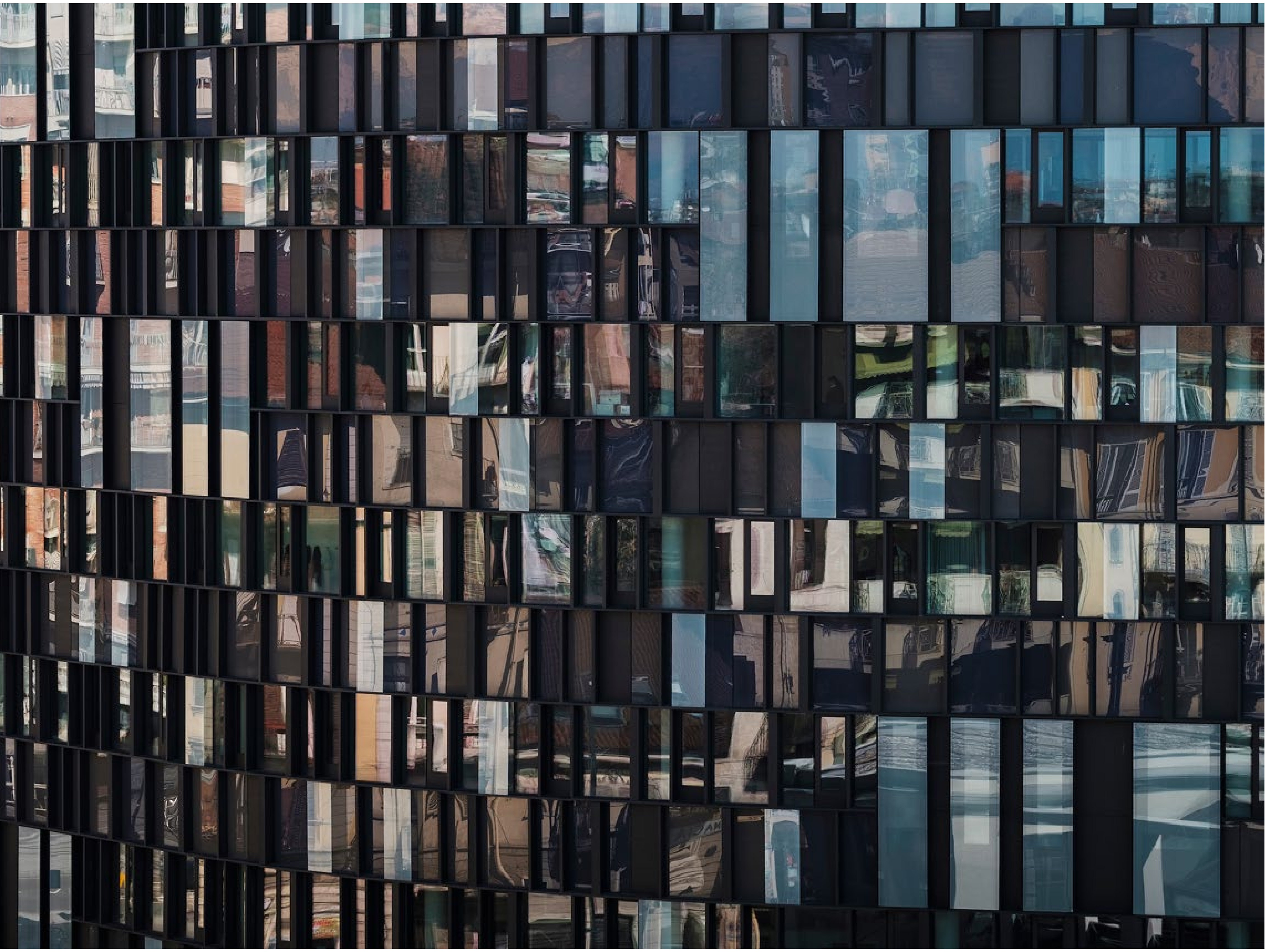
LAVAZZA

TORINO, ITALIA, 1895

Annual Report 2017

LAVAZZA
TORINO, ITALIA, 1895



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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

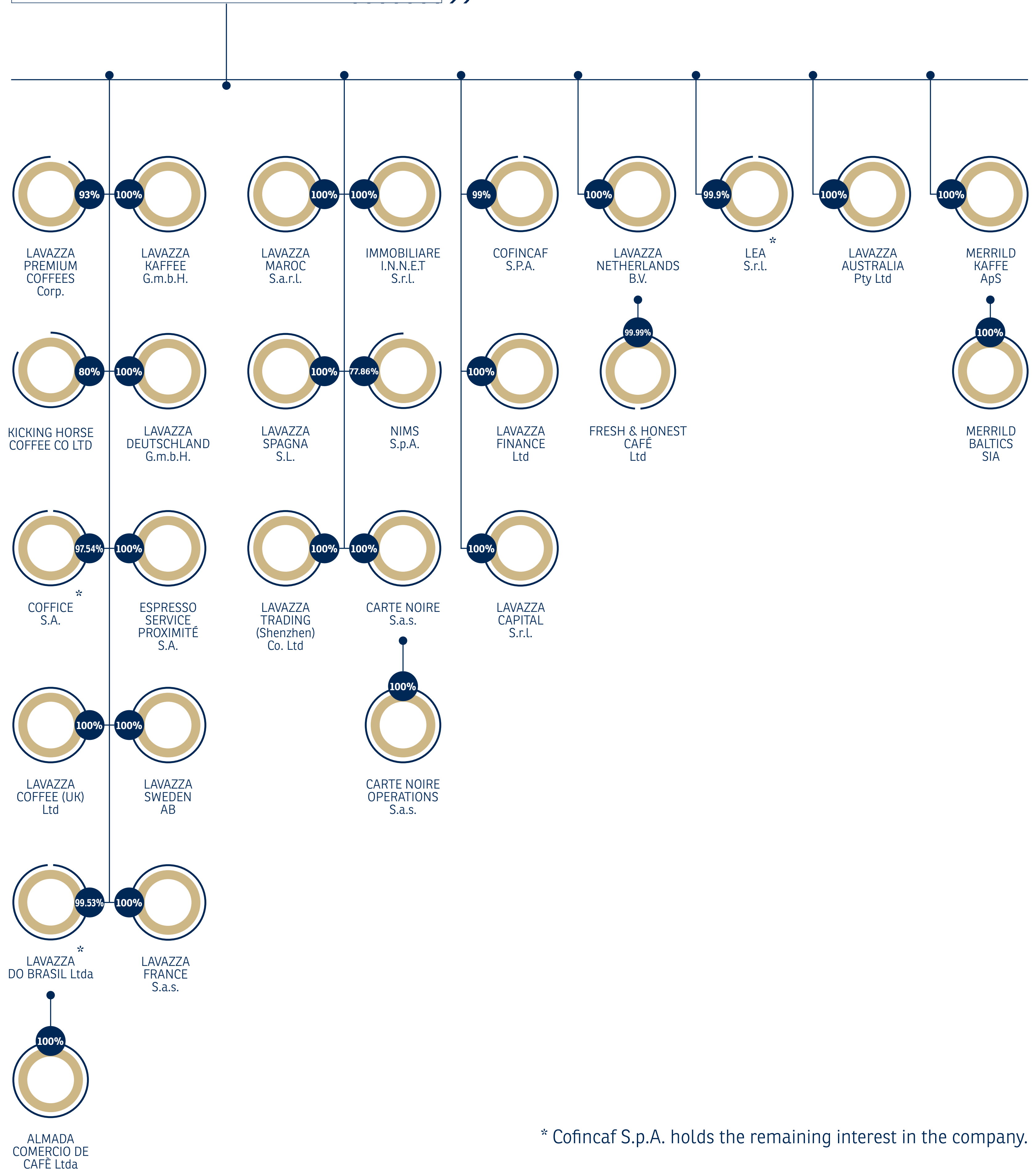
STATUTORY AUDITORS
Angelo Gilardi
Lucio Pasquini

Independent Auditors

EY S.p.A.

Group Structure

Luigi Lavazza S.p.A.



* Cofincaf S.p.A. holds the remaining interest in the company.

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1 Consolidated Financial Statements 2017 of the Lavazza Group

Lavazza Nuvola – Headquarters

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Consolidated Highlights

Euro million	Year 2017	Ratio %	Year 2016	Ratio %
Sales of goods and services	2,014.8	100.0%	1,895.7	100.0%
EBITDA	200.8	10.0%	178.5	9.4%
EBIT	67.0	3.3%	61.7	3.3%
Profit before taxes	61.5	3.1%	62.1	3.3%
Profit for the year	**44.7**	**2.2%**	**82.2**	**4.3%**
Net working capital	456.9		406.8	
Net fixed assets	1,238.9		1,053.9	
Total uses	**1,695.8**		**1,460.7**	
Net financial position	(457.7)		(687.5)	
Equity	2,153.5		2,148.2	
Total sources	**1,695.8**		**1,460.7**	
CAPEX	99.2		101.8	
Headcount	3,085		2,829	
ROS	**3.4%**		**3.4%**	
ROI	**4.0%**		**4.4%**	
ROE	**2.1%**		**3.8%**	

Reclassified Income Statement

Euro million	Year 2017	Ratio %	Year 2016	Ratio %	Changes	Changes%
Sales of goods and services	2,014.8	100.0%	1,895.7	100.0%	119.1	6.3%
Other income and revenues	28.1	1.4%	15.0	0.8%	13.1	87.3%
Total income and revenues	**2,042.9**	**101.4%**	**1,910.7**	**100.8%**	**132.2**	**6.9%**
Cost of sales	828.0	41.1%	786.7	41.5%	41.3	5.2%
Costs of services	725.9	36.0%	686.5	36.2%	39.4	5.7%
Other costs	59.9	3.0%	52.8	2.8%	7.1	13.4%
Total external costs	**1,613.8**	**80.1%**	**1,526.0**	**80.5%**	**87.8**	**5.8%**
Value added	**429.1**	**21.3%**	**384.7**	**20.3%**	**44.4**	**11.5%**
Personnel costs	228.3	11.3%	206.2	10.9%	22.1	10.7%
EBITDA	**200.8**	**10.0%**	**178.5**	**9.4%**	**22.3**	**12.5%**
Amortisation, depreciation and write-downs	126.8	6.3%	107.9	5.7%	18.9	17.5%
Provisions	7.0	0.3%	8.9	0.5%	(1.9)	(21.3%)
EBIT	**67.0**	**3.3%**	**61.7**	**3.3%**	**5.3**	**8.5%**
Income (expense) from equity investments	(1.3)	(0.2%)	(4.4)	(0.2%)	3.1	(70.5%)
Financial income (expense)	(4.2)	(0.2%)	4.8	0.3%	(9.0)	(187.5%)
Profit before taxes	**61.5**	**3.1%**	**62.1**	**3.3%**	**(0.6)**	**(1.0%)**
Income taxes	(16.8)	(0.8%)	20.1	1.1%	(36.9)	(183.6%)
Profit for the year	**44.7**	**2.2%**	**82.2**	**4.3%**	**(37.5)**	**(45.6%)**
Profit (loss) attributable to minority interests	0.3	0.0%	0.2	0.0%	0.1	0.0%
Profit (loss) attributable to the Group	44.4	2.2%	82.0	4.3%	(37.6)	(45.9%)

Reclassified Balance Sheet

	Euro million	**31/12/2017**	**31/12/2016**	**Changes**
	Inventories	360.2	318.9	41.3
	Trade receivables	420.8	414.8	6.0
	Receivables from subsidiaries, affiliates and Parent Company	39.7	47.2	(7.5)
	Deferred tax assets and tax receivables	75.3	55.1	20.2
	Prepayments and accrued income	50.2	26.8	23.4
A.	**Total operating assets**	**946.2**	**862.8**	**83.4**
	Advances	37.9	0.6	37.3
	Trade payables	319.4	333.3	(13.9)
	Payables to subsidiaries, affiliates and the Parent Company	0.8	1.5	(0.7)
	Tax and social security liabilities	38.7	36.3	2.4
	Other liabilities and deferred income	92.5	84.3	8.2
B.	**Total operating liabilities**	**489.3**	**456.0**	**33.3**
C.	**Net working capital (A-B)**	**456.9**	**406.8**	**50.1**
	Intangible assets	861.1	737.2	123.9
	Tangible assets	439.8	369.7	70.1
	Financial fixed assets	28.3	29.4	(1.1)
D.	**Total fixed assets**	**1,329.2**	**1,136.3**	**192.9**
	Provisions for risks and charges	67.0	57.8	9.2
	Employee leaving indemnities	23.3	24.6	(1.3)
E.	**Total fixed liabilities**	**90.3**	**82.4**	**7.9**
F.	**Total fixed assets, net (D-E)**	**1,238.9**	**1,053.9**	**185.0**
G.	**Total uses of funds (C+F)**	**1,695.8**	**1,460.7**	**235.1**
	Short-term financial receivables (-)	(25.0)	0.0	(25.0)
	Cash and cash equivalents (-)	(593.3)	(671.3)	78.0
	Current financial assets (-)	(335.6)	(460.2)	124.6
	Payables to banks and other lenders	496.2	444.0	52.2
H.	**Net financial position**	**(457.7)**	**(687.5)**	**229.8**
	Share capital	25.0	25.0	0.0
	Reserves	593.6	606.5	(12.9)
	Retained earnings	1,487.8	1,433.2	54.6
	Profit for the year attributable to the Group	44.4	82.0	(37.6)
	Equity attributable to minority interests	2.7	1.5	1.2
I.	**Consolidated equity**	**2,153.5**	**2,148.2**	**5.3**
L.	**Total sources (I+H)**	**1,695.8**	**1,460.7**	**235.1**

Reclassified Cash Flow Statement

Euro million	**Year 2017**	**Year 2016**
Profit for the year	44.7	82.2
Amortisation and depreciation	120.8	99.8
Net change in leaving indemnities	(2)	(0.5)
Net change in provisions for risks and charges	(4.8)	13.0
Write-downs/-ups of equity investments and financial assets	0.0	1.5
Other write-downs of fixed assets	4.9	5.9
(Gains)/Losses from the disposal of assets	0.7	1.7
Write-downs of current securities and amortised cost	2.9	3.4
Finance income from derivatives	(1.3)	(0.8)
Change of items in net working capital		
- Inventories	(25.3)	(29.9)
- Trade receivables	1.8	(82.4)
- Other receivables and assets	(6.9)	(39.9)
- Trade payables	(16.4)	88.1
- Other payables and liabilities	(5.1)	25.4
Cash flow generated by (used for) operating activities	**114.0**	**167.5**
Net investments in:		
- Intangible assets	(15.1)	(14.7)
- Tangible assets	(84.1)	(87.1)
- Equity investments in subsidiaries, net of changes in consolidation area	0.1	0.0
- Equity investments in other companies	(0.6)	0.0
- Other securities	2.2	1.8
- Other financial assets	(2.0)	0.1
- Business unit acquisitions	(171.5)	(709.5)
Cash flow generated by (used for) investing activities	**(271.0)**	**(809.4)**
Dividends paid	(27.0)	(25.2)
Cash flow generated by (used for) financing activities	**(27.0)**	**(25.2)**
Currency translation gains and losses and other	(2.2)	(0.9)
Net cash flow for the year	**(186.2)**	**(668.0)**
Change in consolidation area	55.5	0
Other non-monetary changes in net financial position	(99.1)	4.5
Bridge of net financial position	**(229.8)**	**(663.5)**
Net financial position at year-start	**687.5**	**1.351.0**
Net financial position at year-end	**457.7**	**687.5**

2 Directors' Single Report on Operations

Lavazza Nuvola – Headquarters

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The Macroeconomic Context

Favourable financial conditions and improving confidence climate indicators

Global economic growth remains robust and widespread; despite the underlying weak overall inflation, growth continues to benefit from favourable financial conditions and improving confidence climate indicators. Despite flare-ups of deep-seated geopolitical tensions and divisions in many countries, the reporting year witnessed the most robust economic recovery of the decade, with accelerating GDP growth in most countries.
The short-term outlook is favourable and — despite the upswing in the rate of worldwide economic growth, the increased involvement of emerging countries and the achievement of full employment in various developed economies, such as the United States and Germany — inflation is forecast to remain modest in 2018, at levels comparable to those registered in 2017.
In Europe, the French elections certainly represented a turning point, and the Eurozone's growth prospects have improved further, in spite of the difficulty encountered in forming a new government in Germany. Riding a wave of optimism generated in part by the highly accommodative monetary policy that the ECB has continued to implement, the Euro had risen above 1.20 to the dollar at the reporting date.

The United States continued to enjoy economic growth, driven by net exports, household consumption spending and, to a lesser extent, fixed investments. The job market remained robust and the unemployment rate fell further. A tax reform was approved in the final week before the Christmas holidays. Analysts estimate that this reform will contribute between 0.2% and 0.4% to U.S. GDP growth starting in 2018. This tax reform is the most far-reaching measure of its kind to be implemented in the world's number-one economy in the past 30 years.

Economic growth in emerging countries

In 2017, emerging countries — many of which experienced a phase of slowing growth or recession in 2016 — saw an increase in their growth rates to over 4%, and the trend towards more robust economic growth is expected to continue in the following year, driven above all by China and India.

At Home coffee consumption - Italian market

+2.6%

International Food Service business

+10%

Industry Overview

Sales in the At Home business rose by 2.6%

In the At Home business on the Italian market, and in the Grocery (Food&Drug) sector in particular, sales increased by value (+2.6%), as a result of a +1.7% growth by volume and a +0.9% increase in prices.
In terms of product type, there was growth above all in categories influenced by summer seasonality, such as "Frozen Products" (+5.3% by value), "Beverages" (+4.7%) and "Fresh Products" (+4.8%). Coffee consumption decreased further, following the downtrend already witnessed in the past years: the annual decline was -2.7%, with a 4% increase in average prices, which generated an increase in sales of 1% by value for the reporting year.
The percentage of promotional sales on the coffee market continued to remain at high levels (50%), against a stable industry scenario.

The capsule segment reported a +23% growth rate

The decline in sales of coffee impacted all main segments, from more traditional ground coffee — including decaffeinated — to espresso, which was further penalised by consumers' choices, also because they shift towards the capsule segment. The latter was the only segment that recorded double-digit growth rates (+23%), also thanks to the increasingly higher number of products compatible with the main espresso machine systems. From a competitive standpoint, private-label products and lower-price brands developed further. Within this context, Lavazza performance slightly shrank, mainly in the more traditional segment of coffee for mocha pot preparation, whereas decaffeinated coffee and whole-bean products reported positive results.

Lavazza consolidated its market share in the Food Service sector

FOOD SERVICE
In the Food Service channel, Lavazza achieved growth by both net sales and volumes in 2017, consolidating its market share in a commercial context marked by a slight recovery.
The growth trend was driven by an expansion of the customer base and a focus on the premium segment, accompanied by several acquisitions of major customers within the Away From Home business. The Eraclea brand also recorded excellent results in 2017, up compared to 2016.
In the Italian Food Service channel, the Company has set ambitious growth objectives for 2018, backed by a steady focus on the acquisition of new customers and major customers, ongoing product mix improvement and continuous optimisation of internal processes. The innovation of the product portfolio will continue, for example, through the launch of ¡TIERRA! Colombia.

The international Food Service business grew

The international Food Service business grew by 10% in 2017. The North American market witnessed a particularly significant growth, with an increase in sales exceeding 20% compared to the previous year.

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Operating and Financial Performance of the Lavazza Group

The Lavazza brand continued to gain momentum steadily in 2017, constantly increasing its international footprint, yielding revenue growth of three times the market average of 2%. All of this was made possible by investing constantly and focusing on safeguarding the profitability of the business and expanding margins — fundamental to the Group's long-term financial sustainability.

Kicking Horse Coffee Co. Ltd, Espresso Service Proximité S.A. and Nims S.p.A. joined the Group

In 2017, in addition to the full integration of the Merrild and Carte Noire S.a.s. brands, Kicking Horse Coffee Co. Ltd, Espresso Service Proximité S.A. and Nims S.p.A. joined the Group and are poised to further boost profitable growth. Lavazza was also included among the top 100 brands in Global RepTrak® 2018, the annual rankings of the companies with the strongest reputations in the world. The Group's organic growth will be the main focus in 2018, in accordance with the guidelines of the strategic plan: internationalisation, brand reinforcement and further expansion of operating margins.

Sales of goods and services amounted to €2,014.8 million

Sales of goods and services amounted to €2,014.8 million, up 6.3% compared to 2016, as a result to the expansion of the Group's key countries: France, which is Lavazza's second reference market, Germany, the United Kingdom and the United States, which grew at a healthy pace by value and in terms of market share. Lavazza maintained its leading position in Italy, which accounted for approximately 37% of the Group's total revenues. The product portfolio and the clear strategy of segmenting the product range to suit the various customer types thus allowed new important products to be brought to the market across all channels, in line with consumption trends.

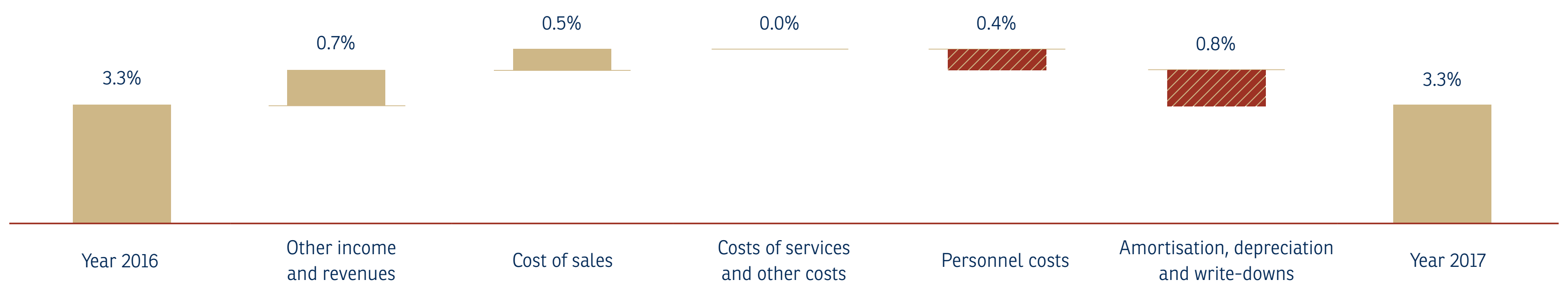
EBIT
8.5 %

EBITDA
12.5 %

Operating income (EBIT) amounted to €67 million, up 8.5% compared to €61.7 million for 2016; EBIT margin was essentially unchanged in line with the previous year. As shown by the following graphical analysis, the essential stability was the result of the following factors:

- the cost of sales increased in absolute value mainly as a consequence of the higher volumes of green coffee, whereas the ratio to sales was in line with the previous year;
- costs of services and other directly related costs increased in absolute value by €46.5 million compared to 2016; in percentage terms they were in line with the previous year;
- personnel costs increased in absolute terms due to both the expansion of the headcount for certain strategic functions of the Parent Company and the new acquisitions; in percent terms, they rose by 0.4 points.

CHANGE IN EBIT MARGIN



EBITDA was €200.8 million, increasing by 12.5% compared to €178.5 million for the previous year; EBITDA margin was 10% (compared to 9.4% in 2016).

Net profit for the year was €44.7 million, essentially in line with the figure for 2016 (net of the positive effects generated by non-recurring components of about €35 million).

Net working capital amounted to €456.9 million, up by €50.1 million compared to €406.8 million at 31 December 2016. This change was attributable to higher inventories (€41.3 million), higher operating activities (€43.6 million) - chiefly related to the new acquisitions, in particular that of Nims S.p.A. - and increased advances (€37.3 million), also associated with the Nims S.p.A. business line.

Net fixed assets were €1,238.9 million, up by €185 million compared to €1,053.9 million at 31 December 2016, mainly owing to the acquisition of Kicking Horse Coffee Co. Ltd, Nims S.p.A. and Espresso Service Proximité S.A..

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Net financial position stood at €457.7 million compared to €687.5 million at 31 December 2016, as a result of the acquisitions finalised in 2017.
As shown by the following chart, net cash flows generated by operating activities were positive at €114 million, attributable to the earnings component (profit plus non-monetary costs), which was positive for €165.9 million, and the €51.9 million decline in net working capital.

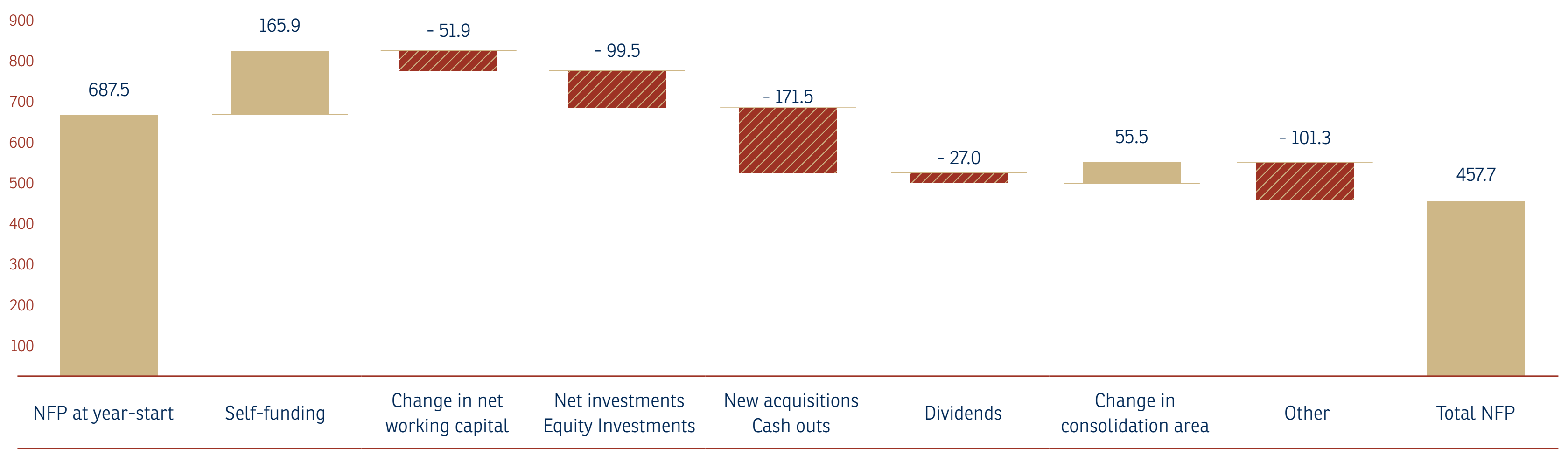
In the reporting year, investments net of disposals totalled €99.2 million and were broken down as follows:

- investments in tangible assets (€90.2 million), mainly involving plant, industrial machinery and espresso machines on free loan for use;
- investments in intangible assets (€14.6 million), primarily due to development costs incurred in order to adapt and upgrade the Group's IT and reporting systems;
- disposals for a total of €5.6 million.

In addition, net financial position changed as a result of the following factors: a cash outlay amounting to €171.5 million associated with the acquisition of Kicking Horse Coffee Co. Ltd., Nims S.p.A. and Espresso Service Proximité S.A.; the change in the consolidation area, positive for €55.5 million and arising from the aforementioned acquisitions (further information on the acquired assets is given in the relevant Notes); and the recognition of a financial debt of €52 million, related to the finance lease for the new Headquarters.

BRIDGE OF NET FINANCIAL POSITION

Euro million



The following should be noted to complete the analysis of the main operating and financial ratios:

- **ROS**, calculated as the ratio of core business profit to sales, was 3.4% in 2017, unchanged compared to the previous year (3.4%). The trend was similar to that of the EBIT margin;

- **ROI**, determined as the ratio of core business profit to capital invested in the core business, includes operating items of the balance sheet, namely inventories, trade receivables and payables and fixed assets net of write-ups. It decreased to 4%, compared to 4.4% for the previous year; the reduction was chiefly attributable to the increase in the value of intangible assets as a result of the acquisition of three companies, i.e., Kicking Horse Coffee Co. Ltd, Nims S.p.A. and Espresso Service Proximité S.A.;

- **ROE**, calculated as the ratio of profit for the year to equity, stood at 2.1% in 2017, declining sharply compared to 2016 (3.8%), primarily as a result of the reduction in net result due to the contingent income related to 2016 taxes.

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Sales of Goods and Services and Costs of the Lavazza Group

Sales of Goods and Services

PARENT COMPANY'S SALES IN ITALY

AT HOME BUSINESS

Lavazza maintained its leading position

The coffee market in Italy dropped by 2.7% in terms of volumes compared to 2016, with a decline in all segments except for portioned coffee, which grew by 23% eroding some of the traditional espresso segment's volumes.
The market grew slightly by value with a 4% increase that more than offset the decline in volumes, leading net sales to increase by about 1%.
Within this scenario, Lavazza maintained its leading position, decreasing its market share by volume, which stood at 37% (-1.4% on 2016).
Average market sales prices rose by 4% compared to 2016, as a result of both the increase in Lavazza's sales prices (+3%) and a shift in the product mix towards higher-price products, such as capsules.

AWAY FROM HOME BUSINESS

The AFH Italy sales for 2017 grew by 8%, in detail:

Uptrend of traditional coffee

FOOD SERVICE

Traditional coffee confirmed its uptrend (+9% on 2016), achieving a market share of 8% by volume.

Growth of OCS Vending sales

OCS VENDING

In the Italian market, OCS Vending reported an increase in sales compared to the previous year (+10%), mainly owing to the acquisition of Nims S.p.A.: on a like-for-like consolidation basis, sales were stable compared to 2016, with an increase in traditional coffee and the Firma system and a decline in the Espresso Point system.

Home business

+19%

Away From Home business

+11%

PARENT COMPANY'S INTERNATIONAL MARKET SALES THROUGH DISTRIBUTORS

Lavazza S.p.A. continued to show a positive performance on the foreign markets it serves in terms of the volumes of traditional coffee sold (+3%), while portioned coffee declined, mainly due to the Espresso Point system.
Significant growth was reported by Eastern European countries, in particular Russia and Poland.

SALES FIGURES OF THE SUBSIDIARIES

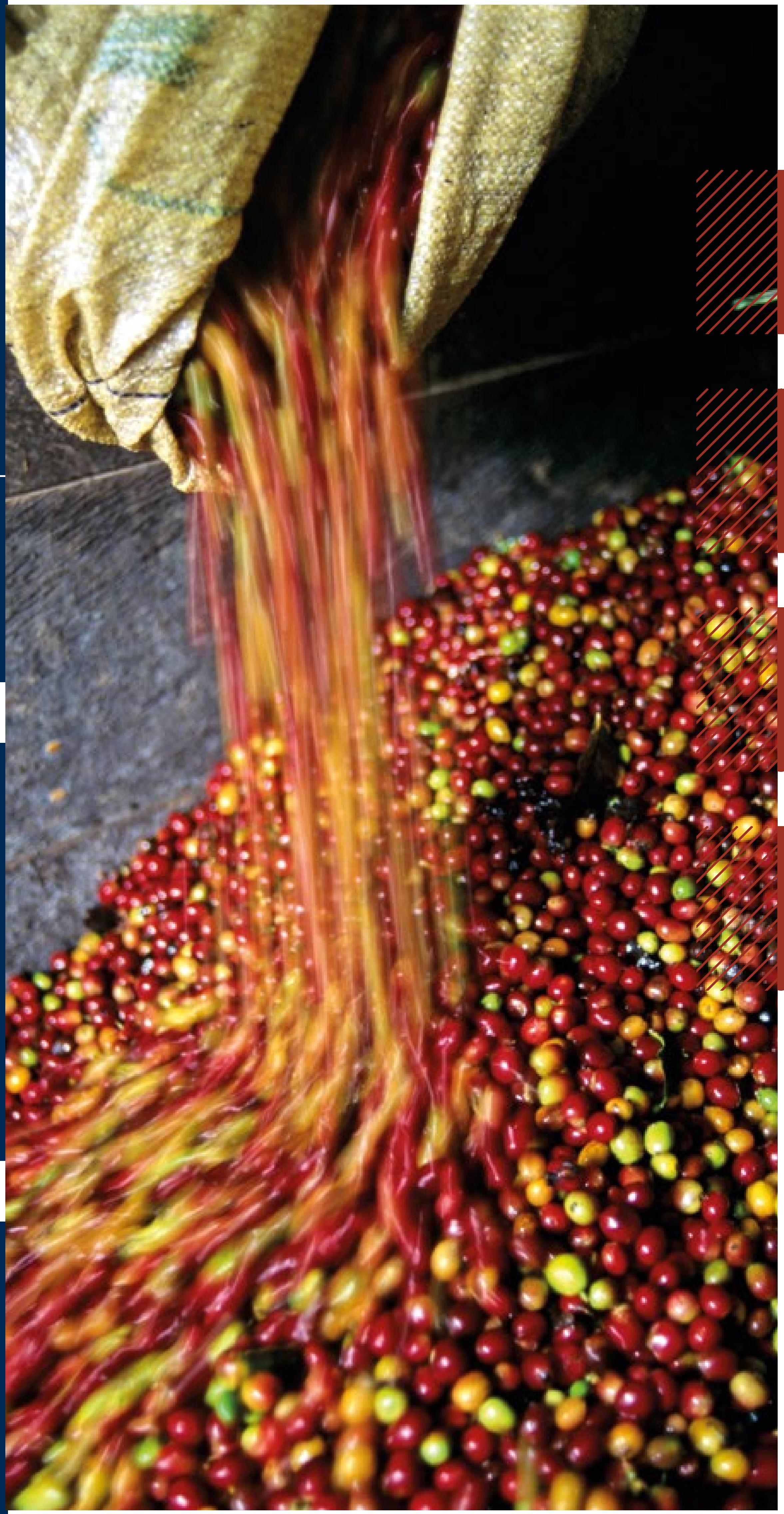
AT HOME BUSINESS

With reference to foreign markets, volumes grew by 11% and sales by 19%, the latter driven by the rise in list prices implemented at year-start 2017 and the increasingly higher ratio of portioned coffee to total sales.
Worth of mention are the excellent performance reported by the French company Carte Noire and the good results posted by German and UK subsidiaries.

Lastly, in May 2017, the Lavazza Group acquired Kicking Horse Coffee, a leading Canadian producer of Organic & Fair Trade certified coffee in North America. The company operates in Canada and the USA through distributors, mainly in the retail sector; at the acquisition date, its turnover amounted to about CAD 30 million.

AWAY FROM HOME BUSINESS

The international Away From Home business reported an overall growth of 11% in terms of sales, particularly in North America and the United Kingdom. In France, sales uptrend was confirmed, also thanks to the acquisition, finalised in September 2017, of Espresso Service Proximité S.A. (ESP S.A.), a French distributor operating primarily in the OCS/Vending channel and specialised in the sale of coffee products and coffee machine rental.



Bags of Colombian harvest
14 mn

Bags of Brazilian harvest
50 mn

Bags of Vietnamese harvest
28 mn

Bags of Indonesian harvest
10 mn

Costs

RAW MATERIALS – GREEN COFFEE

In 2017, the coffee market was characterised by a decline in the prices of both Arabica and Robusta coffee. In the previous year, the drought that repeatedly struck the areas in which Brazilian Robusta coffee is grown had led speculators to take significant long positions on both exchanges in view of possible coffee shortages. In recent months, the opposite phenomenon has emerged, with funds systematically taking short positions that have ballooned to enormous proportions, depressing the markets.

