Statement of Profit or Loss
 - Consolidated Statement of Comprehensive Income
 - Consolidated Statement of Cash Flows
 - Consolidated Statement of Changes in Equity

Notes to the Consolidated Financial Statements

Independent Auditors' Report

LUIGI LAVAZZA S.P.A. — FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Balance Sheet
 - Statement of Profit or Loss
 - Statement of Cash Flows

Notes to the Financial Statements

Statutory Auditors' Report

Independent Auditors' Report

ABSTRACT 2018

Risk management

The Group relies on an internal control system, based on organisational rules, procedures and structures that allow the business to be run properly and in line with the goals set through an appropriate process for identifying, measuring, managing and monitoring the main risks.

An effective internal control and risk management system serves to safeguard the corporate assets, the efficiency and efficacy of business operations, the reliability of the information supplied to the corporate bodies and the market, and compliance with laws and regulations.

Exchange rate risk

The Euro/Dollar exchange rate was highly volatile during 2018. In particular, at the beginning of the year the value of the dollar fell suddenly down to 1.251 at the start of February. From April 2018, the dollar recovered sharply, caused by numerous factors such as: the positive effects of Trump's fiscal reform, concerns about the Brexit process, the EU's internal conflicts arising from the success of nationalist parties and the rise in US government bond yields.

The second half of the year was dominated by the tensions linked to the Trade War threatened by Trump both towards Europe and towards China. After reaching a low of 1.1218 in November, the exchange rate ended the year in a trading range falling between 1.13 and 1.15. The annual average exchange rate was 1.18.

As in previous years, currency needs for purchasing the raw material were met primarily through forward purchases, without taking any positions that could be considered of a speculative nature.

In addition, currency exposures deriving from sales in countries with currencies other than the euro are monitored and hedged within the framework of overall risk management. Also in this case the Company did not take any speculative positions.

Interest rate risk

In 2018, the American Central Bank made four 0.25% rate increases (March – June – September – December) causing the entire curve to steepen both in the short term and long term. The yield of the Treasury ten-year bond exceeded 3% on several occasions and then closed around 2.7% in December.

The ECB, on the other hand, even though it had announced the end of QE, proved to be rather cautious — particularly in the last quarter — in considering rate rises, which the market expects no earlier than September 2019. Short-term rates were unchanged, whilst the rates between 1 and 10 years gradually reversed the trend after peaking in February.

Finally, the ten-year BTP – Bund spread felt the effects of Italy's political events and, after starting the year at 162 basis points, by May was approaching 300 points and then touched 326 in the most animated stages of discussions with the European Union for approval of the 2019 budget law. At the end of the year, the spread returned to around 250 points as tensions lessened.

Regarding property leases, the Company enforced the clause to change from a variable rate to a fixed rate for the entire amount. As a result, the Interest Rate Swaps originally set up to hedge interest rate risk were extinguished.

In addition, following the new bank loan taken out, the risk was hedged in full by changing from a variable to a fixed rate through Interest Rate Swap transactions.

Commodity price risk

The coffee market in 2018 was marked by falling prices both for the Arabica and Robusta varieties: the downward trend that had already marked 2017 continued in 2018.

After years of shortage or equilibrium between supply and demand, fundamental factors led to good availability of coffee, particularly for Arabica; accordingly, funds continued to expand the "short" position, which reached its highest ever level. The systematic selling of large quantities of bag lots drove down both London and New York prices.

As in the past, it should be acknowledged that such far-reaching phenomena are generally not offset by the transactions of the opposite sign performed by traditional operators (roasters, international traders and coffee-growing countries), which are unable to act as a counterweight to the vast amounts of capital lavished on the market by funds, and which are therefore forced to endure abrupt price swings.

At the level of price analysis, the New York Exchange fluctuated between around 132 cents/lb (second position) at the beginning of January, to then reach its year low of 96 cents in September and close the year at around 105 cents.

The London Exchange opened the year at 1,733 US\$/t and reached an annual peak at 1,831 US\$/t at the beginning of May, again for the second position; the annual low was reached in mid-December with 1,470 US\$/t and the year ended at 1,525 US\$/t.

At the production level, the Brazilian harvest — in a positive cycle thanks to early blooming and ideal climate and plantation management conditions — reached 63-65 million bags, one of the highest number in history, with the Robusta finally in major recovery after years of drought.

Low prices are putting the producers in difficulty; the Brazilians, due to the local currency's devaluation, large plantations and production efficiency are managing to maintain good business margins, whilst in Central America the situation is extremely critical as the price of coffee is often lower than the cost of production.

Colombia returned to steady levels of nearly 14 million bags of excellent quality, sold at higher prices than similar qualities from Central America.

In these areas, production was stable, with only Honduras experiencing an ongoing uptrend owing to the expansion of its plantation area and a sharp productivity improvement.

As in previous years, the Vietnamese harvest was stable at 28-30 million bags — almost all of which are exported — and Indonesia remained within the range of 10 to 11 million bags, with constantly increasing domestic consumption, which now accounts for approximately four million bags.

With regard to the African countries where the Company makes its purchases, mention should be made of Uganda, due to its regular volumes and supply. The countries in West Africa continued to offer meagre harvests of modest quality.

Credit risk

Despite the increase in sales achieved during the year, to which the new acquisitions also contributed, the Group's receivables for 2018 were down on the previous year. This trend is partly due to the increase in year-end promotional contributions to be settled with the trade linked to the growth in turnover, and partly to the satisfactory reduction in average collection times.

Assessments of current and historic overdue accounts based on the historic trend of similar receivables were carried out to evaluate credit risk and credit quality, and projections of the economic and market conditions were carefully monitored.



Contents

Company Officers and Group Structure

Directors' Single Report on Operations

LAVAZZA GROUP — CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Consolidated Statement of Financial Position
 - Consolidated Statement of Profit or Loss
 - Consolidated Statement of Comprehensive Income
 - Consolidated Statement of Cash Flows
 - Consolidated Statement of Changes in Equity

Notes to the Consolidated Financial Statements

Independent Auditors' Report

LUIGI LAVAZZA S.P.A. — FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Balance Sheet
 - Statement of Profit or Loss
 - Statement of Cash Flows

Notes to the Financial Statements

Statutory Auditors' Report

Independent Auditors' Report

ABSTRACT 2018

Lavazza’s commitment to the social and environmental sustainability of its activities

The Lavazza Group has always been committed towards conducting its business in an economically, environmentally and socially sustainable way.

Making the most of its human resources and the territories and communities in which it operates and minimising the environmental impact of its activities are the pillars of Lavazza's approach to doing business. This approach has allowed the Company to organise a programme of coordinated initiatives in Italy and in the countries where it operates, in order to promote the integration of sustainability in all areas of the business.

In 2017, to provide a clearer framework and guidance for its sustainability efforts, Lavazza decided to participate in the United Nations Global Compact, embracing the Sustainable Development Goals promoted by the United Nations as part of its 2030 Agenda. The challenges posed by the UN are addressed to everyone, including the business world. It is for this reason that Lavazza decided to accept this proposal adopting the Goals as guidelines for its own sustainability policy and setting itself the further goal of using its own power of communication to disseminate the United Nations messages, engaging its stakeholders in the commitment to a sustainable future. During 2018, Lavazza started numerous projects to disseminate knowledge of the Global Goals: the Lavazza Calendar “2030: What Are You Doing?”, which aims to raise awareness and spread the stories of those who every day are committed to implementing sustainable development projects; the “TOward 2030. What Are You Doing?” project, which involves young national and international artists, asked to interpret the messages of the Global Goals through 17 works of street art in the city of Turin; the internal communication campaign “2030: what are WE doing?”, which supported all Lavazza Group employees in understanding the Global Goals; the university competition “Lavazza and



Youth for SDGs”, which involved more than 80 students challenged to create sustainability projects with an impact on the Global Goals and benefiting coffee-producing communities. In 2018, these projects saw the Company actively engaged in adopting and disseminating the 2030 Agenda commitments.

In 2017, with the support of Save the Children, Lavazza had already made the commitment to adopting the “Children Rights and Business Principles”, principles developed by Save the Children, UNICEF and Global Compact which aim to guide companies in defining programmes designed to safeguard children’s rights. In 2018, Lavazza — one of the first companies in the world to sign up to the programme — worked, together with Save the Children on designing policies and programmes for the adoption of these principles, launching projects involving Lavazza suppliers on the themes of children’s rights and projects supporting coffee-growing communities.

In addition, 2018 saw the Group rewrite the Suppliers’ Code of Conduct, through which suppliers are required to respect principles and values that are fundamental for Lavazza.

These values apply to the areas in which Lavazza operates through the Community Engagement programme, whereby the Company communicates and works actively with local institutions, associations and foundations to implement projects benefiting communities and protecting the local area. The involvement of schools and local associations has given rise to projects such as “I Luoghi del Bello”, which aims to promote beauty in the cities through educational programmes and concrete urban regeneration schemes, and professional barista training initiatives such as the “A.A.A. (Accoglie, Avvicina, Accompagna)” project. This scheme aims to develop a continually evolving social fabric in which Lavazza, in collaboration with other partners, has helped create new employment and relationship opportunities for disadvantaged people.

Finally, Lavazza continued with its commitment to the environmental sustainability of its own products, with a

Contents

Company Officers and Group Structure

Directors' Single Report on Operations

LAVAZZA GROUP — CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Consolidated Statement of Financial Position
 - Consolidated Statement of Profit or Loss
 - Consolidated Statement of Comprehensive Income
 - Consolidated Statement of Cash Flows
 - Consolidated Statement of Changes in Equity

Notes to the Consolidated Financial Statements

Independent Auditors' Report

LUIGI LAVAZZA S.P.A. — FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Balance Sheet
 - Statement of Profit or Loss
 - Statement of Cash Flows

Notes to the Financial Statements

Statutory Auditors' Report

Independent Auditors' Report

ABSTRACT 2018

highly inclusive, innovative and cutting-edge approach that is continually updated. The first guideline, based on the EPD® system, was defined and published together with other Italian companies within the Italian Coffee Committee and with a pre-competitive approach: it aims at calculating the environmental impacts of the espresso beverage, so that it can be distinctively recognised and a shared scientific method defined for analysing its environmental profile.

The challenge represented by the ISO standards for the environmental management systems was ambitious. It required a "Life Cycle Perspective" to be adopted in order to identify, evaluate and manage the environmental aspects associated with the organisation's production processes, products and services, and hence the related environmental impacts. The main innovation introduced was the use of a control and monitoring perspective for all the action areas in which the Company operates along the supply chain, so that it can make a significant contribution to the Group's sustainable development and enduring success.

The Group is constantly evolving and has embarked in a strategic sustainability process, motivated by the conviction that increasingly deep integration between economic growth, social inclusion and environmental protection is the only paradigm capable of creating shared value.



**Lavazza's health,
workplace safety,
energy and
environment
management system**

Within the framework of the implementation of the Group's HSE (Health, Safety and Environment) Guidelines and the Corporate Workplace Health and Safety Policy, Lavazza continued to implement an Integrated Health, Workplace Safety, Energy and Environment Management System (SG-SSEA), in line with the ISO 14001, ISO 50001 and OHSAS 18001 standards of reference.

In the reporting year, the Company's management carried out a review of the SG-SSEA during which the results of the system's implementation in the third quarter of 2018 were shared and the current Corporate HSE Policy confirmed. The scope of the internal HSE audits was extended to the foreign plants and a number of partners in the logistics field, including checks on the application of procedures. The first HSE requirements were also introduced through the portal dedicated to the qualification of suppliers.

Finally, the Company obtained the necessary preliminary authorisations for the installation of new equipment in the Turin and Gattinara plants, where a systematic control was conducted to check compliance with all the environmental provisions applicable to the sites. This control was concluded without identifying any irregularities, proof of the diligence with which the production activity is carried out. The risk assessment documents (DVR) pursuant to Legislative Decree No. 81/2008 relating to the Italian plants were all updated in 2018.

The French plant of Carte Noire Operations S.a.s. obtained the certification for its Environmental Management System in accordance with the recent ISO 14001:2015 standard. The same plant passed the audit on its Health and Safety Management System in accordance with OHSAS 18001:07.

Contents

Company Officers and Group Structure

Directors' Single Report on Operations

LAVAZZA GROUP — CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Consolidated Statement of Financial Position
 - Consolidated Statement of Profit or Loss
 - Consolidated Statement of Comprehensive Income
 - Consolidated Statement of Cash Flows
 - Consolidated Statement of Changes in Equity

Notes to the Consolidated Financial Statements

Independent Auditors' Report

LUIGI LAVAZZA S.P.A. — FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Balance Sheet
 - Statement of Profit or Loss
 - Statement of Cash Flows

Notes to the Financial Statements

Statutory Auditors' Report

Independent Auditors' Report

ABSTRACT 2018

Relationships with personnel

The headcount at 31 December 2018 numbered 3,836 broken down as follows:

Categories	Year 2018	Year 2017
Executives	219	163
Middle managers	571	656
White collars	1,719	1,434
Blue collars	1,327	832
Total	3,836	3,085

The Group's personnel costs for 2018 closed with an overall increase of about +13% compared with the previous year, due primarily to the new acquisitions in 2018. Organic growth, net of acquisitions, was 6%.

At the Headquarters level, personnel costs grew by +5% compared to the previous year, mainly due to an increase in headcount aimed at strengthening certain strategic Headquarters functions, in addition to normal salary dynamics associated with the renewal of labour contracts and the annual salary review process.

With regard to foreign subsidiaries, significant cost increases were recorded primarily in the strategic markets (the UK: +25%; United States: +14%; Australia: +16%) where substantial investments were made to strengthen sales operations with the aim of supporting business growth. In the other geographical areas, the increase in personnel costs was more modest, as a result of normal salary dynamics. Finally, the Brazilian subsidiary reported a significant decline (-31%) as did Argentina (-22%) due to a change in the route to market that resulted in a reduction in the number of direct employees.

Research and development

In 2018, FPS R&D achieved important results, in the area of projects related to sustainability and the development of new products.

Satisfactory results were achieved in the product sustainability area, with a prime focus on the packaging component, leading to the development of self-protected compostable capsules.

In the Roast & Ground segment, every effort was directed to developing recyclable, compostable, Alu-free packs, achieving a 15% reduction in packaging thickness.

There was a changeover to use of 99% recyclable paper for all products with secondary packaging.

Blend optimisation and green coffee use continued in line with strategic plan requirements.

New machines for espresso coffee were launched during the year to renew the offer in the single-serve mid-range such as for example: the Idola machine for domestic use, Desea for domestic use and milk-based recipes, Inovy and Classy for the OCS sector.



Group companies

In the reporting year, the Group adopted a differentiated business model based on local situations and business segments. The most significant events concerning the Group companies are discussed hereunder. Figures have been stated based on the local accounting standards.

Companies Operating Abroad

The foreign subsidiaries mainly deal with distributing and marketing coffee products and coffee machines, except for Lavazza Netherlands B.V., an investment holding company.

Lavazza Coffee (U.K.) Ltd (United Kingdom)

Sales amounted to GBP 82.3 million, up compared to the previous year. All channels continued to grow thanks to the consolidation of the products launched in 2017, Carte Noire-branded instant coffee and the capsule segment.

Lavazza Deutschland G.m.b.H. (Germany)

Sales stood at €178.7 million, up compared to the previous year as a result of the good performance reported by both the At Home and Away From Home channels.

Lavazza France S.a.s. (France)

The company recorded a turnover of €114.7 million, up compared to the previous year as a result of the merger with Espresso Service Proximité (France).

Lavazza Kaffee G.m.b.H. (Austria)

The company recorded a turnover of €13.9 million, with a decrease compared to the previous year due to the deflationary effect on prices.

Lavazza Sweden SA (Sweden)

The company recorded an increase in sales also thanks to its marketing investments. Sales for 2018 totalled SEK 124 million.

Merrild Kaffe ApS (Denmark)

The company reported sales amounting to DKK 364 million, in line with the previous year.

Merrild Baltics SIA (Latvia)

Fully owned by Merrild Kaffe ApS, this company acts as agent to support the marketing activities of Merrild Kaffe ApS in the Baltics.

Lavazza Australia Pty Ltd (Australia)

The company operates in Australia, where it distributes Lavazza products in both the At Home and Food Service channels. Sales were approximately AUD 67 million, with a fair increase in the At Home channel.

Contents

Company Officers and Group Structure

Directors' Single Report on Operations

LAVAZZA GROUP — CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Consolidated Statement of Financial Position
 - Consolidated Statement of Profit or Loss
 - Consolidated Statement of Comprehensive Income
 - Consolidated Statement of Cash Flows
 - Consolidated Statement of Changes in Equity

Notes to the Consolidated Financial Statements

Independent Auditors' Report

LUIGI LAVAZZA S.P.A. — FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Balance Sheet
 - Statement of Profit or Loss
 - Statement of Cash Flows

Notes to the Financial Statements

Statutory Auditors' Report

Independent Auditors' Report

ABSTRACT 2018

Lavazza Spagna S.L. (Spain)

The company operates in the Spanish market providing account management, training and marketing services.

Lavazza Netherlands B.V. (The Netherlands)

Formed in 2007 as an investment holding company, it currently holds the investments in the Indian company Fresh & Honest Café Ltd.

Lavazza Premium Coffees Corp. (United States)

Sales totalled USD 117 million, increasing on the previous year, particularly in the Away From Home channel.

Lavazza Argentina S.A. (Argentina)

The company operates in the Argentinean OCS (Office Coffee Service) segment. Sales were ARS 71 million. In 2018, consensus was reached at global level regarding the occurrence of conditions that give rise to hyperinflation in accordance with IFRS (International Financial Reporting Standards). Consequently, as from 1 July 2018, all companies operating in Argentina are required to apply IAS 29 — *Financial Reporting in Hyperinflationary Economies* when preparing financial reports.

Lavazza do Brasil Ltda (Brazil)

Sales totalled BRL 13.5 million. The reporting year saw the benefits arising from the reorganisation of its activities, including the disposal of the Vending business unit and the redefinition of its distribution model.

Fresh & Honest Café Ltd (India)

The company, which primarily operates in the vending segment, reported sales of INR 1,447 million.

Lavazza Trading (Shenzhen) Co. Ltd (China)

In the reporting year, the company continued to provide the Parent Company with services related to the purchase of coffee machines.

Carte Noire S.a.s. (France)

The company distributes Carte Noire-branded and Lavazza-branded products within the retail sector in France; its sales amounted to €561 million, up compared to the previous year.

Carte Noire Operations S.a.s. (France)

The French company's main business is the production of coffee under the Carte Noire brand by virtue of a contract manufacturing agreement with the Parent Company; sales amounted of €27 million in 2018.

Kicking Horse Coffee Co. Ltd (Canada)

The company, a leading Canadian distributor of organic and fair-trade coffee products, has stood out in Canada and the USA thanks to its impressive growth in recent years. In 2018, it recorded sales of CAD 54 million.

Lavazza Australia OCS Pty Ltd (Australia)

The company was set up in the first half of 2018 to acquire the business of The Blue POD, a company distributing Lavazza products in the OCS segment. Sales at 1 July 2018 amounted to AUD 6.3 million.

Mars Drinks (currently Lavazza Professional)

The companies of the Mars Drinks Group were acquired on 27 December 2018 and thus did not contribute to the Lavazza Group's result. The Notes to the Financial Statements provide further details.

Companies Operating in Italy

Lavazza Capital S.r.l.

The company, fully owned by Luigi Lavazza S.p.A., was incorporated with the aim of undertaking financing transactions for the Group and managing a significant portion of its liquidity, so as to optimise the return of its investments.

Cofincaf S.p.A

The company, which provides financial support to customers in the Vending and Food Service sectors, recorded financial transactions for a total amount of €45.4 million at 31 December 2018 (€41.9 million in 2017). The increase in financing chiefly concerned the Vending sector in Italy.

Lea S.r.l.

The company directly manages a café and a restaurant. The Ristorante Caffè San Tommaso, located in the historic centre of Turin in the premises where, at the beginning of the Twentieth Century, the Group's founder started his business, is Lavazza's showcase in the city, serving both as a café and as a restaurant. During the year, the Company opened new premises inside the Nuvola building complex: the Condividere gourmet restaurant, which is the expression of a new philosophy of taste and a new way of enjoying food inspired by the informal sharing of signature dishes. Thanks to the opening of the new restaurant, net revenues for the year more than doubled, rising from €0.6 million in 2017 to more than €1.4 million in 2018.

Nims S.p.A.

It is specialised in the distribution and direct door-to-door sale of coffee capsules and coffee machines throughout Italy. During the year, the residual share of 19.47% was acquired, thus giving Lavazza an overall stake of 97.33%. Net revenues amounted to €101 million, in line with the previous year.

Present in over

90 countries
through subsidiaries and an extensive
network of distributors

Contents

Company Officers and Group Structure

Directors' Single Report on Operations

LAVAZZA GROUP — CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Consolidated Statement of Financial Position
 - Consolidated Statement of Profit or Loss
 - Consolidated Statement of Comprehensive Income
 - Consolidated Statement of Cash Flows
 - Consolidated Statement of Changes in Equity

Notes to the Consolidated Financial Statements

Independent Auditors' Report

LUIGI LAVAZZA S.P.A. — FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Balance Sheet
 - Statement of Profit or Loss
 - Statement of Cash Flows

Notes to the Financial Statements

Statutory Auditors' Report

Independent Auditors' Report

ABSTRACT 2018

Treasury shares / shares of parent companies

The Parent Company, Luigi Lavazza S.p.A, owns 2,499,998 treasury shares worth €1 each.
The Parent Company does not own and, during the financial year it did not buy and/or sell, any share of the Holding Company either directly or through a trust company or other persons.
The Parent Company did not establish secondary offices in 2018.
Luigi Lavazza S.p.A., and the Italian Group companies together with their parent/consolidating company, Finlav S.p.A., participated for the three-year period 2016-2018 in the Italian tax consolidation programme.
It should be noted that with reference to compliance with Privacy regulations, the Company has carried out the assessment activities aimed at complying with the Regulation (EU) No. 2016/679 about the protection of natural persons with regard to the processing of personal data

Information on management and coordination activities

The Parent Company is responsible for the management and coordination of its subsidiaries and it is not subject to management and coordination by its Holding Company, Finlav S.p.A.

Outlook

In light of its leading position on the Italian market and the good expansion prospects of the foreign markets, the Group expects to continue the organic growth in net revenues in line with its own Strategic Plan. It is realistic to expect that all the Group's business lines and the main geographical markets will make a positive contribution to such growth.
The Group also expects to achieve an improved margin at EBITDA level with constant exchange rates. The development of the governance system has been further reinforced with the adoption of advanced risk management systems. 2019 will be a year of further expansion, capitalising both on the integration of the companies acquired and the Group's organic growth.

Chairman of the Board of Directors
Alberto Lavazza



Contents

Company Officers and Group Structure

Directors' Single Report on Operations

LAVAZZA GROUP — CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Consolidated Statement of Financial Position
 - Consolidated Statement of Profit or Loss
 - Consolidated Statement of Comprehensive Income
 - Consolidated Statement of Cash Flows
 - Consolidated Statement of Changes in Equity

Notes to the Consolidated Financial Statements

Independent Auditors' Report

LUIGI LAVAZZA S.P.A. — FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Balance Sheet
 - Statement of Profit or Loss
 - Statement of Cash Flows

Notes to the Financial Statements

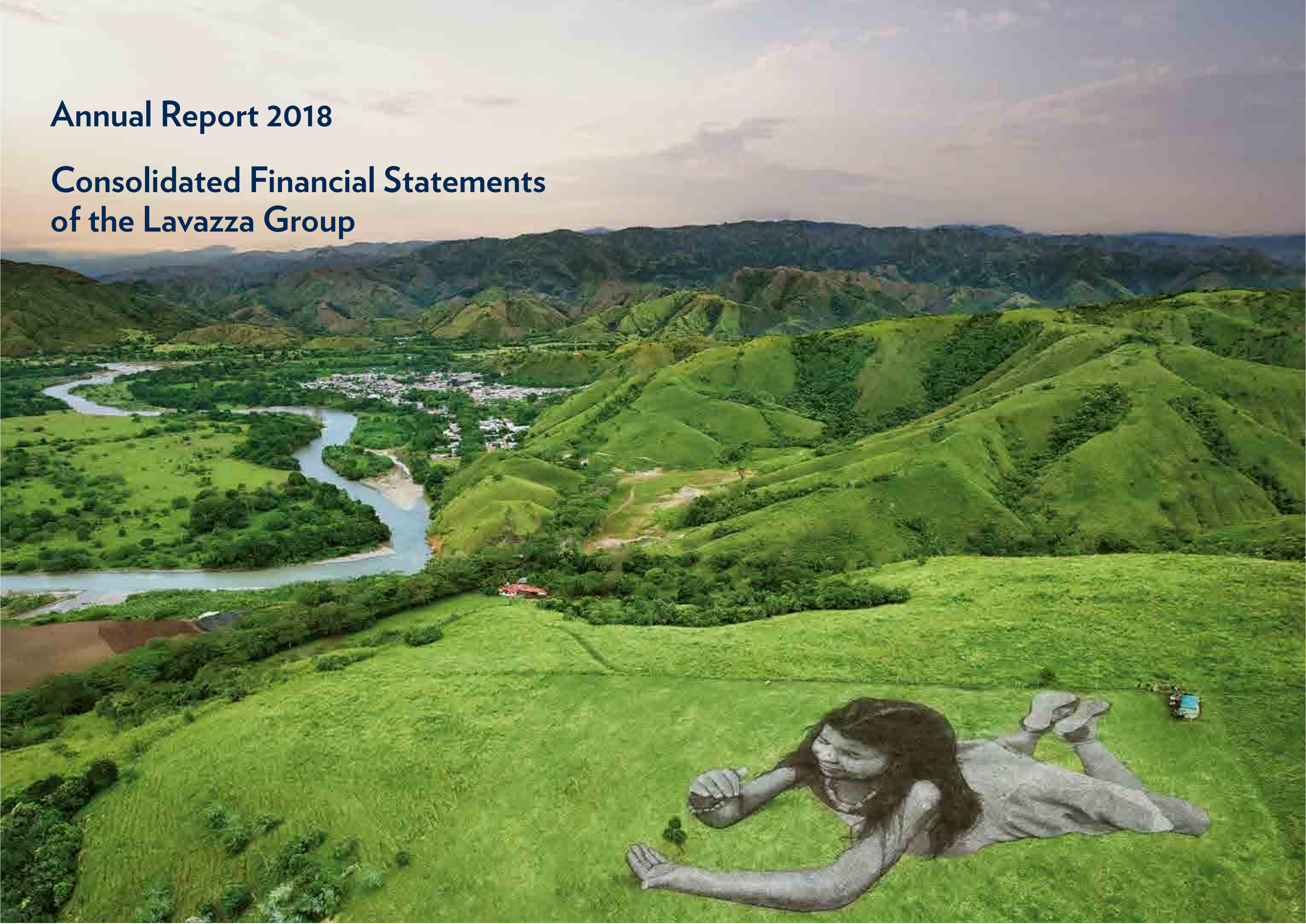
Statutory Auditors' Report

Independent Auditors' Report

ABSTRACT 2018

Annual Report 2018

Consolidated Financial Statements of the Lavazza Group



Contents

Company Officers and Group Structure

Directors' Single Report on Operations

LAVAZZA GROUP — CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Consolidated Statement of Financial Position
 - Consolidated Statement of Profit or Loss
 - Consolidated Statement of Comprehensive Income
 - Consolidated Statement of Cash Flows
 - Consolidated Statement of Changes in Equity

Notes to the Consolidated Financial Statements

Independent Auditors' Report

LUIGI LAVAZZA S.P.A. — FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Balance Sheet
 - Statement of Profit or Loss
 - Statement of Cash Flows

Notes to the Financial Statements

Statutory Auditors' Report

Independent Auditors' Report

ABSTRACT 2018

Accounting Statements

Consolidated Statement of Financial Position

	Notes	31.12.2018	31.12.2017
Goodwill	10.1	1,060,188	525,285
Other intangible assets	10.2	372,734	371,955
Property, plant and equipment	10.3	674,028	556,655
Investments in other companies	10.4	23,674	23,291
Non-current financial assets	10.5	53,276	41,926
Deferred tax assets	10.6	58,735	29,376
Other non-current assets	10.7	4,323	4,203
Total non-current assets		2,246,958	1,552,691
Inventories	10.8	361,620	360,194
Trade receivables	10.9	308,811	329,189
Current tax receivables	10.10	23,911	45,718
Other current assets	10.7	122,595	89,225
Current financial assets	10.5	225,117	373,360
Cash and cash equivalents	10.11	595,313	593,567
Total current assets		1,637,367	1,791,253
TOTAL ASSETS		3,884,325	3,343,944
Share capital	10.12	25,000	25,000
Reserves	10.12	2,151,900	2,167,078
Profit for the year		87,619	77,656
Equity attributable to the Group		2,264,519	2,269,734
Equity attributable to non-controlling interests	10.12	2,761	2,562
Profit (loss) of non-controlling interests		313	259
TOTAL EQUITY		2,267,593	2,272,555
Non-current financial liabilities	10.13	720,658	403,543
Provisions for employee benefits	10.14	79,421	29,577
Provisions for risks and charges	10.15	57,328	24,945
Deferred tax liabilities	10.6	62,453	58,122
Other non-current liabilities	10.18	365	139
Total non-current liabilities		920,225	516,326
Current financial liabilities	10.13	144,336	108,040
Trade receivables	10.17	365,577	320,017
Provisions (current portion)	10.15	24,721	19,405
Current tax payables	10.16	6,849	2,380
Other current liabilities	10.18	155,024	105,221
Total current liabilities		696,507	555,063
TOTAL LIABILITIES		3,884,325	3,343,944

Consolidated Statement of Profit or Loss

CONSOLIDATED STATEMENT OF PROFIT OR LOSS	Notes	Year 2018	Year 2017
Net revenues	11.1	1,870,003	1,710,324
Cost of sales	11.2	(1,138,308)	(1,056,669)
GROSS MARGIN		731,695	653,655
Promotional and advertising expenses	11.3	(197,660)	(192,130)
Selling costs	11.4	(177,334)	(135,988)
General and administrative expenses	11.5	(200,896)	(193,966)
Research and development costs	11.6	(9,019)	(6,250)
Other operating income (expense)	11.7	(26,943)	(13,117)
OPERATING PROFIT		119,843	112,204
Non-recurring income (expense)	11.7	(9,138)	(3,703)
RESULT BEFORE THE FINANCIAL COMPONENT AND TAXES		110,705	108,501
Financial income (expense)	11.9	5,669	(3,255)
Dividends and results from investments	11.9	163	124
PROFIT BEFORE TAXES		116,537	105,370
Income taxes for the year	11.10	(28,605)	(27,455)
PROFIT (LOSS) FROM OPERATING ACTIVITIES		87,932	77,915
Profit / (loss) from discontinued operations			
PROFIT (LOSS) FOR THE YEAR		87,932	77,915
NON-CONTROLLING INTERESTS		313	259
PROFIT (LOSS) ATTRIBUTABLE TO THE GROUP		87,619	77,656

Contents

Company Officers and Group Structure

Directors' Single Report on Operations

LAVAZZA GROUP — CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Consolidated Statement of Financial Position
 - Consolidated Statement of Profit or Loss
 - Consolidated Statement of Comprehensive Income
 - Consolidated Statement of Cash Flows
 - Consolidated Statement of Changes in Equity

Notes to the Consolidated Financial Statements

Independent Auditors' Report

LUIGI LAVAZZA S.P.A. — FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Balance Sheet
 - Statement of Profit or Loss
 - Statement of Cash Flows

Notes to the Financial Statements

Statutory Auditors' Report

Independent Auditors' Report

ABSTRACT 2018

Consolidated Statement of Comprehensive Income

	Year 2018	Year 2017
PROFIT (LOSS) FOR THE YEAR	87,932	77,915
Other components of comprehensive income that will be subsequently reclassified to profit / loss for the year (net of taxes):		
Translation differences of foreign financial statements	(7,081)	(4,256)
(Loss)/gain from hedging derivatives (cash flow hedge)	(13,092)	(5,251)
(Loss)/gain from securities held for sale	52	1,611
Total other components of comprehensive income that will be subsequently reclassified to profit / loss for the year, net of taxes	(20,121)	(7,896)
Other components of comprehensive income that will not be subsequently reclassified to profit / (loss) for the year (net of taxes):		
(Loss)/gain from revaluation of defined benefit plans	(276)	278
Total other components of comprehensive income that will not be subsequently reclassified to profit / (loss) for the year, net of taxes	(276)	278
TOTAL COMPONENTS OF COMPREHENSIVE INCOME, NET OF TAXES	(20,397)	(7,618)
TOTAL PROFIT/(LOSS) OF COMPREHENSIVE INCOME, NET OF TAXES	67,535	70,297
Attributable to:		
Equity holders of the Parent	67,704	70,234
Non-controlling interests	(169)	63

Consolidated Statement of Cash Flows

	2018	2017
PROFIT FOR THE YEAR	87,932	77,915
Income taxes	28,520	27,455
Financial expense / (income)	(2,533)	(2,588)
Value adjustments to financial assets and liabilities	(8,522)	(4,469)
RESULT BEFORE TAXES, INTEREST AND ADJUSTMENTS TO FINANCIAL ASSETS	105,397	98,313
(Gains) losses from disposal of assets	744	673
Provisions, employee benefits and other non-monetary components	50,237	41,104
Amortisation, depreciation and write-downs	87,237	82,221
RESULT ADJUSTED FOR NON-MONETARY COMPONENTS	243,615	222,311
Change in trade receivables	34,961	(8,109)
Change in inventories	22,660	(25,290)
Change in trade payables	(541)	(17,244)
Change in other receivables/payables	(3,728)	(13,467)
CASH FLOW AFTER CHANGES IN NET WORKING CAPITAL	296,967	158,201
Taxes paid	(10,183)	(15,580)
Use of provisions and indemnities paid	(19,813)	(45,531)
Interest and dividends received, interest (paid)	2,534	6,188
CASH FLOWS GENERATED BY OPERATING ACTIVITIES	269,505	103,278
Purchase of property, plant and equipment	(85,839)	(84,828)
Purchase of intangible assets	(14,835)	(14,345)
Change in current financial assets	141,240	136,069
Change in non-current financial assets	(3,142)	1,029
Change in derivatives	(1,148)	0
Acquisitions	(545,963)	(149,282)
CASH FLOWS USED FOR INVESTING ACTIVITIES	(509,687)	(111,357)
New loans and bank debts	410,618	0
Repayment of loans and bank debts	(90,257)	(40,667)
Dividends paid	(77,157)	(27,000)
CASH FLOWS FROM (USED FOR) FINANCING ACTIVITIES	243,204	(67,667)
Exchange rate effect	(1,276)	(1,970)
CASH FLOWS GENERATED (USED)	1,746	(77,716)
Cash and cash equivalents at year-start	593,567	671,283
Cash and cash equivalents at year-end	595,313	593,567

Consolidated Statement of Changes in Equity

Movements in equity	Share capital	Share premium account	Treasury shares	Other equity reserves	Retained earnings	Cash flow hedge reserve	Reserve for adjustment to employee benefits	Reserve of FVOCI financial instruments	Reserve for translation differences	FTA reserve	Equity attributable to the Group	Equity attributable to non-controlling interests	Total equity
Balance at 1 January 2017	25,000	224	(17,733)	627,824	1,508,974	2,626	(124)	0	0	83,376	2,230,167	1,517	2,231,684
Profit for the year					77,656						77,656	259	77,915
Other components of comprehensive income						(5,251)	278	1,611	(4,060)		(7,422)	(196)	(7,618)
Total comprehensive profit/(loss) for the year	25,000	224	(17,733)	627,824	1,586,630	(2,625)	154	1,611	(4,060)	83,376	2,300,401	1,580	2,301,981
Option rights				(4,590)							(4,590)		(4,590)
Payment of dividends					(27,000)						(27,000)		(27,000)
Reclassifications - other movements				411	(510)	(33)	1,055				923	1,241	2,164
Balance at 31 December 2017	25,000	224	(17,733)	623,645	1,559,120	(2,658)	1,209	1,611	(4,060)	83,376	2,269,734	2,821	2,272,555

Movements in Equity	Share capital	Share premium account	Treasury shares	Other equity reserves	Retained earnings	Cash flow hedge reserve	Reserve for adjustment to employee benefits	Reserve of FVOCI financial instruments	Reserve for translation differences	FTA reserve	Equity attributable to the Group	Equity attributable to non-controlling interests	Total equity
Balance at 1 January 2018	25,000	224	(17,733)	623,645	1,559,120	(2,658)	1,209	1,611	(4,060)	83,376	2,269,734	2,821	2,272,555
Profit for the year					87,619						87,619	313	87,932
Other components of comprehensive income						(13,092)	(276)	52	(7,158)		(20,474)	77	(20,397)
Total comprehensive income/(loss) for the year	25,000	224	(17,733)	623,645	1,646,739	(15,750)	933	1,663	(11,218)	83,376	2,336,879	3,211	2,340,090
Exercise of option rights				4,590							4,590		4,590
Payment of dividends					(77,157)						(77,157)		(77,157)
Reclassifications - other movements					207						207	(137)	70
Balance at 31 December 2018	25,000	224	(17,733)	628,235	1,569,789	(15,750)	933	1,663	(11,218)	83,376	2,264,519	3,074	2,267,593

Contents

Company Officers and Group Structure

Directors' Single Report on Operations

LAVAZZA GROUP — CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Consolidated Statement of Financial Position
 - Consolidated Statement of Profit or Loss
 - Consolidated Statement of Comprehensive Income
 - Consolidated Statement of Cash Flows
 - Consolidated Statement of Changes in Equity

Notes to the Consolidated Financial Statements

Independent Auditors' Report

LUIGI LAVAZZA S.P.A. — FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Balance Sheet
 - Statement of Profit or Loss
 - Statement of Cash Flows

Notes to the Financial Statements

Statutory Auditors' Report

Independent Auditors' Report

ABSTRACT 2018

Notes to the Consolidated Financial Statements

1. Company information

The publication of the Consolidated Financial Statements of Luigi Lavazza S.p.A. (the Parent Company) for the year ended 31 December 2018 has been authorized by the Board of Directors on 28 March 2019. Luigi Lavazza S.p.A. is a company limited by shares registered and domiciled in Europe. The registered office is in Turin, via Bologna 32.

Luigi Lavazza S.p.A. and its investee companies are directly and indirectly controlled by Finlav S.p.A., with registered office in Turin, Via Bologna 32.

The Lavazza Group produces and distributes coffee in Italy and internationally under its own brand and other leading industry brands (Carte Noire, Merrild and Kicking Horse).

The Lavazza Group's consolidated financial statements at and for the year ended 31 December 2018 have been prepared on a going-concern basis.

Contents

Company Officers and Group Structure

Directors' Single Report on Operations

LAVAZZA GROUP — CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Consolidated Statement of Financial Position
 - Consolidated Statement of Profit or Loss
 - Consolidated Statement of Comprehensive Income
 - Consolidated Statement of Cash Flows
 - Consolidated Statement of Changes in Equity

Notes to the Consolidated Financial Statements

Independent Auditors' Report

LUIGI LAVAZZA S.P.A. — FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Balance Sheet
 - Statement of Profit or Loss
 - Statement of Cash Flows

Notes to the Financial Statements

Statutory Auditors' Report

Independent Auditors' Report

ABSTRACT 2018



2. Accounting standards

2.1 Principles of preparation of the Consolidated Financial Statements

The Group's Consolidated Financial Statements at 31 December 2018 have been prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and endorsed by the European Union. IFRS is also meant to include all revised international accounting standards (IAS) and all the interpretations of the International Financial Reporting Interpretation Committee (IFRIC) previously known as Standing Interpretation Committee (SIC). In 2018, the Group did not apply any IFRS in advance.

The consolidated financial statements have been prepared on a cost basis, taking account of impairment, where appropriate, with the exception of derivatives and new acquisitions, which have been accounted for at their fair value, unless IFRSs permit a different basis of measurement.

The consolidated financial statements at and for the year ended 31 December 2018 have been prepared by treating the business as a going concern, inasmuch as it may reasonably be expected that the Company will continue to operate for the foreseeable future.

The carrying amounts of assets and liabilities subject to fair value hedging transactions, which would otherwise be measured at cost, have been adjusted to take account of the changes in fair value attributable to the hedged risk.

The consolidated financial statements have been presented in euro and all values have been rounded to thousands of euro, unless otherwise indicated.

The Group adopted international accounting standards (IASs/IFRSs) for the first time in 2018. Accordingly, Annex 1 includes the "Note on the transition to IASs/IFRSs", as required by IFRS 1 (First-time Adoption of International Financial Reporting Standards).

The financial statements of consolidated subsidiaries have been prepared in reference to the same reporting period, adopt the same accounting principles as the Parent Company and have been included in the consolidated financial statements from the date on which the Group acquires control until the moment such control ceases to exist. Where the Group loses control of a subsidiary, the consolidated financial statements include the subsidiary's performance in proportion to the period in which the Group exercised control.

Any non-controlling interests in the equity and reserves of subsidiaries and non-controlling interests in the profit or loss for the year of consolidated subsidiaries are separately presented in the consolidated statement of financial position and consolidated statement of profit or loss.

2.2 Consolidated Accounting Statements

The statement of financial position presents a separate classification of assets and liabilities as "current/non current". The statement of profit or loss classifies expenses by their function. The statement of cash flows is presented using the indirect method.

An asset is classified as current when:

- it is expected to be realised or is held to sell or consume, in its normal operating cycle;
- it is held primarily for the purpose of trading;
- it is expected to be realised within twelve months after the reporting period; or
- it is cash or a cash equivalent unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is classified as current when:

- it is expected to be settled in its normal operating cycle;
- it is held primarily for the purpose of trading;
- It is due to be settled within twelve months after the reporting period; or
- the entity does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period.

The Group classifies all other liabilities as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

Contents

Company Officers and Group Structure

Directors' Single Report on Operations

LAVAZZA GROUP — CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Consolidated Statement of Financial Position
 - Consolidated Statement of Profit or Loss
 - Consolidated Statement of Comprehensive Income
 - Consolidated Statement of Cash Flows
 - Consolidated Statement of Changes in Equity

Notes to the Consolidated Financial Statements

Independent Auditors' Report

LUIGI LAVAZZA S.P.A. — FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Balance Sheet
 - Statement of Profit or Loss
 - Statement of Cash Flows

Notes to the Financial Statements

Statutory Auditors' Report

Independent Auditors' Report

ABSTRACT 2018

Notes to the Consolidated Financial Statements

3. Consolidation area and changes

The consolidated financial statements include the financial statements at and for the year ended 31 December 2018 of Luigi Lavazza S.p.A., the Parent Company, and the subsidiaries for which Luigi Lavazza S.p.A. has the power to direct the relevant activities of the company and is exposed to the variability of their performance.