In point of fact, the actual market situation does not present such an extensive coffee surplus, but the funds often take a speculative approach that may not coincide with the analyses conducted by coffee roasters. Such far-reaching phenomena are not offset by the transactions of the opposite sign 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 these abrupt price swings.

At the level of price analysis, the New York exchange fluctuated between an annual peak of around 158 cents/lb (second position) at the end of January and 116 in mid-June, to close the year at around 125 cents. The London exchange mirrored its counterpart, peaking at 2,261 US$/t in late January and reaching a low of 1,680 in mid-December, also for second position; the price on the London exchange was around 1,700 US$/t at year-end.

At the level of production, the Brazilian harvest, currently in a negative phase, amounted to around 50 million bags, with Robusta still down compared to the extremely high volumes prior to the drought. As in the past two years, Brazilian producers — despite reduced availability — were well compensated and capable of selling in a regular manner, maintaining tension on the domestic market and garnering excellent prices.

Columbia returned to steady levels of nearly 14 million bags of excellent quality, sold at competitive or equal prices compared to 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 production improvement.
The Vietnamese harvest has now amounted to between 25 and 28 million bags — almost all of which are exported — for several years, and Indonesia is also stable at 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 we make our 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.

Lavazza as Official Coffee the Grand Slam tournaments

SERVICE COSTS

Service costs increased by 6% compared to the previous year, mainly mirroring the change in the Group's consolidation area following the acquisition of Nims S.p.A. and the inclusion of Carte Noire S.a.s. for the entire financial year. With reference to the Parent Company, the most significant increases referred to higher costs for rentals and transport of green coffee, as well as compensation paid to customers for promotional activities and marketing costs, in particular for investments in advertising campaigns.

First Flagship Store inaugurated in Milan

In 2017, marketing investments rose in all sectors. Among the most significant events of the year, Lavazza was the official coffee supplier of the Grand Slam tournaments: Wimbledon, the US Open, Roland Garros and since 2016 the Australian Open. Moreover, in 2017 the first Lavazza Flagship Store opened in Milan.

PERSONNEL COSTS

At year-end 2017, personnel costs increased by about 7% overall (net of changes in the consolidation area and exchange rate effect) compared to the previous year.
At the Headquarters level, personnel costs grew by 7% compared to the previous year, mainly due to an increase in headcount (which began in 2016 and continued in the reporting year) 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 (these policies generated an increase which remained nonetheless below 3%).
With regard to foreign subsidiaries, significant cost increases were recorded primarily in the strategic markets (the UK: +15%; Germany: +16%; the United States: +35%; 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 (-68%) due to a change in the route to market that resulted in a reduction in the number of direct employees.

GAINS (LOSSES) FROM EQUITY INVESTMENTS

For the details on these items, please refer to the comments provided in the Notes to the Financial Statements.

FINANCIAL INCOME (EXPENSE)

The Company's liquidity was partly allocated to operational management and, as customary, partly invested in conservative short-term instruments in Euro aimed at protecting capital.
The more structural portion — attributable to Lavazza Capital S.r.l. — was invested in financial instruments with a medium-term holding period that provided an attractive return. An additional partial hedge of the interest-rate risk associated with the financial expense on the real-estate lease contracted to build the new headquarters was undertaken during the year.

Lavazza Coffee Design - Milan Flagship Store

Lavazza Group's Investments and Acquisitions

INDUSTRIAL INVESTMENTS

Industrial investments at Italian plants were essentially unchanged compared to the previous year and in line with the strategic long-term plan. At the Turin facility, projects aimed at increasing production capacity and expanding both portioned and whole-bean products were completed in the second half of the year. At the Gattinara plant, the process of increasing production capacity for portioned products was completed during the year.
Investments aimed at increasing food safety controls during the product packaging process deserve particular mention.
In contrast to previous years, considerable investments were made in the maintenance of industrial assets, extending to raw material receiving equipment, the roasting process and industrial buildings. In addition, work aimed at ensuring respect for the environment and improving workplace safety continued at all Italian plants.

Lavazza acquired 80% interest in Kicking Horse Coffee Co. Ltd

ACQUISITIONS

In 2017, the Group finalised three significant acquisitions: Kicking Horse Coffee Co. Ltd, Nims S.p.A. and Espresso Service Proximité S.A..

KICKING HORSE COFFEE CO. LTD

In May 2017, the Group announced its purchase of an interest in Kicking Horse Coffee Co. Ltd from the private-equity fund Swander Pace Capital, which had acquired the investment in 2012 in partnership with Jefferson Capital and United Natural Foods. In recent years, Kicking Horse Coffee Co. Ltd, a leading Canadian organic and fair trade coffee player, has stood out in Canada and the USA thanks to its impressive growth. As a result of this transaction, Lavazza acquired 80% of the company for a consideration of approximately €116.1 million. Elana Rosenfeld, who founded the company in 1996, retained the remaining 20% and was appointed CEO. The Group has a call option on the remainder, which may be exercised starting in the third year from the closing date (included among financial liabilities in the consolidated financial statements).

A leading Canadian organic and fair trade coffee player

Based in Invermere, British Columbia (Canada), Kicking Horse Coffee Co. Ltd celebrated its 20th anniversary in business in 2016. It is a pioneer in the Canadian organic, fair trade coffee market. The brand is known for its specific aromas and unique, distinctive brand equity.
Through this acquisition, the Group continues its ongoing growth and international diversification, consolidating its position among global market leaders.

In detail, this acquisition is an important step for the development strategy in North America, which is a key market for the Lavazza Group. As occurred in the recent acquisition of Carte Noire S.a.s. and Merrild, Lavazza intends to promote the brand equity of Kicking Horse Coffee Co. Ltd by sharing expertise and values.

Interest in KHC

80%

Acquisition of Espresso Service Proximité S.A. interest in the OCS sector

ESPRESSO SERVICE PROXIMITÉ S.A.

In September 2017, the Group announced the acquisition of a 74% stake in the company Espresso Service Proximité S.A. for a consideration of approximately €10.9 million. The Group already held 26% interest in the company. Founded in 2009, Espresso Service Proximité S.A. was a joint-venture between Lavazza, Deotto Finance and IVS Group. It was set up to market Lavazza (capsule and machine) espresso coffee systems in France, particularly for the OCS (Office Coffee Service) sector. This transaction was yet another proof of the importance of France as a key market in the Lavazza Group's global growth process.

Acquisition of NIMS S.p.A.
stronger positioning in the door-to-door sale segment

NIMS S.p.A.

In October 2017, the Group announced the acquisition of an interest in Nims S.p.A., an Italian firm specialised in distribution and direct door-to-door sale of coffee capsules and coffee machines throughout Italy.
With this transaction, Lavazza bought out about 80% of the Padua-based player with which it has worked for more than twenty years in marketing portioned coffee both in the At Home channel and, to a more limited extent, in OCS (Office Coffee Service) with a dedicated product portfolio. The transaction combines two entities with shared values, tradition and business culture that to date have served more than one million customers in total.
The consideration paid for the transaction was approximately €49.9 million. The transaction — which will be concluded within a year with the acquisition of the remaining 20% of Nims S.p.A. capital, exercising the call option included in the consolidated financial statements among financial liabilities — represents an important step for the Lavazza Group's development strategy in the portioned coffee segment in Italy, helping to strengthen its leadership and enhance its ever-increasing ability to reach the end consumer.

The Parent Company – Luigi Lavazza S.p.A.

Sales of goods and services amounted to €1,446.4 million, up 1.2% compared to €1,429.8 million for 2016.

Operating income (EBIT) was €39.6 million, down €14.5 million compared to €54.1 million for 2016. EBIT margin went from 3.8% to 2.7%.

Profit before taxes totalled €47.2 million, decreasing by €13.7 million compared to €60.9 million for the previous year, mainly due to the increase in costs associated with the purchase of green coffee (rentals, transport), general and administrative costs and promotional contributions.

Net profit for the year was €44.2 million, essentially in line with the figure for 2016 (net of the positive effects generated by non-recurring components of about €35 million).

Net financial position was a negative €162.7 million, down by €132 million compared to 2016. The decrease primarily refers to the decline in cash and cash equivalents resulting from the acquisition of the equity investment in Kicking Horse Coffee Co. Ltd, Nims S.p.A. and Espresso Service Proximité S.A..

Net cash flow from operating activities was positive at €109.1 million, significantly impacted by the earnings component (profit plus non-monetary costs) of €123.6 million, only partly offset by the absorption of liquidity attributable to the change in net working capital (€14.5 million).

Cash flows from investing activities showed an overall negative net balance of €209.2 million, mainly composed of:

- investments in intangible assets (€13.9 million), mainly attributable to the capitalisation of costs for long-term software projects, R&D costs and the opening of the first Lavazza Flagship Store;
- investments in tangible assets (€60.8 million), chiefly related to plant, machinery and coffee machines for the Food Service and OCS sectors;
- equity investments (€135.1 million), mainly attributable to the acquisition of interests in Kicking Horse Co. Ltd, Nims S.p.A. and Espresso Service Proximité S.A., net of the positive balance arising from the liquidation of Lavazza Finance Ltd;
- recapitalisations of equity investments in subsidiaries (€3.9 million).

Sales

1,446.4 mn

Nuvola Lavazza - Headquarters

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Other 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.

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 (UK) Ltd (United Kingdom) - Sales amounted to GBP 70.5 million, up compared to the previous year. All channels continued to grow thanks to the consolidation of the products launched in 2016 and the expanded distribution.

Lavazza Deutschland G.m.b.H. (Germany) - Sales stood at €173.9 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) - As a consequence of the increase in the low-price segment, the company's sales were €76.6 million, down compared to the previous year due to the contribution of the retail business unit to Carte Noire S.a.s..

Lavazza Kaffee G.m.b.H. (Austria) - Sales totalled €15.4 million, up compared to the previous year.

Sales of Carte Noire
491 mln

Lavazza Nordic AB (Sweden) - The company's sales rose thanks to the marketing investments made. Sales were SEK 114 million in 2017.

Merrild Kaffe ApS (Denmark) - The company reported sales amounting to DKK 366 million, up compared to 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 59.6 million, with a fair increase in the At Home channel.

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 investment holding company, it currently holds the investments in the Indian company Fresh & Honest Cafè Ltd.

Lavazza Premium Coffees Corp. (United States) - Sales totalled USD 98.2 million, increasing on the previous year, particularly in the Away From Home channel.

Coffice S.A. (Argentina) - The company operates in the Argentinean OCS (Office Coffee Service) segment. Sales were ARS 40.9 million. A reorganisation process was launched in 2017, resulting in the disposal of the vending business unit.

Lavazza do Brasil Ltda (Brazil) - Sales totalled BRL 12.9 million. In the reporting year, the reorganisation process of its activities was completed, including the disposal of the vending business unit and the redefinition of its distribution model.

Fresh & Honest Cafè Ltd (India) - The company, which primarily operates in the vending segment, reported sales of €20.5 million.

Lavazza Trading (Shenzhen) Co. Ltd (China) - In the reporting year, the company continued to provide the Parent Company with services related to coffee machine development.

Carte Noire S.a.s. (France) - The company distributes Carte Noire-branded and Lavazza-branded products within the retail sector in France; sales amounted to €491 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 €32.4 million in 2017.

Kicking Horse Coffee Co. Ltd (Canada) - The company, a leading Canadian organic and fair-trade coffee player, has stood out in Canada and the USA thanks to its impressive growth in recent years. Since its acquisition, it generated sales of about CAD 30 million.

Espresso Service Proximité S.A. (France) - The company was set up to market Lavazza (capsule and machine) espresso coffee systems in France, particularly for the OCS (Office Coffee Service) sector. In 2017, sales were €36 million.

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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 risk/return of its investments.

Cofincaf S.p.A. - The company, which provides financial support to customers in the Vending and Food Service sectors, recorded financing transactions totalling €41.9 million at 31 December 2017 (€52.6 million in 2016). The reduction of financing chiefly concerned the Vending sector in Italy.

Lea S.r.l. - The company, which manages a café and a gourmet restaurant in the historic site in the heart of Turin where the history of Lavazza began in 1895, recorded sales of €0.6 million, unchanged compared to 2016.

Nims S.p.A. - The company, which is specialised in distribution and direct door-to-door sale of coffee capsules and coffee machines throughout Italy, was acquired in October 2017 and has therefore been consolidated in the Group's accounts as of the acquisition date. In the reporting year, sales amounted to €101 million, slightly down compared to €105 million for 2016.

Lavazza Coffee Design - Milan Flagship Store

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Risk Management

Efforts continue to be dedicated to mitigating the main types of risks and monitoring the actual, timely application of the Company's policies, so as to focus increasingly closely on proper, shared risk management.

EXCHANGE RATE RISK

The Euro/Dollar exchange rate fluctuated broadly in 2017, chiefly due to events of a political nature. The Dollar appreciated early in the year, reaching a low of 1.0405 following Trump's election and expectations tied to his electoral promises, in addition to an environment of strong political risk in Europe due to a series of general elections in various countries (Holland, France, etc.).
The French elections were a watershed event, following which the Euro gained momentum, rallying to a high of 1.2036. The annual average exchange rate was 1.13.
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, such as the GBP and ZAR, 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 2017, yield curves began to steepen both for the Euro and also — and above all — for the USD. The U.S. dollar showed the effects of previous rate increases, and the entire curve rose over the course of the year, with increases of 70-90 pips in the short-term section and of more modest amounts in the long-term segment, amounting to 50 pips for maturities over five years.
The Euro curve remained essentially unchanged on the short-term stretch, whereas maturities over two years began to price in a rate increase, with rises of between 20 and 40 pips for maturities over two years.
An additional hedge of the interest-rate risk associated with the real-estate lease contracted to build the new headquarters was undertaken through the use of interest-rate swap contracts to convert an additional share of the lease from floating- to fixed-rate.

COMMODITY PRICE RISK

Lavazza is exposed to the risk associated with fluctuations in raw materials (green coffee) prices. In order to limit the effect of price fluctuations, hedging instruments were used. The company did not undertake any speculative transactions.

CREDIT RISK

Despite the increase in turnover, within the Group's organic consolidation area, the credit exposure at 2017 year-end was less than in the previous year, whereas on the non-organic consolidation area the increase in credit was less than proportional to the increase in sales.

Average payment times remained highly satisfactory.
It should be noted that the Group's new credit risk management policy was approved during the year. The policy aims to standardise the processes of approving credit for and clustering customers in the interest of more consistent management of credit issues in the various countries. A great deal of attention has been devoted to circulating and sharing the best practices applied by the Parent Company, a process that is also supported and made possible by the implementation of the model for monitoring credit orders in the IT system used by the major Group companies.

Research and Development

There were two main aspects to the research and development activity performed by the Parent Company: development and launch of new products — whether food items or coffee machines — and applied research into new methods of evaluating green coffee. In sustainability projects, development work continued on compostable capsules, extending to both the A Modo Mio products and ranges of products compatible with the Nespresso® and Dolce Gusto systems.

Development and design of 'sustainable' packaging

In packaging innovation efforts, work is currently focusing on developing and designing aluminium-free primary packaging and converters for soft-pack and vacuum-pack products, in addition to other types of "sustainable" packaging.

The range of organic certified products expanded

In research and development work aimed at expanding the range of Lavazza and Carte Noire S.a.s. brand products with organic certification, 100% Arabica blends and an Alteco Robusta blend were introduced, and the ¡Tierra! range was expanded by the introduction of the new product ¡Tierra! Colombia for filter and espresso preparations.

Production of new espresso machines was launched

Finally, production of new espresso machines was launched:

- Jolie Plus, Jolie Milk, Tiny and Milk-Easy, increasingly compact machines for At Home use with the A Modo Mio system, also capable of handling milk-based recipes;
- Mini and Elogy for the OCS sector, dedicated solely to the Nims S.p.A. business for the In Black line;
- Mini and Inovy Compact, for the OCS sector on the FIRMA line.

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Lavazza Nuvola – The Museum

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Lavazza's Commitment to Social and Environmental Sustainability of its Activities

Lavazza has always been a responsible company committed toward 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 — these are the pillars of the Company's approach to doing business. Over the decades, this focus has been transformed into coordinated action in Italy and coffee-producing countries, through a holistic approach that aims at integrating sustainability in all business areas.

Importance of the relationship with local communities

In addition, the Lavazza Sustainability Department works in concert with the Purchasing Department and the Coffee-Buying Department to set buying standards for green coffee and all other products that include social and environmental criteria and require all suppliers to comply with and spread Lavazza's values. Particular attention is paid to the relationship with local communities, not only in the area where the Group has its headquarters, but also where its plants and subsidiaries are located. Through community engagement efforts, many projects have been completed in support of the places where Lavazza operates; the Company holds discussions with and works actively with the local governments, associations and foundations to create synergies with a significant social, economic and environmental impact.

Lavazza embraces the UN Global Compact goals

Lavazza has also decided to commit responsibly to a sound environmental sustainability process involving all players in the supply chain in an informed manner, with the aim to identify areas with room for improvement — from an environmental standpoint — in processes which the organisation has the power to influence and control. Redefining the Company's processes and products by applying the novel perspective of environmental sustainability and efficiency is a way of responding adequately to an evolving market, in terms of both the increasingly strict environmental regulations and the expectations and demands of stakeholders. In 2017, to provide a clearer framework and guidance for its sustainability efforts, Lavazza decided to participate in the United Nations Global Compact and embrace 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 was with this in mind that Lavazza decided to accept this challenge, not only adopting the Development Goals as guidelines for its sustainability policy, but also setting itself a further goal: to use its ability to communicate successfully to spread the United Nations' messages, involving all of its stakeholders in its commitment to a sustainable future.

2018 Lavazza Calendar: "2030 What Are You Doing" by Platon

Accordingly, in 2018 Lavazza has committed to awareness-raising initiatives targeting Group employees, academe, the artistic community, consumers and customers.
As part of its adoption of the Sustainable Development Goals, which urge companies to strike valued partnerships in pursuit of sustainability, in 2017 Lavazza decided to commit to adopting the Children's Rights and Business Principles with the support of Save the Children. These principles — created by Save the Children, UNICEF and the UN Global Compact — aim to provide companies with guidance in designing programmes that seek to protect children's rights in all of their business operations. Lavazza has been among the first companies in Italy to join the programme and will partner with Save the Children in 2018 to devise policies and operating programmes for the adoption of the Children's Rights and Business Principles in its operations. Lavazza is a constantly evolving company that is striving to devise 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 value, in addition to protecting the world in which we live.

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, officially adopted in March 2015, in 2017 the Parent Company continued to design and implement an Integrated Health, Workplace Safety, Energy and Environment Management System, officially adopting additional company procedures compliant with the ISO 14001, ISO 50001 and OHSAS 18001 standards of reference.

The scope of HSE internal audit activity was also extended to international plants, including verification of the application of the procedures issued and officially adopted in the meantime.

Achieving the highest workplace health and safety standards has allowed the Parent Company to obtain the permits necessary to install several new systems at the Turin and Gattinara plants and make various modifications to the Pozzilli production facility.

Further Information

The Parent Company, Luigi Lavazza S.p.A., and the Italian Group companies together with their parent/consolidating company, Finlav S.p.A. decided to participate for the three-year period 2016-2018 in Italy's tax consolidation programme in order to avail of the related tax benefits.

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

The Parent Company has prepared the Programmatic Document on Security in accordance with Legislative Decree 196/2003, Articles 34 and 26 of Attachment B.

The Parent Company 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 2017.

THE CHAIRMAN OF THE
BOARD OF DIRECTORS

(Alberto Lavazza)

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3 Consolidated Financial Statements

Lavazza Coffee Design - Milan Flagship Store

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Consolidated Balance Sheet - Assets

Euro units		31/12/2017		31/12/2016	
A)	**CALLED-UP SHARE CAPITAL NOT PAID**		**0**		**0**
B)	**FIXED ASSETS**				
I)	**INTANGIBLE ASSETS**				
2)	Development costs	4,908,910		4,438,807	
3)	Rights for industrial patents and rights for exploitation of intellectual property	4,225		21,249	
4)	Concessions, licences, trademarks and similar rights	331,706,530		288,506,819	
5)	Goodwill	502,166,651		429,480,121	
6)	Intangible assets in progress and advances	4,010,757		991,120	
7)	Other	18,276,898		13,741,671	
	TOTAL INTANGIBLE ASSETS		**861,073,971**		**737,179,787**
II)	**TANGIBLE ASSETS**				
1)	Land and buildings	186,593,683		119,609,011	
2)	Plant and machinery	131,841,227		133,432,332	
3)	Industrial and commercial equipment	65,163,815		49,997,355	
4)	Other assets	15,699,479		11,398,540	
5)	Tangible assets in process and advances	40,491,499		55,213,915	
	TOTAL TANGIBLE ASSETS		**439,789,703**		**369,651,153**
III)	**FINANCIAL ASSETS**				
1)	Equity investments				
	a) subsidiaries	3,003,890		3,003,890	
	b) affiliates	25,000		2,053,051	
	d-*bis*) other companies	15,607,794		15,002,994	
2)	Receivables				
	d-*bis*) from others				
	due after one year	3,206,062		1,150,651	
3)	Other securities	23,021,907		8,222,790	
4)	Financial derivative assets	404,673		0	
	TOTAL FINANCIAL ASSETS		**45,269,326**		**29,433,376**
	TOTAL FIXED ASSETS (B)		**1,346,133,000**		**1,136,264,316**

Euro units		31/12/2017		31/12/2016	
C)	**CURRENT ASSETS**				
I)	**INVENTORIES**				
1)	Raw materials, ancillaries and consumables	195,374,393		182,401,389	
2)	Work-in process and semi-finished products	2,341,367		1,165,609	
4)	Finished products and goods	161,047,585		130,094,938	
5)	Inventory advances	1,430,606		1,958,136	
	TOTAL INVENTORIES		**360,193,951**		**315,620,072**
II)	**RECEIVABLES**				
1)	Trade receivables				
	a) due within one year	403,016,811		397,893,953	
	b) due after one year	17,743,830		16,902,544	
2)	From subsidiaries	0		1,617	
3)	From affiliates	0		6,907,976	
4)	From the Parent Company	39,662,703		40,268,610	
5)	From companies subject to the control of parent companies	25,000,000			
5-*bis*)	Tax receivables	49,194,412		25,055,514	
5-*ter*)	Deferred tax assets	26,135,141		30,004,484	
5-*quater*)	Other receivables				
	a) due within one year	13,018,035		11,183,427	
	b) due after one year	290,726		341,309	
	TOTAL RECEIVABLES		**574,061,658**		**528,559,434**
III)	**CURRENT FINANCIAL ASSETS**				
4)	Other equity investments	5,002,425		0	
5)	Financial derivative assets	2,133,569		5,805,598	
6)	Other securities	311,496,540		454,399,595	
	TOTAL CURRENT FINANCIAL ASSETS		**318,632,534**		**460,205,193**
IV)	**CASH AND CASH EQUIVALENTS**				
1)	Bank and post office deposits	593,187,983		671,186,050	
2)	Cheques	15,083		0	
3)	Cash and valuables on hand	101,994		97,814	
	TOTAL CASH AND CASH EQUIVALENTS		**593,305,060**		**671,283,864**
V)	**TANGIBLE ASSETS HELD FOR SALE**		**0**		**3,300,000**
	TOTAL CURRENT ASSETS (C)		**1,846,193,203**		**1,978,968,563**
D)	**PREPAYMENTS AND ACCRUED INCOME**		**36,856,844**		**15,281,351**
	TOTAL ASSETS		**3,229,183,047**		**3,130,514,230**

Consolidated Balance Sheet - Equity and Liabilities

Euro units			31/12/2017		31/12/2016
A)	**EQUITY**				
I.	SHARE CAPITAL	25,000,000		25,000,000	
II.	SHARE PREMIUM RESERVE	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				
	a) other statutory reserves	261,514,064		261,102,224	
	b) consolidation and other reserves	(4,590,213)		0	
	c) currency translation reserve	(10,363,758)		(6,466,122)	
VII.	CASH FLOW HEDGE RESERVE	(2,193,603)		2,624,387	
VIII.	RETAINED EARNINGS	1,487,830,177		1,433,156,792	
IX.	PROFIT (LOSS) FOR THE YEAR ATTRIBUTABLE TO THE GROUP	44,399,262		81,950,294	
X.	NEGATIVE RESERVE FOR TREASURY SHARES IN PORTFOLIO	(17,732,533)		(17,732,533)	
	TOTAL EQUITY ATTRIBUTABLE TO THE GROUP		**2,150,808,347**		**2,146,579,993**
	MINORITY INTERESTS	2,425,188		1,308,329	
	PROFIT (LOSS) ATTRIBUTABLE TO MINORITY INTERESTS	259,416		209,751	
	TOTAL MINORITY INTERESTS		**2,684,604**		**1,518,080**
	TOTAL CONSOLIDATED EQUITY		**2,153,492,951**		**2,148,098,073**
B)	**PROVISIONS FOR RISKS AND CHARGES**				
2)	Provisions for taxes, including deferred	13,773,099		15,182,854	
3)	Financial derivative liabilities	5,252,929		2,159,929	
4)	Other	47,940,371		40,432,876	
	TOTAL PROVISIONS FOR RISKS AND CHARGES		**66,966,399**		**57,775,659**

Euro units			31/12/2017		31/12/2016
C)	**EMPLOYEE LEAVING INDEMNITIES**		**23,275,201**		**24,600,332**
D)	**LIABILITIES**				
4)	Payables to banks				
	a) due within one year	101,827,290		62,184,200	
	b) due after one year	304,000,846		378,432,994	
5)	Payables to other lenders				
	a) due within one year	2,495,664		214,132	
	b) due after one year	87,849,127		3,194,173	
6)	Advance payments	37,872,720		561,030	
7)	Trade payables	319,394,877		333,257,444	
9)	Payables to subsidiaries	621,787		607,119	
11)	Payables to the Parent Company	160,670		994,873	
12)	Tax payables	28,382,973		26,157,500	
13)	Social security liabilities	10,299,982		10,098,618	
14)	Other liabilities				
	a) due within one year	72,641,049		74,154,693	
	b) due after one year	9,978,538		0	
	TOTAL LIABILITIES		**975,525,523**		**889,856,776**
E)	**ACCRUALS AND DEFERRED INCOME**		**9,922,973**		**10,183,390**
	TOTAL EQUITY AND LIABILITIES		**3,229,183,047**		**3,130,514,230**

LAVAZZA
TORINO, ITALIA, 1895

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Consolidated Income Statement

Euro units		Year 2017		Year 2016	
A)	**VALUE OF PRODUCTION**				
1)	Sales of goods and services	2,014,753,958		1,895,664,559	
2)	Changes in inventories of work-in-process, semi-finished and finished goods	38,772,283		21,247,200	
5)	Other income and revenues				
	- miscellaneous	24,338,984		11,399,534	
	- grants	3,714,075		3,600,092	
	TOTAL VALUE OF PRODUCTION		**2,081,579,300**		**1,931,911,385**
B)	**COSTS OF PRODUCTION**				
6)	Raw materials, ancillaries, consumables and goods	857,912,472		816,707,897	
7)	Costs of services	725,918,810		686,459,804	
8)	Use of third-party assets	21,406,075		19,922,134	
9)	Personnel costs:				
	a) wages and salaries	162,513,275		150,615,698	
	b) social security costs	44,321,686		37,999,298	
	c) leaving indemnities	7,881,406		8,303,199	
	e) other costs	13,447,812		9,240,065	
10)	Amortisation, depreciation and write-downs				
	a) amortisation	54,230,028		40,996,837	
	b) depreciation	66,590,029		58,785,785	
	c) other write-downs	4,922,922		5,921,271	
	d) write-downs of receivables in current assets and of cash and cash equivalents	1,087,671		2,208,586	
11)	Changes in inventories of raw materials, ancillaries, consumables and goods	8,902,166		(8,765,987)	
12)	Provisions for risks	6,603,413		8,067,046	
13)	Other provisions	384,990		874,668	
14)	Other operating costs	38,508,977		32,855,992	
	TOTAL COSTS OF PRODUCTION		**2,014,631,732**		**1,870,192,293**
	BALANCE BETWEEN VALUE AND COSTS OF PRODUCTION (A - B)		**66,947,568**		**61,719,092**

Euro units		Year 2017		Year 2016	
C)	**FINANCIAL INCOME AND EXPENSE**				
15)	Income from equity investments				
	- in other companies	1,108,101		407,140	
16)	Other finance income:				
	c) from current securities	5,245,876		8,173,793	
	d) income other than the preceding ones	2,968,824		3,317,040	
17)	Interest and other finance expense				
	- other	(5,925,320)		(3,984,170)	
17-bis)	Exchange gains and losses	(6,441,647)		(2,703,839)	
	TOTAL FINANCIAL INCOME AND EXPENSE (15 + 16 - 17 +- 17-bis)		**(3,044,166)**		**5,209,964**
D)	**VALUE ADJUSTMENTS TO FINANCIAL ASSETS AND LIABILITIES**				
18)	Write-ups				
	a) of equity investments	131,903		16,549	
	d) of derivatives	593,472		0	
19)	Write-downs				
	a) of equity investments	(99,183)		(1,466,291)	
	b) of financial assets other than equity investments	(50,097)		(3,935)	
	c) of current securities other than equity investments	(63,360)		(3,358,864)	
	d) of derivatives	(2,908,032)		0	
	TOTAL ADJUSTMENTS (18 -19)		**(2,395,297)**		**(4,812,541)**
	PROFIT BEFORE TAXES (A -B +- C +- D)		**61,508,105**		**62,116,515**
22)	Current, deferred and prepaid tax assets and liabilities for the year				
	- current taxes		(13,097,773)		17,905,120
	- deferred tax liabilities		615,844		65,503
	- deferred tax assets		(4,367,498)		2,072,907
26)	**PROFIT (LOSS) FOR THE YEAR**		**44,658,678**		**82,160,045**
	PROFIT (LOSS) ATTRIBUTABLE TO MINORITY INTERESTS		**259,416**		**209,751**
	PROFIT (LOSS) ATTRIBUTABLE TO THE GROUP		**44,399,262**		**81,950,294**

Consolidated Cash Flow Statement

		Euro units	**Year 2017**	**Year 2016**
A		**Cash flows from operating activities**		
		Profit (loss) for the year	44,658,678	82,160,045
		Income taxes	16,849,427	(20,043,530)
		Interest expense/(income)	(2,289,380)	(7,506,663)
		(Dividends)	(1,108,101)	(407,140)
		(Gains)/Losses from the disposal of assets	672,673	1,631,054
	1	**Profit (loss) for the year, before income taxes, interest, dividends, gains/losses from disposals**	**58,783,297**	**55,833,766**
		Adjustments for non-monetary items that have no counter-entry in NWC		
		Provisions	38,336,750	28,104,515
		Provisions to severance indemnities	732,497	834,861
		Amortisation and depreciation	120,820,057	99,782,622
		Write-downs/-ups of equity investments	17,377	1,453,677
		Write-downs of current securities	63,360	3,358,864
		Other impairment losses	4,922,922	5,921,271
		Adjustments to derivative financial assets and liabilities which did not entail monetary movements	(1,366,322)	(783,687)
	2	**Cash flow before changes in net working capital**	**222,309,938**	**194,505,889**
		Change in net working capital		
		Decrease/(increase) in inventories	(25,290,453)	(29,937,509)
		Decrease/(increase) in trade receivables	2,440,900	(83,169,804)
		Increase/(decrease) in trade payables	(17,243,561)	86,055,041
		Decrease/(increase) in prepayments and accrued income	(1,868,087)	(4,087,496)
		Increase/(decrease) in accruals and deferred income	(371,566)	784,008
		Other changes in net working capital	(11,092,301)	33,010,077
	3	**Cash flow after changes in net working capital**	**168,884,870**	**197,160,206**
		Other adjustments		
		Interest received/(paid)	6,063,895	7,506,663
		(Income taxes paid)	(15,580,191)	(21,281,663)
		Dividends received	123,953	407,140
		(Use of provisions)	(42,795,972)	(15,018,001)
		(Severance indemnities paid)	(2,734,919)	(1,365,113)
		Total cash flows from operating activities (A)	**113,961,636**	**167,409,232**

	Euro units	**Year 2017**	**Year 2016**
B	**Cash flows from investing activities**		
	Tangible assets		
	(Investments)	(90,315,713)	(90,754,934)
	Realised price for divestments	5,487,792	3,675,201
	Intangible assets		
	(Investments)	(14,555,768)	(15,237,300)
	Realised price for divestments	211,214	559,010
	Financial assets		
	(Investments)	(1,861,687)	0
	Realised price for divestments	3,991,872	1,887,021
	Business units acquisition net of cash and cash equivalents	(149,282,000)	(709,500,395)
	Current financial assets		
	(Investments)	0	(390,222,736)
	(Disinvestments)	124,020,737	0
	Total cash flows from investing activities (B)	**(122,303,553)**	**(1,199,594,133)**
C	**Cash flows from financing activities**		
	Third-party funds		
	Increase (decrease) in payables to banks	(5,666,919)	(7,017,529)
	New financing	0	400,495,877
	(Repayment of debt)	(35,000,000)	0
	Own funds		
	(Dividends and advance dividends paid)	(27,000,000)	(25,200,002)
	Total cash flows from financing activities (C)	**(67,666,919)**	**368,278,346**
	Increase (decrease) in cash and cash equivalents (A ± B ± C)	**(76,008,836)**	**(663,906,555)**
	Exchange rate effect	(1,969,968)	(884,492)
	Cash and cash equivalents at year-start	**671,283,864**	**1,336,074,911**
	Cash and cash equivalents at year-end	**593,305,060**	**671,283,864**
	Business unit acquisition		
	Total consideration paid	(171,478,672)	(712,981,377)
	of which: cash and cash equivalents	(171,478,672)	(712,981,377)
	Cash and cash equivalents acquired	22,196,672	3,480,982
	Carrying amount of assets/liabilities acquired	171,478,672	712,981,377

4 Notes to the Consolidated Financial Statements

Contents

CONSOLIDATED FINANCIAL STATEMENTS – STRUCTURE AND CONTENTS

The Consolidated Financial Statements of the Lavazza Group (hereinafter also "Group") for the year ended 31 December 2017 were prepared in compliance with the provisions recently introduced by Italian Legislative Decree 139, which enacted the European Directive 34/2013/EU.
The Consolidated Financial Statements consist of the Balance Sheet, the Income Statement, the Cash Flow Statement and these Notes. The financial statements have been prepared in compliance with the provisions set forth in Articles 2423-*ter*, 2424, 2424-*bis*, 2425, 2425-*bis*, 2425-*ter* of the Italian Civil Code.
Items omitted from the financial statements are understood to have nil balances in both the reporting year and the previous year.
The Notes are complemented by the Statement of Changes in Equity and the Directors' Report on Operations. The Notes to the Consolidated Financial Statements are intended to illustrate, analyse and, where appropriate, also integrate financial statement figures, and provide information required under Article 2427 and 2427-*bis* of the Italian Civil Code.

CONSOLIDATION AREA AND CHANGES IN GROUP STRUCTURE

The Consolidated Financial Statements include the Financial Statements for the year ended 31 December 2017 of Luigi Lavazza S.p.A., the Parent Company, and the subsidiaries in which Luigi Lavazza S.p.A., directly or indirectly, holds an interest in excess of 50% or over which it exercises de facto control.