The consolidation area at 31 December 2018 has changed compared with the previous year as a result of the following transactions:

- On 27 December 2018, the Lavazza Group acquired from the Mars Group Incorporated the Drinks business, which includes the Flavia and Klix systems, two leading Office Coffee Service (OCS) and Vending brands. The acquisition of the new business line renamed Lavazza Professional was carried out through two newly incorporated holdings (Lavazza Professional Holding USA and Lavazza Professional Holding Europe), directly controlled by the Parent Company. The two holding companies control the companies operating in the USA and Japan and those operating in Germany, France and the UK, respectively. The Report on Operations provides further information on this subject. The acquisition agreement envisages a price adjustment to be finalised by the first half of 2019. The purchase price allocation process has yet to be started by the Parent Company. Accordingly, the temporary difference between the price paid and the fair value of the net assets acquired (€527 million) has been provisionally allocated to goodwill. In accordance with IFRS 3, the allocation must be completed for the purposes of the preparation of the financial statements at and for the year ending 31 December 2019;
- On 1 July 2018, the Lavazza Group acquired 100% of the business of The Blue Pod Coffee Company, which has been for over ten years the Lavazza Group's exclusive distributor in Australia in the OCS (Office Coffee Service) sector. The acquisition was carried out through the newly incorporated company Lavazza Australia OCS ty Ltd, 100% controlled by Lavazza Australia Pty Ltd. The allocation of the price paid was completed in 2018.

The following table provides a detail of the above-mentioned transactions:

	Mars Drinks (Lavazza Professional)	Blue Pod
€ million	Provisional Fair Value	Definitive Fair Value
Non-current assets	89.1	2.2
Current assets	97.0	1.0
Total assets	186.1	3.1
Total non-current liabilities	18.1	0.1
Provisions for employee benefits	50.3	
Current liabilities	69.7	1.7
Total liabilities	138.1	1.8
Total net assets acquired	48.0	1.3
Price paid	575.3	8.5
Price difference to be allocated	527.3	7.2
Customer relations		1.0
Deferred taxes on price allocation		(0.3)
Goodwill (*)	527.3	6.5

(*) Provisional, with reference to the acquisition of the Drinks business.
Provisional goodwill is broken down by acquired company, as follows: Mars Drinks USA (currently Lavazza Professional North America LLO) equal to €400.7; Mars Drinks Germany (currently Lavazza Professional Germany GmbH) equal to €76.8 million; Mars Drinks UK (currently Lavazza Professional UK Limited) equal to €40 million; Mars Drinks France (currently Lavazza Professional France) equal to €7 million and Mars Japan (currently Lavazza Professional Japan GK) equal to €2.7 million.

During the year, the Parent Company acquired the remaining 19.47% stake in Nims S.p.A.

The company Espresso Service Proximité S.A. was merged into Lavazza France S.a.s., effective 1 January 2018.



Contents

Company Officers and Group Structure

Directors' Single Report on Operations

LAVAZZA GROUP — CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Consolidated Statement of Financial Position
 - Consolidated Statement of Profit or Loss
 - Consolidated Statement of Comprehensive Income
 - Consolidated Statement of Cash Flows
 - Consolidated Statement of Changes in Equity

Notes to the Consolidated Financial Statements

Independent Auditors' Report

LUIGI LAVAZZA S.P.A. — FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Balance Sheet
 - Statement of Profit or Loss
 - Statement of Cash Flows

Notes to the Financial Statements

Statutory Auditors' Report

Independent Auditors' Report

ABSTRACT 2018

Notes to the Consolidated Financial Statements

The following table provides the list of consolidated companies, associates and other minor investees.

Denominazione	Registered office	Share capital	% held directly	% held indirectly	% held by the Group
PARENT COMPANY:					
Luigi Lavazza S.p.A.	Turin	EUR	25,000,000	-	-
COMPANIES CONSOLIDATED USING THE LINE-BY-LINE METHOD:					
Nims S.p.A.	Padua	EUR	3,000,000	97.33	-
Lavazza France S.a.s.	Boulogne	EUR	21,445,313	100	-
Carte Noire S.a.s.	Boulogne	EUR	103,830,406	100	-
Carte Noire Operations S.a.s.	Lavérune	EUR	11,517,350	-	100
Lavazza Kaffee G.m.b.H.	Vienna	EUR	218,019	100	-
Lavazza Deutschland G.m.b.H.	Frankfurt	EUR	210,000	100	-
Lavazza Premium Coffees Corp.	New York	USD	30,800,000	93	-
Kicking Horse Coffee Co. Ltd.	Invermere	CAD	214,994,202	80	-
Lavazza Coffee (UK) Ltd	Uxbridge	GBP	1,000	100	-
Lavazza España S.L.	Barcelona	EUR	1,090,620	100	-
Lavazza Sweden AB	Stockholm	SEK	100,000	100	-
Lavazza do Brasil Ltda	Rio de Janeiro	BRL	77,097,753	99.53	0.47
Cofincaf S.p.A.	Turin	EUR	3,000,000	99	-
Lea S.r.l.	Turin	EUR	100,000	99.9	0.1
Lavazza Eventi S.r.l.	Turin	EUR	100,000	100	
Lavazza Netherlands B.V.	Amsterdam	EUR	111,500,000	100	-
Fresh & Honest Café Ltd	Chennai	INR	73,414,000	-	99.99
Coffice SA	Buenos Aires	ARS	10,468,283	97.54	2.46
Almada Comercio de Café Ltda	São Paulo	BRL	1,000,800	-	100
Lavazza Australia Pty Ltd	Hawthorn	AUD	7,310,600	100	-
Lavazza Capital S.r.l.	Turin	EUR	200,000	100	-
Merrild Kaffe ApS	Middelfart	DKK	50,000	100	-
Merrild Baltics SIA	Riga	EUR	2,828	-	100
Lavazza Professional France	Roissy en France	EUR	270,750	-	100
Lavazza Professional North America LLC	Wilmington, Delaware	USD	n.d.	-	100
Lavazza Professional Holding North America Inc	Wilmington, Delaware	USD	1	100	-
Lavazza Professional UK Limited	Basingstoke	GBP	34,084,001	-	100
Lavazza Professional Germany GmbH	Verden	EUR	50,000	-	100
Lavazza Professional Japan GK	Tokyo	JPY	1,000	-	100
Lavazza Australia OCS Pty Ltd	Mulgrave	AUD	3,000,000	-	100
Lavazza Professional Holding Europe S.r.l.	Turin	EUR	1,000,000	100	
OTHER INVESTMENTS					
Immobiliare I.N.N.E.T. S.r.l.	Turin	EUR	30,000	100	-
Lavazza Maroc S.a.r.l.	Casablanca	MAD	10,000	100	-
Lavazza Trading (Shenzhen) Co. Ltd.	Shenzhen	CNY	8,201,500	100	-
International Coffee Partners G.m.b.H.	Hamburg	EUR	175,000	20	-
INVESTMENTS VALUED AT FAIR VALUE:					
Inv. A.G. S.r.l.	Milan	EUR	207,637,307	6.09	-
Clubitaly S.p.A.	Milan	EUR	103,300	4.12	-
Connect Ventures One LP	London	GBP	n.d.	2.53	-
Casa del Commercio e Turismo S.p.A.	Turin	EUR	114,700	-	3
Air Vallée S.p.A.	St. Cristophe	EUR	6,000,000	2	-
Tamburi Investment Partners S.p.A.	Milan	EUR	76,853,716	0.93	-
Immobiliere 3 F (formerly Le Foyer du Fonctionnaire)	Paris	EUR	46,552,000	n.d.	-
Idroelettrica S.c.r.l.	Aosta	EUR	50,000	0.1	-



Contents

Company Officers and Group Structure

Directors' Single Report on Operations

LAVAZZA GROUP — CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Consolidated Statement of Financial Position
 - Consolidated Statement of Profit or Loss
 - Consolidated Statement of Comprehensive Income
 - Consolidated Statement of Cash Flows
 - Consolidated Statement of Changes in Equity

Notes to the Consolidated Financial Statements

Independent Auditors' Report

LUIGI LAVAZZA S.P.A. — FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Balance Sheet
 - Statement of Profit or Loss
 - Statement of Cash Flows

Notes to the Financial Statements

Statutory Auditors' Report

Independent Auditors' Report

ABSTRACT 2018

4. Consolidation criteria

The Consolidated Financial Statements include the financial statements of Luigi Lavazza S.p.A. and its subsidiaries at 31 December 2018. Control is obtained when the Group is exposed or entitled to variable returns arising from its relationship with the investee entity, together with the ability to influence such returns by exercising its power over the said entity.

- Specifically, the Group controls an investee if it has all the following:
- power over the investee, that is to say the ability to direct the relevant activities of the investee, i.e., the activities that significantly affect the investee's returns;
 - exposure or rights to variable returns from its involvement with the investee;
 - the ability to use its power over the investee to affect the amount of the investor's returns.

In general, the majority of voting rights is deemed to entail controls over the investee. In support of this presumption, and when the Group holds less than the majority of voting rights (or similar rights), the Group considers all relevant facts and circumstances to determine whether it controls the investee, including:

- contractual agreements with other vote-holders;
- rights under contractual agreements;
- voting rights and potential voting rights of the Group.

Consolidation of an investee begins from the date the Group obtains control of the investee and ceases when the Group loses control of the investee. Assets, liabilities, revenues and costs of the subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group obtains control until the date the Group no longer has control over the subsidiary.

All subsidiaries are consolidated using the line-by-line method. According to this method, the consolidated entities' assets, liabilities, income and expenses are incorporated into the consolidated financial statements line by line. The carrying amount of the investments is derecognised together with the corresponding share of the investees' equity, attributing each asset and liability its current value at the date of acquisition of control. Any residual difference, where positive, is taken to goodwill; where negative, it is taken to the statement of profit or loss.

When preparing the consolidated financial statements, all elements of assets and liabilities, income and expenses and cash flows between Group entities are eliminated, along with unrealised gains and losses on intra-Group transactions.

All assets and liabilities of foreign entities in currencies other than the euro that fall within the scope of consolidation are translated at the spot exchange rates at the reporting date (current exchange rate method), whereas the related revenues and costs are translated at the average exchange rates for the year. Exchange differences on the translation of foreign operations arising from this method are classified in equity.

The profit (loss) for the year and all other components of other comprehensive income are attributed to the shareholders of the parent company and non-controlling interests, even if this entails that non-controlling interests have a negative balance. Where necessary, the financial statements of the subsidiaries are adjusted as appropriate in order to ensure conformity with the Group's accounting policies. All intra-Group assets and liabilities, equity, revenues, costs and cash flows relating to transactions between Group entities are fully eliminated during the consolidated process.

Changes in the percent interest in a subsidiary that do not entail a loss of control are accounted for using the equity method.

The consolidated financial statements are presented in euro, the functional and presentation currency adopted by the parent company. Each Group entity determines its own functional currency, which is used to measure the items included in the individual financial statements. The Group adopts the direct consolidation method. The amount that arises from the use of this method is represented by the gain or loss reclassified to the statement of profit or loss when a foreign subsidiary is disposed of.

The exchange rates used for translating financial statements denominated in currencies other than the Euro are as follows:

Currency	2018		2017	
	Average exchange rate	Year-end	Average exchange rate	Year-end
US Dollar	1.18	1.45	1.13	1.2
Pound Sterling	0.89	0.89	0.88	0.89
Brazilian Real	4.31	4.44	3.61	3.97
Swedish Krona	10.26	10.25	9.64	9.83
Indian Rupee	76.61	79.73	73.52	76.61
Australian Dollar	1.58	1.62	1.47	1.53
Danish Krone	7.45	7.47	7.44	7.45
Canadian Dollar	1.53	1.56	1.47	1.5
Japanese Yen	130.4	125.85	N/A	N/A
Argentine Peso (*)	43.16	43.16	18.82	22.93

(*): Companies in hyperinflation; we applied average exchange rate, identical to the year-end exchange rate



5. Main principles used for the preparation of the Financial Statements

Business combinations and goodwill

Business combinations are recognised using the acquisition method. The cost of an acquisition is determined as the sum of the consideration transferred, measured at its acquisition date fair value, and the amount of the non-controlling interest in the acquiree. For each business combination, the Group determines whether to measure the non-controlling interest in the acquiree at fair value or in proportion to the non-controlling interest share of the acquiree's identifiable net assets. Acquisition costs are expensed during the year and classified as administrative expenses.

When the Group acquires a business, it classifies or designates financial assets acquired or the liabilities assumed in accordance with the contractual terms, economic conditions and other relevant conditions in effect at the acquisition date.

Any contingent consideration to be paid is recognised by the acquirer at its acquisition date fair value.

Goodwill is initially recognised at cost, represented by the amount by which the sum of the consideration paid and amount recognised for non-controlling interests exceeds the identifiable net assets acquired and liabilities assumed by the Group. If the fair value of the net assets acquired exceeds the consideration, the difference (gain) is taken to the statement of profit or loss.

After initial recognition, goodwill is not amortised, but measured at cost, net of cumulative impairment losses. For impairment-testing purposes, the goodwill acquired in a business combination is allocated at the acquisition date to each cash-generating unit of the Group that is expected to benefit from the synergies of the combination, regardless of whether other assets or liabilities of the acquiree are assigned to the units concerned.

If goodwill has been allocated to a cash-generating unit, and the entity disposes of part of the unit's assets, the goodwill associated with the asset disposed of is included in the carrying amount of the asset when determining the gain or loss on disposal. The goodwill associated with the asset disposed of is determined on the basis of the values of the asset disposed of and the retained portion of the cash-generating unit.

Investments in associates

An associate is an entity over which the Group has significant influence. Significant influence means the power to participate in the financial and operating policy decisions but not to control them.

The Group's investments in associates are measured using the equity method.

The associate's goodwill is included in the carrying amount of the investment and is not subject to an impairment test.

Following the application of the equity method, the Group assesses whether it is necessary to recognise impairment of its equity interest in the associated companies as the difference between the recoverable amount and carrying amount of the associate.

When the Group ceases to have a significant influence over the associate, it measures and recognises the remaining investment at fair value. The difference between the carrying value of the investment at the date significant influence or joint control cease and the fair value of the remaining investment and the consideration received is recognised through profit or loss.

Fair value measurement

The Group measures financial instruments such as derivatives and non-financial assets such as investment properties, at fair value at each balance sheet date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability
- or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities, which the entity can access at measurement date;
- Level 2 — Input other than quoted prices included in Level 1, directly or indirectly observable for the asset or liability;
- Level 3 — Valuation techniques for which the input data are unobservable for the asset or liability.

The fair value measurement is wholly classified in the same fair value hierarchy level in which the lowest level input used for measurement is classified.

For assets and liabilities that are recognised in the financial statements at fair value on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The Group determines the policies and procedures for both recurring fair value measurement, such as investment properties and unquoted financial assets, and for non-recurring measurement, such as assets held for sale in discontinued operations. The Group is comprised of the heads of properties, acquisitions and mergers, the head of risk management, chief finance officers and the managers of each manufacturing unit.

At each reporting date, the Group analyses the movements in the values of assets and liabilities which are required to be remeasured or re-assessed as per the Group's accounting policies.

For this analysis, the Group verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents.

The Group, in conjunction with the Group's external values, compares the change in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable. On an interim basis, the valuation results are presented to the Group's Statutory Auditors and Independent Auditors. The presentation includes a discussion of the major assumptions used in the valuations.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy, as explained above.

Fair-value related disclosures for financial instruments and assets and liabilities valued at fair value are summarised in Note 10.19 of these Notes.

Contents

Company Officers and Group Structure

Directors' Single Report on Operations

LAVAZZA GROUP — CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2018

Accounting Statements

- Consolidated Statement of Financial Position
- Consolidated Statement of Profit or Loss
- Consolidated Statement of Comprehensive Income
- Consolidated Statement of Cash Flows
- Consolidated Statement of Changes in Equity

Notes to the Consolidated Financial Statements

Independent Auditors' Report

LUIGI LAVAZZA S.P.A. — FINANCIAL STATEMENTS AT 31 DECEMBER 2018

Accounting Statements

- Balance Sheet
- Statement of Profit or Loss
- Statement of Cash Flows

Notes to the Financial Statements

Statutory Auditors' Report

Independent Auditors' Report

ABSTRACT 2018

Contents

Company Officers and Group Structure

Directors' Single Report on Operations

LAVAZZA GROUP — CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Consolidated Statement of Financial Position
 - Consolidated Statement of Profit or Loss
 - Consolidated Statement of Comprehensive Income
 - Consolidated Statement of Cash Flows
 - Consolidated Statement of Changes in Equity

Notes to the Consolidated Financial Statements

Independent Auditors' Report

LUIGI LAVAZZA S.P.A. — FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Balance Sheet
 - Statement of Profit or Loss
 - Statement of Cash Flows

Notes to the Financial Statements

Statutory Auditors' Report

Independent Auditors' Report

ABSTRACT 2018

Other intangible assets

The intangible assets acquired are recognised in accordance with IAS 38 — Intangible Assets where the use of the assets is likely to give rise to future economic benefits and the cost of the asset may be reliably determined.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses. Internally generated intangibles, excluding capitalised development costs, are not capitalised and the related expenditure is reflected in profit or loss in the period in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash-generating unit level. Any gain or loss arising upon derecognition of an intangible asset (calculated as the difference between the net disposal proceeds and the carrying amount of the intangible asset) is included in the statement of profit or loss for the year when the asset is derecognised.

Research and development costs

Research costs are fully charged to the statement of profit or loss for the financial year in which they are incurred.

- Development costs borne for a specific project are recognised as intangible assets when the Group can demonstrate:
- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
 - the intention to complete and use or sell the asset;
 - how the intangible asset will generate future economic benefits;
 - the availability of resources to complete the development;
 - its ability to measure reliably the expenditure attributable to the intangible asset during its development.

After initial recognition, development costs are carried at cost less any accumulated amortisation and impairment losses. Amortisation of the asset begins when development is complete and the asset is available for use. Development is amortised over the period of expected future benefit and amortisation is recorded in cost of sales. During the period of development, the asset is tested for impairment annually.

Patents and licences

The costs of patent rights, concession rights, licences and other intangible assets are recognised as assets in the statement of financial position only if they are capable of generating future economic benefits for the company. Such costs are amortised according to their useful lives, where finite, or on the basis of their contractual term. Software licences refer to the purchase cost of the licences and any external or internal personnel consultancy costs required for development. They are expensed during the year in which the internal or external costs relating to training of personnel and any other related costs are incurred.

The following table provides a summary of the policies applied to the Group's intangible assets:

Start-up and expansion costs	5 years
Capitalised research costs	3-7 years
Rights for industrial patents and rights for exploitation of intellectual property	3-5 years
Licences and similar rights	5 years
Other	3-5 years

Property, plant and equipment

Property, plant and equipment are carried at historical cost, less of accumulated depreciation and any accumulated impairment losses. Land is recognised at historical cost less any impairment losses. Such cost includes the cost, as incurred, of replacing part of the plant and equipment if the recognition criteria are met. Costs incurred after purchase are only capitalised if they increase the future economic benefits that may be derived from the use of the asset. The costs of replacing identifiable components of complex assets are capitalised and depreciated over their useful lives. The residual carrying amount of the replaced component is taken to the statement of profit or loss. All other costs are recognised in profit or loss as incurred. Financial expenses incurred in respect of assets for which a certain period of time is normally required before the asset is ready for use or sale (qualifying assets pursuant to IAS 23 — Borrowing Costs) are capitalised and depreciated over the useful life of the class of assets to which they refer. All other borrowing costs are recognised in profit or loss as incurred. Ordinary maintenance and repair costs are recognised in the statement of profit or loss of the financial year in which they are incurred. Depreciation is calculated on a straight-line basis over the estimated useful lives of the individual assets, based on the Group's usage plans, which also take into account the estimated physical wear and tear and technological obsolescence of the asset, as well as the presumable expected realisable value, net of disposal costs. Where an item of property, plant and equipment consists of multiple significant components with different useful lives, depreciation is applied to each component. The value to be depreciated is represented by the carrying amount, less the presumed net disposal value at the end of its useful life, where material and reasonably determinable. Land is not depreciated, even where purchased together with a building, nor are items of property, plant and equipment held for sale, which are measured at the lesser of their initial recognition amount and fair value, net of costs to sell.

The following depreciation rates are used:

Buildings	33-60 years
Buildings not used for business	80 years
Plant and machinery	10-30 years
Industrial equipment and dies	3-10 years
Espresso machines and other commercial equipment	3-7 years
Furniture and fittings	8 years
Means of transport	8-12 years
Electronic machinery	5 years

The carrying amount of an item of property, plant and equipment, and all initially recognised significant components are derecognised when they are disposed of or no future economic benefit is expected from their use or sale. The gain or loss that arises upon the derecognition of an asset (calculated as the difference between the carrying amount of the asset and the net consideration) is taken to the statement of profit or loss when the asset is derecognised. The residual values, useful lives and depreciation methods for property, plant and equipment are revised at each reporting date and, where appropriate, adjusted prospectively.

Contents

Company Officers and Group Structure

Directors' Single Report on Operations

LAVAZZA GROUP — CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Consolidated Statement of Financial Position
 - Consolidated Statement of Profit or Loss
 - Consolidated Statement of Comprehensive Income
 - Consolidated Statement of Cash Flows
 - Consolidated Statement of Changes in Equity

Notes to the Consolidated Financial Statements

Independent Auditors' Report

LUIGI LAVAZZA S.P.A. — FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Balance Sheet
 - Statement of Profit or Loss
 - Statement of Cash Flows

Notes to the Financial Statements

Statutory Auditors' Report

Independent Auditors' Report

ABSTRACT 2018

Leases

The determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement and requires and assessment of whether fulfilment of the arrangement is dependent on the use of a specific asset (or assets) and the arrangement conveys a right to use the asset (or assets). Such assessment is carried out on inception of the lease.

The Group as a lessee

A lease is classified at the inception date as a finance lease or an operating lease. A lease that transfers substantially all the risks and rewards incidental to ownership to the Group is classified as a finance lease.

Finance leases are capitalised at the lesser of the inception date fair value of the leased property or the present value of the minimum lease payments. Lease payments are apportioned between finance expense and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expense is recognised in finance costs in the statement of profit or loss.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

An operating lease is a lease other than a finance lease. Operating lease payments are recognised as an expense in the statement of profit or loss on a straight-line basis over the lease term.

The Group as a lessor

Leases in which the Group does not transfer substantially all the risks and rewards of ownership of an asset are classified as operating leases. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenues in the period in which they accrue.



Impairment

Assets with an indefinite useful life, which are not amortised, are tested for impairment annually and whenever circumstances indicate that their carrying amount may be impaired.

Assets that are amortised are tested for impairment only if circumstances indicate that their carrying amount may be impaired. The recoverable amount of goodwill acquired and allocated during the year is assessed at the end of the period in which the acquisition and allocation occurred.

For the purposes of determining its recoverable amount, goodwill is allocated, at acquisition date, to a CGU (or group of CGUs) benefiting from the acquisition.

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use, that is the present value of expected future cash flows, net of taxes, by applying a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment is initially accounted for by reducing the carrying amount of the goodwill allocated to the CGU (or group of CGUs) and only subsequently to the other assets in the unit, in proportion to their carrying amount, up to the recoverable amount of assets with finite useful lives.

An impairment loss is recognised if the carrying amount exceeds the recoverable amount. When subsequently an impairment of an asset other than goodwill ceases to exist or decreases, the carrying amount of the CGU is written up to the new estimated recoverable amount.

The reversal cannot exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset. The reversal is immediately recognised in the statement of profit or loss.

Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15.

A financial asset may be classified and measured at amortised cost or fair value through OCI, if it generates cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The entity's business model determines whether cash flows will result from collecting contractual cash flows, selling financial assets or both.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortised cost (debt instruments);
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments);
- Financial assets at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments);
- Financial assets at fair value through profit or loss.

Financial assets at amortised cost (debt instruments)

The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows
- and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The Group's financial assets at amortised cost includes trade receivables, a loan to an associate and a loan to a director included under other non-current financial assets.

Financial assets at fair value through OCI (debt instruments)

The Group measures debt instruments at fair value through OCI if both of the following conditions are met:

- The financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets
- and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

For debt instruments at fair value through OCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the statement of profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in OCI. Upon derecognition, the cumulative fair value change recognised in OCI is recycled to profit or loss.

The Group's debt instruments at fair value through OCI includes investments in quoted debt instruments included under other non-current financial assets.

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity instruments designated at fair value through OCI when they meet the definition of equity instruments under IFRS9 – *Financial Instruments: Presentation* and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognised as other income in the statement of profit or loss when the right of payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recognised in OCI. Equity instruments designated at fair value through OCI are not subject to impairment assessment.

Financial assets at fair value through profit or loss

This category includes financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets required to be measured at fair value.

Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in short term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments.

Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model.

Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through OCI, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in profit or loss.

This category includes derivative instruments and listed equity investments which the Group had not irrevocably elected to classify at fair value through OCI. Dividends on listed equity investments are also recognised as other income in the statement of profit or loss when the right of payment has been established.

A derivative embedded in a non-derivative hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if: the economic characteristics and risks are not closely related to the host; separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss.

Embedded derivatives are measured at fair value with changes in fair value recognised in profit or loss.

Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

A derivative embedded within a hybrid contract containing a financial asset host is not accounted for separately.

The financial asset host together with the embedded derivative is required to be classified in its entirety as a financial asset at fair value through profit or loss.

Derecognition of a financial asset

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- The rights to receive cash flows from the asset have expired, or
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without delay to a third party and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement whereby it retains the contractual rights to receive the cash flows of the financial asset, but assumes a contractual obligation to pay the cash flows to one or more recipients, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Contents

Company Officers and Group Structure

Directors' Single Report on Operations

LAVAZZA GROUP — CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Consolidated Statement of Financial Position
 - Consolidated Statement of Profit or Loss
 - Consolidated Statement of Comprehensive Income
 - Consolidated Statement of Cash Flows
 - Consolidated Statement of Changes in Equity

Notes to the Consolidated Financial Statements

Independent Auditors' Report

LUIGI LAVAZZA S.P.A. — FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Balance Sheet
 - Statement of Profit or Loss
 - Statement of Cash Flows

Notes to the Financial Statements

Statutory Auditors' Report

Independent Auditors' Report

ABSTRACT 2018

Financial Liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments. All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, including directly attributable transaction costs. The Group's financial liabilities include trade and other payables, loans and borrowings including bank overdrafts, and derivatives.

Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss. Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing or transferring them in the near term. This category also includes derivatives entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the statement of profit or loss. Financial liabilities are designated upon initial recognition at fair value through profit or loss only if the criteria in IFRS 9 are satisfied. The Group has not designated any financial liability as at fair value through profit or loss upon initial recognition.

Loans and borrowings

After initial recognition, loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised, as well as through the amortisation process. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit or loss. This category generally applies to interest-bearing loans and borrowings.

Derecognition of a financial liability

A financial liability is derecognised when the obligation underlying the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss for the year.

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

Derivatives

Initial recognition and subsequent measurement

The Group uses derivatives, such as forward currency contracts, interest rate swaps and forward commodity contracts, to hedge its foreign currency risks, interest rate risks and commodity price risks, respectively. Such derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative. For the purpose of hedge accounting, hedges are classified as:

- Fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment;
- Cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognised firm commitment;
- Hedges of a net investment in a foreign operation.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which it wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. Beginning 1 January 2018, the documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the Group will assess whether the hedging relationship meets the hedge effectiveness requirements (including the analysis of sources of hedge ineffectiveness and how the hedge ratio is determined).

Hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:

- There is an economic relationship between the hedged item and the hedging instrument.
- The effect of credit risk does not dominate the value changes that result from that economic relationship.
- The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the Group actually uses to hedge that quantity of hedged item.

Hedges that meet all the qualifying criteria for hedge accounting are accounted for, as described below:

Fair value hedges

The change in the fair value of a hedging instrument is recognised in the statement of profit or loss. The change in the fair value of the hedged item attributable to the risk hedged is recorded as part of the carrying value of the hedged item and is also recognised in the statement of profit or loss as other expense. For fair value hedges relating to items carried at amortised cost, any adjustment to carrying value is amortised through profit or loss over the remaining term of the hedge using the EIR method. The EIR amortisation may begin as soon as an adjustment exists and no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged. If the hedged item is derecognised, the unamortised fair value is recognised immediately in profit or loss. When an unrecognised firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognised as an asset or liability with a corresponding gain or loss recognised in profit or loss.

Contents

Company Officers and Group Structure

Directors' Single Report on Operations

LAVAZZA GROUP — CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Consolidated Statement of Financial Position
 - Consolidated Statement of Profit or Loss
 - Consolidated Statement of Comprehensive Income
 - Consolidated Statement of Cash Flows
 - Consolidated Statement of Changes in Equity

Notes to the Consolidated Financial Statements

Independent Auditors' Report

LUIGI LAVAZZA S.P.A. — FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Balance Sheet
 - Statement of Profit or Loss
 - Statement of Cash Flows

Notes to the Financial Statements

Statutory Auditors' Report

Independent Auditors' Report

ABSTRACT 2018

Cash flow hedges

The effective portion of the gain or loss on the hedging instrument is recognised in OCI in the cash flow hedge reserve, while any ineffective portion is recognised immediately in the statement of profit or loss. The cash flow hedge reserve is adjusted to the lower of the cumulative gain or loss on the hedging instrument and the cumulative change in fair value of the hedged item. The Group uses forward currency contracts as hedges of its exposure to foreign currency risk in forecast transactions and firm commitments, as well as forward commodity contracts for its exposure to volatility in the commodity prices. The ineffective portion relating to foreign currency contracts is recognised as other expense and the ineffective portion relating to commodity contracts is recognised in other operating income or expenses. Beginning 1 January 2018, the Group designates only the spot element of forward contracts as a hedging instrument. The forward element is recognised in OCI and accumulated in a separate component. The amounts accumulated in OCI are accounted for, depending on the nature of the underlying hedged transaction. For any other cash flow hedges, the amount accumulated in OCI is reclassified to profit or loss as a reclassification adjustment in the same period or periods during which the hedged cash flows affect profit or loss.

Hedges of a net investment in a foreign operation

Hedges of a net investment in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment, are accounted for in a way similar to cash flow hedges.

Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognised as OCI while any gains or losses relating to the remaining (ineffective) portion are recognised in the statement of profit or loss. On disposal of the foreign operation, the cumulative value of any such gains or losses is transferred to the statement of profit or loss. The Group uses a loan as a hedge of its exposure to foreign exchange risk on its investments in foreign subsidiaries.

Inventories

Inventories are valued at the lower of cost and net realisable value. Costs incurred in bringing each product to its present location and condition are accounted for, as follows:

- raw materials: purchase cost on a weighted mean cost basis;
- finished goods and work in progress: cost of direct materials and labour and a proportion of manufacturing overheads based on the normal operating capacity, but excluding borrowing costs.

The cost of inventories includes the transfer of gains and losses on qualifying cash flow hedges, recognised in OCI, in respect of the purchases of raw materials. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale. Provisions for impairment are calculated for materials, finished products, replacement parts and other goods deemed obsolete or slow-moving, in view of their expected future use and realisable value.

Cash and Short-Term Deposits

Cash and short-term deposits comprise cash at banks and on hand and short-term deposits with a maturity of three months or less, which are subject to an insignificant risk of changes in value. For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and short-term deposits, as defined above, net of outstanding bank overdrafts as they are considered an integral part of the Group's cash management.

Treasury Shares

Treasury shares are recognised at cost and deducted from equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of treasury shares. Any difference between the carrying amount and the consideration, if reissued, is recognised as share premium.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Group expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the statement of profit or loss net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance expense.

Provisions for employee benefits

The cost of providing benefits under the defined benefit plan is determined using the projected unit credit method. Remeasurements, comprising actuarial gains and losses, the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit liability and the return on plan assets (excluding amounts included in net interest on the net defined benefit liability), are recognised immediately in the statement of financial position with a corresponding debit or credit to retained earnings through OCI in the period in which they occur. Remeasurements are not reclassified to profit or loss in subsequent periods.

Past service costs are recognised in profit or loss on the earlier of:

- The date of the plan amendment or curtailment, and
- The date that the Group recognises related restructuring costs.

Net interest of the net asset or liability for defined benefits must be calculated by applying the discount rate to the net defined benefit liability or asset. The Group recognises the following changes in the net defined benefit obligation under cost of sales, administration expenses and selling and distribution expenses in the consolidated statement of profit or loss (by nature):

- Service costs comprising current service costs, past-service costs, gains and losses on curtailments and non-routine settlements.
- Net interest expense or income.

Contents

Company Officers and Group Structure

Directors' Single Report on Operations

LAVAZZA GROUP — CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Consolidated Statement of Financial Position
 - Consolidated Statement of Profit or Loss
 - Consolidated Statement of Comprehensive Income
 - Consolidated Statement of Cash Flows
 - Consolidated Statement of Changes in Equity

Notes to the Consolidated Financial Statements

Independent Auditors' Report

LUIGI LAVAZZA S.P.A. — FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Balance Sheet
 - Statement of Profit or Loss
 - Statement of Cash Flows

Notes to the Financial Statements

Statutory Auditors' Report

Independent Auditors' Report

ABSTRACT 2018

Revenues

Revenues are recognised at fair value of the consideration received or receivable, taking into account the value of any returns, discounts, allowances and premiums, as well as taxes directly associated with sale and any changes in estimates.

Net revenues are recognised when the significant risks and benefits associated with ownership of the goods are transferred to the buyer, when it is likely that the consideration will be recovered and the related costs or return of goods, where applicable, may be estimated reliably.

The transfer of risks and benefits generally coincides with the shipment or delivery of the goods.

Service revenues are recognised in profit or loss when the services are completed, or on an ongoing basis to the extent that the services in question have been rendered during the year.

Sales of machines

Revenues from the sale of coffee machines are recognised when the significant risks and rewards associated with ownership of the goods are transferred to the buyer, when it is likely that the consideration will be recovered, the related costs or return, where applicable, may be reliably estimated and the management ceases to carry out the level of ongoing activity typically associated with ownership of the goods sold.

The transfer of the risks and rewards normally coincides with shipment to the client, which corresponds with the moment of delivery of the goods to the carrier.

When recognising net revenues, the Group verifies whether there are conditions that represent separate services to which a share of the price of sale is to be attributed. Accordingly, sales revenues include the effects of variable components, the existence of significant variable components, non-monetary consideration and any consideration due to the client.

The Group typically provides warranties for the repair of defects existing at the time of sale, in accordance with the law. These standard quality warranties are accounted for in accordance with IAS 37 — Provisions, Contingent Liabilities and Contingent Assets. Please refer to the Note on warranties.

Government Grants

Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed. When the grant relates to an asset, it is recognised as income in equal amounts over the expected useful life of the related asset.

When the Group receives grants of non-monetary assets, the asset and the grant are recorded at nominal amounts and released to profit or loss over the expected useful life of the asset, on a straight-line basis.

Dividends

The Parent Company recognises a liability to pay a dividend when the distribution is authorised and the distribution is no longer at the discretion of the Company. As per applicable European corporate laws, a distribution is authorised when it is approved by the shareholders. A corresponding amount is recognised directly in equity.

Income Taxes

Current taxes

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities.

The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date in the countries where the Group operates and generates taxable income.

Current income tax relating to items recognised directly in equity is recognised in equity and not in profit or loss.

Deferred taxes

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- In respect of taxable temporary differences associated with investments in subsidiaries and associates and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised, except:

- When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- In respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred taxes relating to items recognised outside profit or loss are also recognised outside profit or loss, thus in equity or in OCI consistently with the underlying element.

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, are recognised subsequently if new information about facts and circumstances change. The adjustment is either treated as a reduction in goodwill (as long as it does not exceed goodwill) if it was incurred during the measurement period or recognised in profit or loss if it was recognised subsequently.

The Group offsets deferred tax assets and deferred tax liabilities if and only if it has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

6. New Accounting Standards issued by IASB but not yet applicable

At the reporting date of these consolidated financial statements, the following new standards/interpretations not yet in force have been issued by IASB:

New standards/Interpretations endorsed by the EU	Application mandatory as of
IFRS 16 — Leases	01/01/2019
IFRIC 23 — Uncertainty Over Income Tax Treatments	01/01/2019
Amendments to IFRS 9 — Prepayment Features with Negative Compensation	01/01/2019
Amendments to IAS 28 — Long-term Interests in Associates and Joint Ventures	01/01/2019
Improvements to IFRS Standards (2015–2017 Cycle)	01/01/2019
Amendments to IAS 19 — Plan Amendment, Curtailment or Settlement	01/01/2019
Amendments to References to the Conceptual Framework in IFRS Standards	01/01/2020
IFRS 17 — Insurance Contracts	01/01/2021

The possible impacts on the Consolidated Financial Statements of the new Standards/Interpretations are currently under assessment.

IFRS 16 – LEASES

On 31 October 2017, Regulation EU No. 2017/1986 was issued which implemented IFRS 16 (Leases) at the EU level. IFRS 16 replaces IAS 17 (Leases) and the corresponding interpretations (IFRIC 4 Determining Whether an Arrangement Contains a Lease; SIC 15 Operating Leases — Incentives; SIC 27 Evaluating the Substance of Transactions in the Legal Form of a Lease). IFRS 16 provides that lessees account for lease contracts that meet the requirements set out in the new Standard (which does not distinguish between operating leases and finance leases) in the statement of financial position by recognising a liability representing the present value of the future payments and an asset representing the right of use. IFRS 16 is effective retrospectively from 1 January 2019. The Lavazza Group plans to apply the simplified retrospective method with the recognition for the leases previously classified according to IAS 17 as operating leases of the lease payable and corresponding value of the right of use measured on the residual contractual payments at the transition date.

The main impacts on the Group's Consolidated Financial Statements can be summarized as follows:

- Statements of financial position: greater non-current assets, as a result of the recording of the “right of use of the leased asset” offsetting greater financial debts;
- Separate statement of profit or loss: different nature, qualification and classification of expenses (amortization of the “right of use of the asset” and “financial charges for interest” with respect to “Costs for use of third party assets”, as per IAS 17).

The impact on the financial statements deriving from the adoption of the new standard IFRS 16 is summarized below.

Assets	
Property, plant and equipment (right-of-use)	39,452
Intangible assets (right-of-use)	125
TOTAL ASSETS	39,577
Liabilities	
Financial liabilities for leases	39,577
TOTAL LIABILITIES	39,577

The above amount does not include the impacts of IFRS 16 related to the companies acquired Mars Drinks.

7. Estimates and assumptions

The preparation of the Financial Statements and related Notes requires management to make estimates and assumptions based also on subjective judgements, past experience and hypotheses considered reasonable and realistic in relation to the information known at the time of the estimate. Such estimates have an effect on the reported amount of assets and liabilities and the amount of revenues and costs during the reporting period.

Impairment of non-financial assets

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less costs of disposing of the asset. The value in use calculation is based on a DCF model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the performance of the assets of the CGU being tested. The recoverable amount is sensitive to the discount rate used for the DCF model, as well as the expected future cash-inflows and the growth rate used for extrapolation purposes. The key assumptions used to determine the recoverable amount for the different CGUs, including a sensitivity analysis, are disclosed and further explained in Note 10.2.

Taxes

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits, together with future tax planning strategies.

Defined benefit plans (pension benefits)

The cost of the defined benefit pension plan and other post-employment benefits and the present value of the pension obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases. Due to the complexities involved in the valuation and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date. The parameter most subject to change is the discount rate. In determining the appropriate discount rate, the directors refer to the interest rate on corporate bonds denominated in currencies consistent with the currencies of the defined benefit obligations, rated AA or higher by internationally recognised ratings agencies, with average maturities corresponding to the expected duration of the defined benefit obligations. The underlying bonds are further reviewed for quality. Those having excessive credit spreads are excluded from the analysis of bonds on which the discount rate is based, on the basis that they do not represent high quality corporate bonds. The mortality rate is based on publicly available mortality tables for the specific countries. Those mortality tables tend to change only at intervals in response to demographic changes. Future salary increases and pension increases are based on expected future inflation rates for the respective countries. Further details about pension obligations are provided in Note 10.14.

Contents

Company Officers and Group Structure

Directors' Single Report on Operations

LAVAZZA GROUP — CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2018

Accounting Statements

- Consolidated Statement of Financial Position
- Consolidated Statement of Profit or Loss
- Consolidated Statement of Comprehensive Income
- Consolidated Statement of Cash Flows
- Consolidated Statement of Changes in Equity

Notes to the Consolidated Financial Statements

Independent Auditors' Report

LUIGI LAVAZZA S.P.A. — FINANCIAL STATEMENTS AT 31 DECEMBER 2018

Accounting Statements

- Balance Sheet
- Statement of Profit or Loss
- Statement of Cash Flows

Notes to the Financial Statements

Statutory Auditors' Report

Independent Auditors' Report

ABSTRACT 2018

Contents

Company Officers and Group Structure

Directors' Single Report on Operations

LAVAZZA GROUP — CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Consolidated Statement of Financial Position
 - Consolidated Statement of Profit or Loss
 - Consolidated Statement of Comprehensive Income
 - Consolidated Statement of Cash Flows
 - Consolidated Statement of Changes in Equity

Notes to the Consolidated Financial Statements

Independent Auditors' Report

LUIGI LAVAZZA S.p.A. — FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Balance Sheet
 - Statement of Profit or Loss
 - Statement of Cash Flows

Notes to the Financial Statements

Statutory Auditors' Report

Independent Auditors' Report

ABSTRACT 2018

Notes to the Consolidated Financial Statements

Fair value measurement of financial instruments

When the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the discounted cash flow (DCF) model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. Judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions relating to these factors could affect the reported fair value of financial instruments.

Contingent consideration, resulting from business combinations, is valued at fair value at the acquisition date as part of the business combination. When the contingent consideration meets the definition of a financial liability, it is subsequently remeasured to fair value at each reporting date. The determination of the fair value is based on discounted cash flows. The key assumptions take into consideration the probability of meeting each performance target and the discount factor (see Notes 7 and 20.4 for details).

Development costs

The Group capitalises costs for product development projects. Initial capitalisation of costs is based on management's judgement that technological and economic feasibility is confirmed, usually when a product development project has reached a defined milestone according to an established project management model. In determining the amounts to be capitalised, management makes assumptions regarding the expected future cash generation of the project, discount rates to be applied and the expected period of benefits. At 31 December 2018, the carrying amount of capitalised development costs was €1.9 million, whereas that capitalised in the previous year amounted to 2.1 million.

This amount includes significant investment in the development of an innovative fire prevention system. Prior to being marketed, it will need to obtain a safety certificate issued by the relevant regulatory authorities. The innovative nature of the product gives rise to some uncertainty as to whether the certificate will be obtained.

8. Capital Management

For the purpose of the Group's capital management, capital includes issued capital, share premium and all other equity reserves attributable to the equity holders of the parent. The primary objective of the Group's capital management is to maximise the shareholder value. The Group manages its capital structure and makes adjustments in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

9. Reconciliation between the Financial Statements of Luigi Lavazza S.p.A. and the Consolidated Financial Statements as of 31 December 2018

	Equity attributable to the Group	Profit for the year attributable to the Group
Luigi Lavazza S.p.A. Separate financial statements based on Italian GAAP	2,095,108	57,787
IFRS/IAS adjustments to Luigi Lavazza S.p.A. (1)	109,542	5,279
Luigi Lavazza S.p.A. based on IFRS/IAS	2,204,650	63,066
Difference between the carrying amount and the share of the book equity of investees	(461,256)	35,701
Elimination of dividends and results of equity investments	0	(13,647)
Difference from consolidation for acquisitions (2)	524,658	0
Other consolidation adjustments including intercompany profit	(3,533)	2,499
TOTAL	2,264,519	87,619

(1) The main adjustments are due to the measurement of industrial assets at fair value (deemed cost) and the suspension of depreciation and amortisation of assets with finite useful lives.