Companies in which the Parent Company, directly or indirectly, holds an interest of 20-50% and over which it exercises a significant influence have been measured using the equity method.

Non-operational subsidiaries and those that, as a whole, are not material or whose consolidation would have yielded effects of little significance on the Group's operating and financial performance have been measured at purchase or subscription cost, adjusted for impairment, where applicable.

The financial statements used for consolidation purposes are those approved by the Shareholders' Meetings of the individual companies, appropriately reclassified and, where necessary, adjusted to bring them into line with Group accounting standards.

A reconciliation of equity and result at 31 December 2017 drawn from the Separate Financial Statements of the Parent Company and those presented in the Consolidated Financial Statements at the same date is provided in the section "Reconciliation Between the Financial Statements of Luigi Lavazza S.p.A. and the Consolidated Financial Statements at 31 December 2017".

The list of companies included in the consolidation area using the line-by-line method and the list of the equity investments valued at equity and at cost are shown in the Attachment.

The consolidation area at 31 December 2017 has changed compared with the previous year as a result of the following transactions undertaken by the Parent Company:

- the acquisition of Kicking Horse Coffee Co. Ltd, in which an 80% interest is held. The company is based in Invermere, British Columbia (Canada) and is a pioneer in the Canadian organic, fair trade coffee market. The brand is known for its specific aromas and unique, distinctive brand equity. The acquisition was closed on 24 May 2017;

- the acquisition of Nims S.p.A., in which a 77.86% interest is held. The company is a key player in the direct sale of portioned coffee products to households and small and mid-sized offices. The transaction was finalised on 30 September 2017;

- the acquisition of Espresso Service Proximité S.A. (ESP), a wholly owned subsidiary since the acquisition of the remaining 73.6% interest in August 2017. The company specialises in marketing Lavazza (capsule and machine) espresso coffee systems in France, particularly for the OCS sector. Until the previous year, the company had been consolidated using the equity method; following the acquisition of control by the Parent Company, it has been consolidated on a line-by-line basis since September 2017;

- the liquidation of Lavazza Finance Ltd, which entailed its removal from the consolidation area early in the year. The company is expected to be struck off the Companies Register in 2018.

The total value of acquisitions, including ancillary costs and all assets and liabilities, amounted to €176.9 million. The allocation of the purchase price to the current values of the assets acquired was carried out with the support of an independent expert.

The results at Lavazza Group level were as follows:

Euro million	**Kicking Horse Coffee Co. Ltd**	**Nims S.p.A.**	**Espresso Service Proximité S.A.**
Goodwill	75.8	14.5	7.1
Trademark	59.9	5.3	0
Intangible fixed assets	**135.7**	**19.8**	**7.1**
Tangible assets	7.4	0.8	0.7
Tangible fixed assets	**7.4**	**0.8**	**0.7**
TOTAL FIXED ASSETS ACQUIRED	**143.1**	**20.6**	**7.8**
Provisions for deferred tax liabilities and other provisions acquired	(5.6)	(10.1)	(0.3)
Provisions for risks and charges, provisions for employee benefits and provisions for deferred taxes	**(5.6)**	**(10.1)**	**(0.3)**
Net working capital	5.6	4.5	(5.2)
Net financial position	1.3	43.9	10.4
Current assets and liabilities and other assets and liabilities	**6.9**	**48.4**	**5.2**
TOTAL OTHER ASSETS AND LIABILITIES ACQUIRED	**1.3**	**38.3**	**4.9**
Debt for call option to acquire minority interests	(28.5)	(12.5)	0
Minority interests, exchange rate delta and equity investment	0.2	3.5	(1.9)
TOTAL VALUE OF ACQUISITION	**116.1**	**49.9**	**10.8**

Furthermore, with effect from 31 December 2017 Brasilia S.a.s. was merged into Lavazza France S.a.s. and the Parent Company acquired the 5.32% interest in the subsidiary Carte Noire S.a.s. previously held by Lavazza France S.a.s. In the previous year, Lavazza France S.a.s., within the framework of a plan to reorganise the French market, had contributed its retail business unit to Carte Noire S.a.s., obtaining a 5.32% interest in the company in return.
The effects of such intra-Group transactions on the income statement and balance sheet were eliminated when preparing the Consolidated Financial Statements.
The equity investments in the direct subsidiary Lavazza Maroc S.a.r.l., the direct subsidiary Immobiliare I.N.N.E.T S.r.l., the direct subsidiary Lavazza Trading (Shenzhen) Co. Ltd, and the affiliate International Coffee Partners G.m.b.H. have been measured at cost as they are not material, in that the inclusion of these companies in the Consolidated Financial Statements would not result in a material impact on the Group's revenues, assets and other operating and financial indicators.

CONSOLIDATION CRITERIA

The main consolidation criteria used are as follows:

- the accounting value of equity investments held by the Parent Company and other Group companies included in the consolidation area has been offset against relevant equity, after the inclusion of the subsidiary companies' assets and liabilities using the line-by-line method;
- the differences arising from the cancellation of equity investments against the carrying amount of equity of the subsidiaries at their acquisition date are attributed to the assets and liabilities items of the companies included in the consolidation area, within the limits of their current values. Any remaining value, if positive, is attributed to the asset item "Goodwill" and amortised on a straight-line basis to account for its presumed realisable value; if negative, it is attributed to the equity item "Consolidation reserve". For equity investments acquired up to 31 December 1993, the difference arising from elimination of equity investments and the current value of the equity of the investee companies was directly recognised as an adjustment to consolidated equity;
- the transactions generating payables, receivables, costs and income between the companies consolidated with the line-by-line method have been eliminated in order to merely recognise the transactions between the Group and third-parties. In detail, unrealised gains from intra-group operations included in the assessment of inventories have been eliminated;
- intra-group cash flows are eliminated when preparing the consolidated cash flow statement. The cash flows deriving from the consideration paid or received for the acquisition or sale of a subsidiary are presented separately under investing activity, net of the cash and cash equivalents acquired or disposed of in the transaction. The company adjusts the change in the value of the individual assets/liabilities as a result of the acquisition or sale of the subsidiary accordingly;
- the financial statements of consolidated subsidiaries denominated in currencies other than the Euro have been translated by applying the year-end exchange rates to the individual balance-sheet items and the average annual exchange rates to income statement items;
- exchange gains and losses arising from the conversion of initial equity to year-end exchange compared to the exchange rates in force at the end of the previous financial year were recognised directly under consolidated equity. Any dividends paid out by consolidated companies have been reversed from the income statement;
- equity and net result of subsidiaries attributable to minority interests are recognised in specific balance sheet and income statement items.

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

	2017		2016	
Currency	**Average exchange rate**	**Year-end**	**Average exchange rate**	**Year-end**
US Dollar	1.13	1.20	1.11	1.05
Pound Sterling	0.88	0.89	0.82	0.86
Brazilian Real	3.61	3.97	3.86	3.43
Swedish Krona	9.64	9.83	9.47	9.55
Indian Rupee	73.52	76.61	74.38	71.59
Australian Dollar	1.47	1.53	1.49	1.46
Danish Krone	7.44	7.45	7.45	7.43
Canadian Dollar	1.47	1.50	n.a.	n.a.
Argentine Peso	18.82	22.93	16.34	16.75

BASIS OF PREPARATION AND MEASUREMENT

The Consolidated Financial Statements for the year ended 31 December 2017 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) 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 main 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 have been recognised with the consent of the Board of Statutory Auditors and are amortised over a period of no more than five years.

Development costs are recognised with the consent of the Board of Statutory Auditors and are amortised according to their useful lives.

Patents are 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, where purchased for valuable 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. The useful lives of trademarks must not exceed 20 years.

Goodwill is recognised 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 is greater, over a period of no more than 20 years.
Goodwill recognised on or after 1 January 2016 is 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.

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.

The increase in expenses for leasehold property is essentially amortised at the lesser of the useful life and the residual duration of the lease.

TANGIBLE ASSETS

Tangible assets 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 auxiliary 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 income statement 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.

Tangible assets are depreciated on a straight-line basis each year. 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. Depreciation rates for assets put into operation during the year are reduced to 50%, under the assumption that purchases are evenly distributed throughout the year. Land is not subject to depreciation.
When it is decided to dispose of an intangible asset, it 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 price of sale in the course of normal operation, net of direct selling and disposal costs. 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 TANGIBLE AND INTANGIBLE ASSETS

Equipment 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 of the income statement, Other income and revenues, 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 TANGIBLE AND INTANGIBLE ASSETS

At each balance sheet 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

Finance leases have been recognised by applying the accounting system that entails the recognition in the income statement, in lieu of lease payments, of interest on the residual principal of the financing and the depreciation charges on the value of the leased property, commensurate to the residual useful life of that property, as well as the recognition of the leased property as an asset and the residual debt as a liability.

EQUITY INVESTMENTS AND FINANCIAL RECEIVABLES

EQUITY INVESTMENTS

These are equity interests in other companies and they are divided into equity investments in subsidiaries and affiliates, as defined in Article 2359 of the Italian Civil Code, and equity investments in other companies.
In detail:

- equity investments in subsidiaries, consisting of Group companies not consolidated using the line-by-line method, are measured at cost, less impairment loss, if any. If the reasons for impairment subsequently cease to exist, the original value is reversed. Losses that exceed the carrying amount are provided for in a specific provision within the liabilities section in the balance sheet;
- equity investments in affiliates, in which the percentage holding is between 20% and 50%, or in which the Group exercises a significant influence, are usually valued using the equity method. When the equity method is applied, equity investments are recognised at an amount equal to the pertinent share of equity, as reported in the most recent financial statements prepared pursuant to Articles 2423 and 2423-*bis* of the Italian Civil Code, less dividends and with the adjustments required for the proper preparation of the Consolidated Financial Statements. In the first year of application, the amount by which the sum paid exceeds the share of the investees' equity at the acquisition date continues to be carried among equity investments to the extent it may be attributed to the depreciable assets or goodwill of the investees. The difference attributable to depreciable assets or goodwill is depreciated or amortised according to the rates applicable to such assets. In years after the first, the greater (lesser) values arising from the application of this method are recognised in the investee's income statement and, upon distribution of profit, are entered to a special restricted equity reserve;
- equity investments in other companies, in which the holding is less than 20%, or in non-operational affiliates, are valued using the cost method, based on the average cost. The cost is reduced where there is an impairment loss and where the investee companies have recorded losses which are not expected to be covered in the near future by profits. If the reasons for impairment cease to exist in future years, the original value is restored. Losses that exceed the carrying amount are provided for in a specific provision within the liabilities section in the Balance Sheet;
- equity 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 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 method 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 Group has exercised this option for the Financial Statements for the year ended 31 December 2017.

LAVAZZA
TORINO, ITALIA, 1895

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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 securities.
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 in bonds that are not intended for being held by the Group for the long term — are measured at amortised cost; other securities 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.
The method used to determine the cost is the weighted average cost. The purchase cost includes directly related 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.
Inventories of obsolete or slow-moving items are written down taking into account their possible use and expected realisable value. Any write-downs are reversed in subsequent years if the reasons underlying them cease to exist.

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 criterion.
It is possible not to apply the amortised cost criterion when its application is not material to a true and fair representation.
Where applicable, 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 shares of costs and revenues common to two or more consecutive financial years whose amount is determined using the accruals concept.

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 represent amounts set aside for supplementary pension benefits, other than employee leaving indemnities, and one-off indemnities due to employees and independent contractors by law or contract.
Provisions for taxes, including deferred, refer 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 LEAVING INDEMNITIES

In the case of the Parent Company and the other Italian companies included in the Consolidated Financial Statements, 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 leaving indemnities accrued from 1 January 2007. As a result of the supplementary pension reform:

- employee leaving indemnities accrued up to 31 December 2006 remained with the company;
- employee leaving 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) Leaving indemnities. Item C of the balance sheet, Employee leaving indemnities, 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 leaving 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.

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 received from subsidiaries that are not included in the consolidated financial statements using the line-by-line method, affiliates and other companies are recognised in the year in which distribution is approved by the investee.

FINANCE INCOME AND EXPENSE

All finance 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* of the Income Statement "Exchange gains and losses".

INCOME TAXES

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 Parent Company and the Group's Italian companies participate in the national tax consolidation programme pursuant to Articles 117 and 129 of Consolidated Law on Income Taxes (T.U.I.R.). 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 benefit from the ability to set off taxable profit against tax losses in a single return.
If the participating companies contribute all of their taxable profit to tax consolidation, they recognise 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 and the payables for the income taxes of foreign companies are 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.

CURRENCY CONVERSION CRITERIA OF ITEMS RECOGNISED IN EACH GROUP COMPANY'S FINANCIAL STATEMENTS

Transactions in currencies other than the local currency of the companies included in the Consolidated Financial Statements are recognised at the spot exchange rate.
Assets and liabilities in currencies other than the local currency of the companies that participate in the tax consolidation programme — except inventories, intangible and tangible assets, as well as equity 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 adjustments for items in foreign currency contribute to the formation of the net result of each Group company participating in the tax consolidation programme. With reference to the Parent Company, upon approval of the Financial Statements and proposal for the allocation of the net profit, any net gains arising from the year-end exchange rate adjustment for items in foreign currency are recognised in a restricted reserve until the profit is realised.

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);
- foreign-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 derivative financial instruments (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 derivative instruments is subject to OIC 32 – Derivative Financial Instruments, 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 derivative instruments calls for representation in the balance sheet at fair value, with changes in value recognised periodically in the income statement.
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 in its entirety (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 derivative financial instruments 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.
More specifically, when negotiating procurement arrangements with raw materials suppliers, contractual commitments to purchase certain volumes of green coffee are entered into periodically under certain delivery conditions in respect of the place and moment of collection of the goods (loading-out).
For each loading-out contractually agreed with the supplier, a futures contract of reference is identified (benchmark) to set the purchase price, along with a premium or discount, negotiated according to the quality and characteristics of the goods in question. Depending on the supply arrangements, at any time between the date of purchase and date of loading-out of the goods, the counterparties may set the value

of the futures contract of reference used to calculate the price on the basis of current market quotations. 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 derivative financial instruments to mitigate this risk: commodity futures, commodity forwards and swaps, commodity options and option structures.

RECONCILIATION BETWEEN THE FINANCIAL STATEMENTS OF LUIGI LAVAZZA S.p.A. AND THE CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2017

The following table provides a breakdown of the items for the reconciliation of profit and equity of Luigi Lavazza S.p.A and the consolidated profit and equity:

Euro units	Result for the year	Equity
Profit (loss) for the year and equity of Luigi Lavazza S.p.A.	**44,200,897**	**2,127,214,700**
Differences between the equities of consolidated investees and the carrying amount of equity investments	21,574,351	53,484,118
Elimination of intra-group dividends	(14,907,387)	0
Adjustment to group accounting standards (*)	(6,604,171)	(11,611,804)
Consolidation differences, relevant amortisation and fiscal effects (**)	(1,665,021)	42,080,935
Elimination of write-downs and gains on equity investments	(498,657)	0
Elimination of intra-group margins and other gains	1,616,459	(16,135,511)
Other	942,207	(441,812)
Minority interests	(259,416)	(2,684,604)
Call options to acquire minority interests	0	(41,097,675)
Group's result and equity	**44,399,262**	**2,150,808,347**

(*): This item includes the following effects on the income statement:

- amortisation of some intangible assets that are not amortised on the individual company's financial statements (Carte Noire: €-3.2 million; KH: €-4 million);
- recognition of the lease agreement concerning the new Headquarters using the finance method (€1 million);
- other lesser items (€-0.4 million).

(**): The item includes the consolidation differences, net of amortisation and fiscal effects regarding the following acquisitions:

- Nims S.p.A. for €17.9 million;
- Carte Noire for €14.3 million overall;
- Espresso Service Proximité S.A. for €5.6 million;
- Merrild for €2.1 million overall;
- Kicking Horse Coffee Co. Ltd for €1.9 million;
- other minor acquisitions for €0.3 million.

Notes to the Consolidated Financial Statements

Balance Sheet - Assets

INTANGIBLE ASSETS

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

Euro units

FIXED ASSETS

	Balance at 31/12/2016	Increases	(Decreases)	Reclassifications	Exchange delta	Consolidation area delta	Balance at 31/12/2017
Start-up and expansion costs							
Gross value	5,785	0	0	0	0	0	5,785
(Accumulated amortisation)	(5,785)	0	0	0	0	0	(5,785)
Net value	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Development costs							
Gross value	6,234,962	2,144,869	0	0	0	0	8,379,831
(Accumulated amortisation)	(1,796,155)	(1,674,766)	0	0	0	0	(3,470,921)
Net value	**4,438,807**	**470,103**	**0**	**0**	**0**	**0**	**4,908,910**
Industrial patents and intellectual property rights							
Gross value	1,377,827	0	0	(102,368)	0	733,923	2,009,382
(Accumulated amortisation)	(1,356,577)	(1,392)	0	86,618	0	(733,806)	(2,005,157)
Net value	**21,250**	**(1,392)**	**0**	**(15,750)**	**0**	**117**	**4,225**
Concessions, licences and similar rights							
Gross value	179,582,116	1,984,701	(434,150)	175,151	(62,786)	1,042,035	182,287,067
(Accumulated amortisation)	(21,280,293)	(9,685,346)	428,731	(152,395)	56,805	(1,038,182)	(31,670,680)
Net value	**158,301,823**	**(7,700,645)**	**(5,419)**	**22,756**	**(5,981)**	**3,853**	**150,616,387**
Trademarks							
Gross value	154,099,219	0	0	0	274,835	59,902,039	214,276,093
Write-ups	303,949,656	0	0	0	0	0	303,949,656
(Write-down provision)	(3,623,965)	0	0	0	0	0	(3,623,965)
(Accumulated amortisation)	(324,219,913)	(9,338,624)	0	0	46,896	0	(333,511,641)
Net value	**130,204,997**	**(9,338,624)**	**0**	**0**	**321,731**	**59,902,039**	**181,090,143**
Goodwill							
Gross value	508,472,593	0	(3,958)	(116,348)	340,279	97,435,179	606,127,745
(Write-down provision)	(3,877,768)	0	0	0	0	0	(3,877,768)
(Accumulated amortisation)	(75,114,704)	(25,131,174)	0	116,348	46,204	0	(100,083,326)
Net value	**429,480,121**	**(25,131,174)**	**(3,958)**	**0**	**386,483**	**97,435,179**	**502,166,651**

LAVAZZA
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	Balance at 31/12/2016	Increases	(Decreases)	Reclassifications	Exchange delta	Consolidation area delta	Balance at 31/12/2017
Intangible assets in progress and advances							
Gross value	991,120	9,719,654	0	(6,700,017)	0	0	4,010,757
Net value	**991,120**	**9,719,654**	**0**	**(6,700,017)**	**0**	**0**	**4,010,757**
Other intangible assets							
Gross value	30,728,033	706,543	(827,134)	8,822,973	(444,139)	5,311,085	44,297,361
(Accumulated amortisation)	(16,986,362)	(8,398,726)	685,259	(1,470,448)	149,814	0	(26,020,463)
Net value	**13,741,671**	**(7,692,183)**	**(141,875)**	**7,352,525**	**(294,325)**	**5,311,085**	**18,276,898**
Total intangible assets							
Gross value	881,491,655	14,555,767	(1,265,242)	2,079,391	108,189	164,424,261	1,061,394,021
Write-ups	303,949,656	0	0	0	0	0	303,949,656
(Write-down provision)	(7,501,733)	0	0	0	0	0	(7,501,733)
(Accumulated amortisation)	(440,759,789)	(54,230,028)	1,113,990	(1,419,877)	299,719	(1,771,988)	(496,767,973)
Net value	**737,179,789**	**(39,674,261)**	**(151,252)**	**659,514**	**407,908**	**162,652,273**	**861,073,971**

Year movements were mainly attributable to the acquisition of Kicking Horse Coffee Co. Ltd, Nims S.p.A. and Espresso Service Proximité S.A. performed in the reporting year.

The item "development costs" primarily related to costs incurred for the industrialisation of capsule-based espresso machines intended for sale. The increase in development costs was mainly due to projects aimed at the technological innovation of the closed-system coffee machines Lavazza Firma, Lavazza BLUE and A Modo Mio.

The item "licences and similar rights" included the right to use software products, in addition to the know-how acquired in previous years from Carte Noire and Merrild and amortised according to a useful life of 20 years.

The item "trademarks" included the Kicking Horse trademark acquired in the reporting year, the Carte Noire trademark acquired in the previous year and the Merrild trademark acquired in 2015 both amortised according to a useful life of 20 years, as well as the Eraclea and Caffè di Roma trademarks amortised according to a useful life of 10 years. The recognised trademarks are periodically tested for impairment.

The item "goodwill", which also included consolidation differences, primarily consisted of the total goodwill recognised in the reporting year following the acquisition of Kicking Horse Coffee Co. Ltd, Nims S.p.A. and Espresso Service Proximité S.A. for a total amount of €97 million. It also included the goodwill recognised in the previous years following the acquisition of the Merrild business unit and the goodwill recognised in 2016 with the acquisition of the Carte Noire business unit.
The above goodwill was amortised according to a useful life of 20 years, in keeping with the useful lives of the other intangible assets acquired.
The item "goodwill" also included the consolidation difference recognised in 2015 following the acquisition of Brasilia S.a.s., amortised over a period of five years.
Goodwill was tested for impairment taking account the Group's strategic focus, which was confirmed with a view towards strong consistency between the business model pursued and the geographical area. The approach has been differentiated based on the individual local situations and business segments. The assessments did not identify any need to recognise impairment losses in 2017.

The item "other intangible assets" primarily included development costs incurred in order to adapt and improve the Group's IT and reporting systems. The increase for the year was mainly attributable to the capitalisation of maintenance costs for leasehold buildings associated with the refurbishment of the Flagship Store opened in Milan in 2017. In addition to the recognition of costs incurred for long-term software projects, initially capitalised under "Intangible assets in progress and advances", the item "Reclassifications" includes about €950 thousand referring to the expenses incurred in the previous year and regarding the Flagship Store in Milan.

Amortisation rates applied for the various items under intangible assets are:

- Start-up and expansion costs 5 years
- Industrial patents 5 years
- Intellectual property rights 3 years
- Licences and similar rights 5 years
- Trademarks 10-20 years (*)
- Goodwill 5-20 years (*)
- Other 3-5 years

(*) As specified above, the useful life of the intangible assets acquired with the Carte Noire and Merrild business units has been estimated at 20 years. This assessment is supported by the leading position of the Carte Noire brand in France and that of the Merrild brand in Denmark and the Baltics, as well as by the sector of reference, which is stable and does not present particular factors of technological obsolescence. The same assumptions were adopted for the Kicking Horse Coffee trademark and the goodwill arising from the acquisition of Kicking Horse Coffee Co. Ltd, Nims S.p.A. and Espresso Service Proximité S.A., whose useful lives have been estimated at 20 years.

TANGIBLE ASSETS

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

Euro units

	Balance at 31/12/2016	Increases	(Decreases)	Reclassifications	Exchange delta	Consolidation area delta	Balance at 31/12/2017
Land and buildings							
Gross value	148,362,827	52,103,730	(7,805,017)	18,992,920	(508,844)	5,470,771	216,616,387
Write-ups	62,902,487	0	(2,721,152)	0	0	0	60,181,335
(Write-down provision)	(18,741,756)	0	3,329,411	5,053,423	0	0	(10,358,922)
(Accumulated depreciation)	(72,914,547)	(7,561,140)	3,898,869	(3,239,654)	97,060	(125,705)	(79,845,117)
Net value	**119,609,011**	**44,542,590**	**(3,297,889)**	**20,806,689**	**(411,784)**	**5,345,066**	**186,593,683**
Plant and machinery							
Gross value	574,665,361	1,202,592	(13,128,549)	28,711,425	(763,254)	3,530,192	594,217,767
Write-ups	51,184,653	0	(2,930,344)	0	0	0	48,254,309
(Write-down provision)	(514,763)	0	0	48,391	0	0	(466,372)
(Accumulated depreciation)	(491,902,919)	(30,965,755)	13,960,395	153,652	248,435	(1,658,285)	(510,164,477)
Net value	**133,432,332**	**(29,763,163)**	**(2,098,498)**	**28,913,468**	**(514,819)**	**1,871,907**	**131,841,227**
Industrial and commercial equipment							
Gross value	168,486,556	41,036,364	(10,166,076)	2,634,605	(4,351,730)	44,302,618	241,942,337
Write-ups	1,165,417	0	0	0	0	0	1,165,417
(Write-down provision)	(1,423,898)	(2,700,803)	640,966	231,676	33,339	0	(3,218,720)
(Accumulated depreciation)	(118,230,721)	(24,344,215)	8,901,288	(249,426)	2,944,220	(43,746,365)	(174,725,219)
Net value	**49,997,354**	**13,991,346**	**(623,822)**	**2,616,855**	**(1,374,171)**	**556,253**	**65,163,815**
Furniture and fittings							
Gross value	25,174,359	876,588	(1,298,339)	5,362,300	(385,606)	1,845,445	31,574,747
(Accumulated depreciation)	(19,243,339)	(1,893,259)	1,227,535	(869,656)	287,117	(1,499,782)	(21,991,384)
Net value	**5,931,020**	**(1,016,671)**	**(70,804)**	**4,492,644**	**(98,489)**	**345,663**	**9,583,363**
Means of transport							
Gross value	1,111,615	95,174	(359,309)	25,122	(25,944)	255,554	1,102,212
(Accumulated depreciation)	(1,012,581)	(37,092)	342,819	(36,185)	15,684	(237,284)	(964,639)
Net value	**99,034**	**58,082**	**(16,490)**	**(11,063)**	**(10,260)**	**18,270**	**137,573**

	Balance at 31/12/2016	Increases	(Decreases)	Reclassifications	Exchange delta	Consolidation area delta	Balance at 31/12/2017
Electronic machinery							
Gross value	27,167,628	1,963,875	(1,239,354)	424,583	(203,627)	293,555	28,406,660
(Accumulated depreciation)	(22,096,053)	(1,706,700)	1,218,179	(43,805)	115,859	(107,708)	(22,620,228)
Net value	**5,071,575**	**257,175**	**(21,175)**	**380,778**	**(87,768)**	**185,847**	**5,786,432**
Other assets							
Gross value	2,154,155	71,352	(168,524)	(456,681)	(101,560)	0	1,498,742
(Accumulated depreciation)	(1,857,243)	(81,870)	139,803	408,721	83,958	0	(1,306,631)
Net value	**296,912**	**(10,518)**	**(28,721)**	**(47,960)**	**(17,602)**	**0**	**192,111**
Tangible assets in process and advances							
Gross value	55,924,682	44,832,765	(52,968)	(57,814,108)	(92,536)	572,045	43,369,880
(Accumulated depreciation)	(710,767)	(2,222,120)	0	0	54,506	0	(2,878,381)
Net value	**55,213,915**	**42,610,645**	**(52,968)**	**(57,814,108)**	**(38,030)**	**572,045**	**40,491,499**
Total tangible assets							
Gross value	1,003,047,183	142,182,440	(34,218,136)	(2,119,834)	(6,433,101)	56,270,180	1,158,728,732
Write-ups	115,252,557	0	(5,651,496)	0	0	0	109,601,061
(Write-down provision)	(21,391,184)	(4,922,923)	3,970,377	5,333,490	87,845	0	(16,922,395)
(Accumulated depreciation)	(727,257,403)	(66,590,031)	29,688,888	(3,876,353)	3,792,333	(47,375,129)	(811,617,695)
Net value	**369,651,153**	**70,669,486**	**(6,210,367)**	**(662,697)**	**(2,552,923)**	**8,895,051**	**439,789,703**

The increase in the item "land and buildings" was mainly attributable to the delivery of the building housing the Headquarters offices, to which the Parent Company moved its registered office. The acquisition was performed through the signing of a finance lease agreement governing the construction of a property complex including the Headquarters, a public parking area, a square and several commercial and service-sector buildings. The decrease for the reporting year referred mainly to the sale of some buildings, which previously housed administrative offices and are now no longer used, also in light of the transfer of the registered office to the new building delivered in 2017.

The item "plant and machinery" increased due to direct purchases of industrial machinery and the closing of investment orders for the construction of plants at the production facilities. Decreases primarily regard to the disposal of some production lines deemed obsolete at the plant in Lavérune.

The item "industrial and commercial equipment" mainly includes coffee machines and equipment on free loan for use and/or lease to customers and dies in the possession of third parties for the manufacture of machine components. The increases for the year were attributable to the purchase of commercial equipment for the Food Service business and coffee machines on free loan to OCS customers. The item accounted for a change in the consolidation area that mainly regards coffee machines with low unit cost that Nims S.p.A. delivers on free loan to its customers (households and small/medium-sized offices). Unlike the coffee machines sold through other channels, these one are fully depreciated during the year of reference according to their estimated useful life of one year.
Write-downs for the year referred to coffee machines on free loan to customers whose net carrying value was deemed no longer recoverable.

The item "tangible assets in process and advances" mainly includes the investments made in industrial plant and machinery not yet in operation and intended for the production of capsules, in addition to prior years' payments on account to the leasing company totalling €24,728,098, of which about €19 million reclassified under "land and buildings" following the delivery of the above-mentioned Headquarter office building. In accordance with accounting standards, the value of the asset was recognised under "Land and buildings", with the corresponding recognition amongst liabilities of a financial payable of like amount, net of advances already paid. Amortisation and the interest accrued on the residual principal instalments were immediately recognised through profit or loss.

The write-down of fixed assets in process and advances refers to some machinery of the Lavérune industrial site not yet ino operation but deemed obsolete.

The depreciation rates applied are shown here below. Exceptions are only possible in specific situations in which rates differ from the technical rates determined on the basis of the residual possible use of the assets.

- Buildings - 3%
- Plant and machinery 5.5% - 20%
- Miscellaneous equipment 12.5% - 40%
- Coffee machines 16.7% - 25%
- Furniture and fittings - 12%
- Means of transport 20% - 25%
- Electronic machinery 18% - 20%
- Dies 12.5% - 40%

FINANCIAL ASSETS

EQUITY INVESTMENTS

The following table provides a list of the equity investments recognised in the Consolidated Financial Statements at 31 December 2017:

Euro units

	% held	31/12/2017	31/12/2016	Changes
Equity investments recognised at cost:				
a) Subsidiaries				
Lavazza Maroc S.a.r.l.	100	904	904	0
Lavazza Trading (Shenzhen) Co. Ltd	100	1,000,000	1,000,000	0
Immobiliare I.N.N.E.T S.r.l.	100	2,002,986	2,002,986	0
Total subsidiaries		**3,003,890**	**3,003,890**	**0**
b) Affiliates				
International Coffee Partners G.m.b.H.	20	25,000	25,000	0
Espresso Service Proximité S.A.	-	0	2,028,051	(2,028,051)
Total affiliates		**25,000**	**2,053,051**	**(2,028,051)**
c) Other companies				
Casa del Commercio e del Turismo S.p.A.	3	6,094	6,094	0
Air Vallée S.p.A.	2	25,823	25,823	0
Idroelettrica S.c.r.l.	0.1	300	300	0
INV. A.G. S.r.l.	6.09	7,287,658	7,287,658	0
Tamburi Investment Partners S.p.A.	0.96	3,092,733	3,092,733	0
Clubitaly S.r.l.	4.12	5,194,800	4,590,000	604,800
Connect Ventures One LP	2.53	6	6	0
Immobiliare 3 F (formerly Le Foyer du Fonctionnaire)	n.a.	375	375	0
Consorzio Nazionale Imballaggi (Conai)	n.a.	5	5	0
Total other companies		**15,607,794**	**15,002,994**	**604,800**
Total		**18,636,684**	**20,059,935**	**(1,423,251)**

The decrease for the year was due to the consolidation of Espresso Service Proximité S.A. using the line-by-line method.

The equity investment in Clubitaly S.r.l. increased as a result of the acquisition of 504 ordinary shares in the reporting year. Following this transaction, the Group holds 4,254 shares.

The following table provides the main data regarding subsidiaries and affiliates (Euro units):

Company	Registered office	Share capital	Equity	Profit (loss) for the year	% held	Carrying amount
Subsidiaries						
Lavazza Maroc S.a.r.l	Casablanca	938	57,734	7,203	100	904
Lavazza Trading (Shenzhen) Co. Ltd	Shenzhen	1,120,393	1,036,664	26,147	100	1,000,000
Immobiliare I.N.N.E.T S.r.l.	Turin	30,000	260,716	21,685	100	2,002,986
Affiliates						
Internat. Coffee Part. G.m.b.H.	Hamburg	175,000	257,212	536	20	25,000

The information as per Article 2427-*bis*, paragraph 1(2), on the application of fair value to significant equity investments recognised in the item "Other companies" is provided in the relevant statement at the end of these Notes.

OTHER RECEIVABLES

The item "Other receivables" consists of security deposits (€2,642,516) and financial receivables from Connect Ventures One LP (€563,546), a company that invests in European Web business start-ups.

OTHER SECURITIES

"Other securities" amounted to €23,021,907 and refer to long-term investments in close-end mutual funds held by the subsidiary Lavazza Capital S.r.l and in insurance policies underwritten by the subsidiary Nims S.p.A., acquired in the reporting year, as described in detail below (Euro units):

Company	31/12/2016	Increases	Decreases	Consolidation area delta	31/12/2017
DGPA Capital fund	964,827	0	0	0	964,827
Innogest Capital fund	1,705,554	0	0	0	1,705,554
Ersel Investment Club Fund	3,371,451	0	0	0	3,371,451
Debt Opportunity Plus A Fund	2,180,958	0	(2,180,958)	0	0
Insurance policies	0	0	(2,419,925)	19,400,000	16,980,075
Total	**8,222,790**	**0**	**(4,600,883)**	**19,400,000**	**23,021,907**

DGPA Capital Fund — 100 units underwritten in 2007, for a total carrying amount of €964,827, with the aim of venture capital investing in primarily unlisted companies with growth potential.
Innogest Capital Fund — 517 units underwritten in 2007, for a total carrying amount of €1,705,554, with the objective of medium-/long-term investment aimed at obtaining equity interests in Italian companies with a strong innovation and technology component.
Ersel Investment Club Fund — underwritten in 2008 for a total carrying amount of €3,371,451, with a purpose to invest in listed and unlisted SMEs.
Debt Opportunities Plus-A Fund — 14,008.7 units underwritten for a total carrying amount of €2,180,958, entirely disposed of in the year for a total value of €3,146,757.

Company	No. of policies	Type	Value at 31/12/2017
Banca Generali	9	Life policies	11,186,852
Intesa San Paolo	1	Life policies	2,500,000
Axa	2	Wealth protection	3,293,223
Total	**12**		**16,980,075**

The following statement compares the carrying amounts and fair value of financial assets other than equity investments in subsidiaries and affiliates, pursuant to Article 2427-*bis*, paragraph 1(2).
As regards the Ersel Investment Club Fund, whose carrying amount exceeded its fair value, it was decided not to write down the carrying amount, since the difference was not representative of an impairment loss, considering the changing general market performance and the investment's long-term horizon.

	Carrying amount	Fair value	Change
Equity investments in other companies			
INV. A.G. S.r.l.	7,287,658	8,143,426	(855,768)
Tamburi Investment Partners S.p.A.	3,092,733	7,638,125	(4,545,392)
Clubitaly S.r.l.	5,194,800	6,200,944	(1,006,144)
Other	32,603	32,603	0
Total equity investments in other companies	**15,607,794**	**21,159,330**	**(5,551,536)**
Other receivables			
Guarantee deposits	2,642,516	2,642,516	0
Receivables from Connect Ventures One LP	563,546	1,265,550	(702,004)
Total other receivables	**3,206,062**	**3,908,066**	**(702,004)**
Other securities			
DGPA Capital fund	964,827	1,995,666	(1,030,839)
Innogest Capital fund	1,705,554	1,110,786	594,768
Ersel Investment Club Fund	3,371,451	2,165,080	1,206,371
Insurance policies	16,980,076	16,980,076	0
Total other securities	**23,021,908**	**5,271,532**	**17,750,376**

NON-CURRENT FINANCIAL DERIVATIVE ASSETS

The item includes the increase in the fair values of the derivative instruments outstanding as at 31 December 2017 with a duration of over 12 months. In detail, the Company has entered into FX option contracts to hedge against the risk associated with fluctuations in the EUR/GBP exchange rate and thus sales in GBP. These FX option contracts will expire in 2019.
In addition, interest-rate swap contracts were entered into in order to transform the interest rate payable on various underlying liabilities (loans and leases, maturing in 2020 and 2036, respectively) from floating to fixed rate.
The following table provides a detailed description:

Non-current derivative assets on exchange rates

Type of contract	Notional value	Financial risk of underlying asset	Fair value	Covered asset/liability
Options	GBP 1,500,000	Exchange rate risk GBP	22,396	Sales
Total			**22,396**	

Non-current derivative assets on exchange rates

Type of contract	Notional value	Financial risk of underlying asset	Fair value	Covered asset/liability
IRS	EUR 118,570,072	Interest rate risk	382,277	Sales
Total			**382,277**	

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The following table summarises the changes during the year:

Euro units	31/12/2016	Increases	Decreases	31/12/2017
Derivatives to hedge exchange-rate risk	0	22,396	0	22,396
Derivatives to hedge interest-rate risk	0	382,277	0	382,277
Total	**0**	**404,673**	**0**	**404,673**

CURRENT ASSETS

INVENTORIES

Inventories at 31 December 2017 consist of the following:

Euro units	31/12/2017	31/12/2016	Changes
Raw materials, ancillaries and consumables	196,537,471	182,912,384	13,625,087
Write-down provision raw materials, ancillaries and consumables	(1,163,078)	(510,995)	(652,083)
Raw materials, ancillaries and consumables	**195,374,393**	**182,401,389**	**12,973,003**
Work-in-process	2,441,367	1,265,609	1,175,758
Write-down provision of work-in-process	(100,000)	(100,000)	0
Work-in-process	**2,341,367**	**1,165,609**	**1,175,758**
Finished products and goods	176,346,210	143,130,945	33,215,265
Accumulated depreciation of finished products and goods	(15,298,625)	(13,036,007)	(2,262,618)
Finished products and goods (net value)	**161,047,585**	**130,094,938**	**30,952,648**
Advances	**1,430,606**	**1,958,136**	**(527,530)**
Total	**360,193,951**	**315,620,072**	**44,573,879**

Inventories rose compared to the previous year as a result of greater purchases of green coffee by the Parent Company for approximately €7 million and the change in the consolidation area of Kicking Horse Coffee Co. Ltd amounting to about €6 million. Finished products grew primarily as a consequence of the increase in the Roast & Ground stocks of the Parent Company (€10 million) and those of the subsidiaries Carte Noire S.a.s., Lavazza Coffee Ltd and Lavazza Deutschland G.m.b.H., partially offset by the decrease reported by Lavazza Australia Pty Ltd and Lavazza Premium Coffees Corp (the net effect was approximately €12 million). Capsules in stock increase due to the inclusion of Nims S.p.A. and Espresso Service Proximité S.A. in the scope of consolidation (approximately €4 million).

Inventories at 31 December 2017 were recognised net of an inventory write-down provision totalling €16,561,702, which accounts for obsolescence and slow turnover, primarily relating to vending systems and spare parts, advertising materials and plant spares.

RECEIVABLES

TRADE RECEIVABLES

The following table provides a breakdown of trade receivables:

Euro units	Balance at 31/12/2017			Balance at 31/12/2016			Changes		
	Within 12 months	After 12 months	Total	Within 12 months	After 12 months	Total	Within 12 months	After 12 months	Total
Trade receivables	388,848,345	53,393	388,901,738	369,956,618	313,755	370,270,372	18,891,727	(260,362)	18,631,365
Write-down provision	(10,072,015)	0	(10,072,015)	(8,089,745)	0	(8,089,745)	(1,982,270)	0	(1,982,270)
Trade receivables	**378,776,330**	**53,393**	**378,829,723**	**361,866,873**	**313,755**	**362,180,628**	**16,909,457**	**(260,362)**	**16,649,095**
Financial receivables	27,253,248	19,768,524	47,021,772	39,635,385	18,250,245	57,885,630	(12,382,138)	1,518,279	(10,863,858)
Write-down provision	(3,012,767)	(2,078,087)	(5,090,854)	(3,608,305)	(1,661,456)	(5,269,761)	595,538	(416,631)	178,907
Financial receivables	**24,240,481**	**17,690,437**	**41,930,918**	**36,027,081**	**16,588,789**	**52,615,869**	**(11,786,600)**	**1,101,648**	**(10,684,951)**
Total	**403,016,811**	**17,743,830**	**420,760,641**	**397,893,953**	**16,902,543**	**414,796,497**	**5,122,858**	**841,286**	**5,964,144**

There are no receivables falling due beyond five years.
Adjustments for disputed trade receivables or trade receivables for which enforcement proceedings are underway totalled €10,072,015. Trade receivables also included financial receivables granted by the subsidiary Cofincaf S.p.A. to its customers and amounting to €41,930,918 (of which €17,690,437 due within the next financial year). Adjustment allocations totalling €5,090,854 were made to adjust the nominal value of financial receivables to their presumable realisable value. Financial receivables accrue interest at arm's length conditions.

RECEIVABLES FROM PARENT COMPANIES

This item refers to the 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. The account receivable included also the tax benefit of approximately €2.8 million, as a result of the introduction of Legislative Decree 201/2011 (converted by Law 214 of 27 December 2011), which permits the deduction from Ires (corporate income tax) of IRAP (regional production tax) associated with the taxable portion of the costs of employees and contracted staff effective as of tax period 2007.

RECEIVABLES FROM COMPANIES SUBJECT TO THE CONTROL OF PARENT COMPANIES

The item "Receivables from companies subject to the control of parent companies" refers to the loan issued on 13 December 2017 in favour of Torino 1895 Investimenti S.p.A., a company controlled by Finlav S.p.A., in order to acquire an equity investment in the share capital of Chili S.p.A. These receivables accrue interest at arm's length conditions.

TAX RECEIVABLE

This item amounted to €49.2 million and consists primarily of: VAT credits (mainly including €17.5 million claimed by the Parent Company and €9.7 million claimed by Nims S.p.A. acquired in the reporting year); the credit regarding a tax relief mechanism for investments in operating assets — pursuant to Article 18 of Legislative Decree 91 of 24 June 2014 (the so-called "Competitiveness Decree"), enacted, with amendments, by Law 116 of 7 August 2014 — and the credit for research and development introduced by the 2015 Stability Law (Law 190/2014) amounting to €6.9 million; and IRAP income tax credits claimed by the Parent Company and income tax credits claimed by companies not participating in the national tax consolidation programme for a total amount of €6 million.

DEFERRED TAX ASSETS

Deferred tax assets amounted to €26,135,141 and mainly refer to costs with deferred deductibility attributable to the Parent Company. 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 "Income taxes for the year".

OTHER RECEIVABLES

Other receivables include:

Euro units	31/12/2017	31/12/2016	Changes
From suppliers for advances	6,178,845	8,041,523	(1,862,678)
Other	7,129,916	3,483,213	3,646,703
Total	**13,308,761**	**11,524,736**	**1,784,025**

The item "Other receivables" increased compared to the previous year, mainly as a result of receivables for hedging transaction commitments (€2.3 million) and receivables claimed by Lavazza Capital S.p.A. (€0.7 million) for commitments regarding Ersel shares and mutual investment funds underwritten in January 2018.
The breakdown by geographic area of trade and other receivables is as follows:

Euro units	Italy	Other EU countries	Other European countries	Americas	Australia	Other	Total
Trade receivables	169,041,003	194,244,244	7,725,293	28,285,174	9,306,972	12,157,955	420,760,641
Other receivables	6,489,206	3,685,172	236,468	998,267	939,555	960,093	13,308,761
Total	**175,530,209**	**197,929,416**	**7,961,761**	**29,283,441**	**10,246,527**	**13,118,048**	**434,069,402**

CURRENT FINANCIAL ASSETS

This item is chiefly comprised of short-term investment of available liquidity in securities; in detail, it includes:

- equity investments amounting to €5 million and recognised net of the relevant write-down provisions;
- ordinary bonds held by the subsidiary Lavazza Capital S.r.l. and listed on regulated markets, totalling €284.6 million;
- mutual investment funds held by the subsidiary Lavazza Capital S.r.l., recognised for a value of €2.6 million, net of the relevant write-down provisions;
- certificates of deposit amounting to €15 million and savings bonds to €9 million;
- derivative financial assets for a total of €2.1 million.

Bonds are measured at the lower of amortised cost, as defined under paragraph 60 of accounting standard OIC 20, and presumable market value.

The item "Derivative financial assets" includes the increase in the fair value of derivative instruments outstanding at 31 December 2017.

The following table provides a detailed description:

Current derivative assets on exchange rates

Type of contract		Notional value	Financial risk of underlying asset	Fair value	Covered asset/liability
Forwards	USD	65,000,000	Exchange rate risk (USD)	230,457	Purchase of green coffee
Options	USD	15,000,000	Exchange rate risk (USD)	(77,298)	Purchase of green coffee
Forwards	USD	2,000,000	Exchange rate risk (USD)	20,692	Purchase of foreign currency securities
Options	USD	15,000,000	Exchange rate risk (USD)	295,300	Purchase of green coffee
Options	GBP	9,000,000	Exchange rate risk (GBP)	48,943	Sales
Total				**518,094**	

Current derivative assets on commodities

Type of contract		Notional value	Financial risk of underlying asset	Fair value	Covered asset/liability
Futures	GBP	27,102,775	Commodity price risk	836,999	Purchase of green coffee
Options	GBP	22,223,939	Commodity price risk	778,476	Purchase of green coffee
Total				**1,615,475**	

The following table summarises the changes during the year:

Euro units	31/12/2016	Increases	Decreases	31/12/2017
Derivatives to hedge exchange-rate risk	5,805,598	518,094	5,805,598	518,094
Derivatives to hedge commodity price risk	0	1,615,475	0	1,615,475
Total	**5,805,598**	**2,133,569**	**5,805,598**	**2,133,569**

CASH AND CASH EQUIVALENTS

This item amounted to €593.3 million and mainly included 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 €12 million, mainly regarding the Parent Company and funded market purchases, 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.

PREPAYMENTS AND ACCRUED INCOME

This item consists of the following:

Euro units	31/12/2017	31/12/2016	Changes
Accrued income:			
Interest income on securities and derivative premiums	0	3,267,010	(3,267,010)
Other interest income	0	0	0
Other accrued income	3,754,832	7,980	3,746,852
Total accrued income	**3,754,832**	**3,274,990**	**479,842**
Prepayments:			
Advertising expenses	8,462.312	6,331,559	2,130,753
Financial prepayments	1,057,969	167,667	890,302
Insurance premiums	995,489	860,933	134,556
Maintenance	268,657	452,059	(183,402)
Property rentals	220,348	104,510	115,838
Other prepayments	22,097,237	4,089,633	18,007,604
Total prepayments	**33,102,012**	**12,006,361**	**21,095,651**
Total prepayments and accrued income	**36,856,844**	**15,281,351**	**21,575,493**

Accrued interest income on securities has been reclassified as an increase in the value of bonds carried among current financial assets, in accordance with the amortised cost method envisaged in OIC 20.

Other accrued income primarily refers to the shipping costs charged to the end customers of the acquiree Nims S.p.A.

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 Income Statement on a pro-rated basis over the duration of the contract.

The item "financial prepayments" includes prepayments of derivative premiums and refers to the recognition of the negative change in forward points on the contracts hedging against foreign exchange and commodity risks outstanding as at 31 December 2017 (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 Income Statement when the hedged costs are recognised.

The item "other prepayments" principally comprises other accrued income attributable to the Parent Company, consisting of the share of contributions set to accrue in future years, paid in advance to international distributors for the promotion and development of Lavazza-branded machines for use in the OCS and Food Service sectors and accrued income attributable to the acquiree Nims S.p.A., referring to advances on commissions paid to agents.

NEGATIVE CHANGE IN TIME VALUE OF DERIVATIVES

Type of contract		Notional value	Financial risk of underlying asset	Change in time value	Covered asset/liability
Forwards	ZAR	9,800,000	Exchange rate risk (ZAR)	2,784	Sales
Options	GBP	10,500,000	Exchange rate risk (GBP)	51,860	Sales
Options	USD	15,000,000	Exchange rate risk (USD)	84,594	Purchase of green coffee
Options	USD	22,223,939	Commodity price risk	612,480	Purchase of green coffee
Total				**751,718**	

PREPAYMENTS ON NEGATIVE CHANGE IN TIME VALUE OF DERIVATIVES

	31/12/2016	Increases	Decreases	31/12/2017
Forward points based on spot exchange rate	17,636	2,784	17,636	2,784
Time value of options on exchange rates	0	136,454	0	136,454
Time value of options on commodities	0	612,480	0	612,480
Total	**17,636**	**751,718**	**17,636**	**751,718**

Balance Sheet – Equity and Liabilities

EQUITY

The statement of changes in consolidated equity for 2016 and 2017 is listed in the Attachment to these Notes.

SHARE CAPITAL

Fully subscribed and paid-up share capital at 31 December 2017 consisted of 25,000,000 ordinary shares, with a nominal value of €1 each.

REVALUATION RESERVE

Revaluation reserves are broken down as follows:

Euro units	31/12/2017
Re. Law 576/1975	28,033
Re. Law 72/1983	267,519
Re. Law 408/1990	25,096,319
Re. Law 413/1991	5,680,818
Re. Law 342/2000	103,048,412
Re. Law 342/2001	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	**361,721,428**

No allocations were made to revaluation reserves and other reserves pending taxes, since to date they are not expected to be paid out.

OTHER RESERVES

The item contains the other reserves included in the Financial Statements of the Parent Company and the translation reserve at 31 December 2017. It is broken down as follows:

Euro units	31/12/2017	31/12/2016
Extraordinary reserve	202,679,757	202,679,757
Reserve Re. Art. 18 Presidential Decree 675/1977	16,892	16,892
Reserve Re. Art. 55 Law 526/1982	86,235	86,235
Reserve Re. Law 46/1982	90,785	90,785
Reserve Re. Law 130/1983	162,463	162,463
Reserve Re. Art. 55 Presidential Decree 917/1986	212,481	212,481
Reserve Re. Law 488/1992	380,808	380,808
Merger surplus reserve	56,953,074	56,953,074
Restricted reserve arising from net exchange gains	931,569	519,729
Translation reserve	(10,363,758)	(6,466,122)
Consolidation reserve and other reserves	(4,590,213)	0
Total	**246,560,093**	**254,636,102**

Other reserves include the effect of recognising the call option to acquire the remaining 19.47% interest in Nims S.p.A. (€4.6 million).

CASH FLOW HEDGE RESERVE

The reserve was established in accordance with Legislative Decree No. 139 of 18 August 2015, and refers to changes in the fair value of the hedging component of outstanding derivative financial instruments, net of the deferred tax effects.

Euro units	31/12/2016	Fair value adjustment	Uses	Reclassifications	31/12/2017
Derivatives to hedge USD exchange risk	5,194,881	(2,269,854)	(5,194,881)	0	(2,269,854)
Derivatives to hedge commodity price risk	0	(28,140)	0	0	(28,140)
Derivatives to hedge interest rate risk	(1,695,779)	(688,240)	1,695,779	0	(688,240)
Deferred tax assets/(liabilities) on hedge derivatives	(874,715)	1,667,346	0	0	792,631
Total	**2,624,387**	**(1,318,888)**	**(3,499,102)**	**0**	**(2,193,603)**

NEGATIVE RESERVE FOR TREASURY SHARES

In accordance with Legislative Decree 139 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.

EQUITY ATTRIBUTABLE TO MINORITY INTERESTS

Equity attributable to minority interests refer to the 1% interest held by Finlav S.p.A. in the subsidiary Cofincaf S.p.A., the 7.8% interest also held by Finlav S.p.A. in the subsidiary Lavazza Premium Coffees Corp. and the 2.67% interest held by minority interest in Nims S.p.A.

PROVISIONS FOR RISKS AND CHARGES

The following table provides a breakdown and movements of provisions for risks and charges:

Euro units

	31/12/2016	Provisions	Uses	Reclassifications	Exchange rate delta	Change in consolidation area	31/12/2017
Provisions for taxes, including deferred							
Provisions for taxes	4,320,517	95,722	(4,015,051)	0	(2,065)	0	399,123
Provisions for deferred taxes	10,862,337	1,312,095	(5,819,109)	0	(19,998)	7,038,651	13,373,976
Total provisions for taxes, including deferred	**15,182,854**	**1,407,817**	**(9,834,160)**	**0**	**(22,063)**	**7,038,651**	**13,773,099**
Financial derivative liabilities	**2,159,929**	**8,278,274**	**(5,185,274)**	**0**	**0**	**0**	**5,252,929**
Other provisions							
For employees bonuses and benefits	19,633,230	17,027,238	(13,676,006)	(5,396,038)	(10,976)	0	17,577,448
For legal issues	7,462,803	4,715,808	(6,443,377)	0	(1,070)	0	5,734,164
For agents' customer compensation	2,831,291	366,475	(455,801)	0	0	2,839,501	5,581,466
Provisions for guarantees and endorsements	1,462,818	55,517	(177,101)	208,831	(2,847)	0	1,547,218
For coffeemakers warranties and returns	91,250	0	0	(89,120)	(2,131)	5,300,000	5,299,999
Other	8,951,484	4,560,367	(6,484,844)	5,276,327	(170,260)	67,002	12,200,076
Total other provisions	**40,432,876**	**26,725,405**	**(27,237,129)**	**0**	**(187,284)**	**8,206,503**	**47,940,371**
Total provisions for risks and charges	**57,775,659**	**36,411,496**	**(42,256,563)**	**0**	**(209,346)**	**15,245,154**	**66,966,399**

PROVISIONS FOR TAXES, INCLUDING DEFERRED

The provision for taxes primarily refers to the Ires (corporate income tax) and Irap (regional production tax) assessment notices served on the Parent Company in 2015 and 2016. The procedure, that resulted in the draw-down and release of approximately €4 million from the provision by Lavazza S.p.A., was completed in 2017.
The item "Provision for deferred taxes" increased as a result of the inclusion of Nims S.p.A. and Kicking Horse Coffee Co. Ltd in the consolidation area; it is broken down in a dedicate table included in the Notes on "Income taxes for the year".

FINANCIAL DERIVATIVE LIABILITIES

The item includes the decrease in the fair values of the derivative instruments outstanding as at 31 December 2017.

The following table provides a detailed description:

Type of contract		Notional value	Financial risk of underlying asset	Fair value	Covered asset/liability
Current derivative liabilities on exchange rates					
Options	USD	15,000,000	Exchange rate risk (USD)	295,300	Purchase of green coffee
Options	GBP	4,500,000	Exchange rate risk (GBP)	36,983	Sales
Forwards	USD	15,000,000	Exchange rate risk (USD)	(89,241)	Purchase of green coffee
Forwards	USD	204,000,000	Exchange rate risk (USD)	2,463,203	Purchase of green coffee
Forwards	ZAR	9,800,000	Exchange rate risk (ZAR)	47,187	Sales
on commodities					
Futures	GBP	28,469,988	Commodity price risk	709,518	Purchase of green coffee
Total				**3,462,950**	
Non-current derivative liabilities on exchange rates					
Options	GBP	1,500,000	Exchange rate risk (GBP)	22,666	Sales
on interest rates					
Interest Rate Swaps	EUR	430,000,000	Interest rate risk	1,692,185	Financing and lease
Interest Rate Swaps	EUR	25,000,000	Interest rate risk	75,128	Financing
Total				**1,789,979**	
Overall total				**5,252,929**	

(Fair value data are in units of Euro)

The following table shows the movements in the year:

Euro units	31/12/2016	Increases	Decreases	31/12/2017
Current derivative liabilities				
Derivatives to hedge exchange-rate risk	65,598	2,753,432	(65,598)	2,753,432
Derivatives to hedge commodity price risk	0	709,518	0	709,518
Derivatives to hedge interest-rate risk	0	0	0	0
Non-current derivative liabilities				
Derivatives to hedge exchange-rate risk	0	22,666	0	22,666
Derivatives to hedge commodity price risk	0	0	0	0
Derivatives to hedge interest-rate risk	2,094,331	1,767,313	(2,094,331)	1,767,313
Total	**2,159,929**	**5,252,929**	**(2,159,929)**	**5,252,929**

OTHER PROVISIONS

At 31 December 2017, the provision for employees bonuses and benefits reflected the amounts provisioned and drawn-down for employee bonuses and incentives granted and payable within the following year. In the interest of a clearer presentation, in 2017 the portion of the provision referring to the benefits granted in accordance with medium/long-term incentive plans was reclassified under other provisions for risks and charges.

The provision for legal issues, which also includes provisions for labour law disputes, has been adjusted on the basis of ongoing disputes.

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 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.

The provision for coffeemakers warranties and returns increased by approximately €5 million following the inclusion of Nims S.p.A. in the consolidation area.

Other provisions include mainly:

- the provision for restructuring, associated with the process of reorganising and rationalising the production system of Lavazza and its sales network. In the reporting year, the provision was adjusted for about €550 thousand and partially drawn down to cover the costs associated with the disposal of the Verrès production plant and the costs incurred to reorganised the sales network totalling €6.2 million;
- the provision for employees bonuses and benefits regarding the medium/long-term incentive plans and amounting to approximately €2 million;
- the provision for risks and charges accrued in 2017 for €1.5 million allocated by the subsidiary Fresh & Honest Café Ltd for any penalty it may be required to pay to local authorities for unsuccessful exports.

EMPLOYEE LEAVING INDEMNITIES

Movements in employee leaving indemnities during the year were as follows (Euro units):

Balance at 31 December 2016	**24,600,332**
Change in consolidation area	702,331
Revaluation/provisions for the year	891,191
Uses for indemnities paid in the year	(2,503,386)
Use for advances	(390,227)
11% substitute tax on revaluation	0
Exchange gains and losses	(25,040)
Balance at 31 December 2017	**23,275,201**

Employee leaving indemnities at 31 December 2017 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.

LIABILITIES

PAYABLES TO BANKS

The item at 31 December 2017 is broken down as follows:

Euro units	31/12/2017	31/12/2016	Changes
Current accounts negative balances and short-term credit facilities	26,827,290	27,184,200	(356,910)
Financing	379,000,846	413,432,994	(34,432,148)
Total	**405,828,136**	**440,617,194**	**(34,789,058)**

Payables to banks amounted to €405.8 million. The decrease was mainly attributable to the five-year corporate loan contracted on 18 February 2016 by the Parent Company for a total amount of €400 million and falling due on 18 February 2021. The floating-rate (6-month Euribor) loan was issued by a pool of four banks (club deal); the loan was then converted to fixed rate through an interest rate swap. At 31 December 2017, the short-term portion of this transaction amounted to €75 million, whereas the medium/long-term portion was €289 million.

The item also includes financing received from banks, regarding Cofincaf S.p.A. They were broken down into current account liabilities and short-term credit facilities, secured against presentation for collection of payment instruments issued by customers (€24.9 million) and loans due within the next financial year (€15 million). These payables accrue interest at arm's length conditions.

PAYABLES TO OTHER LENDERS

This item includes €53.8 million payables towards the leasing company that, as part of the headquarters building plan, delivered the lots currently hosting the Institute of Applied Arts and Design (€3.2 million) and the headquarters offices, the square and the parking area (€50.6 million). The item also includes the payable associated with the call option to acquire the remaining minority interest in Nims S.p.A. and Kicking Horse Coffee Co. Ltd, amounting to €8 million and €28.5 million, respectively.

ADVANCE PAYMENTS

These amounted to €37,872,720 and primarily related to security deposits received by the acquiree Nims S.p.A. from an end customer upon the signing of supply and sale contracts (€35.6 million); the remainder refers to advance payment for goods and services by various Italian and international customers of the Parent Company.

TRADE PAYABLES

Trade payables amounted to €319,394,877 and relate to the supply of raw materials and services. There are no amounts due after one year.

PAYABLES TO SUBSIDIARIES

The item, amounting to €621,787, refers to payables to the direct subsidiary Lavazza Trading (Shenzhen) Co. Ltd (€550.7 thousand) and the direct subsidiary Lavazza Maroc S.a.r.l. (€71.1 thousand) for services rendered to the Parent Company.

PAYABLES TO THE PARENT COMPANY

This item refers to the payables to the Parent Company, Finlav S.p.A., mainly for 2017 Ires (corporate income tax), owed by the Group companies participating in the national tax consolidation programme.

TAX PAYABLES

Tax payables consist of the following:

Euro units	31/12/2017	31/12/2016	Changes
Corporate income tax	2,296,082	5,852,362	(3,556,280)
VAT payables	16,392,434	12,971,852	3,420,582
Taxes to be paid as withholding agents	4,685,935	2,981,440	1,704,495
Other minor taxes	5,008,522	4,351,846	655,676
Total	**28,382,973**	**26,157,500**	**2,225,473**

SOCIAL SECURITY LIABILITIES

This item amounted to €10,299,982 and included all liabilities regarding social contributions to be paid.

OTHER LIABILITIES

The breakdown at 31 December 2017 was as follows:

Euro units	31/12/2017	31/12/2016	Changes
Trade discounts payable	49,641,086	49,675,284	(34,198)
Payables to personnel	20,079,899	20,409,908	(330,009)
Payables for commitments and withholdings	11,522,422	1,189,861	10,332,561
Other lesser items	1,376,180	2,879,640	(1,503,460)
Total	**82,619,587**	**74,154,693**	**8,464,894**

"Trade discounts payables" refer to credit notes to be issued to customers who reached the contractually established volume or sales targets during the year.

Payables to personnel include advances for travel expenses and amounts due for holiday entitlement, leaves and overtime to be paid in the following year.

Payables for commitments and withholdings refer primarily to the shares of the funds Innogest Capital and Ersel Investment Club, subscribed for but not yet called up (€1,034,761), payables to minority shareholders attributable to the newly acquired Nims S.p.A. for dividends to be paid approved in previous years (€506,743) and amounts payable due beyond one year of €9,978,538, withheld as security for the acquisition of the equity interest in Nims S.p.A.

There are no payables that fall due after one year.

The breakdown by geographic area of trade and other payables is as follows:

Euro units	Italy	Other EU countries	Other European countries	Americas	Australia	Other continents	Total
Trade payables	173,909,450	103,915,424	5,793,228	19,227,866	2,598,575	13,950,334	319,394,877
Other payables	41,449,569	36,045,120	724,760	1,119,776	2,526,007	754,355	82,619,587
Total	**215,359,019**	**139,960,544**	**6,517,988**	**20,347,642**	**5,124,582**	**14,704,689**	**402,014,464**

ACCRUALS AND DEFERRED INCOME

The breakdown of accruals and deferred income is given in the following table:

Euro units	31/12/2017	31/12/2016	Changes
Accruals			
14th month salary and annual leave	3,528,372	3,259,262	269,110
Interest expense	482,670	616,500	(133,830)
Rental charges	0	29,818	(29,818)
Other	1,664,136	1,307,871	356,265
Total accruals	**5,675,178**	**5,213,451**	**461,727**
Deferred income			
Franchising entry fees and other contributions	941,093	119,921	821,172
Positive change in time value of derivatives	106,392	0	106,392
Other deferred income	3,200,310	4,850,018	(1,649,708)
Total deferred income	**4,247,795**	**4,969,939**	**(722,144)**
Total accruals and deferred income	**9,922,973**	**10,183,390**	**(260,417)**

Positive change in time value of derivatives

Type of contract		Notional value	Financial risk of underlying asset	Change in time value	Covered asset/liability
Options	GBP	6,000,000	Exchange rate risk (GBP)	17,151	Sales
Options	GBP	15,000,000	Exchange rate risk (USD)	89,241	Purchase of green coffee
Total				**106,392**	

Deferred income on positive change in time value of derivatives

	31/12/2016	Increases	Decreases	31/12/2017
Forward points based on spot exchange rate	0	0	0	0
Time value of options on exchange rates	601,603	106,392	(601,603)	106,392
Time value of options on commodities	0	0	0	0
Total	**601,603**	**106,392**	**(601,603)**	**106,392**

COMMITMENTS, GUARANTEES AND CONTINGENT LIABILITIES

Third-party guarantees in our favour **€4,953,971**

The item refers to guarantees provided in our favour by banks to the Ministry of Production amounting to €751,204 in respect of prize-related operations; €1,591,997 to the municipalities of Turin and Gattinara for urbanisation work; €1,479,501 to the Italian Revenue Authority for tax auditing; €81,000 to A.E.M. Milano, Idroelettrica S.c.r.l. (Verrès) and Edison Energia S.p.A. (Pozzilli) for energy supplies; €204,093 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; €100,000 to Customs; €675,242 related to property leases; other minor amounts relating primarily to the payment of custom fees for import transactions (€51,650) and to the municipality of Verrès (€2,582) for waste collection.

Income statement

VALUE OF PRODUCTION

SALES OF GOODS AND SERVICES

Consolidated sales pertain to the following activities:

Euro units	Year 2017	Year 2016	Changes
Sales of packaged coffee	1,504,863,744	1,456,546,299	48,317,445
Sales of coffee capsules for vending systems	360,184,302	305,487,008	54,697,294
Sales of coffee machines, equipment and accessories	72,313,939	76,379,528	(4,065,589)
Sales of other food products	38,121,507	35,933,034	2,188,473
Sales of advertising material	17,747,783	11,093,389	6,654,394
Other sales and services	21,522,683	10,225,301	11,297,382
Total	**2,014,753,958**	**1,895,664,559**	**119,089,399**

The increase compared to the previous year was primarily due to the increased sales reported by the Carte Noire business unit and the change in the scope of consolidation due to the new acquisitions.

The following table provides a breakdown of consolidated sales by geographical areas (Euro units):

Geographical area	Year 2017	Year 2016	Changes
Italy	716,872,878	751,547,244	(34,674,366)
Other EU countries	1,013,436,835	894,519,388	118,917,447
Non-EU countries	284,444,245	249,597,927	34,846,318
Total	**2,014,753,958**	**1,895,664,559**	**119,089,399**

OTHER INCOME AND REVENUES

Other income and revenue refer to the following items:

Euro units	Year 2017	Year 2016	Changes
Income from M&As and contingent income	9,389,157	2,129,950	7,259,207
Grants	3,714,075	3,600,092	113,983
Rentals	1,844,362	980,370	863,992
Gains on disposal of assets	1,761,835	952,158	809,677
Royalties for the use of our trademarks	1,317,098	1,762,499	(445,401)
Other income	10,026,532	5,574,557	4,451,975
Total	**14,949,827**	**9,269,584**	**5,680,243**

The resulting gains were entirely realised through the company's ordinary operations. Royalties refer mainly to the franchising activity within the coffee shops business.

The item "Grants" refers primarily to:
- contributions from public entities of €2,751,788, primarily related to the research and development bonus pursuant to Article 1, paragraph 35, of Law 190/2014 and the related implementing provisions;
- public grants of €743,726 related to the research and development bonus pursuant to Article 1, paragraph 35, of Law 190/2014 and the related implementing provisions, in addition to the contributions as per Legislative Decree 91/2014 (category "Ateco 28");
- incentive grants for photovoltaic systems of €218,561 governed by the Ministerial Decree of 19/2/2007 (the new Energy Account).

The item "Income from M&As and contingent income" includes the €7,498 thousand contingent income of the Parent Company and the €1,891 thousand contingent income of Group companies. The item "Other income" includes compensation for damages, allowance from suppliers, chiefly for the purchase of coffee machines, release of provisions and other income generated from operating and recurring activities.

COSTS OF PRODUCTION

RAW MATERIALS, ANCILLARIES, CONSUMABLES AND GOODS

The item amounted to €857,912,472 and is broken down as follows:

Euro units	Year 2017	Year 2016	Changes
Purchase of green coffee	570,964,385	510,214,379	60,750,006
Purchase of packaging	96,963,702	88,212,986	8,750,716
Purchase of coffee machines and accessories	77,442,913	77,832,564	(389,651)
Purchase of finished coffee products	23,804,860	54,983,009	(31,178,149)
Purchase of promotional and advertising material	23,655,815	19,859,465	3,796,350
Purchase of consumables	8,958,529	7,483,461	1,475,068
Purchase of other food products	8,749,452	10,767,990	(2,018,538)
Other purchases	6,614,203	8,722,664	(2,108,461)
Taxes and ancillary costs	40,758,613	38,631,379	2,127,234
Total	**857,912,472**	**816,707,897**	**41,204,575**

Changes compared to the previous year were in line with the increase in sales. Further information is given in the Directors' Report on Operations.

"Taxes and ancillary costs" was mainly related to the coffee tax paid by Lavazza Deutschland G.m.b.H. on purchases of green coffee.

COSTS OF SERVICES

At 31 December 2017, costs for services were broken down as follows:

Euro units	Year 2017	Year 2016	Changes
Commercial and selling costs	547,688,080	511,717,563	35,970,517
Ancillary purchasing and production costs	96,459,782	97,573,946	(1,114,164)
Other general and administrative costs	81,770,948	77,168,295	4,602,653
Total	**725,918,810**	**686,459,804**	**39,459,006**

The increase in commercial and selling costs was chiefly attributable to an overall rise in outlays for customers' promotional activities.

Ancillary purchasing and production costs declined, mainly as a result of lower logistic costs.
The item "Other general and administrative costs" rose, chiefly as a result of the increase in costs related to administrative and legal advisory services.

Remuneration to the Parent Company's directors and statutory auditors for their activity also in other companies included in the consolidation area are given in the following table:

Euro units	
Directors	95,200
Statutory Auditors	10,140
Total	**105,340**

USE OF THIRD-PARTY ASSETS

The following table provides a breakdown of the use of third-party assets:

Euro units	Year 2017	Year 2016	Changes
Vehicle leases	6,687,215	5,388,705	1,298,510
Property leases	6,566,675	5,482,423	1,084,252
Lease of software and electronic equipment	6,399,467	6,439,987	(40,520)
Other leases	1,721,768	2,274,334	(552,566)
Royalties for use of trademarks	40,950	336,685	(295,735)
Total	**21,416,075**	**19,922,134**	**1,493,941**

The increase in item "Property leases" was mainly attributable to higher costs incurred for the lease of the new headquarters of the subsidiary Lavazza France S.a.s.

PERSONNEL COSTS

Personnel costs include salaries, social security contributions, employee leaving indemnities for the year and provisions for bonuses and incentives accrued in the reporting year. They amounted to €22 million, of which €8 million referring to the companies acquired in the reporting year.