(2) Consolidation difference generated by the acquisition of the Mars Drinks business.



Notes to the Consolidated Financial Statements

10. Consolidated Statement of Financial Position

10.1 Goodwill	
Balance at 31 December 2017	525,285
Exchange delta	(2,803)
Acquisitions	537,706
Balance at 31 December 2018	1,060,188

This item mainly consists of goodwill recognised in the year with reference to new acquisitions (further details are provided in Note 2.3) and goodwill for previous years regarding the acquisitions of Kicking Horse Coffee Co. Ltd, Nims S.p.A. and Espresso Service Proximité S.A., as well as the acquisitions of the Merrild business line and of the Carte Noire business line.

Contents

Company Officers and Group Structure

Directors' Single Report on Operations

LAVAZZA GROUP — CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Consolidated Statement of Financial Position
 - Consolidated Statement of Profit or Loss
 - Consolidated Statement of Comprehensive Income
 - Consolidated Statement of Cash Flows
 - Consolidated Statement of Changes in Equity

Notes to the Consolidated Financial Statements

Independent Auditors' Report

LUIGI LAVAZZA S.P.A. — FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Balance Sheet
 - Statement of Profit or Loss
 - Statement of Cash Flows

Notes to the Financial Statements

Statutory Auditors' Report

Independent Auditors' Report

ABSTRACT 2018



10.2 Other intangible assets

The composition and movements of intangible assets are shown in the following tables:

	Balance at 31 December 2017	Increases	(Decreases)	Reclassifications	Exchange delta	Consolidation area delta	Balance at 31 December 2018
Start-up and expansion costs							
Gross value	6	-	-	3	-	-	9
(Accumulated amortisation)	(6)	-	-	(3)	-	-	(9)
Net value	-	-	-	-	-	-	-
Development costs							
Gross value	8,380	1,919	-	-	-	-	10,299
(Write-down provision)		(171)					(171)
(Accumulated amortisation)	(3,681)	(1,833)	-	-	-	-	(5,513)
Net value	4,699	(85)	-	-	-	-	4,615
Industrial patents and intellectual property rights							
Gross value	2,009	700	-	-	(3)	109	2,816
(Accumulated amortisation)	(2,005)	(119)	-	-	3	(104)	(2,225)
Net value	4	581	-	-	-	5	590
Concessions, licences and similar rights							
Gross value	182,287	1,248	(101)	1	(33)	-	183,403
(Accumulated amortisation)	(31,755)	(9,668)	12	(1)	30	-	(41,382)
Net value	150,532	(8,420)	(89)	-	(2)	-	142,021
Trademarks							
Gross value	189,313	-	-	-	(2,183)	-	187,130
(Accumulated amortisation)	-	-	-	-	-	-	-
Net value	189,313	-	-	-	(2,183)	-	187,130
Other intangible assets							
Gross value	44,297	466	(2,263)	9,607	776	26,238	79,122
(Accumulated amortisation)	(20,902)	(6,426)	2,049	(714)	(670)	(20,585)	(47,247)
Net value	23,395	(5,960)	(214)	8,893	107	5,653	31,875
Fixed assets in process and advances							
Gross value	4,011	11,033	-	(8,541)	-	-	6,503
Net value	4,011	11,033	-	(8,541)	-	-	6,503
Total intangible assets							
Gross value	430,303	15,367	(2,364)	1,070	(1,442)	26,347	469,281
(Write-down provision)		(171)					(171)
(Accumulated amortisation)	(58,348)	(18,046)	2,061	(718)	(637)	(20,689)	(96,377)
Net value	371,955	(2,680)	(303)	352	(2,078)	5,658	372,734

The €1,919 thousand increase in development costs is related to investments in technological innovation relating to the closed-system coffee machines Lavazza Firma, Lavazza BLUE and A Modo Mio. The increases during the year in the categories "Concessions, licences and similar rights" and "Trademarks" are mainly attributable to software licences for the new Lavazza e-commerce 3.0 site (€700 thousand overall). The increase in the item "Other intangible assets" was mainly due to the capitalisation of maintenance costs on third-party buildings. The item "Reclassifications" primarily includes the capitalisation of the costs of software projects intended for long-term use.

The increases relating to the change in the consolidation area refer to the companies acquired in the course of the year.

Contents

Company Officers and Group Structure

Directors' Single Report on Operations

LAVAZZA GROUP — CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Consolidated Statement of Financial Position
 - Consolidated Statement of Profit or Loss
 - Consolidated Statement of Comprehensive Income
 - Consolidated Statement of Cash Flows
 - Consolidated Statement of Changes in Equity

Notes to the Consolidated Financial Statements

Independent Auditors' Report

LUIGI LAVAZZA S.P.A. — FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Balance Sheet
 - Statement of Profit or Loss
 - Statement of Cash Flows

Notes to the Financial Statements

Statutory Auditors' Report

Independent Auditors' Report

ABSTRACT 2018

Impairment test of goodwill and intangible assets with indefinite useful lives

The goodwill and trademarks with indefinite useful lives acquired (€1,060,188 thousand and €187,130 thousand, respectively) in business combinations have been allocated to cash generating units for impairment-testing purposes. Four cash generating units (CGUs) have been identified for this purpose on a geographical basis: Italy, France, America and Rest of World, in accordance with the management of the business and their geographical location. The carrying amounts of the CGUs (coinciding with the value of net invested capital) have been tested for recoverability by comparing them with their recoverable amounts, calculated as the net present value of the future cash flows that are estimated to derive from ongoing use of the assets concerned ("value in use"). At the end of the relevant period, the cash flows based on projected financial performance in 2021 were used to estimate a terminal value reflecting the value of the CGUs beyond the plan period on a going-concern basis. The main assumptions adopted in determining value in use are set out below for the CGUs to which the disclosure refers.

CGU	WACC	g rate
Italy	9.81%	0.78%
France	6.54%	1.42%
America	7.57%	2.31%
Rest of the world	8.15%	1.96%

The discount rate was calculated as the average cost of capital (WACC), according to a post-tax configuration, based on the weighted average cost of capital, calculated on the basis of the CAPM (Capital Asset Pricing Model) and the Group's borrowing costs. As required by IAS 36, this rate was determined by reference to industry's operating risk level and the financial structure of a set of listed companies comparable to the Group in terms of risk profile and business sector. The discount rate applied has been calculated to reflect the risk in the geographical areas in which the Group operates, taking the breakdown of EBITDA in the final year of the explicit forecast period (2021) as the WACC weighting factor for each geographical area. In particular, the calculation takes account of the following elements:

- the risk-free rate: considering the country risk represented by CDSs for each area;
- the unlevered beta defined by geographical area;
- the market risk premium: market consensus.

On the basis of the simulations conducted using the parameters set out above, no signs of impairment of the goodwill or other assets carried in the financial statements at and for the year ended 31 December 2018 were identified. The Group has also conducted various analyses of the sensitivity of the results of the tests to changes in the underlying assumptions conditioning the value in use of the cash generating units (discount rate, WACC, g growth rate and long-term margins).

10.3 Property, Plant and Equipment

The breakdown and movements of property, plant and equipment are shown in the following table:

	Balance at 31 December 2017	Increases	(Decreases)	Reclassifications	Exchange delta	Consolidation area delta	Balance at 31 December 2018
Land and buildings							
Gross value	277,660	34,243	(253)	7,624	403	47,076	366,752
(Write-down provision)	(14,031)	-	24	5,053	-	-	(8,954)
(Accumulated depreciation)	(73,109)	(6,918)	230	(5,053)	(425)	(31,397)	(116,674)
Net value	190,519	27,324	-	7,624	(22)	15,678	241,124
Plant and machinery							
Gross value	757,688	2,007	(30,958)	14,711	455	74,906	818,809
(Write-down provision)	(3,959)	1	8	48	-	-	(3,902)
(Accumulated depreciation)	(506,243)	(28,213)	30,421	1,205	(384)	(53,810)	(557,024)
Net value	247,486	(26,205)	(530)	15,965	70	21,097	257,882
Industrial and commercial equipment							
Gross value	240,327	46,841	(15,125)	4,165	(297)	89,487	365,398
(Write-down provision)	(3,436)	(1,054)	(1)	217	1	-	(4,273)
(Accumulated depreciation)	(174,508)	(29,136)	14,395	(353)	197	(66,275)	(255,681)
Net value	62,383	16,651	(731)	4,029	(99)	23,212	105,445
Furniture and fittings							
Gross value	31,575	1,767	(438)	1,799	46	4,520	39,269
(Accumulated depreciation)	(22,091)	(2,213)	368	612	(75)	(3,675)	(27,073)
Net value	9,484	(446)	(70)	2,412	(29)	846	12,197
Means of transport							
Gross value	1,216	63	(65)	151	(29)	113	1,449
(Accumulated depreciation)	(986)	(67)	39	-	17	(55)	(1,052)
Net value	230	(4)	(25)	151	(12)	58	397
Electronic machinery							
Gross value	28,407	1,960	(1,608)	674	(86)	3,534	32,880
(Accumulated depreciation)	(22,538)	(1,919)	1,499	(105)	26	(2,893)	(25,929)
Net value	5,869	41	(109)	569	(60)	640	6,951
Other assets							
Gross value	1,499	130	(38)	-	(67)	118	1,641
(Accumulated depreciation)	(1,307)	(110)	36	2	58	(117)	(1,439)
Net value	192	19	(2)	2	(9)	1	203
Fixed assets in process and advances							
Gross value	43,370	32,300	(146)	(31,096)	(37)	6,260	50,651
(Write-down provision)	(2,878)	-	2,023	-	34	-	(822)
Net value	40,491	32,300	1,878	(31,096)	(4)	6,260	49,830
Total property, plant and equipment							
Gross value	1,381,741	119,311	(48,631)	(1,972)	387	226,014	1,676,850
(Write-down provision)	(24,305)	(1,054)	2,054	5,319	35	-	(17,951)
(Accumulated depreciation)	(800,781)	(68,577)	46,987	(3,692)	(587)	(158,221)	(984,871)
Net value	556,655	49,680	410	(344)	(166)	67,792	674,028

Contents

Company Officers and Group Structure

Directors' Single Report on Operations

LAVAZZA GROUP — CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Consolidated Statement of Financial Position
 - Consolidated Statement of Profit or Loss
 - Consolidated Statement of Comprehensive Income
 - Consolidated Statement of Cash Flows
 - Consolidated Statement of Changes in Equity

Notes to the Consolidated Financial Statements

Independent Auditors' Report

LUIGI LAVAZZA S.P.A. — FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Balance Sheet
 - Statement of Profit or Loss
 - Statement of Cash Flows

Notes to the Financial Statements

Statutory Auditors' Report

Independent Auditors' Report

ABSTRACT 2018

The increase in the item "Land and buildings" was mainly attributable to the delivery of the last lots of the building housing the Headquarters offices, to which the Parent Company moved its registered office.

The 30,000-square-metre real-estate project, home not only to the new head office, but also other service, museum and parking facilities, was completed during the year.

In particular, the following were completed during the year:

- the building that houses the Lavazza Museum and Historical Archive, where information regarding the Company's over 120 years of history is stored;
- the building that houses the event venue La Centrale, a space suited for large events created through a complete renovation of Turin's former Enel power station; Bistrot, a collective dining facility that moves beyond the concept of the company canteen by opening the service up to everyone; and the gourmet restaurant Condividere, which represents a new philosophy of taste and a new way of enjoying food inspired by informal sharing of gourmet cuisine;
- the Piazza, opening out onto the city, with its underground public parking garage, ensures that the headquarters engages in dialogue with La Centrale, the Lavazza Museum, Condividere and the Bistrot, the Archaeological Area and the IAAD campus.

The item "Reclassifications" includes approximately €2.8 million referring to the closing of investment projects relating to the renovation of various industrial buildings, whereas the remainder, approximately €4.8 million, refers to the closing of advances relating to property leases.

The item "Plant and machinery" changed due to direct purchases of industrial machinery and the closing of investment orders for plant and machinery that have started being operated. The decreases refer to the disposal of fully depreciated production lines deemed obsolete.

The item "Industrial and commercial equipment", which includes coffee machines, other commercial equipment and moulds held by third-party suppliers for the production of machine components, increased primarily as a result of the purchase of equipment intended for the Food Service sector and coffee machines provided to customers in the OCS sector on free loan for use. The reclassification refers to internally constructed moulds entered into service. The net decrease was due to the sale and scrapping of equipment from the food service sector.

The movement in the item "Furniture and fittings" was primarily due to purchases and the closing of advances relating to the decoration of the Lavazza Museum and the display spaces of La Centrale, in addition to office furnishings.

The increase in "Electronic machinery" primarily relates to purchases of personal computers and IT equipment.

10.4 Investments

Investments recognised in the consolidated financial statements at 31 December 2018 were as follows (amounts in € thousand):

	% held	31.12.2018	31.12.2017	Changes
Investments				
a) Subsidiaries				
Lavazza Maroc S.a.r.L.	100	1	1	0
Lavazza Trading (Shenzhen) Co.Ltd	100	1,000	1,000	0
Immobiliare I.N.N.E.T S.r.L.	100	2,003	2,003	0
Total subsidiaries		3,004	3,004	0
b) Associates				
International Coffee Partners G.m.b.H.	20	25	25	0
Total associates		25	25	0
c) Other companies				
Casa del Commercio e del Turismo S.p.A.	3	6	6	0
Air Vallée S.p.A.	2	26	26	0
Idroelettrica S.c.r.l.	0.1	0	0	0
Tamburi Investment Partners S.p.A.	0.96	7,893	7,638	255
Clubitaly S.p.A.	4.12	6,201	6,201	0
Connect Ventures One LP	2.53	1,136	1,183	(47)
Immobiliare 3 F (formerly Le Foyer du Fonctionnaire)	n.a.	0	0	0
Consorzio Nazionale Imballaggi (Conai)	n.a.	0	0	0
Companies valued at FV through profit and loss		15,262	15,054	208
INV. A.G. S.r.L.	6.09	5,383	5,208	175
Companies valued at FV through OCI		5,383	5,208	175
Total other companies		20,645	20,262	383
Total		23,674	23,291	383

Contents

Company Officers and Group Structure

Directors' Single Report on Operations

LAVAZZA GROUP — CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Consolidated Statement of Financial Position
 - Consolidated Statement of Profit or Loss
 - Consolidated Statement of Comprehensive Income
 - Consolidated Statement of Cash Flows
 - Consolidated Statement of Changes in Equity

Notes to the Consolidated Financial Statements

Independent Auditors' Report

LUIGI LAVAZZA S.P.A. — FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Balance Sheet
 - Statement of Profit or Loss
 - Statement of Cash Flows

Notes to the Financial Statements

Statutory Auditors' Report

Independent Auditors' Report

There were no significant changes compared with the previous year. The main changes were due to the adjustment to fair value (FV), as shown in the tables below:

INV. A.G. S.r.l. (Investment valued at FV through OCI)

1 January 2017	2,974
Sales	0
Purchases	0
Total profit or loss recognised through OCI	2,234
Change 1 January 2017 - 1 January 2018	2,234
Sales	0
Purchases	0
Total profit or loss recognised through OCI	175
31 December 2018	5,383

Other companies valued at FV through profit or loss

1 January 2017	11,817
Sales	0
Purchases	604
Total profit or loss recognised through OCI	2,633
Change 1 January 2017 - 1 January 2018	3,237
Sales	(4)
Purchases	
Total profit or loss recognised through OCI	212
31 December 2018	15,262

Notes 10.19 and 10.20 provide further information in this regard.

10.5 Current and non-current financial assets

	31.12.2018	31.12.2017	Changes
Finance lease and other minor receivables	9,519	3,924	5,595
Financial trade receivables	23,275	19,768	3,507
Provision for the write-down of financial trade receivables	(1,260)	(3,389)	2,129
Total non-current financial receivables	31,534	20,303	11,231
Mutual funds and other non-current securities	3,768	4,238	(470)
Insurance policies	17,677	16,980	697
Derivatives and other hedging instruments	297	405	(108)
Non-current securities and other non-current financial instruments	21,742	21,623	119
TOTAL NON-CURRENT FINANCIAL ASSETS	53,276	41,926	11,350
Financial receivables from others	2,406	3,238	(832)
Financial trade receivables	27,143	27,253	(110)
Provision for the write-down of trade receivables	(4,917)	(3,013)	(1,904)
Financial receivables from companies controlled by Parent Companies	0	25,000	(25,000)
Total current financial receivables	24,632	52,478	(27,846)
Derivatives and other hedging instruments	5,406	2,134	3,272
Equity securities	983	5,383	(4,400)
Bonds	178,159	286,645	(108,486)
Certificates of deposit	12,955	15,000	(2,045)
Mutual investment funds	2,963	2,676	287
Other current securities	19	9,044	(9,025)
Total current securities and current financial instruments	200,485	320,882	(120,397)
TOTAL CURRENT FINANCIAL ASSETS	225,117	373,360	(148,243)

Contents

Company Officers and Group Structure

Directors' Single Report on Operations

LAVAZZA GROUP — CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Consolidated Statement of Financial Position
 - Consolidated Statement of Profit or Loss
 - Consolidated Statement of Comprehensive Income
 - Consolidated Statement of Cash Flows
 - Consolidated Statement of Changes in Equity

Notes to the Consolidated Financial Statements

Independent Auditors' Report

LUIGI LAVAZZA S.P.A. — FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Balance Sheet
 - Statement of Profit or Loss
 - Statement of Cash Flows

Notes to the Financial Statements

Statutory Auditors' Report

Independent Auditors' Report

Financial receivables

Finance lease receivables refer to coffee machines leased to customers in the OCS sector. As a finance lease transaction, in addition to recognition of the receivable it entails the booking of interest income among financial income and expenses.

Financial trade receivables refer to loans granted by the subsidiary Cofincaf S.p.A. to customers and are subject to impairment pursuant to IFRS 9. Accordingly, their value has been adjusted by the relevant write-down provision detailed below:

Provision for the write-down of financial trade receivables	
31.12.2017	(6,402)
Provision for the year	(1,904)
Uses	2,129
Adjustment for foreign currency amounts	0
Consolidation area delta	0
31.12.2018	(6,177)

The following table provides a breakdown of the provision by ageing.

31.12.2017			31.12.2018	
Average time past due of receivables	Receivables	Provision for write-down due to future expected losses	Receivables	Provision for write-down due to future expected losses
Not yet due	43,105	(4,173)	46,644	(4,438)
Less than 30 days	1,547	(635)	1,483	(249)
30-90 days	15	(11)	10	(7)
Within 1 year	693	(466)	1,573	(1,085)
Within 5 years	1,661	(1,117)	708	(398)
Total receivables broken down by maturities	47,021	(6,402)	50,418	(6,177)
Write-downs	(6,402)		(6,177)	
Total	40,619		44,241	

Financial receivables from companies controlled by Parent Companies were collected during the year and referred to loans granted by Torino 1895 Investimenti S.p.A., a subsidiary of Finlav S.p.A. Non-current financial receivables are all due in one to five years.

Other financial securities and hedging financial instruments

Other securities classified as non-current financial assets refer primarily to closed-ended mutual funds held by the subsidiary Lavazza Capital S.r.L. and insurance policies contracted by the subsidiary Nims S.p.A. Other securities classified as current financial assets refer primarily to ordinary bonds and equities listed on regulated markets held by the subsidiary Lavazza Capital S.r.L., mutual funds, also held by Lavazza Capital S.r.L., and certificates of deposit held by the Parent Company and Lavazza France S.a.s. Derivatives and other hedging instruments refer to the open positions in hedging derivative instruments at 31 December 2018 at their fair value. Notes 10.19 and 10.20 provide further information on financial assets.

10.6 Deferred tax assets and liabilities

These amounted to €58,737 thousand and €62,453 thousand, respectively. Note 11.10, regarding income taxes, provides further details.

10.7 Other current and non-current assets

	31.12.2018	31.12.2017	Changes
Guarantee deposits	2,788	2,634	154
Other non-current receivables	1,535	1,569	(34)
TOTAL OTHER NON-CURRENT ASSETS	4,323	4,203	120
Tax receivables	63,187	43,508	19,679
Advances to suppliers	6,017	6,179	(162)
Other prepayments and accrued income	46,708	35,799	10,909
Other receivables	6,682	3,739	2,943
TOTAL OTHER CURRENT ASSETS	122,594	89,225	33,369

Amounts due from the treasury of €63.2 million primarily refer to VAT receivable from revenue authorities and the amount claimed by the Parent Company (€3.5 million) in connection with subsidies for investments in capital assets pursuant to Article 18 of Decree-Law No. 91 of 24 June 2014 ("Competitiveness Decree-Law"), converted, with amendments, by Law No. 116 of 7 August 2014 and the research and development tax credit introduced by the 2015 Stability Law (Law No. 190-2014).

The item "Other prepayments and accrued income" primarily refers to the portion of promotional contributions advanced to international distributors, in reference to future years, for the promotion and use of the Lavazza brand in connection with machines in the OCS and Food Service sector, accrued income relating to commissions paid to agents of the subsidiary Nims S.p.A. and prepayments to clients in the food service sector for the sponsorship of Lavazza products at the point of sale. Such costs will be recognised in the statement of profit or loss on a pro-rated basis over the duration of the contract.

Contents

Company Officers and Group Structure

Directors' Single Report on Operations

LAVAZZA GROUP — CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Consolidated Statement of Financial Position
 - Consolidated Statement of Profit or Loss
 - Consolidated Statement of Comprehensive Income
 - Consolidated Statement of Cash Flows
 - Consolidated Statement of Changes in Equity

Notes to the Consolidated Financial Statements

Independent Auditors' Report

LUIGI LAVAZZA S.P.A. — FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Balance Sheet
 - Statement of Profit or Loss
 - Statement of Cash Flows

Notes to the Financial Statements

Statutory Auditors' Report

Independent Auditors' Report

ABSTRACT 2018

10.8 Inventories

	31.12.2018	31.12.2017	Changes
Raw materials, ancillaries and consumables	180,612	196,537	(15,925)
Accumulated depreciation of raw materials, ancillaries and consumables	(1,500)	(1,163)	(337)
Raw materials, ancillaries and consumables	179,112	195,374	(16,262)
Products in process	1,952	2,441	(489)
Accumulated depreciation of products in process	(400)	(100)	(300)
Products in process	1,552	2,341	(789)
Finished products and goods	199,244	176,346	22,898
Accumulated depreciation of finished products and goods	(18,941)	(15,299)	(3,642)
Finished products and goods (net value)	180,303	161,047	19,256
Advances	653	1,432	(779)
TOTAL	361,620	360,194	1,426

The inventory of raw materials declined on the previous year, primarily due to the price effect of the green coffee component compared with the previous year. The value of inventory also declined as a result of lower purchasing costs. The inventory of finished products increased, primarily owing to the coffee machines purchased by the Group at year-end through the Lavazza Professional line of business. Inventories at 31 December 2018 were recognised net of the write-down provision, which accounts for obsolescence and slow turnover, primarily relating to vending systems and spare parts, advertising materials and plant spares.



10.9 Trade receivables

Trade receivables at 31 December 2018 and 31 December 2017 were broken down as follows:

	31.12.2018	31.12.2017	Changes
Trade receivables from customers < 12 months	319,320	339,261	(19,941)
Bad debt provision	(10,509)	(10,072)	(437)
Total trade receivables	308,811	329,189	(20,378)

Trade receivables are presented net of year-end bonuses and promotional costs payable: this presentation is consistent with the treatment of net revenues in the statement of profit or loss.

The following table presents a breakdown of receivables by ageing and the related write-down provision for the years 2018 and 2017:

31 December 2018	Trade receivables	Provision for write-down due to future expected losses
<i>Average time past due of receivables</i>		
<i>Not yet due</i>	289,215	
Less than 30 days	17,719	(985)
30-90 days	3,817	(955)
Within 1 year	3,002	(3,002)
Within 5 years	5,567	(5,567)
Total receivables broken down by maturities	319,320	(10,509)
Write-downs	(10,509)	
Total	308,811	

31 December 2017	Trade receivables	Provision for write-down due to future expected losses
<i>Average time past due of receivables</i>		
<i>Not yet due</i>	298,432	
Less than 30 days	29,160	(1,621)
30-90 days	4,441	(1,223)
Within 1 year	2,480	(2,480)
Within 5 years	4,748	(4,748)
Total receivables broken down by maturities	339,261	(10,072)
Write-downs	(10,072)	
Total	329,189	

Trade receivables do not bear interest, are due within 30 to 90 days and are subject to impairment pursuant to IFRS 9, and their value is adjusted by the relevant write-down provision, movements in which are presented below:

	Current provision for write-down of receivables
31.12.2017	10,072
Provision for the year	417
Uses	(528)
Adjustment for foreign currency amounts	1
Consolidation area delta	547
31.12.2018	10,509

Contents

Company Officers and Group Structure

Directors' Single Report on Operations

LAVAZZA GROUP — CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Consolidated Statement of Financial Position
 - Consolidated Statement of Profit or Loss
 - Consolidated Statement of Comprehensive Income
 - Consolidated Statement of Cash Flows
 - Consolidated Statement of Changes in Equity

Notes to the Consolidated Financial Statements

Independent Auditors' Report

LUIGI LAVAZZA S.P.A. — FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Balance Sheet
 - Statement of Profit or Loss
 - Statement of Cash Flows

Notes to the Financial Statements

Statutory Auditors' Report

Independent Auditors' Report

10.10 Current tax receivables

Current tax receivables include tax receivables from parent companies of €22.2 million and other tax receivables amounting to €1.7 million.

Receivables from parent companies refer to receivables claimed from the parent company, Finlav S.p.A., for IRES (corporate income tax) by some Group companies participating in the national tax consolidation programme. Receivables include the tax benefit for the years 2007 to 2011 of approximately €2.8 million resulting from the introduction of Decree-Law 201/2011 (converted by Law No. 214 of 27 December 2011), which permits IRAP (regional production tax) relating to the taxable portion of personnel and similar expenses to be deducted from IRES (company income tax) with effect from tax period 2007. Other tax receivables refers to credits for income taxes claimed by other Group companies not participating in the Group's national tax consolidation programme.

10.11 Cash and cash equivalents

Cash and cash equivalents at 31 December 2018 and 31 December 2017 were broken down as follows:

	31.12.2018	31.12.2017
Bank and post office deposits	564,830	580,991
Bank deposits in foreign currencies	30,006	12,197
Cash and valuables on hand	477	102
TOTAL CASH AND CASH EQUIVALENTS	595,313	593,290

Cash and cash equivalents consist of cash at bank and post-office accounts, as well as cash in hand and cheques held by logistic hubs, outside contractors and sales areas. Foreign currency accounts were approximately €30 million, mainly regarding the Parent Company and funded by market purchases and collections of receivables from foreign customers located in countries outside the Eurozone. These accounts are generally used to cover payments for the supply of green coffee and for promotional activities in foreign markets.

10.12 Share capital and reserves

Share capital

Fully subscribed and paid-up share capital at 31 December 2018 consisted of 25,000,000 ordinary shares, with a nominal value of €1 each.

Treasury shares

Treasury shares in portfolio amounted to 2,499,998 ordinary shares, with a nominal value of €1 each, accounting for approximately 10% of share capital. No other Lavazza Group company owns Luigi Lavazza S.p.A. shares.

Other capital reserves

This item mainly includes the other reserves recognised in the financial statements of the Parent Company, which at 31 December 2018 were broken down as follows:

	31.12.2018	31.12.2017	Changes
Re. Law 576/1975	28	28	0
Re. Law 72/1983	268	268	0
Re. Law 408/1990	25,096	25,096	0
Re. Law 413/1991	5,681	5,681	0
Re. Law 342/2000	103,048	103,048	0
Re. Law 448/2001	5,100	5,100	0
Re. Law 350/2003	93,900	93,900	0
Re. Law 266/2005	70,400	70,400	0
Re. Law 185/2008	58,200	58,200	0
Total revaluation reserves	361,721	361,721	0
Legal reserve	5,000	5,000	0
Extraordinary reserve	203,611	202,679	932
Merger surplus reserve	56,953	56,953	0
Reserve Re. Law 46/1982	91	91	0
Reserve Re. Law 488/1992	381	381	0
Other reserves	478	(4,112)	4,590
Reserve arising on exchange gains	0	932	(932)
Other reserves	266,514	261,924	4,590
TOTAL	628,235	623,645	4,590

Contents

Company Officers and Group Structure

Directors' Single Report on Operations

LAVAZZA GROUP — CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Consolidated Statement of Financial Position
 - Consolidated Statement of Profit or Loss
 - Consolidated Statement of Comprehensive Income
 - Consolidated Statement of Cash Flows
 - Consolidated Statement of Changes in Equity

Notes to the Consolidated Financial Statements

Independent Auditors' Report

LUIGI LAVAZZA S.P.A. — FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Balance Sheet
 - Statement of Profit or Loss
 - Statement of Cash Flows

Notes to the Financial Statements

Statutory Auditors' Report

Independent Auditors' Report

ABSTRACT 2018

Other components of comprehensive income, net of taxes

The changes in other components of comprehensive income at 31 December 2017 and 31 December 2018 were broken down as follows:

Changes at 31 December 2017	Cash Flow hedge reserve	Reserve for FVOCI financial assets	Reserve for translation differences	Reserve for adjustment to employee benefits	Total
Gains (losses) from the translation of financial statements denominated in currencies other than the Euro	0	0	(4,256)	0	(4,256)
Derivatives to hedge exchange-rate risk	(4,310)	0	0	0	(4,310)
Derivatives to hedge commodity price risk	(462)	0	0	0	(462)
Interest Rate Swaps	(479)	0	0	0	(479)
Loss on AFS financial instruments	0	1,611	0	0	1,611
Actuarial changes on pension plans	0	0	0	278	278
Total	(5,251)	1,611	(4,256)	278	(7,618)

Changes at 31 December 2018	Cash Flow hedge reserve	Reserve for FVOCI financial assets	Reserve for translation differences	Reserve for adjustment to employee benefits	Total
Gains (losses) from the translation of financial statements denominated in currencies other than the Euro	0	0	(7,081)	0	(7,081)
Derivatives to hedge exchange-rate risk	5,359	0	0	0	5,359
Derivatives to hedge commodity price risk	(17,534)	0	0	0	(17,534)
Interest Rate Swaps	(917)	0	0	0	(917)
Loss on AFS financial instruments	0	52	0	0	52
Actuarial changes on pension plans	0	0	0	(276)	(276)
Total	(13,092)	52	(7,081)	(276)	(20,397)

Distributions made and proposed

During the year, the Group distributed ordinary dividends totalling €27,000 thousand and extraordinary dividends, approved by the Extraordinary Shareholders' Meeting held on 21 December 2018, totalling €50,157 thousand.

Proposed dividends on ordinary shares are subject to approval by the annual Shareholders' Meeting.

10.13 Current and non-current financial liabilities

	31.12.2018	31.12.2017	Changes
Bank loans	598,038	304,001	294,037
Finance lease payables	80,435	51,026	29,409
Payables for options on the purchase of investments	29.106	37,055	(7,949)
Derivative liabilities and other hedging instruments	3,333	1,715	1,618
Retention payments on acquisition of investments	9,746	9,746	0
TOTAL NON-CURRENT FINANCIAL LIABILITIES	720,658	403,543	317,115
Other short-term bank payables	31,936	25,711	6,225
Bank loans (current portion)	100,538	76,599	23,939
Finance lease payables to other lenders	3,917	2,189	1,728
Derivative liabilities and other hedging instruments	7,923	3,538	4,385
Other liabilities	22	3	19
TOTAL CURRENT FINANCIAL LIABILITIES	144,336	108,040	36,296

Bank loans primarily consist of:

- the corporate loan contracted in 2016 for a term of five years (maturing in 2021), for an initial amount of €400 million, from a pool of four banks (club deal) at a floating rate (six-month Euribor), subsequently converted at a fixed rate through an interest-rate swap. During the year, a partial repayment of €75 million was made, and the outstanding debt at the end of 2018 was €288 million (current share of €100 million);
- the corporate loan contracted in 2018, for an amount of €400 million, from a pool of three banks (club deal), at a floating rate of five years (six-month Euribor), with repayment set to begin in 2021. Also this loan was then converted to fixed rate through an interest rate swap;
- a mortgage loan contract entered into during the year by the subsidiary Cofincaf S.p.A. in the amount of €10 million. The reference rate is the three-month Euribor plus a spread of 0.60%, with repayment in bullet form on 30 June 2020.

The outstanding loans are not subject to any covenants.

Finance lease payables amount to €84 million, refer to the lease to construct the headquarters and increased during the year due to the delivery of the final stages.
Payables for call options on investments relate to the amount payable in connection with the call option on the residual non-controlling interest in Kicking Horse Coffee Co. Ltd and declined in 2018 as a result of the acquisition by the Parent Company of the non-controlling interest in Nims S.p.A.

Retention payments on the purchase of equity investments refer to the amounts retained as security for the purchase of the interest in Nims S.p.A.

Financial liabilities due beyond one year are broken down as follows:

Maturities of financial liabilities (€ million)	Non-current financial liabilities	Repayment 2020	Repayment 2021	Repayment 2022	Repayment 2023	After
Bank loan	588	123	165	155	155	-
Other bank loans	10	10	-	-	-	-
Finance lease payables	80	4	4	5	5	62
Payables for options on the purchase of investments	29	-	29	-	-	-
Payables for withholdings on guarantees on the purchase of investments	10	10	-	-	-	-
Total	717	147	188	160	160	62

Notes 10.19 and 10.20 provide further information on financial assets.

Contents

Company Officers and Group Structure

Directors' Single Report on Operations

LAVAZZA GROUP — CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Consolidated Statement of Financial Position
 - Consolidated Statement of Profit or Loss
 - Consolidated Statement of Comprehensive Income
 - Consolidated Statement of Cash Flows
 - Consolidated Statement of Changes in Equity

Notes to the Consolidated Financial Statements

Independent Auditors' Report

LUIGI LAVAZZA S.P.A. — FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Balance Sheet
 - Statement of Profit or Loss
 - Statement of Cash Flows

Notes to the Financial Statements

Statutory Auditors' Report

Independent Auditors' Report

ABSTRACT 2018

10.14 Provisions for employee benefits

	Balance at 31 December 2018	Balance at 31 December 2017	Changes
Severance indemnities	25,141	26,144	(1,003)
Provisions for pension and similar obligations	54,280	3,433	50,847
Total provisions for employee benefits	79,421	29,577	49,844

Severance indemnities include employee termination indemnities for the Group's employees, pursuant to Article 2120 of the Italian Civil Code, which fall within the scope of application of IAS 19, and other similar employee provisions of international subsidiaries.

Employee termination indemnities accrued up to 31 December 2006 remained with the company; employee termination indemnities accrued from 1 January 2007, at the employee's discretion, have been allocated to supplementary pension schemes or kept with the company, which has transferred the indemnities to the Treasury Fund established by the INPS. Accordingly, the employee termination indemnities accrued since 1 January 2007 are classified as defined-benefit plans.

Since the Group fulfils its obligation by paying contributions to a separate entity (a fund), without additional obligations, the entity recognises the contributions to the fund on an accrual basis, corresponding to the employment services rendered by the employees, without performing any actuarial calculations. Since on the reporting date the Group had already paid the contributions in question, no liabilities are carried.

On the other hand, employee termination indemnities accrued up to 31 December 2006 continue to be classified as defined-benefit plans, maintaining the actuarial measurement criteria, in order to express the present value of the benefit due upon severance, accrued to the employees at 31 December 2006.

Provisions for pensions and similar obligations primarily refer to the provisions acquired upon the inclusion within the consolidation area of Lavazza Professional Germany within the framework of the Mars Drinks acquisition.

The following tables present a summary of the net cost components of the benefits taken to the statement of profit or loss and the statement of comprehensive income in 2018 in connection with employee leaving indemnities and similar items:

Liabilities (assets) at 1 January 2018	26,144
Amounts included in the statement of profit or loss	
Current service costs	542
Net interest	57
Other services	0
Total	599
Amounts included in the statement of comprehensive income	
Profit (loss) from changes in actuarial assumptions	811
Total	811
Other movements:	
Benefits paid	(364)
Benefits transferred	0
Curtailment	(428)
Total	(792)
Liabilities (assets) at 31 December 2018	25,141

The main assumptions adopted in determining the obligations arising from the employee termination indemnities of the Italian companies are set out below.

Employee termination indemnity assumptions	2018
Discount rate	AA euro composite curve at 31 December 2018
Personnel turnover rate	1.5 % - 2.5%
Expected inflation rate	(1.50%)

The following is a summary of the quantitative sensitivity analysis for the significant assumptions adopted at 31 December 2018.

Description	Change investigated	Impact of increase	Impact of decrease
Discount rate	25,141	25,512	25,122
Personnel turnover rate	25,141	25,062	25,247
Expected inflation rate	25,141	25,446	24,705

The sensitivity analyses set out above were conducted on the basis of a method of extrapolating the impact on the obligation of reasonable changes in the key assumptions in place on the reporting date.

Expected future payments	2018
Within 12 months	1,040
From 1 to 4 years	4,351
Beyond 4 years	28,795
Total	34,186

The expected cash flows for future payments under the plan are not sufficient to have a significant impact on the Group's financial position and cash flow situation.

The main assumptions adopted in determining the obligations arising from pension funds and similar obligations were essentially due to Lavazza Professional Germany:

Assumptions for pension and similar obligations	2018
Interest rate	1.90%
Salary growth rate	3.25%
Expected inflation rate	1.75% - 3.6%
Expected mortality rate	1.50%

Assumptions for pension and similar obligations	Change investigated	Impact of increase	Impact of decrease
Interest rate	48,766	44,324	53,880
Salary growth rate	48,766	49,327	48,234
Expected inflation rate	48,766	50,449	47,169
Expected mortality rate	48,766	50,578	46,955

Contents

Company Officers and Group Structure

Directors' Single Report on Operations

LAVAZZA GROUP — CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Consolidated Statement of Financial Position
 - Consolidated Statement of Profit or Loss
 - Consolidated Statement of Comprehensive Income
 - Consolidated Statement of Cash Flows
 - Consolidated Statement of Changes in Equity

Notes to the Consolidated Financial Statements

Independent Auditors' Report

LUIGI LAVAZZA S.P.A. — FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Balance Sheet
 - Statement of Profit or Loss
 - Statement of Cash Flows

Notes to the Financial Statements

Statutory Auditors' Report

Independent Auditors' Report

10.15 Provisions (current and non-current)

The following table provides information on the movements of provisions at 31 December 2018:

	31.12.2017	Provisions	Uses	Reclassifications	Exchange rate delta	Change in consolidation area	31.12.2018
Provisions for taxes	399	875	(305)	0	5	3,000	3,974
Provision for litigations	5,734	24,186	(1,743)	213	(7)	0	28,383
Provision for agents' customer compensation	2,904	592	(486)	(101)	0	0	2,909
Provision for product guarantees	5,300	39	0	0	0	782	6,121
Provisions for warranties and endorsements	236	258	(249)	52	(1)	0	296
Other provisions (current and non-current)	10,372	5,002	(17)	(70)	(96)	454	15,645
Provisions for future risks and charges (current portion)	24,945	30,952	(2,800)	94	(99)	4,236	57,328
Provision for sundry personnel costs	17,577	15,628	(12,951)	698	(17)	0	20,935
Other provisions for current liabilities	1,828	1,957	(1,221)	262	2	958	3,786
Provisions (current portion)	19,405	17,585	(14,172)	960	(15)	958	24,721

The provision for taxes was used during the year and then adjusted in order to bring the provision's total value to approximately €1 million at 31 December 2018, following the assessment notices served on the Parent Company relating to the years 2013 and 2014, received in December 2018.

The provision for litigation was recognised to account for risks relating to legal or contractual obligations associated with situations that already existed at the reporting date, but that were characterised by a state of uncertainty and the outcome of which depends on the occurrence of one or more future events. the increase for the year mainly refers to provisions for contingent risks from the change in the product distribution model of the Parent Company on the national and international markets.

The provision for supplementary agents' customer compensation, created for agents, in the event of retirement or interruption of contract due to principal, was adjusted.

The provision for product warranties refers primarily to warranties and returns relating to coffee machines.

The provision for guarantees and endorsements has been established to account for possible future losses related to guarantees granted by some Group companies.

The other non-current provisions include the restructuring provision associated with the process of reorganising and rationalising the Lavazza production system, which during the year was adjusted and partially used to cover the costs associated with the retirement of the Verres production facility. The accrual for the year refers to the estimated costs of reorganising the Gattinara production facility.

At 31 December 2018, the "Provision for sundry personnel costs" included the accruals and uses for employee bonuses and incentives.

10.16 Current tax payables

Current tax payables amounted to €6,849 thousand and include tax payables to parent companies of €489 thousand and other income tax payables amounting to €6.3 million. Payables to the Parent Companies refer to the receivables claimed from the parent company, Finlav S.p.A., for IRES (corporate income tax) by Group companies participating in the national tax consolidation programme.

10.17 Trade payables

The item amounted to €365.6 million and included sums payable for the supply of raw materials and services due within one year.

10.18 Other current and non-current liabilities

	31.12.2018	31.12.2017	Changes
OTHER NON-CURRENT LIABILITIES	365	139	226
VAT payables	46,629	16,392	30,237
Withholdings to be paid as withholding agents	4,358	4,686	(328)
Other tax payables <12	2,370	5,057	(2,687)
Total other current tax payables	53,357	26,135	27,222
Advances	36,185	37,873	(1,688)
Social security payables < 12	9,670	10,237	(567)
Payables to personnel	32,289	19,757	12,532
Payables to shareholders and bondholders	355	507	(152)
Other payables to third parties	8,201	1,379	6,822
Total other current payables	86,700	69,753	16,947
14 th month salary and annual leave	3,945	3,528	417
Other operating accrued expenses	1,285	1,664	(379)
Total accruals	5,230	5,192	38
Deferred lease income	913	941	(28)
Other deferred income	8,824	3,200	5,624
Total deferred income	9,737	4,141	5,596
OTHER CURRENT LIABILITIES	155,024	105,221	49,803

Advances refer primarily to security deposits received from the subsidiary Nims S.p.A. upon the signing of the supply/sale contract by the end client.

The most significant increases were due to the inclusion of Lavazza Professional (former Mars Drinks) in the consolidation area.

Contents

Company Officers and Group Structure

Directors' Single Report on Operations

LAVAZZA GROUP — CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Consolidated Statement of Financial Position
 - Consolidated Statement of Profit or Loss
 - Consolidated Statement of Comprehensive Income
 - Consolidated Statement of Cash Flows
 - Consolidated Statement of Changes in Equity

Notes to the Consolidated Financial Statements

Independent Auditors' Report

LUIGI LAVAZZA S.P.A. — FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Balance Sheet
 - Statement of Profit or Loss
 - Statement of Cash Flows

Notes to the Financial Statements

Statutory Auditors' Report

Independent Auditors' Report

ABSTRACT 2018

10.19 Financial instruments – additional information

The carrying amounts of the individual categories of financial assets and liabilities held by the Group at 31 December 2018 and 31 December 2017, revised according to the classification rules set out in IFRS 9 – Financial Instruments, are presented below.

	Measurement at amortised cost		Measurement at fair value through profit or loss		Measurement at fair value through OCI	
	2018	2017	2018	2017	2018	2017
Cash and cash equivalents	595,313	593,567				
Trade receivables	308,811	329,189				
Other current assets (excluding tax receivables)	59,408	45,717				
Other non-current assets (excluding tax receivables)	4,323	4,203				
Non-current financial assets						
Financial receivables	32,794	23,692				
Mutual funds			3,768	4,238		
Insurance policies			17,677	16,980		
Derivatives and other hedging instruments					297	405
Current financial assets						
Financial receivables	27,143	52,253				
Derivatives and other hedging instruments					5,406	2,134
Equity securities			983	5,383		
Bonds			178,159	286,645		
Certificates of deposit			12,955	15,000		
Mutual funds			2,963	2,676		
Other current securities			19	9,044		
Investments in other companies			15,262	15,054	5,383	5,208
Trade payables	365,577	320,017				
Other current liabilities (excluding tax liabilities)	101,667	79,086				
Other non-current liabilities (excluding tax liabilities)	365	139				
Non-current financial liabilities						
Bank loans	598,038	304,001				
Finance lease payables	80,435	51,026				
Payables for options on the purchase of investments			29,106	37,055		
Derivative liabilities and other hedging instruments					3,333	1,715
Withholdings as guarantees for purchases of equity investments	9,746	9,746				
Current financial liabilities						
Other short-term bank payables	31,936	25,711				
Bank loans (current portion)	100,538	76,599				
Payables to other lenders	3,917	2,189				
Derivative liabilities and other hedging instruments					7,923	3,538
Other liabilities	22	3				

Detailed information on derivatives is provided herebelow.

Non-current financial derivative assets

The Group is exposed to fluctuations in foreign exchange rates, in particular in respect of the purchase of green coffee denominated in USD and sales in countries with currencies other than the euro. In order to reduce the impact of changes in exchange rates on expected cash flows, in accordance with its risk management policy the Group has recourse to derivative instruments solely for hedging purposes.

The item includes the positive change in the fair value of outstanding derivative instruments at 31 December 2018 with a duration in excess of 12 months, contracted in order to hedge against foreign exchange and commodities risk.

Non-current derivative assets on exchange rates (€ units)

Notional value	Financial risk of underlying asset	Fair value	Hedged asset/liability
EUR 2,842,978	Exchange rate risk	87,264	Sales
Total		87,264	

Non-current derivative assets on commodities (€ units)

Notional value	Financial risk of underlying asset	Fair value	Hedged asset/liability
EUR 7,536,100	Commodity risk	210,026	Purchase of green coffee
Total		210,026	

The following table summarises the changes during the year (€ thousand):

	31.12.2018	31.12.2017	Changes
Derivatives to hedge exchange-rate risk	87	22	65
Derivatives to hedge commodity risk	210	0	210
Derivatives to hedge interest-rate risk	0	382	(382)
Total	297	404	(107)

Contents

Company Officers and Group Structure

Directors' Single Report on Operations

LAVAZZA GROUP — CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Consolidated Statement of Financial Position
 - Consolidated Statement of Profit or Loss
 - Consolidated Statement of Comprehensive Income
 - Consolidated Statement of Cash Flows
 - Consolidated Statement of Changes in Equity

Notes to the Consolidated Financial Statements

Independent Auditors' Report

LUIGI LAVAZZA S.P.A. — FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Balance Sheet
 - Statement of Profit or Loss
 - Statement of Cash Flows

Notes to the Financial Statements

Statutory Auditors' Report

Independent Auditors' Report

ABSTRACT 2018

Current financial derivative assets

The item includes the increase in the fair value of outstanding derivatives at 31 December 2018 with a duration of less than 12 months, contracted in order to hedge against foreign exchange and commodities risks.

The following table provides a detailed description:

Current derivative assets on exchange rates (€ units)

Notional value	Financial risk of underlying asset	Fair value	Hedged asset/liability
EUR 188,748,489	Exchange rate risk	4,938,619	Sales
Total		4,938,619	

Current derivative assets on commodities (€ units)

Notional value	Financial risk of underlying asset	Fair value	Hedged asset/liability
EUR 46,766,323	Commodity risk	467,251	Purchase of green coffee
Total		467,251	

The following table summarises the movements during the year (€ thousand):

	31.12.2018	31.12.2017	Changes
Derivatives to hedge exchange-rate risk	4,939	518	4,421
Derivatives to hedge commodity risk	467	1,615	(1,148)
Total	5,406	2,133	3,273

Financial derivative liabilities

The item includes the decrease in the fair values of the derivative instruments outstanding as at 31 December 2018.

The following table provides a detailed description (€ units):

	Notional value	Financial risk of underlying asset	Fair value	Hedged asset/liability
Current derivative liabilities				
on exchange rates	EUR 72,936,927	Exchange rate risk	414,157	Purchase of green coffee
on interest rates	EUR 72,936,927	Interest rate risk	33,201	Financing
	EUR 346,380	Exchange rate risk	398	Sales
on commodities	EUR 120,732,463	Commodity risk	7,475,317	Purchase of green coffee
Total			7,923,073	
Non-current derivative liabilities				
on exchange rates	EUR 2,365,268	Exchange rate risk (GBP)	29,300	Sales
on commodities	EUR 756,089	Commodity risk	52,555	Purchase of green coffee
on interest rates	EUR 800,000,000	Interest rate risk	3,251,365	Financing
Total			3,333,220	
Total			11,256,293	

The Group is exposed to fluctuations in foreign exchange rates, in particular with regard to the purchase of the raw material green coffee denominated in USD and sales in countries with currencies other than the euro. In order to reduce the impact of changes in foreign exchange rates on expected cash flows, in accordance with its risk management policy the Group has recourse to derivative instruments for hedging purposes.

The price of green coffee is subject to extreme volatility due to variables relating to demand and the physical supply mechanisms (harvest, stocks, consumption and logistical limitations), as well as speculative trading activity.

In order to limit the impact of fluctuations in coffee prices, the Group adopts procurement policies that aim to reduce price changes, while also undertaking hedging transactions through derivatives, as established by its risk management policy.

The option under the current finance lease contract (project lease) for the real-estate complex from which the lease originated to transform the applicable interest rate from floating to fixed was exercised during the year. Accordingly, the Group no longer needed to hedge the risk associated with the variability of the interest expense paid on the said finance lease contract.

The Group also had recourse to derivatives (interest rate swaps) to transform the rate on the corporate loan, commented upon in the section regarding amounts due to banks, from floating to fixed to hedge against the risk of fluctuation in the relevant interest rates.

The following table shows the movements in the year (€ thousand):

	31.12.2018	31.12.2017	Changes
Current derivative liabilities			
Derivatives to hedge exchange-rate risk	415	2,753	(2,338)
Derivatives to hedge commodity risk	7,475	710	6,765
Derivatives to hedge interest-rate risk	33	75	(42)
Non-current derivative liabilities			
Derivatives to hedge exchange-rate risk	29	23	6
Derivatives to hedge commodity risk	53	0	53
Derivatives to hedge interest-rate risk	3,251	1,692	1,559
Total	11,256	5,253	6,003

Contents

Company Officers and Group Structure

Directors' Single Report on Operations

LAVAZZA GROUP — CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Consolidated Statement of Financial Position
 - Consolidated Statement of Profit or Loss
 - Consolidated Statement of Comprehensive Income
 - Consolidated Statement of Cash Flows
 - Consolidated Statement of Changes in Equity

Notes to the Consolidated Financial Statements

Independent Auditors' Report

LUIGI LAVAZZA S.P.A. — FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Balance Sheet
 - Statement of Profit or Loss
 - Statement of Cash Flows

Notes to the Financial Statements

Statutory Auditors' Report

Independent Auditors' Report

ABSTRACT 2018

Notes to the Consolidated Financial Statements

10.20 Fair value measurement

The following table provides the fair value measurement hierarchy of the Group's assets and liabilities for the current and previous years.

	2018			2017		
	Quoted prices in active markets	Significant observable inputs	Significant unobservable inputs	Quoted prices in active markets	Significant observable inputs	Significant unobservable inputs
	(Level 1)	(Level 2)	(Level 3)	(Level 1)	(Level 2)	(Level 3)
Investments in other companies		20,645			20,262	
Mutual funds	6,731				6,914	
Insurance policies		17,677			16,980	
Equity securities	983			5,383		
Bonds	178,159			286,645		
Certificates of deposit		12,955			15,000	
Other current securities		19			9,044	
Derivative assets		5,703			2,539	
Payables for options on the purchase of investments			29,106			37,055
Derivative liabilities		11,256			5,253	

There were no transfers between Level 1 and Level 2 during the year.

10.21 Government grants

The grants refer to the Parent Company, and the amounts taken to the statement of profit or loss during the year on an accrual basis are presented below, broken down into grants towards operating expenses and capital grants. Capital grants were received in previous years and the accrued portions were assessed during the year:

GRANTS TOWARDS OPERATING EXPENSES (€ units)

Description	Amount received (€)	Grantor
Training programme	151,523	FONDIMPRESA
Training programme	35,391	FONDIRIGENTI
R&D bonus Re. Art. 1, para. 35, Law 190/2014	2,710,473	---
Grants for photovoltaic systems as per Ministerial Decree of 19/2/2007 (New Energy Account)	179,906	GSE
TOTAL	3,077,293	TOTAL

CAPITAL GRANTS (€ units)

Description	Amount received (€)
R&D bonus Re. Art. 1, para. 35, Law 190/2014	405,083,45
Bonus for investments in new operating assets Ateco 28	418,357,94
TOTAL	823,441,39

10.22 Contract Balance

With reference to contractual assets and liabilities, it should be noted that they almost entirely refer to trade receivables, with the exception of contractual liabilities arising on advancees from customers totalling €32,321 thousand, mainly received by the subsidiary Nims S.p.A.

Contents

Company Officers and Group Structure

Directors' Single Report on Operations

LAVAZZA GROUP — CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Consolidated Statement of Financial Position
 - Consolidated Statement of Profit or Loss
 - Consolidated Statement of Comprehensive Income
 - Consolidated Statement of Cash Flows
 - Consolidated Statement of Changes in Equity

Notes to the Consolidated Financial Statements

Independent Auditors' Report

LUIGI LAVAZZA S.P.A. — FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Balance Sheet
 - Statement of Profit or Loss
 - Statement of Cash Flows

Notes to the Financial Statements

Statutory Auditors' Report

Independent Auditors' Report

ABSTRACT 2018

11. Consolidated Statement of Profit or Loss

11.1 Revenue from contracts with customers

This item is broken down as follows:

	Year 2018	Year 2017	Changes
Net revenues from the sale of goods	1,840,686	1,685,767	154,919
Net revenues from the sale of services	29,317	24,557	4,760
TOTAL	1,870,003	1,710,324	159,679

The following table provides a breakdown of sales by geographical area:

Geographical area	Year 2018	Ratio %	Year 2017	Ratio %	Changes	Changes%
Italy	678,051	36.3%	607,719	35.5%	70,332	11.6%
Other EU countries	888,421	47.5%	829,293	48.5%	59,128	7.1%
Non-EU countries	303,531	16.2%	273,312	16.0%	30,219	11.1%
Total	1,870,003	100%	1,710,324	100%	159,679	9.3%

Net revenues from the sale of goods mainly refer to the sale of packaged coffee and capsules and is given net of discounts and grants for promotional activities granted to customers and referring to activities not related to products or services that can be separated from the main sale transaction.

Net revenues from the sale of services, transferred over a specific time period, refer to:

Breakdown of net revenues from the sale of services transferred over time	Year 2018	Year 2017	Changes
Lease of coffee machines provided on free loan for use	23,388	20,328	3,060
Other services	4,551	2,827	1,724
Other leased assets	1,378	1,402	(24)
TOTAL	29,317	24,557	4,760

11.2 Cost of sales

This item includes the following costs:

	Year 2018	Year 2017	Changes
Material and production costs	(1,021,682)	(978,228)	(43,454)
Logistic and distribution costs	(71,338)	(56,429)	(14,909)
Fees and commissions on sales	(45,288)	(22,012)	(23,276)
TOTAL	(1,138,308)	(1,056,669)	(81,639)

The following table provides a breakdown by nature:

	Year 2018	Year 2017	Changes
Purchase of raw materials and third-party products	(835,812)	(848,351)	12,539
Change in inventories	(3,879)	40,602	(44,481)
Costs of services	(188,819)	(146,941)	(41,878)
Costs for use of third-party assets	(2,760)	(2,063)	(697)
Personnel costs	(49,170)	(48,588)	(582)
Amortisation and depreciation	(57,868)	(51,328)	(6,540)
TOTAL	(1,138,308)	(1,056,669)	(81,639)

The cost for the purchase of goods went from €848 million for 2017 to €836 million for 2018, mainly due to the reduction of green coffee price.

The cost for services related to production activities rose by 30%, in line with selling volumes. The ratio of the cost of sales to net revenues was essentially in line with the previous year.

11.3 Promotional and advertising costs

This item includes the following costs:

	Year 2018	Year 2017	Changes
Advertising costs	(90,292)	(90,496)	204
Promotional costs	(57,406)	(52,260)	(5,146)
Marketing costs	(49,962)	(49,374)	(588)
TOTAL	(197,660)	(192,130)	(5,530)

The following table provides a breakdown by nature:

	Year 2018	Year 2017	Changes
Purchase of third-party products	(2,156)	(1,404)	(752)
Change in inventories	(5,812)	(7,259)	1,447
Costs of services	(188,938)	(182,116)	(6,822)
Costs for use of third-party assets	(146)	(55)	(91)
Personnel costs	(62)	(200)	138
Amortisation and depreciation	(452)	(324)	(128)
Other costs	(94)	(772)	678
TOTAL	(197,660)	(192,130)	(5,530)

Promotional activities to support sales increased and their ratio to net revenues was essentially unchanged at 3% compared to the previous year.

Contents

Company Officers and Group Structure

Directors' Single Report on Operations

LAVAZZA GROUP — CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Consolidated Statement of Financial Position
 - Consolidated Statement of Profit or Loss
 - Consolidated Statement of Comprehensive Income
 - Consolidated Statement of Cash Flows
 - Consolidated Statement of Changes in Equity

Notes to the Consolidated Financial Statements

Independent Auditors' Report

LUIGI LAVAZZA S.P.A. — FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Balance Sheet
 - Statement of Profit or Loss
 - Statement of Cash Flows

Notes to the Financial Statements

Statutory Auditors' Report

Independent Auditors' Report

ABSTRACT 2018

Notes to the Consolidated Financial Statements

11.4 Selling costs

This item mainly includes costs of the commercial structure and the selling network.

The following table provides a breakdown by nature:

	Year 2018	Year 2017	Changes
Purchase of third-party products	(1,336)	(1,285)	(51)
Change in inventories	(2,132)	(2,262)	130
Costs of services and other costs	(52,244)	(40,445)	(11,799)
Costs for use of third-party assets	(5,169)	(4,266)	(903)
Personnel costs	(93,947)	(85,031)	(8,916)
Write-down of receivables	(2,702)	(1,074)	(1,628)
Amortisation and depreciation	(789)	(1,624)	835
Provisions for risks	(19,015)	0	(19,015)
TOTAL	(177,334)	(135,987)	(41,347)

In the year, €19 million were allocated to cover contingent risks from the change in the product distribution model of the Parent Company on the national and international markets.

11.5 General and administrative expenses

	Year 2018	Year 2017	Changes
Personnel costs	(103,534)	(93,635)	(9,899)
Costs of services	(36,873)	(35,068)	(1,805)
Advisory services	(22,032)	(27,633)	5,601
Costs for use of third-party assets	(14,332)	(14,938)	606
Amortisation and depreciation	(15,717)	(13,147)	(2,570)
Other costs	(5,110)	(6,585)	1,475
Directors' remuneration	(1,919)	(1,628)	(291)
Purchase of third-party products	(591)	(580)	(11)
Change in inventories	(513)	(486)	(27)
Statutory Auditors' remuneration	(275)	(266)	(9)
TOTAL	(200,896)	(193,966)	(6,930)

The item general and administrative expenses includes all structure costs referable to the Lavazza Group's companies and related to the personnel management, legal, administration, finance and control, general management, general services and IT systems functions. General and administrative expenses amounted to €200,896 thousand and increased by about €7 million compared to the previous year, mainly due to personnel costs (€9 million), services (about €2 million) and amortisation and depreciation (€2.5 million), only partially offset by the reduction in costs for advisory services (€5.6 million) and other costs (€1.4 million).

11.6 Research and development costs

	Year 2018	Year 2017	Changes
Costs for services, net of grants received	(5,922)	(3,989)	(1,933)
Purchase of materials	(385)	(85)	(300)
Change in inventories	(722)	(15)	(707)
Amortisation and depreciation	(1,990)	(2,161)	171
TOTAL	(9,019)	(6,250)	(2,769)

Research and development costs amounted to €9,019 thousand, increasing by €2,769 thousand. Research and development activities are carried out by the Parent Company and mainly referred to the development and implementation of new food products and coffeemakers, the completion of the development of A Modo Mio capsules and Nespresso compatible capsules, as well as the manufacturing of compostable and recyclable packages for Roast&Ground products. The Report on Operations provides further details on the activities carried out.

11.7 Other operating (expense) income and other one-off charges

Other operating (expense) income was broken down as follows:

	Year 2018	Year 2017	Changes
Royalties	1,192	1,967	(775)
Insurance reimbursements	1,740	1,305	435
Capital gains (losses)	(379)	(675)	296
Socially beneficial and charitable expense	(6,859)	(2,802)	(4,057)
Amortisation and depreciation	(9,807)	(8,713)	(1,094)
Provisions	(6,004)	(5,226)	(778)
Impairment of property, plant and equipment	(1,053)	(4,698)	3,645
Personnel expenses	(2,255)	(347)	(1,908)
Other income (expense)	(3,518)	6,022	(9,540)
TOTAL	(26,943)	(13,167)	(13,776)

This item amounted to €26,943 thousand and includes depreciation (€32 thousand) and amortisation (€9,775 thousand), manly referred to the client portfolio acquired with the subsidiary Nims S.p.A. and the Carte Noire and Merrild expertise acquired in the previous years and amortised based on a useful life of 20 years. Provisions amounted to €6,004 thousand and mainly refer to provisions of the Parent Company for litigation related to contractual risks. Personnel expenses amounted to €2,255 thousand and mainly refer to charges of moving employees to new offices and other costs related to the French subsidiary Carte Noire S.a.s.

One-off costs refer to expenditures borne by the group for new acquisitions.

Contents

Company Officers and Group Structure

Directors' Single Report on Operations

LAVAZZA GROUP — CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Consolidated Statement of Financial Position
 - Consolidated Statement of Profit or Loss
 - Consolidated Statement of Comprehensive Income
 - Consolidated Statement of Cash Flows
 - Consolidated Statement of Changes in Equity

Notes to the Consolidated Financial Statements

Independent Auditors' Report

LUIGI LAVAZZA S.P.A. — FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Balance Sheet
 - Statement of Profit or Loss
 - Statement of Cash Flows

Notes to the Financial Statements

Statutory Auditors' Report

Independent Auditors' Report

ABSTRACT 2018

Notes to the Consolidated Financial Statements

11.8 Personnel expenses

Personnel expenses include salaries, related contributions, portions of defined benefit plans and other costs, including provisions for bonuses and incentives accrued in the reporting year.

	2018	2017	Changes
Wages and salaries	(175,726)	(162,513)	(13,213)
Social security contributions	(49,047)	(44,322)	(4,725)
Costs for defined benefit plans	(9,838)	(7,255)	(2,583)
Other costs	(14,357)	(13,711)	(646)
Total personnel expenses	(248,968)	(227,801)	(21,167)
Of which:			
- included in cost of sales	(49,170)	(48,588)	(582)
- included in selling costs	(93,947)	(85,031)	(8,916)
- included in other structure costs	(105,851)	(94,182)	(11,669)
Total personnel costs	(248,968)	(227,801)	(21,167)

Headcount at year-end, broken down by category, is set out in the table below:

Categories	Year 2018	Year 2017
Managers	219	163
Executives	571	656
White collars	1,719	1,434
Blue collars	1,327	832
TOTAL	3,836	3,085

The increase in the number of employees compared to the previous year was mainly due to new acquisitions.

11.9 Financial income and expense, dividends and investments results

Financial income and expense

The following table reports the breakdown of financial expense and income for 2018 and the previous year:

	Year 2018	Year 2017	Changes
FV adjustment in profit or loss	(2,898)	2,998	(5,896)
Income (expense) from derivatives	11,467	(2,321)	13,788
Exchange gains (losses)	(4,941)	(6,233)	1,292
Other financial income (expense)	2,041	2,301	(260)
TOTAL	5,669	(3,255)	8,924

Income (expense) from derivatives includes fair value changes of derivatives recognised through profit or loss when they do not meet all hedge accounting conditions as per IFRS 9.

Revaluations of derivatives amounted to approximately €12.2 million, of which €11 million was due to the positive performance of certain derivatives contracted to hedge against the foreign exchange risk associated with the purchase of equity instruments during the year, not subject to hedge accounting treatment. The remainder refers to the ineffective component of derivatives contracted to hedge against foreign exchange, interest rate and commodity risks and subject to hedge accounting, since they met all the conditions for the hedge accounting treatment of derivatives.

Write-downs of derivatives totalling €824 thousand refer to the ineffective component of the derivatives contracted to hedge against foreign exchange, interest rate and commodity risks and subject to hedge accounting, since they met all the conditions for the hedge accounting treatment of derivatives.

Exchange losses refer to approximately €2.6 million of realised foreign exchange differences on purchases and sales in foreign currencies and approximately €2.4 million of foreign exchange differences recognised to adjust assets and liabilities in currencies other than the local currency of the consolidated company at the spot exchange rate at year-end.

Other financial income and expense were broken down as follows:

Other financial income	Year 2018	Year 2017	Changes
Other financial income	5,128	6,222	(1,094)
Interest income from banks	1,222	673	549
Interest income from financial receivables	1,404	1,196	208
Total finance income	7,754	8,091	(337)

Other financial expense	Year 2018	Year 2017	Changes
Interest and finance paid to banks	(3,765)	(3,381)	(384)
Interest paid to other lenders	(1,570)	(1,615)	45
Other financial expense	(378)	(794)	416
Total financial expense	(5,713)	(5,790)	77

These chiefly refer to income accrued on bonds and other securities held by the subsidiary Lavazza Capital S.r.l. Interest income from banks mainly refer to interest accrued on current accounts included in the Group's cash and cash equivalents. Interest income from financial receivables mainly refer to interest accrued on loans granted to clients by the subsidiary Cofincaf S.p.A. Interest paid to banks mainly refer to interest accrued on corporate loans taken out by the Parent Company. Interest paid to other lenders mainly include interest paid on the property lease related to the construction of the new headquarters.

Dividends and equity investments results

This item refers to dividends on investments on equity securities held by Lavazza Capital S.r.l.

Contents

Company Officers and Group Structure

Directors' Single Report on Operations

LAVAZZA GROUP — CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Consolidated Statement of Financial Position
 - Consolidated Statement of Profit or Loss
 - Consolidated Statement of Comprehensive Income
 - Consolidated Statement of Cash Flows
 - Consolidated Statement of Changes in Equity

Notes to the Consolidated Financial Statements

Independent Auditors' Report

LUIGI LAVAZZA S.P.A. — FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Balance Sheet
 - Statement of Profit or Loss
 - Statement of Cash Flows

Notes to the Financial Statements

Statutory Auditors' Report

Independent Auditors' Report

ABSTRACT 2018

11.10 Income taxes

Income taxes for the years ended 31 December 2018 and 2017 were broken down as follows:

	Year 2018	Year 2017	Changes
Current taxes	(35,457)	(12,399)	(23,058)
Use (allocation) of deferred tax liabilities	(2,676)	(12,391)	9,715
Allocation (use) of deferred tax assets	9,528	(2,665)	12,193
TOTAL TAXES FOR THE YEAR	(28,605)	(27,455)	(1,150)

As a result of the tax effect included in OCI:

Consolidated Statement of Other Comprehensive Income Components	2018	2017
Deferred taxes on elements recognised in OCI for the year:		
Gain/(loss) on the write-up of cash flow hedges	6,086	973
Unrealized gain/(loss) on AFS financial assets	(123)	(623)
Net gain/(loss) on actuarial gain/(loss)	98	(140)
Income taxes in the consolidated statement of other comprehensive income	6,061	210

The reconciliation between income taxes recognised and theoretical taxes resulting from the application of the tax rate effective in Europe on pre-tax income for the year ended 31 December 2018 was as follows:

GROUP PRE-TAX RESULT	116,537
Theoretical tax rate	24%
GROUP THEORETICAL TAX RATE	(27,969)
Dividends	(4,059)
Different tax ratio of Group companies	(950)
Permanent differences	221
ACE tax incentives	3,398
Other tax incentives	2,506
Undeductible consolidation adjustments	874
Differences arising on deferred deductibility costs	2,404
Undeductible taxes and costs	(167)
Prior tax losses	113
Previous year taxes	2,567
IRAP	(4,712)
Other minor taxes	(2,831)
ACTUAL IRAP TAX	(28,605)

The theoretical tax rate considered is that in effect at the reporting date of these financial statements, in accordance with the law, taking account of the IRES rate of 24% applied by the Parent Company. In the interest of a clearer view of reconciliation, IRAP has not been considered, since this tax is calculated on a basis other than pre-tax profit or loss, and hence would have had distorting effects.

Deferred taxes

The following table provides the breakdown by nature of deferred tax assets and liabilities recognised in the Statement of Profit or Loss and Balance Sheet:

	31.12.2017	Change in consolidation area	Returns	Provisions	Exchange rate effect	Movements to OCI reserve	31.12.2018
DEFERRED TAX ASSETS							
Deferred deductibility costs	26,371	12,658	(6,965)	15,058	(89)	(25)	47,008
Elimination of intercompany profits	2,033	0	0	1,435	0	0	3,467
Adjustment to financial derivatives FV	973	0	0	0	0	7,287	8,259
Total deferred tax assets	29,376	12,658	(6,965)	16,492	(89)	7,262	58,735
DEFERRED TAX LIABILITIES							
Deferred tax liabilities on amortisation and depreciation delta	42,180	0	0	2,131	0	0	44,311
Exchange gains (losses)	169	0	0	0	0	0	169
Other passive differences	15,773	729	(955)	1,499	(274)	0	16,772
Adjustment to financial derivatives FV	0	0	0	0	0	1,201	1,201
Total deferred tax liabilities	58,122	729	(955)	3,630	(274)	1,201	62,453

Contents

Company Officers and Group Structure

Directors' Single Report on Operations

LAVAZZA GROUP — CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Consolidated Statement of Financial Position
 - Consolidated Statement of Profit or Loss
 - Consolidated Statement of Comprehensive Income
 - Consolidated Statement of Cash Flows
 - Consolidated Statement of Changes in Equity

Notes to the Consolidated Financial Statements

Independent Auditors' Report

LUIGI LAVAZZA S.P.A. — FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Balance Sheet
 - Statement of Profit or Loss
 - Statement of Cash Flows

Notes to the Financial Statements

Statutory Auditors' Report

Independent Auditors' Report

ABSTRACT 2018

12. Commitments and Risks

Operating lease commitments

The Group has entered into operating leases mainly on its investment property portfolio consisting of certain machines for enterprise use and various equipment. Commitments for future leases related to contracts extant at 31 December are broken down as follows:

	2018	2017
Within one year	16,758	21,960
After one year but within 5 years	57,788	44,424
Beyond 5 years	22,817	15,526
TOTAL	97,363	81,910

Finance lease and hire purchase commitments

The Group has finance leases and hire purchase contracts for the purchase and construction of the headquarters. The following table provides a breakdown of future rentals payable recognised as financial payables:

	2018		2017	
Finance leases	Minimum payments	Present value of payments	Minimum payments	Present value of payments
Within one year	6,273	4,151	2,892	2,310
Beyond one year but within 5 years	25,092	17,705	14,460	12,038
Beyond 5 years	72,478	62,497	41,561	39,290
Total	103,843	84,353	58,913	53,638

Commitments to purchase green coffee

At 31 December 2018 the subsidiary Kicking Horse Coffee Co. Ltd had coffee purchase commitments of USD 12.2 million, compared with USD 14 million in the previous year. At 31 December 2017 the subsidiary also had equipment purchase commitments of USD 199 thousand and inventory material purchase commitments of USD 113 thousand.

Guarantees given to clients

The subsidiary Lavazza France S.a.s. provides guarantees for loans contracted by its clients in connection with their operating activity. Such guarantees amounted to €713 thousand in 2018 and €502 thousand in 2017.

Guarantees to third parties in favour of the Parent Company

This item consists of guarantees given in our favour by banks: €899,906 in the interest of the Ministry of Productive Activities for prize contests; €1,626,736 in the interest of the Turin Municipality for urbanisation works; €3,414,261 in the interest of the Revenue Agency for the tax audit and €4,964,254 for the application for VAT reimbursement to NIMS, for €81,000 in the interest of the A.E.M. Energia di Milano, and Edison Energia S.p.A. (Pozzilli) for energy supplies; €169,354 to the Region of Piedmont for clearance work and safety assessment associated to the new location of the future headquarters; €16,702 to Consorzio Nucleo Sviluppo Industriale Isernia for drinking water supply; €151,650 to Customs; €705,700 for property leases; other minor amounts relating primarily to €2,582 to the Verres Municipality for waste collection.

13. Assets Held for Sale

The Group has no assets held for sale.

14. Risk Management Objectives and Criteria

As explained in Note 10.19, the Group's main financial liabilities, beside derivative liabilities, include bank loans and financing, trade and other payables. The main objective of such liabilities is to finance the Group's operating activities. The Group has financial and other receivables, both trade and non-trade receivables, cash and cash equivalents and short-term deposits originating directly from its operating activities. The Group also holds AFS investments, other financial securities and derivative assets. The Group is exposed to market risk, interest-rate risk, exchange-rate risk, raw material price risk, and credit risk. The Group's management oversees the management of these risks. All derivative activities for risk management purposes are carried out by specialist teams that have the appropriate skills and experience. It is the Group's policy that no trading in derivatives for speculative purposes may be undertaken. The Board of Directors reviews and approves policies for managing each of these risks, which are summarised below.

Interest rate risk

Interest rate risk is the risk that interest rate fluctuations impacts financial assets, payables to banks and lease contracts. In the Group's case in particular, interest-rate risk primarily derives from floating-rate medium-/long-term loans. The Group has contracted derivatives (interest rate swaps) with the aim of mitigating this risk by transforming them from floating-rate to fixed-rate. In addition, the option to transform the lease from floating rate to fixed rate was exercised.

Exchange-rate risk

The Group is exposed to fluctuations in exchange rates, particularly with regard to the purchase of green coffee (the main raw material used), denominated in USD, and to sales in countries with currencies other than the euro. In order to reduce the impact of changes in exchange rates on expected cash flows, the Group contracts derivative instruments for hedging purposes, in accordance with its risk management policy.

Risk of coffee price fluctuations

The price of green coffee is subject to considerable volatility caused by both variables relating to physical supply and demand mechanisms (harvest, stocks, consumption and logistical limitations) and speculative activity on the exchanges. In order to limit the impact of fluctuations in coffee prices, the Group adopts procurement policies aimed at reducing price variations, while also engaging in hedging through derivatives, in accordance with its risk management policy. No speculative transaction are undertaken.

Credit risk

The Group applies a specific policy aimed at standardising the processes of assigning credit limits to and clustering clients in the interest of uniform management of credit issues across the various countries. This process is supported by a sale order monitoring scheme based on defined credit limits, implemented in the Group's IT systems.

Contents

Company Officers and Group Structure

Directors' Single Report on Operations

LAVAZZA GROUP — CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Consolidated Statement of Financial Position
 - Consolidated Statement of Profit or Loss
 - Consolidated Statement of Comprehensive Income
 - Consolidated Statement of Cash Flows
 - Consolidated Statement of Changes in Equity

Notes to the Consolidated Financial Statements

Independent Auditors' Report

LUIGI LAVAZZA S.P.A. — FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Balance Sheet
 - Statement of Profit or Loss
 - Statement of Cash Flows

Notes to the Financial Statements

Statutory Auditors' Report

Independent Auditors' Report

ABSTRACT 2018

15. Related Party Disclosures

The following table provides the total amount of transactions that have been entered into with related parties for the year and the comparison with the previous year (units of euro).

Company	Type	2018			2017	
		Sales to related parties	Purchases from related parties	Payables to related parties	Purchases from related parties	Payables to related parties
Lavazza Trading (Shenzhen) Co.Ltd	Subsidiary	0	394,016	603,526	550,733	550,733
Lavazza Maroc S.a.r.l.	Subsidiary	0	16,740	35,620	105,153	71,054
Immobiliare I.N.N.E.T. S.r.l.	Subsidiary	0	58,118	0	57,800	0
Tosetti Value S.p.A.	Other related party	0	580,000	145,000	0	0
Chili S.p.A.	Other related party	2,100,000	4,051,058	1,857,000	0	0
Total		2,100,000	5,099,932	2,641,146	713,686	621,787

Sales to and purchases from related parties are carried out at arms' length conditions. For the year ended 31 December 2018, the Group had no impairments on contracts with related parties. The impairment test is carried out yearly, at each reporting date, considering the financial position of the related party and the market where it operates.

Information on the Consideration owed to the Independent Auditors of the Annual Accounts Pursuant to the new paragraph 1 of Article 38, Legislative Decree 127/91

The following table presents the total amount of the consideration owed to EY S.p.A. for conducting statutory independent audits of the annual accounts of the Financial Statements of the Parent Company, Luigi Lavazza S.p.A., its Italian subsidiaries Cofincaf S.p.A., Lavazza Capital S.r.l., Nims S.p.A., Lavazza Eventi S.r.l. and Lavazza Professional Holding Europe S.r.l., and, separately, a statutory independent audit of the Consolidated Financial Statements of the Lavazza Group for the year ended 31 December 2018, as well as the total amount of consideration accrued for other minor services relating to methodological support activities.

Assets	Company	2018
Statutory auditing of annual accounts	Luigi Lavazza S.p.A.	102,000
	Lavazza Group consolidated accounts	52,000
	Cofincaf S.p.A.	27,000
	Lavazza Capital S.r.l.	15,000
	Nims S.p.A.	25,000
	Lavazza Eventi S.r.l.	10,000
	Lavazza Professional Holding Europe S.r.l.	5,000
	Total	236,000

16. Post Balance Sheet Events

There are no events after the balance sheet date with a significant impact on the Group to be reported.

The downtrend in the green coffee market seen throughout 2018 for both Arabica and Robusta continued and even intensified in early 2019. In particular, in March, second position on the New York exchange stabilised well below the important psychological barrier of 100 cents/lb, and Robusta coffee also fell below 1,500 USD/t. The reasons for this decline in prices are to be sought in the strong supply of coffee of all origins and the significant action by speculative funds, which continue to occupy short positions on both markets. There is no news of significant weather or production problems in the main coffee-growing countries.



Contents

Company Officers and Group Structure

Directors' Single Report on Operations

LAVAZZA GROUP — CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Consolidated Statement of Financial Position
 - Consolidated Statement of Profit or Loss
 - Consolidated Statement of Comprehensive Income
 - Consolidated Statement of Cash Flows
 - Consolidated Statement of Changes in Equity

Notes to the Consolidated Financial Statements

Independent Auditors' Report

LUIGI LAVAZZA S.P.A. — FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Balance Sheet
 - Statement of Profit or Loss
 - Statement of Cash Flows

Notes to the Financial Statements

Statutory Auditors' Report

Independent Auditors' Report

ABSTRACT 2018



Contents

Company Officers and Group Structure

Directors' Single Report on Operations

LAVAZZA GROUP — CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Consolidated Statement of Financial Position
 - Consolidated Statement of Profit or Loss
 - Consolidated Statement of Comprehensive Income
 - Consolidated Statement of Cash Flows
 - Consolidated Statement of Changes in Equity

Notes to the Consolidated Financial Statements

Independent Auditors' Report

LUIGI LAVAZZA S.P.A. — FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Balance Sheet
 - Statement of Profit or Loss
 - Statement of Cash Flows

Notes to the Financial Statements

Statutory Auditors' Report

Independent Auditors' Report

ABSTRACT 2018

Annex 1 - First-Time Application of IFRSs

Luigi Lavazza S.p.A. prepared its consolidated financial statements in accordance with the Italian GAAP standards issued by the Italian Accounting Standard-Setter (OIC). With effect from the year ended 31 December 2018, the Lavazza Group adopted the International Financial Reporting Standards issued by the International Accounting Standards Board and endorsed by the European Union (IFRSs) in preparing its consolidated financial statements.

These notes describe the bases for the transition upon first-time adoption of IFRSs (IFRS 1) and other applicable IFRSs, including the assumptions made by directors regarding IFRSs and their interpretations currently in effect, as well as regarding the accounting policies adopted in preparing the first consolidated financial statements prepared in accordance with IFRSs at and for the year ended 31 December 2018.

As described in further detail in the following paragraphs, the IFRS-compliant consolidated financial statements have been drafted on the basis of the accounting figures prepared according to Italian GAAP, adjusted and reclassified as appropriate to reflect the differences in the presentation, recognition and measurement of line items, as required by IFRSs.

In particular, adjustments were applied in order to ensure alignment with the IFRSs in effect at 31 December 2018, which have been used to prepare the opening balances at 1 January 2017 and the IFRS-compliant consolidated financial statements at and for the year ended 31 December 2017. The accounting statements and reconciliations have been drawn up for the sole purpose of preparing the first complete IFRS-compliant consolidated financial statements.

The effects of the transition to IFRSs are the result of differences in accounting standards. Accordingly, they have been accounted for in opening equity at the transition date (1 January 2017), as required by IFRS 1. In the IFRS transition process, the estimates previously prepared in accordance with Italian GAAP have been maintained, unless the adoption of IFRSs requires that estimates be calculated according to different methods.

A. First-time adoption rules, accounting options upon the first-time adoption of IFRSs and IFRSs chosen by Luigi Lavazza S.p.A.

The Parent Company conducted a specific IFRS implementation process, the ultimate goal of which was to restate the following according to IFRSs:

- the opening consolidated Statement of Financial Position situation at 1 January 2017, as required by IFRS 1 (First-time Adoption of International Financial Reporting Standards);
- the consolidated financial statements at and for the year ended 31 December 2017 for comparative purposes.

In order to restate the opening consolidated statement of financial position at 1 January 2017 and the consolidated financial statements at 31 December 2017, Lavazza first had to choose from the following options allowed under IFRSs:

Presentation of the financial statements:

- Balance sheet: IAS 1 requires that assets and liabilities be classified on a “current/non-current” basis or a “liquidity” basis. The Lavazza Group chose the “current/non-current” basis, which is generally applied to industrial and commercial concerns.
- Statement of profit or loss: according to IAS 1, the statement of profit or loss may be presented with costs classified by function or nature. The Lavazza Group chose to adopt the classification of costs by function.

These choices entailed the reclassification of the financial statements previously prepared in accordance with Italian GAAP.

Optional exemptions allowed under IFRS 1 upon first-time adoption of IFRSs

- Business combinations: the Lavazza Group opted not to apply IFRS 3 retrospectively. Accordingly, business combinations undertaken prior to the date of transition to IFRSs (1 January 2017) have not been restated.

Alternative IFRS accounting treatments adopted

- Property, plant and equipment and intangible assets: during the transition, the Lavazza Group adopted the fair value criterion for certain categories of property, plant and equipment, based on an appraisal by an independent third party. Historical cost has been used for intangible assets. After initial measurement at cost, IAS 16 (Property, Plant and Equipment) and IAS 38 (Intangible Assets) require that such assets be measured at cost (net of cumulative depreciation and amortisation) or at fair value (the “revaluation model”). The Lavazza Group has opted to apply the cost approach.
- Inventories: in accordance with IAS 2 (Inventories), the value of inventories must be determined by applying the FIFO or weighted average cost (WAC) method. The Lavazza Group has opted for the WAC method, in continuity with the approach taken under Italian GAAP.

Contents

Company Officers and Group Structure

Directors' Single Report on Operations

LAVAZZA GROUP — CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Consolidated Statement of Financial Position
 - Consolidated Statement of Profit or Loss
 - Consolidated Statement of Comprehensive Income
 - Consolidated Statement of Cash Flows
 - Consolidated Statement of Changes in Equity

Notes to the Consolidated Financial Statements

Independent Auditors' Report

LUIGI LAVAZZA S.P.A. — FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Balance Sheet
 - Statement of Profit or Loss
 - Statement of Cash Flows

Notes to the Financial Statements

Statutory Auditors' Report

Independent Auditors' Report

ABSTRACT 2018

B. Main effects of the application of IFRSs on opening equity at 1 January 2017 and the financial statements at 31 December 2017

The differences resulting from the application of IFRSs, compared with Italian GAAP and the choices made by the Group within the framework of the accounting options provided for in IFRSs entailed the restatement of accounting figures prepared with Italian statutory criteria, with effects, in some cases of a significant nature, on equity and net financial position, which may be summarised as follows:

(€/000)	IAS/IFRS of reference	Equity at 1 January 2017	Equity at 31 December 2017	Profit for the year ended 31 December 2017
Total amount in accordance with Italian GAAP		2,148,098	2,153,493	44,659
Restatement of the items of the financial statements prepared according to Italian GAAP:				
- Goodwill and intangible assets	IAS 38	(1,069)	36,166	37,307
- Property, plant and equipment	IFRS 1	116,905	120,830	4,151
- Provisions for employee benefits and other provisions	IAS 19 / IAS 37	(3,002)	(1,035)	450
- Financial instruments	IFRS 9	869	4,239	2,263
- Other minor items		0	369	(310)
Tax effect on the above-mentioned items		(30,327)	(41,508)	(10,605)
Total impacts of IFRS, net		83,376	119,062	33,256
Total amount in accordance with IFRS		2,231,474	2,272,555	77,915

The main differences that emerged from the application of IFRSs with respect to Italian GAAP may be summarised as follows:

- Goodwill and intangible assets with indefinite useful lives: these items are no longer to be amortised systematically through the statement of profit or loss, but are to be tested for impairment at least annually. The effect on profit for 2017 and equity at 31 December 2017 was mainly due to the elimination of amortisation.
- Property, plant and equipment: the Group opted to recognise plant and equipment at its fair value on the basis of an appraisal prepared by an independent third party.
- Provisions for employee benefits and other provisions: Italian GAAP require that a liability be recognised on the basis of the nominal amount payable at the reporting date. In application of IAS 19, the Lavazza Group has restated its defined-benefit plans (severance indemnity) for employees in service on the basis of an actuarial assessment. In addition, provisions for agents' indemnities have been restated in application of IAS 37.
- Financial instruments: under IFRS 9, a securities portfolio is to be accounted for according to the business model applied by the Company and hence measured either at FVOCI (fair value through other comprehensive income, where focused on the cash flows generated by the investment) or FVTPL (fair value through profit or loss, where focused on the fair value of the portfolio). The Group has decided to adopt an FVTPL model, with the exception of certain specific equity investments, for which the FVOCI model has been adopted, as permitted by IFRS 9.