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

Categories	Year 2017	Year 2016
Executives	163	119
Middle managers	656	585
White collars	1,434	1,312
Blue collars	832	813
Total	**3,085**	**2,829**

The inclusion of Nims S.p.A., Kicking Horse Coffee Co. Ltd and Espresso Service Proximité S.A. into the consolidation area generated a headcount increase of 272 staff compared to the previous year.

AMORTISATION, DEPRECIATION AND WRITE-DOWNS

The breakdown of the sub-items is already included in the Income Statement. Reference should be made to the relevant section of the Balance Sheet for further comments.

PROVISIONS FOR RISKS AND OTHER PROVISIONS

Provisions for risks amounted to €6.6 million and refer mainly to the Parent Company (€3.5 million), the subsidiaries Carte Noire S.a.s. and Carte Noire Operations S.a.s. (€1.2 million) and Fresh & Honest Café Ltd (€1.5 million).
Further details are given under section Provisions for Risks and Charges.

OTHER OPERATING CHARGES

The item "Other operating charges" refers to the following cost items:

Euro units	Year 2017	Year 2016	Changes
Other gifts	19,338,688	7,402,887	11,935,801
Taxes other than income taxes	5,812,951	7,513,241	(1,700,290)
Compensation for damages	2,475,543	5,839,869	(3,364,326)
Capital losses	2,426,214	2,583,211	(156,997)
Social charges	2,201,824	2,869,701	(667,877)
Association duties	1,162,089	771,327	390,762
Bad debts	1,027,531	571,947	455,584
Miscellaneous operating charges	4,064,137	5,303,809	(1,239,672)
Total	**38,508,977**	**32,855,992**	**5,652,985**

The item "Other gifts" rose mainly as a result of the increase in gifts recognised by the subsidiary Lavazza France (€6.3 million), the Parent Company (€2.3 million) and Carte Noire S.a.s. (€1.8 million).

FINANCIAL INCOME AND EXPENSE

Finance income and expense for the year were broken down as follows:

Euro units	Year 2017	Year 2016	Changes
Income from equity investments:			
Dividends and income from other companies	1,108,101	407,140	700,961
Total income from equity investments	**1,108,101**	**407,140**	**700,961**
Finance income:			
Interest income from current securities	5,245,876	8,173,793	(2,927,917)
Interest income from banks	675,088	1,656,386	(981,298)
Other finance income	2,293,736	1,660,654	633,082
Total financial income	**8,214,700**	**11,490,833**	**(3,276,133)**
Financial expense:			
Interest expense to banks	3,395,109	3,084,210	310,899
Interest expense to third parties	926,407	668,384	258,023
Other finance expense	1,603,804	231,576	1,372,228
Total financial expense	**5,925,320**	**3,984,170**	**1,941,150**
Total financial income and expense	**3,397,481**	**7,913,803**	**(4,516,322)**

In 2017, dividends and income from other companies primarily included dividends from equity investments recognised among current assets and gains from the disposal of the TIP S.p.A. warrants 2015-2020 held by Lavazza Capital S.r.l.
Interest income from current securities mainly relate to interest income accrued on the bonds held by the subsidiary Lavazza Capital S.r.l.
Interest income from banks regarded primarily interest accrued on the cash at bank of the Parent Company.
Other finance income essentially related to interest income accrued on loans granted to the customers by the subsidiary Cofincaf S.p.A. and the finance income posted by Nims S.p.A.

Interest expense to banks mainly referred to interests accrued on the corporate loan contracted by the Parent Company in February 2016.
"Interest expense to third parties" and "Other finance expense" included interest expense and other charges regarding the property lease contracted to build the new Headquarters and amounting to approximately €1.2 million.

EXCHANGE GAINS AND LOSSES

Realised and recognised exchange gains and losses are detailed in the table below:

Euro units	Year 2017	Year 2016	Changes
Recognised exchange gains	221,034	1,667,625	(1,446,591)
Realised exchange gains	6,539,131	1,379,053	5,160,078
Total exchange gains	**6,760,165**	**3,046,678**	**3,713,487**
Recognised exchange losses	3,352,333	736,057	2,616,276
Realised exchange losses	9,849,479	5,014,460	4,835,019
Total exchange losses	**13,201,812**	**5,750,517**	**7,451,295**
Net exchange gains (losses)	**(6,441,647)**	**(2,703,839)**	**(3,737,808)**

ADJUSTMENTS TO FINANCIAL ASSETS

Write-ups of equity investments refer to the subsidiary Espresso Service Proximité S.A., as it had been measured using the equity method for the part of the financial year that preceded its consolidation using the line-by-line method.

The write-downs of equity investments relate to the adjustment to fair value of equity investments recognised among current assets.

Write-downs of current securities other than equity investments were attributable to adjustment to fair value of mutual funds held by Lavazza Capital S.r.l. and recognised among current assets.

INCOME TAXES FOR THE YEAR

Taxes are allocated based on reasonable forecasting of tax burden, due account being taken of applicable exemptions. The following table provides a detailed description:

Euro units	Year 2017	Year 2016	Changes
Current taxes	**(13,097,773)**	**17,905,120**	**(31,002,893)**
Current taxes for the year	(16,209,546)	(17,467,025)	4,369,252
Prior years' current taxes	3,111,773	35,372,145	(32,260,372)
Deferred tax assets	**(4,367,498)**	**2,072,907**	**(6,440,405)**
Provision for deferred tax assets	7,960,757	12,206,136	(4,245,379)
Reversal of deferred tax assets	(12,328,255)	(9,856,387)	(2,471,868)
IRES delta on tax assets	0	(276,842)	276,842
Deferred tax liabilities	**615,844**	**65,503**	**550,341**
Provision of deferred tax liabilities	(1,432,319)	(613,973)	(818,346)
Reversal of deferred tax liabilities	2,048,163	675,822	1,372,341
IRES delta on tax liabilities	0	3,654	(3,654)
Total taxes for the year	**(16,849,427)**	**20,043,530**	**(36,892,957)**

In 2016, the positive balance of the item "Prior years' taxes" referred to the Parent Company and was largely due to evaluations of income taxes for 2015 conducted after the financial statements were approved.

The table below shows a reconciliation between the theoretical and actual tax charge of the Group.
Pursuant to applicable regulatory provisions and in light of the IRES (corporate income tax) applied to the Parent Company, the theoretical tax rate was 24%, i.e., that in force at the reporting date.
To allow for a better understanding of the reconciliation, IRAP (regional production tax) was excluded; as it is not calculated on profit before taxes, but on a different taxable amount, its inclusion could have generated a distorted result.

Profit before taxes attributable to the Group	**61,508,505**
Theoretical tax rate	24%
Group's theoretical tax charge and tax rate applied in Italy	**(14,762,041)**
Dividends	(211,566)
Different tax burden of Group companies	(3,310,621)
Contribution for economic growth (ACE)	3,779,071
Non-deductible consolidation adjustments	(2,617,311)
Non-deductible taxes and costs of the Parent Company	(9,506,477)
Other deductible costs of the Parent Company	10,342,342
Deferred deductibility costs of the Parent Company	(2,504,728)
Exchange differences and other deferred taxes of the Parent Company	1,127,344
Previous year taxes	3,111,773
IRAP	(2,297,213)
Actual tax charge	**(16,849,427)**

Deferred tax assets and liabilities are measured each year based on rates in force at the time the temporary differences are reversed, making the proper adjustments in case of rate changes from year to year. Changes in deferred tax assets and liabilities and a breakdown of taxes are summarised in the following table:

Euro units

Nature	31/12/2016	Change in consolidation area	Reversals	Provisions	Reclassifications/ Other	Exchange effect	Movement in cash flow hedge reserve	31/12/2017
Deferred tax assets								
Deferred deductibility costs	21,337,644	2,864,328	(10,244,723)	7,135,421	317,588	(142,348)	0	21,267,910
Fiscally deductible cash costs	0	0	0	0	0	0	0	0
Elimination of the tax effect of intergroup profits	5,332,796		(2,083,532)	825,336	0	0	0	4,074,600
Adjustment of financial derivatives to FV	3,334,044	0	0	0	(4,208,759)	0	1,667,346	792,631
Total deferred tax assets	**30,004,484**	**2,864,328**	**(12,328,255)**	**7,960,757**	**(3,891,171)**	**(142,348)**	**1,667,346**	**26,135,141**
Deferred tax Liabilities								
Accelerated amortisation and depreciation	4,788,772	0	(592,798)	0	0	0	0	4,195,974
Exchange gains (losses)	169,273	0	(169,273)	16,241	0	0	0	16,241
Provisions for consolidation differences related to buildings	1,232,198	0	(974,309)		0	0	0	257,889
Other	463,335	7,038,651	(311,783)	1,416,078	317,588	(19,997)	0	8,903,872
Adjustment of financial derivatives to FV derivati	4,208,759	0	0	0	(4,208,759)	0	0	0
Total deferred tax liabilities	**10,862,337**	**7,038,651**	**(2,048,163)**	**1,432,319**	**(3,891,171)**	**(19,997)**	**0**	**13,373,976**

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, respectively, the 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., and Nims S.p.A. and, separately, the statutory independent audit of the Consolidated Financial Statements of the Lavazza Group for the year ended 31 December 2017, as well as the total amount of consideration accrued for other minor services relating to methodological support activities.

Assets	Company	2017
Statutory auditing of annual accounts	Luigi Lavazza S.p.A.	102,000
	Lavazza Group's consolidated accounts	22,000
	Cofincaf S.p.A.	27,000
	Lavazza Capital S.r.l.	15,000
	Nims S.p.A.	30,000
Total		**196,000**

INFORMATION ON OFF-BALANCE SHEET ARRANGEMENTS PURSUANT TO ARTICLE 2427, PARAGRAPH 1, 22-*TER* OF THE ITALIAN CIVIL CODE

There were no arrangements the effects of which are not presented in the balance sheet, knowledge of which would be in any case helpful to assessing the Company's capital and financial position.

INVESTEES AT 31 DECEMBER 2017

Company	Registered offices		Share capital	% held directly	% held indirectly	% held by the Group
Parent company						
Luigi Lavazza S.p.A.	Turin	EUR	25,000,000	0	0	0
Companies consolidated Using the line-by-line method						
Nims S.p.A.	Padua	EUR	3,000,000	77.86	0	77.86
Lavazza France S.a.s.	Noisy-Le-Grand	EUR	15,250,000	100	0	100
Espresso Service Proximité S.A.	Bonneuil sur Marne	EUR	192,440	100	0	100
Carte Noire S.a.s.	Boulogne	EUR	103,830,406	100	0	100
Carte Noire Operations S.a.s.	Lavèrune	EUR	11,517,350	0	100	100
Lavazza Kaffee G.m.b.H.	Vienna	EUR	218,019	100	0	100
Lavazza Deutschland G.m.b.H.	Frankfurt	EUR	210,000	100	0	100
Lavazza Premium Coffees Corp.	New York	USD	30,800,000	93	0	93
Kicking Horse Coffee Co. Ltd	Invermere	CAD	214,994,202	80	0	80
Lavazza Coffee (UK) Ltd	Uxbridge	GBP	1,000	100	0	100
Lavazza Spagna S.L.	Barcelona	EUR	1,090,620	100	0	100
Lavazza Nordic AB	Stockholm	SEK	100,000	100	0	100
Lavazza do Brasil Ltda	Rio de Janeiro	BRL	77,097,753	99.53	0.47	100
Cofincaf S.p.A.	Turin	EUR	3,000,000	99	0	99
Lea S.r.l.	Turin	EUR	100,000	99.9	0.1	100
Lavazza Netherlands B.V.	Amsterdam	EUR	111,500,000	100	0	100
Fresh & Honest Café Ltd	Chennai	INR	70,979,610	0	99.99	99.99
Coffice S.A.	Buenos Aires	ARS	10,468,283	97.54	2.46	100
Almada Comercio de Cafè Ltda	São Paulo	BRL	1,000,800	0	100	100
Lavazza Australia Pty Ltd	Hawthorn	AUD	7,310,600	100	0	100
Lavazza Capital S.r.l.	Turin	EUR	200,000	100	0	100
Merrild Kaffe ApS	Middelfart	DKK	50,000	100	0	100
Merrild Baltics SIA	Riga	EUR	2,828	0	100	100
EQUITY INVESTMENTS VALUED AT COST						
Immobiliare I.N.N.E.T S.r.l.	Turin	EUR	30,000	100	0	100
Lavazza Maroc S.a.r.l.	Casablanca	MAD	10,000	100	0	100
Lavazza Trading (Shenzhen) Co. Ltd	Shenzhen	CNY	8,201,500	100	0	100
International Coffee Partners G.m.b.H.	Hamburg	EUR	175,000	20	0	20
INV. A.G. S.r.l.	Milan	EUR	207,637,307	6.09	0	6.09
Clubitaly S.r.l.	Milan	EUR	103,300	4.12	0	4.12
Connect Ventures One LP	London	GBP	n.a.	2.53	0	2.53
Casa del Commercio e Turismo S.p.A.	Turin	EUR	114,700	0	3	3
Air Vallée S.p.A.	St. Christopher	EUR	6,000,000	2	0	2
Tamburi Investment Partners S.p.A.	Milan	EUR	76,853,716	0.93	0	0.93
Immobiliare 3 F (formerly Le Foyer du Fonctionnaire)	Paris	EUR	46,552,000	n.a.	0	n.a.
Idroelettrica S.c.r.l.	Aosta	EUR	50,000	0.1	0	0.1

STATEMENT OF CHANGES IN THE GROUP'S CONSOLIDATED EQUITY

	Share capital	Share premium account	Revaluation reserves	Legal reserve	Other reserves	Cash flow hedge reserve	Retained earnings	Profit (loss) for the year	Negative reserve for treasury shares	TOTAL EQUITY
Balance at 31 December 2015	**25,000,000**	**223,523**	**361,721,428**	**5,000,000**	**254,007,993**	**0**	**658,778,898**	**801,780,624**	**(17,732,533)**	**2,088,779,933**
Changes in accounting standards	0	0	0	0	0	9,372,702	0	0	0	9,372,702
Balance at 1 January 2016	25,000,000	223,523	361,721,428	5,000,000	254,007,993	9,372,702	658,778,898	801,780,624	(17,732,533)	2,098,152,635
Dividends paid	0	0	0	0	0	0	0	(25,200,002)	0	(25,200,002)
Transfer to retained earnings	0	0	0	0	0	0	776,580,622	(776,580,622)	0	0
Adjustment of exchange rates and other movements	0	0	0	0	628,109	0	(1,419,041)	0	0	(790,932)
Adjustment of derivatives to FV	0	0	0	0		(6,748,315)	(783,687)	0	0	(7,532,002)
Profit (loss) for the year	0	0	0	0	0	0	0	81,950,294	0	81,950,294
Balance at 31 December 2016	**25,000,000**	**223,523**	**361,721,428**	**5,000,000**	**254,636,102**	**2,624,387**	**1,433,156,792**	**81,950,294**	**(17,732,533)**	**2,146,579,993**
Dividends paid	0	0	0	0	0	0	0	(27,000,000)	0	(27,000,000)
Transfer to retained earnings	0	0	0	0	0	0	54,950,294	(54,950,294)	0	0
Adjustment of exchange rates and other movements	0	0	0	0	(3,485,796)	0	(276,909)	0	0	(3,762,705)
Adjustment of other Group reserves	0	0	0	0	(4,590,213)	0	0	0	0	(4,590,213)
Adjustment of derivatives to FV	0	0	0	0		(4,817,990)	0	0	0	(4,817,990)
Profit (loss) for the year	0	0	0	0	0	0	0	44,399,262	0	44,399,262
Balance at 31 December 2017	**25,000,000**	**223,523**	**361,721,428**	**5,000,000**	**246,560,093**	**(2,193,603)**	**1,487,830,177**	**44,399,262**	**(17,732,533)**	**2,150,808,347**

SUPPLEMENTARY INFORMATION

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, knowledge of which would be in any case 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)

In early 2018, the green coffee market continued to be characterised by weak prices, which on the New York exchange fluctuated between 130 cents/lb at the beginning of the year and the current 120 cents/lb.
The London Exchange remained at around 1,730 US$/t, with a low of 1,690 and a high of 1,790 during the period from 1 January to mid-March.
In coffee-growing countries, there was a good harvest in Vietnam, the number-one Robusta producer, and expectations are also very positive for Brazil, where the harvest will be around 60 million bags, barring last-minute surprises.

5 Independent Auditors' Report

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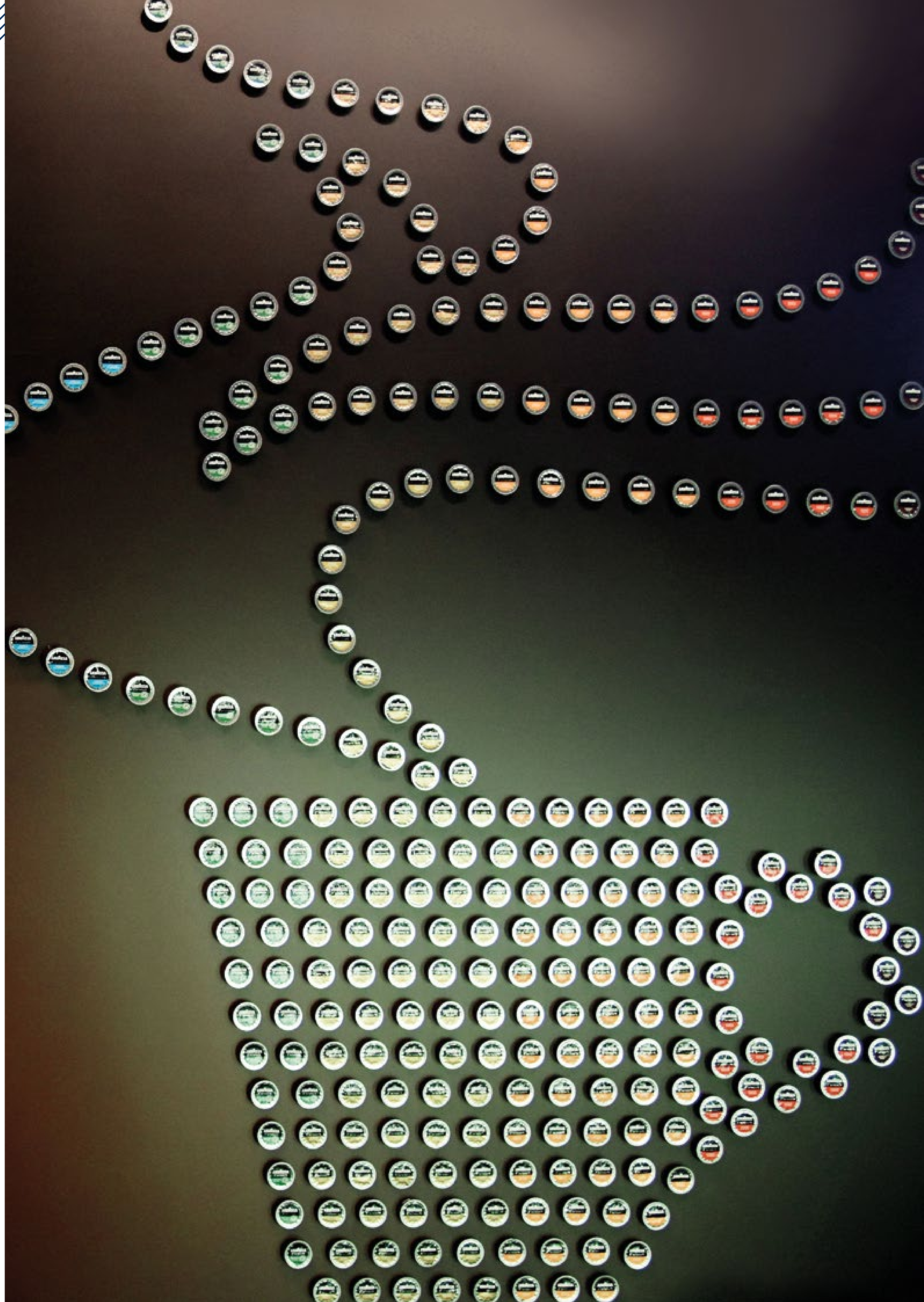

EY
Building a better working world

Luigi Lavazza S.p.A.

Consolidated financial statements as at December 31, 2017

Independent auditor's report in accordance with article 14 of Legislative Decree n. 39, dated 27 January 2010

EY
Building a better working world

EY S.p.A.
Via Meucci, 5
10121 Torino

Tel: +39 011 5161611
Fax: +39 011 5612554
ey.com

Independent auditor's report in accordance with 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 balance sheet as at December 31, 2017, the income statement and consolidated statement of cash flows for the year then ended, and explanatory notes.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at December 31, 2017, and of its consolidated financial performance and its consolidated 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 Consolidated Financial Statements* section of our report.
We are independent of the Company 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.

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

The Directors are responsible for the preparation and fair presentation of the consolidated financial statements 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.

In preparing the financial statements, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or has 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.

EY S.p.A.
Sede Legale: Via Po, 32 - 00198 Roma
Capitale Sociale deliberato Euro 3.250.000,00, sottoscritto e versato Euro 3.100.000,00 i.v.
Iscritta alla S.O. del Registro delle Imprese presso la C.C.I.A.A. di Roma
Codice fiscale e numero di iscrizione 00434000584 - numero R.E.A. 250904
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Iscritta al Registro Revisori Legali al n. 70945 Pubblicato sulla G.U. Suppl. 13 - IV Serie Speciale del 17/2/1998
Iscritta all'Albo Speciale delle società di revisione
Consob al progressivo n. 2 delibera n.10831 del 16/7/1997

A member firm of Ernst & Young Global Limited

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; have 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 modify 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 or business activities 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 Operation of Luigi Lavazza Group as at December 31, 2017, 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, 2017 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 Operation is consistent with the consolidated financial statements of Luigi Lavazza Group as at December 31, 2017 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 11, 2018

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.

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TORINO, ITALIA, 1895

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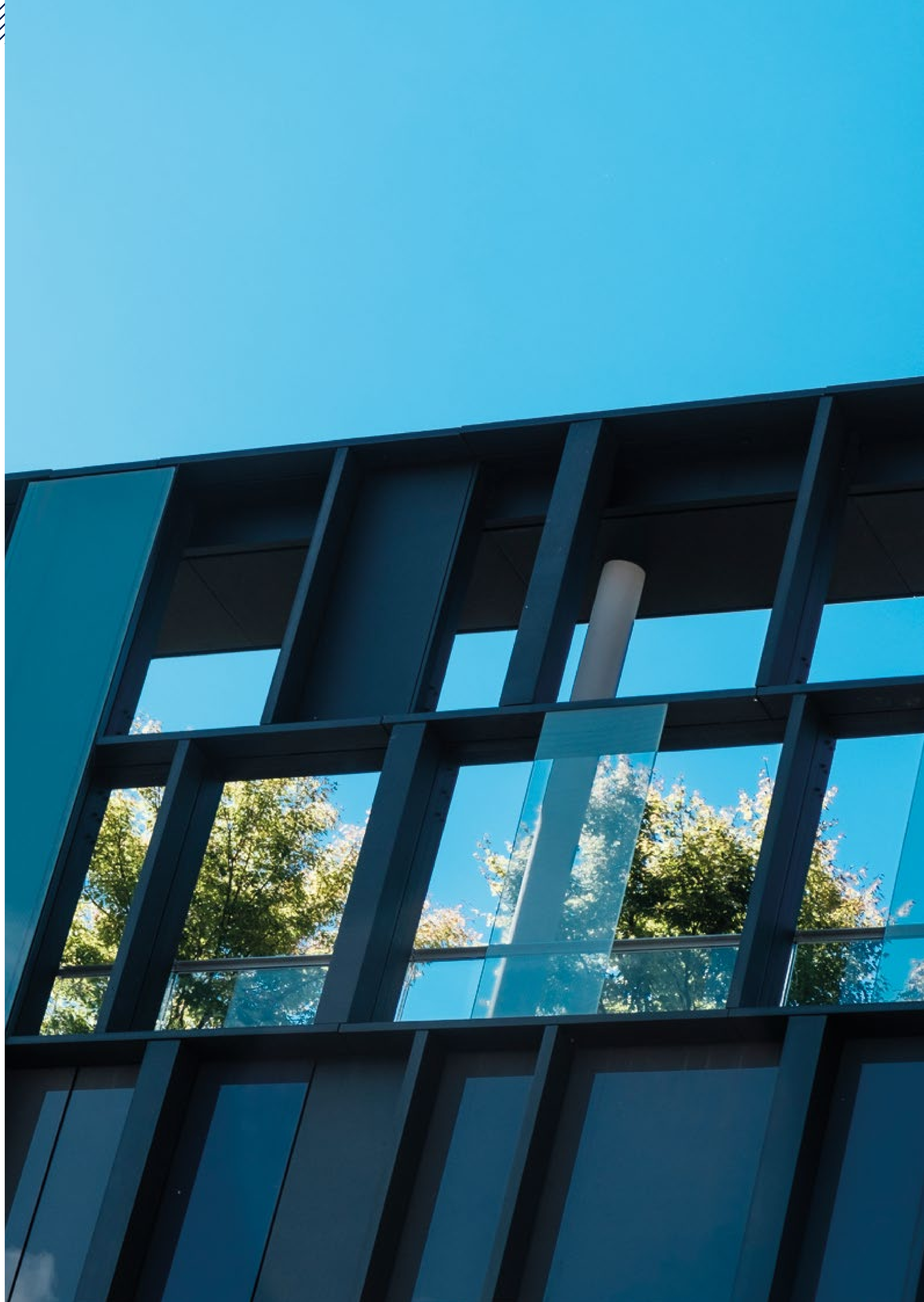
6 Financial Statements 2017 of Luigi Lavazza S.p.A.



LAVAZZA
TORINO, ITALIA, 1895

Highlights of Luigi Lavazza S.p.A.

Euro million	**Year 2017**	**Ratio %**	**Year 2016**	**Ratio %**
Sales of goods and services	1,446.4	100.0%	1,429.8	100.0%
EBITDA	137.4	9.5%	148.8	10.4%
EBIT	39.6	2.7%	54.1	3.8%
Profit before taxes	47.2	3.3%	60.9	4.3%
Profit for the year	**44.2**	3.1%	**88.2**	6.2%
Net working capital	448.9		434.5	
Net fixed assets	1,841.0		1,711.2	
Total uses	**2,289.9**		**2,145.7**	
Net financial position	162.7		30.7	
Equity	2,127.2		2,115.0	
Total sources	**2,289.9**		**2,145.7**	
CAPEX	74.6		60.3	
Headcount	1,613		1,533	
ROS	**2.7%**		**3.9%**	
ROI	**3.2%**		**4.4%**	
ROE	**2.1%**		**4.2%**	

Reclassified Income Statement

Euro million	**31/12/2017**	**Ratio %**	**31/12/2016**	**Ratio %**	**Changes**	**Changes %**
Sales of goods and services	1,446.4	100.0%	1,429.8	100.0%	16.6	1.2%
Other income and revenues	73.2	5.1%	63.6	4.4%	9.6	15.1%
Total income and revenues	**1,519.6**	**105.1%**	**1,493.4**	**104.4%**	**26.2**	**1.8%**
Cost of sales	748.3	51.7%	737.4	51.5%	10.9	1.5%
Costs of services	473.3	32.7%	452.5	31.6%	20.8	4.6%
Other costs	31.8	2.2%	30.3	2.1%	1.5	5.0%
Total external costs	**1,253.4**	**86.7%**	**1,220.2**	**85.2%**	**33.2**	**2.7%**
Value added	**266.2**	**18.4%**	**273.2**	**19.1%**	**(7.0)**	**(2.6%)**
Personnel costs	128.8	8.9%	124.4	8.7%	4.4	3.5%
EBITDA	**137.4**	**9.5%**	**148.8**	**10.4%**	**(11.4)**	**(7.7%)**
Amortisation, depreciation and write-downs	94.0	6.5%	87.5	6.1%	6.5	7.4%
Provisions	3.8	0.3%	7.2	0.5%	(3.4)	(47.2%)
EBIT	**39.6**	**2.7%**	**54.1**	**3.8%**	**(14.5)**	**(26.8%)**
Income (expense) from equity investments	17.7	1.2%	9.5	0.7%	8.2	86.3%
Finance income (expense)	(10.1)	(0.7%)	(2.7)	(0.2%)	(7.4)	274.1%
Profit before taxes	**47.2**	**3.3%**	**60.9**	**4.3%**	**(13.7)**	**(22.5%)**
Income taxes	(3.0)	(0.2%)	27.3	1.9%	(30.3)	(111.0%)
Profit for the year	**44.2**	**3.1%**	**88.2**	**6.2%**	**(44.0)**	**(49.9%)**

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Reclassified Balance Sheet

Euro million		31/12/2017	31/12/2016	Changes
	Inventories	274.1	258.3	15.8
	Trade Receivables	144.8	165.1	(20.3)
	Receivables from subsidiaries, affiliates and the Parent Company	241.2	227.9	13.3
	Deferred tax assets and tax receivables	41.7	37.8	3.9
	Prepayments and accrued income	53.9	42.0	11.9
	Tangible assets held for sale	0.0	3.3	(3.3)
A.	**Total operating assets**	**755.7**	**734.4**	**21.3**
	Trade payables	225.7	225.4	0.3
	Payables to subsidiaries, affiliates and the parent company	13.4	10.3	3.1
	Tax and social security liabilities	19.2	18.5	0.7
	Other liabilities and deferred income	48.5	45.7	2.8
B.	**Total operating liabilities**	**306.8**	**299.9**	**6.9**
C.	**Net working capital (A-B)**	**448.9**	**434.5**	**14.4**
	Intangible assets	616.9	646.9	(30.0)
	Tangible assets	259.2	244.6	14.6
	Financial assets	1,009.3	878.1	131.2
D.	**Total fixed assets**	**1,885.4**	**1,769.6**	**115.8**
	Provisions for risks and charges	29.2	41.1	(11.9)
	Employee leaving indemnities	15.2	17.3	(2.1)
E.	**Total fixed liabilities**	**44.4**	**58.4**	**(14.0)**
F.	**Total fixed assets, net (D-E)**	**1,841.0**	**1,711.2**	**129.8**
G.	**Total net invested assets - Uses (C+F)**	**2,289.9**	**2,145.7**	**144.2**
	Cash and cash equivalents	(189.4)	(362.5)	173.1
	Current financial assets	(11.9)	(5.2)	(6.7)
	Financial liabilities	364.0	398.4	(34.4)
H.	**Net financial position**	**162.7**	**30.7**	**132.0**
	Capital	25.0	25.0	0.0
	Reserves	608.6	613.1	(4.5)
	Retained earnings	1,449.4	1,388.7	60.7
	Profit for the year	44.2	88.2	(44.0)
I.	**Equity**	**2,127.2**	**2,115.0**	**12.2**
L.	**Total sources (I+H)**	**2,289.9**	**2,145.7**	**144.2**

Reclassified Cash Flow Statement[a]

Euro million	Year 2017	Year 2016
Profit for the year	44.2	88.2
Amortisation and depreciation	90.7	80.7
Net change in leaving indemnities	(2.1)	(1.0)
Net change in provisions for risks and charges	(11.9)	9.4
Write-downs of equity investments and securities included in fixed assets	3.4	5.7
Other write-downs of fixed assets	(0.7)	1.5
Change of items in net working capital		
- Inventories	(12.5)	(13.3)
- Trade receivables	20.3	(13.7)
- Other receivables and assets	(29.1)	(102.4)
- Trade payables	0.2	47.6
- Other payables and liabilities	6.6	5.1
Cash flow generated by (used for) operating activities	**109.1**	**107.8**
Net investments in:		
- Intangible assets	(13.9)	(13.8)
- Tangible assets	(60.8)	(46.5)
- Equity investments in subsidiaries, affiliates and other companies	(135.1)	(23.4)
- Other financial assets	0.6	(2.2)
- Business unit acquisition	0.0	(713.0)
Disposal of:		
- Equity investments	0.0	7.7
Cash flow generated by (used for) investing activities	**(209.2)**	**(791.2)**
Dividends paid	(27.0)	(25.2)
Change in cash flow hedge reserve	(4.9)	2.8
Change in retained earnings due to derivatives	0.0	(0.8)
Cash flow generated by (used for) financing activities	**(31.9)**	**(23.2)**
Net cash flow for the year	**(132.0)**	**(706.6)**
Net financial position at year-start	**(30.7)**	**675.9**
Net financial position at year-end	**(162.7)**	**(30.7)**

a) *The Reclassified Cash Flow Statement was prepared by restating the Cash Flow Statement presented in the Notes to the Financial Statements, without highlighting the cash flows relating to changes of current financial assets and financial liabilities, so that total cash flow coincides with the change of net cash and cash equivalents.*

Contents

7 *Board of Directors' Report on Operations*

With reference to Article 2428 of the Italian Civil Code and art. 40 of Legislative Decree 127, paragraph 2-*bis*, of 9 April 1991, the Report on Operations of the Financial Statements of the Parent Company Luigi Lavazza S.p.A. is an integral part of the Report on Operations of the Consolidated Financial Statements of the Lavazza Group.