C. Statement of financial position at 1 January 2017 and at 31 December 2017 and main items of the statement of profit or loss for the year ended 31 December 2017 in accordance with IFRSs

Beside the reconciliation of equity at 1 January 2017 and 31 December 2017 and net result for 2017, accompanied by the comments on the main effects of the application of IFRSs, the following table provides the statement of financial position at 1 January 2017 and at 31 December 2017, as well as the statement of profit or loss highlights for 2017. The following are stated in separate columns, for each item of the financial statements:

- The amount in accordance with Italian GAAP in accordance with the IFRS presentation;
- The amount of the effect of the application of IFRSs;
- The restated IFRS-compliant amount.

Statement of Financial Position at 1 January 2017		1 January 2017	1 January 2017
	Notes	Italian GAAP reclassified	Effects of the application of IFRS
			IFRS
Goodwill		429,480	0
Other intangible assets	a)	307,700	(1,069)
Intangible assets		737,180	(1,069)
Property, plant and equipment	b)	369,651	116,905
Investments	c)	20,060	(212)
Non-current financial assets	c)	24,537	(337)
Deferred tax assets	e)	30,004	3,115
Other non-current assets		577	1,308
Total non-current assets		1,182,009	119,710
Inventories		315,620	0
Assets held for sale		3,300	0
Trade receivables		319,415	0
Tax receivables		65,324	0
Other current assets		22,877	0
Other current financial assets	c)	499,653	468
Cash and cash equivalents		671,283	0
Total current assets		1,897,472	468
Total assets		3,079,481	120,177
Equity		2,148,098	83,376
Non-current financial liabilities		381,627	0
Non-current provisions for employee benefits	d)	24,600	6,895
Other non-current provisions	d)	17,436	(2,585)
Provision for deferred tax liabilities	e)	10,862	33,442
Other non-current liabilities		2,141	0
Total non-current liabilities		436,667	37,752
Current financial liabilities		62,800	0
Other current liabilities		2,206	0
Trade payables		333,865	0
Current provisions		7,684	0
Current provisions for employee benefits		19,633	0
Current tax liabilities		4,789	0
Other current liabilities		63,739	(951)
Total current liabilities		494,715	(951)
Total liabilities		3,079,481	120,177

Contents

Company Officers and Group Structure

Directors' Single Report on Operations

LAVAZZA GROUP — CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Consolidated Statement of Financial Position
 - Consolidated Statement of Profit or Loss
 - Consolidated Statement of Comprehensive Income
 - Consolidated Statement of Cash Flows
 - Consolidated Statement of Changes in Equity

Notes to the Consolidated Financial Statements

Independent Auditors' Report

LUIGI LAVAZZA S.P.A. — FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Balance Sheet
 - Statement of Profit or Loss
 - Statement of Cash Flows

Notes to the Financial Statements

Statutory Auditors' Report

Independent Auditors' Report

Consolidated Statement of Financial Position at 31 December 2017		31 December 2017		31 December 2017
	Notes	Italian GAAP reclassified	Effects of the application of IFRS	IFRS
Goodwill	a)	502,167	23,119	525,285
Other intangible assets	a)	358,907	13,048	371,955
Intangible assets		861,074	36,166	897,240
Property, plant and equipment	b)	439,790	116,866	556,655
Investments	c)	18,637	4,654	23,291
Non-current financial assets	c)	40,654	1,272	41,926
Deferred tax assets	e)	26,135	3,241	29,376
Other non-current assets		2,925	1,278	4,203
Total non-current assets		1,389,215	163,478	1,552,692
Inventories		360,194	0	360,194
Trade receivables		329,189	0	329,189
Tax receivables		88,857	369	89,226
Other current assets		45,580	137	45,717
Other current financial assets	c)	371,600	1,759	373,360
Cash and cash equivalents		593,567	0	593,567
Total current assets		1,788,986	2,266	1,791,252
Total assets		3,178,201	165,743	3,343,944

Equity		2,153,493	119,062	2,272,555
Non-current financial liabilities		403,543	0	403,543
Non-current provisions for employee benefits	d)	23,275	6,302	29,577
Other non-current provisions	d)	28,934	-3,989	24,945
Provision for deferred tax liabilities	e)	13,374	44,749	58,122
Other non-current liabilities		139	0	139
Total non-current liabilities		469,266	47,062	516,328
Current financial liabilities		102,310	0	102,310
Other current liabilities		5,730	0	5,730
Trade payables		320,017	0	320,017
Current provisions		1,828	0	1,828
Current provisions for employee benefits		17,577	0	17,577
Current tax liabilities		2,380	0	2,380
Other current liabilities		105,600	-381	105,219
Total current liabilities		555,442	-381	555,061
Total equity and liabilities		3,178,201	165,743	3,343,944

Statement of profit or loss 2017	Italian GAAP	Reclassification of promotional contributions	FV measurement of financial assets	Elimination of amortisation of goodwill and intangible assets	Delta of depreciation of property, plant and equipment	Other minor items	IFRS
		(Note f)	(Note c)	(Note a)	(Note b)		
Net revenues	2,014,754	(304,003)				(427)	1,710,324
EBIT	66,948			37,307	4,151	105	108,511
Profit (loss) for the year	44,659		2,444	28,676	2,819	(683)	77,915

Short comments on the main adjustments are given below:

a) Goodwill and other intangible assets: the adjustments in question primarily concern the elimination of the amortisation of goodwill and trademarks recognised following the business combinations undertaken by the Group. These assets are considered to have indefinite useful lives under IFRSs and therefore are not subject to amortisation but tested for impairment.

b) Property, plant and equipment: these adjustments refer to the measurement of certain items of property, plant and equipment at fair value upon first-time adoption of IFRSs. In particular, this measurement (based on an appraisal by an independent third party) primarily involved plant and machinery relating to the production facilities of Luigi Lavazza S.p.A.

c) Investments and financial assets: the adjustments relate to the measurement at fair value of the Group's investments and financial instruments in accordance with IFRS 9.

d) Provisions for employees and other non-current provisions: the adjustments primarily refer to the application of actuarial methods to severance indemnity and discounting of the provisions for agents' indemnities.

e) Deferred tax assets and provision for deferred taxes: the adjustments reflect the offsetting entry in equity of the tax effects on items subject to reconciliation.

f) Net revenues: the adjustments refer to the reclassification, resulting in a decrease in revenues, of certain types of discounts and contributions previously classified to the statement of profit or loss as service costs. The cases primarily fall into the following categories:

- visibility initiatives at sales outlets;
- new product insertion contributions;
- coupons;
- incentives and contributions not attributable to advertising and other marketing activities.

Independent Auditors' Report

Contents

Company Officers and Group Structure

Directors' Single Report on Operations

LAVAZZA GROUP — CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Consolidated Statement of Financial Position
 - Consolidated Statement of Profit or Loss
 - Consolidated Statement of Comprehensive Income
 - Consolidated Statement of Cash Flows
 - Consolidated Statement of Changes in Equity

Notes to the Consolidated Financial Statements

Independent Auditors' Report

LUIGI LAVAZZA S.P.A. — FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Balance Sheet
 - Statement of Profit or Loss
 - Statement of Cash Flows

Notes to the Financial Statements

Statutory Auditors' Report

Independent Auditors' Report

ABSTRACT 2018





Luigi Lavazza S.p.A.

Consolidated financial statements as at December 31, 2018

Independent auditor's report pursuant to article 14 of Legislative Decree n. 39, dated 27 January 2010



Independent auditor's report pursuant to article 14 of Legislative
Decree n. 39, dated 27 January 2010
(Translation from the original Italian text)

To the Shareholders of
Luigi Lavazza S.p.A.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Luigi Lavazza Group (the Group), which comprise the consolidated statement of financial position as at December 31, 2018, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at December 31, 2018, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of Luigi Lavazza S.p.A. in accordance with the regulations and standards on ethics and independence applicable to audits of financial statements under Italian Laws. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other aspects

The financial statements include, for comparative purposes, the prior year data prepared in accordance with IFRS, which derive from the financial statements as at December 31, 2017 prepared in accordance with the Italian laws governing financial reporting. Annex 1 to the explanatory notes discloses the effects of the transition to IFRS and includes the information related to the reconciliation statements provided by IFRS 1.

Contents

Company Officers and Group Structure

Directors' Single Report on Operations

LAVAZZA GROUP — CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Consolidated Statement of Financial Position
 - Consolidated Statement of Profit or Loss
 - Consolidated Statement of Comprehensive Income
 - Consolidated Statement of Cash Flows
 - Consolidated Statement of Changes in Equity

Notes to the Consolidated Financial Statements

Independent Auditors' Report

LUIGI LAVAZZA S.P.A. — FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Balance Sheet
 - Statement of Profit or Loss
 - Statement of Cash Flows

Notes to the Financial Statements

Statutory Auditors' Report

Independent Auditors' Report

ABSTRACT 2018



Responsibilities of Directors and Those Charged with Governance for the Consolidated Financial Statements

The Directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union, and, within the terms provided by the law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Directors are responsible for assessing the Group's ability to continue as a going concern and, when preparing the consolidated financial statements, for the appropriateness of the going concern assumption, and for appropriate disclosure thereof. The Directors prepare the consolidated financial statements on a going concern basis unless they either intend to liquidate the parent company Luigi Lavazza S.p.A. or to cease operations, or have no realistic alternative but to do so.

The statutory audit committee ("Collegio Sindacale") is responsible, within the terms provided by the law, for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with International Standards on Auditing (ISA Italia), we have exercised professional judgment and maintained professional skepticism throughout the audit. In addition:

- we have identified and assessed the risks of material misstatement of the consolidated financial statements, whether due to fraud or error; designed and performed audit procedures responsive to those risks, and obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- we have obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- we have evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors;
- we have concluded on the appropriateness of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to consider this matter in forming our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going



- concern;
- we have evaluated the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- we have obtained sufficient appropriate audit evidence regarding the financial information of the entities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We have communicated with those charged with governance, identified at an appropriate level as required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on compliance with other legal and regulatory requirements

Opinion pursuant to article 14, paragraph 2, subparagraph e), of Legislative Decree n. 39 dated 27 January 2010

The Directors of Luigi Lavazza S.p.A. are responsible for the preparation of the Report on Operations of Luigi Lavazza Group as at December 31, 2018, including its consistency with the related consolidated financial statements and its compliance with the applicable laws and regulations.

We have performed the procedures required under audit standard SA Italia n. 720B, in order to express an opinion on the consistency of the Report on Operations, with the consolidated financial statements of Luigi Lavazza Group as at December 31, 2018 and on its compliance with the applicable laws and regulations, and in order to assess whether it contains material misstatements.

In our opinion, the Report on Operations is consistent with the consolidated financial statements of Luigi Lavazza Group as at December 31, 2018 and comply with the applicable laws and regulations.

With reference to the statement required by art. 14, paragraph 2, subparagraph e), of Legislative Decree n. 39, dated 27 January 2010, based on our knowledge and understanding of the entity and its environment obtained through our audit, we have no matters to report.

Turin, April 12, 2019

EY S.p.A.
Signed by: Stefania Boschetti, partner

This report has been translated into the English language solely for the convenience of international readers.

Contents

Company Officers and Group Structure

Directors' Single Report on Operations

LAVAZZA GROUP — CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Consolidated Statement of Financial Position
 - Consolidated Statement of Profit or Loss
 - Consolidated Statement of Comprehensive Income
 - Consolidated Statement of Cash Flows
 - Consolidated Statement of Changes in Equity

Notes to the Consolidated Financial Statements

Independent Auditors' Report

LUIGI LAVAZZA S.P.A. — FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Balance Sheet
 - Statement of Profit or Loss
 - Statement of Cash Flows

Notes to the Financial Statements

Statutory Auditors' Report

Independent Auditors' Report

ABSTRACT 2018



Annual Report 2018

Financial Statements of Luigi Lavazza S.p.A.

Contents

Company Officers and Group Structure

Directors' Single Report on Operations

LAVAZZA GROUP — CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Consolidated Statement of Financial Position
 - Consolidated Statement of Profit or Loss
 - Consolidated Statement of Comprehensive Income
 - Consolidated Statement of Cash Flows
 - Consolidated Statement of Changes in Equity

Notes to the Consolidated Financial Statements

Independent Auditors' Report

LUIGI LAVAZZA S.P.A. — FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Balance Sheet
 - Statement of Profit or Loss
 - Statement of Cash Flows

Notes to the Financial Statements

Statutory Auditors' Report

Independent Auditors' Report

ABSTRACT 2018

Accounting Statements

Balance Sheet - Assets

BALANCE SHEET - ASSETS	31.12.2018	31.12.2017
A) CALLED-UP SHARE CAPITAL NOT PAID	0	0
B) FIXED ASSETS		
I) INTANGIBLE ASSETS		
2) Development costs	4,642,518	4,908,910
3) Rights for industrial patents and rights for exploitation of intellectual property	583,333	0
4) Concessions, licences, trademarks and similar rights	258,129,553	273,876,403
5) Goodwill	306,327,899	324,185,578
6) Tangible assets in process and advances	6,436,569	4,010,757
7) Other	16,067,057	9,951,029
TOTAL INTANGIBLE ASSETS	592,186,929	616,932,677
II) TANGIBLE ASSETS		
1) Land and buildings	95,496,990	96,123,714
2) Plants and machinery	87,970,275	81,126,697
3) Industrial and commercial equipment	55,218,552	40,652,971
4) Other assets	12,005,433	10,384,515
5) Tangible assets in process and advances	35,617,073	30,922,905
TOTAL TANGIBLE ASSETS	286,308,323	259,210,802
III) FINANCIAL ASSETS		
1) Equity investments		
a) subsidiaries	1,109,591,454	974,913,090
b) affiliates	25,000	25,000
d-bis) other companies	7,319,881	7,319,881
2) Receivables		
a) from subsidiaries	334,804,152	25,775,336
d-bis) from others	949,167	851,908
4) Financial derivative assets	297,291	404,673
TOTAL FINANCIAL ASSETS	1,452,986,945	1,009,289,888
TOTAL FIXED ASSETS (B)	2,331,482,197	1,885,433,367

	31.12.2018	31.12.2017
C) CURRENT ASSETS		
I) INVENTORIES		
1) Raw material, ancillaries and consumables	166,835,336	186,891,278
2) Work-in-progress and semi-finished goods	1,435,585	2,340,977
4) Finished products and goods	87,313,232	83,635,882
5) Advance payments	619,139	1,260,680
TOTAL INVENTORIES	256,203,292	274,128,817
II) RECEIVABLES		
1) Trade receivables		
a) due within one year	138,721,008	144,790,200
2) From subsidiaries		
a) due within one year	232,808,187	201,999,718
4) From parent companies		
a) due within one year	18,703,442	39,304,013
5-bis) Tax receivables	22,899,398	25,147,122
5-ter) Prepaid taxes	33,082,401	16,507,738
5-quater) Other receivables		
a) due within one year	8,080,422	13,267,954
b) due after one year	0	4,767,292
TOTAL RECEIVABLES	454,294,858	445,784,037
III – CURRENT FINANCIAL ASSETS		
5) Financial derivative assets	5,360,870	2,112,877
6) Other securities	10,000,000	10,000,000
TOTAL FINANCIAL ASSETS OTHER THAN FIXED ASSETS	15,360,870	12,112,877
IV) CASH AND CASH EQUIVALENTS		
1) Bank and post office deposits	92,463,425	189,333,192
3) Cash and valuables on hand	43,275	44,908
TOTAL CASH AND CASH EQUIVALENTS	92,506,700	189,378,100
TOTAL CURRENT ASSETS (C)	818,365,720	921,403,831
D) PREPAYMENTS AND ACCRUED INCOME	47,576,624	35,833,985
TOTAL ASSETS	3,197,424,541	2,842,671,183

Contents

Company Officers and Group Structure

Directors' Single Report on Operations

LAVAZZA GROUP — CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Consolidated Statement of Financial Position
 - Consolidated Statement of Profit or Loss
 - Consolidated Statement of Comprehensive Income
 - Consolidated Statement of Cash Flows
 - Consolidated Statement of Changes in Equity

Notes to the Consolidated Financial Statements

Independent Auditors' Report

LUIGI LAVAZZA S.P.A. — FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Balance Sheet
 - Statement of Profit or Loss
 - Statement of Cash Flows

Notes to the Financial Statements

Statutory Auditors' Report

Independent Auditors' Report

ABSTRACT 2018

Balance Sheet – Equity and Liabilities

BALANCE SHEET – EQUITY AND LIABILITIES	31.12.2018	31.12.2017
A) EQUITY		
I. SHARE CAPITAL	25,000,000	25,000,000
II. SHARE PREMIUM ACCOUNT	223,523	223,523
III. REVALUATION RESERVE	361,721,428	361,721,428
IV. LEGAL RESERVE	5,000,000	5,000,000
V. STATUTORY RESERVES	0	0
VI. OTHER RESERVES		
Extraordinary reserve	203,611,325	202,679,758
Reserve Re. Art. 18 Presidential Decree 675/1977	16,892	16,892
Reserve Re Art. 55 Law 7/8/1982 No. 526	86,235	86,235
Reserve Re Law 17/02/1982 No. 46	90,785	90,785
Reserve Re. Art. 55 Presidential Decree 917/1986	212,481	212,481
Reserve Re. Law. 26/04/1983 No. 130	162,463	162,463
Reserve Re. Law 488 of 19/12/1992	380,808	380,808
Restricted reserve arising from net exchange gains	0	931,568
Merger surplus reserve	56,953,074	56,953,074
VII. HEDGE RESERVE FOR EXPECTED CASH FLOWS	(14,854,660)	(2,136,574)
VII. RETAINED EARNINGS	1,416,449,786	1,449,423,895
IX. PROFIT FOR THE YEAR	57,786,500	44,200,897
X. NEGATIVE RESERVE FOR TREASURY SHARES IN PORTFOLIO	(17,732,533)	(17,732,533)
TOTAL EQUITY	2,095,108,107	2,127,214,700
B) PROVISIONS FOR RISKS AND CHARGES		
1) Provisions for pensions and similar benefits	2,958,815	0
2) Provisions for taxes, including deferred	2,453,137	834,128
3) Financial derivative liabilities	11,223,091	5,177,801
4) Other	54,508,809	23,156,408
TOTAL PROVISIONS FOR RISKS AND CHARGES	71,143,852	29,168,337

	31.12.2018	31.12.2017
C) EMPLOYEE TERMINATION INDEMNITIES	14,707,837	15,233,002
D) LIABILITIES		
4) Payables to banks		
a) due within one year	100,537,544	75,000,000
b) due after one year	588,038,415	289,000,846
6) Advance payments	2,369,634	1,681,120
7) Trade payables	234,568,294	223,973,698
9) Payables to subsidiaries	9,834,767	13,627,389
12) Tax payables	25,868,052	13,809,995
13) Social security liabilities	4,904,526	5,419,568
14) Other liabilities	43,497,913	41,525,005
TOTAL LIABILITIES	1,009,619,145	664,037,621
E) ACCRUALS AND DEFERRED INCOME	6,845,600	7,017,523
TOTAL EQUITY AND LIABILITIES	3,197,424,541	2,842,671,183

Contents

Company Officers and Group Structure

Directors' Single Report on Operations

LAVAZZA GROUP — CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Consolidated Statement of Financial Position
 - Consolidated Statement of Profit or Loss
 - Consolidated Statement of Comprehensive Income
 - Consolidated Statement of Cash Flows
 - Consolidated Statement of Changes in Equity

Notes to the Consolidated Financial Statements

Independent Auditors' Report

LUIGI LAVAZZA S.P.A. — FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Balance Sheet
 - Statement of Profit or Loss
 - Statement of Cash Flows

Notes to the Financial Statements

Statutory Auditors' Report

Independent Auditors' Report

ABSTRACT 2018

Statement of Profit or Loss

INCOME STATEMENT	31.12.2018	31.12.2017
A) VALUE OF PRODUCTION		
1) Net revenues	1,526,367,429	1,446,375,492
2) Changes in inventories of work-in progress, semi-finished and finished goods	2,771,958	25,276,844
5) Other income and revenues:		
a) miscellaneous	86,410,873	69,519,727
b) grants	3,077,293	3,714,075
TOTAL VALUE OF PRODUCTION	1,618,627,553	1,544,886,138
B) COSTS OF PRODUCTION		
6) Raw materials, ancillaries, consumables and goods	751,543,529	764,710,252
7) Services	513,583,633	473,316,543
8) Use of third-party assets	18,955,411	15,436,498
9) Personnel costs:		
a) wages and salaries	94,397,646	90,271,675
b) social security costs	29,291,282	26,581,671
c) termination indemnities	7,409,264	6,736,568
e) other costs	6,520,432	5,179,325
10) Amortisation, depreciation and write-downs		
a) amortisation	39,283,171	43,830,360
b) depreciation	31,921,484	46,871,483
c) other write-downs	1,224,376	2,674,933
d) Writedowns of receivables included among current assets and of cash and cash equivalents	1,539,921	656,881
11) Variation in inventories of raw material, ancillaries consumables and goods	20,055,942	8,827,212
12) Provisions for risks	24,044,508	3,506,321
13) Other provisions	3,692,993	329,041
14) Miscellaneous operating costs	19,937,976	16,398,696
TOTAL COSTS OF PRODUCTION	1,563,401,568	1,505,327,459
BALANCE BETWEEN VALUE AND COSTS OF PRODUCTION (A - B)	55,225,985	39,558,679

	31.12.2018	31.12.2017
C) FINANCE INCOME AND EXPENSE		
15) Income from equity investments		
a) in subsidiaries	16,912,676	14,924,974
b) in other companies	0	6,214,245
16) Other finance income:		
d) income other than the preceding ones	1,043,690	488,589
Income other than the preceding ones from subsidiaries	1,058,517	867,628
17) Interest and other finance expense		
c) from subsidiaries	(664,500)	(680,073)
f) from other	(3,614,927)	(3,163,250)
17-bis) Exchange gains and losses	(3,836,424)	(5,230,240)
TOTAL FINANCE INCOME AND EXPENSE	10,899,032	13,421,873
D) VALUE ADJUSTMENTS TO FINANCIAL ASSETS		
18) Revaluation:		
a) of equity investments	376,843	84,998
d) derivatives	12,227,388	572,780
19) Write-downs		
a) of equity investments	(3,642,784)	(3,484,744)
d) of derivatives	(824,039)	(2,908,032)
TOTAL ADJUSTMENTS TO FINANCIAL ASSETS	8,137,408	(5,734,998)
PROFIT BEFORE TAXES (A - B +- C +- D +- E)	74,262,425	47,245,554
22) Current, deferred and prepaid income taxes for the financial year		
Current taxes	(25,926,698)	(1,667,273)
Deferred tax liabilities	0	1,127,344
Deferred tax assets	9,429,159	(2,504,728)
Reversals of deferred tax liabilities	21,614	0
23) PROFIT FOR THE YEAR	57,786,500	44,200,897

Contents

Company Officers and Group Structure

Directors' Single Report on Operations

LAVAZZA GROUP — CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Consolidated Statement of Financial Position
 - Consolidated Statement of Profit or Loss
 - Consolidated Statement of Comprehensive Income
 - Consolidated Statement of Cash Flows
 - Consolidated Statement of Changes in Equity

Notes to the Consolidated Financial Statements

Independent Auditors' Report

LUIGI LAVAZZA S.P.A. — FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Balance Sheet
 - Statement of Profit or Loss
 - Statement of Cash Flows

Notes to the Financial Statements

Statutory Auditors' Report

Independent Auditors' Report

ABSTRACT 2018

Statement of Cash Flows

	Year 2018	Year 2017
A Cash flow deriving from operating activities		
Profit (loss) for the year	57,786,500	44,200,897
Income taxes	16,475,925	3,044,657
Interest expense/(income)	6,013,644	2,487,106
(Dividends)	(16,912,676)	(14,924,974)
(Gains)/Losses from the disposal of assets	(33,387)	(6,214,245)
1 Profit for the year, before income taxes, interest, dividends, gains/losses from disposals	63,330,006	28,593,441
Adjustments for non-monetary items that have no offsetting entry in net working capital		
Provisions	50,021,297	12,464,217
Provision - SEVERANCE INDEMNITIES PAID	284,706	341,119
Amortisation and depreciation	71,204,655	90,701,843
Write-downs/-ups of equity investments + DERIVATIVES	3,265,941	3,399,746
Other impairment losses	1,192,116	(654,478)
Adjustments to derivative financial assets and liabilities which did not entail monetary movements	(12,718,086)	(4,906,504)
Other adjustments for non-monetary items	0	(1,667,346)
2 Cash flow before changes in net working capital	176,580,635	128,272,038
Changes in net working capital		
Decrease/(increase) in inventories	17,925,525	(12,535,067)
Decrease/(increase) in trade receivables	6,069,192	20,343,957
Decrease/(increase) in receivables from subsidiaries	(30,808,469)	(20,838,296)
Decrease/(increase) in receivables from associates	0	6,907,976
Increase/(decrease) in trade payables	11,283,110	192,119
Increase/(decrease) in payables to subsidiaries	(4,836,768)	3,086,995
Decrease/(increase) in prepayments and accrued income	(11,742,639)	(26,092,673)
Increase/(decrease) in accruals and deferred income	(171,923)	(646,778)
Other changes in net working capital	9,143,807	19,886,572
3 Cash flow after changes in net working capital	173,442,470	118,576,843
Other adjustments		
Interest received/(paid)	(6,013,644)	(2,487,106)
(Income taxes paid)	4,124,646	(779,148)
Dividends received	16,912,676	14,924,974
(Use of provisions)	(8,045,782)	(24,364,982)
(Severance indemnities paid)	(809,871)	(2,461,874)
Total cash flow from operating activities (A)	179,610,495	103,408,707

	Year 2018	Year 2017
B Cash flows from investing activities		
Property, plant and equipment		
(Investments)	(60,173,992)	(67,317,260)
Realised price for divestments	167,034	6,525,802
Intangible assets		
(Investments)	(14,708,199)	(13,862,139)
Realised price for divestments	0	0
Financial assets		
(Investments)	(446,962,998)	(20,211,764)
Realised price for divestments	0	57,859,935
Business unit acquisitions	0	(171,478,672)
Current financial assets		
(Investments)	(3,247,993)	(6,307,279)
Realised price for divestments	0	0
Property, plant and equipment		
Total cash flows from investing activities (B)	(524,926,148)	(214,791,377)
C Cash flows from financing activities	176,580,635	128,272,038
Third-party funds		
Increase (decrease) in short-term payables to banks	324,575,113	(34,440,770)
Increase (decrease) in financial payables to subsidiaries	1,044,146	(392,430)
Own funds		
(Dividends (and advance dividends) paid)	(77,175,006)	(27,000,002)
Total cash flows from financing activities (C)	248,444,253	(61,833,202)
Increase (decrease) in cash and cash equivalents (A +- B +- C)	(96,871,400)	(173,215,872)
Cash and cash equivalents at year-start	189,378,100	362,593,972
Cash and cash equivalents at year-end	92,506,700	189,378,100

Contents

Company Officers and Group Structure

Directors' Single Report on Operations

LAVAZZA GROUP — CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Consolidated Statement of Financial Position
 - Consolidated Statement of Profit or Loss
 - Consolidated Statement of Comprehensive Income
 - Consolidated Statement of Cash Flows
 - Consolidated Statement of Changes in Equity

Notes to the Consolidated Financial Statements

Independent Auditors' Report

LUIGI LAVAZZA S.P.A. — FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Balance Sheet
 - Statement of Profit or Loss
 - Statement of Cash Flows

Notes to the Financial Statements

Statutory Auditors' Report

Independent Auditors' Report

ABSTRACT 2018

Notes to the Financial Statements of Luigi Lavazza S.p.A.

Financial Statements – Structure and contents

These Financial Statements, composed of the Balance Sheet, Statement of Profit or Loss, Statement of Cash Flows and the Notes to the Financial Statements, have been prepared in accordance with Legislative Decree 127 of 9 April 1991, as amended by Legislative Decree 6 of 17 January 2003 and Legislative Decree 139 of 18 August 2015.

They provide a fair and true representation of the Company's financial position and operating performance for the year.

The Single Report on Operations in the previous pages accompanies these financial statements.

The financial statements have been prepared in compliance with Articles 2423-*ter*, 2424, 2424-*bis*, 2425, 2425-*bis*, 2425-*ter* of the Italian Civil Code. Figures are stated in units of Euro.

The Notes to the financial statements provide the information required by Articles 2427 and 2427-*bis* of the Italian Civil Code. Amounts are denominated in units of Euro, unless stated otherwise in the comments of the related financial statement items. Items omitted from the financial statements are understood to have nil balances in both the reporting year and the previous year.

Basis of preparation and measurement

The financial statements for the year ended 31 December 2018 have been prepared in compliance with the Italian Civil Code, interpreted and supplemented by the accounting standards drawn up and revised by the Italian Accounting Standard Setter (OIC) as amended and expanded by Legislative Decree 139/2015 of 1 January 2016 and, in the absence of the former, and where no conflict exists, the standards issued by the International Accounting Standards Board (IASB).

In accordance with Articles 2423 and 2423-*bis* of the Italian Civil Code, the financial statements have been prepared on the basis of the going concern assumption, according to the general principles of prudence, accrual basis accounting and materiality, while taking account of the prevalence of the substance of a transaction or contract.

The criteria applied in measuring line items and determining adjustments are consistent with the provisions of the Italian Civil Code and are primarily set out under Article 2426.

The most significant measurement criteria adopted are illustrated below.

Intangible assets

Intangible assets are recognised at purchase or production cost, including ancillary charges and directly attributable costs, adjusted in prior years for revaluations pursuant to Laws 408/1990, 342/2000, 350/2003 and 266/2005.

The cost of intangible assets is systematically amortised on a straight-line basis each year, considering the residual useful life of the asset. The rates applied are set out in the section of the Notes on Assets.

Start-up and expansion costs

Start-up and expansion costs have been recognised among assets with the consent of the Board of Statutory Auditors and are amortised over a period of no more than five years.

Development costs

Development costs envisage a plan or project for the production of new products or processes and are amortised based on their useful lives.

Development costs are recognised among assets, with Statutory Auditors' approval, only if the cost attributable to the asset during its development can be reliably measured, the product or the process is feasible from a technical and commercial standpoint, it is probable that there will be future economic benefits and there are sufficient resources to complete the development.

Rights for industrial patents and rights for exploitation of intellectual property

Patents have been recognised at purchase or internal production cost, including any additional costs incurred for administrative and application procedures, and are amortised according to their useful lives, which may not exceed the legal or contractual limit.

Concessions, licences, trademarks and similar rights

Concessions, licences, trademarks and similar rights, where purchased for consideration, are recognised at the price paid by the Company to obtain them and are amortised according to their useful lives, which may not exceed the legal or contractual limit and can never exceed 20 years.

Goodwill

Goodwill is recognised among assets, with the consent of the Board of Statutory Auditors, if it is purchased for consideration, and is amortised according to its useful life.

The Company has exercised the option for prospective application, pursuant to Article 12, paragraph 2, of Legislative Decree 139/2015, of the changes to the method for determining the amortisation period for goodwill.

Consequently, goodwill recognised prior to the financial year beginning on 1 January 2016 has been amortised over a period of no more than five years or, where the useful life was greater, over a period of no more than 20 years.

Goodwill recognised on or after 1 January 2016 has been amortised according to its useful life, with a maximum limit of 20 years, and over a period of no more than ten years when its useful life cannot be estimated reliably.

Fixed assets in progress and advances

Fixed assets in progress and advances include intangible assets in progress, initially recognised on the date on which the Company incurs the first (internal and external) costs for the production of the asset and advances to suppliers towards the purchase of intangible assets, initially recognised when the obligation to pay the amounts concerned arises.

Such costs continue to be carried as fixed assets until ownership of the right is acquired or the project is completed.

When these conditions occur, the amounts in question are classified to the appropriate item of intangible assets.

Contents

Company Officers and Group Structure

Directors' Single Report on Operations

LAVAZZA GROUP — CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Consolidated Statement of Financial Position
 - Consolidated Statement of Profit or Loss
 - Consolidated Statement of Comprehensive Income
 - Consolidated Statement of Cash Flows
 - Consolidated Statement of Changes in Equity

Notes to the Consolidated Financial Statements

Independent Auditors' Report

LUIGI LAVAZZA S.P.A. — FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Balance Sheet
 - Statement of Profit or Loss
 - Statement of Cash Flows

Notes to the Financial Statements

Statutory Auditors' Report

Independent Auditors' Report

ABSTRACT 2018

Property, plant and equipment

Property, plant and equipment are recognised at purchase or internal production cost, revalued where required, in compliance with the monetary revaluation laws, as indicated in the relevant table.

Purchase costs for goods acquired from third parties include ancillary charges and direct and indirect costs, to the extent reasonably attributable to the asset, from the period of production and for its remaining useful life.

Assets acquired through contribution or merger are recognised at the contribution value established in the pertinent documents on the basis of the related appraisal.

The cost of internally produced assets includes all costs directly attributable to the asset, in addition to the share of general production costs reasonably attributable to the asset with regard to the production period, until the asset is ready for use.

Ordinary maintenance costs are recognised to the statement of profit or loss for the financial year in which they are incurred.

The costs of improvements and incremental expenses, including extraordinary maintenance costs, in addition to the costs of leasehold improvements capable of being separated from the assets in question, which give rise to a significant, measurable increase in the capacity, productivity or security of the assets, or which extend their useful lives, qualify as capitalisable costs and are accounted for as an increase in the value of the assets to which they refer, within the limits of the recoverable amount of the asset.

Property, plant and equipment are depreciated each year on a straight-line basis. Depreciation is based on economic and technical rates taking account of the remaining useful lives of the assets.

The rates applied are indicated in the Notes on Assets.

If an element of property, plant and equipment is made up of different components with different useful lives, such components are recognised separately only if they are significant components.

Land is not subject to depreciation.

Assets held for sale and obsolete assets

When it is decided to dispose of a tangible asset, the latter is reclassified to current assets and then measured at the lesser of its net carrying amount and the presumed realisable value based on market performance, i.e., the selling price in the course of normal operation, net of direct selling and disposal costs.

Moreover, assets intended for sale are no longer subject to depreciation.

Obsolete assets and, more generally, assets that will no longer be used or useable in the production cycle on a permanent basis, are measured at the lesser of net carrying amount and recoverable amount, and are no longer subject to depreciation.

Grants towards property, plant, equipment and intangible assets

Grants are recognised when it is reasonably certain that the conditions for receipt of the grant have been met and the grants will be disbursed.

They are accounted for according to the indirect method, whereby a grant indirectly reduces the cost of the fixed assets to which it refers, by booking them to item A5 "other income and revenues" of the statement of profit or loss, and then deferred to subsequent years by recognising deferred income. Amortisation and depreciation of fixed assets are therefore calculated on the basis of the value of the assets, gross of the grants received.

Impairment losses on fixed assets

At each reporting date, the Company assesses whether there are any indications that tangible and intangible assets (including goodwill) may have become impaired.

If such signs exist, the carrying amount of the asset is reduced to its recoverable amount, determined as the greater of fair value, net of costs to sell and value in use. When the recoverable amount of an individual asset cannot be estimated, the Company estimates the recoverable amount of the cash-generating unit ("CGU") to which the asset belongs. The value in use of an asset is calculated by determining the present value of the expected future cash flows according to a discount rate that reflects the current market assessment of the time value of money and the specific risks of the asset. An impairment loss is recognised if the recoverable amount is less than the net carrying amount.

Impairment losses are reversed if the grounds for recognising them no longer apply. The amount of the reversal cannot exceed the value that would have resulted if the impairment loss had never been recognised. No reversals are recognised on goodwill and capitalised expenses.

Finance leases

The accounting treatment of lease transactions is consistent with the customary statutory practice in Italy (so-called "equity method") and involves the recognition of rent payments in the statement of profit or loss as they accrue.

The adoption of the finance lease method would have entailed the recognition in the statement of profit or loss, in lieu of rent payments, of interest on the residual principal of the financing and the depreciation charges on the value of the leased property, commensurate to the remaining useful life of that property, as well as the recognition of the leased property as an asset and the remaining debt as a liability.

Pursuant to Article 2427, paragraph 1(22), of the Italian Civil Code, these Notes include information about the effects of the adoption of the finance lease method:

- the total amount at which the leased assets would have been carried at the reporting date, had they been considered fixed assets;
- the depreciation, impairment and recoveries that would have accrued during the year;
- the present value of future lease payments, determined using the effective interest rate of the finance lease agreement;
- the finance expense accrued during the year, determined according to the effective interest rate.

Investments and financial receivables

Investments

These are equity interests in other companies and they are divided into investments in subsidiaries and associates, as defined in Article 2359 of the Italian Civil Code, and equity investments in other companies.

These are measured at cost, represented by the purchase price, the sums paid for subscription or the value attributed to the contributed assets, including ancillary costs.

Investments intended to be held for the long term are recognised among financial assets.

Investments are reviewed in order to determine the operating performance and financial position of the investees. Such analyses are essentially based on the results achieved by the investees and their equity, as stated in their most recent financial statements.

If a comparison of the cost to the interest in equity held indicates that an investment has become impaired, it is written down accordingly. Cost is normally reduced if an investee has recorded a loss or the value of an investment has otherwise decreased and profits or other favourable events sufficient to cover the losses are not expected in the near future. If the reasons for impairment subsequently cease to exist, the original value is reversed.

Investments not classified as fixed assets are measured at the lesser of purchase cost and realisable value according to market trends.

Financial receivables

Pursuant to Article 12, paragraph 2, of Legislative Decree 139/2015, the Company has opted for prospective application of the new basis of measurement for receivables at amortised cost and the discounting of receivables.

Consequently, financial receivables recognised prior to 1 January 2016 are carried at their nominal value, adjusted for impairment losses, if any. If the reasons for impairment subsequently cease to exist, the value is reversed up to the original value.

Financial receivables recognised on or after 1 January 2016 are measured at amortised cost, taking account of the time factor and their presumed realisable value.

Transaction costs, commissions payable and receivable, where applicable, and all differences between the initial value and nominal value at maturity are included in the calculation of amortised cost by using the effective interest criterion over the expected duration of the receivable.

It is possible not to apply the amortised cost criterion to receivables when its application is not material to a true and fair representation. The Company has exercised this option for these financial statements.

Contents

Company Officers and Group Structure

Directors' Single Report on Operations

LAVAZZA GROUP — CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Consolidated Statement of Financial Position
 - Consolidated Statement of Profit or Loss
 - Consolidated Statement of Comprehensive Income
 - Consolidated Statement of Cash Flows
 - Consolidated Statement of Changes in Equity

Notes to the Consolidated Financial Statements

Independent Auditors' Report

LUIGI LAVAZZA S.P.A. — FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Balance Sheet
 - Statement of Profit or Loss
 - Statement of Cash Flows

Notes to the Financial Statements

Statutory Auditors' Report

Independent Auditors' Report

ABSTRACT 2018

Securities

Pursuant to Article 12, paragraph 2, of Legislative Decree 139/2015, the Company has opted for prospective application of the new basis of measurement for securities at amortised cost and the discounting of receivables.

Securities intended to be held by the Company for the long term are classified as fixed assets and measured at amortised cost, where applicable, less any impairment losses.

Securities recognised as current financial assets — involving temporary investment of excess liquidity that is not intended for being held by the Company for the long term — are measured at the lesser of purchase cost, including ancillary charges, and presumable market value.

Inventories

Inventories are recognised at the lesser of either purchase and/or production cost and expected realisable value based on market trends, taking into account the related ancillary selling costs.

The cost of inventories, measured based on the average cost for homogeneous category, includes directly connected ancillary charges. The production cost includes directly attributable costs and the reasonably attributable share of indirect production costs, with the inclusion of finance expense up to the limit of the realisable value of the asset.

In order to adequately represent the value of inventories in the financial statements, and to take into consideration the impairment losses of obsolete and slow-moving material, an obsolescence allowance on inventories has been recognised, which is directly deducted from the value of inventories.

The inventory write-down provision reflects the Company's estimate of expected impairment losses, as determined in light of past experience, as well as the historic trend and the expected market trend, including following specific actions undertaken by the Company.



Receivables and payables

Pursuant to Article 12, paragraph 2, of Legislative Decree 139/2015, the Company has opted for prospective application of the new basis of measurement for receivables at amortised cost and the discounting of receivables. Consequently, receivables recognised prior to the year beginning on 1 January 2016 are carried at their presumed realisable value, which corresponds to the difference between the nominal amounts of the receivables, adjusted by bad debt provisions, which are directly deducted from the items to which they refer, whereas payables are carried at their nominal values.

Receivables and payables recognised on or after 1 January 2016 are measured at amortised cost, considering the time factor and, in the case of receivables, their presumed realisable value. The value at initial recognition is represented by the nominal value, net of all premiums, discounts, allowances and any costs directly attributable to the transaction that gave rise to the receivable or payable.

Transaction costs, commissions payable and receivable, where applicable, and all differences between the initial value and nominal value at maturity are included in the calculation of amortised cost by using the effective interest method. It is possible not to apply the amortised cost criterion when its application is not material to a true and fair representation.

The estimate of the inventory write-down provision is based on the Company's expected impairment losses, as determined in light of past experience and also prospectively considering the probability of counterparty's insolvency, the loss rate in case of insolvency and the exposure accrued at the moment of default.

Any factored receivables are derecognised if, and only if, essentially all risks associated with the receivable have been transferred. Otherwise, they continue to be carried forward, and a financial liability of equal amount is recognised to account for the advance received.

Cash and cash equivalents

Cash and cash equivalents are recognised at nominal value. Any amounts in foreign currencies are measured at the current exchange rate at year-end.

Accruals and deferrals

Accruals and deferrals include portions of costs and revenues common to two or more consecutive financial years whose amount is determined using the accruals concept.

Contents

Company Officers and Group Structure

Directors' Single Report on Operations

LAVAZZA GROUP — CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Consolidated Statement of Financial Position
 - Consolidated Statement of Profit or Loss
 - Consolidated Statement of Comprehensive Income
 - Consolidated Statement of Cash Flows
 - Consolidated Statement of Changes in Equity

Notes to the Consolidated Financial Statements

Independent Auditors' Report

LUIGI LAVAZZA S.P.A. — FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Balance Sheet
 - Statement of Profit or Loss
 - Statement of Cash Flows

Notes to the Financial Statements

Statutory Auditors' Report

Independent Auditors' Report

ABSTRACT 2018

Notes to the Financial Statements 2018

Provisions for risks and charges

Provisions for risks and charges are allocated to cover losses or liabilities of a stated nature or certain or probable existence, the amount or date of which could not be identified at year-end. Provisions reflect the best possible estimate on the basis of available elements.
Risks for which it is merely possible that a liability will emerge are disclosed in the Notes, without recognising an accrual to a provision for risks and charges.

Provisions for pension and similar benefits

Provisions for pension and similar benefits represent amounts set aside for supplementary pension benefits, other than employee termination indemnities, and one-off indemnities due to employees and independent contractors by law or contract.

Provisions for taxes, including deferred

The item refers to liabilities for probable taxes, the amount or date of payment of which is unknown on the basis of assessments or disputes with the tax authorities. The provision for deferred taxes includes deferred income tax liabilities due to temporary differences between statutory profit and taxable profit.