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TORINO, ITALIA, 1895

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Lavazza Nuvola – The Museum

8 Financial Statements of Luigi Lavazza S.p.A.

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Balance Sheet - Assets

Euro units		31/12/2017	31/12/2016
A)	**CALLED-UP SHARE CAPITAL NOT PAID**	**0**	**0**
B)	**FIXED ASSETS**		
I)	**INTANGIBLE ASSETS**		
2)	Development costs	4,908,910	4,438,807
4)	Concessions, licences, trademarks and similar rights	273,876,403	289,362,410
5)	Goodwill	324,185,578	342,043,257
6)	Intangible assets in progress and advances	4,010,757	991,120
7)	Other	9,951,029	10,065,304
	TOTAL INTANGIBLE ASSETS	**616,932,677**	**646,900,898**
II)	**TANGIBLE ASSETS**		
1)	Land and buildings	96,123,714	102,760,605
2)	Plant and machinery	81,126,697	93,732,749
3)	Industrial and commercial equipments	40,652,971	27,072,908
4)	Other assets	10,384,515	5,820,210
5)	Intangible assets in process and advances	30,922,905	15,249,877
	TOTAL TANGIBLE ASSETS	**259,210,802**	**244,636,349**
III)	**FINANCIAL ASSETS**		
1)	Equity investments:		
	a) Subsidiaries	974,913,090	841,772,751
	b) Affiliates	25,000	1,812,296
	d-*bis*) Other Companies	7,319,881	7,319,881
2)	Receivables:		
	a) From Subsidiaries	25,775,336	26,380,400
	d-*bis*) From Others	851,908	814,057
4)	Financial derivative assets	404,673	0
	TOTAL FINANCIAL ASSETS	**1,009,289,888**	**878,099,385**
	TOTAL FIXED ASSETS (B)	**1,885,433,367**	**1,769,636,632**

Euro units		31/12/2017	31/12/2016
C)	**CURRENT ASSETS**		
I)	**INVENTORIES**		
1)	Raw materials, ancillaries and consumables	186,891,278	180,519,020
2)	Work-in process and semi-finished products	2,340,977	1,146,583
4)	Finished products and goods	83,635,882	74,752,902
5)	Inventory advances	1,260,680	1,875,245
	TOTAL INVENTORIES	**274,128,817**	**258,293,750**
II)	**RECEIVABLES**		
1)	Trade receivables		
	a) due within one year	144,790,200	165,134,157
2)	From subsidiaries		
	a) due within one year	201,999,718	181,161,422
3)	From affiliates		
	a) Due within one year	0	6,907,976
4)	Receivables from parent companies		
	a) Due within one year	39,304,013	39,850,579
5*bis*)	Tax receivables	25,147,122	16,264,389
5*ter*)	Deferred tax assets	16,507,738	21,553,879
5*quater*)	Other receivables		
	a) Due within one year	13,267,954	7,474,537
	b) Due after one year	4,767,292	24,728,098
	TOTAL RECEIVABLES	**445,784,037**	**463,075,037**
III)	**CURRENT FINANCIAL ASSETS**		
5)	Financial derivative assets	2,112,877	5,805,598
6)	Other securities	10,000,000	0
	TOTAL CURRENT FINANCIAL ASSETS	**12,112,877**	**5,805,598**
IV)	**CASH AND CASH EQUIVALENTS**		
1)	Bank and post office deposits	189,333,192	362,546,217
3)	Cash and valuables on hand	44,908	47,755
	TOTAL CASH AND CASH EQUIVALENTS	**189,378,100**	**362,593,972**
V)	**TANGIBLE ASSETS HELD FOR SALE**	**0**	**3,300,000**
	TOTAL CURRENT ASSETS (C)	**921,403,831**	**1,093,068,357**
D)	**PREPAYMENTS AND ACCRUED INCOME**	**35,833,985**	**9,741,312**
	TOTAL ASSETS	**2,842,671,183**	**2,872,446,301**

Balance Sheet - Equity and Liabilities

Euro units			31/12/2017		31/12/2016
A)	**EQUITY**				
I.	SHARE CAPITAL	25,000,000		25,000,000	
II.	SHARE PREMIUM ACCOUNT	223,523		223,523	
III.	REVALUATION ACCOUNT	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	202,679,758		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 46 of 17/2/1982	90,785		90,785	
	Reserve re. Art. 55 Presidential decree 917/1986	212,481		212,481	
	Reserve re. Law 130 of 26/4/1983	162,463		162,463	
	Reserve re. Law 488 of 19/12/1992	380,808		380,808	
	Restricted reserve arising from net exchange gains	931,568		519,728	
	Merger surplus reserve	56,953,074		56,953,074	
VII.	CASH FLOW HEDGE RESERVE	(2,136,574)		2,769,930	
VIII.	RETAINED EARNINGS	1,449,423,895		1,388,654,045	
IX.	PROFIT (LOSS) FOR THE YEAR	44,200,897		88,181,692	
X.	NEGATIVE RESERVE FOR TREASURY SHARES IN PORTFOLIO	(17,732,533)		(17,732,533)	
	TOTAL EQUITY		**2,127,214,700**		**2,114,920,309**
B)	**PROVISIONS FOR RISKS AND CHARGES**				
2)	Provision for taxes, including deferred	834,128		9,647,314	
3)	Financial derivative liabilities	5,177,801		1,968,334	
4)	Other	23,156,408		29,453,454	
	TOTAL PROVISIONS FOR RISKS AND CHARGES		**29,168,337**		**41,069,102**
C)	**EMPLOYEE LEAVING INDEMNITIES**		**15,233,002**		**17,353,757**

Euro units			31/12/2017		31/12/2016
D)	**LIABILITIES**				
4)	Payables to banks				
	a) Due within one year	75,000,000		35,008,622	
	b) Due after one year	289,000,846		363,432,994	
6)	Advance payments	1,681,120		30,564	
7)	Trade payables	223,973,698		225,432,135	
9)	Payables to subsidiaries	13,627,389		10,932,824	
11)	Payables to the parent company	0		4	
12)	Tax payables	13,809,995		13,379,242	
13)	Social security liabilities	5,419,568		5,107,267	
14)	Other liabilities	41,525,005		38,115,180	
	TOTAL LIABILITIES		**664,037,621**		**691,438,832**
E)	**ACCRUALS AND DEFERRED INCOME**		**7,017,523**		**7,664,301**
	TOTAL EQUITY AND LIABILITIES		**2,842,671,183**		**2,872,446,301**

LAVAZZA
TORINO, ITALIA, 1895

Income Statement

Euro units					
			31/12/2017		**31/12/2016**
A)	**VALUE OF PRODUCTION**				
1)	Sales of goods and services	1,446,375,492		1,429,784,337	
2)	Changes in inventories of work-in-process, semi-finished and finished goods	25,276,844		(23,410)	
5)	Other income and revenues:				
	- miscellaneous	69,519,727		60,045,801	
	- grants	3,714,075		3,600,092	
	TOTAL VALUE OF PRODUCTION		**1,544,886,138**		**1,493,406,820**
B)	**COSTS OF PRODUCTION**				
6)	Raw material, ancillaries, consumables and goods	764,710,252		746,432,166	
7)	Costs of services	473,316,543		452,513,721	
8)	Use of third-party assets	15,436,498		10,876,221	
9)	Personnel costs:				
	a) wages and salaries	90,271,675		88,817,243	
	b) social security costs	26,581,671		24,329,464	
	c) leaving indemnities	6,736,568		7,636,817	
	e) other costs	5,179,325		3,662,638	
10)	Amortisation, depreciation and write-downs				
	a) amortisation	43,830,360		36,419,243	
	b) depreciation	46,871,483		44,277,819	
	c) other write-downs	2,674,933		5,333,464	
	d) write-downs of receivables in current assets and of cash and cash equivalents	656,881		1,439,934	
11)	changes in inventories of raw material, ancillaries consumables and goods	8,827,212		(9,076,616)	
12)	provisions for risks	3,506,321		6,307,170	
13)	other provisions	329,041		874,668	
14)	other operating costs	16,398,696		19,476,778	
	TOTAL COSTS OF PRODUCTION		**1,505,327,459**		**1,439,320,730**
	BALANCE BETWEEN VALUE AND COSTS OF PRODUCTION (A - B)		**39,558,679**		**54,086,090**

Euro units					
			31/12/2017		**31/12/2016**
C)	**FINANCIAL INCOME AND EXPENSE**				
15)	Income from equity investments				
	- in subsidiaries	14,924,974		11,751,346	
	- in other companies	6,214,245		3,388,130	
16)	Other financial income				
	d) Income other than the preceding ones	488,589		4,324,653	
	Income other than the preceding ones from subsidiaries	867,628		0	
17)	Interest and other finance expense				
	- to subsidiaries	(680,073)		(730,064)	
	- other	(3,163,250)		(3,360,353)	
17*bis*)	Exchange gains and losses	(5,230,240)		(2,941,137)	
	TOTAL FINANCIAL INCOME AND EXPENSE		**13,421,873**		**12,432,575**
D)	**VALUE ADJUSTMENTS TO FINANCIAL ASSET**				
18)	Write-ups:				
	a) of equity investments	84,998		205,400	
	d) derivatives	572,780		0	
19)	Write-downs:				
	a) of equity investments	(3,484,744)		(5,862,630)	
	d) of derivatives	(2,908,032)		0	
	TOTAL ADJUSTMENTS TO FINANCIAL ASSETS		**(5,734,998)**		**(5,657,230)**
	PROFIT BEFORE TAXES (A -B +- C +- D +- E)		**47,245,554**		**60,861,435**
22)	Current, deferred and prepaid tax assets and liabilities for the year:				
	Current taxes		(1,667,273)		28,704,221
	Deferred tax liabilities		1,127,344		500,684
	Deferred tax assets		(2,504,728)		(1,884,648)
	Reversals of deferred tax liabilities				0
26)	**PROFIT (LOSS) FOR THE YEAR**		**44,200,897**		**88,181,692**

LAVAZZA
TORINO, ITALIA, 1895

Cash Flow Statement

Euro units		Year 2017	Year 2016
A) Cash flow from operating activities			
	Profit (loss) for the year:	44,200,897	88,181,692
	Income taxes	3,044,657	(27,320,257)
	Interest expense/(income)	2,487,106	(234,236)
	(Dividends)	(14,924,974)	(11,751,346)
	(Gains)/Losses from the disposal of assets	(6,214,245)	(3,555,248)
1	**Profit (loss) for the year, before income taxes, interest, dividends, gains/losses from disposals:**	**28,593,441**	**45,320,605**
	Adjustments for non-monetary items that have no counter-entry in NWC		
	Provisions	12,464,217	24,617,548
	Provisions to severance indemnities	341,119	79,843
	Amortisation and depreciation	90,701,843	80,697,062
	Write-downs/-ups of equity investments	3,399,746	5,657,230
	Other impairment losses	(654,478)	1,493,219
	Adjustments to derivative financial assets and liabilities which did not entail monetary movements	(4,906,504)	1,986,243
	Other adjustments for non-monetary items (third-party financing)	(1,667,346)	(1,188,168)
2	**Cash flow before changes in net working capital:**	**128,272,038**	**158,663,582**
	Changes in net working capital:		
	Decrease/(increase) in inventories	(12,535,067)	(13,271,382)
	Decrease/(increase) in trade receivables	20,343,957	(13,665,197)
	Decrease/(increase) in receivables from subsidiaries	(20,838,296)	(68,351,731)
	Decrease/(increase) in receivables from affiliates	6,907,976	(748,652)
	Increase/(decrease) in trade payables	192,119	47,556,577
	Increase/(decrease) in payables to subsidiaries	3,086,995	2,118,277
	Decrease/(increase) in prepayments and accrued income	(26,092,673)	(924,239)
	Increase/(decrease) in accruals and deferred income	(646,778)	1,618,338
	Other changes in net working capital	19,886,572	9,786,611
3	**Cash flow after changes in net working capital:**	**118,576,843**	**122,782,184**
	Other adjustments		
	Interest received/(paid)	(2,487,106)	730,113
	(Income taxes paid)	(779,148)	(14,338,413)
	Dividends received	14,924,974	11,751,346
	(Use of provisions)	(24,364,982)	(15,202,974)
	(Severance indemnities paid)	(2,461,874)	(1,060,260)
B) Total cash flow from operating activities (A)		**103,408,707**	**104,661,996**

Euro units	Year 2017	Year 2016
Cash flows from investing activities		
Tangible assets		
(Investments)	(67,317,260)	(54,359,936)
Realised price for divestments	6,525,802	8,033,070
Intangible assets		
(Investments)	(13,862,139)	(13,791,513)
Realised price for divestments		
Financial assets		
(Investments)	(20,211,764)	(37,560,737)
Realised price for divestments	57,859,935	11,070,863
Business unit acquisitions	(171,478,672)	(712,981,377)
Current financial assets		
(Investments)	(6,307,279)	(3,125,567)
Realised price for divestments	0	12,033,596
C) Total cash flows from investing activities (B)	**(214,791,377)**	**(790,681,601)**
Cash flows from financing activities		
Third-party funds		
Increase (decrease) in short-term payables to banks	(34,440,770)	(3,680)
New financing	0	400,000,000
Increase (decrease) in financial payables to subsidiaries	(392,430)	361,263
Own funds		
(Dividends and advance dividends paid)	(27,000,002)	(25,200,002)
Total cash flows from financing activities (C)	**(61,833,202)**	**375,157,581**
Increase (decrease) in cash and cash equivalents (A +- B +- C)	**(173,215,872)**	**(310,862,024)**
Cash and cash equivalents at year-start	**362,593,972**	**673,455,996**
Cash and cash equivalents at year-end	**189,378,100**	**362,593,972**

Contents

9 Notes to the Financial Statements of Luigi Lavazza S.p.A.

Nuvola Lavazza - La Centrale - Opening 12 April 2018

FINANCIAL STATEMENTS – STRUCTURE AND CONTENTS

These Financial Statements, composed of the Balance Sheet, Income Statement, Cash Flow Statement and the Notes, 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, and provide a true and fair representation of the Company's capital and financial position and operating performance for the year. These Financial Statements are also accompanied by the Report on Operations, as set out above.
The Financial Statements have been prepared in compliance with the provisions set forth in 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 otherwise stated in the notes to 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 2017 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) 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 are recognised 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 are recognised with the consent of the Board of Statutory Auditors and are amortised according to their useful lives.

RIGHTS FOR INDUSTRIAL PATENTS AND RIGHTS FOR EXPLOITATION OF INTELLECTUAL PROPERTY
Patents are recognised at purchase or internal production cost, including any ancillary 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. The useful lives of trademarks must not exceed 20 years.

GOODWILL
Goodwill is recognised among Assets with the consent of the Board of Statutory Auditors if it has been 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 year beginning on 1 January 2016 is amortised over a period of no more than five years or, where the useful life is greater, over a period of no more than 20 years.
Goodwill recognised on or after 1 January 2016 is 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 costs (internal and external) 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.

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TORINO, ITALIA, 1895

TANGIBLE ASSETS

Tangible assets are recognised at purchase or internal production cost, revalued where required, in compliance with the monetary revaluation laws, as indicated in the relevant table.
As regards goods acquired from third parties, purchase costs include auxiliary 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 income statement 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.

Tangible assets are depreciated on a straight-line basis each year. 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. Depreciation rates for assets put into operation during the year are reduced to 50%, under the assumption that purchases are evenly distributed throughout the year. Land is not subject to depreciation.

ASSETS HELD FOR SALE AND OBSOLETE ASSETS

When it is decided to dispose of an intangible asset, it 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 price of sale in the course of normal operation, net of direct selling and disposal costs. 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 TANGIBLE 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 of the income statement, Other income and revenues, 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 balance sheet 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 LEASING TRANSACTIONS

The accounting treatment of leases is consistent with the customary statutory practice in Italy (so-called "equity method") and involves the recognition of lease payments in the income statement as they accrue.
The adoption of the capital lease method would have entailed the recognition in the income statement, 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 residual useful life of that property, as well as the recognition of the leased property as an asset and the residual 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.

EQUITY INVESTMENTS AND FINANCIAL RECEIVABLES

EQUITY INVESTMENTS

These are equity interests in other companies and they are divided into equity investments in subsidiaries and affiliates, 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.
Equity investments intended to be held for the long term are recognised among financial assets.

Equity 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.

Equity 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 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 method 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 the Financial Statements for the year ended 31 December 2017.

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 securities.
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 that are 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.

The method used to determine the cost is the weighted average cost. The purchase cost includes directly related 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.

Inventories of obsolete or slow-moving items are written down taking into account their possible use and expected realisable value. Any write-downs are reversed in subsequent years if the reasons underlying them cease to exist.

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 criterion.
It is possible not to apply the amortised cost criterion when its application is not material to a true and fair representation.

Where applicable, 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 shares of costs and revenues common to two or more consecutive financial years whose amount is determined using the accruals concept.

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 leaving 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 LEAVING 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 leaving indemnities accrued from 1 January 2007. As a result of the supplementary pension reform:

- Employee leaving indemnities accrued up to 31 December 2006 remained with the company;
- Employee leaving 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) Leaving indemnities. Item C of the balance sheet, Employee leaving indemnities, 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 leaving 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.

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 distribution is approved by the investee.

FINANCE INCOME AND EXPENSE

All finance 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* of the Income Statement "Exchange gains and losses".

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 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 benefit 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 PRICE

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 2-*ter*, 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 disposal of assets 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-year period 2013, 2014 and 2015. The transaction 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 the Italian Revenue Authority and the competent German authority, was 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.

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, intangible and tangible assets, as well as equity 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.

DERIVATIVES

In the conduct 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);

- foreign-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 derivative financial instruments (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 derivative instruments is subject to OIC 32 – Derivative Financial Instruments, 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 derivative instruments calls for representation in the balance sheet at fair value, with changes in value recognised periodically in the income statement.
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 in its entirety (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 derivative financial instruments 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.

More specifically, when negotiating procurement arrangements with raw materials suppliers, contractual commitments to purchase certain volumes of green coffee are entered into periodically under certain delivery conditions in respect of the place and moment of collection of the goods (loading-out). For each loading-out contractually agreed with the supplier, a benchmark futures contract is identified to set the purchase price, along with a premium or discount, negotiated according to the quality and characteristics of the goods in question. Depending on the supply arrangements, at any time between the date of purchase and date of loading-out of the goods, the counterparties may set the value of the futures contract of reference used to calculate the price on the basis of current market quotations.

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 derivative financial instruments to mitigate this risk: commodity futures, commodity forwards and swaps, commodity options and option structures.

Contents of the notes

Balance Sheet - Assets

FIXED ASSETS

INTANGIBLE ASSETS

The following tables provide a breakdown of intangible assets:

Euro units

	Balance at 1/1/2017	Increases	Reclassifications	(Decreases)	Balance at 31/12/2017
Start-up and expansion costs					
Gross value	5,785	0	0	0	5,785
Write-ups	0	0	0	0	0
(Write-down provision)	0	0	0	0	0
(Accumulated amortisation)	(5,785)	0	0	0	(5,785)
Net value	**0**	**0**	**0**	**0**	**0**
Development costs					
Gross value	6,234,962	2,144,869	0	0	8,379,831
Write-ups	0	0	0	0	0
(Write-down provision)	0	0	0	0	0
(Accumulated amortisation)	(1,796,155)	(1,674,766)	0	0	(3,470,921)
Net value	**4,438,807**	**470,103**	**0**	**0**	**4,908,910**
Concessions, licences and similar rights					
Gross value	187,994,586	1,467,360	0	0	189,461,946
Write-ups	0	0	0	0	0
(Write-down provision)	0	0	0	0	0
(Accumulated amortisation)	(29,982,197)	(9,416,798)	0	0	(39,398,995)
Net value	**158,012,389**	**(7,949,438)**	**0**	**0**	**150,062,951**
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)
(Accumulated amortisation)	(323,074,889)	(7,536,569)	0	0	(330,611,458)
Net value	**131,350,021**	**(7,536,569)**	**0**	**0**	**123,813,452**
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)
(Accumulated amortisation)	(24,489,058)	(17,857,679)	0	0	(42,346,737)
Net value	**342,043,257**	**(17,857,679)**	**0**	**0**	**324,185,578**
Intangible assets in progress and advances					
Gross value	991,120	9,704,106	(6,684,469)	0	4,010,757
(Write-down provision)	0	0	0	0	0
Net value	**991,120**	**9,704,106**	**(6,684,469)**	**0**	**4,010,757**
Other intangible assets					
Gross value	24,058,791	545,804	6,684,469	0	31,289,064
Write-ups	0	0	0	0	0
(Write-down provision)	0	0	0	0	0
(Accumulated amortisation)	(13,993,486)	(7,344,548)	0	0	(21,338,034)
Net value	**10,065,304**	**(6,798,744)**	**6,684,469**	**0**	**9,951,029**
Total intangible assets					
Gross value	744,810,833	13,862,139	0	0	758,672,972
Write-ups	303,949,656	0	0	0	303,949,656
(Write-down provision)	(8,518,021)	0	0	0	(8,518,021)
(Accumulated amortisation)	(393,341,570)	(43,830,360)	0	0	(437,171,930)
Net value	**646,900,898**	**(29,968,221)**	**0**	**0**	**616,932,677**

The 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 for the year in "Concessions, licences and similar rights" and "Trademarks" are primarily related to software licences.
The rise in "Other intangible assets" is mainly due to the capitalisation of maintenance costs for leasehold buildings associated with the refurbishment of the Flagship Store opened in Milan in 2017 and amounting to €545,803. The item "Reclassifications" amounted to €6,684,469 and included the capitalisation of costs of software projects with useful lives of multiple years of €5,734,469 and key money of €950,000 paid for the opening of directly operated stores, treated as the cost to secure a lease agreement for a property with a finite useful life equivalent to the term of the underlying agreement.
Amortisation rates applied to the various items under intangible assets are:

- Start-up and expansion costs — 5 years
- Industrial patents — 5 years
- Intellectual property rights — 3 years
- Licences and similar rights — 5 years
- Know-how — 20 years (*)
- Trademarks — 10 – 20 years (*)
- Goodwill — 10 – 20 years (*)
- Key money — Term of the lease agreement
- Other — 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.

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Contents

TANGIBLE ASSETS

Movements in tangible assets and their accumulated depreciation are given in the following tables:

Euro units

	Balance at 1/1/2017	Increases	Reclassifications	(Decreases)	Balance at 31/12/2017
Land and buildings					
Gross value	121,722,737	0	1,293,438	(6,684,109)	116,332,066
Write-ups	63,939,873	0	0	(2,965,463)	60,974,410
(Write-down provision)	(13,688,333)	0	0	3,329,411	(10,358,922)
(Accumulated depreciation)	(69,213,672)	(4,876,060)	0	3,265,892	(70,823,840)
Net value	**102,760,605**	**(4,876,060)**	**1,293,438**	**(3,054,269)**	**96,123,714**
Plant and machinery					
Gross value	500,387,950	650,860	14,270,690	(7,872,182)	507,437,318
Write-ups	51,592,227	0	0	(2,930,344)	48,661,883
(Write-down provision)	(466,372)	0	0	0	(466,372)
(Accumulated depreciation)	(457,781,056)	(27,524,472)	0	10,799,396	(474,506,132)
Net value	**93,732,749**	**(26,873,612)**	**14,270,690**	**(3,130)**	**81,126,697**
Industrial and commercial equipment					
Gross value	95,493,883	26,357,042	2,373,386	(2,566,215)	121,658,096
Write-ups	1,165,417	0	0	0	1,165,417
(Write-down provision)	(531,149)	(2,674,933)	0	0	(3,206,082)
(Accumulated depreciation)	(69,055,243)	(12,342,533)	0	2,433,316	(78,964,460)
Net value	**27,072,908**	**11,339,576**	**2,373,386**	**(132,899)**	**40,652,971**
Furniture and fittings					
Gross value	16,504,039	526,081	4,273,032	(671,452)	20,631,700
Write-ups	4,022	0	0	0	4,022
(Write-down provision)	0	0	0	0	0
(Accumulated depreciation)	(14,074,675)	(872,318)	0	671,452	(14,275,541)
Net value	**2,433,386**	**(346,237)**	**4,273,032**	**0**	**6,360,181**
Means of transport					
Gross value	890,092	0	0	(181,021)	709,071
Write-ups	0	0	0	0	0
(Write-down provision)	0	0	0	0	0
(Accumulated depreciation)	(872,022)	(10,600)	0	181,021	(701,601)
Net value	**18,070**	**(10,600)**	**0**	**0**	**7,470**
Electronic machinery					
Gross value	22,726,507	1,535,558	364,145	(126,670)	24,499,540
Write-ups	0	0	0	0	0
(Write-down provision)	0	0	0	0	0
(Accumulated depreciation)	(19,357,753)	(1,245,500)	0	120,577	(20,482,676)
Net value	**3,368,754**	**290,058**	**364,145**	**(6,093)**	**4,016,864**

	Balance at 1/1/2017	Increases	Reclassifications	(Decreases)	Balance at 31/12/2017
Tangible assets in process and advances					
Gross value	15,249,877	38,247,719	(22,574,691)	0	30,922,905
Write-ups	0	0	0	0	0
(Write-down provision)	0	0	0	0	0
(Accumulated depreciation)	0	0	0	0	0
Net value	**15,249,877**	**38,247,719**	**(22,574,691)**	**0**	**30,922,905**
Total tangible assets					
Gross value	772,975,085	67,317,260	0	(18,101,649)	822,190,696
Write-ups	116,701,539	0	0	(5,895,807)	110,805,732
(Write-down provision)	(14,685,854)	(2,674,933)	0	3,329,411	(14,031,376)
(Accumulated depreciation)	(630,354,421)	(46,871,483)	0	17,471,654	(659,754,250)
Net value	**244,636,349**	**17,770,844**	**0**	**(3,196,391)**	**259,210,802**

The item "land and buildings" decreased by €3,054,269 as a result of the sale of some buildings, which previously housed administrative offices and are now no longer used, also in light of the transfer of the registered office to the new building delivered in 2017.
The item "Reclassifications" refers to the closing of investment orders for the restructuring of some industrial buildings.

"plant and machinery" increased by €650,860 due to direct purchases of industrial machinery and by €14,270,690 as the result of the closing of investment orders for the construction of industrial plants.
The item "Decreases" primarily refer to the disposal of production lines deemed obsolete.

The item "industrial and commercial equipment", which includes coffee machines and moulds held by third suppliers for the production of machine components, primarily increased due to the purchase of equipment intended for the Food Service channel for €9,023,621 and coffee machines on free loan for use to customers in the OCS segment for €14,776,657. The net decrease of €132,899 was primarily attributable to the disposal and scrapping of Food Service equipment.

The item "furniture and fittings" underwent increases of €526,081 and reclassifications of €4,273,032; the former were due to purchases, whereas the latter were due to the closing of advances towards the purchase of furniture and fixtures for the new offices in the Nuvola headquarters, to which the Company relocated its place of business during the year. Likewise, the gross decreases of €671,452 refer to the disposal of furniture from the previous headquarters, which had been fully depreciated and was no longer fit for use.

The Directors' Report on Operations provides detailed information on investments made during the reporting year.

The increase in the item "Electronic machinery" was chiefly the result of the purchase of IT technology equipment such as monitors, OHPs and computers to be installed in the workstations at the Company's new HQ offices.

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The depreciation rates used are as follows:

Buildings	3%
Light buildings	10%
Plant and machinery	12.50%
Furniture and furnishings	12%
Miscellaneous and lab equipment	40%
Canteen equipment	25%
Espresso machines for the Ho.Re.Ca. sector	25%
Closed-system machines on free loan	16.67% - 20%
Dies for plastics	12.50%
Dies for steel	25%
Dies for aluminium	40%
Dies for wood	10%
Iron silos	8%
Electronic machinery	20%
Trucks	20%
Motorcars	25%

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 2017:

	Revaluation pursuant to law								
	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	0	5,976,231	0	0	0	54,205,104	60,974,410
Plant and machinery	23,451	384,123	0	0	36,655,487	11,598,823	0	0	48,661,883
Furniture	0	4,022	0	0	0	0	0	0	4,022
Dies	0	0	0	0	187,476	977,941	0	0	1,165,417
Means of transport	0	0	0	0	0	0	0	0	0
Lavazza trademark	0	0	46,481,121	0	77,468,535	100,000,000	80,000,000	0	303,949,656
Total	**112,425**	**1,092,245**	**46,481,121**	**5,976,231**	**114,311,498**	**112,576,764**	**80,000,000**	**54,205,104**	**414,755,388**

As part of the project involving the construction of the complex for the Company's new Headquarters, a public parking area, a square and some commercial and service-related buildings, the following lots have been delivered up to now:

- In 2013, a property lot hosting the IAAD (Institute of Applied Arts and Design);
- In 2017, the building hosting the Headquarters offices, where the Company moved its registered office.

The Company entered into possession of the aforementioned property lots by virtue of a finance lease agreement involving the transfer of most of the risks and rewards 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:

Assets	Amount
a) Agreements in force	
Assets under finance lease at the end of the previous year	4,709,829
+ Assets acquired under finance lease during the year	58,449,056
– Assets under finance lease redeemed during the year	
– Depreciation charges accrued during the year	(1,912,479)
+/– Impairment losses / reversals on assets under finance lease	
Assets under finance lease at the end of the year, net of depreciation	61,246,407
b) Redeemed assets	
Total greater value of redeemed assets	0
c) Liabilities	
Constructive accounts payable for finance leases at the end of the previous year	3,408,306
+ Constructive accounts payable created during the year	39,916,174
– Repayment of principal and redemptions made during the year	(2,155,794)
Constructive accounts payable for finance leases at the end of the year	41,168,686
d) Reversal of prepaid expenses associated with finance leases	19,869,298
e) Reversal of payable for 2017 rent yet to be paid	472,548
f) Total gross effect at year-end (a + b – c – d – e)	680,971
g) Tax effect	(189,991)
h) Effect on equity at year-end (f – g)	**490,980**
Effect on the income statement	
Reversal of rent on finance leases	3,334,385
Recognition of financial expenses on finance leases	(1,178,590)
Recognition of:	
- Depreciation charges:	
· on contracts in force	(1,912,479)
· on redeemed assets	
- Impairment losses / recoveries on assets under finance lease	108,060
Effect on pre-tax result	351,376
Recognition of tax effect	(98,034)
Effect on profit or loss of recognition of leases according to the finance lease method	253,342

FINANCIAL ASSETS

EQUITY INVESTMENTS

Equity investments at 31 December 2017 were broken down as follows:

Euro units

		Increases		Decreases	Write-downs and reversals		
Company	**Original cost**	**Acquisitions/ Incorporations**	**Capitalisations**	**Disposals/ Reclassifications**	**Previous write-downs**	**Write-downs/ Write-ups for the year**	**Carrying amount**
Subsidiaries							
Lavazza Australia Pty Ltd	4,804,617	0	0	0	0	0	4,804,617
Lavazza Capital S.r.l.	621,400,000	0	0	0	0	0	621,400,000
Lavazza Coffee (UK) Ltd	14,843	0	0	0	0	0	14,843
Lavazza Deutschland G.m.b.H.	153,227	0	0	0	0	0	153,227
Lavazza do Brasil Ltda	25,474,545	0	2,570,553	0	(25,194,196)	0	2,850,902
Lavazza Finance Ltd	51,645,690	0	0	(51,645,690)	0	0	0
Lavazza France S.a.s.	15,173,485	0	0	0	0	0	15,173,485
Lavazza Kaffee G.m.b.H.	163,854	0	0	0	0	0	163,854
Lavazza Maroc S.a.r.l.	904	0	0	0	0	0	904
Lavazza Netherlands B.V.	130,000,000	0	0	0	(102,700,421)	(2,427,626)	24,871,953
Lavazza Premium Coffees Corp.	1,164,635	0	0	0	0	0	1,164,635
Lavazza Spagna S.L.	13,079,422	0	0	0	(12,531,699)	0	547,723
Lavazza Nordic AB	1,855,000	0	0	0	(461,842)	84,998	1,478,156
Lavazza Trading (Shenzhen) Co. Ltd	1,000,000	0	0	0	0	0	1,000,000
Cofincaf S.p.A.	3,063,719	0	0	0	0	0	3,063,719
Coffice S.A.	4,620,632	0	1,346,220	0	(4,598,438)	(687,895)	680,519
Immobiliare I.N.N.E.T S.r.l.	2,002,987	0	0	0	0	0	2,002,987
Merrild Kaffe ApS	12,119,140	0	0	0	0	0	12,119,140
Carte Noire S.a.s.	98,895,666	5,548,537	0	0	0	0	104,444,203
Kicking Horse Coffee Co. Ltd	0	116,061,395	0	0	0	0	116,061,395
Espresso Service Proximité S.A.	0	10,979,082	0	1,787,296	0	0	12,766,378
Nims S.p.A.	0	49,892,692	0	0	0	0	49,892,692
Lea S.r.l.	6,383,479	0	0	0	(5,756,498)	(369,223)	257,758
Total subsidiaries	**993,015,845**	**184,269,002**	**3,916,773**	**(51,645,690)**	**(151,243,094)**	**(3,399,746)**	**974,913,090**
Affiliates							
Espresso Service Proximité S.A.	1,787,296	0	0	(1,787,296)	0	0	0
Internatonal Coffee Part. G.m.b.H.	25,000	0	0	0	0	0	25,000
Total affiliates	**1,812,296**	**0**	**0**	**(1,787,296)**	**0**	**0**	**25,000**
Other companies							
Air Vallée S.p.A.	25,823	0	0	0	0	0	25,823
Casa Commercio e Turismo S.p.A.	6,094	0	0	0	0	0	6,094
Connect Ventures One LP	6	0	0	0	0	0	6
Idroelettrica S.c.r.l.	300	0	0	0	0	0	300
INV. A.G. S.r.l.	20,000,000	0	0	0	(12,712,342)	0	7,287,658
Total other companies	**20,032,223**	**0**	**0**	**0**	**(12,712,342)**	**0**	**7,319,881**
Total equity investments	**1,014,860,364**	**184,269,002**	**3,916,773**	**(53,432,986)**	**(163,955,436)**	**(3,399,746)**	**982,257,971**

With reference to operating equity investments, the strategic focus has generally been confirmed with a view to ensuring great 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 equity investments is strictly in line with the strategic direction, decisions taken and development plans defined.
Increases for the year regarding acquisitions of Subsidiaries refer to the following equity investments:

1. Kicking Horse Coffee Co. Ltd: 80% of share capital.
Based in Invermere, British Columbia (Canada), Kicking Horse Coffee Co. Ltd celebrated its 20th anniversary in business in 2016. It is a pioneer in the Canadian organic, fair trade coffee market. The brand is known for its specific aromas and unique, distinctive brand equity. The Company placed 10th in the recent Canadian Best Place to Work ranking.

2. Nims S.p.A: 77.86% of share capital.
Nims S.p.A. was founded in the late 1970's in Padua, where it is still based, and it now boasts a sales network of over 3,000 staff, making it a key player in the direct sale of portioned coffee products to private households and small and mid-sized offices.

3. Espresso Service Proximité (ESP) S.A.: 74% of share capital.
Founded in 2009, ESP was a joint-venture between Lavazza, Deotto Finance and IVS Group. It was set up to market Lavazza (capsule and machine) espresso coffee systems in France, particularly for the OCS (Office Coffee Service) sector.
When added to the previous 26% interest, this acquisition confers full ownership of the investee, and the interest is therefore now classified as an interest in a subsidiary rather than an affiliate.

4. Carte Noire S.a.s.: 5.32% of share capital.
The equity investment in Carte Noire S.a.s. rose by €5,548,537. This increase was due to the distribution of dividends in kind by Lavazza France S.a.s. In the previous year, Lavazza France S.a.s., within the framework of a plan to reorganise the French market, had contributed its retail business unit to Carte Noire S.a.s., obtaining a 5.32% interest in the company in return. During the reporting year, the above investee distributed a dividend in kind to the Company, which thus reacquired its previous status as the sole shareholder of Carte Noire S.a.s.

Increases for the year related to the recapitalisation of Subsidiaries refer to:

a) Lavazza do Brasil Ltda for €2,570,553, used for loss coverage;
b) Coffice S.A. for € 1,346,220, used for loss coverage.

Decreases for the year due to write-downs refer to the following companies:

a) Lavazza Netherlands B.V. (€2,427,626), attributable to the write-down of the subsidiary Fresh & Honest Café Ltd. This write-down, recognised by Lavazza Netherlands B.V. to bring the carrying amount of the equity investment into line with the corresponding share of equity, is deemed to reflect the company's impairment loss;
b) Coffice S.A. (€687,895), primarily attributable to the loss for the year, which is deemed to represent an impairment loss;
c) Lea S.r.l. (€369,222), attributable to the impairment loss recognised for the year.

The increase during the year due to write-ups of €84,998 was attributable to Lavazza Nordic AB and related 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.