Employee termination indemnities

The provision is determined according to applicable legislation and collective and supplementary company labour contracts. Law 296 of 27 December 2006 (the 2007 Financial Law) introduced the rules for employee termination indemnities accrued from 1 January 2007. As a result of the supplementary pension reform:

- employee termination indemnities accrued up to 31 December 2006 remained with the Company;
- employee termination indemnities accrued from 1 January 2007, at the employee's discretion, have been allocated to supplementary pension schemes or kept with the Company, which has transferred the indemnities to the Treasury Fund established by the INPS.

Indemnities accrued from 1 January 2007 continue to be booked to item B9 c) "employee termination indemnities". Item C "employee termination indemnities" of the balance sheet represents the residual provision carried at 31 December 2006, revalued as appropriate in accordance with the law. Item D13 "social security liabilities" includes the amount accrued at year-end in respect of the share of employee termination indemnities still to be paid to pension fund and social security institutions.

Commitments, guarantees and contingent liabilities

Operating events that, despite not having a quantitative influence on assets and liabilities or financial performance when recognised, could have effects at a later date, are disclosed at the end of the Notes. Such items are recognised at their nominal value or the actual commitment.



Contents

Company Officers and Group Structure

Directors' Single Report on Operations

LAVAZZA GROUP — CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Consolidated Statement of Financial Position
 - Consolidated Statement of Profit or Loss
 - Consolidated Statement of Comprehensive Income
 - Consolidated Statement of Cash Flows
 - Consolidated Statement of Changes in Equity

Notes to the Consolidated Financial Statements

Independent Auditors' Report

LUIGI LAVAZZA S.P.A. — FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Balance Sheet
 - Statement of Profit or Loss
 - Statement of Cash Flows

Notes to the Financial Statements

Statutory Auditors' Report

Independent Auditors' Report

ABSTRACT 2018

Revenues and costs

Sales of goods and services are recognised on an accrual basis, net of adjusting entries such as returns, discounts, allowances and premiums, as well as taxes directly associated with sale and any changes in estimates.

Sales of products are recognised at the time ownership is transferred, which normally coincides with shipment or delivery.

Service revenues are recognised when the services are completed, or on an ongoing basis to the extent that the services in question have been rendered during the year.

Costs and expenses are recognised on an accrual basis, net of adjusting entries such as returns, discounts, allowances and premiums and any changes in estimates.

Dividends

Dividends are recognised in the year in which the investee resolves on dividend distribution.

Financial income and expense

All financial income and expense associated with the Company's financial operations are recognised on an accrual basis.

Gains and losses on the translation of items in foreign currencies are booked to item C.17-*bis* "exchange gains and losses" of the statement of profit or loss

Income taxes for the year

Income taxes are recognised according to an estimate of taxable income in application of tax laws in force, while taking account of applicable exemptions and tax credits to which the Company is entitled.

The Company participates in the national tax consolidation programme pursuant to Articles 117 and 129 of the Consolidated Law on Income Taxes (TUIR). The parent company, Finlav S.p.A., acts as consolidating company and calculates a single taxable profit or loss for the group of companies participating in tax consolidation, which thus benefits from the ability to set off taxable profit against tax losses in a single return.

If the Company contributes all of its taxable profit to tax consolidation, it recognises a payable to the parent company equal to the corporate income tax (IRES) to be paid, as determined according to the consolidation contract.

The payable for regional production tax (IRAP) is booked to Tax payables, net of any prepayments made during the year.

Deferred tax assets and liabilities are calculated based on temporary differences between the carrying amounts of assets and liabilities according to Italian GAAP and their value for tax purposes. Such assets and liabilities are measured by taking account of the tax rate that the Company is expected to bear in the year in which the differences concerned will contribute to taxable profit or loss, considering the tax rates in effect or already enacted at the reporting date.

Deferred tax assets are recognised for all deductible temporary differences, based on the prudence principle, when there is reasonable certainty of taxable income of no less than the amount of the differences to be offset during the years in which those differences will be reversed.

Deferred tax liabilities are instead recognised on all taxable temporary differences.

Deferred tax liabilities on tax-suspended reserves and provisions are recognised when it is expected that the reserves will be distributed or otherwise used, and the distribution or use of the same will give rise to tax charges.

Transfer pricing

Prices applied in intra-group transactions were determined in accordance with the OECD guidelines — as set forth by the Company also in the National Documentation prepared in accordance with Article 1, paragraph 6, of Legislative Decree 471 of 18 December 1997. In detail, mention should be made that on 19 December 2016 the Company signed an Advance Pricing Agreement for the five-year period 2016–2020 with the Italian Revenue Authority concerning the methods for calculating the fair market value of the assets disposed of to its European subsidiaries (France, the UK, Sweden and Austria).

The aforementioned Agreement is the result of the renewal of the previous Advance Pricing Agreement signed on 12 December 2013 for the three years 2013, 2014 and 2015. The transactions with the German subsidiary, already subject to a separate procedure (initiated by application dated 27 November 2014) aimed at entering into a bilateral Advance Pricing Agreement between Italy and Germany, were excluded from the scope of that renewal.

In addition, on 15 December 2016, an application was filed for a bilateral Advance Pricing Agreement between Italy and the United States to govern the transactions with the U.S. Subsidiary. In this regard, it should be noted that the competent tax authorities met to reach a prior agreement for the definition of transfer prices between Italy and the USA for the five year period 2016–2020, and this agreement will be formalised and signed in 2019.

Currency conversion criteria

Transactions in currencies other than the Euro are recognised at the spot exchange rate.

Assets and liabilities in currencies other than the Euro, except non-monetary assets and liabilities (i.e., inventories, property, plant, equipment and intangible assets, as well as investments and non-current securities), are analytically adjusted to the exchange rate at year-end, directly recognised through profit or loss.

Any net gains arising from the year-end exchange rate adjustment for items in foreign currency contribute to the formation of the net result for the year and, upon approval of the financial statements and proposal for the allocation of the net result, are recognised in a restricted reserve until the profit is realised.



Contents

Company Officers and Group Structure

Directors' Single Report on Operations

LAVAZZA GROUP — CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Consolidated Statement of Financial Position
 - Consolidated Statement of Profit or Loss
 - Consolidated Statement of Comprehensive Income
 - Consolidated Statement of Cash Flows
 - Consolidated Statement of Changes in Equity

Notes to the Consolidated Financial Statements

Independent Auditors' Report

LUIGI LAVAZZA S.P.A. — FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Balance Sheet
 - Statement of Profit or Loss
 - Statement of Cash Flows

Notes to the Financial Statements

Statutory Auditors' Report

Independent Auditors' Report

ABSTRACT 2018

Derivatives

In the course of its business, the Company is exposed to the following market risks:

- interest rate risk: this risk is tied to the variability of interest rates payable on floating-rate financing and lease contracts, driven by the fluctuation of market interest rates (Euribor);
- exchange risk: this risk is tied to the variability of revenues and costs denominated in foreign currencies, driven by the fluctuation of the exchange rates between the Euro and the respective foreign currencies; at present, the main exposure to foreign-exchange risk relates to the risk tied to purchases of green coffee denominated in U.S. dollars (USD);
- price risk: the risk associated with the variability of the cost of purchasing green coffee, driven by the performance of market coffee prices quoted on the major international markets.

In this framework, the Company regularly enters into derivatives (interest-rate swaps, FX forwards, FX options, commodity futures, commodity forwards and swaps, and commodity options) with the aim of mitigating its exposure to the risks described, in accordance with the established risk management objectives and strategies, formally defined in the Group's policies and procedures.

Within the framework of Italian GAAP (OIC), the accounting treatment of derivatives is subject to OIC 32 – Derivatives, which contains specific provisions that govern the representation in the financial statements of transactions entered into for hedging purposes (i.e., hedge accounting).

In accordance with OIC 32, the general rule that applies to the accounting treatment of derivatives calls for representation in the balance sheet at fair value, with changes in value recognised periodically in the statement of profit or loss.

If the derivatives have been entered into for hedging purposes and certain formal and substantive requirements have been met (the hedging relationship is documented and the efficacy of the hedge has been periodically proved), hedge accounting may be applied. In essence, the purpose of hedge accounting is to align the timing and approach to recognising the economic effects of hedging derivatives with those of the underlying hedging transactions.

Interest-rate risk management currently involves the use of interest-rate swap (IRS) contracts, whereby the interest rates on the underlying liabilities (loans or leases) are transformed from floating to fixed.

Derivatives contracted to hedge against interest-rate risk pursue the objective of fixing the expected value of the future interest flows generated by the underlying liabilities. Accordingly, for the purposes of OIC 32, they qualify for cash flow hedge accounting treatment.

The hedging relationship is formally designated when the hedging instrument is contracted and is maintained until the maturity of the contract, unless the hedge is renegotiated or unwound in advance.

A hedging instrument is designated for accounting purposes for its full fair value. Consequently, the full fair value of such instruments is considered when determining the effective portion of the hedge to be suspended in equity, according to cash flow hedging rules.

Foreign-exchange risk is managed in the case of both the primary source of exposure, i.e., purchases of green coffee denominated in U.S. dollars, and sales in foreign currencies on various international markets (directly to customers/distributors or indirectly through trading companies).

The Company avails itself of the following types of derivatives to mitigate this risk: FX forwards, FX options and option structures. Price risk is managed in the case of the exposure resulting from the purchases of green coffee, the price of which is fixed with commodity suppliers on the basis of market quotations for coffee futures contracts on the major international exchanges.

Raw material purchasing costs are therefore exposed to the risk of fluctuation of prices on the futures market of reference until the date of the fixing of the benchmark price with the supplier, when all components of the purchase price become known and no longer subject to modification.

The Company avails itself of the following types of derivatives to mitigate this risk: commodity futures, commodity forwards and swaps, commodity options and option structures.

In the tables on derivatives reported in this document, notional values are expressed in Euro at the date contracts on such instruments were entered into.



Contents

Company Officers and Group Structure

Directors' Single Report on Operations

LAVAZZA GROUP — CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Consolidated Statement of Financial Position
 - Consolidated Statement of Profit or Loss
 - Consolidated Statement of Comprehensive Income
 - Consolidated Statement of Cash Flows
 - Consolidated Statement of Changes in Equity

Notes to the Consolidated Financial Statements

Independent Auditors' Report

LUIGI LAVAZZA S.P.A. — FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Balance Sheet
 - Statement of Profit or Loss
 - Statement of Cash Flows

Notes to the Financial Statements

Statutory Auditors' Report

Independent Auditors' Report

ABSTRACT 2018

Contents of the Notes to the Financial Statements

Balance Sheet - Assets

Fixed assets

Intangible fixed assets

The following tables report changes in intangible assets:

Items	Balance at 01.01.2018	Increases	Reclassifications	(Decreases)	Balance at 31.12.2018
Development costs					
Gross value	8,379,831	1,918,770	0	0	10,298,601
Write-ups	0	0	0	0	0
(Write-down provision)	0	(170,776)	0	0	(170,776)
(Amortisation fund)	(3,470.921)	(2,014,386)	0	0	(5,485,307)
Net value	4,908,910	(266,392)	0	0	4,642,518
Concessions, licences and similar rights					
Gross value	189,461,946	1,186,104	560,000	(32,010)	191,176,040
Write-ups	0	0	0	0	0
(Write-down provision)	0	0	0	0	0
(Amortisation fund)	(39,398,995)	(9,793,670)	0	32,010	(49,160,655)
Net value	150,062,951	(8,607,566)	560,000	0	142,015,385
Trademarks					
Gross value	154,099,219	0	0	0	154,099,219
Write-ups	303,949,656	0	0	0	303,949,656
(Write-down provision)	(3,623,965)	0	0	0	(3,623,965)
(Amortisation fund)	(330,611,458)	(7,115,951)	0	0	(337,727,409)
Net value	123,813,452	(7,115,951)	0	0	116,697,501
Goodwill					
Gross value	371,426,371	0	0	0	371,426,371
Write-ups	0	0	0	0	0
(Write-down provision)	(4,894,056)	0	0	0	(4,894,056)
(Amortisation fund)	(42,346,737)	(17,857,679)	0	0	(60,204,416)
Net value	324,185,578	(17,857,679)	0	0	306,327,899
Fixed assets in process and advances					
Gross value	4,010,757	11,368,904	(8,943,092)	0	6,436,569
(Write-down provision)	0	0	0	0	0
Net value	4,010,757	11,368,904	(8,943,092)	0	6,436,569
Other intangible assets					
Gross value	31,289,064	234,422	8,383,092	(1,177,825)	38,728,753
Write-ups	0	0	0	0	0
(Write-down provision)	0	0	0	0	0
(Amortisation fund)	(21,338,034)	(2,501,486)	0	1,177,825	(22,661,695)
Net value	9,951,029	(2,267,064)	8,383,092	0	16,067,057
Total intangible assets					
Gross value	758,672,972	14,708,200	0	(1,209,835)	772,171,337
Write-ups	303,949,656	0	0	0	303,949,656
(Write-down provision)	(8,518,021)	(170,776)	0	0	(8,688,797)
(Amortisation fund)	(437,171,930)	(39,283,172)	0	1,209,835	(475,245,267)
Net value	616,932,677	(24,745,748)	0	0	592,186,929

The €1,918,770 increase in “development costs” is related to investments in technological innovation relating to the closed-system coffee machines Lavazza Firma, Lavazza BLUE and A Modo Mio.
The €700,000 increase for the year for the categories “concessions, licenses and similar rights” and “trademarks” are mainly attributable to software licenses for the launch of the new e-commerce 3.0 website.

The increase in the item “other intangible fixed assets”, amounting to €143,961, is chiefly attributable to the capitalisation of costs for the maintenance of third-party buildings related to the refurbishment of a building used as office in Torre del Greco. The item “reclassifications” totalling €8,345,162 includes the capitalisation of the costs of software projects intended for long-term use. The accounting standard OIC 24 requires that the cost of unprotected software be amortised over its expected useful life. During the year, the Company reviewed the useful lives of software intended for long-term use, and in particular that relating to the Group’s accounting and management reporting system, extending it to five and seven years from the previous three and five years

The following table provides a comparison between the new useful lives and those used previously:

	2018	2017
Start-up and expansion costs	5 years	5 years
Industrial patents	5 years	5 years
Intellectual property rights	3 years	3 years
Licences and similar rights	5 years	5 years
Know-how	20 years (*)	20 years (*)
Trademarks	10-20 years (*)	10-20 years (*)
Goodwill	10-20 years (*)	10-20 years (*)
Key money	Lease period	Lease period
Other	5-7 years	3-5 years

(*) The useful life of the intangible assets acquired with the Carte Noire business unit has been estimated at 20 years. This assessment is supported by the leading position of the Carte Noire brand in France and the sector of reference, which is stable and does not present particular factors of technological obsolescence.

The following table shows the accounting effects of such change in estimates:

INTANGIBLE ASSETS	31.12.2017	Net changes	Amortisation	Write-downs	31.12.2018
New amortisation schedule	612,921,920	12,282,386	(39,283,171)	(170,776)	585,750,360
Amortisation schedule until 2017	612,921,920	12,282,386	(46,230,283)	(170,776)	578,803,248
Amortisation difference			(6,947,112)		

The reduction in amortisation recognised led to an increase of the taxable income equal to the amortisation difference shown in the table.

Contents

Company Officers and Group Structure

Directors' Single Report on Operations

LAVAZZA GROUP — CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Consolidated Statement of Financial Position
 - Consolidated Statement of Profit or Loss
 - Consolidated Statement of Comprehensive Income
 - Consolidated Statement of Cash Flows
 - Consolidated Statement of Changes in Equity

Notes to the Consolidated Financial Statements

Independent Auditors' Report

LUIGI LAVAZZA S.P.A. — FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Balance Sheet
 - Statement of Profit or Loss
 - Statement of Cash Flows

Notes to the Financial Statements

Statutory Auditors' Report

Independent Auditors' Report

ABSTRACT 2018

Property, plant and equipment

Movements in property, plant and equipment and their accumulated depreciation are given in the following tables:

Items	Balance at 01.01.2018	Increases	Reclassifications	(Decreases)	Balance at 31.12.2018
Land and buildings					
Gross value	116,332,066	195,745	2,210,389	(253,383)	118,484,817
Write-ups	60,974,410	0	0		60,974,410
(Write-down provision)	(10,358,922)	0	0	23,759	(10,335,163)
(Accumulated depreciation)	(70,823,840)	(3,032,858)	0	229,624	(73,627,074)
Net value	96,123,714	(2,837,113)	2,210,389	0	95,496,990
Plant and machinery					
Gross value	507,437,318	1,090,678	14,046,895	(25,010,288)	497,564,603
Write-ups	48,661,883	0	0	(5,283,406)	43,378,477
(Write-down provision)	(466,372)	0	0	8,501	(457,871)
(Accumulated depreciation)	(474,506,132)	(8,289,934)	0	30,281,132	(452,514,934)
Net value	81,126,697	(7,199,256)	14,046,895	(4,061)	87,970,275
Industrial and commercial equipment					
Gross value	121,658,096	29,672,642	4,002,378	(3,744,828)	151,588,288
Write-ups	1,165,417	0	0	0	1,165,417
(Write-down provision)	(3,206,082)	(1,053,600)	0	0	(4,259,682)
(Accumulated depreciation)	(78,964,460)	(17,979,074)	0	3,668,063	(93,275,471)
Net value	40,652,971	10,639,968	4,002,378	(76,765)	55,218,552
Furniture and fittings					
Gross value	20,631,700	1,350,494	1,288,758	(133,556)	23,137,396
Write-ups	4,022	0	0	(4,022)	0
(Write-down provision)	0	0	0	0	0
(Accumulated depreciation)	(14,275,541)	(1,316,366)	0	137,305	(15,454,602)
Net value	6,360,181	34,128	1,288,758	(273)	7,682,794
Means of transport					
Gross value	709,071	53,000	141,135	0	903,206
Write-ups	0	0	0	0	0
(Write-down provision)	0	0	0	0	0
(Accumulated depreciation)	(701,601)	(7,725)	0	0	(709,326)
Net value	7,470	45,275	141,135	0	193,880
Electronic machinery					
Gross value	24,499,540	1,071,851	355,859	(1,374,749)	24,552,501
Write-ups	0	0	0	0	0
(Write-down provision)	0	0	0	0	0
(Accumulated depreciation)	(20,482,676)	(1,295,527)	0	1,354,461	(20,423,742)
Net value	4,016,864	(223,676)	355,859	(20,288)	4,128,759
Tangible assets in process and advances					
Gross value	30,922,905	26,739,582	(22,045,414)	0	35,617,073
Write-ups	0	0	0	0	0
(Write-down provision)	0	0	0	0	0
(Accumulated depreciation)	0	0	0	0	0
Net value	30,922,905	26,739,582	(22,045,414)	0	35,617,073
Total tangible assets					
Gross value	822,190,696	60,173,992	0	(30,516,804)	851,847,884
Write-ups	110,805,732	0	0	(5,287,428)	105,518,304
(Write-down provision)	(14,031,376)	(1,053,600)	0	32,260	(15,052,716)
(Accumulated depreciation)	(659,754,250)	(31,921,484)	0	35,670,585	(656,005,149)
Net value	259,210,802	27,198,908	0	(101,387)	286,308,323

The item “land and buildings” increased chiefly as a result of the purchase of a state-owned property including a plot of land located in the Municipality of Pozzilli for €154,969.

The item “reclassifications” amounting to €2,210,389 refers to the conclusion of investment projects involving the renovation of several industrial buildings.

The item “plant and machinery” increased by €1,090,678 due to the effect of direct purchases of industrial machinery and by €14,046,895 owing to the conclusion of investment projects involving the installation of new coffee bean packaging lines and the air-conditioning and dust-extraction system for the production areas. The decreases primarily refer to the disposal of obsolete production lines.

The item “industrial and commercial equipment”, which includes coffee machines and moulds held by third-party suppliers for the production of machine components, increased primarily for the purchase of equipment intended for the Food Service sector (€7,538,668), coffee machines provided to customers in the OCS sector on free loan for use (€16,928,817) and moulds (€5,595,050). The net decrease, amounting to €76,765, was mainly due to the sale and scrapping of equipment from the food service sector.

The item “furniture and fittings” increased due to purchases during the year of €1,350,494 and reclassifications of €1,288,758 relating to the transfer of prepayments for furnishings decorating the Lavazza Museum and the display spaces made available to the subsidiary Lavazza Eventi S.r.l. under a business unit lease contract.

The increase in “electronic machinery” primarily relates to purchases of computers, and IT equipment.

The item “fixed assets in process and advances” consists of investments that had yet to be placed in service at 31 December 2018. More specifically, the item refers to three capsule packaging lines that will enter service in 2019.

The Directors' Report on Operations provides detailed information on investments made during the year.

During the year, the depreciation schedules for property, plant and equipment were analysed and reviewed in accordance with the accounting standard OIC 16, as part of a general process of reviewing the useful lives of assets, in which the specific use, intended function and technical life cycle of the assets were analysed in order to determine their remaining useful lives. The analysis was conducted with support from an independent expert and culminated in the preparation of a report that generally recommended that longer useful lives be attributed to the assets analysed.

The table below provides a comparison of the new useful lives with those previously adopted:

	2018	2017
Buildings	60 years	33 years and 3 months
Civil buildings	80 years	-
Light buildings	15 years	10 years
Equipment and espressomakers	4 years	4 years
Generic and café equipment	2 years and 6 months	2 years and 6 months
Specific furnishings	10 years	10 years
Generic furnishings	8 years and 4 months	8 years and 4 months
Generic plant and machinery	20/25 years	8 years
Specific plant	8 years and 4 months	8 years
High-tech plant and machinery	10/15 years	8 years
Electronic office equipment	5 years	5 years
Espresso machines for the Ho.Re.Ca. sector	4 years	4 years
FOL close system machines	5/6 years	5/6 years
Dies	3/5/7 years	3/10 years
Iron silos	25 years	12 years and 6 months
Trucks	12 years	5 years
Motorcars	8 years	4 years

Contents

Company Officers and Group Structure

Directors' Single Report on Operations

LAVAZZA GROUP — CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Consolidated Statement of Financial Position
 - Consolidated Statement of Profit or Loss
 - Consolidated Statement of Comprehensive Income
 - Consolidated Statement of Cash Flows
 - Consolidated Statement of Changes in Equity

Notes to the Consolidated Financial Statements

Independent Auditors' Report

LUIGI LAVAZZA S.P.A. — FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Balance Sheet
 - Statement of Profit or Loss
 - Statement of Cash Flows

Notes to the Financial Statements

Statutory Auditors' Report

Independent Auditors' Report

ABSTRACT 2018

Under the accounting standard OIC 29, the revision of the depreciation schedules constitutes a change in accounting estimates, the effects of which are applied prospectively over the reporting year and subsequent periods.

The following table shows the accounting effects of such change in estimates:

PROPERTY, PLANT AND EQUIPMENT	31.12.2017	Net changes	Depreciation	Write-downs	31.12.2018
New depreciation schedule	228,287,898	55,378,437	(31,921,484)	(1,053,600)	250,691,251
Depreciation schedule until 2017	228,287,898	55,305,194	(46,997,913)	(1,053,600)	235,541,579
Depreciation difference			(15,076,429)		

The reduction in depreciation recognised led to an increase of the taxable income equal to the depreciation difference shown in the table.

Pursuant to Article 10 of Law 72 of 19 March 1983, the following is a statement of the write-ups applied to assets still carried at 31 December 2018:

	Re. Law 576/75	Re. Law 72/83	Re. Law 408/90	Re. Law 413/91	Re. Law 342/00	Re. Law 350/03	Re. Law 266/05	Re. Law 185/08	TOTAL
Buildings	88,975	704,100		5,976,231				54,205,104	60,974,410
Plant and machinery	23,451	296,679			32,635,877	10,422,470			43,378,476
Moulds					187,476	977,941			1,165,417
Means of transport									0
Lavazza trademark			46,481,121		77,468,535	100,000,000	80,000,000		303,949,656
Total	112,425	1,000,779	46,481,121	5,976,231	110,291,889	111,400,411	80,000,000	54,205,104	409,467,960

The over 30,000-square-metre real-estate project in Turin aimed at building the complex intended to serve as the Company's new headquarters, which also includes other office and commercial buildings, a museum and parking areas, was completed during the year.

In particular, the following were delivered:

- the building that houses the Lavazza Museum and Historical Archive, where information regarding the Company's over 120 years of history is stored;
- the building that houses the event venue La Centrale, a space suited for large events created through a complete renovation of Turin's former Enel power station; Bistrot, a collective dining facility that moves beyond the concept of the company canteen by opening the service up to everyone; and the gourmet restaurant Condividere, which represents a new philosophy of taste and a new way of enjoying food inspired by informal sharing of gourmet cuisine;
- the Piazza, opening out onto the city, with its underground public parking lot, ensures that the headquarters are connected with La Centrale, the Lavazza Museum, Condividere and the Bistrot, the Archaeological Area and the IAAD campus.

The Company has taken possession of all the real-estate units under a finance lease agreement, which transfers most of the risks and benefits associated with the properties in question.

The effect on the balance sheet and profit for the year of the adoption of the finance lease method to account for leased property is illustrated below:

	Amount
Assets	
a) Agreements in force:	
Assets under finance lease at the end of the previous year	61,246,407
+ Assets acquired under finance lease during the year	54,597,296
- Assets under finance lease redeemed during the year	
- Depreciation charges accrued during the year	(3,042,672)
+/- Impairment losses / reversals on assets under finance lease	
Assets under finance lease at the end of the year, net of depreciation	112,801,031

b) Redeemed assets	
Total greater value of redeemed assets	0

c) Liabilities	
Constructive payables for finance lease transactions at the end of the previous year	41,168,686
+ Constructive payables arisen during the year	48,269,360
– Repayment of principal and redemptions made during the year	(5,085,379)
Constructive payables for finance leases at the end of the year	84,352,667

d) Reversal of prepaid expenses associated with finance leases	23,196,616
e) Reversal of payables for 2018 rent yet to be paid	1,414,836

f) Total gross effect at the end of the year (a + b – c - d - e)	6,666,583
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g) Tax effect	(1,859,977)
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h) Effect on equity at the end of the year (f – g)	4,806,606
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Effect on the statement of profit or loss	
Reversal of rent on finance leases	6,459,498

Recognition of finance expenses on finance leases	(1,374,119)
Recognition of:	
– depreciation charges:	
• on contracts in force	(3,042,672)
• on redeemed assets	
– impairment losses / reversals on assets under finance lease	3,942,905
Effect on pre-tax result	5,985,612
Recognition of tax effect	(1,669,986)
Effect on profit or loss of recognition of financial leases	4,315,626

Contents

Company Officers and Group Structure

Directors' Single Report on Operations

LAVAZZA GROUP — CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Consolidated Statement of Financial Position
 - Consolidated Statement of Profit or Loss
 - Consolidated Statement of Comprehensive Income
 - Consolidated Statement of Cash Flows
 - Consolidated Statement of Changes in Equity

Notes to the Consolidated Financial Statements

Independent Auditors' Report

LUIGI LAVAZZA S.P.A. — FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Balance Sheet
 - Statement of Profit or Loss
 - Statement of Cash Flows

Notes to the Financial Statements

Statutory Auditors' Report

Independent Auditors' Report

ABSTRACT 2018

Notes to the Financial Statements 2018

Financial assets

Investments

Investments at 31 December 2018 were broken down as follows:

Company	Historic cost	Prior years' write-downs	Value at 01.01.2018	Increases	Mergers	Decreases	Write-downs for the year	31.12.2018
Subsidiaries								
Lavazza Australia Pty Ltd	4,804,617		4,804,617					4,804,617
Lavazza Argentina S.A.	5,966,852	(5,286,333)	680,519				(680,519)	0
Lavazza Capital S.r.L.	621,400,000		621,400,000			(145,000,000)		476,400,000
Lavazza Coffee (UK) Ltd	14,843		14,843					14,843
Lavazza Deutschland G.m.b.H.	153,227		153,227					153,227
Lavazza Do Brasil Ltda	28,045,098	(25,194,196)	2,850,902				(1,779,961)	1,070,941
Lavazza Eventi S.r.L.	0		0	1,000,000				1,000,000
Lavazza France S.a.s.	15,173,484		15,173,484		12,766,378			27,939,862
Lavazza Kaffee G.m.b.H.	163,854		163,854					163,854
Lavazza Maroc S.a.r.L.	904		904					904
Lavazza Netherlands B.V.	130,000,000	(105,128,047)	24,871,953				(175,545)	24,696,408
Lavazza Premium Coffees Corp.	1,164,635		1,164,635					1,164,635
Lavazza Professional Holding Eu	0		0	51,000,000				51,000,000
Lavazza Professional Holding NA	0		0	217,721,132				217,721,132
Lavazza Spagna S.L.	13,079,422	(12,531,699)	547,723					547,723
Lavazza Sweden AB	1,855,000	(376,843)	1,478,157				376,843	1,855,000
Lavazza Trading (Shenzhen) Co. Ltd	1,000,000		1,000,000					1,000,000
Cofincaf S.p.A.	3,063,719		3,063,719					3,063,719
Immobiliare I.N.N.E.T. S.r.L.	2,002,987		2,002,987					2,002,987
Merrild Kaffe ApS	12,119,140		12,119,140					12,119,140
Carte Noire S.a.s	104,444,203		104,444,203					104,444,203
Kicking Horse Coffee Co. Ltd	116,061,395		116,061,395					116,061,395
Espresso Service Proximité S.A.	12,766,378		12,766,378		(12,766,378)			0
Nirms S.p.A.	49,892,692		49,892,692	12,473,173				62,365,865
Lea S.r.L.	6,383,479	(6,125,721)	257,758	750,000			(1,006,759)	999
Total subsidiaries	1,129,555,929	(154,642,839)	974,913,090	282,944,305	0	(145,000,000)	(3,265,941)	1,109,591,454
Associates								
International Coffee Partners G.m.b.H.	25,000		25,000					25,000
Total associates	25,000	0	25,000	0	0	0	0	25,000
Other investees:								
Air Vallée S.p.A.	25,823		25,823					25,823
Casa Comm. e Turismo S.p.A.	6,094		6,094					6,094
Connect Ventures One LP	6		6					6
Idroelettrica S.c.r.L.	300		300					300
INV. A.G. S.r.L.	20,000,000	(12,712,342)	7,287,658					7,287,658
Total other investees	20,032,223	(12,712,342)	7,319,881	0	0	0	0	7,319,881
Total investments	1,149,613,152	(167,355,181)	982,257,971	282,944,305	0	(145,000,000)	(3,265,941)	1,116,936,335

With reference to operating investments, the strategic focus has generally been confirmed with a view to bringing a greater consistency between the business model adopted and the geographical area involved, differentiating the approach according to actual local situations and business segments. Accordingly, the policy adopted on the valuation of investments is strictly in line with the strategic direction, decisions taken and development plans defined. Increases related to acquisitions of Subsidiaries refer to:

- 1. Lavazza Professional Holding Europe – 100% of share capital
- 2. Lavazza Professional Holding North America – 100% of share capital

On 27 December 2018, the Company acquired from the Mars Group Incorporated the coffee business, which includes the Flavia and Kliz systems, two leading Office Coffee Service (OCS) and Vending brands. The acquisition of the new business line named Lavazza Professional was carried out through two newly incorporated holdings (Lavazza Professional Holding USA and Lavazza Professional Holding Europe). The two holding companies control the companies operating in the USA and Japan and those operating in Germany, France and the UK, respectively. The Report on Operations provides further information on this subject.

- 3. Lavazza Eventi S.r.L. - 100% of share capital.

The company was formed during the year to manage the Lavazza Museum and Historical Archive, which documents the Company's over 120 years of history, and to lease the La Centrale venue, ideally suited for shows, exhibitions and large events in general, created in a thorough renovation of the former Enel power plant in Turin.

- 4. Nims S.p.A. - 97.33 % of share capital.

The transfer of the equity interest by the previous majority shareholder was completed during the year through the purchase of the remaining 19.47% holding for a total of €12,473,173.

Increases for the year related to the capitalisation of Subsidiaries refer to:

- 1. Lea S.r.l, in the amount of €750,000, to cover the losses carried forward and to ensure financial support for continuing operations.

Decreases for the year due to write-downs refer to the following companies:

- a) Lavazza Netherlands B.V. (€175,545), primarily attributable to the write-down of the subsidiary Fresh & Honest Café Ltd. to account for the loss for the year ended 31 December 2018, deemed to be an impairment loss;
- b) Lavazza do Brasil Ltda (€1,779,961), attributable to the loss recognised for the year, which is deemed to be an impairment loss;
- c) Lavazza Argentina S.A. (€680,519), primarily attributable to the loss for the year, which is deemed to be an impairment loss;
- d) Lea S.r.l. (€1,006,759), to bring the net value of the equity interest into line with its value based on the sale deed entered into in February 2019 with Lavazza Entertainment S.r.l., a newly-formed industrial holding company for restaurant operation, entertainment and promotion within the coffee business.

The decrease during the year relating to Lavazza Capital S.r.l. refers to a reduction in capital reserves of €145,000,000. This extraordinary distribution was approved to finance part of the Mars Group acquisition.

The increase during the year due to write-ups of €376,843 is attributable to Lavazza Sweden AB and relates to the recovery of the full amount of the write-downs recognised in previous years in order to bring the value of the equity investment in line with the interest in equity at year-end.

During the year, the subsidiary Espresso Service Proximité S.A. was merged into Lavazza France S.a.s., with retroactive effect for accounting and tax purposes.

Contents

Company Officers and Group Structure

Directors' Single Report on Operations

LAVAZZA GROUP — CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Consolidated Statement of Financial Position
 - Consolidated Statement of Profit or Loss
 - Consolidated Statement of Comprehensive Income
 - Consolidated Statement of Cash Flows
 - Consolidated Statement of Changes in Equity

Notes to the Consolidated Financial Statements

Independent Auditors' Report

LUIGI LAVAZZA S.P.A. — FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Balance Sheet
 - Statement of Profit or Loss
 - Statement of Cash Flows

Notes to the Financial Statements

Statutory Auditors' Report

Independent Auditors' Report

ABSTRACT 2018

The following table provides data regarding the main subsidiaries and associates:

Company name	Registered office	Share capital	Equity	Profit (loss) for the year	% held	Carrying value
Subsidiaries						
Lavazza Australia Pty Ltd	Hawthorn	4,507,152	3,959,631	(2,750)	100.00	4,804,617
Lavazza Capital S.r.l.	Turin	200,000	481,722,045	5,282,045	100.00	476,400,000
Lavazza Coffee (UK) Ltd	Uxbridge	1,118	3,864,408	2,553,052	100.00	14,843
Lavazza Deutschland G.m.b.H.	Frankfurt	210,000	6,792,760	4,858,993	100.00	153,227
Lavazza do Brasil Ltda	Rio de Janeiro	17,348,729	1,075,999	(16,651)	99.53	1,070,941
Lavazza Eventi S.r.l.	Turin	100,000	931,898	(68,102)	100.00	1,000,000
Lavazza France S.a.s.	Boulogne	21,445,313	29,104,663	1,538,537	100.00	27,939,862
Lavazza Kaffee G.m.b.H.	Vienna	218,019	1,320,948	1,102,930	100.00	163,854
Lavazza Maroc S.a.r.l.	Casablanca	913	67,300	7,836	100.00	904
Lavazza Netherlands B.V.	Amsterdam	111,500,000	24,696,408	(175,545)	100.00	24,696,408
Lavazza Premium Coffees Corp.	New York	26,899,563	21,821,358	2,823,297	93.00	1,164,635
Lavazza Professional Holding Eu	Turin	1,000,000	50,989,501	(10,499)	100.00	51,000,000
Lavazza Professional Holding NA	West Chester, PA, USA	1,091,704	216,332,465	0	100.00	217,721,132
Lavazza Spagna S.L.	Barcelona	1,090,620	563,658	17,613	100.00	547,723
Lavazza Sweden AB	Stockholm	9,752	1,814,731	420,785	100.00	1,855,000
Cofincaf S.p.A.	Turin	3,000,000	11,849,215	588,974	99.00	3,063,719
Lavazza Argentina S.A.	Buenos Aires	242,865	(147,170)	(755,192)	97.54	0
Lavazza Trading (Shenzhen) Co. Ltd	Shenzhen	1,041,447	1,021,464	(19,983)	100.00	1,000,000
Carte Noire S.a.s	Boulogne	103,830,406	116,128,596	10,106,940	100.00	104,444,203
Immobiliare I.N.N.E.T. S.r.l.	Turin	30,000	282,673	21,958	100.00	2,002,987
Lea S.r.l.	Turin	100,000	160,214	(847,803)	99.90	999
Nims S.p.A.	Padua	3,000,000	46,775,061	3,446,338	100.00	62,365,865
Merrild Kaffe ApS	Middelfart	6,696	14,247	611	100.00	12,119,140
Kicking Horse Coffee Co. Ltd	Invermere	137,772,638	141,502,809	2,455,580	80.00	116,061,395
Associates						
International Coffee Partners G.m.b.H.	Hamburg	175,000	260,639	3,427	20.00	25,000

The values of equity investments in companies that prepare their financial statements in foreign currencies are stated in Euro, converted at the exchange rate at 31 December 2018.

With the exception of the written-down investments mentioned above, any further negative differences between the carrying values of investments in subsidiaries and the proportional share of equity are not deemed to represent impairment losses.

In order to provide complete information, the table below reports a list of the indirectly controlled companies:

Company name	Registered office	Share capital	Equity	Profit (loss) for the year	Through	Carrying value	% held
Almada Comercio de Café Ltda	São Paulo	225,203	(247,302)	(6,384)	Lavazza Do Brasil Ltda	(247,302)	100
Carte Noire Operation S.a.s	Lavérune	11,517,350	33,677,690	1,108,153	Carte Noire S.a.s	39,205,658	100
Fresh & Honest Café Ltd*	Chennai	920,785	20,780,344	(102,006)	Lavazza Netherlands B.V.	23,216,745	99.99
Lavazza Australia OCS Pty Ltd	Hawthorn,	1,849,568	1,868,898	19,330	Lavazza Australia Pty Ltd	1,849,568	100
Merrild Baltics SIA	Riga	2,828	1,270,763	215,944	Merrild Kaffe ApS	2,497,962	100
Lavazza Professional France	Roissy CDG	270,750	(2,195,952)	(1,436,811)	LPH EU	2,188,037	100
Lavazza Professional Germany	Verden	50,000	9,605,823	30,636	LPH EU	81,208,088	100
Lavazza Professional UK	Basingstoke	38,102,692	22,716,958	(15,385,733)	LPH EU	59,414,221	100
Lavazza Professional NA	West Chester	n.d.	28,926,734	-	LPH NA	432,583,872	100
Lavazza Professional Japan	Tokyo	8	(3,013)	-	LPH NA	8	100

(*) The figures reported are those included in the reporting package at 31 December 2018, as the company closes its financial year at 31 March.

Receivables

They consist of:

	31.12.2018	31.12.2017	Changes
Receivables from subsidiaries	334,804,152	25,775,336	309,028,816
Other receivables	949,167	851,908	97,259
Total	335,753,319	26,627,244	309,126,075

Receivables from subsidiaries include:

- the financial receivable from Lavazza Australia OCS Pty Ltd for the AUD 13,000,000 loan granted in June and bearing interest at a fixed rate of 5.45% per annum;
- the long-term financial receivable from Lavazza Professional Holding Europe for the €83,307,911 loan granted in December, bearing interest at a floating rate benchmarked on the one-year Euribor;
- the long-term financial receivable from Lavazza Professional Holding North America for the USD 250,000,000 loan granted in December, bearing interest at a rate consistent with the applicable federal rates published by the IRS (Internal Revenue Service) in the US, in accordance with the Internal Revenue Code, Section 482.

The item “other receivables” consists of security deposits (€390,220) and financial receivables from Connect Ventures One LP (€558,947), a company that invests in European Web business start-ups.

Contents

Company Officers and Group Structure

Directors' Single Report on Operations

LAVAZZA GROUP — CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Consolidated Statement of Financial Position
 - Consolidated Statement of Profit or Loss
 - Consolidated Statement of Comprehensive Income
 - Consolidated Statement of Cash Flows
 - Consolidated Statement of Changes in Equity

Notes to the Consolidated Financial Statements

Independent Auditors' Report

LUIGI LAVAZZA S.P.A. — FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Balance Sheet
 - Statement of Profit or Loss
 - Statement of Cash Flows

Notes to the Financial Statements

Statutory Auditors' Report

Independent Auditors' Report

ABSTRACT 2018

Non-current derivative assets

The Company is exposed to fluctuations in foreign exchange rates, in particular in respect of the purchase of green coffee denominated in USD and sales in countries with currencies other than the Euro. In order to reduce the impact of changes in exchange rates on expected cash flows, in accordance with its risk management policy the Company has recourse to derivatives solely for hedging purposes. The item includes the positive change in the fair value of outstanding derivatives at 31 December 2018 with a duration in excess of 12 months, contracted in order to hedge against foreign exchange and commodities risk.

Non-current derivative assets

Notional value	Financial risk of underlying asset	Fair value	Hedged asset/liability
2,842,978	Exchange rate risk	87,265	Sales
7,536,100	Commodity risk	210,026	Purchase of green coffee
Total		297,291	

	31.12.2018	31.12.2017	Change
Derivatives to hedge exchange-rate risk	87,265	22,396	64,869
Derivatives to hedge commodity risk	210,026	0	210,026
Derivatives to hedge interest-rate risk	0	382,277	(382,277)
Total	297,291	404,673	(107,382)

Information on fair value (Article 2427-bis, paragraph 1, No. 2)

The following statement compares the carrying values and fair value of long-term financial assets other than investments in subsidiaries and associates and the reasons why it was decided to maintain the original carrying amount.

Financial assets	Carrying value	Fair value
Investments in other companies		
INV A.G. S.r.L.	7,287,658	9,083,669
Other	32,223	32,223
Total investments in other companies	7,319,881	9,115,892
Other receivables		
Financial receivables from subsidiaries	334,804,152	334,804,152
Guarantee deposits	390,220	390,220
Receivables from Connect Ventures One LP	558,947	1,135,906
Total other receivables	335,753,319	336,330,278

Current assets

Inventories

	31.12.2018	31.12.2017	Changes
Raw materials, ancillaries and consumables	168,175,813	188,041,278	(19,865,465)
Accumulated depreciation of raw materials, ancillaries and consumables	(1,340,477)	(1,150,000)	(190,477)
Raw materials, ancillaries and consumables (net value)	166,835,336	186,891,278	(20,055,942)
Work-in process and semi-finished products	1,835,585	2,440,977	(605,392)
Accumulated depreciation of work-in-process and semi-finished goods	(400,000)	(100,000)	(300,000)
Work-in-process and semi-finished goods (net value)	1,435,585	2,340,977	(905,392)
Finished products and goods	99,557,724	96,953,358	2,604,366
Accumulated depreciation of finished products and goods	(12,244,492)	(13,317,476)	1,072,984
Finished products and goods (net value)	87,313,232	83,635,882	3,677,350
Total	255,584,153	272,868,137	(17,283,984)
Advance payments	619,139	1,260,680	(641,541)
Overall total	256,203,292	274,128,817	(17,925,525)

Inventories of raw materials at 31 December 2018 decreased with regard to green coffee, in terms of both quantity (by approximately 300 tons) and value (by approximately €24.3 million), thanks to lower purchasing costs during the year. Inventories of packaging materials increased by approximately €4.3 million due to both greater quantities and a change in the mix of qualities purchased.