The following table provides the main data regarding subsidiaries and:

Euro Units	Registered offices	Share capital	Equity	Profit (loss) for the year	% held	Carrying amount
Subsidiaries						
Lavazza Australia Pty Ltd	Hawthorn	4,778,170	4,200,647	144,501	100.00	4,804,617
Lavazza Capital S.r.l.	Turin	200,000	626,477,475	2,662,261	100.00	621,400,000
Lavazza Coffee (UK) Ltd	Uxbridge	1,124	2,666,345	1,798,783	100.00	14,843
Lavazza Deutschland G.m.b.H.	Frankfurt	210,000	4,933,767	3,985,906	100.00	153,227
Lavazza do Brasil Ltda	Rio de Janeiro	19,420,089	1,223,107	(1,231,469)	99.53	2,850,902
Lavazza France S.a.s.	Noisy-Le-Grand	15,250,000	21,775,459	2,066,151	100.00	15,173,485
Lavazza Kaffee G.m.b.H.	Vienna	218,018	937,118	265,447	100.00	163,854
Lavazza Maroc S.a.r.l.	Casablanca	938	57,734	7,203	100.00	904
Lavazza Netherlands B.V.	Amsterdam	111,500,000	24,871,953	(2,425,684)	100.00	24,871,953
Lavazza Premium Coffees Corp.	New York	32,374,473	18,136,460	2,251,103	93.00	1,164,635
Lavazza Spagna S.L.	Barcelona	1,090,620	537,965	(7,847)	100.00	547,723
Lavazza Sweden AB	Stockholm	10,173	1,435,181	271,606	100.00	1,478,156
Cofincaf S.p.A.	Turin	3,000,000	11,228,377	410,289	99.00	3,063,719
Coffice S.A.	Buenos Aires	346,172	697,713	(525,936)	97.54	680,519
Lavazza Trading (Shenzhen) Co. Ltd	Shenzhen	1,120,393	1,036,664	26,147	100.00	1,000,000
Carte Noire S.a.s	Boulogne Billancourt	103,830,406	112,021,656	7,625,835	100.00	104,444,203
Espresso Service Proximité S.A.	Bonneuil sur Marne	192,440	7,331,610	484,616	100.00	12,766,378
Immobiliare I.N.N.E.T S.r.l.	Turin	30,000	260,716	21,685	100.00	2,002,987
Lea S.r.l.	Turin	100,000	258,016	(369,313)	99.90	257,758
Nims S.p.A.	Padua	3,000,000	43,179,575	1,765,124	77.86	49,892,692
Merrild Kaffe ApS	Middelfart	6,711	13,667,007	751,114	100.00	12,119,140
Kicking Horse Coffee Co. Ltd	Invernere	143,329,469	144,655,467	1,325,998	80.00	116,061,395
Affiliates						
International Coffee Partners G.m.b.H.	Hamburg	175,000	257,212	536	20.00	25,000

The values of equity investments in companies that prepare their financial statements in foreign currencies are denominated in Euro, converted at the exchange rate at 31 December 2017. With the exception of the written-down equity investments mentioned above, any further negative differences between the carrying amounts of equity investments in subsidiaries and the proportional share of equity are not deemed to represent impairment losses.

In order to provide complete information, the following table reports a list of the indirectly subsidiaries (Euro units):

Company	Registered offices	Share capital	% held indirectly	% held effectively	Through	Equity	Profit (loss) for the year	Carrying amount
Almada Comercio de Café Ltda	São Paulo	252,091	100.00	100.00	Lavazza do Brasil Ltda	(269,682)	(6,892)	0
Merrild Baltics SIA	Riga	2,828	100.00	100.00	Merrild Kaffee ApS	1,054,819	179,357	2,499,535
Fresh & Honest Café Ltd.*	Chennai	958,339	99.99	99.99	Lavazza Netherlands B.V.	21,734,093	(2,344,676)	27,658,105
Carte Noire Operations S.a.s.	Lavérune	11,517,350	100.00	100.00	Carte Noire Sas	31,618,284	1,028,660	39,205,658

(*) The figures reported are those included in the reporting package at 31 December 2017, as the Company closes its financial year at 31 March.

RECEIVABLES

This item consists of:

Euro units	31/12/2017	31/12/2016	Changes
Receivables from subsidiaries	25,775,336	26,380,400	(605,064)
Other receivables	851,908	814,057	37,851
Total	**26,627,244**	**27,194,457**	**(567,213)**

Receivables from subsidiaries include:

- The financial receivable from Lavazza Australia Pty Ltd for the loan of AUD 18,070,431, granted in September 2015 and set to mature on 31 December 2020. The loan bears interest at a rate of 5.45% per annum;
- The financial receivable from Carte Noire Operations S.a.s. of €14,000,000, granted in two tranches in July and November 2016, set to come due in July and November 2020 and bearing interest at a floating annual rate based on the six-month Euribor.

The item "Other receivables" consists of security deposits (€288,361) and financial receivables from Connect Ventures One LP (€563,546), a company that invests in European Web business start-ups.

NON-CURRENT FINANCIAL DERIVATIVE ASSETS

The item includes the increase in the fair values of the derivative instruments outstanding at 31 December 2017 with a duration of over 12 months. In detail, the Company has entered into FX option contracts to hedge against the risk associated with fluctuations in the EUR/GBP exchange rate and thus sales in GBP. These FX option contracts will expire in 2019.

In addition, Interest-Rate Swap contracts (IRS) were entered into in order to transform the interest rate payable on various underlying liabilities (loans and leases, maturing in 2020 and 2036, respectively) from floating to fixed rate.

Non-current derivative assets on exchange rates

Type of contract	Notional value	Financial risk of underlying asset	Fair value	Covered asset/ liability
Options	GBP 1,500,000	Exchange-rate risk (GBP)	22,396	Sales
Total			**22,396**	

Non-current derivative assets on exchange rates

Type of contract	Notional value	Financial risk of underlying asset	Fair value	Covered asset/ liability
IRS	EUR 118,570,072	Interest-rate risk	382,277	Sales
Total			**382,277**	

The following table summarises the changes during the year:

Euro Units	31/12/2016	Increases	Decreases	31/12/2017
Derivatives to hedge exchange-rate risk	0	22,396	0	22,396
Derivatives to hedge interest-rate risk	0	382,277	0	382,277
Total	**0**	**404,673**	**0**	**404,673**

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Information on fair value – Article 2427-*bis*, paragraph 1(2).

The following statement compares the carrying amounts and fair value of long-term financial assets other than equity investments in subsidiaries and affiliates and the reasons why it was decided to maintain the original carrying amount.

Financial assets	Carrying amount	Fair value
Equity investments in other companies		
INV. A.G. S.r.l.	7,287,658	8,143,426
Other	32,223	32,223
Total equity investments in other companies	**7,319,881**	**8,175,649**
Other receivables		
Financial receivables from subsidiaries	25,775,336	25,775,336
Guarantee deposits	288,362	288,362
Receivables from Connect Ventures One LP	563,546	1,182,396
Total other receivables	**26,627,244**	**27,246,094**

CURRENT ASSETS

INVENTORIES

Euro units	31/12/2017	31/12/2016	Changes
Raw materials, ancillaries and consumables	188,041,278	181,169,020	6,872,258
Write-down provision of raw materials, ancillaries and consumables	(1,150,000)	(650,000)	(500,000)
Raw materials, ancillaries and consumables (net value)	**186,891,278**	**180,519,020**	**6,372,258**
Work-in-process and semi-finished products	2,440,977	1,246,583	1,194,394
Write-down provision of work-in-process and semi-finished goods	(100,000)	(100,000)	0
work-in-process and semi-finished products (net value)	**2,340,977**	**1,146,583**	**1,194,394**
Finished products and goods	96,953,358	86,898,657	10,054,701
Write-down provision of finished products and goods	(13,317,476)	(12,145,755)	(1,171,721)
finished products and goods (net value)	**83,635,882**	**74,752,902**	**8,882,980**
Total	**272,868,137**	**256,418,505**	**16,449,632**
inventory advances	**1,260,680**	**1,875,245**	**(614,565)**
Overall total	**274,128,817**	**258,293,750**	**15,835,067**

With reference to green coffee, the quantities of raw materials in stock at 31 December 2017 decreased compared to the previous year (down approximately 1,430 tonnes), but their value increased (+€6.5 million) as a result of the higher purchase cost for the year.
Inventories at 31 December 2017 were recognised net of an inventory write-down provision totalling €14,567,476, which accounts for obsolescence and slow turnover, primarily relating to vending systems and spare parts, advertising materials and plant spares.

RECEIVABLES

The following tables show movements of receivables and their adjustment provisions during the year, in addition to their balance at 31 December 2017:

Euro units	Original cost at 31/12/2016	Increases (decreases)	Original cost at 31/12/2017	Write-down provision at 31/12/2016	Provisions	Uses	Write-down provision at 31/12/2017	Expected realisable value at 31/12/2017
Wrade receivables	171,121,209	(21,470,067)	149,651,142	5,987,052	656,881	1,782,991	4,860,942	144,790,200
Receivables from subsidiaries	181,161,422	20,838,296	201,999,718	0	0	0	0	201,999,718
Receivables from affiliates	6,907,976	(6,907,976)	0	0	0	0	0	0
Receivables from parent companies	39,850,579	(546,566)	39,304,013	0	0	0	0	39,304,013
Tax receivables	16,264,389	8,882,733	25,147,122	0	0	0	0	25,147,122
Deferred tax assets	21,553,879	(5,046,141)	16,507,738	0	0	0	0	16,507,738
Other receivables								
- Within one year	7,474,537	5,793,417	13,267,954	0	0	0	0	13,267,954
- After one year	24,728,098	(19,960,806)	4,767,292	0	0	0	0	4,767,292
Total	**469,062,089**	**(18,417,110)**	**450,644,979**	**5,987,052**	**656,881**	**1,782,991**	**4,860,942**	**445,784,037**

With regard to item "Trade receivables", the nominal value of disputed, doubtful and hardly recoverable receivables from customers amounted to approximately €3,222,325.
An adjustment provision totalling €4,860,942 was made, an amount considered adequate to adjust the nominal value of trade receivables to their presumable realisable value.
The item "Other receivables" due after one year refer to the sums paid to the leasing company for the future up-front payment on the lease for the construction of the real-estate complex where the Company's new headquarters are located.

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The following table shows receivables included in current assets, broken down by geographic area:

Euro units	Italy	Other EU countries	Other European countries	Americas	Australia	Other continents	Total
trade receivables	109,251,038	18,906,386	7,725,293	1,240,622	393,042	7,273,819	144,790,200
receivables from subsidiaries	9,332,783	168,051,137	0	21,243,074	2,013,707	1,359,017	201,999,718
receivables from parent companies	39,304,013	0	0	0	0	0	39,304,013
tax receivables	25,147,122	0	0	0	0	0	25,147,122
prepaid tax credits	16,507,738	0	0	0	0	0	16,507,738
other receivables	14,451,334	2,092,004	236,468	63,008	923,058	269,374	18,035,246
Total	**213,994,028**	**189,049,527**	**7,961,761**	**22,546,704**	**3,329,807**	**8,902,210**	**445,784,037**

Receivables from subsidiaries refer to the following companies:

Euro units	31/12/2017	31/12/2016	Changes
Trade receivables			
Direct subsidiaries			
Lavazza Australia Pty Ltd	1,722,543	12,042,831	(10,320,288)
Lavazza do Brasil Ltda	920,705	2,170,459	(1,249,754)
Lavazza Capital S.r.l.	48,800	37,236	11,564
Lavazza Coffee (UK) Ltd	21,949,825	16,692,440	5,257,385
Lavazza Deutschland G.m.b.H.	40,600,097	37,029,408	3,570,689
Lavazza France S.a.s.	7,762,637	13,270,959	(5,508,322)
Lavazza Kaffee G.m.b.H.	4,652,104	3,290,760	1,361,344
Lavazza Netherlands B.V.	19,668	19,668	0
Lavazza Nordic AB	3,398,767	2,917,263	481,504
Lavazza Premium Coffees Corp.	19,780,484	23,001,441	(3,220,957)
Lavazza Spagna S.L.	100,435	100,484	(49)
Coffice S.A.	541,885	1,261,276	(719,391)
Merrild Kaffe ApS	11,685,041	7,099,863	4,585,178
Carte Noire S.a.s.	71,458,431	60,314,882	11,143,549
Cofincaf S.p.A.	78,622	59,084	19,538
Lea S.r.l.	42,308	35,889	6,419
Nims S.p.A.	9,095,626	0	9,095,626
Espresso Service Proximité S.A.	6,198,227	0	6,198,227
Indirect subsidiaries			
Carte Noire Operations S.a.s.	120,042	40,027	80,015
Fresh & Honest Café Ltd	1,359,017	1,398,148	(39,131)
Total trade receivables	**201,535,264**	**180,782,118**	**20,753,146**
Financial receivables			
Cofincaf S.p.A.	67,427	0	67,427
Lavazza Australia Pty Ltd	291,164	305,288	(14,124)
Carte Noire Operations S.a.s.	105,863	74,016	31,847
Total financial receivables	**464,454**	**379,304**	**85,150**
Total receivables from subsidiaries	**201,999,718**	**181,161,422**	**20,838,296**

Receivables of a financial nature from subsidiaries refer to the portion of the interest accrued at 31 December 2017 on loans issued to subsidiaries and carried among financial assets.

Receivables from parent companies refer to receivables from Finlav S.p.A. for Ires within the framework of the national tax consolidation programme and include the tax benefit for the years 2007 to 2011, equal approximately to €2.8 million, deriving from the introduction of Legislative Decree 201/2011 (converted by Law 214 of 27 December 2011), which allows for the deduction from Ires of Irap associated with the taxable portion of personnel costs for employees and contracted staff starting in tax period 2007.

Tax receivables of €25,147,122 include:

- €17,507,146 receivables from Italian and foreign tax authorities deriving from direct identification for VAT purposes in the countries concerned;
- €780,653 for Irap;
- €6,859,323 for the credit regarding a tax relief mechanism for investments in operating assets pursuant to Article 18 of Legislative Decree 91 of 24 June 2014 (the so-called "Competitiveness Decree"), converted, with amendments, by Law 116 of 7 August 2014; and the credit for research and development introduced by the 2015 Stability Law (Law 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 under "Taxes for the year".

The item "Other receivables" consists mainly of the following receivables:

Euro units	31/12/2017	31/12/2016	Changes
From suppliers for advances	5,900,362	6,292,698	(392,336)
From leasing companies	4,767,292	24,728,098	(19,960,806)
Other items	7,367,592	1,181,839	6,185,753
Expected realisable value	**18,035,246**	**32,202,635**	**(14,167,389)**

With regard to receivables from leasing companies, it should be noted that in June 2011 the Company entered into a finance lease agreement intended to finance the construction of a real-estate complex in the city of Turin, divided into various lots, which are to include facilities to be used by businesses operating in the service sector, museums, parking areas and the Company's headquarters.
The term of the agreement, which provides for a budget of up to €130 million, has been set at 18 years commencing on the date of delivery of each lot.

The amount recognised under the above item represents the costs incurred by the leasing company through to 31 December 2014, invoiced to the Company as advance rent for the lot that have yet to be delivered. These costs have been suspended and therefore will affect profit or loss beginning in the period in which the date of delivery falls and the rent accrues. The €19,960,806 decrease for the year refers to the sums paid up front for the leasing of property housing the Company's new Headquarters, delivered in 2017.

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CURRENT FINANCIAL ASSETS

FINANCIAL DERIVATIVE ASSETS

The item includes the increase in the fair values of the derivative instruments outstanding as at 31 December 2017 with a duration of less than 12 months.

The following table provides a detailed description:

Current Financial derivative assets

Type of contract		Notional value	Financial risk of underlying asset	Fair value	Covered asset/liability
Forwards	USD	50,000,000	Exchange rate risk (USD)	230,457	Purchase of green coffee
Options	USD	15,000,000	Exchange rate risk (USD)	(77,298)	Purchase of green coffee
Options	USD	15,000,000	Exchange rate risk (USD)	295,300	Purchase of green coffee
Options	GBP	9,000,000	Exchange rate risk (GBP)	48,944	Sales
Total				**497,402**	

Current derivative assets on commodities

Type of contract		Notional value	Financial risk of underlying asset	Fair value	Covered asset/liability
Futures	USD	27,102,775	Commodity price risk	836,999	Purchase of green coffee
Options	USD	22,223,939	Commodity price risk	778,476	Purchase of green coffee
Total				**1,615,475**	

The following table summarises the changes during the year:

Euro units

	31/12/2016	Increases	Decreases	31/12/2017
Derivatives to hedge exchange-rate risk	5,805,598	497,402	5,805,598	497,402
Derivatives to hedge commodity price risk	0	1,615,475	0	1,615,475
Total	**5,805,598**	**2,112,877**	**5,805,598**	**2,112,877**

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:

Euro units	31/12/2017	31/12/2016	Changes
Bank accounts	129,558,794	335,334,222	(205,775,428)
Bank accounts for repurchase agreements	10,000,000	0	10,000,000
Post office accounts	41,186,805	11,349,201	29,837,604
Foreign currency accounts	8,587,593	15,862,794	(7,275,201)
Cash and valuables on hand	44,908	47,755	(2,847)
Total	**189,378,100**	**362,593,972**	**(173,215,872)**

The sharp decrease in cash and cash equivalents was due, to a significant extent, to the purchase of the controlling interest in Kicking Horse Coffee Co. Ltd, Nims S.p.A. and Espresso Service Proximité S.A. (ESP), and to a minor extent, to the repayment of the corporate loan contracted with banks in 2016 and the distribution of dividends approved in 2017.

Foreign currency accounts consist of USD 12,735,752 and ZAR 7,631,823 and are primarily funded by market purchases, collections of receivables from the U.S. subsidiary Lavazza Premium Coffees Corp. and collections of receivables from international customers.

These accounts are generally used to cover payments for the supply of green coffee and for promotional activities in foreign markets.

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PREPAYMENTS AND ACCRUED INCOME

The item consists of the following:

Euro units	31/12/2017	31/12/2016	Changes
Prepayments			
Insurance premiums	726,868	781,889	(55,021)
Association fees and subscriptions	26,634	8,225	18,409
Maintenance contracts	224,234	344,107	(119,873)
Property rentals	40,149	26,019	14,130
Property leases	19,869,298	1,023,017	18,846,281
Advertising expenses	8,319,182	5,812,396	2,506,786
Other prepayments	5,791,743	1,400,606	4,391,137
Financial commissions	84,159	327,417	(243,258)
Derivatives	751,718	17,636	734,082
Total prepayments	**35,833,985**	**9,741,312**	**26,092,673**
Total prepayments and accrued income	**35,833,985**	**9,741,312**	**26,092,673**

The item "Property leases" under "Prepayments" refers to the residual amount of an up-front payment made upon the signing of a finance lease contract for a real-estate complex housing the Institute of Applied Art and Design and the Company's new Headquarters, and which is allocated to the Income Statement on a pro-rated basis over the duration of the contract.

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 Income Statement on a pro-rated basis over the duration of the contract.

The item "Other prepayments" primarily refers to the share of promotional contributions set to accrue in future years, paid in advance to international distributors for the promotion and Lavazza branding of OCS and FS coffee machines. The item "Derivative premiums" under "Prepayments" refers to the recognition of the negative change in forward points on the derivative contracts hedging against foreign exchange risk as at 31 December 2017 (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 Income Statement when the hedged costs are recognised.

Negative change in time value of derivatives

Type of contract	Notional value	Financial risk of underlying asset	Change in time value	Covered asset/liability
Forwards	ZAR 9,800,000	Exchange rate risk (ZAR)	2,784	Sales
Options	GBP 10,500,000	Exchange rate risk (GBP)	51,860	Sales
Options	USD 15,000,000	Exchange rate risk (USD)	84,594	Purchase of green coffee
Options	USD 22,223,939	Commodity price risk	612,480	Purchase of green coffee
Total			**751,718**	

Prepayments on negative change in time value of derivatives

Euro unit	31/12/2016	Increases	Decreases	31/12/2017
Forward points based on spot exchange rate	17,636	2,784	17,636	2,784
Time value of options on exchange rates	0	136,455	0	136,455
Time value of options on commodities	0	612,480	0	612,480
Total	**17,636**	**751,718**	**17,636**	**751,718**

Lavazza Coffee Design - Milan Flagship Store

LAVAZZA
TORINO, ITALIA, 1895

Balance Sheet – Equity and Liabilities

EQUITY

SHARE CAPITAL

Share capital amounts to 25,000,000 shares with a value of €1 each.

REVALUATION RESERVE

The following table provides a breakdown of revaluation reserves:

Euro units	**31/12/2017**
Re. Law 576/1975 *	28,033
Re. Law 72/1983**	267,518
Re. Law 408/1990	25,096,319
Re. Law 413/1991	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	**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 were made to revaluation reserves and other reserves pending taxes, since to date they are not expected to be paid out.

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.

Euro units

Nature/description	Amount	Possibility of use	Amount available for distribution
Share capital	**25,000,000**		**0**
Capital reserves			
Share premium reserve	223,523	A B C	223,523
Revaluation reserves	361,721,428	A B C	361,721,428
Reserve from profits			
Legal reserve	5,000,000	B	5,000,000
Extraordinary reserve	202,679,758	A B C	202,679,758
Reserve re. Art. 18 Presidential decree 675/1977	16,892	A B C	16,892
Reserve re. Art. 55 Law 526/1982	86,235	A B C	86,235
Reserve re. Law 130/1983	162,463	A B C	162,463
Reserve re. Law 46/1982	90,785	A B C	90,785
Reserve re. Law 488/1982	380,808	A B C	380,808
Reserve re. Art. 55 Presidential decree 917/1986	212,481	A B C	212,481
Reserve arising from exchange gains	931,568	B	931,568
Merger surplus reserve	56,953,074	A B C	56,953,074
Retained earnings	1,449,423,895	A B C	1,449,423,895
Negative reserve for treasury shares	(17,732,533)	Restricted	(17,732,533)
Cash flow hedge reserve	(2,136,574)	Restricted	(2,136,574)
Reserve re. Law 46/1982	90,785	A B C	90,785
Reserve re. Law 488/1992	380,808	A B C	380,808
Reserve re. Art. 55 Presidential decree 917/1986	212,481	A B C	212,481
Reserve arising from exchange gains	931,568	Restricted	0
Merger surplus reserve	56,953,074	A B C	56,953,074
Retained earnings	1,449,423,895	A B C	1,449,423,895
Negative reserve for treasury shares	(17,732,533)	Restricted	0
Cash flow hedge reserve	(2,136,574)	Restricted	0
Total	**2,083,013,803**		**2,058,013,803**
Amount not available for distribution* **			**10,840,478**
Amount available for distribution			**2,047,173,325**

Legend:
A: for capital increase
B: for loss coverage
C: for distribution to shareholders
**** equal to Legal reserve, Reserve arising from exchange gains and the portion of Development costs that has yet to be amortised*

No equity reserves have been used in the past three years.

The changes in the amounts of equity items are described in the attached "Statement of Changes in Equity".

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NEGATIVE RESERVE FOR TREASURY SHARES

In accordance with Legislative Decree 139 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.

CASH FLOW HEDGE RESERVE

This reserve refers to changes in the fair value of the effective component of derivative financial instruments hedging cash flows.

The following table summarises the changes during the year, which it has been decided not to present in the financial statements:

Euro units	31/12/2016	Deferred tax liabilities 2016	Deferred tax assets 2016	31/12/2016	Increases 2017	Decreases 2017	Deferred tax liabilities 2017	Deferred tax assets 2017	31/12/2017
derivatives to hedge exchange-rate risk	5,194,881	2,961,988	(4,208,759)	3,948,109	(2,269,854)	5,194,881	(2,961,988)	4,842,048	(1,636,564)
derivatives to hedge commodity price risk	0	0	0	0	(28,140)	0	0	7,851	(20,289)
derivatives to hedge interest rate risk	(1,550,236)	372,057	0	(1,178,179)	(631,212)	(1,550,235)	(372,057)	151,491	(479,722)
Total	**3,644,645**	**3,334,044**	**(4,208,759)**	**2,769,930**	**(2,929,206)**	**3,644,646**	**(3,334,044)**	**5,001,390**	**(2,136,576)**

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STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium account	Revaluation reserves	Legal reserve	Other reserves	Cash flow hedge reserve	Retained earnings	Profit (loss) for the year	Negative reserve for treasury shares	TOTAL EQUITY
Balance at 31/12/2015	**25,000,000**	**223,523**	**361,721,428**	**5,000,000**	**243,369,690**	**0**	**612,248,444**	**801,605,605**	**(17,732,533)**	**2,031,436,157**
Allocation of profit for the year:										
- Distribution of dividends (€1.12 per share)	0	0	0	0	0	0	0	(25,200,002)	0	(25,200,002)
- Other allocations	0	0	0	0	0	0	0	0	0	0
- Other changes	0	0	0	0	0	0	0	0	0	0
- Increase	0	0	0	0	20,251,241	2,769,930	0	0	0	887,608,465
- Decreases	0	0	0	0	(2,518,708)	0	0	0	0	(778,924,310)
- Reclassifications	0	0	0	0	0	0	0	0	0	0
Profit for the previous year	0	0	0	0	0	0	0	0	0	0
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:										
-Distribution of dividends (€1.20 per share)	0	0	0	0	0	0	0	(27,000,002)	0	(27,000,002)
- Other allocations	0	0	0	0	0	0	0	0	0	0
- Other changes	0	0	0	0	0	0	0	0	0	0
- Increases	0	0	0	0	411,841	(2,136,575)	60,769,849	44,200,897	0	103,246,012
- Decreases	0	0	0	0		(2,769,929)	0	(61,181,690)	0	(63,951,619)
- Reclassifications	0	0	0	0	0	0	0	0	0	0
Profit for the previous year	0	0	0	0	0	0	0	0	0	0
Balance at 31/12/2017	**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**

Nuvola Lavazza – The Museum

LAVAZZA
TORINO, ITALIA, 1895

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PROVISIONS FOR RISKS AND CHARGES

The following table provides a breakdown and movements of provisions for risks and charges:

Euro units	31/12/2016	Effect of hedge derivatives	Reversals	Provision for the year	Uses and eliminations for the year	31/12/2017
Provisions for taxes, including deferred:						
Provision for taxes	4,037,083	0	(1,000,309)	0	(2,476,774)	560,000
Provision for deferred tax liabilities	5,610,231	(4,208,759)	0	16,241	(1,143,585)	274,128
Total provisions for taxes, including deferred	**9,647,314**	**(4,208,759)**	**(1,000,309)**	**16,241**	**(3,620,359)**	**834,128**
Other provisions:						
For legal issues	7,166,444	0	(804,744)	3,506,321	(5,343,346)	4,524,675
For guarantees and sureties	1,462,819	0	0	14,376	(165,840)	1,311,355
For agents' customer compensation	2,831,291	0	(109,957)	314,665	(229,609)	2,806,390
For coffeemakers warranties and returns	0	0	0	0	0	0
For customers' goodwill compensation	0	0	0	0	0	0
For sundry personnel costs	12,543,342	0	0	10,976,916	(9,764,069)	13,756,189
For restructuring	5,449,558	0	550,000	0	(5,241,759)	757,799
Financial derivatives liabilities	1,968,334	3,209,467	0	0	0	5,177,801
Total other provisions	**31,421,788**	**3,209,467**	**(364,701)**	**14,812,278**	**(20,744,623)**	**28,334,209**
Total provisions for risks and charges	**41,069,102**	**(999,292)**	**(1,365,010)**	**14,828,519**	**(24,364,982)**	**29,168,337**

During the reporting year, the item "Provision for taxes" decreased by €2,476,774, reflecting payments relating to a settlement agreement and an Ires and Irap compromise agreement, pertaining to tax periods 2011 and 2012, respectively. The sum of €1,000,309 was released as deemed in excess.
The residual amount of €560,000 represents the remainder of the assessment in 2011, for which a settlement was not reached; rather, an application has been filed for a negotiated arrangement, to be concluded in 2018.

The provision for deferred taxes is broken down in a table included in the Notes under "Taxes for the year".

The provision for legal issues, which also includes provisions for labour law disputes, has been adjusted on the basis of ongoing disputes.

The provision for guarantees and sureties 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 provision for supplementary agents' customer compensation, to be paid to agents member 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 2017, the provision for sundry personnel costs included the accruals and uses for employee bonuses and incentives.
The provision for restructuring, associated with the process of reorganising and rationalising the production system of Lavazza, was adjusted during the year and was partially drawn down to cover the costs associated with the disposal of the Verrès production facility.

FINANCIAL DERIVATIVE LIABILITIES

The item includes the decrease in the fair values of the derivative instruments outstanding as at 31 December 2017.

The following table provides a detailed description:

Type of contract		Notional value	Financial risk of underlying asset	Fair value	Covered asset/liability
Current derivative liabilities on exchange rates:					
Options	USD	15,000,000	Exchange rate risk (USD)	295,300	Purchase of green coffee
Options	GBP	4,500,000	Exchange rate risk (GBP)	36,983	Sales
Forwards	USD	204,000,000	Exchange rate risk (USD)	2,463,203	Purchase of green coffee
Forwards	USD	15,000,000	Exchange rate risk (USD)	(89,241)	Purchase of green coffee
Forward	ZAR	9,800,000	Exchange rate risk (ZAR)	47,187	Sales
on commodities:					
Future	USD	28,469,988	Commodity price risk	709,518	Purchase of green coffee
Total				**3,462,950**	
Non-current derivative liabilities on exchange rates:					
Options	GBP	1,500,000	Exchange rate risk (GBP)	22,666	Sales
on interest rates:					
Interest Rate Swap	EUR	430,000,000	Interest rate risk	1,692,185	Financing and lease
Total				**1,714,851**	
Overall total				**5,177,801**	

(Fair value data are in units of Euro)

The following table shows the movements in the year:

Other provisions for risks and charges – derivative liabilities

Euro units	31/12/2016	Increases	Decreases	31/12/2017
Current derivative liabilities				
Derivatives to hedge exchange-rate risk	65,598	2,842,673	65,598	2,842,673
Derivatives to hedge commodity price risk	0	709,518	0	709,518
Derivatives to hedge interest-rate risk	0	0	0	0
Non-current derivative liabilities				
Derivatives to hedge exchange-rate risk	0	22,666	0	22,666
Derivatives to hedge commodity price risk	0	0	0	0
Derivatives to hedge interest-rate risk	1,902,736	1,692,185	1,902,736	1,692,185
Total	**1,968,334**	**5,267,042**	**1,968,334**	**5,267,042**

LAVAZZA
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EMPLOYEE LEAVING INDEMNITIES

Movements in employee leaving indemnities during the year were as follows:

Euro units	
Balance at 31 December 2016 net of tax down payments pursuant to Law 662/1996	**17,353,757**
Indemnities paid out during the year	(2,145,740)
Advance payments	(316,134)
Revaluation for the year	341,119
Balance at 31 December 2017	**15,233,002**

Employee leaving indemnities at 31 December 2017 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 No. 124/93 and with subsequent company agreements, €4,536,478 was allocated to the following bodies for financing supplemental pension schemes:

Alifond	Euro	2,147,361
Fon.te.	Euro	456,129
Fopadiva	Euro	7,140
Previndai	Euro	1,925,848

LIABILITIES

Liabilities at 31 December 2017 were broken down as follows:

Euro units	31/12/2017	31/12/2016	Changes
Payables to banks			
- due within one year	75,000,000	35,008,622	39,991,378
- due after one year	289,000,846	363,432,994	(74,432,148)
Advance payments	1,681,120	30,564	1,650,556
Trade payables	223,973,698	225,432,135	(1,458,437)
Payables to subsidiaries	13,627,389	10,932,824	2,694,565
Payables to the Parent Company	0	4	(4)
Tax payables	13,809,995	13,379,242	430,753
Social security liabilities	5,419,568	5,107,267	312,301
Other liabilities	41,525,005	38,115,180	3,409,825
Total	**664,037,621**	**691,438,832**	**(27,401,211)**

The decrease in item "Payables to banks" was attributable to the partial repayment of a five-year corporate loan contracted on 18 February 2016 for a total amount of €400 million and falling due on 18 February 2021. The floating-rate (6-month Euribor) loan was issued by a pool of four banks (club deal).

The loan was then converted to fixed rate through an Interest Rate Swap.

The following table provides a breakdown by geographic area:

Euro units	Italy	Other EU countries	Other European countries	Americas	Australia	Other continents	Total
Payables to banks	364,000,846	0	0	0	0	0	364,000,846
Advance payments	73,888	1,071,414	1,243	5,247		529,328	1,681,120
Trade payables	170,567,593	32,640,587	5,793,228	2,565,557	251,496	12,155,237	223,973,698
Payables to subsidiaries	3,630,426	6,958,258	0	2,307,907	0	730,798	13,627,389
Payables to the Parent Company	0	0	0	0	0	0	0
Tax payables	13,809,995	0	0	0	0	0	13,809,995
Social security liabilities	5,419,568	0	0	0	0	0	5,419,568
Other liabilities	38,692,253	1,392,094	724,760	0	0	715,898	41,525,005
Total	**596,194,569**	**42,062,353**	**6,519,231**	**4,878,711**	**251,496**	**14,131,261**	**664,037,621**

The following table provides a breakdown of payables to subsidiaries:

Euro units	31/12/2017	31/12/2016	Changes
Trade payables			
Direct subsidiaries			
Lavazza Australia Pty Ltd	0	553,974	(553,974)
Lavazza do Brasil Ltda	11,369	132,720	(121,351)
Lavazza Coffee (UK) Ltd	511,041	789,318	(278,277)
Lavazza Deutschland G.m.b.H.	88,786	22,465	66,321
Lavazza France S.a.s.	35,530	877,775	(842,245)
Lavazza Maroc S.a.r.l.	71,054	36,097	34,957
Lavazza Netherlands B.V.	331,410	374,737	(43,327)
Lavazza Kaffee G.m.b.H.	83,815	0	83,815
Lavazza Premium Coffees Corp.	2,296,538	2,817,107	(520,569)
Lavazza Spagna S.L.	407,420	237,754	169,666
Lavazza Trading (Shenzhen) Co. Ltd	550,733	571,022	(20,289)
Cofincaf S.p.A.	121,651	210,204	(88,553)
Immobiliare I.N.N.E.T S.r.l	0	0	0
Lea S.r.l.	15,207	14,127	1,080
Carte Noire S.a.s.	294,149	0	294,149
Merrild Kaffe ApS	373,352	107,660	265,692
Nims S.p.A.	3,269,934	0	3,269,934
Espresso Service Proximité S.A.	512,381	0	512,381
Indirect subsidiaries			
Carte Noire Operations S.a.s.	3,940,780	2,791,286	1,149,494
Fresh & Honest Café Ltd	109,011	738,641	(629,630)
Merrild Baltics SIA	379,594	0	379,594
Total trade payables	**13,403,755**	**10,274,887**	**3,128,868**
Financial payables			
Cofincaf S.p.A.	5,288	47,161	(41,873)
Lea S.r.l.	218,346	610,776	(392,430)
Total financial payables	**223,634**	**657,937**	**(434,303)**
Total payables to subsidiaries	**13,627,389**	**10,932,824**	**2,694,565**

Tax payables consist of the following:

Euro units	**31/12/2017**	**31/12/2016**	**Changes**
VAT payables – Italy	0	3,885,356	(3,885,356)
VAT payables – abroad	10,543,579	6,674,999	3,868,580
Income tax to be paid as withholding agents	3,071,186	2,741,899	329,287
Other taxes	195,230	76,988	118,242
Total	**13,809,995**	**13,379,242**	**430,753**

The item "Other liabilities" consists of the following:

Euro units	**31/12/2017**	**31/12/2016**	**Changes**
Trade discounts payables	20,375,307	23,769,794	(3,394,487)
Payables to personnel	10,721,475	12,675,329	(1,953,854)
Sureties received from third parties	174,560	1,337,191	(1,162,631)
Investments in mutual funds	0	95,127	(95,127)
Other	10,253,663	237,739	10,015,924
Total	**41,525,005**	**38,115,180**	**3,409,825**

The item "Trade discounts payables" to customers refer to credit notes to be issued to customers who reached the contractually established volume or sales targets during the year.

Payables for investments in mutual funds refer chiefly to units underwritten but not yet called up in Connect Ventures One LP, a company that invests in European Web business start-ups.

ACCRUALS AND DEFERRED INCOME

The following table provides a breakdown of accruals and deferred income:

Euro units	**31/12/2017**	**31/12/2016**	**Changes**
Accruals			
Interest paid	450,319	616,501	(166,182)
14^{th} month salary	3,347,460	3,127,177	220,283
Total accruals	**3,797,779**	**3,743,678**	**54,101**
Deferred income			
On tax relief for plants	3,031,165	3,199,099	(167,934)
On franchising entry fees	82,188	119,921	(37,733)
On derivatives	106,391	601,603	(495,212)
Total deferred income	**3,219,744**	**3,920,623**	**(700,879)**
Total accruals and deferred income	**7,017,523**	**7,664,301**	**(646,778)**

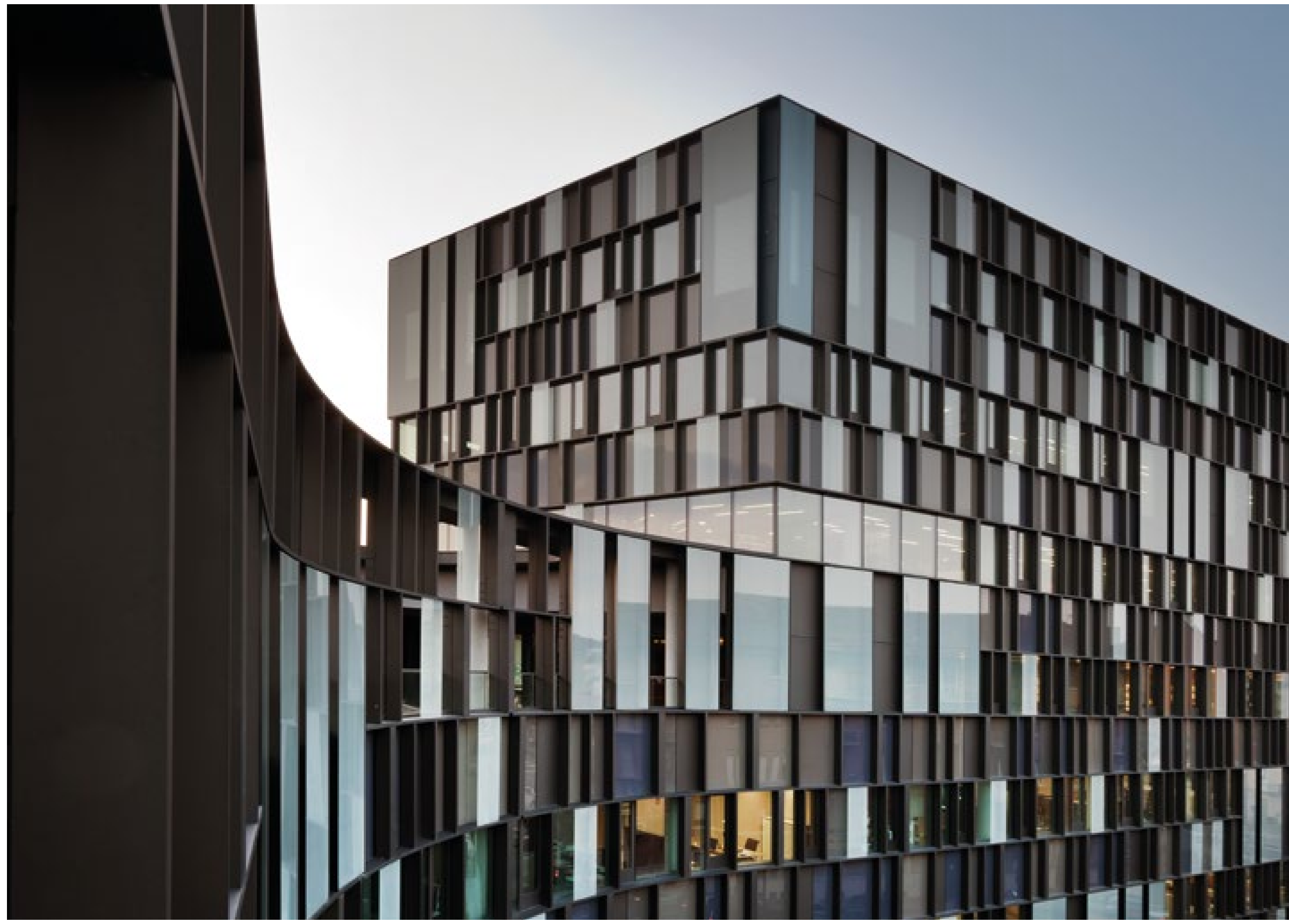
The item "on tax relief for plants" under "Deferred income" refers to the future share of government grants pursuant to Article 1, paragraph 35 of Law No. 190/2014 (Research & Development Bonus) and to Law Decree No. 91/2014 (category "Ateco 28"), which has been accounted for according to the indirect method, broken down by the useful life of the physical plant to which the relief applies.
The item "on derivatives" under "Deferred income" refers to the recognition of the positive change in forward points on the derivative contracts hedging against foreign exchange risk as at 31 December 2017 (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 Income Statement when the hedged costs are recognised.

Positive change in time value of derivatives

Type of contract asset		**National value**	**Financial risk of underlying**	**Change in time value**	**Covered asset/liability**
Options	GBP	6,000,000	Exchange rate risk (GBP)	17,151	Sales
Options	USD	15,000,000	Exchange rate risk (USD)	89,241	Purchase of green coffee
Total				**106,392**	

Deferred income on positive change in time value of derivatives

	31/12/2016	**Increases**	**Decreases**	**31/12/2017**
Forward points based on spot exchange rate	0	0	0	0
Time value of options on exchange rates	601,603	106,392	601,603	106,392
Time value of options on commodities	0	0	0	0
Total	**601,603**	**106,392**	**601,603**	**106,392**



Income Statement

VALUE OF PRODUCTION

SALES OF GOODS AND SERVICES

Sales for the year were broken down as follows:

Euro units	**Year 2017**	**Year 2016**	**Changes**
Sales of packaged coffee	1,026,361,768	1,040,556,160	(14,194,392)
Sales of coffee capsules for vending systems	298,053,922	278,936,420	19,117,502
Sales of other food products	25,136,522	23,121,086	2,015,436
Sales of coffee machines, equipment and accessories	68,196,272	66,051,711	2,144,561
Sales of spare parts and accessories for coffee machines	7,086,756	7,130,238	(43,482)
Sales of advertising material	11,256,773	8,690,153	2,566,620
Sales of packaging	507,771	681,532	(173,761)
Sales of other products	4,071,072	2,220,491	1,850,581
Sales of raw material and other accessories	5,704,636	2,396,546	3,308,090
Total	**1,446,375,492**	**1,429,784,337**	**16,591,155**

Changes in sales of goods and services are shown in the Directors' Report on Operations.

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

Euro units

Destination	**Subsidiaries**	**Other customers**	**Total**
European Union	426,514,891	163,821,618	590,336,509
Other European countries	0	48,828,011	48,828,011
U.S.A.	39,972,320	3,182,383	43,154,703
Rest of the world	12,968,840	51,720,113	64,688,953
Total sales abroad	**479,456,051**	**267,552,125**	**747,008,176**
Total sales in Italy	**11,361,475**	**688,005,841**	**699,367,316**
Total	**490,817,526**	**955,557,966**	**1,446,375,492**

OTHER INCOME AND REVENUES

Other income and revenues refer to the following items:

Euro units	**Year 2017**	**Year 2016**	**Changes**
Grants	3,714,075	3,600,092	113,983
Rentals	997,956	550,482	447,474
Ordinary capital gains	1,381,603	74,728	1,306,875
Extraordinary capital gains	0	860,000	(860,000)
Royalties for the use of our trademarks	1,317,098	1,762,465	(445,367)
Charge-backs to Group companies	54,917,143	53,152,287	1,764,856
Income from compensation for damages	1,237,238	926,856	310,382
Contingent income	7,497,998	1,591,264	5,906,734
Other	2,170,691	1,127,719	1,042,972
Total	**73,233,802**	**63,645,893**	**9,587,909**

The item "Grants" refers primarily to:

- Contributions from public entities of €2,751,788, primarily related to the research and development bonus pursuant to Article 1, paragraph 35, of Law 190/2014 and the related implementing provisions;
- Public grants of €743,726 related to the research and development bonus pursuant to Article 1, paragraph 35, of Law 190/2014 and the related implementing provisions, in addition to the contributions as per Legislative Decree 91/2014 (category "Ateco 28");
- Incentive grants for photovoltaic systems of €218,561 governed by the Ministerial Decree of 19/2/2007 (the new Energy Account).

Ordinary capital gains were realised on the sale of assets no longer used in the production process.

Costs charged back to subsidiaries of €54,917,143 refer to promotional, transport, administrative and IT services.

The item "Contingent income" primarily refers to credit notes received from suppliers for the reversal of costs from prior years and promotional contributions assessed in previous years but cancelled during the year.

Revenues included in subsidiaries' value of production are as follows:

Euro units	Sales of goods and services	Other income	Total
Direct subsidiaries			
Lavazza Australia Pty Ltd	11,851,213	3,378,659	15,229,872
Lavazza do Brasil Ltda	520,090	29,436	549,526
Lavazza Coffee (U.K.) Ltd	43,501,847	8,297,045	51,798,892
Lavazza Deutschland G.m.b.H.	83,790,274	14,496,317	98,286,591
Lavazza France S.a.s.	27,300,149	1,032,642	28,332,791
Lavazza Kaffee G.m.b.H.	9,609,057	1,628,368	11,237,425
Lavazza Nordic AB	6,354,287	878,939	7,233,226
Lavazza Premium Coffees Corp.	39,972,320	7,515,750	47,488,070
Lavazza Spagna S.L.	0	742	742
Coffice S.A.	218,827	8,002	226,829
Merrild Kaffe ApS	34,412,887	0	34,412,887
Cofincaf S.p.A.	5,559	83,248	88,807
Lea S.r.l.	36,665	29,480	66,145
Lavazza Capital S.r.l.	0	140,000	140,000
Nims S.p.A.	11,319,251	95,088	11,414,339
Espresso Service Proximité S.A.	9,458,369	0	9,458,369
Carte Noire S.a.s.	212,073,021	17,027,085	229,100,106
Indirect subsidiaries			
Fresh & Honest Café Ltd	378,710	89,599	468,309
Carte Noire Operations S.a.s.	15,000	155,722	170,722
Total	**490,817,526**	**54,886,122**	**545,703,648**

COSTS OF PRODUCTION

Raw material, ancillaries, consumables and goods.

Purchases for the year were broken down as follows:

Euro units	Year 2017	Year 2016	Changes
Raw material	648,533,929	595,168,786	53,365,143
Semi-finished products	2,778,161	2,762,889	15,272
Goods	90,457,874	113,943,601	(23,485,727)
Miscellaneous ancillary material	22,940,288	34,556,890	(11,616,602)
Total	**764,710,252**	**746,432,166**	**18,278,086**

The reasons for the movements in raw material and miscellaneous ancillary material (attributable primarily to advertising materials) are illustrated in the Directors' Report on Operations.

COSTS OF SERVICES

The main costs of services were as follows:

Euro units	Year 2017	Year 2016	Changes
Commercial and selling costs	304,752,958	301,057,155	3,695,803
Ancillary purchasing and production costs	110,169,262	97,117,123	13,052,139
Other lesser items	58,394,323	54,339,443	4,054,880
Total	**473,316,543**	**452,513,721**	**20,802,822**

The increase in commercial and selling costs was mainly attributable to greater outlays in promotional activities for the year.

Ancillary purchasing and production costs increased significantly, primarily due to the increase in external processing entrusted to the indirect subsidiary Carte Noire Operations S.a.s. and greater rental and transport costs.

The item "Other lesser items" increased as an effect of advisory service related to extraordinary transactions undertaken during the year.

The following table reports the remuneration to Directors and Statutory Auditors for their activities during the year:

Euro units	
Directors' fixed remuneration	1,331,000
Statutory Auditors' fixed remuneration	167,440
Total	**1,498,440**

USE OF THIRD-PARTY ASSETS

The following table provides a breakdown of the use of third-party assets:

Euro units	Year 2017	Year 2016	Changes
Lease of software and electronic equipment	5,342,762	4,691,280	651,482
Vehicle leases	3,448,194	3,425,641	22,553
Other leases	1,213,767	642,032	571,735
Property leases	5,390,825	1,780,583	3,610,242
Royalties for use of trademarks	40,950	336,685	(295,735)
Total	**15,436,498**	**10,876,221**	**4,560,277**

The sharp increase in costs for property leases was attributable to the start of the payment of the lease referring to the property lot housing the new Headquarters, to which the Company moved its registered office in the reporting year.

PERSONNEL COSTS

Personnel costs include salaries, social security contributions, employee leaving indemnities and the total cost of temporary employment. Other costs include 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 number 2017	Average number 2016	Headcount at 31/12/2017	Headcount at 31/12/2016
Executives	89	80	99	84
Officers	71	67	77	65
Middle Managers	145	131	147	138
White collars	577	571	592	531
Travelling personnel	168	170	167	170
Blue collars	533	539	531	545
Total	**1,583**	**1,558**	**1,613**	**1,533**

AMORTISATION, DEPRECIATION AND WRITE-DOWNS

The breakdown of the sub-items has already been included in the Income Statement; see the relevant section of the Balance Sheet for comments.

PROVISIONS FOR RISKS AND OTHER PROVISIONS

They refer to the following items:

Euro units	Year 2017	Year 2016	Changes
Provisions for risks			
Provision for litigation	3,506,321	5,830,170	(2,323,849)
Provision for restructuring	0	477,000	(477,000)
Total provisions for risks	**3,506,321**	**6,307,170**	**(2,800,849)**
Other provisions			
Provision for guarantees and endorsements	14,376	565,989	(551,613)
Provision for agents' customer compensation	314,665	308,679	5,986
Total other provisions	**329,041**	**874,668**	**(545,627)**

Further details are given under section Provisions for Risks and Charges.

OTHER OPERATING CHARGES

The following table shows the main components:

Euro units	Year 2017	Year 2016	Changes
Miscellaneous duties and taxes	2,709,676	3,062,981	(353,305)
Association duties	704,839	674,250	30,589
Other gifts and advertising material	6,378,985	4,094,328	2,284,657
Capital losses	107,299	626,495	(519,196)
Social charges	1,871,478	2,646,449	(774,971)
Compensation for damages	2,475,543	5,839,869	(3,364,326)
Donations and tax pardon	21,735	209,541	(187,806)
Prior years' costs and extraordinary costs	1,997,772	2,199,557	(201,785)
Other	131,368	123,308	8,060
Total	**16,398,696**	**19,476,778**	**(3,078,082)**

Capital losses were entirely related to ordinary operations.

The item "Compensation for damages" includes mainly the costs for the indemnity paid as termination fee to several distributors following the changes in sales strategies, net of the utilisations of the provisions allocated in previous years.

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TORINO, ITALIA, 1895

Production costs pertaining to subsidiaries were as follows:

Euro units	Costs for goods	Costs of services	Use of third-party assets	Operating costs	Prior years' costs	Total
Direct subsidiaries						
Lavazza Australia Pty Ltd	0	185,120	0	0	17,355	202,475
Lavazza do Brasil Ltda	0	53,127	0	0	0	53,127
Lavazza Coffee (UK) Ltd	0	789,767	0	0	0	789,767
Lavazza Deutschland G.m.b.H.	84,288	0	0	0	4,498	88,786
Lavazza France S.a.s.	0	218,436	0	0	33,161	251,597
Lavazza Kaffee G.m.b.H	83,815	0	0	0	0	83,815
Lavazza Maroc S.a.r.l.	0	105,153	0	0	0	105,153
Lavazza Netherlands B.V.	0	331,410	0	0	0	331,410
Lavazza Premium Coffees Corp.	60,797	3,023,683	6,884	0	22,420	3,113,784
Lavazza Spagna S.L.	0	169,666	0	0	0	169,666
Lavazza Trading (Shenzhen) Co. Ltd	0	550,733	0	0	0	550,733
Merrild Kaffe ApS	0	561,655	0	0	0	561,655
Cofincaf S.p.A.	55	240,271	0	680,073	0	920,399
Carte Noire S.a.s.	223,668	70,480	0	0	0	294,148
Lea S.r.l.	0	50,787	0	0	0	50,787
Espresso Service Proximité S.A.	0	309,581	0	0	0	309,581
Nims S.p.A.	0	1,505,086	0	0	0	1,505,086
Immobiliare I.N.N.E.T S.r.l	0	0	57,800	0	0	57,800
Indirect subsidiaries						
Carte Noire Operations S.a.s.	0	31,959,500	0	0	0	31,959,500
Fresh & Honest Café Ltd	85	0	0	0	759	844
Merrild Baltics SIA	0	379,594	0	0	0	379,594
Total	**452,708**	**40,504,049**	**64,684**	**680,073**	**78,193**	**41,779,707**

FINANCIAL INCOME AND EXPENSE

Financial income:

Euro units	Year 2017	Year 2016	Changes
Income from equity investments			
Dividends from subsidiaries	14,924,974	11,751,346	3,173,628
Dividends from other companies	0	346,782	(346,782)
Gain from the disposal of equity investments in subsidiaries	6,214,245	0	6,214,245
Gain from the disposal of equity investments in other companies	0	3,041,348	(3,041,348)
Total	**21,139,219**	**15,139,476**	**5,999,743**

Dividends from subsidiaries consisted of:

• EUR	5,548,537	distributed by Lavazza France S.a.s.
• EUR	3,500,000	distributed by Lavazza Deutschland G.m.b.H.
• EUR	4,260,688	distributed by Carte Noire S.a.s.
• EUR	256,900	distributed by Espresso Service Proximité S.A.
• GBP	1,200,000	distributed by Lavazza Coffee (UK) Ltd

The item "Gain from the disposal of the equity investment in other companies" regards to the positive difference between the equity investment value and equity repaid to the Irish company Lavazza Finance Ltd, whose liquidation procedure was completed in the reporting year.

Other finance income was broken down as follows:

Euro units	Year 2017	Year 2016	Changes
Other income			
Gains from the disposal of securities	0	1,970,398	(1,970,398)
Total other income	**0**	**1,970,398**	**(1,970,398)**
Interest income			
On bank deposits	488,472	1,267,147	(778,675)
On financial receivables from subsidiaries	867,628	1,001,847	(134,219)
Other	117	85,261	(85,144)
Total interest income	**1,356,217**	**2,354,255**	**(998,038)**
Total other financial income	**1,356,217**	**4,324,653**	**(2,968,436)**

"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 and Carte Noire Operations S.a.s.

FINANCIAL EXPENSE

Interest expense and other finance expense for the year were broken down as follows:

Euro units	**Year 2017**	**Year 2016**	**Changes**
Interest expense			
To banks	3,102,954	2,720,988	381,966
To others	60,296	128,143	(67,847)
Total interest expense	**3,163,250**	**2,849,131**	**314,119**
Premiums on derivatives			
Premiums on derivatives	0	54,565	(54,565)
Total premiums on derivatives	**0**	**54,565**	**(54,565)**
Expenses and fees			
To subsidiaries	680,073	730,064	(49,991)
Losses on securities	0	456,657	(456,657)
Total expenses and fees	**680,073**	**1,186,721**	**(506,648)**
Total interest expense and charges	**3,843,323**	**4,090,417**	**(247,094)**

The item "Interest expense" grew as a result of the interest accrued at year-end on the variable-rate (6-month Euribor) corporate loan contracted on 18 February 2016 with a pool of four banks (club deal) for a total amount of €400 million.

EXCHANGE GAINS AND LOSSES

Realised and recognised exchange gains and losses are detailed in the table below:

Euro units	**Year 2017**	**Year 2016**	**Changes**
Unrealised exchange gains	221,034	1,667,625	(1,446,591)
Realised exchange gains	6,539,131	1,141,755	5,397,376
Total exchange gains	**6,760,165**	**2,809,380**	**3,950,785**
Unrealised exchange losses	2,722,471	736,057	1,986,414
Realised exchange losses	9,267,934	5,014,460	4,253,474
Total exchange losses	**11,990,405**	**5,750,517**	**6,239,888**
Net exchange gains (losses)	**(5,230,240)**	**(2,941,137)**	**(2,289,103)**

ADJUSTMENTS TO FINANCIAL ASSETS

Adjustments refer to:

• the equity investment in	Lavazza Netherlands B.V.	EUR	(2,427,626)
• the equity investment in	Coffice S.A.	EUR	(687,895)
• the equity investment in	Lea S.r.l.	EUR	(369,223)
• the equity investment in	Lavazza Nordic AB	EUR	84,998
			(3,399,746)

Adjustments are equal to the reduction in investees' assets which are considered as impairments.
The impairment loss recognised on Lavazza Netherlands B.V. does not reflect the change in the Euro/Rupee exchange rate at 31 December 2017 since it is not regarded as permanent.

The write-up refers to the equity investment in Lavazza Nordic AB, recouping all of the impairment losses recognised in previous years of €84,998.

INCOME TAXES FOR THE YEAR

Current taxes are allocated based on reasonable forecasting of burden, due account being taken of applicable exemptions. The following table provides a detailed description:

Taxes for the year	
IRES (corporate income tax)	2,703,196
IRAP (regional production tax)	2,075,850
Adjustment for prior years' taxes	(3,111,773)
	1,667,273
Deferred taxes for the year	
Provision for deferred tax assets	(6,693,615)
Reversals of deferred tax assets	9,198,343
	2,504,728
Provision for deferred tax liabilities	16,241
Reversals of deferred tax liabilities	(1,143,585)
	(1,127,344)
Total taxes for the year	**3,044,657**

The positive balance of the item "Adjustment for prior years' taxes" is largely due to evaluations of income taxes conducted after the financial statements were approved.

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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:

Euro units	Year 2016			Year 2017								
	Balance at year-start	%	Balance at year-start			Reversals		Provisions		Balance at year-end	Movements cash flow hedge reserve 2017	Balance at year-end
Nature	**Taxable amount**	**	**Tax charge**	**Taxable amount**	**%**	**Tax charge**	**Taxable income**	**%**	**Tax charge**	**Taxable income**	**Tax charge**	**Tax charges**
Deferred tax assets												
Deferred deductibility costs	0	27.9%	0	0	27.9%	0	0	27.9%	0	0	0	0
Deferred deductibility costs	31,864,161	27.9%	8,890,101	(12,416,266)	27.9%	(3,464,138)	3,633,019	27.9%	1,013,612	23,080,915	0	6,439,575
Deferred deductibility costs	0	24.0%	0	0	24.0%	0	0	24.0%	0	0	0	0
Deferred deductibility costs	38,873,893	24.0%	9,329,734	(23,892,521)	24.0%	(5,734,205)	23,666,678	24.0%	5,680,003	38,648,050	0	9,275,532
Tax deductibility cash costs	0	24.0%	0	0	27.5%	0	0	24.0%	0	0	0	0
Cash flow hedge reserve	0	-	3,334,044	0	-	0	0	-	0	0	(2,541,413)	792,631
Total deferred tax assets	**70,738,054**		**21,553,879**	**(36,308,786)**		**(9,198,343)**	**27,299,697**		**6,693,615**	**61,728,965**	**(2,541,413)**	**16,507,738**
Deferred tax liabilities												
Accelerated amortisation and depreciation	0	24.0%	0	0	24.0%	0	0	24.0%	0	0	0	0
Exchange gains (losses)	705,314	24.0%	169,275	(705,314)	24.0%	(169,275)	67,672	24.0%	16,241	67,672	0	16,241
Merger deficit	0	27.9%	0	0	27.9%	0	0	27.9%	0	0	0	0
Merger deficit	4,416,473	27.9%	1,232,196	(3,492,148)	27.9%	(974,309)	0	27.9%	0	924,325	0	257,887
Other	0	27.9%	0	0	27.9%	0	0	27.9%	0	0	0	0
Cash flow hedge reserve	0	-	4,208,759	0	-	0	0	-	0	0	(4,208,759)	0
Total deferred tax liabilities	**5,121,787**		**5,610,230**	**(4,197,463)**		**(1,143,584)**	**67,672**		**16,241**	**991,997**	**(4,208,759)**	**274,128**

The reversal of temporary differences in future years was assessed according to the best foreseeable estimates and on a prudent basis.

The reconciliation between the tax charge as per financial statements and theoretical Ires and Irap tax charge is given in the following tables:

Euro units

Ires (corporate income tax)	Taxable amount	Theoretical tax rate	Tax charge	Actual tax rate
Gross profit	47,245,554	24.00%	11,338,933	24.00%
Higher tax charge	**43,104,372**		**10,345,050**	**21.90%**
of which for:				
Non-deductible taxes	2,644,699		634,728	1.34%
Non-deductible write-downs	3,494,054		838,573	1.77%
Non-deductible depreciation and amortisation	1,311,798		314,832	0.67%
Non-deductible provisions	25,888,028		6,213,127	13.15%
Other non-deductible costs	9,765,793		2,343,790	4.96%
Lower tax charge	**(78,955,966)**		**(18,949,432)**	**(40.11%)**
of which for:				
Costs undeducted in previous years	0		0	0.00%
Dividends	(20,247,391)		(4,859,374)	(10.29%)
Other deductible costs	(43,093,092)		(10,342,342)	(21.89%)
Trademark amortisation	0		0	0.00%
Gains from tax exemption (PEX scheme)	0		0	0.00%
Contribution for economic growth (ACE)	(15,615,483)		(3,747,716)	(7.93%)
Actual Ires charge	**11,393,960**	**24.00%**	**2,734,551**	**5.79%**
Energy savings			(31,355)	
Net Ires			**2,703,196**	

Euro units

Irap (regional production tax)	Taxable amount	Theoretical tax rate	Tax charge	Actual tax rate
Value of production (A-B)	175,495,108	3.96%	6,946,020	3.96%
Higher tax charge	**11,425,379**		**452,211**	**0.26%**
of which for:				
Costs for outsourced personnel	2,661,536		105,342	0.06%
Non-deductible depreciation and amortisation	655,877		25,959	0.01%
Other non-deductible costs	8,107,966		320,910	0.18%
Lower tax charge	**(134,472,970)**		**(5,322,381)**	**(3.03%)**
of which for:				
Costs undeducted in previous years	(670,415)		(26,535)	(0.02%)
Use of provisions for deductible risks and charges	(11,725,644)		(464,096)	(0.26%)
Deductible contributions and costs for personnel	(122,076,911)		(4,831,750)	(2.75%)
Trademark amortisation	0		0	0.00%
Actual Irap charge	**52,447,516**	**3.96%**	**2,075,850**	**1.18%**

COMMITMENTS, GUARANTEES AND CONTINGENT LIABILITIES

THIRD-PARTY GUARANTEES IN OUR FAVOUR	€	4,953,971

The item refers to guarantees provided in our favour by banks to the Ministry of Production amounting to €751,204 in respect of prize-related operations; €1,591,997 to the municipalities of Turin for urbanisation work; €1,479,501 to the Italian Revenue Authority for tax auditing; €81,000 to A.E.M. Energia (Milan) and Edison Energia S.p.A. (Pozzilli) for gas supply; €204,093 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; €100,000 to Customs; €675,242 related to property leases; other minor amounts relating primarily to the payment of custom fees for import transactions (€51,650) and to the municipality of Verrès (€2,582) for waste collection.

SURETIES IN FAVOUR OF SUBSIDIARIES	€	32,324,862

The account consists of €12,643,011 in sureties in favour of Cofincaf S.p.A. to finance contracts with Ho.Re.Ca. customers and €19,681,851 for financing vending customers' purchases of vending machines for beverages.

SUBSIDIARY FOR COLLECTION OF CREDITS	€	34,167,866

This includes credits outstanding at year-end managed for collection by Cofincaf S.p.A.

LEASING COMPANY FOR MATURING FEES	€	48,907,554

Maturing fees to be paid to the leasing company as per finance lease agreement.

PURCHASE COMMITMENT ON EQUITY INVESTMENTS	€	12,473,173

It refers to the purchase commitment concerning the remaining 19.47% interest in Nims S.p.A. that will be exercised on 5 October 2018, as defined in the agreement.

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 are included in the Notes to the Consolidated Financial Statements of the Lavazza Group at 31 December 2017 prepared by 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, knowledge of which would be in any case 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).

In early 2018, the green coffee market continued to be characterised by weak prices, which on the New York exchange fluctuated between 130 cents/lb at the beginning of the year and the current 120 cents/lb.
The London Exchange remained at around 1,730 US$/t, with a low of 1,690 and a high of 1,790 during the period from 1 January to mid-March.
In coffee-growing countries, there was a good harvest in Vietnam, the number-one Robusta producer, and expectations are also very positive for Brazil, where the harvest will be around 60 million bags, barring last-minute surprises.

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
Share capital: 167,500,000.= fully paid up
Tax code and Turin Company Register No. 03028560153 Turin
Economic and Administrative Index (REA) No. 910824

ALLOCATION OF THE RESULT 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 2017, which amounted to €44,200,897 be allocated as follows: to the 22,500,002 outstanding shares a dividend of €1.20 per share, totalling €27,000,002 overall; and all the remaining €17,200,895 as profit carried forward.

Turin, 27 March 2018

Contents

10 Statutory Auditors' Report

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 2017

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 27 March 2018 concerning the year ended 31 December 2017:

- 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, increasing by about 5%;
- 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 (2017) and the previous year (2016). It may also be observed that in 2017 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. Discussions were also held with the professionals who provide the Company with tax advice and assistance on specific technical matters, and the results of this process were positive.

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 external consultants — are inspired by mutual collaboration in accordance with the roles assigned to each, having clarified those of the Board of Statutory Auditors.

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 manifestly 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;
- 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 2017 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, without regard to the limitation established by Article 2429, Paragraph 1, of the Italian Civil Code;
- 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 2426, Paragraph 1, point 5 and 6, of the Italian Civil Code, the Board of Statutory Auditors also granted its consent to the recognition of amounts allocated to the above item, 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 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, while noting that the matter falls within the purview of the Shareholders' Meeting.

Result for the year

The net profit reported by the governing body for the year ended 31 December 2017, as presented in the Financial Statements, is positive at €44,200,897.

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 unanimous opinion that there is no impediment to your approval of the draft Financial Statements for the year ended 31 December 2017, as drafted, as well as of the allocation of the net profit for the year, as submitted to you by the governing body.

Turin, 11 April 2018

THE STATUTORY AUDITORS

(Gianluca FERRERO)

(Angelo GILARDI)

(Lucio PASQUINI)

LAVAZZA
TORINO, ITALIA, 1895

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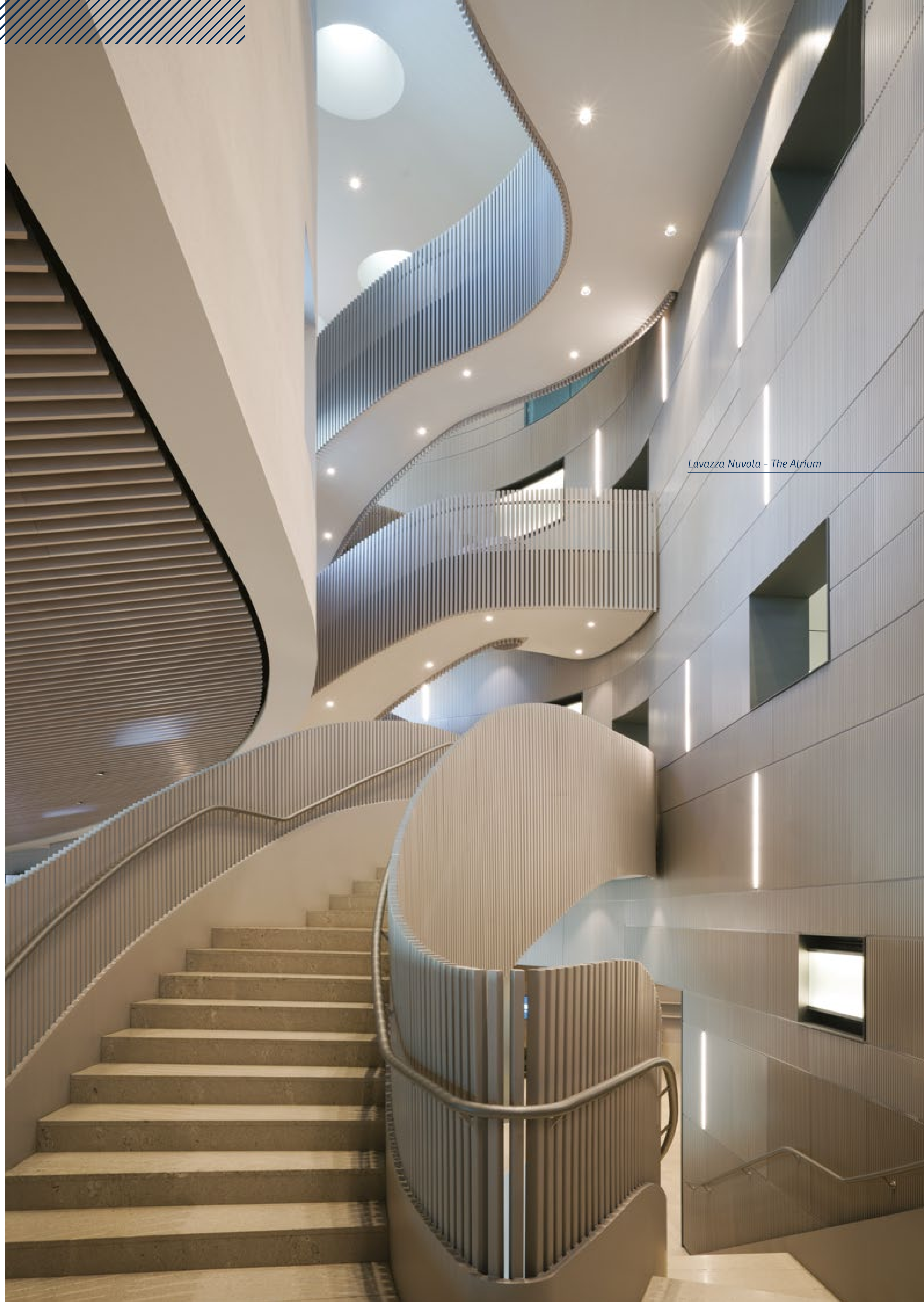

Lavazza Nuvola - The Atrium

EY
Building a better working world

Luigi Lavazza S.p.A.

Financial statements as at December 31, 2017

Independent auditor's report in accordance with article 14 of Legislative Decree n. 39, dated 27 January 2010

EY
Building a better working world

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Independent auditor's report in accordance with 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, 2017, 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, 2017, 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 and fair presentation of the financial statements 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.

In preparing the financial statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or has 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 Company's financial reporting process.

EY S.p.A.
Sede Legale: Via Po, 32 - 00198 Roma
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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; have 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 modify 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 Operation of Luigi Lavazza S.p.A. as at December 31, 2017, 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, 2017 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 Operation is consistent with the financial statements of Luigi Lavazza S.p.A. as at December 31, 2017 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 11, 2018

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.