Inventories at 31 December 2018 were recognised net of an inventory write-down provision totalling €13,984,969, which accounts for obsolescence and slow turnover, primarily relating to vending systems and spare parts, advertising materials and plant spares. During the year, the inventory write-down provision decreased by €9,224,148 due to disposal and scrapping of assets, against increases of €8,641,641.

Contents

Company Officers and Group Structure

Directors' Single Report on Operations

LAVAZZA GROUP — CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Consolidated Statement of Financial Position
 - Consolidated Statement of Profit or Loss
 - Consolidated Statement of Comprehensive Income
 - Consolidated Statement of Cash Flows
 - Consolidated Statement of Changes in Equity

Notes to the Consolidated Financial Statements

Independent Auditors' Report

LUIGI LAVAZZA S.P.A. — FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Balance Sheet
 - Statement of Profit or Loss
 - Statement of Cash Flows

Notes to the Financial Statements

Statutory Auditors' Report

Independent Auditors' Report

ABSTRACT 2018

Receivables

The following tables show movements of receivables and their adjustments during the year and the balance at 31 December 2018:

	Original cost 31.12.2017	Increases (decreases)	Original cost 31.12.2018	Write-down provisions 31.12.2017	Provisions	Uses	Write-down provisions 31.12.2018	Expected realisable value 31.12.2018
Trade receivables	149,651,142	(6,443,456)	143,207,686	4,860,942	1,539,921	1,914,185	4,486,678	138,721,008
from subsidiaries	201,999,718	30,808,469	232,808,187	0	0	0	0	232,808,187
from parent companies	39,304,013	(20,600,571)	18,703,442	0	0	0	0	18,703,442
Tax receivables	25,147,122	(2,247,724)	22,899,398	0	0	0	0	22,899,398
Deferred tax assets	16,507,738	16,574,663	33,082,401	0	0	0	0	33,082,401
Other receivables	18,035,246	(9,954,824)	8,080,422	0	0	0	0	8,080,422
Total	450,644,979	8,136,557	458,781,536	4,860,942	1,539,921	1,914,185	4,486,678	454,294,858

All receivables at 31 December 2018 are due within the next financial year.

An adjustment provision totalling €4,486,678 was made, as it was considered adequate to adjust the nominal value of trade receivables to their expected realisable value.

The following table shows receivables included in current assets, broken down by geographical area:

	Italy	Other EU countries	Other European countries	Americas	Australia	Other continents	Total
Trade receivables	93,701,567	25,489,372	10,715,063	3,680,612	30,134	5,104,260	138,721,008
Receivables from subsidiaries	9,493,205	184,131,897	0	25,662,203	9,745,215	3,775,667	232,808,187
Receivables from parent companies	18,703,442	0	0	0	0	0	18,703,442
Tax receivables	22,899,398	0	0	0	0	0	22,899,398
Deferred tax assets	33,082,401	0	0	0	0	0	33,082,401
Other receivables	5,043,184	1,381,128	113,224	228,837	1,208,988	105,061	8,080,422
Total	182,923,197	211,002,397	10,828,287	29,571,652	10,984,337	8,984,988	454,294,858

Receivables from subsidiaries refer to the following companies:

	31.12.2018	31.12.2017	Changes
Trade receivables			
Direct subsidiaries			
Lavazza Australia Pty Ltd	8,609,927	1,722,543	6,887,384
Lavazza Argentina S.A.	1,002,419	541,885	460,534
Lavazza do Brasil Ltda	1,569,649	920,705	648,944
Lavazza Capital S.r.L.	148,800	48,800	100,000
Lavazza Coffee (UK) Ltd	20,718,236	21,949,825	(1,231,589)
Lavazza Deutschland G.m.b.H.	43,039,597	40,600,097	2,439,500
Lavazza France S.a.s.	8,529,309	7,762,637	766,672
Lavazza Kaffee G.m.b.H.	4,392,419	4,652,104	(259,685)
Lavazza Netherlands B.V.	18,747	19,668	(921)
Lavazza Sweden AB	3,230,588	3,398,767	(168,179)
Lavazza Premium Coffees Corp.	25,590,995	19,780,484	5,810,511
Lavazza Professional Holding EU	6,116	0	6,116
Lavazza Spagna S.L.	22,913	100,435	(77,522)
Merrild Kaffe ApS	4,085,730	11,685,041	(7,599,311)
Merrild Baltics SIA	13,858	0	13,858
Carte Noire S.a.s	90,566,361	71,458,431	19,107,930
Kicking Horse Coffee Co. Ltd	71,208	0	71,208
Cofincaf S.p.A.	53,234	78,622	(25,388)
Lavazza Eventi S.r.L.	191,876	0	191,876
Lea S.r.L.	137,283	42,308	94,975
Nims S.p.A.	8,817,504	9,095,626	(278,122)
Espresso Service Proximité S.A.	9,292,480	6,198,227	3,094,253
Indirect subsidiaries			
Carte Noire Operations S.a.s	115,796	120,042	(4,246)
Fresh & Honest Café Ltd.	1,203,599	1,359,017	(155,418)
Lavazza Australia OCS Pty Ltd	662,711	0	662,711
Total trade receivables	232,091,355	201,535,264	30,556,091
Financial receivables			
Cofincaf S.p.A.	138,362	67,427	70,935
Lea S.r.L.	30	0	30
Lavazza Australia Pty Ltd	275,475	291,164	(15,689)
Lavazza Australia OCS Pty Ltd	197,102	0	197,102
Carte Noire Operations S.a.s	105,863	105,863	0
Total financial receivables	716,832	464,454	252,378
Total receivables from subsidiaries	232,808,187	201,999,718	30,808,469

Contents

Company Officers and Group Structure

Directors' Single Report on Operations

LAVAZZA GROUP — CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Consolidated Statement of Financial Position
 - Consolidated Statement of Profit or Loss
 - Consolidated Statement of Comprehensive Income
 - Consolidated Statement of Cash Flows
 - Consolidated Statement of Changes in Equity

Notes to the Consolidated Financial Statements

Independent Auditors' Report

LUIGI LAVAZZA S.P.A. — FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Balance Sheet
 - Statement of Profit or Loss
 - Statement of Cash Flows

Notes to the Financial Statements

Statutory Auditors' Report

Independent Auditors' Report

ABSTRACT 2018

Receivables of a financial nature from subsidiaries refer to the portion of the interest accrued at 31 December 2018 on loans issued to subsidiaries and carried among financial assets.

Receivables from parent companies refer to receivables from Finlav S.p.A. for IRES (company income tax) within the framework of the national tax consolidation programme and include the tax benefit for the years 2007 to 2011 of approximately €2.8 million, deriving from the introduction of Legislative Decree 201/2011 (converted by Law No. 214 of 27.12.2011), which permits IRAP (regional production tax) relating to the taxable portion of personnel and similar expenses to be deducted from IRES with effect from tax period 2007.

The significant decrease during the year refers to the accrual of the IRES tax for the period.

Tax receivables of €22,899,398 may be broken down as follows:

- VAT receivables of €19,373,958 from Italian and foreign revenue authorities in connection with direct identification for VAT purposes in the countries concerned;
- €3,525,441 receivable in connection with the capital asset investment subsidy pursuant to Article 18 of Decree-Law No. 91 of 24 June 2014, known as the "Competitiveness Decree-Law", converted, with amendments, by Law No. 116 of 7 August 2014, and by the research and development credit introduced by the 2015 Stability Law (Law No. 190-2014).

Deferred tax assets are allocated in relation to negative income components, which are deducted after they accrue. Changes, final balance and description are set out in the relevant table in the Notes on "taxes for the year".

The item "other receivables" decreased by €4,767,292 due to the reclassification to prepayments and accrued income of the sums paid to the leasing company as the upfront payment for the lease of the real-estate complex to house the Company's new headquarters, which was completed on 31 December 2018 with the delivery of the property.



Current financial assets

Derivative assets

The item includes the increase in the fair value of outstanding derivatives at 31 December 2018 with a duration of less than 12 months, contracted in order to hedge against foreign exchange and commodities risks. The following table provides a detailed description:

Current derivative assets

Notional value	Financial risk of underlying asset	Fair value	Hedged asset/liability
188,748,489	Exchange rate risk	4,893,619	Sales
46,766,323	Commodity risk	467,251	Purchase of green coffee
Total		5,360,870	

The following table summarises the movements during the year:

	31.12.2018	31.12.2017	Changes
Derivatives to hedge exchange-rate risk	4,938,619	497,402	4,441,217
Derivatives to hedge commodity risk	467,251	1,615,475	(1,148,224)
Total	5,360,870	2,112,877	3,292,993

Other securities

The item "other securities" of €10,000,000 refers to two certificates of deposit purchased from the bank Cariparma.

Cash and cash equivalents

This item consists of cash at bank and post-office accounts, as well as cash in hand and cheques held by logistic hubs, outside contractors and sales areas.

The following table provides a detailed description:

	31.12.2018	31.12.2017	Changes
Bank accounts	65,423,705	129,558,794	(64,135,089)
Current accounts for repurchase agreements	0	10,000,000	(10,000,000)
Post office accounts	435,182	41,186,805	(40,751,623)
Foreign currency accounts	26,604,538	8,587,593	18,016,945
Cash and valuables on hand	43,275	44,908	(1,633)
Total	92,506,700	189,378,100	(96,871,400)

The significant decrease of cash and cash equivalents was primarily due to the use of cash to acquire the Mars Drinks coffee business by forming the holding companies Lavazza Professional Holding NA and Lavazza Professional Holding Europe, the repayment of a portion of the bank loan and the distribution of dividends approved during the year.

Foreign currency accounts consist of USD 29,161,366 and ZAR 18,699,457 and are primarily funded by market purchases, collections of receivables from the U.S. subsidiary Lavazza Premium Coffees Corp. and collections of receivables from foreign customers.

Contents

Company Officers and Group Structure

Directors' Single Report on Operations

LAVAZZA GROUP — CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Consolidated Statement of Financial Position
 - Consolidated Statement of Profit or Loss
 - Consolidated Statement of Comprehensive Income
 - Consolidated Statement of Cash Flows
 - Consolidated Statement of Changes in Equity

Notes to the Consolidated Financial Statements

Independent Auditors' Report

LUIGI LAVAZZA S.P.A. — FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Balance Sheet
 - Statement of Profit or Loss
 - Statement of Cash Flows

Notes to the Financial Statements

Statutory Auditors' Report

Independent Auditors' Report

ABSTRACT 2018

Prepayments and accrued income

The item consists of the following:

	31.12.2018	31.12.2017	Changes
Prepayments:			
of lease contracts	23,196,616	19,869,298	3,327,318
of promotional contributions	10,669,886	5,104,591	5,565,295
of advertising expenses	9,278,297	8,319,182	959,115
of derivatives	1,986,968	751,718	1,235,250
of software leases	1,341,690	528,441	813,249
of insurance premiums	338,999	726,868	(387,869)
of maintenance contracts	210,126	224,234	(14,108)
Other	554,042	309,653	244,389
Total prepayments	47,576,624	35,833,985	11,742,639
Total prepayments and accrued income	47,576,624	35,833,985	11,742,639

The item “lease contracts” under “prepayments” refers to the residual share of the upfront payment made upon entering into the finance lease arrangement for the real-estate complex divided into various lots, which are to house office and commercial buildings, museums and parking areas, in addition to the Company’s headquarters. This finance lease is taken to the statement of profit or loss on an accrual basis over the 18-year term of the lease.

The item “promotional contributions” under “prepayments” primarily refers to the share of contributions towards promotional investments set to accrue in future years, paid in advance by commercial partners for the promotion and Lavazza-branding of the machines of the Office Coffee System and Food Service sectors.

The item “advertising expenses” under “prepayments” refers primarily to the portion not accrued during the year of advance payments made to customers in the Food Service sector for the sponsorship of Lavazza products in the points of sale. Such costs will be recognised in the statement of profit or loss on a pro-rated basis over the duration of the contract.

The item “accrued derivative premium income” refers to the negative change reported by forward points on the derivative contracts hedging against foreign exchange and commodity risks as at 31 December 2018 (the difference between the spot rate on the date of execution of the contract and the contractual forward rate).

The amounts in question will be fully recognised in the statement of profit or loss when the hedged costs are recognised.

Negative change in time value of derivatives

Notional value	Financial risk of underlying asset	Change in time value	Hedged asset/liability
11,231,320	Exchange rate risk	35,763	Sales
752,688	Exchange rate risk	16,042	Sales
45,338,305	Commodity risk	1,935,163	Purchase of green coffee
Total		1,986,968	

Prepayments on negative change in time value of derivatives

	31.12.2018	31.12.2017	Changes
Forward points based on spot exchange rate	35,763	2,784	32,979
Time value of options on exchange rates	16,042	136,455	(120,413)
Time value of options on commodities	1,935,163	612,480	1,322,683
Total	1,986,968	751,718	1,235,250

Balance Sheet – Equity and Liabilities

Equity

Share capital

Share capital amounts to 25,000,000 shares with a value of €1 each.

Revaluation reserves

Revaluation reserves are detailed as follows (euro):

	31.12.2018
Re. Law 576/75 *	28,033
Re. Law 72/83**	267,518
Re. Law 408/90	25,096,319
Re. Law 413/91	5,680,818
Re. Law 342/2000 ***	103,048,413
Re. Law 448/2001	5,100,000
Re. Law 350/2003 ****	93,900,327
Re. Law 266/2005	70,400,000
Re. Law 185/2008	58,200,000
Total revaluation reserves	361,721,428

* Due to the merger of Luca S.r.l.

** Due to the merger of Manifattura Rosy S.r.l. (€198,836) and Luca S.r.l. (€68,682).

*** Due to the merger of Mokapak S.r.l. (€5,111,146).

**** Due to the merger of Mokadec S.r.l. (€2,729,700) and Mokapak S.r.l. (€8,813,610).

No allocations of the related deferred taxes were made to revaluation reserves and other reserves pending taxes, since to date they are not expected to be distributed.

Contents

Company Officers and Group Structure

Directors' Single Report on Operations

LAVAZZA GROUP — CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Consolidated Statement of Financial Position
 - Consolidated Statement of Profit or Loss
 - Consolidated Statement of Comprehensive Income
 - Consolidated Statement of Cash Flows
 - Consolidated Statement of Changes in Equity

Notes to the Consolidated Financial Statements

Independent Auditors' Report

LUIGI LAVAZZA S.P.A. — FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Balance Sheet
 - Statement of Profit or Loss
 - Statement of Cash Flows

Notes to the Financial Statements

Statutory Auditors' Report

Independent Auditors' Report

ABSTRACT 2018

In compliance with the provisions of Article 2427 (7-*bis*) of the Italian Civil Code, a description of the type, possible uses, and portion available for distribution is set out in the table below for each reserve.

Nature/description	Amount	Possible use	Amount available for distribution
Capital	25,000,000		0
Capital reserves			
Share premium account	223,523	A B C	223,523
Revaluation reserve	361,721,428	A B C	361,721,428
Reserve from profits			
Legal reserve	5,000,000	B	5,000,000
Extraordinary reserve	203,611,325	A B C	203,611,325
Reserve Re. Art. 18 Presidential Decree 675/1977	16,892	A B C	16,892
Reserve Re. Art. 55 Law 526/82	86,235	A B C	86,235
Reserve Re. Law 130/83	162,463	A B C	162,463
Reserve Re. Law 46/82	90,785	A B C	90,785
Reserve Re. Law 488/92	380,808	A B C	380,808
Reserve Re. Art. 55 Presidential Decree 917/86	212,481	A B C	212,481
Reserve arising on exchange gains	0	B	0
Merger surplus reserve	56,953,074	A B C	56,953,074
Retained earnings	1,416,449,786	A B C	1,416,449,786
Negative reserve for treasury shares	(17,732,533)	n.a.	(17,732,533)
Hedge reserve for expected cash flows	(14,854,660)	n.a.	(14,854,660)
Total	2,037,321,607		2,012,321,607
Amount not available for distribution***			9,813,294
Amount available for distribution			2,002,508,313

Legend:
A: for capital increase
B: for loss coverage
C: for distribution to shareholders
*** Equal to the legal reserve, the reserve arising from exchange gains and the share of development costs still to be amortised.

The changes in the amounts of equity items are described in the attached "Statement of Changes in Equity".

Negative reserve for treasury shares

In accordance with Legislative Decree of 18 August 2015, implementing Directive 34/2013/EU, amending Article 2357-*ter* of the Italian Civil Code, in these financial statements the value of treasury shares in portfolio was recognised to a specific negative equity reserve. Treasury shares in portfolio amounted to 2,499,998 ordinary shares, with a nominal value of €1 each, accounting for approximately 10% of share capital. No other Lavazza Group company owns Luigi Lavazza S.p.A. shares.

Hedge reserve for expected cash flows

This reserve refers to changes in the fair value of the effective component of derivatives hedging cash flows.

The following table summarises the changes during the year, which it has been decided not to present in the financial statements:

	01.01.2017	Increases for fair value changes	Decreases for fair value changes	Deferred tax liabilities	Deferred tax assets	31.12.2017	Increases for fair value changes	Decreases for fair value changes	Deferred tax liabilities	Deferred tax assets	31.12.2018
Derivatives to hedge exchange-rate risk	3,948,109	(2,269,854)	(5,194,881)	(2,961,988)	4,842,048	(1,636,566)	4,388,734	(85,425)	(1,200,623)	2,269,855	3,735,975
Derivatives to hedge commodity risk	0	(28,140)	0	0	7,851	(20,289)	(31,191,062)	7,359,817	0	6,656,841	(17,194,693)
Derivatives to hedge interest rate risks	(1,178,179)	(631,212)	1,550,235	(372,057)	151,491	(479,722)	(1,868,156)	463,273	0	488,663	(1,395,942)
Total	2,769,930	(2,929,206)	(3,644,646)	(3,334,045)	5,001,390	(2,136,577)	(28,670,484)	7,737,665	(1,200,623)	9,415,359	(14,854,660)

At 31 December 2018, €14,854,660 of greater hedging costs that will have an impact in 2019 remained suspended in equity. These costs primarily relate to commodity hedging, partially offset by the proceeds of foreign exchange hedging.

Contents

Company Officers and Group Structure

Directors' Single Report on Operations

LAVAZZA GROUP — CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Consolidated Statement of Financial Position
 - Consolidated Statement of Profit or Loss
 - Consolidated Statement of Comprehensive Income
 - Consolidated Statement of Cash Flows
 - Consolidated Statement of Changes in Equity

Notes to the Consolidated Financial Statements

Independent Auditors' Report

LUIGI LAVAZZA S.P.A. — FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Balance Sheet
 - Statement of Profit or Loss
 - Statement of Cash Flows

Notes to the Financial Statements

Statutory Auditors' Report

Independent Auditors' Report

ABSTRACT 2018

Statement of changes in equity

	Share capital	Share premium account	Revaluation reserve	Legal reserve	Other reserves	Hedge reserve for expected cash flows	Retained earnings	Profit (loss) for the year	Negative reserve for treasury shares	Total
Balance at 31.12.2016	25,000,000	223,523	361,721,428	5,000,000	261,102,223	2,769,930	1,388,654,046	88,181,692	(17,732,533)	2,114,920,309
Allocation of profit for the year:										
-dividend allocation (€1.20 per share)								(27,000,002)		(27,000,002)
-other allocations										0
Other changes										0
-increases					411,841	(2,136,575)	60,769,849	44,200,897		103,246,012
-decreases						(2,769,929)		(61,181,690)		(63,951,619)
-reclassification										0
Result for the previous year										0
Balance at 31 December 2017	25,000,000	223,523	361,721,428	5,000,000	261,514,064	(2,136,574)	1,449,423,895	44,200,897	(17,732,533)	2,127,214,700
Allocation of profit for the year:										
-dividend allocation (€1.20 per share)								(27,000,002)		(27,000,002)
-other allocations										0
Other changes										0
-increases						(12,718,086)	17,200,895	57,786,500		62,269,308
-decreases							(50,175,004)	(17,200,895)		(67,375,899)
-reclassification										0
Result for the previous year										0
Balance at 31 December 2018	25,000,000	223,523	361,721,428	5,000,000	261,514,064	(14,854,660)	1,416,449,786	57,786,500	(17,732,533)	2,095,108,107

During the year, the retained earnings reserve increased due to the undistributed share of the profit from the previous year of €17,200,895 and decreased as a result of the distribution of an extraordinary dividend of €50,175,004.

Contents

Company Officers and Group Structure

Directors' Single Report on Operations

LAVAZZA GROUP — CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Consolidated Statement of Financial Position
 - Consolidated Statement of Profit or Loss
 - Consolidated Statement of Comprehensive Income
 - Consolidated Statement of Cash Flows
 - Consolidated Statement of Changes in Equity

Notes to the Consolidated Financial Statements

Independent Auditors' Report

LUIGI LAVAZZA S.P.A. — FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Balance Sheet
 - Statement of Profit or Loss
 - Statement of Cash Flows

Notes to the Financial Statements

Statutory Auditors' Report

Independent Auditors' Report

ABSTRACT 2018

Provisions for risks and charges

The following table provides the breakdown and movements of provisions for risks and charges:

	31.12.2017	Effect of hedging derivatives	Releases	Provision for the year	Uses-releases during the year	31.12.2018
Provisions for taxes, including deferred						
Provision for taxes	560,000	0	0	694,931	(254,931)	1,000,000
Provision for deferred tax liabilities	274,128	0	0	1,200,623	(21,614)	1,453,137
Total provisions for taxes, including deferred	834,128	0	0	1,895,554	(276,545)	2,453,137
Other provisions						
for legal issues	4,524,675	0	0	22,769,833	(596,508)	26,698,000
for guarantees and endorsements	1,311,355	0	0	3,692,992	(160,337)	4,844,010
for agents' customer compensation	2,806,390	0	(29,386)	400,829	(219,018)	2,958,815
for future risks and charges	0	0	0	74,675	0	74,675
for sundry personnel costs	13,756,189	0	(703,636)	13,042,124	(5,302,553)	20,792,124
for restructuring	757,799	0	0	2,100,000	(757,799)	2,100,000
financial derivatives liabilities	5,177,801	6,045,290	0		0	11,223,091
Total other provisions	28,334,209	6,045,290	(733,022)	42,080,453	(7,036,215)	68,690,715
Total provisions for risks and charges	29,168,337	6,045,290	(733,022)	43,976,007	(7,312,760)	71,143,852

The provision for taxes decreased during the year due to the payment of €254,931 as a result of the finalisation of the application for a negotiated settlement of claims falling within the scope of application of Article 1, paragraph 4, of Legislative Decree 148/2017.

The increase of €694,931 was due to the service of assessment notices relating to the years 2013 and 2014 in December 2018, which brought the year-end balance of the provision to €1,000,000.

The item "provision for deferred taxes" is broken down in a specific table included in the Notes on "taxes for the year".

The provision for litigation was recognised to account for risks relating to legal or contractual obligations associated with situations that already existed at the reporting date, but that were characterised by a state of uncertainty and the outcome of which depends on the occurrence of one or more future events. The increase for the year mainly refers to provisions for contingent risks from the change in the product distribution model of the Company on the national and international markets.

The item "provision for guarantees and endorsements" has been established to account for possible future losses on loans granted by the subsidiary Cofincaf S.p.A. to vending and Ho.Re.Ca. operators.

The item "provision for supplementary agents' customer compensation", created for agent members of Enasarco (National Board for the Assistance to Commercial Agents and Representatives) in the event of retirement or interruption of contract due to principal, was adjusted.

At 31 December 2018, the "provision for sundry personnel costs" included the accruals and uses for employee bonuses and incentives.

The item "provision for restructuring", associated with the process of reorganising and rationalising the Lavazza production system, was adjusted during the year and was partially drawn down to cover the costs associated with the disposal of the Verrès production facility; the allowance for the year refers to estimated costs for the reorganisation of the Gattinara production facility.

Financial derivative liabilities

The item includes the decrease in the fair values of the derivatives outstanding as at 31 December 2018. The following table provides a detailed description:

	Notional value	Financial risk of underlying asset	Fair value	Hedged asset/liability
Current derivative liabilities				
on exchange rates	72,936,927	Exchange rate risk	414,157	Purchase of green coffee
	346,380	Exchange rate risk	397	Sales
on commodities	120,732,463	Commodity risk	7,475,317	Purchase of green coffee
Total			7,889,871	
Non-current derivative liabilities				
on exchange rates	2,365,268	Exchange rate risk	29,300	Sales
on commodities	756,089	Commodity risk	52,555	Purchase of green coffee
on interest rates	800,000,000	Interest rate risk	3,251,365	Financing
Total			3,333,220	
Total			11,223,091	

The Company is exposed to fluctuations in foreign exchange rates, in particular with regard to the purchase of green coffee denominated in USD and sales in countries with currencies other than the Euro. In order to reduce the impact of changes in foreign exchange rates on expected cash flows, in accordance with its risk management policy the Company has recourse to derivatives for hedging purposes.

The price of green coffee is subject to considerable volatility caused by both variables relating to physical supply and demand mechanisms (harvest, stocks, consumption and logistical limitations) and speculative activity on the exchanges.

In order to limit the impact of fluctuations in coffee prices, the Company adopts procurement policies aimed at reducing price variations, while also engaging in hedging through derivatives, in accordance with its risk management policy.

The option under the Company's current finance lease contract (project lease) for the real-estate complex in which it is located to transform the applicable interest rate from floating to fixed was exercised during the year.

Accordingly, the Company no longer needed to hedge the risk associated with the fluctuations of the interest expense paid on the said finance lease contract.

The Company also had recourse to derivatives (interest rate swaps) to transform the rate on the corporate loan, commented upon in the section regarding payables to banks, from floating to fixed to hedge against the risk of fluctuation in the relevant interest rates.

The following table shows the movements in the year:

	31.12.2018	31.12.2017	Changes
Current derivative liabilities			
Derivatives to hedge exchange-rate risk	414,554	2,753,432	(2,338,878)
Derivatives to hedge commodity risk	7,475,317	709,518	6,765,799
Non-current derivative liabilities			
Derivatives to hedge exchange-rate risk	29,300	22,666	6,634
Derivatives to hedge commodity risk	52,555	0	52,555
Derivatives to hedge interest-rate risk	3,251,365	1,692,185	1,559,180
Total	11,223,091	5,177,801	6,045,290

Contents

Company Officers and Group Structure

Directors' Single Report on Operations

LAVAZZA GROUP — CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Consolidated Statement of Financial Position
 - Consolidated Statement of Profit or Loss
 - Consolidated Statement of Comprehensive Income
 - Consolidated Statement of Cash Flows
 - Consolidated Statement of Changes in Equity

Notes to the Consolidated Financial Statements

Independent Auditors' Report

LUIGI LAVAZZA S.P.A. — FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Balance Sheet
 - Statement of Profit or Loss
 - Statement of Cash Flows

Notes to the Financial Statements

Statutory Auditors' Report

Independent Auditors' Report

ABSTRACT 2018

Employee termination indemnities

Movements in employee termination indemnities during the year were as follows:

Balance at 31.12.2017, net of tax advances pursuant to Law 662/96	15,233,002
Indemnities paid out during the year	(482,218)
Advance payments	(327,653)
Provision for the year	284,706
Balance at 31 December 2018	14,707,837

Employee termination indemnities at 31 December 2018 reflected accrued indemnities due to employees until the date they choose a supplemental pension scheme. This amount will be eliminated with the payments that will take place when employment relationships terminate or in case of any advances made as per law.

In compliance with Legislative Decree 124/93 and subsequent company agreements, €2,762,651 were allocated to the following bodies for financing supplemental pension schemes.

Alifond	Euro	1,462,662
Fon.te.	Euro	279,020
Previndai	Euro	984,969

Liabilities

Liabilities at 31 December 2018 were broken down as follows:

	31.12.2018	31.12.2017	Changes
Payables to banks			
- due within one year	100,537,544	75,000,000	25,537,544
- due after one year	588,038,415	289,000,846	299,037,569
Advance payments	2,369,634	1,681,120	688,514
Trade payables	234,568,294	223,973,698	10,594,596
Payables to subsidiaries	9,834,767	13,627,389	(3,792,622)
Tax payables	25,868,052	13,809,995	12,058,057
Social security liabilities	4,904,526	5,419,568	(515,042)
Other liabilities	43,497,913	41,525,005	1,972,908
Total	1,009,619,145	664,037,621	345,581,524

The item “payables to banks”

- decreased by €75 million as a result of the partial repayment of a corporate 5-year loan contracted in 2016 (maturing in 2021), for an initial amount of €400 million, from a pool of four banks (club deal) at a floating rate (six-month Euribor), subsequently converted at a fixed rate through an interest-rate swap transaction;
- it increased as a result of the subscription of a 5-year corporate loan contracted in 2018, for an initial amount of €400 million, from a pool of three banks (club deal), at a floating rate (six-month Euribor), with repayment set to begin in 2021. The loan was then converted to fixed rate through an interest rate swap.

The following table provides a breakdown by geographical area:

	Italy	Other EU countries	Other European countries	Americas	Australia	Other continents	Total
Payables to banks	688,575,959	0	0	0	0	0	688,575,959
Advance payments	19,025	1,234,224	3,870	10,845	449	1,101,221	2,369,634
Trade payables	183,185,758	34,822,414	9,955,586	1,201,304	0	5,403,231	234,568,294
Payables to subsidiaries	2,110,795	5,703,293	0	786,409	459,915	774,355	9,834,767
Tax payables	25,868,052	0	0	0	0	0	25,868,052
Social security liabilities	4,904,526	0	0	0	0	0	4,904,526
Other liabilities	34,671,824	4,079,387	4,441,731	0	0	304,971	43,497,913
Total	939,335,939	45,839,318	14,401,187	1,998,558	460,364	7,583,778	1,009,619,145



Contents

Company Officers and Group Structure

Directors' Single Report on Operations

LAVAZZA GROUP — CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Consolidated Statement of Financial Position
 - Consolidated Statement of Profit or Loss
 - Consolidated Statement of Comprehensive Income
 - Consolidated Statement of Cash Flows
 - Consolidated Statement of Changes in Equity

Notes to the Consolidated Financial Statements

Independent Auditors' Report

LUIGI LAVAZZA S.P.A. — FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Balance Sheet
 - Statement of Profit or Loss
 - Statement of Cash Flows

Notes to the Financial Statements

Statutory Auditors' Report

Independent Auditors' Report

The following table provides a breakdown of payables to subsidiaries:

	31.12.2018	31.12.2017	Changes
Trade payables			
Direct subsidiaries			
Lavazza Australia Pty Ltd	459,915	0	459,915
Lavazza do Brasil Ltda	40,617	11,369	29,248
Lavazza Coffee (UK) Ltd	128,484	511,041	(382,557)
Lavazza Deutschland G.m.b.H.	83,482	88,786	(5,304)
Lavazza France S.a.s.	25,731	35,530	(9,799)
Lavazza Maroc S.a.r.l.	35,620	71,054	(35,434)
Lavazza Netherlands B.V.	85,482	331,410	(245,928)
Lavazza Kaffee G.m.b.H.	2,242	83,815	(81,573)
Lavazza Premium Coffees Corp.	603,913	2,296,538	(1,692,625)
Lavazza Spagna S.L.	394,016	407,420	(13,404)
Lavazza Sweden AB	16,747	0	16,747
Lavazza Trading (Shenzhen) Co. Ltd	603,526	550,733	52,793
Cofincaf S.p.A.	241,145	121,651	119,494
Lea S.r.l.	32,409	15,207	17,202
Carte Noire S.a.s.	467,584	294,149	173,435
Merrild Kaffe ApS	948,183	373,352	574,831
Kicking Horse Coffee Co. Ltd	141,879	0	141,879
Lavazza Eventi S.r.l.	514,876	0	514,876
Nims S.p.A.	0	3,269,934	(3,269,934)
Espresso Service Proximité S.A.	0	512,381	(512,381)
Indirect subsidiaries			
Carte Noire Operations S.a.s.	3,551,342	3,940,780	(389,438)
Fresh & Honest Café Ltd.	135,209	109,011	26,198
Merrild Baltics SIA	0	379,594	(379,594)
Total trade payables	8,512,402	13,403,755	(4,891,353)
Financial payables			
Cofincaf S.p.A.	59,873	5,288	54,585
Lea S.r.l.	360,763	218,346	142,417
Lavazza Eventi S.r.l.	901,729	0	901,729
Total financial payables	1,322,365	223,634	1,098,731
Total payables to subsidiaries	9,834,767	13,627,389	(3,792,622)

Tax payables consist of the following:

	31.12.2018	31.12.2017	Changes
VAT payables	20,593,191	10,543,579	10,049,612
Income tax to be paid as withholding agents	2,958,693	3,071,186	(112,493)
IRAP (regional production tax)	2,244,196	0	2,244,196
Other taxes	71,972	195,230	(123,258)
Total	25,868,052	13,809,995	12,058,057

The item “other liabilities” consists of the following:

	31.12.2018	31.12.2017	Changes
Trade discounts payables	20,067,887	20,375,307	(307,420)
Payables to personnel	12,390,058	10,721,475	1,668,583
Sureties received from third parties	381,523	174,560	206,963
Sundry trade payables	326,633	0	326,633
Other	10,331,812	10,253,663	78,149
Total	43,497,913	41,525,005	1,972,908

The item “trade discounts payables” refers to credit notes to be issued to customers who reached the contractually established volume or sales targets during the year. Payables to employees relate to the balance of unused holiday and other leave accrued during the year and production bonuses, partly included in the company welfare programme.

“Other liabilities” include €9,978,538 attributable to the amount retained under the purchase agreement for the shares of the company Nims S.p.A., which will be paid to the counterparty in 2020.

Contents

Company Officers and Group Structure

Directors' Single Report on Operations

LAVAZZA GROUP — CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Consolidated Statement of Financial Position
 - Consolidated Statement of Profit or Loss
 - Consolidated Statement of Comprehensive Income
 - Consolidated Statement of Cash Flows
 - Consolidated Statement of Changes in Equity

Notes to the Consolidated Financial Statements

Independent Auditors' Report

LUIGI LAVAZZA S.P.A. — FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Balance Sheet
 - Statement of Profit or Loss
 - Statement of Cash Flows

Notes to the Financial Statements

Statutory Auditors' Report

Independent Auditors' Report

ABSTRACT 2018

Notes to the Financial Statements 2018

Accruals and deferred income

The following table provides a breakdown of accruals and deferred income:

	31.12.2018	31.12.2017	Changes
Accruals			
Interest paid	0	450,319	(450,319)
14 th month salary	3,453,770	3,347,460	106,310
Total accruals	3,453,770	3,797,779	(344,009)
Deferred income			
Deferred income on tax relief for plants	2,472,771	3,031,165	(558,394)
On franchising entry fees	82,188	82,188	0
On derivatives	836,871	106,391	730,480
Total deferred income	3,391,830	3,219,744	172,086
Total accruals and deferred income	6,845,600	7,017,523	(171,923)

The item “deferred income on tax relief for plants” refers to the future share of government grants pursuant to Article 1, paragraph 35, of Law 190/2014 (Research & Development Bonus) and Legislative Decree 91/2014, Ateco 28, which has been accounted for according to the indirect method, spread over the useful lives of the plants to which the relief applies.

The item “deferred income on derivatives” refers to the recognition of an increase in forward points on the derivative contracts hedging against foreign exchange risk as at 31 December 2018 (the difference between the spot rate on the date of execution of the contract and the contractual forward rate).

The amounts in question will be fully recognised in the statement of profit or loss when the hedged costs are recognised.

Positive change in time value of derivatives

Notional value	Financial risk of underlying asset	Change in time value	Hedged asset/liability
752,688	Exchange rate risk	13,272	Turnover
20,170,054	Exchange rate risk	823,599	Purchase of green coffee
Total		836,871	

Deferred income on positive change in time value of derivatives

	31.12.2018	31.12.2017	Changes
Time value of options on exchange rates	13,272	106,391	(93,119)
Time value of options on commodities	823,599	0	823,599
Totale	836,871	106,391	730,480



Contents

Company Officers and Group Structure

Directors' Single Report on Operations

LAVAZZA GROUP — CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Consolidated Statement of Financial Position
 - Consolidated Statement of Profit or Loss
 - Consolidated Statement of Comprehensive Income
 - Consolidated Statement of Cash Flows
 - Consolidated Statement of Changes in Equity

Notes to the Consolidated Financial Statements

Independent Auditors' Report

LUIGI LAVAZZA S.P.A. — FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Balance Sheet
 - Statement of Profit or Loss
 - Statement of Cash Flows

Notes to the Financial Statements

Statutory Auditors' Report

Independent Auditors' Report

ABSTRACT 2018

Statement of Profit or Loss

Value of production

Net revenues

Net revenues for the year were broken down as follows:

	Year 2018	Year 2017	Changes
Sales of packaged coffee	1,088,722,099	1,026,361,768	62,360,331
Sales of coffee capsules for vending systems	302,837,904	298,053,922	4,783,982
Sales of other food products	20,991,949	25,136,522	(4,144,573)
Sales of coffee machines, equipment and accessories	80,737,398	68,196,272	12,541,126
Sales of spare parts and accessories for coffee machines	6,027,035	7,086,756	(1,059,721)
Sales of advertising material	11,658,529	11,256,773	401,756
Sales of packaging	360,838	507,771	(146,933)
Sales of other products	2,689,614	4,071,072	(1,381,458)
Sales of raw material and other accessories	12,342,063	5,704,636	6,637,427
Total	1,526,367,429	1,446,375,492	79,991,937

The Directors' Report on Operations provides comments on the changes of this item.

The table below provides a breakdown of sales by geographical area:

Destination	Subsidiaries	Other customers	Total
European Union	406,539,907	158,700,505	565,240,412
Other European countries	51,642,869	59,971,864	111,614,733
USA	37,277,426	871,922	38,149,348
Rest of the world	18,009,942	49,573,030	67,582,972
Total sales abroad	513,470,145	269,117,321	782,587,466
Total sales in Italy	38,157,473	705,622,490	743,779,963
Total	551,627,618	974,739,811	1,526,367,429

Other income and revenues

The item “other income and revenues” refers to the following captions:

	Year 2018	Year 2017	Changes
Grants	3,900,734	3,714,075	186,659
Rentals	2,790,279	997,956	1,792,323
Ordinary capital gains	115,242	1,381,603	(1,266,361)
Royalties for the use of our trademarks	1,191,612	1,317,098	(125,486)
Charge-backs to Group companies	72,427,468	54,917,143	17,510,325
Income from compensation for damages	1,652,876	1,237,238	415,638
Contingent income	3,938,854	7,497,998	(3,559,144)
Other	3,471,101	2,170,691	1,300,410
Total	89,488,166	73,233,802	16,254,364

Rental income refers to payments for coffee, vending and OCS machines installed on customers' premises. Ordinary capital gains were realised on the sale of assets no longer used in the production process. Costs charged back to subsidiaries of €72,427,468 refer to promotional, transport, administrative and IT services.

The item “contingent income” refers primarily to promotional contributions recognised in previous years and found not to be due during the year.

Information required by Article 1, paragraph 125, of Law 124 of 4 August 2017

Pursuant to Article 3-*quarter* of Legislative Decree 135/2018, for information on grants received, reference should be made to the Italian National Register of State Aid, Transparency section, which provides a complete list of grants disbursed by government entities.

Grants are identified on a cash basis. In accordance with the law, grants of less than €10 thousand per grantor have been excluded.

In addition to the information provided in the Italian National Register of State Aid, Transparency section, the following grants towards operating expenses have been recognised, together with the accrued share of capital grants the benefit of which was received in previous years:

Grants towards operating expenses

Grantor	Amount received (€)	Description
FONDIMPRESA	151,523	Training programme
FONDIRIGENTI	35,391	Training programme
---	2,710,473	R&D bonus Re. Art. 1, paragraph 35, Law 190/2014
GSE	179,906	Grants for photovoltaic systems as per Ministerial Decree of 19/2/2007 (New Energy Account)
Total	3,077,293	

Contents

Company Officers and Group Structure

Directors' Single Report on Operations

LAVAZZA GROUP — CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Consolidated Statement of Financial Position
 - Consolidated Statement of Profit or Loss
 - Consolidated Statement of Comprehensive Income
 - Consolidated Statement of Cash Flows
 - Consolidated Statement of Changes in Equity

Notes to the Consolidated Financial Statements

Independent Auditors' Report

LUIGI LAVAZZA S.P.A. — FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Balance Sheet
 - Statement of Profit or Loss
 - Statement of Cash Flows

Notes to the Financial Statements

Statutory Auditors' Report

Independent Auditors' Report

ABSTRACT 2018

Capital grants

Grantor	Amount received (€)	Description
---	405,083	R&D bonus Re. Art. 1, paragraph 35, Law 190/2014
---	418,358	Bonus for investments in new operating assets Ateco 28
Total	823,441	

Net revenues from subsidiaries and included in value of production are as follows:

	Net revenues	Other income	Total
Direct subsidiaries			
Lavazza Australia Pty Ltd	16,166,055	3,425,550	19,591,605
Lavazza Argentina S.A.	375,042	85,768	460,810
Lavazza do Brasil Ltda	1,018,832	41,723	1,060,555
Lavazza Coffee (U.K.) Ltd.	51,642,869	9,092,377	60,735,246
Lavazza Deutschland G.m.b.H.	85,079,458	14,791,553	99,871,011
Lavazza France S.a.s.	22,991,494	1,259,513	24,251,007
Lavazza Kaffee G.m.b.H.	8,227,855	1,594,884	9,822,739
Lavazza Netherlands B.V.	0	18,747	18,747
Lavazza Sweden AB	6,089,456	912,481	7,001,937
Lavazza Premium Coffees Corp.	37,277,426	17,339,103	54,616,529
Lavazza Spagna S.L.	0	22,913	22,913
Merrild Kaffe ApS	31,138,959	1,835,297	32,974,256
Merrild Baltics SIA	0	13,858	13,858
Cofincaf S.p.A.	4,771	78,786	83,557
Lea S.r.l.	54,067	119,247	173,314
Lavazza Eventi S.r.l.	99,559	138,757	238,316
Lavazza Professional Holding EU	0	5,013	5,013
Lavazza Capital S.r.l.	0	140,000	140,000
Nims S.p.A.	37,999,076	826,229	38,825,305
Espresso Service Proximité S.A.	24,685,680	0	24,685,680
Carte Noire S.a.s.	228,327,006	21,130,368	249,457,374
Kicking Horse Coffee Co. Ltd	0	71,209	71,209
Indirect subsidiaries			
Fresh & Honest Café Ltd.	450,013	32,776	482,789
Carte Noire Operations S.a.s.	0	400,904	400,904
Lavazza Australia OCS Pty Ltd	1,522,015	224,681	1,746,696
Total	553,149,633	73,601,737	626,751,370

Costs of production

Raw materials, ancillaries, consumables and goods

Purchases for the year were broken down as follows:

	Year 2018	Year 2017	Changes
Raw materials	606,786,631	651,312,090	(44,525,459)
Goods	138,822,828	90,457,874	48,364,954
Miscellaneous ancillary material	5,934,070	22,940,288	(17,006,218)
Total	751,543,529	764,710,252	(13,166,723)

The decrease in the cost of raw materials was mainly related to the decline in the market price of green coffee.

Costs of services

The main costs of services were as follows:

	Year 2018	Year 2017	Changes
Commercial and sales costs	333,030,580	305,067,623	27,962,957
Ancillary purchasing and production costs	114,612,417	110,169,262	4,443,155
Other	65,940,636	58,394,323	7,546,313
Total	513,583,633	473,631,208	39,952,425

The increase in commercial and selling costs was mainly attributable to greater outlays in promotional activities for the year and marketing advisory services.

Ancillary purchasing and production costs increased due to industrial utilities, maintenance and greater rental and transport expenses.

The item "other lesser items" increased as an effect of advisory service related to extraordinary transactions undertaken during the year.

Remuneration to Directors and Statutory Auditors for their activities during the year are indicated hereunder:

	Total remuneration paid
Directors' fixed remuneration	1,297,667
Statutory Auditors' fixed remuneration	167,440
Total	1,465,107

Contents

Company Officers and Group Structure

Directors' Single Report on Operations

LAVAZZA GROUP — CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Consolidated Statement of Financial Position
 - Consolidated Statement of Profit or Loss
 - Consolidated Statement of Comprehensive Income
 - Consolidated Statement of Cash Flows
 - Consolidated Statement of Changes in Equity

Notes to the Consolidated Financial Statements

Independent Auditors' Report

LUIGI LAVAZZA S.P.A. — FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Balance Sheet
 - Statement of Profit or Loss
 - Statement of Cash Flows

Notes to the Financial Statements

Statutory Auditors' Report

Independent Auditors' Report

ABSTRACT 2018

Use of third-party assets

The following table provides a detailed description (€ units):

	Year 2018	Year 2017	Changes
Lease of software and electronic equipment	6,206,637	5,342,762	863,875
Vehicle leases	3,290,120	3,448,194	(158,074)
Other leases	1,401,722	1,213,767	187,955
Property leases	7,612,179	5,390,825	2,221,354
Royalties for use of trademarks and patents	444,753	40,950	403,803
Total	18,955,411	15,436,498	3,518,913

The significant increase in property lease costs was due to the conclusion of the development lease of the entire property complex that houses the Company's headquarters, resulting in the final lease payments coming due.

Personnel expenses

Personnel expenses include wages, corresponding contributions, employee severance indemnities paid and the total cost of temporary employment.

The item “other personnel expenses” includes voluntary contributions for integrating insurance and pension schemes, one-off subsidies and gifts.

The average number of employees and total headcount at year-end, broken down by category, is set out in the table below:

Categories	Average 2018	Headcount 31.12.2018	Average 2017	Headcount 31.12.2017
Executives	101	102	89	99
Managers	84	92	71	77
Middle Managers	153	159	145	147
White collars	616	640	577	592
Travelling personnel	165	163	168	167
Blue collars	523	515	533	531
Total	1,642	1,671	1,583	1,613

Amortisation, depreciation and write-downs

The breakdown in the sub-items has already been reported in the statement of profit or loss; see the comments on the relevant item included in the balance sheet.

Provisions for risks and other provisions

These refer to the following items:

	Year 2018	Year 2017	Changes
Provisions for risks			
for litigation	22,540,000	3,506,321	19,033,679
for restructuring	1,200,000	0	1,200,000
for future risks and charges	74,675	0	74,675
for HR litigation	229,833	0	229,833
Total provisions for risks	24,044,508	3,506,321	20,538,187
Other provisions			
for loans and guarantees	3,692,993	14,376	3,678,617
Total other provisions	3,692,993	14,376	3,678,617

Further details are given under section Provisions for Risks and Charges.

Other operating charges

The following table shows the main components:

	Year 2018	Year 2017	Changes
Miscellaneous duties and taxes	2,542,509	2,709,676	(167,167)
Association duties	660,905	704,839	(43,934)
Other gifts and advertising material	5,862,979	6,378,985	(516,006)
Capital losses	81,855	107,299	(25,444)
Social charges	6,007,079	1,871,478	4,135,601
Other	4,782,649	4,626,419	156,230
Total	19,937,976	16,398,696	3,539,280

Capital losses were entirely related to ordinary operations.

The main increase relates to the donations to recognised non-profit organisations and entities, and in particular the Giuseppe and Pericle Lavazza Foundation, founded in 2004, which promotes and executes economic, social and environmental sustainability projects for coffee-growing communities worldwide.

Contents

Company Officers and Group Structure

Directors' Single Report on Operations

LAVAZZA GROUP — CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Consolidated Statement of Financial Position
 - Consolidated Statement of Profit or Loss
 - Consolidated Statement of Comprehensive Income
 - Consolidated Statement of Cash Flows
 - Consolidated Statement of Changes in Equity

Notes to the Consolidated Financial Statements

Independent Auditors' Report

LUIGI LAVAZZA S.P.A. — FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Balance Sheet
 - Statement of Profit or Loss
 - Statement of Cash Flows

Notes to the Financial Statements

Statutory Auditors' Report

Independent Auditors' Report

ABSTRACT 2018

Production costs pertaining to subsidiaries were as follows:

	Costs for purchases	Costs for services	Costs for use of third-party assets	Costs for operating expenses	Total
Direct subsidiaries					
Lavazza Australia Pty Ltd		492,756			492,756
Lavazza do Brasil Ltda		62,060			62,060
Lavazza Coffee (UK) Ltd	27,861	308,432			336,293
Lavazza Deutschland G.m.b.H.	212,272	920			213,192
Lavazza France S.a.s.	61,947	139,613			201,560
Lavazza Kaffee G.m.b.H.	7,208				7,208
Lavazza Netherlands B.V.		174,826			174,826
Lavazza Sweden AB	16,740				16,740
Lavazza Maroc S.a.r.l.		114,909			114,909
Lavazza Premium Coffees Corp.		642,330	1,328		643,658
Lavazza Spagna S.L.		394,016			394,016
Lavazza Trading (Shenzhen) Co. Ltd		603,526			603,526
Kicking Horse Coffee Co. Ltd		141,879			141,879
Cofincaf S.p.A.	4	454,927		664,500	1,119,431
Immobiliare I.N.N.E.T. S.r.l.			58,146		58,146
Lea S.r.l.		171,911			171,911
Lavazza Eventi S.r.l.	44,205	451,782			495,987
Nirms S.p.A.					0
Merrild Kaffe ApS		1,403,988			1,403,988
Carte Noire S.a.s	1,111,016	157,698			1,268,715
Espresso Service Proximité S.A.					0
Indirect subsidiaries					
Fresh & Honest Café Ltd		33,882			33,882
Carte Noire Operations S.a.s	42,747	27,205,397			27,248,145
Merrild Baltics SIA					0
Total	1,524,001	32,954,852	59,474	664,500	35,202,827

Financial income and expense

Financial income

The following table shows the main components:

	Year 2018	Year 2017	Changes
Income from investments			
Dividends from subsidiaries	16,912,676	14,924,974	1,987,702
Capital gain from the disposal of investments in subsidiaries	0	6,214,245	(6,214,245)
Total	16,912,676	21,139,219	(4,226,543)

Dividends from subsidiaries consisted of:

- EUR	5,037,475	distributed by Lavazza Capital S.r.l.	
- EUR	3,000,000	distributed by Lavazza Deutschland G.m.b.H.	
- EUR	1,500,000	distributed by Lavazza France S.a.s.	
- EUR	6,000,000	distributed by Carte Noire S.a.s	
- GBP	1,200,000	distributed by Lavazza Coffee (UK) Ltd	

Other financial income was broken down as follows:

	Year 2018	Year 2017	Changes
Interest income			
On bank deposits	1,043,690	488,472	555,218
On financial receivables from subsidiaries	1,058,513	867,628	190,885
Other	4	117	(113)
Total interest income	2,102,207	1,356,217	745,990
Total financial income	2,102,207	1,356,217	745,990

“Interest income on financial receivables from subsidiaries” refers to the interest accrued at year-end on loans disbursed to the subsidiaries Lavazza Australia Pty Ltd, Lavazza Australia OCS Pty Ltd and Carte Noire Operations S.a.s. This item also includes interest accrued on the current account of centralised treasury of the company Lea S.r.l.

Financial expense

Interest expense and other financial expense for the year were broken down as follows:

	Year 2018	Year 2017	Changes
Interest expense			
to banks	3,559,155	3,102,954	456,201
For other payables	55,772	60,296	(4,524)
Total interest expense	3,614,927	3,163,250	451,677
Expenses and commissions			
To subsidiaries	664,500	680,073	(15,573)
Total expenses and commissions	664,500	680,073	(15,573)
Total interest and financial expense	4,279,427	3,843,323	436,104

The item “interest expense” increased mainly as a result of the interest accrued at year-end on the two corporate loans, contracted in 2016 and in the current year, respectively, with an initial amount of €400 million each.

Contents

Company Officers and Group Structure

Directors' Single Report on Operations

LAVAZZA GROUP — CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Consolidated Statement of Financial Position
 - Consolidated Statement of Profit or Loss
 - Consolidated Statement of Comprehensive Income
 - Consolidated Statement of Cash Flows
 - Consolidated Statement of Changes in Equity

Notes to the Consolidated Financial Statements

Independent Auditors' Report

LUIGI LAVAZZA S.P.A. — FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Balance Sheet
 - Statement of Profit or Loss
 - Statement of Cash Flows

Notes to the Financial Statements

Statutory Auditors' Report

Independent Auditors' Report

ABSTRACT 2018

Exchange gains and losses

Realised and recognised exchange gains and losses are given in the table below:

	Year 2018	Year 2017	Changes
Unrealised exchange gains	2,089,521	221,034	1,868,487
Realised exchange gains	4,868,626	6,539,131	(1,670,505)
Total exchange gains	6,958,147	6,760,165	197,982
Unrealised exchange losses	4,591,284	2,722,471	1,868,813
Realised exchange losses	6,203,287	9,267,934	(3,064,647)
Total exchange losses	10,794,571	11,990,405	(1,195,834)
Net exchange gains (losses)	(3,836,424)	(5,230,240)	1,393,816

Value adjustments to financial assets

Adjustments refer to:

Lavazza do Brasil Ltda	Euro	(1,779,961)
Lavazza Netherlands B.V.	Euro	(175,545)
Lavazza Sweden AB	Euro	376,843
Lavazza Argentina S.A.	Euro	(680,519)
Lea S.r.l.	Euro	(1,006,759)
Total		(3,265,941)

and are equal to the reduction in investees' assets which are considered as impairments.

The write-down on the investment in Lavazza Netherlands B.V. does not include the Euro/Rupee exchange delta at 31 December 2018, inasmuch as it was not deemed permanent.

The write-down on the investment in Lea S.r.l. brought its net value into line with its price of sale; it was sold to another Group company in early 2019.

The €376,843 reversal refers to the equity investment in Lavazza Sweden AB, restoring the full amount of the write-downs recognised in previous years.

The Company does not hold derivatives of a speculative nature. However, where the derivatives do not meet all the conditions for applying hedge accounting treatment imposed by the standard OIC 32, changes in the fair value of the instruments are taken to the statement of profit or loss as adjustments reducing the value of financial assets and liabilities.

Revaluations of derivatives totalled approximately €12,227,388, of which €11,335,693 was due to the positive performance of certain derivatives contracted to hedge against the foreign exchange risk associated with the purchase of equity instruments during the year, not subject to hedge accounting treatment. €891,695 refers to the ineffective component of derivatives contracted to hedge against foreign exchange, interest rate and commodity risks and subject to hedge accounting, since they met all the conditions for the hedge accounting treatment of derivatives as per OIC 32.

Write-downs of derivatives totalling €824,039 refer to the ineffective component of the derivatives contracted to hedge against foreign exchange, interest rate and commodity risks and subject to hedge accounting, since they met all the conditions for the hedge accounting treatment of derivatives as per OIC 32.

Income taxes for the year

Current taxes are allocated based on reasonable forecasting of charges, due account being taken of applicable exemptions. The following table provides a detailed description:

Taxes for the year	
IRES (corporate income tax)	21,449,919
IRAP (regional production tax)	4,336,585
Prior years' taxes	140,194
Deferred taxes for the year	
Provision for deferred tax assets	(14,065,707)
Reversals of deferred tax assets	4,636,548
Provision for deferred tax liabilities	0
Reversals of deferred tax liabilities	(21,614)
Total taxes	16,475,925

The positive balance of the item "prior years' taxes" is largely due to evaluations of income taxes conducted after approval of the financial statements.

Changes in deferred tax assets and liabilities and a breakdown of taxes are summarised in the following table, which was prepared pursuant to Article 2427(14) of the Italian Civil Code:

Nature	Year 2017			Year 2018							
	Balance at year-start	%	Balance at year-start	Inflow			Allocations			Balance at year-end	Balance at year-end
	Taxable amount	**	Tax charge	Taxable amount	%	Tax charge	Taxable amount	%	Tax charge	Taxable amount	Taxes
DEFERRED TAX ASSETS											
Deferred deductibility costs	-	(27.9%)	-	-	(27.9%)	-	(27.9%)			-	-
Deferred deductibility costs	23,080,915	(27.9%)	6,439,575	(1,192,474)	(27.9%)	(332,700)	22,812,579	(27.9%)	6,364,709	44,701,019	12,471,584
Deferred deductibility costs	-	(24.0%)	-	-	(24.0%)	-	-	(24.0%)		-	-
Deferred deductibility costs	38,648,050	(24.0%)	9,275,532	(17,932,699)	(24.0%)	(4,303,848)	32,087,490	(24.0%)	7,700,998	52,802,841	12,672,682
Tax deductibility cash costs	-	(24.0%)	-	-	(27.5%)	-	-	(24.0%)	-	-	-
For hedging expected cash flows		(24.0%)	792,631								7,938,135
Total deferred tax assets	61,728,965		16,507,738	(19,125,174)		(4,636,548)	54,900,069		14,065,707	97,503,861	33,082,401
DEFERRED TAX LIABILITIES											
Accelerated amortisation and depreciation	-	(24.0%)	-	-	(24.0%)	-	-	(24.0%)	-	-	-
Exchange gains (losses)	67,672	(24.0%)	16,241	(67,672)	(24.0%)	(16,241)	-	(24.0%)	-	(0)	-
Merger deficit	-	(27.9%)	-	-	(27.9%)	-	-	(27.9%)	-	-	-
Merger deficit	924,325	(27.9%)	257,887	(19,257)	(27.9%)	(5,373)	-	(27.9%)	-	905,068	252,514
For hedging expected cash flows	-	(24.0%)	-	-	(27.9%)	-	-	(27.9%)	-	-	1,200,623
Total deferred tax liabilities	991,997		274,128	(86,929)		(21,614)	-		-	905,068	1,453,137

Contents

Company Officers and Group Structure

Directors' Single Report on Operations

LAVAZZA GROUP — CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Consolidated Statement of Financial Position
 - Consolidated Statement of Profit or Loss
 - Consolidated Statement of Comprehensive Income
 - Consolidated Statement of Cash Flows
 - Consolidated Statement of Changes in Equity

Notes to the Consolidated Financial Statements

Independent Auditors' Report

LUIGI LAVAZZA S.P.A. — FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Balance Sheet
 - Statement of Profit or Loss
 - Statement of Cash Flows

Notes to the Financial Statements

Statutory Auditors' Report

Independent Auditors' Report

ABSTRACT 2018

Notes to the Financial Statements 2018

The reversal of temporary differences in future years has been assessed on the basis of the best available estimates, in accordance with the prudence principle.

The reconciliation between the tax charge as per financial statements and theoretical IRES and IRAP tax charge is given in the following tables:

IRES	Taxable amount	Theoretical tax rate	Tax charge	Effective tax rate
Gross profit	74,262,425	24.00%	17,822,982	24.00%

Higher tax charge	55,243,036		13,258,329	(17.85%)
of which for:				
Non-deductible taxes	2,046,263		491,103	0.66%
Non-deductible write-downs	3,265,941		783,826	1.06%
Non-deductible depreciation and amortisation	850,887		204,213	0.27%
Non-deductible provisions	34,331,424		8,239,542	11.10%
Other non-deductible costs	14,748,521		3,539,645	4.77%

			-	
Lower tax charge	(40,000,157)		(9,600,038)	-12.93%
of which for:				
Costs undeducted in previous years	-		-	0.00%
Dividends	(16,217,042)		(3,892,090)	-5.24%
Other deductible costs	(9,624,238)		(2,309,817)	-3.11%
Trademark amortisation	-		-	0.00%
Gains from tax exemption (PEX scheme)	-		-	0.00%
Contribution for economic growth (ACE)	(14,158,877)		(3,398,130)	-4.58%
Actual IRES charge	89,505,304	24.00%	21,481,273	28.93%
Energy savings			(31,354)	
Net IRES			21,449,919	

IRAP	Taxable amount	Theoretical tax rate	Tax charge	Effective tax rate
Value of production (A-B)	223,346,407	3.94%	8,807,442	3.94%
Higher tax charge	13,652,810		538,385	0.24%
of which for:				
Costs for outsourced personnel	2,544,355		100,334	0.04%
Non-deductible depreciation and amortisation	217,161		8,564	0.00%
Other non-deductible costs	10,891,294		429,487	0.19%

Lower tax charge	(127,028,499)		(5,009,242)	-2.24%
of which for:				
Costs undeducted in previous years	(18,961)		(748)	0.00%
Use of funds for deductible risks and charges	(6,712,682)		(264,708)	-0.12%
Deductible contributions and costs for personnel	(120,296,856)		(4,743,786)	-2.12%
Trademark amortisation	-		-	0.00%
Actual IRAP charge	109,970,718	3.94%	4,336,585	1.94%

Commitments, guarantees and contingent liabilities

Third-party guarantees in our favour

€12,032,147

This item consists of guarantees given in our favour by banks: €899,906 in the interest of the Ministry of Productive Activities for prize contests; €1,626,736 in the interest of the Turin Municipality for urbanisation works; €3,414,261 in the interest of the Revenue Agency for the tax audit and €4,964,254 for the application for VAT reimbursement to NIMS; €81,000 in the interest of the A.E.M. Energia (Milan) and Edison Energia S.p.A. (Pozzilli) for gas supplies; €169,354 to the Region of Piedmont for clearance work and safety assessment associated to the new headquarters; €16,702 to Consorzio Nucleo Sviluppo Industriale Isernia for drinking water supply; €151,650 to Customs; €705,700 for property leases; other minor amounts to the Verrès municipality for waste collection (€2,582).

Guarantees in favour of subsidiaries

€39,611,212

The account consists of €13,335,537 in guarantees in favour of Cofincaf S.p.A. to finance contracts with Ho.Re.Ca. customers and €26,275,675 for financing customers' purchases of vending machines for beverages.

Subsidiary for collection of credits

€19,668,764

This includes credits outstanding at year-end managed for collection by Cofincaf S.p.A.

Leasing company for upcoming lease payments

€84,352,667

Upcoming lease payments to be made to the leasing company as per finance lease agreement.

Contents

Company Officers and Group Structure

Directors' Single Report on Operations

LAVAZZA GROUP — CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Consolidated Statement of Financial Position
 - Consolidated Statement of Profit or Loss
 - Consolidated Statement of Comprehensive Income
 - Consolidated Statement of Cash Flows
 - Consolidated Statement of Changes in Equity

Notes to the Consolidated Financial Statements

Independent Auditors' Report

LUIGI LAVAZZA S.p.A. — FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Balance Sheet
 - Statement of Profit or Loss
 - Statement of Cash Flows

Notes to the Financial Statements

Statutory Auditors' Report

Independent Auditors' Report

ABSTRACT 2018

Supplementary information and statements

Consideration owed to the Independent Auditors
(pursuant to Article 2427, paragraph 16-bis, of the Italian Civil Code)

The information required by the above-mentioned regulation is included in the Notes to the consolidated financial statements of the Lavazza Group at 31 December 2018 prepared by the Company.

Related party transactions
(pursuant to Article 2427, paragraph 1, No. 22-bis, of the Italian Civil Code)

With reference to the provisions of applicable legislation, in the reporting year the Company carried out related party transactions that were concluded at arm's length conditions. In particular, a master commercial cooperation agreement for 2018 was entered into with Chili S.p.A. for the promotion of the respective brands within the framework of cinema events and prize competitions, which entailed costs of approximately €4.1 million and net revenues of €2.1 million for the Company.

Off-balance sheet arrangements
(pursuant to Article 2427, paragraph 1, No. 22-ter, of the Italian Civil Code)

There were no arrangements the effects of which are not presented in the balance sheet and knowledge of which would be helpful to assessing the Company's capital and financial position.

Post-balance sheet events
(pursuant to Article 2427, paragraph 1, No. 22-quater, of the Italian Civil Code)

The downtrend in the green coffee market seen throughout 2018 for both Arabica and Robusta continued and even intensified in early 2019. In particular, in March, the second position on the New York exchange stabilised well below the important psychological barrier of 100 cents/lb, and Robusta coffee also fell below 1,500 USD/t. The reasons for this decline in prices are to be sought in the strong supply of coffee of all origins and the significant action by speculative funds, which continue to occupy short positions on both markets. There is no news of significant weather or production issues in the main coffee-growing countries.

Company preparing the consolidated financial statements
(pursuant to Article 2427, paragraph 1, No. 22-quinquies/sexies, of the Italian Civil Code)

FINLAV S.p.A.
Registered Offices: Via Bologna 32 - 10152 TURIN, Italy
Fully paid-up share capital: €167,500,000
Tax code and Turin Company Register No. 03028560153
Turin Economic and Administrative Index (REA): 910824

Allocation of the profit for the year
(pursuant to Article 2427, paragraph 1, No. 22-septies, of the Italian Civil Code)

Reiterating that legal reserve has reached the limit set forth by Article 2430 of the Italian Civil Code, we recommend that the profit for the year, which amounted to €57,786,500, be allocated as follows: to the 22,500,002 outstanding shares a dividend of €1.56 per share, totalling €35,100,003 overall; and the remaining €22,686,497 as profit carried forward.

Turin, 28 March 2019



Contents

Company Officers and Group Structure

Directors' Single Report on Operations

LAVAZZA GROUP — CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Consolidated Statement of Financial Position
 - Consolidated Statement of Profit or Loss
 - Consolidated Statement of Comprehensive Income
 - Consolidated Statement of Cash Flows
 - Consolidated Statement of Changes in Equity

Notes to the Consolidated Financial Statements

Independent Auditors' Report

LUIGI LAVAZZA S.P.A. — FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Balance Sheet
 - Statement of Profit or Loss
 - Statement of Cash Flows

Notes to the Financial Statements

Statutory Auditors' Report

Independent Auditors' Report

Statutory Auditors' Report



Contents

Company Officers and Group Structure

Directors' Single Report on Operations

LAVAZZA GROUP — CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2018

Accounting Statements
• Consolidated Statement of Financial Position
• Consolidated Statement of Profit or Loss
• Consolidated Statement of Comprehensive Income
• Consolidated Statement of Cash Flows
• Consolidated Statement of Changes in Equity

Notes to the Consolidated Financial Statements

Independent Auditors' Report

LUIGI LAVAZZA S.P.A. — FINANCIAL STATEMENTS AT 31 DECEMBER 2018

Accounting Statements
• Balance Sheet
• Statement of Profit or Loss
• Statement of Cash Flows

Notes to the Financial Statements

Statutory Auditors' Report

Independent Auditors' Report

ABSTRACT 2018

LUIGI LAVAZZA S.p.A
Registered Office: Turin, via Bologna 32
Fully paid-up share capital: €25,000,000.=
Tax code and Turin Company Register No. 00470550013

**STATUTORY AUDITORS' REPORT ON THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

Shareholders,

This Report has been approved collegially for filing at the company's registered office in view of the General Shareholders' Meeting called to approve the Financial Statements commented herein.

The governing body has thus provided access to the following documents approved on 28 March 2019 concerning the year ended 31 December 2018:

- the draft Financial Statements, including the Notes and the Cash Flow Statement; and
- the Report on Operations.

The structure of this report is the same as that used for the previous year and is inspired by the law and Standard No. 7.1, "Standards of Conduct for Boards of Statutory Auditors — Principles of Conduct of Boards of Statutory Auditors of Unlisted Companies", issued by Italy's National Council of Chartered Accountants and Accounting Experts and in effect since 30 September 2015.

Knowledge of the company, assessment of risks and report on professional assignments

Given the longstanding knowledge that the Board of Statutory Auditors represents it possesses about the company and:

I) the type of business conducted;

II) the organisational and accounting structure;

also in light of the Company's size and concerns, it bears reiterating that the "planning" phase of supervisory activity — during which the inherent risks and critical issues relating to the two above parameters are verified — was implemented by verifying that the information obtained over time was still current.

It was therefore possible to confirm that:

- the Company's core business did not change during the reporting year and is consistent with its Articles of Association;
- the human resources constituting the "workforce" remained virtually unchanged;

Contents

Company Officers and Group Structure

Directors' Single Report on Operations

LAVAZZA GROUP — CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2018

Accounting Statements
• Consolidated Statement of Financial Position
• Consolidated Statement of Profit or Loss
• Consolidated Statement of Comprehensive Income
• Consolidated Statement of Cash Flows
• Consolidated Statement of Changes in Equity

Notes to the Consolidated Financial Statements

Independent Auditors' Report

LUIGI LAVAZZA S.P.A. — FINANCIAL STATEMENTS AT 31 DECEMBER 2018

Accounting Statements
• Balance Sheet
• Statement of Profit or Loss
• Statement of Cash Flows

Notes to the Financial Statements

Statutory Auditors' Report

Independent Auditors' Report

ABSTRACT 2018

- the foregoing is indirectly borne out by a comparison of the figures from the Income Statement for the past two years, i.e., the reporting year (2018) and the previous year (2017). It may also be observed that in 2018 the Company operated on comparable terms to the previous year, and thus that our controls were performed on this basis, having verified that the values and results are essentially comparable with those from the previous year.

This Report thus summarises the activity relating to the information provided for in Article 2429, paragraph 2, of the Italian Civil Code, and namely:

- the results for the year;
- the activity performed in fulfilment of statutory duties;
- remarks and proposals concerning the Financial Statements, with particular regard to any use by the governing body of derogations pursuant to Article 2423, paragraph 4, of the Italian Civil Code.

The activities performed by the Board of Statutory Auditors concerned the entire financial year. The meetings set out in Article 2404 of the Italian Civil Code were regularly held and specific minutes for such meetings were drafted and duly signed in unanimous approval.

Activities performed

During its periodic controls, the Board of Statutory Auditors obtained information about the course of the Company's business, with a particular focus on problems of a contingent and/or extraordinary nature, so as to identify their impact on the company's operating result for the year and financial structure, in addition to any risks, such as those due to losses on receivables, which are subject to regular monitoring.

The Board of Statutory Auditors periodically assessed the adequacy of the Company's organisational and functional structure and any changes with respect to minimum needs in light of operating performance.

Relations with the persons operating within the above structure — directors, employees and consultants — are inspired by mutual collaboration in accordance with the roles assigned to each.

For the entire year, it was determined that:

- the level of its technical preparation remains adequate to the type of ordinary company events to be recorded and it possesses sufficient knowledge of the company's concerns;
 - the external consultants and professionals engaged to provide assistance with tax, corporate and labour law matters have not changed and they thus possess longstanding knowledge of the business conducted and ordinary and extraordinary operating issues that affected the results presented in the Financial Statements.
- The information required by Article 2381, paragraph 5, of the Italian Civil Code was provided by the Chief Executive Officer.
- In conclusion, to the extent it was possible to determine in the course of the activity performed during the year, the Board of Statutory Auditors may state that:
- the decisions made by the shareholders and governing body were compliant with the law and Articles of Association and were not imprudent or such as to definitively jeopardise the company's financial integrity;
 - sufficient information was obtained about the general operating performance and business outlook, and about the most significant transactions undertaken by the company in terms of size or characteristics;
 - the transactions undertaken were also compliant with the law and Articles of Association and not in potential conflict with the resolutions passed by the Shareholders' Meeting or such as to definitively jeopardise the company's financial integrity;
 - we have no specific remarks concerning the adequacy of the company's organisational structure, the adequacy of its administrative and accounting system or the latter system's reliability in properly representing operating events;
 - in the course of our supervisory activity, as described above, we did not bring to light additional material facts that would have required mention in this report;

Contents

Company Officers and Group Structure

Directors' Single Report on Operations

LAVAZZA GROUP — CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2018

Accounting Statements
• Consolidated Statement of Financial Position
• Consolidated Statement of Profit or Loss
• Consolidated Statement of Comprehensive Income
• Consolidated Statement of Cash Flows
• Consolidated Statement of Changes in Equity

Notes to the Consolidated Financial Statements

Independent Auditors' Report

LUIGI LAVAZZA S.P.A. — FINANCIAL STATEMENTS AT 31 DECEMBER 2018

Accounting Statements
• Balance Sheet
• Statement of Profit or Loss
• Statement of Cash Flows

Notes to the Financial Statements

Statutory Auditors' Report

Independent Auditors' Report

ABSTRACT 2018

- we did not have to intervene due to failure to act by the governing body pursuant to Article 2406 of the Italian Civil Code;
- no complaints were received pursuant to Article 2408 of the Italian Civil Code;
- no complaints were filed pursuant to Article 2409, paragraph 7, of the Italian Civil Code.

Remarks and proposals concerning the Financial Statements and their approval

The draft Financial Statements for the year ended 31 December 2018 have been approved by the governing body and comprise the Balance Sheet, Income Statement, Cash Flow Statement and the Notes.

In addition:

- the governing body has also prepared the Report on Operations pursuant to Article 2428 of the Italian Civil Code;
- those documents were delivered to the Board of Statutory Auditors in time to be filed at the company's registered office, accompanied by this report;
- statutory auditing has been entrusted to the auditing firm EY SpA, which has drawn up its report pursuant to Article 14 of Legislative Decree No. 39 of 27 January 2010. This report does not contain any identification of material misstatements, adverse opinions, disclaimers of opinion or requests for additional information, and the opinion issued is therefore positive.

The draft Financial Statements have thus been examined and the following additional information is provided in this regard:

- since we are not responsible for detailed control of the Financial Statements on the merits, we focused on the structure of the Financial Statements and their general compliance with the law in terms of preparation and structure, and we do not have any specific remarks to submit to you on this subject;

- we verified that the Financial Statements are consistent with the facts and information of which we became aware in the course of performing the duties typically assigned to boards of statutory auditors and we do not have further remarks on this subject;
- to the best of our knowledge, in preparing the Financial Statements the Directors did not apply derogations pursuant to Article 2423, paragraph 4, of the Italian Civil Code;
- the Financial Statements have been prepared in accordance with the provisions of Articles 2423 *et seq.* of the Italian Civil Code, interpreted according to the accounting standards issued by the Italian Accounting Standard-Setter (OIC). Accordingly, the layouts adopted are consistent with those envisaged in the Italian Civil Code for the Balance Sheet (Article 2424) and the Income Statement (Article 2425), and with the basis of preparation, in light of the application of Legislative Decree No. 139/2015, envisaged in Article 2423-*bis* of the Italian Civil Code;
- as indicated in the Notes to the Financial Statement, which include the tables prepared in accordance with specific provisions of law or the OIC's requirements, items of the Financial Statements have been measured in accordance with Article 2426 of the Italian Civil Code;
- the Notes include the content specified in Article 2427 of the Italian Civil Code, which complement the tables of the Balance Sheet and Income Statement with the measurement criteria adopted and the other information required by provisions of law, in addition to providing the other information deemed necessary to more thorough understanding of the Financial Statements;
- in addition, pursuant to Article 2428, paragraph 1, points 5 and 6, of the Italian Civil Code, the Board of Statutory Auditors also granted its consent to the recognition of amounts allocated to development costs, whereas no start-up and expansion costs were recognised during the year;
- the Report on Operations drafted by the Directors identifies the main events that characterised operations and the result for the year, in addition to providing an analysis of technical investments, financing activity and the other information required by Article 2428 of the Italian Civil Code, including information about transactions with parent companies and related parties, specifying the amount and nature of the relationship, including the specification that they were concluded at normal arm's

Contents

Company Officers and Group Structure

Directors' Single Report on Operations

LAVAZZA GROUP — CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Consolidated Statement of Financial Position
 - Consolidated Statement of Profit or Loss
 - Consolidated Statement of Comprehensive Income
 - Consolidated Statement of Cash Flows
 - Consolidated Statement of Changes in Equity

Notes to the Consolidated Financial Statements

Independent Auditors' Report

LUIGI LAVAZZA S.P.A. — FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Balance Sheet
 - Statement of Profit or Loss
 - Statement of Cash Flows

Notes to the Financial Statements

Statutory Auditors' Report

Independent Auditors' Report

ABSTRACT 2018

- length conditions;
- information was obtained from the supervisory body and no critical issues were identified regarding the organisational model that would need to be presented in this report;
 - the Board of Statutory Auditors has no remarks to make with regard to the governing body's proposed allocation of the net profit for the year presented at the end of the Notes.

Result for the year

The net profit reported by the governing body for the year ended 31 December 2018, as presented in the Financial Statements, is positive at €57,786,500.

Conclusions

On the basis of the foregoing, as ascertained by the Board of Statutory Auditors and in the course of the periodic controls performed, it is our opinion that there is no impediment to your approval of the draft Financial Statements for the year ended 31 December 2018, as drafted, as well as of the allocation of the net profit for the year, as submitted to you by the governing body.

Turin, 12 April 2019

THE STATUTORY AUDITORS

(Gianluca FERRERO)

(Angelo GILARDI)

(Lucio PASQUINI)



Independent Auditors' Report

Contents

Company Officers and Group Structure

Directors' Single Report on Operations

LAVAZZA GROUP — CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Consolidated Statement of Financial Position
 - Consolidated Statement of Profit or Loss
 - Consolidated Statement of Comprehensive Income
 - Consolidated Statement of Cash Flows
 - Consolidated Statement of Changes in Equity

Notes to the Consolidated Financial Statements

Independent Auditors' Report

LUIGI LAVAZZA S.P.A. — FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Balance Sheet
 - Statement of Profit or Loss
 - Statement of Cash Flows

Notes to the Financial Statements

Statutory Auditors' Report

Independent Auditors' Report

ABSTRACT 2018

Contents

Company Officers and Group Structure

Directors' Single Report on Operations

LAVAZZA GROUP — CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Consolidated Statement of Financial Position
 - Consolidated Statement of Profit or Loss
 - Consolidated Statement of Comprehensive Income
 - Consolidated Statement of Cash Flows
 - Consolidated Statement of Changes in Equity

Notes to the Consolidated Financial Statements

Independent Auditors' Report

LUIGI LAVAZZA S.p.A. — FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Balance Sheet
 - Statement of Profit or Loss
 - Statement of Cash Flows

Notes to the Financial Statements

Statutory Auditors' Report

Independent Auditors' Report

ABSTRACT 2018



Luigi Lavazza S.p.A.

Financial statements as at December 31, 2018

Independent auditor's report in pursuant to article 14 of Legislative Decree n. 39, dated 27 January 2010



Independent auditor's report pursuant to article 14 of Legislative Decree n. 39, dated 27 January 2010
(Translation from the original Italian text)

To the Shareholders of
Luigi Lavazza S.p.A.

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Luigi Lavazza S.p.A. (the Company), which comprise the balance sheet as at December 31, 2018, the income statement and statement of cash flows for the year then ended, and explanatory notes.

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at December 31, 2018, and of its financial performance and its cash flows for the year then ended in accordance with the Italian regulations governing financial statements.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the regulations and standards on ethics and independence applicable to audits of financial statements under Italian Laws. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Directors and Those Charged with Governance for the Financial Statements

The Directors are responsible for the preparation of the financial statements that give a true and fair view in accordance with the Italian regulations governing financial statements, and, within the terms provided by the law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Directors are responsible for assessing the Company's ability to continue as a going concern and, when preparing the financial statements, for the appropriateness of the going concern assumption, and for appropriate disclosure thereof. The Directors prepare the financial statements on a going concern basis unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

E Y S.p.A.
Sede Legale: Via Po, 12 - 10121 Torino
Capitale Sociale: € 44.333.333 (I.000111)
Riscrittura del C.C. del Gruppo e delle singole imprese al C.C.S.A. di Roma
Codice Fiscale (Gruppo): 04540000104 - Cod. Fisc. (S.p.A.): 04540000104
R.I. 04540000104
Autore di Registro (Gruppo): 04540000104 - Aut. Min. Giust. (S.p.A.): 04540000104
Riscrittura del C.C. del Gruppo e delle singole imprese al C.C.S.A. di Roma
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Contents

Company Officers and Group Structure

Directors' Single Report on Operations

LAVAZZA GROUP — CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Consolidated Statement of Financial Position
 - Consolidated Statement of Profit or Loss
 - Consolidated Statement of Comprehensive Income
 - Consolidated Statement of Cash Flows
 - Consolidated Statement of Changes in Equity

Notes to the Consolidated Financial Statements

Independent Auditors' Report

LUIGI LAVAZZA S.P.A. — FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Balance Sheet
 - Statement of Profit or Loss
 - Statement of Cash Flows

Notes to the Financial Statements

Statutory Auditors' Report

Independent Auditors' Report

ABSTRACT 2018



The statutory audit committee ("Collegio Sindacale") is responsible, within the terms provided by the law, for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error; and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with International Standards on Auditing (ISA Italia), we have exercised professional judgment and maintained professional skepticism throughout the audit. In addition:

- we have identified and assessed the risks of material misstatement of the financial statements, whether due to fraud or error, designed and performed audit procedures responsive to those risks, and obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- we have obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;
- we have evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors;
- we have concluded on the appropriateness of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to consider this matter in forming our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern;
- we have evaluated the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We have communicated with those charged with governance, identified at an appropriate level as required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



Report on compliance with other legal and regulatory requirements

Opinion pursuant to article 14, paragraph 2, subparagraph e), of Legislative Decree n. 39 dated 27 January 2010

The Directors of Luigi Lavazza S.p.A. are responsible for the preparation of the Report on Operations of Luigi Lavazza S.p.A. as at December 31, 2018, including its consistency with the related financial statements and its compliance with the applicable laws and regulations.

We have performed the procedures required under audit standard SA Italia n. 720B, in order to express an opinion on the consistency of the Report on Operations, with the financial statements of Luigi Lavazza S.p.A. as at December 31, 2018 and on its compliance with the applicable laws and regulations, and in order to assess whether it contains material misstatements.

In our opinion, the Report on Operations is consistent with the financial statements of Luigi Lavazza S.p.A. as at December 31, 2018 and comply with the applicable laws and regulations.

With reference to the statement required by art. 14, paragraph 2, subparagraph e), of Legislative Decree n. 39, dated 27 January 2010, based on our knowledge and understanding of the entity and its environment obtained through our audit, we have no matters to report.

Turin, April 12, 2019

EY S.p.A.
Signed by: Stefania Boschetti, partner

This report has been translated into the English language solely for the convenience of international readers.

Contents

Company Officers and Group Structure

Directors' Single Report on Operations

LAVAZZA GROUP — CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Consolidated Statement of Financial Position
 - Consolidated Statement of Profit or Loss
 - Consolidated Statement of Comprehensive Income
 - Consolidated Statement of Cash Flows
 - Consolidated Statement of Changes in Equity

Notes to the Consolidated Financial Statements

Independent Auditors' Report

LUIGI LAVAZZA S.P.A. — FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Balance Sheet
 - Statement of Profit or Loss
 - Statement of Cash Flows

Notes to the Financial Statements

Statutory Auditors' Report

Independent Auditors' Report

ABSTRACT 2018

Contents

Company Officers and Group Structure

Directors' Single Report on Operations

LAVAZZA GROUP — CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2018

Accounting Statements

- Consolidated Statement of Financial Position
- Consolidated Statement of Profit or Loss
- Consolidated Statement of Comprehensive Income
- Consolidated Statement of Cash Flows
- Consolidated Statement of Changes in Equity

Notes to the Consolidated Financial Statements

Independent Auditors' Report

LUIGI LAVAZZA S.P.A. — FINANCIAL STATEMENTS AT 31 DECEMBER 2018

Accounting Statements

- Balance Sheet
- Statement of Profit or Loss
- Statement of Cash Flows

Notes to the Financial Statements

Statutory Auditors' Report

Independent Auditors' Report

ABSTRACT 2018

PREMIUM PURE
**COFFEE
COMPANY**

COFFEE
COMPANY



LAVAZZA RANKS

38th

IN THE TOP 100 BRAND RANKING
OF THE GLOBAL REPTRAK® 2019 OF THE REPUTATION INSTITUTE

Contents

Company Officers and Group Structure

Directors' Single Report on Operations

LAVAZZA GROUP — CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2018

Accounting Statements

- Consolidated Statement of Financial Position
- Consolidated Statement of Profit or Loss
- Consolidated Statement of Comprehensive Income
- Consolidated Statement of Cash Flows
- Consolidated Statement of Changes in Equity

Notes to the Consolidated Financial Statements

Independent Auditors' Report

LUIGI LAVAZZA S.P.A. — FINANCIAL STATEMENTS AT 31 DECEMBER 2018

Accounting Statements

- Balance Sheet
- Statement of Profit or Loss
- Statement of Cash Flows

Notes to the Financial Statements

Statutory Auditors' Report

Independent Auditors' Report

ABSTRACT 2018



Net revenues abroad

64%

Employees

ca. 4,000

ca. 97% with indefinite-term contracts

Plants

10

Countries

7

Continents

3

10 PRODUCTION PLANTS

- 3 LAVAZZA PLANTS IN ITALY
- 1 CARTE NOIRE PLANT IN FRANCE
- 1 KICKING HORSE COFFEE CO. IN CANADA

LAVAZZA PROFESSIONAL PLANTS

- 2 IN THE UK
- 1 IN THE USA

TWO LAVAZZA PRODUCTION HUBS

- 1 IN BRAZIL
- 1 IN INDIA



Present in over

90

countries
through subsidiaries and an extensive
network of distributors

Contents

Company Officers and Group Structure

Directors' Single Report on Operations

LAVAZZA GROUP — CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Consolidated Statement of Financial Position
 - Consolidated Statement of Profit or Loss
 - Consolidated Statement of Comprehensive Income
 - Consolidated Statement of Cash Flows
 - Consolidated Statement of Changes in Equity

Notes to the Consolidated Financial Statements

Independent Auditors' Report

LUIGI LAVAZZA S.P.A. — FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Balance Sheet
 - Statement of Profit or Loss
 - Statement of Cash Flows

Notes to the Financial Statements

Statutory Auditors' Report

Independent Auditors' Report

ABSTRACT 2018

Industrial investments

€200

million
2014-2018

Leader in Italy in the retail market
with a share of

ca. 37%
by value

Net revenues

€1.87 billion
+9.3% compared to €1.71 billion in 2017

Contents

Company Officers and Group Structure

Directors' Single Report on Operations

LAVAZZA GROUP — CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Consolidated Statement of Financial Position
 - Consolidated Statement of Profit or Loss
 - Consolidated Statement of Comprehensive Income
 - Consolidated Statement of Cash Flows
 - Consolidated Statement of Changes in Equity

Notes to the Consolidated Financial Statements

Independent Auditors' Report

LUIGI LAVAZZA S.P.A. — FINANCIAL STATEMENTS AT 31 DECEMBER 2018

- Accounting Statements
- Balance Sheet
 - Statement of Profit or Loss
 - Statement of Cash Flows

Notes to the Financial Statements

Statutory Auditors' Report

Independent Auditors' Report

ABSTRACT 2018

Investment for the new HQ

€120
million

